Spice Mobiles Limited

Investor/Analyst Conference Call Transcript
February 10, 2010

Moderator: Ladies and gentlemen good evening, this is Rochelle, the **Moderator**, for your conference call. Welcome to Spice Mobiles Limited analyst and investors conference. We have with us Mr. **Dilip Modi**, Chairman of Spice Mobiles Ltd. Please note that for the duration of this presentation all participant lines will be in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by pressing * and then 0 on their touchtone telephones. At this time I would like to turn the conference call over to Mr. **Dilip Modi**; thank you and over to you Mr. Modi.

Dilip Modi: Thank you so much, good evening everyone. On behalf of Spice let me thank all of you for taking the time out to join us on this call. My presentation to you this evening would be in three parts, to begin with I will give you an update on the performance and an overview of Spice Mobiles. Then we will introduce you to Spice Televentures and give you an overview of how each business under Spice Televentures looks like and our strategic pivots going forward. And finally we will talk through the proposed merger between Spice Mobiles with Spice Televentures.

Before we start I would like to introduce you to our leadership team that has joined us on this call. On this call we have with us **Subramanian Murali** who is the Chief Financial Officer for Spice Televentures, Mr. Sam Gulve, who is the Joint Managing Director for Spice Televentures, Mr. Sudip Bandyopadhyay, Group President, Financial Services, Spice Global, Mr. **Kunal Ahooja**, Chief Executive Officer, Spice Mobiles, Mr. Sanjeev Mahajan, Chief Executive Officer, Spice Retail and Mr. Saket Agarwal, Chief Executive Officer, Spice Digital.

So let me start first with Spice Mobiles and right upfront let me talk you through the results of Spice Mobiles. In the quarter ended December 2009 Spice Mobiles reported revenue of close to 300 Crore against revenue of Rs. 220 Crore in the previous quarter ending September 2009. The net profit for the quarter ending December 2009 was approximately Rs.22 Crore as compared to the quarter ending September 2009 of approximately 16 Crore. Therefore in terms of both revenue and net profit the company registered a sequential quarter-on-quarter growth of 36%. As compared to the same quarter last year our revenues at Spice Mobiles grew by 81% and profit grew to 22 Crore from a loss of 3 Crore in the same quarter last year.

For the 9 months of the current financial year, Spice Mobiles has achieved revenue of Rs.702 Crore and EBITDA of Rs.73 Crore and a profit after tax of Rs.47 Crore as against the corresponding period last financial year wherein we had revenues of Rs.374 Crore, EBITDA loss of Rs.6 Crore and a net loss of Rs.10 Crore.

The improvements in revenues and profitability at Spice Mobiles have primarily been driven by four key factors. 1) A rapid growth in our volumes. In the quarter ended December 2009 we sold nearly 1.5 million mobile handsets as compared to 490,000 handsets in the corresponding quarter last year. 2) Strong focus on gaining leadership at state level. We at Spice Mobiles have a market share greater than 10% and are amongst the Top 2 brands in 7 states up from 2 states as of December 2008. 3) Sustained investment in our brand and distribution. We have been investing close to 8% to 10% of our revenues in our brands over the last 3 years with a lot of focus on use of local media. Our overall distribution strength has increased from close to 25,000 counters last year to over 40,000 counters as of the end of December 2009. 4) And finally and most importantly, focus on continuous launch of new products with innovative features in the multi and dual SIM category that we at Spice pioneered and were the first to bring to market, a category that is now growing significantly faster than the overall market. As a result of this Spice Mobiles is today positioned amongst the Top 3 players nationally with an all India estimated market share of over 4%. At Spice Mobiles our target is to capture over 10% market share on an all India basis in the next 3 years, using our key building blocks of locally relevant product innovation, expanding distribution width across the country as well as deepening market penetration within each covered area and sustained investment in our brand.

We have also moved outside India and launched our products in Bangladesh and Nepal our immediate neighbors. International expansion forms another one of our growth pivots and we intend to leverage the strengths of the Spice Group to enter the other emerging markets within Southeast Asia, South Asia, Middle East and Africa.

Now let me move on to Spice Televentures. Spice Televentures is the holding company for Spice Mobiles; currently holding 63.25% of the equity capital of Spice Mobiles. In addition to Spice Mobiles the other subsidiaries of Spice Televentures are Spice Digital, Spice Retail, Spice Labs and Bharat BPO which is a 50-50 joint venture with Spanco Telesystems.

