



## “TANLA SOLUTIONS LIMITED”



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**MR. UDAY REDDY, CHAIRMAN & MANAGING DIRECTOR, TANLA SOLUTIONS LIMITED**  
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**MR. AMIT GUPTA, DIRECTOR - FINANCE, TANLA SOLUTIONS LIMITED**



**Moderator:** Ladies and gentlemen, good evening. This is Faisal, Chorus Call Conference Operator. Welcome to Q1FY2010 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 the conference please signal an operator by pressing “\*” then “0” on their telephone. At this time I would like to hand the proceedings over to Mr. Himanshu Shah, Telecom Analyst at Religare Capital Markets Limited. Thank you and over to you, Mr. Himanshu.

**Himanshu Shah:** Thank you, Faisal. Good evening ladies and gentlemen, on behalf of Religare Capital Market Limited, I would like to welcome you all to this Q1FY10 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. 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:** Thank you Himanshu. Good evening ladies and gentlemen, thanks for joining us on this call. Unfortunately, the recession and the regulation changes have continued to have their downward impact on our revenues. In addition some of the mega campaigns have not been taken up by our customers in UK. We also have seen that many of the same customers who have been using our services in rest of the geographies have slowed down their marketing spend, but we have initiated several measures last quarter and they are progressing well. We have increased our focus and development of new products and support for additional platforms. For instance we have recently released Web Access Manager to our existing OEM partner, which will now enable all smart phones to access web content using the Tanla's license and payment gateway. This will strengthen our payment solution business. #2 is we have deployed S40 License Manager for a premium handset manufacturer called Vertu. This is an important milestone for us as it demonstrates the product capability and reliability and that it is accepted by the world's most premium handset manufacturer. We are certain that it will now open the doors for us with the rest of handset manufacturers across the world. #3, we have increased our coverage of S60 License Manager Deployment now deployed with one of the leading handset manufacturers in India. These new handsets embedded with our solutions are expected to be rolled out this quarter. As you can see we are well on our way of becoming the market leader in mobile licensing and payment solutions. Some of the other initiatives including the strengthening of our VAS business in India, the joint venture with Zed is ready for launch. All the business plans are set in motion. We have increased our products offering to India and media houses and the mobile operators. This has resulted in increased deployment. This will be detailed now by Gautam. Gautam.



**Gautam Sabharwal:**

Thanks Uday. As Uday points out our aggregation business continues to suffer again due to a combined effect of regulation changes and continued recession in the UK, as a result of this the premium SMS business has suffered dramatically in the UK. Through unofficial sources you know we have been told that the market overall is down upwards of 40% and this is in the premium SMS segment alone, however, while the market is down 40% Tanla continues to maintain its market share in this environment. The main area that has been affected really is subscription services which were a large chunk of sustainable revenue for most aggregators in the market and due to this changed regulation requiring double octane and confirmation messages, getting messages to be confirmed by the subscribers, this has resulted in an increased churn of subscribers and also making it difficult for content providers to attract new subscribers in this market. Recession has also impacted resulting in a number of large content providers who had planned big one-off campaigns to shelve these campaigns to a future date. As you are probably aware we have done a large campaign for the Michael Jackson concert in the UK. This was a pre-ticketing campaign and we were due to do the second leg of that campaign in the month of June, but as a result of his sudden demise that has now been put off. As a result in the last quarter we have not had any large campaigns that could have boosted our revenue. However, we see these returning over the next couple of quarters. The assets and aggregation businesses, has resulted in ripple effect on products and offshore development. Transaction numbers on the product side are down relating to reduced revenue and obviously because content providers are reducing their investment in marketing and releasing new services, our offshore development business has been impacted as well. While the aggregation business has suffered our business on Openbit and License Manager continues to do increasingly well. This businesses licensed shipments have grown 25% quarter-on-quarter for the last four quarters and we expect to maintain this current trajectory going forward.

