



Webinar Transcript

Event: IndiaMART Q4 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 afternoon ladies and Gentlemen. This is Ravi Gothwal from Church gate Partners and on behalf of IndiaMART intermesh Ltd, I would like to welcome you all to the company Q4 FY21 earnings webinar. As a reminder, all participant lines will be in listen only mode, and there will be an opportunity for you to ask questions. Joining us today from the management side we have Mr. Dinesh Agarwal, Managing Director and Chief Executive Officer, Mr. Brijesh Agarwal, whole time director and Mr. Prateek Chandra, Chief Financial Officer.

Before we begin, I would like to remind you that some of the statements made in today's webinar may be forward looking in nature and may involve risk and uncertainties. Kindly refer to slide no. 3 of the presentation for the detailed disclaimer. Now, I would like to hand over the call to Mr. Dinesh Agarwal for his opening remarks.

Thank you. And over to you, sir.

Dinesh Agarwal: Good afternoon, everybody and welcome to IndiaMART's Q4 FY21 result conference. I hope you and your loved ones are staying safe amidst this second wave of the pandemic. We have already circulated our earnings presentation, which is available on our website as well as stock exchange website. I am sure you would have gone through the presentation, and I would be happy to take any questions afterwards. I am pleased to report that IndiaMart has achieved consolidated revenue from operations of Rs 180 crore in the 4th quarter and Rs 670 crores for the full year, representing a year-on-year growth of about 6% and 5% respectively. The first two quarters of the fiscal year were clearly impacted due to the pandemic but the growth momentum in the last two quarter helped us close the financial year with the modest growth in revenue. Collections from customers declined marginally on a full year basis from Rs 738 crores in FY20 to Rs 711 crore in FY21. However, the deferred revenue has increased from Rs 635 crores as of March 2020 to Rs 726 crores as of March 2021. Both collections and deferred revenue were initially impacted due to the subdued first half of the year, but delivered good growth in the fourth quarter, which has resulted into overall growth at the annual level. The financial performance was driven by growth in the key operating metrics, buyer side operating metrics, which results into the customer's confidence in our services. In the Q4 total traffic grew by 42% to 257 million, reflecting approximately 85 million visits every month. On a full year basis, the platform saw approximately 80 million visits every month, as compared to 62 million visits per month in FY20. In the Q4 business enquiries delivered also increased by 29% to 150 million. On the full year basis, 610 million business enquiries were delivered representing a growth of 31% year on year from FY20. At the beginning of the fourth quarter, we were able to reach Pre-COVID levels for our paying subscribers and at the end of FY21, there are approximately 4,000 net addition to the paying subscribers resulting in the overall subscriber base of 1,52,000 customers at the end of the year. During the quarter, we have successfully closed the QIP and raised Rs 1,070 crore. The proceeds of that would be utilized for both organic and inorganic growth opportunities and we will continue to invest in the companies that have synergies within their mind. In line with the same objective, we have recently invested in three companies, 11% stake in legistify.com for Rs 1.2 crore and legistify offers a great product called Legistrak, which is a SAS based tool that allows enterprises to manage their legal workflows and track the legal cases around them, 25% stake in TruckHall which operates

superprocured.com for Rs. 11 crores. It offers again SAS based tools to help large businesses generally to manage their supply chain and operate real time freight sourcing and collaboration platform. Another 26% stake in shipway.in for rupees 18.2 crores, which is the business of developing a SAS based software solution for businesses to automate their shipping operations. Overall, we are happy to close the financial year with a modest growth and are cautiously optimistic for the new fiscal year. With this strong balance sheet and clear strategy to invest in the building further on our core value proposition we remain confident of strengthening our leadership position and remain India's leading online B2B marketplace. Before I conclude, I would say that these are very challenging times here again, and we are once again in the middle of a rapidly growing pandemic. Many of the people are affected by that and I wish you all that you stay safe and request each one of you to use every precaution to stay healthy and safe. Now, I would like to hand over the call to Prateek to discuss the financial performance in detail.

Thank you and over to you Prateek.

Prateek Chandra: Thank you Dinesh and Good Afternoon everyone.

I will take you through the financial performance for the Q4 and fiscal year 2021. Consolidated revenue from operations were Rs 180 crore in the quarter, a growth of 6% year-on-year due to marginal increases in ARPU and paying subscribers, year-over-year. Consolidated EBITDA was Rs 85 crore representing a margin of 48% and net profit was Rs-56 crore with a margin of 29%. Net profit is impacted due to one-time charge of Rs 11 crore on account of the re-recognition of deferred tax asset for footprint in tax book referring to the amendment in the Finance Act. Cash flow from operations during the quarter was Rs 165 crore. On a full year basis, consolidated revenue from operations stood at Rs 670 crores with EBITDA of Rs 328 crore representing a margin of 49%. Net profit for the year was Rs 280 crores and cash flow from operations during the year was Rs 323 crores. Board of directors have recommended a final dividend of rupees 15 per share for fiscal year FY21 subject to approval from the shareholders. During the fourth quarter, we have successfully completed QIP issue of Rs 1,070 crore and the proceeds will be utilized for company's future growth and expansion. Consequently, the cash and investments balance to that Rs 2,365 crore as on 31st March 2021.

