

ISSUE SNAPSHOT

No of Shares offered	10.90 mn (Rs10 each)
Price Band	Rs425-450
Issue Size	Rs4.6-4.9 bn
Issue period	Jan24th - Jan29th '07
Mkt Cap	Rs24.4-25.8 bn
Listing	BSE & NSE
Equity pre issue	488 mn shares
Equity post issue	574 mn shares

PROMOTERS OF THE ISSUE

Group : Professionals(OMSI, Arvind Rao and Chandramouli Janakiraman)
 Company : OnMobile Systems Inc.

OBJECTS OF THE ISSUE

- Investment in equipment for own and customer's sites
- Working capital requirement
- Debt repayment
- Funding inorganic expansion plans

COMPANY PROFILE

OnMobile Global Limited (OnMobile) commenced operations as *Onscan Technologies India Private Limited* in Sept'00 and changed to its current name in Aug'07. Promoted by *OnMobile Systems Inc*, a company incubated by *Infosys Technologies Ltd*, it develops software platforms and applications for wireless telecom industry and over the years has emerged as the leader in domestic Mobile Value Added Services (VAS) segment.

RECENT ACQUISITION

In Dec'06 OnMobile acquired a 51% stake in Mumbai-based *ITfinity Solutions Private Limited*, which has an expertise in developing a wide range of mobile data products. This was at an outlay of Rs195mn in cash and issue of 5,068 equity shares to some employees of *ITfinity*. Further, remaining stake will be acquired as per agreement between founders of *ITfinity* and company.

In Sept'07, OnMobile acquired *Vox mobili S.A.*, a Paris-based provider of telecom VAS which had focus on global personal data management, wireless synchronization and embedded client solutions. The maximum consideration payable is Rs1.3bn in cash and 0.4mn equity shares to founders of *Vox mobili*.

With the Indian wireless telecom industry exhibiting robust growth and telecom operators quest for diversified revenue streams, the stage is set for players like OnMobile to capitalise on by providing innovative VAS solutions and enable Telecom Service Providers(TSPs) to gain a larger share of consumer spend. Hence, we recommend a 'SUBSCRIBE' to the issue.

INVESTMENT RATIONALE

- Indian telecom sector is still underpenetrated vis-a-vis global levels, and is expected to post a CAGR of 24% for next 4 years. A buoyant economy and a presence in one of the fastest growing mobile markets augurs well for OnMobile and offers immense scalability potential.
- OnMobile has a clear first mover advantage in VAS, where its end-to-end solutions enable TSPs to earn incremental revenue (with high OPM) and effectively counter the steady slide in voice service revenues/user.
- Its well entrenched relationship in domestic and international markets coupled with strong barriers to entry would enable it to capitalise on its relationships more remuneratively. This, along with the scope of leveraging on the expansion plans of TSPs and a growing revenue share in TSPs revenue streams has the potential to propel its revenues exponentially.

VALUATIONS

At upper price band the stock trades at PER of 73.9x and EV/EBITDA of 33.6X its FY07 earnings.

KEY FINANCIALS (CONSOLIDATED)						KEY RATIOS*					
(Rs mn)											
Yr Ended (March)	Net Sales	YoY Gr (%)	Op Profits	Op Marg (%)	Net Profits	Eq Capital	Yr Ended (March)	EPS (Rs.)	BVPS (%)	P/E (x)	EV/EBDIT (x)
2005	409	137	265	64.7	140	10	2005	2.4	3.5	184.2	79.5
2006	826	102	471	57.0	247	10	2006	4.3	7.8	104.7	44.7
2007	1,367	102	626	45.8	349	33	2007	6.1	28.6	73.9	33.6
H1FY08	1,125	65	485	43.1	305	574 *	H1FY08	5.3	38.7	42.3#	43.4

* Post issue Equity capital

* All Calculations based on post issue Equity & upper price band #Annualised

OnMobile revenues are driven by consumer usage of telecom VAS...

Revenue model

OnMobile offers value added services (VAS) to its clients on a managed service basis. It installs required hardware equipments in TSPs networks, develop software applications for VAS which are offered to end users by the TSPs through a licensing agreement. These enable the TSP to provide VAS like caller tune downloads, mobile ticketing, mobile voting, stock updates etc.

