



Spice Mobility Limited

Investor/Analyst Conference Call Transcript August 5, 2010

Moderator Ladies and gentlemen good afternoon, good afternoon and welcome to Spice Mobility's Q1 FY 2011 earnings conference call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference, please signal an operator by pressing "*" and "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ravi Sathe from Citigate Dewe Rogerson. Thank you and over to you Sir.

Ravi Sathe Thank you. Good afternoon everyone and thank you for joining on Spice Mobility's Q1 FY 2011 results conference call. We have with us Chairman of Spice Global Dr. B.K. Modi. Before we begin, I would like to add that some of the statements to be made in today's discussion maybe forward looking in nature and the Company cannot guarantee that these assumptions and expectations are accurate or will be realized, a statement in this regard in this concall invite was emailed 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 Dr. B.K. Modi to make his opening remarks.

B. K. Modi Good afternoon to all of you. It is my pleasure to have this opportunity to speak to all of you. Speaking of Spice Mobility, in the last three months, the company has moved forward in many ways apart from the process of reverse merger which is in its last stage of completion because we have

already received approvals from shareholders and creditors of the Company. We are now awaiting the approval from the court. I hope that the process of the reverse merger will be completed by the end of September. As far as the organization is concerned, yesterday we announced our new organization structure; we are now one integrated Company called Spice Mobility. We had a meeting with the top 100 people of the Group and the entire strategy was endorsed by all of them. We are on the verge of consolidating Spice Mobility as one Company. The results that will be seen by you for the period of July, August and September will be consolidated results which will include the businesses of VAS and Retail. You will then start recognizing the synergies within the three businesses which is difficult for you to see now because at present we are only publishing the standalone results of Spice Mobility which is the device business. Speaking of the device business, in the first quarter of 2010-2011, we have clocked a revenue growth of 33%. Though the revenue growth is 33%, the number of handsets we sold in the quarter was up by 65%. We have sold more handsets in relation to the revenue and our average selling price of handsets was less in this quarter which is normal. Our EBITDA growth was more than double, keeping in line, our brand expenses. This means that we had actually invested Rs 11.6 Cr on brand expenses for the corresponding quarter last year. If we align the expenditure for the quarter this year, it amounts to 16.9 Crore and then our EBIDTA growth is double. But then we have been influenced by a major brand expenditure of Rs 37.7 Crore out of which 20.8 Crore we will define as an exceptional item as these are investments that we made in three major tournaments. We were the sponsors and associate sponsors for the IPL T20, T20 World Cup and the FIFA World Cup. We see them as strategic events and did not want to miss the opportunity but you will see the benefit of this in the forthcoming quarters. As far as the combined performance of the group is concerned, we have clocked revenue in excess of 500 Crore in all the three businesses together; suggesting our businesses, especially retail, is moving quite well. For the Retail business, first quarter FY2011, we had revenue of 214 Crore against revenue of 142 Crore in the corresponding quarter last year. The revenue for Spice Digital

registered a growth of 10%, As far as our businesses are concerned, We are on the right track. We see the story coming together. The Spice Brand, is used, by the other businesses of VAS and Retail. We are in the process of creating a brand which in the future could be as strong as the mobile service brands like Airtel and Vodafone, this is our objective. In the future, you will see that the companies which are in businesses of service providing which is basically an infrastructure like Airtel and Vodafone. These businesses worldwide are becoming like utilities. In reality, the customer is more focused on what device he had and, what he buys from and what he uses. This is a big shift which is taking place globally and has been very evident in America with the launch of Apple. Today, if you see the Apple brand, it is stronger than AT&T, Vodafone in America. We are very bullish on our Company, we are in the right industry, at the right time and we see tremendous growth. So these are some of my initial remarks and I will be happy to answer your questions.

Moderator

Thank you. Our first question comes from the line of Hussain Saifi from CRISIL. Please go ahead.

Hussain Saifi

What kind of VAS applications do you see post the introduction of 3G networks? What are the kinds of applications which users will be availing of and which operators will be providing the users?

B. K. Modi

We have divided VAS into 2 categories. VAS1 and VAS2. 3G and WiMAX VAS is basically database related. The VAS which you see today, the 2G which is present is mostly based on voice and the second one is based on data that uses a different switch system. Once you have the technology database then you can put lot of things in one including voice because voice is also based on internet. So anything which is downloadable on the internet will be able to be used on the device and maybe more. The upcoming device will have many more features; There are a lot of areas to work on. As you are aware we are operating in Malaysia, Indonesia and Singapore and some other countries which already have 3G and WiMAX and have acquired companies in these countries, like CSL in Malaysia. We are marketing in

these countries and recently launched our phone there. On the 19th of this month, we are launching what we call is the 'PC Phone' in India. Most people do not understand the meaning of a smart phone. What it actually means is that whatever you can do on a PC, you will be able to do on this phone. So to simplify that and for customers to understand it we have renamed the smart phone to PC phone, launching a Spice PC Phone on the 19th of August and I hope you guys will be looking at it. To keep it simple you can say that whatever is available on your computers will be available on the mobile handset and more. Why I say 'more' is because the mobile can do a lot of other things because of the combination of technology where you combine a lot of things on data and voice together, whereas computers are mainly data devices and do not indulge on voice calls either.

