# "Infibeam Incorporation Limited Q2 FY17 Earnings Conference Call"

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**MODERATOR: MR. MAYANK BABLA – KRCHOKSEY SHARES & SECURITIES PRIVATE LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Q2 FY17 Earnings Conference Call of Infibeam Incorporation Limited, hosted by KRChoksey Shares & Securities Pvt. Ltd.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Babla from KR Choksey. Thank you and over to you, sir.

**Mayank Babla:** Thank you, Ali. Good afternoon, Ladies and Gentlemen. On behalf of KRChoksey Shares & Securities Private Limited, I take immense pleasure today in having here with us Mr. Vishal Mehta – Managing Director and Mr. Hiren Padhya – Chief Financial Officer, who are here today to discuss with us the Company's performance in Q2 FY2017.

Let me hand over the floor to the honored guests from the Company. Over to you, sir.

**Vishal Mehta:** Thank you, Mayank. Good afternoon, to everyone. I welcome you all to Infibeam's earnings call for the second quarter 2017.

Let me inform you that this second quarter result which was reported is the earnings that we started initiated reporting after our listing post April 4, 2016. We have also shared our results document and they are also in our website. I hope you have had an opportunity to go through them.

Before I dive into the second quarter results, I want to cover an important topic of discussion which is around the recent announcement of demonetization which was announced on 8th of November. And I want to share with you our perspective and our understanding in terms of what has happened in the past few days and what we believe would be an impact to the ecommerce industry and specifically for us as well in coming days. It is an important topic to discuss so we would like to take this up at the initial stages.

You see, there is an important component how consumers pay in ecommerce, there are card transactions and then there is cash on delivery payment as well. So as a result of demonetization, post November 8th, the cash on delivery transactions would have an impact. Many of the ecommerce companies, including us, we had stopped cash on delivery transaction, given that the liquidity in the system would take some days to be able to shore up. Consumers who had paid using cash on delivery and opted for cash on delivery transaction, many of the companies, including us, we decided to give them a prepaid option by sending them payment banks, whereby they can convert their shopping experience from cash on delivery to prepaid instruments to reduce the impact and also to provide a better experience for users.

Out of all the consumers who shop, many of the consumers do not have a card option or a prepaid option to pay for. And as a result, the cash on delivery transaction have seen an impact for the last eight to 10 days. We are continuously, of course, evaluating and checking on what is the liquidity situation and when we would continue opening it up. I think the lower value transactions which is less than Rs. 1000; those are the ones that open up first before the slightly higher value transactions would open up.

Also, we believe that while there is an impact, the number of card transactions would also increase. But the increase in card transactions would not offset the impact that cash on delivery will have in ecommerce, at least in the short-term. The impact on card transaction in the past few days, we have noticed that users and consumers who shop online are opting for slightly lower value transactions than what they did in the past, but again it has been only seven to 10 days, and as a result the impact is only short-term and temporary and not to be taken as a continuous impact on ecommerce as an industry. We believe that the impact of demonetization on ecommerce in the longer run will be extremely blessing. In that, we believe that while users will not purchase online, given the cash on delivery option has a short-term impact, that is nothing else but a postponement of sales and not necessarily an elimination of sale. Whether the sale starts showing up by end of this month or end of December, it is something that we will track and we will monitor closely every week.

Also, if you look at the impact for our company for the quarter, usually October is a very important month for all retailers because this year Diwali fell in October. And as a result we believe that while Diwali is very good, given that there was a lot of liquidity with good monsoon in the system, as well as with the new Pay Commission and many other factors that retailers had a fairly decent Diwali this year. But we will have to track and see how the remainder month and a half goes. In that you will not see a major impact, given that Diwali fell in this quarter, so the quarterly numbers may not be having a huge impact. But the opportunity of what it could have been will certainly depend on when cash on delivery starts getting available in the system. Mind you, again I would like to repeat that this seems to a very temporary impact and the future for ecommerce companies becomes very bright with more and more consumers opting towards card transactions and prepaid instruments. And as a result, the whole cycle of consumption as well as the cycle of reconciliation as well as being able to manage cash would actually be significantly reduced as a burden to such companies.

Now I would like to walk you through our quarterly results, but before that I will spend a few minutes again talking about our business model. On slide three, I want to talk about our platform and what is our focus and we continuously evaluate this every quarter. You see, our business model is very stable. There are three things that we work on, the demand side which is the far right, the supply side which is the far left and the capacity. Those are the three things in ecommerce to solve at a very macro level.

On the demand side, we provide the BuildaBazaar platform that enables retailers and merchants to get demand. And as a result, our framework allows merchants and enables merchants to get online demand. We have taken a conscious choice for several years and we believe it is working which shows up in our quarterly results. The demand side channel whereby we offer merchants an opportunity to sell on line not just on their own store but also across multiple market places, that has shown significant improvement quarter-over-quarter when compared to last year.

The supply side of the channel, whereby we work with brands and we work with distributors to be able to offer them a platform whereby they can showcase their products and sell both on a B2C format whereby they can connect directly to a retailer or to a consumer, has also been very successful. On the supply side format, for example, we would give the platform to very large brands, for example we have disclosed in the past that we would give it to someone like Panasonic whereby they would use our platform to be able to reach out to retailers and sell the product. So we realized that in the assortment of products for any brand, the 20% to 30% of this few products will account for 80% of the revenues. But that does not mean that the remainder products do not get traffic and volumes. The remainder 70% to 80% of the products also have demand, but usually merchants and retailers who are actually selling directly to consumers would not want to carry such products given that the movement is not as quick as the high velocity products.

