

OnMobile Global Ltd.

Price Band	: Rs425 - 450 per share	January 24, 2008
Issue open during	: January 24 - 29, 2008	
Recommendation	: Subscribe with a medium term view	
Book Running Lead Managers	: Deutsche Equities, ICICI securities	
Grading (Crisil)	: 4 / 5	
To List on	: NSE and BSE	
Market Cap post-listing	: Rs25.8Bn or \$655mn (based on the cap price)	

IPO of 10.9mn equity shares of Rs 10 each, comprising of fresh issue of 8.6mn shares (Rs387Cr) and offer for sale of 2.3mn equity shares by promoters (Rs104Cr), aggregating to Rs491Cr or \$124mn at the cap price

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	35,265,506	72.28%	32,978,317	57.45%
Promoter Group	45,500	0.09%	45,500	0.08%
Total of Promoters & Promoter Group	35,311,006	72.37%	33,023,817	57.53%
Pre-IPO investors	2,842,141	5.82%	0	0%
QIBs excluding Mutual Funds	4,187,177	8.58%	6,702,302	11.68%
Mutual Funds	0	0%	327,016	0.57%
Others	6,452,459	13.22%	6,452,459	11.24%
Public	0	0%	10,900,545	18.99%
Total	48,792,783	100%	57,406,139	100%

Recommendation - Subscribe with a medium term view

- OnMobile Global Ltd. (OMGL) provides value added software products and services such as network based in-call solutions viz., ring back tones, voice mail, missed call alerts, etc., interactive media solutions, mobile commerce solutions and mobile marketing solutions to the leading telecom services provider.
- The company has well-entrenched promoters in the field of software development and telecommunication. The company's strategies to enter into long term contracts (of say 2-5 years) is also a major positive, leading to visibility of revenues.
- Strong clientele includes Bharti Airtel, Vodafone, Reliance Communications, Tata Teleservices, etc. The company has developed software applications compatible with 2G, 2.5G and 3G networks.
- The data / value added services business is highly technology-intensive. It requires capable personnel with a strong technology base, in order to rapidly develop new products and services.
- We expect strong volume as well as price-led growth in the industry, due to factors like low tele-density of 23.21 in India and entry of new telecom players.
- According to Gartner, growth in value-added services (CAGR of 45.7%) will outperform growth of overall telecom industry (CAGR of 26.6%) over 2006-11E. In view of declining tariffs, which are already the lowest in the world, telecom players are focusing on VAS (value-added services) in order to improve ARPU's. We believe OMGL is well poised to tap this opportunity, in view of its track record of acquiring and retaining customers. Financial track record too is impressive (revenue CAGR of 99.3% and earnings CAGR of 100.8% over FY04-07).
- Capex of Rs180Cr for installation of equipment at OMGL's and clients' facilities will help it develop new services, such as mobile commerce / mobile marketing and media solutions. These investments in hardware equipment will help support application development engineers and technical personnel, business development experts etc.

- In our view, going forward the growth potential of the industry may attract new players, while existing players will need to employ resources on creating new products, services and technologies. We believe growth of the company will largely depend on its ability to develop new software applications and acceptability of the same by consumers. We expect revenue CAGR of 57.9% and earnings CAGR of 54.5% over FY08-10. The company is also planning entry mainly into the Europe and US markets which may create more opportunities, going forward.
- Concerns include (i) relatively low pricing power due to dominance of large telecom players and fragmented nature of the VAS industry and (ii) relatively low entry barriers leading to increased competition going forward. We rate the large capex of Rs180Cr for equipment as a key concern, given the rapid obsolescence of hardware and technologies and increased costs on account of higher depreciation charge.
- Valuation of the IPO, at 22.1x FY09E and 15.4x FY10E, appears stretched vis-à-vis closest competitor Tanla Solutions Ltd. which operates in the same industry (please see comparison on page 7). However, in view of the promoter background, client base and expected growth, we recommend subscribing with a medium term view.

Company Background

OnMobile Global Ltd (OMGL) was incorporated as “Onscan Technologies India Private Ltd” in September, 2000. Subsequently the name was changed to OnMobile Global Ltd. in April, 2001. The company was converted into a public limited company in August, 2007.

