



## Spice Mobility Limited Q3 FY11 Results conference Call

16th February 2011

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**Moderator**

Ladies and gentlemen good day and welcome to the Spice Mobility 9 Months and Q3 FY11 Results Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "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 us on Spice Mobility Q3 and 9M FY2011 results conference call. We have with us the Chairman of the Spice Group, Dr. B. K. Modi. Before we begin, I would like to add that some of the statements we made in today's discussion may be forward-looking in nature and a statement in this regard is available in the conference call invite which was e-mailed to you earlier. We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session. I would know like to invite Dr. B. K. Modi to make his opening remarks.

**B. K. Modi**

Thank you Ravi. Welcome all. I'd like to start by stating consolidated financials for the nine month ended 31<sup>st</sup> December 2010. The combined revenue for the nine month period is Rs 1,488 Crore which is 112% higher than the corresponding period last year. EBITDA & PAT stand at 97.2 Crore and Rs 92.5 Crore, indicating a growth of 41% and 95% respectively.

As you are aware, the company underwent the reverse merger, which was completed by November, 2010 end. During the same period new shares are issued. Post completion of reverse merger the market cap of the company now stands at Rs. 2,400 Crore at a current market price of about Rs.100 per share.

Coming on to operating activities, we are witnessing increase in volume sales in the device and VAS businesses. As for our retail business, same store growth is healthy. The major concern to the Company in terms of performance has been the device business for which we are adopting strategic and corrective actions. The fact is that the device sales till date have been regional; it was mainly in five states. Now the Company has taken steps to spread it to an all-India level. This requires a major investment.

The aftermath of the reverse merger has resulted in bringing cash inside the company which we can now use to grow our presence across India. Our strategy on the device front is to increase our presence from 5 states to 22 states in the next 18 months for which we will expand our distribution network

2-3 times from what it is currently. At the moment, we are establishing offices all over the country. Our expansion process should be completed in the next 18 months and we will become an all India player. At present, the company covers around 20% of the total distribution network in all India. This has been a factor that has affected the revenue of the Company in terms of the device business.

The other important factor on the device side is the product mix. As you know 3G was delayed and many of our product launches were related to the 3G as we were not able to move aggressively. We have been selling some of these products through BSNL and MTNL. We were waiting for the 3G rollout and have not really moved very aggressively which I feel will happen in the second half of this year. This delay has had an impact on our revenues and ASP hence this has led us to review our product mix.

On the retail front, we are observing an improvement in productivity as same store sales have grown by 32% compared to last year. We had break-even and have small losses at the PAT level. As from quarter four onwards we see that EBITDA will be positive on a regular basis. We are going to be working with the 3G players, they are very keen to work with our retail, in terms of how to market 3G products to the high-end customer because in our retail, the average sales price is 4,000 rupees, which is virtually more than double than our device ASPs. We see revenue coming from selling operator based 3G products as 3G takes off.

As I said earlier, our whole strategy is based on Mobility 2 that is associated with 3G, constituting of retail, VAS and device. It has been affected by the late entrance of 3G. Our strategy can be implemented to its fullest once 3G has shown a higher presence. As far as the manufacturing is concerned, we have stabilized our production and as our sales grows, the manufacturing will be able to keep up with the increase of sales. I must also tell you that we bought a company in Singapore operating in the VAS space named 'Beoworld' which is already working with the operators in Malaysia and Indonesia. It also develops products especially for 3G, push-mail and others VAS products for Malaysia and Indonesia. Naturally, we will be bringing the same products in the Indian market as we move these services to India. So this acquisition only happened in the end of the last quarter and will create a new market for us. Their products include Messenger, chat applications, Fun Club, BQ Store, Islamic features, and 3G solutions. So this will give us a window in the Indian VAS market.

I will now like to address to your queries. Thank you.

**Moderator**

Thank you. The first question is from the line of Udit Garg from Religare Capital Market. Please go ahead.