Just to give you an overview of some of the positives of the last quarter, we signed up, as Uday pointed out a leading handset manufacturer to offer license management services in India, these services would be launched imminently. We also attracted EMOS, which is one of the leading independent software vendors out of Israel to use the License Manager product for their mobile payments. We launched a new product called Web Access Manager, which was released early last quarter and basically extends the functionality of the License Manager to mobile Internet transactions. This has been launched in conjunction with our leading OEM client, so from day one we are accruing revenues on this product. In addition, as Uday pointed out, our License Manager product has also been selected by Vertu, which is the most premium handset vendor in the world and they are using License Manager to deliver mobile applications to their users. On the aggregation side we have added a number of new clients. ITD, which is a customer of ours in India used our platform to run an exam results and quiz service. This resulted in over 1 Lakh premium SMS messages in a single day. Our CREAT platform is also being increasingly deployed with a number of new clients. We have signed up 28 new clients in India. In the UK we have signed leading agencies like MCell, Fearless Digital, the NTH Group and some media

companies like Sport magazine and Newstel Interactive. South Africa continues to show a lot of promise. We have had again some new customers in the likes of MobileNOBO which is provider of download services over the mobile internet, Enicson, Bangmedia, Teleplay which is one of the leading providers of IVR services and they are using us to extend their services to premium SMS and beyond and Eyeballs which is an interactive agency. Our video jukebox product has been launched with Zoom TV and Zee TV in India. SMS capacity we have boarded three large aggregators on for our bulk SMSC with Aircel. In addition, our 3G video alerts have been launched with Dialog in Sri Lanka and we have launched our Karaoke product with BPL, the old BPL which is now Loop Mobile in India and we will be launching with MTNL this quarter. So overall while we are continuing to face a little bit of impact you know our revenues are down in the aggregation business, Openbit, and our mobile payments business continue to perform beyond our expectations and are continuing to show strong growth, which we expect to continue in the coming quarters. We are developing new platforms for the likes of Bru, Leno, MIDT, Windows Mobile and Android, so we are extending the License Manager functionality across other handset manufacturers and mobile platforms and we have also released new products for media handsets for media houses and mobile operators, which we will be releasing this quarter and where we expect to see a strong demand from. So that is it from me, I will now hand over to Amit to take you through some of our key financials.

**Amit Gupta:**

Hi, I will first give the breakup of the revenue by different revenue streams. As Uday and Gautam have mentioned our revenue from one side of the business, which is products, aggregations, special services that has come down from last quarter whereas on License Manager and mobile payments has gone up. So for products the revenue this quarter was 5.12 Crores, which is about 6% of the total revenues, aggregations forms 44.24 Crores, which is about 51.4%, professional services constituted 5.24 Crores, which is about 6% and License Manager and Mobile Payments which have gone up 31.5 Crores, which is about 36.6%. In terms of EBITDA for each of the revenue streams, the EBITDA margins have come down for products, aggregation and professional services because since revenue has come down and base cost remains the same the EBITDA margins have come down for products it is now 54%, aggregation 27.6%, professional services 14.8%, for mobile payments it has gone up to 34.75%. Sharing some more details of the side of business that which is growing, as Gautam mentioned, the licensed shipments have been increasing 25% quarter-on-quarter over the last three to four quarters. Overall the EBITDA for the business in Q4 of last year was 10.6 Crores which increased by 17% to 12.4% this quarter. In terms of revenue it was 32 Crores last quarter and it is 35.3 Crores, which is a growth of 7.7%. That is on the revenue side. Coming to the CapEx this quarter we had a CapEx spend of about 26 Crores, out of which 11.94 Crores was spent in UK, 7.4 Crores in UAE, 1.2 Crores in South Africa and 5.68 Crores in India. This was primarily spent on deployment of new products. In UK we deployed new products and mobile payment gateway, in Dubai in addition to products we also deployed a 3G gateway. In India apart from products we also had License Manager Deployment with a new handset manufacturer. In addition to this as