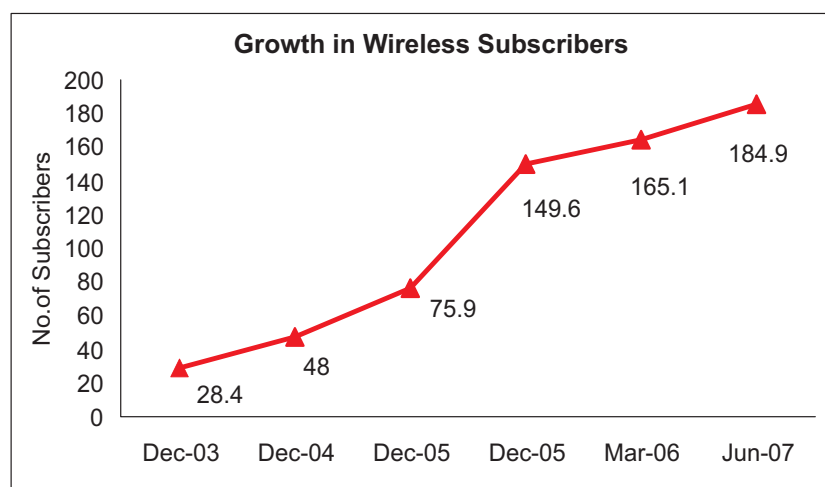
Promoters

OMGL has been promoted by OnMobile Systems Inc., in which Infosys Technologies Ltd. has a 17.9% stake. Promoters of OnMobile Systems Inc. are:

Mr. Arvind Rao, MD and CEO, is a B.E. (IIT), MBA and MSc. He has over two decades of experience in financial services, IT and telecom industries.

Mr. Chandramouli Janakiraman, Chief Technology Officer, is a B.E. and has 19 years of experience in the software industry.

Industry overview



The Indian telecommunications industry has experienced significant growth in recent years, mainly in the mobile segment. The telecom penetration in India continues to be low compared to international standards and industry forecasters see the India telecom industry continuing to grow strongly over the next few years

The cellular connections in India will grow to approximately 462mn by end of 2011 at an implied CAGR of 26.6%. Correspondingly, revenues from cellular services will increase at an implied CAGR of 23.4%.

The rapid growth in data services is being driven primarily by factors like increasing consumer demand for value added services, falling call rates etc

Business overview

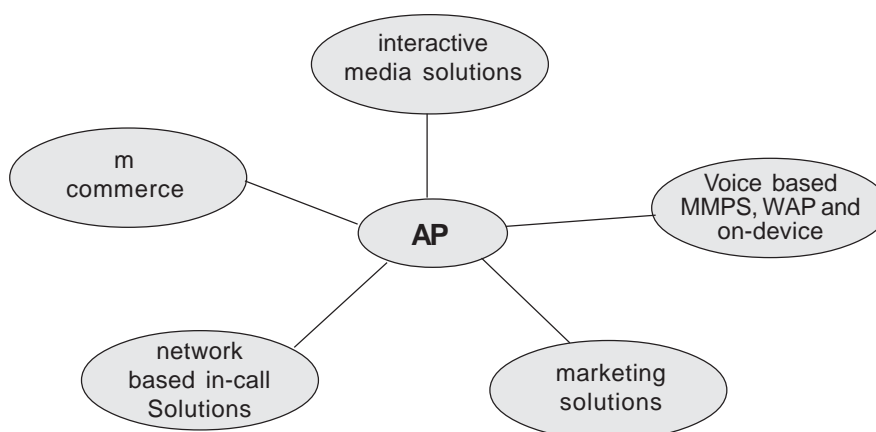
OMGL is a leading provider of telecommunications value-added software products and services in India with an expanding international presence, particularly in emerging markets in Asia.

Their principal products consists of

- **Multi-modal Platform**

The multi-modal platform, MMP2500, is the core platform on which all the applications operate. MMP2500 is a carrier-grade system that effectively integrates multiple delivery modes, payment, delivery of applications in multiple languages (10 vernacular languages) and subscription options for 2, 2.5 and 3G networks and handsets

- **Application Products (AP)** can be broadly categorised as follows:



Network based in-call solutions

1. Ringback Tones
2. Voicemail and Missed Call Alert Service
3. Voice SMS
4. Voice Based Multi-Modal Portal, WAP and On-Device Applications
5. Music Solutions
6. Information and Entertainment Solutions like sports update, stocks update, movies update, news, etc.
7. User-Generated Content Solutions

Interactive Media Solutions

The company provides unique access number to media companies like TV Broadcasters, news papers, magazines who want the end customers to interact and actively participate in the polls, contents by using mobile phones.

