



Spice Mobiles Limited

Investor/Analyst Conference Call Transcript May 18, 2010

- Moderator** Ladies and gentlemen good afternoon, this is Rochelle, the moderator, for your conference call. Welcome to Spice Mobiles Limited investors and analyst conference. Please note that for the duration of this presentation all participant lines will be in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by pressing * and then 0 on their touchtone telephones. At this time I would like to turn the conference call over to Mr. Ravi Sathe from Citigate Dewe Rogerson; thank you and over to you.
- Ravi Sathe** Good afternoon everybody and welcome to Spice Mobiles Q4 and FY'10 Earnings conference call. Today we have with us Dr. B. K Modi, Global Chairman of the Spice Group and the Chairman of Spice Mobiles along with his management team. We will commence this conference call with opening remarks from Dr. B. K Modi, which will be followed by an interactive question and answer session. Please note that some of the statements made in this conference call may be forward-looking and note to that effect were sent out to you as a part of conference call invitation. I would now like to invite Dr. B. K Modi to share his perspectives with regards to the company's performance during the quarter and year ended March 31, 2010 and the opportunities going forward. Over to you Sir.
- B. K. Modi** Thank you. Good afternoon all the participants. I am very happy to talk to you over the phone. I believe you have seen the results, which have been sent to you as a presentation, which has gone out from the company. As you see the year under review, March 2010, the company has achieved sales of around Rs.1040 Crores with EBITDA of around Rs.109 Crores and PAT of nearly Rs.70 Crores. This is a major change from last year. As a Company we had a turnover of approximately Rs.545 and an EBITDA of Rs.2.2 Crores and a negative PAT of Rs.2.7 Crores last year. What has happened in the company is that in FY 2010 the company has moved forward with the introduction of a lot of new models and initially we were focused on a few states, now we are talking about the company on an all-India basis. We started with Northern India and now we are moving into the Southern part of India. The key point, which we have announced, is the reverse merger of Spice Televentures, presently the holding company, with Spice Mobiles. Through this merger we will create a company that will be ready to face the new mobile internet age. As you are aware, the world is moving fast with mobile internet technology and you would have seen the recent 3G auction where people have valued 3G at a very high value. This is keeping in mind that 3G network will form base of Mobile internet. This technology of mobile internet has already become successful in various parts of the world. There have been a few innovations in the past, the Internet revolution started earlier with the evolution of the computer

industry and various software industries which came into existence and internet became our way of life. Similarly we moved to Mobile Telephony. In the last 10 to 15 years the Mobile Telephony industry has become huge and has touched people from all walks of life.

Spice Group has been involved in the Internet revolution in India from the very beginning. We were the first people who brought the three and a quarter floppy disk drive computers through Modi Olivetti which could be connected at various locations in India via Internet. We were also the first to bring mobile services through our operation from Modi Telstra. We have seen and played our role during both these revolutions. But the third revolution, which is Mobile internet, is going to be the biggest of all. This is what people are experiencing and is reflected through the price of 3G licenses. If you observe, this revolution is basically started by companies like Blackberry and now Apple. Apple has a business model which has three prong attacks to capture the market. It is lead by the device; it also has VAS and retail. This is an integrated model. Within the mobile retail market, the customer will have a choice of the kind of device through which they can use all kinds of VAS including data, video, and voice. The consumer has to be educated in terms of getting these value added services not only in the phone, but with external support like pre-loaded memory cards which can be used for videos, music and other things.

This new integrated business model of device, retail and VAS together is what we are targeting and the reverse merger will make Spice Mobiles a unique company in the Mobile Industry. We are currently in the process of changing the name from Spice Mobiles to Spice Mobility, stated in a part of our presentation. We are currently talking about a new era here and we are uniquely placed to capture the market in the upcoming industry. In-order to inform you, we have bought a company in Malaysia and Singapore through Spice Global. That company is guiding and helping us understand the mobile internet market in ASEAN countries. In fact I am in Indonesia today and doing a stock launch of the 3G Android phone with our partner CSL.

We are in the midst of experiencing a change in the market coming in the mobile industry led by mobile internet and devices. This is the space where Spice Mobiles will play its role in the future. At present the result you see is only for Spice Mobiles. The reverse merger process has already progressed as we target to complete this operation by September or October.

