OnMobile Global Limited

Second Quarter FY2015

Earnings Conference Call

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Speakers: Mr. Rajiv Pancholy, Managing Director & CEO

Mr. Sanjay Bhambri, Chief Commercial Officer

Mr. Praveen Kumar, Chief Financial Officer

Moderator: Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Q2 FY2015 Earnings Conference Call for OnMobile Global Limited. For the duration of the call, all participants' lines will be in listening-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. Rajiv Pancholy, Managing Director and CEO; Mr. Sanjay Bhambri, Chief Commercial Officer; and Mr. Praveen Kumar, Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such consideration, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future, likely events or circumstances. Please be advised this conference is being recorded today. Without further delay, I would now like to hand over the proceedings to Mr. Rajiv Pancholy. Thank you and over to you, sir.

Rajiv Pancholy: Thank you. Good morning, ladies and gentlemen and a warm welcome to OnMobile Global Second Quarter Conference Call. My name is Rajiv Pancholy and with me are my colleagues Praveen Kumar and Sanjay Bhambri. Three months ago, we made a promise that we would turn around the Company and restore it to its traditional level of financial performance before the end of this fiscal year. At the annual shareholders meeting that we had in the month of September, we provided further clarity and stated that the Company would return to profitability in the third quarter of this fiscal year. The results of our financial performance in the second quarter are affirming that we are on track to keep the solemn promise that we made to our shareholders. In Q2, our cash balance grew due to influence from the sale of one of our divisions but significantly also due to the cash generated from operations. The second quarter was indeed intense and for many reasons. We had to take many fundamental decisions and act on them somewhat urgently. Since these actions took place within the second quarter, the full impact on our financial performance will start to show in the next two quarters. However, the tangible quarter over quarter results are giving everyone a sense of what is to come.

Let me not leave you in suspense. OnMobile will see approximately 3 to 4% EBITDA margin growth in each of the next two quarters. Over the same term, we will further add to our cash position due to the positive cashflow from operations. With the actions we have taken, the first phase of a turnaround plan is now mostly complete. Having enforced fiscal discipline, we will now dramatically increase our focus on longer term growth agenda. I will not be able to say any more at this stage except to say that we are enthused by the opportunities we see for OnMobile in the future. Before I turn it over to Praveen for a detailed analysis of our financial performance, I want to thank you, all the shareholders and employees of OnMobile for your patience and perseverance during this transition phase. In addition, I want to thank my senior management colleagues who have worked tirelessly to implement the new plan. I am most grateful. Thank you for your attention and let me now hand over the call to Praveen.

Praveen Kumar: Thanks, Rajiv. Good afternoon, everyone. Here are the highlights of our financial performance. During the quarter, we earned revenue of Rs. 207.5 crores as against Rs. 199 crores in the last quarter and Rs. 225 crores in the Q1 of the last financial year. On the face of it, sequentially, it's a growth of around 4.4% while year-on-year, it's a de-growth. But a key factor that we will have to consider here is the impact of the sale of Voxmobili to assess the real revenue growth. As you are aware, we sold Voxmobili effective Q2 beginning and hence, Q2 has no revenue relating to Voxmobili as compared to either Q1 FY2015 or Q2 of the last financial year. So normalized for this impact, our revenue growth is 2% year-on-year but most importantly, it's 13% over the last quarter.

Coming to the cost of goods sold, there are two key things which have impacted the cost and led to a lower gross margin. First one is the minimum guarantee towards a customer in Spain. If you recollect, in the third quarter of the last financial year, we had accounted for an MG cost of around 1.8 million Euros equivalent to Rs. 14.4 crores. At that time, we had stated that this contract had a two year MG commitment. For this financial year, based on the forecast for the full year, we have estimated for a minimum guarantee of 1 million Euros and as a result, we have accounted for the cost of Rs. 7.8 crores in this quarter. As per Indian GAAP, if there is a minimum guarantee type of a contract and if there is a shortfall, the cost has to be taken upfront and that what we have done in this quarter. And the second item on the cost is a change in the revenue mix in one of our key geographies where there is a higher content cost and we had slightly better than expected revenue from this vertical in this Q2.

