Webinar Transcript

Event: IndiaMART Q3 FY2022 Earnings Webinar

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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

Mr. Kushal Maheshwari – Head of Treasury and Investor Relations

Ravi Gothwal: Good evening ladies and gentlemen. This is Ravi Gothwal from Churchgate Partners and on behalf of IndiaMART InterMESH Limited, I would like to welcome you all to the company's Q3 FY22 Earnings Webinar. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions once the presentation concludes. Joining us today from the management side we have Mr. Dinesh Agarwal, Chief Executive Officer, Mr. Brijesh Agrawal, Wholetime Director, Mr. Prateek Chandra, Chief Financial Officer, and Mr. Kushal Maheshwari, who has recently joined as Head of Treasury and Investor Relations. Before we begin, I would like to remind you that some of the statements made in today's webinar may be forward looking in nature, and may involve risk and uncertainties. Kindly refer to slide no. 3 of the Earnings presentation for the detailed disclaimer.

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

Dinesh Agarwal: Good evening, everyone, and welcome to IndiaMART's Q3 FY2022 Earnings Webinar. I hope you and your loved ones are staying safe and healthy. We have already circulated our Earnings presentation, which is available on our website, as well as on Stock Exchange's website. I'm sure you would have gone through the presentation and I would be happy to take any questions afterwards.

I am pleased to report that our consolidated Revenue from operations has been Rs 188 crores in the third quarter and Deferred revenue stood at Rs 790 crores, representing a growth in the deferred revenue of 25% year-on-year. Collections from the customer for the period have grown by 24% to Rs 222 crores in Q3 FY22. During the quarter we also added 5,833 paying subscribers, closing the total count at approximately 156,000 during the quarter.

Unique business inquiries stood at 23 million with our 90 day repeat buyers standing at about approximately 55%. As communicated last time, we are improving our algorithms for better matchmaking and higher efficiency in the system for easing the efforts of buyers and sellers. Our average matchmaking per unique business inquiry has reduced to 5.3 times as against 6.3 times per year.

Further, we are very excited to share that we have strengthened our value proposition in the accounting software space by acquiring 100% stake in the Busy Infotech Private Limited for Rs 500 crores in cash, Busy was founded in 1997 and currently is one of the largest accounting software company in the Indian market with over two lakh users. The business is cash positive with a revenue of Rs 42.4 crores and PAT of Rs 11 crores in FY21.

Also Vyapar, one of our invested company offering mobile accounting software has announced the series B investment round led by the WestBridge Capital, wherein we have invested an additional Rs 63.5 crores and have raised our stake from 26% to 27%.

Let me also brief you about some of the strategic investments that we made in the previous quarter. We have acquired 7.7% stake for Rs 32 crores in 'Mynd Solutions', which runs 'M1 Exchange' an invoice discounting exchange and is one of the trades platform approved by RBI. We have also acquired 26% stake for Rs 13 crores in 'EasyEcom' which offers AI driven omni-channel inventory and warehouse management solution to D2C e-commerce merchants.

Looking ahead, we continue to see increasing adoption of Internet by businesses which will fuel the long-term growth. At IndiaMART, we remain committed to enhance our value proposition and leverage these opportunities.

Now I would like to hand over the call to Prateek to discuss the financial performance in little more detail.

Thank you and over to you.

Prateek Chandra: Thank you Dinesh and Good afternoon.

I will take you through the financial performance for the quarter ending December 2021. Consolidated Revenue from operations was Rs 188 crores in the quarter, a growth of 8% year on year, driven by both increase in ARPU and paying subscribers year-over-year.

Consolidated EBITDA was Rs 79 crores, representing a margin of 42%. Expenses have increased primarily in the manpower costs due to increase in headcount and re-rating of salaries across the markets and our investments behind growth.

Net profit for the quarter was Rs 70 crores with a margin of 33% and cash generated from operations during the quarter was Rs 84 crores. As of December 31, 2021 total Cash and Investment balance we have is at Rs 2,523 crores.

Thank you very much.

Ravi Gothwal: We will now begin the Q&A session, please allow camera and microphone access if you wish to ask a question and use the raise hand option on your screen. You may type your question in the discussion parent panel as well and we will pick up few questions from the panel at the end.

The first question is from the line of Mihir Dhamaniya. Mihir, please go ahead with the question.

Mihir: So, my first question is relating to a sharp drop in traffic rates that we see on a quarter-on-quarter basis. So what has actually resulted in the same and what are we doing to mitigate a drop in traffic?

