



"Tanla Solutions Q4 FY09 Earnings Conference Call"

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MR. GAUTAM SABHARWAL, DIRECTOR – BUSINESS DEVELOPMENT
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- Moderator** Ladies and gentlemen good evening. This is Marina, Chorus Call Conference operator. Welcome to the Q4 FY 2009 Earnings Conference Call of Tanla Solutions Limited hosted by Religare Capital Markets Limited. As a reminder, for the duration of the presentation all participants are in the listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during this conference they may signal an operator by pressing * and then 0 on their telephone. At this time I would like to hand the proceedings to Mr. Himanshu Shah, Telecom Analyst at Religare Capital Markets Limited. Thank you and over to you Mr. Shah.
- Himanshu Shah** Thank you Marina. Good evening ladies and gentlemen. On behalf of Religare Capital Markets Limited I would like to welcome you all the Q4 FY 2009 Earnings Call of Tanla Solutions Limited. From the Tanla Management we have with us Mr. Uday Reddy, Chairman & Managing Director, Mr. Gautam Sabharwal, Director Business Development, Mr. Amit Gupta, Director - Finance, Mr. Anoop Roy Kundal, Director - Operations. With this I would now like to hand over the floor to Mr. Uday Reddy for his opening remarks. Over to you, sir.
- Uday Reddy** Thanks Himanshu. Good evening everybody. I would like to welcome all of you to this 4th Quarter earnings call. I have with me Amit, our Director – Finance who will take us through the announcement of financials and revenue streams. Anoop, Head of Operations in India, will give an update on the new product that we have launched last quarter and his plans to move to Finland to head Openbit operations by end of this month. Anoop's mandate will be to strengthen our relationship with Nokia, one of our primary customers in Finland and our complete integration of Openbit that we acquired last year with Tanla. Gautam, who has logged in from London who set up our global business development, will update on the market scenarios, change in the regulatory conditions and its effect on our business and Tanla's strategies going forward.

There has been a revenue pressure on for the last two quarters but we are very confident that the work is over and our plans and strategy going forward will yield positive result in the long term.

I would like to give a quick update on the new customers that we have added in the last quarter. For ITV, Interactive Television, we have added five new customers in India. All five of them are regional channels mainly from AP. They are called HMTV, iNews, MahaTV, Studio N and SakshiTV. In terms of voice portals we have deployed with two operators PAN India, BPL and Reliance. In terms of Reliance we have added on both GSM and CDMA. In terms of CREAT the product that we have launched a quarter ago we have successfully deployed these products in Dubai and we have started offering the services to our various clients. In fact in India, Zee TV and National Geography, these are two big clients that we added this quarter at CREAT platform. In UK we have added CFL Media, HA Entertainment, British Fight Club and in fact we have handled Michael Jackson UK Tour through CREAT platform last quarter. For Video Juke box we have added again two major TV channels in India called Zoom and Zee TV. Of course one regional channel called Maa TV in AP. In UK we have added B4U which is one of the leading channels in UK.

On our service delivery platform we have added two of the largest bulk SMS supplies in India called One97 and MPower. For 3G video services, an award winning platform which we had launched last quarter and we have successfully deployed this product with one of the leading media broadcasting company in UK. I think Anoop and Gautam will give you more details of this product. For outbound dialers we have deployed this product with Aircel PAN India which is one of our biggest deployments in the last quarter. I think Aircel launched outbound dialers in couple of circles but going forward they are going to launch in other circles too. For license Manager we have added seven clients in international market. I can share some of the names called Smobile Systems, Mobile Security Software, and a couple of companies from Israel and one company from Russia. One of these companies is called Sole Traders from

Russian; this is one of the Russian ISV. Now, I would like to hand over to Anoop, who will take us through the new products that we have launched last quarter.

Anoop Roy Kundal Good evening everyone. Thanks Uday. The new products for this quarter one of the products which we have launched is our 3G Video Chat. The 3G Video Chat is aimed at building community chat sessions where users can interact with each other over not just voice but also video. This solution supports phone to phone, phone to web, and web to web video chat. For phone it works over video short code. Users normally would register themselves through IVVR, web, WAP and can have a chat session with other people logged under the chat room. This solution not only offers for video chats but is also a medium where the customers can interact with support centers over video for customer care and support. They are looking targeting customers like who will be using this product and we are targeting mobile operators, contact centers, media companies, website owners and of course for distant learning and knowledge centers and universities who can use this product for transmission of knowledge over video sessions. Uday just mentioned about our license manager.

As a license manager till now has been available over L60 platform. This quarter we have released the S40 platform. S40 is the most widely used mobile device platform and of course Nokia uses this for a broad range of mid tier mass market mobile devices. With the S50 platform we would have bigger reach to the users and this will help us grow the Nokia Map Business which is currently embedded with the Nokia handset and payment gateways. The other initiative that we have also we already had MIDP and Window's platform of mobile payment. This year looking at integrating with more OEM partners which will give us a bigger footprint to the customers you will also hear about some new initiatives we are looking at new platforms like Blackberry, Android and Linux. So in the coming quarter we will update you on products and the development of these and when we will be able to launch some of the new platforms.

