IndiaMART InterMESH Ltd.
6th floor, Tower 2, Assotech Business Cresterra,
Plot No.22, Sec 135, Noida-201305, U.P.
Call Us: +91 - 9696969696
E: customercare@indiamart.com
Website: www.indiamart.com

January 23, 2024

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 December 31, 2023.

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 January 18, 2024, with respect to the financial performance of the Company for quarter ended December 31, 2023, 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: 2024.01.23 13:55:04 +05'30'

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

Encl: As above.

Webinar Transcript

Event: IndiaMART Q3 FY2024 Earnings Webinar

Event Date/Time: January 18, 2024 at 17:00 hrs

CORPORATE PARTICIPANTS:

Mr. Dinesh Chandra Agarwal – Chief Executive Officer

Mr. Brijesh Kumar Agrawal – Whole-Time Director

Mr. Prateek Chandra – Chief Financial Officer

Mr. Kshitij Agrawal – Investor Relations Team

Kshitij Agrawal: Good evening, Ladies and Gentlemen. On behalf of IndiaMART InterMESH Limited, I welcome you all to the company's Q3 FY '24 Earnings Webinar. As a reminder, all participant lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes.

Joining us today from the management side, we have Mr. Dinesh Agarwal, Chief Executive Officer; Mr. Brijesh Agrawal, Whole-Time Director; and Mr. Prateek Chandra, Chief Financial Officer. Before we begin, I would like to remind you that some of the statements made in today's conference call will be forward-looking in nature and may involve risks and uncertainties. Kindly refer to Slide 3 of the earnings presentation for the detailed disclaimer.

Now I would like to hand over the call to Mr. Dinesh Agarwal for his opening remarks. Thank you, and over to you.

Dinesh Chandra Agarwal: Thank you. Good Evening Everybody, and welcome to IndiaMART Q3 FY'24 Earnings Webinar. First of all, a very, very Happy New Year to all of you. As we have declared our results just a couple of hours ago, but we have circulated our earnings presentation, which is available on our website as well as on the stock exchange website. I'm sure you would have gone through the presentation, and I would be happy to take any questions afterwards.

We are pleased to report that IndiaMART consolidated collection from customers has grown by 17% to Rs. 332 Cr in this quarter as compared to Rs. 283 Cr last year. And deferred revenue has grown by 25% to Rs. 1,270 Cr on a consolidated basis. Consolidated revenue from operations has grown by 21% to Rs. 305 Cr. Our total traffic has grown to 272 million for the quarter. Unique business inquiries grew to 23 million, representing a year-on-year growth of 9% and 4%, respectively.

Total paying subscription suppliers have grown to 212K. As communicated in the previous quarter, we continue to see more than anticipated churn on the increased customer base in the Silver Monthly and Silver Annual bucket, leading to a net addition of close to only 2K paying subscriptions in this quarter again. Once the improvement in the churn happens, we will come back with the guidance of the net customer addition going forward.

We will continue to make investment in strengthening our organisation and undertake the measures to enhance customer experience, reduce churn as well as drive deeper penetration by paying customers in focused cities.

Now I will hand over the call to Brijesh to update you about Busy Infotech. Thank you and over to you, Brijesh.

Brijesh Kumar Agrawal: Thank you. Hi, Good Evening Everyone. Busy has done a Net Billing of Rs. 14.4 Cr in Q3, which represents a Y-o-Y growth of 21%. The revenue from operations has grown by 26% to Rs. 12.6 Cr, and the deferred revenues have grown by 47% to about Rs. 39.9 Cr. The EBITDA for this quarter is at Rs. 1.1 Cr, that's a margin of about 9%, whereas the net profit for the quarter stands at Rs. 2.3 Cr. Busy has generated positive cash flows from operations of Rs. 4.3 Cr during this quarter.

We have sold above 6K new licenses, which make the closing count of licenses sold to 354K at the end of December 2023. The overall performance is pretty much in line with our expectations and we are focused on increasing the growth rate in this year also.

So, with this, I will hand over the call to Prateek, who will talk about the financial performance.

Prateek Chandra: Thank you, Brijesh. Good Evening Everyone. I will take you through the financial performance for the quarter ending December 2023. Consolidated Collection from Customers and Revenue from Operations grew by 17% and 21%, respectively to Rs. 332 Cr and Rs. 305 Cr. Deferred revenue for the quarter stood at Rs. 1,270 Cr, an increase of 25% on year-on-year basis. IndiaMART Standalone Collection from Customers for the quarter were at Rs. 316 Cr and Revenue from Operations stood at Rs. 291 Cr, registering year-on-year growth of 16% and 21%, respectively.

Our growth in revenue was primarily driven by 9% increase in the paying subscription suppliers and ~11% improvement in ARPU due to higher monetisation. Deferred Revenue was at Rs. 1,229 Cr, representing a year-on-year growth of 24%. EBITDA of IndiaMART standalone business stood at Rs. 87 Cr, representing a margin of 30%. Consolidated EBITDA was at Rs. 86 Cr, representing a margin of 28%. Consolidated Net Profit for the quarter was at Rs. 82 Cr.

