



Webinar Transcript

Event: IndiaMART Q1 FY2021 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

Ravi Gothwal:

Good evening ladies and gentlemen. This is Ravi Gothwal from Churchgate Partners. On behalf of IndiaMART InterMESH Limited, I would like to welcome you all to the company's Q1 FY21 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 after the presentation concludes.

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

Before we begin, I would like to remind you that some of the statements made in today's webinar, maybe forward looking in nature and may involve risks and uncertainties.

Kindly refer to 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 Q1 FY21 Earnings webinar. This is the first time that we are doing this through a video conferencing platform, and we are very proud to use a 100% made in India platform called FLOOR by 10TIMES.com. This platform is optimized for use by events such as trade shows, board meetings, webinars, investors conferences and business conferences. This is a completely new product, if we experience any minor glitches, we will request you to please bear with us and support this initiative.

This earnings webinar is also being shown live on IndiaMART's Facebook page and YouTube channel. We have already circulated our earning's presentation which is available on our website as well as on stock exchange websites. I am sure you would have gone through the presentation and I would be very happy to take any questions that you may have afterwards.

I am pleased to report that in such turbulent times IndiaMART delivered a resilient performance with consolidated revenue from operations of Rs 153 crore in the first quarter representing a growth of 4% on YoY basis. Since the markets were severely impacted due to the lockdowns, collections from the customers stood at Rs 96 crore, a decline of 44% from Rs 171 crore in the Q1 of FY20. As a result, deferred revenue growth has also moderated at 3% closing at Rs 628 crore. Despite the decline in collections, we have been able to remain cash generated from operating activities positive by Rs 3 crore.

We saw a decline of 10% in our paying customer base. The closing customer count as of 30th June is at ~1,33,000 as against ~1,47,000 in the previous quarter. The churn is on the expected lines as I had shared in the previous earning's call. There are early signs of recovery in the economic activity and internet adoption. Despite a 50% decrease in April, our buyer traffic for the complete quarter grew by 6% on quarter on quarter basis. We are running at an all-time high buyer traffic currently on weekly basis. However, uncertainties persist as the pandemic is far from over. With IndiaMART's

strong value proposition, negative working capital business model and strong balance sheet we are well positioned to benefit from the opportunities presented by the current environment.

Now I would like to handover the call to Prateek to discuss the financial performance in detail. Thank you and over to you Prateek.

Prateek Chandra:

Thankyou Dinesh and good afternoon everyone.

Now I will take you through the financial performance for the quarter ending June 2020. Consolidated revenue from operations was at Rs 153 crore in the quarter a growth of 4% year on year in the current economic environment. Our other income increased to Rs 34 crore in this quarter largely on account of MTM Gains due to the interest rate cuts. Consolidated EBITDA was Rs 73 crore representing a margin of 48%. This is primarily on account of 32% quarter on quarter deduction in the cost, 50% of these cost savings were temporary and will come back as the business volumes pickup and the other 50% we believe we would be able to sustain. As of June 30th 2020, cash and investments stood at Rs 954 crore which is an increase of 28% year on year.

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

Ravi Gothwal:

Thank you Prateek. We will now begin the Q&A session. Participants may use the raise hand option if you wish to ask question. Please make sure that you have allowed microphone access in the settings and kindly introduce yourself along with the name of your organization before asking questions. We will wait for couple of seconds while the question queue assembles.

The first question is from the line of Ayaz Motiwala. Please go ahead with your question.

Ayaz Motiwala:

Good afternoon. Thank you for taking my question.

While it was a little unclear by the comments you made but going by the last few calls that I have attended you have talked about the customer churn and other matrix which are there. Interestingly you pointed out towards the end that there is a 6% growth quarter on quarter in terms of your buyer situation. So how would you equate this to the point you had made the last time about the potential churn which has actually indeed happened in this quarter of about 10% to 15% decline in the paying subscribers/suppliers that you have. How would you equate the buyer situation with this for us to appreciate your business in a better light? That is my first question please.

The second question is on your current subscriber base and if the subscribers are opting in for more reduction in the tenure of commitment i.e. going from annual packages to monthly packages, which is in some sense reducing your visibility. Is that happening or the exact opposite where you are offering discounts and getting them to commit for a longer period?