**Udit Garg**

What is happening on the devices front, because we have seen that the device ASPs are coming down for the second quarter in a row and this time even the gross margins have been almost hit by 300 basis points, so what is the stable ASP rate that we can assume going forward or will there be some improvement in that and the gross margin front? That is one. And second question, I wanted to ask was on the Baddi output, so the Baddi plant is operational, can you just give me an idea of how many handsets in this quarter were shipped from the Baddi plant?

**B. K. Modi**

Our device business is not yet present across India. We are basically focused in North India and in those five states we have achieved substantial market share. We had to lower prices in some markets to maintain marketshare. In

fact we increased our market share in those markets in terms of volumes. Our solution is to go on an all-India basis and for that we have now earmarked nearly Rs 250 Crore. Post reverse merger the company has got access to cash which earlier was present in the books of Spice Televentures. Our competitors were able to expand as they raised funds through selling shares to investors, we could not do that because we were in the process of the reverse merger. So now, we are planning to spend Rs 250 Crore to go on an all-India basis to create our distribution network, repeat and replicating the success we achieved in our major five states. This will increase the volume as we go along. We still have a very strong leadership in those five states. We are a top player in the less than Rs 2000 and the Dual SIM category, in those states. We are now introducing products at a higher range. As I said, we acquired a company in Singapore which has products in Malaysia and other countries which we are planning to introduce in India. We will introduce these devices in the range of Rs 2000- Rs 4000. We will introduce most of products with price range of above Rs 4000 once we are present across India as it calls for heavy expenditure on branding, marketing, selling, distribution etc. We have thus a strategy to increase the ASPs, and to go all India, supported by earmarked funds for investment in these areas.

Coming to your second question, from Baddi, we, in the last quarter, have shipped nearly 2 lakhs units.

**Udit Garg** Okay. This Rs 250 Crore that you mentioned - over how many quarters is that is going to be spread?, next 2-3 quarters or 18 months as you would say?

**B. K. Modi** A major part of it will be in the next 2-3 quarters.

**Udit Garg** And how much of it has already been spent

**B. K. Modi** We have just started. Out of Rs 250 Crore we may have spent Rs 10-15 Crore. We are in process of buying our premises in Mumbai to start full fledged operations in Mumbai. We are also moving in other areas and states. We have identified offices in Bangalore, in Chennai. We have seven clusters and with in those seven clusters, we have started buying offices and recruiting people.

**Udit Garg** Okay. So the gross margins will go down further from these levels for the next two quarters?

**B. K. Modi** Not exactly. We are introducing most of the products in price range of Rs 2000 – Rs 4000 and new high end products with price tag of Rs. 4000 onwards. We are introducing products which are like Blackberry; they are called Blueberry, devices in the push-mail category. We are also introducing new range of touch screen phones, products on android platform. All these products have started coming February onwards.

**Udit Garg** Okay. And I remember last quarter you had said that the Android phone was launched; can I have any sense of the sales and uptake of that product?

**B. K. Modi** It got good traction and response. We are selling it through our Spice retail chain only. We did not launch the product in a big way as we were waiting for the real 3G to come. This is 3G based products and most the applications on Android could not be justified unless networks get upgraded. We had launched it and it got tremendous response. We will continuously launch devices based on Android. But Android is something which will really pick up once 3G is in a full play mode.

**Udit Garg** Okay, do you expect the ASPs to move forward, because I think most of your phones are within Rs 2000 price range?

**B. K. Modi** In terms of ASP, at present, most of our products for 2G mostly were below Rs 2000. Now we have introduced products between 2000-4000 range. We are also planning to introduce products above Rs 4000 up to Rs 10000, but that range will be based on 3G. We are already launching products in the price bracket of Rs 2000 – Rs 4000 which are comparable to Blackberries that work on Edge Technology. Products that have push-mail features, support internet, touch phones etc, are products that we feel will drive the volumes and ASPs. If you recall we gave our presentation and we talked about what we call Mobility 2 and our strategy is all around Mobility 2. In India, we have a delay which happened in 3G because 3G was to be introduced by end of 2010, but because of various reasons it could not be introduced and you may be aware of that.