Spice Televentures is part of the Spice Group, a diversified conglomerate with interest in communications, technology, entertainment and finance. The Spice Group has presence in the emerging economies of Asia Pacific, Middle East and Africa.

Let me now briefly talk to you and introduce you to each of the entities under Spice Televentures. To begin with let me talk to you about Spice Digital. Spice Digital is the second largest mobile Value Added Services provider in the country, reaching almost 500 million mobile subscribers. It has deployments across all the carriers and as of December 2009 had an active subscriber base of over 31 million mobile subscribers using its services. In the first 9 months of this current financial year Spice Digital has revenues close to 135 Crore with an EBITDA margin of around 30%. In this business the key drivers of value are as follows and I am going to talk to you about 3 key value drivers in the mobile value added services business of Spice Digital.

I) Penetration of the mobile radio platform; our key product offering deployed across all the carriers in the country. Spice Digital pioneered and it is the leader in the mobile radio service which enables it's users to access relevant content in different categories of music, astrology, education and user generated content to name a few. The mobile radio platform is already the second largest managed value added service in the country, both in terms of revenue and active user base. It is important to understand that it is a platform that allows us to push multiple content services to the mobile subscribers. Therefore as we enhance our portfolio of services on this platform, we aim to increase our active subscriber base multifold.
II) The second key value driver is geographical reach. We believe that voice as a delivery platform for content has tremendous opportunity in other emerging economies. And our experience in India gives us an advantage as compared to any other player. We already have a presence in 11 countries and plan to expand our reach even further across the emerging economies.
III) The third key value driver is expansion of our product portfolio. At Spice Digital we are continuously expanding on our product portfolio. Over the past year we have been investing in the data and enterprise spaces and have already begun to see initial successes. We recently launched the first of it's kind cross platform mobile application store for IDEA Cellular, called the Idea MobStore that allows IDEA Subscribers to access various mobile and internet services like the leading brands in the internet space such as MakeMyTrip, BookMyShow, Financial Express etc. to a single on device platform. We are also the first VAS provider in the country to launch 3G VAS services with MTNL. In the enterprise space we have partnered various government and PSU agencies to enable different m-Governance initiatives.

Our vision at Spice Digital is to be a leading integrated value added service player in our targeted emerging markets of South and Southeast Asia, Middle East and Africa.

Now let me speak about the second company under Spice Televentures, Spice Retail. Spice Retail was the first national chain in the telecom retail business, retailing multi-brand mobiles, accessories, connections, content, and music and after sales service. With over 700 stores across 139 cities it is the second largest player in the organized mobile retail market.

In the 9 months of the current financial year Spice Retail had revenues close to Rs. 500 Crore with an average store base of 550 stores. In the last quarter ending December 209 the business turned EBITDA positive at the store level and we expect the operations to achieve EBITDA breakeven in 2011.

In this business our two key strategic pivots are as follows: The first, to build regional dominance. Spice Retail is a dominant player in North India; it commands a market share of over 20% translating to a 50% share of the organized retail market in the Delhi NCR region. In line with its strategy, Spice Retail recently acquired Global Access a leading retail chain in Bangalore, in the process gaining a leading presence in the city with an overall market share of close to 15%. We intend to remain opportunistically open to acquire more regional chains in the near future. The focus on regional dominance allows us to build critical mass within the region for the brand that leads to increase throughput as well as better relevance for the vendors.
The second key strategic pivot in this business is enhancing the relevance of our stores to customers through continuous expansion of our product and services portfolio. We have continuously been investing to become a leading retailer of mobility lifestyle products and services through adding new categories. We recently acquired a chain called Cellucom a leading retailer of mobility products and services. In addition to adding close to 100 stores, this enabled our entry into new categories of IT mobility.

Our vision as Spice Retail is to be the #1 player in the mobile technology retail landscape in the country both in terms of revenues and profitability.

Now moving on to our latest addition in Spice Televentures, a company called Spice Labs. Spice Labs is a technology incubator operating in the rapidly growing area of mobile internet and applications. It is one of the leading innovators in the mobile internet space, spanning technology platforms, application stores and enterprise applications. We see Spice Labs with its very strong technology focus as a key differentiator in our future strategy of riding the mobile internet wave.

Bharat BPO the 5th company in the Spice Televentures stable is a 50-50 joint venture with Spanco and it is a managed services provider. It has a 10 year exclusive contract to manage the 139 Indian Railway inquiry service. Currently it addresses over 700,000 passenger queries a day with a high degree of automation using innovative IVR technologies.

