



Conference Call Transcript

Event: IndiaMART Q4 FY2020 Earnings Conference Call

Event Date/Time: May 13, 2020 at 1630 Hrs

CORPORATE PARTICIPANTS:

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

Mr. Brijesh Kumar Agrawal – Whole-Time Director

Mr. Prateek Chandra – Chief Financial Officer

Moderator: Ladies and gentlemen good day and welcome to the IndiaMART InterMESH Limited Q4 and FY20 Results 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 Agrawal – Whole-Time Director and Mr. Prateek Chandra – Chief Financial Officer.

Before we begin today, 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 no. 3 of the earnings presentation for detailed disclaimer.

Now, I would like to hand over the conference 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 fourth quarter result conference call. We have already circulated our earnings presentation which is also available on our website as well as stock exchanges' website. I am sure you would have gone through the presentation and our recent disclosure on investment in Mobisy Technologies Private. Limited. I would be happy to take any questions afterwards.

First of all, I am pleased to report that IndiaMART has achieved consolidated revenue from operations of Rs. 170 crores in the fourth quarter and Rs. 639 crores for the full-year representing a year-on-year growth of 23% and 26% respectively. Collections from customers have increased moderately by about 10% from Rs. 671 crores in FY19 to Rs. 738 crores in FY20 at consolidated basis. As a result, the deferred revenue as of March 2020 stood at Rs. 685 crores and the year-on-year growth has been decreased to 17% as compared to 38% in the same period last year. Total paying subscribers at IndiaMART stood at approximately 147 thousand with a net addition of approximately 5,000 subscription suppliers for the quarter.

Now I will brief you about the impact of COVID on our business and our customers and the measures that have been taken by us to mitigate the same. The last financial year has been challenging because of the weakness in the overall economy and we have been sharing this information since last 2-3 quarters itself. March onwards COVID induced lockdown has further impacted the business environment and due to the nature of COVID exigency our top priority was to ensure the safety and well-being of our employees as well as our vendor partners. First, all our employees are safe, and they have adapted to this new work from home environment with full dedication and commitment. This has allowed unhindered running of the marketplace platform both on website as well as on mobile app. We have continued the customer support service on our toll-free number as well as on e-mail and mobile app. The nationwide lockdown has resulted into general business activity coming to a standstill. As a result, we have observed

reduction in the traffic on an average of 50% lower than the normal values, though it varies significantly across categories and across geographies. IndiaMART has a very important responsibility towards the nation and we have a very important role to play, especially in these tough times. Everyone from across the world is looking for products and suppliers related to hygiene, safety, medical, pharmaceutical, and entire food chain. Due to the Corona virus outbreak related lockdown in China and since early February the entire world has been looking at India and IndiaMART is the destination for many such categories. We are witnessing significant traffic growth in categories such as sanitization, safety, hospital, pharmaceutical and food supplies etc. and in indirect categories like chemical, packaging, raw materials related to the above-mentioned items. To help buyers looking for essential items we have identified many such categories of importance and we are working hard to increase the number of suppliers available in those categories from the cities all across India, so it will be easier for the buyers to be able to find the kind of products that they are looking for in these days of emergency.

Most businesses including our customers, especially SME customers are currently facing acute financial challenges. They were already facing financial challenges since last year due to economic slowdown which got further aggravated in the month of October-November when the financial crunch started, and it got further acute when the sudden and long lockdown happened. As always, we promise to stand by our customers in these challenging times. We have undertaken various customer retention initiatives such as discounts and relaxed payment terms for suppliers to help them navigate the current situation. The current market is also non-conducive for any new sales due to the lockdown as most of our salespeople are not able to meet the customer and most of our customer's businesses and premises are completely closed. Hence, approximately 10% to 20% of our subscriber base may be severely impacted and are more likely to churn.

We are witnessing a sharp downfall in the sales and collections from customers and anticipate the same to remain suppressed for the next few months until the lockdown is completely withdrawn and the life is back to normal. The situation requires us to be financially prudent, responsive, and proactive in larger interest of all the stakeholders of the company. We are taking several cost optimization measures, such as relooking at our current cost structure, renegotiating vendor contracts, looking at variable costs, deferment of appraisals and temporary salary rationalization without doing any kind of layoff.

Amongst this gloom the silver lining that we foresee in the long run is the following:

Number 1, an overall adoption curve of the Internet will improve. Lot more people and businesses will adopt the Internet in times to come. There is a natural pull for 'Make in India' in the post COVID scenario that should increase the manufacturing intensity in India, potentially enlarging IndiaMART's market size. There would also be increased openness to the online and tele-sales that may reduce our reliance on physical meetings in the long run and make it more efficient. Our geographic and category diversification put us in a position to leverage the staggered opening of the lockdown. The inherent strength of our company's subscription-based

business model with negative working capital and robust cash reserves give us the confidence that at the end we will emerge stronger together.

Now I would like to apprise you about the investment that we have announced this afternoon. The board has approved to invest Rs. 10 crores in Mobisy Technologies Pvt. Ltd along with other investor 'Triton Investment Advisors'. Mobisy run a business called 'Bizom' which is a Bangalore-based SaaS start-up offering sales force automation and distribution management system to medium and large sized businesses. Bizom was co-founded by Lalit Bhise, Vasudeva M and Shree Bhise. It offers a mobile-first cloud solution that enables the digital transformation of sales and supply channels of the consumer brands distributing through retail stores. Bizom which is solving the complex sales and distribution and direct retail reach needs of the consumer brands on a mobile based, stabilized and a scalable platform is a strategic fit with our long-term vision to make doing business easier for all kind of businesses, whether small, medium or large.

