



**Infibeam Avenues Limited**  
Q1 FY2020 Earnings Conference Call

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the Infibeam Avenues Limited Q1 FY2020 Earnings Conference Call hosted by KR Choksey Research. 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 Ms. Parvati Rai from KR. Choksey Research. Thank you, and over to you!

**Priyanka Baliga:**

Thank you, Melissa. Good afternoon, everyone. On behalf of KR Choksey Research, we welcome you all for the Q1 FY2020 conference call of Infibeam Avenues Limited. I take this opportunity to welcome the management of Infibeam Avenues Limited represented by Mr. Vishal Mehta, Managing Director, Mr. Vishwas Patel, Director; Mr. Hiren Padhya, Chief Financial Officer.

So we begin the call with a brief overview by the management, followed by the Q&A. The management may make forward-looking statements on the call today that are based on the current expectations and assumptions and, therefore, subject to risks and uncertainties. The actual results could vary materially from those projected.

I now hand over the call to Mr. Vishal Mehta for his opening remarks. Thank you, and over to you, Sir!

**Vishal Mehta:**

Thank you. Good evening to everyone. On behalf of the management present on the call, I welcome everyone to our first quarter FY2020 earnings call. It is my pleasure to present to you the consolidated and standalone accounts of the company. Our financial results, earnings press release as well as the investor presentations have been uploaded on our website, which is [www.ia.ooo](http://www.ia.ooo). I hope everyone had a chance to go through all the financial releases. They have also been uploaded on the stock exchanges.

I would like to start by communicating that we conducted our AGM on July 30 and we hope that all of you have received the annual report for FY 2018-19 which is uploaded on our website.

It highlights our achievements of a successful last year, provides insights on the milestones achieved, as well as our continued efforts for value creation that reinstate the fact that we are on course to “**Add Value and Multiply Growth**” for our shareholders. We think, based on the results that we are about to talk that, we have set the pace for growth already with a focus on our core web services business.

Last year, 2019, was a transformational year. We strengthened our payments business in India and expanded in the international markets, successfully launching our payments business in the UAE and we also announced launching of the business in Saudi Arabia this quarter. We restructured our platform business to focus on enterprise clients requiring robust software frameworks of the likes of Government e-Marketplace in India, the likes of Saudi Telecom in Saudi Arabia in the Middle East. We will continue that focus on the enterprise clients going forward. We have built our digital infrastructure for both digital payments and technology platforms to be able to significantly scale by building a very high-speed data center infrastructure in GIFT City in built in collaboration with companies like Schneider as well as IBM. We are one of the only companies in India with very high compute LinuxOne capability, and we have formed strategic alliances for utilization of the data center framework, not just for our own captive use, but also for external third parties.

We have also formed strategic alliances, both in India and international markets to strengthen our payments and our enterprise platform business.

Moreover, we divested some of our non-core businesses, which were related to marketplace e-commerce, so that we can sharpen our focus on the core payments and the enterprise platform businesses. This has resulted in improved cash flows to support our high growth and expansion plans.

In FY 2020 and going forward, our revenues will comprise of web services, which include digital payment solutions, data center infrastructure as a service and technology platforms. We call this a payments, infrastructure and platform web services, it goes by the acronym of the PIP in our language, vocabulary. In FY 2020, we will focus largely on building our payments business, both in India as well as in international markets to keep achieving the high-growth rate consistent with our past record of double-digit to 3-digit growth rate year-over-year.

Having said that, I will now hand over the call to Vishwas Patel to give you updates on the payments business and later, I will request our CFO, Hiren Padhya, to walk you through the financial performance.

Vishwas, over to you!

**Vishwas Patel:**

Thank you, Vishal. So the payment industry in India is set for an exponential growth with the industry expected to reach USD 1 trillion by FY 2023. That is growing at almost 30% annually. And as costs have tumbled, the digital usage in India has grown significantly. So if you see the chart on Slide #8, you will observe that the monthly data prices have tumbled by over 95%. So the data usage, smartphone users, the number of Internet and hence the number of cash-less transactions have all significantly increased from 2014 to 2018. Moreover, the projections also are very encouraging for India, where 37% of all transactions in 2025 are expected to be digital from 13% in 2015. RBI and the government are working to increase the number of cashless transactions by 10x to 220 in three years, from 22 in FY 2019. The person-to-merchant payment or what we call in our lingo, the P2M market, is projected to touch USD 224 billion in FY 2020, all on the back of 300 million monthly digital payment users by 2022, 700 million smartphone users in India by 2020 and 475 million online shoppers by 2022.