In summary we believe we have put together assets across the mobility value chain with great potential.
Now let me turn on to the proposed merger that we recently announced. The two boards of Spice Mobile and Spice Televentures recently met and passed a scheme of amalgamation wherein there is a proposal to merge Spice Televentures with Spice Mobiles thus creating an entity to be called a Spice Mobility which will have Spice Digital, Spice Retail and Spice Labs as it's subsidiaries. The swap ratio is proposed at 7.9 shares of Spice Mobiles for every share of Spice Televentures. As part of the scheme the existing Spice Televentures shareholding in Spice Mobiles is proposed to be extinguished. This merger, I would like to highlight is subject to various statutory approvals and is expected to take 4 to 6 months for completion.

The three key drivers behind this merger are as follows. The First, Global trends in the mobility landscape; wherein we are seeing more and more offerings transcending the boundaries between devices, services and customer ownership. For example, we know of cases like Blackberry, Apple, DOCOMO, Amazon etc. who have come up with game changing products that have captured customer imagination creating new industries and new business models in the process. With the projected rapid growth of mobile internet, we will see more and more such opportunities coming up in the emerging economies and bringing these entities together under Spice Mobility, positions us uniquely and well to go after such opportunities aggressively.

The second key driver behind the merger is creation of entity of size and scale. The proposed merger will create one of the largest non-operator listed entities in the mobile landscape with consolidated revenues this financial year of close to Rs. 2,000 Crore. The newly formed entity Spice Mobility will bring together a combined manpower of 4,000 people, over 50 million users of our services and products and over 50,000 retail outlets. This merger will also enhance our financial flexibility and position us to pursue and accelerate our growth plans.
The third key driver behind this merger is the synergies that we see between the different businesses under Spice Televentures. First there is the obvious benefits of a more efficient brand spend by creating a single brand Spice. Additionally we believe the merger provides a platform for each of the businesses to

differentiate themselves in their industries by exploiting the overlaps which are only increasing. For example, Spice Mobiles would get access to the service capabilities of Spice Digital and customer ownership from Spice Retail. Spice Retail would get access to private label Spice branded products and value added services that will not only help revenues and margins but more importantly drive differentiation. Spice Digital on the other hand will get another growth catalyst through gaining ability to create innovative integrated hardware and service solutions. It will also open for Spice Digital a direct customer channel via Spice Retail.

Finally we also believe that this merger is beneficial for our current Spice Mobile shareholders, our Spice Mobile shareholders can now participate in the full spectrum of value creation in the mobility space that the group is pursuing and aligns the interests to the group's interest. The transaction values the Spice Mobile share at Rs.109 per share which is at a significant premium to the current market price.

We at Spice strongly believe that the new Spice Mobility is well placed to ride the upcoming wave of convergence in the mobile and internet landscape in the emerging economies. With this I would like to close my remarks and it would be my pleasure to take up any queries that you may have. Thank you so much.

Moderator: Thank you so much. Ladies and gentlemen we will now begin the question and answer session. To ask a question please press * and 1 at this time. Our first question is from the line of Mr. Dipesh Mehta of Khandwala Securities. Please go ahead.

Dipesh Mehta: Post transaction what would be the promoter holding, because our calculations show it is close to 85% - 86%, so any fund raising plan thereafter? And secondly, what are the future plans for the company considering that all the businesses require different business dynamics like mobile handset, value-added services and BPO. So once they reach a critical size any plan to de-merge once again, thanks.

Dilip Modi: Let Murali answer the question on fund raising and then I will come back to your second part of the question.

Subramanian Murali: You are right the promoters' shareholding will be at around 85% - 86% post this transaction which is likely to take 4 to 6 months for completion. Yes, we are planning for raising some money within the next 2 to 3 quarters. And diluting the equity to below 75%, but the plans are still not final. At this point of time we would not be able to share with you the detailed plan, but yes we are considering various fund raising options.

Dilip Modi: Mr. Mehta as far as the second part of your question is concerned; the proposal is to merge Spice Televentures with Spice Mobiles to create a new entity called Spice Mobility. The entities of Spice Digital, Spice Retail, Spice Labs and Bharat BPO will continue as independent legal entities and as subsidiaries of the new Spice Mobility. So we are not looking at merging all the businesses, these will continue to be separate legal entities but yes now we will have one consolidated balance sheet under Spice Mobility.

Moderator: Thank you. Our next question is from the line of Srinivas Seshadri of RBS Equities. Please go ahead.

