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October 27, 2022

To,
BSE Limited
(BSE: 542726)

National Stock Exchange of India Limited
(NSE: INDIAMART)

Subject: Transcript of Earnings Conference Call on financial results and developments for the quarter ended September 30, 2022

Dear Sir/Ma'am,

Pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, we wish to inform that the Transcript of Earnings Conference Call for Analysts and Investors held on October 21, 2022, with respect to the financial performance of the Company for Q2 FY2023, is enclosed herewith. The copy of transcript is also available on the Company's website at https://investor.indiamart.com/FinancialResultsStatements.aspx.

Kindly take note of the same.

Yours faithfully,
For IndiaMART InterMESH Limited

MANOJ BHARGAVA
Digitally signed by MANOJ BHARGAVA
Date: 2022.10.27 14:51:58 +05'30'

(Manoj Bhargava)
Group General Counsel,
Company Secretary & Compliance Officer
Membership No: F5164

Encl: As above.

indiamart

Webinar Transcript

Event: IndiaMART Q2 FY2023 Earnings Webinar

Event Date/Time: October 21, 2022 at 16:00 hrs

CORPORATE PARTICIPANTS:

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

Mr. Brijesh Kumar Agrawal – Whole-Time Director

Mr. Prateek Chandra – Chief Financial Officer

Mr. Kushal Maheshwari – Head of Treasury and Investor Relations

Kushal: Good afternoon ladies and gentlemen. I'm Kushal Maheshwari, Head of Investor Relations and on behalf of IndiaMART InterMESH, I welcome you all to company's Q2 FY2023 earnings webinar. As a reminder, all participant lines will be in the listen only mode, and then there'll be an opportunity for you to ask questions after the presentation concludes. Joining us today on the management side, we have Mr. Dinesh Agarwal, Chief Executive Officer, Mr. Brijesh Agarwal, full time director, Mr. Prateek Chandra, Chief Financial Officer. Before we begin, I would like to remind you that some of the statements made in today's conference call, maybe forward looking in nature and may involve risk and uncertainties. Refer to slide number three of earnings presentation for the detailed disclaimer. Now, I would like to hand over the call to Mr. Dinesh Aggarwal for his opening remarks. Thank you and over to you, Dinesh.

Dinesh: Good evening, everyone, and welcome to IndiaMART's Q2 FY2023 earnings webinar. We have already circulated our earnings presentation which is available on our website as well as the Stock Exchange website. I'm sure you will have gone through the presentation, and I will be happy to take any questions afterward.

We are pleased to report that Indiamart has delivered a consolidated collections from customer of Rs 264 crores and revenue from operations at Rs 241 crores this quarter. This growth was primarily driven by increase in the number of paying subscribers and additional Rs 11 Crore revenue coming from the accounting software services. Consolidated deferred revenue during the quarter increase to Rs. 984 crores in Q2 FY23. The growth momentum was primarily driven by strong recovery across industries backed by strong client demand for digital services. Total traffic on the platform and resulting unique business inquiries remained stable at 261 million and 23 million respectively. Our 90 day repeat buyers standing at approximately 53% represents the continued trust on the platform. The financial performance during the quarter was primarily driven by growth in the key operating metrics, which reflects customers confidence in our service offering during the quarter we have added 8,832 paying subscribers, closing the total count at 1,88,092 customers at the end of September 2022. Overall, we ended the first half of FY23 on a positive note and expect to continue to build upon the growth momentum. We will continue to invest behind the business in line with our strategy.

Now I will hand over the call to Brijesh to update you on BUSY accounting information.

Brijesh: Thank you everyone. Let me get started with the updates on BUSY. We've delivered a billing of 11.5 crores and a Revenue from Operations of 10.8 crores this quarter, the EBITDA in Q2 has been at about 3 crores which reflects a margin of about 28%. The net profit for the quarter has been at 2.9 crores. Now, the underlying strength of this business is highlighted from the fact that busy has generated positive cash flows from operations of about 10 crores in the first half of this year alone. During this quarter, we also sold 7,302 new licenses with the overall licenses sold till date being 3.18 lakh. Now, as you're aware, BUSY has been our first acquisition and it also is a very significant one for us. And therefore, we have been very cautious in managing this entire acquisition per se. You will be glad to know that we have been successful in managing the transition, post-acquisition the team is very stable, the business has started to achieve growth. We are now focused on increasing our team so that we can onboard more number of standard partners and also improve our penetration across all the underpenetrated markets in India. When we started off the year, we had shared three goals for this year for busy one was to go ahead and double the rate of growth of the business. Second was to go ahead and invest behind building up a team and awareness of the product. And the third was to increase the overall number of new licenses being sold. The overall performance is in line with our expectations. And we are confident of meeting our goals that we've set out for this year, especially doubling the rate of growth of the business. Now, with this, I'll hand over the call to Prateek so that he can discuss about the financial performance of Indiamart. Thank you.

