

# Q1 2012 Earnings Call - S Mobility

Dt-9 Aug'11

## Operator

Ladies and gentlemen, good day and welcome to the S Mobility Q1 FY 2012 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ravi Sathe from CDR India. Thank you and over to you, sir.

## Ravi Sathe, Citigate Dewe Rogerson

Good afternoon everyone and thank you for joining us on S Mobility's Q1 FY 2012 results conference call. We have with us the Chief Financial Officer of S Mobility, Subramanian Murali.

Before we begin, I would like to add that some of the statements to be made in today's discussion may be forward-looking in nature and a statement in this regard is available in the con-call invite which were e-mailed to you earlier. We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question-and-answer session.

I would now like to invite Mr. Subramanian Murali to make his opening remarks.

## Subramanian Murali, Chief Financial Officer

Yeah. Thank you, Ravi. Good afternoon everyone. A very warm welcome to everyone present. And thank you for joining us today in the middle of a volatile market today. I would like to thank you for joining this conference call to discuss S Mobility's operating results for the quarter ending June 30, 2011.

Let me briefly take you through our strategic shift which the company is making. The highlight in the quarter under review is our intention and plan to become a complete mobile Internet player. Internally this is almost a shift strategy, shift basically means shifts from being a device company to a mobile Internet company.

We believe mobile Internet is clearly the next big way and thus Mobility's business model is well positioned with -power still emerging of -- device and retail. To bring some revolutionary and innovative offerings to the consumer. Further, the mobile retailing industry with handsets including accessories in that time is expected to be the size of approximately \$75 billion by the end of 2012. The demand for the Internet content is growing at rapid pace across the country, fueled by the demand from the youth. Our population of under 14 year old are 370 million, is one and half that of China.

All this according to McKinsey Report, translates to 360 million potential mobile internet users by 2015, we have -- in one of the presentations that we explained to you yesterday.

The entry of 3G has opened up several opportunities especially in the data center space and in the vast arena and we believe an entity that is able to bundle offering at optimally prone to capture this opportunity. And we believe that S Mobility is potentially placed to capture this.

Another factor that drives our business is our increased penetration in to the -- segment. As purchasing power parity of consumers increased as a result of high income, the demands for better feature rich phones, we call it as maximum -smart like phone and...

The continued organization of 282 and 283 -- untouched space for mobile Internet and telecom opportunity, that the company is ready to capture.

During the quarter under review, we have revamped our distribution strategy -- are in the process of revamping the strategy even as we see into the concept of clusters basically dividing India into seven clusters. So as to enable improved reach, better time to market and much improved level of -- along with capturing the market share at each segment -- at each cluster.

Now let me quickly take you through the -- of the quarter ended June 31 in each of the businesses. The total handset sale for the quarter of 2.3 million units, which represented a growth of 22% in volume compared to 1.8 million in a corresponding quarter last year. This is a total handset sale.

When we talk as Spice branded handset, the volumes grew from 1.3 million in Q1 FY10, '11 to 1.5 million in the current quarter. On the back of increasing popularity of smartphones, we launched a range of Android based phones with different form factors.

We were also the first to introduce, the first dual SIM Android phone in India MI 270. We continue to do assembly operations in Baddi manufacturing plant with the capacity of 4 lakh phones per month. The earnings after tax improved from 3 crores in Q1 FY10 to 17.4 crore in Q1 FY11, '12.

I think in the last couple of conference calls, we have been talking about ASP front which has been in the last three-four quarter going down. We are happy to announce that the trend is reversing, the reversing trend of ASP, it's changed now in the last quarter and the ASP has gone up by almost Rs. 100 in the last quarter, compared to the earlier quarter.

Our strategy here is to build organization, as I mentioned to you, in seven clusters in India and increase local market share across the country. Plus this, we are in the process of increasing the sales force in the ground level and also increasing reach of counters through Spice branded -- through the Spice branded products also.

We will achieve the investment which we are making in the market share in the long run. We hope to see results of these investment over the next three to four quarters.