Post merger the consolidated balance sheet you will see of Spice Mobile or Spice Mobility will include the business of VAS and Retail. So this is what I wanted to share as my opening remarks. I will now be happy to answer your questions.

- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Mr. Deepak Agarwal of Impetus Advisors. Please go ahead.
- Deepak Agarwal** Can you share with us the consolidated numbers, how will they look post the merger?
- B. K. Modi** Considering March 2010 numbers, Revenues will be around Rs.1900 Crores.
- Deepak Agarwal** And profits?
- B. K. Modi** If you look at the numbers of Spice Mobiles, we have paid tax of around Rs.36 Crores. We will be more tax efficient via better tax planning in the coming year. Our retail business at present is losing money, next year we hope to make it profitable.

Moderator Thank you, Mr. Agarwal. Our next question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.

Dipesh Mehta Sir, I wanted to know about Spice, what would be your market share in terms of volume and value? And second question would be if you can throw some light on markets that compare with domestic players?

B. K. Modi You know if you look at volumes first the total handset sold in Q4 was 1.8 million against 0.8 million sold in corresponding year in Q4 2009. This is registering growth of 2.25 times. Quarter-over-quarter our volume increased 20% from 1.5 million phones sold during Q3. The total handset we sold in FY 2010 is nearly 5 million. If you look at some of the other companies who have also entered the market, they have targeted all India in one go, so they have just walked on the numbers while we are going step-by-step. Today we are not, fully, an all India company but we have started taking steps in this direction like we have started our distribution network in the Southern part of the country. If you are looking at the whole market, including the Indian market, the Indian market is likely to grow. It used to grow in the range of 5% to 10%. The Indian market constitutes two types of market. One is the market of the top four big players then you have the Indian brands and then non-branded market. The four big players dominate nearly 85% of the market share which is now coming down. If you look at places like China the market share of Top four players have come down to 45% to 50%. So what happens is, when local players enter, the market will shift to the local players.

Dipesh Mehta Second thing about our average realization, you do Product mix changes would that affects realization. This quarter we have seen that increase in cost is higher than the realization. So what kind of gross margin do we expect to sustain going forward?

B. K. Modi As I said as we go into the Mobile internet space, the revenue per set will increase. At present we are talking about 5 million sets with revenue of Rs.1040 Crores, so you can say that we are talking at present of roughly around Rs.2000 plus per mobile phone. Now as more smart phones and other things move forward in the Indian market, the realization will increase with time as this has happened all over the world and will happen in India, so India is still a 2G market, 3G licenses are being given now and the impact of that will come in the next nine to ten months. Also India is also going to upgrade to the WiMax market as currently we have a very different scenario in terms of the Wi-Fi market. You look at the new I-PAD which has been launched by Apple, it works on WiFi. All these new products are compatible with the new technology of 3G, WiFi and WiMax. What will happen in India is that instead of upgrading to 3G networks, we will directly upgrade to 3.5G because 3G was introduced 10 years back so by the time, the licenses of 3G are granted, we will jump technology and we will directly upgrade to 3.5G or maybe 4G in the future. Price margins will increase as we move forward.

Dipesh Mehta Sir last question is about the update on the proposed transaction because in the press release we said that we need an approval of the shareholder followed by the approval of the high court and finally other regulatory approvals if required. So what will be the status as of date?

B. K. Modi The matter is with the High Courts and we will be having shareholder and creditor meetings in June. And as you know, Spice Mobiles is a zero debt company and the companies which are merging, are low debt companies so I think getting the consent of the creditors will not be an issue. So I do not see any issue in terms of the merger process from the angle of shareholders and creditors

Dipesh Mehta Okay so are we on track of whatever schedule we have given to the exchanges?

B. K. Modi That is true, we are on track as I said September was our timetable and we are moving to this effect.

Dipesh Mehta Last question is regarding our margins as you say it came because of 3G and other high end products we expect margins to improve and only once question about does the exchange rate affect our margin in any way, in Rupee-Dollar or Rupee any other currency?

B. K. Modi Not much because the Rupee is playing quite strong at present against the Dollar and even against other currencies so I do not think we would have any major impact this year in the margins. Last year we had some impact when the rupee went down to Rs.50 against the dollar, but at present we do not see the way the Rupee is going and also in future the Dollar does not seem to be that strong, so I do not think we will have a major impact on that.

Dipesh Mehta Thank you Sir.