Before we further move on the cost side, I would like to highlight on what we had set out to do at the end of Q1. We had prepared an annual operating plan that would lead us to a healthy financial performance by Q4 and as a part of this turnaround, we had to action a few critical things to lower our cost base. We had to look at the number of people we had and bring in efficiencies. We had to look at our spending and revive them to a lower base, etcetera. These efforts have started yielding results in Q2 and we hope to maintain the trend in the coming quarters to achieve what we had promised as Rajiv said.

So consequently, if you look at our manpower cost, this has come off by 15% as compared to the last quarter. On the operating expenses, our effort to identify ways to maximize efficiency on every rupee spent has resulted in a drop in OpEx by around 15% again sequentially. We hope to continue this effort in Q3 as well. So as a result of this, despite slightly lower gross margin, our EBITDA has improved by 78% as compared to Q1 and this benefit has directly flown into our operating profit line reducing our operating loss by 60% from Rs. 21 crores in the last quarter to 8.5 crores in Q2. That is a substantial reduction of operating loss.

Other income includes Rs. 6.7 crores of profit on sale of Voxmobili and around 3.7% interest on some tax refunds we got this quarter. That leaves us with a profit before tax of Rs. 6.2 crores. However, taxes looked disproportionate this quarter. A) The profits from the business in India is not sufficient to observe the withholding taxes from other countries. And B) There are specific taxes relating to other income which is over and above the business income. However, as we improve our operating performance in the future quarters, that should give sufficient profits in India which eventually reduces our effective tax rate.

On the balance sheet, our net cash, as Rajiv was mentioning, has gone up from Rs. 62 crores to 218 crores mainly fuelled by Voxmobili sale proceeds but also due to better working capital management. There is a significant improvement in the cash generated from operations in this financial year. The cash also includes 2.5 million dollars of sale proceeds that is parked in escrow as disclosed separately, and this usually happens in any sale and this will be available after the cool off period, 18 months in this case, subject to the general indemnity clauses being met. And last thing is on the CapEx. This quarter, we had a negligible amount of CapEx, less than two crores. So nothing material there. So that was the summary of the financial performance. So with this, we open the call to question and answers.

Moderator: Thank you, sir. So participants, with this, we are going to start the Q&A interactive session. Should you have any question, you may please press "0" and "1" on your telephone keypad and wait for your name to be announced. Once again I repeat. Participants, should you have any question, you may please press "0" and "1" on your telephone keypad and wait for your name to be announced.

We have the first question from Mr. Prakash Ramaseshan from Kotak Mahindra Asset Management. Your line is unmuted. You may go ahead and ask your question.

Prakash Ramaseshan: Thank you for taking my question. I'd first like to congratulate Rajeev and the entire team on the work that's got put into OnMobile. There was a difficult situation two or three quarters back and we really appreciate all the hard work that's gone into creating the numbers for this quarter and the platform for the quarters to come. So many, many congratulations on all the hard work that you have done. Just a few questions. Trying to understand the growth dynamics for the domestic market and the overseas market in terms of some kind of an assessment of what kind of growth we can expect from the Company. Second question, basically, for that growth, are there substantial investments required in new products or do you think it is going to come from existing products? The third question, some kind of a benchmark EBITDA if we can get, steady state for the business. That would really help us understand how the business is going to shape up two or three quarters from now. Post the answers of these I'll just have a couple of questions on the balance sheet side as well. But maybe, we can start with these and then we can go to the next set of questions.

Rajiv Pancholy: Prakash, first of all, thank you for the praiseful words. Appreciate it. Our work is not done yet. So this is just the first chapter in what we need to do. You asked questions about the revenue situation. Let me give you a quick thumbnail sketch and then we will go into details if necessary. What we are seeing in this financial year is two of our principal markets, they are showing growth. Two of the markets which are not going to live up to our expectations and I'll explain the reasons why. So

In the first half of this year, we actually were further ahead in our Africa roll-out plan. However, because of the recent health crisis and Ebola crisis, we actually had to pull back engineers from many of these countries and the second half of this year, we will see the trajectory of growth in Africa to be lowered than what we had anticipated. The second part of this is Latin America. In Latin America, the mix of revenues is changing and some of the new services that are catching on and growing quite rapidly actually have a higher content cost. So even though the revenues will be okay, the ratio and profitability will change. Now to offset these two things, we are seeing pretty powerful growth in India and Asia as a whole as well as in Europe. So on balance, we are going to be on target but that is sort of a breakdown of what is happening by principal geographies, by major markets.