On the retail side, our retail presence continued to grow, the number of Spice Hotspot stores across the country stands at 792, across 159 cities, compared to 775 stores last year. There has been a good 30% revenue growth in retail in Q1, compared to Q1 of last year.

And retail business is EBITDA positive for the current quarter, as compared to the loss of 13 crores in the same year last quarter. This primarily has been possible due to the same-store growth and also increase in Spice handset share The - which we have been making on the retail front in terms of trying to open up new stores to reach a market preference is finally paying off. Our focus going forward in retail would continue to be to roll out new stores and increasing our presence and reaching major metros. We would also be focusing on gaining market share in each of cities we are present.

On the value-added service side, we have expanded our VAS offerings with introductions including Live Aarti -- et cetera. Our revenue grew 29% year-on-year in the last quarter to Rs. 64 for the quarter. We have a healthy EBITDA margin of 21% and PAT margin of 16% for the value-added services business.

Over the last four to six quarters, the margins are -- in this business as well as the industry is under pressure and we are aware of it through the increase in cost of operations, increase in content cost, through our regulations and reduction in... Our strategy here is to not only expand an India but expand outside India in places such as Africa and Middle-East.

Our entry in Africa has been very encouraging for PAT. And we are currently present in six countries now. And we have a strategic tie-ups almost all the key operators in these countries. We are also looking aggressively at M&A opportunity in this space and to leverage the -- base of Spice branded handsets through which we could bundle value-added services and take it directly to the consumers.

Some of our unique offering is by creating content destination source within our phone, I don't know some of you who have used Spice would have -- which is nothing but a content destination store with our phone. It takes you directly to that portal.

We have seen significant increase in -- Our strategy is to grow this through various content offering such as games, songs, wallpapers, et cetera. For us, it is like a one-stop destination point having the contents. This portion is currently enjoying at 17 million per month and they are growing at a very rapid pace.

Overall, as I completed -- at Spice Mobility, our revenues grew 9.5% in the last quarter, to 25 million. EBITDA improved 39% compared to last year same quarter to 40.9 crore while PAT expanded 34% to 25.9 crores. As balance sheet is extremely robust, with a net debt of 845 crores and cash and cash equivalent of 310 crores as on 30 June, 2011.

This I believe -- leverage both inorganic and organic growth opportunities. This brings me to end my initial comments. We will now like to take your solutions and answer any questions that you would like to ask. Thank you very much.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions]. The first question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

### Nikunj Doshi

Yeah. Good afternoon Murali.

### Subramanian Murali, Chief Financial Officer

Yeah, good afternoon.

## **Nikunj Doshi Subramanian Murali, Chief Financial Officer**

Yeah. See predominately there are three kinds of services.

### **Nikunj Doshi**

Yeah.

## **Subramanian Murali, Chief Financial Officer**

Online mobile radio which is music based service and then we have social networking service and then now the 3G then the -- services which we just launched couple of quarters back as we have -- And between these two services, the revenue will amount to about 65% of the total revenue, will come from these services

### **Nikunj Doshi**

Okay.

## **Subramanian Murali, Chief Financial Officer**

65 to 70%.

### **Nikunj Doshi**

Okay. And of these three radio would be the largest?

## **Subramanian Murali, Chief Financial Officer**

Yeah, that's correct.

### **Nikunj Doshi**

Okay. And on acquisition front means, any points on what kind of target you are looking at and what is the integration...?

## **Subramanian Murali, Chief Financial Officer**

See as I mentioned to you that we are looking at another opportunity predominantly outside the India. So, if look at the VAS business where you can actually divide it into three category. One is the operator VAS then there is a device VAS and there is consumer VAS.

So, we are while we are predominantly focusing on operator VAS, now we are looking at the device VAS, because the device sales, we are selling close to 7 million handset in a year. And then through the Spice Group acquisition outside So together we have close to 15 to 20 million handset of Spice brand sold across the region So, what we are looking at getting into this device VAS -- for example, bring content into device into these 15 million handsets. So, in this context we are looking at any interesting acquisition opportunities of small companies who are under -- business, that's one.