Prateek: Thank you Brijesh and good afternoon, everyone. I will take you through the financial performance for the quarter ended September 2022. Consolidated revenue from operations was Rs. 241 crores in the quarter registering a growth of 32% year on year. Deferred revenue during the quarter stands at 984 crores and increase of 30% year on year basis. On a like to like basis standalone collection from customers, revenue from operations and deferred revenue were at Rs. 252 crores, 229 crores and 958 crores representing a year on year growth of 13%, 26% and 27% respectively. As communicated in the previous quarters the company continued to invest behind growth, primarily in building manpower across sales servicing product and technology. During the quarter we have added 253 new employees taking total employee headcount to 4,088. Consolidated EBITDA for the quarter stood at 28%. Other income during the quarter increased to rupees 47 crores, this includes fair value gain of rupees 14 crores in two of our strategic investments, namely Legistify and Bizom that has led to the rise in the other income. Net profit for the quarter was rupees 68 crores with margin of 24% and cash generated from operations during the quarter was rupees 78 crore, while cash and investments balance during the quarter stood at rupees 1,975 crores. Thank you very much. We look forward to answering the question.

Kushal: Thank you we will now begin the Q&A session if you wish to ask a question to the panellists, kindly raise your hand and allow camera and microphone access. Alternatively, you may type your questions in the chat menu and then we will work on it. Please restrict your questions to two questions max, so that we may be able to address questions from all the participants, we will wait for a couple of seconds while the question queue assembles. Thank you.

The first question is from the line of Pranav Kshatriya from Nuvama Wealth. Now please switch on your camera and unmute yourself to ask the question to the panel.

Pranav: Thanks for the opportunity, I want some clarity on the you know the cost escalation side. So, if I look at, you know, the technology and content costs as a percentage of revenue has seen almost 140 basis point expansion that is almost at 19.4% as a percentage of revenue, this number in FY 20 was also a lot lower than you know, where it is today. So, what is driving this growth? And you know, because I don't think that you know, we are adding too many new listings or anything like that. So, you know, what is the reason for such a sharp increase in you know, the technology and the content cost and how should we go this going forward and any sense on the overall you know, the cost structure. Secondly, I also wanted to understand, the cost for busy because last quarter the EBITDA was around five crores which you know came down to around 3 crore. So, what is driving this decline in the cost? Sorry, increase in the cost.

Prateek: Sure, thank you. So, the first part of the question on product and technology costs. So, essentially as you know that most of the cost is manpower, the increase in the product and technology cost that you're seeing as a part of the functional P&L is also driven by an increase in the headcount. So if you see, the, the number of people in product and technology that we had in this year, is roughly around 780 people, as opposed to 685 in the last quarter, and the year before, if you see they were more like 475 people. So there is a sharp increase that has happened in the product and technology, largely, because if you see that the number of customers that have also gone up, and we need to add people in order to keep in line with the growth and the different, you know, product offerings that we have.

Dinesh: Also, I think, from FY20 onwards, we haven't hired anybody. So there was a pent up demand of people and that we also buckled and that is how you will see, but if you look at the overall cost structure in the gross margin, the gross margin from you know, 68% - 72% and has still started to go up much better than the pre COVID it was 72%. We are currently running at 76-77%.

Pranav: Okay, but should we expect this cost to increase, or this will stabilize at the current level? How should we see this going forward?

Dinesh: As I've been guiding, you know, there's a lot of volatility in the market in terms of talent, availability, and pricing of the talent, and especially in the technology, you have seen in the multiple companies, even the larger companies attrition is high. So on the tech side, I am a little uncertain on commenting anything has been going wrong in the last couple of years. On the sales side, since we are adding about 8000-9000 customers per quarter. So I would require at least 150 odd people to service them additionally, and we still have some backfill demand to be filled. So I think next two quarters, you can expect our manpower count to keep going up significantly as in the current quarter, and then maybe we can start to stabilize.