We believe the P2M market can double to USD 500 billion by 2025, offering large headroom for digital payments growth due to the strong tailwinds prevailing in India, like the government's effort to make India a cashless economy, RBI's efforts in deepening digital payments, digital bill and utility payments and penetration of the Bharat Bill Payment System across India, increase in active usage by 30% of the 60 million MSME that are digitally engaged and connected but not active online, the growth in the GeM procurement business or the government procurement business and the digital payment methods for payments to sellers and service providers, the strong growth in e-commerce, ride hailing industry, food delivery, education, the recent introduction of businesses of about Rs. 50 crore to compulsorily offer digital payments, increasing use of mobile banking, and the two-factor authentication offering safety and security to transact online. We are already seeing a huge growth in mobile banking, as reported by RBI in its monthly bulletin under Payments System Indicators.

If you refer to Slide #10, you will see that the mobile banking transactions have increased to 6 billion transactions in FY 2019 from a mere 172 million in FY 2015, while the value has increased 28x to Rs. 28.7 trillion from Rs. 1 trillion in FY 2015. The volume itself has tripled in the last year while the value has doubled. Given the current run rate of the data available for April and May 2019 and given the tailwinds mentioned earlier, mobile banking could nearly double to Rs. 54 trillion in FY 2020, approximately USD 771 billion.

We are very optimistic on the online payment industry growth, and we believe the high growth rates will continue for many more years due to the sheer size of the market opportunity as well as due to the fact that India has predominantly been a cash-based market. And even with majority of the demonetized money coming back into the market, the industry growth has been phenomenal. Imagine the growth as the economy moves towards less-cash, and digital adoption increases even further!

In this quarter, our focus primarily has been on the education sector where we achieved 30% growth in transactions processed. Some of the notable names include the Podar Group, the Podar Educations Jumbo Kids, Podar International School and the International School of Business Management of Hyderabad, and many others. We also added some well-known corporations like AU Bank, Sharekhan and Bajaj Auto Finance as the merchants.

The payments processed in this quarter increased nearly 40% year-on-year to Rs. 14,870 crore, up from Rs. 10,000 odd crore in the same quarter last year. The payments processed in the UAE increased 75% year-on-year.

In UAE, we have made strong inroads, and we expect to do a sizable business during the next 18 to 24 months. We are targeting to process payments worth USD \$1 billion in the UAE alone in the next two years by FY 2021. We currently have over 500 merchants in the UAE using our payment solutions including some of the marquee names in the UAE, including Burj Khalifa At The Top, Emaar, DAMAC, Nakheel, some of the top realty firms there, then, Qatar Insurance Company, Tejari, DHL couriers, BookMyShow and many more in the UAE market.

We will also be going live in Saudi Arabia by the end of this month and will add much more volume to the Middle East business and increase our revenues. As you are aware, Saudi is nearly 4x bigger by

population compared to UAE and nearly twice by GDP and, Saudi and UAE together constitute three-fourths of the overall Middle East digital payments market.

Bill payments in India is a huge market opportunity. We have discussed in the past that millions of bills get generated every day, be it for mobile, landline, DTH, electricity, water, gas, insurance, education, credit cards, you name it, in which the RBI and NPCI wants to make it easy for the consumers to pay bills from a single window rather than going to different places to pay all their bills. And one of the key highlight of the system is that RBI has allowed agents to accept payments in cash and to convert offline cash to online through digital platforms. Our BillAvenue platform does exactly that. We are targeting the huge offline market, compared to the congested online market being targeted by the competitors.

To give a boost to BBPS, earlier this week, RBI announced expanding of the number of categories through which the bill should be paid and also the number of biller categories plugged into the system. One of the new categories, which is really exciting for us is, insurance. Also, categories like education, education from KG to the post-graduates every year will be collected through the BBPS system. Government taxes, credit card payments, club fees, housing societies, all are soon going to be added on the BBPS. BBPS is also expected to add nearly 2 million agents across India to further expand the bill payments network. NPCI plans enrolling agent institutions- money transfer agents, business correspondents, common service centers (CSCs) and cooperative banks and plug them to the central unit and provide assisted payment to those who are not, tech savvy or do not have access to e-platforms.

We believe that our network that we have developed over the last two years of over 0.5 million agents spread in 2600 cities and towns across India and serving millions of offline customers daily are best positioned to capture this growth.

We added 2 broadband billers to our bill payment solutions, taking the total count of billers to 25 and now we have 121 live agent institutions with another 70 in the pipeline. Agent institutions like UAE Exchange, Muthoot, Vakrangi, Suvidhaa, and others, all source their bill payments for their agent network through our BillAvenue solution.

Our daily average bill processing value has increased from Rs. 12.5 million to Rs. 15 million, which we plan to increase to Rs. 25 million by the end of FY 2020. Today, there are only 154-odd utilities on the

Bharat Bill Payment Systems. Since you have entire network ready, as soon as this biller uptake goes up to around 1000-odd billers on the system, then the growth will be phenomenal.

