



Conference Call Transcript

Event: IndiaMART Q1 FY2020 Earnings Conference Call

Event Date/Time: August 1, 2019 at 1600 hrs

CORPORATE PARTICIPANTS:

Mr. Dinesh Chandra Agarwal – Managing Director and Chief Executive Officer

Mr. Brijesh Kumar Agrawal – Whole-Time Director

Mr. Prateek Chandra – Chief Financial Officer



Moderator:

Ladies and gentlemen, good day. And welcome to the IndiaMART Q1 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

Joining us today from the management side we have Mr. Dinesh Chandra Agarwal - Managing Director and Chief Executive Officer, Mr. Brijesh Kumar Agrawal - Whole-Time Director, and Mr. Prateek Chandra, Chief Financial Officer.

Before we begin, I would like to remind you that some of the statements made in today's conference call, maybe forward looking in nature and may involve risks and uncertainties. Kindly refer slide number two of the earnings presentation for detailed disclaimer.

Now, I would like to hand over the conference to Mr. Dinesh Chandra Agarwal for his opening remarks. Thank you. And over to you, sir.

Dinesh Chandra Agarwal: Thank you, Lizann. Hello, everyone and welcome to our first quarterly earnings call, post our IPO. As you are aware, IndiaMART got listed on BSE and NSE stock exchanges last month on 4th of July. I would like to thank all the stakeholders, everyone, shareholders, investors, employees and customers for their continued support during the successful journey towards the IPO.

On this call, I would start by providing you a brief overview of the company. And then I would pass on the call to Prateek Chandra who will elaborate more on the operational and financial performance for the quarter.

I hope you have had a chance to go through the earnings presentation that we circulated yesterday. And also, it is uploaded on Investor Relations website of IndiaMART as well as on both the stock exchanges. You can go through the earnings presentation that will give you a lot more idea about all the information that we have to share this quarter.

In terms of the brief overview of the company, IndiaMART started its operation as a limited company in 1999 and today, we are the largest B2B online classified marketplace with over 60% market share. IndiaMART provides a robust two-way discovery model, with almost 88 million registered buyers with 5.6 million registered suppliers on our platform. In aggregate, we display more than 60 million products and services on our marketplace, which are further categorized into 138,000 categories coming from 54 different industries and thousand plus towns and cities of India.

On a monthly basis, we match make almost 37 million enquiries with suppliers listed on our platform. That is almost 15 matchmakings every second on our platform. Our platform is completely free for the buyers. We earn revenue primarily through the sale of advertising and listing subscription packages to the suppliers, which offers the range of benefits including the priority listing to the supplier's storefront, access to the RFQs depending upon the subscription packages tier, premium number service and access to advanced lead management system that we

have designed internally at IndiaMART. As well as, an integrated access to the third-party online payment gateways to all the paying customers. Ours is a freemium business model and today we have approximately 133,000 paying customers of IndiaMART.

Another important thing that I would like to highlight is that our revenue comes primarily from subscription. And we collect subscription monies in advance for one year, two year and three year, along with the monthly packages. While we collect monies upfront, we recognize revenue only for the period of the contract. This results into a negative working capital and leads to a higher deferred revenue on our balance sheet. As a result, we generate lot more cash from operation, as against the EBITDA. For example, last year FY2019 we generated Rs. 255 crores of cash from operation as against the EBITDA of about Rs. 82 crores.

Buyers discover suppliers on our marketplace by searching products and services or by posting business enquiry called RFQ. Our business model is unique in that sense that suppliers can choose the RFQ or the buyer, as well as the buyer can search for the suppliers. This gives us many behavioral information about supplier preferences, and we utilize those supplier preferences very effectively in our algorithmic matchmaking, thereby improving experience for supplier as well as buyers.

Last year on an annual basis we had about 723 million visits on our website in FY2019 and 75%-76% of that visits were coming from the mobile website and mobile apps. In addition, I would like to emphasize that almost 100% of this traffic is organic, that means we do not spend any money in advertising on attracting any buyers or sellers on our platform. And our cost of buyer acquisition typically becomes zero that way. Our buyers are coming from thousand plus cities and towns of India. As you can see in the earnings presentation, only 36% of our buyers come from metro, and rest of the buyers come from thousands of towns and cities of India.

Buyer satisfaction remains at the forefront of our business model, along with our efforts to provide buyers with a comprehensive discovery platform, we also personalize the buyers' experience like buyer search on IndiaMART by matching the behavior-based preference of suppliers with respect to location as well as the product categories.

Currently, we are doing this with a traditional algorithm, but we are also experimenting with machine learning based artificial intelligent algorithm to use the supplier behavioral data to improve our matchmaking further.

Along with our strong SME supplier base, we now have started to attract bigger brands and larger suppliers on our platforms. Today, almost hundred plus suppliers, be it from Tata Motors to Tata Steel, Phillips to Schneider, JCB, Fevicol, Pidilite, Mahindra, and names like that have also started to advertise side by side of the SMEs on our platform. We believe that this would also be a good profitable growth opportunity for IndiaMART in times to come.

