"Info Edge (India) Limited Q2FY 17-18 Results Investor Conference Call"

October 31, 2017

MANAGEMENT: **MR. SANJEEV BIKHCHANDANI – VICE CHAIRMAN, INFO EDGE (INDIA) LIMITED**
MR. HITESH OBEROI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, INFO EDGE (INDIA) LIMITED
MR. CHINTAN THAKKAR – CHIEF FINANCIAL OFFICER, INFO EDGE (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Info Edge (India) Limited Q2 FY'17 and '18 Results Conference Call. Joining us on the call today are Mr. Sanjeev Bikhchandani -- Vice Chairman; Mr. Hitesh Oberoi – Managing Director and CEO; and Mr. Chintan Thakkar – CFO. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now 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 Second Quarter Results Conference Call. As always, 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."

We would like to mention that similar to last quarter, the reported Q2 numbers to the stock exchanges are based on IndAS, the new accounting standard, and in this call, we will discuss numbers based on IndAS only. The audited financial statements file has been uploaded on our website. All numbers in the file are based on IndAS. We have also uploaded deferred sales revenue numbers under IndAS to help understanding the movement of revenue numbers under each segment. For Q2 FY'18, we have also provided segment revenue, profit before taxes and DSR movement in our 'Data Sheet' on our website.

For the standalone company, revenue in Q2 was Rs.225 crores Vs Rs.210 crores in the same quarter last year, an increase of 7%. Billings in Q2 were Rs.203 crores Vs Rs.186 crores in the same quarter last year, an increase of 9%. Operating expenses excluding depreciation were Rs.136.4 crores Vs Rs.140.5 crores in the same quarter of last year, decrease of 3%. Operating EBITDA excluding any exceptional item was at Rs.88.8 crores Vs Rs.69.5 crores in Q2 of last year, an increase of 28% Y-o-Y, as a result of an increase in revenue by Rs.15 crores, and a decrease in expenses of about Rs.4 crores. EBITDA adjusted for ESOP noncash charges stood at Rs.94.3 crores Vs Rs.76.2 crores in Q2 of last year, an increase of 24% Y-o-Y. Operating EBITDA margin was at 39.4% Vs 33.1% in Q2 of last year. Adjusted EBITDA margin stood at 42.0% Vs 34.4% in Q2 of last year. Deferred sales revenue has increased to Rs.335 crores as of September 30th 2017 Vs Rs.275 crores as of September 30th, 2016 an increase of 22% Y-o-Y. The cash generated from operations during the quarter was at Rs.61 crores and the cash balance now stands at Rs.1,467 crores as of September 30th, 2017.

Moving on to "Results By Segment"" We will first discuss the Recruitment segment. Please note that our business wise numbers that are being given out are management estimates and are not fully audited. In Q2 Y-o-Y, Recruitment segment billings where Rs.146.4 crores, an increase of 14% Y-o-Y. Naukri India Corporate billings grew 16% Y-o-Y. Recruitment revenue was at Rs.164.8 crores, growth of 6% Y-o-Y. Operating EBITDA margins in the Recruitment segment was at 59% Vs 57% in Q2 of last year. EBITDA margins after adjusting for ESOP non-cash charge stood at 61% Vs 59% last year. In Naukri India, the operating EBITDA margins stood at

68% Vs 65% in Q2 of last year and EBITDA margins adjusted for ESOP noncash charges stood AT 69% Vs 66% last year.

In Naukri in Q2, we added an average of 17,500 fresh CVs everyday Vs 15,000 last year and the Naukri database grew to around 54 million CVs. The number of CV modifications stood at 287,000 per day Vs 248,000 per day last year. In Q2 of this year, we serviced 47,000 unique customers Vs 44,000 plus customers in Q2 of last financial year. This is based on IndAS revenue.

While the billing growth was strong during the quarter, the revenue growth lacked primarily for two reasons – One, because of larger duration subscription sales and two because of a skew in billing towards quarter end. We continue to make reasonable progress in our Recruitment Tools and Systems business and continue to add new customers. While strategically the business is very important for us in the long run, the size of the business is still small and is unlikely to move the needle on top line significantly in the next four-five quarters.

All solutions pertaining to CSM, Applicant Tracking and Referral Hiring have now been rebranded as a Naukri Recruitment Management System (RMS) which is now available in different versions.

After slow Q1 in Recruitment which was impacted by a slowdown in IT hiring and the transition to GST, we saw slow July and August as well. Billing growth however picked up in September across all segments. However, we need to see if this growth is sustained going forward. Our Traffic shares in the job portal space continues to be in the mid-70s excluding Indeed and little over 60% including Indeed.

Naukri Gulf business continues to be impacted negatively by the fragile state of some of the economies in the Gulf.