Dinesh Agarwal: Thank you Mihir. The sharp drop in the traffic, generally you see that the quarter three, we have historically have 10% lower than quarter two. However, this time, I think because of the pent-up demand from the wave two of Covid, there was a much higher traffic in quarter two and that's why we are seeing this trend. I am seeing a good 90 million kind of traffic on month-on-month basis, so I think we will stabilize back to 270 odd million visits per quarter.

Mihir: Okay, my second question is relating to the acquired business. So, the acquired business is an accounting software, so does it compete with VYAPAR in any way? And if not, how are they different? And what is the expected Revenue and PAT for FY22 for the Busy Infotech, which we have acquired.

Brijesh Agrawal: So, when we look at Busy Infotech, Busy Infotech actually isn't accounting-cum-ERP software, which is available on premise for companies to do their accounting. The product features that you typically go ahead and see on the screen right now would give you an idea on the expanse of what all can be done with 'Busy'. When we look at Vyapar, Vyapar essentially is a cloud-based SaaS product, which is being made available to businesses which are trying to do accounting on their own, it's a DIY kind of model. So people generally would use this for the purposes of doing basic accounting on their own. And therefore this is a product that appeals to the micro and small businesses, as a segment more. Whereas 'Busy' typically would be competing with TALLY and Marg, where you would look at small and midsize businesses being their principal set of customers. When we look at the current Busy business over the past, you know, three four years period, that typical revenue growth rate has been in within the range of 10 to 15% on a CAGR basis, and their PAT margins have been around 25%. While we are, of course, going ahead and going to focus on taking over the business over the next one or two quarters and trying to stabilize the overall management team there, we think that we would want to go ahead and look at atleast you know, doubling the revenue growth rate from the current levels. And then as we get better understanding of the overall business and the operations and how things are working on the ground, we will be in a superior position to comment upon the future growth rates, after this understanding have increased.

Mihir: Can you just talk briefly about a few strategic investment and how they're scaling post our investment. Last time you talked about Vyapar. Can I get a few other examples what we are currently up to?

Dinesh Agarwal: So, if you look at Mobisy/Bizom, So Bizom is one of the little scaled-up business which is running at around Rs 40-50 crores of run rate, and they on a quarterly basis being growing at 10 to 15% per quarter, they are near break-even in some quarters, they make some losses in some quarters and in some they don't. For the other ones, all of them were invested in the last nine months only. So all of them whether it is Shipway, Legistify, all of them are very small. The only one which is a slightly bigger one is M1 exchange, it is an RBI licensed entity which offers Invoice discounting and Bill discounting in an automated manner. It's an exchange, and you can only take up to 10% participation in an exchange, we have bought secondary shares from

SIDBI. SIDBI was an early stage investor in that, one of their funds was getting over. We have bought 7.7% there and this is again, a very recent investment in November 2021. All others are very new investments, so I don't have much updates on them. I believe, once FY22 completed and their numbers are there, I think in July quarter, I will be able to give you some updates on the investment made in the past nine months.

Ravi Gothwal: Next question is from the line of Kushagra Bhatt from Old Bridge capital. Kushagra please go ahead.

Kushagra: Thanks for the opportunity. Couple of questions. So first is, if you can give more sense on the rationale behind both the details of Vyapar And Busy and also if we can cover you know how you guys have valued the businesses and what all parameters you looked at, you know, between both of these businesses, how did you compare both of them? And also, you mentioned in your opening remarks that it's, it's an on-premise model. So, when all your offerings and you know, your future strategy of going into SaaS, which we may have been hearing from past couple of quarters, why going for an on-premise model with almost big acquisitions and a related question is an issue you have highlighted in the past that you generally go for smaller minority stakes and then see how the business is panning out, but this time, you have upfront invested 100%, not even testing for some period of time. So, why different set of an approach this time and if the accounting is really that big opportunity, why not invest more in Vyapar instead of running two different softwares? This is more a broader question.

