December 13, 2023

To,
BSE Limited ("BSE")
P.J. Towers, Dalal Street,
Fort, Mumbai – 400 001

Scrip Code: 544021
ISIN: INE004A01022

Dear Sir/Madam,

Subject: Transcript of Earnings Call

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to our letter dated December 1, 2023, please find enclosed herewith transcript of Earnings Call on the Operational and Financial Performance for the quarter and half year ended September 30, 2023, held on Thursday, December 7, 2023.

This is for your information and records.

Thanking You,

Yours truly,

For Protean eGov Technologies Limited
(formerly NSDL e-Governance Infrastructure Limited)

Maulesh Jagat Kantharia. Digitally signed by Maulesh Jagat Kantharia. Date: 2023.12.13 18:29:13 +05'30'

Maulesh Kantharia
Company Secretary & Compliance Officer
FCS 9637

Encl: as above

“Protean eGov Technologies Limited

Q2 and H1 FY '24 Earnings Conference Call”

December 07, 2023

MANAGEMENT: **MR. SURESH SETHI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – PROTEAN EGOV TECHNOLOGIES LIMITED**
MR. JAYESH SULE – WHOLE-TIME DIRECTOR AND CHIEF OPERATING OFFICER – PROTEAN EGOV TECHNOLOGIES LIMITED
MR. SUDEEP BHATIA – CHIEF FINANCIAL OFFICER – PROTEAN EGOV TECHNOLOGIES LIMITED

MODERATOR: **MS. RUNJHUN – E&Y**

Moderator: Ladies and gentlemen, good day and welcome to the Protean eGov Technologies Limited Q2 FY24 Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Runjhun from E&Y. Thank you and over to you, ma'am.

Runjhun: Thank you, Sagar. Welcome to the participants in this call. Before we begin, I would like to mention that some of the statements in today's discussion may be forward-looking in nature, and we believe that the expectations contained in the statements are reasonable.

However, these statements involve a number of risks and uncertainties that may lead to different results. I urge you to consider the quarterly numbers not a reflection of long-term trends or indications of full-year results. With this, I would like to introduce the management we have here from the company.

Mr. Suresh Sethi, Managing Director and Chief Executive Officer. Mr. Jayesh Sule, Whole-Time Director and Chief Operating Officer. Mr. Sudeep Bhatia, Chief Financial Officer. With that, I would hand over the conference to management. Thank you, sir.

Suresh Sethi: Good morning, everyone. This is Suresh Sethi over here. And a very warm welcome to all of you on what is our maiden conference call, post listing. We would like to discuss our results for quarter two and first half of FY24. First and foremost, I would like to extend my heartfelt gratitude on the successful IPO, the overwhelmingly positive reception that we have received, and an issue which was subscribed an incredible multiple times. I'm confident that this marks for us the beginning of a prosperous and rewarding journey for all our investors.

As far as the company is concerned, we believe we are at a critical phase in India's digital transformation journey. And Protean continues to be a key contributor in developing India's digital public infrastructure. We find ourselves uniquely positioned, being one of the very few players and now a listed company in this space.

This also allows us to capitalize on strong tailwinds of inclusive digital penetration across a growing demographic basis. As we look at our business model, I would like to give a quick introduction to the company. We are one of the primary IT enabled solution providers.

This is almost a 28 years old company, which has been involved in building digital public infrastructure for the nation. We have done significant interventions in the space of taxation, pension, digital identity, and we have powered almost 19 national level stacks working with Government of India and various ministries in various sectors of the economy. And if you look at it, our business is broadly classified under four pillars.

So the primary pillars that we have is, first of all, as an organization, we have been at the forefront of building population scale e-governance platforms. Our first foray was to modernize the direct tax infrastructure. And as part of it, we built the tax information network for the country, which we continue to provide those services till date.

The second big intervention from us was to build the central record keeping agency for the national pension system. And on the same CRA infrastructure, subsequently, the other pension yojana, which was the pension scheme for the economically weaker sections of the society was hosted on the same platform. So these are our two large interventions in the space of e-governance, which we are currently also running, and they form a large part of our current business.

The second big area for us has been in the space of provisioning digital identity. So as I mentioned, we run the tax information network, and at the same time, we are also an agency mandated by the income tax department for PAN card issuance and validation. So if you look at it, any account being opened in the country that somebody is providing a PAN card, that validation is done by us. We hold the PAN card database, which is almost 600 million plus national tax ID records. And this is against which the validation is performed. And we largely service the BFSI sector, capital market participants in enabling these transactions, be it for account opening, be it for supporting capital market transactions above a certain value, be it for supporting any property purchase, wherever the PAN card is required for validation. So this aspect of digital identity is run on a database we manage for the nation.

Our second business under digital identity is where we provide a licensed service agency role for UIDAI, where we provide e-KYC and e-authentication services. And lastly, we are a certified authority for e-Sign, which is today used to sign any document digitally using Aadhaar as a validating or authenticating ID.

So our four identity verticals therefore run on PAN verification, e-KYC, e-Auth and e-Sign. And this is a business in which we deal with almost 2,500 plus regulated entities, corporate entities and technology service providers in enabling the ecosystem to open accounts, to authenticate transactions and to validate transactions. So that is our second large pillar.