Hussain Saifi

Has the sales for the dual SIM card phone declined?

B.K. Modi

Not really, in fact dual SIM phones are still selling reasonably well, in fact Nokia and the others are also trying to enter this market. Dual SIM has come into the market to stay because it gives people the flexibility of the service providers. As India does not yet have number portability, consumers will be bound with one number which cannot be changed. So dual SIM handsets have a tremendous advantage and with Indian people moving from one place to another, dual SIM handsets are here to stay. In fact we will see to it that 3G phones in India will also have the feature of the dual SIM.

Hussain Saifi

Can you give us some ballpark number on the kind of size of VAS market in India and the same number for Indonesia and Malaysia?

B.K. Modi:

We do have the numbers for VAS industry for most of these areas but unfortunately it is not available with us on-hand. What I would say is that there are three types of markets in VAS. First is Service provider driven which is already a billion dollar market, Second is device driven where applications, contents etc are pre-installed on the device, similar to the Apple model, iPad which does not support a SIM card, hence it is independent of an operator. It works via Wi-Fi but has a lot of VAS which is

installed on the device. Now the third type of VAS is the Retail driven VAS, VAS available through retail and online retail, where you can directly load a lot of entertainment and other applications on your handset. The VAS market is really growing and in the near future we see two areas in VAS growing exponentially, one is the infotainment market, which is basically related to information and entertainment and second is the utility market. Utility market is related to healthcare, education and banking. There is a huge potential of growth in the previously mentioned areas. At present, if you look at the total VAS market in India, in 2010, between voice, VAS and data, the voice market was about 608 million and data market is 372 million. I am talking about India because data is based on packet switch and voice is circuit switch. In the coming years, by around 2015, the voice market will grow from \$608 million to \$1.7 billion, and data market will grow from \$372 million dollars to \$1.6 billion. So today the market, which is around 1 billion will grow to 3.3 billion with an expected CAGR of 27%, 34% for data and 23% for voice. These are the present projections which have been done by McKinsey and some of the global consultants.

Moderator

Our next question comes from the line of Rमित Dugar from Religare Capital Markets. Please go ahead.

Rमित Dugar

I just wanted to understand the seasonality in your business. This quarter sequentially our revenues are down almost 28%. What has really led to that and secondly could you just provide the device run rate per month, how many phones are we selling per month?

B.K. Modi:

As far as the seasonality is concerned what happens is that in March end normally the companies sell large quantities to the distributors. So for the Company on the distributor level, there is seasonality, but on the retail level it does not matter. The stock with the distributor reduces in the next quarter. In our case, we had a distributor stock in March end, which has come down by nearly 2 lac phones. In short at the year end distributors pick up the stock, pushing the sales at a Company level. Many incentives given to the distributor and they dilute it over the first quarter. But one does not see that

at the retail level. For Spice Retail, our sales were at Rs 188 Crore in the sequential quarter, January to March 2010 and in this quarter April to June 2010 we clocked sales of Rs 214 Crore. In retail we do not keep stocks, so we sell whatever we get and we buy as we sell. What happens is that the phones are getting sold, but at the Company's account level, there is a difference, because of March end, the distributors pick up more phones and they sell it in the first quarter.

Rumit Dugar What is our current monthly run rate in handsets?

B.K. Modi: We have a target of 1 million handsets per month, but at present we are selling 600,000. What we are hoping is that as the next quarter picks up, we will expand to 1 million.

Rumit Dugar All right. My second question was on the distribution side. The last time we spoke you were suggesting that there is a lot of investment going into expansion or distribution network so where do we stand right now in terms of total distribution and how much have we added this quarter?

B.K. Modi: We do not distribute across the country currently. What we have done is that we have divided the whole country into seven zones and conducted fresh plans on coverage. We have already moved from the 30,000 to 45,000 counters, but that is not enough. Our idea is to move to 100,000.

Rumit Dugar In terms of the Company's EBITDA profile across your three businesses; Retail, Digital, the Handsets in terms of the profitability, could you share those numbers with us for the quarter?

B.K. Modi: I have already shared the number on the device business related to retail and VAS, VAS is EBITDA positive and up by nearly 10% and Retail is still a challenge. However we have become positive at the store level in this quarter to nearly 0.9%. Last year we made a loss at the store level around -1.6%. Also EBITDA at the Company level last year, we had a loss of about -9.4% and this year we are at -63% levels. We expect that by October this year we will breakeven as a Company on EBITDA. We have made efforts

and taken steps to increase the margins. We have special deals with suppliers and they are also recognizing our volumes offering us better margins. So we are improving margins and we hope that we will be positive as a Company by the end of the year.

Moderator Our next question comes from the line of Himanshu Shah from HDFC Securities. Please go ahead.

Himanshu Shah This particular revenue de-growth quarter-on-quarter, is this an industry wide phenomenon or this is due to de-stocking with distributors at the Company level?

