"Info Edge Limited Q1 FY19 Results Conference Call"

July 24, 2018

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q1 FY'19 Results Conference Call of Info Edge Limited. Joining us today on the call are Mr. Hitesh Oberoi – Managing Director and CEO; Mr. Chintan Thakkar – CFO; Mr. Sanjeev Bikhchandani – Vice Chairman. As a reminder, all participant' lines will be in the listen-only mode. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Hitesh Oberoi. Thank you and over to you sir.

Hitesh Oberoi: Thank you. Good evening, everyone and welcome to our first quarter FY'18-19 results conference call. We will first take you through the quarterly financial performance of the company, then we will cover each business in more detail and in the end, we will be happy to take questions. The audited financial statements file has been uploaded on our website, www.infoedge.in We have also provided segmental billing revenue, profit before taxes and DSR movements in our data sheet on our website.

Firstly, talking about the standalone financials: Billings in Q1 were Rs.283.3 crores, up 17% YoY. Revenue in Q1 was Rs.259.5 crores, up 17% YoY. Operating expenses excluding depreciation for the quarter were Rs.175.3 crores, up 15% YoY, this was primarily due to an increase in marketing, hiring in tech & product and annual increments. Operating EBITDA stood at Rs.84.3 crores Vs Rs.70.3 crores last year having increased 20% YoY. Operating EBITDA margin for the quarter stood at 32.5% Vs 31.6% in Q1 of last year. EBITDA adjusted for ESOP non-cash charges stood at Rs.88.1 crores Vs Rs.79 crores last year and adjusted EBITDA margin for the quarter stood at 34%. Cash EBITDA for the quarter stood at Rs.112 crores, up 14.2% YoY. Deferred sales revenue has increased to Rs.420 crores as on June 30th 2018 Vs Rs.354 crores as on June 30th 2017, an increase of 19% YoY. The cash balance for the company as a whole stands at Rs.1980 crores as of June 30, 2018.

The Recruitment business and the Real Estate business continue to guide the growth for the quarter. On the expenses side we spent more on marketing as compared to Q1 of last year and hired additional resources to invest in changing technologies. Additionally, there was some impacts of increments which take place primarily in Q1 for Info Edge.

Moving on to results by segments: We will first cover the Recruitment segment. In Q1, Recruitment segment billing was Rs. 210 crores, up 15.4% YoY while revenues were Rs.184.1 crores, an increase of 15.2% YoY. Operating EBITDA margin in Recruitment segment were at 56.8% versus 55% in Q1 FY'18. Employee costs were higher because of increments and some net hiring in the division. EBITDA margins adjusted for ESOP non-cash charges stood at 57.8%. Cash EBITDA for Recruitment during the quarter stood at Rs.132 crores, up 15.6% YoY

In Naukri in Q1 FY'19, we added an average of 18,000 fresh CVs every day and the Naukri database grew to about 59 million CVs. Average CV modifications were at 350,000 per day. Our traffic share in the job portal space continues to be in the mid-70s including Indeed and around 60% including Indeed and we continue to invest aggressively in our Recruitment Tools and Systems businesses as we add more clients for the product. We saw an uptick in customer acquisition this quarter and there was also some pick up in IT sector hiring, leading to higher billing from IT companies this quarter.

Non-IT sectors like auto industrial products, construction, banking and finance, insurance, manufacturing and some other small sectors did well for the company in terms of growth, as also indicated by the Naukri Jobs Index. Revenue from consultants did not grow as expected.

Now, we will talk about other verticals, starting with 99acres. In the real estate business, 99acres, billings in Q1 grew 37% YoY to Rs.41 crores while revenue grew 34% to Rs.42 crores. We continue to invest in marketing during the quarter resulting an EBITDA loss of around Rs.11.5 crores versus the loss of Rs.9.6 crores in Q1 of last year. Adjusted EBITDA after adjusting for ESOP expenses stood at a loss of Rs.10.7 crores versus the loss of Rs.7.1 crores in Q1 of last year. Cash EBITDA loss in 99acres during the quarter stood at Rs.11.7 crores versus the loss of Rs.8.7 crores in Q1 of last year. Our traffic share amongst the real estate portals remained around 50% during the quarter based on time spent on the portals, broker billings formed 50% of the overall billing while builder billings stood at about 45% of the billing for the trailing 12-months ending June 30, 2018. Home buyers continued to prefer retail and rental properties over new launches, which was evident from higher Q1 billing growth on account of agents. Owner billings stood at about 5% of the total billings in the last 12-months. We will continue to invest in marketing for 99acres as we try to consolidate our position in the real estate classified business since we believe the real estate market is now on a revival path. Key area of focus of investments for 99acres include marketing and more investments in products and technology. During the quarter, we experienced increase in sales enquiries by our builder partners across the country.