Consolidated Cash Generated from Operations was Rs. 106 Cr. Consolidated Cash and Treasury balance stood at Rs. 2,039 Cr at the end of this quarter. Thank you very much. We are now ready to take any questions.

Question-and-Answer Session

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

Moderator: First question is from the line of Anmol from DAM Capital. Hi, Anmol. Please go ahead with your question.

Anmol: Yeah, Hi. Thanks for the opportunity. So just had a couple of questions. Firstly, just want to understand the Gross Paid supplier additions for this quarter. So, Has it come to FY '23 quarterly levels? Or is there a pain there as well? and if not, then when do you think that it can come back to the previous levels?

Dinesh Chandra Agarwal: Anmol, I think on the gross side, I think we are about 1,000-odd customers away from the last year same quarter. So, I think because this particular year there was Dussehra and Ashtami and Navami on a different month and Diwali was in a different month, more on working days. So that's about it. So, I think we are just about 1,000 short of the gross addition in the last year same quarter.

Anmol: Sure. Thanks. And also just on the total paid supplier additions. So has there been any change in the strategy for the additions that is happening through channel partners? Are we focusing more towards our own salespeople for paid supplier additions given that we have seen a very strong increase in the sales employees in the last few quarters. I just wanted to understand that strategy.

Dinesh Chandra Agarwal: So, there has been one change that we are now doing. We had all our sales supervision and servicing employees on our own roles, while we had two kinds of outsourced sales. One is the channel partner outsource sales; the other is the DST managed outsourced sales. DST managed outsourced sales, where we have our own Area Manager, our own Branch Manager. However, the people were on different roles. So, we have been guiding all of that cost was going into the outsourced sales cost.

What we have seen is that, in general, the attrition and the joining levels and the retention in our own employees versus the people who work out of our own branches but just work on a different third-party payroll is very significantly different, and we are not gaining any advantage out of that. So we have taken a decision that we would want all of them to be now coming on to IndiaMART roles. That means and that we took the decision sometime around November, post Deepavali and since then, all the new joinings have been done on the IndiaMART payroll and we are also in the process of moving all the existing 1,000 odd employees, which are there on the third-party payroll, also to IndiaMART payroll in the next two quarters or so. So, you will see significant jump happening on that side. A little bit of a ramp-up might be happening, but not that we are going away from any channel partners or that.

Channel partners continue to be a very important and significant contributor to our new customer acquisition strategy. As I said last time, in order to control the churn, we will go and do slicing and dicing based upon the tier wise customer acquisition, based upon the monthly versus annual customer acquisition, based upon the turnover wise customer acquisition, based upon the industry-wise customer acquisition.

We have gone ahead and done a few of those implementations, where we have decided that, for Tier 3 and Tier 4, I think from a proprietorship-based businesses, there's no point acquiring customers in the monthly mode. So, we have stopped doing that. So that a little bit tweaking that we are doing, but I don't think any big change has happened on that side.

Anmol: Thanks for the detailed answer. And just last thing that, when do we think that we can get back to 6K, 7K sort of paid supplier additions on a net basis? Do you think that maybe one or two quarters down the line, we can achieve this number?

Dinesh Chandra Agarwal: I'm sure, but I'm afraid to commit any number as of now until unless I achieve that consistently for two quarters, I will not be able to say. So generally, quarter four is always bullish in India for everybody and for us also, you see it has always been bullish. So, we might see some improvement, but then quarter one is very bearish so, I think anything on a consistent basis, let's wait for Q2 of next year or Q3 of next year.

Anmol: Sure. Thanks. That's it from my end.

Moderator: Thanks, Anmol. Next question is from the line of Nikhil Choudhary from Nuvama. Hi, Nikhil. Please go ahead with your question.

Nikhil Choudhary: Hello. Thanks for the opportunity. My first question is regarding the Collection growth, which is like 16%, 17% this quarter for consol and standalone business. This is lower than what we have seen in last four, five quarters, and generally the trend has been more than 25% plus. So, anything to read here? Is it just one quarter downturn, and we expect it to be back to 25% plus trajectory from quarter four?

Dinesh Chandra Agarwal: Yeah, Nikhil, as you can see, the customer growth is slowing down and it's been three quarters consistent. Last two quarters, we have added only 2K customers and even in quarter one, we added only 5K customers. So, I think that would have some effect. But should it have gone down below 20% or gone to 16%, 17% is surprising and we are working on that to find out the exact scenario of why it has gone down to 16%, 17%. Is it one-off due to the holidays or one-off of certain divisions or something? But I think, yeah from 25%, you're definitely going to see us coming more like 20% collection growth going forward until and unless we improve on the customer growth. And as we can get back to our 6K customer growth or 5K customer growth per quarter, I think you will see more like 20% collection growth rather than 25% collection growth. Because 25% collection growth has been coming on the top of 7K, 8K, 9K customer growth. So, I mean, obviously, with 2K customer growth, that's not possible.

