Conference Call Transcript

Event: IndiaMART Q3 FY2020 Earnings Conference Call

Event Date/Time: January 22, 2020 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 IndiaMART Q3 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 Agarwal, Chief Executive Officer, Mr. Brijesh Agarwal, 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 a detailed disclaimer.

Now, I would like to hand the conference over to Mr. Dinesh Agarwal for his opening remarks. Thank you and over to you Sir!

Dinesh Agarwal: Thank you very much. Good evening everybody and welcome to IndiaMART's third quarter results conference call. We have already circulated our earnings presentation and it is also on our website and the stock exchange website. I am sure that you have gone through the presentation. Let me give you summary of the results and then I can take questions afterwards.

So, first of all I am pleased to report that IndiaMART has achieved the consolidated revenue from operations at 165 Crores for the third quarter FY20, which is about 23% year-on-year growth over the last year. Total number of paying subscription suppliers stands at approximately 142,000, the net addition for this quarter has been around 4500, and deferred revenue as at the quarter end stands at 649 Crores.

As we can see the economic environment is weaker which is impacting our performance, our net customer add has been slightly lower than our longer-term average of approximately 5000 plus customer per quarter, and the growth in deferred revenue has also slowed down considerably from 38% in the last year same quarter to 26% year-on-year this quarter. So, we will remain cautious about the current economic scenario and will focus to maintain our margin while we are trying to find levers of further growth into our business.

Now I would like to hand over this call to our Chief Financial Officer, Prateek to discuss the financial performance more in detail and I will come back to answer your questions later. Thank you and over to you Prateek!

Prateek Chandra: Thank you Dinesh and good afternoon everyone. Consolidated EBITDA for the quarter was Rs.44 Crores representing a margin of 26%. This number is not comparable with the last year numbers as we have adopted Ind-AS 116 with effect from April 1, 2019. The true margin expansion in the business was 3%, which is also reflected in EBIT margins for this quarter at 23% as compared to 20% last year. Net profit for the quarter was at Rs.62 Crores, which includes onetime deferred tax credit of approximately Rs.23 Crores on account of timing differences pertaining to the Tolexo demerger scheme with effect from January 2017. Our cash flow from operations was Rs.71 Crores leading to a closing cash and investment of Rs.859 Crores as on December 31, 2019. Thank you very much. We are now ready to take any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Good afternoon Dinesh, Brijesh, and Prateek. First my question to Dinesh, Dinesh you came on TV in December and you talked of some moderation in your growth expectation, can you sort of clarify which year or which period that pertain to in terms of revenue growth and what were the numbers that you are referring to?

Dinesh Agarwal: If you really see how our revenue flows and how our business model is, we collect money for subscription in advance for monthly, annual, two-year or three-year period, which results into negative working capital thereby resulting in accumulation of deferred revenue of Rs 649 Crores as at the third quarter end. The revenue flows from the deferred revenue, which is approximately 60% current in nature, i.e. to be recognized in next 12 months and 40% is beyond that. Internally when we calculate we see that the average age/period of our deferred revenue is about 20, 21 months. Now that means that the revenue that you see is a 20-month moving average, which is reported in the quarterly financials. Now if you see the leading indicator of that is the collection or billings which can be computed by calculating the difference in deferred revenue and revenue recognized for the quarter. Collections/billings are also part of our detailed financials. So as compared to the last year where our collections use to grow at approximately 30% on YoY basis, for nine months, our collections have only grown 15% or so in the past nine months, i.e. past three quarters, which is resulting into slowing down of growth in our deferred revenue. So, if you see last year same quarter our deferred revenue grew by 38%, but this year same quarter, the deferred revenue could only grow by 26%, which is quite a sharp decline from 38% to 26%, and which will further show up in the actual revenue from operation. Even in the revenue from operation if you see three quarters ago Q1 we were at 30% growth rate, Q2 we were at 28% growth rate and now Q3 we are at 23% growth rate, so it is declining. But that decline will not happen in one single quarter or immediate coming quarter since it is approx 20-22 months moving average. So, in case we see a couple of more quarters continuing to be below 20% collection growth rate then obviously the revenue would start to trend on the similar lines.

Arya Sen: And that you think would reflect in the revenue by second half of FY2021 or earlier?

Dinesh Agarwal: If next two quarters remains further subdued you can expect it to reflect in the second half of this calendar year or next financial year.