In 99acres, billings de-grew by 4% Y-o-Y in Q2 of FY'18 to Rs.33.3 crores. Our revenue grew 6% Y-o-Y to Rs.32.6 crores. In Q2 99acres made an operating EBITDA level profit of about Rs.40 lakhs versus a loss of Rs.13.1 crore in Q2 of last year. But this was partially aided by earlier quarter writeback on provisions of about Rs.3 crores. EBITDA adjusted for ESOP expenses stood at Rs.1.8 crores including the provisional write backs versus the loss of Rs.(-11.2) crores in Q2 of FY'17.

We have been continuously rationalizing our spends given lesser competition and the slowdown in the real estate market and the confusion around RERA without compromising on investments and product, technology and data quality which are required to maintain leadership.

Our traffic share amongst the Real Estate portals continues to be in the mid-40s based on time spent despite cutting advertising expenditure and this is very-very encouraging. We are about 40% larger than our nearest competitor on traffic at an overall level and have traffic leadership in almost all major markets.

The Real Estate market however continues to be extremely sluggish. As far as RERA is concerned, in all major states, with a significant level of residential real estate activity, RERA rules are being notified as we speak. In certain states, there is still no RERA website like in Telangana, AP, and in some states like West Bengal, Goa, RERA rules have not been notified. There is also a varying degree of application automation for securing the RERA registration number – while in some states like Maharashtra, the entire process including document submission can be done online and it is pretty seamless, in another state like Tamil Nadu, it is still a paper process and is very cumbersome. We expect it to be some time before the RERA impact will fully abate and for all key under-construction projects will get registered. However, the situation is improving with every passing month. We expect registrations to substantially pick up in Bangalore, Gurgaon and Chennai in Q3. Chennai and Kolkata may take slightly longer and go into Q4 as well. State elections in some states like Gujarat and political situation in Tamil Nadu, etc., are taking a toll on implementation speed.

While the impact of RERA is largely abating, the underlying sales situation on the new home side remains poor especially in our four largest markets, NCR, Mumbai, Bangalore and Pune. Pace of construction is still slow in old projects and new launches are still very few in number. Home loan interest rates have fallen, but people are still are not willing to buy new homes and the market is slowly shifting to resale and rental. Demand for luxury projects have hit an all-time low.

Affordable Housing on the other hand seems to be seeing more supply and the ad spend in this segment is expected to increase going forward. This is good news for us because a lot of the demand on our site is for low cost in affordable housing.

In the Jeevansathi business, billings grew 19% Y-o-Y in Q2 FY'18 to Rs.17.2 crores while net sales grew 24% Y-o-Y and reached Rs.17.7 crores. The operating EBITDA loss in Jeevansathi increased to Rs.3.9 crores in Q2 of FY'18 Vs loss of Rs.90 lakhs in Q2 of FY'17. EBITDA loss adjusted for ESOP noncash charge stood at Rs.3.7 crores for Q2 FY'18 versus a loss of Rs.70 lakhs in Q2 FY'17. In the Hindi belt, our share continues to grow, and our position is getting stronger as Jeevansathi has now grown at an average of 24% over the last nine quarters in a market which is growing at 10%. Mobile traffic in Jeevansathi is close to 90% and the Jeevansathi Mobile App continues to be the best in the category.

In Shiksha, billings degrew at 30% Y-o-Y, we saw negative growth in Q2 FY'18 to Rs.5.6 crores while net sales grew 7% Y-o-Y and reached Rs.10.1 crore. The key reason for low billing growth were - some deal closures which happen in last year in September got pushed to Q3 and some clients are making split payments this year. That said, all clients are happy and we are confident of delivering a better Q3, but we have to see what happens. We made profit of Rs.1 crore on the EBITDA level in Shiksha. If you adjust for noncash ESOP charges, the EBITDA profit stood at 1.5 crore. We continue to work on our product and are making good progress post the site revamp this year. Over the last 12-months, we substantially improved our Content and SEO as well. As a result, our user base is growing at a healthy rate.

Moving on to our Strategic Investments: Our investee companies continue to witness good growth. We had put out the required financials as part of our FY'17 report last year which is available in our website. Meritnation and Canvera continue to be our subsidiary companies. Most of the investments are now parked in subsidiaries which now gives us more flexibility and options. Additional funding to existing investee companies would be required from time-to-time and we will evaluate each case on its own merit, and we will also continue to evaluate new investment opportunities.

To summarize, after the last quarter being impacted by a slowdown on IT hiring and the transition to GST, we saw slow July and August as well, but billing growth in September was strong in all segments in Naukri. We need to see this growth will sustain going forward. Our competitive position in Naukri continues to be very-very strong. Costs are under control and we continue to invest in newer products and site improvements. Over the past year, our Mobile App and sites in all our businesses have witnessed improved traction with more and more users accessing our sites through them, this is very encouraging. This is clearly an area of continuous improvement and product enhancement for us.

RERA rules have now been notified in most major states except for states like West Bengal and Goa. In certain states, there is no RERA website still, but I think most states are likely to get their act together in the next month or two. Real Estate market of course continues to be slow. Situation on the new home side remains poor especially in our four largest markets, NCR, Mumbai, Bangalore and Pune. Pace of construction in old projects is still slow and demand seems to be shifting both to resale and rentals. Demand for luxury projects has hit an all time low, but the good news is that Affordable Housing supply is now growing, and this is a great opportunity for 99acres because most of the enquiries and demand on our site is for affordable low-cost homes. We continue to invest aggressively in Jeevansathi and Shiksha as well. That is all from us. We are now ready to take any questions that you may have. Thank you.