Dinesh Agarwal: Let me answer about Vyapar and then Brijesh will add more rationale. Vyapar as you know, has been growing well and as Brijesh also mentioned, it is primarily mobile first and primarily a micro-size businesses platform, which is self-use platform. It is not meant for accountant or multi-location or you know for complex manufacturing or sourcing kind of companies, Vyapar itself has grown to almost one lakh plus customers, when we invested in them, they had around 15,000 customers and around Rs 20 lakh monthly run rate now, They are now over Rs 2 crore monthly run rate in terms of collection and that is why we have doubled down on Vyapar when it has raised capital from WestBridge. Learning with Vyapar is that it's a very sticky and very large opportunity in the accounting space. And we have been studying this space for a while whether it was Busy or Marg, which has been recently acquired by PharmEasy as part of their DRHP, and we have acquired 'Busy' at a similar multiple. Valuation for an early-stage business versus valuation or late stage business is very different. Also, the revenue in Vyapar is customer revenue, most of the customers directly pay to Vyapar. While in case of Busy, it is a transfer pricing revenue or dealer revenue, so it sells it to dealer and then dealers further mark it up and sell it to the customer. So the retail price MRP is different than the revenue realized in case of Busy. So I think taking into account multiple things, one is focusing on self-use mobile sites, you know SaaS and other is focusing on slightly complex, more desktop kind of thing. I think these two are very complementary products, and they will continue to have a good growth in the times to come.

Brijesh Agarwal: Let me also just add on the rationale that we believe is driving this decision of going ahead and looking at multiple companies within their adjacent space. You know, when we look at accounting traditionally, it's a business which has a very sticky customers and they typically would not switch from one platform to the other very easily. And we've seen that Tally, Busy, Marg and other have had a very loyal and sticky customer base available with them. These are customers who have also been focused upon keeping their data in a fairly protective mode, not, you know, really going ahead and doing everything on Cloud basis. And a lot of this is also driven by how the Chartered Accountants, you know, want them to go back and manage their accounting and auditing practices on daily basis. So overall, today, when we look at the top three players in the accounting space, which do on-premise, they have more than 2.5 million paying subscribers between Tally, Busy and Marg. When we look at the mobile first cloud based market, the number of subscribers the paying subscribers there, for each of these players put together is just a fraction of this number today. When we look at the overall GST registered businesses only here in India, which is at about 12 million, all of these numbers again suggests that the software have only been able to reach to a certain small percentage of the overall population. The way we are seeing usage of mobile acceptability of cloud and increased regulations and need for compliance, which is being pushed by the government in the form of e-invoices, Eway bills and regular returns being filed, it is going to become almost mandatory for SaaS businesses to go and adopt a software to manage their entire accounting and compliance and reporting. So the overall market in itself, according to us, is poised for growth. And there is going to be growth coming in for all kinds of these offerings put together. So for us, by having multiple, let's say, presence across different kinds of products, catering to different kinds of segments will mean that we will be able to address a larger chunk of this pocket. Given the fact that the accounting software is the only product, which is used at scale by small and midsize businesses and this is a global phenomenon, if you really go ahead and look at it. In India, it is far more prominent and we think that this opportunity in itself allows us to go and reach to the widest possible SME audience and therefore we are doubling down on this space, we have stated in the past also as to you know how strongly they feel about it. And in fact, given our experience of investing in Vyapar, and what we've seen that that actually also gave us a lot of confidence to go ahead and look at doing a full-fledged acquisition at this point in time, rather than just simply taking the route of doing a minority investment, and then look at taking a majority stake or doing an acquisition there. In fact, we feel absolutely confident about this entire space, we would want to go back and continue to build a world class product and make sure that this expansion that we are going to see in terms of market and in terms of the penetration of accounting software within the SME space, we should be leading that change here in the next decade to come. So that is something why we believe that we need to invest behind on-premise accounting, why we believe we need to have multiple investments in the accounting space, and also why we should go out and do an acquisition at this point in time rather than only taking a minority investment route.

Kushagra: This explains. Second, you know, a related question is now you're almost done with 70% of the fundraise which you did, and its pretty clear of you know, going a little aggressive at this point of time. Any thoughts on how you guys are planning to monetize all these acquisitions, because few quarters back you sort of highlighted that, we'll see how these businesses evolve and then we'll see some sort of monetization plans on the SaaS offerings. So any color on how you will price these, how will you plug them in your current packages, your go to market or how you are going to offer or sell and excel with your clients for all these new businesses, new offering which we have acquired.

Dinesh Agarwal: We take about a year to understand the businesses after we invest and then we start to experiment with any kind of cross-selling or any kind of data sharing opportunity there. And I think we have been doing some experiments with Vyapar. To some extent, those are showing some results. Nothing very significant for which that numbers that I can share you with. In terms of Mobisy/Bizom, we keep discussing what the ways to further help each other, we haven't yet found anything very substantial that can be immediately plugged in. But all other investments are literally very small. I think we help them generate leads, but beyond that, they are still very small.

Kushagra: Okay, last one from my side on the Legistify. So you have increased the stake. Again, a similar question to what I asked on Busy, if you can provide, you know, word for word, what changed basically in this business and how do you see this very domain specific business to evolve going forward?

