

09 December, 2008

Key Data	(INR)
CMP	204
Target Price	234

Key Data	
Bloomberg Code	ONMB IN
Reuters Code	ONMO.BO
BSE Code	532944
NSE Code	ONMOBILE
Face Value (INR)	10
Market Cap. (INR bn.)	12
52 Week High (INR)	745
52 Week Low (INR)	190
Avg. Daily Volume (6m)	31296

Shareholding	%
Promoters	57.2
Mutual Funds / Financial Institutions / Banks	4.0
Foreign Institutional Investors	6.3
Bodies Corporate	5.7
Individuals/NRI and Others	26.8
Total	100.0

	FY08	FY09E	FY10E
Net sales (Rs Mn)	2618.2	3984.9	5294.1
Op Profit (Rs.Mn)	1048.4	1413.2	1952.8
PAT (Rs Mn)	603.1	829.3	1136.6
OPM (%)	40.0	35.5	36.9
NPM (%)	23.0	20.8	21.5
EPS (Rs.)	10.5	14.4	19.7

Analyst

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OnMobile Global Ltd.

ABOUT THE COMPANY

OnMobile Global Ltd (OGL) is a value-added services provider in India with an expanding international presence, particularly in emerging Asian markets. The company was formed in 2000 as an incubate start-up by Infosys Technologies Ltd to develop telecommunication software applications for the mobile telecommunications industry worldwide. The company offers products and services like voice portals, ringback tones, mobile content aggregation and distribution, interactive media portals, mobile advertising and M-commerce. Its customers include all major telecom operators in India like Airtel, Vodafone, Reliance Communications (RCom), Idea Cellular, Tata Tele etc and international players like Optus (Australia), SingTel (Singapore), Mobilink and Uphone (Pakistan), Banglalink (Bangladesh), Maxis (Malaysia), Indosat and Dialog Telekom (Sri Lanka). In addition to telecom operators, OnMobile also provides products and services to media companies like AOL, Disney, ESPN and Star.

INVESTMENT RATIONALE

- **Need for alternate revenue streams-** The Indian Telecom Industry has witnessed robust subscriber growth in the past with the subscriber base reaching 325 mn as on October 2008. Although the subscribers are growing at a rapid pace, the Average revenue per user (ARPU) has continued to decline thereby making it a volume game. As ARPU declines and voice gets commoditized, the challenge in the industry is to retain customers, develop alternative revenue streams, and create a basis for differentiation in high-churn markets. This has therefore resulted in the mobile operators shifting focus towards non-voice revenues. In the wake of recent industry trends, telecom operators are looking at MVAS as the next wave of potential growth and significant source of future revenues.
- **Technology Advantage-** At the core of OnMobile's (OGL) offering to telecom operators is a platform named MMP 2500 - a combination of standard hardware and OGL software - which is technology and handset neutral. The multimodal platform – MMP2500 – serves as the core platform on which all of OnMobile's application products operate. It allows service providers to deliver various applications across multiple delivery modes (such as voice, SMS, MMS and WAP), using a single platform and thereby cutting operating and capital expenses.
- **Innovation-** OnMobile has a proven track record of coming up with innovative products, which places the company far ahead of competitors. This has helped the company to increase market penetration for its clients and drive strong revenue growth. Through organic as well as inorganic growth strategy the company has launched various new products, which have generated interest amongst its customers.
- **International Expansion-** OnMobile has undertaken several strategic steps to transform itself into a leading VAS player. The business has expanded both organically and inorganically with a view to expand its geographic presence, service offerings, carrier relationships and technological expertise. The company has in the past actively been pursuing the acquisition strategy either to strengthen its product portfolio (Voxmobili) or for enhancing its underlying technology platforms (Telisma).

- **Capex and Cash Flows-** The company has capex plans of Rs.600 mn for FY09 (15% of revenues for FY09). The bulk of this will be spent on computer and electronic equipment that is used to enable the VAS applications. At the same time, OnMobile is generating sufficient cash from its operations to meet its future capex requirements. The company's balance sheet is also debt free. Going forward as well, we believe that the company will continue to generate healthy cash flows and we expect the capex to be at 20% of revenues in the near future.

Valuation and Recommendation

Going forward we believe that the company's revenue will be able to register a 42% CAGR during FY08-10. This is mainly on the back of rapid subscriber growth in the telecom industry along with the increased penetration of VAS services. At the same time technology platform and constant innovation acts as a differentiator for the company. The company also has cross operator presence, which gives it an opportunity to cross sell. The company is financially very strong and has a debt free balance sheet.

Since OnMobile Global Ltd has made huge investments in technology, we have valued the company using price to book value multiple. Also due to various acquisitions made by the company, we have adjusted the book value for the goodwill arising on consolidation. Therefore on assigning the a Price /Book Value multiple of 2.2 (which is consistent with the valuation of foreign peers) to the FY10E book value of Rs.104.1, we arrive at a target price of Rs.234. At present the stock is trading a price of Rs.204, we initiate coverage on OnMobile Global ltd with a **"BUY AT DECLINES"** recommendation.

INDUSTRY- MOBILE VALUE ADDED INDUSTRY

What are Mobile Value added services (MVAS)

Mobile Value Added Services (MVAS) are those services that are not part of the basic voice offer and are availed separately by the end user. They are used as a tool for differentiation and allow mobile operators to develop another stream of revenue.

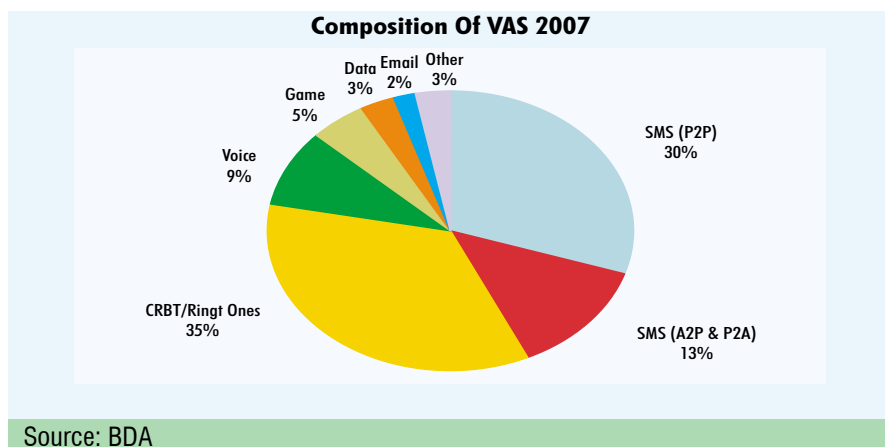
Market Size and Composition of Value added services

MVAS service currently contributes about 5-10% of the total telecom revenue of the mobile operators. The size of the Industry is estimated at Rs. 38 bn (Source: CRISIL) at the end of FY2007.