B.K. Modi It is an industry wide phenomena and it will be more or less for different players and depends on the incentive structure they offer. But normally there is a correction, and I would say that it is somewhat an industry phenomena.

Himanshu Shah Okay and we were earlier guiding for a turnover in the device business of Rs 1800 to Rs 2000 Crore, so will you maintain that kind of guidance?

B.K. Modi Yes, we are maintaining that. In fact we are quite comfortable that we will be able to do that because we are doing two things. One, as we have said is that we are increasing our distribution substantially and secondly we have increased our product range and we are coming up with new products. We are also launching our PC Phone, which I just said is the new nomenclature we have given to a smart phone because people do not understand what a smart phone is. So we will not follow the international nomenclature. We want a simple nomenclature for India and we said we will call it a PC phone.

Himanshu Shah With the upcoming 3G launch of services how ready are we with 3G kind of devices to sell in the market?

B.K. Modi Well as I said we are launching our new 3G devices and the full range of PC Phones on the 19th of August. The PC Phone is also 3G enabled. We are ready before the service provider. We have also created a Company, called

Spice Labs, which is totally focused on creating products based on 3G and mobile internet. Spice Labs has been working for the last two years and you will be glad to know that one of our gaming products in Blackberry is free to use and stands as number one in the world. So we have already been developing products for Blackberry and others and we have been developing products for mobile internet as well as for the mobile. We now will be making products by keeping in account of the upcoming 3G networks. We have been waiting for this for last two years with substantial investments made during this period because 3G got delayed. We were hoping that 3G would arrive last year but nevertheless we are ready for 3G / WiMAX to come with a lot of products both in terms of device and VAS applications. The real organized retail comes into play when 3G will be introduced because the customer will look at mobility and mobility is all about 3G, not about 2G; 2G is mobility one as we call it. Mobility 2, which is the real mobility, is based on 3G, in terms of device, networks, VAS and applications.

Himanshu Shah Okay what was the average selling price during the quarter and how has it changed year-on-year and basically when we compare our pricing on similar models with the competitors like Nokia or Samsung what would be the pricing differential?

B.K. Modi Firstly, the prices are declining all over, so Nokia is reducing their average selling price and so are we. Our price ASP has moved from an average of Rs 2200 last year to Rs 1900 till this quarter. The 3G market will emerge soon and this trend will reverse once the 3G phones are fully launched. I won't compare our pricing with Nokia, but we give consumers more features at competitive price. The people are keen on features, even people who do not have the budget to buy expensive phones, look at a lower price device with more features and this is what we are focusing at.

Himanshu Shah Okay and what would be the pricing of 3G phones like for the PC phone that we are planning to launch on August 19th?

- B.K. Modi** Please excuse me I cannot disclose it. Though you will soon find out on the 19th of August
- Himanshu Shah** No issues, but just some general guidance on 3G handset pricing, will It be like below \$100 dollars or above \$100?
- B.K. Modi** It will certainly be below \$100 dollars though not in the beginning but over a period. At the moment, 3G is really doing well in China and in many other countries. 3G was launched rather late in China as well, so 3G has been delayed in Asia altogether as big numbers are contributed by Asia. Unless 3G becomes progressive in Asia, prices won't reduce as prices are quite high in the American and European market. I expect that 3G in India, will have better pricing and a lot will depend on how the service provider will react and make their services more popular. In many countries they also bundle it to make it cheaper, but they subsidize the device price, what will happen here is yet to be seen. At present I will not comment on how much it will cost in the hands of the customer.
- Moderator** Our next question comes from the line of Tejas Sheth from Darashaw & Company. Please go ahead.
- Tejas Sheth** Hello Sir, my question is based on the digital business. Have you launched any new application in VAS service last quarter and what are we planning to in the coming quarter?
- B.K. Modi** We launched two to three products, which have been very successful. One of them is a Live Aarti product where we roll out pan India with multiple operators covering shrines like Tirupati, Siddhi Vinayak etc. All of them becoming popular in a short span of time. We have also made USSD services for large bank which is a live streaming application with multiple operators for exclusive banking like enquiry services and allowing mobile top ups. We developed a host of embedded application for our new PC Phone, which are preloaded and, content bundle through the service arm of the device. So from the service side you can bring it to the device side. As a

pipeline on the side of VAS we have now started going beyond India and started offering our mobile radio in Nigeria and commenced operations in Nepal, Iraq, Tanzania and many countries. We also focus on taking our VAS to a global level. We had not done that, some of our competitors did it. Though we are a bit late we are catching up very fast.

Tejas Sheth We were planning to enter new countries on the handset market. Where do we stand there?

B.K. Modi We have already entered the Asian market, we have also entered Uganda and some of the African markets. So we have made an initial beginning with Africa and ASEAN countries. We are already number two in Nepal, after Nokia, and we have also launched our products in Bangladesh.

Tejas Sheth How many handsets have we sold this quarter?

B.K. Modi The total number of handset which we sold was more than 1.33 million.

Tejas Sheth How much of that came outside India as sales?

B.K. Modi About 5%.