The second question you had was about – Are we counting on new products to basically fuel this growth? I would say, at the moment, no. Whatever guidance we are giving to you is based on what we have today and as new features and new products come online and are made available to our customers, you'll see the impact of that, principally, I would say in the next financial year, not in this financial year. So the targets for this financial year are based pretty much OnMobile as it is.

Prakash: Sir, I was just trying to understand for the new products going forward, do you see substantial investments or do you see these basically as organic initiatives by OnMobile?

Rajiv Pancholy: Well, first of all, the new products will necessitate certain new agreements. We don't know yet whether in fact that will require a significant of a CapEx or not. We are working on a few scenarios in which we will not have to invest a lot of CapEx but that remains to be seen. We are in the stage of negotiations and discussions. It's still early for us to say which way it will turn out. But let me say this. If we can, we would like to do it in such a way where we don't have to spend a lot of CapEx.

Prakash: Fair enough, sir. And if I don't take those initiatives into account and, let's say, we go through with this year which is FY15 and I just take the existing product projection for next year, we can speak about growth somewhere between 10 and 15%?

Rajiv Pancholy: It will be wrong of me to give you a precise number right now. We see growths heading into next year but it all depends on the timing of the new features that we are introducing. And just to give some kind of clarity, it is going to be a mix of two things. It'll be a mix of incremental features and incremental capabilities of existing products and overlaid on that, some pre-revolutionary concepts. So when our customers decide to introduce which part will determine what the weight of revenue growth next year is going to be. We don't know precisely that yet.

Prakash: Fair enough. And if I look at the business steady state and once the business settles down to two quarters from now, can we expect steady state EBITDA somewhere between 20 and 25% on the business? Would that be fair?

Rajiv Pancholy: Yeah, that would be fair.

Prakash: Great. Sir, just a couple of more quick questions on the balance sheet. Going forward for the new products you are introducing, the aim is to have limited investments. Conceptually, you're not looking at very large acquisitions to acquire those capabilities. I mean whatever investments happen, they'll happen organically. Is that right, sir?

Rajiv Pancholy: I think, we made a very clear statement of commitment, Prakash, that we are not seeing acquisitions as being a fundamental part of our growth strategy. Now having said that, what does happen on a daily basis, I get contacted with all kinds of opportunities. We do look at them because we have to stay on top of what is going on. So far, I can tell you that there is nothing that is being pursued in terms of an active acquisition.

Prakash: No, I think that answers itself because we do understand in a real life situation if there is an incredible opportunity tomorrow, it should be capitalized for all shareholders. But what you're saying is strategically, acquisition is not the platform based upon which you're planning your growth.

One last question, sir. With the Voxmobili cash coming in on a market cap of close to Rs. 400 crores, we have, say Rs. 300 crores of cash. It's clearly the management's call as to how much cash you need on the balance sheet to feel comfortable about running and growing the business. But at some stage perhaps, cash is going to be more than that number. Our request as shareholders is in some combination of dividend distribution and buybacks, we would like to maybe firstly look at strategy and secondly, perhaps look at some actions from the board on the allocation of that cash. The timing etcetera is completely a company and a board call. We are more looking at strategic direction here saying there is a certain amount of cash you need to feel comfortable to run and grow the business. Beyond that, in some combination of dividends and buybacks, you would look at distributions.

Rajiv Pancholy: We have noted your request.

Prakash: Fabulous, sir. Thank you so much for taking my questions sir. All the very best.

Moderator: Thank you very much. We have the next question from Mr. Raj Mohan. He is an individual investor. Your line is unmuted. You may go ahead and ask your questions.

Raj Mohan: Thanks for taking my call and congratulations again on gaining strong fundamental ground after a long time. It was very encouraging to hear very positive opening remarks from you, Rajiv. My first question is on India. You did mention a lot of things about the prospects of the Indian market. Generally, I wanted to understand how the green shoot that was visible in the previous quarter continuing to blossom.

Sanjay Bhambri: Hi Raj, this is Sanjay this side. You are right. What we said last call that there was some green shoots we were seeing in India and Asia. They continued to blossom as you said. I used your words. I would say that we are now seeing a stable growth which is reflecting in our numbers.

Raj Mohan: Okay. Next on Europe, can you give the European sales number for this quarter?