As Uday just mentioned one of the things this quarter we decided just to I will be moving over Finland to take over the operations based out of Finland. This initiative is basically to closely work with the Finnish team and also strengthen our relationships with Nokia. I will be looking at exploring new services and opportunity for new product and also set up the process for offshore and onshore work management which we have been doing over the last few quarters but it will help me strengthen the whole operations the way we will be developing our platforms. And of course integrate the existing Tanla products and services with the Finnish operations. We already launched CREAT last quarter and Uday just mentioned we have got some good customers which are now live on the platform. Taking the products forward we have introduced analytical CRM as part of the platform which is to help us manage our campaigns and user responses much better. These are some of the initiatives this quarter and I now hand over you to Uday to take this forward.

Uday Reddy

I will give an update on the joint venture that we announced last month with ZED Worldwide. We are establishing a 50:50 joint venture with ZED Worldwide for our Indian market. This Joint Venture will focus on D2C Mobile WAP market that is selling international and then local mobile content, gaming, social networking, mobile advertising, contests on promotions. In fact ZED is a world market leader in value added services operating in 54 countries and having annual revenues exceeding \$1 billion last year. They have expertise in content manufacturing and distribution, understanding consumer behavior and agile marketing for monetization of the content. They also have numerous exclusive content tie ups with worldwide such as with Universal Studios and National Basketball Association, that is NBA and distribution partnerships with the likes of Adobe Worldwide. ZED is also creating an animated movie with Sony as worldwide distributor and they also manage some of the leading mobile operator portals worldwide. The JV will combine Tanla's technical expertise in telecom infrastructure and vast platform with ZED content expertise to aggressively target Indian Mobile WAP Market. The JV

committed to around 10 million Euros investment and will be operational by June this year.

Going back to Openbit, Openbit has done reasonably well in last quarter. We have done around 32 Crores a top-line with a bottom-line of, with a profit of 8.12 Crores as opposed to 5.97 Crores in Quarter 3. I am afraid, we cannot share the details on the number of licenses embedded and the number of transactions for the fact that we have just signed NDAs with most of the clients, I mean most of our clients in both in OEM side as well as in ISV side. Now, I request Gautam to take us through the UK regulations and market scenarios in UK, Gautam.

Gautam Sabharwal Thanks Uday. As you are all aware our business in UK has suffered due to change in regulations affecting premium SMS services, the charge consumes in excess of 4.50 requiring pre-approval by the regulator and of course any service being promoted through broadcast medium also requiring pre-approval. This resulting us having to send a subscription and reminder message to consumers and subscription services once every month obviously giving them an opportunity to opt out. This then resulted in an increased churn of subscription services. Also, we needed to pre-approve all existing content providers and the services from a platform providing premium SMS services. And also for the new customers that we are boarding that the boarding time increased because of the new regulations. We will now come through this all content providers and services have been approved by the regulator. Through this process we have taken conscious decision not to allow certain services on our platform, which could result in a potential breach of the code of practice. This is really quite evident from the fact that Tanla is having exemplary compliance record when compared to our peers in the industry. We have not attracted any adverse compliance issues in the last five months whereas our competitors have been attracting some large fines.

Having now come through this we expect to see premium SMS volumes begin to rise again as attracted content providers continue

their investments in marketing their services. While we believe that Premium SMS will improve gradually our focus for the long term continues to be on video and mobile internet based services. We have successfully launched our Video Chat platform in the UK with leading content provider of the system, now promoted across five TV channels owned by them and volumes are building up steadily. We are now in the process of building additional customers for this platform.

In addition we continue our focus on selling solutions as opposed to pure aggregation with the launch of our CREAT platform that seriously integrates our billing and delivery with the ability to manage and publish campaigns and content. Our foray into new markets continues to have mixed results with some markets performing substantially better than others. The US and Spain continue to be challenging markets whereas Africa and Asia are showing a lot of promise. Africa in particular is promising, due to the widespread use of mobile internet services driving the download of content and applications on the phone.

We have successfully provisioned leading customers from the UK in this market and the earlier results are quite promising. In India our focus on media and broadcast is through innovated platforms like Video Jukebox and CREAT is beginning to show the results with an uptake in our premium SMS volumes in the last few months. We expect volumes across our Premium SMS and voice portals in India to take a sharp upward trajectory as with JV operation as is in India in June. Just to sum up our strategy going forward will be as follows. We will continue obviously our investment in mobile payments through Openbit and complete integration of Openbit in Tanla as well as expand this into newer platforms like S40 as Anoop has described. Within Indian market to be primarily tackled through the JV with ZED and continued focus on media and broadcasters to our platforms like CREAT & Video Jukebox. Within UK and Europe, our focus will be on video and mobile internet services and solution sales through the likes of video chat and CREAT and for new markets we will continue our focus on new

markets like Africa and Asia where mobile internet penetration is high. I will now hand you over to Amit to take you through some of the key financials.