Arya Sen: Secondly this 20, 21 months that you talked about, has there been much of a change to that number through the slowdown or is it more or less been where it was even before?

Dinesh Agarwal: Not really it has not changed at all in fact, if you go to the presentation in the slide #16, if you see five quarters ago the current deferred revenue was 61%, which is now 62% so yes there has been 1% change but nothing much has changed.

Arya Sen: The other question I had was for Prateek. Prateek in 4Q typically there is a seasonal dip in your margin, is that going to happen this time as well so that is something, which we should build in for the fourth quarter?

Prateek Chandra: Arya I think that is right, typically in Q4 what we see is that our billings are the highest amongst the quarters in the year and since our expenses also are in proportion to the billing that is where our expenses also increases. As Dinesh just explained that the revenue increase is always a moving average of the last 20-22 months of billings so therefore there is no such increase in the revenues; however, because of the billings increase or expenses increasing slightly, this is typically a quarter where we see the highest cash from operations. However, as the revenue increases only over a period of 20-22, months we see margin declining in this quarter that is a pretty seasonal impact that we see every year.

Arya Sen: And the seasonality would be similar to what we saw last year right, no reason to think there would be any major change in the kind of seasonal trend we saw last year?

Prateek Chandra: Yes, more or less it would stay same, but it would also depend upon where we end up with the billings in this particular quarter.

Arya Sen: And lastly on the tax rate, if I look at the first nine months I think the tax rate is averaging more like 26%, but if I look at last year again there seem to be a much lower tax rate in the fourth quarter is there some seasonality to that as well?

Prateek Chandra: No going forward our tax rate will stay at around 25% because of the change in the taxation rules. Last quarter we adopted 25% flat taxation regime and because of that on run rate basis it would stay at around 25% for the year.

Arya Sen: But adjusted for other income it should be a bit lower right?

Prateek Chandra: Yes, other income is taxable at 20% and all the other operational income is taxable at around 25% so maybe you can take 23% as average.

Arya Sen: So, is there any adjustment that you make in the fourth quarter, last year if you see fourth quarter tax rate was a lot lower, is that something which can recur this time as well?

Prateek Chandra: No, as I said that we are operating in a different tax regime now so it should be at around 25%.

Arya Sen: Fair enough that is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Pranav Kshatriya from Edelweiss Broking Limited. Please go ahead.

Pranav Kshatriya: I have one question regarding the decline in the total number of business inquiries delivered in this quarter, there is a Y-o-Y decline. I just want to understand that what factors really contribute to it and if there is certain one off with regards to internet shutdown or some seasonal weakness how is it trending for first 15- 20 days of this quarter?

Dinesh Agarwal: Pranav there is a broader trend, our business inquiries delivered has been pretty much constant in the last three, four quarters apart from some marginal increase or marginal decline here and there, because of the general demand slowdown in the economy. Having said that, there could there be a marginal internet shutdown related or a holiday related effect, however, those are very smaller, but at a 90-day average I do not think they matter much, and our traffic is also very well diversified from across the geographies from South India, East India, North India, so I guess one off here and there, keeps happening every quarter due to some or the other reasons, which is a common thing . Sometimes it is slightly higher as well. Now having said that, I am not too bothered about the buyer inquiries in the short run because if you see we are sitting on a very heavy growth base over the last

FY2016 to FY2019 where our buyer base and traffic and inquiries typically grew by 80-100% kind of growth rate. So, I think given that we get about 60 million visits on our platform every month, I am not really bothered about short-term in terms of buyers. Yes, in the longer run if there is a fundamental shift from the way IndiaMART is used or the way other services are used then there could be issue, but given that the economy has seen significant slowdown, many sectors like automobile and others are at 20%, 30% slowdown, even the FMCG, the machinery etc are down. I think we are maintaining our traffic without any advertising which is decent performance for IndiaMART. If you see our registered buyer growth for the last 12 quarters, we have added approx 5 million new buyers every quarter and that rate has not changed much. So, I think we are fine on that side, yes the economical slowdown is showing up in these numbers, but it is okay.

Pranav Kshatriya: Sir you alluded to the total registered buyers, which is close to 100 million now, how much incremental scope is there for getting more buyer and if you can throw some light on how many are the active buyer or let us say the buyers who have visited the website in the last 3 months or 12 months, so that will be helpful.