We continue to make investments in avenues that will drive future growth by focusing on increasing new customer acquisition, as well as improving supplier engagement and retention. As

part of these, we continue to explore and experiment with newer opportunities in FinTech and SaaS.

And now I will hand over the call to Prateek Chandra who will talk about the quarterly performance.

Prateek Chandra:

Thank you, Dinesh. Welcome, ladies and gentlemen. And thank you for taking time out and joining us on our Q1 FY20 earnings conference call. As you would have noticed in the results declared yesterday, IndiaMART achieved consolidated total income of Rs. 162 crores in Q1 FY20, delivering a strong growth of 37% year-on-year, which in the past have been at around 25%- 30%, revenue from operations were at Rs. 147 crores on a consolidated level, representing a growth of almost 30% year-on-year. The growth was primarily due to increase in the number of paying subscribers by 17% year-on-year to approximately 1.33 lakhs, coupled with higher realization from existing customers.

EBITDA margins for this quarter increased significantly from 11% in Q1 last year to 25% and driven primarily by increase in the revenues as well as optimum utilization of resources during the period. I just wanted to highlight that effective April 1, 2019, we have adopted IndAS 116 on lease accounting, due to which as compared to last year, our rent expenses have decreased by Rs. 4.5 crores, and there is a corresponding increase in the depreciation expenses and the finance cost. Excluding this impact, on a like-to-like basis, our EBITDA margin has improved from 11% Q1 last year to 22% Q1 this year on a consolidated basis.

As on June 2019, deferred revenue has increased to Rs. 610 crores as compared to Rs. 461 crores last year, an increase of 32% on year on year basis. This reflects the strength of our business model and also provides much better visibility for revenues in future. As a result of this deferred revenue, our cash flows are generally higher than EBITDA we generate, so our cash flow from operations for this quarter increased by 20% to Rs. 54 crores in Q1FY20, with EBITDA of Rs. 37 crores. We had a closing cash and investment of Rs. 746 crores as in June 2019, as compared to Rs. 448 crores as on June 2018, representing an increase of 67% year-on-year.

Thank you very much. And we are now ready to take any questions.

Moderator:

Thank you. Ladies and gentlemen, we will begin the question and answer session. The first question is from the Jai Nandwani from Perfect Research. Please go ahead.

Jai Nandwani:

I have got a few questions, which I will be listing down together. Question number one, what is the reason for higher difference for computer and gross block compared to JustDial? Our gross block is at around Rs. 7 crores versus JustDial's at around Rs. 160 crores, for FY18. So, almost a difference of 25x. And also, the difference between the revenues only 2x. Is our model different from their's in terms of the internal sales part?

Question number two, what has been the reason for negative net worth historically? And also it is observed that profitability was reached close to IPO by reducing the advertisement spend from more than 19% of sales in FY16 to 1% now. Can we still grow without such advertisements?

Question number three. If IndiaMART is already around 60% of market share, and the market is not growing in higher double-digits, then how will you maintain high growth rates?

Question number four. Does the company plan to make investments in startups from the company owned funds, like InfoEdge does? As it is seen that the promoter, Mr. Dinesh, had investments around 30 to 40 startups in personal capacity.

And lastly, what went wrong with Tolexo transaction model, when companies like Udaan are doing quite well, goodwill created was around Rs. 100 crores and then it was impaired in a short time. And how do we plan to sustain the competitive landscape where the likes of Alibaba and Amazon exist with our platform being a horizontal one, which worldwide are getting cornered. In India also JustDial is a good example. So, won't similar fate happen to IndiaMART? Thank you.

Dinesh Chandra Agarwal: If I understand, your first question was, why our gross assets are only Rs. 6-7 crores, whereas JustDial's gross assets are Rs. 125 crores.

Jai Nandwani: Rs. 160 crores around.

Dinesh Chandra Agarwal: Yes. So, I haven't studied in detail about JustDial, but I think they have purchased a office block. And if I remember correctly, when the IPO came, one of the important clauses of IPO was to make a office block. So, I think they have taken a big office block in Bangalore. So, I think that is why their gross block is higher.

Jai Nandwani: Sir, actually I am talking only about the computer gross block that I checked in the notes. So, it is not about the property, it is only about the computer.

Dinesh Chandra Agarwal: Maybe they are maintaining their own datacenter, we only lease the datacenter from outside. So, I would not be able to answer on behalf of JustDial. All the computers that we have is the local computers that we own for our employees. And all the servers and everything they are leased on a yearly or monthly or quarterly basis from the datacenters which are located in the US, Singapore, as well as India.