Now coming to our hotel solution, it is on track to sell 1 million room nights by the end of the year, and we will double the number of hotel properties to 2000 from the over 1000 in FY 2019. Our investments in high-growth opportunities in digital payments through companies offering cross-border payments and digital payments for the under-banked and un-banked offline population are growing at a rapid pace. We hope to see them doing sizable business in the next 18 to 24 months. We have provided key business updates of these invitee companies on Slide #21.

Before I end the speech, I would like to mention that, digital payments in India offers a great potential, and we are best positioned to capture the growth. Organized players like us, maintaining prudence in our business and ensuring profitable revenue growth will go a long way to create a significant value for our shareholders. Those burning cash to get business could suffer the problems faced by the e-commerce industry where many have lost out and had to shut businesses where only a couple of large cash rich companies have survived.

Having said that, I will now hand over the call to Vishal to give you the updates on the infrastructure and the platforms, Vishal!

**Vishal Mehta:**

Thank you, Vishwas.

In case, everyone on the call, had an opportunity to go through our annual report, we have generated more than Rs. 300 crore as cash flow from operations in FY 2019, which is 3x more than what we did in FY 2018 and 5x more than what we did in FY 2017. So that is exactly the reason why we want to continue focusing on web services business and that is the payments and the enterprise platform technology framework that we talked about.

Let me share with you a few updates on the platform and the infrastructure business.

On the enterprise platform, we have undergone a few changes, whereby, we have divested the product retail and the platform solution for small and medium enterprises. In fact, now our focus is to

serve the large enterprises where we do not have to worry about supply chain management, as in, physical supply chains, and we would also like to offer the same framework and the opportunity for international clients. There are many who have used our enterprise platforms. We have given our frameworks to GVK International Airport, we have given it to Puravankara Projects, Della Adventures, EsselWorld, and Future Lifestyle Fashions. We have also opened up some of our largest implementation, which is the Government of India e-Marketplace, we have offered our solutions to many of the enterprises in the Middle East region, we have given it to Axiom Telecom, we gave it to Jumbo Electronics, we have given it to Sony as a brand for both the Middle East and Africa regions, and many more that we would like to continue to work with and have a strong relationship with for many years.

We will offer our e-commerce platform technology to large enterprises that requires scale as well as robustness in terms of both security as well as feature sets. We are in discussion with many of the government institutions, both in India as well as overseas, for possible implementations of this enterprise technology platforms in respective countries.

I would like to share a few updates on GeM, which is the Government e-Marketplace. As you are aware, it is a portal for Government of India to procure goods and services required by them. The sellers get registered on the portal. As of date, there are more than 250,000 registered sellers on the portal, which is more than the number of sellers on Flipkart as per the recent article by Business Standard. In just three years of launch, they have been able to recruit more sellers who are active on the platform. This makes GeM the second highest in terms of number of sellers, only behind Amazon India. On the portal, an average of at least two sellers are registered for every product or the service. This allows for price competition and generates savings for the government. As a reference, some of the purposes why the government chose to implement Government e-Marketplace were and also to let go the offline procurement model because it brings a lot of transparency and it also generates savings by allowing healthy competition amongst sellers.

The government achieved on an average, as per the recent communication, a 25% saving in calendar year FY 2018. While these recent statistics are of last year, the savings this year are larger than what they were in the prior years. Government is eyeing savings worth Rs. 500 billion every year on its annual procurement of Rs. 6 trillion to Rs. 7 trillion. By FY 2020, the government is projecting to procure goods and services worth Rs. 500 billion with a potential of Rs. 1 trillion by FY 2020. Just as a

reminder, Infibeam Avenues earns about 10 bps on the procurement value as a key technology partner for Government e-Marketplace. As procurement doubles, the revenues will also increase for us. We will also benefit from scale, as the incremental costs are not as many as the value of the procurement business. A cumulative of Rs. 320 billion worth of procurements has already taken place on the portal since inception. In fact more than Rs. 250 billion, nearly 80%, worth of procurements have taken place just in the last two years. The government updates GeM statistics on time-to-time basis on the website, gem.gov.in. A lot of information, including detailed statistics are also available on their Twitter handle, GeM\_India.