Dinesh Agarwal:

First of all, if you go through the presentation slide no. 27 and 28, you will find how registered suppliers and paying customers and buyer's traffic is increasing. We are at a marketplace where there are 6 million suppliers whose 68 million products and services are listed on our marketplace. There were 1,47,000 paying customers at the end of 31st March 2020. As we suggested that given the lockdown situation and given the economic environment many of them may face financial crisis

either due to credit crunch or due to the demand deterioration. Many industries have seen severe demand deterioration, such as hospitality industry or fashion industry. Now commensurate to that we have seen a decline of 10% in paying customer base. Having said that it was very surprising that 1/3rd of our categories in the buyer's side have given us a very good demand and that led to traffic being higher by 6% on quarter to quarter basis. As I had shared earlier in the month of April after the lockdown started, our overall traffic was down by 50%. However, it started to improve week on week and during the months of May and June because a lot of people started to look for products on internet. Also, for many of the products such as medical equipment, PPE kits, face masks, face shields, chemicals for disinfection and food supplies, IndiaMART was found to be the only place where suppliers were available within many cities/towns which led to a word of mouth publicity resulting in more buyers searching for the products on IndiaMART. Hence, on one side the buyer's traffic is currently running an all-time high on a weekly basis, whereas, on the suppliers side 1/3rd of the category are facing severe crunch and they may churn out. Having said that we believe that the worst is behind us in terms of supplier churn. Going forward we can expect either very little further reduction in net customer base or growth. It would depend on how things pan out in the months of August and September.

Now coming to your second question on what kind of subscriptions customers are signing up for. As you remember, if you go to our subscription tiers on the silver, gold and platinum section, you will find that top 10% of our customers used to contribute about 40% of our revenue and bottom silver monthly customers used to be about 1/3rd of our overall total customer base. In the ~14,000 customer that have been churned in this quarter about 80% of the churn has happened from silver monthly section, which has led to the overall revenue contribution increasing from platinum from 40% to around 43%. So, in the shorter run, if the customer base doesn't increase rapidly you will see more and more revenue contribution from top 10% customers. However, we have seen that in the times of uncertainty many people instead of opting for 2- or 3-years subscription are looking for 6 months or 1-year subscription. However, in the month of May and June we have seen that about 1/3rd of new signups has happened in the monthly mode and about 2/3rd signups have happened in the annual mode. Monthly customers signups were lower since the same requires a NACH form to be signed and people were requiring urgently our subscription because they were switching businesses to categories which were defined as essential and where there was a lot of buyer demand.

I hope that explains the current MYR and monthly mix. Going forward we do not see a lot of change happening in the slightly longer period in terms of our monthly customers base versus annual customers base versus multiyear customers base.

Ayaz Motiwala:

This is very well explained Sir. Just as a follow up on that, you have mentioned two facts, you said 1/3rd of our buyers came in and really drove the entire sort of growth, specially related to medical supplies masks, shields, PPE, food kits etc., on the other side you also talked about 1/3rd of the suppliers who are in duress. Is that being what I have understood correctly?

Dinesh Agarwal:

Yes, and these are not actual numbers. These are like rough estimates. If I divide our 100 thousand categories, probably 1/3rd of our category where there is a high demand, probably 1/3rd of our

category where there is similar demand as it used to be pre-COVID and 1/3rd of the categories where the demand is severely impacted.

Ayaz Motiwala:

Sir, 1,47,000 to 1,33,000 implying 14,000 to 15,000 subscribers having left the platform, which you said 80% of those are from the bottom 30%, the silver and monthly package kind of subscribers. And with that you added that you think bulk of the subscriber churn is now behind the company. That is what you said, right sir?

Dinesh Agarwal:

Yes sir. We believe that whatever little churn we will see in the coming months if the situation doesn't severely deteriorate from here in terms of either pandemic expansion or in terms of lockdown. If the situation remains like it has been in the past 4 to 6 weeks, I believe whatever churn we will have, we will be able to make up with the new sales.

Ayaz Motiwala:

Sir if I can ask one quick question still related to paying subscribers. Do you think this pandemic is in some sense a self-marketing exercise for a company like you for more people to do their business online or do parts of their business online now?

Dinesh Agarwal:

Of course, that should be the basic narrative, because we have seen that those customers who were engaging occasionally with the platform, they are engaging lot more regularly with the platform. Also, another data point that could be useful, out of our overall sales and collection that used to happen prior to this, about 2/3rd used to come through our field sales operation. Only 1/3rd used to come by telephone based or online based system. However, given that in the last 3 months not a single person has visited our customers on the fields, so, if you see our current collection which is now running at about 2/3rd of the pre-COVID levels, almost all of that is coming through online and telephone based sources. All the payments are received by way of online payments not cheque payments. We believe that going forward I am not too sure about opening the field sales operations. I am not sure if it will remain 2/3rd versus 1/3rd but yes, you can expect some increase in the online adoption and people's need for online marketing platform like IndiaMART has been better established like ever before.