Nikhil Choudhary: Understood. Second question is regarding the Registered Buyer growth or Unique Business Enquiry, which is clearly growing at a much slower pace, single-digit on Y-o-Y basis, right? A couple of quarters back, you mentioned that if the registered buyer do not increase materially by end of FY'24, then you will be concerned, right?

So, in terms of Business Enquiry, we haven't seen much material jump. Where I'm coming from is that if you see the metrics in Unique Business Enquiry per supplier, that metric is going down and back to pre-COVID. So, I just want to understand what's happening there. Any action you have taken to increase the number of Enquiry growth per se?

Dinesh Chandra Agarwal: Yes. So, the traffic has grown by about 9% year-on-year and the Unique Business Enquiries have also grown by about 5-odd percent. In terms of increasing the unique business inquiries, I think we have found a few experiments that have worked in the past couple of weeks that should be visible in times to come. We are experimenting with another call to action like WhatsApp kind of a call to action on some pages on the mobile website and that seems to be working. So, I don't think anything much to read here from '23. I mean if you already see from pre-COVID, we are still much better, and we are fine here. I think we should be able to reach 25 million in times to come.

Nikhil Choudhary: Sure, very helpful. Good luck for coming period. Thank you so much.

Moderator: Thanks, Nikhil. Next question is from the line of Abhishek Bhandari from Nomura. Hi, Abhishek. Please go ahead with your question.

Abhishek Bhandari: So, I was saying in the last quarter, you had said you had effected the price increase on 10% of your silver monthly user base. What is that new percentage now at the end of third quarter?

Dinesh Chandra Agarwal: I think by now almost 23% of our silver monthly customers are on newer price and as I said 50% of the customer base is platinum and gold, and rest is divided half and half between the silver monthly and silver annual. So out of the 25% total customer base, i.e., about 50K total customer base, I think about 20K is already on a newer price model.

Abhishek Bhandari: Got it. Thank you. The second question is you mentioned you are trying to get some of these third-party outsourced people to your own payrolls for better efficiency purpose. Does it also have any cost advantage to you from a medium-term perspective?

Dinesh Chandra Agarwal: Not really. I think we have negotiated that outsourcing model at a couple of hundred rupees per person per month. I think we'll actually pass it on to the employee themselves.

Prateek Chandra: So, from a cost standpoint, it will be pretty much neutral. I mean we have currently that cost as a part of an outsourced sales and I think once all these approximately 1K people move to our payroll, it would shift by approximately Rs. 10 Cr every quarter from outsourced sales to our manpower cost.

Abhishek Bhandari: Got it. Thank you and my last question is on your fourth quarter margin outlook, should we expect a similar seasonality in margins as we expect every year, in the sense that you give on salary increments to your employees?

Dinesh Chandra Agarwal: Yes. So salary increments have already happened. The letters are on their way out. They happen generally with effect from January, this time we have done it with effect from 1st December. Also, the March quarter, in general, the collections come upfront heavily. So that's why there is upfront cost, which results into the lower margins based upon the recognised revenue. So, you can expect the similar seasonality coming in the march quarter.

Abhishek Bhandari: Thank you. My last question, if I can squeeze one more. Your experiment of raising price increases on the lower end pack has led to some increased churn and India being India, where there's so much of sensitivity to prices, do you think longer term in your business model, you should be working more towards higher ARPU increase and worry less about subscriber addition? Or you think, at some point, I mean, what the math you are comfortable with, let's say, you're targeting 20% growth long term? If you could break down what comfort you have on ARPU growth, what comfort you have on subscriber addition growth, more from a medium-term perspective not nearly next one or two quarters?

Dinesh Chandra Agarwal: Yeah, on the medium term, I think I've already said, the best would be in excess of 10% growth in both. Ideally speaking, if you want to get to 25%, if you see in the past, whenever we got to 25%, it has been 15% to 18% on the customer growth and 6% to 8% on the ARPU growth. I think given that the size has increased by now. But still, at 2K customers, we have just 2% of overall businesses in India, which are GST registered and properly filing.

Given that in certain cities where we have good penetration, our penetration levels are as high as 4% to 5% already. So why should the customer growth be constrained at this point of time. I'm sure we would have done, because as we have grown from pre-COVID base of Rs. 700-odd crore collections to now Rs. 1,400-odd Cr collection run rate, I think and we have decentralised a lot of operations and everything, I'm sure we will find more opportunities to fix slackness in the system, and at this scale of network effect, even find more opportunities in the product to make it work better. So, I don't think we should be looking at anything lower than 10% either side. So, I think our long-term math, long-term means medium-term math should still be 15% to 18% customer growth and 7% to 10% ARPU growth. So, I think we will continue to strive for that. I don't see any reason not to happen.

