



“Infibeam Avenues Limited’s
Q3 FY20 Earnings Call”

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MANAGEMENT: **MR. VISHAL MEHTA – MANAGING DIRECTOR**
 MR. VISHWAS PATEL – DIRECTOR
 MR. HIREN PADHYA – CHIEF FINANCIAL OFFICER

MODERATOR: **MS. PARVATI RAI – KR CHOKSEY RESEARCH**

Operator:

Ladies and gentlemen, good day, and welcome to the Infibeam Avenues Limited Q3 FY2020 Earnings Conference Call hosted by KR Choksey Shares & Securities Private Limited. 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 this conference is being recorded. I now hand the conference over to Ms. Parvati Rai from KRChoksey. Thank you and over to you Madam!

Parvati Rai:

Thank you Vikram. Good evening everyone. On behalf of KR Choksey Research, we welcome you all for the Q3 FY2020 Conference Call of Infibeam Avenues Limited. I take this opportunity to welcome the management of Infibeam Avenues 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 so much. Good evening to everyone on the call. On behalf of the management present on the call, I welcome everyone to our third quarter FY '20 earnings call.

I also want to wish everyone a very happy and a prosperous new year. It's my pleasure to present the standalone and consolidated accounts of the company during the call. Our financial results, earnings press releases as well as investor presentations have been uploaded on the company website, which is www.ia.ooo.

I hope everyone had a chance to go through these releases.

Over the last two decades, we have spent considerable time and effort in building a very robust technology platform for merchants, from creating an online presence for them through our domain framework technology, to providing them with enterprise e-commerce platforms, for building scalable online businesses, to accepting online payments in multiple currencies with numerous different

payment options, cloud infrastructure as well as many other web services that gives them a solid experience in a solid e-commerce ecosystem in terms of build-outs.

In the process of building a very strong digital ecosystem where merchants are at the center of all the business strategy that we have undertaken, we have been able to create a very strong moat around our business too.

In the last quarter earnings call, I had mentioned how we are positioned and why we believe that we've got a very interesting competitive advantage compared to others. To quickly summarize that, we have an operating history in technology platform businesses spanning nearly two decades. We've got a very large merchant base as well as a very, very large customer base. We've got significant volumes and scale, which is extremely defensible, we have the right talent and the resources, we have the market segment share in the areas that we operate that we are able to continue to build out on and also give a very strong competition to incumbents and new entrants, we have a competitive advantage, both in terms of cost as well as in terms of scale of operations in business, and we have been innovative. And specifically talking of our platform and payments business, if you recollect, RBI has recently introduced a discussion paper and certain guidelines on payment gateways and payment aggregators. There is a possibility that some of the competitors will be subject to licensing as well as other regulatory requirements. This also creates certain quality assurance as well as barriers to entry in this business, thus creating an additional moat around our business.

I want to talk a little bit about our history and our DNA. We have been bootstrapped ever since we started two decades ago. All our critical human resources, core to our platforms as well as for our business, have been with us since inception as we nurture the right talent and resources. We take great pride in what we have built-out so far, and in our approach towards achieving this growth, we have scale our business into new heights year after year, while we are not obsessed about profitability, we do track it, monitor it, and we believe it's an outcome of the business that we conduct.

We have built a very strong organization ready for its second leap of growth, which is necessary as far as the technical and the financial muscle of what we possess today that can allow us to drive there.

We have the right technology to handle scalable digital transactions on our platforms, we have experience to build a very strong product and understand the market requirements, we believe we have the right set of people to implement and execute the strategy that will result in improved experience both for merchants and customers as well as growth in shareholder value.

That said, let me move your attention to Slide #9 of the presentation deck.

As a long-term opportunity, we are committed to strengthening the core digital technology platform business, which comprises of offering payment solutions and enterprise e-commerce solutions to merchants and the government.