**Udit Garg** Okay, thanks.

**Moderator** Thank you. The next question is from the line of Vibhor Kumar from CRISIL. Please go ahead.

**Vibhor Kumar** What is the average selling price of the 3G phone? And has the 3G phone uptake changed post the launch of 3G probably in December or January? What is your estimate of the total of 3G tele-density or 3G phone densities in India?

**B. K. Modi** 3G has not been launched on a large scale It was first launched by MTNL and BSNL but they don't have enough market share to push it. Unless 2-3 companies come into 3G in a big way, things would not change. There is hardly any density for 3G today. I feel operators will start pushing 3G in in the second half of this year once they have necessary infrastructure, permissions and plans in place.

**Vibhor Kumar** And on ASP of 3G phone?

**B. K. Modi** You have different quality phones in 3G but normally the price range is Rs 4000 onwards but there are phones which will be available at a lower price also. And also the new trend is coming for Wi-fi phones which we have also introduced in Malaysia. So we are technically ready for all 3G products.

**Vibhor Kumar** Okay, thanks a lot.

**Moderator** Thank you. The next question is from the line of Gaurav Surana from Alchemy Shares. Please go ahead.

**Gaurav Surana** I would like to continue the question on the ASP. We are producing around I think 200k units per month from Baddi, right sir, or is it per quarter?

**B. K. Modi** We have just started production, it was 200 k for the quarter.

**Gaurav Surana** We are seeing that ASPs are going down as well as the margins are going down, is it partly related? The products which we are manufacturing at the Baddi are at very lower ASP level which is again partly driving on the ASPs as well as the margins or is it partially also that we are removing the old inventory and trying to build up 3G, so that is also partially the reason why both are going

on. Just trying to get overall sense why both ASPs and margins have been very significantly lower from the last quarter?

**B. K. Modi**

We are still a north centric company and yet to expand our footprint across India. We were delayed in going all India because funds were not available till the reverse merger took place. In the meantime, our products which were pushed in the above mentioned states, have exhibited boost in volumes. However the volume push we witnessed pressure on margins. We were not carrying any exceptional inventory so we don't see pressure on ASPs because of inventory levels in the last quarter. We like to keep the products rolling as per the demand. Baddi is just picking up now, because when you start production, there are a few obstacles that come in the way. Now the production is stabilizing. We will see some steady flow on production there. Baddi does not produce large quantities as it recently started its production. And we have to also start manufacturing value added products at Baddi, so it's not only about production of devices, we have to make many parts boxes and accessories which we have started producing too. The ASP is not a major concern for us, because once we go all India and are in a position to launch products up to 4000 for the present 2G market our ASPs will improve. We will showcase high end products along with 3G launches which will also drive our ASPs. We know how to sell this product as in our retail shops; our average price is Rs 4000. We are aware of what is being sold. We are selling comparable products in Malaysia, Indonesia and other countries. We need to focus on two things. One is that we have to expand to an all-India basis. We have earmarked Rs 250 Crore for that. Secondly, we have to wait for 3G to happen on a full scale. 3G will drive our strategy. We have made this strategy of reverse merger bringing retail, VAS and device together which will actually give maximum benefit when 3G comes in. Plus once 3G comes in, operators will depend more on retail and device will depend on VAS. That is where we will have a tremendous advantage over the competition. Post the merger, we now have access to funds and we will scale up our operations to all India. We do not see many challenges in that. We have demonstrated and gained market share in particular states and regions. We would be able to replicate the success store in other areas, states and regions too.

