



## “Infibeam Avenues Limited Q3 FY2019 Earnings Conference Call”

**February 15, 2019**



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### **MODERATOR:**

MS. PARVATI RAI

– KR CHOKSEY SHARES & SECURITIES PRIVATE LIMITED

**Moderator:**

Ladies and gentlemen good day and welcome to Infibeam Avenues Limited Earnings Conference Call for Third Quarter of FY2019 hosted by KR Choksey Shares & Securities Private Limited. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Ms. Parvati Rai. Thank you and over to you Ms. Rai.

**Parvati Rai:**

Thank you Aman. Good afternoon everyone. On behalf of KR Choksey Shares & Securities Private Limited, we welcome you all to the Q3 FY 2019 Earnings 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. Hiren Padhya – Chief Financial Officer, Mr. Vishwas Patel – Director, as well as Founder and CEO of the Payments business. We will now begin the call with a brief overview of the company by the management followed by the Q&A session. 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 very much good afternoon to all of you. On behalf of the management of Infibeam Avenues I would like to welcome you all of you to our third quarter earnings call. On the 14<sup>th</sup> of February our Board of Directors have adopted the results for the third quarter FY19 that’s October to December of 2018. The results have been uploaded along with the press release and earnings presentation on the stock exchanges and also on our website. I hope all of you have the presentation with you.

I will begin with the brief company update in the light of some strategic announcements that have been made by us and then I will have Vishwas Patel, our Director, Founder and CEO of our Digital Payments business to subsequently share information about the payments industry as well as our Payments business followed by Hiren who is our CFO who will walk you through the financials.

In the last earnings call I had already explained **Slide #3** which is our standalone structure hence I would not like to spend too much time on this. All I want everyone to note is that our core focus continues to be web services platforms in Digital Payment Solutions business. And we are taking all the steps to strengthen this business further as we go into this quarter and next year. As our business model is focused increasingly on transaction-based revenue to achieve higher scale and higher profitability, we believe that it will generate higher value to our shareholders. We will continue having

the flexibility to be able to win contracts by offering subscription services as and when it comes in an evolving industry of e-commerce in India as well as abroad.

Moving to **Slide #4**, I'm extremely delighted to report strong financial performance in Q3. Our Q3 standalone revenue if you compare year over year is almost double and this particular increase in revenues was led by the performance in our core web services Platform and Payment Business Solutions in India. There is also a small portion of prior quarter revenues which is recorded this quarter which we will cover as we go through the presentation. A very strong contribution from digital web services business and payments that was conducted as well as through the growth in the government e-marketplace led to out-performance in the platform business. Also, the synergies across the web services offerings including enabling transactions for digitizing merchants' operations including digital payment integrations, further boosted our revenue growth. If you look at the government e-marketplace, the cumulative order value which is currently around close to INR 18,900 crore as we speak is expected to touch close to INR 25,000 crore by the end of the year. We processed about close to 30 million transactions worth INR 11,470 crore in Q3 of FY19 compared to INR 5,414 crore in Q3 FY18. So, if you look at year-over-year we continue to double in value. The number of transactions processed which is 30 million is the highest we have processed in any quarter. We have over 600,000 active merchants across our platform and payments business and we aim that we would like to reach 1 million merchants on our platform in subsequent years. We are targeting to process payments close to INR 50,000 crore by the end of FY19 and we would like to look at our trajectory of doubling every year and next year too, to achieve a targeted INR 1 lakh crore by 2020.

We have achieved a record EBITDA and profit before tax this quarter compared to the prior quarters. As well as it's important to note that there were some revenues from prior period as exceptional items in current quarter which is recorded as revenues. Due to the large fixed cost nature in our industry we get much better operating leverage.

I would like you to look at certain strategic announcements that we have made highlighted on **Slide #4** which really talks about the focus of the company on web services where we are amongst the leaders in the domestic market and this also allows us to focus improve performance and enhance shareholders' value.

First, we received the Tier-3 design certification from Uptime Institute for our data center located at GIFT City, Gandhinagar which is expected to come up later this quarter, or early next quarter. We have collaborated with IBM India to develop, implement and promote blockchain applications on our company's upcoming cloud data center. We believe blockchain is the future of the underlying technology which becomes a future of many of the applications that have a lot of potential to transform the industries including the Payments industry, and we will continue investing in that, and we have got some very good plans for our data centers which we will discuss post the launch.