Praveen Kumar: Yeah, Raj Mohan, what we have done is we wanted to look at our business and communicate it at an overall level, right? And that's why, from last quarter, if you look at it, we have stopped really giving the breakup because then, it becomes too confusing for people tracking if there is a quarter here or there on some geography. It'll become difficult to explain. So we are looking at the numbers at a total level. Unless there is any specific reason you want to maybe, then we can discuss that.

Raj Mohan: No, I think that should be okay.

Praveen Kumar: Just to add to that, we are on track from our expectations on the European market too. Work is underway.

Raj Mohan: That was going to be my next question. In this connection, the management has indicated to accelerate engagements by improving the ability to meet market expectation. Does the management continue to feel encouraged after possibly business interactions during the quarter in the European market and does the management continue to stick to its guidance of robust double-digit growth as indicated in the previous call?

Rajiv Pancholy: Let me answer that question. As it turns out, this call is actually being hosted out of Europe. We are all here and the intention was not just to host the call… Principally, we're looking at a business and making sure that we continue that kind of growth we have seen in Europe. So the answer to your question is, yes, Europe is a significant part of our opportunity and yes, we are bullish about growth prospects in Europe.

Raj Mohan: Okay. Rajiv, in your initial remarks, you talked about the robustness in the Asian and the European markets. Just wanted to understand about the North American market where basically you and the other members of the new management team have a wealth of experience. Generally, wanted to understand the potential in geographies like Canada. Also, what is the management's outlook in expanding engagements in the US by new customer acquisitions through OnMobile Live?

Rajiv Pancholy: Well, first of all, I think this is one hell of an opportunity for us because it is a fairly underserved market today. Part of that issue though is that it is underserved not because of the lack of any sort of any offering but culturally, it is different. If you look at the consumption of ringback tones and things like that that we offer in other geographies, the people and the users in North America tend not to use that service. So the penetration levels are actually quite low. So when we talk to people and say, "Let's actually do something to promote the existing products," the answer is people have tried that and have had limited success. So the re-engagement of the North American market is going to be based on our new offerings which will take our offering away from the conventional sort of look and feel of a 2G voice service and make it more relevant in the telecom or the mobile arena that is in North America today which is much more 3G or 4G smartphone-centric services. So that is our strategy and in the meanwhile we have done in North America we may take an action to make sure that we don't continue to burn more cash and that is something we did within the second quarter.

Raj Mohan: Okay. How about the geographies like Canada in which you have had a significant amount of experience in your professional career?

Rajiv Pancholy: The two things about Canada: 1) culturally it is actually very similar to the US. So the kind of products that people consume in Canada is very similar to the US. So the same general dynamic applies to Canada. The other thing about Canada is that the numbers are actually exceedingly small. I mean, if you look at the total population of Canada which is around 30 million people, the effort that has to go into converting a country as vast as Canada with 30 million subscribers is just not commensurate with the bang for the buck we would get in going after some of the countries. So we are cognizant; we are engaged; we are speaking with many of the operators but we are not going to be spending a lot of energy on developing the Canadian market as compared to the other opportunities that we have.

Raj Mohan: Understand. It is quite heartening to see material reduction in employee cost and other expenses which you elaborated on. Will we see the absolute numbers trending further lower as probably the notice period for employees will take full effect in the current quarter. Currently, say we are at around 35% of sales on the employee front. What is the management targeting in terms of optimization? Could we see it head towards say 30% of sales?

Rajiv Pancholy: I am not going to give you a percentage breakdown because managing, attracting and retaining talent is a dynamic process and it's a function of what kind people we need for the kind of products that we expect to bring to the market. What I will say is what said earlier. Just to repeat, the actions we took were within the quarter. In fact, if anything, it was towards the second half of the second quarter that we took these actions. So the impact of that you see within the second quarter is going to be greatly magnified as we go into Q3 and Q4.

Raj Mohan: Okay. Again on the operating margin front, adjusted for the minimum guarantee of Rs. 78 million, this quarter has delivered over 17% operating margins. In the initial remarks, you mentioned the 3-4% improvement quarter-on-quarter of the next two quarters, will it be from the base of 17%?

Praveen Kumar: No, Raj Mohan. It will be from the base of this quarter which is 13.4%. You know, we should also be aware of the fact that last time we said there were some revenue that we did not account because of lack of contracts and all that. So those revenues have also come in Q2 and that has contributed to a higher margin if you normalize for the MG. So when we were giving the 3-4% expansion in EBITDA, it is based on the current performance that we have today and where we would reach in Q3 and Q4.