Ravi Gothwal:

Thank you. Next question is from the line of Pranav Kshatriya. Pranav you may go ahead.

Pranav Kshatriya:

So, my first question is on paying customers base, almost 14,000 decline that we are seeing, so should we expect that this should come back quickly because they are monthly customers? As the business opens, they should come back, or you expect that this could be a permanent loss and must be replaced by a newer customer's base? That is my first question.

Secondly, can you give some clarity on the cost control measures? You said that this 50% reduction has been temporary and 50% has been permanent. What exactly has driven that? Your cost structure was Rs 120 crore cost on a quarterly basis. Should we assume that to be Rs 100 crore on a quarterly basis with the new structure? Because most of the decline has come from the reduction in employees' cost, so have you cut down the incentives or have you increased their targets. What exactly is driving this sharp reduction in the cost per employee?

Dinesh Agarwal:

Let me first answer around the churn. As I said about 1/3rd of the industries in the economy are severely impacted, such as hospitality industry, hotels & restaurants, automobile industry or even fashion industry and related industries. We believe that it may not be a very quick comeback for them immediately. However, the 2/3rd of the other industry are probably going to be more necessary and important in nature. We would believe that some growth from there will make up for the degrowth in other categories. How many customers of these will comeback, that is little uncertain, and I can't comment on it. If the economy recovers fully, if you look at SMEs and especially small businesses in India, they do not have a choice to go back to either a job or farming. They will have to start some or the other businesses and most of them would find either a newer category or would find some new business avenues within the same category. Having said that, imagine for 3 months somebody's business was completely closed what would be his credit related options? What would be his input credit related options and output credit related options? So there would be definitely general mortality of SMEs for some time to come and as and when the overall economy will start to improve I am sure they will have to find some or the other new businesses and at that point of time if they have had a successful stint with IndiaMART or if they have benefitted from IndiaMART, I would assume they would come back post that.

Pranav Kshatriya:

Sir if I can follow up slightly on that question, if you are saying that 1/3rd of the industry has been impacted and may not come back, is it possible that the silver customers who could stop their subscription quickly and hence they have churned out and we might have other customers who might want to churn out over next couple of quarter because their subscription will come up for renewal then. Are we likely to see further churn in that segment?

Dinesh Agarwal:

As you see our deferred revenue schedule, it is typically about 20 months schedule. 1/3rd of our monthly customer base was up for renewal. So, you are very right that they are the ones who were immediately saying no to the subscription. There are another 1/3rd customer who are in the annual mode and will probably due for renewal in next 6 to 9 months or maximum 12 months. Many of them would probably look for a moratorium of 2 to 3 months if their business was severely impacted and probably won't churn out. Many of them would probably churn out, some of them do not necessarily need to churn because they have changed the line of their business. If they have changed the line of their business, they can simply update their catalogue or update their websites and start consuming leads of different segments. We will know about how this is behaving in next 3 months for sure. Having said that, those customers who have benefitted from IndiaMART in past and have already paid for 2 to 3 years subscription, they know that IndiaMART benefits them and I hope that there would be little churn there. So yes, you can expect a little more churn coming from there but as I said we should be able to make up from the new sales coming from our tele sales operation and online sales operation. Having said that as a precaution, though there is some opening up in the market, none of our employees are advised to go to the customers meetings until it is completely safe to go to the market. So as of now, hundred percent of our business is working from home only and none of our offices have opened and no meetings with the customer are happening face to face.

Now coming to your second question on cost optimization. You are right we had about Rs 120 crore overall cost including the manpower, including other costs, and including the rentals which has gone

below the EBITDA level. And with the natural attrition as some people went back home, some are getting married and some people might have switched jobs and we are not hiring as of now. We will start only when the market is fully opened, and we are able to go for full-fledged expansion at that point of time. As you can see our headcount has already decreased by couple of hundred people, even though we haven't laid off any person. Now going with all the assumptions we believe that even if everything becomes normal I will start hiring only at the end of this quarter except for few important positions here and there and where we would have given offers in the past, as we have given campus offers and we would definitely like to continue with them. For detailed explanation on the cost, whether it would reduce from Rs 120 crore to close to Rs 100 crore for the next two quarters, I will handover to Prateek, who can tell us with details where all we have estimated the cost to come down on sustainable basis.