Moving on to the data center infrastructure, we built a 2 megawatt Tier III data center, which is in built in collaboration with Schneider as well as IBM to handle very high-speed computing transactions. With these collaborations, we will enable and promote blockchain applications on the state-of-the-art LinuxOne hardware implementation in India. Last week, IBM has also published a case study on their website in this regard. Our collaborations with other companies like Primechain Technologies is also progressing well. We ourselves have started migrating some of our workloads from other data centers and cloud service providers to our own data center and by the close of this year, we should have been completely migrated into our own captive data center. While a lot of our data center will be utilized for captive consumption, we will also be opening up the same utility for many of our enterprise platform clients. This will also result in additional earnings when we give it out to many of the larger enterprise clients, including GeM. We will keep you updated on the progress. The rest of the unutilized capacity of the data center, of course, will be provided providing compute and storage services to third-party customers. It is a bit early to talk about that of course right now, but we will certainly let you know once we have opened up the services for compute and storage. With this, I would like to hand over the call to our CFO, Hiren Padhya, who will give you updates on the financial performance during the quarter.

Hiren, over to you!

**Hiren Padhya:**

Thank you, Vishal bhai. In the last fiscal year, the company decided to focus on the core businesses of digital payment, data center infrastructure and technology platforms for government and e-enterprise clients. Staying with this strategy, company divested its non-core business that is, online e-commerce

marketplace, product retail and platform solutions for small and medium enterprises. Thus, the revenues in the prior quarter ending June 30, 2018, March 31, 2019 as well as the year ended March 31, 2019 include the revenue of non-core business, as mentioned earlier, which is not reflected in the current quarter ending June 30, 2019.

Our consolidated revenue was Rs. 1,855 million. There is a decline of 27% year-over-year. Revenue decreased due to divestment of non-core businesses. The comparable revenue actually increased over 90% year-over-year. This is mainly due to the robust performance of digital payments businesses where transaction volume increased by 44% year-over-year to 38.6 million and in terms of value of successful payment processed it has increased by 40% year-over-year to Rs. 148.7 billion or Rs. 14,870 crore.

In the UAE, value of successful payments processed increased by 75% year-over-year. We are seeing a great traction in the UAE businesses. Once we go live in Saudi, we expect to ramp up the business there as well.

The EBITDA for Q1 FY 2020 was Rs. 553 million and that is an increase of 80% year-over-year. EBITDA margin improved significantly to 30% compared to 12% year-over-year. This was on the back of saving in operating expenses related to divestment of non-core e-commerce business.

Going forward, EBITDA margins can be expected to improve as revenue increases non-linearly compared to operating expenses. This will lead to better cash flows which can be used to wither away high competitive intensity in payments industry in India, invest in technology, hire highly talented resources at all levels in the organization and expand overseas.

Our profit after tax grew by 129% year-over-year to Rs. 288 million mainly due to higher EBITDA, as mentioned earlier.

Operating expenses have decreased due to divestment of e-commerce businesses. This has resulted in cost related to purchase of stock in trade going down. The strategic move of divestment of non-core business has further led to significant reduction in the other expenses, down to 4.4% of revenue compared to 32.2% of revenue in the same quarter last year.

The depreciation and amortization are expected to be in the same line, around Rs. 200 million per quarter.

The tax rate applicable to the company is over 30%, which is also reflected in our consolidated profit and loss statements.

Our debt levels are significantly low. We are one of the very few companies globally that are profitable in our industry and have relatively strong cash flow consistently. Our business model helps us in achieving scale with low cost and low capital expenditure.

I would now like to hand over the call to Vishal bhai to present the outlook for the company and then hand over the call to the operator for Q&A.

**Vishal Mehta:**

Thank you, Hiren.

In the past three years, we have been doubling our digital payments processing business year-over-year. We processed Rs. 495 billion of digital payments last year and if you would recollect, in the past three years, we went from Rs. 12,200 crore in FY 2017 to Rs. 21,550 crore in FY 2018 to Rs. 49,500 crore in FY 2019. In the coming three years, we hope to continue this growth at high double-digit to 3-digit growth rates.

As a reminder, it is reasonable to assume that the company records average revenue of 100 to 125 bps on the processing volume, while the EBITDA margins average between 10 bps to 15 bps. If the business volume continues to grow at the same CAGR for the coming three years, this business can generate annual revenues of Rs. 4,000 crore to Rs. 5,000 crore annually with an EBITDA of Rs. 500 crores to Rs. 600 crores on an annualized basis. With additional processing volumes from existing merchants, growing payments across new categories like utility payments as well as international expansions into multiple countries, we will work very hard to deliver on these numbers. On the platform business, Government e-Marketplace is one of the largest implementations on the platform. The company targets to earn about 10 bps on every transaction that gets processed.

In public information, GeM is expected to target between Rs. 50,000 crores to Rs. 100,000 crore this year. And there is also a significant growth rate attached year-over-year. We believe that the size and scale of the procurement of the government is significant and that this kind of growth rates of double digit to 3-digit percentages may potentially also continue given the focus that the government has in terms of bringing transparency.