So we provide the infrastructure to companies which are brands whereby they can connect directly to retailers and retailers can sell the entire assortment in a reactive buying way as opposed to predictive buying framework. Also, then such brands would be able to open up B2B channels for sales, for example, institutional sales that they would not have otherwise. We provide this framework both in the demand and supply side through our framework called BuildaBazaar which enables any retailer, merchant or a brand to build out their own market place solution.

If you look at the capacity side, we provide an infrastructure whereby suppliers today can send the material directly through the user who is purchasing on Infibeam.com, where we are the seller on record. So we provide the logistic framework on the supply side and we have not opened up the logistic solution to the demand side merchant as we scale up and as we have more logistic centers across all the locations that they would want to open it up to merchants who can often utilize our framework and be able to shift the products to users using our framework which we called ShipDriod. So we had initially started the activity whereby we opened up for the suppliers to ship and also for some merchants to start utilizing it. But until we build out the framework where we have logistic centers across more locations that we will be evaluating and continuously optimizing it before we start generating additional revenues out of ShipDroid which we have launched last quarter.

If you look at the capacity side, we are also working towards building out datacenter capacity which is one of the objects of the issue that we will cover up shortly. We are building out the datacenter for all our primary databases that allow us to give our infrastructure to merchant and also to be able to scale up such infrastructure so that as you build up more and more demand and supply side framework that we have enough capacity to address that. Mind you that demand and supply side of our business, which is the BuildaBazaar platform not only caters to merchants to retailers on the demand side and the brand on the supply side in domestic markets ,but we have also started opening the demand and supply side platform which is the BuildaBazaar platform also to international clients. We believe the international has a huge opportunity, while today it still accounts for a minority of our business, our international is accounting for about less than 15% of our overall revenue. We believe that there is a huge scope to expand that and that would be our focus going forward.

I will spend a few minutes on the next slide going over the numbers as an operational factsheet. You see, last quarter was a very strong quarter for us, whereby we reported services revenues of Rs. 33.6 crores and the advantage that you would find is that still our segemtnal results will show that we have a very strong margin on our services business. So as we continue to scale up and as we keep on adding additional merchants that our services revenues will continue to be our focus and that will continue to show growth. And that also accounts for a huge portion of our profitability as well. So that will continue being our focus and that will continue to be our focus both in domestic as well as international market.

In terms of the product sales, that is when you find that our supplier who find finds it difficult to ship the product directly to the consumers, they would list the product on infibeam.com and that we will be able to go and manage the traffic and volume using our supply chain, using our logistics and fulfillment that our product revenue has also scaled up. Last quarter we reported Rs. 8.1 crores in product revenue. Our gross margins are very same and very competitive industry. We continuously evaluate, this becomes a very important opportunity for us to engage with users and to be able to monetize such users in the future. So as we continuously evaluate and find out merchants who can sell such products, that there always will be a product tail and certain few products which are very difficult for suppliers to ship directly to users, in which case Infibeam will participate to be able to manage this supply chain and to report the revenues.

If you look at our total revenue, it is Rs. 114 .7 crores for the quarter. For the first time, we have hit EBITDA margins of 19%, that resulted in the higher **0:14:42.3** margins that we received in quarter to date.

I would like to now hand over the call to Hiren Padhya who is our CFO, who will walk you through the financials.

**Hiren Padhya:** Good afternoon, everybody. Starting with slide number five and six both. The Company has outperformed quarter two FY17 results compared to quarter two FY16, reporting a growth in total revenue by Rs. 277 million. The Company recorded revenues of Rs. 1147 million in quarter two FY17 from Rs. 870 million of corresponding quarter of previous year, with an increase of

32% on year-on-year basis. Similarly, the respective growth is 27% if you compare H1 FY17 versus H1 FY16.

In composition of revenue, still the product segment is dominating with around 70% contribution. However, service segment contribution has increased by 2% compared to previous year H1. And in terms of margins compared to corresponding quarter, whereby improving profitability of the Company. In view of very high scalability of our business model, it helps the Company to acquire merchants without losing money and thereby growing the revenues from services, yet remain profitable and cash positive.

Slide number six, service segment. In case of services, Company has achieved a rare distinction by providing an integrated and synergistic business model for B2B and B2C segment of customer on cloud based infrastructure, enabling online sale of products for merchant locally as well globally. This has given rise of 29% in its service segment revenue. Service revenue grew to Rs. 336 million from Rs.260 million compared to corresponding quarter and previous year. Similarly, during the H1 FY17, the service revenue has a growth of 36% compared to H1 FY16. As a part of long-term strategy, the Company continues to focus on services in view of very high EBITDA margins. The Company earns revenue by offering a combination of set up cost, followed by monthly fee and per transaction commission. The share of international business is in the range of double-digits percentage and we believe that there is a strong potential in future for growth in volume as well as margins.

Now, slide number eight, consolidated revenue product segment. The Company has been consistently witnessing growth in terms of product revenue, not only quarter-on-quarter but also compared to year-over-year. It grew by 33% to Rs. 811 million in quarter two H1 2017 compared to Rs. 611 million in quarter two FY16. Infibeam.com provides a wide range of products across more than 40 products and services category, including mobile and tablets, computers and accessories, electronics and cameras, housing and key chains, books and magazines, going up to fashion product, music, travels and gift. The Company strategically follows an asset light inventory model and has more than 5,000 registered merchants who sell directly on Infibeam.com and 8.24 million active users as on 30th September, 2016, which is contributing higher revenues.