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. Please allow camera and microphone access if you wish to ask the question and use the raise hand option. You may type the question in the discussion panel, and we will revert to you if any question remains unanswered. Please introduce yourselves and restrict to two questions, so that we may be able to address questions from all the participants. We will wait for couple of seconds while the question queue assembles. First question is from the line of Amrit Jeswani. Please go ahead with your question.

Amrit Jeswani: Hi Dineshji.

Congratulations on the good collection number. So, my first question is Dinesh we are at 700 crores of revenues today, where do we expect ourselves to be in the next 5-10 years. The opportunity size that you have is massive, you've got 8 crore website visitors a month and our collections are 700 crores, and we are delivering basically 5 crore RFQs per month. That means per RFQ in a year, we are charging 10-12 rupees, how do you sir expect yourself on IndiaMART to scale for the next 5-10 years?

Dinesh Agarwal: See, internet growth has started only in the last couple of years. It has become mainstream only in the past 3- 4 years. Before that, it was a very small base and growing at that base. Now, even if we assume that past performance can be the barometer for future growth, we have been growing at the range of 25% to 30%. Last six years, revenue from operation has grown at 22%. Even if you take a 20 to 30% operational growth, I am pretty sure this would lead us to anywhere about 5x to 10x growth over the next 5 to 10 years in terms of revenue. However, a lot would be dependent on how we are able to execute in terms of our vision of providing access to market, access to technology like business enablement, and access to finance. So, all these three things remain our focus. And as you know, we can't imagine 10 years down the line, anybody not using internet, five years down the line anybody not using or we cannot imagine anybody five years down the line or 10 years down the line, trying to do any B2B business and not having an internet presence. So, I'm pretty sure that the first mover advantage and the data science that we have built, the behavioral data that we have built, all that should help us with the help of network effects and continue to grow.

Amrit Jeswani: Second question is why aren't we advertising aggressively in places like IPL, and all other events? we are at just 1,50,000 customers. We are very small with 700 crores of revenues. Why are we not aggressively investing in building an even larger brand that we already have? And I also want to thank you, because your stock has done well for our customers at Stallion, and you have done well. But the only thing, I keep thinking about is why focus on cash flow so much, we don't even need money, we have already raised money by QIPs, why not spend money to build something which is even 10x-30x larger than where we stand today?

Dinesh Agarwal: If you look at the buyer numbers, the buyer numbers have grown significantly. And we are already touching lives of about 10% of Indian internet population every month. Being a B2B website, by advertising you will probably get more buyers. I think when it comes to supplier, it is only the B2B sales, which is one on one sales, which will work properly. They need to be understood, I think on that side, we should expand more sales and service operations. And that is where we should focus on since the last one year, we have not been able to do all of that. I think as soon as things open properly, we should be started doing that. The money has been raised only in February, 2 months ago and it has to be deployed in various initiatives of inorganic and organic growth over the next 2-3 years' time. We have already done three investments in this quarter. And obviously, a lot of that work has been going on in the past. So, I think we will continue to build a large sales force whenever needed for the purpose of branding. Whenever we need to build more buyer traffic, we will do that. But for the purpose of monetization since we monetize through sellers, I am not too sure if advertising is the right channel right now.

Amrit Jeswani: For your new verticals like finance, you speak about or you speak about other new areas like payment gateways or whatever, what size do you think, since you already have a very large customer base, what size of the revenue, like the new vertical should become in the next few years? Like that is that is where I want to be. Because you have a platform now, we have to get into newer place, like taxes, and all other places. So how do you see that journey? And how much are we investing there? Or are we going to do it via the startup route? We keep buying startups small stakes and then trying to integrate on our platform?

Dinesh Agarwal: Yes, you are right. I think most of that would happen. So, some of that is happening organically within our company. So, for example, we have our own payment gateway. We have seen that the need of the payment gateway has fallen over the period because UPI has become a great big P2P payment provider. But as you can see VYAPAR has done very well, by way of our investment, our internal CRM and lead manager has been doing very well. But it's not a monetization product because it is only increasing the ARPU of our customers over a period of time which you can see ARPU has increased over the last 2-3 years. And we will continue to invest in smaller companies, smaller or bigger, any size of the company, and integrate them as we understand them better as we nurture them better. In terms of size, I think it is too early for us to pick any size as of now. But over the period of time, I'm pretty sure if we do many of these things, some of them might fail, but some of them might succeed as well.

Amrit Jeswani: Thank you Dinesh Ji.