As far as our data center infrastructure business is concerned, it is going to support all our digital payments as well as other enterprise platforms so that we would scale. We will offer the data center infrastructure-as-a-service also to clients for hosting, compute and storage. It may be reasonable to assume that the business has a potential to reach an EBITDA of Rs. 300 million to Rs. 500 million in the upcoming 3 years.

Finally, I would like to draw to your attention to Slide #31, which is giving you some comparisons about the payment industry and how Infibeam Avenues is structured in that. You will notice that the enterprise value over revenue, with the competitors in India, is somewhat exceptionally high, despite them losing money, compared to the international markets but, even in the international markets, there is significant EV-to-revenue ratio. One of the international peer, which is based out of Netherlands, they have made quite a bit of information available on the stock exchanges with the listing, where the EV-to-revenue multiple was above 15x and is currently trading at over 11x its revenue. We compare it compared to how Infibeam Avenues is listed, we believe there is a significant amount of opportunity and headroom in terms of growing our payments business and also growing the wealth for our shareholders. Our payments business currently is at a run rate of Rs. 60,000 crore to Rs. 70,000 crore in FY 2020. We believe that this can command quite a bit of increased value for our shareholders, and hence, our focus on digital payments will continue to build out both in India and internationally.

Thank you.

With this, I would like to hand over the call to the operator for questions and answers.

**Moderator:**

Thank you. Ladies and gentlemen, we will begin the question and answer session. We have the first question from the line of Piyush Shah, an Investor. Please go ahead.

**Piyush Shah:**

Mr. Vishal, we have divested our non-core business, right? But still the revenue is the same. So, the main revenue is coming from which segment? I would like to know that, please.

**Vishal Mehta:**

See the revenues come from digital payments and checkout business, it is in web services. If you recollect, last year, we divested our product business as well as our frameworks that we are offering to SMEs. Businesses that required less amount of capital and were very highly scalable were the businesses that we defined as core to us. So if you look at digital payments, digital payments become very core because as we keep on increasing the amount of transactions that flow through us, that potentially gives us significant amount of value and revenues. So if we look at our year-over-year growth, if you look at Q1 last year versus Q1 this year, if you compare apples-to-apples, the growth is more than 90% in revenues. Given that we had divested the business, and the first quarter of this year, we do not have that reflection. Hence, you will see a dip in terms of revenue. But actually, when you look at the numbers between last quarters versus this quarter, you will see more than a 90% growth. That is also reflected in the P&L as well.

**Piyush Shah:**

What is the basis points (bps) we are earning in the digital payments?

**Vishal Mehta:**

Like I had mentioned, in the digital payments, it is reasonable to assume that we earn about revenue of 100 bps to 125 bps. And if you look at the EBITDA margins, the EBITDA margin is reasonable to assume that it varies between 10 bps and 15 bps.

**Piyush Shah:**

Thank you.

**Moderator:**

Thank you. We have the next question from the line of Shruti Dhumal from ValueAdd Research & Analytics. Please go ahead.

**Shruti Dhumal:**

Thanks for taking my question. My first question was regarding the ResAvenue. So in that, can you just tell me how much were the bookings translated through channel manager and through Internet?

**Vishal Mehta:**

As you know, there is a ResAvenue framework that we give to hotels, there are more than 1,000 hotels that utilize this solution. As far as the breakup is concerned of channel manager versus internet booking engine, we typically do not give that information. It is not available on the public domain. But it is reasonable to assume that channel manager is a very successful one for the company. And there is also quite a bit of growth that happens through people directly booking onto the hotel on the Internet. So, like I said, we do not have the exact percentages, but maybe if there is a way that we will be able to provide you some reasonable estimate, we will be happy to do so.

**Shruti Dhumal:**

One more question. For this quarter, the transaction processed was 38.6 million, but I would like to know how much they were in Q4 FY 2019, only Q4 number.

**Vishwas Patel:**

It was around Rs. 12,500 crore in Q4. This quarter it was Rs. 14,870 crore.

**Vishal Mehta:**

Is your question around the value of the transactions or numbers?

**Shruti Dhumal:**

The value of the transition.

**Vishal Mehta:**

Yes. So like Vishwas mentioned, it was around Rs. 12900 crore in Q4 FY 2019.

**Vishwas Patel:**

And it has increased to Rs. 14,900 crore in Q1 FY 2020.

**Shruti Dhumal:**

I would also like to know how much was the daily processing in the BillAvenue in Crores for Q1 last year, Q1 FY 2019? Like this year, it is Rs. 1.5 crore.

**Vishwas Patel:**

We are doing, Rs. 1.5 crore per day, right now on BillAvenue. Last quarter, it was around Rs. 1.2 crore a day.

**Shruti Dhumal:**

Thank you.