Now, we will move to slide number nine, consolidated EBITDA. This slide depicts an extraordinary growth of EBITDA by 176% to Rs. 213 million compared to Rs. 77 million in Q2 FY16. That was an increase of Rs. 136 million in absolute value. If we compare the H1 FY17 with corresponding H1 FY16, there is a similar growth of 159%. This has set a track record of high profitability unlike most Indian players in ecommerce segment which burn cash and report losses. It also reflects an improved operational efficiency along with margins. An integrated and synergistic business model for B2B and B2C segment of customer on cloud base infrastructure has enabled online sale of products and service from merchants locally as well as globally, which is reflected in our operating cash flow.

Now, we will move to slide number 10, Q2 FY17 service segment result. Service segment results in terms of absolute value and percentage has shown excellent growth over same quarter from Rs. 117 million to Rs. 222 million, and half yearly from Rs. 281 million to Rs. 400 million previous years. In view of unique features of the segment, namely the affordability of cloud based platform, very high scalability of our business model to acquire merchants without losing money and thereby growing the revenues from services, domestically and globally. This will lead to remain our Company profitable and cash positive.

Now I will move to slide number 11, product segment results. Along with increase in product revenue, Company has also managed to improve its segmental results by Rs. 15 million in half yearly FY17 compared to half year FY16. It is a conscious and strategic effort of the management to be positive with contribution in this crowded ecommerce space where many online retailers are losing money. The combined efforts of operational and logistic efficiency have assisted Company in improving the margins.

Slide number 12, profit before tax. The PBT being an important aspect of any organization gives an indication of health of the Company. PBT has an excellent performance compared to previous year, if we compare corresponding quarter from Rs. 33 million to Rs. 136 million and half yearly from Rs. 61 million to Rs. 253 million. It has been almost more than four times. We being a zero debt company, the finance cost are negligible. This along with higher operating profit lead to excellent growth in PBT.

Slide number 13, profit after tax. The Company has maintained the profitability even after tax, which is evident from the fact that PAT has surged more than 300%, both in quarter two and H1 FY17 compared to previous year. This directly not only improves the earning performance share but also increase shareholders value.

Thank you all. Now, Vishal will take you through new developments and project updates. Hand over to Vishal.

**Vishal Mehta:** Thank you, Hiren. In terms of new developments for second quarter 2017, I would like to spend a few minutes talking about the new initiatives that we have signed up and how they will play an impact to our business in the future. Subsequent to that, I would also like to cover the projects that we have shared with our shareholders and the status of each of the products and projects that we are launching, and as a result that will give you an indication in terms of timelines as well as in terms of the rollout of such projects.

In the second quarter of 2017, we have signed up a memorandum of understanding with IL&FS, a subsidiary, for undertaking and implementing many of the projects in the digital space and ecommerce space with Central Government, with state governments as well as with private partners. For that we have announced that we would be setting up an SPV whereby we provide our technology and the framework to enable these projects to be undertaken using our BuildaBazaar framework platform. You see, in terms of the total amount of opportunity which is out there that we could target, we reasonably assume that there will be at least a revenue opportunity of Rs. 1250 crores that we can go after in the next five years that we can realize starting 2017 - 2018. This is just the service revenue and no product revenue that comes out of it. This is the service revenue potential that we would go after. There is quite a bit of spend within the government around Smart City initiatives that can potentially utilize our platform and the framework. In addition to that, we can go after specific opportunities on e-procurement as well as some digital signage and identity frameworks that allow us to be able to give our framework and platform for government to provide to citizens. And as a result, as and when that materializes, we would be communicating the same with you.

We have also setup a joint venture MoU with KFK Capital. Our Company had already started expanding into international markets; Middle East was a very important territory for us whereby our platform supported multiple languages, multiple payment options and multiple logistics and couriers to integrate into our framework. And we had very large clients and retailers signed up. We had also announced Saudi Telecom which is the largest telco in Saudi Arabia to be able to launch surfaces using our platform and framework. We realized that if we start opening up our platform more and more, and in order to go to other regions and not necessarily limit ourselves to UAE and the Middle East, and specific Africa as well as certain specific contracts that potentially have a very large impact on service revenue that having a local partner will be very beneficial. There is also a regulation whereby in certain specific contracts you would require a local partner with 51% ownership. In that we have signed up a contract with KFK Capital which is an ownership of Escorp Holdings and that will allow us and enable us to get additional services revenue by expanding our footprint into additional countries. Both of them are expected to close within the second half of this year.

I want to spend some time in terms of the project updates and how each of the products and projects will contribute in terms of the potential for our Company. We had announced a sign up with Saudi Telecom whereby the Telco was expected to launch the product using our technology and our framework. I am very happy to announce that they have already launched the service using our framework, and as a result the impact of that will be seen in subsequent second half of this year.

The second project that we had initiated and we had communicated was launching of a fully owned subsidiary in Dubai. I am very happy to announce that the Company has already setup the fully owned subsidiary under the name of Infibeam Global EMEA **FZ 0:27:17.6** entity. It is a 100% subsidiary of Infibeam and we have already signed up clients in that region through our subsidiary and we already started employing and recruiting people in that subsidiary to go over additional business.

The third project that we had announced was the MoU with KSK capital. We believe that that is the right partnership to expand into additional countries. And as a result, the Company will go into definitive agreements and signed definitive agreements in the second half of this year.