Mobile Commerce Solutions

1. Mobile Ticketing
2. Pre-paid Recharge
3. Bill Payment
4. Shopping Mall

Mobile Marketing Solutions

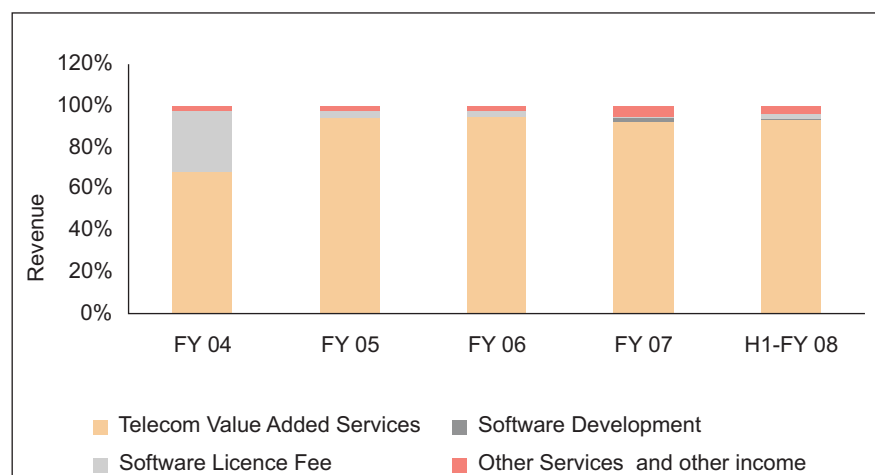
Services such as automated messaging about new promotions and offers on products and services to a specific list of users based on the target profile.

Contract based business model

The company enters into contracts with customers on a non-exclusive basis, typically for 2-5 years. The contracts are on revenue sharing model under which the company receives a fixed percentage of net revenue generated from its products and services by the customers.

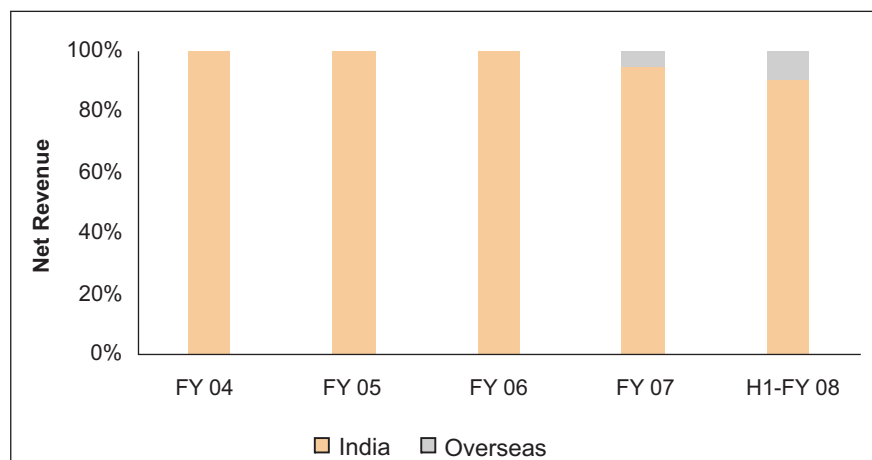
Revenue structure

Segmental revenue mix



Segments	FY 04	FY 05	FY 06	FY 07	H1 - FY08
Telecom Value Added Services	68.27%	94.51%	94.87%	92.53%	92.87%
Software Development	-	-	-	1.68%	1.08%
Software License Fee	29.20%	3.42%	3.26%	0.96%	2.46%
Other Services and other income	2.53%	2.07%	1.87%	4.84%	3.60%