**Moderator:**

Thank you. We have the next question from the line of Manish Goyal an investor. Please go ahead.

**Manish Goyal:**

Good afternoon all. My question is regarding the digital payment. In the last budget finance bill, the Finance Minister has stated that MDR will not be given to the digital payments operators. So how you are going to tackle this problem because ultimately it will affect your profitability in digital payments, so what is the plan? Because I know that this PCI has given some Memorandum to the Finance Ministry, so how far it is in works?

**Vishwas Patel:**

You should also see the good news, first the good news was that every merchant has to offer a digital payment option, so that is looking like a headwind of only 13% digitized, there's a headroom of 87% which you have to compulsory offer and big merchants in excess of Rs. 50 crore volume has to compulsorily offer, otherwise Joint Commissioner of Income Tax can fine them Rs. 5,000 a day. So that is one part. So that way the merchant base will increase.

Second part, if you read closely through that, the circular does not say credit cards and they say only certain debit cards. But we assume it is only RuPay and it does not include the Master, Visa, RuPay cards. If you see we have seen internal transactions, UPI and RuPay debit card constitute less than 13% or 14% of our overall volumes. Secondly, it is not "0", there it does not say that the service provider will not be paid, it is put up to the Banks and the Reserve Bank of India (RBI) to compensate the service providers like us. So for us, it is better because for the merchant it will be 0, but the Banks and the RBI will pay us our charges.

**Manish Goyal:**

So has that been settled with RBI? Or it is still under discussion with the government?

**Vishwas Patel:**

This act comes into play on November 1, of this year as per that mandate. There is still not a lot of clarity. The banks, since they will earn more on the cash because there is a tax put on cash withdrawal, so that is why they will be earning a lot more, saving the money on cash management, so that they will route that money to pay us as a service provider whereas. For us, it helps in a way that the merchants gets zero while we get paid by the Banks, as is currently happening for debit card transactions for below Rs. 2000. So that is very simple.

**Manish Goyal:**

What I wanted to ask is that you are anticipating this, but has this been settled with the government and RBI?

**Vishwas Patel:**

No. It has been very clearly mentioned that the finance ministry and everybody that they will compensate that..

**Manish Goyal:**

No. As far as the new reports are there that PCI is representing to the finance secretary in the first week of August, and they was a change in guard in the finance secretary, I mean the new person has come, so, I wanted to know because whatever has been written from the PCI front, whether it has been done or not? Or it is anticipated?

**Vishwas Patel:**

So let me be very clear on what we are saying as the PCI, since I am the chairman of the Payment Council of India as well. I can tell you for a fact that we are representing on having a lot of clarity. The act has been passed and which payment option goes to zero MDR is not clear. Second thing is that their needs a Fintech government initiative to help push further. So what clarity we are trying to reach here is that there needs to be a very clear-cut compensation structure, very clear instructions given to the Banks, just like when the debit card MDR was made to zero for below Rs. 2000 transactions. We needed a similar clarity. So that is what PCI is trying.

**Manish Goyal:**

You are not seeing any profitability loss in terms of the percentage basis on payment transactions?

**Vishwas Patel:**

No. In fact we are seeing a huge growth potential in India. The merchants will be forced to accept.

**Manish Goyal:**

My question was on EBITDA on the payments.

**Vishwas Patel:**

No, it will not affect the EBITDA. It will grow significantly because now merchants are quoting us because they have to offer because there is a legal obligation to offer electronic or digital payment. So the headwind is so strong, we are seeing a huge escalation in merchant sign-ups from now only, even though the act comes into force from 1<sup>st</sup> November 2019.

**Manish Goyal:**

So are you thinking on the lines of incentives? Are you demanding some incentives in the government as they are pushing through for the digital payments? So as a payment industry, are you asking for some incentives in the governments also?

**Vishwas Patel:**

Our stand is very clear from the PCI perspective that as there is clear cut margin as when the debit card was made to 0 for below Rs. 2000. The 40 bps to us was very easily and clearly mandated by the government at that time. So this time also what option is first included it should be clearly mandated so that the banks are aware of this. So that is what we are all trying for.

**Manish Goyal:**

Thank you. The second question is, what is the revenue visibility of data center at GIFT City because what I am constantly hearing is that you are going to utilize this for your captive consumptions at the most, and some spare capacities will be outsourced. So as a return on investment because you have spent huge money on around Rs. 300 Crores on this GIFT data center so I mean what is the return on investment? How much you must be saving on your own expenditure in terms of your own operational expenditures, what you have been given to other cloud service providers, which you are now doing and you are now migrating it to your own campus? So what is the savings you are going to get per year in terms of your shifting from outsourcing to the captive data center? And what is the revenue visibility from other parties?