In the payments business, we will continue to focus on strengthening the domestic business as well as expand in multiple international markets over the next two years. In the domestic market, that is India, in the light of regulatory changes and the competitive intensity the company will continue to focus on staying ahead with three broad strategies to enhance revenue, mainly around broadening of the customer base and also increasing the transaction value that we generate, that results in additional margins. The strategies are: **first**, tapping into the active merchants especially in Tier 1, Tier 2 and Tier 3 regions across India. We have been adding at least 200 merchants on a daily basis. There are a lot of merchants who are mandated to take on digital payments given the new regulatory requirement from the government and the number of merchants applying for additional digital payment gateways have increased. We believe that tapping into these merchants will allow us to increase transaction share volume as well as margins. **Second**, technological innovations; we will continue building-out very strong data, data dashboard, feature sets, very strong customer relationship management framework, risk management tools for the merchants, etc. With these kinds of analytical tools, merchants who are currently using our platform as well as new merchants who will be added to our platform, they will have great level of insight and stickiness. There are certain feature sets of revenue enhancements that we have and we have experienced given our e-commerce background that we will introduce for merchants so that they can also continue to build up their revenue and scale. And the **third** important strategy is to strengthen our alliance with banks and add more partner banks for additional business. These are the 3 areas that we'll focus on as far as our business is concerned to be able to build out traction in addition.

In the international front, we have recently launched operations in Saudi Arabia. The transactions are now live. There are very few companies, which has SAGIA License in Saudi Arabia, which means that we can operate a fully owned subsidiary of ours and process payments. We are also, as a reminder, operational in the Middle East, in the UAE market, where we see good traction. We are #2 payments company in terms of volumes in the Middle East region among non-bank private companies. We believe that we have got the technology and expertise to leverage upon to expand internationally. What we've realized is that if we have got such a large presence in India, the same merchants who

utilize us in India can also work with us internationally. And we have got many, many examples of this for merchants who have used us in India that they are live with us in the UAE region as well.

We are also planning to launch other additional international locations in the next two years. In fact, in the next few weeks, you'll be hearing more about additional launches for international markets.

You see, both, the supply side that we have, which is the Visa, Master, Discover, Amex and other networks, that we've got integrations with them, we also have very deep integrations, 15 years of very large and deep integrations into all different supplier systems, though it be flight management systems, though it be property management systems, and with this 15 years of experience and the customer base that we have, if we expand into international markets, for us to be able to leverage our framework, technology and build-out is relatively very doable.

We've seen that example work in the UAE. We have launched in Saudi. We'll continue building up on that experience in other international territories.

Focusing on our enterprise platform software solutions, our enterprise e-commerce solutions are best suited for very large businesses that need scale. We're extremely proud to have bagged the contract from government of India to offer our flagship platform for their procurement needs. It's been a fantastic experience, and we're excited about the massive plan government has envisioned and are implementing. The government's Government e-Marketplace, GeM portal, has the potential to become India's largest e-marketplace, not just in procurement of goods and services from government's consumption alone, but also for private institutions and individuals in the near future. We're committed to offering our enterprise e-commerce platforms to clients, both in domestic and international market. We already offer the platform to some of the very well-known companies in international regions that includes the likes of Jumbo Electronics, Saudi Telecom, the likes of Sony and many other OEMs, we have strategic alliances and alliances to expand in the Arab League regions, we also look forward to offering our digital platforms, to large enterprise in developed as well as other developing markets.

We've also been in discussion with several customers to provide both platform and payments as a single solution to sharpen our focus to grow our platform business. As a reminder, we have divested and demerged our non-core businesses last year. In the past couple of quarters, we have been tracking the progress that we've made in terms of demerging of these assets, which are pending regulatory approvals, which we hope to see traction in the coming weeks.

Both the entities that we have demerged there will independently pursue their own growth strategies, allowing the Infibeam Avenues' management to focus on strategies, which are core to us, which includes digital payments and enterprise solutions.

We believe that the demerger will be able to create an enhanced value for our shareholders. And it is also going to allow us to strategically ensure that we can build out a very strong growth, sustainable and a profitable company.

It's important to note that both our platforms, e-commerce as well as payments, they're horizontally scalable. What that means is that the payments is not a vertical solution, they can horizontally be offered to many of the clients who don't use the platform. So, while they are integrated, they can also be used separately.