Moderator: Sure, thank you very much. We will now begin with the "Question-and-Answer Session." We have the first question from the line of Vetri Raju from Equity Analyst Pvt. Ltd. Please go ahead.

Vetri Raju: Broadly, I just have a couple of questions at macro level. In the Naukri job portal, you said that in September we saw some traction. Which are the top two sectors which have maximum traction positive side and which are the two sectors at the bottom?

Hitesh Oberoi: Sectors like banking, financial services, insurance, travel, hospitality, tourism, healthcare, teaching, are doing well for a while now, but sectors like Real Estate, Engineering, Construction, Infrastructure have been in the dump for a while. IT had negative growth while back, it is still negative but is a lot less negative than it was a few months back.

Vetri Raju: Also, compared to these companies which are into flexi staffing and all that, are they kind of complementing our business or are they competing in our business at a conceptual level?

Hitesh Oberoi: We work with about 70,000 companies, about 8,000-10,000 of these are either placement firms or staffing firms, companies like TeamLease, Manpower, etc., are customers of ours. Now, they also sort of work with our other customers, but we work with everybody. It is very hard to say whether we are competing with them because they are customers of ours as well. But yes, they are probably competing with HR departments of companies for sure.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss Securities. Please go ahead.

Sandeep Agarwal: I have two things to understand here; one, how long do you see 99acres business getting impacted, one due to the RERA and another due to slowdown in the NCR region? I understand that you have given a lot of update on it earlier also, but what is your sense, are you seeing any green shoots or any signs or what will be the sign that will encourage you to think positively, in the sense that you believe that there are some positives going ahead? #2 is on your Zomato business. I understand that you have already disclosed what you intend to but just wanted to understand what is your overall view on that business – do you think that the improvement momentum for the bottom line is very sharp now or you think that it is at its own pace like past?

Hitesh Oberoi: I will take the question on 99acres and Sanjeev will respond on Zomato. As far as 99acres is concerned, there are two issues -- One is the overall sluggish state of affairs in the market especially in the new home market; and Two, the confusion around RERA. Now, the confusion around RERA seems to be abating, it has been a few months now and some states have got their act together, others are in the process of getting their act together, projects are getting registered, not at a pace at which we would want them to get registered, but they are getting registered. The situation is expected to improve with every passing month. So we are sort of confident that on the RERA side, at least the worst is already behind us and things will get better going forward. As far as the overall market is concerned, the demand continues to be low for new homes, launches are at an all-time low in more cities. Demand for Luxury Homes is low. But the good news is that Affordable Housing seems to be getting a boost and supply on this front is increasing. A lot of our users cannot afford Luxury Homes, they want to buy Affordable Homes. So this is in the long run good news for us, but we will have to wait and see what happens going forward.

Sanjeev Bikhchandani: On Zomato, it is a matter of strategic choice as to whether they want to break even or they want to raise more money and invest more to chase the potential in the Online Ordering segment. There is a constant discussion in Zomato. As of now they are still staying breakeven, but this could change upon discussion. So the options are open there right now. I do not expect they would make a large profit because whatever profit they make, they would like to put it back, they may also have to invest more depending on how fast they want to grow in the Online Ordering space.

Moderator: Thank you. The next question is from the line Gaurav Malhotra from Citi Group. Please go ahead.

Gaurav Malhotra: Just had a couple of questions; on Naukri, the September quarter saw some pick up in billing, but any way to quantify whether the billing growth in the September quarter how strong was this and whether that would lead to the third quarter top line growth revenue for the Recruitment to go back into at least double digit?

Hitesh Oberoi: Billing growth in Q2 was 14%, but revenue growth was only 6%, which is why deferred sales revenue grew by 22%. So basically what happened was we sold slightly longer-term subscriptions and the billing sort of was mostly skewed towards quarter end. So now there could be a recovery in the offering because clients buy long-term subscriptions and it basically shows they have confidence in the fact that they will continue to hire. But it is very early… it has only been a month and we will only know this quarter as to what the real state of affairs in the economy on the hiring side is.

Gaurav Malhotra: Just on this, would the client be buying longer-term because they are more confident or because it is cheaper and things are little tough then they might see some discounted packages from you which would be longer-term in nature?

Hitesh Oberoi: We will have to analyze what really happened, we have not gone into great detail as yet. We have enough clients who buy for the year and especially the new clients who try us out for a quarter and then sort of depending on the response they get, they sort of renew for a year or six months, then there are some who say, this time we do not too many requirements, we want to hire only three or four people, we do not want to buy a long-term subscription right now, we are not sure about what is going to happen. Normally, in the past, what we have seen is that when the economy starts to slow down, people start sort of deferring purchases and they do not want to commit long-term, but like I said, we do not have enough data right now to sort of say what is going to happen going forward.