Prateek Chandra: So, this negative net worth question is with respect to the historical financial statement. And when you look at the historical financial statements, there are multiple adjustments that you need to look at. Specifically, one expense which you would see in our profit and loss historically has been a net loss on financial liability at FVTPL, which was essentially the difference between the fair valuation of preference shares that we had as at the period end. This was introduced by virtue of the IndAS, it was a non-cash expense and only an accounting adjustment. And it was there year-on-year. Before IPO, we converted all the preference shares to equity share, so this expense is not expected

to come in the in the future. So, if you adjust our net worth for this entire adjustment, you would find that our net worth was actually positive in even years prior to the IPO.

More importantly, the second question related to this was with respect to the advertising. If you notice our historical financials, advertisement was last done majorly in FY16. And that was essentially the brand advertising that we did, and which was kind of a TV campaign we did, we hired Irfan Khan, who was our brand ambassador at that point of time, and we did a TV advertising basis that. After that, we haven't done any advertising as such. So, it is not that any advertising decision was with respect to the considerations of the IPO. We typically decide for doing the advertising depending upon our business needs. And currently we believe that we do not require advertising as both the buyers and the suppliers have been growing pretty handsomely for us. And most of the growth has largely been organic. So, the advertising was only for the brand and we believe that our brand has enough visibility as of now.

Dinesh Chandra Agarwal: Another point that you said that profitability is only achieved after dropping the advertising. Our advertising expenses in FY 14-15 and FY 15-16 was in the range of approx Rs 30-45 crores. If you look at our earnings presentation uploaded on the stock exchange as well as on the IndiaMART's Investor Relations website, and if you go to the slide number 9 which says 'cash generated from operating activities', you will see that the cash generation has improved from Rs. 15 crores to Rs. 259 crores. So, even if we had the Rs. 25 crores to Rs. 35 crore rupees of advertising, we would still be generating cash in excess of Rs. 200 crores. So, that is not really just to cut down on the advertising to become profitable. We have generally become profitable by increasing our revenues by 30%. And containing our cost at 16%, 17%. You can adjust it for the advertising cost as well, still we are far more profitable quarter-on-quarter and year-on-year.

Dinesh Chandra Agarwal: So, now coming to the third question on the market share, so B2B market is about \$700 billion opportunity in itself, and this study was done about three years ago by Walmart, that the overall B2B market size is about \$700 billion dollars in 2020. Another statistic is that digital advertising market is growing at about 25% per annum, and slated to become about Rs. 25,000 crores by 2021. So, if you really see, the market itself is growing at double digits beyond our own penetration of growth. And when we say 60% share, it is only in the B2B classified segment, we do not take the advertising and search segment. So, I do not see any immediate need for worry in terms of growth rate. We continue to believe that as in the past we have been growing at around 25% plus/minus, we should be able to hold our growth in the customer addition as well as in the ARPU, resulting into revenue growth of about 25%. As you can see, historically we have been growing at about 15% to 20% in the net customer growth, and the rest of the growth is coming from the increased realization from revenue per customer. So, we continue to believe that we will grow.

Regarding Tolexo, Brijesh, would answer.

Brijesh Kumar Agrawal: So, in fact, if you go back and see a typical B2B commerce model, it involves cataloguing, pricing, involves knowledge of inventory and then we have logistics and marketing as two additional stuff. Now, when we did Tolexo we realized that the maximum value that buyers on the platform got was from a detailed product cataloging, availability of pricing of these products. And these two

things in itself was one of the biggest challenges that buyers typically would face. Just to give you an idea, the farther you are there from the larger wholesale markets of Delhi or Bombay, the overall prices become less and less transparent for you, the opacity keeps on increasing. Sitting in Agartala you will never be able to figure out that product x which may be selling at Rs. 100 in Agartala actually sell for Rs. 70, Rs. 80 in Bombay, Delhi. So, that was one realization that if we can get detailed product specification and if we could get prices for a large number of categories instead of just focusing on the Maintenance Repair Operations(MRO) products that we were doing at Tolexo, we would actually be able to gain substantially. And that is one of the reasons we decided to, instead of focusing on just one category of MRO, take it to all the categories which are available on IndiaMART as a platform.

Second, IndiaMART if you see, we get a substantial amount of organic traffic, by virtue of what we have created over these years. Whereas at Tolexo we were going ahead and spending money on acquiring this traffic, because this was a new platform that we had created. So, from a business standpoint, over a period of time we realized that it would make much larger sense if rather than investing on acquiring traffic at Tolexo, why don't we use the overall traffic which we are gaining at IndiaMART for this purpose. And also, because of detailed product catalogues and because of pricing if you look at our traffic growth over the last two and a half, three years now, we have seen a substantial jump happening on IndiaMART platform.