Tejas Sheth How much more brand building expenses are we are going to incur this year like what we incurred in this quarter of around 20.8 crore?

B.K. Modi We will incur about 9% of the total revenue, as a brand building exercise for the year and this quarter we spent around 16% of our revenue which was on the higher side and is already explained to you earlier.

Tejas Sheth Anymore of these kinds of expenses, because you have shown exceptional items so any of those kinds of large expenses?

B.K. Modi Well these are three major tournaments, which happened once in a while.

Tejas Sheth Are we signing any new celebrity?

B.K. Modi We have already signed Sonam Kapoor; now Sonam Kapoor represents our Company and she is well liked by the young people and we are lucky in a way because when we signed fresh faces, they became popular hits like Priyanka, she became a hit, we signed Katrina she became a hit and now we signed Sonam and you see in the last few months she has become popular too. So we have an eye for signing our brand ambassadors.

Tejas Sheth Can you give me the EBITDA and PAT numbers of digital and retail business?

B.K. Modi For Spice Digital our EBITDA is Rs 15.9 Crore and PAT is Rs 10.1 Crore. In the retail we have an EBITDA loss of 14 Crore and PAT loss of 18 Crore. But, one thing I must tell you is that in retail, we will have an advantage of the past carry forwards losses once we become profitable.

Tejas Sheth What will be the accumulated losses? Do you have any number off hand?

B.K. Modi We have about 200 Crore of accumulated loss in our Retail business.

Tejas Sheth Okay so at a consolidated basis when annual accounts are published there would be a write back on the provision which we made for this quarter in Spice Mobile handset business?

B.K. Modi What we want to say is that Spice Retail is separate Company which has accumulated losses on its B/S. As we plan and expect the Retail business to turn profitable, our future profits will be tax free for around the next two to three years.

Tejas Sheth Okay, thank you.

Moderator: Thank you. The next question comes from line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: Could you tell me what percentages of your revenue is coming from the value-added services?

B.K. Modi The total revenue from the VAS business in this quarter stands at Rs 45.4 Crore, but it has high EBITDA margins which were around 33% for the quarter. We plan to have an EBITDA margin of 10% for the device business. In retail we will have 5% plus and in digital VAS we will have 30% plus.

Grishma Shah: And the focus would be on the handset business?

B.K. Modi Our focus is to grow all the three because they are interdependent and some time back I gave an example of Apple, so Apple has emerged as a device company with a strong retail and VAS as support systems.

Grishma Shah: Are you primarily working with all the telecom operators in India?

B.K. Modi Yes we are operating not only in India but also outside India.

Grishma Shah: Your revenue model would then be based on the licensing fees or how does it work?

B.K. Modi It is based on revenue share. We have also started working with the device people and will be working with individuals from retail.

Grishma Shah: So the device you give them, is it with the in-build application?

B.K. Modi Yes.

Grishma Shah: Okay and there also you will have revenue share with the number of devices sold?

B.K. Modi Yes, something like that.

Grishma Shah: Thank you.

Moderator Thank you. The next question comes from the line of Divyesh Shah from Pragma Equities. Please go ahead.

Divyesh Shah Our nearest competition is from a local brand called Micromax. How will you compare our figures with Micromax or how are we different from Micromax, any differential setup from Micromax?

B.K. Modi Micromax is only a device company and worked with major people in China. Micromax became like their distributor. What they do is that they pick products from two major companies in China and work as their distribution arm and an Ambassador brand in India. What we do is something different. We are a more holistic company where we are working in all three businesses i.e. device, retail and VAS. We are working with the masses too. We work on the designing side and work in close tandem with our vendors through our own design houses. We have created products also in Singapore so we are a global Company that does not serve India alone. We are equipped with a full fledged innovation center through the company that we acquired in Singapore. They compete with our mobile business certainly but I do not see them as a competitor to the total mobility business and over time we will go deeper in the industry. We are building devices with our own VAS in tandem our retail chain of Spice Retail. So there are many things and areas which we can explore, similar to what Nokia & Apple have done which at present is not possible for them. We are competing with ourselves and with Companies like Nokia.

Divyesh Shah What is our total debt on the balance sheet work and total net cash in the balance sheet as of today?

B.K. Modi Zero debt.

Divyesh Shah Zero debt and what will be the net cash?

B.K. Modi Net cash would be about 120 Crore.

Divyesh Shah Are we planning for some IPO of Spice Digital and when are we expecting this?

B.K. Modi We first want to complete the reverse merger, we don't just want to do an IPO for VAS. We are looking for acquisitions and mergers in this space before an IPO. Currently we are in talks with some VAS companies who want to merge with us. Post all these activities we will look for IPO. We want to make Spice Digital a global Company. It is too early for us to make it an IPO. The real potential is yet to arrive.

Divyesh Shah Okay thank you very much.

Moderator Thank you. The next question comes from line of Vikram Mahajan from Bay Capital. Please go ahead.

Nikunj Joshi This is Nikunj Joshi here. How do we develop this technology for mobile phones, do we outsource that from some of the group companies. We do it in-house and how do we account for that development expenses?