Let me turn to Slide 10, which talks about business and organizational development.

- We experienced very strong growth in payments of volumes processed in Q3. It was up 38% and 12%, respectively, year-on-year. I will give you more updates in the subsequent slides.
- We are seeing very strong merchant addition in our business as more and more businesses are realizing the importance of having digital payments and Internet-based presence. We are adding a couple of hundred merchants every day, and we are receiving more and more inquiries on a daily basis.
- After many years of discussions and due diligence that a US bank conducted on us, we have finally concluded an alliance with one of the top 5 USA-based bank who wants to offer their merchants, digital payment solutions in India. Based on the success of this, we are also referred to additional banks in the USA who want to offer their merchants, digital payment solutions in India. Most of these bank clients, they are some of the largest US-based companies, having global presence as well as significant business interest in India. We're extremely happy to work with them, and we are exploring opportunities with them also in our international markets that we're expanding into.
- All international clients, after Citi stopped acquiring business in India in December are moving to other international banks for processing transactions in India. We find that it's a fantastic opportunity, and we are already working with many of the banks as I just mentioned. This business potentially can come to us for processing, which will allow us opportunities to put these merchants, not just in India but, also potentially in other markets that we are expanding into.

- Our ResAvenue channel manager platform, this month onwards, will be able to distribute room inventory to many other online travel agents, to more two dozen Online Travel Agents (OTAs) that we work with on the ResAvenue platform. We work with India's largest OTA companies, including MakeMyTrip, Yatra, ClearTrip, Agoda, Expedia and many others.
- We've signed marquee clients on the Bharat BillPay platform that we've introduced for utility payments. We've onboarded Palghar Municipal Corporation, the first municipal corporation in Mumbai, third in Maharashtra for processing their utility bills. We've also partnered with HPCL for the LPG cylinder bookings across India through the BillAvenue platform. HPCL is the first biller to go live under new LPG category. This month, we've also onboarded Bharat Gas as a pillar under LPG category for booking and payment of LPG cylinders. We managed to integrate and make them live in less than 3 days, which is somewhat a big-feet in this industry. This is the level of commitment to customer service that we dedicated to our clients. And our team is also very excited to build out on our entire presence. We are also in the final stages of going live with India's largest LPG provider.
- In our enterprise e-commerce platform business, GeM has shown good progress in Q3. We have a lot of statistics available on www.gem.gov.in website. The transaction volume in terms of the processing volumes of procurement has grown in double-digit percentages year-over-year. We are in advanced stages of discussions with many of the other larger areas of interest in both corporate as well as government.
- We are also very happy to announce that we have recently looked at investing further into the issuance side of the business. I will take a couple of minutes to explain what issuance is and what we are doing there. Most of the activities that the company is focused on today is in the acquiring side of the business, which means that we acquire payments for the merchants, and we work with acquiring banks to ensure that merchants get paid. There is an entire different element, which is the issuance side of the business, whereby there is a card which is issued to the customer who swipes the card and eventually gives the money from their account to the acquiring bank account. If you recollect, we had invested in Go Payments last year, and we had acquired 48% of the company last year. We are investing an additional INR 7 crores (approx. US\$ 1 million), to increase our stake to 52.38%, making it our subsidiary. We have reached the size and scale in Go Payments, which will qualify us as one of the leading payment processors in the country on the issuance side. Go Payment offers prepaid cards, which includes meal cards, prepaid cards and gift cards to corporates and SMEs. Go Payments

has an agent distribution network of 10,000+ SMEs and they're processing volumes at a run rate of USD 500 million as of last month.

- As part of the organizational development, we are committed to strengthening our leadership, both business, functional and technical with very high-caliber resources. In this regard, we have taken a step to strengthen our leadership team. I want to welcome Mr. Srikanth, who will be our Group President. He'll be responsible to steer the company's growth and global expansion by managing Corporate Finance as well as the company's Investor Relations functions. This appointment will further strengthen Infibeam Avenues' top leadership team with a focus to optimize and build-out a very innovative payment and platform business, both domestic as well as globally. Just to give you a brief about him, Srikanth has very wide experience of more than 30 years leading Corporate Finance, Investor Relations, fundings, merger and acquisitions, as well as end-to-end financial planning and analytics role. Lastly, he's worked with Reliance Jio Infocomm as President and CFO. He has also worked as President and Group CFO of Polaris Financial Technology and with Future Software Limited managing the Group in various roles.