Amit Gupta

Hello everyone. We have already shared all the numbers with you. What I would like to take you through is the breakup of the numbers by the revenue stream. This year, financial year 2009 we closed our product revenue stream with a total revenues of 61.9 Crores, aggregation 468.4 Crores, professional services 65.9 Crores and mobile payments at 91 Crores. These are increased from last year's figures which I will repeat, last year we closed product at 50.8 Crores, aggregation at 353 Crores, professional services at 55.7 Crores. I will also discuss this quarter we had forex loss of 5.1 Crores. This included a loss of 4.2 Crores realized and un-realizing loss of 0.9 Crores. Coming to the capex as Gautam mentioned, we will continue our focus on new technologies such as video, 3G video, and we are expanding the new markets specially Asia, India, South Africa, Africa, Spain, so because of this and this last financial year, we had an increase of 142 Crores in our gross block and capex was spent mainly on adding new platforms with 3G video, media servers, voice platforms, aggregation, content hosting, mobile internet gateways, voice portals, etc. We have as of March 31st our debtors are to the tune of 260 Crores, the top 10 debtors include telecom operators like Orange, Vodafone, UK, DNA Finland O2 in UK. Handset manufactures. Nokia, aggregators mainly Netsize, Sybase 365, and Ericsson IPX and some media clients like in terms of breakup of types operators constitute about 52%, offshore clients 9%, aggregators 11%, independent software vendors 2.4%; handset manufactures 12.6%, credit card payment gateway which is Royal Bank of Scotland around 1%.

In terms of aging of debtors, 0 to 30 days is 42 Crores, 30 to 60 days of 46 Crores, 60 to 90 days is 48 Crores, 90 to 120 days is 115 Crores, and 8.6 Crores for more than 120 days. So the debtor days if I calculate year on year are about 138 days.

I will also like to give a summary of the tax provisions we have if you have seen our financials we have a negative tax provision of 5.44 Crores. This already includes in the handout. We have a negative provision of 11 Crores resulting in a total negative tax provision of 5.4 Crores. So we had carry forward losses of 2 million Euros in Finland for which we got an advanced ruling only in the last quarter because when we bought Openbit there was a major change in the shareholding and it was not clear whether the losses could be carried forward or not. But only after we received the advanced ruling had this got considered just in Quarter 4. Also depreciation allowance on some of our deployments we had not considered earlier because the systems were not commissioned and we were not clear whether we could consider in the previous quarter or not. Also, we have done tax restructuring based on advice from KPMG and we were waiting for the report which again came in recently so we offset some of the tax provisions that we had taken in the earlier quarter.

A breakup of the loans & advances, the loans & advances total figures is about 46 Crores out of this 20 Crores is towards the factoring of aggregation customers, employee loan was 4.5 Crores, advances for content that we host on the platform is 12.8 Crores. Deposits with various departments for example, in UAE we have to get various deposits and guarantees in the department for 4.65 Crores, advances for services is 4.3 Crores, rental deposits 11 Crores, and advance income tax paid an increment of 32 Crores over the last year. I will now hand over to Himanshu.

Himanshu Shah Yes. Marina, can you take the questions.

Moderator Sure sir. We will now begin the question and answer sessions. And anyone who wishes to ask a question may please press * and then 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. First question is from the line of Mr. Jehan Bhadha from Darashaw & Company, please go ahead.

- Jehan Bhadha** Good evening gentlemen. My question is on the aggregation front. Can you give us a breakup of your aggregation business in terms of content download, interactive media services, social networking 3G Video and we get a feel where is the growth coming from?
- GS** We now classify our services by the vertical that we are drawing the business from. So in terms of media and broadcasters their account for growing percentage of our aggregation business in the region of 30 odd percent. Content providers, that is you know traditional content providers including direct to consumer and tele-media companies account for somewhere in the region of about 37% of our services. Video chat service providers which include the like of Bang Media, today account for about 7% of our revenues and the balance is a mix of enterprises and we recommend this.
- Jehan Bhadha** And any particular segment which you see has been hit by the slowdown right now?
- GS** Basically within, in private segment I would say content providers in tele-media companies are the most affected primarily because within that you have a big bias towards subscription services and subscription services are the ones that are facing the maximum amount of pressure.
- Jehan** Can you give us your guidance for the next year?
- GS** In terms of where we see, we try to stay away from giving a guidance but in terms of the UK business is such in terms of you know their effect of the regulation we have seen the worst of it and we expect Premium SMS and volumes to start picking up from here onwards as well as our growth in Video Chat and mobile internet services we get that service.
- Jehan Bhadha** Right, so on the whole for FY10 you do see growth happening as compared to FY09?
- GS** Yes, that is right.
- Jehan Bhadha** Okay, and can you give me the geographical breakup for the year?