Prateek Chandra: So, in this round, we’ve invested almost Rs 7.5 crore into Legistify as it is a litigation tracking and the management software. Currently, it’s fairly early stage in terms of revenues, they would be approximately 15 lakh revenues a month. They have more than 100 customers and they are enterprise customers, so looks like a promising startup they are. They are looking at doing the fundraise for funding their expansion and growth. And since we believe in the story there, we decided to kind of support them. So it’s more often convertible, devaluation and everything would be linked to their next fundraise. It’s more of a bridge round to the larger fundraise, which they will plan after some time.

Ravi Gothwal: Thank you Kushagra. Next question is from the line of Pranab Kshatrya from Edelweiss. Pranab please go ahead.

Pranab: Yeah, thanks for the opportunity. I have two questions. Firstly, can you throw some color on, the flattish collection for this quarter? Considering in this quarter possibly the paying customer addition was decent compared to the last quarter. So, in that sense, I also want to know that, how the churn has been for the silver monthly customer, which has been a key issue in terms of the paying customer addition. That's my first question. Secondly, I would also want to know on the cost side, how should we look at the cost going forward? Specifically, I mean, you had talked about steady state costs coming to Rs 100 Odd crore rupees per quarter, we are at Rs 110 crore rupees. So, for FY23 should Rs 110-220 crores should be the base or it could be even higher considering the manpower costs are going up. So, these are my two questions. Thank you.

Prateek Chandra: So, to answer your questions you asked about the collection, the customer growth, churn and about the cost. So, starting with the first question, this quarter, we saw roughly around 24% growth in collections from customers. You are right that the last quarter again, we did the similar number which had a slightly higher percentage, however, for collections, we would recommend to look at more on a year on year basis, as it would have a little bit of quarterly seasonal trends there. In the terms of the customer, the growth and the churn overall on a net basis, we've been able to add 5,800 customers in this particular quarter which had been higher than the previous quarters. It is a result of two things, certainly improvement in the acquisition of the customers as well as reductions in the customer churn that we will see. So this quarter churn was slightly better than the previous quarter churn and we saw churn stabilizing there. However towards the end, because of again, the COVID wave there is a bit of an uncertainty about collection and customers but overall we saw things are pretty much improving and moving in the right direction.

Dinesh Agarwal: And specifically for churn I think, as the monthly customer addition has been muted over the last two years, there has been a relief on the churn side. And that's why the net customer addition is now showing up because we have been working to expand our new customer acquisition in the multi direction with the channel sales and that has started to pick up a little bit. And I think going forward also, we continue to believe that we will do better than 5,800 net addition at least for the next couple of quarters that I have visibility on. And in terms of collection, last 15 days of December, as well as the first 15 days of January, there has been some impact of the Omicron and many of the our employees are also not feeling well, and their family members, but in general, I think this should be over by the month end and February and March should be great months.

Prateek Chandra: Coming back to your third question on the cost side. So you know, as I said earlier, if you see the increase in the cost has primarily been in the manpower side, and manpower side, again, there are two factors which are playing out. One is, you know, as we look at investing behind the growth, we are increasing the headcount. This quarter, we've added roughly around 225 more employees than the previous quarter. And we look forward to continue building up this manpower by roughly around 100 employees every quarter. The second factor, which is leading to the manpower increase is also the re-rating of the salaries, which have not happened all across, as what we see, in the entire sector, there has been a talent crunch and challenges on the talent retention. So if the market correction is taking place, you know, we'll have to come up to that market correction, because it's always advisable to retain the people rather than, you know, letting them go. So we would, you know, see some impact there. On the Cost base of Rs 110 crores and for the next quarter as to what will it become, you know, we have announced increments in the quarter four. So, certainly there would be a further cost increase, you would see in the coming quarter, the exact number would be like, so difficult to guide, but certainly the cost would increase in the quarter four as compared to quarter three.

Dinesh Agarwal: On the FY23 guidance, I would say that, let this current quarter complete, and then with a different numbers, we will be able to give you the FY23 guidance on the cost.

Prateek Chandra: However, if you look at from a margin standpoint, as we've guided that, structurally, the margin had been more around 38% barring one quarter here or there, we think we should be able to maintain those margins on a yearly basis.

Pranab: Okay, thank you. So I understand that, you know, typically Q4 has, the bonus payouts and so on and that's why, we see the cost increase. But you know, other than that, time and again there is baseline increase in the cost, exception being pre-COVID, should that be considered a baseline now?