Moderator Thank you Mr. Mehta. Our next question is from the line of Arun Malhotra of Smith Management. Please go ahead.

Arun Malhotra I just wanted to ask whether is it a net cash company or we have debt on the books?

B. K. Modi No, we are a net cash company. Well after the merger, if you see consolidated balance sheet we will have cash of nearly Rs.300-350 Crores. Post the reverse merger there will be nearly 4.7 Crores shares in the treasury stock including shares in employee welfare trust.

Arun Malhotra Sir what would be the promoter holding post merger?

B. K. Modi At present the promoter holding is around 63% and after reverse merger it will move to around 68-69%.

Arun Malhotra Thank you.

Moderator Thank you Mr. Arun Malhotra. The next question is from the line of Mr. Divyesh Shah of Pragya Equities Private Limited. Please go ahead.

Divyesh Shah Sir my question is regarding the subsidiaries of Spice Televenture, would you please throw some light on the financials of Spice Digital, Spice Retail, Bharat BPO and Spice Laboratory?

B. K. Modi Spice Digital is having revenue of nearly Rs.185 Crores for FY 2010 with a profit of nearly Rs.40 Crores. Spice BPO Company we will not form part of the consolidated company. It does not fit in the new model so we are going to exclude it. However Spice Labs will be under Spice Digital. We will have three major businesses namely Spice Digital, Spice Retail and Spice Mobile. Spice Labs will be under Spice Digital because Labs we have formed to create new products in VAS and Mobile internet Space and it basically has its R&D facility.

In Spice Retail last year, we earned revenue of nearly Rs.660 Crores. It is a negative company currently, because we have opened new stores and it takes about six months to nine months to make the store positive. The loss we booked is nearly Rs.64 Crores and the next year we hope to turn positive because most of the stores will then have completed the period of six to nine months.

Divyesh Shah Sir one more question on what is our result for Spice Mobility as a company as a whole for 2011 and 2012, where do we see our company going in the next two years, Spice Mobility as a whole?

B. K. Modi We have projected a growth of nearly 40% plus, but that is without taking into account mergers and acquisitions. We are at present in the mode of M&A. We are the only public company, post reverse merger, who is in all fields (Device, VAS and Retail). A lot of people who at present are either in Retail or VAS or device, want to come and join us. If we do not take M&A into account, we are looking for a 40% compounded growth. If you take M&A into account we feel that we will be growing at a higher rate.

Divyesh Shah Thank you, Sir.

Moderator Thank you Mr. Saha. Our next question is from the line of Tejas Sheth from Darashaw & Company. Please go ahead.

Tejas Sheth Sir, the company has just started a manufacturing facility at Baddi. I just want to know the capacity of that plant in terms of volume and what will be the effect of that on our margins?

B. K. Modi The Company has just started production in March 2010. We will get tax benefits as manufacturing plant is located at Baddi, Himachal Pradesh. We are building a capacity of 1 million phones per month, but we will build it over a period of time. We are hoping that within this year we will reach nearly 50% of the capacity and then we will move to higher capacity. The plant is set up with higher capacity because most of the machineries, equipments etc have minimum capacities. Our current capacity stands at 1 million handsets per month, which is nearly 12 million a year and that can be the upgraded further. Basically we are looking to build it on the basis of phones, which are of a lower price of \$35 or below because that will be the real manufacturing where we go to the component stages and we will also engage in vendor developments. There are a lot of vendors, which are common to other players like I Phone, Nokia etc. Nokia has already developed certain vendors which we can take advantage of when we start our plant. For example the batteries are produced in India by BYD and we have already tied with BYD to supply batteries to our plants and our keyboards in the same way. The screen and some of the other things also function similarly. I think the vendor development program will go side-by-side and we will have our own capacity to produce boxes, few components and all those things on the basis of which we can produce phones cheaper in India. The manufacturing program is targeted to reduce cost. In certain areas the cost is low in India, we will produce in India and for parts which cost more, will be imported.

Tejas Sheth Sir how will your gross margin be coming from this because right now for this year end, we have a gross margin of around 17% odd subtracting the cost of our mobiles which we source from outside India, so how will we see the margins for this year on that because of our capacity?

B. K. Modi We are hoping that the manufacturing will help us improve margins by 5–10%. Apart from this we can produce accessories where margins are high.