Uday and Gautam mentioned we have been investing in to development of new products and R&D. We have 9.24 Crores in stock this quarter. This will be recalculated and net it off as and when these products start realising revenues in the future quarters. Our debtors at the end of Q1 stand at 231 Crores. I will give you a breakup of these debtors. From Indian operators it is about 3.2 Crores, operators outside India 96.3 Crores, Professional Services Clients is 10.2 Crores, other aggregators from whom we route some of our traffic is 42.8 Crores, independent software vendors 5.5 Crores, handset manufacturers 34.2 Crores, Credit Card Payment Gateway is 2.5 Crores, Media Entertainment Companies 36.5 Crores. In terms of aging for 0-30 days is 26.7 Crores, 30-60 days 24.1 Crores, 60-90 days 28 Crores, 90-120 days is 39.3 Crores and greater than 120 days is 113 Crores. Calculating the debtor days year-on-year is 139 days and quarter-on-quarter is 180 days. Tax provisions for this quarter are 1.59 Crores which is roughly 10%. The loans and advances have gone up by 25.7 Crores. I will give a breakup of these loans and advances. Out of this 25.7, 11.7 Crores have been paid as tax in UK. We have increased our factoring with some of our customers by 6.4 Crores. Advances to employee 5.3 Crores, payments to content providers for acquisition of mobile content 4.9 Crores, deposits to departments 0.2 Crores, advances for services 2.1 Crores. That is it from my side. Himanshu over to you.

**Himanshu Shah:**

Faisal we can take the questions now.

**Moderator:**

Thank you Sir. We will now begin with the question and answer session. Anyone who wishes to ask a question may press "\*" and then "1" on the touchtone telephone. If you wish to remove yourself from the question queue you may press "\*" then "2". Participants are requested to use only handsets while asking a question. The first question is from the line of Pranav Bharawaj from Mata Securities. Please go ahead

**Pranav Bharawaj:**

I would like to ask, what is the growth rate that we are seeing for the Indian operations and like what are the ways we are employing so as to improve our sales as well as improve our margins in the Indian operations?

**Gautam Sabharwal:**

I will take the second part of this question and Amit can answer the first. In terms of our focus on the mobile payment side as we have outlined, we have signed up leading handset manufacturer householding to deploy our License Manager product, as the shipment of this starts rolling out in the Indian market we will see growth in our revenue because we will be trying new transactions as well as licensing for that business. In addition, we have focused on media clients. We are seeing an increase take up for our media services like video Jukebox and campaign management. As we outlined, we recently run campaigns for some large media events where we are seeing a single event producing over a 100,000 Premium SMS (PSMS) transactions.



- Amit Gupta:** I would like to add in addition to that we have incorporated a joint venture with Zed, the largest mobile content company in the world, so we have started the ground work and the services in India will probably be launched sometime in September.
- Pranav Bharawaj:** Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Mr. Harish Krishnan from Kotak Singapore. Please go ahead.
- Harish Krishnan:** Few queries from my side. One is specifically with regard to Openbit. You said that this quarter numbers is close to about 31.5% could you give the corresponding revenue number for the last year and the last quarter?
- Amit Gupta:** Harish this was 35 Crores. Last quarter the revenues for Openbit was 32 Crores and EBITDA was 10.6 Crores.
- Gautam Sabharwal:** And the corresponding quarter last year is what he asked, Amit?
- Amit Gupta:** Corresponding quarter last year Openbit was not with us. Uday are talking of corresponding quarter or last quarter, Harish?
- Harish Krishnan:** Last year it was not with you okay. In terms of shipments or in terms of contract value what kind of revenue stream or revenue run rate can one look at from this year from Openbit because you already would have some insight into shipment?
- Uday Reddy:** As we covered already we see a 25% growth in terms of embedded licenses on quarter-on-quarter for the last four quarters. And we strongly believe that it is going to grow from 25% to 30% something like that quarter-on-quarter. And we also launched S40 platform with Nokia so that will also help us to increase the number of licenses that we could embed in the handsets.
- Amit Gupta:** Harish, what we are also doing as we mentioned before, these shipments are specifically for S60 handsets and S40 has just started, so S40 is also going to pick up. In addition, we are also developing a new platform such as G2, MIDP, View, LiMo, Indus Mobile so we are developing different versions for all these environment platforms, so these will be then targeted with other handset manufacturers. As we mentioned we have already signed up one more handset manufacturer, which is Vertu and the more handset manufacturers sign up, the boost that we will get on these license shipments will be proportional.
- Uday Reddy:** We have signed with I cannot really mention the OEM partner's name but we have also signed with India OEM partner that should also generate the revenue for Openbit in Indian operations.



**Harish Krishnan:** In the case of Openbit, if I understood right, there used to be a conversion of the License Manager from the free to actual downloads and that should have given you additional monetization? Any sense on what that ratio is and whether that is backing us by estimate?