Lastly, one of the things that we were doing at Tolexo was logistics. We realized that unlike B2C logistics, where home deliveries were something which were not being done earlier at a mass scale, B2B logistics have been happening for ages now. So, the transportation setups that are existing in the country are extremely well suited to a B2B scenario. So, instead of adding a lot of value there, we were unnecessarily adding one layer of cost because we were coming in between. So, we decided that instead of becoming a roadblock there, it will be easier if we let the buyers and the sellers actually manage the deliveries between themselves. And therefore, because of these three reasons broadly, we decided to, in fact, use the learnings from Tolexo at IndiaMART, which was a much larger platform than continue to do what Tolexo was doing.

Now with respect to your question on Udaan and the other competitors. As Dinesh mentioned, the entire B2B space is a \$700 billion space. And you are going to see multiple players coming in and looking at different segments of this B2B market altogether. So, specifically, if you go back and see what Udaan is trying to do, is very similar to a metro wholesale cash and carry business or a Amazon business for that matter, where they are working on taking certain limited number of products which are mostly to do with FMCG for example. And they would target the kirana store owners and buyers like them. Secondly, they are focusing on building up their own logistics setup, which means having trucking being done internally, and warehousing being done there. Thirdly, they are also going ahead and offering credit to buyers who are buying from sellers on their platform.

So, out of these three things, if you really go back and see, first, whatever metro cash and carry and Walmart does is very different from the product or the kind of coverage that IndiaMART has.

Again, just to give you an example of some of the recent products which have been inquired for on our platform, first product says vortex tube, second says hot briquetted iron, industrial wall, polyelectrolyte powder, octanol solvent. Now, when you look at products like these, it will give you an idea on the kind of coverage we do as far as products in B2B are concerned, and that's extremely wide, rather than getting focused on a limited number of products or categories there.

Secondly, as I mentioned, we don't really see out of our own experience that we will add value you into the logistics space, Let Udaan go back and do, they would have their own philosophy. When we look at what they're doing on the credit side, I think that's an interesting area for us to look at. It is something which can be replicated, there are no entry barriers there. And therefore, over a period of time, we will definitely evaluate and see if we can offer the same for our own customers and users on the platform.

Dinesh Chandra Agarwal: Another question that you asked was around the investments that I have made in my personal capacity and what would be the IndiaMART's strategy going forward. So, I have been very passive investor, mostly looking at two platforms, either the tie-platform or looking at GSF. So, most of my investments have happened through that. These are mostly small investments, Rs. 5 lakhs to Rs.10 lakh each, and in certain cases it has gone to Rs. 20 lakhs, Rs. 25 lakhs. The whole idea is to learn about the investment and also to learn about the startup ecosystem, and the new things that are happening. IndiaMART and personal investments are completely de-linked from that perspective.

So, what I do for my learning purpose or for my giving back purpose or for my knowledge grasping purpose is not directly to be reflected into the IndiaMART strategy. IndiaMART will take its own course of actions. The broader use of cash that we look at IndiaMART, one, obviously, we have now adopted a dividend distribution policy. The details of that would be uploaded once the minutes of the meetings are confirmed on the website as well as on the stock exchanges. Two, I with the size of our company we will continue to build a cash balance or a bank balance for our own usage tomorrow in case of any interesting opportunity comes for acquisition. And three, as I said, we continue to focus on FinTech and SaaS opportunities and continue to look forward to any partnership opportunities, either by way of investment or by way of acquisition. So, if any of that will come, we will definitely look at that. That's about it.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: I have two questions. The first one pertains to the gross margins that you earn in your business. How do you look at that evolving, what are the various factors involved there? And related question on margins is, you mentioned about customer acquisition costs being negligible, can you throw some light on the lifetime value of the customers quantifying that and also explaining customer churn?

Second question is with respect to the business enquiries, what are the factors that drive growth here and can you talk a little bit about your strategy in providing a certain number of leads at a certain package and how that has changed and how this helps price discovery?

Prateek Chandra: Vivek, to your questions on the gross margin, the way we look at it. If you look at our financials for the year ending March 2019, specifically, the standalone financials, you would see a note in the financial statement which talks about our review on the gross profits. And there in if you see, our gross profits last year ended March 2018 was more at around 65% odd, which has moved to around 72% in this quarter. The way we see our gross profit is that in our business essentially there are two things: one is the acquisition of the customer; and secondly, the servicing which is essentially the renewal and the upsell of the existing customers. So, any cost which is related to the existing customers is considered above the line which is what we define it as customer service cost. All the other costs, whether it's selling and distribution, the technology, the marketing, that comes below the line of the gross profit. So, I would encourage you to go through that note, and that note explains this very clearly. In case if there are still any doubts you could let me know and I can certainly help you understand that.

Vivekanand Subbaraman: Prateek, I was looking to understand this better, I saw the note, that's why I was asking for the factors that drove an improvement there?