Dinesh Agarwal: We do not publish that data very regularly. Internally we do track 30 day active, 90 day active, 12 months active. Our 90 day repeat rate, which we have been publishing regularly hovers at around 54%-55%, if you see the Daily unique inquiries that again remains at 18 million, 19 million per quarter and which automatically translates into about 30 million 12 month active.

Pranav Kshatriya: Okay Sir. Thank you very much. That is it from my side.

Moderator: Thank you very much. Next question is from the line of Madhu Babu from Centrum Broking Limited. Please go ahead.

Madhu Babu: Currently the paying customer is around 2%, so how can we increase that paying suppliers?

Dinesh Agarwal: I think it depends on adoption of the internet by the SMEs and buyers. By cataloging or digitizing the suppliers the buyer automatically come because they find better variety of product, location of supplier as well as the best prices on the website. It is a vicious circle, in which you increase the supplier numbers to increase the buyer numbers. We have multiple ways to onboard new suppliers; one we aggregate suppliers from various sources and call them back to see if they want to register. Two they automatically come online on IndiaMART and whether they come as a buyer or whether they come as a supplier since we are a B2B business, most of our users are business users and they have a propensity to register as a supplier also and third we have a large sales force. If you see our sales and service representative are about 4000 people and another 500 odd people in the tele based sales, so about 4500 people totally working on helping these suppliers come onboard on IndiaMART and depending upon how well we can service and how fast is the adoption versus their propensity to leave the platform that is the net customer addition. So, I think if you compare worldwide, for most of the classified sites, 2%, to 3% is the common penetration. But that 2% to 3% penetration is on all India basis for Indiamart. If you really look at our penetration in the top 8 metros, and since approximately 60% of our customers now come from top 8 metro, there the penetration would be much higher.

Madhu Babu: And second on the deferred revenue growth which has been very soft, so have we seen any attrition in your top accounts because if I remember the top accounts contributed significant percent of our revenues?

Dinesh Agarwal: Our top 10% customers account for 40% of revenue. So, if you see the data they continue to remain in line with the previous quarters, no change has been observed there because top 10% customer means approximately 14000 customers, which remains more or less same, we are able to maintain that.

Madhu Babu: Sir and just one last question on this competitor Udaan. So, they do all this credit as well as logistics, etc., so how feasible is it for our portfolio to try this method or are we looking into these value-added services?

Dinesh Agarwal: So, let us first understand the product categories where different people deal into. So IndiaMART is a pretty long tail of categories, we have more than 1 lakh product categories where we deal into. Now Udaan or Walmart wholesale or METRO Cash & Carry or Amazon business, these people generally are focusing on the specific product categories, which are typically FMCG or dealer distribution product category. Two, they are building warehouses, logistics and transportation. I do not feel unlike in B2C where home delivery is a new concept, B2b deliveries has been happening for ages by way of sea, by way of train, by way of surface and I do not see a large value add by our experimentation that we did in Tolexo in B2B logistics, so we are not currently interested in the space. Three, I think they are doing some interesting experiments with credit, which is interesting item to look at, we continue to do study and experiment to see if anything like that can be built in IndiaMART. In case our pilots are successful we would inform you and increase our penetration in that space.

Madhu Babu: Okay Sir thanks. I will come for a followup.

Moderator: Thank you. Next question is from Deep Shah from Ambit Capital. Please go ahead.

Deep Shah: Sir if you could help with the churn rates and how have they changed over the past few quarters that would be helpful, second if you quantify the actual billings number this quarter and the corresponding quarter that would be helpful? Thanks.

Dinesh Agarwal: If you see we have customer in various segment, platinum, gold ,silver annual and silver monthly , and then we have somebody who has paid up for one year, somebody who has paid up for two years and somebody who was paid up for three years. So ever since the economic environment has changed in the last year, yes, we have seen a marginal decline across all segments and all areas. However, the platinum segment continues to be very strong. As we said in gold and platinum typically, we have less than 1% churn per month and annual churn of about 10% to 12%. On the overall annual base, we now have about 20% churn. On the monthly as I said always that is a volatile item and on the monthly basis trial keeps on happening. Also if you see our total customer base, we have one third of the 142000 customers on the monthly side only and most of the other customers are in the annual side and about top 10% of our customers are in platinum segment. You also asked for the billing and collection numbers. Though we do not specifically publish collections as a KPI, but if you see them in the detailed financial you can find there is a section note where it is available and it can also be calculated very easily by way of opening deferred revenue and closing deferred revenue and the revenue. For this particular call I will give you the number. Collection for the current quarter was 183 Crores, previous quarter was 177 Crores.