**Amit Gupta:** Harish, in Openbit there are different revenue streams, license as we are discussing whenever there is a licence embedded by the OEM at the factory there is revenue generation for us. In addition to that what you are seeing is actually whenever a person purchases the actual license, converts to a real license, we get a revenue share on the purchase of the license. So in terms of ratio, the revenue share is about say 1.1 or 1.2 times our revenues from license embedding.

**Harish Krishnan:** About 60% is coming from activation and 40% from embedded, is that right?

**Amit Gupta:** 60 : 40, yes.

**Harish Krishnan:** Coming to the UK market, UK is where obviously we have had the maximum impact, while you mentioned that regulatory things have changed quite a lot and campaigns have not worked out as was said, structurally over the last week what we have had was a significant kind of pressure. Going forward anything dramatic that is happening on the ground? Are other operators or other VAS operators are also finding it difficult?

**Gautam Sabharwal:** See all aggregators are finding it difficult in the current environment especially because the mainstay of the business has been premium SMS transactions and premium SMS is a segment that is most affected. Other areas like PAYFORIT and video are growing, but they are not growing and the base is not large enough to obviously compensate for the drop in premium SMS revenues. You know as we have outlined unofficially what we have been told by mobile operators is that there is about over a 40% drop in these premium SMS transactions. Due to this change in regulation, every time we board a client the amount of due-diligence that you as an aggregator that you tend to go through you would want to do on any client obviously to mitigate any potential regulatory problems is quite strenuous and obviously delaying or signing on of new clients and obviously the quality of clients that we sign on. Does that answer your question or?

**Harish Krishnan:** Primarily if you could just say in terms of number of client sign on that you have had before this on a monthly runrate and how it has come out now for this Quarter.

**Gautam Sabharwal:** In terms of adding new customers you know, we have genuinely slowed that down ourselves due to the regulatory problems, but in general we are adding about 50% less customers than we were in any other quarter. Also what the problem is that existing customers revenues are you know, they have decreased their investment in the last quarter, so their revenues have not, their numbers have not delivered as they did in previous quarters.



**Harish Krishnan:** Given the contraction that you have seen, it is encouraging that you have been able to manage costs well, if you can account productions that you have done or what is really the reason of...?

**Gautam Sabharwal:** Within the UK itself, you know, we have reduced our headcount by over 40% primarily because you know it was a sales organization and within aggregation we only want to focus on a certain set of customers, so you know we have reduced that headcount pretty dramatically and in India as well you know, Uday can point out exactly the headcount reductions that we have gone through. Uday.

**Uday Reddy:** It has come down from 372 to 323 in India.

**Harish Krishnan:** But Uday, more on macro point of view since we were in this path of going in for many countries at the same time during the recession, any change in plans, are you still continuing to invest in places like US which you have not done.

**Gautam Sabharwal:** Yeah. That is another thing. We pulled out, in terms of aggregation we are not going forward with the US as we currently stand due to the deposits and guarantees and the investment required to take that forward, so that is a definite market that we have pulled back from.

**Nitin:** This is Nitin here, just a couple of questions. Just wanted to check on the real estate. I think there were some advances, which were given for the office space. What is the status on that?

**Uday Reddy:** Yeah. That advances for the new facility, which we have landed quite some time back and we have received partly around 15 Crores or something like that in the month of July and we are yet to receive the remaining amount.

**Nitin:** What is the pending amount as of now?

**Uday Reddy:** Around 42 Crores.

**Nitin:** Okay, just my observation, probably it is a bit crude. While we talk about premium SMSs and Openbit and pay for it, again we are facing massive decline because of regulatory challenges. Competition is tough in very simple products like ring-back tones and has gone global. Was there a strategic mistake in our way that we thought probably a couple of years back and the way our services would have moved up focusing only on the premium end and just leaving the stakes open for lower-end mass services?

**Uday Reddy:** I do not think anything like that. Primarily from 2000 onwards we have built different products in the SMSC and inbound dialers and outbound dialers. That is where we have generated a lot of money in the international market. We call them as products or

something like that, but of course we were the first ones to take these products to international markets mainly to UK and we did generate a lot of money but of course we could not really move to Latin America and US, probably that was the mistake on our part, probably the right way was to acquire one company. We should have been better had we acquired one company in the US instead of investing on our own and looking at opportunities. That was our mistake probably.