Now I would like to hand over this call to Prateek to discuss the financial performance in detail and we will come back to you with your questions and answers later. Thank you and over to you Prateek.

Prateek Chandra:

Thank you Dinesh and good evening everyone. I would like to first discuss performance of the fourth quarter followed by the performance for the entire fiscal year. The consolidated revenue from operations was at Rs. 170 crores for the quarter with EBIT of Rs. 46 crores representing a margin of 27% as compared to 14% last year. The margin expansion is primarily driven by the higher revenue growth. Net profit for the quarter was at Rs. 44 crores and cash flow from operations during the quarter was Rs. 94 crores.

On a full-year basis consolidated revenue from operations stood at Rs. 639 crores with EBITDA of Rs. 169 crores, representing a margin of 26%. Margin expansion in the business was 8% as EBIT margins increased to 23% as compared to 15% last year and net profit for the year was at Rs. 147 crores. Cash flow from operations during the year was Rs. 261 crores, leading to a closing cash and investment of Rs. 931 crores as on March 31st, 2020. 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 Pranav Kshatriya from Edelweiss.

Pranav Kshatriya:

My first question is regarding the statement you made on 10% to 20% of the customer could churn out. Is this portion of the customer that has already churned out or is this your expectation of churn by the end of this lockdown? And secondly what would be the profile of these customers because top 10% of the customer gives you almost 40% of the revenue, so should we assume that this will be more of a bottom end customer and hence possibly revenue impact will not be to the similar extent? That is my first question.

Dinesh Agarwal:

Coming to the 10% to 20% and why such a big range and why not a closer range, because I myself do not know. These are uncertain times. Initially it was 3 weeks of lockdown, then it further got extended and then it further got extended while the number of patients keep on rising. So many people who initially thought that they should hang onto the subscription, may give up in the times to come. So given that we have nearly 150 thousand paying subscription suppliers customers and we are not adding any new customers or adding very little number of customers, who maybe specifically coming from the special focus categories that are working in the COVID times, I would say that let us assume that we would be down by 20% from our current customer base if the current and fourth lockdown is the last one. If the uncertainty continues further, and the economy goes through further challenges, I can only come back and tell you in a month's time or so, about what kind of feelers do we have. As of now I can only tell you that maybe about 10% are already on hold and in the next 45 days, based upon our experience of the last 45 days, another 10% may go. So that is where we are.

Now coming to the second part of your question, what is the mix of the customers and as you rightly said that top 10% of our customer, which are Platinum customer, accounts for about 40% of our revenue. So, you are right that there will be higher churn at the bottom of the pyramid. There would be slightly lower churn in the middle of the pyramid. But you please also understand that the top of the pyramid is the most expensive for people to sustain as well. On one side those are the customers who have a long-term belief on IndiaMART because they have tasted the Silver solution or a monthly solution and then only have taken a Gold or Platinum or for longer duration. On the other hand, they are paying also on an average of approximately Rs. 1,75,000 per annum which is almost like Rs. 15,000 per month. So, every month of lockdown is going to cause stress on them. So they may not churn out completely but it is quite likely that many of them would go for a temporary suspension for a month or for a quarter, a few of them may request us that please downgrade us to the lower tier. However, we can tell you that on the larger size of customers, about 50% of our customers are paid for more than 1 year or so. So, they are for the more than 1 year, 2-year, 3-year combination. I hope that answers your question.

Pranav Kshatriya:

Just a follow up on that would be, how are you seeing the activity in some of those zones which are basically in the green zone and where some of the activities are also allowed, some of the factories are also opening, so in those areas are you seeing some activity coming back and if you can give a sense especially about those areas, how is the traffic for those kind of products or basically traffic in those area vis-à-vis how much it was when the entire lockdown was in place, so any color on that will be helpful?

Dinesh Agarwal:

Pranav, as I said, there is a week on week and day by day changes, and certainty and uncertainty happening. So in the entire month of April we have seen a huge fluctuation on the traffic coming from different cities based upon how the cities have reacted to the first patient and second patient. Now, talking about the last 10 days or so, the relaxations that were announced by the Central Government on 3rd or 4th of May, gradually percolated down to the state level and then the district level. It is only in yesterday's newspaper that we could see that these many factories have been given permission to operate in NOIDA. Even I, for the first time stepped out after 20th of March,

out of my home and when I looked out of my window from the office, it still looks like entire NOIDA is at home. So, it will take some time before people can return to any kind of normalcy. Having said that have I seen some improvement in traffic over the month of April? Yes I would not deny that. But am I hopeful of sustaining everything like this, I don't know. Curfew had to be imposed in Ahmadabad the very next day when things were opened. So, I am as clueless as anybody could be at this point of time. The good part is that whereas the entire physical businesses are literally 100% closed, apart from some bread and milk services, at IndiaMART, we are still getting on an average about 50% of the traffic, which itself is quite remarkable for us. Enquiries in these 5-7 categories, which I mentioned earlier in my speech, whether it is safety or whether it is health or whether it is hospital related or whether it is medical equipment related, pharmaceutical, chemical, PPE suite, so if you search for any of those items you will find that IndiaMART probably is the only destination for finding something. So that is where we are. I would say it is safe to assume that we will remain anywhere around 50%-60%, because at the worst time of the lockdown we were at about 50%. If something improves, it should be a bonus for everybody.

Pranav Kshatriya: A small follow-up on that, so does 50% decline in traffic should it translate 50% decline in the enquiries also and because a lot of businesses are closed, are you seeing lower enquiry picks up rate?