**Vishal Mehta:**

I would like to correct here that all Rs. 300 crore is not spent on the data centers, it is in the GIFT City office as well. We have invested in the office, as in the building as well. So we also own a few lakh square feet as GIFT City office.

Now with that said, yes, we believe that the investment in data center is significant. And in that investment, our appetite is that we would be using it for our own captive usage. So there are two reasons to do captive, one is you have control over quite a few things that you do, and it is not very uncommon for companies with this kind of a tailwind to be able to go and build out. I think there is an advantage because there is already a mandate from RBI to hold all financial data in the country. So anything which is payments and finance related, it has to be held up within the country, not even backup or disaster recovery can be potentially managed outside. Since we work in the core payment space, so we believe that there is a lot of opportunity to be able to continue building up.

This is a 2-megawatt data center, which means that we are focused heavily on compute. We may be able to handle quite a bit of transactions as well as we are opening up our infrastructure for Fintech related applications like blockchains. So you are right, the first thing is to move our workloads into the data center, so that is phase one. Within that, while we are using captive capacity outside, we think it will not result into savings. At the EBITDA level, you will see expansion in margin but given the depreciation and others that you will not see a savings at the net level. So that is one. But you are right, the expenses that we would have incurred in outside will potentially be taken and realized internally.

The second thing is that as you can virtualize capacity and you can actually build up a framework, so it is just not bare metal. It is not leasing data centers. It is actually virtualizing it and then giving capacity similar to what Amazon Web Services and others do. So that is the phase two where we will give it out externally. If you also know, we also have very large platform clients like Government e-Marketplace and others. They also require compute and storage from time to time. And if we are able to offer such compute and also earn on every transaction, so it is actually more transaction-based and not necessarily just giving it out as rental or a bare metal, much like what many of the other data centers do. That is the strategy and the philosophy we follow. As far as the EBITDA is concerned, it's reasonable

to assume that we'll be able to generate Rs. 300 million to Rs. 500 million in EBITDA in the next three years.

**Manish Goyal:**

Thank you.

**Moderator:**

Thank you. We have the next question from the line of Gunmeen Kohli from KR Choksey. Please go ahead.

**Gunmeen Kohli:**

I just wanted to take the question on the data center a bit further. Could you tell us on global players which are present in the business model that we are undertaking in the segment?

**Vishal Mehta:**

Sure. So I mean the largest, of course, in this is, you may have heard of Amazon Web Services. They have got a lot of services. It is just not compute and storage. They've opened it up and they've actually kept on increasing the number of features and services that they offer. So that would be a classic way to think about infrastructure-as-a-service and not just barebone infrastructures.

You will also see the likes of Azure and others in the global arena, which actually have such offerings. I think most of the players in India and companies in India, they have used data center more as a leasing opportunity. So they thought of it as real estate and power and not necessarily infrastructure-as-a-service.

So while many have attempted to get into the cloud infrastructure, you would have heard of the likes of Netmagic who initially started out thinking about it as bare metal as well as leasing and co-location, they have started building out cloud services. But yes, that is the landscape that we deal with as far as web services is concerned.

**Gunmeen Kohli:**

Okay. Lastly, with the new data resolutions which are coming out and you have a significant investment in this segment, what is the opportunity that Infibeam might hold in the future to provide the same as a solution to new entrants who are thinking about putting up new capacities in the country?

**Vishal Mehta:**

You see I think we have a very strong chance because it is, like I said, most of the times, if you think about it, the industry has thought about it as putting your own hardware in somebody's data center and managing that whereas the new avatar is actually more hybrid, which is you have some on-premises, but the rest of it can potentially be on a cloud. And so once you actually do that, it becomes a very strong opportunity to be able to take up because it is just not buying hardware or putting up real estate and hardware, it is actually about having a solution on top of it that allows the user to do a lot of activities, while it actually works for them, and they do not have to reach out to anyone. So it is a similar example of maybe in the back in the old day, you would have actually used the Encyclopedia versus now going on Google, where you can do a lot of search and many things yourself as opposed to actually waiting out. So we think that, that becomes the new opportunity. I do believe that we are not there yet. So the first avatar of this will be to actually migrate all of our workloads and payloads. We also have many clients for whom we outsource data center activities. It is being used for third party. A classic example would be even a government client. So our appetite in there, if you are able to save a few bps, I think it's a significant saving at scale. So those are the opportunities that we go after. We have clients on-boarded. We are working on adding external clients as well. And we think that, to your question, that because of the regulation and the rule to store data, I think that becomes an added feather in the cap. That is not the business case we started out with though.

**Gunmeen Kohli:**

Thank you so much. That is it from my side.

**Moderator:**

Thank you. We have the next question from the line of Piyush Sakhiya from Raisonneur Capital. Please go ahead.