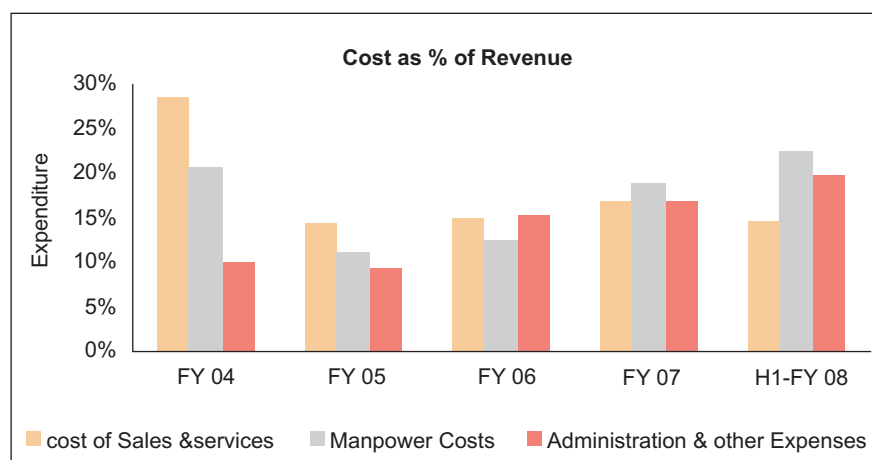
Geographical revenue break-up



Recent Acquisitions and Investments have enabled the company to extend its operational boundaries. The acquisitions are:

- ITfinity Solutions Private Limited (acquired in December 2006), a mobile technology software specialist based in India, with an expertise in developing mobile data products.
- Vox mobili S.A. (acquired in September 2007), a Paris-based global provider of personal data management, wireless synchronization and embedded client solutions.

Revenue Mix



Cost of sales and services shows a decreasing trend. Increasing trend of manpower costs on account of the focus on software applications is a major concern. These trends may continue in near future.

Investment View

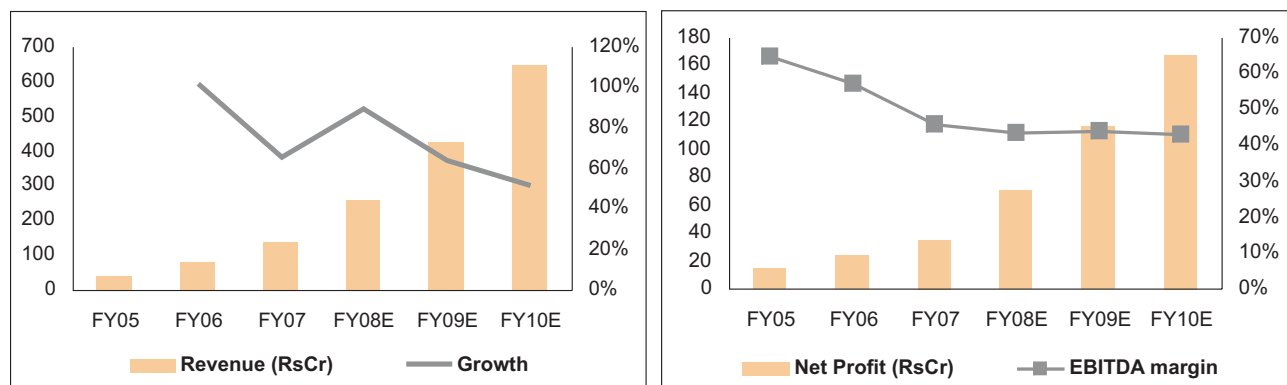
Rapid growth on account of higher mobile penetration and changing habits

India is witnessing a trend towards higher utilization of phones for music, entertainment, games and information. This has been enabled by development and availability of richer content through telecom networks as well as better handsets that provide easy user interfaces. Currently, India's tele-density is 23.21 and still has a wide room for new subscriber additions. We believe increase in subscriber numbers may fuel the demand for value added services.

OMGL is better placed to tap the opportunity

The value added services market is expected to outperform the growth of the telecommunications industry. OMGL has a fairly well established track record and has also delivered in terms of revenue growth (CAGR of 99.3%) and earnings growth (CAGR of 100.8%). We expect the company's revenue growth to be closed to the industry growth due to its entry in the newer markets like Europe and US and its established track record with domestic customers.