Srinivas Seshadri: I have a few questions relating to the handset market. Firstly you mentioned that you have a market share of 4% and the aspiration is to reach 10% market share. Is the defined market share by volumes or is it by value?

Dilip Modi: We define it by volumes

Srinivas Seshadri: Okay. And does this include the grey market as well, in terms of some of the Chinese imports which happen through a parallel channel or are we talking about the organized market here?

Dilip Modi: I will ask Kunal to take up this question Srinivas.

Kunal Ahooja: When we look at market share we take the total addressable market which includes all handsets sold, whether it is through the grey channel or the official channel. So the 4% market share is based on total market handset size irrespective of which stream is servicing that total demand.

Srinivas Seshadri: I also wanted your perspective on how you see competition from some of the other local vendors like Videocon and Karbonn as well as some of the Chinese imports. From your perspective how do they standup in terms of competition and their plans, in terms of your achieving this 10% market share?

Kunal Ahooja: Well we see that the market is big enough and it is really up to each of the players based on their own merits to be able to capture the kind of share that they are capable of so we are focusing in terms of building our market share based on the kind of investments that we have made in the last 5 years because we have been in existence since June 2005 and nobody wanted to get into this space. And we were the first to actually invest in building a mobile handset brand. And the whole game in this business about long term sustenance is not just about coming in and giving a good product and a good price and being able to capture market share. There have been a lot of brands that you would have seen in the past also that came in and they have exited from this market. I think it is really dependent on each company's strategy and we are of the opinion that we have the right investments in building the brand, in building the kind of channels that we would like to leverage to supply the phones to our customers and also in terms of the kind of backbone that we have created to support our customers for the products that we have provided. So we are confident that based on this we should be able to grow our business.

Srinivas Seshadri: Sir just a follow up on what you just said. In terms of your manufacturing capacity versus sourcing complete product from some other vendor, how is the mix in your case? Is it mostly manufactured in-house or the mix is towards more of sourcing from traditional markets like China?

Kunal Ahooja: The products are completely designed and customized to our requirements. We in fact define specifications and since there is a very robust manufacturing ecosystem that exists in China we use some of our key partners who are also providing the same manufacturing facilities to brands like Apple for the Apple iPod or let us say the Garmin GPS receiver, the same manufacturers also manufacture our phones. So the products are built to our specifications and based on the customizations that we want and specific to the country's requirements that we are servicing.

Srinivas Seshadri: Could you please talk more in-depth, in terms of the distribution reach that you have currently in Tier II, Tier III cities and what are your plans of expansion there.

Kunal Ahooja: When we started off in June 2005; many of the other brands, the big players already had their existing distribution structure and a lot of them depended on one national distributor. When we launched we did away with the national distributor and because of whatever margins that were saved in the process, we were able to attract a better distribution structure from the state level downwards. So we have about 56 state distributors or what we call the regional distributors who in turn support 500 micro-distributors and in turn service about 40,000 retail outlets.

Srinivas Seshadri: And what are your plans in terms of expansion there?

Kunal Ahooja: We are looking at growing this to 100,000 counters.

Srinivas Seshadri: What would the time frame be?

Kunal Ahooja: A 100,000 counters, by end of next year.

Srinivas Seshadri: I believe that for some of the larger MNC vendors like Nokia and Samsung, one of the reasons why they have probably lost market share in the recent past has been because they do not have a multi SIM handset portfolio. Do you believe that they might launch given the way the market share has slipped away from them and that might be a potential threat going forward.

Kunal Ahooja: Well there are indications that they would enter into this category, there have been reports which have come out in the press mentioning the plans of some of the brands to get into this category soon. We do feel that there would be products which will come out in the next 6 to 8 months from these MNC brands.

Srinivas Seshadri: And do you see that as a potential threat to your volumes because I believe you are very strong in that particular part of the market as well?

Kunal Ahooja: Well we were the pioneers to introduce dual SIM, we have the largest range of dual SIM phones and we have not only differentiated based on dual SIM but in terms of the kind of product offerings that we have for the customers, we have differentiated based on content and more relevant features which the Indian customers want. And I think the biggest criteria for success going forward as well is time to market. I think we can turn our products faster than anybody else. We have a time to market of about 6 to 8 weeks from the time that we actually conceptualize to actual launch and I think that is a key factor for success going forward as well.

