

LEADING THE **SWITCH** FROM MOBILE TO MOBILE INTERNET

S Mobility Limited | Annual Report 2010- 11



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CHAIRMAN'S STATEMENT

Dear Shareholders,

Last decade was the decade of Mobile Telephony Revolution and the focus was to give Indian Consumers access to 'Dial Tone', this decade we are poised to witness a Mobile Internet Revolution that will focus to give the Indian Consumers access to an "Information Tone".

The Mobile Internet Wave has swept most developed markets and is only time before it hits our shores and Mobile Internet becomes a part of our daily life. Our team at S Mobility has kept its ear to the ground so as to best understand the pulse of the Indian consumer and when will they start to adopt Mobile Internet. On the back of these learnings, we have introduced some cutting edge offerings to enthuse both the rural and urban buyers. We have been able to swiftly respond to consumer needs and aspirations, by leveraging on the strength and diversity of our integrated business model which comprises of mobile devices, Value Added Services and a growing retail reach under one umbrella.

Our Product Development units and manufacturing facility offer us the benefits of cutting edge innovation, scale, efficiencies and state of the art product options in what is a very fast moving segment. I believe these would enable your Company to continue in the Spice Group's rich tradition of being the 'First to Market' and the first to spot emerging trends.

During the year under review we have endeavoured tirelessly to harness our strengths and capabilities to be best prepared to leverage on the tremendous potential the mobility segment enjoys. We have enhanced our product portfolio to include some exciting offerings, extended our market presence and established a deeper connect with the Indian customer.



I am delighted to inform you that S Mobility also featured in Forbes 2010, as amongst Asia's 200 Best Billion Dollar Companies.

The Indian Telecom sector

The Indian Telecommunications network with over 800 million mobile connections is the second largest in the world. Liberal Government policies have provided easy market access for telecom equipment and a fair regulatory framework for offering telecom services to Indian consumers at affordable prices. The Mobility segment is playing an important role for the society at large, by making the much needed communication services available in the rural and semi urban areas where tele-density is still quite low. Growth of broadband connections too has been extremely impressive at ~40% since 2008, today touching a subscriber base of nearly 9 million.

3G as the force multiplier

The arrival of 3G has heralded a faster and more robust Internet, better access to data services, including e-commerce, social networking, audio-video conferencing, and many other broadband applications which require higher connectivity speeds. We see three distinct directions this will take:

1. The emergence of a new VAS – which will allow the consumer to pay credit card bills, utility bills, book movie tickets and possibly do almost any transaction from the convenience of his or her phone. (Millions of subscribers and many large enterprises have already taken to these services)
2. The ability to access Internet application and services using mobile devices will lead to new customer segments accessing the Internet, and will drive the usage of the Internet for new usage. (Facebook usage on Mobile is double of its usage on desktop PC)
3. Finally, with the implementation of **mobile number portability**, service providers will increasingly depend on Value Added Services and Mobile Internet as their **key differentiators** to retain their existing customers besides attracting the new ones.

With intensifying competition, plummeting ARPUs against the burden of high employed capital, there is an urgency for operators to find new revenue streams by investing in new technologies such as VoIP and other innovative solutions to its consumers.

The success of the telecommunications sector had so far been restricted to urban India. Conventionally, subscriber growth and basic voice services have been the key growth driver for the sector. The introduction of 3G and later 4G services will play a key role in both expanding and accelerating this growth. Broadband connectivity and mobile VAS services are opening up newer avenues and implementation of new technologies and data centric applications will result in efficiency and transparency across operations.

The Mobile Internet Sector

Mobile internet is one of the fastest growing sectors in India. The enormous appetite for internet content will largely get being driven by mobile customers as access of internet by mobile subscribers will start to overtake desktop internet users. Mckinsey projects that the number of internet users will grow to more than 5 times from the present 81 million between 2010 and 2015. This is supported by the significantly large young Indian population - ~370 million under 14 year olds which is 1.5 times that of China!!