As far as the domestic market is concerned, we had announced a contract with Amul. Amul is the largest dairy manufacturer and a company that provides dairy products to users. They had signed up a contract with us to be able to use our platform and framework so that they can provide both on online as well as mobile framework, on demand services. I am very happy to announce that the pilot is launched as of last week and that subsequent in the second half of this year that you would see the impact of such contract. The pilot has been launched in two cities and is expected to rollout in additional cities.

We have already covered the MoU IL&FS subsidiary. We believe that that is going to have significant impact in terms of our services revenue and how we cater to government contracts in second half of this year as well as in later years.

And the last one is the investment in CC Avenue. This one is a very important one for us, given the recent announcement of demonetization. CC Avenue is one of the largest payment aggregator in the country. It has the majority of merchants in the country utilizing their payment framework in terms of number of merchants. And a very deep integration of our platform with CC Avenue will make it easier for merchants to successfully close transactions. The role of payments is a very important one, and post demonetization it becomes equally more important with a lot of prepaid instruments including wallets and many others that require RBI approval to be able to get managed. And our platform with very deep integrations and relationships with payment companies, and of course our investment in CC Avenue will actually reap very large rewards, given that it potentially has an opportunity to increase our margins and to offer a very successful payment solution to merchants with very high successful transaction rates.

Finally, I would like to cover the IPO proceeds and where we are at. A very detailed ledger of our spend is uploaded on the exchanges**.** We had setup proceeds for setting up our cloud based data center and moving of our registered and corporate offices. I am very pleased to announce that Company has already executed the transfer deal and made payments to take possession of the two buildings in this city. And in the second half of this year we plan to scale it up and potentially even setup a datacenter by end of this fiscal, early next fiscal.

The second use of proceeds was setting up of logistic center; we are closely monitoring the role of GST and the rollout of GST programs and strategically locating our logistic centers in a way that maximizes the benefits for our shareholders. So the second half of this year we will be taking and we will be moving more aggressively I terms of expanding brands. We already have a lot more information that we had before in terms of the rollout of GST and possible potential timelines, and the impact of such. So as a result, that coupled with the demonetization that has been recently announced, we are strategically figuring out the opportunities whereby we would maximize our returns. And the second half of this year you can expect that there is going to be more movement around logistics centers.

Software to essentially provide the mobile app framework is already under process and we expect to roll it out in a phased wise manner. This allows any publisher which is any merchant who is using our platform and framework to be able to advertise their product on other merchants who are also using our framework. So rather than going through third party add network, we would be utilizing our advertising network to be able to publish, whereby the success of transaction also increases given our understanding and knowledge of the framework in the expected conversion. And it also means that it gives additional service revenue and margins for our shareholders. So we will continue working on that and will continue updating you on the progress.

As far as GCP is concerned, all the IPO advertising expense have been incurred and accounted for. And we have also made an investment in CC Avenue. And post the demonetization, we believe that it has a huge opportunity to scale up.

I have a couple of slides in terms of how have we performed in the past few quarters and I would like to quickly cover that, and then we can open it up to question-and-answers. You see, we listed on 4th of April, 2016, at a share price of Rs. 446. And subsequent to that, in the first two quarters, post that, we have shown that we have consistently worked in terms of growth. Our quarter-over-quarter growth rate is shown, in the first quarter it was 25% and in the second it kept on increasing from Q4, Q1 and Q2. The current market price is also shown. We have seen steady growth in terms of how we have performed for our shareholders every quarter and that is also a reflection in terms of revenues as well as the performance of the shares. We have given about 107% returns from the time we got listed to the current market price as of Rs. 1711.

Going to the last slide, in terms of certain specific things we would like to share. We are very happy announce that the Company got selected in the Morgan Stanley Index, MSI index. And that we would be included in the list effective 30th November, 2016. Back in August we were also included in the BSE 500 index and we are happy to provide the specifics to our shareholders.

I would now like to end this presentation and open up for questions.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Amitabh Bhattacharya from KRA Investment Advisors. Please go ahead.

**Amitabh Bhattacharya:** I will like to understand the effect of demonetization on your Company as well as how is the ecommerce industry reacting to it. Plus, I will also like to understand what percentage of your business or what percentage of your revenue is cash or that is cash on delivery. So if you could explain us about this?

**Vishal Mehta:** Sure. Amit, I think we talked about this in the very early part of the call, but I will repeat myself as well, you may have skipped that portion. See, demonetization definitely has an impact on cash on delivery in the ecommerce world. So many of the companies, including us, post November 8th we stopped cash on delivery transactions. Consumers did not have cash to pay for such transactions and we realized that this impact would be there for the next few days. So that definitely has an impact. What we have done is we started sending out payment links to consumers who had ordered using cash on delivery. And as a result, that reduces the burden on such consumers who are looking for such products, but we also realized that all consumers do not have a payment instrument and that there will be certain orders. What we find is that we believe it is a temporary setback for people who were using cash on delivery. On the other hand, we also found that the number of transactions on cards have increased and partly because it is not an asset but the fact that people have started ordering by card. So we believe that it is a temporary phenomenon, it is not something that will last for a long period of time. People who have ordered using cash on delivery; they are postponing their purchase and not eliminating the purchase. So from an industry and a macroeconomic perspective, we believe that it is a temporary phenomenon but the fundamentals of ecommerce and ecommerce business is very, very strong.