Dinesh Agarwal: There is a slight difference there, pre-Covid we were having cost rise of 15-18% barring a few years, where it would have gone to 20%, but it has been, you know, 17-18% on an average. Now, since last two years, we had a different cost as the offices were closed, and haven't given much of increment, we haven't hired many people. So I think one, there is a replacement hiring that is happening of the people who left in the last 18 months. And now I think we are almost at the same level as pre-COVID. And now, if you see we have to hire for growth also. So that is why, if you will compare that this this cost with the FY21 cost, that won't be correct. But yes, if you look at the FY20, kind of cost assuming 15-18% growth over FY23 should be fine. So FY23 versus FY20, I think 15-20% growth in costs should be assumed.

Ravi Gothwal: Thank you. Our next question is from the line of Ajay Modi. Please go ahead with your question.

Ajay: My question is two-fold. First, on the growth. So while you've been guiding of quarterly new subscription addition of about 6,000 to 7,000 and you've met that kind of a mark for this quarter, the growth skills seems to be low in terms of both new paying subscriber addition and the ARPU. Now, should I link it with the business inquiries because the business inquiries delivered were also seem to be subdued for this quarter. So is it that we are kind of losing market share? Or is it that a competitor is more competitive, which is why we're not able to kind of increase or get more paid subscribers? Or is it because that we're not being able to add enough value to the free subscribers to convert them into paid, that is one question. The second question is on the acquisitions or the investments that we are making, Are we looking at these as more of financial investments as passive investors? Or are we looking at kind of using a lot of these products for our existing subscribers, kind of adding value to our existing paid subscribers? In summary, what I'm trying to understand from these questions is that if I if I were to look at IndiaMART for three or five years out, do I still look at IndiaMART as a company who is continuing to add subscribers and deliver inquiries? That's it or are we trying to move to a more value addition model like the Chinese counterparts?

Dinesh Agarwal: Let me first answer your second question. So, in terms of investment, you ask whether they are pure financial investments or are strategic in nature, where we will be adding more value to either our customers or to their customers or to the entire ecosystem, or will it help in increasing our ARPU or there ARPU or reduce our churn. I think these are definitely not the pure financial investments, these are minority investments in the strategic spaces. And we will continue to find ways and means to upsell, cross sell, partner and create the partnership into more meaningful partnerships. These are not for three to five years investment and sale purpose. And as I have been guiding that, you know, we will probably add one or two minority investment every quarter and possibly one acquisition every year. And that is what if you will really see in the middle of February last year, we raised funds and we have been able to do by since then almost seven or eight investments so far, in less than four quarters completed. As well as we have been able to do one acquisition. I think for a first timer, that's a pretty encouraging thing.

Now, coming to the overall growth. I believe India has a very long runway, B2B has a long runway, India has a long runway and SMEs have a very long runway. We have seen this journey from 1996 till date, every two three years we find some of the other dampener as well as some or the other rocket ship and it has been happening every now and then, last two three times there has been a GST, there has been demonetisation, there has been you know COVID and some of them have positive impact on digitalization, some of them have negative impact on unorganized SMEs, I continue to believe that it is still a very large opportunity. IndiaMART is very relevant and with all these investments being made, we will become even more inclusive and have even more thread to fabric kind of relationship with the Indian businesses. In terms of growth, as I said that in the past, because in every nine months there has been one lockdown or one wave we have not had a continuous addition to the customers, if we had a 5,000-6,000 typical continuous additions, we would have seen that growth. But you know, you can see two quarters we add and then one quarter we have to sacrifice the growth. And we cannot comment on that external world, but I think we are confident that our acquisition channel is working fine, our product is working fine. And we should be able to add that 5,000-6,000-7,000 customers every quarter. And in terms of ARPU, wherever we have unique customer growth, more about 20%, then ARPU is up by about 5% when we have 10% Customer growth and they are increases by 10%. So because the ARPU is nothing but the total revenue divided by the number of customers, so if customer base increases because most of the customer base increases at the bottom of the parameter at the lowest ARPU. And then over the period of time they upgrade to the higher services. So I don't see an ARPU increase suddenly from here, if the entire next year is free of COVID, I'm pretty sure we would be able to get to 15-20% Customer growth, and maybe very less ARPU growth, from here on. But whenever we have the lesser customer growth, then we get the ARPU growth.