Tejas Sheth Sir can you just give me a figure on the PAT of Spice Retail you said Rs.40 Crores because our nine months ending was also 40 Crores loss on Spice Retail, so the year end should be more than that, right?

B. K. Modi I said nearly Rs.64 Crores.

Tejas Sheth When would you see the breakeven on this business?

B. K. Modi We should breakeven in 2010. And we expect profit by next year.

Tejas Sheth In Spice Retail, operating profit or profit after tax?

B. K. Modi We should make PAT.

Tejas Sheth Sir can you also throw some light on what is the CapEx for the Baddi Plant?

B. K. Modi We have acquired the land and the building is already constructed, so Cap Ex has already gone in. We need to spend money on the equipment, machineries and other things which we are currently focusing on. At present we are estimating that it is nearly Rs.30 Crores.

Tejas Sheth Rs. 30 Crores for a 1 million per month capacity.

B.K. Modi Yes

Tejas Sheth Thank you sir. That is from my side.

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

Yogesh Kirve Sir can you share with us the broad figures for the handset market in India, I mean for example you had sold around 1.8 million handsets, what is pick up for the market and where do you rank vis-à-vis the other peers in the market?

B. K. Modi Off the total handset market, we are really 4% and last quarter we moved to nearly 5%, but for the year we were around 4% of the market. The market share is not uniform throughout the country. In certain markets we have captured more than 10-15% and in some markets our market share is less than 1-2%. We have not expanded our distribution network throughout that is why we do not have a common market share in each market. Now we are building our distribution network across the country and we are also focusing on advertising on an all India basis. This is the change that you will see. If you look at the all India at present the major players are Nokia, Samsung, and Sony Ericson etc. They have built an all India distribution network and some of the local players are focusing on this model in one way or another. So it is very easy for us to increase the number; but what we are doing is we are going and creating our service networks in a very organized manner. Our team is led by a person who has worked with Nokia and Samsung, Mr. Kunal Ahuja and he is very cautious in terms of going into the market unless we build a service network before. We have been slow in penetrating the entire market, but now we have put our service network in all the markets and we here going to all India.

We have also entered into Nepal and Bangladesh. In fact in Nepal we are number two after Nokia and we are ranked at number four or five in Bangladesh. We are also entering markets in other countries like Malaysia, Singapore, Indonesia and Thailand through joint venture companies. So we are expanding not only in India but also outside India too. Today I am in Indonesia to launch the Android phone. If you want to look at the market share for Spice you have to look not only in India, but also look at what we have outside India. So it is better to look at total revenues rather than the market share. As I said our market share was 5% for the last quarter and 4% for the year on all India basis.

Yogesh Kirve Thanks for that Sir, but just speaking about the India market I mean among the domestic manufacturers where do you stand I mean are you the number one operator among the domestic manufacturers?

B. K. Modi Well, no domestic player is manufacturing currently. We have Nokia and others but we are the first domestic company to have a manufacturing plant. Other people are just trading in the market and have entered the industry since the last one and a half years. They have not announced their manufacturing plants yet and I do not have an idea of when they will announce it. We will be the only company who will have device, retail as well as VAS while these companies are purely mobile companies.

Yogesh Kirve Sir you said your expansion is ongoing I mean can you give us time by when can we can expect to have a reasonable or rather a pan India presence, what could be the kind of the handset sales by that time, I mean per month or per quarter basis?

B. K. Modi Well we are really looking to increase our handsets sale significantly over a period of time because we are looking at all India market share of 10%. We are also looking to grow into other markets like the Middle East, Africa and other countries. We cannot give exact number specifically because there are many markets we are entering. Many other players will enter the market in future. The area we have chosen for us is Africa, Middle East, ASEAN and SAARC. These are the countries, which we are looking at. These countries constitute of 50% of the world population and 64% of the world's youth population constitutes of individuals below 40 in the above mentioned regions. We are basically targeting the youth population because they are not oriented towards the brand but they are also keen on features and the price. We are focused to bring all available ideas into the devices through VAS and mobile internet space. Therefore our devices will be rich in terms of features and will be rightly priced for these developing markets. This is totally a new game as I said we are not talking about mobile phones as you see today we are talking about phones, which will be working more on the mobile internet space and compatible with 3G, WiMax and WiFi.

Yogesh Kirve I guess I missed what you said earlier regarding the Spice Digital. Can you share the EBITDA figure for FY'10?