Mobile value added services span a wide range and include: (a) in-network services such as: ring back tones, and voice SMS; (b) voice based portal services such as ringtones, sports updates, stock updates, news, jokes; (c) user generated content services such as contests, auctions, audio streaming etc.; (d) interactive media solutions such as tele voting, mobile auditions, etc and; (e) mobile commerce solutions such as mobile ticketing, bill payments, prepaid recharge and virtual shopping on the telephone.

SMS has been the major growth driver for the Industry contributing more than 40% of the total revenues in 2007. However in the past the share of revenues from SMS is on a decline while other components of the VAS industry grew.

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SMS has been the growth driver
for MVAS Industry
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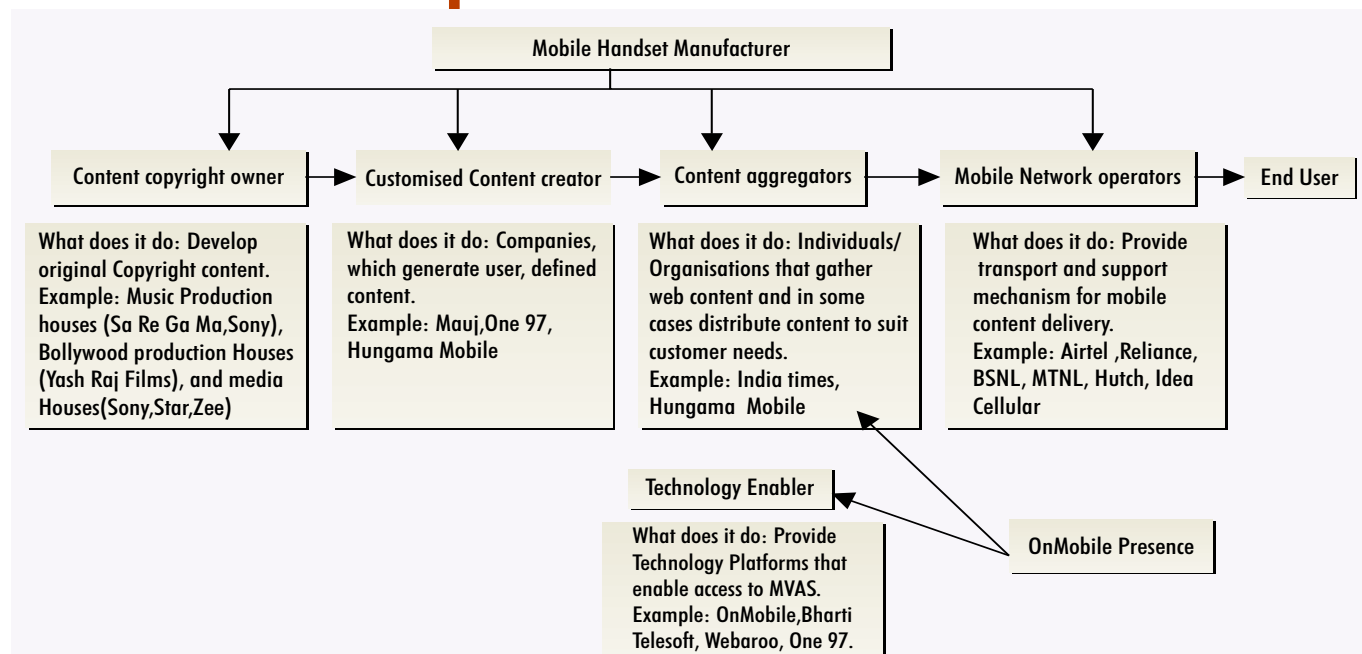


MVAS value chain

- **Key entities in MVAS value chain**
 - **Content developers/owner:** The first stakeholders in the VAS value chain are the content developer; also known as content owner/provider. Such companies have agreements with content aggregators, telecom operators and even handset manufacturers to provide and share content. All music production houses, TV channels, etc, fall under this category. Examples: SaReGaMa, Sony Music, Yash Raj Films, etc.
 - **Customised content creators:** It refers to companies, which create customised content for users. Mobile games creators fall under this category. Examples: Mauj, Indiagames etc.
 - **Content aggregators:** These are companies, which gather content from different content providers and distribute them according to customer needs. Examples: Hungama mobile, Indiatimes mobile, Mauj etc.
 - **Technology enabler:** These companies provide the technology, which makes the access to various content possible. They provide the platform that plugs into telcos network and acts as a bridge between the aggregators and telcos. Platforms for ringtone download, CRBT, IVR, etc, fall under this category. Examples: OnMobile, One 97, Bharti Telesoft etc.

- **Network operators:** These are the mobile service providers who form the interface between rest of the entities in the VAS value chain and the end consumer. They provide service delivery and support to the user of content. Examples: Airtel, Vodafone, RCom, Idea Cellular.

OnMobile's Presence in the MVAS value chain.



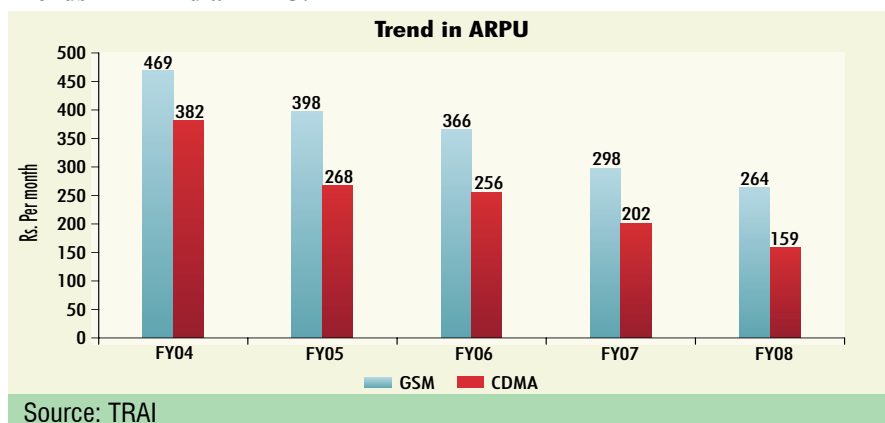
Source: Boston Analytics, Company

DEMAND DRIVERS FOR MVAS INDUSTRY

Need for alternate revenue streams

The Indian Telecom Industry has witnessed robust subscriber growth in the past with the subscriber base reaching 325 mn as on October 2008. Although the subscribers are growing at a rapid pace, the Average revenue per user (ARPU) has continued to decline thereby making it a volume game. As ARPU declines and voice gets commoditized, the challenge in the industry is to retain customers, develop alternative revenue streams, and create a basis for differentiation in high-churn markets. This has therefore resulted in the mobile operators shifting focus towards non-voice revenues. In the wake of recent industry trends, telecom operators are looking at MVAS as the next wave of potential growth and significant source of future revenues.