Dinesh Agarwal: Pranav when I say traffic, I actually and almost interchangeably use enquiry versus traffic versus calls or versus RFQ. All of them typically fall in tandem because the overall conversion rates do not change.

Moderator: The next question is from the line of Vivekanand Subbaraman from Ambit Capital.

Vivekanand Subbaraman: I just wanted some more color on two things, the mix of packages that you have - longer than 1 year packages versus monthly passages, how different is it among your top 10% versus the rest of the customer base and on a related note you mentioned about the request that you have been getting from customers to possibly downgrade. Can you help us understand that in terms of your top 10% versus the overall universe? That is question one.

Prateek Chandra: So, to your first question wherein you are saying that what kind of the packages we have, so we have broadly three tiers. The top one is the Platinum tier, the middle one is the Gold tier and the third one is the Silver tier. Platinum and Gold packages are available only in the yearly modes, so most of the customers have taken the yearly and the longer-term subscription. In Silver, we have two different packages either a supplier can opt for a monthly package which we call it as Silver monthly bucket and either they can opt for a yearly option in the Silver. In total, about one-third of our total customers would have opted for a monthly package on the Silver and roughly 10% are the top Platinum customers. So hopefully this answers your question on the mix of the packages.

Vivekanand Subbaraman: Yes.

Prateek Chandra: Now we can come to your second question?

Vivekanand Subbaraman: Second question is with respect to your branch expansion, this year I guess you added around 14-15 branches, yet, if I look at the other expenses that you have reported for the full-year basis I see that your costs have actually come down. Can you give any color on the cost initiatives that you have taken because in FY20 also your cost performance has been quite good, if I look at the non-employee cost? A discussion there and where we should look at this number for fiscal '21 and '22 that would really help.

Prateek Chandra: So, to your second question on the expenses part, the other expenses, and the G&A part, certainly with the branches our expenses on that side, has slightly gone up. However in this year we have also adopted Ind-AS 116 which requires a re-classification of the rent expense and moving down to more like depreciation because the standard requires to capitalize all the long-term leases that we have and charge depreciation instead of showing it as a rental in the P&L. So roughly around Rs. 16 crores for the year and Rs. 4 crores for the quarter would have got reclassified from the other expenses to the depreciation line in this year. If you add back that particular line, you will see that my other expenses have actually gone up vis-à-vis last year.

Vivekanand Subbaraman: So, you have recategorized the rent into depreciation.

Prateek Chandra: It was requirement of standard, so it was not a voluntary decision as such. It was mandatory applicability of the standard.

Vivekanand Subbaraman: And last question is with respect to the competitive intensity, we are reading news reports of dotcom companies like Udaan facing challenges given that the funding environment has become much-much more circumspect. So, in this light do you think that the competitive intensity will subside and if so can you talk about the specific initiatives that you can take in this environment post lockdown to look at adjacent market opportunities?

Dinesh Agarwal: You are right that funding would become tougher for the short-term to medium term as the funds will chase the best returns in these times and for any new kind of a trial and testing, the funding would be less available. However, the name that you have taken, Udaan, they have a large amount of funds available with them and they have also been financially prudent to cut cost and save that funding for long. On the other hand, Udaan and IndiaMART and Amazon business and Amazon are very-very different businesses. The kind of product and categories that we deal into, the kind of product and categories that they deal into are very-very different. We are mostly manufacturers, wholesale traders, custom product made, truck load products. Just to give you one comparison, if Udaan has about \$60 average order value, at IndiaMART it would be around \$600 and at Amazon it may be at around \$16. So, there is a \$16 and \$60 and \$600. So, we are in a very-very different category. Not every B2B and not every SME business are same. However, having said that, once they get their feet on the ground there is always a possibility that they would try and expand into each other's area. As I said, as much as this crisis present the risk of smaller startups not getting money and winding down, at the same time, this crisis

may also present a silver lining opportunity in terms of increased adoption of internet. 2 years down the line when everybody would be using Internet, when remote working will become like a norm and when by that time Internet-based commercial platforms like IndiaMART would become a super-hit, the competition and funding can come back with a far more rigor and far more vengeance, just like when IndiaMART became successful, a large amount of funding went into multiple B2B and SME platforms. Similarly, for now there may be certain opportunities for us to consolidate and as much as we can consolidate, that should be our goal. However those who have a large amount of funding are smart enough to save it for the rainy day and once the overall scenario gets settled in, I think everybody would look at even higher degree of competition that would probably come. So, on a short run, yes this is a positive, on a longer run, yes, we have to be cautious and third, they are into very different business than ours.

Vivekanand Subbaraman: One small follow-up, so the two investments that you have made till now are minority investment. Do you also intent to buy out companies in adjacent areas?