Dinesh Agrawal: When you look at the entire model for us, the leading indicators for us would essentially be in terms of our collection, and the deferred revenues. And it is from the deferred revenue buckets that you will see, revenue actually getting recognized. So, over the last few quarters, now, we have seen almost like a mid-25% kind of growth, both in our collection, as well as in deferred revenues. And as obviously for quarters ahead, this increases in deferred revenue, or collections will reflect into our revenues. The current growth in revenues, obviously, is dependent upon what we did, you know, 4 to 6 quarters ago, and therefore, you may see that are subdued, but we definitely see that with the number of net customer adds getting back on track, with the economy opening up, obviously, this Omicron thing is a dip that has happened for about a month or so we think we are probably in a very, very good shape to take advantage of all the improved internet adoption that has happened because of COVID in this way, and we should be looking at decent growth even going forward.

Ajay: I understand that the space is very large. And we're becoming more and more digitized. The only problem is that having seen so many internet companies, the problem is a lot of these internet businesses are in an exponential growth trajectory. Whereas IndiaMART as a company, we've been in a subdued growth environment right now and I can understand the target market which we cater to, which is SMEs, they have kind of been in a little bad shape for a while now. But then my question again is look, are you satisfied? I mean, is it that 6,000-7,000 new customer addition and the little bit of ARPU hike is all that we should expect going forward? And I understand so many acquisitions that you're doing is definitely for some outcome. But having said that, whatever last four quarter acquisitions you've done, kind of still does not reflect so far. So what I'm trying to just simply dig through is it because the base of 1, 56,000 paying customers, is that base is very large now from where growth of say north of 20% is going to be a little difficult event?

Dinesh Agarwal: If you look at our collection from customer, last quarter it grew by 36% this quarter it grew by 24%. So I don't think, if you look at the revenue from operations, that's a 20 month moving average when collections were minus 10% and minus 50% then also revenue was minus 2% and plus 10%. So we are still growing at 30% plus or minus.

Ajay: Your guidance has been addition of 6,000-7,000 quarterly new subscribers and when can we get to 9-10,000 subscribers?

Dinesh Agarwal: We have been guiding at 5,000 and 5,500 and now I am guiding at 6,000-7,000 quarterly new customers, rest we will let you know after 2 or 3 quarters.

Ravi Gothwal: Thank you. Next question is from the line of Antique stock broking Prateek, please go ahead with the question.

Prateek: Yeah, good evening, sir.. One of the competitions mentioned about a significant shift to monthly subscription plan from this quarter. While we are sort of, what do we think about like changing like subscription mix or a period mix for us?

Dinesh Agarwal: We keep going that I know, sometimes it's a 60-40, and sometimes it is 40-60 depending upon when we see where we want to keep it and where we want to acquire it. For example, when the COVID hit, we didn't want to do monthly and we could not have done monthly as a lot of people signing up remotely on a phone, it was much more difficult. So entire FY21, atleast for the first nine months, we hardly did monthly subscription, and then we opened up monthly big time, I again remember that when 25th year of anniversary happened, then we ran an anniversary offer for two three quarters for annual subscription being at 10% discount. So, I think that keeps on changing between 40-60 or 60-40 and in terms of current client mix, we have only ¼ customer of the total 160,000 customer, about 40,000 customers are in silver monthly, rest all are in the annual or multi-year mode. And as I've been saying that almost more than 50% of our customers are more than one year subscribed.

Prateek: Okay. So, there is no change in trend wise, particularly related to industry shifting to monthly or industry or your customers wanting to shift monthly because they are sort of feeling the crunch and that's why they want to pay initially?

Dinesh Agarwal: If you remember, we had done some easing out on that side, earlier the monthly subscription used to come with Rs 5,000 rupees setup fee and then Rs 3,000 a month inclusive of taxes. So, after the first wave or the first lockdown, we first try to improve on that, because the AI match had become far more easier by then. So, we removed the Rs 5,000 initial setup fee and converted it into an advanced EMI kind of thing, the Rs 3,000 as advance EMI, we also experimented with Rs 3,000 plus tax, but we found that it becomes too expensive at Rs 3,500 rupees at the entry level. So, currently the Rs 5,000 setup is gone and it's the Rs 3,000 inclusive of tax and we get about 50-50 annual and monthly plus/minus depending upon any particular month when we run any promotion or something. So, I guess the new customer acquisition will continue to happen you know, at almost half and half between monthly and annual subscription.

Prateek: Thank you second question is we have added like sales employee you mentioned. So, we will continue to like sort of add the coming quarters. So, remember that earlier like pre—COVID we had a significant dependence on field employees to ramp up our business and then we move to offline mode and channel partners etc. So, will this increased hiring now will also go towards on field sales, which will also impact your costs?