Deep Shah: Thank you Sir. It is very helpful.

Moderator: Thank you. Next question is from the line of Manish Saxena from PineBridge Investments. Please go ahead.

Manish Saxena: If you can just share your thoughts essentially in terms of the total traffic that over the last two, three years had actually gone up significantly and then stagnated and what led to the traffic increase was it a geography, was it a product or was it some product innovations that you have done and what can you further do to increase the total traffic?

Dinesh Agarwal: I think in the last couple of calls I have repeated this, but I will repeat this once again. Somewhere around 2015-2016 onwards we found two, three good innovations that started to work for us. One was the price on the product and two was the detailed product specifications. We migrated from being a classified listing website to a product catalog website. You can find the detailed product photos, videos, detailed specification item-by-item. Third, we started to use behavioral based algorithmic matchmaking where we started to use suppliers RFQ consumption behavior to assess his preferred location and product category over his stated location and stated product category. All three of these initiatives helped us increase our buyer fulfillment rates from 20% to almost 40% from 2015-2016 onwards. Secondly, if you see the macros also, there have been big changes in the mobile adoption and in the data speed and data cost both and there has been forced adoption of the internet also by way of compulsory income tax filing, compulsory GSTN filing, demonetization which led to a lot of people learning how to use internet and payment methodology. So, I guess all of it combined together started a network effect which led to the exponential growth that you can see in the buyer inquiries from FY2016 to FY2019. What led to the plateau down is I think mostly because of the economy which is going through pain and the traffic should improve as soon as the economy improves. We are already touching large number of customers given that we get about 60 million visits on our platform every month which is approximately 6 Crore people , and in a year we end up getting almost like 20, 25 Crores people on our platform, which is a good number anyway.

Manish Saxena: Sir this plateau you think is largely economy or is there some more product innovations or anything that you can do to increase or is it a certain geography or certain products which have reduced in terms of the traffic?

Dinesh Agarwal: So, is it largely economy? As far as we can assess yes. Is there any migration of buyers towards any other platform? I do not see any. There are so many B2B platforms being tried currently but none of them have gained any significant traction to say that IndiaMART is losing out to them. For product innovation, we did search in Indic languages, now you can search IndiaMART in nine different Indian languages by way of voice command. Lot of people who come from Tier-2, Tier-3, Tier-4 places do not read much, but they have a very good habit of watching videos so can we do product videos. We have taken some initiatives on these directions, but will that be immediately visible? As i said the price initiative and specification initiative and algorithmic matchmaking initiatives taken in 2015-2016 actually started to pan out in the next two, three years. As we have taken some initiative on Hindi language and videos, over the next three to five years they should start to pan out. Secondly earlier we were only generating leads now we help buyer and seller talk to each other using IndiaMART lead management system or IndiaMART message section as a platform. Currently can we start to provide payment facilitation, can we start to provide purchase financing so there are many initiatives that can be taken, we continue to experiment with them. Has anything become too big that I can talk about, not yet.

Manish Saxena: Ad expenses at one time was being guided at a slightly higher percentage of sales, but probably has tapered down, any thoughts on or does it actually push across traffic or does it not?

Dinesh Agarwal: In FY2017, 2018 and FY 2019, we have not done any advertising, it is now going to be four financial years where we have not done any significant advertising. What you would be seeing on a consolidated level was mostly what we were doing in Tolexo in FY2016 and 2017 that would be visible. We have enough organic traffic as of now. Every year we do budget for Rs.20, Rs.25 Crores for the purpose of advertising and as and when we feel there is a need for advertising we will go ahead and do that.

Manish Saxena: Thanks, and this is very helpful.

Moderator: Thank you very much. Next question is from the line of Shamal D from Aditya Birla Sun Life Insurance. Please go ahead.

Shamal D: Sir my question is mainly on the payee addition in this quarter so we had around 4500 addition in this quarter so in the last quarter we had mentioned that anything less than 5000 would be difficult for us. So, though the payee has increased from 3000 in Q1 to 4500 but still it is below our aspiration range so any comment on that like when we would be able to reach to 5000 level given the current economic slowdown.