Dinesh Agarwal: So, we are not averse to buying out or averse to investing. We only invest in strategic areas. We are not a normal venture capital fund who will go and invest money in a consumer startup or in a sports startup because there is an opportunity. There is lot of money available with lot of financial institutions for various kind of entrepreneurs. If we at IndiaMART cannot add any value, or we cannot learn anything from that startup, it is neither in our favor nor in their favor to give money or to take money from each other. So, we will continue to be making investment in the spaces that are more adjacent to us, which add on to the ecosystem of the small and medium sized businesses. To help people manage leads through us we launched lead management system CRM developed by IndiaMART. Today I can say that probably we are the largest CRM company in India used by distinct number of individual businesses. On our IndiaMART CRM, if I can give you the last quarter's CRM usage data, last quarter itself the number of calls back and replies done through our own CRM was to the tune of 40 million calls and messages. So about 40 million calls and messages have been exchanged by approximately 100,000 distinct businesses. So, then we moved on to invest in a business called Vyapar. As you know for every SME, the first requirement on computer has been accounting software. However accounting software comes with an accountant and now that computer is in everybody's hand in the name of mobile computer, I do not need an accountant and that's where the need of the mobile based self-accounting software was there. We were fortunate to find Vyapar and so we have taken a smaller stake to begin with because we feel that it is very nascent business right now. We will wait and see how we can nurture that business. Today we have made an investment into a forward management of distribution and sales, so helping distributors of large brand, and helping retailers of large brand using again the mobile based SaaS application. The beauty of Bizom is that unlike being a standard SaaS application and unlike being a totally customized software, it is a best mix of configurable multi-tenant SaaS software and in some senses they have made their underlying infrastructure in a very similar way as SAP in the customized software solution space.

Now coming to your question whether we are open to acquiring businesses, Yes, we will be open to acquiring, for that we need to continue to look for and continue to find the right candidate and a strategic fit and strategic value.

Moderator: We move to the next question from the line of Sanjay Ladha from Concept Investment.

Sanjay Ladha: First is correct me if I am wrong, in my view most of the paying suppliers, who are associated with the company for long period of time, are renewing the plan in the starting of the financial year, so the time is also in the month of April so you would have seen whether the customer is taking our subscription model or not, so what is going on that side if you can highlight more on that? and how the demand of our product has been in the terms of paying suppliers and what is the churning ratio in this quarter? So, this is the first question.

Dinesh Agarwal: It does not work on the financial year basis, it works on a rolling mechanism, so if somebody started his/her subscription on 15th of February and has taken a monthly auto-debit or electronic clearing scheme kind of a subscription, then every 15th of the month his subscription would be renewed. Similarly coming to an annual subscription if somebody has taken a subscription in the month of June, 2019 he would be sent a renewal notice somewhere in the month of May for his subscription renewal due in the month of June of 2020 and similarly for a 3-year subscription. So we do not have an annual budgeting from the SMEs. And this has two benefits, one it gives the flexibility to our sales team to be able to sell all year round, at the same time it gives us continuous cash flow because if something was all gathered around a particular event, say Diwali or New Year or beginning of the financial year or end of the financial year, that's very risky. So, all our sales and all our renewable are by and large equally dispersed across the year and across the geographies and across the various SME sizes. Your Second question was?

Sanjay Ladha: What is the churning ratio?

Dinesh Agarwal: So, for churn, I think we already told that in this particular quarter there has not been much difference than the previous quarter. So, we have three kind of customer base, Platinum customer base which accounts for about 10% of our customer base. These account for about 40% of our revenue and accounts for about 5% to 6% of the annual churn. Then we have Gold customer base which is about 30%-35% of our total customer base where we have about 10% to 12% of the annual churn and then we have Silver monthly and Silver annual. In terms of Silver Annual customers, we have about 20% to 25% of annual churn and in the monthly base we have about 5% to 6% monthly churn. However, after 20th of March things have been under complete lockdown and we have received multiple requests from multiple customers, to stop their subscription or to give them extension. So, we do not know how long this uncertainty will continue and during that uncertainty how many people will be able to survive and will be able to afford the subscription over the longer period. So, these are the historical figures. How they will pan out in the times to come, I cannot assess at this point of time.

Sanjay Ladha:

My second question will be that the collection from the customer in the quarter remained flat, so what is the previous trend if you can highlight and what is your view on the coming quarters, if you can throw some light on that? And in continuation to that question in the previous call you have mentioned a target to add 5,000 paying subscribers every quarter, do we still hold this going ahead and also the growth of 20%, do we still hold this target on a longer period of time—I am not talking about the 3 month or 6 month period of time—but on a longer period of time?

Dinesh Agarwal:

Let me answer one by one; collection from customers it is already there in the presentation. Now in the presentation, there is a dedicated slide which gives you last 5 quarters collection and last 5 years collection figure. Let me read out to you. Last 5 quarters collection has been Rs. 204 crores, Rs. 168 crores, Rs. 173 crores and Rs. 178 crores and the immediate quarter was Rs. 202 crores. Now coming to the growth rate, in FY18 we had a collection growth of about 33%, in FY19 we had a collection growth of 32%, in FY20 the collection growth was about 15% until December and February. However, in the month of March the collection is negative or flat, therefore overall collection growth is only 9% on a standalone basis.

Now coming to your second question; we have been adding about net 5,000 paying customers per quarter. As I said currently we have about 147 thousand customers—I mean it's just a rough calculation—for every month of lockdown we may end up losing 10% of the existing customer base because during lockdown, lot of customers may not be able to afford or may have to change their business model. So I would say, that assuming that in the next 3 months all of this is over, I may lose 20% of my customer base and as things return to normalcy over 6 months we will start to add maybe 1,000 customers per quarter and then 2,000 and then 5,000 customers in sometime. But we don't really know how it will pan out in the times to come. Now as you said we have been looking at upwards of 20% growth and we have also been guiding that the growth is a mix of two numbers. There has been about 10% to 15% of the growth which has been coming from the new customer addition and about 5% to 10% of the growth which has been coming from increased realization which is called average collection per customer or average revenue per customer. Now, last financial year has been very tough. Initially the auto mobiles sector was completely drying up and real estate sector was completely drying up and then in the later part of the year there has been financial turmoil and then the NBFC crisis further hitting the SMEs, which further led to a toughness in the churn as well as monetization and now this third wave of Corona has happened. So, I would say that it will take some longer period before we can look at that kind of growth again. So currently we would say that we would like to protect our current revenues and current customers and then as and when the situation improves, we would be able to talk about how and what kind of growth in what period of time we can expect.