**Gaurav Surana**

What would be the ASPs of Spice handsets which will sell through Hotspot, since Hotspot has a very high ASP at 4000? The second related question is that, since we are expanding pan India level, a major expansion, will there be any major pressure on the margins in the coming quarter and year?

**B. K. Modi**

As we go all India and revise our product portfolio, we should be able to achieve higher ASPs, revenues and margin pressures will ease. Spice Hotspot usually sells high cost and feature phones resulting into higher ASPs. The sale of Spice branded phones via Spice Hotspot is increasing steadily. We used to sell 4%-5% of Spice branded phones through our Spice Hotspot which has now gone up to nearly 8-10% in terms of revenue. This increases margins for Spice Retail as Spice phones had better margins and we save other costs.

**Gaurav Surana**

Okay, any idea on the ASPs for Spice phones in HotSpot? Any rough ballpark number?

**B. K. Modi**

It should be 30% higher than Avg. selling price of Spice Mobility (mobiles).

**Gaurav Surana**

Okay. Should be around 1800, 1900 rupees?

**B. K. Modi**

About Rs 2000-2500. To give you an understanding, we have launched the Android phone only through the Spice Retail.

**Gaurav Surana**                      Alright. Thanks.

**Moderator**                              Thank you. The next question is from the line of Siddharth Deshmukh form Network Stock Broking. Please go ahead.

**Siddharth Deshmukh**                      What is your opinion about the value added services industry as you said it will grow after pan India 3G launch and what will be the contribution of Spice value added Service Company and in it.

**B. K. Modi**                                  Value added service should witness tremendous growth in the near future once 3G is in place. The countries that have adopted 3G, the share of VAS services in total revenue of service provider have gone up to 20% - 30% whereas in India it is 10% - 12% currently. This happened in China, Malaysia, U.K. and many other countries. In terms of VAS you will see two kinds of services. One through the service provider and in another case, applications/services embedded in devices. We are moving forward in both the areas. We have recently bought a company called Beoworld which is develops VAS products and applications for devices. There is big shift that happens when you are moving from a 2G market, towards a 3G market. 3G products and applications are used by different audiences and for a higher scale. India is a little behind but we have been witnessing the change post 3G in countries like Malaysia, china, Singapore and other markets where 3G has been existent for 2-3 years now. Our whole strategy was pertaining to 3G and we are now ready. 3G will work to our advantage. Our Company has the advantage of having one company with device VAS and retail under one umbrella.

**Siddharth Deshmukh**                      So can we say that we are able to achieve the same rate of growth by the 30-35% revenue sharing in terms with telecom operators in next 3-4 year?

**B. K. Modi**                                  Telecom operators are quite comfortable because we have the product portfolio and now this Company that we bought has added to our product portfolio and it is already providing its product globally to Companies like Maxes, DGs, Cellcom, Telecom, ACL etc. We continue to have a strong relationship with operators in India. Further in 3G, operators are looking for advanced VAS products, tie ups with organized retail players etc and to inform you have started a sort of text display in our retail. Given the 3G requirement they are already approaching us as a holistic company not only for vas but also because we have retail and devices all integrated under one roof. I can see that in future will be selling not only sell VAS through the operator but we will have relationship with them on the retail as well as on the device.

**Siddharth Deshmukh**                      Can I get any idea regarding segment wise present market share.

**B. K. Modi**                                  You are talking of device?

**Siddharth Deshmukh**                      Yes, for devices in the domestic market.

**B. K. Modi**                                  As I said earlier that we have major presence in five states with about 17% market share in them. On an all India basis, our market share is small compared to top players. Though within domestic players, we are one of the leading brands. We are not present across India so we would not consider market share on an all India basis. However in our top 5 markets we have about 17% market share. To increase our market share and ASPs, we our increasing our presence and distribution across the country and expanding our markets from current 5 states to 22 states. The entire exercise should be complete in the next 18 months as we have set aside funds of Rs 250 Crore to support this major and strategic expansion plan.