The second part that we believe is, we do not know, we are monitoring of course the situation and we are looking at talking to our consumers. But we believe that it may be end of month effect until the end of November or it may go even up to end of December, we do not know and we cannot predict. But what we do know is that it is a temporary phenomenon and not something that will last for a long period of time. We also believe that it is a great opportunity for us because for those people who are ordering using prepaid instrument and with our investment in CC Avenue and that we can support so many prepaid instruments that it allows us to provide such instruments to so many merchants. So the number of merchants who want to go online have increased dramatically, because they believe that it means card form of payment, but they also believe that online becomes a huge opportunities, there is a growing consensus. So we believe that of course that is going to be a growth for some time. October was a spectacular month in retail for many reasons, given that monsoon was really good and that there is also a good amount of hike in the Pay Commission and many other factors that may have contributed. So overall in the month of October we find that retail had a big pickup which is also covered quite a bit in the news. But we also believe that while the impact on the overall quarter may not be significant, given that Diwali this time was in October, but the opportunity cost in November and December will define how well the Q4 looks like for many of the companies, including us. So there was roughly a huge impact in terms of the quarterly numbers. But that also meant that the opportunity cost of course would show up in the numbers. So the entire quarter would actually be progressive, if you will, in terms of overall, given that Diwali was in October.

As far as cash on delivery in terms of percentage, see industry wide it is known that about 50% to 60% is cash on delivery for us, it is a lower number. So the cash transaction numbers typically range from anywhere from 35% to 65% and depending upon the product and the product affinity and the weaker demand and also based on the number of schemes that are out there using prepaid instruments, but that has an impact in terms of the total percentages that keeps in shifting. But it is not an insignificant number. And that we believe it becomes a temporary phenomenon but given that you had Diwali during October that this quarterly impact may be reduced to….

**Amitabh Bhattacharya:** Sir just one more question. There have been lot many tie-ups happening with the payment wallets, specially Paytm and Freecharge and lot many offers coming up like this. So are you also tying up with any payment or you have any plans regarding a payment wallet for you yourself?

**Vishal Mehta:** See, there is a concept in wallet called a closed wallet, and a closed wallet is when the merchant is the seller on record. And they are selling their own products then they can have their own closed wallet, for that no prior permission of RBI is required but a notification to RBI saying that we have a wallet. So from a platform perspective we support such closed wallets, which means that any merchant who wants to give out a wallet will automatically be allowed to give out a wallet whereby from a regulatory perspective they will need to communicate. But from the formation standpoint they do not require a permission, that is the first part.

The second part is that as far as prepaid instrument is concerned, there are two other categories. One is called the semi-closed wallet. Semi-closed meaning that I am not a seller on record as a merchant but I can take the payment and I can also allow the payment to be used for some other merchant who is selling the product. For that RBI permission is required. And many of the wallets that you talked about fall in to mainly this category. And some of them are semi-open whereby they can also people to withdraw cash.

So depending upon the use scale that it becomes an important opportunity. So we will have many of the merchants using our platform. So a case and point being that we have recently announced that Amul is using our infrastructure and framework, should a merchant want to actually open up a wallet and a wallet framework for their users that it becomes completely automated and completely passable using our platform and infrastructure. From our investment in CC Avenue that we can open up certain specific opportunities within regulatory environment to be able to open up and start certain prepaid instruments and we are able to offer such instruments merchants. And given that we have a very large consumer base; it becomes an opportunity for us.

So in the past we had talked about perhaps being something in the loyalty and that that becomes an opportunity for us in the future. And we believe that using such payment instruments that loyalty can be potentially possible and that we will keep on announcing as and when we actually launch such initiatives.

**Amitabh Bhattacharya:** Sir, I understand it would very early to comment on it, but if we try to understand the size of opportunity in this business and how much can you by two, three merchant tie-ups, how much your revenue can we expect out of this like for setting up… so is it that included in our business? And even if we do going forward, how much opportunity do you see coming out of this?

**Vishal Mehta:** You see that our business is extremely routed and stable now from a domestic merchant standpoint. We have continuously shown growth and we believe that in terms of the number of merchants who would want to adapt online that it accelerates with the demonetization which is our belief, given that they would think of it as payment and automated digital payments lead to online infrastructure and many others. So we believe that our domestic business is very tight and stable and we believe that that makes it very, we have a very good understanding in terms of how we want to continue to build out and have quality merchants on our platform. I talked to about Amul who has actually joined our framework, we have also started looking at certain initiatives with IL&FS whereby we can go after the Smart City Initiative where they can utilize our framework and platform for many things including procurement, including SME exchanges, including many others. So that behavior will continue and we believe that our ties of opportunities just from the IL&FS initiative and MoU that we have signed up is at least Rs. 1250 crores in the next five years.

Second part is the international part of our business. If you look at the comparison of many of the companies who offer such infrastructure solutions to merchants, the revenue for merchant internationally is a factor higher than what we have today in India. So you look at any company which is providing a solution which are publicly traded, then the numbers that we have are at least a factor of three or four higher compared to what we offer and we get paid in India. So as a result, as we keep on expanding internationally that we see a huge expansion in terms of margin. Of course, we will also invest in offices and frameworks over there, but that is the incremental expense to us and we will also utilize channels. A channel will be somebody who is like a telecom provider who wants to provide payment instruments to merchants that can be integrated very tightly with our platform. So somebody like a bank who potentially allows us to be able to, who already have the base of KYC merchants, KYC meaning Know Your Client, and that we can tie-up with them to tightly integrate our platform with them. And given that globally looking at the terms that revenue is a factor higher that we believe that becomes a very important growth strategy for us.