Pranav: Sure. Thank you. I'll come back in the queue for the remaining questions.

Prateek: Second question on Busy.

Brijesh: Pranav on busy EBITA. So the increase in cost that has happened is principally on the count of manpower, we've invested behind customer service very significantly, we've added people across the organization, including sales, non-sales functions, and that is one of the primary drivers of a lower EBITA than what you saw in the first quarter.

Pranav: Sure, thank you.

Kushal: Thanks. Next question is from the lines of Vivek Anand from Ambit capital. Hi, can you please switch on your camera and unmute yourself to ask the question to the panel.

Vivek: Hi, I'm keeping my audio on but camera off due to bandwidth constraints. I hope that's fine. So, my two questions. So, one is the base supplier edition outlook. So, it's pitch tracking your guidance, but any color on how this is likely to shape for the next 12 to 18 months? And what can you do to accelerate this 9000 to maybe 10-12,000 in fiscal 24. So that's one. Second you know further to Pranav’s question on the tech end content expenses are well tech-end content expenses, you know, the percentage of sales going up, because you have backfilled some people and I noticed that the gross margins have gone up from 72% to 76%. So, any sense on how we should think about gross margin number in the next couple of quarters, because some of the sales people that you have added in the last few quarters. I think by now they may have matured and started contributing in paid customer relation.

Dinesh: Thank you. First question was on the net customer addition, you know, historically, you know, this is the, I think after five, seven years, five, six years, we have been adding about 20,000 Customers plus minus 2000-3000. And this year, if you look at till date, we've already added about 19,000. And as I guided, because we started ramping up last year, similar time, and as you know, the first year, churns are higher, next year churns are lower, and then third year, churns are even lower. So, the churn is catching up. And that is why I've been guiding 8000-9000 Customer addition, because overall, when you are gathering new customers from newer industries or from going lower down the line, then this particular thing is to be taken care of properly. And that is why for the next four quarters, I would say if we can maintain it to 9000 and stabilize at that particular level and improve the churn back to pre-Covid levels, then only I would like to invest again, in increasing accelerating the growth of new customers. On the gross margin side, I think because we had this 82% or 80% was a complete aberration due to lock downs of COVID. And we haven't been hiring offices we're also closed so admin cost and everything was saved. Now that we are back to this 76-77%, I would like to say that our target remains to somehow reach 80% by next year or so. So if we can get to 80% by sometime next year, that should be our target on the gross margin side. Thank you.

Vivek: Okay, Dinesh, just one follow up very clear on the new customer addition guidance, but if you could help us understand the churn of customers, you know, the silver monthly, currently and, you know, you said that you want this to go back to the pre-Covid levels soon. So where do you stand now, what's pre COVID across the key packages, and, and the other one, just a follow up on the gross margin number. So, 80%, you've said by end of next fiscal. Is that how one should look at it?

Dinesh: I know it is impossible for me to predict six quarters, but 80% sometime next year. On the churn side, I think we are at 80 to 90% pre COVID levels. So, we are still 10% to 20% behind pre COVID levels. Because of the so many uncertainties happening every quarter some or the other. I mean, last quarter, there was war and inflation, and this quarter is interest rate increase and all that. But in terms of churn gold and platinum remains at less than 1% per month. Silver annual and multi-year remains at about 2% to 2.2%, 2.5% per month. And silver monthly as I've guided earlier, it remains at 5% to 6% on a net customer basis. And since we have started to add the customer base quickly in the last nine months, I think we can see some volatility in the silver annual and silver monthly customer. But gold and platinum are very good at less than 1%.

Vivek: And lastly, Dinesh ji you don't think that this is because you are gathering customers across new categories or those who are lower in categories where you already have a lot of field supply. It's not because of that right. I'm just curious, because maybe you feel when you add customers in categories where you already don't have paying suppliers. You know, maybe the churn is higher in those categories. I just want to understand churn better.

Dinesh: Actually, it is contrary to that the categories were IndiaMARTs works. Where the competition is higher than the ARPU is also higher, Retention is also higher, where the probably we have yet not found the product market fit or the industry fit there the churn is higher, because wherever we have found the product market fit better, the competition keeps going up. And still we have seen that churn keeps going down.