And secondly even in the operator VAS when we -- on the opportunities outside India, now there may be companies in Middle-East and companies in Africa. Because what we find there is that the valuations and there is different valuations outside in India and valuations in India.

So we are looking at now entering into these countries do an acquisition also. So, these are the predominantly two areas at which we are looking at. And when I talk of -- plans there are interesting companies who are fixed certain products may be mobile banking, and then mobile education and mobile voice. So, we will be looking at areas these opportunities, we will be able leverage on the strength we have in terms of the 15 to 20 million handsets we sell every year.

### **Nikunj Doshi**

And in terms of retail, basically what kind of number additions we are looking at store additions.

**Subramanian Murali, Chief Financial Officer**

This year I won't, I won't be able to give you any figure -- that we would be adding close to 500 stores within the next 15 months.

**Nikunj Doshi**

500 store additions in 15 months.

**Subramanian Murali, Chief Financial Officer**

Yeah, and this year may be, you can say we'll add another 500 crores in the next 15 months. See, because the way if you look at the retail business, we have climbed up, got good market share and in local where we have put more stores, like you take Delhi or you take Bangalore that we have permanent in terms of... We are having significant market share in these cities.

Our objective is to wherever, whichever city we are present, we will focus in those cities to win market shares. So three more cities other than Delhi and Bangalore and MP at present. So, we are not going to be present across the country all the cities. We will -- at present we will, our objective is to be present in top 20 cities in the country. And there we will increase our reach and number...

**Nikunj Doshi**

And in terms of the breakeven at store level, usually a new store would take how long to breakeven now in current environment?

**Subramanian Murali, Chief Financial Officer Nikunj Doshi**

And, you were planning to introduce -- products also through our Hotspot. So, you started selling other products also besides mobile on those stores?

**Subramanian Murali, Chief Financial Officer**

See, other product is basically, we never plan to introduce anything other than Mobility products. The Mobility products we are already mobile and accessories and in some stores like stores, we sell laptops and netbooks.

**Nikunj Doshi**

Yeah.

**Subramanian Murali, Chief Financial Officer**

Beyond that we are not planning to add anymore product there. We are only looking at how do we increase our accessories because if we go to outside India, there are plenty of accessories which are available.

So, how -- sell it in India we are doing it one-by-one we are doing some more activities. But other than that, we won't enter in to another product line as of now. It will all be based on mobile, mobile Internet and -- now IT is almost kind of mobile so it could be IT related products. But not PCs and laptops but we will not be selling laptops across all the stores.

**Nikunj Doshi**

Okay.

**Subramanian Murali, Chief Financial Officer**

That's not our focus area.

## **Nikunj Doshi**

Okay. Thanks and all the best.

## **Subramanian Murali, Chief Financial Officer**

Yeah.

## **Operator Analyst**

Yeah my question is, we have about 25 million subscribers as of now. And this quarter you have added about 2.2. I would just want to know, what kind of growth do we envisage and what kind of run rate we may have in the year after this?

## **Subramanian Murali, Chief Financial Officer**

See we would definitely be looking at doing a 35 to 40% growth year-on-year compared to last year. Last year it is about 6 million, 5.5 to 6 million handsets. We would be looking at a 25% growth every year.

## **Analyst**

Handset but about -- do you see any migration, major migration happening in your favor from existing service providers to mobile Internet and -- that?

## **Subramanian Murali, Chief Financial Officer**

Yeah there will be, see the mobile Internet products we want to -- basically it is Android the BlackBerry and now Apple they are -- and the brands like Spice who are coming out differentiated part of, at a comparatively cost effective or price competitive doing this when compared BlackBerry and Apple and Google.

We will definitely see some migration but if you have seen the market Nokia has already turned -- on the smartphone category.

They have lost leadership to Apple and also to Samsung. So, we will be definitely picking up shares from Nokia and Blackberry in this stage, that will happen. But, the mobile internet category the growth is going to happen over the next three to four years time, so it is not that we will be able to get a 50% growth immediately.