If you look at some of the numbers that have been reported on publicly traded companies internationally that there are numbers out there that say that there are 16 million SMEs selling on eBay and Amazon globally. So we believe that while the numbers are astonishingly high, because such economies have been laid out that using our framework in channels that we can actually sign up quite a bit of that additional revenue expansion opportunity in the international markets. So those are the ones that we believe are very important to see in the domestic market from a product standpoint it is an extremely competitive business. And given that every single market place is built as a single URL which is the single definition concept, if you look at any company which is in the market place framework we would see that they only have a single URL where people have to go to. And as a result, the amount of spend to be able to attract the user on the single URL which is significantly high which results in cash losses. Whereas our business model that we have built out where merchants can get their own URL as well as sell across any market place which allows us to keep on expanding on top of such merchants, whereby they may or may not get traffic and demand from a particular market place that they may get from some other market place. And of course they will get their own branded products and their own store front becomes a very attractive proposition in our opinion. And we believe that that will keep on helping us expand more and more in this area and the domestic business as well.

**Moderator:** Thank you. We have the next question from the line of Amit Loonker, individual investor. Please go ahead.

**Amit Loonker:** My question is something like this, like Google site is threat to online ticketing business, how you see this in your industry? If this type of a metasearch site comes into the online electronic market, then how you are seeing the competitive intensity?

**Vishal Mehta:** So the question is that if Google were to enter into a similar business like ours then how would you see that transpire, is that correct?

**Amit Loonker:** Yes, similarly if Google type of metasearch comes into your industry, then how it is going to impact your business model?

**Vishal Mehta:** See, a similar concept to what you just talked about is something called comparison shopping. So comparison shopping, many of the companies are out there whereby they show a pricing, what you talked about Google Flight or some other opportunity is there, that it is like an aggregator sitting on top of it. And we are showcasing many of the pricing and so on and so forth. But you see there are so many components to this business, given that it is not just a webstore but there is a whole ERP and a supply chain associated with this as well whereby when you want to actually sell a product or a service, I am talking about from Indian context and then I will go to the international arena as well. So in the Indian context that somebody could showcase the pricing and the demand and so on and so forth. But on the other hand process ERP in terms of inventory management, order sales, order allocation, transportation, optimizing transportation cost, all of the pieces and services are not perhaps there into a particular single location. As a result, even globally it has been very difficult. And that retail is of course continues to grow in such geographies as well.

So to answer your question, we believe that with scale comes a significant advantage that we continuously expand into such arenas. We will continue working on different parts of our services; these are stated services that we have built on BuildaBazaar as a platform in a framework. So as a result, as we keep on expanding for example with mobile, the mobile application has become very important, merchant actually create their own mobile application without actually having to go and work with the software developer. Can they work on a framework whereby it is completely integrated with so many payment solutions? They would be able to open APIs; these are application program interfaces whereby software developers can actually code against other platforms and framework. Those are the lines that we continuously work on whereby it becomes easier and easier for them to continue doing business.

Now I want to cover up a very important topic over here which is that you see our platform works not just for small merchants, it works for very, very large merchants as well, it is not just for smaller medium enterprises, and the same infrastructure also works for very large enterprises. Which means that typically in a framework you will find that very large merchants historically would have worked on very large implementation of SAP, Oracles and many others to be able to enable their online presence. And in a very smaller medium enterprise framework you would find that people would be using open source solutions and many others. But again, these are technology solutions and what we provide are demand enabling solutions, that is because of very huge difference in terms of all these things because it is just not technology, it is enablement of demand. And enablement of demand comes very well given that we understand the ecosystem and the business that we run ourselves. So we believe that we have to continuously monitor, we will track, but we are obsessed on what we do and not what we actually maybe competitors do in certain cases. Of course, we track what they do and we will keep on updating ourselves in terms of what we should be doing differently. But our focus of retention, our obsession is on doing what is right for our clients. And that is how we have grown so far and we believe that that will continue going on in the future as well.

**Amit Loonker:** And my second question is, can you draw a line on your warehousing strategy? Like you have told about the logistics and the centers which you are going to open up.

**Vishal Mehta:** You see, in terms of warehouses there are two concepts that come across. One is warehousing for storage and second is warehousing for throughput. And typically if you look at warehousing, people usually think of storage. People think that I want to store product in that warehouse. Our framework or our mental model has always been around throughput and not just on storage. We find a lot of third party companies who can offer storage solutions. In other words, if you have products you can store in my warehouse. Warehouse and designs of warehouses which are built for throughput are very different than the ones which are built for storage. For example, in storage you will need racks and many others to keep on storing it, whereas ones which are for throughput will require a lot of process and process behavior to be able to buy those volumes. So I think that that has an impact directly into how you would think about the warehousing strategy, we have focus continuously on throughput and not storage. That is one.

Second is, you see GST that has a very large impact in terms of how the whole warehousing will function. Because with this year's movement of goods and products across borders that you will always find that one needs to look at what is the average selling price of a product. And what is the transportation cost involved. And if you believe that storing at a single location is going to be price indifferent, we call it price indifferent compared to storing in multiple location. Then you should store only in the single location, there is no reason to carry the same product in multiple location because it increases the overall amount of inventory as well as inventory carrying cost. That will have a major impact in terms of how we would design and you would put up such warehouses. And our premise there is that in terms of capacity we would like to work on the logistics capacity. You see, a lot of people are already working on the warehousing part. So our strategy and our perspective is to work on the logistics part, warehousing becomes an enabler to logistics because they are going to be built and they are provided for throughput and not for storage. So we have a very asset-light model. We do now have an inventory lead model I would say. And as long as we find a merchant who can sell the product that we would want to put that merchant up. And if a supplier cannot ship the product directly due to many constraints, because they do not sell it to the consumers that we carry such products. So our appetite there is that we want to work on the logistics framework. You can think of it as a smaller warehouse for throughput, that is the way we think about it because these are centers which allow people to move products and not necessarily store products.