One last question. So, you keep speaking about the 4,000 to 5,000, customer addition number per quarter. What do you think we will have to do if you want to accelerate this number? And why are we not using that strategy to go from let us say, 1,50,000 customers to 4-5 lakh customers probably at a lower ARPU and then slowly once they get used to the platform, increase the ARPU. So, what is stopping us on doing that?

Dinesh Agarwal: So, we have done one step on that, we have reduced the entry level fee. So earlier used to sell only an annual package. About 5 years ago, we decided to offer a monthly package with 5,000 rupees upfront charges and 2,000 rupees monthly. Now, we have dropped the 5,000 rupees setup fee. And now there is only a monthly fee, which is going to definitely help us sign up more customers. But at the same time, a lot of trial customers do come in. And these SMEs especially in the last three, four years, ever since demonetization, GST and pandemic has happened, they themselves are going through a lot of churn. And that is where keeping pace with the next customer addition has been difficult. As you see last year, we had to drop almost 15,000 customers in the in the first quarter, and then slowly and slowly we recovered from there. We were on the path of good recovery, then again, the second wave has spread. So, I think when all this settles down well, I'm pretty sure the platform is useful enough for people to realize and pay for it. In terms of the existing customer, they continue to pay higher and higher as can be seen in the ARPU per customer.

Amrit Jeswani: I wish you all the luck Dinesh Ji. Thank you so much.

Dinesh Agarwal: Thank you.

Ravi Gothwal: Thank you.

Next question is from the line of Anmol Garg from Motilal Oswal. Please go ahead.

Anmol Garg: Hi, Good Afternoon.

Thanks for giving me the opportunity to ask the question. So, my first question is that, in this particular quarter, we have seen a very high increase in the collections. So, what can be the reason for the same, are we signing more annual contracts during the quarter?

Dinesh Agarwal: This is a common last quarter of the year, especially March in general, every year has been a bumper in terms of collection. Last year, it was not because the CORONA led problems started to happen from the second week of the March. But otherwise, last quarter of the year has always been like this. Many of the SMEs and many of the companies, they try to complete their budget before the fiscal year ends. Many of the companies wants to do that. And this is the similar case. I think Info Edge also reports bumper quarter in the March month. So, I don't think there is any unusual activity there.

What was your second question?

Anmol Garg: Yeah. Thanks. My second question is to Prateek. If you can highlight that, why the other income was lower during the quarter?

Prateek Chandra: Sure. Anmol, other income is essentially a mark to market reflection of the investments that we have made. So as on 31st March, we have Rs 2,365 crore and this entire money is parked in the liquid investments. So, it is probably, I think a notional element, depending upon the market. I am sure as we go down, it will certainly come back.

Anmol Garg: Okay, sure.

And lastly, just one last question from my end is that in terms of the QIP money raised, are we looking for any bigger acquisitions or our strategy would revolve around tucking or smaller acquisitions in next 2-3 years?

Dinesh Agarwal: No, as I have reiterated in the past also that it will be a combination of all three segments, we will continue to invest behind our own organic growth strategy. One or two items we may want to build internally. Second, we will continue to do these adjacency lead investments which are very adjacent to IndiaMART such as VYAPAR, such as ship way in the small business segment or such as BIZOM, Super procure or Legistify in the large business segment. At the same time, we will continue to look for larger ticket size acquisition or investment, which may happen in one or two year maximum, I think the way you can expect this, maybe one large investment in a year and multiple smaller investments, and apart from the organic growth opportunities that we continue to do.

Anmol Garg: Okay, sure sir. Thanks a lot. That's it from my end.

Ravi Gothwal: Thank you.

Next question is from the line of Kushagra Bhatta from Old Bridge Capital. Please go ahead with your questions.

Kushagra Bhatta: Hey, thanks for the opportunity.

I have couple of questions. So, I just wanted to pick your thoughts on no scalability on volumes front, and on the client onboarding and client mining strategy. So first of all, I mean, is this understanding correct that you know, to get more paid suppliers on IndiaMART's platform, you kind of need more Relationship Managers? So, let us say in future, when you say you're targeting 5x or 10x, you would need significant increase in your relationship managers as well? Or, you know, I have got this wrong and you guys are doing something different to increase the number of paid suppliers without any increase in relationship manager. So, can you throw some light on this client onboarding as well as kind mining strategy? That will be helpful.

Dinesh Agarwal: Yes, sir. So first, let us look at two sides of it. One is the new client acquisition, earlier 100% of our clients used to come when there was one to one meeting with the customers, and all of them on the field sales, and all of them were on roles of our employees, because it was a more of a concept sale. Over the time, two things have happened, one, people have started to come on the telephone and people have started to come online and second, instead of having our own employees at all the places, we are able to now have channel partners who are able to work with us, either on tele mode or under free sales mode to acquire new customers. I think we currently about 25% of our sales, new customer acquisition has already started to come beyond the channels which were there pre-pandemic, which were like, by and large, our own people and our own sales force. Now, together in all those channels, approximately 500 people are already deployed. However, their productivity is still much lower than the people who have been working with us for longer period, but I am sure that we'll catch up. Secondly, as we move from annual to monthly to removing of the setup fee, there is some level of increase in the productivity, which is also not linear, when we acquire the same number of customers, we will not need as many numbers of people.