**Siddharth Deshmukh** Thanks.

**Moderator** Thank you. The next question is from Abhishek Gupta from IDFC Securities, please go ahead.

**Abhishek Gupta** What is the current international and domestic mix of the value-added services?

**B. K. Modi** Currently around 92% of revenues come from domestic operations and about 8% from International markets. We have recently started our international operations by offering our VAS products in 6-7 countries in Africa. We also bought a company called Beoworld outside India.

**Abhishek Gupta** Okay and you had mentioned some deals with Airtel on CRBT platform. Have they been live yet or it is still in the thoughts.

**B. K. Modi** We are already working with Airtel in India offering various VAS products to them including CRBT in Tanzania . As far as international markets are concerned we were not really there. But now we are expanding our footprints internationally also like recently we bought a company called “Beoworld”, Singapore and we have started operations in 6-7 countries in Africa. We will be looking at other countries and markets as well especially in Asia, Africa and Middle East region

**Abhishek Gupta** To follow up, what would be the ideal revenue mix by next two years for Spice VAS in terms of international and domestic revenues as you said that you are starting in Africa etc, should it be like 10-15% for the total revenue.

**B. K. Modi** As a part of our strategy, we are looking at I2I region which is from Ivory cost to Indonesia and includes Africa, Middle East and Asian countries apart from India. Once we start fully in the above areas/regions we should be looking at 50% of total revenues from outside India. We are now working closely with chip manufacturers and we are in process of signing MOUs with them to develop the products together. One of the issues in the entire mobility cycle is that domestic, regional and small device players, VAS (software) companies and the chip manufacturer do not work together. While Apple, Nokia etc work very closely with their chip manufacturers & chip developers. The association allows developing better products supporting various OS, software, numerous applications, services, better speed, UI etc. We have now started working with the device and chipset manufacturers closely and we are trying to develop products which can compete with high end and best products available in the market. We have established our whole innovation center in Singapore. We see that in the near future, the revenue mix from international and domestic operations changing and will become 50:50.

**Abhishek Gupta** What would be the time line for this?

**B. K. Modi** We expect the share of international operations to increase in total revenues in the next 2-3 years.

**Abhishek Gupta** And on Beoworld, can you share some financials for the company for the last quarter because I believe you will be consolidating it from next year onwards, fourth quarter onwards?

**B. K. Modi** The Company has just started and it has a great portfolio of VAS products. At present it is less than a million dollar company in terms of revenue. It has a lot

of products and features which are very strong and closely associated to the chip manufacturers with whom we are also working called MTK. Among the others, we will be benefited by the acquisition of this company because of its close relationship with MTK. It also has the vast experience in developing products pertaining to 3G and working on device VAS side. It also does a lot of R&D. We are evaluating some of its products to bring in the Indian market including products related to 3G. We are making ourselves fully equipped and ready for 3G. Whatever exists today, Mobility 1.0 will exist for another 1-2 years and after that we expect a totally new game which will be based on 3G.

**Abhishek Gupta**

Thank you.

**Moderator**

The next question is from the line Archit Singhal from Jaypee Capital, please go ahead.

**Archit Singhal**

We are into content development, aggregation or what part of value chain?

**B. K. Modi**

We are mainly in Aggregation, Technology and Application Development and Managed services. We do develop or create some content like we developed few music albums, songs but most of them are at a regional level.

**Archit Singhal**

In aggregation if I look at the products, what would be the major products for us?

**B. K. Modi**

At present major products in music and related services like Mobile radio, on demand music, CRBT, Background Music etc, we have a tie up with most of the music and content companies. Also we have certain exclusive and special products like Devotional music, Live Aarti etc. However we have a host of other products and services covering entire gamut of VAS services. We have applications and products in all other areas of VAS like Education, Gaming, Banking, Social Networking, Streaming, Information services, Rural and Astrological services, Enterprise Solutions, Mobile applications etc.