Sanjay Ladha:

My last question will be how this strategic investment in Mobisy will help the IndiaMART platform, if you can throw some color on the investment side and the strategic partnership with the IndiaMART platform?

Dinesh Agarwal:

There are certain reasons and there are certain hypothesis, based upon which we have done Mobisy investment or Bizom investment. We looked at the entire space and we found that they

are one of the fastest-growing players and the largest as well. So, they have grown at 50%-60% CAGR over the last 3 years and their last year revenue was about Rs. 30-35 crores, the final number is still to come. Secondly, they are taking advantage of mobile phone or a smart mobile computer what we call and that is a strategic fit as majority of our suppliers also are utilizing IndiaMART mobile app. They have a very stabilized and very scalable product portfolio. I have seen their product working for companies like Bausch and Lomb, Jyoti Laboratories, United Beverage and Phillips which have very different products and very different distribution challenges. However, their products work seamlessly and are configurable across these set of customers. So, it's an impressive and stable set of customers and scalable and stabilized product. They are a cash efficient business, if you really see they have been able to come this far at 50%-60% growth with an efficient business model and the team has been together for a long period of time. So, the founders and the entire senior leadership team has been together for a long period of time. I've visited their office and I found the cultural fitment and financial prudence in everything that they do. Probable synergies with IndiaMART- two kind of things that we can think of, One as I have been saying that now IndiaMART is not only relevant for smaller businesses but we also have bigger brands utilizing our platform for buying and selling both. Today we have more than big brand 200 customers, whether if you go to diesel generator page or if you go to a medical equipment page, you will find customers like Phillips or Kirloskar or Tata Motors or Tata Steel or Jindal Steel and these are coming from diverse industries. Similar customer base is there at Bizom also, so there may be a cross sale or a joint sales opportunity between IndiaMART and Bizom but that is just too long shot for now. Second thing is, when we approach these large and bigger brands many of them find it difficult to manage the volume of leads being generated from IndiaMART. They are habitual of lead handling by their dealers and distributors. They do not know how to monitor those leads and I think that Bizom provides me a platform where these leads can be directly pushed on to their dealers and distributors and retailers and whereas the principle brand can have quite a grip or quite a visibility on what is happening on those leads because Bizom is doing their sales force automation, their distribution management and also working with their retail partners.

Moderator:

The next question is from the line of Prince Poddar from JM Financial.

Prince Poddar:

I just wanted to understand the kind of customers we have, what kind of percentage of those customers would be completely or to some extent dependent on IndiaMART subscription for quality leads? So essentially what I mean to ask is, if hypothetically let's say this quarter was completely going out of the business, how many will come back immediately the next quarter because of their business need rather than as a discretionary spend? Would you give us a little sense on that I mean of course you would not have a perfect answer for that but what is your sense on the kind of customers you have?

Dinesh Agarwal:

So, one I think you have already answered your question that many of the customers might have a larger portion of their business coming through the leads that are generated and that are followed by IndiaMART and we will not have exact or ballpark figures that these many customers have 10% of their business coming through IndiaMART and these many customers

have 50% and these many customers have 75%. However, the current situation is less about their dependence on IndiaMART, more about their own financial ability and their own financial commitment about so many other things. They may have rental; they may have other financial liabilities from banks and loans. So, one, whether they will be able to fulfill the buyers that they are able to get from IndiaMART that itself is going to be a key to whether they would like to continue with IndiaMART as a subscription. So one is the survivor part of it, the second is what portion of their customers or revenues come from IndiaMART and a cross section of these two will decide what will happen to ourselves and this will all depend upon the number of days we take to return to normalcy. I mean, on the 20th March, nobody would have thought that on 12th May we would still be sitting at home. So, I think the uncertainty is the biggest question mark in front of everybody today in planning for business and that is even more uncertain for small and medium businesses. So, I would say that given that there are lockdowns, IndiaMART is probably the only choice and there is no competition in the kind of products and services that we deal into. So, we are in a good position but whether we will be able to monetize that immediately will be based upon what is the financial situation of the customer. So from last year, for example, I think we have been able to maintain buyer traction very well and despite all that we have had to deal with a higher churn and a lower monetization growth, because this 9% growth rate is not because of the COVID. Even in the 9 months period, as against upwards of 30% growth we were running at 14%-15%-16% of growth rates. So, there could be two reasons for that, one is the external macro reasons where people are not able to afford; the second is our own execution reason. We continue to look at where else we can improve but at the same time we all know that the overall economy and the growth rate has gone down substantially and this particular event will be even more difficult for anybody to guess even if people are comparing this with last 300 years.

Prince Poddar:

Just a follow up on that, is there a possibility because as you know many of the suppliers are there which are still not paying customers for the IndiaMART but they are already there on the IndiaMART platform. Is there a possibility that the suppliers who have a good cash position or a decent cash position they might start opting for IndiaMART, are you seeing any of such traction that new customers of such type are coming in?

Dinesh Agarwal:

Yes, have I got few incoming leads from few known bigger brands so, Yes. So your hypothesis is right but how much will that I add to scale is something which is questionable. Whatever sales that we are able to do and whatever collections that we are able to do today is because of people who have cash and because of people who have trust on IndiaMART and because of the new people who are developing trust in online business, so there exists a possibility. In fact there could be a possibility even on the export side if 'Make in India' becomes better or truer.

Moderator:

The next question is from the line of Harsh Singhania from Aditya Birla Capital.