Abhishek Bhandari: Got it. Thank you and all the best.

Moderator: Thanks, Abhishek. Next question is from the line of Abhisek Banerjee from ICICI Securities. Hi, Abhisek, please go ahead with your question.

Abhisek Banerjee: Just first question on the productivity bit, what is your outlook on that? And recently, one of your competitors actually spoke about using AI tools to do processes which were being done manually till now, so is there any room for you to do something similar?

Dinesh Chandra Agarwal: Multiple, I think there's always room to do more optimisation, more automation and if you go to a margin lever slide, you will see how margins have expanded over a period of time and gross margin have come back to the better than pre-COVID time. In pre-COVID, for the full-year of FY '20, we got 70% gross margin, we are already at 71%, 72% gross margin and I think there is always a possibility wherever there are larger-scale people operation to do automation and this is an ongoing process. This is not something that we need to announce. So, I think we'll continue to have that improvement done. But at the same time, as the scale increases, you invest in people at decentralised management level and other level. So, I think those become typically neutral at 72% gross margin or 75% gross margin.

Abhisek Banerjee: Okay. So does that mean that going ahead next year, at least, we should see the employee benefits as a proportion of revenues start coming off?

Dinesh Chandra Agarwal: Possibly, yes. Will that happen at the top of the pyramid, possibly no. Because as we will decentralise further, we would want more state heads to manage their own P&L. So probably, we are going to save at the bottom the pyramid by doing some automation. But at the same time, we are going to invest in making the company more resilient so that as we have grown in the last five, seven years from Rs. 200 Cr, Rs. 300 Cr to Rs. 1,000 Cr plus, how do we grow from here Rs. 1,000 Cr plus to Rs. 3,000 Cr plus. And for that, what kind of management and what kind of systems and processes are needed. So we will reinvest that, because I don't think we will be chasing EBITDA margin by saving that 1% or 2%.

Abhisek Banerjee: Understood. So, if I look at the employee expenses this quarter, right, I see a huge jump in employee expense per person. Is that because of the hikes that was taken from first of December? As in if I take that increment?

Prateek Chandra: You are right. So if you see year-on-year, the employee expenses would have gone up by roughly around 28%. And one of the reasons is that we have taken the hike in December that what we used to do in January. So it is not there in the corresponding base of December last year.

Abhisek Banerjee: Got it. But that would also mean that the sequential decline that is characteristic of your Q4 numbers, that will be less sharp this year around, right?

Prateek Chandra: I'm sorry, sequential decline in employee expenses, you're saying, Abhisek?

Abhisek Banerjee: So overall, there is a sequential decline in EBITDA margin in Q4 over Q3, right? That is a trend. Now given you have moved one month earlier in your hike cycle, that would mean that the sequential decline in EBITDA margin in Q4.

Prateek Chandra: Yes, you're right.

Abhisek Banerjee: Understood. So that decline will be lesser. Fair enough. What was the strategy behind moving forward the increments? Are you trying to do a change in your reporting year, sorry, I mean employee expenses? Is it going to move forward further going ahead? Or you're going to stay here?

Dinesh Chandra Agarwal: No. 1st January used to become very difficult. We used to make Annual Operating Plan. We used to prepare for a bumper quarter four. And also doing 4,000 - 5,000 reviews used to become difficult, so we preponed it by one month because the amount of work used to be too much. I don't think it is going to be a regular affair or change. Let's see how it goes.

Abhisek Banerjee: Understood. So now if I talk about the gross additions number, right, that I'm guessing would be similar to what, I mean at least broadly similar to what it used to be, right? Now where are we seeing this gross addition coming from? You had spoken about how in Tier 2, Tier 3 cities, you had seen a sharper churn. So, I'm guessing you would have kind of slowed your gross additions from Tier 2, Tier 3 also or at least from those areas. So, I'm just trying to understand what is compensating for those gross additions?

Dinesh Chandra Agarwal: Yeah, so as I said, last we met was end of October, and I said I will go back to the drawing board. We have just implemented that Tier 3 and Tier 4, we will steadily go one by one, one centre by one centre. So, it has not yet come into effect fully. Sometime by the middle of the quarter, it will come. It is not just from tomorrow on nothing on that side. So by and large, things are smoother rather than one fine day, you're cutting the entire Tier 4 or entire Tier 3. That's not how we do it.

So I think currently, as always, most of the customer acquisition ,60% of the customer acquisition has always been in the top tier cities and another 25% coming from the Tier 2 and Tier 3 and Rest of India has always been 10%. So, we have not stopped completely.

Abhisek Banerjee: Understood. Now just one thing here. In Tier 3, Tier 4, from the experience of some of your competitors, generally, the churn is high. But it is not like people churn out for lifetime, it is often that they come back after one, maybe six months' time. So, are you seeing something like that also happening in Tier 3, Tier 4? Or you have not seen anything like that?