Trends in All India ARPU.



Brand differentiation needs and increasing access to diverse content has also resulted in increasing demand for MVAS services.

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Telecom operators looking at MVAS as the next wave of potential growth
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**Brand differentiation needs
has resulted in increasing
demand for MVAS services**
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On the other hand demand side drivers include the strong Indian economy, increasing user comfort with basic mobility services, personalization of content and devices and the increasing prevalence of more sophisticated handsets. From the early days of Person-to-Person Short Message Service (“P2P SMS”), the industry has witnessed an emergence of a growing portfolio of services including graphics or wallpapers downloads, ringtones and Caller Ring Back Tones (“CRBT”), SMS contests and games.

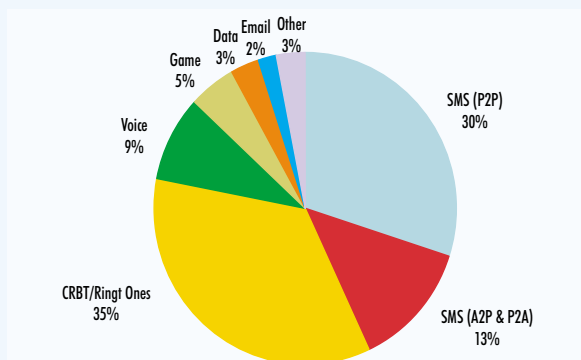
Market initiative contributing to the growth in VAS

- **SMS Contests:** Television is an integral part of the daily lives of average Indians. The proliferation of global television channels has changed TV viewing from a passive activity to an interactive activity. Daily soaps, music, and contest shows provide the option for viewers to participate through SMS. Further, popular television game shows have also increased usage of MVAS services from low usage segments such as housewives and the senior population.
- **Music:** Mobile music has over taken music sales; companies like Saregama generates 50% of its revenues from ringtones offered through its catalog and mobile rights of movies are sold for more than Rs.2-3 mn.
- **Video/TV and games:** Increased use of services such as mobile TV/video, full-motion videos, wireless teleconferencing, multi-player online games, and M-commerce are also contributing to the growth of MVAS. The video/TV and games segment of the MVAS market are expected to register the highest CAGR during 2004–2009 (Source: A Study of the Mobile Value Added Services (MVAS) Market in India by Boston Analytics).

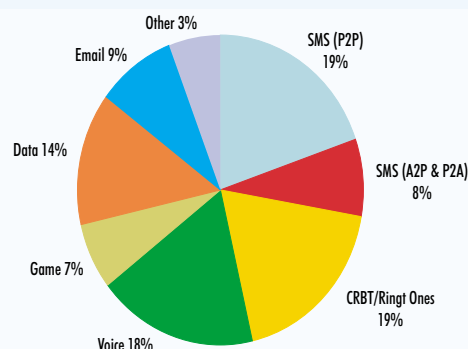
TRENDS IN THE MVAS INDUSTRY

Share of SMS in the total non voice revenue to decline

Composition Of VAS 2007



Composition Of VAS 2010



Source: BDA Analysis

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**Share of SMS is expected to
decline to 27% by 2010**
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Currently SMS (P2P, A2P and P2A) forms almost 43% of the total VAS market. However with emergence of new applications, increased penetration of data based services and mobile commerce, the share of SMS is expected to decline to 27% by 2010.

According to CRISIL Research, Music-related content such as CRBT has already reached high penetration levels. So to maintain high overall growth, other products such as games and videos have to pick up. Also, the products that have lagged in growth are the ones, which have higher bandwidth requirements. So with technologies such as 3G expected to become operational in India in the near future, these products would get the required bandwidth to make them much more entertaining and enjoyable.

Mobile Music- The next largest revenue generator after SMS- (CRBT & Ringtones).

Mobile Music is gaining lot of significance in the MVAS market. This phenomenon is being replicated globally as well as domestically where growth in mobile music has over taken music sales.

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CRBT and Ringtones to be the next largest revenue generator after SMS
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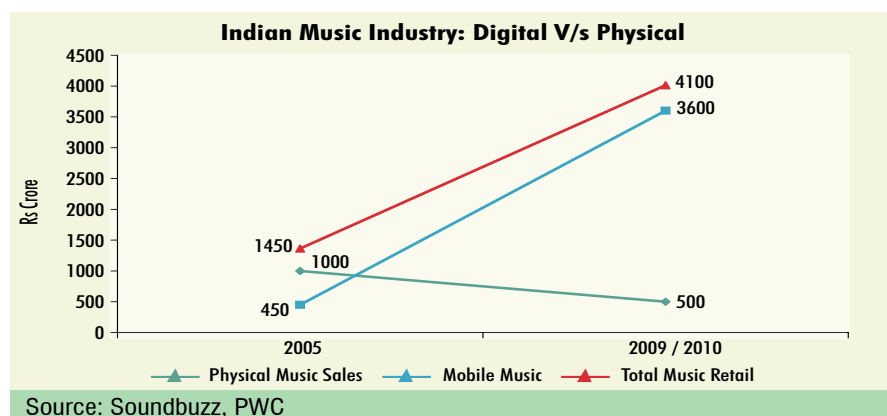
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The Asia Pacific region represents by far the largest market for mobile gaming
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In the global recording industry, although the entire industry is witnessing a slowdown, the physical music spending is down while online and mobile formats are gaining momentum. eMarketer, a research firm analysing Internet, e-business, online marketing, media and emerging technologies, estimates that online and mobile will grab about 40% of the total music spend in 2009.

Worldwide Recorded Music Spending, by Segment, 2006-11 (In \$ Bn)							
	2006	2007	2008	2009	2010	2011	CAGR (2006-11)
Physical	28.9	24.7	20.8	16.5	13.7	11.4	-17.0
Online	1.9	2.8	4.1	5.9	6.7	7.5	31.6
Mobile	1	1.7	3	4.8	6.2	7.3	48.8
Total	31.8	29.2	27.9	27.2	26.6	26.2	-3.8
Online/mobile as % to total	9.1	15.4	25.4	39.3	48.5	56.5	

Source: eMarketer

An analysis by Digital Music Company, “Soundbuzz” projects that the Indian music industry will grow to Rs 4,100 crore in 2009 from Rs 1,450 crore in 2005. And this growth will be mainly driven by mobile music, which will account for 88 % of the music industry’s revenues. Mobile music will be driven by all formats like ringtones, ringback tones, full track audio and video downloads.