Our strategy is not short-term it's going to be over the next three to four years time as far as mobile Internet is concerned. And we are quite sure that we will given the significant market share in the mobile Internet space and it will come from good -- good dimension.

## **Analyst**

Out of the 2.2 million handsets, that you have -- total handsets that you have sold in Q1 and out of that about 1.3 million is Spice branded. What is the difference in pricing and the margins in this category of handsets?

## **Subramanian Murali, Chief Financial Officer**

Differences between Spice branded and others?

## **Analyst**

Yeah.

See, Spice brand handsets, if you look at average, on an average we get margin of 20 to 25%. This is because basically we post it directly from -- and the manufacturers -- so the margin are high. And then we also manufacture some other models here.

As far as other than Spice brand is concerned, it is basically like Nokia and Samsung other brand handset which --Thereby, the average margin is high, retail is on an average about 10 to 11% margin.

## **Analyst**

10 to 11.

## **Subramanian Murali, Chief Financial Officer**

At the store level.

## **Analyst**

Okay. See, what I see from your balance sheet also though you are a debt free company, also your asset light company as compared to your total top-line, like you are 2,000 plus crore company FY11 and asset size of just about 700 crores. So, that way your assets -- your business model doesn't require that much of capital to generate -- it's like generating more than three times or just around three times sales on the total asset.

## **Subramanian Murali, Chief Financial Officer**

Yes.

## **Analyst**

So, Having -- being a zero debt company and a high asset turnover, how come our return ratios are still very subdued in the sense that we don't have a very attractive ROEs or ROIs? And secondly our EBITDA margins why is it so low at around 7%?

## **Subramanian Murali, Chief Financial Officer**

Yeah you can have consolidated...

## **Analyst**

Correct.

## **Subramanian Murali, Chief Financial Officer**

See that's why, see when we break this -- if you look at S Mobility, we have three business, it is devices, we have our own devices, we have Spice branded devices -- manufacture it and then sell it India.

So, when we look at all the three together then you will see the EBITDA margin is only 5% or 6% but when we look and analyze the business individually then you will be able to put the right comparison. Then retail -- for the last for the last five years and now we are the only store which in absolute terms EBITDA positive at the national level.

If you have been following retail industry, you would realize the retail at the regional level makes money but at national level -- makes money. Overall makes money, if you see us over the next three years as per retail -- let us say a 5% EBITDA margin over the next three, four years then these EBITDA percentages will change significantly that one.

Second is -- the right business as such -- business itself. Again I mentioned in my opening call that we are making huge investment and -- increasing our reach and deepen our penetration and increasing our sales force in the region. So, that reason is way we keep a track on EBITDA. But that's going to be -- gaining higher market share over a period of time. We are not -- we are not in this game for the short-term play; we are here for the longer term.

So, these are the -- this is the second reason. Third reason is VAS business if as a standalone, if you look at the ROI and ROCE is very, very high that's because the lower -- margin is high and compared to the capital with interest...

So combining all the three, then the analysis -- your EBITDA margin is 67%. But it can grow significantly today. So when we look at the growth in the -- VAS and the...

## **Analyst**

Is it possible to give some kind of a color on the EBITDA margins in the different services you just talked about, may be not in for the current year, but may be going forward, what could be the...?

### **Subramanian Murali, Chief Financial Officer**

I think I mentioned both the EBITDA margins and VAS business which is currently at around 20, 22%. We -- I don't see a major change in this. We would be able to maintain this kind of margin -- we are successful in our strategy of outside India because as I mentioned in my opening call, the margins in India in terms of our services are coming down. So that's why we are looking at opportunities in India also expanding into the VAS business.

It's not just on the VAS services side, on the retail side I already mentioned this now that, having become EBITDA positive, there is a good potential for us come to close to 5% EBITDA level over three years time because there is --China and all of course very successful retail company and get a 5% EBITDA margin. That our goal I don't know how fast we will be able to implement that but that's...