Dinesh Chandra Agarwal: Okay. So, if you see, there are mostly improvements coming from the cost of servicing and revenue per customer improvement and revenue per person improvement. So, as our product is becoming more self-engaging, the customers are able to upgrade to higher services. As well as, one single person is able to renew and serve an upsell lot more customer than he was able to do earlier. So, as a result, our overall cost is only increasing at 16%- 17% whereas overall revenue is increasing at 29%-30%. So, which is resulting into the operating margin. Main operating leverage that you will see is the increasing ARPU that we have and decreasing costs that we have.

And coming to your second question about the cost of customer acquisition. So, in a typical marketplace, there are two kinds of cost of customer acquisition. There is a cost of buyer acquisition and there is a cost of seller acquisition.

So, while I was referring to the cost of customer acquisition, I meant cost of buyer acquisition. In many marketplaces you will see there is an advertisement cost being incurred to acquire buyers, be it any transactional marketplace or travel marketplace or any classified marketplace. So, again highlighting our cost of buyer acquisition is typically nil. Now coming to the cost of seller acquisition, our typical lifetime value of our Seller is about 7x to 8x of the cost of Seller acquisition.

You asked for churn. So, if you look at our approx 133,000 total customer base, about two-thirds of the customer base is in the annual and multi-year segment. And about one-third of the customer base is in the monthly segment. In the two-third annual and multi-year segment, we typically see a churn of about 18% to 20%. Whereas, in the monthly segment, we typically see a churn of about 5% on a monthly basis, that 18% to 20% is on the annual basis that I was talking and 5% approximately on the monthly churn that we are talking.

Third question that you asked is about business enquiries. So, business enquiries come from two different angles, one, increase in traffic, and increase in traffic again happens because of the two things, one is increase in unique users and repeat visits by the user. Second, their conversion on the website, their conversion on the website improves over the call and over the RFQs. So, that is how our inquiries have increased. If you look at our overall number of inquiries that have increased, let me give you exact numbers. Our registered buyers have increased from March 2016 is 27 million to March 2017 is 39 million, March 2018 is 60 million, March 2019 is 83 million, and now June 2019 about 88 million. In terms of total number of inquiries March 2016 is 115 million, March 2017 is 157 million, March 2018 is 290 million, March 2019 is 449 million. On a quarterly basis we are now doing a matchmaking of about 113 million matchmaking. As you can see that we peaked out in around November-December quarter, and last quarter there was some subduedness because of the market challenges that you see. However, it has started to improve again in this quarter. And we believe that there is a very strong enquiry growth. If you convert total enquiries into the per customer enquiry, then you will see that over the last three, four years the number of enquiries delivered per customer has also almost doubled or tripled over the last three years.

Moderator: Thank you. The next question is from the Arya Sen from Jeffries. Please go ahead.

Arya Sen: Firstly, congratulations on good set of numbers. I just wanted to check in on the revenue growth if I were to sort of split it up between paid subscribers whether the annualized revenue per subscriber, the paid subscriber addition, at least on a sequential basis seems to have been a bit muted, while the annualized revenue per subscriber seems to seem very strong growth. Could you explain the reasons for both these trends and how we should look at it going forward?

Prateek Chandra: Okay. So, to your questions on the paid subscribers as well as ARPU. If you see a paid subscriber year-on-year has grown by around 17% wherein for quarter-on-quarter, yes, we have seen some subduedness. They were essentially two things that has happened which has resulted into our customer acquisition rate to this quarter to be 3,000 as compared to almost 5,000 to 6000 that we used to do every quarter. As we were explaining that we have two kind of customers, one, as in monthly customer, and the second one is the annual and the multi-year customer. We took some price hikes of annual entry level customer from Rs. 25,000 per year to approximately Rs. 30,000 per year plus tax. This price hike was effective 1st of January. And in our experience, we have seen that it typically takes six to nine months before a price hike is actually absorbed by the market. So, there is some slowness in the terms of customer acquisition which we expect that it should cover up in the next two three months.

The second is more about the customer churn which has increased slightly because of the ongoing toughness in the macro environment that we foresee. So, as we expect that the economy improves slightly, we expect that this churn rate should certainly kind of come down and should stabilize to the earlier levels what we've been experiencing in the last year, year and half.

Dinesh Chandra Agarwal: And I think looking at the last month number, I can see that we are by and large on track.