Dinesh Chandra Agarwal: I mean, the numbers are so small that getting into those is so small. And that is the exact reason, we're not saying that we are not going to acquire if somebody is coming. We are simply saying that we are not going to acquire it on a monthly basis where our cost of customer acquisition upfront is higher than the money that we realise. Okay. So that is why we are saying that we will move to a more annual subscription for a proprietorship firm in the Tier 3 and Tier 4.

Abhisek Banerjee: Got it. So, the outsourced sales partners will continue to exist for Tier 3, Tier 4. However, they will not be giving you monthly sales customers, where the cost is not making sense as per you as of now?

Dinesh Chandra Agarwal: First of all, let me clarify. All the sales partners are in Tier 1 and Tier 2 cities. Maybe a couple of them are in Tier 3. Whatever we are talking is of Tier 3 and Tier 4. So, Tier 1 and Tier 2, all the partners, everything remains as it is. No change as of now has been implemented or we are planning to. So, we will go very, very slow there, if at all, we have to make any change. We are very sensitive to any partner coming in or going out like that.

On the Tier 4, most of the acquisitions happened either inbound or telesales. It was not field sales at all. I don't know, maybe there is a city on the border line of Tier 2 and Tier 3, falling in Tier 3, so it is called Tier 3. But otherwise, by design, we do not have any physical presence in the Tier 3 city.

Abhisek Banerjee: Got it. In terms of these Tier 3, Tier 4 cities, you have obviously spoken about some cities/towns, which were a surprise on the negative side. But where some cities or towns which were a surprise on the positive side as well, if you could talk a little bit on that?

Dinesh Chandra Agarwal: No, I don't have much data to talk on that. Thank you.

Abhisek Banerjee: Fair enough. And just one last question from Brijesh, could you please explain how things are progressing with Busy? And if you are making any additions to your team there?

Brijesh Kumar Agrawal: As I mentioned, in terms of our growth rates of billing, customers, I think they are doing fairly fine there. We have also hired senior folks to look at sales, service, and marketing. So, the team also have been strengthened with some senior level hires in those key areas.

Abhisek Banerjee: Understood. That's very helpful. Thank you so much.

Brijesh Kumar Agrawal: Thanks.

Moderator: Thanks Abhisek. Next question is from the line of Vivekanand from Ambit Capital. Hi, Vivekanand. Please go ahead with your question.

Vivekanand: Thank you very much for the opportunity. So, my first question is on the elevated churn at silver monthly levels. Dinesh ji, what exactly is the problem here? Is it because of the acquisition aggression that you did in smaller towns? Are there any specific geography issues? Or is there any servicing issue of the silver monthly users? Could you elaborate on that? Because I couldn't quite understand what the problem is that, because last time we met in October, you said that you are going back to the drawing board and I'm sure by now you would have picked up some cues that would help you answer this question better.

Dinesh Chandra Agarwal: Yeah, Vivekanand, I think all of this if it was a one single piece that something has gone wrong, it was much easier to identify. I think what we did post July 2021 when we saw two COVID waves and everything happened and all that, then we expanded quickly over the next 18 months or so and that whole expansion led to almost double the employee count from 3,000 to 6,000, going higher (double) the channel sales partner also. Also, the servicing staff also is a lot of newer staff. Many of the customers and the brand has run quite ahead, everybody thought that online is the way to do business. So, everybody wanted to try online after the COVID.

So, I think a couple of many things, and each one of them in our case, a 30% plus churn is bad and a 20% is very good. So, I think margin of error is only plus/minus 5%, where you become great company or a bad company and I think it's just 1% or 2% each, and that's what we are trying to correct and I'm pretty sure, because if there was any problem in product and technology, if there was any problem in demand, we would have seen issues at the gold and platinum and all the KPIs of the gold and platinum, all the KPIs of the supplier engagement continue to remain very, very strong.

So, as I said last time also, close to 50% of our customer base, around 48%, 49% and close to 75% of the revenue which is 72%, 73% exactly I checked yesterday, is coming from gold and platinum and their ARPU is also increasing quarter-on-quarter and their churn is also almost running near the best ever since even from pre-COVID level. So, effectively, the top 10% customer, while the overall ARPU has grown 11%, top 10% customer ARPU has grown by almost 13%. So, I don't think there's one big problem. I think it is the small, small things, training the people, getting the processes right, the size right, and as I said, it will take 2-3 quarters, and we'll be back at a higher growth trajectory soon.

Vivekanand: Fair. I think those observations are very pertinent. Thank you for elaborating. From a servicing standpoint, since you had previously also mentioned that your aspiration was to have that number, the number of paying suppliers to the servicing employees come down so that you could provide better service. But we are not yet seeing or rather your company isn't yet seeing the benefits of this investment made in the sales supervision and servicing employees, by when do you think that these employees that you've added for servicing, they start contributing meaningfully, either in terms of getting more upgrades, which will reflect in your collection's growth or reduced churn, which will obviously reflect in the net adds?