On the handset side initially yes we are looking at, as I told, we are looking at investment in -- investment in man power, investment in distribution channels but if you look at last two years I think March 2010 our EBITDA was almost 9 to 10% on the -- front. It is not impossible to get an EBITDA of 9 to 10% on the -- side. But it will happen once we have got over this investment stage -- investment which we are making now.

### **Analyst**

So once your retail initiatives -- as I mean you said that it takes about six to nine months to breakeven a new store. And you already have total store existing about closer to 800 if I have not mistaken. 792, right?

### **Subramanian Murali, Chief Financial Officer Analyst**

Out of them how much already had their breakeven and how much are yet to breakeven?

### **Subramanian Murali, Chief Financial Officer**

Yeah, almost 90% of the stores are, let's say 85 to 90%. 85% of the stores are already making money at the state level. So, the only store which we had opened in the last one year, six months to one year time would be -- the top at the EBITDA level, at the store level. And also some of the stores, we'll be closing some stores because 5% in stores we -cannot give us -- that we do not get enough revenue -- but we closing those stores. So on an overall basis 85% will surely be making at 15% would be -- as of now.

### **Analyst**

Okay. And what is the total CapEx for current year as well next year if you can just -- and the breakup of that?

### **Subramanian Murali, Chief Financial Officer**

See I said, we are looking at -- on the retail side we will be opening let's say 500 crores in the next 15 months and in the current financial year -- would be probably 20 crores to 30, 35 crores in the stores opening.

That's a kind of capital investment we are looking at in retail. And on the devices on that front, the investment will be mainly on the device side may be looking at expanding our manufacturing capacity and also at increasing our distribution network in the country. On the VAS side, the investment generally we'll make about...

### **Analyst**

...you would be selling in devices let's say...?

### **Subramanian Murali, Chief Financial Officer**

On the VAS side it will be probably, it will be mainly on -- we spend about 20 to 30 crore every year around building capacity because as and when we -- we deploy -- and also in our centralized...

So, every year the investment is close to 20, 30 crores in services side. This is without considering -- growth opportunity. Because it's really because our major investment which will only form order -- we go and acquire some companies in any of this space. That's where our fund requirement is.

## **Analyst**

Okay. And.

## **Operator**

Mr. Mehta.  
Yeah.

## **Operator**

I am sorry to interrupt, sir we have several participants in queue. Can you come back for your questions?

## **Analyst**

Yes sure, I will come if I have anything.

## **Subramanian Murali, Chief Financial Officer**

And you can also talk to me later.

## **Analyst**

Thanks for taking my questions.

## **Subramanian Murali, Chief Financial Officer**

Sure.

## **Operator**

Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

## **Analyst**

Thank you very much Subramanian. I have three questions. First is, if I look at your revenue breakdown handset would be what part of the revenue share broadly. Handset sales?

## **Subramanian Murali, Chief Financial Officer**

Yeah. I think in the segment...

## **Analyst**

Yeah, which you have given is it the entire handsets rates?

## **Subramanian Murali, Chief Financial Officer**

...over 66 crores that's entire the handsets rates.  
But that include both your Spice branded and the other third party ?



**Subramanian Murali, Chief Financial Officer**

...

**Analyst**

And though essentially I mean what I want to understand that at this stage your revenue is largely handset sales driven right?

**Subramanian Murali, Chief Financial Officer**

Yeah that's correct.

**Analyst**

And the reason why I asked is I mean -- while you have mentioned that you see mobile internet has a very good opportunity, globally there are few what we call, examples of -- Apple which a completely different business model having -- make money of this let's call it mobile Internet.

**Subramanian Murali, Chief Financial Officer**

Yeah.

**Analyst**

So, do you think it is feasible for -- I know you are investing in some -- but given that there are handsets -- there are operator what they call apps on operator portals which is already available and then you have someone like an Android which has it's own apps marketplace.

**Subramanian Murali, Chief Financial Officer**

Sure

**Analyst**

How successful can your this strategy be actually?