The sector's growth was earlier impeded by several critical anomalies, including a dismal underdeveloped and overstretched infrastructure, one key limitation was the availability of limited spectrum. Poor access and service prevented the efficient flow of even the most basic of services. The auctioning of more spectrum and efficient usage of the same by telecom operators is now starting to impact the service delivery positively.



It is heartening that a large proportion of the growth is contributed by volume expansion, which is an indication of rising demand and consumption. Handsets in the market today offer consumers great features at affordable prices. Microprocessors have reduced in size over a period of time, enabling handset manufacturers to compress more features within devices.

More interestingly, as prices for microprocessors and other parts reduce, these better features that replace existing components of handsets do not increase the price of handsets significantly but rather, keep it reasonably at a steady level or even reduces them at times. Your Company has been leading the charge in this evolution and thus increasingly able to provide consumers with a range of devices and services at ever more attractive prices.

Let me share with you another growing opportunity. Several of the international majors have focused on implementing broad and consumer friendly internet experiences in only English. Thus language has become a barrier for many in rural areas. Consumers who reside in rural areas cannot make full use of features that today's state-of-the-art handsets have. Catering to the rural masses by developing mobile based internet properties and offering value added services in regional languages is one of your Company's key USPs.

Retail will play a significant role in the growth of Mobile Internet. Vibrant display, friendly and knowledgeable service personnel, centres to get a touch and feel of the different services on offer; all help in creating a stronger bond and a deeper association with the customer. I invite you to visit and experience our Spice Hotspot stores – besides getting a look at the latest mobile devices, you will experience our exclusive Touchscreen kiosks, from which you can easily download some exciting data and voice applications.

The combination of a regional focus and an integrated business model with presence across the Mobile Internet value chain, gives S Mobility the opportunity to create mobile internet solutions that cater to every corner of the Indian market.

The new entity : S Mobility

As you are aware, Spice Mobility has now switched to S Mobility. The transition of Spice Mobility to S Mobility is not a mere name change but a transformation that symbolises a uniquely integrated business model, providing a rich Mobile Internet experience and products and services which allow convenient access to mobile internet to our vast consumer base. Your Company's well synergised business arms come together to form a unified entity that most efficiently delivers cutting edge mobile internet solutions. S Mobility possesses scale efficiencies and offerings that have not been heard of in India before. The unique business model helps us showcase our expertise in manufacturing and marketing a wide range of mobile devices including tablets, establishing our brand presence through 786 stores across 172 cities and the production of Value Added Services for multiple platforms and operating systems. S Mobility is the first Indian entity with such a unique and an all-encompassing business model. This business model caters to the people of both rural and urban regions, with state-of-the-art and innovative solutions which comprise cutting edge low cost devices capable of executing a range of data and voice internet enabled services. These products and services will be available across the length and breadth of our ever expanding network. Given our scale and history, I believe we will be able to exploit the benefits of this new and integrated business model and this will be soon visible to all.



There is a lot that differentiates your Company from any other player in the telecommunication space. Clearly the biggest differentiator is the synergistic blend of an established presence in manufacturing and marketing mobile devices, capabilities to create innovative voice and data applications and an extensive and growing retail presence.

Another key strength is the size and scale of your Company. With a current Net Worth of over Rs 8 billion, S Mobility is capable of taking significant initiatives to drive growth and create value. A third equally strong advantage is our legacy of many firsts. As you know our Group was the first to manufacture India's first copier, India's first Personal computer with a 3.5" floppy drive, and set up India's first 4D theatre. Your Company too as you would be aware was the first in the country to introduce a dual SIM handset, a dual memory slot phone, a 12 mega pixel camera phone with CCD sensor and 3x optical zoom and a projector phone.

Performance Perspective

During the year under review, the Consolidated Total Income of the Company along with its subsidiaries is Rs. 20,481 million registering a growth of approximate 63% over the previous year and Net Profit for the year has almost doubled to Rs. 1040 million as against Rs. 526 million for the previous year ended 31.3.2010.