B. K. Modi Spice Digital as I said we are nearly Rs.185 Crores in revenue.

Yogesh Kirve 180 Crores revenue right?

B. K. Modi Profit of around Rs.40 Crores and revenue of around Rs.185 Crores.

Moderator The next question is from the line of Prashant Kumar Jha of Wealth Management Advisory. Please go ahead.

Prashant Kumar Jha I had one question regarding Spice Digital. What kind of operating margin have we seen in FY'10 and what is the outlook?

B. K. Modi As I said, last year we had revenue of nearly Rs.185 Crores and Rs.40 Crores but what is happening at present, if you look at the market in the mobile retail and services, we provide VAS for the 2G market. We are not doing a lot of (VAS), which can be used for 3G and mobile internet space. That is what we are currently working on through Spice Labs. If you look at the share of total revenue of VAS in the mobile operators in India it is around 9% to 10% and you can observe what happened in China after the mobile internet was introduced. The revenue share from the VAS in those markets went to nearly 29%. There is a huge increase from

10% to 29% in the VAS revenue share. So when you go from mobile to mobile internet, the revenue from the VAS will increase substantially as the products become more Internet savvy. At present we see some sort of stagnancy for VAS, in terms of 2G phones apart from the new operators which are coming. We have recently started marketing our VAS into African countries, Tanzania and others and we have got some very good orders there but once we go into the Mobile internet space then VAS revenues will increase substantially.

Prashant Kumar Jha Sir, one more question regarding Spice Retail as you said for FY'11 you are expecting to make a profit at PAT levels as well. So two to three years down the line at what level of margin will we set at the net profit level?

B. K. Modi Normally if you look at what is happening across world, the organized retail does make up to 10% margins.

Prashant Kumar Jha In PAT terms Sir. Is this the level we are expecting to settle with?

B. K. Modi Yes, because you know what happens in retail especially in mobile internet you are not only selling the devices you are also selling a lot of VAS. And that is what starts happening. Mobile internet margins are different than Mobile Retail. You look at companies like Carphone warehouse and others, we recently had a full discussion with them in terms of their margins and our margins, we found that there is a huge growth potential in the margin for us in terms of these companies because as they provide more products, customers like to buy more and upgrade their mobile device for new applications and VAS and the revenue starts increasing at a much higher level. So normally people expect at least 10% margin in Retail.

Prashant Kumar Jha Just one more question, how many stores are we expecting to roll out under Spice Retail this year, FY'11?

B. K. Modi As I said we already have around 750 stores and we want to double them this year but it would not be necessary that we roll out our own stores, we can buy stores also. We can do that both in terms of putting our own stores, franchise as well as buying stores from the market because there are a lot of companies who have established stores in a particular city and they are not able to go all India. Their investors are willing to sell that to us and that the discussion we have with them whether we can acquire the stores in a particular city rather than building our own, which will take more time. But we hope to double our stores this year.

Prashant Kumar Jha Thank you very much sir.

Moderator Thank you. Our next question is from the line of Tejas Sheth of Darashaw & Company. Please go ahead.

Tejas Sheth Sir, on Spice Digital what kind of percentage growth you see in FY'11 and FY'12.

B. K. Modi As I was just saying that once you get into the mobile internet space the Digital growth goes up sequentially because the requirement for voice, video etc. are increasing significantly. For example we have just introduced our video of aartis of various temples which you can now have on your mobile, but you have to use GPRS and a data network to access it, so once you do that the service provider revenue of retail jumps from 9-10% to 29-30%. That is really three times. Now the question is how much of that will we be able to capture; we are looking at 40% to 50% of growth in our business. The market is going to grow very fast in this area. Now some of the operators may pass it (VAS and revenue share) on to us, some may do it on their own, for instance Reliance have started creating their own VAS

Company. We will see few Indian companies do their own VAS but generally internationally none of these (operators) players do their own VAS they depend on the outside VAS because they find it cheaper and more innovative. So I believe especially after 3G we will have a better chance to increase our market in the India.