Raj Mohan: Okay. One final question. Has the repatriation of the cash from the sale of Voxmobili happened?

Praveen Kumar: That cash is right now in Europe. We were waiting for RBI to give us an approval to repatriate that money back to India. As we speak, that approval has come in and we are working towards getting back the money. It should be anytime in the next couple of weeks.

Raj Mohan: Okay. That sounds great. Congratulations once more and wish you all the best.

Moderator: Thank you. We have the next question from Mr. Aman Maurya from India Nivesh Securities. Mr. Maurya, your line is unmuted. You may go ahead and ask your questions.

Aman Maurya: Thanks a lot for the opportunity. Most of my questions have been answered. Sir, I wanted to stress more on the product wise revenue. Now going ahead, what would be our strategy in terms of increasing our revenue pie because what I am seeing here is if I compare on a year-on-year basis, our RBT revenue has gone down as well as the data revenue has also gone down? So what would be our strategy that we will be focusing more on the voice and text services that is VAS services and the RBT? These are the two segments which are going to drive the revenue going ahead? Just wanted to get more clarity on which segment is going to drive the revenue from here on as we are restructuring the overall business model?

Sanjay Bhambri: Alright. I think the question had two parts. I will take the first part and on the future side, I'll get back to Rajiv. On the first part, if you look at the charts which you are looking at, you just need to remember that we have sold the data unit business in the last quarter and if you remove that, that's where it has an impact on the geography/the product mix because once our revenue goes as a percentage mix changes, absolute numbers do not change. So that is where the answer to the Number 1 is. Number 2, I'll give it back to Rajiv to just address that.

Rajiv Pancholy: Yeah, just to reiterate, I think as a percentage, you may see basically a change in RBT but the absolute numbers, we have not gone down. So that is point number 1. Point number 2 is, if you look at basically where we are focused within the second quarter, we actually rationalize the product portfolio. That was a significant part of what we had to do because the feeling was that we were focusing and we were trying to do too many different things. We have put in place a very simple criteria which is that as a company, we want to focus on a fewer number of products but each of these products has to represent a global opportunity and has to be a significant opportunity which means that anything that we are doing which is local to a geography, or too small in scope, we basically are not going to pursue. So that brings us to maybe a couple of areas of which, you know, music and RBT is one of them because that happens to be one of our mainstays. And the converged VAS space is another one in which we are seeing good traction in certain countries. Now these are sort of, take them as labels rather than products because with each of the labels, there is a huge opportunity to do things over and beyond what we have done in the past and that is, I think, what you will see as being the forward posture for OnMobile.

Aman Maurya: Sure. Okay. Sir, in general, if I want to split this RBT as well as VAS, in which of the geographies still you are seeing the VAS as a revenue is going to drive? Is it primarily from the Africa side or the LatAm?

Rajiv Pancholy: The principal, I think, growth in VAS is actually happening in Europe. Europe has traditionally been a weak market for ringback tones. Again for cultural reasons primarily. And VAS is something that is showing some significant growth there. But we also are seeing growth in VAS in Africa and more recently, in India. So, this should be another set of a growth story for OnMobile.

Aman Maurya: Okay. And similarly for the RBT, which are the geographies which are going to drive the revenue?

Rajiv Pancholy: Revenues are growing pretty much in every geography. I think it's just that the rate of growth is different. We are seeing strong growth, I think, in India. Sanjay mentioned the fact that we are seeing revival of RBT and the best way to put it is that a year and a half ago, there were certain regulatory decisions which caused the RBT to drop and I think as the system and the population of the users have gotten over the set of immediate overreaction to that regulatory change, the usage has rebounded. So we are seeing the growth here in India and also in Bangladesh.

Aman Maurya: Also in Bangladesh. So these are the major geographies which are going to drive the revenue further?

Rajiv Pancholy: No, no. We will push for revenues in every geography. I am just talking about the way we actually manage our business.

Aman Maurya: Yeah, I am more concerned about the growth from which geography because these are the two products which are going to drive the growth. So what would be the key geographies which are going to drive the growth hereon?

Rajiv Pancholy: The simple answer is all geographies and both products. The rate of growth will be different for each geography.

Aman Maurya: Similarly, in the very first question, you had eluded that there are few service lines which we would like to add to these two products. So, if you can give us some flavour of that also would be helpful for us.