- GS** Amit, do you want to take that?
- Amit Gupta** I will give you the geographical breakup for the year.. The revenue for India is 182 Crores, UK 173 Crores, Singapore 40 Crores, Ireland 56 Crores, US 22 Lakhs, Dubai 167 Crores, Finland 90 Crores and South Africa 3 Crores.
- Jehan Bhadha** Okay, and regarding Openbit what was your calendar year 2008 revenues and EBITDA margins?
- Uday Reddy** See we have taken over the company only 10 months ago so we are booking revenues from the last 10 months. And last month revenues are amounting over 91.6 Crores top-line. The bottom line of 18.84 gross profit.
- Jehan Bhadha** Right. Thank you. Okay that is all from my side. Thanks.
- Moderator** Thank you Mr. Bhadha. The next question is from the line of Mr. Pawan Sachdeva from Sansar Capital, please go ahead.
- Pawan Sachdeva** Yeah hi. Thanks for taking question. Gautam, you did mention that in UK the business looks like kind of bottomed out but can you just comment on because of the new Regulation of Payphone Cluster etc, will there be any impact on the margins?
- Gautam Sabharwal** In terms of see our traditional business of premium SMS is affected area. Our margins are where you know traditionally we have not been doing you know more than a plain role of an aggregator but in areas like video and mobile internet where we see our growth coming we continue to command our margin. So overall we think you know we will be able to maintain the margins where they stand at the moment.
- Pawan Sachdeva** Thanks. So one, basically you are saying revenues from UK kind of are bottomed out and this should improve from here and you will be able to maintain the margins.
- Gautam Sabharwal** Absolutely yes.

Pawan Sachdeva And secondly, what is the nature of capital wealth in progress in the balance sheet which is close to 98 Crores right now?

Gautam Sabharwal Amit?

Amit Gupta This 62.5 Crores is for campus facility that we are developing, 5 Crores for a platform deployment in India, 8 Crores for a platform deployment in UK and Ireland each and 5 Crores for platform deployment for UAE, 15 Crores.

Pawan Sachdeva So you said 68 Crores for campus development.

Amit Gupta 62.5 Crores.

Pawan Sachdeva And where is it being developed?

Amit Gupta This is in Hyderabad.

Pawan Sachdeva So is it like where your office you have already, your current office is on lease basis, right?

Uday Reddy Pawan, see we have, in fact we have paid this advance last year itself which we mentioned in the annual report. And this is not a new addition this in not that we have mentioned about to our existing office.

Pawan Sachdeva This 62 Crore is deposit for where you are sitting in the office currently?

Uday Reddy No. I am talking about new campus. If you look at issue objects, okay and we have allocated around 90 Crores for the new campus. which is away from the existing office but Board have met last week and we have decided to kind of cancel that campus and probably we should be able to, that we are going to seek approval from members in coming AGM and if it goes through then we should be able to get back that money.

- Pawan Sachdeva** Okay. And on receivables there is again very detailed age profile of 134 days. Is any of receivables in dispute or they are in the normal course to come into the company or -
- Uday Reddy** They are quite in normal course. There is nothing in dispute.
- Pawan Sachdeva** And your cash balance in 171 Crores, okay. Thanks. There are other questions I can come offline within a couple of days.
- Uday Reddy** Okay thanks.
- Pawan Sachdeva** Thanks.
- Moderator** Thank you Mr. Sachdeva. The next question is from the line of Mr. Himanshu Shah, please go ahead sir.
- Himanshu Shah** Thank you Marina. Sir, during this quarter even if we exclude this forex loss, the operating expenses have increased by almost like 10 percentage points, any significant reason for that because last quarter we laid off some 60 employees, so we were expecting the cost to go down?
- Amit** Well, Himanshu I will take your question, Himanshu?
- Himanshu Shah** Yes.
- Amit** See, you are talking about the general & administrative expenses?
- Himanshu Shah** Yes, right.
- Amit** Okay, so there has been a part increase because of forex loss, there has been a part increase because of expansion. We have expanded our operations in Africa and Spain and some more expenses because of expansion in new office and some miscellaneous expenses.
- Himanshu Shah** Okay and sir what is the tax rate that we should model going forward especially because of this tax credit and in fact we were having a negative tax during the quarter, so like for going forward what is the tax rate that we should model?