The third one clearly where we are seeing that India's digital transformation is now going multi-sectoral and the country is well on the way to establish digital open ecosystems to create a democratic access to various e-governance services. As we look at it, Aadhaar has been a watershed for the country and the Aadhaar architecture of digital public infrastructure, which is a layered approach, where at one level you have the infrastructure where today the identity is housed or the foundational payment infrastructure where we have UPI today as a great model. Similarly, we are creating a layered approach and building infrastructure level digital interventions.

Currently, Protean is involved in five specific digital infrastructure sectors. We are contributing and powering ONDC, which is supporting e-commerce and mobility. We are likewise involved in providing foundational digital infrastructure interventions as a technology service provider in the space of agriculture, health, education and skilling.

Another important aspect for us under ODEs (Open Digital Ecosystems) is the data exchange foundational layer, which is in the form of the account aggregator. That is where we have an operational account aggregator license and we are building a business on top of our digital identity business to provide data analytics and data exchange services. Last but not the least, looking at these three verticals, the fourth one is clearly about powering enterprise digitization.

We are today providing consumer and corporate tech as application service providers. Likewise, we have built a vertical where we are providing infrastructure services on cloud and infosec. I will just summarize building e-governance platforms, which is where we started our journey, providing digital identity to various ecosystem players to enable account opening, transaction authentication, enabling democratic access to open digital ecosystems across multiple sectors.

Last, powering enterprise digitization. That in a crux is the business model of the company running on these four verticals. We are equally enthused to take this entire India digital stack to global markets, especially countries in the developing world, which are looking at growth opportunities by building digital public infrastructure.

We are today involved in active discussion with multiple countries, especially focusing on projects around national ID, around payments, around integrated tax infrastructure, around social security and welfare. So that has been the large interventions from the company perspective and for us clearly, as we look at it, there are favorable market conditions. We see access where all our services become very relevant as there is a demographic shift in the country.

There is increasing digitalization and internet penetration. And likewise, there is financialization. Looking at our limited penetration of credit in the country, looking at the ability to create more inclusion around the country, these are the three areas which we feel will provide us strong tailwinds to build this business. All the new sectors of economy that are getting digitalized clearly have a strong focus behind them in terms of being sunrise sectors where large-scale digital interventions are being carried out. If you look at our current businesses, our top line comprises or is largely contributed by our three large businesses, two of them being on the e-governance platform front, which is taxation. And likewise, the second one for us, important one for us being the central record-keeping agency for pension services. The third large business is provisioning of digital identity. These three businesses combined together form a significant chunk of our business as we move into new strategic areas.

Under tax services, we've seen continued momentum for previous quarter and we posted a strong year-on-year growth of 33%. Pension services likewise grew by almost 26% year-on-year and there is steady growth and opening of pension accounts. Our identity services again saw very impressive growth from last year's first half to this year.

Similarly, when we look at our strategic focus areas, the company in a way is diversifying from three verticals to six. As we continue to focus on platforms, we continue to focus on our tax and pension business and our identity business. We are now evolving into three more verticals for which we've laid a strong foundation.

One is on open digital ecosystems, second is on data and third is on the entire cloud and infosec services. There is strong momentum with continued presence as a technology enabler for ONDC and today we've seen that ecosystem scaling up and building well. In the last quarter, we had strategic tie-ups with two large multinational banks for providing buyer and seller technology solutions to enable them and their customers to become ONDC enabled.

Likewise, last quarter was again very important, we forayed into building the infrastructure layer for a new open digital ecosystem for education and skilling and we continue to engage strongly with the BFSI sector in the domestic markets.

With this, I would like to hand over the discussion to Mr. Sudeep Bhatia, CFO, for his comments on the operational performance for the first quarter and the first half year of FY24. Sudeep, over to you.

Sudeep Bhatia: Thank you, sir. Good morning, everyone. First and foremost, I extend my congratulations to the team for an impressive IPO performance, and I appreciate the continued interest and support from all of you.

Building on the overview provided, I am pleased to share the robust financial performance we have achieved in the first half of FY24. In the quarter ending September 2023, our revenue from operations reached around INR235 crores, marking a commendable 33% year-on-year increase and a solid 7% quarter-on-quarter growth. EBITDA for the quarter stood at around INR49 crores, reflecting a strong 25% year-on-year growth and a resilient 4% quarter-on-quarter increase.

The net profit for the quarter reached INR33 crores, showcasing a notable 27% year-on-year rise and a steady 2% quarter-on-quarter growth. Turning our focus to the half-yearly performance, our revenue from operations surged to around INR456 crores, an impressive 36% year-on-year increase. EBITDA for the half-year was around INR97 crores, demonstrating a robust 35% year-on-year growth.

Our net profit for the first half was around INR65 crores, marking a substantial 38% year-on-year increase. Crucially, we are proud to maintain our debt-free status, a testament to our financial prudence, providing stability and ensuring long-term sustainability. Our asset-lite model, coupled with strong cash flows, has resulted in a net cash balance of around INR650 crores at the end of the period.