Dinesh Agarwal: Thank you, I think you have already answered, we are aspiring you can see we have increased focus on sales and service, we have increased the number of people in sales and service. Economy is something not in our control so we by increasing the focus on sales and service and affordability of products, etc., have been able to come back from 3000 to 4500 and we will continue to strive to make it 5000 soon. Acquisition is normally easier problem to solve than the SME mortality, currently a lot of SMEs are not able to maintain their cash flows. So that is where the issue is and that problem cannot be fixed by way of more sales or more affordability.

Shamal D: So, with this economic slowdown do you see our current clients holding like the monthly payee clients delaying their spending and affecting our total customers on the silver side of the monthly business?

Dinesh Agarwal: I think the answer remains same. As I said people are worried from three sides, one their demand in the market has slowed down and their cash flows or credit has crunch. So, their ability to pay or pay higher amount for upgrade or sign up or their willingness to continue for a longer duration suffers. So, I guess either we find some experiment suddenly that works very beautifully, which starts to work, or we wait for the economy anyway.

Shamal D: The connecting question on that payee addition, so you mentioned that you had increased your sales effort to get the higher payee customers, so that should translate into lower margin, but in this quarter we had a 300 basis points margin expansion so with the current situation continuing is this the normalized margin or you see any headwind on the margin part as well?

Dinesh Agarwal: On the stability of the margin or on the ability to maintain the margin I think we do not see any immediate problem. However, on the rapid expansion of the margin given that currently we are investing more money and we are receiving collections, which are slowly and slowly tapering down. The margin expansions will slowdown, but we are confident that we should be able to maintain the margin at these levels for sure.

Shamal D: Thanks. That is, it from my side and all the best for coming quarters.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: I just wanted to understand one of your data point that you provide is on the outsourced employees, which has risen by about 37% or 40% over the previous year and the current number is around 1374, wanted to understand the rationale behind having a larger portion of outsourced employees. Does it help us save on costs or is it only because of the flexibility that they give you for keeping whatever amount that you keep in terms of outsourced employees?

Dinesh Agarwal: So, this outsourced field sales representative number, which is about 1300, 1400 these are spread across our 75 plus new sales acquisition offices. Now one when we hire people for the client servicing or for the purpose of product and technology or operations we do not hire for that particular role, we hire people so that they can grow in the ranks of management and over the period of time as a senior manager also. However not everybody who has done that kind of an education is interested in doing SME sales and so typically we find that for a field sales or tele sales operation the kind of people that you need, and the attrition that you have is pretty high, which actually unnecessary strains our own payroll systems, so that was the purpose for increasing outsourced headcount. In fact, they actually cost slightly more than if they were onroll. We had taken the decision about three years ago and will evaluate going forward if that make sense even continuing forward. We wanted to be doubly sure that we report these people as a headcount because they are not visible in the statutory financials.

Vimal Gohil: The basic point was to understand the cost advantage that we have so basically, they are more expensive than the onroll employees?

Dinesh Agarwal: Yes, if they were hired onroll I think we would not have outsourcing overhead that we have, the outsourcing overhead is definitely an extra cost, but if they were hired onroll will they come at the same cost I do not know.

Vimal Gohil: Fair enough. Thank you so much.

Moderator: Thank you. Next question is from the line of Kunal Shah from Enam Investments. Please go ahead.

Kunal Shah: My question is regarding the cash on the books, what is the level we want to maintain and what is the plan for the 850 Crores cash on the books?

Dinesh Agarwal: So, as I stated last time also we have three usage of that we have planned one as a company of our size and scale how much cash that we want to maintain given the deferred revenue also that we have. Number two we would continue to look for possible opportunities where we can make investments, our acquisitions as you know we have done one investment in Vyapar App, which is a mobile accounting software app in the first week of September. We had taken 26% stake for Rs 31 Crores so we will continue to look for such opportunities. Third I think once the first financial year completes after listing the board will decide the quantum of dividend that has to be paid out.

Kunal Shah: And my second question is regarding the average revenue per user. Can you or do you share the vision of say the medium to long-term growth that is possible in the average revenue per user?

Prateek Chandra: If you see historically, we have been growing our customers at around 15% and our ARPU growth has been trending at between 5% to 10%. Given that the economic scenario is tough we think probably the lower end of the growth should be the reasonable one to assume. In this quarter our ARPU growth is already down to 7% so maybe 5% - 7% should be the reasonable one we should assume.

Kunal Shah: I am asking more from a medium-term perspective of 5 to10 years then in that case also the same number you will guide for?