- Arya Sen:** Right. And the higher revenue per campaign is because of the price hike that you've taken? But even on a sequential basis, because you said it was effective 1st January, but even on a QoQ basis the increase seems to have been pretty sharp.
- Dinesh Chandra Agarwal:** So, Arya, price hike doesn't result into average realization per customer per revenue immediately. Ours is a more of a multi-tier multi-year model, so as you can see, we have four tiers of subscription, monthly, silver annual, gold and platinum; and within platinum we have multiple tiers. And similarly, we are monthly, annual and multi-year subscription. So, average realization comes from two, three things; one, increase in prices of any particular tier, as well as mix changes. So, as you will see that our customer mix slowly and slowly has been moving towards platinum being more and more than the overall subscriber base. As we have been saying that our 40% of our overall revenue comes from top 10% of our customers. And we keep taking price increases of the various packages at different intervals. And since we have a lot of customers from monthly and annual and multi-year mode, the overall increase is in response of what goes on into our deferred revenue and what comes out as a revenue. So, I think we can expect a stronger ARPU increase or a realization increase for the next two, three quarters, because we had seen last there has been a stronger collection increasing into higher deferred revenue.
- Arya Sen:** Right. But even the mix change impact should be a slow thing, right, because on a sequential basis the increase seems to be pretty sharp? 41.7 going to 43.6.
- Prateek Chandra:** So, Arya, what you are doing essentially is that you are taking the period end customers, so if you look at QoQ, essentially if you see from Q3 to Q4, there has been a good increase in terms of the number of suppliers, and specifically towards the mix. So, since we are taking the closing customer as a denominator, that is why it is reflecting that way. Otherwise, it has largely been a gradual improvement in the mix which we have been seeing over the years.
- Arya Sen:** Okay, understood. Fair enough. Secondly, could you remind me, you have given the churn rate separately for the two categories, what is the combined churn rate and how much was it maybe six months back or a year back?
- Dinesh Chandra Agarwal:** Actually, monthly and annually will not be able to compare combined. So, as I said, monthly you will have to look at separately and annual and multi-year you will have to look at separately. Even we tried to compute to a single number for churn but found it very hard. So, we always have to track two different numbers, so monthly churn basis used to be 4%, which has increased to about 5% and the annual churn numbers which used to about 16% to 18%, which has increased 18% to 20%.
- Arya Sen:** Okay. Also, on margin this quarter has been very strong. Is there a seasonality that we should expect going forward and what will be sort of outlook on margins from here on?
- Dinesh Chandra Agarwal:** So, our margins will improve continuously because continuously our revenues are improving at about 25%. Whereas our cost increases at 17%. Only Q4 FY19 is an aberration, because in Q4 FY19 while our revenue continues to improve at 25% the cost certainly increases big time because

Q4 is a higher collection quarter or a higher billing quarter, which results into a higher variable incentive, and that is why the margins actually look lower in the Q4. Whereas the cash flow from operation looks much higher at Q4. In Q4 FY19 whereas revenue grew at 28%, overall revenue, the manpower expenses were at 45% of the total expense as against 39% in the previous quarters. So, that typically results in to the EBIDA which was about 15% as against the approx 20% EBITDA in the previous quarters. So, if you really see margin improvement is happening slowly and slowly only, about 1% per quarter or so. Except that the quarter four you will see a margin dip, whereas the cash flow from operation in the quarter four is far higher. So, against cash flow from operation of Rs. 50 -60 crores that we are doing now per quarter, Q4 was Rs. 98 crores cash flow from operations. And this is very similar to naukri.com business.

Arya Sen: Fair enough. And lastly, the traffic growth seems a bit tepid, any particular reason for that?

Dinesh Chandra Agarwal: So, I already said, the traffic was growing very rapidly over the last three years. So, if you really see our traffic and enquiries, they both have grown tremendously over the last three, four years. So, the registered buyers have been growing at about 45% CAGR, the traffic has been growing at 40% CAGR, and the business enquiries delivered has been growing at 57% CAGR. And this was the case until the quarter two, quarter three also. I think towards the end of the quarter three and the quarter four there has been some tepid response due to the demand in the market, which has seen again uptick in the June quarter. And we believe if the economy improves quickly, that should not be a problem. However, currently, our number of leads and number of RFQs per customer continues to be much above any customer expectations. We continue to lag behind on the number of suppliers rather than on the number of buyers, because in the last three years a lot more buyers have come in onto the platform, whereas the supplier growth has been only at 20%, 25%. So, I think there has been a tepid response, but I guess that is due to the economy. While it is improving again, and hopefully it will improve in the next quarter.

Moderator: Thank you. The next question is from the line of Shiv Kumar from Unifi capital. Please go ahead.

Shiv Kumar: You said that the top 10% of the customers give you 40% of the revenue, what has been the trend over the last few quarters and last year for the whole year?

Dinesh Chandra Agarwal: If you look at yearly trend, it used to be 38% in FY17, 39% in FY18 and about 40% in a FY19 and continue to remain at about 40%, 41% today. But the number of top 10 percent customers have also increased as you can see.

Shiv Kumar: Okay Especially these are the Platinum plan customers, right?

Dinesh Chandra Agarwal: Not exactly, but by and large they would be platinum. So, maybe 80%, 90% would be the top 10% customers would be platinum.

Shiv Kumar: And with regards to the number of increase in the paying subscribers which was slightly on the lower side this quarter, you are again guiding that you will come back to the earlier run rate. What

gives you that confidence that you will come back, given the current economic scenario of the country?

Dinesh Chandra Agarwal: Depending upon our last month closing which closed yesterday.