**Archit Singhal**

Basically what I wanted to understand was that there are many VAS companies in India. So I mean do we have some products which are different from the other companies?

**B. K. Modi**

We have most of the products that other companies have in the market. We have applications and products in all other areas of VAS like Education, Gaming, Banking, Social Networking, Streaming, Information services, Rural, Astrological services, Enterprise Solutions, Mobile applications etc. However some companies are ahead in certain services like OnMobile is a leader in CRBT and we are ahead in certain services like Mobile radio solution, On demand music etc. As far as the products are concerned we have most of the products and applications in our portfolio which are there in the market and with competition. The other important aspect is connectivity with operators. We have considerable experience and good relations with most of the operators, in most of the areas where they operate. We are well positioned in the market, further strengthening it. The major change will come once 3G will penetrate on a full scale and infrastructures change. Companies which are ready for 3G with innovative solutions will have an advantage. We understand that operators will push more VAS in the 3G market and look for an increasing share of VAS in their total revenues. This will benefit VAS companies who can offer 3G solutions. The operators will look for organized retail players to push 3G in terms of costly, high end services that require attention and demonstration. Given the situation, our preparation for the 3G market and our unique

integrated business model enables us offer them an entire suit/package of services whether it is VAS, Retail or Devices.

- Archit Singhal** Okay and what would the revenue proportion be from CRBT for Spice. Is it a significant proportion?
- B. K. Modi** In India it is not significant. But to inform you we have entered into a contract in Airtel Africa for CRBT.
- Archit Singhal** And that is an exclusive contract, the Airtel Africa?
- B. K. Modi** Yes.
- Archit Singhal** Okay and what are the pricing pressures we have observed in VAS, say when the renewal for contract comes?
- B. K. Modi** Sustaining margins in VAS is challenge as the operators are trying to squeeze the margin and look for higher revenue share and it will continue to some extent. However most of the VAS players do combine and feel that the pressure is there but all thinks that margins can go down from here to some extent only.
- Archit Singhal** Okay and at this moment do we have contracts with all the operators or do we have an exclusive contract with some operators?
- B. K. Modi** We have contracts with most of the operators but are non-exclusive. Only in Africa we have certain exclusive contracts.
- Archit Singhal** And that is for all the 15 countries.
- Murali** No, currently we are present in four countries. The exclusive contract with Airtel is specifically in Tanzania.
- Archit Singhal** Okay great.
- Moderator** Thank you. The next question is from the line of Rajiv Sharma from HSBC, please go ahead.
- Rajiv Sharma** You mentioned about getting into the VAS business or the application business with the vendors, it would be great if you can help us understand the different dynamics versus when you do this with the operator and what are the kind of revenue share or how do make money when you are doing with the vendor and secondly in 3G what is your sense, in terms of application or VAS side, what will be the kind of revenue sharing, will it be the same what is the prevailing model what is there in the 2G business today or do you expect that to change on the upside or downside?
- B. K. Modi** Let me start with the 3G first, if you look at the studies and what is witnessed in China and other places of the share of VAS in total revenues of the operators which was about 10-12% in case of 2G has increased up to 20-30% in case of 3G, which is more than double. The revenues of operators from VAS are positively correlated to the revenues of VAS companies and as their revenues grow from VAS, revenues of VAS players increase. Coming to the device VAS we can preload lot of applications on device making them smart and feature rich and you bill the Device Company for hosting those applications on their devices or there can be subscription model for usage of applications etc. Apple

products have applications which are free to use and certain application for usage of which you need to pay fees/charges. To give you one more example we have a product called SUNO which is a VOIP product which we preload on our devices and is charged as per usage. There can be different revenue models where you can charge the company or end users based on usage. So that sophistication also has to come as you are getting into 3G operations which exist, so you can login on the phone and you can subscribe for the service and those services you can get on device and as you use that service can be charged to you. The other aspect is that we are working with the chip manufacturer; hence we can also develop products which will go not only on our phone but of third party phones and this is how we work with MTK. There are various ways to charge for usage of such applications through the operator, usage based, onetime payment, or through chip manufacturers or device manufacturers.