Dilip Modi: And just to add to that, going forward if you see the market of feature phones and smart phones, brands like ours have the opportunity to bring down the price points on smart phones as well. And at the end of the day create a tight integration between the device and different kinds of local services. So in fact at Spice we pioneered embedding local content into the products. So we focus a lot on providing customers solutions around content and services and we will do more of that going forward. So at the end of the day the landscape is also changing very fast and for us it is going to be continuously coming out with innovative offerings and we have got a product pipeline in the multi dual SIM category already lined up for the next three quarters. So for us we are looking at crowding the market with our products and our models and using our distribution platforms to gain market share on the shelves earlier before the MNC brands enter this market.

Srinivas Seshadri: Okay. And my final question is on the ASPs. If I just tried to do a ballpark calculation in terms of revenues and the handset sales, the ASP currently appears to be around Rs. 2,000 mark, which seems to indicate that probably the mix of volume is more skewed towards the lower end of products. So just wanted some sense on that and how that might change going forward?

Kunal Ahooja: We are now also introducing products which will be at the higher end. We have a full range of QWERTY forms that we are launching into QWERTY format because of the success that Blackberry has created is becoming very popular. So those forms will deliver much higher ASPs. We are also looking at launching the picture-perfect series which is very high mega pixel camera phones. And that also will help in raising the ASP. We are looking at introducing Smartphones again that's at the higher end category. So as and how the brand is getting stronger, our distribution reach is also getting stronger. We are getting into the high end segment of the markets and that will help us in taking the ASP up.

Srinivas Seshadri: Okay, great thanks.

Moderator: Thank you Mr. Seshadri. Our next question is from the line of Dhiraj Sachdev of HSBC. Please go ahead.

Dhiraj Sachdev: Could you give me an overview of the financial details of Spice Televentures and also how they are faring segment wise?

Management: Yes, as you are aware the appointed date of the scheme of amalgamation is 1st January 2010 and as such the numbers from January 2010 will be the part of merged entity Spice Mobility. However just to give you an idea on the performance of each of the businesses over the last nine months, Spice Digital achieved a revenue of Rs. 135 Crore and an EBITDA of Rs. 40 Crore. This is for the 9 months period, April 2009 to December 2009. And the Spice Retail revenue is about Rs. 475 Crore and it has an EBITDA loss of Rs. 34 Crore. To add here that Spice Retail has already achieved an EBITDA breakeven at the store level in the last quarter. So this figure is for the 9 months ending December 2009. Now these are the two main businesses under Spice Televentures, apart from Spice Mobiles. The Spice Mobile numbers are known to you already, it had revenue of Rs. 700 Crore and an EBITDA of Rs. 74 Crore. So on a consolidated level if you look at Spice Mobility numbers for the 9 months ended December 2009 it would be revenue of Rs. 1,350 Crore and EBITDA of Rs. 110 Crore.

Dhiraj Sachdev: What about Bharat BPO and Spice Labs?

Subramanian Murali: Spice Labs is, at the incubation stage. Bharat BPO is a very small number as of now. It is about 4 crore revenues and we just started this contract about 18 months back and it is a 10 year contract from Railways so the number is not very significant at this point of time.

Dhiraj Sachdev: Okay. Could you also give us an idea about the valuation methodology for this merger ratio or swap ratio between the two companies because they are distinct business models?

Subramanian Murali: Yes that is right. The entire valuation exercise has been carried out by BSR & Company which is a well known accounting firm. And a swap ratio of 7.91 shares for every 1 share of Spice Mobiles has been recommended by them. And this has been accepted by both the Spice Mobiles and Spice Televentures. Now if you go for the breakup of this valuation, the Spice Mobiles shares are being valuated at Rs.109 per share which is at a significant premium to the current market price. What the valuers have done is they have considered multiple methods like discounted cash flows, comparable company evaluation of a deal which happen recently and then the SEBI pricing formula. And then finally they arrived at a weighted average price of Rs.109. So basically this reflects the inherent strength in the company as you are aware market price does not always reflect the inherent strength.This is also quite favorable to the minority shareholders because if you see the current market price is about Rs.45.

If you go to Spice Digital, Spice Digital has been valued at slightly above Rs. 800 Crore based on similar methods of discounted cash flows and comparable company evaluation. This kind of translates into a multiple of just less than 15 times on TTM basis you know EBIT to EBITDA which in our view it in line with the leading global peers but it is at the considerable discount to the only major domestic listed peers. If you look at Spice Retail, Spice Retail valuation has been above Rs. 400 Crore. Spice Retail as you are aware, I just told you it has achieved a revenue of close to Rs. 500 Crore and its EBITDA is positive at the store level, this valuation actually translates into a per store value of 60 lakh per store and a revenue multiple of 0.65 based on TTM revenues. This we believe is again at a considerable discount to the market valuation which is available at this point of time. So these are the two major companies under Spice Televentures.