With an aim to focus on core web services Platforms and Payments business, we divested Infibeam marketplace which contributed to 2% of our net revenues in FY18, and entered into a merger alliance with Suvvidhaa Infoserve to form an omni-channel strategy. It's very important to note that our thesis of India has evolved due to intense competition and changes in regulations, and we believe that B2B

and eventually to the customer is the right strategy for a country like India. Going direct-to-consumers removes intermediation, brings in some efficiencies and while these efficiencies are worked out very well in some countries, the entire waterfall of the product all the way from the manufacturer to the retailer to the customer in India is fairly small compared to what you would see in other countries which means that there is a lot of value addition that comes from intermediaries and an omni-channel network which allows the retailer close to the customer to be able to add value becomes a very important touch point in the entire value chain and we believe that as we think through the B2C revolution that continues to build out in India that Suvidhaa is very well placed to be able to take advantage of this particular opportunity. The valuation of the deal that took place was INR 500 crore. We have also fully divested our ownership in another subsidiary Infinium India to Ingenius E-commerce. Ingenius again operates a B2B industrial goods and aggregation platform.

So basically, the thesis is that we are moving away from a B2C concept where it was naturally cash burning in many ways for us, while we will have the ability to reinvest our profits into scaling our transaction-based web services platforms for faster growth and also for our expansions.

I will discuss the details of all the strategy announcements later in the presentation. For now I will ask our Director Mr. Vishwas Patel to give you an update on the digital payments industry and discuss the performance of the Payments business this quarter.

Over to you Vishwas.

**Vishwas Patel:**

Financial Technology or 'Fintech' is the hot new buzzword in the tech industry and the whole of 2018 we heard a lot of development in this space globally, as well as in India, with India being one of the most sought-after destinations for investment in digital payment growth. Going into 2019 and through to 2020 we believe Fintech will be a key focus and growth area for India Inc.

If you move on to **slide 6**, as highlighted in World Payments Report 2018 prepared jointly by Capgemini and BNP Paribas, India is positioned second after Russia in non-cash boom; India growing at a CAGR of 33.2%. As per the report, India is expected to be in top 10 overtaking Australia and Canada, in number of non-cash transactions. CEMEA (Central Europe, Middle East and Africa), the second fastest growing market globally- where Infibeam Avenues is focusing its next growth in payments to come from- is projected to grow by 20.2% from 2016 to 2021. As a reminder, we have recently acquired a digital payment service provider based in Dubai serving the Middle East market. We will focus on expansion in the CEMEA region soon.

If you move to **slide 7** – we have compiled some of the data points published by RBI in its monthly bulletin. We have grouped Credit Card & Debit Card, Point-of-Sale (POS), mobile wallet, pre-paid instrument cards and mobile banking as one digital payment basket to analyse the growth in digital payments in India over the last few years and what could be the potential. Since RBI does not provide further details under these heads, we assume this basket to be a proxy of the P2M (Person-to-Merchant) transactions.

So, one can observe in column D that the growth in volume of non-cash transactions has consistently been above 50% over the last three years. Based on the current industry run-rate, by the end of FY19, total non-cash transactions could be in the range of 14-15 billion, a growth of 40-50% over FY18. And total value of the digital transactions for FY19 would cross US\$500 billion, a growth of approximately 50% over FY18. May I also remind you at this juncture that our payments business, CCAvenue, is growing at 100% year-on-year. Assuming that 50% growth rate continues for the next few years, given that India has just begun its digital journey, with strong support from government and the central bank in actively promoting less-cash transactions, the total value of this digital payments basket will cross US\$1 trillion in FY21, meaning, double from the current size in just two years from now.

An exponential increase in digital transactions gives us confidence of the growth potential India has in digital payments.

We believe, the growth would be broad-based, be it any industry or be it Tier 2 and Tier 3 cities, or from digital transactions at offline stores, from e-governance, etc. and from all payment options especially cards, wallets and mobile banking.

If we move to **Slide 8**; CCAvenue it is our core flagship payments product. At a macro level we have the broad spectrum of payment solutions for the merchants. If you are aware India has the highest number of payments options in the world. That's why it gives a good place for an aggregator like CCAvenue to collate as one single solution for the merchants; for them it becomes one single integration, one single payout. That's why it's a good place for an aggregator to be in when there are so many payment options out in the market. CCAvenue is not just a payment gateway; we are constantly now evolving into a comprehensive FinTech platform with various solutions to suit the needs of small and medium merchants as well as large enterprises to whom we provide invoice payments, business collections and payments where we have launched new platforms, B2Biz which not only does the payout but also collects money for the merchants and for the big corporates. So it's an all encompassing payment solution with 240 plus payment options. It's used by all, if you have seen the client list, right from the government to the big merchants to the big corporates to the small merchants, utility companies and various other businesses.