OnMobile earn revenues by entering into a contract with customer on a revenue sharing basis, whereby it receives a fixed percentage ranging from ~20-25% of net income generated by their offerings for customers like TSPs. This model assures recurring revenues and imparts flexibility of introducing new products within the existing contract. The key factor here is that the patent for the software products vests with OnMobile, thereby protecting it from unauthorized replication of its intellectual property. It earns bulk (96%) of its revenues from the domestic TSPs.

Being *white label company* (means the platform for providing caller tune services is provided by OnMobile but it's name doesn't appear in marketing it to the end users, TSPs brands itself for same), OnMobile benefits directly from a huge subscriber base with minimal effort as it does not have to undertake any efforts in acquiring them.

Recent acquisitions

Acquisition of Vox Mobili would help in leveraging the company's diverse base for cross product offerings...

OnMobile acquired *Vox Mobili* in Sep'07 for ~1.5bn and has given OnMobile access to *Vox mobili's* data products and VAS to telecom operators in Europe and US (21 customers). *Vox mobili* provides unique services like phone backup solutions, which allow users to save mobile content in operators network server. And this prevent users from any loss of data due to handset failure or loss of handset. It also provides other solutions like easy downloading of photos, videos etc. The same are due to be introduced in domestic market.

Growing subscriber base benefits OnMobile

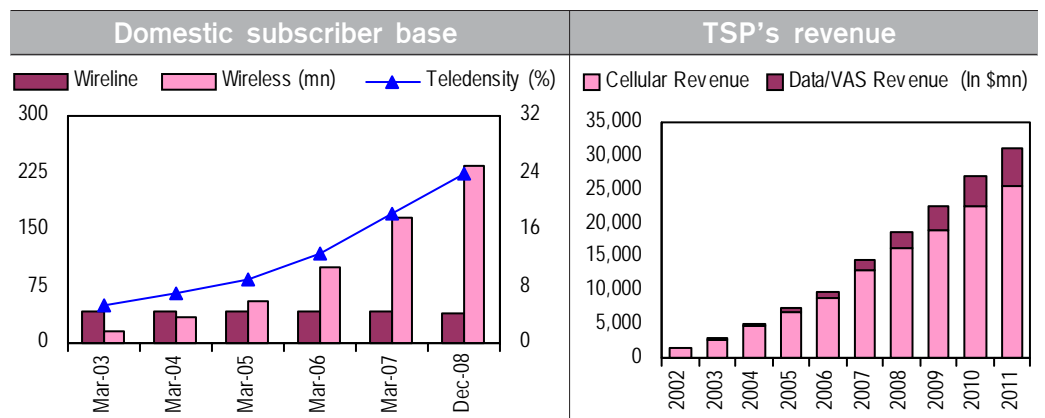
Its services extend to 326mn subscribers and 181mn unique users (users who had utilised at least one of their services) once till date. In Dec'07, it handled 4.7bn calls and garnered 28mn unique users. The *Vox mobili* acquisition also gave them access to 22mn phone back up users in the same period. Thus, its model has a high operating leverage and is restricted only by its ability to offer innovative VAS. While the appetite for VAS is strong and the growth is outpacing growth of subscriber base, the company has to be extremely proactive in innovating and designing newer VAS. This is on account of the drop in VAS usage as novelty of the same starts to wear off.

Robust Domestic Telecom Market

Low telecom penetration offers excellent growth prospect...

Indian telecom industry has witnessed a tremendous growth with wireless subscriber base vaulting from 13mn in 2003 to 234mn in Dec'07 and wireline counts at 39.3mn. Telecom penetration currently stands at 23.9% which, despite the sharp improvement over the last 4 years, is low in comparison to global levels. This leaves ample scope for growth.

As per Gartner estimates, the cellular subscriber base is expected to touch 462mn by 2011, which should be comfortably achieved looking at current growth rates.