Vivek: Okay, very clear. Thank you.

Kushal: Thank you Vivek. Next in queue, we have Anmol Garg from DAM Capital . Please switch on your camera and unmute yourself to ask the question to the panel.

Anmol: Thanks for the opportunity. Actually I had couple of questions. Firstly, if I am right that we would be adding 8000 to 9000 customers, which is higher number as we used to earlier. So would it be right to say that the most of these customers will be monthly in nature? And secondly, to that, would that mean that we can expect some ARPU increase going in next year? Given that earlier, whenever we used to add the more monthly customers, then there's a tendency that they upgrade in next few years. So can we expect that the ARPU will increase in next year going forward? Thats question number one.

Dinesh: Historically when the customer growth slows down, yes, you're right. As the customer moves up the tier, things improve. But historically, there has been a lot of disruptions and in the market, and that is why we could not scale up on the customer. I don't think we will continue to have many more disruptions every year like this. So, I expect that if we I mean, my wish list is that if we can continue to grow the customer base by 20% or so. And ARPU, even if we stabilize or grow by 2%-3%, that's fine. Rather than 5% per annum.

Anmol: And secondly wanted to have your view on the ONDC plan and ONDC process. So I understand that it's still early days. However, if you can highlight that, what has been our thoughts internally? And if we do go on to the ONDC process, so would there be any change in our business model?

Dinesh: I think in case ONDC succeed, and it would be beneficial for everybody, in fact, because it will be an open platform where anybody can plug in. If tomorrow, you know first it has to work then it will have to work for b2c categories, and then maybe later at some point of time. It might be open, and it might be possible to do even b2b there. But that's a probably slightly longer duration for a b2b platform, I would say over the next two three years, let us see what is the success rate of ONDC in the b2c ecommerce market in the digital goods market, and then we will come to the wholesale and all. I'm sure it will present a lot more opportunity on the buyer app side and the seller app side even for Indiamart to aggregate more suppliers or to aggregate more buyers using ONDC platform whenever that happens.

Anmol: So that would mean that immediate plans are not there to go on to the ONDC right now?

Dinesh: No, I think currently it is very, very limited and open to mostly B2C hyperlocal delivery and then it will go on to digital goods like tickets and all. And then we will come to the normal discovery search engine.

Anmol: Sure. And just one last question. If I can ask?

Dinesh: Please go ahead.

Anmol: So, the question is for Brijesh. So just wanted to understand that what is our strategy regarding the investments that we have done? While you highlight it for the accounting software. But if you can highlight for the other companies that we have acquired as well, and if we are getting any synergies from these companies in terms of our own paid supplier additions as well as the customer additions for our associate companies as well.

Brijesh: Can we go to the strategy slide for the strategy? So, I will go back and refer to the overall strategy that we had shared in our earlier calls also. So how we are looking at evolving from being a discovery and our conversational commerce platform to an actual to commerce platform, our overall strategy has been focused on enabling commerce enabling businesses, if you see most of our investments that we've made in this phase has been around business enablement. In that companies, obviously, in accounting space, we looked at procurement, we've looked at payroll, we've looked at legal compliances. So, the thesis is that how do we get these enabling tools made available to these small businesses? Our view is that when we make these investments, and when we work with these associate companies, you know, we try and understand how, you know, we could go ahead and collaborate on with these associate companies and help them either expand their market or attract a larger number of customers. But all of these things essentially go ahead and take some time. We are very, very early. In terms of these investments that we've made. If you look at the overall timeline itself, most of these investments have happened in the last one year or so. So, we are investing time with each of these companies. We are trying to assist them with whatever we can at this point in time. However, when we look at deeper integrations with them, we will continue to you know, do this as we build better use cases better understanding. In fact, one of our earliest investments, which is VYAPAR, we have shared earlier. we now help them acquire newer customers using our base. We invested in them in 2019 itself. So, it took us a while. And therefore, even for these recent investments, I think time will be an important factor before we could you know, share with you what would be the specifics in these resources.

Kushal: Thanks so much. Next question is from the lines of Deep Shah from B&K securities. Please switch on your camera and unmute yourself to ask the question to the panel.