The second part is the servicing of the customer which works at renewal and upsell, yes, for that we do need customer relationship management people. However, as and when more and more people are getting adapt with how to use an online B2B portal, I think, if I remember correctly, there used to be a time when we had to deploy almost one person for every 50 customers. Now, we are almost at 1 person for every 100 customers, because the way multiple automations have resulted over a period. So, I think slowly and slowly, this linearity will remain, but this linearity will taper down with respect to the number of people.

Kushagra Bhatta: Sure, this is helpful.

Just to follow up on that, then I'll ask my second question. So, why do I see then you know, given the broad good Outlook or the strong growth outlook, there has been a dip in the sales? Possibly I would have been able to relate it in the first half when there was a significant pressure. But now when outlook remains strong, why there has been a decline? And also, when you mentioned that, you know, there are two types of sales team one is the hunter type kind of and the other one is the farmer kind of, you know, servicing clients. So, can you throw some more highlights on you know, the incentives and the targets and the attrition rates you possibly see in your relationship management team? That will be helpful, then I will ask my second question. Thanks.

Dinesh Agarwal: The sales attrition and you know, targets and incentive are very similar to what you will get in any sales organization, whether it is banking, whether it is Telecom, or whether it is insurance, or whether it is education ed Tech. So, typically, there is an early attrition, which is higher, and then there are people who stay on, they stay on for a long period, and they also become very productive. To your question on why the growth in the client has not been coming? Because, as you know, more than 50% of our customers had signed up for more than three years. Many of our customers that signed up for annual subscription, only 1/3 of our customers are on monthly subscription. As soon as the pandemic began last year, the monthly subscription customer immediately realized that they cannot survive for now, and they went away. Also, they immediately came back as soon as the December quarter happened, and they immediately started to come back. However, the annual customers, many of them could not survive the pandemic and many of them had to change their business model completely. So, their renewals are coming in December, January, and February. So, I think this whole churn that has happened because of the pandemic, the industry churn, which India is going through, until that stabilizes, the new customer acquisition and the net customer addition will remain a little volatile, having said that, there are people who understand IndiaMART as a platform, and they know how to take out value from such platform. And which is what is you are seeing in the collection from customers or ARPU from customer, which increased rapidly when the market was open in December, January, February, and March. This is again under a lot of pressure now, because there is a second wave of the pandemic, which is much stronger and much more fatal than the previous one. However, the previous lockdown was very strict. But I think there is a mixed uncertainty on that side. But we are hopeful that as long as buyers are coming on our platform, and they are getting their work done, we will be able to monetize sooner or later, a greater number of customers.

Kushagra Bhatta: And on the sales team? I mean, we are seeing the reduction in the sales team as well.

Dinesh Agarwal: I already said that in the first two quarters, we did not hire anybody, because we were completely focused on uncertainty that was there and we did not want to increase any headcount at that point of time. After the first two quarter, it is only the third quarter, initially we thought that, let the office open and then we should start hiring. However, that didn't happen. Because you know, cases kept coming here and there. So, by December we decided okay, let's start hiring. So, we started to hire in good numbers in January, February, and March. But again, looks like this is not a very good time to go out and build a team. I think it is time to focus on health and safety of the existing set of people and health and safety of the customers. So currently, we are way too busy managing the health and safety. As soon as there is time, we will start to work on that. We have already said that about 500 people, who were now working with our channel partners, they are also working, that number was not there one year ago.

Kushagra Bhatta: Okay, sure.

One last question. So, when, you know, you have been announcing small, different acquisitions, so but and at the same time, its minority stake. So, just wanted you know, to know your strategy behind acquiring a minority stake and not going for a majority? And you know, also if we can give some examples in terms of how these are helping IndiaMART? I know, you have mentioned VYAPAR, in your earlier calls, but let's say

how IndiaMART is targeting and charging these SAS offerings to their clients, for example, 500 per month or so, and is IndiaMART setting up a separate sales team for the SAS offerings?

Dinesh Agarwal: It is too early to say that. I think let us first build 5 to 10 portfolios of such offering, and then we see if we can, you know, bundle them together, cross sell them together. And these are, you know, as I said, most of the mobile SAS has started three years ago. Mobile SAS story is a three-year-old story and I think it is early stage, you will have to invest in that sector, nurture the sector, and then look at bundling, integration, cross selling anything. So, I would say that for the next one or two years, we will continue with this strategy. And same time, we will keep evaluating how do we bundle, how do we cross sell how to be lead gen for each other.

Kushagra Bhatta: Sure, thanks. Thanks. All the best. I will get back.

Ravi Gothwal: Thank you, ladies and gentlemen, reminder to all the participants that you may use raise hand option on your screen if you wish to ask a question.