Mobile gaming

The Mobile gaming market although continues to lag behind other value added services but still has much potential. According to Gartner, the worldwide mobile gaming revenue is estimated to reach \$4.5 billion in 2008, a 16.1 % increase from 2007 revenue of \$3.9 billion. The Asia Pacific region represents by far the largest market for mobile gaming, with end-user spending forecast to total \$2.3 billion in 2008 and reach \$3.4 billion by 2011. Gartner predicts that mobile gaming revenue will experience a compound annual growth rate of 10.2 % between 2007 and 2011 with worldwide end-user spending reaching \$6.3 billion in 2011.

Mobile gaming trends are picking up in India as well. The Mobile gaming revenues in India are expected to reach \$450 million by 2012 according to the research firm Gartner. This revenue will further rise exponentially as more and more users sign up for wireless services in the world’s fastest-growing telecom market. India is leading among Asian countries in terms of mobile gaming revenues, with the size of the mobile gaming market pegged at around \$80 million.

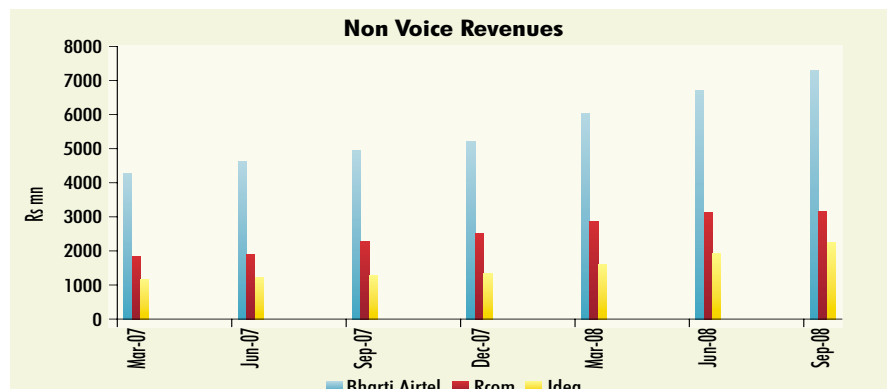
MVAS revenues of mobile operators increasing

Indian telecom operators are facing challenges in the form of retaining customers in a market, which is dominated by prepaid subscribers and to develop products, which can differentiate them from their peers. These challenges are further intensifying with entry of new operators and policy changes. Therefore with a view to overcome these

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Non Voice Revenues of Telecom operators increasing
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Globally, the share of MVAS in total mobile revenues is around 20-30 % as against less than 10% of the mobile revenues in India.
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challenges, the telecom operators are moving towards MVAS which can not only act as a tool for additional revenue but also as a differentiator.



Source: Quarterly reports of the Telcos

CHALLENGES AND CONCERNS FOR THE VAS INDUSTRY

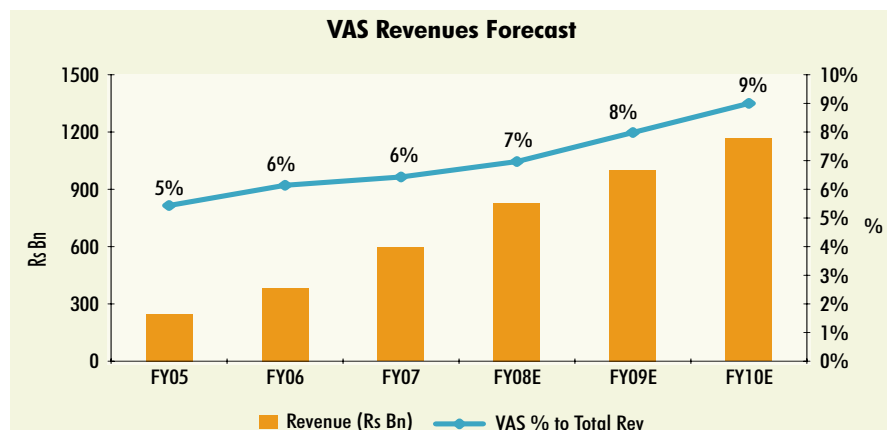
- Change in Revenue Sharing Agreement

The business model of OnMobile is based on a revenue-share arrangement with its customers. Currently, OnMobile has a share of around 20-25% in the total VAS revenue generated by telecom companies through its products and services. Any change to this arrangement would affect the future growth for the Industry.

- Slower-than-expected pick-up of VAS applications in India

Subscriber response to MVAS offerings has been encouraging but the pick up in various services has been slow. Also as operators expand into rural areas the usage of MVAS applications among the rural subscribers is difficult to predict.

OUTLOOK



Source: CRISIL Research

Globally, the share of MVAS in total mobile revenues is much higher when compared to India; around 20-30 per cent in most developed countries. In contrast, MVAS revenues constitute less than 10% of the mobile revenues of Indian telecom operators. The Indian mobile VAS industry is still in the nascent stage. Till now, the growth for the industry has been primarily driven by the growth in the mobile subscriber base, which has grown rapidly over the past few years. The mobile operators have been focusing mainly on increasing their subscriber base. Going forward, with an expected decline in their ARPUs, the mobile operators will be forced to increase their focus on MVAS to maintain their growth and profitability. We believe that this shift in operator focus will lead to the next level of growth. With MVAS becoming more important from the operators' point of view, the operators might become more willing to share a larger portion of their revenues with the content aggregators. This could result in a significant upside in the revenues of MVAS players.

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OnMobile Global Ltd is a value added services provider with a market share of around 25%.
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ABOUT ONMOBILE GLOBAL LTD

OnMobile Global Ltd (OGL) is a value-added services and products provider in India with an expanding international presence, particularly in emerging Asian markets. The company was formed in the year 2000 as an incubate start-up by Infosys Technologies Ltd to develop telecommunication software applications for the mobile telecommunications industry worldwide. The company offers products and services like voice portals, ringback tones, mobile content aggregation and distribution, interactive media portals, mobile advertising and M-commerce.