Prateek Chandra:

Thank you Dinesh. Pranav, as you said right that our average cost for the quarter has been at around Rs 120 crore of which approximately Rs 90 crore has been the manpower and manpower related costs and roughly around Rs 30 crore has been all the other costs. What we anticipate is that in the manpower cost there would be savings of around 10% because of two factors, one of course because of the reduction in headcount due to natural attrition and as well as there are certain staff welfare expenses which are getting saved because all of us are currently working from home. Our outsourced sales cost we expect would go down by around 25% and roughly around 20% reduction should happen on all the other expenses such as infra related expenses, travel related expenses and hiring, all these contribute to around 20% in other expenses. Another 20% is expected to go down in rentals because of infra-related savings. That is how we estimate that all in all, out of Rs 120 crore a quarter while the current quarter cost has been at around Rs 80 crore we expect the savings of Rs 40 crore, 50 % will sustain and 50% which is temporary will comeback, so, the cost would be around Rs 100 crore a quarter. So, this was again till the time we do not start hiring people back.

Pranav Kshatriya:

The point is, if I look at the reduction in number of employees it is hardly 5 to 7 percent, whereas, the cost per employee has come down by around 25%. Is the cost per employee is going to stay low is the question? And in that also I need to understand that tomorrow once things open up let's say if we get back to Rs 200 crore kind of a collection run rate on a quarterly basis are we in that case also saying we could be at a Rs 100 crore kind of a cost structure.

Dinesh Agarwal:

No that would be too ambitious until we get back to the normal days. Until we get back to normal days, you may expect may be 5% overall reduction in the other cost because we have done many automations and learnt to work from home. And we will be able to probably save 5% out of 30 % of other expenses but it will be very wishful thinking on that perspective.

Ravi Gothwal:

Next question is from Prince Poddar from JM Financial.

Prince Poddar:

So, Dinesh and Prateek, my question was bit related to what Pranav was asking. So, essentially you said there might be cost reduction in the near term if the situation does not improve from hereon. But if the situation starts improving the hiring will be back. What my question is that a lot of automations has been done in the past 4 months and probably there is a way that the sales team is now functioning online in a more effective way, have you seen any such situations where sales team says that earlier

we were handling 100 customers a person now we are handling around 120-130 customers because we are doing it online. Is that a case and probably that can reduce the cost structurally rather than on a temporary basis?

Dinesh Agarwal:

Thank you Prince. It is too early to say that. It is not that we are not thinking in that direction, we are looking at how we can institutionalize whatever learnings we got from work from home opportunities? It is not something which you can expect on an immediate basis because on one side our growth is impacted and the economy is on a slightly longer term bent because people have lost jobs and the demand has slowed down in the economy. So, I would say that as soon as we get the opportunity to get out in the market and spend money for acquiring and also there is a huge adoption of internet we would not like that opportunity to let go from our hands because we want to save 1% or 2% of the cost. So, I would say that it's too early to assume that, but you can assume that for next quarter or two we will be on slightly constrained cost. Our focus is on retaining the customers, servicing the buyers, making sure the employees are safe and not spreading the virus and at the same time getting our revenues and growth back on track. Profitability is not important for next two or three quarters.

Prince Poddar:

Okay, got it. That is very helpful. Last question from me Dinesh Sir, in the last four months many customers have used the platform. Some may have been using because they had one-year subscription or monthly subscription. Do you have any anecdotal evidence that they are getting good leads, I am asking this because lot of buyer's traffic has come back to the platform already? I am sure that these buyers are not here just for window shopping, they are here for real business. So, do you have any anecdotal evidence whether these suppliers are getting good leads from these buyers in the last four months?

Dinesh Agarwal:

Not only one anecdotal, we have lots of anecdotal. People have been praising us that in these times we were the only source of their business. So, I think people have been appreciating what we have been able to do. Also, from the buyer's side, if the buyers were looking for anything particular product, there was no other platform other than IndiaMART that could have provided them those kinds of items and suppliers. In the last 3 months, collections and customer's base have suffered but I think in terms of market respect in terms of buyer and seller engagement we have definitely gained much more than earlier.

Prince Poddar:

Yes, that is what I absolutely meant because in such situations the market leaders become much stronger. But have not they faced any problem in terms of logistics considering there has been lots of logistic issues with the suppliers.

Dinesh Agarwal:

You can read my recent interviews in the initial weeks of April. Until 15th of May, our team did a lot of creative work to solve issues like when people said that their transportation was not working. We were invited in the meetings of the highest level of ministry and NITI Aayog, we gave them our suggestions what items should be opened. If you see the logistics were kept out of the lockdown, when the second lockdown was announced it was only because of that. We also helped them to connect to national transporters instead of local transporters. At many places when items like face shields came into demand our team came up with a creative idea of contacting helmet manufacturers.