**Amit Loonker:** So how this warehousing is differentiating in your overall value chain system?

**Vishal Mehta:** If you look at the differentiator for the warehouse, there are different sizes of what you would want to build out, like I said. So typically whenever you think about a warehouse that you would want to set it up closer to either the customer which is actually what we define in logistic center, because that is where you can do local delivery and you can do faster deliveries. And pre demonetization there was also cash on delivery which is payment which is being handled. And so a part of our objective that we would be expanding into 75 additional logistic centers, so you can think of it as on an average with a few thousand square feet location, but some of them they also go even higher in tens of thousands. So on an average these are few thousand square feet locations. And that allows us to do a lot of cost savings, because the cost saving is that when you actually take payment and then you deliver your selves and you actually make the additional volume to a third party courier that you can realize a lot of cost savings in your system as well and you differentiate services to users.

So I will give you an example. Rather than if you had to ship 500 unique products from Jaipur to unique customers in Delhi then you have to pay a lot more compared to moving them from Jaipur to Delhi in a B2B format and then doing local deliveries. So from that perspective we realized that there is significant amount of cost savings to build out logistic centers, given our ecosystem and framework which becomes accretive. So while it is a forward investment, but you can realize the returns very quickly on that.

As far as warehousing is concerned, that these are feeders they feed into it and there are so many companies who are in the warehousing space, who provide warehousing space. So this is a very hard inventory lead model that you would want to think about warehousing. But if you are working on an asset like model then we believe logistic is the right framework to be able to drive more and more throughput across.

**Amit Loonker:** What is the current employee strength of the Company?

**Vishal Mehta:** So the current employee strength, we have crossed 1000. So we are upwards of 1000 people.

**Amit Loonker:** And has the Company issued any lock-in shares which would be paid in near future?

**Vishal Mehta:** So, lock-in shares meaning that yes there are shares under lock-in. In other words, there is a regulatory environment and within that regulatory environment there would be a lock-in that will be issues too many of the shareholders and that we comply with. Specifics, of course we can provide more if there is a specific question around it.

**Moderator:** Thank you. We have the next question from the line of Mitul Shah, individual investor. Please go ahead.

**Mitul Shah:** Sir, my question is, last quarter our total merchants were 57,482, this quarter it is 61,248. There has been a significant rise by 6.55%. Even though it is rise by 6.55%, the sales has not risen, the sales has just risen by 4.4%. What is the reason behind that?

**Vishal Mehta:** You see, a lot of merchants get added in a variable cost basis. So merchants have the flexibility to actually go and start on a variable cost and eventually when they scale up they get to a fixed cost. So we believe that as we keep on dealing out our framework and it is not very uncommon, we have communicated this in the past as well that we are going to continuously focus in terms of maybe the overall revenue per merchant will potentially reduce and not increase in the future. So the cost of technology also goes down, and as the cost of technology also goes down then we will continuously resume and pass on the payments to merchants as well. In order to offset the cost reduction, we have been working on value added services. So value added services that we talk about **0:59:54.7** highlighted earlier which is providing advertising framework to be able to utilize our platform so that they can advertise on some other website and other portals. Advertising cost will actually be driving demand on to such merchants. And so we believe that over a period of time as you would have more computing tomorrow with the same cost compared to today that we will be able to pass on such savings to merchant. And over a period of time what we believe is that we will keep on providing services on top of our platform that allow us to keep on monetizing on these merchants. So I think one can assume that the cost will be slightly lower. And of course in certain quarters as we perform well we will continue growing our value added services portfolio.

**Mitul Shah:** But sir every merchant is paying on an average by Rs. 15,000 on a yearly basis. So how many of the merchants in general, percentage wise I am asking, that pay through cash or pay through ECS or post-dated cheque?

**Vishal Mehta:** No, we do not have merchants paying by cash. So that is what we ruled out. And what you typically do is that you see the behavior is such that merchants usually come to our platform whereby they want to sell, say for example on infibeam.com as a market place. Because you will find so many merchants who are selling across every market place framework. So then merchants come to us and say that they would like to sell on infibeam.com, then for that they need a backend. Using a backend they will need to put up their inventory, they will need to put up their products, and they will need to put up their pricing to sell on Infibeam. Now the same platform that is offered for the merchant to sell on Infibeam, they can also build up their own without incurring any expense. So it is a buildup of our platform because Infibeam is an implementation of BuildaBazaar platform. So what tends to happen is that when a merchant wants to use the back end, they can automatically start using the front end. And you can start a variable cost and as you grow that you can come to a fixed cost. There are merchants who do not want to sell on Infibeam who only want to sell themselves, whereby they use the BuildaBazaar platform and at that point they start using a particular plan in terms of how they want to sell. And the plan starts from Rs. 1000 and eventually it grows higher.

So as and when we allow the merchant to be able to go and start on a variable cost, because it becomes a very low cost of acquisition. For any merchant who is selling on any market place, they would want to start on a variable cost because perhaps they are looking for demand and eventually when they find the demand and when they find such solutions they have taken most of its costs. So that is the premise with which we operate. So as a result, if you look at… and of course as merchants get added, if you look at the yearly number it may not make sense, so you will have to look at quarterly framework. And the quarterly numbers because when you actually look at the services revenue that we generate in the quarter versus the number of merchants that we have in that quarter and extrapolate that for the full year then only will it make sense for you. So just dividing one number by other may not be the right protocol, because the merchants may not have fully implemented the full year impact.