Gaurav Malhotra: Just one last question on Naukri itself. You mentioned that on the IT side it has been negative. If I look at the contribution of IT revenues from Naukri, they have sort of remained in 29, 30, 31% all this while, that have not been reflected in the contribution from IT side.

Hitesh Oberoi: When I said IT was negative, I meant the number of jobs in the Job Seek Index which we sort of produce every month, but surprisingly, billing from IT has been growing at the same rate for the last three-four months at least as billing from non-IT. IT for us includes captives of MNCs, includes domestic IT services companies, it includes exporters, it includes internet companies, So while export-oriented IT services, companies may have slowed down, anecdotally what we hear is that captives are growing plus internet companies continue to hire. So as far as we are concerned, the IT sort of growth rate seems to be in line with the overall growth rate, and on the non-IT side also, there are some sectors which are doing well, but there are some which are not doing well. Like I mentioned on the call earlier, infra-related sectors like construction, real estate, engineering, goods, power, energy, telecom, etc., some of these sectors have not done as well as one would have expected them to do over the last few years while the services sector on the other hand has done well. So if we are seeing 14% billing growth, we are seeing billing growth in both IT and non-IT and almost at the same rate right now.

Gaurav Malhotra: Sanjeev, just on Zomato, it seems to be some small change of stance from just focusing on turning or keeping EBITDA breakeven to now choosing between chasing EBITDA breakeven or investing more in delivery, would that be correct way of looking at it?

Sanjeev Bikhchandani: They have achieved EBITDA breakeven. Having demonstrated that they can breakeven, it is a viable business. They now are in a constant discussion, it is an open discussion on whether we should grow through internal accruals only or should we be investing further behind growth in the Online Ordering business. That is the strategic choice to be made.

Gaurav Malhotra: In Online Ordering, are we seeing higher competition from the like of Swiggy and others got more funded?

Sanjeev Bikhchandani: I would say higher competition but this competition is ongoing for a while. So that situation that continues. So Zomato dominates the restaurant discovery, it is sort of head-to-head competition with Swiggy on Online Ordering.

Moderator: Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Just wanted to understand the adjustments of 39 and 32 million that you have mentioned in the SEBI release, which expense item do they correspond to?

Chintan A. Thakkar: There are some write backs. So usually at the every quarter you would estimate some of the expenses and you will kind of provide for it, for example, it could be management bonus or it could be advertisement expense that you thought certain slots were being used and later on when the final invoices come or when you kind of recheck and all, you may find that they are excessive or could be short as well. So this time, we had certain expenses which were all kinds of things. I think there are certain issues around marketing cost, there are certain about server charges, there are management bonuses. So I think certain write-backs usually happen, it is a normal thing, but this time it was slightly higher than what we would have otherwise imagined, we thought of disclosing that.

Arya Sen: How much was the writeback in last year or last quarter, just to get a sense of what is the normal level and how much higher?

Chintan A. Thakkar: I do not have the exact number of what it could be but it could be one-third of what it is.

Sanjeev Bikhchandani: Correct me if I am wrong, Chintan, typically we do these write-backs end of the year and that is normal and typical, so it is a normal thing, but this time sort of we have assessed in the middle of the year and done the write-back and largely because of all the changes in the environment with GST coming in, we had the option to do it in the middle of the year, so therefore we disclosed it.

Arya Sen: Could you repeat the EBITDA number for Recruitment Solutions in the coming quarter?

Sanjeev Bikhchandani: Recruitment revenue was Rs.164.8 crores and the operating EBITDA margin in Recruitment was 59%, EBITDA margin after adjusting for ESOP noncash charge is 61%.

Chintan A. Thakkar: In absolute amount, operating EBITDA was Rs.97.7 crores.

Arya Sen: Related to that, your EBITDA margins in Naukri just keep on increasing, what is the peak… how much can they go up to?

Hitesh Oberoi: What we said in the past is that we can maintain and even grow margins if sales growth is more than 15% per annum. Below 10% margins could fall actually going forward. One-off we could have a situation where in a quarter, for example, if advertising expenses are lower or some other reason, you may have low revenue growth and also margin improving, but long-term if we have to sustain these margins, we need to be able to grow the business at about 14%-15% per annum.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: My first question would be if you would like to highlight any pricing related adjustments across our portfolio through the year or this last quarter… price that you charge on your websites for your customers?

Hitesh Oberoi: For Naukri, we took a price hike a few quarters back but last quarter we did not take any price hike.

Ankit Pandey: Just in Zomato, is there a tone change, I notice that you say that we may invest more or is that rather sort of recent developments of the investment and…?

Sanjeev Bikhchandani: I was asked a question, will Zomato continue to breakeven, will it suddenly increase in profit. So this is the ongoing discussion in Zomato as to we have demonstrated breakeven, we have a choice and that question is open and it is undecided yet as of now.