They already make face shields for helmet they could do something similar with elastic band and many of the helmet suppliers were able to become face shield suppliers in the times to come. At least the first 45 days of the quarter have been a roller coaster ride for our team. They were trying to move everything to work from home, they were trying to ensure that the business continues. We had never been a company working from home rather we were working at customer's premises. So, I think we had a huge learning curve. Our team has done a wonderful job with no domestic help available, they were cooking and answering queries at the same time as the call centers were not operational. So, I think a lot has gone into this new changed world benefits of which will emerge after the pandemic is over.

Prince Poddar: I am sure many such innovations will keep coming. All the best to you guys. That is all from my side.

Ravi Gothwal: Next question is from the line of Venkatesh Balasubramaniam. Please go ahead with your question.

Venkatesh Balasubramaniam: Hello Sir. Sorry, this question is on a little simplistic side. Is it possible for you to explain very simply that if a subscriber take subscription on your website, how do you account in terms of revenue and deferred revenue? Can you please explain the accounting process? That is my first question.

And the second question is as shown in your presentation, the collection has fallen by 40% to 50%, I understand that must be because of COVID so is there a split in your customers? How many customers pay online and how many pays by cheques which are to be collected from their offices? If you could quantify the collections if improved in July? These are my two questions.

Dinesh Agarwal: Let me first answer your second question and then I will pass it on to Prateek to explain you the accounting process.

Coming to your second question, earlier about 2/3rd of the money was collected from the customer's premises and when the meetings were done face to face. Half of the customers at that moment used to pay online and half of those customers would probably pay by cheque. 1/3rd of the business happened to be on phone and in a pure online manner. So, 2/3rd of the payments came online and 2/3rd of the business happened offline for us. Now that we are in a 55% percent of the overall quarter collection, it will be safe to assume that over 90% of the payments has happened online by way of NEFT, RTGS, UPI, DEBIT/CREDIT CARD kind of modes. Only 10% payments came offline as in March postdated cheques were collected. In the last 3 months, only 1% or 2% payments were collected by way of cheques which were directly deposited in our bank accounts by the customers because we have not done any meetings.

Regarding collection figures, when we met in May second week, I had shared that April collections were about 30% of the pre-COVID collections which is about 1/3rd of the pre-COVID collections. I can happily share with you that overall; it has been 55% of collection for the quarter. And for the month of June we had about 2/3rd of the collection that is average of monthly collections except for January, February and March which are significantly higher collection months. In month of June we had about Rs 40 crore collection. Given that in the last 15 to 20 days, occasional closure here and

there are happening and the market hasn't fully opened, we expect the collections in July to be in the similar lines of June, maybe little bit better if the market opens completely.

Now Prateek can you explain the process of how collection goes into deferred revenue and how revenue recognition happens?

Prateek Chandra: Sure. Venkatesh to your question, we have 3 tiers of membership silver, gold, and platinum. Typically, in gold and platinum, people pay annually as there is no option to pay monthly. The silver package is available in monthly/annual/multiyear subscription. We collect entire money in advance whether it is a monthly subscription or 12 months subscription or 24/36 months subscription. The way we do is that the moment we collect the money we book it in deferred revenues and recognize the revenue out of this deferred revenue only in the period of contract. So hypothetically if a person has taken 3 years subscription in the year 1 only 1/3rd of the subscription will come in the revenue and 2/3rd of the subscription money will continue to be shown as deferred revenue as a liability on my balance sheet. That is how we are accounting for the entire subscription. I hope that clarifies.

Moderator: Next question is from Paras Gothra. Please go ahead.

Paras Gothra: Thank you for opportunity. My question was also on similar lines with regards to the cash flow document which was presented, over there the cash from operations were roughly around Rs 5 crore and the collections as you said that it is around Rs 94 crore for the quarter. I am trying to understand, can you please explain why the cash flow has been on the lower side and what has been the accounting procedure for this quarter?

Prateek Chandra: Sure. Paras let me take that question to explain that how the cash from operations has been computed in the books. Essentially it has two parts, one is cash from operations and second is working capital movement which is essentially the movement between liabilities as on 31st March and 30th June. So, you were right that if you simply take the collection done during the quarter and the expenses probably we will be able to compute cash coming in from pure operations. Then there is working capital movement which is certain provisions and liabilities which were existing as of March and which we would have paid. For example, in April we typically pay out our annual incentives that get reduced as a cash outflow but will not be booked as an expense in the P&L because it was taken in the March financial year, as a provision. So that is why you see the difference between collection minus expenses and a difference between cash which is coming from the statutory books.