Apart from this there is a cash of Rs. 230 Crore in the balance sheet of Spice Televentures which is value added cash value. So the total value of all this, if you take the minority interest out, the valuation of Spice Televentures comes to Rs. 1,782 Crore. There is a minority interest of 10% in Spice Retail and there is a minority interest of 19.5% in Spice Digital and as Dilip mentioned Bharat BPO is a joint venture with a 50-50 stake, 50% held by Spice Televentures and 50% by Spanco. And in Spice Mobile, Spice Televentures hold 63.25%.

Dhiraj Sachdev: Okay. And what is the debt in Spice Televentures at a consolidated entity level?

Subramanian Murali: When the merger gets completed, there will be an insignificant debt, and practically there is no debt. In fact there will be a cash of Rs. 300 Crore in the merged entity once the merger gets completed.

Dhiraj Sachdev: This is net cash, net of debt.

Subramanian Murali: Yes.

Dhiraj Sachdev: Okay. And could you also elaborate on the business model of Spice Digital because this is a fairly large component of the overall valuation. What is the business model and some revenue profile. Can you just elaborate on Spice Digital business?

Dilip Modi: Spice Digital is basically in the mobile value added services space and its business model is more around being a managed services provider. So basically at Spice Digital we work with all of the leading carriers both in India as well as outside India. And the business model is normally that we work on a revenue share basis with the carriers and effectively for all the services that we run with the carriers there is a revenue share that we earn. So we work with them across voice and data services and the CAPEX is deployed by us but we earn revenues through a revenue sharing arrangement with them.

Subramanian Murali: Yes essentially if we were to look at a parallel we have couple of companies OnMobile is one listed company which is the kind of a peer in the space that we operate in. So it is managed services in telecom, the space that we are into. We are operative non-entity through which we kind of look at providing services, which are end-to-end managed, Besides that we look at Government PSU and Enterprises. We will look at mobile application as a significant space that we would like to get into.

Dhiraj Sachdev: And your fully diluted equity post merger will be 19 Crore shares, right?

Dilip Modi: That is correct.

Dhiraj Sachdev: Okay. And that implies the merged entity market cap of close to Rs. 2,000 Crore?

Dilip Modi: Yes that is right.

Dhiraj Sachdev: Okay, thanks for that.

Moderator: Thank you Mr. Sachdev. Our next question is from the line of Sangam Iyer of Alpha Advisors. Please go ahead.

Sangam Iyer: Just a continuation of the earlier question, you had indicated that in Spice Digital we had a margin of around 30% at the EBITDA level, right?

Subramanian Murali: Yes, that is correct.

Sangam Iyer: Yes. And we are the ones who are deploying much of the CAPEX in case of these services being provided. So post EBITDA what is the kind of margins that we are looking at for the company?

Subramanian Murali: Are you talking at the PAT level?

Sangam Iyer: No, at the EBIT level and at the PAT level, just to get a sense on the kind of depreciation that one needs to account for since a majority of the CAPEX would be done by us only as against the carrier who would be sharing that investment part?

Subramanian Murali: Yes I can give you the nine months performance basically as I said that one third of this 5 Crore revenues, 30% EBITDA and profit-after-tax is about 20%.

Sangam Iyer: In case of your retail outlets you said that it is now getting breakeven at the store level, could you give a sense on whether it is purely because of the increase in volumes that we have seen in the last few months or how has the turnaround happened in terms of these stores especially in the other cities and how do you see that going forward?

Sanjeev Mahajan: There is a function of two things, one would be same store sales growth which happens. In case of a store over a period of nine to ten months you notice the fact that the stores starts moving to a certain safe threshold, that is one driver. The second driver is the product mix at a store level, looking at our kind of product mix which is important, you not only drive handsets but drive other higher margin categories like air time and accessories. And third would obviously be a function of scale as you put in more outlets in any given area that leads to a better leverage with vendors. So it is a combination of these three.

Sangam Iyer: Okay. So typically when you setup a store, what was the breakeven time for that particular store and how has that changed or how has that time period reduced significantly over a period of say like last nine months or a year?