Deep: Thanks for the opportunity. Sir, I wanted to understand a bit about how, the incentives moved up on this quarter, because the feeling was that once recovery commences, it will be relatively easier for us to convince more SMEs to come on the platform. Why is that has happened? It is also coming at a steep cost in terms of incentives payout to the sales personnel shifted help about what is the underground feedback we're getting about the macro recovery. And how do you see these incentives shaping up as we try to accelerate growth in terms of fixed software additions.

Dinesh: In terms of macros, it remains mixed the last many, many quarters it has remained mixed. When COVID happened there was so much tailwind to go online. On the other hand, there were people who were running out of businesses currently also if you see on one side there's interest rate rising. So, I guess we are we are probably seeing much, decline on COVID related items like sanitizer, medicine and other things. There’s still some demand left from foreign countries little bit here and there. But mostly that has subsided. So I guess, on the macro side, nothing much changes big time, versus the one time upgrade of the COVID adoption has happened. Now coming to the incentive side, I don't think anything material has changed. Mostly the cost structure has remained more or less similar, our cost of customer acquisition also has remained more or less similar. As we have grown more number of customers, I think. So I don't think there is a material change required in the sales incentives. In general salaries have increased by 20-30% in the past year, and they continue to be under pressure. But other than that, I don't think there has been a big change in the sales incentives.

Deep: Secondly, I wanted to ask a bit about the product. So pre COVID, we did a lot of product innovations we introduced city-based distance. And then we had more slots for , Platinum customers. So how should we think about pricing improvement? Will it be product lead? Or do you think there is a case to be made for increasing the tariff itself for different plans, now that we've seen some fair recovery, and we are able to add a lot more suppliers than before?

Dinesh: So, there are two, two ways that we see it. One is the silver, monthly annual base level pricing. As I said, base level pricing more or less, we don't want to increase for now, and will remain more or less similar. We started from 2000 rupees a month, went to 3000 rupees a month came back to 2500. And I think that's the sweet spot anywhere between 2500 and 3,000. On the platinum side, if you see top 1% and top 10%. They've been increasing year on year, quarter on quarter. So, our pools have also been increasing and their contribution have also been increasing. I remember very clearly, we used to have top 10% contributing about 40% of our revenue, which has gone up to 47 vary. And even the top 1% last time I presented for the first time was 790,000. ARPU, that also has gone up. So, I think, on that side, we are continuing to do more experiment in terms of platinum listing, and different ways of monetizing, and as I said earlier, also, we still have some juice left there. In terms of categories. It’s a combination-based pricing. So, I guess we will continue to experiment there. And I don’t think there would be a decline in the ARPU on the top slide. To top slide , ARPU will continue to increase on a healthy 5% rate.

Deep: This is very helpful. Thank you and all the best.

Kushal: Thanks Deep. Next in line we have Swapnil from JM financial. Please switch on your camera and unmute yourself to ask the question to the panel. So please unmute yourself.

Swapnil: Can you hear me?

Dinesh: Yes, we can.

Swapnil: Okay, great. So first of all, congrats on a good set of numbers. So just wanted to understand on the collection side. So if I were to look at the stand alone business collections, so those grew 13% on a Y-o-Y basis. I understand there was some base effect also. But going ahead, as we know, the base will keep on getting steeper and steeper. And from that perspective, and secondly, the customer additions that we are doing are mostly at the lower realizations. So how should we think about the collections growth here on because that will be important to track your revenue growth? Henceforth?

Dinesh: You're right. Certainly, when we are adding customers at a rapid pace, especially at the bottom of the pyramid, we'll have to be refilled patient on increasing per customer collection, because not within the first three to six months, we can't expect the repeat collection from them. So, I guess it will take six nine months. Currently we are at 13% growth, but this particular season was also monsoon and so much disruption. I believe that, you know, after October because October has the Diwali and Dussehra holidays, I think we should improve. And generally, we have seen in the last five months that things have been better. And if you really see collections from customer on a standalone basis, historically on a larger trend bases have been trending at 20% CAGR. And we believe that we should be able to maintain that. Definitely.

Swapnil: Okay, so broadly speaking, 20% is the number we should be working with, in the near term, at least.

Dinesh: On a yearly basis. Yes

Swapnil: Okay. And the second question was on the cost of acquiring new customers. So I would like to understand like for every new customer paid supplier that you add, what are the typical cost that you incur. If you could give some sense on that, because despite the customer base growing. I know I understand that you also added some employees over here, but your margins have come down on a QoQ basis? If I were to adjust the one off of busy acquisition last year, in the core business I'm talking about? So how should one think about that.