- Amit** 18% or 19% on an average.
- Himanshu Shah** Okay and any guidance on the capex front for FY10?
- Uday** I think we defer to share on quarter-on-quarter call, Himanshu.
- Himanshu Shah** But more point, like for last 3-4 years if we see our cash flows have been negative, like if we adjust for the capex, when do you see this situation to turnaround going forward, when do you see to become free cash flow positive, post capex?
- Uday** Well, Himanshu I think I do not know where you got this impression like. We never had any negative cash flows till today, even this quarter we are on positive side.
- Himanshu Shah** Okay and sir any plans to appoint KPMG as auditors for the entire entity like we appointed KPMG during the year auditor for Openbit, so any plans on that front?
- Uday** You know what we are planning to do is like you know, we are going to appoint KPMG or E&Y for South African subsidiary and we are also looking at one of this top three for remaining subsidiaries before we change auditors in India.
- Himanshu Shah** Okay, but that is in the pipeline, it means for India also we are having a roadmap?
- Uday** Yes.
- Himanshu Shah** And sir what is our employee count as of date?
- Uday** We have around 372 Himanshu.
- Himanshu Shah** Okay, so that is lower than last quarter also because I think so last quarter we were having some 450 plus, if I am not mistaken.
- Uday** Yes, we let some people go during the quarter.
- Himanshu Shah** Sir, any specific reason on that front. Are we seeing some pressures on the revenues and on the margin fronts or something,

because of which we are laying off people or anything specific on that particular front?

Uday

Not really Himanshu for the fact, the reason is like as we know we have been building CREAT platform for the last one year and most of the people like you know working on CREAT platform and CREAT platform is already deployed in Dubai, so we do not need to maintain the full team with us, we just maintain, now we will have only 20-25 people working on CREAT platform who will primarily work on more on upgradations. So, we let remaining people leave in the last quarter yes.

Himanshu Shah

Yes sir what could be your R&D spend as percentage of revenue for FY09 or Research & Development spends in FY09, approximately, some absolute numbers or as percentage of revenues?

Uday Reddy

I think, Himanshu we have spent around 22 Crores in R&D last year that is absolute numbers.

Himanshu Shah

Sir, just a follow up on the tax rates, if I see your tax rates like for 3-4 financial year as a percentage of PBT it has been like 12%, 15%, or 20% only. So, with the centralization of platform in tax have Dubai and post this restructuring still we should forecast tax rate of 18% to 19% only?

Uday

Himanshu couple of issues here, one is we have move the centralized platform to Dubai, number one, where we are going to save a lot of tax this year number one. Number two, we are also planning to move part of them our team to one of the SEZs in the next two months in Hyderabad. Wherein, we would like to enter all the new contracts on this SEZ, where we do not really pay any money or tax for the next five years as you know. So, we are trying to address some of those issues, but I cannot really guarantee in terms of what is normalization in terms of tax saving for the next one year.

Amit

I think 10% to 12% would be a fair estimate.

Gautam Sabharwal Yes we are targeting around 10% to 12% this year yes, not 18%-19%.

Himanshu Shah Okay fine sir that is all from my side, thank you.

Moderator Thank you Mr. Shah. The next question is from the line of Nikita Khilani from SK Sonthalia Securities, please go ahead.

Nikita Khilani I wanted to find out, what is the volume of Premium SMSs in the last quarter in UK?

Amit It is about 6.7 million transactions.

Nikita Khilani 6.7 million, which was about 8 million plus in Q3?

Amit In Q3, I think it was 8.9 million.

Nikita Khilani Okay and you expect this to go up in the next quarter?

Amit Yes, right.

Nikita Khilani Okay and sir, other thing that in this quarter, our domestic revenues have gone down is there any specific reasons for that?

Uday Reddy Yes we mentioned in the notes like we lost couple of our biggest clients from international market, mainly Nokia stopped selling their maps through PSMS in India. For the fact they are not happy with the revenue share that they get from operators. They pulled out from India. In fact they started offering these map services through credit card and debit card in India and we also lost one of our main customer in UK on the same grounds.

Nikita Khilani Okay, so going forward also the revenues will be on this trend only?

Uday Reddy Not really, as Gautam pointed out like you know the after Zed joint venture, our domestic revenue will go up from 2nd quarter of this year.

Nikita Khilani And sir another thing your debtor days has been deteriorating, is there any specific reason, I mean is there a recession or cash flow crunch or this is just a normal course?

Uday Reddy Couple of issues, one is if you look at the different revenue streams that we have as of today, mobile operator continuously pay quite on time, we are very happy about that but the problem is only with OEM partners and the aggregators that we use for the connectivity that we do not have in other countries and even after development that we used to collect this money around 120 days something like but that has gone down to 150 days.

Nikita Khilani So any measures to correct this or this will be a trend?

Uday Reddy I think that will improve over a period of time.

Nikita Khilani Oh thank you so much sir.

Moderator Thank you Ms. Khilani. The next question is from the line of Rishi Maheshwari from Enam AMC, please go ahead.

Rishi Maheshwari your debtor days has increased and your current liabilities have decreased substantially, scratch this on working capital front, now how do you plan go ahead and what is the average, we should think of?

Amit So, our debtors' days have already been change of day and on the liabilities side we have already paid off these liabilities.