Sanjeev Mahajan: See normally for any good store of mid size format that we are in it takes a good nine months to 12 months for a store to start achieving, breakeven at an operating level. With that in the past we find that the age at which a store starts picking, started coming down because of gross margin at a store level has started going up. You could look at 15 to 18 months for a store to breakeven and now you are looking at 12 months for a store to breakeven.

Sangam Iyer: Okay. And typically for a mature store which has been functioning for more than a year or so and which had a breakeven say six months back, what is the typical margin that we look at or what are you looking at from those stores?

Sanjeev Mahajan: If you look at the gross margins, any member between 12% to 16% for a mature store.

Sangam Iyer: Okay. And all these stores owned stores or are they franchisee kind of?

Sanjeev Mahajan: Well we had multiple formats, as on date a large proportion of a store will be COCO Store, Company Owned Company Operative Stores, but we are definitely looking at experimenting with the franchise format also.

Sangam Iyer: Okay. in the value-added services could you give some more idea in terms of when you say it is a revenue sharing model that we are looking and currently we have around 31 million of active subscribers under our coverage who are using our services provided, what is the kind of services that you provide under value-added, because value-added encompasses a huge area. So could you give us some more details in terms of the kind of services that people are looking at and which is gaining more acceptability or more recognition in the market?

Saket Agrawal: We have a platform which we have put up with most of our carriers which allows us to rollout multiple services. And essentially we have began the services which have mass appeal so music was one of the first categories that we put in, then we looked at stuff like cricketers scores to devotional arti to moving to astrology and stuff like that. So those are the services and we continue to look at adding more services on top of the platform which is put up at operator's premises and essentially we try and drive this penetration by getting relevant contextual content additions to the platforms that we put in. These are akin to more like digital shops and we keep adding more and more content on top of these.

Sangam Iyer: Okay just a question on Spice Retail you had mentioned that nine month revenue was 475 Crore and a loss of 75 Crore.

Subramaniam Murali: No, I said that Spice Retail 475 and the EBITDA loss of 34 Crore.

Sangam Iyer: 34 Crore, I am extremely sorry. And does it include the Cellucom as well or the Cellucom of 100 stores.

Speaker: Yes it is correct. It is a consolidated number.

Sangam Iyer: And how is the status in terms of Cellucom in terms of the margin profile? Are the stores breakeven or are they still at the very nascent stage?

Sanjeev Mahajan: The Cellucom stores are still at the stage where they have to achieve breakeven though we have achieved significant progress in the last eight months that we have worked on them. The gross margins have gone up in excess of at least 6% points from the time we took over to now. If you are talking specifically about Cellucom setup stores, they will add another 3% to 4% gross margins in the next two quarters and we will get the stores to breakeven.

Sangam Iyer: Okay. Could you share some idea on the kind of investments required for these two segments, Spice Labs and Spice Digitals that you are looking forward for in FY2011?

Speaker: These are businesses wherein we are generating internal accruals which we are deploying back into each of these businesses. Now if you look at investments we have already made significant investments in both with respect to the platforms we have deployed in Spice Digital, the teams that we got in place as well as the teams that we have in Spice Labs. And now it is more about monetizing the products that we have created going forward. So my sense is that as we go forward the investments will come more with respect to geographic expansions as well as investment in new product lines. So as we do that, we will look at what those numbers could be, but at this point of time we are basically looking at monetizing what we already have built. Now there would be opportunities that we could look at inorganically so we are constantly looking out for M&A opportunities in the value-added services space because this is one area where we are seeing a lot of innovations happening in the mobile technology arena, not only in India but also globally. And therefore we are in the lookout for inorganic opportunities and when we find something that is value accretive and fits in with our portfolio, then we may definitely explore those and then look at what kind of investments would be needed.

Sangam Iyer: Okay in your Bharat BPO we only have one client which is the Indian Railways, right?

Dilip Modi: That is correct.

Sangam Iyer: And what are the total number of employees who are working on this, in the BPO?

Dilip Modi: Around 250. Bharat BPO is not so much of a call center driven business models, but 85% to 90% of the calls and the queries that come on the number 139 are answered on an IDEA technology platform. So effectively it is more of a managed service play on using technology rather than agents and going forward as we invest in speech recognition and other capabilities on the platform we expect that 85% to 90% to even move further up. So it is more of technology led service offering than agent based.

Sangam Iyer: Okay. On the handset sales we have seen that the consumer durables or consumer products like this have seen a significant uptake in the last few months if we look at auto and others, have you also witnessed a significant upward traction in the handset sales and could you share some data on how things have been till December and in January or with regards to the handset sales?