I'd like to spend some time on the operational performance of the company in the next 2 slides, which is Slide 11 and 12.

In FY '18, we were processing payments with the run rate of INR 4,000 crore every quarter. We ended FY18 by processing INR 7,000 crores, which is about US\$1 billion, in Q4 FY18. We ended FY '19 by doubling the payment processing to \$2 billion. You can see that in Q4 FY '19, the bar showing payment process was INR 14,700 crore. In FY '20, we've been processing about \$2 billion each quarter. We hope to end the year by processing payments in the range of US\$2.4-2.5 billion in Q4. Majority of our revenue is transaction-based, 80% to 85% is transaction-based revenue. This means that higher the value of transactions, more the margins will be earned. I mentioned earlier in the call the three broad strategies we are focusing on to broaden the customer base, which will increase both the volume and the margins to us. Our focus will be to increase the volume to have a larger base of transaction processed online, both in digital payments and e-software platforms.

Just as a reminder, for all the transactions processed online, there is no physical device, it is 100% online. We do not have the same issues of cost of hardware maintenance, so on and so forth, that maybe some of the other companies who actually provide the transaction processing in the physical world have.

Beginning Q4, our bulk payment solution, which is B2Biz, which has been launched for corporates to manage their bulk payments and collections, is live. It will also allow us to process a large number and amounts of transactions. You see there is always a problem that a corporate has in both payments and settlements. And if they have some kind of a solution that is integrated deeply into the supplier and vendor build that allows you to automate the entire function, it makes it much easier. Many of the large OEMs, more than 50 or 100 of them have started using the solution.

Essentially, our business is a transaction-based business. So the more we process, the more earnings that we have. This year, in FY '20, we anticipate to process a significant volume of digital payments, both through our enterprise platform as well as payment solutions.

If you see the payments and volume in the chart, the payment process has increased in 9 months FY '20 by 25% to \$107.2 million compared to \$85.7 million in the month of previous year.

There has been a slight slowdown in the Indian economy. And the slowdown has impacted many of the businesses across the board in the country, which is, of course, available, both in terms of consumption charts and GDP charts that are available to all. However, we believe that this is a temporary phenomenon. The online industry has slight impact on the same, but we believe that it is much lower compared to the broader business environment.

We look forward to positive steps being taken by the government to revive growth in the economy and once again put India on fast track development.

Moving on to Slide 12, you can see the operational parameters we have achieved through strong growth across our payments and platforms offering in the third quarter of FY '20 and the 9 months of FY '20.

- The company reported highest ever successful digital payment processing of INR 159 billion despite intense competition and overall slowdown in the economy. Successful payments process increased 38% year-over-year in Q3, while volume increased 12% year-over-year to INR 33.7 million.
- On our ResAvenue platform, we are targeting to sell 1 million room nights. We are tying up with many of the OTA distribution partner, hotel room inventory, this should help us in selling more room rights and also avail our payments framework. There are more than 3,000 hotel properties registered on our Channel Manager platform.

- BillAvenue platform, the Bharat BillPay platform, we've seen significant growth in volumes. Both in volumes and value, we have grown 100% in the 9 months of FY '20 compared to last year. We plan to add more categories and merchants to the platform in FY '21.
- Under the enterprise software platforms, GeM is the largest client. The procurement value on GeM has increased significantly year-over-year. And we hope that we can continue building up on that momentum.

With this, I would like to hand over the call to our CFO, Hiren Padhya to discuss financial performance. Hiren, over to you.

Hiren Padhya

Thank you, Vishal bhai.

I would like to wish everyone on the call a very happy new year.

As a reminder, the 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 quarter ending December 31st 2018, as well as year ended March 31st 2019, both will include the revenues of non-core businesses, which is not reflected in the current quarter ending December 31st 2019.