Moving on to Matrimony business: Jeevansathi billings grew 1% YoY in Q1 to Rs.18.2 crores owing to aggressive pricing and activity by competition during the quarter. Revenue grew 4% YoY to Rs.18.2 crores. Higher marketing spends during the quarter aided higher traction as number of transactions improved YoY. We are looking to consolidate our position as we penetrate deeper into the key regions we currently operate in. We are likely to continue to spend on marketing going forward as well. Operating EBITDA losses in Jeevansathi increased to Rs.5.6 crores in Q1 FY '19 from Rs. 4.1 crores in Q1 FY '18. Adjusted EBITDA loss stood at Rs.5.5 crores for Q1 versus a loss of Rs.3.7 crores in Q1 FY '18. Cash EBITDA for Jeevansathi during the quarter stood at (-5.4) crores. More than 90% of our users accessed Jeevansathi from the mobile and Jeevansathi mobile app continues to be the best in the category.

Moving on to the Shiksha business: In Q1, Shiksha billings grew by 22% YoY to Rs.14.1 crores, while revenue grew 11% YoY and reached Rs.15.3 crores. We made profit of Rs.3.1 crores in Q1 versus profit of Rs.2 crores in Q1 of last year. Adjusted EBITDA profit for the quarter stood at Rs.3.3 crores versus Rs.2.9 crores last year and cash EBITDA was Rs.2.1 crores Vs Rs.0.6 crores in Q1 of last year. We continue to make all our efforts to improve our products and user experience in Shiksha.com

Talking about our strategic investments: The PolicyBazaar deal was announced during the quarter and will be contributed after statutory approval and we continue to evaluate the investment opportunities from time-to-time.

That is all from us. Thank you and we are now very ready to take any questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Amongst the investee companies, can you please throw some light on any company which have shown extremely impressive growth and could become Zomato or PolicyBazaar?

Sanjeev Bikhchandani: I think both Zomato and PolicyBazaar are showing impressive growth, which is why there is constant inbound investor interest in them. We have seen policybazaar concluded an investment round recently and little before that Zomato completed an investment round. So these two I think are continuing to do well, the others are work-in progress.

Anuj Gupta: Could you please share some numbers on the potential opportunity in terms of marketing size for Naukri.com, 99acres.com and Jeevansathi?

Hitesh Oberoi: There is no sort of data available but what I can tell you is that we work in over 70,000 customers in Naukri alone and we estimate that about 20% or 25% of all hirings happen through Naukri. There is a lot of spending on offline recruitment firms, there is a lot of spending on referral hirings, and there is a lot of spending on newspaper hiring. So it is hard to say but the total market one could just have a guess, could be close to a billion dollar if not more as far recruitment goes and then on top of that, there is temp staffing and there is contract staffing and so on and so forth. Here I am just discussing the white-collar space and then there is blue collar hiring as well, which is the separate market altogether, today it would be very small, but it could grow going forward. So the market for recruitment is probably upwards of a billion dollars. When real estate was at its peak a few years ago, real estate firms were spending about Rs.3000-4000 crores a year on advertising in offline media like newspapers and hoardings, their spend may have come down a little bit because the real estate market has been in the doldrums for a while now, but I am sure still upwards of more than Rs. 2,000 crores. The online portal today of course get a small fraction of that and that market might start once again starts to recover. So the opportunity in both these spaces is very large but we need the right products and services to sort of be able to capitalize on these opportunities.

Moderator: Thank you. We will take the next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

V Subbaraman: So on 99acres and Recruitment, how much of the billing growth was organic and how much was driven by potential longer duration subscription packages? On Recruitment, you gave a brief description of various segments, but can you give us more detail segmental color, and do you think the environment is now conducive for price increases there? Lastly, on 99acres, can you please update us on the various key markets like Delhi NCR, Mumbai, Bangalore and billing growth in these markets?

Hitesh Oberoi: In none of our businesses, we sell products beyond a year, I mean most of our sales subscription are less than or equal to a year contract. We do not sell multi-year subscription. As far as Naukri is concerned, close to 29% of our revenue comes from IT companies and another 25%, 26% of our revenue comes from recruitment firms and the rest comes from another 40, 50 industries. During the last quarter, what I said on the call was that we saw a slight slowdown in IT which impacted our billing growth last year. This quarter we saw a slight revival in IT, only time will tell whether it will sustain, but markets like Bangalore and Hyderabad did well for us last quarter. As far as 99acres is concerned, we saw billing growth in all the markets we operate in. Of course, Delhi and Mumbai are the two large markets followed by Bangalore and then by markets like Pune and Hyderabad, but we saw growth in almost every city.