Prateek Chandra: Yes, at this point of time we can guide for the similar thing what we have seen historically in the past.

Kunal Shah: Okay, great. Thank you so much.

Moderator: Thank you. Next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Are we noticing in the market place a distinction between B2B and B2C? Is a customer very strict when they are doing a search for suppliers focused on B2B or B2C to get a solution?

Dinesh Agarwal: See internet is an open platform and available at the click of a button. Now, nobody can stop one wholesaler to go and checkout on B2C side and one customer to come and checkout on a wholesale website. So, I guess there is always that 20% overlap that remains on our internet platform and beyond that nothing much that happens. So, I guess they will continue to have that 20% overlap where IndiaMART has 20% direct consumers who come and search for prices and other things. Yes, for higher value products also, sometimes even the direct consumers when they have to buy high value products like if you want to buy a generator, which maybe for your personal home consumption, but if it is a Rs.1 lakh generator I am not too sure if you will go on a B2C side and do an order as of now, we are better off doing it on IndiaMART. So, I hope that answers your question.

Ayaz Motiwala: Sir just one basis of that 20% is that a number for IndiaMART or you are quoting an industry wide sort of number?

Dinesh Agarwal: No, I am just quoting 80% 20% principle number, neither quoting an IndiaMART calibrated number nor quoting industry wide standard.

Ayaz Motiwala: Sir if you could describe the platinum customers contribution to the overall business and how much is the difference in which they pay versus the average ARPU or whatever you call it?

Dinesh Agarwal: If you go to the slide #15 of our presentation the revenue from operation slide that says very clearly that 40% of our revenue is contributed by top 10% of our paying suppliers.

Ayaz Motiwala: 40% of revenue by top 10 paying suppliers right Sir.

Dinesh Agarwal: Top 10% of the paying suppliers and we have ~ 142000 paying suppliers now.

Ayaz Motiwala: Which is what you quoted as 14000 top paying customers?

Dinesh Agarwal: Yes 14000 top paying customers.

Ayaz Motiwala: Yes, and I think you mentioned that 40% number by platinum customers.

Dinesh Agarwal: Yes, my top 10% paying customers, which is approximately similar to platinum customers.

Ayaz Motiwala: What would be the price range of monthly or annual or two year committed payout? As you said entry level B2B suppliers who come into the net of IndiaMART and people who are evolved and are part of this platinum or the top 10 percentile customers how much would be the difference?

Dinesh Agarwal: Yes, so at entry level when a new customer comes in we have two plans, which is the monthly and annual. The monthly plan is Rs.3000 per month with a Rs.5000 set up cost, both of them are inclusive of GSTN and the annual plan is Rs.30000 plus GST, which is more or less a similar plan and almost 99% of our customer start at the silver monthly or a silver annual level. At the acquisition level 80% of them are on a monthly subscription and 20% of them are on an annual subscription and then they are upgraded as they try the service or as they become comfortable with service, they are upgraded in two ways. One they are upgraded into the tier from silver to a gold tier, we have multiple tiers in platinum. Two they are upgraded into a multiyear service. Three, sometimes there is a combination of gold plus multiyear, which is one of our most popular packages. Generally, you will see that the ARPU at the blended level, which we have been reporting is about Rs.44000 or Rs.45000 per annum. As I said the entry level is about Rs.30000 and if you calculate the top 10% contributing 40% of the revenue that works out to be a little upwards of Rs.160000 per customer. So now you have three numbers of ARPU.

Ayaz Motiwala: That is helpful and Sir again I am asking this question which is to try and learn about the business. Is in your algorithm or the way you display when a B2B buyer comes in to seek for a supplier does your system have preference for the same tiers that you talked about or it would just give a number based on geo location or how does that work Sir?

Dinesh Agarwal: It works on multiple combinations. So it will definitely take into account if somebody has paid Rs.160000 versus the Rs.30000 , it will also take into account the proximity of the buyer location and it will also take into account whether this particular supplier has preference for that location is it local location or is it RFQ consumption preferred location, it will also take into account if suppliers phone pickup rate is above the threshold or not because we cannot let the buyer experience hamper if the suppliers are nonresponsive. So, it is 20 different parameters that will decide a particular search to rank the supplier for a particular buyer. Every buyer will see a very different supplier depending upon where is he logging from and every supplier will see very different set of RFQs depending upon his past behavior and depending upon his tier of subscription.