Moving to Slide 14.

Our revenue in Q3 FY '20 has marginally decreased quarter-on-quarter but our net revenue has improved, mainly due to two reasons; **First** is, we have added such new merchants by investing in data analytics, which provides stickiness and ultimately reducing the pricing pressure from competitors. We also have unique offering to the merchants, and hence, we are also able to charge premium for the quality of product and services quality. **Second**, our strong partnership with the alliance banks has helped us to get better pricing for some of the payment options, which has led to more than offsetting the fall in the gross take rate, thus improving the net take rate and net revenue.

Also note that we achieved this performance in the light of intense pricing competition by the funded payment companies and regulatory pressures on the MDR impacting the payment business in general and the net take rate for the industry.

As far as the industry is concerned, the new funded players are pricing below interchange and hence, the take rates are already low and mostly negative for them.

There are several regulatory reforms in the digital payment business, which resulted in pricing pressures leading to marginal impact on net revenues. However, the volume and mix of transaction process resulted in higher margins and overall improvement in the profitability. This led to Standalone EBITDA improvement of 4% quarter-on-quarter to INR 365 million.

As against that, for 9 months FY '20, consolidated EBITDA growth was 35% to INR 1,676 billion and standalone EBITDA growth was 75% to INR 1,036 million, compared to the same period last year.

Coming to profit after tax, it has increased by 13% quarter-on-quarter. And for 9 months FY '20, consolidated PAT has increased by 58% to INR 806 million, while standalone PAT increased by 280% to INR 312 million compared to 9 months of FY '19.

For the 9 months FY '20, the company's payments and platform processed transactions worth over INR 700 billion, which is approximately US\$ 10 billion. This is a growth of 50% compared to the same period last year. Volume of payments processed has increased by 25%. Value of payment processed grew by 30%. GeM procurement value has grown 50%. Transactions processed on bill payment platform increased by 95%. And room nights sold on Channel Manager platform, has increased by 31%.

Further, in Q4 FY '20, the company targets to successfully process digital payment transactions worth INR 180 billion through addition of new merchants, adding new geographies and increasing the volumes from existing merchants on the platform.

Furthermore, as the cap on MDR on debit card ended in December 2019, as per RBI guidelines, all the cards including Visa, Master, Maestro, et cetera, but excluding RuPay debit card, will now be chargeable for transactions below INR 2,000, which was zero from 1st of January 2017 to 31st December 2019. This change has the potential to reduce the pricing pressure on our operating margins and also profitability going forward.

I would now like to hand over the call back to Vishal bhai to discuss the company's growth drivers and then open for floor for Q&A.

Vishal Mehta

Thank you, Hiren. I wanted to spend maybe a couple of minutes to talk about, again, the card issuance business, the one that we are investing into, and the rationale behind why I would like to invest in that and what we are doing in this space for additional monetization.

You see, on the acquiring side of the business, for any card network, it's reasonable to assume that acquiring side will retain 20% to 30% of the overall spend while the issuing side retains the 70% to 80% of the spends. The reason behind that is because in a credit card business or the card issuance business that there is a latency in terms of when the customer pays, which has to be subvented by the issuer.

Today, on the acquiring side, we process about close to INR 15,000 crore a quarter. And in that, we earn on the acquiring part, again only a smaller part of the revenue of the overall transaction. The larger part of the transaction is still on the issuance side. And hence, we are doing two things to participate in that area.

First is getting into prepaid card issuance through our investment into Go Payments (Go). The investment in Go will allow us to be in the prepaid card business, once where we can go out and provide prepaid cards to industry as well as enterprises. With the digital payments growing that becomes a huge opportunity to build-up upon.

The second one, which is also important, is getting into something which is called secured lending, and I want to spend a couple of minutes talking about what that means.

You see we already have payments that we acquire for the merchants. And the normal routine settlement period is T+2 days, which means that from the time of transaction, it will take 48 hours before we remit the amounts into the merchant account.