Ankit Pandey: There is nothing to relate it from the perspective of the competition is too overbearing in some areas or market is shifting in some ways and giving it up, that is not really much read into?

Hitesh Oberoi: I think there is an opportunity for growth in the Online Ordering part of the business, but in order to sort of exploit the opportunity fully, you will need to up the investments there and that is an ongoing conversation.

Ankit Pandey: In 99acres last quarter you mentioned huge volatility, you mentioned consolidation in the market where certain players are shutting down?

Hitesh Oberoi: The market continues to be in terrible shape, under-construction projects have not picked up still in some market. But the confusion around RERA is a lot less now than it was in the case three months back or even two months back. So the market continues to be tight. But at least the confusion around RERA is abating and we are seeing a little more activity in the Affordable Housing space which is good for us because a lot of our traffic is in that segment.

Ankit Pandey: Just on the Affordable Housing segment, how should we read into it – are these enquiries that you are generating is there enough traffic, what are the lead indicators that you are looking at when you made the comments?

Hitesh Oberoi: On our site, we get hundreds of thousands of enquiries every month and most people are sort of looking the sweet spot. As far as people are concerned, they are looking to buy a property in the sub-60-70 lakh segment. In the past, there used to be not enough supply in that segment. But what we are anecdotally hearing from our sales team is that there is some action in that space, new launches are picking up in the Affordable Housing segment. So long-term this is good news for us if this sustains.

Ankit Pandey: Is there any timeline that you would like to put on this?

Hitesh Oberoi: We are not putting any timeline, what I am saying is there is more activity in the Affordable Housing space as far as we are concerned, that is what we are seeing in the market now. Basically the government is also giving a push to Affordable Housing. May be it is more lucrative now to sort of launch projects in that segment. On the buyers side also, interest rates are lower if you want to buy a property in the segment. So we are expecting this segment to boom going forward, but still it is very early days.

Ankit Pandey: Just on Naukri as well, are we saying that look, billing is of course rising but revenues not yet picking up, but do you expect the slowdown to continue. So, all the incremental billing that we get, do you see that being pushed out a little bit more as you were saying earlier so that revenue growth will just not pick up despite seeing the billing rise?

Hitesh Oberoi: Look, we didn't say that we expect the slowdown to continue. What we said was that billing growth was low in July and August but it picked up in September. So whether that is sign of economy recovering or not is very early to say. We will have to wait and see what happens. Because billing growth picked up in September and not July and August, lot of the sales got deferred out and that is why deferred sales revenue go at 22%.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: 99acres has continued to see good realization improvement in YOY terms. So what has helped the improvement despite the slowdown of new launches?

Hitesh Oberoi: #1 We launched some new products, so that is helping, #2, we have been slowly taking pricing up in 99acres and price per listing up in 99acres, so that is helping. Lot of the growth is coming on the resale side because that is where the action is, the new home side sales have been sort of slow because of the confusion around RERA, that is broadly it.

Ravi Menon: Secondly, on the expenses, I think advertising and promotion expenses is one of the lowest as a percentage of revenue. So how should we think about it – should we expect that this you will not really invest as much until you see a pickup in 99acres or is this just something as a one-off quarter?

Hitesh Oberoi: This is a one-off because there were so much confusion around RERA that there was no point on advertising last quarter which is why we stopped advertising and so did our competitors, but we expect advertising spend to pick up again, in fact, we will be on TV starting tomorrow in 99acres again. If the market shows site of improvement, then we will invest aggressively advertising in 99acres going forward.

Ravi Menon: Just a book-keeping question on Jeevansathi, what were the revenues for this quarter?

Hitesh Oberoi: Rs.17.7 crores.

Moderator: Thank you. We have the next question from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: First question is on billings. Your billings growth was about 11% this quarter, it has been around that number for the last couple of quarters. But if I look at the billings in Recruitment, I think you said it is a bit stronger. The question is if you look at the absolute billings, there actually have been decelerating on QoQ basis for the last three quarters in a row. Is that something reflects weaker demand environment, how should we interpret that?

Hitesh Oberoi: I think you have to go by business; in 99acres, we saw degrowth this quarter of 4%; Shiksha also sort of shown decline in billing this quarter, while Naukri sort of billing growth improved over the previous quarter; I think it was 12% if I am not mistaken last quarter, this quarter it was 14% and Domestic Corporate Naukri India sort of billing growth is 16%. So billing growth has been impacted because largely on account of deceleration in 99acres which was mostly related to the confusion around RERA. Billing growth in 99acres is expected to improve in Q3, but we do not know by how much. As far as Naukri is concerned, a lot will depend on the economy. If the economy starts to improve from here on, then hopefully billing sort of growth will continue to remain in the high teens, but we cannot say that for sure.

Ankur Rudra: But Hitesh, even the billing number for Naukri or for Recruitment, on an absolute basis it did seem like it was down this quarter versus last quarter?

Hitesh Oberoi: In absolute terms! I don’t think you should look at our business in QoQ terms, because I think YoY comparisons are more fair because of seasonality around one or two quarters in the year.