Dinesh Chandra Agarwal: Yeah, so Vivekanand it is not that it has not resulted into better across all the segments. So, if you really see our key customers - gold and platinum segment, if we didn't hire the employees to this level, we would have left certain revenue on the table and the entire ARPU growth that you see in the gold and platinum segment is definitely the investment that we made on the people side, which we had not made during the COVID time.

Yes, the major headcount investment has happened on the silver monthly and silver annual, and that is where we are since there is very little to show you in terms of either ARPU or in terms of churn. But I am sure that will be visible, and that will be visible soon. But whatever investment that we have done on the gold and platinum side, that has definitely given us a comfort, because without that, we would not have been able to drive even the ARPUs like this.

Vivekanand: Okay. Thank you for the elaborate discussion and all the best.

Moderator: Thanks, Vivekanand. Next question is from the line of Rahul Jain from Dolat Capital. Hi, Rahul. Please go ahead with your question.

Rahul Jain: Just one bit on this subscriber addition side of the story. We like your confidence on what kind of growth, this kind of a platform in this kind of a market can deliver. But if you see what essentially some of the underlying trend that should support this kind of thing are actually playing out in the market in terms of India as an end market, how we are doing as a country, how we are getting more and more organised, and how more and more digitised we are going into our system and behaviour. But why, at least for now, we are not seeing those trends percolating into the kind of an outcome that we desire?

Dinesh Chandra Agarwal: I think I already answered that. We have grown rapidly in the last two years, and we need to manage that growth efficiently.

Rahul Jain: Right. And just one more thing. Since we have a much lower penetration in terms of registered supplier to paid supplier ratio, and we may be following the activities of potential registered supplier who could turn into a paid supplier given the activity increase that they are seeing at their end in terms of consuming lead and other things. Is it that the action which needs to be done on that part of leveraging that cohort and converting them into paid suppliers, that part needs to be improved to a much better outcome? Is that something that we can work on?

Dinesh Chandra Agarwal: I don't think our gross additions has been much of a challenge. I think it is the churn, and it is the first six, nine months first year churn, the 12-month retention and it is always true with every marketing platform that you see for SME business. So, whether it is Google or whether it is Facebook or whether it is Amazon, whether it is Alibaba, the number of people that try on any marketing platform are in the first year, generally very, very high, and the retention rate at the end of the year is low.

While once they learn how to utilise the digital marketing platform for their business for the segment, they end up becoming an ambassador for that segment, and they're becoming the leader in the times to come so similar thing is visible in our case also. The first year, the churns actually come down by half every year. So, if the first-year churn is 50%, and that will come down to 20%, 25% next year, and come down to 12.5% the third year. So, I think we need to constantly find the right kind of suppliers and find the right kind of tools to educate them properly. There is no question that the penetration levels will go to 10% in the next decade or so.

Rahul Jain: Right. My small slight part of the question is not getting addressed here. What I was trying to also understand is that when we are going for the gross addition, this is a much larger universe that we are chasing. But there could be a subset of that universe, a cohort, which may be using our platform far more effectively in an unpaired scenario, and the probabilities of those people benefiting out of a paid subscription would be relatively higher. So, is that cohort is something which is fructifying better?

Dinesh Chandra Agarwal: I mean that you are pointing it again and again, we'll go back and see. But I think all our hot lead generation, all our prioritisation, all our AI and ML, all our segmentation does day in, day out this only which are these free sellers, which are getting more enquiries, which are the free sellers which are getting better engaged with our platform, and that is how we learn, which cities are doing well, which industries are doing well, which kind of turnovers are doing well. So, we have all kind of segmentation data, which we track in detail. But if you're saying that there could still be some segments which are, which could be left out, we will definitely go back and take your suggestion to see if there is something left out.

Rahul Jain: Great. Thanks a lot and congratulations on strong margin improvement. I hope that this trend continue on an annualised basis.

Moderator: Thanks, Rahul. Next question is from the line of Swapnil from JM Financials. Hi, Swapnil. Please go ahead with your question.

Swapnil: Hi, Thanks for the Opportunity. So, my first question is with respect to the categories, if you can call out where the churn is significantly higher right now and a follow-up to that is, where do you think the churn to customers are going right now? I mean what are the other alternatives that these guys have, apart from IndiaMART or what else are they doing? That will be the first question. Thanks.

Dinesh Chandra Agarwal: So, on the industry side, you'll see that services industry, we are still not very good. Certain very consume-rish industries like apparel, we are still not very good. Despite the fact that it is one of the very large industries, we are still not very good. Agro Food vegetables, such a large category, we are still not very good, and the churn is always very, very high on these kinds of segments, which despite the fact being such a large category, continue to remain at number 10 and number 15 in our category list. That doesn't change much.