B.K. Modi We have a company in China. We work with them and they outsource it for us. They work with major Chinese vendors and other players. In India, we have Spice Labs on the VAS side, and develop software for us. Currently it is more like a cost center; hopefully it will become a revenue generator once 3G products are launched. So we are doing a lot of work in both, India and outside India. At Singapore we have created an innovation center where we have just developed a product which we have launched last month. It is called S-unno, a VOIP based product and we feel that it is better than Skype. This is a VAS product that we plan to launch in India by the end of August. We are already developing several products for the mobile internet space. Our strategy is about being a long-term company preparing our company for the mobile internet space. Unfortunately, the rollout of 3G and WiMAX have been delayed but nevertheless now they are here and whatever work preparation we have conducted will become fruitful now once the 3G environment is operational. In the meantime we started operations in Malaysia and we launched our first Spice phone in Malaysia which is very well accepted in the Malaysian 3G market. We have already gained experience of 3G operations, so when 3G and WiMAX arrive, We will be

the only Indian company with those features for the 3G and WiMax service providers.

Nikunj Joshi And do we capitalize or write off all this technology development expenses in the same year?

B.K. Modi We write off.

Nikunj Joshi Are there any group companies which are not part of the listed entity or which will not be part of the listed entity in the same business globally or are rather doing work for a listed entity in India?

B.K. Modi We have two listed companies, one in India and one in Singapore. Our Singapore companies called Spice i2i. i2i stands for innovation to infinity and Spice mobility, in India, SPICE stands for Synchronized Performance through Innovation in Communication and Entertainment. So we have two public listed companies. We do not have any private companies as such. There are some at the group level in the Mobility business.

Nikunj Joshi What percentage of Spice Retail revenue comes from Spice Mobiles or own mobiles?

B.K. Modi At present Spice Mobility share for retail is about 5% and we hope to increase it to 14%. Spice Retail's average selling price is Rs. 4000 per device while Spice Mobility is close to Rs 2000 this means that we need to sell higher end phones. Spice Mobility does not have high end phones and are selling more at the low end. We are launching the higher end phones which we will call the PC phones. We estimate share of Spice Mobility in Spice Retail will increase to 14% - 15% for the current 5% - 7%.

Nikunj Joshi When do we expect the Retail business to be PAT positive?

B.K. Modi We are trying to be EBIDTA positive by October this year and PAT positive by next year.

Nikunj Joshi Have we stabilized the production of the Baddi plant?

B.K. Modi Yes. We have started with one line and we will scale it up to five fully fledged operational lines manufacturing devices there.

Nikunj Joshi Okay, thank you very much sir.

Moderator: Thank you. The next question comes from line of Dipesh Mehta from Khandwala Securities. Please go ahead.

Dipesh Mehta I just want to understand the competitive scenario where we have strong presence in the North and South. What have we seen in last six or eight months and the newer market, we experiment the kind of competitive pressure in our market share?

B.K. Modi We have a strong presence in Northern India both in terms of devices and retail. But now as I told earlier, we have divided the entire country and created seven zones. The seven zones, to which we connect with over 57 cities, take care of nearly 80% of the market, so we are creating the seven zone base and at present we are very active on three or four. We have a long way to go.

Dipesh Mehta: On volume number device sold during the month or quarter in markets, are we seeing any kind of slowdown because of new players coming at different price points, what is our experience about new markets which we entered recently?

B.K. Modi We have retained our market shares but not able to grow very fast. Our share has reached 15% to 16% in many areas. We are growing by 1%-2% in markets which are totally new for us. We hope to achieve at least 5% of market share by the end of the year.

Dipesh Mehta: Okay and about our retail plan. How many stores we have by the end of quarter?

B.K. Modi We have 750 stores across the country with a strong presence in Delhi where our EBITDA is already 2% with more than 200 stores. With respect

to our retail business we are dominant in Delhi, Rajasthan, Punjab and other northern cities. We also bought a company last year in Bangalore which is now doing well. We are also doing well in Calcutta as well. The three main areas, where we are focusing now are Chennai, Hyderabad and Mumbai.

Dipesh Mehta: Thank you.

Moderator: Thank you. The next question comes from line of Amin Pirani from Deutsche Bank. Please go ahead.

Amin Pirani: You mentioned in your presentation that you intend to increase the capacity of Baddi plant from 1.5 lakh amount to 6 lakh handsets a month, what is the kind of CapEx that you will be spending for that?

B.K. Modi About Rs 25 Crore.

Amin Pirani And would that get done by the end of this year?

B.K. Modi Yes. The building and structure for all the five lines is already in place. Installation of lines is the only thing that is pending.

Amin Pirani Did you mention that the price point for 3G phones could be below \$100 when you are able to launch 3G phones in India?

B.K. Modi I said that over a period of time, the price of 3G devices would come below \$100. We already have 3G devices as a part of our portfolio and as I said, we will launch the 'PC phone' on the 19th of August for the price of what you can only wait to find out.