**Nitin:** Is it something, which is available now?

**Uday Reddy:** I do not want to really give you any guidance but we are continuously looking for opportunities, we do identify a lot of companies but we have not started negotiations with any of the companies.

**Nitin:** Thanks okay. I have been taking too much of time. I will come back to you if we have further questions.

**Moderator:** The next question is from the line of Mr. Naveen Kulkarni from MF Global. Please go ahead.

**Naveen Kulkarni:** What I want to understand is what is the primary reason for the degrowth in the premium SMS segment, is it the regulatory thing or is it primarily because of regulatory or is it also due to recession? What I want to understand is this a temporary phase because if it is like regulatory then probably people might get used to sending in double checks and things like that and it might bounce back to 40 one or two quarters down the line, so what is your take on that is what I want to understand.

**Gautam Sabharwal:** Basically, the biggest impact is the regulatory impact. The recessionary impact is a more affecting one-off campaigns, but regulatory it is more the kind of due diligence, the kind of customers that we work with and we need to be increasingly careful in this environment about the kind of services that are run in the platform, so yes in an effect we see a couple of things happening, premium SMS will continue to be under little bit of pressure. We do not see any further degrowth as such but we do expect over a period of time that video and mobile internet services will begin to replace the drop in premium SMS.

**Naveen Kulkarni:** My second question is what are the services that you are planning to launch in India and what is the investment that you are looking at for the India operations?

**Gautam Sabharwal:** As we have pointed out we have already signed up License Manager with a more existing handset manufacturer. You know, in terms of that Amit already outlined the investment that has gone in. Amit do you want to just elaborate on any other investments in the Indian market.

- Amit Gupta:** In India apart from the License Manager that we have deployed with the handset manufacturer, there are other initiatives, which are going on. Primarily we have the joint venture with Zed which is just taking shape and with every day gathering momentum, so with Zed we will be launching direct consumer services and investment over there is going to be largely dependent on the kind of campaign that we run and these campaigns are planned about a month in advance so on the investment equity on Zed we cannot really comment. On the other side we have new products which are being rolled out, for example just yesterday or day before we rolled out a Karaoke service VPN and we are going to be rolling it out with other operators as well, so depending on with how many operators we are able to close this products, the investment will vary, so far example if we get to deploy this product with two operators it is going to be 2X, three operators 3X, so it is very difficult for us to really comment at this stage.
- Naveen Kulkarni:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mr. Sameer Deshpande from Flemingo Investments. Please go ahead.
- Sameer Deshpande:** Sir, I would like to know whether the worst is over for the company because in the last two quarters we have seen a very steep fall in the businesses. You have commented on the various things but can we see a pick up from the next quarter onwards?
- Gautam Sabharwal:** Sameer, basically in terms of our aggregation business we think that there is probably another quarter where we expect revenues to be flattish and we would return to growth from thereon but on Openbit and License Managers side of the business we expect to maintain our current trajectory, as we pointed out license shipmenets have been growing 25% quarter on quarter, so we expect to see that going forward at least for the next few quarters and as we are rolling out across different handsets, we would add to that momentum over time. As Uday pointed out we have launched new products called media houses and again we are seeing strong traction in the market and as we close some of these deals we would expect ourselves to start returning to growth very soon.
- Sameer Deshpande:** And the 25% growth you mentioned what is the current turnover in this quarter for that particular segment?
- Uday Reddy:** 35 Crores.
- Sameer Deshpande:** Regarding this joint venture with Zed which you have mentioned about three months back, we formed a JV, when is the business likely to start in that JV?
- Amit Gupta:** Right now we are doing the ground work, talking to operators, getting all the infrastructure ready, so services will probably be launched sometime in September.



**Sameer Deshpande:** September onwards you expect the business to start. Regarding the profitability percentage, naturally because of the fall in the turnover the margins have crashed, so are we in a position to cut our costs anything further to maintain the margin?

**Uday Reddy:** No, the profit margins primarily have come down because there is a change in revenue mix, but in terms of EBITDA, we continue to maintain our EBITDA margins in terms of each revenue stream. As and when we see the change in the revenue stream that will go up.