**Mitul Shah:** And the main thing I wanted to understand, this is the financial in the service side that we have not clocked a 50% growth quarter-on-quarter basis. Any particular reason, because if you follow the last six to seven quarters in general, we have clocked every time more than 50% jump. So any reason for that?

**Vishal Mehta:** We believe that, like I said it depends upon in certain cases the **(Inaudible) 1.3.3** which we use. So as we start scaling up our framework and our business, we believe that it is a very healthy growth that we have seen. And it is a growth that we know we can accommodate and we know that we can keep on building up on top of it. While we are not capacity constraint, if you will, but we will look at the full impact and that will give you a better indication in terms of our growth versus certain quarters. If you look at compared to last year we have grown in double-digit percentage. But as we keep on scaling up, like I said that we will keep on reducing and passing on the cost to our merchants and we believe that value-added services will actually kick in which allows us to grow to the next level. We have also signed up many of the initiatives as you would have noticed, which allow us to scale up our services revenue in the second half of this year.

**Mitul Shah:** And sir last question is what this international business revenue will come, because through the KSK Capital you scaled up to 40 countries. So what numbers we can expect and what are the major steps you are taking towards it and what can be the revenue out of it?

**Vishal Mehta:** You see, international, because Middle East is a very strong foothold for us and even prior to this MoU we had setup a fully own subsidiary of ours. So in that international today is a small percentage of the overall level, it is 15% of the overall level. Now when you look at the MoUs that we have signed up with KSK Capital that once we get into a definitive agreement it allows us to get into more than 40 countries and expand the opportunity. There are many, many large groups in the Middle East, KSK Capital of course is one of them, and with the local connect and the local regulatory environment that we have initiated this joint venture activity with them which allows us to go into 40 countries. We have not gone yet, we have signed a MoU and once we get into a definitive agreement then we will get into this. So the impact of this will be felt in the last quarter of this year and not in Q3 of this year, not in the December quarter. So that means that each of the geographies we realize are the large geographies….

**Mitul Shah:** In this quarter?

**Vishal Mehta:** No, it was not there in the previous quarter, it is not going to be in this quarter, but we expect that it will be in the last quarter of this year.

**Moderator:** Thank you. We have the next question from the line of Amit Loonker, individual investor. Please go ahead.

**Amit Loonker:** Has the Company debt level increased because it can be seen a considerable rise in interest cost?

**Vishal Mehta:** No, I mean this is actually we have provided for a contingent liability, we had a very good quarter last quarter. So what we have done is that we have reported contingent liability in prior year and we have provided for that contingent liability in this quarter. So about Rs. 2.3 crores to be precise, approximately is the interest on that contingent liability and about Rs. 4 crores went into the tax expense. So we have provided for it. The Company will decide of course to go ahead and argue and contest. But at this point, given that we had a good quarter and that we would want to be conservative that we have provided for that in this quarter. So some portion of that will show up in the interest expense, and some portion of that will show up as taxes. This is a one-time even, just so that you know, and it is not something which is recurring, but we have provided for that in this quarter.

**Moderator:** Thank you. Our next question is from the line of Mitul Shah, individual investor. Please go ahead.

**Mitul Shah:** Sir, what are we doing with .ooo domain, in the last quarter you said that you will be looking at reducing the cost, now do we have any progress on that?

**Vishal Mehta:** Yes, Mitul, we will share that project, we are exactly tracking to it. We know how to reduce the cost of an .ooo domain so that we can manage and maintain it. Our strategy is to reduce it to a point whereby we can give it to many, many more merchants, brands, retailers, individuals, both in domestic and international market. We expect that hopefully in the next three months, in the next quarterly results that we would be able to share more with you on that. It is not something that is something at an experimental stage or a trial stage, we have crossed that. We know, we have recorded it and we know that we can accomplish it. So I think from that perspective we have a lot of conviction, it is just the plumbing which is required and to be able to position it out so that we can pass it on and we can grow this out to the next phase. But you can expect to hear back from us by next quarter on the progress as well as the scale of opportunity. We believe that if we start giving it out and if the adoption goes into masses, because we can club and we can combine it and we can bundle it with many of the opportunities. And as we do that and if we can reduce the marginal cost for us, then while consumers can start out at a low level, but the next year's annuities are very large. It also allows us to give other domains which are the ones which are very premium in nature, like for example cricket.ooo and insurance which usually people do not get, those become very expensive and those are also crown jewels that we can sell it at a future stage. So we believe that the size of the opportunity is something very exciting to us. We believe that we can still scale up in incremental ways. We can offer lot of supplementary processes like retail and many others and you will hear a few things from us in the coming months that next quarter we will give a very long detailed explanation on our strategy and what we plan to do going forward.

**Mitul Shah:** And what kind of revenue is put in the total segment in general?

**Vishal Mehta:** .ooo is a very small number, so in other words it is combined with the services revenue at sizable opportunity of scale of course we will segment it out further. But today, as you know, you can think of it as actually a very, very small number in a single-digit percent is even lower than that.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Mayank Babla from KR Choksey for closing comments.

**Mayank Babla:** Thank you. On behalf of KRChoksey Shares & Securities Private Limited, we thank the members of Infibeam management and all the call participants for such an engaging discussion. Have a good day. Thank you, sir.

**Vishal Mehta:** Thank you.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of KRChoksey Shares & Securities Private Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.