Dinesh Agarwal: So, if you see at 147,000 customers, we had about 3,200 odd employees and we need employees for two things. One for acquiring new customers and other for servicing the existing customer. For servicing the existing customer, only silver monthly and tier three customers are served over the telephone. All tier-one, tier-two, gold and platinum customers and annual customer are served by field Salesforce. So there itself, we needed more people to serve these additional 15-20,000 customers and more customers being added every quarter. I think in terms of new client acquisition, you're right that we are slowly and slowly changing the mix. Earlier, we had almost 1,000 plus our own people on the field and then about 300 people on the in the telecall centers. And now we are planning in a manner that 40% would be our own on field sales force 40% would be probably in a channel and maybe 20% on the telephone. That's the split that we are working towards. And on overall basis, the increase the customer acquisition would happen based upon the increase in the number of people in all the three channels.

Prateek: Thank you, sir. Do you still feel any need based on industry trends of increasing your ad spend, or you're not still looking at incurring major ad spend to accelerate your growth?In line with like, a question mentioned earlier?

Dinesh Agarwal: I think on the front side, if you see our traffic from the pre-COVID levels, have grown from 60 million per month to almost 90 million per month. So digital adoption itself has done a 50% increase in terms of our traffic on an annual basis if you see. So I don't think there is a need for that and it's more of a trying to get the seller side and on the seller side, ATL advertising is very expensive, I think one would be investing more on the sales and distribution rather than working on the ad spend. Some brand ad spend might happen, as I have always been guiding, we can keep that Rs 20-25 crore budget for annual, but whenever that will happen, we will let you know.

Ravi Gothwal: Thank you Prateek. Next question is from the line of Manish Gupta, Solidarity advisors. Please go ahead with the question.

Manish Gupta: Hi, Dinesh, just wanted to understand when should we start seeing more operating leverage in the model? Because you know, in one of the slides, you have shown your contribution at about 80%. And over time, your technology headcount is not increasing much. So the current margin profile, if we look at the business a couple of years out, why should the EBITDA margin not expand from here from operating leverage?

Dinesh Agarwal: For last two year, if you take pre-COVD level of EBITDA margins they were at 26-28% and from there they have been expanding to 36-38% in two years. Whether they will continue to expand, given that there has been the salary re-rating and we haven't had growth. So I'm guiding that for the next one year, let us stabilize at 38%. After that, again, the same guidance will continue if we grow our 20% and if our costs grow at 15%, we'll continue to see 1% per quarter margin expansion. What 1% per quarter mean is if you're if your expenses grow at 16% and if your revenue grows at 20%, you will see a 4% margin expansion every year.

Ravi Gothwal: Thank you. Next question is from the line of Amit Chandra from HDFC Securities, please go ahead.

Amit Chandra: Yes, sir. Thanks for the opportunity. So my question is on the investments, you have explained a lot about the rational of investment, but not just to have some further clarity on this. So most of the investments are in the ERP space. So how are we actually looking to leverage these investments in our existing client base or our Platinum clients? So for example, how many of our Platinum clients are actually using the software space, specifically if you want to talk about Busy? Is there a huge cross-sell opportunity? I know existing client base where we can go sell the software. And if you can also highlight, you know, what is the pricing model there is in terms of because it’s an on-premise model. So whether we will charging it as a license or a SaaS kind of model, or it will be more often on our offering, which will be more like a bundled offering right, in which you will bundle it along with the yearly subscription charges. So if you can throw some light on that?

Brijesh Agrawal: I mean, when we look at it Busy as an accounting software, currently, the on-premise models that they have, they offer licensing model whereby you can take it for a single user, for two users or for multiple users, the price typically would range anything between Rs 8,000-9,000 to about Rs 35,000-36,000. There are these some of these users who would also, you know, go back and pay anything between Rs 3,000 to 5,000 rupees every year to get the upgrades that are launched by them. Currently, about 25% of their customers essentially go for these services right now. And that adoption has happened over the last two years, specifically. Now, their current market share in the accounting software market, specifically for businesses that are GST registered, they have about 10% market share. And that is also fundamentally more on the manufacturing and the wholesale trading side of it, as a sample dipstick between our customer base, and the Busy customer base suggests that, that there is a current overlap of anything between 15 to 20%, of IndiaMART customers using Busy accounting software. So we definitely see that in terms of the target segment that is the existing overlap. However, you know, as we go back and understand the operations of Busy, far more deeply over the next year or so, and we get a good hang on, you know how they have been doing the overall sales distribution all these years, there is definitely an opportunity possible for us to look at bundling of these products. However, one important element that we must know is that at IndiaMART, these subscriptions are for, recurring payments. Typically, these are not one-time licensing fee. So therefore, when you look closer at bundling, we need to look at a subscription model rather than one-time payment. So better clarity on it, of course, will emerge as we go and build a better understanding of the business and also look at how do we enable Busy in itself to look at a subscription model from the licensing fee by building up a cloud SaaS based application. But that is something which is, you know, a year or two away from the where we are. And once we get into the business, I think that's the time when we would be able to give you better clarity on when would this be sort of possible for us to go back into. The current spread of customers that is already there with Busy suggest that they are fundamentally very, very strong in North, almost about two thirds of their business comes in from the northern states itself and about 25% odd comes in from Maharashtra. So, there is a lot of open space available in South, in East, in the central part of the country, where in fact their presence is very, very minimal currently, and I think that will of course be one of our priorities to go and use these whitespaces to increase the overall customer base there.