**Subramanian Murali, Chief Financial Officer**

See, when I said mobile Internet, if you really look at the presentation which we had sent, page four of the presentation. Right.

**Subramanian Murali, Chief Financial Officer**

We are looking at the mobile Internet, the internet population which will access mobile will grow significantly over the next five years that's what we referred to.

**Analyst**

Right.

**Subramanian Murali, Chief Financial Officer**

More than 360 million mobile Internet users by 2015 alone. And the total Internet influence 80% -- what our strategy is that, it is not -- the mobile internet it does not mean, our revenue will completely change into the 80% will be now 30 and 40%, it's not what it means. What we are saying is we will be selling devices which will enable the customer to access mobile Internet.

## **Analyst**

Okay.

## **Subramanian Murali, Chief Financial Officer**

Yeah. Services sitting on top of the devices which will also help us where the recurring revenues come -- It is not going to change over like into the mobiles are -- revenue mix will change from -- that's not what we mean. What we mean is that we will be selling device which will enable mobile internet and we will add services on top of it.

The device will continue to be our focus. So that's why you should see the change which is happening over the next three to four years in the smartphone growth -- the percentage of smartphone sale, which is -- come to current level of 15, 20%. We will take the major chunk of that, that's our strategy, if we are not in that space, then there is no growth on mobile devices business.

It is totally dependent, will be devices driven. But we are -- sitting on top of devices like our own Spice branded I talked about, like a push mail service, like a music service, there will be various services on top of it. But it does not mean that the entire revenue will come from internet services, that's not what we say, that's not what we are saying.

## **Analyst**

Fair enough sir. I have few more questions. One is on your -- which has increased this quarter any -- is it because of a change in mix is it you have managed to take some price increases which...?

## **Subramanian Murali, Chief Financial Officer**

No, there has been no price increase on the contrary there is -- cannot have Absolutely.

## **Subramanian Murali, Chief Financial Officer**

...continue to go down in terms of the price like a -- industry. At some point of time, you will continue to get higher value for the same product.

## **Analyst**

Yeah, fair enough.

## **Subramanian Murali, Chief Financial Officer**

...may be higher memory and higher features et cetera. But what we have done is we have been able to come out some differentiated products at the different -- different price form. But may be -- our category into zero to 2,000; 2,000 to 4,000; 4,000 to 6,000 and above 6,000.

## **Analyst**

Right.

## **Subramanian Murali, Chief Financial Officer**

So, our objective is to grow and where we go negotiate with the vendors when we go and look at the products. We are looking at -- we are looking at products which are going to be a differentiated product in the category of -- The zero to is a very profitable market. You have to be present; you have to be -- we won't be able to make too much money there.

Our strategy will depend on -- the mobile Internet again is going to be greater than -- So, we are shifting out total from zero to two; two to four and four to six and greater than six. That's one of the reasons why we have been able to get those -- The second point is that I mentioned to you of the acquisitions which -- made outside India, in Malaysia, in the Indonesia and Thailand -- company.

## **Analyst**

Right.

## **Subramanian Murali, Chief Financial Officer**

It is done by -- subsidiary in Singapore. With that what we have got, we have got a scale of -- go and talk to a chipset manufacturer, go and talk to a -- or when we go and talk to a vendor or when we go and talk to a -- So with this we are able to get better products at better price and best markets. So, that is the strategy which will help us increase the ASP and also to increase our market share. I'll give you an example in Indonesia.

## **Analyst Subramanian Murali, Chief Financial Officer**

We acquired this company. They have globally -- and a arrangement that we will -- So now, we are bringing this arrangement to Indian market also. So, we are able to leverage the opportunity what we have outside India into India. And through that we will be able to increase the ASP and we will be able to increase the market share.

## **Analyst**

And sir, finally one just wanted to check with you, you mentioned during opening remarks that your handset margin is 22%. Did I hear it right and is that the gross margin?

## **Subramanian Murali, Chief Financial Officer**

That's correct, it's gross margin.