Source: TRAI

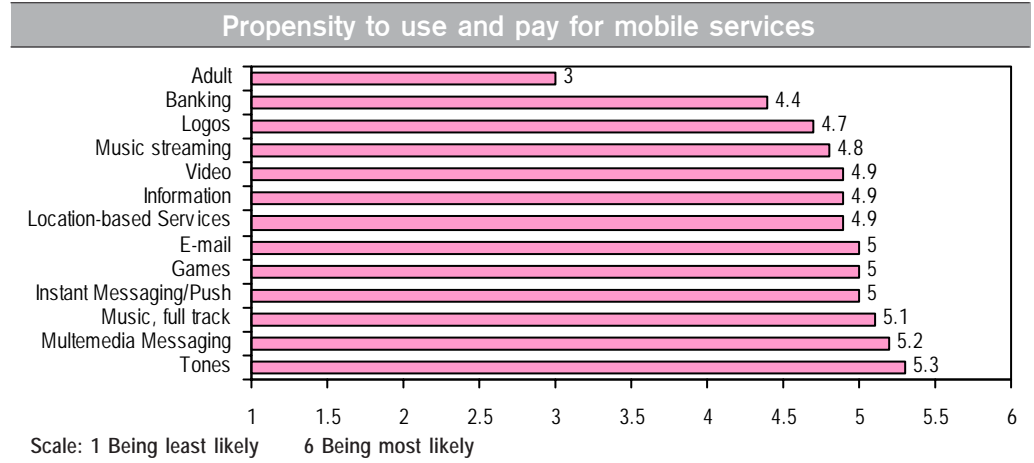
Source: Gartner

Growing share of Data/VAS in cellular revenue

OnMobile's revenues are driven by consumer usage of telecom VAS (value added services). There has been a growing propensity among users for utilizing phones for gaming, music and information at attractive pricing. The domestic data revenue share grew from USD73.9mn in '02 to USD858mn in 2006, which is 9.6% of total service income at ~USD9bn. Data services income is expected to grow at a brisk pace (46% CAGR) for the next 4 years to USD5.6bn, which will be 22% of services income at USD25.6bn.

Average revenue per user (ARPU) has declined to Rs275 for GSM, and Rs173 for CDMA operators in Sep'07. As voice services revenues continue to face huge competitive pressures, **data/VAS** are playing a significant role in propping up the profitability of TSPs as they generate incremental revenue at a minimal capex, enabling them to earn a high OPM.

The company's business model has an extremely high operating leverage...



Source: Gartner

Strong Customer base

Since inception, OnMobile has offered end-to-end solutions in telecom VAS segment ranging from hardware installations to software development. Its clientele includes domestic TSPs like *Bharti, Reliance, BSNL, Idea, Vodafone-Essar, TTSL* and over 10 global TSPs in eight countries like *Optus, Banglalink, BTEL, Maxis, Indosat etc.*

In the media sector, its prominent customers include *AOL, Disney, ESPN* and *Nokia*. The acquisition of *Vox Mobili* with 21 clients would help in leveraging its diverse base for cross product offerings. While OnMobile's first mover advantage in the segment has enabled it to create long term relationships with clients, the key challenge going ahead would be to offer innovative services on a continuous basis as revenues of VAS usually witness a sharp decline as novelty of the same starts waning. While the contribution of its top five customers has been dipped from 100% to 81% from 2005 to 2007, they will still continue to account for ~75-80% of revenues in future.

Objects of the issue

The company plans to raise Rs4.6-4.9bn at price range of Rs425-450 (FV Rs10) consisting of fresh issue of 8.6mn equity shares and offer for sale of 2.3mn shares by OMSI to provide a partial exit opportunity for institutional investors like HNQ and Satwik in OMSI. The net proceeds amounting to ~Rs3.8bn will be utilized for investment in equipment and expansion of its software development capacity. Post-issue, the paid up equity capital of the company would be Rs574mn consisting of 57.4mn shares of FV Rs10 each.

The IPO proceeds of to be utilized for proposed expansion plans...