**Amit Gupta:** Sameer the EBITDA has come down from 33% to 31% this quarter. So EBITDA is a marginal difference.

**Sameer Deshpande:** And now regarding this Forex management policy of the company, now if you take the latest turnover, 95% of the turnover or more rupees is coming from the billing from revenues and the Sterling Pound is really volatile. Last year, I think in the same quarter, it was Rs. 86, in this quarter it was somewhere at Rs. 78. The last quarter in March it was around Rs. 73, so that variation is almost 8% to 10% in a quarter. So I think that is affecting the revenues in a big way. So what is the Forex management policy of the company?

**Amit Gupta:** Sameer, see we are very, very risk averse, we do not take into option instruments like options and all. We have in the past also lost money with forward contracts. So what we do is typically we maintain our cash balances, in GBP and Euro. So that acts as a natural hedge.

**Sameer Deshpande:** That is the only thing, which we do?

**Amit Gupta:** Yes.

**Sameer Deshpande:** About the Indian business, though we have been mentioning that we want to grow that business, you have taken certain initiatives, but the latest turnover is hardly 2 Crores. So what is the projection for that, six months down the line?

**Uday Reddy:** No, as I said we cannot give any guidance in terms of numbers, but as you rightly pointed out in the last 10 minutes to 15 minutes like you know the Zed is going to start operations from the month of September plus you know in terms of Tanla like we have deployed various products with various operators in India. So we see some revenues coming from our Indian operators very soon. But we cannot give you the absolute numbers.

**Sameer Deshpande:** Are there any strong competitors in India, who are not allowing us from entering the business, like on-mobile etc.?

**Uday Reddy:** See, our business model is slightly different from OnMobile like. See OnMobile is heavily into CRBTs and voice portals and our business is slightly different from them.

- Sameer Deshpande:** I do not know exactly their business model, but if I take their figure, they have just a turnover which is less than our annual turnover last year, but the market capitalization goes to the extent of almost 4000 Crores and in our case the market cap is around 500 Crores with higher turnover. I do not really understand what is the mismatch when we have better margins?
- Uday Reddy:** It is a little difficult to answer this question Sameer, in the sense like; one is I strongly believe that we are more of a UK-centric business and OnMobile is more of to start with more of Indian centric and we have more visibility, in terms of what we guys do in India rather than what we get to do in countries like UK. Probably that is one of the reasons why there is a tremendous difference in terms of market cap.
- Sameer Deshpande:** Whenever we focus on Indian business and when we get something, I think that could change?
- Uday Reddy:** I hope so.
- Sameer Deshpande:** Regarding the promoter stakes way our promoter stake is fairly steady, the foreign institutions have been consistently bringing down their holdings they do they still continue to hold on to 33%. The cash balance of the company continues to be in the range of 150 Crores. Am I correct on that?
- Uday Reddy:** Yes, go ahead.
- Sameer Deshpande:** So, what is the CapEx plan for this year?
- Uday Reddy:** That is what Amit was telling in the earlier call right now. We do incur the money both in terms of deployment as well as in product development. As and when we win the business with the mobile operators or our regulators or our partners we tend to spend the money on deployment. So we do not have any clue in terms of what we are going to spend in terms of CapEx as in till the time we win the business with the clients.
- Moderator:** Thank you Mr. Sameer, The next question is from the line of Mr. Sergej from Leading Asset. Please go ahead.
- Sergej Belozarov:** Basically one of the questions was asked already I would like to know, if you are in to India there are already existing players, so what do you think is your competitive advantage versus a player like OnMobile, which is I understand not exactly your business?
- Gautam Sabharwal:** First of all we are not competing with OnMobile, if you see our business is vastly different to that of OnMobile. OnMobile business is to provide ring-back tone platforms and that is something we do not do. Our business is mobile payments, mobile applications and a delivery of campaign management and content management platforms. In that area within



the mobile payment space for what we do with handset manufacturers, I would say, we are unique and the only player in the market by a long shot. Within the campaign management and content management yes we do feel that there are some entrenched players but you know we have a strategy of working with a number of large international brands like LaNetro Zed and using them to drive revenue in the Indian market.

**Sergej Belozarov:** Sir, you do not feel like you will sacrifice your margins for entering this new big markets or you?