Rishi Maheshwari So, which means that going ahead the current liabilities will be more or less the same?

Amit Yes.

Rishi Maheshwari Okay and if you could also detail your cash deployment, where is this deployed?

Uday We have given in the note.

Rishi Maheshwari Okay. And are there any dividends paid this quarter?

Uday No.

Rishi Maheshwari Alright thanks so much, all the best.

Moderator Thank you Mr. Maheshwari. The next question is from the line of Dinesh Kumar from Anush Shares & Securities, please go ahead.

Dinesh Kumar I had couple of queries. First one is the, can you able to give me breakup of your top line sir, like aggregator or how much you revenue from aggregator on product development and-?

Uday Revenue stream, okay what is your second question?

Dinesh Kumar It is about forex loss sir, how much is a Forex loss under, what is the future forex contract for the next year?

Amit Yes Dinesh for Q4 products is 13.3 Crores, aggregation is 87.6 Crores, professional service is 12.2 Crores, and mobile payment is 29.4 Crores.

Dinesh Kumar This is for Q4, right?

Uday Reddy Yes.

Dinesh Kumar Can you able to give me full year breakup sir for FY09?

Amit For the year product is 62 Crores, aggregation is 471.4 Crores, professional service is 66 Crores, and mobile payment is 88 Crores.

Dinesh Kumar What about FY08, sir?

Amit FY08 product is 50.8 Crores, aggregation 353 Crores, and professional services 56 Crores.

Dinesh Kumar what about forex loss, how much is the forex loss and what is the remaining contract for FY10?

Amit See, the forex loss we had in this quarter was 5.1 Crores and I think your second part of the question was not clear.

- Dinesh Kumar** Remaining contract for FY10, sir?
- Amit** We have not taken any forward contracts.
- Dinesh Kumar** This is just for one quarter right?
- Amit** Yes.
- Moderator** Thank you. The next question is from the line of Mr. Atul Bhole from Tata Mutual Fund, please go ahead.
- Atul Bhole** Hello sir, if you can give me a breakup of the employee base in product development, deployment, as well as support services?
- Uday Reddy** I do not have those figures right now we will come back in five minutes.
- Atul Bhole** Okay thanks.
- Moderator** Thank you Mr. Bhole. The next question is from the line of Mr. Amitabh Sonthalia from SKS Securities, please go ahead.
- Amitabh Sonthalia** I have some quick questions and clarifications pertaining to your release on consolidated P&L and balance sheet. You disclosed 170 Crores approximately your cash on your balance sheet out of which 70 Crores is in the deposits accounts, right the balance are in what current accounts?
- Amit** They are in EEFC account and current account.
- Amitabh Sonthalia** And what would be the average yield on these deposits, say the overseas as well as the Indian deposits?
- Amit** The yield of India deposit is about 6.5% and overseas deposit is about 2%.
- Amitabh Sonthalia** Okay and any plans to deploy this cash in the near future?
- Amit** See as we mentioned in the earlier question we do not have any forward contract, so we prefer to keep cash in EEFC Account as

natural hedge against currency fluctuations and in consequent to that act as a natural hedge against currency fluctuation.

Amitabh Sonthalia Right, but like what I meant to ask is do you have any capex plans for this year. How much do you intend to spend this year in terms of organic initiatives?

Amit We have plan of going to have capex in this year because we are expanding to the geographies and we also have focus on 3G video and mobile Internet.

Amitabh Sonthalia See, do you have a rough budget on what the capex is estimated for this year FY10?

Amit I cannot give you that right now. We share that quarter-on-quarter.

Amitabh Sonthalia And is there any acquisitions that you are looking out for?

Amit Not at the moment.

Amitabh Sonthalia So, intentionally you are intent to conserve the cash for organic purpose and growth purpose?

Amit Yes you are right.

Amitabh Sonthalia And have you declared any dividend for the financial year 2009?

Uday Reddy As of now, we have not declared any.

Amitabh Sonthalia Do you intent to or basically it is a nil dividend year?

Uday No, we have not considered in the last board meeting, but once we have done with the audit then I think we will discuss this one in coming meeting....

Amitabh Sonthalia So, one could expect dividend announcement in due course for the financial year 2009?

Uday Reddy Well, I have not discussed that issue in the last board meeting, we should discuss in the coming board meeting.

Amitabh Sonthalia But is there a dividend policy that you have in place or certain payout ratio that you plan to maintain or since especially considering you have such large cash balances, is there any?

Uday Reddy We have been paying the dividend for a number of years. I think we should continue on that.

Moderator Thank you Mr. Sonthalia. The next question is from the line of Arshi Anand from Kotak, please go ahead.

Arshi Anand I just want to know get some sense of the difference in growth rates expected across the different geographies?

Gautam Sabharwal Growth rate expected, we are not really giving any future guidance as such but in terms of percentages we expect Africa and Asia to be the largest.

Arshi Anand Okay, Africa and Asia, Asia including India.