**Rajiv Sharma**

Okay on 3G you believe that the revenue sharing with the service provider is likely to be in a higher range because it will be a big part of the revenues?

**B. K. Modi**

The revenue share proportion should not be higher or increase but the total volume or revenues will be higher because the share of VAS in the total billing amount should increase significantly. The utility of 3G is not in voice based services but in the data and video based services and this will help operators to increase RPU which they collect from the customer with a large portion of it coming from VAS. Obviously this increasing revenue will be shared with VAS players. So the total absolute revenue will increase and the revenue sharing percentage will not.

**Rajiv Sharma**

On your Africa business, as you mentioned you are there in Tanzania exclusively with Bharti Airtel. What is the kind of trend you see in that market in terms of the VAS apart from CRBT do you see other products which are developing and in Tanzania what is the VAS as a percentage of voice there and what are the various opportunities which lie for the company like yours in you know some of the markets where you present or you plan to be there in over the next few months.

**B. K. Modi**

Bharti should be trying to implement a strategy in Africa based on VAS as this would be major differentiator for them. They will use their experience gained in India to grown in Africa by experimenting in some of the markets in Africa. Things are at an early stage and African markets are also developing. However there are many markets in Africa which are not 3G yet but ARPU is higher in those countries as competition is not that intense than it is in India. There are few service providers operating where as in India we are talking of 10-15 operators. Both Bharti & Spice have worked together in India so we should work together in Africa as well. However this is not the end and we are looking at some of the experience we have with global players in Malaysia, Indonesia and other countries to utilize and work with them in emerging markets incl. Africa. We will also look at device based VAS. Initially we would be dependent on Bharti to some extent in African markets.

**Rajiv Sharma**

In terms of various products which are there so CRBT is one but what are the other opportunities you see in that market.

**B. K. Modi**

CRBT is one of the products, which we are trying to offer an entire range of VAS services and products related to Music, gaming, streaming, social networking, education, information based etc. For the Indian market we customize application as per local requirements. Operators like Bharti also want us to be present with a full gamut of services & products to support their

strategy as well. Many products will be offered in the African markets as well but in a phased manner. We have a few unique advantages like I mentioned earlier. We have a strong presence in Malaysia, Singapore, and Indonesia and also have certain Islamic features (regional products) in VAS and devices. Operators like Bharti and others have shown interest in them and as they are quite popular in some of the African markets. Operators like Bharti etc, at present are looking forward to do whatever they are doing in India.

**Rajiv Sharma** So are you paying the India rates or higher ARPU? Is Africa also working positively for you?

**B. K. Modi** The arrangements are same as in India i.e on Revenue Share Basis.

**Rajiv Sharma** Okay thank you.

**Moderator** Thank you. The next question is from the line Abhay Moghe from Avendus Securities, please go ahead.

**Abhay Moghe** In India there are five big operators, Bharti, Vodafone, Idea, Rcom and Tata and 22 circles so are we present with all the five operators across all the 22 circles?

**B. K. Modi** Yes, we are working with all these five operators and across the 22 circles

**Abhay Moghe** Generally VAS consumer services are provided through a critical hardware called E1's which is used for communicating with the subscriber so if more volumes are handle more events are likely to be deployed can you share a number how many E1's are total deployed by you for your services in India?

**B. K. Modi** We have requisite E1s which is more than sufficient to handle any sudden increase in call traffic volume.

**Abhay Moghe** Okay. As far as my understanding goes hearing this call is that 3G is going to be a big focus for Spice going forward. Also related to 3G handsets so how many 3G handsets would be sold and what type of market share you are targeting say going like 6 months forward or one year forward.