In summary, the performance of the first half of this financial year witnessed significant traction across all three business verticals, with Tax services leading the growth trajectory. Along with that, we have made significant investments and efforts to establish our new business verticals as well that we just explained. Overall, our key performance indicators, detailed in the presentation, underscore the robust pickup in each of these verticals.

Notably, 80% of our revenues are transactional, while the remaining around 20% is annuity-based. More than 65% of our revenues come from B2C segments, around 20% from B2B segments with corporates as clients and only 12% of the revenues are dependent on government billings. Looking ahead, we anticipate a solid growth trajectory, guided by our experienced management team and also the investments that we are making in the new business verticals.

We are proud of our journey thus far and remain committed to deliver high-quality e-governance services. We understand this being the first-ever earnings release conference. There may be further questions around our business that we will be happy to elaborate further over the next few minutes.

With that, I open the floor for questions and discussions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Srivathsan Ramachandran from Avendus Spark. Please go ahead.

Srivathsan Ramachandran: Yeah, hi. Thanks for the overall outlook. The first time especially post-IPO. Just wanted to get some sense on the new initiatives, right, where tax services and others have been well-established. We've been market leaders for a very long time. Just wanted to get some sense on the new services, on the data stack, what are you thinking along those lines, on the cloud initiatives, and also what are we doing with ONDC?

Suresh Sethi: Sure. So, I would basically say as we look at our expansion plans, so one focus has been on building on top of the Identity Services. So primarily, as you would have seen, we have a very strong and robust business in enabling the BFSI sector by providing the fundamental foundational identity inputs, which is e-KYC, eSign, e-Authentication, and online PAN verification.

We clearly look at this as a foundational layer, and now we are doing a vertical integration where we are consuming ourselves all of these foundational services and providing a layer of microservices to the BFSI sector. A simple example being the bank wants to create a digital onboarding journey. So today, while we might go to the bank and say we'll provide an e-KYC and e-Authentication service, we are now going to the extent of providing a full end-to-end microservice which has embedded in it multiple KYC capabilities.

So, the bank digital onboarding journey can have a video KYC, it can have an Aadhaar based KYC, it could likewise have a CERSAI based KYC. So for the bank, it becomes a one-stop shop with a microservices layer over there. Along with that is where we are putting our Account Aggregator business, where we are looking at creating end-to-end digital lending journeys, also allowing the parent company, because account aggregator is a subsidiary as per RBI regulations and requirements, the parent company will be able to provide data analytics services for credit scoring and risk profiling.

So that is one area in which we are doing the complete vertical integration. We've already launched an API marketplace, which is unique in the fact that one, it has a microservices layer and it also has a do-it-yourself sandbox capability which allows the ecosystem to directly consume services and build their own stacks in terms of onboarding and digital journeys for their customers. So that is one strong business being built on top of identity.

The other area for us clearly is as a strong digital public infrastructure player is our expansion into multi-sectoral open digital ecosystems as they are getting formed. So in ONDC, we are at one level contributing as the only technology service provider which powers the entire network on which the ONDC ecosystem is sitting. So any buyer and seller, any service provider and service seeker today go through our gateway to be able to discover each other.

So the entire search runs on our gateway, which is democratic, which allows any player who's plugged into ONDC to discover each other. So one is an infrastructure play and it will be very similar and akin to what NPCI does with UPI. The second area again is that ONDC is today expanding into multiple categories.

So our gateway today is category agnostic. Now whether we are enabling open finance use cases, we are enabling digital commerce use cases, we are enabling mobility use cases for transport democratization, all these come together and run on the same gateway. Likewise in ONDC, other than providing the foundational gateway services, we are also providing enterprise tech, as I mentioned earlier, where we are providing capability to buyer and seller applications to one integrate into the gateway, providing adapter services, and also at the same time building applications, seller applications, buyer applications, which is basically a model in which we design, build the technology, we have a design and implementation cost, and then it runs like a SaaS model.

So that is the expansion into ODEs. E-commerce, mobility, ONDC naturally are pretty much, you know, I would say there's significant momentum traction over there. Some of the other foundational ecosystems in which we are contributing are at early stage. So, we are working on the core Agristack with the central government. We are working likewise on health and education. So these are the other sectors into which we are expanding.

And the last which you mentioned was the cloud services and infosec. That for us is an infra play to the enterprises. We are a MeitY certified cloud. Our cloud strategy again is differentiated. We work on an open source stack. And therefore, we provide services which on a cost basis are lower in cost than our competitors. We have a patented technology with a partner, which is patents on energy conservation. So we have a cloud positioning where we are one looking at large scale e-governance and infrastructure projects, where we ourselves are contributing a technology service provider to provide a cloud hosted capability. And the other area clearly for us is to target the middle market, the small businesses, the startup ecosystem, and provide them the agility and elasticity of a cloud hosted infrastructure. And last but not least, the fourth expansion area for us is to take this entire stack of six lines of business into international markets, especially a foray to the developing countries.