Harsh Singhania:

I have two questions, firstly that are any COVID specific schemes that we will look forward to, as in maybe an extension or some kind of discounts to give suppliers, so that they can probably not discontinue with IndiaMART?

Dinesh Agarwal: I have already said in my opening speech also and I have already given that as part of the COVID update towards the end of the presentation. Our customers are facing acute financial crunch because of the sudden and long lockdown, so we are offering shorter duration renewals, we are offering relaxed payment terms and if need be, we are offering discounts as well. If we look at the page no. 72 of our investor's presentation uploaded on the stock exchange, you will find information there.

Harsh Singhania: You have mentioned that you have around 200 big customers on IndiaMART, so won't it be inherently problem for the smaller base because the larger base might get a better start on IndiaMART and the smaller base might lose interest. So, will it not be a problem in the long run with the platform mainly inherently catering to bigger players and shifting the focus from MSMEs to larger players?

Dinesh Agarwal: What I have seen is, it adds to the platform. First I have seen that smaller players are typically regional players and they are able to deal in only certain pockets whereas the larger players like Tata Steel or Tata Motors are able to deal on all India basis as they have a dealer distribution network. Number two, presence of a brand gives a lot more trust to the buyer that the entire list of manufacturers or suppliers is present here and it is not a flea market but a more trusted marketplace. So, I think if you study Google advertising also, it is a level playing field for everyone and if you see on Google also, everybody can advertise and 80% of their advertiser base is also SMEs. So, I think it is where everyone gains, brands attract more traffic for IndiaMART, brands give more trust to IndiaMART. They can fulfill the remote buyer enquiries whereas the long tail of products and long tail of pricing is filled by the small and medium manufacturers. So, I have not seen many complaints where the brand has said that I would not join because you have so many smaller and uncertified players. At the same time, I have not seen many smaller businesses quitting saying that now that you have a bigger brand then what is our need? So, I think we have not seen that kind of a behavior yet.

Moderator: The next question is from the line of Ayaz Motiwala from Nivalis Partners.

Ayaz Motiwala: I have two quick questions, one, is the length of contract duration or the customers which are longest on the IndiaMART platform, in your experience, as you bill to 147,000 paying customers, are there some customers who have been around for an extended long period of time?

Dinesh Agarwal: Let me give you some basic numbers. About one-third of our customer base is definitely more than 3 years and I don't have the exact percentage here in front of me, but we do track the customers more than 5 years, customers more than 10 years and I also happen to have few customers more than 15 years as well but yes to answer your question, more than one-third of our customer base is more than 3 years old.

Ayaz Motiwala: More than 3 years old would imply much extended as you said 5-10 or even 15 years?

Dinesh Agarwal: Yes, that will be the blend of 3,4,5,6 and 10 years.

- Ayaz Motiwala:** The reason I was asking this question was on a premise that B2B relationships, the way you are expressing entirely through the call, get established for 2,3,4 years and then they get very intimate. Is there a desire of such people who might then become even bigger Platinum customers to churn out after a period? So that was my motivation of this question.
- Dinesh Agarwal:** Sorry I missed. Can you please come again?
- Ayaz Motiwala:** What I was trying to get at, to know the length of customer engagement, as B2Bs are more long established relationships and after they are set where the customer has discovered on your platform a supplier and then the business relationship builds up over 2,3 years of being on the IndiaMART platform or longer; they find it a less reason to be there and specially a motivation like this crisis may push them out of the platform? That was the reason I was asking this question.
- Dinesh Agarwal:** No that is not the case. I have seen that even in cases where capacity has become full because of IndiaMART, customers don't want to leave IndiaMART even if they don't utilize enough. That has been the generic premise that once you have benefited, twice you have benefited, thrice you have benefited, you don't want to let go of that platform and relationship and also there are re-entry barriers. Just to tell you when we launched monthly package in December 2014-January 2015 period it was Rs. 2,000 per month and those customers who are continuing since then, they are still paying Rs. 2,000 per month whereas the new customer who have joined somewhere in 2016-17, they started to pay Rs. 2,500. The new customers who have joined in later in 2018-19, they started to pay Rs. 3,000 so if you really see an older customer, now if he churns out today and wants to join in back; his annual cost of re-entry would increase from Rs. 24,000 to Rs. 36,000. So, I think there are enough reasons for people to grow. Those people who have got these kinds of benefits through us they have also grown bigger. I have seen customers from single room; as we were from single room and I have seen my chartered accountant from single room grown that way, my customers have grown that way, our employees have grown that way; together all of us have only grown. There may be few people who have left on the way but yes mostly it has been a growth journey.
- Ayaz Motiwala:** The second question is regarding payments, collections, discounts etc. You said there are hardly any new sales being done and even collections are very slow or not happening because salesman cannot visit potential customers. So, in this backdrop some of your competition, one of them TradeIndia seems to be promoting very aggressively and offering deals and discounts. So do you have a comment on the competitive market, are there people trying to grab market share of churning customers of yours, as such and could you quantify the level of discounts and deferments in the same context please?
- Dinesh Agarwal:** So, let me first target the name that you took, it is not a new name. In fact, when I started my business in 1996 they were already in business for 5,6,7 years, so they started probably in '87 or '91 if I remember. So, they have been following our business day in, day out. Today if we get about 50-60 million visits on our platform every month, as per the public data available on similar web; they get less than 5 million or even 3 to 4 million visits on their platform every

month and obviously whenever there is a leadership position, there would always be some rub off effect which will go to the smallest competition but the distance between us and the nearest competition has been increasing forever.