Shiv Kumar: Okay, can you quantify it, Dinesh?

Dinesh Chandra Agarwal: I am not allowed to quantify that.

Shiv Kumar: Got it. And finally, one question on the EBITDA trend, the EBITDA growth has been really strong this year. So, like you indicated earlier, should we assume that you would increase it by 1% every quarter or would it be actually more than that? Because the jump was substantial YoY basis this year?

Prateek Chandra: So, it would be really difficult to give you a quarterly guidance as such. But if you look at historically, our revenues have been growing at the rate of around 25%-30% growth rate, our expenses have been growing at around 17% to 18%. We expect that the similar trend should continue. So, accordingly, I am sure that you can work out as to what EBITDAs would look like.

Moderator: Thank you. The next question is from the line of Rishabh Zaveri from Emkay Global. Please go ahead. The line for the current participant has dropped out. We will move on to the next participant from the line Aditya Saraogi from KG Capital. Please go ahead.

Aditya Saraogi: Sir, I wanted to know what is the optimum level of cash that you want to maintain after which you will think of other avenues? Like you said, you are planning to do some acquisitions and you want to keep it for other business purposes. So, is there any ballpark number that you want to maintain?

Brijesh Kumar Agrawal: So, when you look at the total capital, I think this number if you want to specify, what is a number which will be good forever, it will never be one number, it is a moving number altogether, depending upon at what scale at what size we are operating, what are the opportunities we have, what are the future plans we have, I think this number will continue to change. What we see is that the board essentially takes a call on this aspect, and basis that we will go back and decide what we need to do with extra cash if we have any at that point in time. So, I think giving a specific number is not possible at this point.

Aditya Saraogi: And as you mentioned that you are looking into the lending business as well. So, are you planning to go on your own or you are planning to do it through a partner or set up your own NBFC to move into that space?

Dinesh Chandra Agarwal: So, one, as I said, we would look at fintech business, currently we are only doing the payments business. Since somebody asked question about Udaan, we said that that lending to the buyers and sellers looks like an interesting opportunity. So, we will study that. Prime facie, we do not believe in lending from our own books. We believe in remaining a technology platform and connecting the lenders to the lendees. I would continue to follow that route rather than using our own books

for lending. That is what is the understanding as of now. As I said, these are way too early questions to be even answered because we have only found that the space to be interesting, not yet done anything on that on the ground.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: First of all, I wanted to know what was this other income of Rs. 14 crore? And secondly, about the current slowdown, how strong is our moat and how sustainable is the moat and how is the opportunity size?

Prateek Chandra: So, to your question of other income, as I discussed earlier that we have close to Rs. 745 crores of cash in bank as on June 30th. Most of this investment largely in the mutual funds and the liquid fund, so the other income is essentially the mark-to-market changes and those investment values as of the period end.

Now coming to your second question, which is around slowdown and moat and opportunity. So, opportunity wise there are two sides of the opportunity, one is what is the total SME size. So, about 60 million SMEs are there in the country, about 20% of them use email or some kind of an internet for their business. So, there is huge potential as the penetration increases. Other way to look at it is that about Rs. 1.2 crores GST registered SMEs are there in country and total B2B trade is approx. \$700 billion B2B opportunity. Further, on the digital advertising side, about Rs. 25,000 crores digital advertising market is going to be there. So, if you look at the macro side, India is growing, India's per capita income is growing, number of SMEs are growing, their overall turnover is growing, this slow down which has happened probably is for a far more temporary. We have seen similar impact when GST was introduced, and the economy had certain level of temporary hiccups. So, I believe that these disturbances are temporary in nature and economy should come back.

Coming back to our moat, as we said that we are not dependent on any single category or any single geography, there are machinery to medical to agriculture to clothing to all kinds of industries that we do. No single industry accounts for more than 9% of our supplier base. And even our buyer base is very, very scattered around the country, only 35%, 36% of our buyer base comes from metro cities. So, two-thirds of our buyer base come from tier 2, tier 3 and tier 4 town cities and villages. So, I believe that we have a very good deeper penetration in terms of buyer and very good behavioral data to be able to improve our matchmaking going day by day. So, we continue to believe that India is a good opportunity, the SME is a good opportunity, and B2B is a good opportunity.

G Vivek: What about the growth you are expecting, top and bottom line? And any plans of technological upgradation and technology which we have, if you can highlight that also?

Dinesh Chandra Agarwal: So, technological side let me answer first, that is close to my heart, being a technologist. We have seen our company evolved from being a pure desktop-based company to mobile website to mobile app to multiple mobile apps. So, I think now we are a company which operates on a service-oriented architecture and is able to serve various things. You will see one voice and vernacular use

on our platform. You can also see lead management system and SaaS on our platform, similarly you can see use of fintech on our platform and use of artificial intelligence and machine learning on our platform. So, I think we continue to remain very strong and very ahead of the technology. You can try our website and try our voice search and multilingual search and also compare that with other platforms that are available in the market.