**B. K. Modi** We are targeting higher market shares post 3G compared to 2G. In terms of 3G, we are more equipped than anybody and we are already selling 3G devices and other products (VAS etc.) in the 3G market. Our entire strategy itself is based on 3G and Mobility 2.0. We are increasing our geographical presence across the Indian market, reviewing our product portfolio. In 3G, operators are not looking only at VAS, they want to tie-up with organized retail players and they also look at device companies who can provide smart handsets and continuous innovation supporting 3G. With the reverse merger we brought all three businesses under one roof, creating a unique customer centric business model, getting ready for 3G and the smart phones market. We are really waiting for 3G to penetrate. There is some delay which we all know and question here is timing. However India should move into 3G in a very big way led by data and VOIP. India will catch up much faster on 3G than the rest of the world. We were getting our company fully ready for 3G and have all the necessary elements to have the advantages to capture the 3G market as in 3G market, retail and VAS will be equally important along with the device. We were and are working on this goal and that's where we see a significant advantage over competitors.

**Abhay Moghe** If my information goes correct around in India, whole industry is selling around 9 to 10 million handsets per month, may be a figure like 10% above or below that. Now, do you think when 3G services actually get launched, the 3G handsets that are getting sold per month might be around say 10 to 20% of what currently we are selling as a total as a handset for the industry?

**B. K. Modi** It could exceed that and may go up to 30%, depending upon the aggressiveness of 3G operators. But the amount of money these companies have paid, they should not be able to recover their money unless they convert substantial customers to 3G. So if you do the math, the amount of money which has been spent to acquire 3G licenses they should penetrate about 50% of customers in respective circles to their investments on 3G plans. So operators will be very aggressive in terms of 3G. To penetrate they will use VAS and Retail apart from devices. If they are not aggressive in 3G, then they will have a major disadvantage there are only three operators in 3G, while in 2G, the competition is furious. 3G will help them in terms of market share of 3G. I am very bullish on 3G.

**Abhay Moghe** What would be your sense on the number of 3G handsets in India currently?

**B. K. Modi** 3G is not yet fully operational and we are speaking of 2 million devices. MTNL and BSNL have made an entrance through soft launches. Unless you aggressively launch your product for VAS, retail and device in a very aggressive manner, it is difficult to be successful. So the real thrust will be evident when Vodafone and DOCOMO have an all India license while others don't. They all have licenses of 40% to 60% of the country and all these major players whether it is Airtel, Vodafone, Idea, Tata, Aircel, Reliance, they all have certain parts of India. Nobody has a license that covers all of India. They have to be very aggressive in the regions that they cover. This has changed the whole mobility scenario worldwide and that's where accrual strategies have worked. Apple was not very strong till the strategy of 3G and smart phones came. Their main strategy has been around device VAS and retail and the company who are not in VAS and retail, and exist as device manufacturers have suffered the most. This is related to customer experiences. Retail is equally important and so is VAS, hence a Company should not be present in manufacturing devices alone. That is what we are working on and we will be ready all India by the end of the next year as 3G is launched on a large scale as that is what our strategy is based.

**Abhay Moghe** Thanks.

**Moderator** Thank you. Ladies and gentleman that was the last question. I would now like to hand the floor back to the management for closing comments, please go ahead.

**B. K. Modi** Well, I would like to restate that the whole strategy of Spice Mobility is for mobility 2 where the Smart phone becomes the key and 3G becomes the basic infrastructure with WiFi and WiFi Max. Spice Mobility is the company for you if you look at 3G. As far as 2G is concerned, there are many players present in that space. We want to make this company known for being ready for 3G and are looking at creating a brand, which is the first digital brand in the world. We are also looking at escalating the culture inside the company, ready for the future and I hope we will have your support as we have always received. Thank you very much.

**Moderator**

Thank you gentleman in the management. Ladies and gentleman, on behalf of Spice Mobility that concludes this conference call. Thank you for joining us and you may now disconnect your lines.