Dinesh: So we give a number of the functional P&L, if you see in the functional P&L, there is a sales and distribution cost for every quarter, and you have the net customer addition for every quarter. So, if you divide sales and distribution divided by that net customer addition, that will give you a ballpark figure of the overall cost involved. The cost has gone up on two three fronts one because we haven't added any cost any people in the 18 months of the COVID 19 period. So, I think there was a backfill that we had to do. And secondly, at the later part of the 2021, there was a huge demand for tech and sales talent. And there has been a rerating of salaries. So, on one side, there was a headcount increase on the other side is that so that is why you're seeing some pressure on the cause. But as I said, if you look at the gross margin, we were at 70-72%, pre COVID. We are already at 75-77% and I think we will continue to strive for 80% number sometime next year.

Swapnil: Okay and just on the margin, so keeping on that mark. So, typically Q4 is the weakest in terms of margins for us, we are already hovering around 28% and in H1. So would it be fair to say that your 2H margins would be even weaker than your H1 margins and at an annualized basis, it might be lower than it will be closer to below record levels of around 28% that time,

Dinesh: So, Q4 is a very big because Q4, you get highest collection highest cash flow from operation and that is why we have now included one slide on slightly larger time duration so that you can see some seasonality. On the collection from customer. The slide number 62. So, on the same time, since the collections go up, the incentives and everything goes up with the cost is immediately factored in, in the revenue. So, and that is why you see that typical, dip in the EBITDA margin in the Q4 ideally. So, the way to look at it is collection minus expenses equal to cash flow, that's a better way to look at our business. And our deferred revenue, which gives you more sustainable revenue over the next 20 months or so. So, you may be right, because if we are at 28%-29%, currently, it will definitely have a 3% kind of hit in the Q4.

Swapnil: Okay. Thanks for that clarification, that is very helpful. I will come back on the queue.

Kushal: Thank you. Next in line, we have Amit Chandra from HDFC securities. Amit, please switch on your camera, unmute yourself to ask the question to the panel.

Amit: Can you hear me?

Dinesh: Yes, we can. Yeah.

Amit: So, thanks for the opportunity. So, my question is, on your initial comments that you made, that when for an addition, some foreign quarterly addition of around 8000 to 10,000, you may require an employer additional around 180 to 200 people every quarter. So that comes to around 45 to 50 and are like net additions for sales employees. So, this ratio is going to remain at these levels? Or can we see some like non hilarity? Because he mentioned that under the cross margins can like move up to 80%. So, is this the factor to watch out where in the sales growth will be higher than the employee cost or the employee growth? So, when can we see that like coming in, and also on the sales hiring that we have been doing over the last four or five quarters? So how do we track the sales? And also, if you can comment on what has been the attrition in the salespeople that we have hired? And have you seen some spike there? Or are you seeing some concerns in terms of productivity.

Dinesh: Coming to margin lever first. Historically, also, whenever the customer suddenly goes up, the margins are under pressure. But as the customers would migrate to higher level packages, or next year, our cost of servicing keeps going down. So currently, since we are adding a whole lot of customers at the bottom of the pyramid, we need to add those, the way I divide them is 100 Customer per person. And then, you know, for every four or five people, six people, there's the assistant manager and then for every four five, Six people there is a manager. So that’s how it comes to about you know 60-70. And as these customers start to move up which you have seen in the past also, as these customers start to move up, the margins will definitely improve. But since we are already running at 80% margin, I don't know how much more juice is left there on that side, I think gross margin side No, but yeah, on the net margin side, there may be possibilities, but not in the near future in the next 12 to 18 months.

Amit: On the on the additions that we have been doing on a monthly basis. So as you said that kind of like migration to hire packages is the core of the business. So if you can give us know if you can provide some more color that how the migration happened over the last year over the last four quarters. So how to track that maybe the in terms of churn or in terms of ARPU, or because if top one and top 10 ARPU go up, then we can see that there has been a migration but is that the ARPU that has gone up with the last three quarters. Is it because of the migration thing or is it because of some price increases.