I won't say that the medical as a category has increased churn, because whatever was to happen, that has already happened in the past three, four quarters. Because whatever came during the COVID time, that is now nullified. Now coming to the city side, certain city clusters, again are more susceptible. Earlier, we had seen Tirupur like that, now we are seeing Surat like that. So, I think not fair to call out names here, but I think we do take segment-by-segment to check out which particular segment is causing higher churn and why and we try to fix that by doing category work so that we can improve the matchmaking better. We try and talk to 10 different suppliers, 10 different buyers, what can we do better so that they can keep coming back to the platform. So, we do all that. What was the second part of the question?

A lot of these customers are the first-time clients. I think a few of the customers, because at the end of the day, there are only four, five large platforms that I can think of, and I name them all the time, between IndiaMART and Google and Amazon and Justdial, these are the four big ones.

Prateek Chandra: Facebook.

Dinesh Chandra Agarwal: Yes, and Facebook and WhatsApp and Instagram. So, between these five people, by and large, they move. There could be certain very specific verticals here and there, where those people might be trying, but I haven't seen any vertical gaining significant momentum so far.

Swapnil: Got it. And the second question related to the churn again, is like do you think limited real estate that we have on the platform could be one of the reasons for this churn? Because typically only a limited number of suppliers can come on the first page of any search page. And especially for silver category customers, the lead visibility will always be low. And therefore, the ROIs for them may not be meaningful and that may be one of the reasons that the churn rate for them is quite high and if that is the case, is it?

Dinesh Chandra Agarwal: Yeah, I understood your question. So, if we were a one way matchmaking platform, if we didn't have a RFQ system, then you are right. Whether it is Google or whether it is an Amazon, only top 10 people end up getting the 90% of the business and everything. But since we introduced the RFQ model back in 2012, I think the entire situation changed dramatically, where every buyer is up for grab by all kind of sellers, whether he is a silver or whether he is a gold or whether he's platinum. The only limitation is the number of buyers that can be grab onto. So, it is not purely and purely buyer led.

So, one side of the matchmaking, you are right. People pay us money in the platinum and gold to come up, it's because more buyers can see them, that's like a traditional advertising model. But with the RFQ system, we ensure that each and every seller, if he's active on the platform, if he's vigilant, there is no preference given to the platinum supplier against the silver supplier that he cannot consume a buylead or an RFQ. And that is when our model start to scale. So if we have been able to scale to this level, it is because of that. Otherwise, you are right. If you have 100K categories, you have only limited real estate of top three, five, ten people to be monetised.

Swapnil: Just a follow-up question to that. And this is basis a limited research of mine. The interaction that I have had with the different category of customers, that suggests that your platinum and gold category customers ROI is significantly better and they're quite happy. But silver category customers typically tend to be, they do get certain leads, but obviously, the conversion rates and the ROIs for them are significantly poor. And then that's broad feedback.

Dinesh Chandra Agarwal: It is the other way around. Those who are engaged better with the platform, they find the ROI so good that they become gold and platinum. The ones who are not engaged better with the platform, they don't find enough value and they don't become the gold and platinum.

Swapnil: Okay. Got it. Thanks for the opportunity.

Dinesh Chandra Agarwal: Because if we just become a gold and platinum subscriber at IndiaMART and not do the lead follow-up and not consume the RFQs, you are more likely to get worse ROI than an engaged silver customer.

Swapnil: If I were just to ask that point again, what happens given that the current year churn is very high, the number of people in silver category, obviously are not those who can move to the higher categories immediately. Like we said in the past that it takes a year or year and a half for these guys to move to the higher category. So should that reflect on your premiumisation for next one or two years, the impact of the current year's inability to grow the silver customers?

Dinesh Chandra Agarwal: Not really. In fact, if the gross addition was the reason for not growing the base, then you are right. But if the churn is the reason for not growing the base, then this doesn't hold true. Because by the time of six, nine months, either the customer will churn or will stay, and if he'll stay, he will upgrade better.

So, I think our opportunity to upgrade typically has a top quartile customers, while the churn comes from the bottom quartile customers. And then there are in the middle, there are trendsetters who neither upgrade nor churn, but continue to remain in the same category. So, I don't think the upgrade potential is very much directly linked with the churn lead growth. Yes, if it was the gross addition lead growth, you are right.

Swapnil: Got it. Thanks a lot for the opportunity. All the best.

Moderator: Thanks, Swapnil. Next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Hi, Anirudh. Please go ahead with your question.

Anirudh Shetty: Thanks for the opportunity. I have two questions. So, my first question was essentially on just buyer behaviour, given that fundamentally drives traction on the platform, given that we have a fairly sizable number of registered buyers already around 16 - 17 Cr buyers and the number of active buyers has kind of remained flat. So, what is your broad sense around the usage of IndiaMART by potential buyers in India? Would you say that we're at a fairly mature stage or there's room to go even further? And what is the strategy essentially? Is it to get more buyers on the platform, get them to be more active, get more inquiries for buyer? If you could just share granularity around that, given that it's very important to our business?