Now coming to your second question on length of deferment; when we started, we thought that it is a 3-week thing and the government also came back and said that you can defer your EMI. So similarly, most people came back and said please defer for this particular month or give us an extension for 3 months. Now that we are already in the second month, so most of the people who have been deferred, have been deferred anywhere between 1 month to 3 months and this is totally on basis of customer requirement. Many of the customers are using this time where we are offering flexible terms or discounts, to lock up for a longer period or to upgrade. However those stories are far and few, most of the money that is coming nowadays are purely and purely because of the categories which are more relevant in these times, which are related to health, safety, food, hospital, medical, pharmaceutical, chemical and related items. So, hope that answers your question.

Moderator: We move to the next question from the line of Hitesh Jain from Invesco Asset Management.

Hitesh Jain: I had one question, so your top 10% clients contribute 40% of the revenue. This number was similar last year as well which means that you have been able to have a higher realization increase in your top 10% clients that is why the 40% number remains the same this year as well and given that the realization is quite high, as you said it's closer to 1.5 lakh or something; how are you able to do that and this is in contrast to what you said earlier; where your older clients tend to pay at a lesser price compared to the newer customers?

Dinesh Agarwal: Yes, lesser per unit per month but generally I have seen that the older customer also want to upgrade their tiers, they have tasted the platform, they have experienced the platform, they have tasted the success on the platform and they want more and more enquiries. They have expanded their business through us. So, if you see the data sheet where we clearly say that it has remained at 40%-41%. In general, we have taken price hikes and not everybody is on a monthly customer base. In general, on an annual customer base we are able to take 10% price hike every 2,3 years; which also results in helping us launch more innovative products, such as earlier there was a single, all category pricing which has been now kept to a limited category pricing. We are also working with a category-city combination based pricing and as I have been telling you in the past that we are thinking of finding ways and means to introduce city-category based differential pricing because somebody who is selling in Delhi versus somebody who wants to sell in Darbhanga, the prices cannot be same and similarly for somebody who is selling a bag versus somebody who is selling a bag making machine, the prices of advertising cannot be similar but currently it is very similar in IndiaMART. So I think we continue to have more and more opportunities where customers are liking us, their relevancy is increasing, number of enquiries per customer have gone up if you see our last 5 years data; our customers have gone up and our number of enquiries have gone up. The number of enquiries per customer has almost doubled or tripled over the last 4-5 years. So that has also increased the realization and belief on the platform

and overall internet users have also gone up. So, I think all in all, those are the areas that help us and the total number of 10% customer base is also growing, so if we had 100 thousand customers there were only 10,000 customers. Now if we have nearly 150 thousand customers, they are approximately 15,000 customers.

Hitesh Jain:

In your strategy, how do you look at this register, because 40% of your revenue is coming from 10% of the clients? Now given that when we are seeing some kind of stress in the environment and you also alluded to this in your opening remarks that this could be a risk, if any of these customer go through stress then that can hit our top line as well. So from a strategy perspective, do you think you want to look at this number in a different way? Would you want to bring this down because at least this year we haven't seen that happening? So how do you look at this risk internally?

Dinesh Agarwal:

I think, as I repeated, we will continue to look at that combination of three things, one- shorter duration package, two- flexible payment option and three- discount led sales and retention and also if you really see the overall churn metrics, as I said on the lowest tier of the customer which is Silver and monthly the churn rates are to the tune of 5%-6% per month whereas on the top tier of the customer which is the Platinum customer the churn rates are less than 1% per month. So the churn rates themselves are indicative of the overall stickiness of the platform. It's not a risk for the top 10% because hit is spread among approximately 15,000 customers and very-very diversified. So even if I end up losing a 100 customer here or there, my overall revenue would be affected by may be 1% or 2%. I think the bigger risk is reduction in the overall customer base itself, where bottom of the pyramid customer may go out of the business or may not be able to afford the B2B marketing. So those are the bigger challenges. I don't think I would worry a lot about losing the top end customers. I would worry when maybe they ask for the partial period of time to downgrade or to extend or to take certain discount, but I would not worry of a large impact of that on overall revenue.

Moderator:

The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar:

First question is that now you mentioned about the giving customer discount and then the shorter duration renewals. So, do you expect that our average revenue for paying subscriber can fall substantially over the next 1 year or maybe in the shorter term?

Dinesh Agarwal:

As I have been repeating again and again, current priority is to retain the customers, current priority is save the mortality and at this point of time, I don't want to save my ARPU at the cost of losing a customer or at the cost of closing down his business because a large portion of his business could be coming from IndiaMART and that customer himself could be running into financial crunch because of the many other things and at this point of time if we do not offer them help, which will be a help to IndiaMART as well in terms of retaining the customer, I think that would be unfair as well as unwise on our part. So you can safely assume that average realization per customer can go down substantially in the short run and also in the long run but depending upon how lockdown plays out, we will come to know a clearer picture on this. But as

of now, as I said, neither the sales are happening, nor the collection is anywhere near to the previous normal. So that is already affecting our average collection per customer in the month of April and ever since the lockdown.

Deepak Poddar: My second question is regards you spoke about this emerging new category in terms of safety, hospital, pharmaceutical, food supply sanitization. So, over the next 1 year how do you foresee this new business opportunity can become how much portion of your current categories or current subscriber? I know it may be too early to comment on that, but any kind of guidance would help in terms of any comments?