Paras Gothra: Okay. There was also one big item of Rs 61 crore. So, what it is exactly? Can you please explain?

Prateek Chandra: Rs 61 crore is the reduction in the deferred revenue. If you see, while we have collected Rs 95 crore during the quarter, our revenue has been Rs 153 crore, the differential between the two is reduced from deferred revenue which is a liability reduction. That is why it is showing in the cash flow like that.

Ravi Gothwal: Thank you Paras. Next question is from the line of Sabyasachi Mukherjee. Please go ahead.

Sabyasachi Mukherjee: First question is on the average revenue per subscriber, we have witnessed that it has been on the same level but if we look at the traffic or the business enquiries delivered, we have clocked in a

healthy growth 4% and 16% growth. Are we seeing free suppliers transacting more in last 3 or 4 months? Has that been a trend?

Dinesh Agarwal:

Sabyasachi we are not a transactional platform. It is not like that the buyers come, and they send enquiries. It is a fixed subscription platform. For example, if you watch more TV you do not pay more for it, if people watch TV more, more advertisers will come on long run. I think our customer base may increase in the longer run but given the fact that 1/3rd category is severely impacted due to the general corona related lockdown and its impacts such as hotels, airlines, railways, restaurants closed and fashion events are also not happening. I think it will take a little longer. We will be able to monetize over the period. Hope that explains.

Sabyasachi Mukherjee:

What I meant was that even though we continue to see traffic growth, we continue to see enquiries getting delivered but our paying subscriber's base has gone down. As you rightly mentioned that there has been churn on the monthly subscriber base. So, what is worrying is that in coming days or quarters if we continue to see churns higher than addition of new subscribers then of course it will affect our deferred revenue and our long-term revenue prospects as well. So, I am coming from that background.

Dinesh Agarwal:

As I said earlier in the May call that we would probably be vulnerable to a churn of 10% to 20% of the subscriber base depending on how severely India is impacted and how severe Corona pandemic effects. However, we have been lucky, we have been blessed by the God that we have had least number of casualties in our country though the number of infected people are higher. Due to that probably we are not seeing as severe impacts as some of the horror stories that we have heard from cities and countries in the world. Given that only 10% of the total customer base has churned. We also thought that corona is there just for 1 or 2 months, but it is not yet going to go away anytime soon. We have been able to flatten the curve in the true sense, but we will have to bear the pain for a longer period of time. As I said earlier a bulk of churn has happened, I do not see any additional negative growth in the customer base going forward on a significant basis. We still have 1% or 2% here and there but I do not see another 10% going down if we remain like June or July and if April and May like situation does not happen again.

Second portion is average revenue per customer. The average revenue per customer is revenue divided by overall customer base. It is being maintained because 10% customer base has wiped out from the denominator itself. Now as soon as the customer base would start to increase we will also see a slight decline in the average revenue per customer because the collection has fallen by almost 50% in this quarter it cannot happen that the revenue will continue to be in the similar range. You can expect anywhere up to 5% or so decline in the average revenue per user over the next 2 or 3 quarters and depending upon how the situation improves.

Sabyasachi Mukherjee:

Are you looking for any kind of discounting on the package system?

Dinesh Agarwal:

Yes, we are doing discounting on the package system.

Sabyasachi Mukherjee:

Okay. Any guidance for the amount?

