

Grading Rationale for CRISIL IPO Grading

OnMobile Global Limited

CRISIL IPO Grade 4.0/5.0

Public Issue of 10,900,545 Equity Shares of face value Rs 10 targeted at an issue size in the range of Rs 3,500-4,500 million

Bid/Offer Opens	*
Bid/Offer Closes	*
Shares Offered	10,900,545
Shares Outstanding (Post issue)	57,406,139
Lead Managers	
Deutsche Equities India Private Ltd.	
ICICI Securities Ltd	
Registrar to the Issue	
Karvy Computershare Private Ltd.	

OnMobile Global Ltd.			
Past Financial performance		2005-06	2006-07
Operating income	Rs Million	826.2	1,329.7
Operating margins	Per cent	57.0	45.9
Net profits	Rs Million	247.8	337.2
Net margins	Per cent	30.0	25.8
ROCE	Per cent	120.0	41.0
Return on Equity	Per cent	77.0	27.6
No. of equity shares	Million	1.0	3.3
Net worth	Rs Million	445.9	2,040.6
Basic Earnings per share*	Rs	19	13
Diluted Earnings per share*	Rs	7	7
Book value	Rs per share	445.9	618.4
Gearing	Times	0.0	0.0

* On post-bonus equity; the company made a bonus issue in the ratio of 12:1 in August 2007

Shareholding pattern	Prior to the issue		Post issue	
	No. of shares	%	No. of shares	%
Promoters	37,307,647	76.46	35,020,458	61.00
Promoter group	45,500	0.09	45,500	0.08
Others	11,439,636	23.45	11,439,636	19.93
Public	-	-	10,900,545	18.99
Total	48,792,783	100.0	57,406,139	100.0

In order to arrive at the overall grade, CRISIL has considered the following broad parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance.

Overall assessment

CRISIL has assigned a CRISIL IPO Grade '4/5' (pronounced 'four on five') to the proposed Initial Public Offer of OnMobile Global Ltd (OGL). This grade indicates that the fundamentals of the issue are above average relative to other listed equity securities in India.

The grading reflects OGL's position as the largest player in the mobile value-added services (VAS) market in India, and its strong presence in the voice portal and ring back tone (RBT) segments of the VAS market. The grading also reflects OGL's ability to leverage on the unique voice recognition capability of its platform as telecom operators in India expand coverage into rural areas, and its ability to offer customer contact products to goods and services companies by virtue of having a voice channel relationship with almost all telecom operators. The grading also factors the management's strong understanding of market dynamics, as reflected in OGL's consistent track record in product innovation, and pro-activeness in setting up a corporate governance system in the company, as indicated by the appointment of independent directors over a year ago. The grading is tempered by the fact that OGL has low bargaining power with its customers i.e. telecom operators, as it does not brand its products and depends on the operators to take its products to the market. The grading also reflects the anticipated change in OGL's revenue profile, as it opens up its proprietary platform to third parties for applications development. This will cause the business mix to move from the current content cum platform mix to more of the latter.

Large player with unique voice recognition platform and good application development skills

With revenues of Rs 1.33 billion in 2006-07, OGL is the largest player in the mobile VAS market in India among platform providers, content aggregators, and content owners, with an estimated market share of around 22 per cent. OGL delivers white-labeled applications to its customers, which include almost all telecom operators in India. While OGL provides the technology and the applications, branding and marketing is taken care of by the operator. In return, the company gets a share of revenues earned by operators from VAS. This strategy has worked well for the company, enabling it to share the benefits of the stupendous growth in India's mobile subscriber base and increasing penetration of VAS.

At the core of OGL's client offering is a multi-modal platform for taking requests and providing services – voice in over 10 different Indian languages, short messaging services (SMS), and wireless application protocol (WAP). Leveraging on this platform, OGL provides a range of services and applications such as ringtones, information, RBT, and m-commerce to subscribers of its telecom operator clients. The company has a dominating presence in the voice-based VAS space due to the voice recognition capability of its platform. In the RBT space as well, the company has a strong market presence, owing to innovations such as live content on RBT and "Press * to copy feature". OGL's position is relatively weak in other segments such as SMS and WAP.

CRISIL believes that OGL faces limited technological risks over the medium term due to the predominance of voice-based applications in its revenue streams. With a large part of future growth in the mobile subscriber base in India expected to come from rural areas, OGL's competitive strengths in respect of voice recognition technology would hold it in good stead. A voice-based access platform is particularly useful in providing VAS to subscribers, who are not comfortable with the SMS channel due to reasons of literacy and are more comfortable accessing a service in their local language or where a single selection is required to be made out of a large list.