Dinesh Agarwal: If you see, their revenues until pre-GST were about you know Rs 10-20 crores, it is only post GST that the real to this Rs 30-40 crores. So their ability to spend massively on a sales force or a distribution network was also limited and I think they have done a very good job making a product which is very stable and getting up to two to two lakh customer base. I believe, now a 1,000 Crore company, I think we have a lot more a lot more ability and a lot more cash behind us to be able to expand our sales force, whether it is the digital distribution, sales force or whether it is a new sales force or whether it is our existing sales force and we all know that sales has a lagging effect, somebody with limited capital has limited ability to press the paddle on the sales. We have seen multiple times how investing in sales can have lagging effect on subscription businesses. I think next in nine months, we would not go and disturb the business we would just try and digest the business. Understand the management, understand the product, make it a stable and smooth transitioning and then we would like to experiment with sales first and then going to mobile and cloud and doing other things. I think this will be year-one, year-two, year-three kind of things and lets looks at 5-10 years horizon on this, rather than five quarters.

Amit Chandra: Okay sir, fair enough. And sir also one of the other objective behind acquiring one of the other companies was to increase our value added services, in terms of increasing more focus on logistics and other services which increases the ROI or transition capability for a seller. What is the progress on that side or why we are not investing like in that area, which can actually give a boost to our existing MSMEs?

Dinesh Agarwal: We are investing. In current financial year alone, in April 21 we invested in Shipway and in March 2021 we invested.

Amit Chandra: These are very small investments. I am talking about steps you taking with Busy and investing in full confidence, you know that kind of investment in those particular areas.

Dinesh Agarwal: After investing for 2 years, we have had the courage to make a bigger investment. Lets digest this one and then we will do one acquisition a year, as I have been guiding, If we do one acquisition a year for the next 3 years, that should be our target. Also, there are companies, which do one acquisition every month.

Ravi Gothwal: Thank you Amit. Next question is from line of Sumit of Kotak Securities.

Sumit: I just wanted to know how is the competitive intensity and are we losing market shares?

Dinesh Agarwal: I haven’t seen anything like that. I haven’t found any customer saying that I am going to XYZ and the customer diligence done by other have mentioned that there is no overlap, I have highlighted earlier also that if an average order on a B2C marketplace like Amazon or Flipkart is 10-15 dollars, average order value on a B2B grocery marketplace is like 50-60 dollars. The average order value on Pay-with-IndiaMART that we have seen is 500 dollars. Pay-with-IndiaMART can be used for low value transactions and not for higher value transactions. If you look at any of the customer categories, lets diesel generators, now the average order value ranges from 50,000 to upward of 5-10 lakhs, so we haven’t yet found any competitive pressure.

Sumit: How we should see growth trajectory going from here in next two to three years?

Dinesh Agarwal: As I said, if like this every nine month lockdown or wave does not happen, I think we should be good at anywhere between 20-30% growth rate.

Ravi Gothwal: Thank you Sumit. Due to time constraint that was the last question. And with this we come to the end of the Q&A session and now I hand over the call to the management for their closing remarks.

Dinesh Agarwal: Thank you everybody for joining Q3 FY22 conference call. We have tried to address all your queries and in case you have any more questions or follow up questions you can contact our investor relations department and now Mr. Kushal is full time available to handle queries, in much more details. Thank you very much. Have a nice day. Look forward to great quarter again.

Ravi Gothwal: Thank you everyone and on behalf of IndiaMART that concludes this webinar.

Notes:

1. This transcript has been edited for readability and does not surpport to be a verbatim record of the proceedings
2.