Objects of the issue	
Purpose	Amt (Rs mn)
Purchase equipment for offices at Bangalore, Mumbai and Delhi and various customer sites	1,805
Working capital requirements	50
Repayment of loan	350
Total	2,205

Source: Company RHP

Valuations

OnMobile has no listed peers in the domestic market and competitive players are not of any significant scale. However, the business model of the company has considerable scalability and operating leverage due to the following reasons:

1) The domestic telecom subscriber base is 273mn (234mn in wireless and 39.2mn in wireline) and is expected to post a CAGR of 24% to exceed 500mn by 2011. This will provide an increasing base to penetrate for VAS.

2) As the ARPU (average revenue per user) of most telecom players have been increasingly under pressure due to voice call charges succumbing to competitive conditions, TSPs are increasingly exploring other revenues streams and VAS to extract a larger share of the subscriber's wallet at minimal capital cost. This offers them a high OPM and is emerging as a primary profit driver. Thus, the addressable market in India is huge and increasing for OnMobile.

3) The platform expertise built by the company in designing VAS can be leveraged enormously and innovation will result in income stream increasing at much sharper rates than the costs incurred.

4) Currently, domestic market account for 96% of revenues. However, there a high chance that the overseas market penetration can be increased profitably by effectively leveraging its domain expertise.

OnMobile is the biggest player in telecom VAS space. With strong management capability and core engineering team, it would continue to be a leader in the industry. Further, its offerings have low sensitivity to voice revenues of TSPs. The shift in the telecom industry towards data/VAS impart a clear visibility to OnMobile's revenue and earnings stream and has a potential of propelling the same on an exponential growth track.

Its ability to leveraging its domain expertise and penetrate global telecom & media markets provides OnMobile an exciting opportunity to capitalise on the exponential growth potential from the same. Thus, despite the prima facie rich historical valuations at a P/E of 73.6x and EV/EBIDTA of 33.6x its FY07 earnings at upper price band of Rs450. We believe that same should contract sharply as it increases presence in the global market. Thus, we recommend a 'SUBSCRIBE' to the issue.

Concerns

Innovation and consumer preferences

The telecom Data/VAS segment is highly innovation driven. The products need to be strategically designed to suit subscriber preferences while keeping in mind the location priorities like language etc. The difficulty in adapting to new applications or other services may result in company losing market share.

Changing technology

The telecom sector is technology driven, where technologies employed by OnMobile face a high obsolescence risk and competition from new technologies. Also, the investment to upgrade technology for expanding network capacity to respond to the changing industry scenario could be substantial and negatively impact the company's performance if things do not go as anticipated.

Consolidation in the telecom industry

Any consolidation in industry will give higher pricing power to TSPs, who in turn would set terms of revenue share agreements in their favor. This will directly result in revenue loss for the company and affect its performance.

OnMobile is the biggest player in Telecom VAS space in domestic market...

We recommend subscribe to the issue...

Financial Results (Standalone)

Particulars (Rs mn)	Year Ended				Half Year Ended
	31/03/04	31/03/05	31/03/06	31/03/07	31/09/07
Net Sales	173	409	826	1,367	1,125
Expenditure	103	145	355	741	640
Cost of sales & services	49	60	123	238	162
Manpower costs	36	46	115	279	267
Administaration and other expenses	18	39	117	224	211
Operating profit	70	265	471	626	485
Other Income	1	1	1	45	38
PBDIT	71	266	472	671	523
Interest	-	-	-	-	2
Depreciation	9	45	85	144	100
PBT	63	222	387	527	421
Tax (inc. FBT & deferred tax)	19	81	141	178	116
Net Profits	43	140	247	349	305
Equity Capital (FV Rs 10)	10	10	10	33	488
Reserves (excl. rev. res.)	35	175	423	1607	1732
*Fully diluted EPS	0.8	2.4	4.3	6.1	5.3
*Book Value (Rs)	1.0	3.5	7.8	28.6	38.7
*On equity of 54.7mn shares					
OPM (%)	40.5	64.7	57.0	45.8	43.1
NPM (%)	25.0	34.2	29.9	25.6	27.1
Expend. (% of net sales)					
Cost of sales & services	28.6	14.6	14.9	17.4	14.4
Manpower costs	20.7	11.3	13.9	20.4	23.7
Administaration and other expenses	10.2	9.5	14.2	16.4	18.8

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