This robust performance was driven by strong growth in device sales volumes combined with healthy Same Store Sales growth. Individual outlets grew on the back of Spice handsets sales and the introduction of a range of new VAS offerings.

The year saw a range of **new product launches** across all our product lines and introduction of offerings like India's first 3D screen cell phone, India's first projector phone and India's first 3G android based smart phones capable of high speed browsing.

Our VAS business also introduced some exciting offerings which included MITR, an Application Development and Distribution platform that allows Mobile Developers to develop and deploy mobile applications that run across handsets and several Operating Systems. Several apps on the MITR platform are presently available on Airtel

App Store, Blackberry World, Nokia Ovi Store, and other application aggregators. We also introduced a gamut of applications and content, with a focus on entertainment, information, music, religion and gaming all published on a multi-modal platform. A highlight was the live streaming product Live Aarti which enabled pilgrims receive online the blessings from shrines including Tirupati Balaji, Siddhivinayak, Shirdi Sai Baba and Shani Shingnapur.

Continued expansion of our Retail presence, improving Same Store Sales growth and growing Spice Hotspot Average Selling Prices which now stand at over Rs 4,000 also contributed to this strong topline growth.

Demand generation was enabled by high visibility ad-campaigns across a range of media as well as below the line initiatives. I am sure you have seen and experienced some of these.

On the supply side, a thrust on organised logistics, proximity to our manufacturing facility and enhancement of supply chain has contributed to improved EBITDA and PAT.

Our Board of Directors in line with the Company's philosophy of sharing the success of the Company amongst its shareholders recommended a 50% dividend on the enhanced equity share capital of the Company.

Outlook

S Mobility will soon establish itself as a key solution provider in the Mobile Internet space, distinguishing us from other companies. We believe that we are on the brink of witnessing prospects that are soon to unravel as market trends globalise. Your Company is





well positioned with both the environment and our highly integrated business model, offering us vast opportunities for growth. As I have discussed earlier, the increasing interest and dependence on data networks for almost any and every activity, the rise of organised retail and the growing number of tech savvy consumers will all further power our journey.

Going forward we will look to aggressively enhance our scale and competitive position to become a leading Mobile Internet player. Our highly capable management team will endeavour to drive this growth through the introduction of feature rich state of the art aspirational mobile devices offering a range of Value added and internet enabled services. We will focus on further entrenching and expanding our retail presence nationwide so as to be closer to our consumer and consequently better understand and respond to him or her.

Our growth will be driven through both organic and inorganic initiatives across the Asia Pacific region,

Middle East, and African regions. We will also look to leverage on the strengths and capabilities of our group company, S i2i ,which as you know has an established presence in several developed and developing markets across the Asia Pacific region.

A strong Balance Sheet which is debt free with cash reserves of more than Rs 3 billion, gives us the required war chest to realise our growth initiatives.

The journey and the opportunities are equally exciting, and I invite you to participate and enjoy both with us. Let me conclude by thanking all our customers, employees, vendor Partners, and most importantly you, our shareholders for your support and contribution in all our endeavours. I look forward to an even better year ahead.

With Best Wishes,

(Dr. Bhupendra Kumar Modi)
Chairman





Our Brand Vision

To stay one step ahead of the needs of the Mobile Internet Society.

Our Brand Promise

We deliver outstanding value by combining deep market knowledge with unconventional thinking. Knowledge guides us but imagination drives us.

Our Brand Attributes

A vision can only be pursued when backed by a set of strong values. We shall aim to instill in ourselves some key attributes.

Today, a Spicean can be identified as:

FEARLESS
IMAGINATIVE
VIBRANT
OPEN

THE VISION TO **SWITCH** FROM MOBILE TO MOBILE INTERNET

Smarter phones, greater value. We continue to lead the consumer revolution and switch to Mobile Internet



Mi-TAB 700



Mi-410



S Blueberry Aura



S Mobility STRUCTURE