Ankur Rudra: So that trend is not worth focusing on at all?

Hitesh Oberoi: I do not think you should look at any of our sort of business on QoQ.

Ankur Rudra: Secondly, Sanjeev, wanted your comment on the investment in PolicyBazaar, what has made you change your views, you have been passive on them despite being one of the earliest investors, so is this to maintain a certain ownership or you feel a lot more positive about the potential of that business?

Hitesh Oberoi: Both; One is we had reached level of ownership which we felt we should defend; Two is between the time that we sold down and now there have been a substantial change in our outlook on that business. #1, there have been some regulatory changes that have been positive which has helped. I think the company has been cash-positive. I think dominance continues, I think competition has faded away. So the business had cash-positive last quarter. I think all of the things sort of helped.

Moderator: Thank you. We have the next question from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Hitesh, basically if you are talking about pick up happening in month of September, the month of October has also ended now, so how do you see this month of October went by?

Hitesh Oberoi: We are not giving out October numbers. September was one month. So like I said we have to wait and see what happens this quarter before sort of declaring that economy is back. Let us see what happens. We have to be little patient.

Shaleen Kumar: EBITDA margin was pretty strong in Naukri. But we could see that Indeed is going aggressive in terms of the marketing spend though we have not seen any change in traffic as you said that traffic shares remain where they are. But do you feel that you may need to invest if not now in future on marketing spend and that will impact your EBITDA margin in Naukri?

Hitesh Oberoi: I think at some point in time we will up our marketing spend in Naukri, because we have been quite for a while and we have made some changes to the site and to the platform and we want to go to users and tell them about it. So we are working on a new ad film and we may be on TV soon, maybe if not this month, maybe in a month or two. Will that impact EBITDA margins in Naukri substantially? A lot will depend on revenue growth. If revenue growth continues to be strong it may not have such a big impact.

Shaleen Kumar: Can you provide some light on your value-added products like how the growth over there on that segment in Naukri?

Hitesh Oberoi: It is the RMS range of products, we are happy with the traction we are seeing in the sort of suite of products which we offer to our customers. Customer base is growing, we have rebranded the whole suite, we have taken them, we have launched more advanced version, we are seeing reasonably strong customer growth, we are also seeing 70-80% revenue growth right now, but it is still very early days, this is on a very small base. So we still need to do a lot more work in the product, we still need to sort of invest a lot more in customer support, it is a different type of offering. It is a software sale, it is not a database sale, we are still getting our act together, but strategically it is very important. Even more than revenue, I think it will be great for us if a lot of companies use our platform for applicant tracking, for response management, it will just sort of ensure that the lock-ins are much-much stronger with us. We are more excited about the strategic benefits. Revenue of course benefits will follow in the long run.

Shaleen Kumar: We have plans for 99acres marketing launch and also for our Naukri. Is it fair to assume that this quarter the kind of cost we saw is kind of bottoming out and the trend would be upward from here?

Hitesh Oberoi: I think so. Marketing expenditure will move up in 99acres for sure. Jeevansathi will continue to invest aggressively in marketing. Even people cost not immediately, but would slowly start moving up as we add more people to beef up our algorithms, analytics, machine learning, data science and AI teams, and as we invest more and more in new products like RMS and so on. So slowly but surely we will start adding more people to beef up our tech and product muscle and ad spends will also go up going forward.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

V Subbaraman: My question pertains to the Recruitment business and how the staffing companies are approaching this space. There is obviously an overlap with respect to some companies which would potentially hire through your website or through consultants who operate on your website to graduate or rather to outsource their staffing needs to specialized staffing companies. Is that a trend at all or is there a threat from staffing companies which may encroach into your space?

Hitesh Oberoi: Staffing is a little different from RPOs. Staffing companies is not a threat to us at all because most companies have most people on their payroll, they only sort of outsource a small chunk to staffing companies, but there are some companies which are trying out the RPO model and they are also clients of us, but it is very early days for that model, we will have to see what happens. Staffing companies around for the last 10, 15, 20-years, they are in every part of the world, but job sites continue to do very well everywhere.

V Subbaraman: Just a small follow-up; is there a case for staffing companies to forward integrate and acquire or rather encroach into this territory or it does not make sense at all for them and you are saying it is very different, so does not matter at all, is it?

Sanjeev Bikhchandani: The value of a job portal like Naukri lies in aggregation, 70,000 clients, but staffing company may be having 20 clients. Because you have 70,000 clients and many lakh jobs any point in time is why you get the traffic. One, we are growing in the traffic and that is why traffic starts. If a company has got 20 clients or 30 clients and say 500 jobs, it simply will not have enough jobs to sort of attract traffic organically or beat traffic. Therefore, as a proposition, probably it will be difficult. Anything can happen, but we would say it is unlikely.

Hitesh Oberoi: Were you referring to the Randstad acquisition of Monster or were you sort of talking about people starting their own websites for themselves?

V Subbaraman: Mainly the trend of Randstad-Monster, that kind of a model and also obviously indeed the recruit holdings, parentage and so on.