So next question is from the line of Kapil Agarwal fl. Please go ahead with your question.

Kapil Agarwal: Hi, sir, my first question is, in March 2020, you had 895 crores of cash in your Balance Sheet, and this was not allocated over the year. And yet an additional Rs 1,070 crore was added through QIP. Could you tell me, what your capital allocation plans are and as a minority shareholder, what should we expect going forward?

Dinesh Agarwal: At the time of QIP, last year also we had given you this, but let me rephrase that one we had about Rs 633 crore of deferred revenue on our books. Now, we have about Rs 726 of crores of deferred revenue. So, if we had about Rs 950 or Rs 1,000 crore of total cash, there were Rs 700 crores of deferred revenue, we had only Rs 300-Rs 400 crore of free cash available for us to deploy in any risky items. Now, given the size of our company, and scale of our operations and expenses, I think that was not enough, though we had done three investments by then. But given this rapid internet adoption, and rapid digital adoption, I think we felt that there is a need for rapid deployment of capital in software as a service, payments and commerce related activities that is why we raised another Rs 1,070 crores from the QIP. So, from our perspective, as I said, the capital allocation will remain threefold. One, continue to invest organically in our own business by building payments, by building lead management, by building more marketing, by building more going closer to the commerce, building sales and service operations, product and technology operations. Secondly, we will continue to make significant minority investments in the strategic adjacencies just VYAPAR or just like Legistify, super procure or ship way or even BIZOM. And third is look for possible large opportunity where we can acquire or invest larger amounts. So, I think those capital allocations will continue to the main three quarters.

Kapil Agarwal: Okay.

So, my second question is so every business has an inflection point for growth. I held that the COVID pandemic last year would have helped your business a lot, but I see the

top line going only at 6%. So, what is your take on this and long-term scale, where do you see this going?

Dinesh Agarwal: There are two kinds of top line. One is the buyer top line. Buyer top line has grown at 42% on a quarterly basis, so we used to be at 60 million visits per month. Now we are at 250 plus million visits per month, which is not monetizable by IndiaMART, as it is free for buyers. The second concern is the advertising or sales side or seller monetization. Under seller monetization, again the top line, what you see is collections from customer and number of customers. And the number of customers side we had said that we had significant setback in the Q1, and it took two quarters for us to recover from that. And we have 4,000 net addition in the last quarter. In terms of collection, the last quarter, I think we had 37% collection growth, which will go into deferred revenue. And from deferred revenue, it will go into the top line that you measure on the revenue from operations, as I said multiple times, that our revenue from operation is typically 20 months moving average of deferred revenue.

Kapil Agarwal: Okay. So, I have one follow up question on this. I see even the number of suppliers growth, that hasn't grown as much. So, I see a bit of concern here. I see a veining ability to convert the suppliers into paying subscribers. So, what is your view on this?

Dinesh Agarwal: Earlier we used to acquire any kind of supplier. Now we have become very stringent in the kind of suppliers that we acquire. There are minimum X number of completion that somebody has to do, one the mobile number has to be OTP verified, supplier must have an email which is an OTP verified email, supplier must have a GST number. So, GST number is the compulsory, and we take the location of the supplier that is also important. So, I think we have become a stringent in the way the kind of suppliers that we acquire. So, supplier growth has slowed down. And this should help us increase the average revenue per customer. And this should help us contain the churn, otherwise a lot of suppliers, they are fly-by-night operators. We do not want our platform to become more like a classified platform. Our platform is more like a commerce platform, though it is still an advertising platform. But we do not want to become a classified platform.

Kapil Agarwal: All right. Thank you.

Ravi Gothwal: Thank you. Reminder to all the participants that you may use the raise hand option on your screen if you wish to ask a question.

Next question is from the line of Kushagra Bhatta. Please go ahead with your question.

Kushagra Bhatta: Thanks for the opportunity again. Just one question. So how do you gauge entry of Tata digital and Amazon into providing digital enablement tools to SMEs? I mean, does it pose any challenge to IndiaMART and, I read a couple of news articles which mentioned that the deal between the TATAs and the IndiaMART did not go through. So, exactly you know what happened out there if you can help us understand this? It will be helpful.

Dinesh Agarwal: I also read in the newspaper.

Kushagra Bhatta: Hahaha.