Strong revenue and earnings growth, going forward

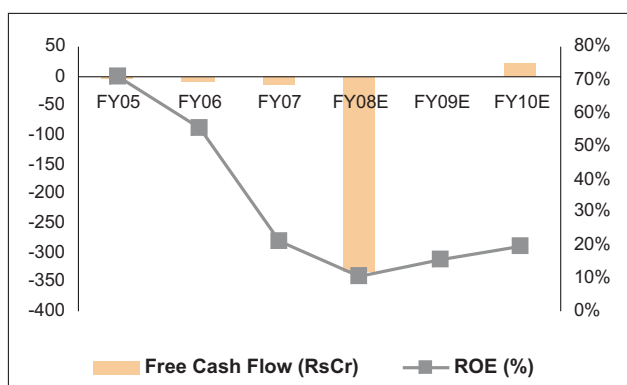


FCF to be positive only in FY10 and sustained growth in ROE after FY09

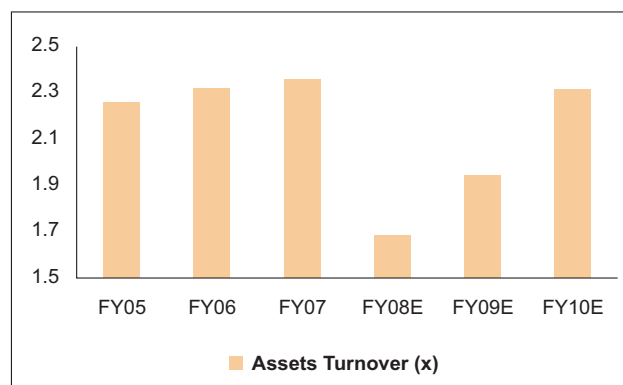
OMGL is in a steady expansion programme. For last 3 years (FY05-07) the company has spent Rs46.30Cr as capital costs. The company showed negative cash flows due to the major expansion. We expect the trend to continue over next 2 years (till FY09).

We expect ROE to improve only post-repayment of loans in FY08 and after the expansion programme begins to deliver results in FY09. We expect the entry into newer geographies like Europe and the US and also increasing mobile penetration in India to lead to improved asset turn. We have assumed a relatively stable EBITDA margin trend over next 3 years in our estimates.

ROE to move up in FY09; FCF positive in FY10



High capex to lead to sudden dip in asset turn



Expansion project

(RsCr)

	2008E	2009E	2010E	Total
Purchase of equipments for offices in Bangalore, Mumbai and Delhi and various customer sites	55.52	60.00	65.00	180.52
Working Capital	5.00	0.00	0.00	5.00
Repayment of Loan	35.00	0.00	0.00	35.00
General Corp. Purposes and Issue exp.	-	-	-	167.08*
Total	95.52	60.00	65.00	387.60

* Based on the cap price

Low clarity on industry dynamics, pricing power and competitive scenario

We are not clear about the industry operations, pricing power and degree of competitiveness, due to lack of adequate data. In our view, Tanla Solutions Ltd. which provides services to the telecommunication industry is a comparable peer.

The industry is nascent, fragmented and highly competitive and is characterized by frequent introductions of new solutions and applications, evolving wireless platforms and new and improved technologies. In our view, retaining pricing power and sustaining profitability will always be a challenge for the industry.

Fragmented nature of the industry, as evidenced by the presence of many small players indicates low entry barriers and high competition.

Comparison with Tanla Solutions Ltd.

	Price (Rs)	Sales Growth			Earnings Growth			P/E (x)			PEG (x)		
		FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Tanla	602.80	102.8%	37.8%	32.0%	70.3%	34.2%	33.0%	19.3	14.4	10.8	0.28	0.42	0.33
OMGL	450.00	89.3%	64.0%	52.0%	101.2%	66.6%	43.2%	36.7	22.1	15.4	0.36	0.33	0.36

(Keynote Capitals's estimates for OMGL and analyst consensus estimates for Tanla Solutions)

Keynote Capitals's Earnings estimates and Valuation

	FY08E	FY09E	FY10E
Net Sales (RsCr)	258.78	424.39	645.08
PAT (RsCr)	70.31	117.13	167.72
EBITDA Margin	43.3%	44.2%	43.2%
EPS (Rs)	12.25	20.40	29.22
P/E (x)	36.7	22.1	15.4
ROE	10.7%	15.7%	19.4%
ROCE	15.5%	22.2%	27.5%

Why our estimates may be off the mark

- Events such as acquisitions, new premium products innovation, etc. may lead to positive earnings surprises. Factors causing negative surprises may include entry of new players, which may bring new technological innovations and fresh capital, increased competition from existing players and entry of telecom providers into this segment.
- The increasing competition in the telecom sector may impact pricing power of telecom players and in turn, of the industry in which OMGL operates. In such a scenario, the topline and profitability of OMGL may get severely impacted.
- Finally, the company's ability to ramp-up in the domestic market and deliver in the to be entered, competitive markets in Europe and the US may impact our estimates.