Hitesh Oberoi: My sense is they are two very-very different businesses. The DNA required to build is very different. One is the technology product marketing consumer type of business, the other is staffing business. Just like it is going to be very hard for us to start a staffing company and succeed, it is going to be very-very hard in my view for staffing company to succeed in our space.

V Subbaraman: Second question is 99acres. Is there scope for any of the incumbent players to enter into online brokerage, the Allcheckdeals model, is there even a possibility that any of the industry participants which currently rely on listings, may explore that model or you are saying that is a separate model that cannot be considered in adjacent area here?

Hitesh Oberoi: In our view, we worked with thousands of brokers and brokerages. So they are customers of ours. If an online company starts a brokerage, they would in some sense end up competing with their customers. But it is a call the companies have to take whether they want to do that or not. There are essentially again two very different businesses – Online businesses are more about consumer technology product, data and stuff like that while offline brokerages are more about thousands of sales people, strong relationship with customers, feet-on-street, transaction, collections which sometimes can take a long time and so on and so forth. So to my mind, these two are very different businesses. Our view is that we should continue to be a market place and we should work with all the brokerages out there. I do not know what the others are thinking.

V Subbaraman: Lastly, on 99acres, do you see any change in the market after the REA groups entry in the market, any trends there or is anything to call out?

Hitesh Oberoi: So far we have not seen any major activity.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: I would just like to follow up on your Naukri as the software solution that you launched, I think the career PRO solution. Could you give us an update on what is the offtake, the realizations and what is the pipeline looking like?

Hitesh Oberoi: We do not give out the numbers separately right now for revenue for that business but we have big and small range of products, because like I said we have a suite of products. We have something for small enterprises, we have something for recruitment firms, we have something for large enterprises which we just launched, we have a referral hiring solution. So all in all, we have close to more than 3500 customers I think for these products.

Ankit Pandey: But would you expect them at least directionally to sort of support your growth rates in the next three, four quarters?

Hitesh Oberoi: Sales from this vertical will not substantially add to our revenue in the next three, four quarters because right now we are at a stage where we are sort of still perfecting the product, we are trying hard to penetrate the market, we are sort of building new stuff, we are investing more in support, selling cycles are long for this product. Strategically it is very important for us because the more customers we have on our platform the better it is for us in the long run, there is a higher lock in. But from a revenue standpoint, it may add a percentage or two to grow but not more than that in the near future.

Sanjeev Bikhchandani: The thing to understand is that given the large revenue base of Naukri, no new product can move the needle on revenue terms in the short run because innovation takes time to defuse. But as Hitesh said, it is really the mode that we build as more and more customers adopt these products that can show the lock-in which is a good defense against competition of any sort. That is I think is to be looked at. So it is releasing the risk more than increasing the revenue as this product defuses.

Ankit Pandey: If you could just broadly highlight, you have cash of 700 crores right now. So what do you plan to do with it and what is your policy behind it?

Sanjeev Bikhchandani: One is we continue to invest in our external portfolio. We are open to consolidation opportunities whether for stock or cash of businesses that make sense. There is some money you keep for a rainy day and there is some money you keep for investing in our current businesses for growth for example we may decide to up the investment in 99acres or Jeevansathi or any other businesses. That is about it right now. There is as of now no plans to give a very high dividend just to distribute lot of this cash.

Ankit Pandey: Could you just outline how much do we have for the rainy day?

Sanjeev Bikhchandani: First of all, there are client advances with us of Rs.335 crores, you do not touch that, right, until the accrued revenue, it is not your money, right, even though it is very unlikely the clients will ask for it back, one is that. Above that is rainy day money. When we last formally discussed it, we had said, okay, there should be at least maybe six months of operating money just in case there is a disaster somewhere. We have seen sort of a decade ago in 2008 & 2009 in that global financial crisis there were two quarters in a row where Naukri collection was (-30%). We think it is prudent to keep some money for that. The rest is of course available.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Was there a significant headcount reduction in 99acres in the quarter?

Hitesh Oberoi: Not in the quarter. Over the years, yes, headcount is going to come down.

Miten Lathia: Does the sort of trend in Naukri or the Recruitment revenue suggest that the element of discretionary spend has come down significantly because deferred sales does not seem to show any other stress but the quarter revenues has grown by 7%, so lot of discretionary stuff has been shaved off, is that how one should look at it?

Hitesh Oberoi: That is what normally happens when the market is slow. People cut down expenditure on branding and some of the other stuff which they sort of do not mind investing behind in a good time. These are the products which get hit the most in a slowdown. Like I said, we saw slight recovery in September. We have to see whether they sustain going forward. Still very early days.

Miten Lathia: Is the overall outlook on recruitment much worse than where we started the year at, just to get a sense of things worsened considerably in the last six months?