Dinesh Agarwal: If you come to know anything about that do let me know. My wife was also asking the same question what you are doing without telling me. On the general thing that how the entry of different people is in the B2B? Let us try and take another question and from Swamil Shah, can you try and draw a picture of the B2B landscape? B2B and SME are two very generic words. It can be a B2B between normal dealer distribution-supply chain, there can be SME, which is old economy SME, there could be new economy SMEs, there could be service oriented SMEs. So, if you look at the entire B2B and SME market, there are multiple businesses which operate and say that they are serving some or the other section of the B2B and SME. So, for example, there are a directory and product catalog like us who help software as a service, who helps transactions and who has access to market. There are companies which are purely working on access to finance, there are companies which are purely working in the FMCG sector, such as Walmart wholesale, which are Metro cash and carry, they are B2B. And they are purely in the FMCG category. Then there are certain category and industry specific B2B. So, for example, you might have heard of companies like Bizongo, Jetworks, which are in a very different sector. I am pretty sure when somebody like TATA, or when somebody like Amazon and when somebody like Alibaba or Indiamart they plan, they definitely have studied a particular sector properly. And their entry will at least bring some more innovative solution and will bring some more people on the ground and will bring some more capital to the industry and which will in turn, help the entire industry grow. In terms of whether it will be advantageous for us or disadvantageous because we are at the leadership position, I feel that it will be advantages for us, because currently it is not that the entire market is saturated, and we will lose the market share, the market is developing faster than what we can actually chew on. So, I think it will actually develop the market bigger and being in a leadership position, we should be able to take better advantage of the innovation or processes that happen in the market, if more people come in.

Kushagra Bhatta: Sure. That's great. Thanks

Ravi Gothwal: Thank you. Next question is from the line of Sanjay Ladha, Concept Investwell. Please go ahead.

Sanjay Ladha: Hi.

My question is that what IndiaMART is doing which is different than its peers to stay more competitive in this field?

Dinesh Agarwal: We continue to focus on our discovery part, because we believe within the B2B there are so many categories and so much of work on digitization needs to be done. I don't think basic digitization helps there. You need a lot of category and domain knowledge. Verticals don't help there because there is not enough buyer and supplier threshold. Horizontally, there are lot of problems and challenges, we have to solve it by solving the discovery part. We started the simple product listings and today we have product listings, classifications, and photos. Now we have reviews, ratings, quotations, invoicing, buyer-supplier chat, and all of that we continue to build. I think this light blue color items which are more related to business enablement and commerce. I think we will continue to build partnership and solutions in payment, logistics and tracking. Somebody asked why are we investing in the logistics side? I can see his question on the comment box.

So, I think shipway.in is very important on that side, many of our supplier and buyer interact with each other after they have interacted on the platform, and then they want a very good Amazon like service or very good Shopify like service or B2C like service even for a B2B product item. So, they would want to utilize a tracking system which shipway has developed. Also, larger corporations want more procurement management system, or our transport procurement management system is like super procure. So, I think what we are trying to build is the jigsaw puzzle. Slowly and slowly building and I think trying to create an ecosystem and become the operating system for the small business, which is very different than many others are doing. So, I think everybody is a very different company. And as I said, the market is too huge and too much evolving right now. It will require multiple companies to help SMEs to help different industries and to help different transaction pieces within the B2B and SME segment.

Sanjay Ladha: Okay, my second question is on where do you see the potential for the future? I mean to say like, if I divide the boundaries means the geographical areas into metropolitan cities or the Tier-2 or Tier-3 cities as per you, where do you see the future potential? Like we are targeting 5,000 new additions every quarter and going forward also, we think we can grow at that pace. So where do you think that this numbers growth can be possible for us to come from?

Dinesh Agarwal: If you look at the slide paying subscription suppliers percentages, the 50% growth will keep on coming from the metro cities only. Currently, it is 57%, maybe it can go to 55%-50%. And Tier-3 cities mostly contribute towards buyers, they are not sellers. So, the rest of Tier-1 and Tier-2 monetization is the maximum going to happen. Over the time, I guess, it will remain 60%40% or it will at best become 50%-50%. But 50% growth will continue to come from metro cities.

Sanjay Ladha: Thank you.

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

Amit Chandra: Yes. So, my question is related to the churn rate. So, what has been churn rate, especially in the gold and platinum package and have we seen any increase in the churn rate especially in the premium packages over the last one year? So, I know that there has been increasing churn in the entry package because of the pandemic. So, like over the last quarter, most of the premium packages came for renewal. So, what has been the experience that and also in terms of the paying supplier mix? Around 1/3rd of our paying suppliers are on annual package. So, what is the aging there if you can throw some light there. Like within the annual paying suppliers, how many of them are on the platform for more than one year, three year or five years? So, I just want to understand the long-term stickiness on the platform?

Dinesh Agarwal: Let me give you renewal figures rather than giving you churn figures. So, in the platinum customers, we had less than 6% or less than half a percent monthly churn where the customers left us. However, the renewal of Platinum services has deteriorated by 10% ever since the pandemic set in last year. Similarly, for the gold customer, the churn is about 10% to 12% per annum about 1% per month. Even there, I think the renewal rates have fallen by 10%. So, if earlier 80% of the people use to renew currently about 70%

of the people are renewing. Similarly, now coming to the silver annual, there we used to have a churn rate of about 2% per month or about 25% per annum. There we are definitely seeing about 10% increase in share as it could be short-term because many of the businesses have gone out of favor. And now that there is a second wave it can be even more difficult. In terms of monthly, as I said there is a higher number of customers joining in and the higher number of customers leaving out because on one side there is not enough business in the market. On the other side there is enough survival only on the internet. So, I think people are trying the platform, some of the people finding the platform very useful and some of the people are leaving the platform. But overall renewal rates in general have gone down by 10%, if they were 80%, they've gone to 70% if they were 60% or 70%, they've gone to 60% and so on.