PRINCIPAL PRODUCTS OF THE COMPANY

OnMobile offers a wide range of telecom solutions, which can be broadly classified as

- **Multi-modal Platform.** The multi-modal platform, MMP2500, is the core platform on which all the applications operate. MMP2500 is a platform that effectively integrates multiple delivery modes and is technology and handset neutral.
- **Application Products.** The application products can be broadly categorised into network based in-call solutions, voice based multi-modal portal, WAP and on-device client software applications, interactive media solutions, mobile commerce solutions and mobile marketing services.

Multimodal platform MMP2500 – the backbone of VAS offerings for the Company

At the core of OnMobile's offering to telecom operators is a platform named MMP 2500 - a combination of standard hardware and OnMobile's software - which is technology and handset neutral. Leveraging on this platform, OnMobile provides a range of services such as ringtones, information, Ringback tones, and m-commerce to telecom subscribers.

Some of the distinguishing features of MMP2500 are:

- Enables delivery of software applications through multiple channels such as voice, data (SMS) and Internet (WAP).
- Supports multiple languages including ten of India's leading vernacular languages.
- Enhances users' mobile commerce experience by supporting multiple payment options (debit card, credit card or direct debit).
- Supports various payment and subscription models (premium access, pay-per-use, pay-per-transaction and time-based models) to suit subscribers' convenience to the maximum extent possible and, thereby, increase adoption of VAS.

Application Products

The company also provides various application products like:

- Network based in-call solutions (ringback tones, missed call alert, voice SMS)
- Voice-based multi-modal portal solutions (ringtones, mobile radio, information and entertainment content like news, sports updates etc.)
- Interactive media solutions (SMS contests, polls and voting)
- Mobile commerce solutions (Mobile ticketing, bill-payment etc.)
- Mobile marketing solutions (promotional SMS about new offers).

For detailed description of these products please refer Annexure I

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A Technology Enabler who also becomes a content aggregator brings in greater efficiency into the value chain
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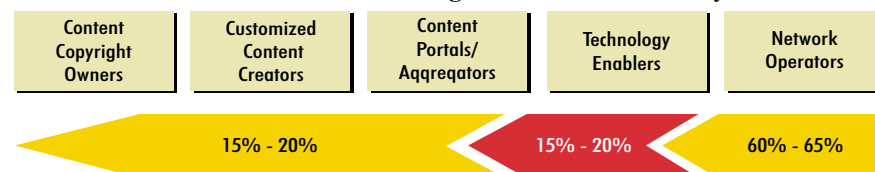
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MP 2500 - a combination of standard hardware and OGL software - is technology and handset neutral
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BUSINESS MODEL

OnMobile has a revenue sharing business model through which it receives a portion of revenue generated by its carrier customers like Vodafone, Bharti-Airtel etc. from their end-user subscribers. This enables it to earn recurring revenue over a long-term period and to share the benefits of growth in its carrier customer's subscriber base and increased usage of its services. Telcos are increasingly focusing on providing more and more value added services to retain their subscribers which in turn would directly benefit OnMobile, since it has a tie up with all major operators like Vodafone, Bharti etc.

For e.g. If a subscriber pays Rs.30 p.m. for ring-back tones, then 20-25% (on an average) goes to companies like OnMobile which provides such value added services.

Below is the traditional revenue sharing model for the Industry.



Source: Company

However the revenue share depends on various factors including the relationship with the operator and bargaining power with the operator. Also out of the total contracts with various operators, in 50% of the contracts the company performs the role of a content aggregator. In these contracts, OnMobile enjoys a higher revenue share.

POSITIVES FOR ONMOBILE

A. Technology platform- Competitive Advantage for OnMobile

At the core of OnMobile's (OGL) offering to telecom operators is a platform named MMP 2500 - a combination of standard hardware and OGL software - which is technology and handset neutral. Leveraging on this platform, OGL provides a range of services such as ringtones, information, RBT, and m-commerce to telecom subscribers.

The multimodal platform – MMP2500 – serves as the core platform on which all of OnMobile's application products operate. It allows service providers to deliver various applications across multiple delivery modes (such as voice, SMS, MMS and WAP), using a single platform and thereby cutting operating and capital expenses.

MMP 2500

Imagine an end-user using a simple VAS-like ring tone download. He can interact with system at the carrier's end (i.e., input his choices and receive output) either by typing in text, browsing through the graphics or simply giving voice-based commands. Hence, a service provider should provide VAS through all interaction channels to maximize its VAS revenues.

However, providing a VAS with multiple interaction options is difficult. Network operators must have appropriate platforms in place that support the delivery of applications across different delivery modes.

The delivery mode aspect becomes more complex in markets like India with many languages. A service provider thus has to support multiple modes across all the different languages. If a service provider were to put in different operating platforms for different modes (i.e., a platform each for voice, data and graphics), this would not only add to cost but also significantly to operational complexities.

Therefore the MMP 2500 provides a platform that solves the various integration issues which are involved in providing various VAS services across modes and across all languages.

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OnMobile has a proven track record of coming up with innovative products, which places the company far ahead of competitors
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Cross Operator Presence gives OnMobile an opportunity to have wider reach and also cross sell its products.
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B. Innovation is the key

OnMobile recognizes that, to survive in this business, constant innovation is critical. OnMobile has a proven track record of coming up with innovative products, which places the company far ahead of competitors. This has helped the company to increase market penetration for its clients and drive strong revenue growth. Through organic as well as inorganic growth strategy the company has launched various new products, which have generated interest amongst its customers.

Year	Innovative Products launched
2002-03	Platform - Voice Portal 1.0 (English), Ring Tones, Infotainment.
2003-04	Indian Languages Model (3 languages), Ringback Tones ('RBT')
2004-05	Support for more languages, Ticketing (Railways, Movies)
2005-06	Pricing innovations: Subscription, Not Enough Funds; Multimodal Support including SMS, WAP, Multi-language WAP
2007-08	M-Search (Voice & SMS), M-Radio, RBT: Press * to copy, Mobile Investor
2008-09	AdRBT, Phone Back up
Source: Company Annual Report	

AdRBT is one such innovative product launched by the company, which is in a trial phase. This product is launched on the Ringback tone. An AdRBT allows an advertisement to be played instead of a ringback tone. The company believes that this product has huge potential. It has tied up with GroupM, which is the largest media buying entity in India. This company will be providing OnMobile, access to its clients. GroupM is believed to have the largest client based of advertisers in the country.

C. High Entry Barriers

Service deployments of OnMobile with its major carrier customers involve complex hardware systems and software applications, which are deeply embedded within the carrier's network infrastructure and integrated into the carrier's core network systems. In order to manage, maintain and operate the software applications provided to its customers and integrate them into their joint product planning and new service deployment processes, there is a high degree of collaboration between the IT systems of telecoms operators and the VAS service provider. At the same time the VAS service provider needs expertise to develop such applications. This requires investments in research and development and IT systems. This therefore makes it difficult, time-consuming and expensive to change the VAS provider frequently, thereby leading to high entry barriers.