G Vivek: And the growth rate, sir?

Prateek Chandra: Growth rate, as you can see, this particular quarter we have had 30% growth rate. However, in the last four or five quarters, we have had 25% growth rate. So, I think going forward anywhere in between the two for the next two, three quarters you can expect.

Moderator: The next question is from the line of Malti Shah from Grow Capital Advisors. Please go ahead.

Malti Shah: My all the questions have been answered. Thank you.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, we are talking about a big opportunity growth, right? Big opportunity in terms of B2B business, and still our paying subscriber maybe it grew only by 2%, maybe it will come back to 5000, which is still a 4%, quarter-on-quarter growth. So, is this a possibility that we can grow it at a much faster rate given the kind of opportunity we are talking about?

Brijesh Kumar Agrawal: So, now when we go back and look at what are the factors that will drive net adds, one of the important realizations we have seen is the overall internet adoption that we get to see among SMEs. When you look at the KPMG research report, which was done last year, out of the 63 million SMEs that are there in India, only 17% of all the SMEs use internet for some business purposes, which also includes having an email account. So, when you go back and look at this penetration and compare this with what we see in China, China in 2015 alone had a 34% penetration there. So, what we are seeing is as this penetration continues to improve within the SMEs, the rate of net addition can continue to improve. However, it's the movement of this adoption which will be one of the biggest drivers on what kind of growth can we really go back and achieve for ourselves. So, let's just hope that with the GST being launched, Aadhar being pushed, digital adoption being pushed by the government, we see a higher adoption rate. And I think once that happens, we are probably the best placed company to exploit that increase somewhere.

Deepak Poddar: Right. So, is there any kind of data that you track by which you will be able to tell that the adoption rate has increased or is it an increasing trend among the SME? Because 17% of 63 is still about 10 million, right, that is about 1 crore customers, whereas we have about 1.33 lakhs paying subscriber.

Brijesh Kumar Agrawal: Obviously, when you look at adoption rates to customer conversion, that number, as I said, will continue to improve as more and more people use it. So, we cannot have a direct correlation that

if there are 10 million SMEs who are using internet today, using an email, what would be the net customer add that it will sort of result in.

Dinesh Chandra Agarwal: Let me answer it the other way around also. So, if you really see comparable company, which is 1688.com, in China, so that company is the Alibaba subsidiary company, and they have about 1 million paying customers. And China is 10x bigger economy and 10x bigger size. And they are exactly very similar model as IndiaMART domestic B2B marketplace. And given that we have 1 crore odd GST registered business, and today 90% of our businesses come from GST registered businesses only. So, I believe that their lies at least similar kind of opportunities ahead of us. The net adds, there is a typical migration of the mindset that has to happen, because the product industry and manufacturing industry by and large is habitual of either a dealer distribution-based sales network or a walk-in our call-in based sales network. Lead management-based sales network is not the cup of the tea of the product industry or the manufacturing industry. So, that is where most of the churn or most of the adoption related challenges happen. And that is causing slower adoption, once a lot many people and the newer generation is habitual of lead management-based adoption, I think the adoption rate should improve.

Deepak Poddar: So, that will inherently increase our customer need addition from 5,000, 6,000 to maybe 8,000 9,000, 10,000, right?

Brijesh Kumar Agrawal: Numbers I can't quantify, but yes. I mean, that would be our endeavor.

Deepak Poddar: Understood. And my second question is regarding your total number of paying subscriber, which is about 1.33 lakhs. So, any kind of vision we have that by how many years you want to reach maybe 0.5 million or 1 million kind of paying subscribers, this is the time period that we want to achieve that, any vision on those fronts would be helpful.

Dinesh Chandra Agarwal: I can only give you a historical presentation. In 2001, I had 1 lakh total number of free listed companies, as against 55 lakhs today. And I had only 1000 paying customer by then. And I used to tell my sales force that, if not today then tomorrow, if not tomorrow then day after tomorrow we will make all these as our paying customers. And in 2019 or 2018 we became 100,000 customers. So, given that now we have 5.5 million, maybe in 20 years' time we know we could have a 5.5 million paying customers.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the management for their closing comments.

Dinesh Chandra Agarwal: Thank you, ladies and gentlemen, for joining our Q1 FY2020 conference call. I am very happy that all of you could take out time and join. And we are very delighted to have interest and participation that you have shown. And we will continue to interact with you through various platforms. You can visit our Investor Relations website, as well as keep an eye on the stock exchanges. In the meantime, if you have any further questions, please do reach out to our Investor Relations teams. And thank you very much once again. Thank you.



*IndiaMART InterMESH Limited
August 01, 2019*

Moderator:

Thank you. Ladies and gentlemen, on behalf of IndiaMART that concludes today's conference.
Thank you for joining us and you may now disconnect your lines. Thank you.