Dinesh: It’s a mix of both. The good part is that, despite the fact that we moved from 150,000 customers 190,000 customers in the last one year, we added but the top 10% customer base has also grown, the ARPU have not been an issue. So, it is, this again reinforces our previous thought that those customers who were acquired one year two years, three years before they continue to see more and more value and continue to renew better and upgrade better the same is going to happen, but these nine months the newly acquired customer, we will know the typical upgrade pattern in the next six to nine months. Historically our typical upgrade pattern has been approximately 20% of the customers upgrade to higher services every year.

Amit: So, in terms of the total revenue mix has the contribution of the silver monthly customers has gone up

Dinesh: For now, it has because we did not acquire silver monthly, we could not acquire silver monthly for about almost like 18 months, Salesforce was not going that Nach forms could not be signed, things could not happen. So, most of that churn also happened in the silver monthly bucket only. So, now that we are adding about 2/3 customer at Silver monthly and 1/3 customer at Silver annual. So, there is some increase in silver monthly customer, but in terms of revenue contribution, it will still be very miniscule, but they can give you the revenue contribution about 27-28% customers are in the silver monthly bucket, and they contribute about 18% of the revenue. So, from 15 to 20% they remain as a contribution to the revenue while top 10% If you see in the last three years, it has gone up from 40% to now 46-47%.

Amit: So, this top 10 customers would be how much of your overall platinum customers

Dinesh: As I said top 10% Customer. So today there are 180,000 this means top 10% customers is 18,800 customers so these 18,800 customers are very similar to what our Platinum customer count is.

Amit: Thank you and all the best for the future.

Kushal: Next in line we have Vivek Anand from Ambit capital. Vivek, please unmute yourself and switch on your camera to ask the question to the panel. I think Anirudh has left the call. Maybe we can take up with Vivek. Please switch on your camera

Vivek: Hey, thanks a lot for the follow up opportunity just on the point Dinesh Ji that you made on customers upgrading silver monthly customers upgrading? Could you talk to us about the upgrade journey your silver monthly customers? Is it similar across categories in terms of the number of months it takes for them to upgrade? Or is there anything to note here? I'm just trying to understand because you said that last 18 months, you're not rather during COVID in there was an 18-month period when you could not acquire monthly customers. Now you have been doing that for the last nine months. So how long will it take for you to upgrade these customers to gold and platinum?

Dinesh: It's a continuous process. Whenever you come to Noida. I'll show you how the cohort moves about 2% of the customers in the year there are 20%. So, we start to pitch upgrade only from the third month onwards. Okay, third or fourth month because we don't want somebody has been sold in and immediately, we start to pitch upgrade. So, we start once they have three months of good thing, and then approximately 2% of the customers upgrade every month. The most of the majority comes between six to 18 months' time, So I guess that's also a function of we were completely work from home. And then now we are trying completely work from office, we are also trying regional centres. So, a little bit of execution issues. But by and large we've seen in many, many years last five, six years, it's by and large 2% per month, it doesn't change too much by industry, because our number of new customers required are also in the same similar manner as in the it might change by way of if there are private limited companies, if there are partnership firms, they tend to be more resilient and more adoptive than proprietorship firm with less than certain turnover. So as the company sizes are slightly bigger, they have a slightly longer-term view on the thing. And as I said, those categories where we perform better there, and which are the categories on the top, If you see electrical electronics, if you see construction industrial, those are the categories where the upgrades are slightly easier, because those are capital goods kind of item in the fashion and smaller value items, we are still not as good as this in terms of monthly customer mix three year ago, we used to be a 33% customer, now we are about more like 27% customer. So overall, if you see the platinum, gold and silver annual multiyear has been increasing, we were trying to balance 1/3, 1/3, 1/3. But that's not always possible.

Vivek: Yeah, just one last question on the channel partner model that you are pushing for over the last 12 months. Any update on that? What percentage of your new customer acquisition happens through channel partners and how many are in housed?

Dinesh: Yeah, so as I said earlier, pre COVID 80% of sales used to come from our own field Sales Force, and about 20% from various online and telephone channels. Now, with the channel, we are about 50% comes from channel partners and 50% comes from in house teams.

Kushal: Thank you. And next in queue, we have Abhishek Banerjee from ICICI securities. Abhishek, please go ahead.

Abhishek: Yeah, hi. Yeah. So just a couple of questions. Right. So did you just guide for 25 to 26% kind of EBITDA margin for Q4?