## **Analyst**

Okay, okay fine. Thank you sir. This is helpful.

## **Subramanian Murali, Chief Financial Officer**

Thank you.

## **Operator**

Thank you. [Operator Instructions]. The next question is from the line of Rajat Gupta from JP Morgan. Please go ahead.

## **Analyst**

Hi, thanks for taking my question. I just had one question on the broader market in general. According to you, what do you think is going to be the next big catalyst to drive 3G uptake in India. Is it's cheaper phones like cheaper dual SIM phones or smartphones, when do you see that coming?

## **Subramanian Murali, Chief Financial Officer**

See it is -- if you look at -- dealings of retail 60% of our sales within our retail is smartphones. And we see the smartphones sales going up in the -- from the last couple of quarters. And the impact according to our estimate that more than 42% of our phones by 2015 will be smartphones in India. If that is going -- definitely drive -- And second is that there is opportunity for smart like phones. Smartphones are you can say the ASP range is 10,000; 15,000 and 20,000.

## **Analyst Subramanian Murali, Chief Financial Officer**

...all features. But now company like -- is the largest manufacturers in the -- manufacturing more than 600 million chipsets in a year.

## **Analyst**

Yes.

## **Subramanian Murali, Chief Financial Officer**

We are able to offer the features of a smartphone in our feature phone. So, it becomes a smart like phone. So, that smart like phone and will be available to the end user at the price between 4,000 to 10,000.

A user with the Rs. 4000 phone will be able to do whatever a smartphone user does at a price of Rs. 4,000 to Rs. 5,000. So that phones will really drive the 3G penetration in India. And brands like -- introducing the phone are going to -mobile Internet growth on 3G growth that's our view.

## **Analyst**

Okay. What do you think about the price level which the operators are offering. I mean do you think that needs to come down a little more or do you think they are at the right level right now.

## **Subramanian Murali, Chief Financial Officer**

You are talking about the 3G services?

## **Analyst**

Yes.

## **Subramanian Murali, Chief Financial Officer**

I don't think so far there is really -- 3G services has not really taken up, whatever I understand from the operators are that I don't think there is going to be any deduction in the 3G service levels that we see as of now.

But definitely, we are seeing it I think the rates, there is an opportunity for it to go down, which should help increase the penetration. I think the operators are struggling with the investment having the -- and the -- share we haven't got. So, I think eventually it will happen.

## **Analyst**

Okay. Thanks a lot.  
Okay.

## **Operator**

Thank you. [Operator Instructions]. The next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.

## **Analyst**

Good afternoon sir, I had a few questions. My first question is in regard to the MediaTek investment into your subsidiary of \$20 million. Just wanted to understand what -- device, what's the sort of residual value that the parent company now want in the VAS subsidiary and also given the fact that we have so much cash lying on our balance sheet, why did we go for an external investment?

## **Subramanian Murali, Chief Financial Officer**

See I think let me clarify. This MediaTek investment was done with not -- it is not a primary -- If you look at Spice Mobility, Spice mobility has 83% of Spice Digital.

## **Analyst**

Right.

## **Subramanian Murali, Chief Financial Officer**

At the time of merger. On the balance is held by the parent company, Spice Mobility.

## **Analyst**

Sure.

## **Subramanian Murali, Chief Financial Officer**

MediaTek investment has happened through that too. So, it is the parent company investment -- so that's point number one, point number two, MediaTek I explained to you sometime back is 600 million -- they are the largest manufacturers of chipsets in the world.

## **Analyst**

Sure.

## **Subramanian Murali, Chief Financial Officer Analyst**

Okay. My second question is again sort of relating again to the VAS. So basically this 20 million is for the 17% stake at the parent company on this, is that correct?

## **Subramanian Murali, Chief Financial Officer**

10% out of this.

## **Analyst**

10% out of this. Okay. My second question is again on the VAS, we are hearing a lot of these talks about the TRAI rules in terms of relating to requiring sort of a written communication with the subscribers and also in terms of the --VAS revenues also within the license regime, can you sort of throw some light on where you are all in these brief discussions with TRAI and what is the sort of -- and what's your outlook on these changes of the regulations?