- Tejas Sheth** Sir what would be our size in this market right now? Would we be the second or third largest last provider?
- B. K. Modi** We are at present the second, because we are not into the export market, the number one player is also in the export market. We have just started exploring the outside market. In the Indian market we are very close, if you do not take into account the government account of MTNL and BSNL because our competitor has influence in BSNL and MTNL. We are now starting to achieve some breakthrough. Our competitor took up a lot of size in government service providers, but in private sector we are doing very well.
- Moderator** Our next question is from the line of Saurabh Das of Sundaram BNP. Please go ahead.
- Saurabh Das** First, you mentioned that there are certain players on the mobile handset side who are just traders primarily taking in Chinese phones vis-à-vis us who have localized a lot of components. What would be the cost advantage on a like-to-like basis on a similar handset?
- B. K. Modi** We have not localized much as yet. We are trying to localize in 2010-2011. As I said, we have just started manufacturing in Badi, Himachal Pradesh in March 2010 and this would bring us some tax benefit in future.
- Saurabh Das** My next question is on 3G-ready Internet phones that we have launched. Typically what is the entry-level price for our range and where do we stand vis-à-vis competition on the branded side?
- B. K. Modi** Well I think we are trying to put phones in the range of around Rs 3500-5000 and the competitors are above Rs 5000, so we will be 20-30% less but on the higher phone where competition is selling at 8000-9000 we are 40% less compared to them in terms of feature to feature. The phone which we are selling and launching today in Indonesia is 40% cheaper than Nokia comparing them on basis of features. This is an android phone which support 3.5G, not 3G.
- Saurabh Das** Just wondering that, of course the margins of those companies are not capturing the kind of price difference which they have with you, so in spite of a higher scale in those companies where do we differentiate ourselves, is it something to do with the way we procure our material, the way we manufacture it or the distribution commissions overheads, where are we different from them?
- B. K. Modi** Actually what happens is when they are designing their products, they have to design it for global markets. They put a lot of features which are not required for these markets and also their overheads are quite high because if you look at the companies we compete with like Nokia, it is a Finnish company with very high overheads. Also their main markets are in America, Europe and Japan and the markets which we are targeting are in Africa, ASEAN, SAARC and Middle East. These markets are very a small percentage of the total phone market, so they are not designing products for these markets. They go for very high end phones and they also advertise heavily in those areas. In these areas we can match their advertising to quite some extent, but outside they are on a different league. Their strategies are also different from ours. For example, we have our phones with two SIMs, now you cannot bundle a two-SIM phone while they are going for bundling

and in bundling they get a less price because they give huge discounts to the service providers. They make more money in the retail market but they lose money in the service provider bundling and we are not a part of that bundling market, so we have that advantage over them.

Saurabh Das

Right, when you said that they have lot of unwanted or not required features, but on a feature to feature basis as well, we are substantially lower on the cost, so how do we manage that apart from some of the points you mentioned, is it something that our procurement base is very different from theirs because 40% is a huge differential?

B. K. Modi

What happens is they go on with very strong yearly contracts with the vendors and some of them manufacture on their own in the developing markets, so their cost is quite high in those markets because of labor costs and other costs being quite high and secondly they produce many phones so the margins vary. We pick and choose, phones of a particular feature which we think fits in the market we target. So feature to feature our phones are cheaper but they may have phones with higher features and they make it through the same line. So their way of procurement and production is different than what we do, because we selectively work with say 13 or 14 vendors and we may just have the phone manufactured by these vendors for a specific purpose, and big players go with one or two vendors and they go with a large volume and they do not look only at the cost as they can sell the same phone at a high cost because of their strong brand especially in American and European market. Their whole strategy is serving the American and Europe market while our strategy is to serve the emerging market. Our selection of phones is also different than what they are doing.

Saurabh Das

True and you just briefly touched upon bundling and something which we have always stayed away from but for the 3G Internet foray of course handset is a point where a lot of people are skeptical, that is one big impediment to the foray of 3G Internet, so have any telecom operators approached you or some of the competitors you know of regarding bundling of phones on the 3G side or are we also in talks with or contemplating a similar thing?

B. K. Modi

There is a new thing which has come in because most of the operators now in India and some of these countries have both 2G and 3G, because they have a license of both 2G and 3G. We have been recently been approached by some operators so you can have two SIMs one of 2G and one of 3G on the phone, one prepaid and one postpaid. The new kind of bundling is now being thought over by these operators because they are now focusing on how to capture a customer. Example they give him a choice of two price plans; instead of having one plan, otherwise they will lose a 2G customer if the customer has a 3G plan. So they prefer to use two SIM cards. This is a new trend which is yet to be tested, I think Indonesia is the first country where we get our first orders, we have a prepaid and postpaid plan by using two SIMs which allows people to have two rate plans, which they can choose to call from.