Amit Chandra: And Sir, also on the aging of the premium package?

Dinesh Agarwal: Oh yeah. Sorry.

About one third of the customer are for less than one year. Between, one to three years, about 30% of the customers are there and about 40% of the customers are for more than three years with us.

Amit Chandra: Okay Sir.

On the investments, I know that we are not inclined to step up investments, but I do think that we are adequately invested to fuel around 20% growth for the next few years. And if required, then which areas are in the focus in terms of investments and also in terms of competition, with a lot of new competitors coming in, so, how do you view the market? Is there a scope for a large player like coming in and IndiaMART also growing along with them? So, is there enough scope in the market for dual player? And also, I know your views on the recent launch of JDMart and have you seen an increased competition from there?

Dinesh Agarwal: Let me first answer your second part of the question. As I said earlier also that entry of multiple people into different areas of B2B or different areas of SME or different areas of whether transaction or whether discovery or whether financing will only help the ecosystem and only help the market grow. Coming to a specific question about JUSTDIAL entering into this particular space. I think this particular space is driven by network effects, obviously, anybody who comes in will definitely get some market share, but they will also help educate a lot more number of customers and that should help us. It is very, very early right now, for us to see any significant or any even insignificance, not a single customer has come back and told us that we are leaving because of the JDMart or something like that. So, I don't think that is any near-term problem. In the longer run, I guess those who execute well, those who have better network effect or better behavioral data, they will probably prevail.

On your second part, which you asked us about the investments that we are making, so, first we will continue to make inorganic investment in the inorganic opportunities which may not add immediate revenue to our consolidation, but I think they will build the ecosystem around our consolidation. At some point of time, we may find some acquisition or revenue consolidation opportunities there. On the organic side, I think a

lot of investment has gone into developing the CRM and buyer profile side, that is paying good returns right now. Our investment in the payment gateway, when it was made, at that point of time UPI was almost not there. Now UPI is everywhere. So, I think the need of that particular payment gateway is reduced only to the trust related item rather than the actual payment processor related item. In terms of other areas, we continue to evaluate what are the other areas that we can look into. A lot of our money would be invested in category development, because as I said, every category needs to be understood, domain knowledge needs to be built. So, category development would be definitely an area of investment. Some of the business enablement software, we may want to build internally as well, and we may want to invest elsewhere as well. So, these are the areas of investment will happen, whether they will result into only at 20% growth. I don't really like 20% growth. Historically, we have been more than 25% growth company. There could be one year here and there when we are going lesser than that. But frankly speaking I prefer better growth over a longer period of time.

Amit Chandra: Just one last question from my side. I just want one clarification. You mentioned that for being rated as a supplier you need a different GST number. Out of these 6.5 million suppliers that are registered on the platform. So, how many of them are with GST number? Because in India, we have around 12.7 million GST payers.

Are the 6.5 million suppliers being all GST registered? If you can provide that out of 6.5 million how many are registered?

Dinesh Agarwal: We haven't yet provided the exact number of the GST verified customers; we are in the process of doing that. We will be able to provide that some point of time. As of now, we have not provided. I will note down your suggestion and maybe try to cover this as part of our annual report.

Amit Chandra: Because in terms of paying suppliers, I am aware that without the GST number you cannot become a paying supplier.

Dinesh Agarwal: Almost 99% of our paying suppliers are now GST registered or 98% there could be some older suppliers who are GST exempt. You are correct. On this 6.6 million I can give you the exact number after looking back because there are there are cases where we have GST available, but we have not been able to verify there are cases where GST is available, and we have been able to verify. So, I will clarify that maybe in the next quarter or in the annual report.

Amit Chandra: Thank you Sir. Thanks for the opportunity and all the best.

Ravi Gothwal: Thank you. Next question is from line of Ajay Modi, Piper serica advisors. Please go ahead.

Ajay Modi: Help me understand this. I am a little confused and I am trying to summarize my thoughts of the last one hour call so far. We are in a building mode where we are trying to do or enable a lot more transaction, enable lot more of logistics, ease of business, but at the same time, I look at paying subscribers as a percentage of total suppliers, it has dropped from 3.1% in FY16 to 2.3% in FY21. Now, if you say that your target is 5,000 additions per quarter, which is about 20,000 subscriber additions per year. We are looking at a

growth of not more than 20%, if you say 25% growth is your aspiration, the annual subscriber base has to be about 28,000 subscribers to 30,000 subscribers. I mean, even if I pull out the last one-year data, based on most organizations, most SMEs still the number does not, I mean, what I see is that conversion rate has gone down. While we are delivering a lot more enquiries and growing at a very high rate but seems like there is low pricing power or adaptivity is still low. That's brief of my first question. I will ask my second question later.