Srivathsan Ramachandran: Okay. Just one more question and I'll be done. Wanted to get some sense, like I was just looking at numbers from a five, six year perspective, there has been more or less the revenues have been flat if you have to compare with an FY18 or even a 19 numbers, possibly might just be ahead of that. Just wanted to understand what led to this? Is it just, is it due to some business model changes, price yield, yield reduction? What led to kind of, from a four, five year perspective, a relatively muted revenue?

Suresh Sethi: So some of them have been larger macro factors, because if you go back around four to five years, for us, 2018 and 2019 became significant revenue spike years because of demonetization.

As a result of it, the PAN business clearly spiked. As you remember, at that point of time, it became mandatory for anybody to operate a bank account would need a PAN declaration.

So that was a big spike at that point of time. And to historically speak about it, we used to be issuing around 1.5 to 2 crores PAN cards annually, that actually spiked to almost 5 crores plus PAN cards in a year. And now we are seeing in a way a new normal, because clearly the PAN is not a saturated market.

As we look at it, we expect overall annual PAN issuance of 8 to 9 crores, which is what historically has been happening. And we have a dominant market share for us. If you see the numbers in FY21, we issued around 3 crore PAN cards, moving to 3.7. And then we almost did 4.1 crores in '23. Yeah. So that is one reason of the spike. And the other one just to also give you a sense on the on some of the top line metrics, there was another significant event where in our identity services business, UIDAI used to have a charge of INR20 per transaction.

So that was a mandated charge provided by UIDAI. And as a result, it was more like a pass through, we would see it in the top line and the bottom line as being paid out to UIDAI. That subsequently in last year got reduced to INR3. So that as a result saw an adjustment in top line without impacting the bottom line because it was just a pass through number for us. So some of these events have naturally, you know, you'll see a little bit of volatility or a stableness, but otherwise, it has been a revenue trajectory growth. And more importantly, the underlying business drivers have shown a strong growth.

The PAN services, if I take the data for the last three years, just to put it in perspective, there's a CAGR of 17%. Pension services, again, new account opening, there's a 25% CAGR. And then I look at some of the digital identity numbers, eSign was a 54% CAGR, online PAN validation 60%, e-KYC 64%, and e-Authentication 24%.

So you'll see all these areas have significantly been on the uptake, and clearly very much aligned with the digital India progress. And you know, what's happening in terms of account opening authentication, more people, you know, sort of adopting digital and likewise, the corporates and banks also being on the same path.

Srivathsan Ramachandran: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Mitesh from Aditya. Please go ahead.

Mitesh: Hello, thanks for the opportunity. I had just one question. What was the rationale of investing in ONDC INR15 crores? And what percentage stake do you get by investing INR15 crores in ONDC?

Suresh Sethi: So ONDC was a strategic investment for us. I'll just give a little bit of the historical context. We were the company which was involved in doing the first open network creation in the city of Kochi to enable the entire mobility platform over there on an open network architecture.

This was the work we did with the Beckn Foundation, and which is more about this disintermediation of taxi booking using an open infrastructure. Then there was a strong thrust by the government of India and the government of India wanted to see how we can create an open infrastructure or digital infrastructure for supporting digital commerce. The clear focus was the last mile Kirana store, who does not have the ability to participate in digital commerce.

Our overall penetration of digital commerce in the country remains at a mere 5% to 6%. And that is how ONDC was conceptualized before even the coinage ONDC came in place. There was an advisory council formed by the government and part of it along with Nandan leading it, with Dr. R.S. Sharma leading it. And then the entire gateway architecture, the network that was created for mobility, was then used to enable the digital commerce ecosystem.

And ONDC was formed as a Section 8 company to become the network governance entity. At that point of time, very much like NPCI, ONDC went down the line of getting investment from the market participants who would be enabled as a result of creating this entire ecosystem.

So at that point of time, we along with Quality Council of India became the two founding investors. So we at that point of time invested INR10 crores each, as a result of which we got a founding board member position on the board, a prominent seat on the board. Along with that came a host of other market institutions, right from National Stock Exchange to significant public sector banks, SIDBI and NABARD. So all these entities have invested in enabling ONDC. It is a Section 8 company.

For us, it is a very strategic investment, because we are powering the ecosystem. And we also see that it's a huge manifestation in enabling digital commerce and open finance in the country. So that is our alignment with ONDC and the reason for investment. So our INR10 crores investment gives us a 5.56% holding in ONDC.

Mitesh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good afternoon, sir. Thanks for the opportunity and congrats on a good set of numbers. I just want to understand what should be our dividend policy incrementally and the cash reserve that we have? How will we look to utilize that?

Sudeep Bhatia: So thanks Rohan for asking this question. This is Sudeep. So the dividend policy that our company has followed. So essentially, we have so far, in the history, paid this dividend consistently. That is the first statement I would like to make. For the past two decades, the company has consistently paid dividends.

In the last few years, if you see on an average, about 90% to 100% dividends have been paid. And there also was a year wherein we paid a special dividend as well in one of the years. At this point in time, the cash and equivalents that are lying in the balance sheets are close to INR650 crores. And the cash that we have, essentially, if you have seen that we have existing business verticals, and also we have plans to continuously grow our new business verticals as well. So this cash essentially gives us the firepower and fuel to grow our new business verticals because some of the investments, whatever is required to support any of these businesses and also in case there are any future opportunities arise to grow the business inorganically. So we do have that firepower in our chest.