Saurabh Das

But a similar thing has been done in India as well, have Indian operators approached you regarding that?

B. K. Modi

Nobody has approached us but I think they have started thinking of such ideas. We are waiting till the 3G license really comes up. The only people who are operating are the government at present through MTNL and BSNL. They are not very innovative but I am sure that once we have operators who have 2G and 3G both and all the operators who are just 2G will tie up with some 3G, we will have phones coming in to the market which will have features of both 2G and 3G and also we will have features with prepaid and postpaid.

Saurabh Das Sir just finally what percentage of our total phones are multi SIM phones?

B. K. Modi Nearly 90-95% of our phones are multi SIM, virtually all our phones apart from the very low end are all multi SIM.

Saurabh Das And on the multi SIM market if at all there is a data point what would be our market share?

B. K. Modi We were the first people to start multi SIM as you know, so I presume that Nokia is not in multi SIM phones. If you take Nokia out of the market we will be talking of around 20 to 30%.

Saurabh Das: And that market could be growing at close to 20-25% or even higher?

B. K. Modi People are now recognizing multi SIM phones not only multi SIM the new idea is the multi memory card. We have introduced phones for two-memory cards, one of them is preloaded, so you can have preloaded video, music like a DVD player and one is like the SIM download. The two memory cards phones are also getting very popular.

Moderator Thank you Mr. Das. Our next question is from the line of Divyesh Shah of Pragya Equities Private Limited. Please go ahead.

Divyesh Shah Once again my question is regarding our subsidiaries, I want to know what percentage do we hold after the post merger of Spice Digital and Spice Retail?

B. K. Modi Spice Retail we will own around 90% and Spice Digital we will own about 82%.

Moderator Our next question is from the line of Prachi Kodikal of Bay Capital. Please go ahead.

Prachi Kodikal I just wanted to know what would be a fully diluted equity post the merger.

B. K. Modi Of the promoters, it will be nearly 68-69%.

Prachi Kodikal All right that will be your holding, I want to know the total equity, number of shares?

B. K. Modi Number of shares will be nearly 23-24 Crores.

Prachi Kodikal As I understand of these 4.7 Crores would be treasury stock?

B. K. Modi 4.7 Crores would be the treasury stock out of which 1.2 Crores we are keeping in Employee welfare trust.

Moderator Our next question is from the line of Deepak Agarwal of Impetus Advisors. Please go ahead.

Deepak Agarwal Sir we had passed a resolution to raise 700 Crores a couple of months back. What is the status of that and what will that be used for?

B. K. Modi Well as I said earlier we will look to raise this after completion of the reverse merger and basically we will be raising it for acquisitions.

Deepak Agarwal Apart from that acquisition what will be the CapEx requirements?

B. K. Modi I don't think we have a problem for Cap Ex. We do not need capital or raising money for Cap Ex. We have enough cash in the company and we are EBITDA positive, so that is not an issue. The major issue is that if we go for acquisitions in the field of VAS, retail and on device side. We do have reserves for that purpose.

Deepak Agarwal As on March what would be your consolidated net worth?

B. K. Modi Do you mean the consolidated of the three companies?

Deepak Agarwal The consolidated entity, approximately?

B. K. Modi I think it is about Rs. 600 Crores.

Deepak Agarwal The last question, in our handset what kind of a software platform are we using, are we using open soft and does that make our cost lower?

B. K. Modi We are going with time. We are not on single software, as we move we are going to take it as the market moves. Like mobile internet market is using Android so we are also using this.

Moderator Our next question is from the line of Prashant Kumar Jha of Wealth Management Advisory. Please go ahead.

Prashant Kumar Jha I wanted to know that if you have 3G licenses going and the Internet VAS revenues will go up, How does that help companies like Spice Digital because when you look at 2G there is a lot of product wise voice portal and ring back tone whereas when it goes online then companies like Google and all are participating so how does the company benefit?

B. K. Modi Well we have already anticipated the mobile internet market and that is why we have this company called Spice Labs. We have been developing products and we have our app store. We have already developed products which are for 3G. We have been testing them with SingTel in Singapore. We have got a contract with them. We also have a contract with them in Tanzania. So in other markets we are doing it in 3G environments. And as I said 3G opens a huge potential in terms of technology. Companies like Google are naturally there and will be always there but what we also do is the regional VAS, we do video, voice in local languages. As I said we have devotional videos, regional songs, Kannada songs and Tamil songs, so we do videos in different regional languages. Even if you see the amount of TV and newspapers people watch in local languages it is nearly 70-80%, so there is huge localized VAS which is required in 3G and we are very much ready to take that in to our future markets.