Amin Pirani That is the PC phone, right? When the phones with 3G are launched in India, I am sure that you also would have a lot of products lined up; some may be high-end, and some may be low-end, on an average what kind of price point can we look at for 3G phones in India?

B.K. Modi At present I would not be able to give you a correct figure as at present we are not aware of the service provider's strategy. They have also not declared

their strategies in terms of bundling the phone. How will 3G operators get market from the 2G players is also not clear because if you look at the way the license has been allotted for 3G networks, Nobody got the license for the entire country, so whoever caters to the 2G market is affected in markets which do not have 3G networks. Some of them may try to protect the 2G market as well. For instance when Airtel shifts to 3G, 40% of Airtel customers who don't have 3g access phones may choose a different service provider so it might continue with 2G also. So the key is how people perceive 3G networks. There are unknown factors in Wi-Max too, which has come from Reliance. Mukesh Ambani is known for coming out with his own policy so nobody knows what he is up to. He is the only one who has got an all India license. So as far as 3G and WiMAX are considered, the situation seems dicey. But once it is present, we are going to win, because we are not competing in the operator sector, we are supporting the sector.

Amin Pirani

And you had launched VAS service of mobile radio in Nigeria and now that Bharti has entered Africa, so as an Indian company entering into Africa does it make it slightly easier for you to penetrate your VAS services in Africa?

B.K. Modi

Certainly, in fact Bharti has made their headquarters in Nigeria and that is why we are already there. We will be working very closely with Bharti and with other players. So Bharti is a good operator to start with.

Amin Pirani

Can you tell us which service provider is mobile radio available with?

B.K. Modi

We are doing this with most of the service providers.

Amin Pirani

You said that the sale of dual SIM phones have actually risen because of a delay in 3G coming into India, would it be fair that once when 3G finally comes in, would the attractiveness of a dual SIM phone go down or do you think that it will remain the same?

B.K. Modi

It will become standard. Now we have come up with dual memory phones with a most of the features and we keep adding products. So if any feature is successful after a while it becomes a standard feature. For example, Push

mail has now become standard feature in the high end segment. BlackBerrys initially launched it. So dual SIM is not the area of concern as we keep launching products as and when required.

Amin Pirani

Thanks a lot.

Moderator

Thank you. The next question comes from the line of Sanjay Chawla from Anand Rathi Securities. Please go ahead.

Sanjay Chawla

My first question is with so much VAS being preloaded or loaded on to the devices, are you seeing a trend where VAS developers are now directly willing to do business and doing business with the device manufacturers?

B.K. Modi

That is right. VAS Companies want to work with everybody who would like to work with them and we have the advantage because we ourselves have a device Company. The trend will continue as the newly emerging trend outside India is also about VAS going directly through retail outlets. You get downloads and many goodies at the retail store. In order to inform you we have recently launched five kiosks which are VAS kiosks in our retail stores and we are getting a good response. Our idea is to make that number 200. So these are the synergies within the 3 businesses which we have and this keeps us in a different league altogether.

Sanjay Chawla

Eventually when so much VAS is being loaded down to the device already, where the devices are coming preloaded, do you think there is a lot of room for retail driven products to grow?

B.K. Modi

Yes, these are different in different areas. You cannot pre-load everything, like music, videos, applications and games. New services which are present like mini transfers, education and a lot of products are going to be seen in the future. Everything can't be downloaded at one go and you would keep doing that once you have a device. Some applications may cost while others can be free. So devices itself is a market for VAS. Apple OS is a closed platform, but lots of players have an open platform like the Android OS by Google. An open platform OS can be used by anybody but closed can't, the

MAC OS is only used by apple. I believe that open platform will emerge as winner in the near future.

Sanjay Chawla

But compared to let us say downloading it from an App Store online versus buying it from retail, do you think retail may ultimately lose out in terms of distribution of VAS, in terms of both pricing and convenience?

B.K. Modi

The download on the device mostly happens in a high-end phone. India has a huge market for lower and middle end consumers. Retail has a huge role to play here and can offer products like memory and pre loaded chips. There is a lot of innovation in progress. If you look at the music industry they all survive together. You would watch a movie on TV, in the hall, on a flight, and now you can see the same movie on your mobile phone. What happens is that there is so much content that a mobile phone has become a content provider. So innovation and finding different ways of doing the thing is the key. In terms of a computer, you have a CD ROM and an in-built hard disk which is the memory. So the same way in devices you have one memory chip, which is like a hard disk and is embedded inside and is fully replaceable. There are a lot of things which will come, but basic is the fact that people are now accepting the principle that whatever you do on a PC can be done on a mobile handset. This is a very big change.

Sanjay Chawla

And also especially in terms of online applications and downloads because these operators are also opening their own App stores do you see a scenario where ultimately the advantage would again go back to the operators rather than the device manufacturers or people who are setting up online App stores?

B.K. Modi

In fact we help them and work with them on online app stores. There would be a lot of development areas in VAS and it will be a continuous practice debate on what can be put on the device. At present the device players in America are winning. In India it is the operators who are winning till now, but if you see who will be the most popular brand in five years, whether it is Spice or Airtel, it is everybody's guess.