Mitesh: So incrementally, can we expect 75% to 100% dividend payout?

Sudeep Bhatia: At this point in time, there is no change that the shareholders have proposed. Of course, there is a dividend payment policy, which means that we definitely have the cash accruals as well as the profits to support. And until and unless there is a change in that policy, we expect that this should continue.

Mitesh: Sure. And sir, I think recently there was some news article wherein it is talked about that for telecom, all the incremental KYC from 1st of April should be electronic. So just want to understand how can that help in our business? What kind of an impact do we foresee from that?

Suresh Sethi: I haven't seen that particular comment, but clearly any sector which mandates digital onboarding of customers, for us, naturally, it means a strong business case over there because any e-KYC and e-authentication is a line of business which we provide to the market to enable any of these entities. But we'll definitely look at that. So currently, I can't comment on the specific article, but definitely it will be -- if it is there, then it's a strong growth potential for us.

Mitesh: Sure, sir. And in terms of the cloud business, how should we look at the second half going ahead? If you can just talk about the pipeline of the customers and the visibility of conversion?

Suresh Sethi: So if you look at our cloud business, we've got some early wins in the business in various sectors. Actually, it has been a cross-sectoral sort of foray. Our MeitY certification just came through last month, and that, therefore, naturally opens for us new markets because clearly to participate in any government projects, any sort of government mandates, a MeitY certification was critical and there was significant work done to comply with MeitY certification requirements, and that is now in place with us.

So at this stage, we have customers who are contributing to the bottom line, but we still see this at a very early stage. We have a clearly well-defined strategy in terms of the segments we are going after. So I can give you a sense of what we are doing in the process. So we are building our own sales teams. We are likewise, with a focus on working with small businesses and startups, also building a strong channel network where we are tying up with channel partners. A few partnerships have already been done and they are out in the market and we've had a few early wins over there.

And then MeitY certification being there, we are actively now also participating in various RFPs where there's a requirement of a cloud-hosted infrastructure. Now the other area where we are also looking partly is in any global mandates, we are looking at the structure of the solutions and also putting forth a protean cloud-hosted infra solution over there.

So I think it's early for me to say exactly what the – sort of numbers would be by the end of the year, but clearly there is strong groundwork happening on them and we see activity and we are currently already clocking revenues at an early stage in this business.

Mitesh: Sure, sir. So just a follow-up on this, the MeitY certification that we have got, now typically when we are pitching the cloud, protean cloud to the government, how much time does it take for the government business to convert? And are the likes of Amazon, Google, Microsoft also having MeitY certifications?

Suresh Sethi: Yes, most of the hyperscale's have. I will not be able to specifically say for each one, but yes, they are also MeitY certified clouds. We do have naturally the additional advantage of being an indigenous cloud offering because it is a made in India cloud. It is also energy efficient. So there are a few important aspects that we see in terms of ESG compliance, better energy conservation, made in India cloud and MeitY certification being a very specific certification is also in place.

So we do see ourselves naturally having our own positioning as far as even work with the government is concerned. The government RFPs, as you are familiar, generally there is a period once the bid is put out for the RFP bidders to come into play and evaluation process. So generally, these are three-to-four-month cycles normally which take place for any RFP to be opened and that concluded and the mandates to be given out.

Mitesh: Sure, sir. Thanks. Thank you.

Suresh Sethi: Thank you.

Moderator: Thank you. The next question is from the line of Akshat Bhardawaj, who's an individual investor. Please go ahead.

Akshat Bhardawaj: Hello, congratulations on the good set of results. So, I just wanted to understand that you already had a very good financial sheet and like a good firepower to do any capex or anything. So, what were your key takeaways from the IPO? So you already had the money to do any expansion project. So, why go for an IPO and what were the benefits of it?

Suresh Sethi: Akshat, good question. The IPO was a 100% offer for sale. The company, as you know, has always had very strong Markey investors. So before IPO, we had 15 Markey investors, which included large market infrastructure institutions like the National Stock Exchange, SUTI. Similarly, we had large public and private sector banks as part of our cap table. And we also had IndiaInfoline, now 360One as part of our cap table, where their funds are invested in the company.

So, it was a 100% offer for sale. It was triggered one by the need, we felt that as we are expanding into new areas, we felt it's important that we list the company. And the investors likewise wanted to also have a listing event in mind. So overall, seven out of the 15 participants partially divested, and the overall dilution was only 15%. Everybody continues to remain invested in the company, they believe in the growth story. And it was primarily driven by this need to list and also the need for some of the investors to create a liquidity event.

Akshat Bhardawaj: Okay, and just one more question around the gross margins. So, I see the processing charge as a percentage of revenue has increased. So why is that? And secondly, can you throw some light on how can we expect the employee cost as a percentage of revenue going forward?

Sudeep Bhatia: Okay, so yeah, this is Sudeep here. So there are two questions, let me answer them in sequence. In terms of the gross margins. So gross margins basically come from the respective business verticals. That is, if you look at our existing verticals, which is Tax Services business, Pension Services business, and the Identity Services. Within that, in the Pension Services, this is the most accretive in terms of the gross margin.