**Piyush Sakhiya:**

Good afternoon everyone. Congratulations to the management on great set of numbers. My first question is, since we already have a proof of concept in terms of government procurement via GeM in India, have we been in talks with other governments around the world to implement such an infrastructure for them? And if yes, what is the kind of feedback or response that we've been garnering from them?

**Vishal Mehta:**

Sure. I think early in the call, I did mention that we believe that is a significant opportunity to take enterprise platforms to other markets. It would be really hard to talk of forward looking in this particular instance but certainly, I think both from a platform implementation as well as payments that India is in the forefront in both these areas. The kind of implementations and the kind of progress that the country has made in terms of ensuring that the opportunity scales up, I think it is significant. And I think a lot of countries are checking and also reviewing and figuring out how to implement something similar in those respective countries. And I do believe that we will stand a strong chance in terms of exploring that opportunity in those regions.

**Piyush Sakhiya:**

A question to Mr. Vishwas. I would just like to have a flavor of what is the difference between the card values that you guys experienced in India and something that you experienced in UAE and something that you are expecting out of the Saudi Arabian market going forward because I believe there will be a significant difference. Generally, the transaction values per transaction is pretty small in India, but significantly larger in the overseas market. So could you just throw some light on that?

**Vishwas Patel:**

Sure. So if you see, India started off with a world of low ticket transaction size. If you see the average ticket size, had gone down to Rs. 350 mainly because the low ticket sections were the first mover for the Indians to do digital like say, mobile recharge. Mobile recharge as a category mushroomed because in India 96% is prepaid; only 4% is postpaid. So when you see that 800 million mobiles need to do 2 recharge transactions every month, so looking at a 1.6 billion transactions a month, just on mobile

recharge, and 90%-plus was on offline, going through a local pan-wala and doing it, and so once the online technology came in, the transactions mushroomed, but the average ticket size came down.

Now similarly, goes for bus tickets and a lot of other low ticket size because that is where the Indians are just maturing. By the way, in India, average ticket size has moved up, now to around Rs. 1300. But when we see in the UAE, the average ticket size is coming in excess of AED 200, so that is around Rs. 3700 or something. So that is a good ticket size to have with the number of transactions. And it is a much more evolved market. It's 100% smartphone-penetrated market, it is largely a credit market. Debit is only 25% versus 75% being credit there. But if you see in India, India is a debit market, and not a credit market, so in India, if you have money in the bank, then they use a debit card or UPI or net banking more than a credit card, so it is a total different market, and it is a high ticket size, highly evolved. As I said, in a span of just 1.5 year, we have already touched AED 1 billion and on our way to touch a US\$ 1 billion in a year or two.

Now when we visited Saudi, we realised Saudi is just 5 years into what Dubai used to be in 2003, it is something what is happening in Saudi right now. It is a huge market. And from our solutions perspective, from payments, from hospitality, it has a very huge potential because Saudi is where every Muslim has to go once in a lifetime. Currently also more than 2 million hajjis are there right now, so it has tremendous potential on tourist, it has tremendous potential on digital payments, as full smartphone-penetrated markets with lots of population compared to the UAE. And you see everything that is happening in the UAE is being mimicked there, so there's Entertainment City coming up in Saudi, then a F1 is being planned there and every other thing, all the projects of Dubai like Arabian Ranches, so we see that we are just at the right point and their vision 2030, they will be 8x to 10x bigger than UAE, so it's the right time to get in and there are not too many players there. And we have lots of cross-border in Dubai, who are also focusing on the UAE markets. So all the top clients that we have in the UAE also have a Saudi presence. So we are looking at a good uptake there.

And Saudi also has NPCI equivalent there called MADA, so all debit card goes to the local switch. So once you are able to get in there and do the certification, then you are one of the unique guys who can actually do that MADA because every transaction moves through that MADA switch there. So that way it gives us a good on-us. So it is the right time to enter into an established space. I think in the next four, five years, we see a great potential and we can enhance that further. So in that sense, we

want to be a significant player in India and the Middle East; UAE and Saudi are almost 85% on every other terms of the Middle East, so we want to have a significant presence there.

**Piyush Sakhiya:**

It sounds interesting. If I have other questions, I will join back the queue. Thank you.

**Moderator:**

Thank you. As there are no further questions from participants, I would like to hand the conference back to the management for closing comments. Please go ahead, Sir.

**Vishal Mehta:**

Thank you all also for visiting our first quarter conference call. We look forward to your valuable feedback, and we'll keep you updated on the progress in the new business development activities that we conduct on a regular basis. Thank you, all.

**Moderator:**

Thank you, gentlemen. Ladies and gentlemen, on behalf of KR Choksey Research, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.