Gautam Sabharwal Asia including India, yes.

Arshi Anand And so if you can just give some intuition in terms of not so much growth numbers, but looking into the coming year and possibly into 3 years down, which are the market sectors you think could be the fastest growing and which are the markets are actually likely to lag in terms of growth rates?

Gautam Sabharwal I will give you an overall picture rather than you know going for specific markets, if you look at an overall picture we expect to see Premium SMS business across the world probably flatter out and look downwards but other than that we expect other payment mechanisms like mobile Internet, pay for it, and video to take, these are dominant payments mechanisms going forward in addition to credit card and if you look geographically, we would expect probably Asia and Africa to be our largest contributors. This is purely driven by China, if you look at number of mobile Internet users in these areas is particularly Africa where you know people do not really use the web, so it is all driven through mobile. So, we expect that to continue to drive growth in these markets.

Arshi Anand Would it be fair to say that margin in the African and Asian markets are slightly lower than that in Europe?

Gautam Sabharwal In terms of I would say rather margins if you look across Africa the average price point that you charge for piece of content would you know be very different you know videos you sell for let us say 10 Rand in South Africa, whereas the same thing you can get away with selling @ £3 in UK. But in terms of the content provider percentages, they worked out in tandem with the markets with the content that actually been sold there. So, you know the average percentage that you pay a content provider anything else would be you know relatively same.

Arshi Anand Okay and how about in terms of amount we will be paying the telecom operator in India?

Gautam Sabharwal In Asia and particularly in India for example the scenario is quite bad with operators keeping a very large percentage of the end user price, which makes the business a lot more difficult in India, you know particularly for content providers investing in their own marketing you know it becomes difficult to justify whereas in African at least in the markets that we are currently active our payments mirror the UK.

Arshi Anand Okay sir and just one last question from my side as the Premium SMS Services are actually lag in terms of growth rate, is there a difference in margins or the amount you pay to content operator and the telecom operator in Premium SMSs versus these other new service lines?

Gautam Sabharwal Well, out payments are very similar from the networks.

Arshi Anand Okay, so that would not be a reason for margins to decline or not?

Gautam Sabharwal No, not at all in fact when it comes to video, we have an opportunity to be you know provide more of a solution to the content providers than in the case of Premium SMS.

Arshi Anand And sorry, just one last question, I just wanted to understand what are the challenges with relation to the US and is it a market which we feel would be very difficult to crack into for the next 2 or 3 years?

Gautam Sabharwal Again, we are currently in wait and see, I mean if we see that it is going to take us 2 or 3 years to, if that was the feeling we would have withdrawn from the market, but you know we are considering...we are seeing pockets of opportunity, which we are trying to go after. You know we think that we would have been able to crack it a little bit earlier but you know kind of the current economic situation and the kind of revenue guarantees that mobile operators look in those markets. It is basically or currently a decision not to go after that. We are still continuing with our business of selling platforms in that market. We have some interest but you know deals are yet to convert financially.

Arshi Anand Okay that is it, well thanks a lot and all the best for future.

Moderator Thank you Mr. Anand. The next question is from the line of Mr. Shailesh Kumar from Fortune Equity Broker, please go ahead.

Shailesh Kumar Yes, good evening Mr. Reddy, this question is directed towards you and you know from JV that you formed with the Zed Worldwide, what kind of revenue are you expecting sir?

Uday Reddy Like we are still working on business plan, in fact a team from Zed is going to be here in next couple of days, but definitely like you know we are going to start generate revenues from 2nd quarter this year but definitely we will emerge as one of the largest WAP players in India.

Shailesh Kumar And the second thing is economic slowdown, I mean there are place in the market who are quite bullish in spite of the economic slowdown, I mean what is your view on that? These are not supposed to be big ticket items but the numbers do not seem to say so, so if you can...

Gautam Sabharwal You see, I mean our effect is primarily due to the fact that you know we face certain regulatory circumstances in our primary market being UK. You know we have also faced currency impact, which you know when you look at our revenues in repeat terms, they do not seem as attractive as they used to be. These are primary reasons for our fall in transactions. Other than that you know I would say there is a minimal impact if at all on due to the current economic crisis. As you very rightly said these are not big ticket items. So we do not expect that really drive things negatively. So, saying that in the US, we have taken the view that you know the guarantees and things that mobile operators do ask for is probably unjustified in this current environment.

Shailesh Kumar Sir, just a follow up question, I just wanted to understand, I mean big ticket users of mobile VAS are basically European consumers and you are into UK, one of your largest markets for the mobile value-added service still you do not sound so bullish about the growth, you are talking of growth in Africa and Asian markets?