Consolidated Profit & Loss Statements

(RsCr)

For y.e. March 31,	2004	2005	2006	2007	H1FY08
Net Sales	17.26	40.95	82.62	136.68	112.51
Expenditure					
Cost of Sales & Services	4.94	5.96	12.28	23.79	16.23
Manpower costs	3.58	4.61	11.49	27.86	26.65
Admin. and other exps.	1.76	3.89	11.72	22.42	21.10
Total Expenditure	10.27	14.45	35.49	74.06	63.98
EBITDA	6.99	26.49	47.13	62.62	48.53
Other Income	0.12	0.14	0.11	4.52	3.79
Interest	0.00	0.00	0.00	0.02	0.21
PBDT	7.11	26.63	47.24	67.13	52.11
Depreciation	0.85	4.48	8.51	14.40	9.98
Profit Before Tax	6.26	22.16	38.73	52.72	42.13
Tax	1.94	8.13	14.05	17.78	11.60
Profit After Tax	4.32	14.02	24.68	34.94	30.52
EBITDA margin	40.5%	64.7%	57.0%	45.8%	43.1%
EPS (Rs)	18.89	61.23	107.67	95.63	6.26
Book Value (Rs)	25.29	86.50	194.55	449.76	45.50
Paid-up Equity Capital	2.29	2.29	2.29	3.65	48.79

Consolidated Balance Sheets

(RsCr)

As at,	31.3.04	31.3.05	31.3.06	31.3.07	30.9.07
Sources of Funds					
Paid-up Equity Capital	2.29	2.29	2.29	3.65	48.79
Reserves and Surplus	3.50	17.52	42.30	160.69	173.22
Shareholders Funds	5.78	19.81	44.59	164.34	222.01
Minority Interest	0.00	0.00	0.00	19.17	25.43
Secured Loans	0.00	0.00	0.00	0.00	30.00
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Total Debt	0.00	0.00	0.00	0.00	30.00
Total Liabilities	5.78	19.81	44.59	183.51	277.44
Applications of Funds					
Gross Block	11.54	18.13	35.60	58.06	93.17
Less: Acc. Depr.	1.31	5.79	14.30	28.92	39.66
Net Block	10.23	12.34	21.30	29.14	53.52
CWIP	0.00	0.51	0.00	4.29	18.89
Goodwill on Consolidation	0.00	0.00	0.00	0.00	133.86
Investments	0.51	1.01	2.61	102.35	10.46
Curt. Assets, Loans & Adv.					
Inventories	0.16	0.00	0.00	0.00	0.00
Sundry Debtors	3.61	16.51	34.05	53.93	95.69
Cash and Bank	2.93	4.17	3.99	21.16	15.54
Loans and Advances	1.57	8.89	23.64	47.88	73.12
Total Current Assets	8.27	29.57	61.68	122.96	184.35
Current Liab. & Prov.	12.42	22.49	38.66	72.25	121.44
Net Current Assets	-4.15	7.08	23.02	50.71	62.91
Misc. Exp. Not w/o	0.00	0.00	0.00	0.00	0.00
Net Deferred Tax	-0.81	-1.13	-2.34	-2.99	-2.19
Total Assets	5.78	19.81	44.59	183.51	277.44

Keynote Capitals Ltd.

Member

Stock Exchange, Mumbai (INB 230930539)
National Stock Exchange of India Ltd. (INB 010930556)
Over the Counter Exchange of India Ltd. (INB 200930535)
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-22694322-25

Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

Disclaimer

This report by Keynote Capitals Ltd. is purely for information purpose and is based on the Red Herring Prospectus for the public issue of the company under coverage, published financial statements, public information and the recent analyst meeting of the company. Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell the securities mentioned herein. Opinions and estimates mentioned herein, if any, are based on workings of Keynote Capitals only. Investors in the issue are advised to read the RHP carefully before subscribing to the issue. Keynote Capitals Ltd. or any of its directors, officers or employees shall not in any way be responsible for any loss arising from the use of this report. Investors are advised to apply their own judgment before acting on the contents of this report.