Strong relationship with almost all operators — an advantage in offering services to third parties

OGL enjoys voice channel access to subscribers of all leading mobile operators in India through existing arrangements, which puts it in a position to offer an alternative platform to third parties like media companies and perhaps other goods and services companies to reach consumers.

This ability to reach a large number of subscribers, along with the strength of its voice recognition platform, would enable OGL to continue to partake the benefits of the expected strong growth in the Indian mobile market over the medium-term.

Low bargaining power with telecom operators in the absence of innovation

Telecom operators who provide the last mile access to the customer enjoy a dominant bargaining position in the telecom value chain with respect to all other participants in the chain. This holds true for mobile VAS providers like OGL as well, whose margins would not withstand the pressure exerted from telecom operators in the absence of constant innovation on VAS applications. This is perhaps why almost no other telecom market in the world has seen the emergence of a large third party VAS operator. The pressure on OGL to innovate to protect its margins would be particularly higher as it gives up proprietary access to its uniquely capable technology platform.

Change in revenue profile towards more of a platform provider

Currently, OGL earns its revenues from application development as well as platform provision. Over the next few months, the company intends to move towards a model wherein it will not only run its own applications but also host third-party applications on its platform. Once this happens, the company's revenue mix would change; future revenues would have a higher share of platform provision, which has lower margins than a composite content cum platform offering.

Sound top management and corporate governance systems

OGL's management has demonstrated a strong understanding of market dynamics and strong capabilities in product innovation, both of which are vital to continued growth in OGL's business. Most of the company's senior employees on the technical side, who manage the day-to-day operations, have been with OGL for

long, some, even since its inception. However, OGL still depends on its two promoters for vision and strategic continuity. OGL's Board of Directors and its promoters seem to be alive to the situation, and are working towards putting in place a strong second line of management within the next year or so.

OGL plans to reduce its dependence on the Indian market by expanding into international markets either organically or inorganically. In the last one year, the company has made two acquisitions in the products space – Mumbai-based ITFinity Solutions Pvt. Ltd for a total consideration of Rs 405 million, and Paris-based Voxmobili SA for around Rs 1,440 million. ITFinity's core product is a handset client that resides on the handset of the subscriber and provides browsable content on an Internet connection, while Voxmobili's products such as synchronised address book and phone back up enable management and access of personal data.

The processes being followed by OGL before Board meetings and the kind of discussions that have taken place in Board meetings, to date, indicate adequately strong corporate governance procedures. OGL inducted four independent directors on its Board around a year ago, in August 2006. OGL's independent directors have an excellent reputation and standing in the business community, and are also on the Board of other large corporations. The experience and insights they bring to the table should considerably aid OGL as it seeks to build stronger processes and put systems in place to support its growth plans.

Shareholder issue in OGL's holding company

In its draft red herring prospectus, OGL has stated that Infosys Technologies Ltd., which holds 5.28 million non-voting and 0.1 million voting shares (representing an economic interest of 18 per cent) in OnMobile Systems Inc., the holding company of OGL, has conveyed their opposition to the proposed IPO of OGL. Based on CRISIL's understanding of the situation, we believe that this issue is not likely to impact the proposed IPO.

Business profile

OGL is the largest mobile VAS provider in the Indian market. The company was promoted by two first generation entrepreneurs – Mr Arvind Rao, and Mr Chandramouli Janakiraman. The company was originally incorporated as Onscan Technologies India Pvt Ltd in September 2000 by its promoter OnMobile Systems Inc (OMSI). OMSI itself was an incubated start-up of Infosys Technologies Ltd, incorporated under the Delaware General Corporation Law in December 1999, with the objective of developing telecommunication software platforms and applications for the mobile telecom industry.

The company's name was changed from Onscan Technologies India Pvt Ltd to OnMobile Asia Pacific Private Ltd from April 2001. Subsequently, in August 2007, the status of the company was changed to a public company, and it was again renamed as OnMobile Global Ltd.

OGL's initial plan, when it commenced operations, was to deliver products to telecom operators in the international market. However, things did not go as planned, as the telecom worldwide industry went into turmoil at the turn of the century. Subsequently, towards the third quarter of 2002, OGL decided to shift focus on the Indian market. The company today does business with all leading mobile operators in India, except Aircel and Spice.

OGL's product offering comprises a platform named MMP 2500 – a combination of standard hardware sourced from vendors and OGL software – which is technology and handset neutral. Currently, this platform is deployed mostly at the mobile switching centre of the operator. OGL, though, plans to move to a more centralised architecture over the next few months. The infrastructure at the mobile switching centre consists of a telephony server, database server, and application server. The function of the software in the MMP 2500 is to talk to the network of the mobile operator through a telephony server and deliver the content sought by subscribers. Due to the way the network is designed, each time a new application/content has to be added, OGL has to deliver the software at the switch, which can become a logistical nightmare at times. Currently, the only way to develop applications on the MMP 2500 platform is proprietary with OGL.