- Dinesh Agarwal:** It is mostly in between 5% to 10%.
- Sabyasachi Mukherjee:** Okay. Is it safe to assume that FY21 average revenue per customer will be somewhere around 40,000 from current 45,000 level?
- Dinesh Agarwal:** I cannot say that given that there are uncertainties. If the situation continues to improve like in the month of June, I would not like to have that kind of erosion in the average revenue per customer. As I guided over the next 3 to 4 quarters you can assume 5% reduction if things remain at this level.
- Sabyasachi Mukherjee:** Okay, this 14,000 churn on the absolute basis on these paying subscribers, is it fair to assume that the bulk of this churn has happened in the month of April and May and June or July has been on a flat levels.
- Dinesh Agarwal:** In April and May we have not touched any customer to ask for renewal. Whatever has happened has happened in the month of June and for July and we are hardly 15 days into July.
- Sabyasachi Mukherjee:** Okay Lastly, SME mortality has been very high, obviously, because there is a constraint on credit availability and on liquidity. Are you helping your clients in providing or arranging credit facility?
- Dinesh Agarwal:** No, we are not.
- Ravi Gothwal:** Thank you. Next question is from Sanjay Ladha.
- Sanjay Ladha:** Good evening sir. Thank you for giving me the opportunity. I have two questions. During this pandemic period what are the changes that we have done on our products side and in our digital and innovation side? How we are strategically moving ahead? What are we doing differently to get back our growth trend and more importantly our paid subscription which we have lost?
- If you can throw some light on that side and another question will be on account keeping side. We have seen that there is an increase in other income by more than 100 percent. So if you can throw some light on other income as well? Thank you.
- Dinesh Agarwal:** We are doing many innovations in terms of product engagement. In the past I have talked about how we use behavioral match making to increase our match making relevancy. We have also seen how our CRM or our lead manager being used very effectively nowadays. I am very happy to announce that almost 100,000 individual SME businessman are now using IndiaMART lead manager as their CRM or messaging platform and there has been significant improvement on that. On the artificial intelligence and machine learning side we are slowly getting hang of it. We can process the emails and calls faster because of the AI/ML initiatives. Today, you can search 300 different spellings of jewelry you will still get the search results for jewelry that's again being possible with misspelled identification, use of artificial intelligence and with the help of machine learning we have trained our data because India is a diverse country with different language and we always mix English with these different languages. We are improving our search. Our app per download has been increasing and the rating has been maintained at 4.7. We will continue to make multiple attempts to improve our product and technology from time to time.

Coming to growth of customers, let us wait for few months when we have a clear visibility on how the economy is going to open up because it's very important to engage the current customer base in a better manner. And we continue to serve them better rather than trying to go after acquiring new customers. That may not be cost efficient as well. In the last 3 months if we have churned on a net basis 15,000 customers. You can assume, 50% of the customers would have signed up and the churn rate could have been higher. We have been able to sign up customers not from cold calling but all because of inbound calling where customers have called us, and they wanted a subscription and we have been able to guide them. Our current focus is to retain the current customers-the buyers and the sellers and to keep the safety in mind.

You had some accounting related question, Prateek may answer that one.

Prateek Chandra: Sanjay the third question you had asked was on the other income. As I said in my opening statement that this quarter's other income has increased largely due to MTM gains that happened in the month of June. Typically, these MTM gains will be adjusted in the subsequent quarters because the entire investment of Rs 954 crore that we have are actually parked in debt based mutual funds. You can see the details of these investments in note 8 of the financial statements that we have sent on the stock exchange. You can see the details of the schemes where we have invested these funds.

Dinesh Agarwal: Prateek you can also tell about some of the rent reversals which were below the EBITDA level and have gone into other incomes.

Prateek Chandra: In this quarter we have seen some rent reversals to the tune of Rs One and a half crore which is also represented in other incomes. So out of a total of Rs 34 crore of other income Rs One and a half crore is coming on account of rent reversals. The other gains are coming largely from mutual fund-based investments. These rent reversals are typically the credits given to us in the intervening period by the landlords, since as a part of accounting standards rents typically shows up as a liability and as Right of Use asset, As I said when you don't pay the rent or the rent has been waived off that liability gets reversed out. That is why you see 1 and a half crore liability has been returned back and roughly around Rs 31-32 crore of MTM gains.

Sanjay Ladha: Thank you sir. If I can follow up on the previous question. In the CRM tool if you throw some light on one of the acquisitions that took place through Vyapar. If you can please throw some light on that?

Dinesh Agarwal: Brijesh would you like to answer that question regarding Vyapar?

Brijesh Agrawal: We have seen that Vyapar continues to do extremely well despite the lockdown happening here. In fact, when we look at some of the key KPI's of the business, looking at revenues for example they say almost like 260% plus you growth in FY20 as compared to FY19. Initially in the lockdown it saw a slight boom in the total number of active users but then they were back up again quickly by May and I think their both number of free and paying customers are at the best ever levels and they continue to do very well. In fact if you really see their current app rating which is 4.7 is the highest that we get to see in this category with more than 1 million downloads for the app. When we look from a broader perspective you can see the numbers in the consolidated financial statements that we have shared with you. I think they have done extremely well while they continue to grow the business.

Dinesh Agarwal: They have about Rs 30 crore cash in their balance sheet. We have invested only about Rs 30 to 32 crore and they had raised total of Rs 35 crore, hence another Rs 5-6 crore from other investors. In all they have been able to build this business in less than Rs 10 crore so far.

Ravi Gothwal: Next question is from the line of Mrs. Sangeeta.