And when you talk about Tax Services, wherein we have to run all these locations and the franchises, and we pay the processing charges, the processing charge component in the Tax Services business is the highest. And therefore, if you look at our overall financial performance, Tax Services has given the maximum output or the higher growth component in terms of the overall financial performance. And the processing charges being the highest in the Tax Services vertical. Therefore, you see a higher component in the overall gross profit mix. I hope that answers your question.

Akshat Bhardawaj: Yes. Thank you. Thank you for the answer. And the second one around the employee cost, like how do you expect it? Like I am thinking that the company is, a human capital-intensive company. So any light on that?

Sudeep Bhatia: So if you look at our overall financial statement, so you will consider that March 2023 had around INR120 crores of employment cost. And if you look at the, the current run rate, this is going around INR150 to INR160 crores of total cost. So yes, we being in a technology driven business, so basically, we hire technology talent who then build technology that sells in the marketplace and we get our revenues.

And therefore, if you notice that the three business verticals growing to six has definitely required the incremental investments in the manpower and talent that the company has done. However, as we move forward from here, we don't expect a similar growth year-on-year on this particular line, whatever investments had to be made. So we have largely made in this particular line. And from here on, you should see largely, sort of flattish kind of growth, linked with the economy and inflation.

Akshat Bhardawaj: Okay. Okay. Thank you. That was very helpful.

Moderator: Thank you. The next question is from the line of Santosh Kumar Keshri from Keshri Finance. Please go ahead.

Santosh Kumar Keshri: Hello. Thank you for taking my question. So, I have a couple of questions. One is that if you can share the revenue breakup for your different teams of businesses, your PAN and Tax Services, NPS, APY, UDI charges, and the four verticals that you spoke about, if you can share the revenue breakup as of second quarter of 2024, that would be helpful.

Sudeep Bhatia: So if the questions haven't been very clear, if you can be a bit loud. So for revenue breakup, I'll invite you to the presentation slide. If you look at the, let me go to the...

Santosh Kumar Keshri: If it's there in the slide, I'll find out. Not a problem. Thank you so much.

Sudeep Bhatia: Yeah. So in the slide, you will see that around 60% of the total revenue is coming from Tax Services. Around 30% is coming from the Pension Services. And around 9% approximately will be from the Identity Services and the rest are basically new booming businesses.

Santosh Kumar Keshri: Okay. Okay. So, then I have a few other questions. Like the tax services, as you could see in the prospectors, it was -- it is actually an agreement with the government. Now, is this agreement due for anyone and what is the timeline that the government gives? Is it likely that this service goes to some other vendor than Protean? What could be the outcome? Is it dependent on your fresh RFQ or you being an old vendor, the government will continue with the contract? So basically, we are looking at the revenue visibility year forward.

Suresh Sethi: So Santosh, let me take that question. And if you see the tax business, this was a business we were, we received through nomination way back in 2003. At that point of time, we were a market infrastructure institution NSDL. And we got this mandate through the central government established Dr. Vijay Kelkar Committee who saw the work we had done in the space of capital markets. And we got this mandate.

Since 2003, this is a mandate which has been renewed every three to four years. And underlying to this mandate is the fact that while we design the entire tax information network for PAN issuance, we hold the entire or host the entire database. So there's naturally infrastructure investment. This entire database today is available 24 by 7 to the BFSI sector for people to come in and do transactions.

So, naturally, there's a layer of security or layers of security around it, uptime a resilience. So there's a significant amount of technology and infrastructure, which has been invested in building and hosting and continuously keeping this database secure. And while at the same time servicing the market. If you note, we have indicated that we have till date done almost 7 billion online PAN validations. And at times in a single day, we've supported more than 10 billion transactions in a day.

So that is the infrastructure which is in place number one. And number two, being a e-governance service, when we established or we got the mandate for PAN issuance, we've also established the PAN India Network for providing assisted services for issuance or receiving applications for a PAN card. So we also run a PAN India network of 166,000 points of service, where you can come and apply for a PAN card and also our other businesses apply for a pension account or file a tax return. So there is a significant infrastructure, both physical and digital, which is in place.

So my only comment would be that for us, this contract has been renewed. Subsequently, in on periodic basis, since 2003, our last renewal was this year. And that has been the trajectory. I'm not going to comment on the forward statement over here. But there is significant entry barriers for any new participant to suddenly come in and build their entire infrastructure, build their entire physical network. So to that extent, we do see entry barriers to somebody afresh come in and do this business.

Santosh Kumar Keshri: Okay, yeah, makes a lot of sense. Thank you so much. And can I ask a few more questions? Because since this is the first call, or allow me to send an email with my questions, and it can be answered, is that fine?

Suresh Sethi: Sure, you can send us an email.

Sudeep Bhatia: Absolutely. So there is an investor relations contact email as well as the mobile numbers which are given. So feel free to reach out.

Santosh Kumar Keshri: Okay, great. And can I ask a couple of questions even now?

Management: Sure.