Dinesh Agarwal: I think you've got it right. The adoptability will happen over the period of time and as the product evolves especially know in the last two, three years, there has been many different you know, hiccups for the economy, be it demonetization be it GST or the pandemic. And you are correct that the growth formula that we have for 25% is 5% quarter on quarter on the customer addition, and 5% to 10% coming from the ARPU. So, you are right, that we need to do a net addition of about 30,000. If we want to have our aspiration at 25% or more. Given that, you know, the last couple of quarters and last couple of years, we have not been able to do more than 20,000 subscribers per annum. But, for example, in the FY19, we did about 22,000, which was high. In FY17 also, we did about 24,000. So, I think we should be looking at 25,000 to 30,000. Net addition. And, as the business and economy stabilize, I'm pretty sure that our platform can deliver and will deliver value for 25000 to 30,000. Customers.

Ajay Modi: My second and quick question is that globally, there is a model where a lot of internet companies get a free one-month premium subscription for subscriber to take a look and understand how technology can add value to their business. Have we tried something of that sort?

Dinesh Agarwal: Pardon. Can you please repeat that question again?

Ajay Modi: What I'm trying to say is that globally there is a model where a lot of internet companies give one-month free subscription, so one month, free for premium service. And what that does is basically it gives the subscriber a fee of what they will get how paying money will add value to them, have we tried something of that sort?

Dinesh Agarwal: So, ours is basically a freemium model, so 98% of the people who do not pay, they continue to get some value, unlike in the SAS, they do not have a premium, so, they offer a free trial.

In our case, anybody who is not paying is freemium. So, people can come and try the platform, how it works in their category or what kind of leads are there in their category. People can use individual buy leads to check what kind of buyers are there in that category. So, I don't think acquisition is a problem, the problem is a longer-term retention, and some of it could be because of our own platform and pricing and some of it because of the external factors of the SME and the Indian ecosystem, the way it has been evolving.

Ajay Modi: So, simple question here what I mean when is it possible for us to go to a conversion rate of 5% meaning 5% of paid subscriber as a percentage of total?

- Dinesh Agarwal:** Out of the total 6.4 million suppliers, that we have to look at only the GST enabled supplier. So that's why I say that the total supplier base, let us not look at this 6 million. Let us look at the 10 to 12 million total suppliers, GST supplier that we have in the country out of that, I think the product oriented B2B oriented suppliers should be anywhere around you know, 2 to 3 million suppliers and of that 2 to 3 million suppliers. We should be able to get 10 to 20% penetration.
- Ajay Modi:** Okay, understood. Understood. Thank you for your time.
- Dinesh Agarwal:** Prateek, can you take this question from Mr. Wall?
One of the acquisitions, SuperProcure has its revenue dropped from 10 crore to 1.5 crore?
- Prateek Chandra:** When it started, they started with a very different model in which we were trying to pretty much provide the logistic services to enterprises. And that's the year in which you see a much higher revenue and you look at the profitability side, indeed, loss of debt during the course. They've completely a software service provider. And that's why you would see that there while the revenue is declining, or the profitability is somewhat better.
- Dinesh Agarwal:** Just to add to your question, this 1.5 crore revenue is FY20 revenue. So, which is last to last year's revenue. I think it is not correct. We have been accurate to say 30x of the sales. They are growing at more than 100% year on year.
- Ravi Gothwal:** So, Dinesh Ji, due to time constraint we would like to take one last question from the line of Anand Dwivedi. Please go ahead.
- Anand Dwivedi:** I have a quick question on the margins. In the fourth quarter, your margins have gone up from 31% to 48%. Considering the full year to 26% to 49%. Now for what I can see in the presentation as the manpower cost on the other costs have gone down. The question I have is, how sustainable is this? Where do you see our margins in the coming year?
- Dinesh Agarwal:** We have been giving this guidance earlier also, that we were 25% to 30% margin company an EBITDA margin company. Because of the certain temporary and permanent measures that we took during this pandemic and lockdown and work from home, the margins are looking like 45% to 50%. However, those are not sustainable. Almost half of those margins will come down. And we will probably become a 35% to 40% kind of margin company when it all settles down.
- Anand Dwivedi:** Okay, thank you.
- Ravi Gothwal:** Thank you. With this, we come to an end of the Q&A session. And now I hand over the call to the management for their closing remarks.
- Dinesh Agarwal:** Thank you, ladies, and gentlemen for joining Q4 and full year conference call. In the end, I would like to assure you that we will continue to support and stand by our customers, vendors, and employees in these trying times, and we will emerge out stronger from this crisis. We have tried to address most of your queries in the time available. But if you still have any queries, please feel free to contact our Investor Relations team. And they would be more than happy to help you.
- Ravi Gothwal:** Thank you everyone on behalf of IndiaMART, I conclude this webinar. 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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