Sanjay Chawla This Spice PC phone that you talked about, will this be your first 3G enabled phone or do you already have a 3G phone in your existing portfolio?

B.K. Modi We launched one in a smaller manner with MTNL. We were the first people to start with MTNL, but you know, MTNL is a PSU Company, so I would not call it a big launch.

Sanjay Chawla At what price did you launch it?

B.K. Modi That was not a full PC phone. It was a low end 3G phone because as required by MTNL, it was worth Rs 6000. The phone which we will launch now will be at a different price. The operators have invested money in 3G and we have to see how aggressive they are going to be. With the money they have invested, they have to be aggressive otherwise they would not be able to recover their investments.

Sanjay Chawla Thank you, Dr. Modi.

Moderator Thank you. Our next question comes from the line of Amit Vakaria from Angel Broking. Please go ahead.

Amit Vakaria This is Tej Raj on behalf of Amit. The handset on Spice Mobile is fully manufactured in-house or do we outsource also?

B.K. Modi No we outsource as well. We are manufacturing some of our popular models but we do both. We also manufacture in Malaysia through our sister Company.

Amit Vakaria So roughly how much do we outsource on the total handsets that we sell?

B.K. Modi At present we mostly outsource. However by the year-end we hope that more than 50% will be contribute by our in-house production.

Amit Vakaria So I believe this would be at our Baddi plant that we are setting up. Globally everybody has acknowledged that China is the manufacturing factory hub, so do we have a competitive edge to be a manufacturing factory now?

B.K. Modi China is very confident about its economy and they are independent of the global situation due to domestic demand. So they have promoted and encouraged manufacturers, allowing manufacturers to produce components jointly. In India, multinationals try to control it by restricting components suppliers to supply to others. Now if they try to do that the industry will not grow and may lead to saturation. Companies like Nokia are coaxing their suppliers to be 100% loyal and restrict supply of components to Nokia only. Due to this the industry seems more lethargic. In China, every manufacturer is free to supply to anyone they wish, there is no proprietary right as such. That is why the Chinese industry has come up very well. India has proprietary issues and do not allow one manufacturer to sell to others. So what I am afraid of is that there is a lobby working, trying to restrict India from following China. Our current situation related to 'why can't India do it the same way China does'. There is no proprietary at a component level in India. That is a big setback.

Amit Vakaria Do you believe that there is an edge to us in India if we manufacture mobiles, can we still compete with China?

B.K. Modi Yes we certainly can, but the question is that unless we make components in India, which are supplied to everybody like we did in the case of Xerox, I created a component industry, which was open to everybody. Some companies tried to control the supplier of the components and that is where the issue lies. This is exactly what is happening today, just like how Nokia controls the suppliers. There is one area that is dedicated only to the Nokia manufacturing plant and all its suppliers

Amit Vakaria Lastly you mentioned you acquired a company in Singapore, what is this company involved into?

B.K. Modi This Company was basically into fixed Internet. It was a 'voice' Company and is now getting involved with the mobile world. This Company also had a lot of cash and through that company we acquired another company in Malaysia CSL, which is in the same business as Spice Mobility, i.e. device retail and VAS. They have 17% of the market share and Malaysia is already a 3G market. So we have tied up with that Company in Malaysia. The proprietor of that company is now Managing Director of the Company in Singapore. We have not only taken over the company; we have taken over its employees too, including the person who built that company. He is also the shareholder. He currently works as an MD and has a 7% share in the company.

Amit Vakaria Lastly over a five year period what kinds of total revenue do you see for Spice and can break it up in terms of handset and digital and retail?

B.K. Modi Well we have made a five-year plan, which we have given at the time of reverse mergers because we had to do that as a part of valuation.

Amit Vakaria Okay. Thank you.

Moderator Thank you. Our next question comes from the line of Amit Rathi from CRISIL. Please go ahead.

Amit Rathi When we are talking about a device runrate of 1 million can you give us a breakup of what would be the basic or how much smart phone in terms of percentage?

B.K. Modi It will change overtime. Initially the PC phone will be less because the 3G people have projected three years time to cater to 50% of the market. So a lot will depend on how 3G progresses as 3G rollout will take its own time. The fact that 3G service providers have indicated that they will do it over a period of time. 3G phones will continue their reign.

Amit Rathi Second when we are talking of PC sales growth what kind of 3G subscribers do you see by year-end say 2013 or 2014?

B.K. Modi There are projections done by 3G operators on the basis of which they have bid for. They are very optimistic, especially in big cities. If you go by the bid system which is based on the projection of the customers, Delhi and Mumbai alone virtually call for half of the market. Initially 3G will be in the seven cities which will constitute around 70-80% of the market and smaller cities will see 3G later. Therefore our sales numbers will depend on the numbers of the service providers, because unless the service is available, we cannot introduce a device.

Amit Rathi On the PC mobile, are we in touch with any other operators so that we can offer the bundle service?

B.K. Modi Yes, actually we hope to do the same. As I said, those people are getting their house in order and they have just started focusing on it because they are still getting out of what they had invested in. I believe that people will succeed because they will lose integrating on the stake that 3G and 2G will sell. The companies who will separate 3G totally from 2G are the one who are going to win. So we are in touch with them and one or two are showing interest.