And the reason that latency is there is because it will take time for the issuer bank to give it to the acquiring bank and acquiring bank giving it from the escrow account to us and us to the merchant. It's fully digital, but there is a latency involved. What we would like to do perhaps is work with select set of merchants to be able to give and drive our after settlement cycle. Because there is already money that have been collected in the escrow on behalf of the merchants and those are very deep, strong technology improvements that we have driven in the last few months to be able to enable our systems to do this while taking into care and consideration all the compliances, regulations as well as risk parameters. With this data that we have, and a few million customers' card-on-file, that if we are able to make improvements and drive the issuance part of the business, it becomes a very strong opportunity where we are sitting both on the acquirer part as well as in the issuance part.

The investment in Go is just the beginning for us to get in into that space.

To summarize; we have a very strong merchant base of over 1 million merchants. We work with marquee clients in the industry, both India and internationally. We have exclusive technology partners

to government e-marketplace. We have an action-based model. We know that prepaid in India will scale, which means that any time you're collecting payments and deducting the amount while paying the merchant, that business will scale compared to postpaid. We are in that business.

We have a strong transaction-led pricing model that allows us to scale up and achieve profitability. Profitability is more of an output. We want to focus on the inputs. We do care about it. We want to make sure that we are continuously building our shareholder value. With the ability to attract, retain and engage both merchants and employees, we have been able to achieve incremental sales by offering solutions to merchants.

We've got very, very strong reliability on data security, brand recognition, and we've got one of the best services out there in the industry.

That said, I want to mention we are committed to building a sustainable long-term business to generate cash flows consistently and create long-term value for all shareholders.

I would now like to hand over the call to moderator and open it for Q&A.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session.

We have a first question from the line of Gunmeen Kohli from K.R. Choksey.

Gunmeen Kohli:

Could you run us through your margin profile this quarter, as I see your payment gateway processing charges as a percentage of revenue has fallen by around 200 bps? So can you provide more light on that?

Vishal Mehta:

Sure. In terms of the payment gateway framework, there is a mix that changed. The mix is, it was lopsided more on the debit card. If you recollect, in the past, at the time of demonetization, government introduced the scheme, whereby less than INR 2,000 debit card transaction had to have zero merchant charges, whereby a very small portion was subvented by the banks and that included all Visa, MasterCard and RuPay. To tell you, the debit card transaction portion was significantly higher for us last quarter compared to subsequent earlier quarters. Going forward, as of January, that the scheme government had given was until December of 2019, which means January onwards, you will start seeing that we will be able to charge on these transactions.

Other RuPay transactions, because RuPay and UPI transactions have been announced at zero MDR and there is a possibility and a discussion going on for banks to subvent, both for Visa and MasterCard for debit card transactions that the same will start showing up in Q4 of this year. So as a result, we were not able to recognize the transaction, both in revenues as well as in processing volumes for last quarter.

Gunmeen Kohli:

Okay. And could you throw some more light or give us an update on the ForEx business which you had, which you spoke about last quarter? And how the traction is over there?

Vishwas Patel:

Yes. So on the ForEx part, that's our investment into the company, RemitGuru, right. That has scaled up very well with some traction. Right now on the platform, the number of transactions processed, remittances via the bank and financial institutions was at an annual run rate of around US\$ 4.3 billion and growing. There have been a couple of large wins on the platforms in different jurisdictions. One particular has already been announced, the Bahrain Finance Corporation has adopted it in their U.K. subsidiary and in the Middle East.

In India, the platform has been adopted by eight out of the top ten private sector banks in the country. And internationally also, there is a term sheet signed with one of the biggest card networks, as well as there is a deep alliance with Western Union in the Middle East. These are the big ones. A separate press note and this thing will be announced in the coming quarters on that investment of our business.

Gunmeen Kohli:

Okay. And lastly, on the secured financing side, which you just updated us on, could you tell us what kind of business are you going after? What kind of capital you wanted to deploy in the same? And what kind of margin profile or interest spread you're looking at? Just your strategy around the business.

Vishwas Patel:

Okay. It's sort of secured lending. The payouts to the merchant normally is up to T+2 to T+3. A lot of merchants require payments in T+0. So it's sort of a payment on successfully processed transaction and the payout is instantly done on that. So it is a secured lending done for those, for 48 hours to 3 days or T+3 you can say, typically, for the major merchant processing.