D. Cross Operator Presence

With its innovative product suite, OnMobile has established market leadership in the highly fragmented Indian VAS industry, garnering a market share of around 25%. The company has successfully developed strong customer relations with top mobile operators in the country like Airtel, Vodafone, BSNL, RCOM, Idea Cellular, and Aircel. Its products reach over 95% of India's mobile subscriber base through various telecom operators. OnMobile also has agreements with major foreign operators through various product offerings. Its foreign client list includes telecom carriers like Vodafone, Hutchinson Telecom, SingTel, Yes Optus, Mobilink and Ufone among a host of other operators. This gives it an opportunity to have a wider reach and also cross sell its products. OnMobile also benefits from healthy customer relations with multi-country operators like Vodafone. The company is in talks with several Vodafone international entities to deploy its products overseas.

E. Managed Services

OnMobile offers its customers end-to-end turnkey solutions and manages them on an outsourced service basis. These end-to-end solutions include hardware and software platforms, application development, infrastructure management and customer support, including software maintenance, hardware support and help desk services.

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**Organic as well as Inorganic
expansion has enabled
OnMobile to strengthen its
product portfolio and enhance
its technology platform.**
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Therefore by providing end-to-end solutions, OnMobile operates as a “one-stop-shop” for carriers and other customers that look for product, operational and marketing support. Since all the services are provided by OnMobile under one roof, the carriers are relieved of the tasks of pooling services from different VAS providers. Thereby, they can focus on their core activities.

F. Inorganic Growth Strategy

OnMobile has undertaken several strategic steps to transform itself into a leading VAS player. The business has expanded both organically and inorganically with a view to expand its geographic presence, service offerings, carrier relationships and technological expertise. The company has in the past actively been pursuing the acquisition strategy either to strengthen its product portfolio (Voxmobili) or for enhancing its underlying technology platforms (Telisma).

Acquisition of ITfinitly –December 2006

OnMobile acquired a 51.0% stake in ITfinitly Solutions, a mobile technology software specialist, in December 2006. Further the company has also entered into a merger-cum-share purchase agreement with ITfinitly’s promoters and acquired the remaining 49.0% stake in May 2007. ITfinitly is a mobile technology software specialist based in India with an expertise in developing mobile data products (On Device portals). The acquisition has enhanced OnMobile’s software, hardware and program package offerings.

Acquisition of Voxmobili-July 2007

OnMobile acquired 100% of France based Company named Vox Mobili for consideration of Rs.1430 mn. This acquisition has strengthened OnMobile’s VAS data products offerings and has accelerated its leadership position within the global Telecom VAS industry. The acquisition adds a number of impressive international customers to OnMobile’s customer portfolio. The current list of Vox Mobili customers includes Orange, Cingular-AT&T, France Telecom, T-Mobile, Wanadoo, Turkcell, etc. In addition, the acquisition augmented OnMobile’s current domain and technology competence.

Products of Vox Mobili

Vox Mobili was founded in 2000 by 2 French entrepreneurs, Eric Vielleveigne and Nicolas Frattaroli. The firm has operations in Europe, North America, Middle East, Australia, and Eastern Europe. Vox Mobili’s core products center around synchronized address book and advanced phone backup wherein cell phone users can backup all their personal data including calendar and contacts onto a secure network-based server, and mobile paparazzi wherein cell phone users can publish information, photographs and videos directly from their phones to website and mobile sites. Vox Mobili has over 21 platforms deployed worldwide, and has issued over 20 million licenses for their products globally.

Acquisition of Ver Se Innovation – October 2007

OnMobile acquired a 51% stake in Bangalore-based software company Ver Se Innovation for Rs.22m on 26 October 2007. The main objects of Ver Se include carrying on the business of designing and developing vertical search services on mobile devices.

Acquisition of Telisma-May 2008

OnMobile acquired 100% of the leading European Speech Recognition Company, Telisma in May 2008 for consideration of Rs 840 mn. Telisma is a leading provider of software speech technologies. Telisma’s core products centre on language processing software used by telecoms operators and enterprises for simple interactivity with voice portal applications and customer care. The addition of Telisma’s standards-compliant speech recognition products and expertise will enable OnMobile to accelerate its penetration into fast-growing emerging markets by developing new speech-recognition language models.

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Most of the contracts with customers are on a non-exclusive basis.
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RBT is expected to remain as the primary driver for revenue in the near term.
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The strategy behind acquisition of Telisma was to achieve differentiation. One important advantage is that Telisma product is architected in such a manner that newer language model can be developed without much difficulty. With a large part of future growth in the mobile subscriber base in India expected to come from rural areas, the company's competitive strengths lies in its initiative to develop new speech recognition language models. A voice-based access platform is particularly useful in providing VAS to subscribers, who are not comfortable with the SMS channel due to reasons of literacy and are more comfortable accessing a service in their local language. This technology would enable quick and easy access to mobile applications and content, and also strengthen OnMobile's mobile applications product suite.

KEY CONCERNS FOR ONMOBILE

A. Non exclusive contracts with customers

Most of the customer contracts are on a revenue sharing basis and the company would generate revenues only if the company's end-user subscribers use or subscribe to the services offered by them. As a result, revenue is subject to uncertainties that are beyond its control, such as market acceptance of its products, the pricing of the services, product placement and marketing and promotion activities conducted by its customers. Also most of the contracts with the customers are on a non-exclusive basis. The customers may purchase similar services from third parties. Even if the customers retain the service, the customer contracts do not prevent them from significantly reducing the level of marketing or promotion of OnMobile's applications. Any of the foregoing may result in the loss of future revenue for the company.

B. Constant innovation

One of the advantages for OnMobile has been its constant innovation. Therefore going forward as well the company will need to constantly develop new and innovative products and solutions. Inability to innovate new solutions acceptable to the market could affect its future growth.

FINANCIALS

Revenue

The revenues for OnMobile have grown from Rs.826 mn in FY06 to Rs.2618 mn in FY08, thereby registering a CAGR of 78% during the period. This was mainly on the back of increasing subscriber base of its existing carrier customers, introduction of new features and functions in the existing products, launching of new and innovative products and services which have generated interest amongst its customers. The company currently enjoys market share (excluding the share of revenues from P2P SMS) of around 25-30%.