OGL now plans to throw open its platform to third parties for putting their own applications. For this, the company proposes to change its deployment architecture to a more centralised system, wherein only the telephony server will be placed at the mobile switching centre. The application and database server would move to a central location, thereby giving third parties the freedom to provide applications using its platform.

The other elements of OGL's future strategy include constant innovation to maintain its bargaining power with telecom operators, acquisition of companies that have complementary products, and further geographical expansion into international markets.

Financial profile

The growth in India's mobile subscriber base and increased usage of its services has propelled OGL's business growth. In 2006-07, the company reported a net profit of Rs 337 million on a turnover of Rs 1,330 million. OGL's revenues and profits have increased at a CAGR of almost 100 per cent from Rs 173 million and Rs 43 million, respectively in 2003-04. The company's return on capital employed (RoCE) and return on equity (RoE) was 41 per cent and 28 per cent, respectively, in 2006-07.

Profile of Management and Board

OGL's business direction and vision are governed by its two founder promoters. They are supported by around 700 employees (as of September 2007) looking at various functional areas such as operations and delivery, engineering, sales and marketing, and other support functions. Several members of the senior management team have been with the company for long; some, even since its inception.

OGL's board comprises seven directors, which includes two promoter directors, four independent directors and one nominee director (non-executive). All independent directors on OGL's Board – Mr Sridhar Iyengar, Mr Vikram Kirloskar, Mr Naresh Malhotra, and Prof Jayantha Varma have excellent ability and standing in the business community. The Board of Directors has been highly involved in decisions taken by the company since they joined the Board.

Board of Directors					
Name	Designation	Age (years)	Qualification	Other Directorships	Experience
Mr.Arvind Rao (Promoter)	Managing Director and Chief Executive Officer	49	B.Tech from IIT Mumbai; M.S from University of Wisconsin, Madison; and M B A from Wharton School, University of Pennsylvania	Other directorships in two Indian private companies, OnMobile Systems, Inc., OnMobile Singapore Pte Ltd., and Vox mobili SA	Field Engineer at Schlumberger Wireline Services, Senior Engagement Manager at McKinsey & Company, Private Equity Investment Manager at the Chatterjee Group, and Managing Director of Technology investments at Gilbert Global Equity Partners
Mr. Chandramouli Janakiraman (Promoter)	Chief Technology Officer	39	B. Tech from National Institute of Technology, Allahabad	Other directorships in one Indian private company, OnMobile Singapore Pte Ltd., OnMobile Australia Pty Ltd., and PT OnMobile Indonesia	Associate Vice President and Head of the Internet Products Group at Infosys Technologies Ltd.
Mr. H.H.Haight IV (Representing Argo Global Capital)	Non-Executive Director	74	B S from University of California, Berkeley; and M B A from Harvard Business School	OnMobile Systems, Inc., and 13 other foreign companies	Managing Director of Advent International Corp.
Sridar A.Iyengar	Independent Director	60	Fellow Of the Institute of Chartered Accountants, England and Wales	Infosys Technologies Ltd., Infosys BPO Ltd., ICICI Bank Ltd., Rediff.com India Ltd. and 5 foreign companies	Associated with Bessemer Venture Partners; was Chairman and Chief Executive Officer at KPMG, India operations
Vikram S.Kirloskar	Independent Director	48	B E, Massachusetts Institute of Technology, Cambridge	Eight companies belonging to the Kirloskar Group, and five Trusts	Chairman and Managing Director of Kirloskar Systems Ltd., Vice-Chairman of Toyota Kirloskar Motor Private Ltd. and Toyota Kirloskar Auto Parts Private Ltd.
Naresh K. Malhotra	Independent Director	60	B. Com from St.Xaviers College, Calcutta University; and Chartered Accountant	Nine other Indian companies, and one foreign company	ICI, Unilever, Colgate Palmolive, Bukhatir Investments, the UB Group, KPMG, and Amalgamated Bean Coffee Trading Company
Prof. Jayanth RamaVarma	Independent Director	47	B.Com from Bangalore University; Cost Accountant; PGDBM from IIM, Ahmedabad; and Fellow, IIM Ahmedabad	Infosys BPO Ltd., and Axis Bank Ltd.	Professor at IIM Ahmedabad; previously served as a full-time member of SEBI and as Chairman of various committees formed by SEBI and the Department of Company Affairs

Source: Company prospectus

Disclaimer

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