Santosh Kumar Keshri: Yeah. Second is that on digitalization, I can see as you pointed out that revenue is very less 1%. And even on digital governance, there's hardly any revenue. That is fine. That is understood. But the point is that are we getting inquiries from other country's government, developing countries, as you said, in the beginning, that we are prospecting our solutions to some developing countries.

So are you getting inquiries? Because I also know that you incorporated a company in UAE or Dubai, it was there in the quarter two results. So there must be some intention behind doing that. So are we getting some extreme inquiries? And can we expect some business in the next quarter?

Suresh Sethi: Sure. So let me address that. See, most of these interventions, which we are taking into the international markets are on the lines of foundational digital infrastructure. And as a result, in these countries, when you're looking at a national ID project, or talking about building an integrated tax accounting system, or doing something on the space of social security and welfare, all of these are therefore being run at a government level. So these are not so much B2B or corporate pitches, these are mostly at the government level.

Now to give you a sense, there are today, countries specifically in Africa and Southeast Asia, who are clearly looking at building foundational stacks. So your first point to say is their interest, yes, a lot of interest and a lot of activity happening in these countries. We ourselves have participated in 20 RFPs over the last three quarters to four quarters, which just shows that a lot of countries are thinking. And considering that it is a foundational infrastructure investment for these countries, there's a significant amount of groundwork which goes into it.

We are engaged with countries to do assessment, to do gap analysis, to suggest the framework of what could be a possible solution, because each country is at a different maturity level in terms of their current systems. So even before an RFP is put out, there is significant, if you may, industry and partner consultation being done by these countries, and we are actively involved over there. So we do believe that, some of these will fructify.

I won't be able to put a put a mark to it. But I can definitely mention from a pure quantitative perspective that we have more than, 10-plus bids in which we have been shortlisted. And we hope that decisions are taken and some mandates come through in the coming period. And over and above that, the other aspect with regard to the company in Dubai. So we are proposing to set up a holding company in Dubai, which will be in house our international operations, because a lot of these countries, when you are getting a mandate to do any of these infrastructure projects, there is the need of having a either a local operating entity or an entity in partnership with a local partner. So we'll house this entire business under the entity in Dubai, and that in a way will then take care of all international mandates as we get them across countries.

Santosh Kumar Keshri: Right. A lot of light. Thank you so much. And on cloud services, when you are competing with the likes of Amazon or Google, so are we giving the services of these companies to government entities or we are owning our own cloud and sort of giving our entire cloud services end-to-end to them? What kind of proposition we have?

Suresh Sethi: So our larger focus at this stage is to provide infrastructure as a service. We are likewise looking at providing platform as a service. So these are the areas we have built. Now, I would say that there are segments we've identified, which are not in a way targets for the hyperscalers. Secondly, there are some challenges we see in commoditized solutions, because if you go to any of the hyperscaler clouds, while you do get original or rather than original engagement comes with free credits and all, but down the line, the way they are structured, you end up building your applications and all which are then which then become very vendor locked in.

So again, as I mentioned earlier, one part of our creation strategy in approaching the cloud business was to go with an open source stack. So we are one finding our own target segmentation points. And secondly, we are saying how do we differentiate ourselves from the big hyperscalers by providing a vendor agnostic framework in which people have the choice to move in and out and their applications don't get locked on to a cloud provision.

So we are putting a few of these things which we've seen as friction in the ecosystem around cloud. And we are therefore working on this strategy to sort of identify our markets and build our own share over there.

Santosh Kumar Keshri: Okay. So, sir, then I understand that the whole infrastructure...

Moderator: Mr. Keshri, may we request that you return to the question queue for follow-up questions as there are several other participants waiting for their turn.

Santosh Kumar Keshri: Sure.

Moderator: Thank you. The next question is from the line of Rushabh Doshi from Nirmiti Investment Advisors, LLP. Please go ahead.

Rushabh Doshi: Yeah, hi, thanks for the opportunity. And congrats on your IPO. So I have two questions. But just before that, I wanted to understand like the number, which we get in the presentation, the number of PAN card sources. So are these new PAN registrations or they also include, let's say, corrections or name changes?

Sudeep Bhatia: So these are the new PAN cards.

Rushabh Doshi: Okay. And so my first question here is that we have seen that, there's also another thing which I guess you guys have launched, which is the instant PAN. So, and also in the PPT, you've mentioned that the growth is coming more on the online side. Like I'm referring to slide 22, the first graph. So is there a material price change when, let's say, the PAN is issued offline versus online?

Sudeep Bhatia: Okay. So in terms of the, so there are two ways that a person can get a PAN. One is an E-PAN and second is a physical PAN. In terms of e-PAN, this is obviously completely online. And for this, the pricing is far, far lesser. However, ultimately, whenever people require a physical PAN, the physical PAN, whether it is requested through an email or an online channel, the pricing remains the same. However, at the same time, the company's margin is much better while issuing the online PAN card.

Rushabh Doshi: Okay. So online is same as instant PAN, right? The one which is linked on the income tax portal?

Sudeep Bhatia: So the instant PAN is basically an e-PAN facility which is provided, whereby the person can just get a PAN number and not a PAN card.