Ayaz Motiwala: On the gross listed suppliers versus paying customers, when we talked about that 2% ratio for listing companies in some sense implying that while you are in open platform you want to do business with people who spend on your platform so in the end if you do not have any paying supplier in that category then someone who has just been listed may also show up in that RFQ?

Dinesh Agarwal: Yes, I think in fact we do not give out the numbers of exact how many inquiries are delivered to a free supplier, but there is a significant business that you can do freely being listed on IndiaMART depending upon which category you are and how much competition in that category it is. So, from our point of view we want the buyer to be satisfied, whether or not I made a money from that supplier that is a secondary objective. If a buyer has come to IndiaMART he must be satisfied and every buyer who is satisfied with the free supplier becomes a sales lead for us and that is how we go and talk to that seller and say that since you have received ex number of leads already being a free customer imagine what you can do by being a paid customer and many of them want to pay up and show up higher up in that category or location while at the same time some will continue to enjoy the services for free.

Ayaz Motiwala: That is a great point Sir. Thank you very much. I may come for another question, please. Thank you.

Moderator: Thank you. Next question is from the line of Arpit Shah from Stallion Assets. Please go ahead.

Arpit Shah: I have two specific questions. One is regarding dividend distribution policy what is going to be our dividend distribution policy going ahead and are there any plans to launch any product with IndiaMART or any new product, which would be other than IndiaMART?

Dinesh Agarwal: We have adopted the dividend distribution policy, the amount of dividend that is to be distributed every year would be decided by the board depending upon the yearly performance and cash availability and cash utilization. So that is about dividend distribution policy and in terms of product as I mentioned earlier we continue to launch many products. As I said lead management system has become significant enough to be mentioned since it is being used regularly by buyer and supplier. We also have pay with IndiaMART where we facilitate payments, we also have started to offer searches in Indian Indic language content, we also started to use AI/ML and video, but is any of those products significant enough at this point of time, no.

Arpit Shah: And what is the typical renewal rates for all kind of customers be it platinum, gold, silver?

Prateek Chandra: Yes, so Arpit in our customer base we have two kind of customers two third of our customers have taken an annual or a multiyear package therein we have seen renewal of approximately 80% and churn of 20% per annum and one third of our customer are taking monthly subscriptions wherein we are seeing a renewal of close to 95% and churn of 5% on a monthly basis.

Arpit Shah: And we are discussing something regarding auction driven pricing before so are we having any new plans to do that?

Prateek Chandra: Sorry what is that could you repeat the question please?

Arpit Shah: We were looking forward to for auction driven pricing on our platform.

Prateek Chandra: It was not auction driven but we were trying to do a differential pricing because currently the entire pricing on our platform is in standard price irrespective of the location or irrespective of the value of the category in which you deal in, though we were trying to move to the differential pricing; however, given the current economic scenario we may take slightly longer time in the terms of launching that differential pricing all across.

Arpit Shah: And what is the trend that you are seeing right now for 21 days for the month of January what are the subscriber's addition what are the trends like?

Prateek Chandra: That information you would understand we can't disclose. Also, I believe we are announcing our results in 21 days after the quarter and the December quarter reflect the most recent trends

Arpit Shah: Okay, no problem. Thank you so much.

Moderator: Thank you. Next question is from the line of Shivakumar K from Unifi Capital Private Limited. Please go ahead.

Shivakumar K: Sir just to confirm the churn rates in both the annual plans and the monthly plans have not changed much right from the last quarter 20% and 5% per month is the monthly plan?

Prateek Chandra: Yes so we have not seen significant change from the last quarter though historically if we see certainly the churn rates have increased on an annual and multiyear customers. From 16% to 18% churn, it has gone up to more like approximately 20% churn annually now and similarly on the monthly customers, which is one third of our data base our churn rates was around 3% or 4% per month, which have gone up to more approximately 5% per month.

Shivakumar K: So that happened in Q2, but from then on you have not seen further scale up?

Prateek Chandra: It has happened in the last three quarters.

Shivakumar K: And one question with regards to the employee cost, which have moved up by almost 23% in the current quarter and almost 24% for the three quarters put together so should we expect the same kind of trend going forward?