Prateek: So, Abhishek, what we suggested was that our current margin is roughly around 28%. The way, you know, we advise everyone to look at the margin more on a yearly basis, because, you know, every quarter would have some kind of seasonality. So if you see about a quarter four, basically, in that quarter, we have our best ever collections. Therefore, best ever cash generated from operations, there are certain costs which are linked to the collections which hits our P&L in that quarter itself. And as you know, since the revenue comes from the deferred revenue, we are unsure as to how much of the revenue will come at that point of time. But there could be a scenario wherein the margin for that particular quarter could go down. But as we said that it would be again a seasonal sequential quarter four dip, and then in the quarter one, it would again, kind of would come back to the similar levels because is these costs which are associated with the higher collections will not be there in quarter one?

Abhishek: No, that is fine that I understand. So, are you still sticking to the full year guidance of around 20 to 30% EBITDA margin or are you kind of revising that downwards?

Dinesh: I think given that, we were trying to add 8000 to 9000 customers in the last two quarters, we added 13,000 customers and 10,000 customers. So, we have added 4000 additional customer and you know, every time we acquire customers, we pay upfront cost, and then the customers long term value comes over the next three to five years' time most of our customers become profitable by 12 months or so. So, that is why the more customer you acquire the more upfront cost you incur the the good part of our model is that most of the cost gets factored immediately while the collections and revenues flow over a period. So, you may be right, we might be 1% or 2% Here or there for the entire year, but I will be guide it will be totally 28% plus minus.

Abhishek: Okay. So, if so, basically then the question that comes in is that what is happening to your you know, efficiencies of scale from at least employee costs, right. And that is obviously a very important question in a business model, which is as manpower intensive as yours. So,, when do we actually kind of see the as your existing employees' tenure, when do we see that impact come in.

Dinesh: So, let's go back to the margin levers slide again, I can only guide based upon whatever has been historically done. And these two-year FY21 end of FY22 Were an aberration, but we are back to 72% gross margin, which was there for entire FY22 and 72% of the cost is there, sorry.

So, I think as we stabilize a little bit it will start to improve but it has been improving whenever you are around 20% growth rate it starts to improve by 3% to 4% every year, but you know, as you keep going up, it will get keep getting tougher.

Abhishek: Okay. So, now, if I move to the point of the acquisitions that you have made, right, so, there is a lot of growth, which is happening in in the support back-end support part of the b2b commerce space right. Like we have now seen BUSY become meaningful part of your P&L what is next in line

Dinesh: I think in terms of overall investments that we have made, is about 1000 Crore out of that 650 Crore has gone into accounting space and within that also 500 crores alone has gone into the 500 Crore alone has gone into the accounting space into acquiring Busy, busy since it was acquired in one go 100% acquisition, it immediately started to add revenue. We will see, as I guided earlier that the for the first year, I don't want to disturb that acquisition, I just want to digest that acquisition is the first ever acquisition we have done. Now, most others are minority investments and those minority investment we only get to see the share of profit and loss depending upon whether they're less than 20% holding or more than 20% Holding when we try and see if those businesses will become 50 to 100 crore. And at that point of time, we'll hopefully if we find some of them good for acquisition where we can increase to more than 51% but that only another two years of time will tell. Okay.

Abhishek: Fair enough. And so what are there on the ground trends that you're seeing in this space? I mean, you are also ready to do an ordering and fulfilment kind of a function. Right? So, are you seeing anything there that is worth reporting.

Brijesh: Overall, Abhishek when you look at accounting or order management, fundamentally with the introduction of GST and its implementation. There is a lot of positive movement that is expected in this space and business will continue to use software to manage their compliances and slowly start valuing improving customer experiences using this software. So, we remain positive, do we look at anything in the immediate term which is significantly different. No, there is a continuous improvement in the adoption of SAAS software, business software, accounting software by the small business and we see that trend continuing for long period of time.

Abhishek: Thank you.

Kushal: Thank you all of you for joining this call. I would like to invite Dinesh for his closing remarks.

Dinesh: Thank you ladies and gentlemen for joining our Q2 conference call. We have tried to address your queries in the time available. Please feel free to connect with our Investor Relations team in case of any queries. Thank you very much, we wish everyone a very happy Diwali and festive season ahead.

Notes:

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