V Subbaraman: Just to understand the duration packages, is it so that you said annual packages but is it also the case that brokers have the option of taking shorter duration back and therefore when things improved, start looking taking longer duration packages say up to a year, is that understanding correct or…?

Hitesh Oberoi: You are right, shorter duration surface both in real estate and in jobs and you are also right that when the market starts to look up, people sort of feel more confident and then they are more willing to come into longer duration pack then when the market is not so good.

V Subbaraman: Is that the case right now and if so is it time to press for price increases or how should we see the market right now?

Hitesh Oberoi: We will have to do a more detailed analysis and then we can get back to you on this but anecdotally yes, we are seeing a lot more confidence, we saw revival in IT. IT was hit for a while, Q1 we did okay, but you must also remember that last year Q1 was impacted because of GST, so we are going on a slightly low base, we will have to see if this sustains going forward. If it sustains for the next one or two quarters, then we could look at a price hike in the businesses we operate in.

Moderator: Thank you. We will take the next question from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: My first question is for Sanjeev. Specifically, on PolicyBazaar, at one point you had sold down some stake, last year you invested a bit but maintain stake, this year you have actually increased stake over there. So what has changed over the last two years, what has made your more positive and what is the outlook on that business from a three, four year perspective?

Sanjeev Bikhchandani: What has changed is our perception of the risks in the business when we sold down it was for two reasons; one was to facilitate entry of other investors so that the company could raise the capital, also at that time, the risk perception was different. Subsequently, I think the business performance has improved and at the same time certain regulatory changes happened which has caused us to believe that the risks in business are much lower now than earlier and therefore we maintained our share, we defended our share in the last round and now we feel more confident that this is going to be a very big in value and therefore we have actually increased our exposure. Right now, the business is growing rapidly and the other site PaizaBazaar also has begun to do well, although it is still losing money, we have to take it year-by-year, quarter-by-quarter and then see how it grows, it is very hard to predict three, four years out but right now it is looking good.

Arya Sen: The risk perception that you talked about is (you mentioned) regulatory risk, so what specific regulatory change was this and is there anything outside of the…?

Sanjeev Bikhchandani: I think two things; one is I think there is now much-much deeper understanding in the environment about the fact that PolicyBazaar is good for the consumer and therefore it is a model that is here to stay and therefore it must be encouraged. I think certain price ceilings were relaxed a bit on what they can charge for these. So these two things led us to believe that the risks are now much lower.

Arya Sen: Secondly, any update you can provide on Zomato specifically on the online ordering and delivery part what is the current run rate of orders and how much of the fulfillment is being done by Zomato itself through runner and any other updates that you can share on Zomato?

Sanjeev Bikhchandani: Zomato is increasingly delivering more and more of its orders through its own delivery system which is runner and others, less and less increasingly through third-parties. Although it still got a more third-party than Swiggy which does entirely from their own. Zomato is around 12 million orders a month run rate. Of course, Swiggy has a higher number, but the gap is narrowing, but Zomato expects to catch up and overtake in a few months.

Arya Sen: Sorry, you are saying 12 million, because in the annual report, it says 5.5 million. In three months it has gone to 12 million, is that correct?

Hitesh Oberoi: Yes, there is a rapid increase in Zomato online order business. Zomato has announced publicly, if you do Google search you will find it.

Arya Sen: That is right, but is there some seasonality to it do you think?

Hitesh Oberoi: I don't think so, actually all these are lean season. There was a Football World Cup that they have a boast we do not know but right now the growth is so rapid that we do not think because of seasonality.

Arya Sen: Are they still continuing with that policy of discounting the commission they charge to the restaurants?

Hitesh Oberoi: I think they are spending substantially on marketing, but they would not reveal exact numbers to the public, but yes, they have raised capital, their strategy has changed, it is going to be more capital consumption business going forward, they are looking to grow the market and they are looking to grow the online ordering piece. At the same time Zomato Gold has done very well and continues to do well and they have recently launched Piggybank which is the loyalty program and that has again come out publicly that within 48-hours of launches there is a large number of subscriptions and sign ups, so that seems to be doing well. So, apart from online ordering, I think Zomato has got a second leg or third leg or fourth leg which is all few are looking interesting. Advertising and Zomato Gold and Piggybank which is the loyalty program.

Arya Sen: Could you also clarify what is your current stake in PolicyBazaar after all these investments?