Dinesh Agarwal: If you really ask my wish, I want this category to die tomorrow. I do not want this category to survive for a really long time. I want this category to end as soon as possible so that we can focus on the rest of the category. Having said that, some of the categories which will be here for a longer term to stay are medical equipment, yet I don't want facemasks to survive, I do not want a disinfectant to survive. Our endeavor is to build on those categories to help the hospital and help the consumer rather than make the monetization. Whatever little monetization is coming, is there but yes in the longer run whether we will be established as a player in the medical and pharmaceutical and a chemical and a disinfection as a category due to the work that we would have done in this time, yes probably and that would be our endeavor but I would want these categories, this consumable category specifically related to Corona ones to die as soon as possible .

Moderator: The next question is from the line of Sivakumar from Unifi Capital.

Sivakumar: I was referring to the employee benefits expenses in Q4 which has come down sequentially. What's the reason for this fall and when you are referring to cost rationalization in your opening comments, what are the targets towards which you are working towards?

Prateek Chandra: In the terms of our employee expenses, roughly around 20% of the employee expenses represents the variable portion so certainly in this particular quarter our collections have been much lesser as compared to what we have seen in the terms of the historical past. The growth rate has only been around 10% for the year, so certainly there are savings on that front on the variable incentives. Probably because of that you're seeing a much lesser employee expense in this quarter as compared to the previous quarter.

Sivakumar: How should we look at this number going forward in FY21?

Prateek Chandra: It is little difficult to comment on how this number will play out because these are the variable incentives and the variable portions which are linked to certain performance targets in the P&L. Currently at this point of time it is difficult to assess as to what the target would be because of the given uncertainty. So really difficult to say as to how it will pan out in the next year.

- Dinesh Agarwal:** Just to add, we have not planned any layoffs, so it is only the variable pay which has automatically come down and we have done a very little rationalization on the salary over and above the variable pay. Also as I said a lot of our people are in sales and service divisions, though they are not able to meet the customers, they are not able to go to the customer level but they are certainly engaged in customer service and possible renewal collection from home using the telephone and online as their method. So whatever sales that are happening or whatever renewal collection that are happening or whatever collections that are happening, are happening by the way of the tele-sales and online sales and work from home solution. As I said earlier also that currently we are trending at about 20% to 25% of our previous normal of our collection. I don't know how that will pan out going forward depending upon how the lockdown will pan out but it is not that everybody is sitting idle. In fact, I am getting more complaints from my wife as well as from my employees that this lockdown is making me work harder than when we were going to the office.
- Sivakumar:** Second question is just a bookkeeping one, as to you said the Platinum plan has about 10% of the customers and the number for Gold yearly plans and Silver yearly plan would be what?
- Dinesh Agarwal:** 10% of the customers are Platinum and one-third of the customers are Silver monthly, so the rest of the customers are divided between Gold annual and Silver annual.
- SivaKumar:** What would be the ARPUs for Gold and Silver? You have given Rs 1.75 lacs for the Platinum.
- Dinesh Agarwal:** We have not been disclosing a separate ARPU. We have been disclosing the entry-level price which is Rs. 3,000 per month at the rate inclusive of tax, so which works out at about Rs. 2,600. On an average overall ARPU is around Rs. 45,000 per annum and top 10% customers contribute about 40% of the revenue which works out at around Rs. 1,75,000 or so.
- SivaKumar:** Is there any scope for increasing the efficiency in the non-employee expenses? Is there any scope for savings there?
- Dinesh Agarwal:** If you really see non-employee expenses, they have already done a good job from the days of demonetization, so I have done a full cleanup during demonetization and even the last 45 days; we are trying to do a lot of cleanup there. Overall, out of the Rs. 120 crores if you really see Rs. 90 crores is manpower cost, Rs. 30 crores is the non-manpower cost and Rs. 5 crores is the below the line which goes into EBITDA which is the rental cost. Out of these Rs. 30 crores, one-third is already variable cost which is depending upon the number of leads and number of new customers that we host. So, we are seeing cost optimizations wherever we can but beyond this variable and there is not much of a scope. I will try to squeeze that further by 10% but on a sustainable basis there is not enough scope there.
- Moderator:** The next question from the line of Bismit Nayak from RW Investments.

- Bismit Nayak:** So in your experience have you seen churn before of 10%-20% that you stated and how long before the numbers get back to a normal?
- Dinesh Agarwal:** We have been reporting the churn number on every con-call. If you listen to our last 3-4 con call you will come to know, that there has been a constant update on churn numbers. This particular quarter, I am talking specifically about the COVID lockdown situation where we are saying that our overall customer base itself can be reduced by 10% to 20% by the time lockdown ends, if this lockdown ends within this quarter itself. Hope that answers your question.
- Bismit Nayak:** Did you see the same kind of churn in 2008 crisis?
- Dinesh Agarwal:** One- this crisis cannot be compared with that, Two, we were way too small to be affected by a crisis of a global level or a national level at that point of time. Indian SMEs were not so badly affected. If I remember correctly, we were like Rs. 40 crores or Rs. 36 crores company back then. Did our growth rate come down? Yes, but the churn rates would not be those are 11-12 years old story and we had only 14,000 customers to be precise. Today we have more than 1,40,000 customers which is 10 times bigger. I am not too sure if you can compare those two scenarios and internet user base was also incomparable.
- Dinesh Agarwal:** Thank you everybody for taking out time in this crisis time. Sorry we ran out of time and we could not cover everybody's question and thank you for your enthusiasm as always. We would try our level best to stand by our customers as well as stand by our employees and vendor partners in these times and help the nation as much as we can. I am sure together we will emerge stronger after this crisis and I hope that you all keep well at home and take care of your health and safety. Thank you very much. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of IndiaMART that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

Notes:

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