Prashant Kumar Jha So it will be content like videos like what you have in You Tube, something similar that, do you want to develop some platform something like that?

B. K. Modi No, as I said we can create specific videos like I told you about these aartis, which are done in various temples of India and other countries people like to watch that in

the morning. There could be specific videos, songs, naturally there is Bollywood and South India, and there can be Chinese and other videos, so there are localized videos of all kind which we can look at. You Tube is present but there are specific videos which people like to watch but you cannot always go to You Tube and download from there. Here the preloaded stuff comes, which you can also put in these two memory card phones which we are now offer, you must have seen our ad of DVD like phone on which you can watch a video. These contents are preloaded but when you downstream any video you pay the cost every time you download, so what is happening is in these markets where people want to save money on downloads and others, especially youth, the preloaded also works quite well. These products will be catering to the local taste, which a lot of the global companies don't focus on.

Prashant Kumar Jha Sir, I was just asking whether the business model will be such that the people maybe more comfortable paying say 10 rupees for a video download instead of bothering about how much it can cost to download from the internet by searching, is that the model you are looking for?

B. K. Modi Basically what happens is that in download we first go through some process because we have to choose the videos we want. If it is preloaded then you can just watch your choice as you like, it is like DVD or like VCD you have. So that will be more appropriate for our markets and not for the American market.

Prashant Kumar Jha How will you get revenues from this?

B. K. Modi We will be selling these preloaded memory cards. It is like the DVDs you sell.

Moderator Our next question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.

Dipesh Mehta Earlier we said as per proposed transaction we will extinguish the shares of Spice mobile held by STPL and just now in the concall you said 4.7 million, I just need clarification about this thing?

B. K. Modi No, earlier the proposal of extinguishing was not approved by stock exchange, because the shareholding of promoters was going higher than 80%, therefore the trust option was adopted

Dipesh Mehta The merger would consider treasury stock at 4.7 million and post transaction total number of share would be at around 23.8 Crores?

B. K. Modi The total number of shares post merger will be 23-24 Crores and the trust share will be 4.7 Crores not 4.7 million. Out of which 1.2 Crores we are keeping for the employees in Employee welfare trust. We will be coming out with a scheme where employees will be getting shares with lock in period. We have got employees who are very keen to participate in our growth process.

Dipesh Mehta And second clarification I need is about Bharat BPO. During the concall you said now that might not be part of our overall transaction. So what would the eventual Spice Mobility business structure be?

B. K. Modi Spice Mobility business structure will have basically three business areas, the device area, which is the present Spice Mobile the second will be the retail area and the third area will be the VAS area. We have hired Mckinsey, we have been working with them for the last three months to refine our strategy and

organizational structure and now we are implementing the recommendation made by them.

Dipesh Mehta

And Lab will be part of Digital.

B. K. Modi

Yes.

Dipesh Mehta

Any changes in share prices because of change in proposed transaction.

B. K. Modi

No, not really.

Moderator

Thank you Mr. Mehta. Ladies and gentlemen that was the last question and I hand the conference over to Dr. B. K. Modi for closing comments.

B. K. Modi

I would like to thank you for all your questions, I really enjoyed this. I think we are entering into a very new era in India. We are going to jump in terms of technology. It is a very exciting time for our country because for the first time we will have digital products in the hands of the masses at a rate which could be less than \$50. We have been talking about digital divide and developing countries will have the disadvantage because lack of infrastructure. This has been the major factor which has been talked about in the last 10 years. I think the digital divide will be taken care of through mobile internet. We don't have so much of cable in the earth like other countries have, so we will save lot of money by jumping technology. I think this will put India at the forefront of technology in the world and we at Spice Mobility want to play our role in creation of this mobile society. I thank all of you for your support and I hope we will continue to have your support in the coming years to expand this company to a new level. Thank you very much.

Moderator

Thank you Dr. Modi. Thank you gentlemen and the management team. Ladies and gentlemen on behalf of Spice Mobiles Limited let's concludes this conference call. Thank you for joining us.