Dilip Modi: For example in the quarter ending December 2009 we sold 1.5 million handsets which compared to the same quarter last year is a growth of 1 million handsets. Same quarter last year we had sold about half a million. So yes there is a significant growth but more importantly the share of dual and multi SIM within the overall market has grown significantly and we at Spice are leading that growth curve. So overall the dual multi SIM market is really growing very fast, Kunal you want to add to that.

Kunal Ahooja: Yes in fact dual and multi-SIM segment itself would be growing; we believe that at least by end of this year it should be at about 30% of the total market. And going forward as well as it is showing very good growth.

Sangam Iyer: Okay. So based on your January experience as well should one be looking at a similar kind of a quarterly trend going forward as well for your handsets or should one be looking at a significant uptake, I do not know because of the January numbers are not yet out as such?

Kunal Ahooja: So while you track our quarterly performance I think we have been going quarter-on-quarter so in all fairness it should grow at the same pace.

Dilip Modi: So Sangam we expect to keep investing in our distribution and the brand and hopefully that should allow for us to keep growing, what pace, I guess you know we will shoot for high numbers but you know we will only be able to talk about it once we get to it.

Moderator: Thank you Mr. Iyer. Our next question is from the line of Abhay Moghe of Avendus Capital. Please go ahead.

Abhay Moghe: If I see reported numbers for Spice Digital earlier it was for nine month ended December 31st, 2007 the revenues were around 73 Crore and the PAT was around 33 Crore, after that as you suggested on the call that for Spice Digital the revenues are around 135 Crore for nine month ended December 2009 and PAT is around 20% so that is around 27 Crore. Could you please throw some light like what has changed in two years for decline in the PAT although the revenues have increased and because the valuation suggests around 800 Crore what type of growth rates you are looking for the next 1 or 2 years and what is the strategy?

Saket Agarwal: Essentially if you look at the top-line numbers they have moved significantly from the stated numbers of nine months in the DRHP for the period April 2007 to December 2007 that you talked about. Essentially the growth has been around lot of content addition on a particular product category which we today are the market leaders on which is mobile radio. And accordingly on these kind of services you tend to get significant content from music fraternities and the content cost is quite significant portion of running such services. And which is one of the main reasons we look at the margin shift on the overall thing but it has definitely helped the overall top-line numbers too. Two I think the current dynamics of the industry and the growth that operator has seen, there has been a consistent rationalization on the revenue shares which have not tended to be in favor of value-added service provider and there has been margin squeeze on that front too. So while overall numbers have moved up, the content cost and revenue shares has kind of got us to a reasonably good profitable numbers than something which was more like a blip in the initial phase. Good thing is that growth and usage is there which continues to move the overall subscriber, using the services move up from December quarter from 23 million to 31 million numbers.

Dilip Modi: I would just like to add to that, you see if you really look at the telecom industry last year various things happened and one of the key things also was that the regulator also stepped in and some of the carriers too kind of start looking at how do you look at promoting VAS and other things as well as also the carriers became a bit defensive on that and as a result started pushing the VAS less aggressively. Now this will have an impact on not only our revenues but most importantly the operator revenues themselves. So if you look at the VAS revenues for the carriers this financial year versus last financial year they have actually taken a dip. And this has impacted the overall industry, but I think going forward we continue to believe that VAS is a key differentiator for a network brand as well as a key revenue and margin driver given that voice per se is getting commoditized, those fundamentals remain and therefore you know as we are working with the carriers now they are pushing us to come up with more and more innovative services that they can offer to their consumers to both price differentiation as well as revenue and margin growth. And we are seeing that last quarter December 2009 versus the previous quarter now it is beginning to pickup. So there was a period which the overall VAS industry saw an impact and we saw it across the board, but I think going forward the kind of work that we are doing with the carriers in the product pipelines that we have created not only now on voice but also data's and kind of you know new ---.

There was an abrupt ending to the call which was due to systems and infrastructure crash at the telecom service provider end.

The management would like to thank you for taking out time, showing interest and participating in the Spice Mobiles conference call. The Company would be very glad to take the interaction further, and should you require any further details, information or discussions, you can get in touch with Mr Sudip Bandyopadhyay, Group President – Global Financial Services at Spice Group at sudip.bandyopadhyay@spiceglobal.com.

Once again, the management appreciates your interest and the Company looks forward to continued interaction with you the next quarter.

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