**Gautam Sabharwal:** See, the Indian market traditionally the revenue share is offered by the mobile operators is quite a bit less than that of any other market. Within the mobile payment space we expect to hold on to margins, whereas in campaign management and content management due to the rev shares offered, you know obviously there would be a slight impact.

**Sergej Belozarov:** And one last question, can you please elaborate on the regulatory issue you have mentioned which was the primary reason for the premium messages decline. The issue which started in December, where you did not have a license and it was supposed to be a temporary issue for two months?

**Gautam Sabharwal:** Well firstly that was affecting services running over a broadcast medium, but in addition to that they clamped on fairly heavily on subscription-based services, so anywhere a mobile user signs up to a subscription, where he is getting sales of £3 or £1.50 or £4.50 a week, so any subscription service, the procedure for sign up and the procedure for informing a subscriber every time he sees a billed message has become quite tight and obviously that has led to (a) a slowdown in adding new subscribers and (b) an increased churn of the number of subscribers that any content provider would have.

**Sergej Belozarov:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Mr. Shailesh Kumar from Fortune Equity. Please go ahead.

**Shailesh Kumar:** I just want to know the phenomena that you have observed in UK, is it a universal phenomenon or just restricted to UK. That is my first question. The second thing I would like to know the number that you have shown this quarter can we extrapolate it for the whole year or is there some upside potential. What do you think?

**Amit Gupta:** Mr. Gautam will answer the first question. On the numbers that we have shown this quarter, we definitely cannot extrapolate it, it is all dependent on market environment and how our new initiatives pan out, so that is some thing which I really cannot comment.



**Shailesh Kumar:** Fine and what about this UK related phenomena, is it restricted only to UK or is it a global kind of thing?

**Gautam Sabharwal:** It is restricted to UK, which has been our largest market.

**Shailesh Kumar:** Can we expect any kind of improvement in turnover going ahead and if yes, do you have any idea. Basically what I am trying to understand is, are you betting?

**Gautam Sabharwal:** Basically, Shailesh just to answer your question? What we have highlighted is that we expect to see continued growth in the Openbit side of the business, on aggregation we expect roughly another challenging quarter and you know once we are out of that we would expect to return to growth. And we have new initiatives in the pipeline and as long as those, we are hopeful, that they will deliver on their potential and as you know Tanla as an organization will tend to grow. So giving absolute numbers to all of this, you know, that is something we would probably like to stay away from at the moment.

**Shailesh Kumar:** Okay I understand, Gautam what you are trying to say but what I was trying to understand new deliveries are coming in markets like India or China, mobile growth and a bit in Africa? So are you betting on subscriber in these markets that they are going to subscribe those contents, mobile contents, may be software or games and you would derive revenue in that big way.

**Gautam Sabharwal:** Yes, you know, you probably would have seen that we have established ourselves in South Africa and in India, we have an increased effort both on the mobile payments as well as the aggregation side of business. So, yes we are betting in these markets and hopefully they will prove to be large markets for us in the near future.

**Shailesh Kumar:** Because what I understand is Indians and Chinese are free-stuff users basically I just wanted to have your perspective?

**Gautam Sabharwal:** The advantage with us is that we have operated in one of the most regulated markets in the world and we have learnt from those markets on how to run a business where you are protecting the consumer. So I think as far as that is concerned, you know we have learnt some lessons and we will use those in these markets.

**Shailesh Kumar:** So, basically you are trying to say that your offerings will be so attractive that you will induce consumers to use those things, I mean, your payment gateway?

**Gautam Sabharwal:** We work with content providers, so we will...

**Uday Reddy:** Let me answer the question. Sorry about that. See in terms of Openbit we rely on number of handsets that are being shipped, and our License Manager is embedded in smart phones. Till last quarter we were shipping with S60 platforms, and last quarter we have added S40

also. So in terms of Openbit, we do rely on number of handsets that are being shipped everyday. They are growing around 25% quarter-on-quarter for the last four quarters. Number two is as Gautam and Amit pointed out like you know we are also targeting other handset manufacturer for which we are developing a different platform like you know, Blackberry, Android, etc., etc., our target is to again to attract with more handset manufactures and two when it comes to aggregators we rely on more content aggregators plus the guys who are really depending on mega promotions. When it comes to the content aggregation and comes to Zed, that is where our joint venture business is going to be in India and so we rely more on the number of subscribers like, so one is number of handsets, two is number of content providers, three is number of subscribers.