Through acquisition of Voxmobili and Telisma, OnMobile has expanded its international presence. The company has increased its share of international revenues to almost 16% in FY08. Going forward as well, as the company intends to expand its international presence by launching its products and services with international carrier customers at new locations. In addition, revenues from Voxmobili are also expected to boost the international revenues for the company.

Currently, ringback tone (RBT) and Voice portal forms almost 85% of the company's revenue mix. Although RBT is expected to remain as the primary driver for revenue in the near term, the company believes that as the markets evolves and there are higher powered handsets, it would then launch more-and-more data services and GPRS based services. This in turn would alter product mix in the future. Also since RBT depends on call volumes, the company is launching new and innovative products on RBT in order to capitalize on the increasing call volumes.

Going forward we expect, the company to register a CAGR of 42% from Rs.2618 mn in FY08 to Rs.5294 mn in FY10.

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”

“
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”

Revenue Model

	Rs. Mn			
Particulars	FY07	FY08	FY09E	FY10E
Mobile Industry Revenues	596252	827853	1001085	1166636
Value added Service (Vas) Revenues	38344	57708	79928	104997.2
Vas Revenues as % to Mobile Revenues	6.4%	7.0%	8.0%	9.0%
P2P SMS	17262	25641	32509	41999
Addressable VAS Market	21082	32067	47419	62998
Market Share for On mobile	25%	25%	25%	25%
Addressable Market for OnMobile	5271	7953	11855	15750
Revenue Share	25%	28%	28%	28%
Domestic Revenues	1315	2212	3307	4394
International Revenues	15	406	677	900
Total Revenues	1330	2618	3985	5294
Int Revenues % to total	1.1%	15.5%	17.0%	17.0%
Growth in Revenues	61%	97%	52%	33%
Source: ACMIIL Research and Crisil				

Content costs and Employee costs form more than 55% of the cost.

Content fee and Employee cost are the two most important component of cost for OnMobile. Content cost represents the royalty paid to the content owner by OnMobile for the content obtained from them. The content fee and royalty cost have been increasing over the past few years as a result of increased content sourced by OnMobile for its expanding business. Going forward we expect content costs to increase to 11% of revenues and remain at this level for the next two years.

Employee cost is major cost accounting for almost 40% of the total expenditure. Going forward as well, we expect the employee cost to remain at the same levels considering the consolidation with Voxmobili and the increasing scale of operations.

Capex and Cash Flows

The company has capex plans of Rs.600 mn for FY09 (15% of revenues for FY09). The bulk of this will be spent on computer and electronic equipment that is used to enable the VAS applications. At the same time, OnMobile is generating sufficient cash from its operations to meet its future capex requirements. The company's balance sheet is also debt free. Going forward as well, we believe that the company will continue to generate healthy cash flows and we expect the capex to be at 20% of revenues in the near future.

Valuation and Recommendation

Going forward we believe that the company's revenue will be able to register a 42% CAGR during FY08-10. This is mainly on the back of rapid subscriber growth in the telecom industry along with the increased penetration of VAS services. At the same time technology platform and constant innovation acts as a differentiator for the company. The company also has cross operator presence, which gives it an opportunity to cross sell. The company is financially very strong and has a debt free balance sheet.

Since OnMobile Global Ltd has made huge investments in technology, we have valued the company using price to book value multiple. Also due to various acquisitions made by the company, we have adjusted the book value for the goodwill arising on consolidation. Therefore on assigning the a Price /Book Value multiple of 2.2 (which is consistent with the valuation of foreign peers) to the FY10E book value of Rs.104.1, we arrive at a target price of Rs.234. At present the stock is trading a price of Rs.204, we initiate coverage on OnMobile Global Ltd with a “**BUY AT DECLINES**” recommendation.

Earnings Summary				(Rs. Mn)
Particulars	2007	2008	2009E	2010E
Net Sales	1329.7	2618.2	3984.9	5294.1
Total Expenditure	719.8	1569.8	2571.7	3341.4
Operating Profits	609.9	1048.4	1413.2	1952.8
Other Income	43.4	74.7	159.4	185.3
EBDIT	653.3	1123.0	1572.6	2138.1
Depreciation	142.9	255.6	403.0	535.0
EBIT	510.4	867.4	1169.6	1603.1
Interest	0.2	17.1	0.0	0.0
PBT	510.2	850.3	1169.6	1603.1
Taxes	167.5	247.2	340.4	466.5
Net Profits	342.7	603.1	829.3	1136.6
Growth in sales (%)	60.9%	96.9%	52.2%	32.9%
Operating Profits Growth (%)	29.4%	71.9%	34.8%	38.2%
PAT Growth (%)	38.3%	76.0%	37.5%	37.1%
Operating Profit Margin (%)	45.9%	40.0%	35.5%	36.9%
Net Profit Margin (%)	25.8%	23.0%	20.8%	21.5%

Source: Company Annual report and ACMIIL estimates

Sources and Application of funds				(Rs. mn)
Particulars	2007	2008	2009E	2010E
Sources of Funds				
Share Capital	36.5	574.1	577.7	577.7
Stock Options Outstanding	0.0	1.4	1.4	1.4
Reserves and Surplus	1990.2	5535.5	6364.7	7501.3
Total Shareholders Funds	2026.8	6111.0	6943.8	8080.4
Deferred payment Liability	0.0	278.6	60.0	60.0
Minority Interest	13.9	0.0	0.0	0.0
Net Deferred Tax Liability	29.9	39.3	59.2	86.4
Total Capital Employed	2070.5	6428.9	7063.0	8226.8
Application of Funds				
Gross Block	580.6	1335.2	1935.2	2985.2
Less: Accumulated Depreciation	288.4	539.9	942.9	1477.9
Net Block	292.2	795.3	992.3	1507.3
Capital Work in Progress	42.9	113.4	164.5	272.0
Goodwill	204.8	1367.9	2067.9	2067.9
Investments	1018.2	3193.7	1943.7	1943.7
Net Investment in Telisma	0.0	0.0	140.0	140.0
Net Current Assets	512.5	958.6	1754.6	2295.9
Total Assets	2070.5	6428.9	7063.0	8226.8

Source: Company Annual report and ACMIIL estimates

Cash Flow Statement				(Rs Mn)
Particulars	2007	2008	2009E	2010E
Pre tax profits	510.2	850.3	1169.6	1603.1
Operating Profit before WC Changes	611.7	1159.8	1762.6	2316.1
Cash from operations	348.0	549.7	859.4	1315.1
Cash from Investment activities	-1414.6	-3998.8	-328.0	-1050.0
Cash from Finance	1225.1	4663.9	-936.6	0.0
Total cash generated	158.5	1214.8	-405.2	265.1
Add: Cash acquired on acquisition	0.0	32.4	0.0	0.0
Cash at the beginning	53.1	211.6	1458.8	1053.6
Cash Balance	211.6	1458.8	1053.6	1318.7