Rajiv Pancholy: I cannot and I don't think this would be the opportune moment for me to describe our product strategy but I would just reiterate and say that they are extensions of existing products which will happen much more quickly and there are major deviations, in fact major enhancements almost to the point of changing the entire complexion of the product and that will happen in the medium term. So it will be a mix of both.

Aman Maurya: Okay. Thank you, sir. Thanks a lot. That's helpful.

Moderator: Thank you very much. We have the next question from Mr. Gaurav Maheshwari from Unilazer Ventures. Your line is unmuted. You may go ahead and ask your question.

Gaurav: Sir, thanks for the opportunity. A couple of questions. First of all, can you give the adjusted EBITDA in the same way that you have given us the adjusted revenue adjusted for the Voxmobili sale?

My second question pertains again to the revenue growth. If I see the international revenue growth excluding the Voxmobili sale, even the international part of it has seen a degrowth of almost 3%. So is there a structural change happening over there or is it just a part of the restructuring and we should see the international growth coming back from Q3 and Q4?

Rajiv Pancholy: The way you should look at growth in this year is a little bit more complicated. There are two things that are happening: 1) We have indeed sold off some of the business units that we don't believe in from a long-term perspective and with that, those revenue opportunities have gone. The second thing we did was as we re-jigged the product portfolio, we stop working on a bunch of products which were bringing in some money but which were not really profitable. So you know, when you do that, you see basically a degrowth in revenues. But what it does do is reinforce your bottomline. And that is exactly why you are seeing some amount of degrowth in revenues. We believe it is a right decision for the company.

Gaurav: Got it. So from the major part of that restructuring is over or do we expect more to happen over the next couple of quarters?

Rajiv Pancholy: I think when we started this journey about 4 months ago, we sort of had two or three phase plans. The first phase as I mentioned was just to bring some fiscal discipline and adjust the cost base in the company, make certain decisions about product strategy. That is, I would say, more or less, done. I'm not saying it's completely done. There are still some more work to be done. But I would say the bulk of it is behind us. The second phase of the second chapter in the story of OnMobile is all about making sure that we see long-term sustained growth. That comes down to what do we do with the product, what features, what customers. That engagement is now picking up steam. So that's the best I can to answer your question today. Now we will be basically turning our attention to the longer term growth agenda.

Gaurav: Got it. And then fee and cost of software development, both of them have gone up if we compare Y-o-Y or Q-o-Q. I do understand that there is a one-time minimum guarantee payment that we have made. But if I exclude that, that is going to be the new normal going ahead and same pertains to the employee cost. So the major part of the employee rationalization seems to be over and Q3 should be the new normal, whatever the new numbers we see in Q3 onwards?

Praveen Kumar: Yeah, on the cost, if you exclude the one-time minimum guarantee, that should be the new normal. You are right. And on the manpower cost, there could be some changes because some actions have already started yielding the results but there could be some impact of it in Q3 and Q4 as well. So that is not the new normal. But we will have to wait and watch how that will pan out because that is the basis on which the EBITDA expansion we spoke about happened.

Gaurav: Right. So 3-4% is over and above the 13% percent that we have reported in Q2?

Praveen Kumar: Yes, that's right. And Gaurav coming back to your EBITDA line item, so Voxmobili, if you look at our business, it was a very cost-intensive business unit and the revenues were largely license-based revenues and would not be steady for the year. So the revenues would fluctuate quarter-on-quarter. So our EBITDA would not have changed much even if our Voxmobili unit was there. So there would be no change in the current reported EBITDA including or excluding the Voxmobili numbers because the cost base was pretty much equal to the revenue capability.

Gaurav: Okay. So whatever the improvement in EBITDA is what we are seeing over this year is not because of excluding… they were not at least burning the cash.

Praveen Kumar: Yes.

Moderator: Thank you. We have the next question from Mr. Dipesh Mehta from SBI Cap Securities. Your line is unmuted. You may go ahead and ask your question.

Dipesh: Good afternoon, sir. I have one question. Can you tell us how much free cash was generated during first half? And related question is about this quarter, we saw a sizeable improvement in our working capital management. So if you can provide some colour how we expect it to be going forward. Thank you.