**Shailesh Kumar:** I understand Uday, what you said I got the point, only thing I am not convinced and just wanted to have your perspective, number of handset is one thing, use of those handsets for the intended purpose for your Openbit operation, are you bullish on that, that is what I wanted to know?

**Uday Reddy:** That is what I am telling, we are quite bullish and that is the reason I have been saying again and again we are growing at 25% month on month and quarter on quarter.

**Shailesh Kumar:** And last question, you are holding 157 Crores cash, do you plan to distribute a part of it to your shareholders?

**Uday Reddy:** See, we are going to meet. The Board is going to meet again by the end of this month to consider audited results and definitely we have been paying dividends for a number of years. I do not think there is any reason why we should not pay the dividend this year.

**Shailesh Kumar:** Okay, thanks.

**Moderator:** Thank you. The next question is from the line of Mr. Nirav Dalal from Capital Markets. Please go ahead.

**Nirav Dalal:** Can I have the geographical mix of revenues.

**Amit Gupta:** Yes, sure. India is 21.2 Crores, UK is 17 crores, Singapore is 1.3 crores, Ireland is 1.9 Crores, UAE is 12 crores, that is where we have our centralized platform to process our aggregation services, Finland is 35 crores.

**Nirav Dalal:** Okay that is an Openbit.

**Amit Gupta:** And South Africa is 0.8 Crores.

**Nirav Dalal:** Okay. Thanks a lot.



**Moderator:** Thank you. The next question is from the line of Mr. Naval Seth from ICICI Direct. Please go ahead.

**Naval Seth:** Yes, Amit please could you please repeat the segmental revenue?

**Amit Gupta:** Yes, I will give the geographical breakup.

**Naval Seth:** No, not segmental again. I wanted the product aggregation and professional license.

**Amit Gupta:** Product is 5.1 Crores, aggregation is 44.2 Crores, professional services are 5.2 Crores and mobile payment is 31.5 Crores.

**Naval Seth:** And second question is you have given the outlook on the aggregation business, I wanted to know about the product and professional services also, how you look on these two segments also?

**Amit Gupta:** The products and professional services are to a large extent linked with the aggregation services because most of the customers who have taken our services for mobile payments are from the same segment, as a result of the drop in aggregation this trend of developing new services, getting new applications developed and deploying more products for running the services that gets affected, which is what we have been talking the ripple effect. I guess that answers your question.

**Naval Seth:** Yeah. Earlier you said that aggregation would be flat in Q2 also and so these two services would also grow flat only in Q2?

**Amit Gupta:** See, we do not know as of now because it could be flat, it is possible that the customers gear up for getting more services that we wish to launch for the next quarter or they cut down the spend, so we cannot really comment on that.

**Naval Seth:** That means if some revival comes, it would come in Q3 only and not before that.

**Amit Gupta:** Your guess is as good as mine.

**Naval Seth:** Sorry?

**Gautam Sabharwal:** It will be in Q3 yes.

**Naval Seth:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Rajesh Prabhudesai from Dipan Mehta Stock Brokers. Please go ahead.



**Rajesh Prabudesai:** Sir, can you give us the sense of opportunity for this new joint venture, which we are planning from September onwards? You have thought of some product offerings which will be there initially as a service offering and if you have to get a 100% market share what could be the opportunity for you, not in say six months, but say, over next two to three years? I am just trying to understand the opportunity size for the Zed joint venture, that you are planning.

**Amit Gupta:** There is no market data available on the size of the Indian VAS market, so we cannot really comment on what is the size, we do have some internal projections which we unfortunately cannot share with you in this call, but in terms of the size of the market that picture is not available.

**Rajesh Prabudesai:** Thanks.

**Moderator:** Thank you. At this moment there are no further question. I would now like to hand it back to Himanshu of Religare India Capital Markets Limited. Thank you and over to you Mr. Himanshu.

**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.

**Gautam Sabharwal:** Thank you. Bye.

**Moderator:** Thank you. On behalf of Religare Capital Markets Limited that concludes this evening's conference. Thank you for joining us and you may now disconnect your lines.