Gautam Sabharwal Well, if you look at the business in the UK for example, the overall value-added services market is a lot more mature in the UK and Europe, it is a very large market, but the market is much matured. So, in terms of overall growth of the market, you know it is not going to grow as quickly as likes of Africa and Asia where the market is relatively immature. Video services have been introduced in this market. We expect the shift to come from Premium SMS to video in this market a lot quicker than we do in other markets. But growth overall for mobile value-added services will obviously be driven from Asia and Africa where subscriber numbers are growing up substantially as you are well aware.

Shailesh Kumar Sir, what is your current market share of overall addressable market in UK?

Uday Reddy I think we were around at 12%.

Shailesh Kumar 12% of your addressable market and your addressable market is what percentage of operators revenue?

- Amit** Sailesh there are no exact figures available for this. There are only various estimates and also because there are various multiple ways of recognizing revenues in WAP so even if we will give you an answer for this it will not mean anything.
- Shailesh Kumar** Okay fine, okay thank you sir.
- Moderator** Thank you Mr. Kumar. Ladies and gentlemen due to time constraint we will take the last two questions. The next question is from the line of Mr. Ravi Gupta from UTI PMS, please go ahead.
- Ajay Tyagi** Yes good evening gentlemen this is Ajay Tyagi here, few questions. Firstly, on the margins without being specific on the guidance, Gautam did mention that we intent to maintain the margins going into FY10, so were you suggesting the margins that you have made in the full year FY09 or were you suggesting the 4th Quarter margins?
- Uday** Ajay, we are intending at 4th Quarter margin.
- Ajay Tyagi** Which would basically mean, you know a steep decline going into FY10.
- Uday** In terms of?
- Ajay Tyagi** In terms of the margins if I compare the 4th Quarter margins with the overall margins FY09 that would mean a steep decline going into FY10?
- Uday** I think we should able to achieve around 23%-24% Ajay.
- Ajay Tyagi** 23% to 24% net margins?
- Uday** Yes net profit yes.
- Ajay Tyagi** Okay fine thank you. Next on the Openbit thing, you did mention about now integrating Openbit with Tanla. Now, my only fear and question here is that I hope as far as the incumbent management

team over there is concerned; we are doing everything to retain them.

Uday Ajay, it is a good question and there management is going to stay back at for least the next 3 to 4 years that is what we were agreeing in fact that their team was here in Hyderabad last week. We had a long chat with these guys and they agreed to stay back with the company for the next 3 to 4 years.

Ajay Tyagi And are we involving them in the ESOP program that our company has?

Uday That is what we kept debating last week, in fact I myself am going to Finland along with Anoop in next two weeks, we should able to finalize about ESOP when I am there, our main interest is to retain these guys for next 3 to 4 quarters and in turn, they are going to get ESOP yes.

Ajay Tyagi Okay thank you. And on the forex loss, Amit did mention about the figure of around 5 Crores, now can you please make me understand what is this forex loss and you know what goes behind this forex loss because as I understand we do not have any hedge positions?

Uday Reddy We do not take any forward contract. It is more of a conversion loss in the sense like when you booked invoice in 2nd Quarter, the pound was around Rs.80 something like that, but when we released the amount, which was around Rs.70. So, it is more of conversion loss of Rs.10. We do not normally take any forward contracts; it is more of conversion loss.

Ajay Tyagi Alright, so instead of just netting it off in the net revenue line, we have taken the gross figure in the revenues and then taken the losses in the other expenses is that right?

Uday Reddy Absolutely Ajay.

Ajay Tyagi Okay fine that is it from me thank you very much and all the very best.

Moderator Thank you Mr. Gupta. The last question comes from the line of Mr. Amitabh Sonthalia from SKS Securities, please go ahead.

Amitabh Sonthalia Hi, I just had a follow up question to part of which, which is already been answered. I wanted to check with you where do you see EBITDA margin stabilizing, it is fallen from 48% to about 31% this quarter compare to last quarter previous year, where do we see it is stabilizing I mean have we seen the worst of it in terms of a decline?

Uday We took that around 30. In fact our mobile payment revenues stream is going to grow where we relative lesser EBITDA margin and that affect that we had I believe is going to change slightly.

Amitabh Sonthalia So that will pull down the pressure?

Gautam Sabharwal Yes.

Amitabh Sonthalia Alright, thanks very much.

Moderator Thank you Mr. Sonthalia. Ladies and gentlemen that was the last question. I would now like to handover the floor back to Mr. Himanshu Shah.

Himanshu Shah Thank you. We would like to thank all the participants on the call. Also many thanks to the Tanla Management for their time on this earnings call, thank you and over to you Mr. Uday for your closing remarks.

Uday Reddy Thanks Himanshu, I did thank all of you for participating in this call. As we are aware that this time we have sent out an update prior to the call and we will be using this format going forward. We would like to have your inputs and feedback on this format. If you have any suggestions please email them to us at ir@tanla.com. Thank you Himanshu.

Moderator Thank you. On behalf of Religare Capital Markets Limited that concludes this evening's conference. Thank you for using Chorus Call Conference Service and you may now disconnect your lines.