Suresh Sethi: So see our distinction of online versus offline, for us is how is the channel processing the application? So what we term as online is where we are not handling any paper at all. So this could still be assisted. Somebody can walk into a last mile PAN facilitation center to apply for a PAN, but they will go through a completely online process and no paper will be submitted. So that as Sudeep mentioned, also makes it more, the margins are better because you are not handling any paper, no paper is moving up and down the value chain, or there is no storage of a physical document. So that is our terminology when we split between online and offline services.

And online can also mean a completely direct self-service journey, which is not assisted. The instant PAN which you see on the tax website is basically just an e-PAN issuance. And in our country, if you note that most of the time when we are using our PAN card, we have to either give a self-certified PAN card copy, even in bank account opening, that is what is required, while subsequently the validation is done digitally.

So we've also realized that most of the people who use the tax website for getting an e-PAN, still come back to us for issuance of a physical card. So that is another, in a way, model where the e-PAN can be issued by the tax department, but the physical card gets issued by us. And tax website today is in single digits in terms of their market share. So the larger market share sits with us and with the UTI, which is the other entity which is doing PAN card issuance. And we have a dominant market share between the two of us.

Rushabh Doshi: Yeah. And my second question was like, let's say, the volumes which you've posted, they've almost become, 4x for let's say online PANs, verifications, e-KYC, e-PANs, or Aadhaar authentication. My question here is that, are the revenues moving in a similar trajectory or is there a significant price reduction for these services?

Suresh Sethi: So these are largely, if you may, these are all very low value, high volume businesses, right? Because if you see the sheer underlying numbers, these are huge numbers, we are talking in millions, even, per day, per month. So these are very low value businesses. But to your point, for us, it's a slab-based pricing. These are B2B services. So largely, it is a corporate or a bank or a TSP, who's on the other side, who's consuming these services.

So therefore, it is, as I said, at low pricing point. But at the same time, I would like to highlight that is where we are getting into more value-added services. So from just providing foundational APIs for doing the e-KYC and e-Sign, we are moving up the stack and putting all these services together, bundling them into microservices, where we can then claim a differentiated premium for offering a value-added services of end-to-end digital onboarding or end-to-end enablement of a digital lending journey.

And that is where you see your ability to price and compete in the market. Whereas at the foundational level, it is a commoditized service.

Rushabh Doshi: But over the past two, three years, like on a CAGR basis, the volumes have gone up by 56% and around 24% for these opt-in divisions. But what could be our revenue growth here over a two years or three year CAGR?

Sudeep Bhatia: So revenue growth over here will be around 8% to 10% overall, because as the overall digitization in the economy is growing, the use cases are growing. And therefore, the volumes expected, any new entity which is coming up, they are likely to give huge orders. For instance, someone comes with a 3 crores authentication order. And therefore, in that, there is a bulk pricing also which is offered. And this is, as we just explained, that this is a high volume, high margin, but at the same time, lower pricing model.

Rushabh Doshi: So you can just correct me if I'm wrong. Are the prices down around 80%, 85% since 2021?

Sudeep Bhatia: Sorry.

Rushabh Doshi: And let's say e-KYC or e-Sign, the per transaction cost…

Suresh Sethi: It's not. If you remember, I mentioned another point in response to another question. The UIDAI pricing changed. So UIDAI had come with a pricing structure saying for providing any e-Auth or e-KYC service, UIDAI was charging a rate of INR20. So that was a pass-through. So we were naturally showing it in our top line, but then it would just be a pass-through in our expense side.

That number last year, in October '22 was actually reduced to INR3. So as a result, if let's say I'm charging a customer, say, INR20 plus my own charge of X amount, so it was INR20 plus X, it became INR3 plus X. So as a result, the revenue numbers showed a dip, whereas actually it was just the pass-through number to UIDAI.

So that also you would see impacted some of the charts if you see the growth factors. But the underlying numbers, naturally, the slide you referred to, so number of transactions have been significantly going up at a very high CAGR. The compression in price is not to that extent as it looked because it was the UIDAI price impact which brought it down subsequently.

Rushabh Doshi: And in online PAN verification, this is my last question, how is the pricing? Because that is the biggest one in terms of volume.

Sudeep Bhatia: So the online PAN verification pricing, this ranges anywhere between INR0.03 to INR0.10 depending upon, what we are basically, who we are dealing with and there are multiple slabs there as well. But as we see that there are almost 240 crores transactions that went past last year and as the online PAN verification use cases grow, and if you look at the first half of the performance, this is even bigger numbers.

Rushabh Doshi: Perfect. Thanks for answering all my questions.

Moderator: Thank you so much. We will take that as our last question. I would now like to hand the conference over to the management for closing comments.

Suresh Sethi: Thank you very much. I think it was pretty clearly well thought out questions and we were happy to answer them because it gave a better reflection of the underlying business model. We continue to remain excited in the lines of business we are in, where there are strong tailwinds in how the businesses are going along with the digital India vision. And thank you very much and we hope to be back in the next quarter with the next set of results Thank you.

Moderator: Thank you. On behalf of Protean eGov Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.