Dinesh Chandra Agarwal: Both, I think one is to attract newer buyer on the platform. So, if you see when the total registered buyers every quarter, they grow by 5-6 million. So that is the new registered buyers that came in. And then how much they can come repeatedly. Currently, we say 90-day repeat ratio is 53%, which is maybe just once in 90 days, one or more time. But if I see how many two or more time or how many three or more time, that number is very little. We have to work on that. For people who have used IndiaMART for three or more times, they become the perfect audience of IndiaMART, every time they need something B2B, they don't forget to check out IndiaMART. But for most buyers to have a first experience and very good experience, and then becoming a top of the mind recall, that journey is still under progress. Over the next many years or so, I think the number of new buyers, which we can attract will probably become slower and slower.

While the 12 months active base may not increase dramatically from 40 million to maybe 80 million, but the number of times they're coming in. So, the most important number is unique business enquiry i.e., how many people came and enquired in a unique day, because this unique business enquiries is, if I come out of these 90 days three different days, these are the three different unique business enquiry. So how many days do I come to IndiaMART and send the enquiry for a different product, that's the final number to be looked at. And that number, if you see, has been growing at 20-odd percent. But can this grow at much, much faster rate than the CAGR level, why we are not able to do that across so many categories and across so many cities, is what we work day in, day out.

Anirudh Shetty: From the customer's viewpoint, is the buyer looking for products that are very bespoke, very discrete, such that their consumption for such products will be actually very infrequent? Or are they actually more like the repeat type of buyers who kind of needed at more frequent rate? Just to understand the enquiry.

Dinesh Chandra Agarwal: On IndiaMART, most of the time, the first time they buyer lands is probably because he's looking for something which he could not find typically in his neighbourhood or he's looking for a price or he's looking for a customisation. So, these are the three things for which the customer comes for the first time. But then he realises that all the three things are very good here at IndiaMART. If he realises that and if he realises that 3 times in a row, then he becomes our regular buyer. But making him realise for the first time that, for many of these people, many of these buyers, it could be very overwhelming. Suddenly, there are so many suppliers, so many products, whom to talk to, price are 30%, 40%, 50% cheaper than a retail platform, how to get it done, is a challenging and overwhelming opportunity for a buyer and seller, both. So, getting the first experience right in varied categories as apparel versus machinery, versus nut bolts, versus vegetables, versus pharmaceutical is a challenge for a horizontal marketplace. But at the same time, the horizontal marketplace gives you the strength that today, he might have come for a nut bolt, tomorrow he might come for the entire machine, day after tomorrow, he might be able to come for furniture and next time maybe for apparel.

So, I think there is an advantage and disadvantage both of being a horizontal and being a vertical marketplace. We have been both. At Tolexo we have been a vertical with full transaction platform, and at IndiaMART, we have been a horizontal. It takes a really, really long time for a horizontal to feel like a successful repeat platform. It takes very quickly for a vertical to do that. But at the same time, the number of total buyers that you can attract, the number of total sellers that you can attract is very, very limited, so the revenue opportunity is lower. So, I mean that is what we keep learning and trying to do every day.

Anirudh Shetty: Absolutely. And just one final question. We are exploring Tier 3, 4 cities, towns, and you mentioned it's a long process. But I wanted to understand that finally for the suppliers there, we think that the value proposition for IndiaMART is strong and their ability to kind of cater to buyers' requirements exists or other constraints around just the infra being underdeveloped or them being so deep in the hinterlands that the logistic cost, doesn't make sense. So, what are the challenges that you think you could face in these markets that weren't there in the mid-Tier 1 and Tier 2?

Dinesh Chandra Agarwal: So, if I heard you right, you're saying that are we going for Tier 3, Tier 4 suppliers. We are actually retreating from Tier 3, Tier 4 suppliers. We are actually focusing more on Tier 1 and Tier 2 suppliers. On the buyer side, you are right, because a lot of value because of the large availability, the prices on IndiaMART attract a lot of Tier 3, Tier 4 buyers. And the logistics as well as the payments, as well as the trust, all three are the challenges. And we try and build trust, we try and build discovery, but I think payment is straight forward today, if you want to pay in advance or if you pay later. But how do you pay escrow and how do you do that, that remains a challenge. So, I think currently, a lot of Tier 4 buyers use us as a price discovery platform and maybe try to still buy it from their local vendor or somebody. But there are all kind of mix possibilities here.

Anirudh Shetty: Got it. Thank you for answering the question.

Moderator: Thanks, Anirudh. Thank you very much, everyone. It has been a very engaging session. I would now like Dinesh to give his concluding remarks.

Dinesh Chandra Agarwal: Ladies and gentlemen, thank you very much for asking very deep questions this time. This has been truly enjoyable today. We have tried to address your queries in the time available. But if you still have any questions, please free to contact our Investor Relationship team on our website. And have a great new year ahead. Thank you very much. Bye.

Moderator: Thank you, everyone. On behalf of IndiaMART, we now conclude this webinar. Thank you.

Notes:

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