Hitesh Oberoi: Actually we started the year on a good note in both 99acres and Naukri, in fact, April and May we were decently positive but then of course because of GST things got impacted a bit, there were some slowdown in IT, that impact continued into the second quarter for a while. Today, I would say we are sort of maybe where we were when we started the year because the impact of GST is at least largely behind us, it is not 100% behind us. There is a mild recovery of some sort in IT. That is what we are sensing. But like I said it is very early days.

Moderator: Thank you. The next question is from the line of Rishi Jhunjunwala from IIFL. Please go ahead.

Rishi Jhunjunwala: A quick question on 99acres. You mentioned that we have taken pricing increase over the past quarter or year. Just wondering the overall environment in this space in 99acres being really tough. What is the thought process behind doing that rather than trying to improve market share?

Hitesh Oberoi: Like I was saying, the slowdown that we are seeing is mostly on the new home front. That is about 70% of the revenue. The price increase we have taken is mostly on the resale and rental side which is where the action is. Demand has actually moved from new homes to resale and rental and that is where we took a slight increase in prices, not on the new homes side that much.

Rishi Jhunjunwala: The other thing is we have seen headcount decline for five consecutive quarters now. Just trying to understand where the reduction has come from in terms of sales versus others and where do we see that stabilizing and then growing?

Hitesh Oberoi: The reduction that you see in headcount is mostly in the 99acres business. We basically did not replace a lot of people who left 99acres in sales and operations and a couple of other functions over the years. But now the headcount is stabilizing and actually we want to hire more people going forward to boost investments in some of the areas we are sort of bullish on.

Rishi Jhunjunwala: Lastly, in terms of the slowdown in revenue growth that we have seen YoY in this quarter, especially on Naukri as well, just trying to understand how much do you attribute to GST part primarily because almost half of our revenues are coming from IT which I am assuming would not have been impacted. Where do you see outside of GST the steady state growth in this part of the business?

Hitesh Oberoi: Frankly we do not know, we are just guessing what the impact is on account of, there were some impact on account of GST, we do not know exactly how much. This is basically anecdotal, because our sales guys went out, they were expecting certain cheques to get collected around month end those cheques will come through because of confusion around GST.

Rishi Jhunjunwala: On the margin side, our A&P spends are pretty much at an all-time low as a percentage of revenue, we have also managed to crank the lever on the staff cost side as well. How much of that is pretty much behind us from and hereon we would like to see more investments going through over the next two, three quarters as the impact of GST normalizes and hopefully some of the other drivers start kicking in the different businesses?

Hitesh Oberoi: We are not in cost-cutting mode at the moment. We cut advertising expenditure for 99acres in Q2 because of the uncertainty around RERA which had resulted in transactions almost sort of crashing in the real estate business. Our clients are not allowed to advertise and so on and so forth. But going forward, since a lot of the confusion is now behind us, we expect marketing spend to pick up in 99acres. We will be even more aggressive than we have been in the past in Jeevansathi. We are also contemplating increasing advertising spend in Naukri. We are looking to hire people now to beef up like I said our product, technology, data science and machine learning sort of functions. So we are not in cost cutting mode. We want to invest but we have to of course get the right people on board and we are hoping that the market in 99acres will be supportive and transactions will pick up going forward.

Moderator: Thank you. We will be able to take one last question which is from the line of Ramesh Mantri from Y2Capital. Please go ahead.

Ramesh Mantri: I have three questions on Jeevansathi. First, what is that Jeevansathi is doing right that it has been growing in 20% for the last eight, nine quarters? #2,what is your thoughts on the long-term potential in this space considering potential disruptions from getting platforms? #3 what are your thoughts on industry structure?

Hitesh Oberoi: We like the Matrimony space, in the three matrimonial sites, between them do more than Rs.500 crores of revenue. It is just that we do not have a dominant player in this segment like there is in jobs. There is a leader of course in the south and the market in the north and west is split between three players. We sort of been investing aggressively in improving our user experience especially on the mobile platform in Jeevansathi over the last two years and that has really worked for us. Our new communication has also worked for us. We run pretty efficient operations compared to our competitors. Our productivity per person is probably the highest in the industry and by a margin. So that makes us bullish on our ability to execute and gain share in this business going forward. As far as the industry structure is concerned, like I said, there is no dominant player, but there are people who are dominant in certain segments like Bharat Matrimony is dominant in a few southern communities. We are sort of bullish on this space. So we want to increase our investment, we want to continue to gain share and we are confident and hopeful that if we continue to execute as well as we have been in the last few quarters, we will sort of make a good business out of this space. We sort of internally reached a decision that we keep aside maybe Rs.150-200 crores for Jeevansathi. If required, we will invest that amount of money in the business to grow our share substantially over the next few quarters.

Ramesh Mantri: Can this industry be like Rs.1,000 crores in five years?

Hitesh Oberoi: It is already more than Rs.500 crores and if you grow at 13, 14% a year for the next five years, you will be at Rs.1,000 crores in five years as industry, that is very possible.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Hitesh Oberoi for any closing comments.

Hitesh Oberoi: Thank you, everyone for being on the call. Have a great evening.

Moderator: Thank you. On behalf of Info Edge (India) Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.