Praveen Kumar: Yeah. So instead of giving the working capital or the cash generated from operations number, I will put it slightly differently. Net cash balance went up from Rs. 62 crores to Rs. 218 crores which is an increase of roughly Rs. 157 crores. And that is compensated by A) the inflow from Voxmobili proceeds which was about Rs. 140 crores but then we had a dividend payment which is Rs. 20 crores. So net inflow of Rs. 120 crores. So the gap between 120 and 157 is where the working capital players happened. And in terms of working capital management, even in the earlier calls, we have been telling that we have been working hard on reducing the billing cycle and collection cycle from the customers. If you look at the trend over the last 4-5 quarters, our DSO has reduced from almost 180 days to currently about 110-115 days. This kind of an improvement would not be possible to repeat because it has already reached a level where it's quite standard in the telecom industry to have a DSO of anywhere between 100-120 days. We will however try and reduce it further. But then the major impact of reduction in DSO and the impact on the working capital has already come in.

Dipesh: Okay. And is it possible for you to say CapEx incurred during H1 and the plan for full year?

Praveen Kumar: Yeah. So the CapEx for H1 put together Q1 and Q2 is around Rs. 8 to 9 crores. This quarter we have not had much of CapEx and CapEx for the second half on the steady state that we have now would be almost same as what it is in H1. It will not be significantly higher. However, in case, as Rajiv was saying, we have the new product strategies coming in because of which we would have to make investments that will be over and above that and that we will disclose in the future quarters.

Moderator: Thank you very much. And we will take the last question for today's session, and we have Mr. Nikhil Pahwa from MediaNama. Your line is unmuted. You may go ahead and ask your question.

Nikhil Pahwa: Thanks. Rajiv, I was just curious about what exactly what about you mean by converged VAS and from that perspective, with Voxmobili sold, what are your plans around data?

Rajiv Pancholy: I don't think this would be an appropriate forum for me to describe basically what all the product does. I will direct you to one of our colleagues because it will take time to explain to you what converged VAS is. Just to spend 10 seconds on it… It's a bundle of offerings and content that consumers like to consume. Mobile consumers include things like wall papers and other things people use to dress their smartphones and information they like to get. But that's the extent to which I should go into describing the product. This is turning out to be quite a growth story in Europe principally at this point in time, but also in Africa.

The question you had about what we are going to do about data, it is a fundamental part of our strategy. If you look at our principal offering which is ringback tones, it is perceived by many to be something which was relevant in the 2G voice only universe. But, as you know, we are fast moving toward a different space, and our opportunity and challenge is to make that kind of digital music available in the digital universe. That's as far as I want to go. Data is going to be quite fundamental to our strategy, but we will not be leaving behind what we do best which is the playing of hundreds of millions of pieces of music on a daily basis.

Nikhil Pahwa: Would it be possible for you to share details on what are the usage your products have from the consumer uptick point of view? That data used to be released about four odd years ago when the company was listed but we haven't got anything on user uptick and I guess that's critical to your business.

Rajiv Pancholy: User uptick is something we monitor pretty much on a daily basis. We have tools that allow us to see basically what is happening by geography. And we use that and then design and take measures to various promotions and other things or change the product itself. I would say that at this point in time, the message in those statistics is very clear that people are looking for extensions to the offering that we have today. So it would be somewhat, I would say, irrelevant to look at statistics of today's situation because we already know what the message behind that is. I think it will be important for us to basically measure what happens when we have to introduce new capabilities in the market place. I think, as that happens, you would see them reflected enough in the financial performance and we can talk about it at that point in time.

Nikhil Pahwa: Just one last question. How many employees does the company have now as compared to last quarter?

Praveen Kumar: Last quarter, we had around 1,600 employees. We have around 1,270 employees at the end of quarter two.

Moderator: Thanks very much. I would like to now hand over back to the management for any final comments for the attendees.

Rajiv Pancholy: Well, I thank you for your presence on the call today. Once again, I would like to express my deepest appreciation to our shareholders and employees. It has been a difficult quarter. Any change you make is difficult and traumatic and causes anxiety. But we have successfully navigated, I think, the most difficult thing we have to do. And we look forward to a different kind of OnMobile in the future. Thank you very much.

Moderator: Thank you very much, sir. I would like to thank you all for joining us. Hope you all have spent a useful time. With this, we conclude the session for today. Wish you all a great day ahead. Thank you very much for joining.

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Note: This document has been edited to improve readability.