We are on an annual run rate of around US\$ 10 billion, we anticipate a 30% of those settlements that are happening daily will be the key target area for us to do the T+0 settlement. A lot of merchant requests have come in. We're looking, let's say, on our deployment basis, we are working with the banks for some overdraft facilities starting out with a capital of around INR 100 crore a day. That's something that we are planning. I'm not at the liberty to divulge too much, but the coming weeks, this secured lending will go on. And we are sitting on a mountain of data of over a million merchants and billion transactions. So based on all that data analysis that we have done, putting big data and using AI kind of a technology to give out that T+0 settlement. It's kind of a secured lending, because the payouts for a successful transaction, we are bound to receive 100% of the payouts from the banks within 48 hours or below this. And sort of that will be adjusted against the payouts given, and this is sort of a secured lending. Margins, I think, will display at the end of Q4.

Gunmeen Kohli:

Okay. Can you give us a ballpark figure about the capital you're planning to deploy in this?

Vishwas Patel:

There is no capital. We might be working with the banks on an overdraft and redeploying that capital again. This, as I said, INR 100 crores will be the sort of working capital that we'll be taking from the banks to address this business.

Vishal Mehta:

Yes, just to clarify, I think there will be capital that will be utilized for a period of 48 to 72 hours, which the bank will provide to us as an overdraft, which we give to merchants given that their merchant money have been received into the bank escrow account.

And the spread on that is what we will earn on a daily basis. But it's reasonable to assume that we'll go with a range of INR 100 crore a day.

Operator:

We have next question from the line of Shruti Dhumal from ValueAdd Research and Analytics.

Shruti Dhumal:

So my first question is related to the employee benefit expenses. In this year, we have seen that the expenses are decreasing, showing a decreasing trend. So will that continue in Q4?

And my second question is related to the PAT and PAT margin. Do you see the stable margins in Q4, like 15%, 16% PAT margins? Or do you see more upside to it?

Vishal Mehta:

In the employee benefits side, you will see a decline because of the divestment in the subsidiaries. The numbers that you see right now are reasonable to assume that there will be that or slightly higher as we go. And we will continue investing in that. So the numbers or the decline that you see is because of the divestment of the non-core assets or the ones that we've mentioned in the past.

As far as our PAT margins are concerned, while there is intense competition and pricing pressures, we have been able to grow and expand on that.

If you recollect, government has passed a resolution whereby all RuPay transactions and UPI transactions would have zero MDR associated with that, which means nobody will be able to collect or just will not be paying for such transactions.

That accounts for about 7% or 8% of our overall transactions. So that's the impact to us.

Having said that, we also see expansion of merchants because of the stickiness and the data analytics and the dashboard that we are driving. We see margin expansion given that we are getting into a territory of secured lending against the moneys that have already been received in the escrow account of the banks from merchants against which we'll remit the same day.

We also see certain expansions as we expand into international geographies, and we see a lot of merchants onboarded because we are a neutral player in the industry.

We, in fact, are one of the very few, one of the only two players who are neutral in the industry, and we continue building up on that. So when we combine platform and payments, there will be too much of an impact to the PAT margins in Q4. We'll keep on tracking it and update you as we go through.

Shruti Dhumal:

Okay. Just that on the employee benefit expenses, your voice was not that clear. The expenses will reduce for the next quarter, you are saying, because of the divestment, right?

Vishal Mehta:

No. The divestment is already been accounted for in the employee benefit expense, which does not show up over here. So you can expect that it will continue to be the same or slightly higher.

Operator:

As there are no further questions from the participants, I'd now like to hand the conference over to the management for closing comments. Sir, over to you.

Vishal Mehta:

Thank you all for joining our third quarter FY '20 conference call. We look forward to your interest and participation, and hope to come back to you very shortly with more updates on the business and the finance. Thank you, all.

Operator:

Thank you. Ladies and gentlemen, on behalf of K.R. Choksey Shares & Securities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.