Prateek Chandra: The employee cost has primarily gone up because of the two reasons. First is the annual increment that we announced in June and second is the headcount infusion, which is largely the hiring we have done in the sales and servicing side. Specifically, this hiring was ramped up in the last quarter and that is why you were seeing slightly higher increase on the manpower. Overall on a going forward basis, along with the client addition we certainly need to add a few more people on the servicing side for every quarter. If we are adding almost 5000 customers there would be some 50 to 100 people that we would be adding on the servicing side every quarter, but that is pretty much it and the increments will be effective every June.

Dinesh Agarwal: Historically our manpower cost has been increasing at the rate of about 18%, and that is also because in FY2017 there were changes in demonetization time, so we were slow in hiring, but I think going forward also we will continue to remain in that 18% to 20% growth every year.

Moderator: Sir the line for the participant got disconnected, we move on to the next participant. The next question is from the line of Hardik Solanki from Moneybee Investment Advisors. Please go ahead.

Hardik Solanki: Just wanted to understand the person on the technology side where there is an always upgradation and as far as the industry requirement we keep updating, innovating new things. So just wanted to understand the person or the team looking after that and do we have a lock in for that specific team?

Dinesh Agarwal: So about 20% of our expenditure remains in the product and technology side we have about 500 people in the product technology data and we have pretty seasoned set of people new as well as old, as old as 15- 20 years with me. So, I am pretty confident that we have a team, which is very good in the product and technology and at par with the industry standards anywhere in the world. We also keep taking consultancy from various sources so for example we are constantly looking at innovation in artificial intelligence and machine learning and I myself is a software engineer, so I think we have enough number of product and technology people here.

Hardik Solanki: And other teams who would be managing like you and also few of the people who will be looking after the technology team so just want to understand do we have the lock in with all these people around because now the competition is huge and lot of competition come across in this space and there are chances that people may move out or just want to understand that angle?

Dinesh Agarwal: No Sir we do not believe in lock ins, so in fact we do not have any locks and keys in our entire office.

Hardik Solanki: Thanks.

Moderator: Thank you. Next question is from the line of Ikshit Naredi from Naredi Investment Private Limited. Please go ahead.

Ikshit Naredi: My question is in this quarter the company generated cash flow of Rs 71 Crores and the total cash and investment is 859 Crores so as per the deferred revenue amount 649 Crores so it looks like the company will generate good flow in future. So how you will utilize this cash in near future, please provide us the definite plan?

Dinesh Agarwal: I just now answered that question, I will repeat that again. First thing is we will continue to maintain good balance because for the size of our company and for the size of this kind of a deferred revenue what is the balance that we need to maintain. Number two we have already done one investment at Rs 31 Crores for 26% in Vyapar App and we will continue to look for investments that we can do either in minority or in a majority and third we have adopted a dividend distribution policy that we will distribute, the amount of such dividends would be decided by Board of Directors at the end of the year and we will let you know accordingly.

Ikshit Naredi: What is the risk to the company in case apps like Amazon/Flipkart enter into this type of B2B business?

Dinesh Agarwal: So, anyway I think nobody is stopping anyone from entering any business. Let us understand whether what kind of an exit barrier do we have in our business, what kind of a stickiness that we have in our business. As I said we have a lot of supplier behavioral data and lot of buyer who are already registered on IndiaMART and we have achieved a significant portion of the flywheel that is moving faster and getting bigger so there is a network effect that is there and once you achieve that network effect it is not so easy for anybody to come into a network effect business . However, people do innovate, and people do can come, but I do not think since we are not a transaction base model the discounting led incentive may not work. Also, we have a copyright on all our information that has been accumulated over the period of time. So even to accumulate that kind of information that we have, just imagine we have about 59 lakh suppliers registered on our platform and we have about 6 Crore products from 100000 plus product categories. So unlike the current model of the names that you have taken they deal largely into standard set of products, which are fast moving whereas we deal into more of a customized set of products and most of the B2B transactions are for larger amounts. So that will give you some comfort and two we have the behavioral data which nobody else has that gives us a competitive advantage against any new entrant.

Ikshit Naredi: Thank you so much and all the best for the future. Thank you.

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

Dinesh Agarwal: Thank you ladies and gentlemen for joining our Q3 conference call. We are delighted by the interest in participation that you have shown in the company and in case you have any further questions later you can definitely reach out to our investor relations team and their email IDs available on our website. Thank you very much for your time once again and have a great new year . Thank you.

Moderator: Thank you very much. On behalf of IndiaMART that concludes this conference. Thank you for joining us. You may now disconnect your lines.