Source: Company Annual report and ACMIIL estimates

Key ratios				
Particulars	2007	2008	2009E	2010E
Profitability Ratios				
Operating Profit Margin (%)	45.9	40.0	35.5	36.9
EBIT Margin (%)	38.4	33.1	29.4	30.3
PAT Margin (%)	25.8	23.0	20.8	21.5
RONW (%)	16.9	9.9	11.9	14.1
ROCE (%)	24.8	14.1	16.7	19.6
Per Share Ratios				
Earnings (Rs.)	103.8	10.5	14.4	19.7
Cash Earnings (Rs.)	147.2	15.0	21.3	28.9
Book Value (Rs.)	614.1	106.4	120.2	139.8
Adjusted Book Value (Rs.) #	552.1	82.6	84.4	104.1
Valuation Ratios				
P/E (x)	-	-	16.3	11.9
Cash P/E (x)	-	-	11.0	8.1
P/BV (x)	-	-	1.9	1.7
Adj P/BV (X) #	-	-	2.8	2.2
Capital Structure Ratios				
Current Ratio	1.7	1.4	1.8	1.8
Quick Ratio	1.0	1.0	1.1	1.1
Turnover Ratios				
Debtors Turnover (x)	3.0	3.4	3.1	2.9
Fixed Asset Turnover (x)	4.6	3.3	4.0	3.5

Source: Company Annual report and ACMIIL estimates #Adjusted for Goodwill on consolidation

Annexure I- Application Products

NETWORK BASED IN CALL SOLUTION – Applications that are deeply embedded within the carriers network infrastructure and integrated into the carriers billing and other core network systems.

A. Ringback tones

- November 2004- Had approximately 400,000 subscribers of ringback tones service when launched.
- 2005- Increased to approximately 2.4 million subscribers in 2005 with the launch of new feature which allows end-users to select songs using SMS
- 2006- Approximately 4.4 million subscribers in 2006 with the launch of auto dialer ringback tone product.
- 2007-, Launched another advanced feature, “Press-*-to-Copy”, for ringback tones products, the number of ringback tones subscribers to approximately 11.3 million.

B. Dynamic Voicemail and Missed Call Alert Service

- The missed call alert service is a messaging service, offering multi-modal alerts of a missed call or voicemail received when the handset is in use, turned off or when the user is outside of his or her coverage area.
- This service allows for users’ mailboxes to be managed dynamically and is particularly useful in countries where a majority of users are pre-paid.
- Additionally, the service enables users to quickly access their voicemail as they have the option to navigate and manage their voice mailbox using speech technology.

C. Voice SMS

The voice SMS application is a new short messaging service that addresses the limitations of conventional SMS messages such as character limitations and the lack of support for vernacular languages by using voice instead of text. The SMS application is easy to use and also provides flexibility to users by supporting multiple languages and enabling users to customize the duration of their messages. Users can also review their messages and re-record their messages, have the option of sending their voice messages during non-peak hours.

Voice Based Multi-Modal Portal, WAP and On-Device Applications

The on-device client software application is a handset-installed solution that leverages the capabilities of subscribers’ handsets by enabling data services and content to be embedded directly onto the subscribers’ handsets, so that subscribers can easily access and download data services and content instantly and without continuous network coverage.

The voice based multi-modal portal, WAP and on-device portal solutions consist of content-based applications which enable users to access and download a wide range of content such as ringtones, mobile radio, music messaging, information and entertainment content such as news, stock prices, sports updates or live commentary and user-generated content such as contests and auctions, find-a-friend and classified advertisements.

Interactive media solutions

Media companies such as newspapers, magazines, television broadcasters, radio stations and book publishers increasingly want their viewers, listeners or readers to interact with them and actively participate in their programmes using their mobile phones. OnMobile’s media solutions provide media companies with a unique access number and audience can send across their responses to these numbers, either as text or voice. SMS voting methodology followed in reality television programs like Indian Idol is an example of usage of such solutions. Revenue earned from the end-user subscribers is shared between the carrier, the media companies and OnMobile.

Mobile Commerce solutions

OnMobile offers complete mobile commerce solutions, which are as follows

- Mobile ticketing: OnMobile has tied up with PVR, Shringar Cinemas and INOX Leisure in 9 cities. Its solution lets users enquire about the tickets and book the same.
- Pre-paid recharge: This solution enables service providers offer their users the option of recharging their mobile phones anytime and anywhere.
- Bill payment: OnMobile has tied up with Airtel to allow users to pay utility bills from their mobile phones using credit cards.

Mobile Marketing solutions

This solution enables OnMobile’s customers to send messages to target consumers about promotions or product launches by OnMobile’s customers. The major advantage here is that OnMobile’s customers can select the right consumer pool out of OnMobile’s database and optimise their advertising budgets.

Annexure II- GLOSSARY OF TERMS USED

- Voice Portal-Voice portals are the voice equivalent of Web Portals, giving access to information through spoken commands and voice responses. Ideally a voice portal could be an access point for any type of information, services, or transactions found on the Internet.
- IVR- Interactive Voice Response (IVR) is an automated telephony system that interacts with callers, gathers information and routes calls to the appropriate recipient. An IVR system (IVRS) accepts a combination of voice telephone input and touch-tone keypad selection and provides appropriate responses in the form of voice, fax, callback, e-mail and perhaps other media.
- WAP- WAP (Wireless Application Protocol) is a specification for a set of communication protocols to standardize the way that wireless devices, such as cellular telephones and radio transceivers, can be used for Internet access, including e-mail, the World Wide Web, newsgroups, and instant messaging. While Internet access has been possible in the past, different manufacturers have used different technologies. In the future, devices and service systems that use WAP will be able to interoperate.
- P2P SMS-Person to Person SMS, the most common form of mobile communication apart from voice.
- P2A & A2P: P2A (Person to Application) SMS inclusive of messages sent by end users for contests & for seeking other information like news & updates; (A2P) Application to Person SMS inclusive of service push by enterprise service providers; Also include calls on IVRS for all other services like astrology
- Ringtone versus Ringback tones (CRBT)-Ringtone is the ring we hear when the phone rings, and ringback is what the caller hears while waiting for the call to be picked up.

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1. Analyst ownership of the stock	NO
2. Broking Relationship with the company covered	NO
3. Investment Banking relationship with the company covered	NO
4. Discretionary Portfolio Management Services	NO

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