Chintan Thakkar: Roughly, whatever we have announced together it would be between 13% and 14%.

Arya Sen: Chintan, also if you could clarify on the write-off that you took this quarter of Rs.160 million, that is on account of which investments specifically?

Chintan Thakkar: I think very specifically it is about Canvera although, in our book it is the subsidiary company through which we are holding, but if you have to go to the ultimate impairing asset, then it is Canvera.

Arya Sen: Adoption of IND AS 115 basically has had no impact on you including on how you recognize the sales incentive which you are now continuing to recognize as it is expensed, that is what you said, right?

Chintan A. Thakkar: Yes, because we have all the contracts which are kind of 12-months or less than 12-months, then we have the option to kind of continue with the current accounting, so we have continued with that.

Arya Sen: So this is a more conservative treatment effectively?

Chintan A. Thakkar: Yes, that is correct.

Arya Sen: Lastly, I missed the number of operating EBITDA for the Recruitment business which Hitesh had mentioned earlier?

Hitesh Oberoi: Operating EBITDA was Rs.104 crores.

Moderator: Thank you. We will take the next question from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: Just want to check on the revenue per customer, seems like that has gone up quite a bit for Naukri, nearly 18% YoY. So what led to this sharp increase, did you mention anything about pricing going up?

Hitesh Oberoi: Normally what happens, when the market starts looking up is that we are able to add more customers because more businesses start hiring. 2) We are able to upgrade customers because since every business needs to hire more people than they were hiring earlier, we are able to push volume and thirdly discounts also sort of come down because businesses are in a hurry to hire. But jury is still out, we have had a good quarter but like I said earlier this is on the back of a poor first quarter last year which was impacted by GST. So we are not saying that the market is back, but if this sustains, yes, we could take that view.

Ravi Menon: I missed when you called out the Jeevansathi revenue number. Could you share that again?

Hitesh Oberoi: Yes, billing in Jeevansathi was flat, revenue was up 4% YoY.

Ravi Menon: On Zomato, we saw that they have announced two things; one is restaurant B2B business and secondly talking about grocery delivery to consumers. So any thoughts on what sort of capital is it required?

Sanjeev Bikhchandani: As of now I think these are just toes in the water, I do not think that in the immediate term they will require a lot of capital and then we will see how it goes.

Moderator: Thank you. We will take the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Just a couple of questions; one is in terms of the staff business, in terms of the Recruitment engine, what part of the recruiters is basically temp staffing firms which are like the more organized top players?

Hitesh Oberoi: We do not have the breakup right now, we do not track it like that.

Atul Mehra: In terms of just on the staffing business once again, so if you were to maybe segment this to say you would have about 80,000-odd clients but if you were to segment it in terms of the top say 5%, 10%, so how would they contribute to revenues?

Hitesh Oberoi: The top-10% gives little over 60% of our collection and billing, if you go to 20%, it will probably be 85%.

Atul Mehra: Just one number on Zomato in terms of what would be our unique customer base now in India and similarly what would be the gold member customer base?

Sanjeev Bikhchandani: They do not announce these numbers, so I am not able to disclose that. More of the restaurants are now preferring to do delivery and to do advertising for the delivery as opposed to pure advertising for getting people to the page on Zomato. It is in bit of a flux there, I think things are changing, but overall it is all feeding into total revenue of the company.

Moderator: Thank you. We will take the next question from the line of Karan Uppal from Haitong Securities. Please go ahead.

Karan Uppal: Just a question on IT pick up. So what is the outlook there? Which part of the IT hiring is currently you are seeing the traction – is it in the lateral space or in the fresh recruitment?

Sanjeev Bikhchandani: IT growth was slow for us over the last one or two quarters. Q1 was of course okay, so IT hiring numbers picked up for us in markets like Bangalore, Chennai and Hyderabad as well. I do not know what is really going to happen going forward because like I said our growth is also impacted last year because of GST and other sort of things which happened in the economy. We are confident that this will sustain but we will have to wait and see what happens. When we say IT we actually mean, IT services companies, product development companies, eCommerce companies, domestic software companies, back offices, MNCs, all these are clubbed together under the IT head.

Karan Uppal: Secondly on advertisement spends, last quarter there was a pick up. What is the outlook over there?

Hitesh Oberoi: We continue to spend on both Jeevansathi and 99acres and that is why our ad expenses are higher compared to last year. On advertising, we take it quarter-by-quarter, we do not have a budget for the year. We run some ad, see the response to the advertising and then basis the response, we decide whether we are going to spend more or spend less. Sometimes it is also driven by competition. So if competition is aggressive, we too have to spend. So it is going to be hard to say what is going to happen going forward but on the whole we will continue to invest more in advertising, brand building, product development in all our businesses.