## **Subramanian Murali, Chief Financial Officer**

License has been good for us because as far as there has been lot of issues as far as the TRAI regulations, implementation is concerned and there are lots of levels, we are kind of where -- we compete with various players may be bringing some kind of regulations in this is good for the long-term players.

As far as the TRAI regulations, implementation is concerned I mentioned in my opening remarks that this has been -for the last one, one and a half years and this has been one of the reasons also why there has been a de-growth in revenue a couple of years back in our -- back in the entire industry.

It's not easy to implement it, it is difficult but it is -- we are committed to -- we have implemented the earlier guidelines and we will implement the current guidelines also. I think which is applicable from the current month -- we need to really wait and watch what impact it has on that.

We always believe that it has got to be a -- model, example, if you look at some of the services that you are, it is like a Live Aarti -- let us say Darshan in Tirupati, we try based on it's usage. So, that trend the model will start becoming more attractive to users and also the VAS companies, that's one.

And second is that we will have opportunity outside India also like I said we are looking after at Africa and Middle-East, once we have developed the service and the product in the India, then we can -- we have improvements in overall sales in India also that's another

opportunity which will open up.

## **Analyst**

Can you may be give me a break down of what's your domestic and international revenues in the VAS business right now? Roughly even I don't need an exact.

## **Subramanian Murali, Chief Financial Officer**

I think it's currently in the last quarter it would be about 10% would be outside India.  
Okay.

## **Subramanian Murali, Chief Financial Officer**

It's around -- right last year it was about less than 5%. Now it has gone up to about 10%.

## **Analyst**

Okay.

## **Subramanian Murali, Chief Financial Officer**

We expect this to go up significantly over the next two to three years, it will be close to 30 to 40% of our segment.

## **Analyst**

Sure. And my last question is on the device part of your business. Just wanted to know of the total units that you sold, the Spice branded phones that you sold which is actually 1.5 million this quarter. How much was manufactured within Baddi and what's the sort of current capacity utilization of Baddi and the outlook on how many phones you will see -what proportion of your phones you see being manufactured in Baddi going forward?

## **Subramanian Murali, Chief Financial Officer**

As I said capacity is about 400,000 phones per month. But then we do close to I think the capacity utilization currently will be close to 30, 35% not more than that. Because we only -- we can only manufacture the low end currently because there are actually some significant volumes for us to do that.

And going forward I don't see this going beyond 50% of the capacity. So, we may at some point of time, we will take it up because as I told you that we are also looking at working with various vendors at different -- from 4,000 to 6,000 and 2,000 to 4,000 level. We do have an arrangement with each vendor because when we go on...

## **Analyst**

Sure.

## **Subramanian Murali, Chief Financial Officer**

It's not easy and it's not going to happen over night. But we can actually gear up the manufacturing per month and in terms of -- that's not a challenge.

## **Analyst**

You were -- expanding the capacity in the past, is that plan for then hold in currently?

Like I said we can expand anytime we want. But currently here we want growth of at least 60, 70% of the additional capacity before we can look at expanding.

## **Analyst**

Okay.

## **Subramanian Murali, Chief Financial Officer**

Since you are expanding the capacity and then not utilize any of it. But it is not going to be a time consuming which we want to expand, we can expand within three month. So -- per month.

## **Analyst**

Sure. That's all from my side. Thank you so much.

## **Operator**

Thank you. [Operator Instructions]. As we have no further questions, I would like to hand the floor back to Mr. Murali Subramanian for closing comments. Please go ahead.

## **Subramanian Murali, Chief Financial Officer**

Yeah. Thank you for participating in this conference call and it has been a pleasure answering all your questions. And if you have any specific queries than we can always be in touch with CDR Ravi and Nitin and that should... Thank you very much.

## **Operator**

Thank you. Ladies and gentlemen on behalf of S Mobility, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.