Sangeeta: Good afternoon and congratulations for such a resilient result in such a difficult time. I had basically two questions. One is to mention that the collection during this period were about Rs 94 crore that was somewhat 40% lower than in the comparable period. I just wanted to understand what this number means. Does this Rs 94 crore is the value of the new business that you got in this new quarter?

Next question is that number of paying subscribers have dropped by 14,000. Could you give insights on some number of gross subscribers who went out of the system and the new subscribers that came in and what kind of people are these? Was it mostly people with monthly or annual subscription? What kind of new business are we getting? Some color on that?

Dinesh Agarwal: Thank you Sangeeta. First of all, let me explain again how the collection works and how collections are different than revenue. Collection is the cash collected from new sales plus the cash collected from renewals plus cash collected from any upsell that we do. As you know we are in a subscription business, so we collect money in advance for the entire subscription period. If we are selling a new 2-year subscription or renewing it or upgrading from monthly to a year package we will collect all of that money upfront and that is called collections. This collection immediately goes to the deferred revenue as we have not provided the service yet and from deferred revenue every month as and when the service is live every month the pro-rated amount goes to the revenue from operations. So we have collections then deferred revenue and then revenue from operations. The collections are monthly moving average, deferred revenue is the buffer and revenues are 20 month moving average. Hope that explains.

In terms of subscriber's base. As I explained on the call itself, 80% of the loss that we had in this 15,000 were from the monthly customer base. I would not be able to give any color on the gross addition and net addition at least until the situation is normal because currently, we are seeing all kind of requests coming in. Some people are asking to extend the subscription by two months, we cannot recognize the revenue for that. Some people are asking to close it down and that they would come back again. Some people are asking to just try it for 6 months. So, I will not be able to provide any color on gross additions and gross churns. I can only provide you with net addition number.

Sangeeta: Thank you so much. Just a clarification, coming back to this number of Rs 94 crore, from the implemental point of view how the business is moving is this the most critical number to really watch out for? How are quarterly collections moving because they are going to reflect in a sense that how the business comes back in terms of renewals and subscriptions?

Dinesh Agarwal: You can say that. But you cannot look into any of these numbers singularly, I think the number of customers, collections, deferred revenue and deferred revenue break up in terms of current and non-current as well as the expenses. These are the supplier side monetization. And then you look at the buyer side leading indicator, how buyers are coming? If buyers are coming and engaging more with

the platform, if they are giving higher ratings to the platform you can imagine that the advertising and collections will follow. The first number is how many buyers are coming in the platform then overall sellers listed in the platform. Then out of that how many customers are paying in the platform and then looking at the collection from those customers and then looking at the deferred revenue and then finally looking at the revenue, cost bases and the profits. This is how we look at the funnel.

Sangeeta: Right. So if this Rs 95 crore if it remains at the level of Rs 94 to 100 crore for the next 3 quarters, so we will be actually booking revenue from the deferred revenue and the deferred revenue going to the next year would reduce until and unless these collection numbers picks up?

Dinesh Agarwal: Yes, you are correct.

Ravi Gothwal: Next question is from the line of Sahil Desai. Please go ahead.

Sahil Desai: Thank you for the opportunity. Could you please brief little bit about how you are looking at branding or marketing? As over the last 3 years, our spends on that side have been negligible because we have seen a lot of organic traffic in terms of growth but given the opportunity for digitization or accelerated digitization this COVID has brought about. How are you looking at marketing?

Brijesh Agrawal: Sahil when we look at marketing and branding, we have shared initially also that since it does not have a direct impact on the traffic and the number of subscribers and it necessarily impacts the brand value in the market. Whenever we feel we have a need to go back and improve the brand perception that the people have, that is the time when we will go back and do it. Seems that currently we don't have a need for that and therefore we will wait for the right time before we get into doing any kind of brand marketing.

Sahil Desai: Okay, understood. Thanks a lot.

Ravi Gothwal: Thank you. With this we come to an end of the Q&A session and now I handover the call to the management for closing remarks.

Dinesh Agarwal: Thank you very much for your patience on this new platform. I think this way meetings can be done better with the presentation. I can see overwhelming number of participants. Sorry for initial inconvenience in raising hand.

In case if you have any follow up questions, you are always welcome to write to us on our investor relation website and our investor relation team would be more than happy to answer any of your questions. I would have liked to answer everybody's questions but in the limited time this is what we could do the best. Everybody please keeps safe and we hope to see you soon in person as well.

Ravi Gothwal: On behalf of IndiaMART I conclude this webinar. You may disconnect your lines. Thank you.

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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