Amit Rathi So this is on preliminary stage or is it an advanced stage?

B.K. Modi As I said at the time of launch they want to use it, it will depend when they are ready to launch and wait till then. They are also communicating with other players.

Amit Rathi When we are talking about the VAS market are you seeing any pressures because the mobile operators are already under pressure because ARPUs decreasing and ARPUs are declining because lot of low ARPU subscriber are coming in?

B.K. Modi Yes the pressure exists. That is why we have not been able to grow in terms of revenues. Over the years our revenue growth is only 10% while our activities have been much higher. Our revenue in percentage share has also dropped.

Amit Rathi Going forward how do you see the market? Is it improving or is it the same?

B.K. Modi We classify VAS in two categories. The first is called Generation One VAS (based on 2G). It is estimated that it will grow at a level of 25% over the next five years but not as high as it grew initially. However the second type of VAS which is Generation 2 VAS (3G VAS) that will grow very fast and it is estimated to be grow to about 80% to 90% as it is at a nascent stage so it is estimated that by 2015 the generation One VAS, which is 2G based will be around 3 billion from the current 1 billion that it stands at. 3G VAS which is zero now, will go to 2 billion. So by 2015 the total VAS volume will grow from 1billion to 5 billion, out of which 2 billion will be contributed by 3G and 3 billion from 2G. So the VAS market will grow substantially up to five times of the current level.

Amit Rathi And what kinds of shares are we are eyeing? What would be the Spice Mobile's share in this?

B.K. Modi We are trying to shift parameter from percentage market share to number of users. We will serve as we plan to fill a base of over 100 million users so we are now focusing on how many users we will have. We are changing the norms. At present the norm is based on service providers, service provider device and VAS. So now we are going to focus on the users. I feel we will

still be a major player as number one and number two in the domestic industry.

Amit Rathi After the introduction of Micromax, Karbonn, LAVA and all these handset players, how has your market share been affected?

B.K. Modi Still the dominant market share is with players like Nokia, Samsung, LG, Ericsson etc. We focus to get market share from them. At low end markets, these companies come in to compete with Chinese handset manufacturers. There is enough scope, as we eye a market share of 10% in totality. It is not that big a number, and very much achievable. As I said in some markets we have more than a 15% market share.

Amit Rathi Thank you.

Moderator Thank you. Our next question is a followup from the line of Divyesh Shah from Pragya Equities. Please go ahead.

Divyesh Shah What will be our total equity of Spice Mobility after the merger and what will be the promoters holding after the merger?

B.K. Modi It is 23.8 Crore number of shares and the promoter holding equity will be approx. 68%.

B.K. Modi Thank you.

Moderator Thank you. Our next question comes from the line of Yogesh Kirve from Anand Rathi. Please go ahead.

Yogesh Kirve Mr. Modi last couple of months we have seen even the large companies like Nokia and Samsung have launched our dual SIM handsets, just wanted your updates on how it has affected the market especially your company?

B.K. Modi Dual SIM is our selling point. It was two years back. Our devices have a host of features including 2 memory cards. Also to inform you, Nokia have not yet launched two-SIM phones in India. Nokia is becoming a standard.

Once it is established, it helps us because Nokia and other players had an advantage with the service provider because they were bundling their phone with a single SIM phone. Their numbers grew initially because of bundling with service providers. Once they introduce two SIM phones, they cannot bundle with the service provider. The reason they did not introduce this phone was not because there was no demand for dual SIM phones but they did not want to lose the market which they got via bundling phones with service providers. Once the bundling stops then the real game starts. Till then they have the advantage. For the past 15 years Nokia had an advantage over us because service providers like Airtel were bundling with them and we were not bundling with anybody. If you look at the real market share, our market is good, but because of the bundling, the total number of phones which were sold was much higher. So once they involve themselves with the two-SIM phone will amount to breaking their relationship with the service provider.

Yogesh Kirve

That was useful.

Moderator

Thank you. As there are no further questions I would like to hand the floor back to the management for closing comments.

B.K. Modi

Thank you friends. I really enjoyed answering your questions and I hope you enjoyed the answers. We are very bullish on the company. We are stepping ahead with our plans to take it to the next level. We also hope that you see the consolidated balance sheet of Spice Mobility in the next quarter. We are working towards it and would be happy to meet you with the consolidated balance sheets. I would like to add that we are planning an AGM of Spice Mobility at the end of September and I would like to invite all investors and analysts, creating an investor mela so that we plan a program where we would invite all the investors and share our knowledge about the industry we are in. I feel the industry we are in is very exciting. It is a new industry which many people are not aware of. We endeavor to work with the investors so that they understand where we are coming from and where the industry is heading. We are very happy to keep engaging with you

continuously. For the September AGM, I invite all you people for our investor's mela and we plan to organize this and at that time we will be able to showcase our technology where you can actually feel the impact of mobility which we will have in the Indian society. Thank you very much.

Moderator

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