Moderator: Thank you. We will take the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir, could you share some operating data for Jeevansathi in the last two quarters? We have aggressively invested in Jeevansathi in advertising, even in IPL we ran some campaigns for Jeevansathi. I think we have stopped carrying some data points for Jeevansathi.

Hitesh Oberoi: We are reviewing our strategy in Jeevansathi, we have been investing aggressively in marketing to get volume growth and we have stopped disclosing some numbers for competitive reasons.

Ankit Kedia: So will the advertising campaign continue in Q2?

Hitesh Oberoi: Yes, of course, we will continue to advertise like I was saying earlier for in both Jeevansathi and 99acres. But what we do is we advertise, we see the results, we see the response to the advertising and we repeat the campaign, sometimes we up the budget, sometimes we lower the budget depending on the response we get. So the budget will fluctuate quarter-to-quarter but we will continue to advertise.

Ankit Kedia: My second question is regarding 99acres. You said you are seeing some green shoots in 99acres, growth in every city we have witnessed. So do you think this is sustainable and we can for sure assume that these growth rates will sustain going forward?

Hitesh Oberoi: We have been now growing at about 35-40% for the last three quarters in 99acres, but what we must remember is that before the growth is impacted for about four quarters; first, because of demonetization, then because of RERA and GST. So this growth which was coming off a low base. Whether it will sustain going forward or not, only time will tell.

Ankit Kedia: In Naukri, you mentioned you want to focus on products and technology. Could you highlight some new things which you have done on products and technology side in Naukri?

Hitesh Oberoi: There are three or four areas we are investing in Naukri; one is of course the whole mobile piece and personalized user experience. So over the last few years, more and more traffic is sort of migrated to phone and even in Naukri we are at about 70% of our users on the phone now. We continue to invest aggressively in improving the user experience on app for example. Then we make the foray over the last year in the enterprise applicant tracking and regional management space. So, we have built a slew of products under the RMS umbrella, which we continue to invest behind and which we are pushing in the market. So that is the second big area of investment for us. Thirdly, we put together data science group and a machine learning group to use the technologies to improve our matching algorithms. So that is the third area which we are investing on the products and technology front. In addition to this, there are a host of other features which we keep working on improving. Many of these things are small sort of incremental improvements which you do not get to see but there is a large team which works on these as well from time to time.

Moderator: Thank you. We will take the next question from the line of Ritesh Bhagwati from Rockstead Capital. Please go ahead.

Ritesh Bhagwati: I just wanted to know on Zomato, like there are some talks going on that Zomato is further into raise money to the tune of $400 million, that is like just rumors going on. So I just want to know from your end like you guys would be participating in those rounds like how did you get in PolicyBazaar and maintain the stake or like increase the stake maybe?

Hitesh Oberoi: We always like to support our investee companies who are doing well. Having said that, we did exit to a certain extent in the last round. I think there is enough investor demand in Zomato, inbound interest, enough for us to have option to not participate. Having said that, we are unable to confirm or deny and make any comment under whether that is happening or not. So we will take it as it comes.

Ritesh Bhagwati: Then would we be participating to maintain our stake, that seems to be a pretty good investment for us and it could be …?

Hitesh Oberoi: I cannot comment about the round is happening or not. That is why obviously cannot comment whether we are participating or not. But like I said, in some of our companies there is so much inbound demand that we have the option of not participating.

Moderator: Thank you. We will take the next question from the line of Karan Uppal from Haitong Securities. Please go ahead.

Karan Uppal: Sir, apart from IT, which other sectors you are seeing growth and what is the outlook over there for the rest of the year?

Hitesh Oberoi: In Q1, we saw growth across several sectors; auto, industrial products, banking, finance, insurance, BPO, so in many cases in Q1. I cannot really comment on which sectors are going to do well going forward. Like I said, first quarter last year was also impacted because of GST so this is coming off from the low base but the sales team is a lot more confident than they were at the same time last year.

Moderator: Thank you. We will take the next question from the line of Miten Lathia from HDFC. Please go ahead.

Miten Lathia: Would you have the number for unique visitors on 99acres on YoY basis the growth rates any for Q1? You mentioned you had 60% traffic share. So just wanted to…

Hitesh Oberoi: 50% traffic share, traffic share the way we measure it is a function of both unique visitors and time spend on the site. This data is from third parties. SimilarWeb is the source we use.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Hitesh Oberoi for closing comments.

Hitesh Oberoi: Thank you everyone for being on the call and have a great evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Info Edge Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.