In essence any kind of commerce is not completed without the payments coming into the climax. So, we are ensuring that we will be there as the primary option for all merchants to help them collect payments. Technology-wise we are one of the most advanced payment gateways in the world and constantly evolving.

If we move on to **Slide 9**; the key take away is that we work with most of the top brands in the country that is 92 of the top 100 web merchants in India, 70% of India's web merchants use the CCAvenue gateway, hence we have been able to double every year. We have processed INR 11,470 crore of payments in Q3 and overall in the first nine months we have done INR 34,725 crore worth of transaction processing. We aim to process payment worth INR 50,000 crore during the financial year 2019. This will be an important milestone for us as we begin our journey in the calendar year 2019 and our aim is to double from FY19 while ensure profitable growth. May I also remind you that we earn on every transaction we process and not a single transaction is where we lose any money.

Now going on to **Slide 10**, now these are some of the marquee clients that we work with. So if you look at hospitality, you will find Taj, Oberoi, ITC, all use our payment gateway. If you look at the OTA space MakeMyTrip, ClearTrip, Yatra, Paytm, FreeCharge, Amway. If you see some of the new additions that are there, some of the new additions that we did in the last quarter, so Torrent Power, Shriram General Finance, Bajaj Auto finance, Thakur International School and lots of others. We have not put in all the names of our customers but lot of new other marquee names we have. And if you've seen the trend, a lot of education has started collecting payments online, a lot of government businesses have started taking online, lot of utilities are coming online. So these are people have to pay not by choice but they have to pay because these are bills, so not like shopping where they have to be lured by cash backs. So the transactions are really scaling up and we intend to focus on these emerging categories which are going online.

Moving to **Slide 11**; during the calendar year 2018, the BBPS industry recorded a total of 226 million transactions across India, worth around INR 68,130 million having an average ticket size per transaction of around INR 301. BBPS that is Bharat Bill Payment System is looking at expanding both the number of channels through which the bills are paid as well as the number of biller categories that are plugged into the system. Currently BBPS is available through digital wallets, bank mobile apps, net banking and other electronic channels. It will soon add 20 lakh agents across India to further expand where people can pay through these agent networks. Many electrical utilities and almost all Telecom and DTH providers are currently on boarded on BBPS. BBPS is further working to get more utilities on its network and more importantly it's going to add school fees and taxes in its bill payment categories. NPCI also plans to enroll the major institutions. So we as Infibeam Avenues are the official license holder by RBI to act as an operating unit under the BBPS license scheme. So, only 9 non-bank entities have this license and we have already launched BillAvenue which is our bill payment solution.

So if we move to **Slide 12**; today in a very short span of time since the launch of BillAvenue we are doing transaction processing of almost INR 1.25 crore a day. There are like 372,353 active agents that are on-boarded on our systems. These agents 370,000 plus are present in almost 1,200 cities and towns across India. These are typically the small shops that you find outside stations where they have the board of Bill Payment, you can book the tickets and book it. So there are almost 3,72,000 agents under BillAvenue that we have presence across the country.

If you move on to **Slide 13**, so these are some of the major agent institutions using our services, the UAE exchange, Vakrangee, Muthoot, Suvidhaa, Finopay, beam, so we have on boarded almost 89 agent institutions. As far as the biller on-boarding's, we have on-boarded Municipal Corporation of Gurgaon, Sabarmati Gas, and Dish TV under our license onto the platforms. The new additions that we did this quarter were Municipal Corporation of Jalandhar, Amritsar, Ranchi, Ahmadabad Municipal Corporation, Hindustan Petroleum. For Ahmadabad Municipal Corporation, all the aqua-tax and property tax on to the BBPS systems is on-boarded by BillAvenue that is our solution.

Now if we move on to the next solution platform that we have, if you understand our strategy, platform plus payment is the company strategy, so ResAvenue is the hospitality platform plus payment strategy that we have. If you move to **Slide 14** this is what we can provide to the hotels, a direct hotel

booking engine, we distribute their inventory worldwide on all the OTAs and other places. The kind of features that we can do, so it's a very advanced solution and today more than 1,000 hotel property in India and the Middle East use our solutions, the ResAvenue platform.

If you move to **Slide 15**, some of the hotel brands that use our properties in India and the Middle East, some of the known names, so I will let the logo speak. If you move on to **Slide 16**, so overall booking generated by hotel clients on channel manager is around INR 737 million, and we generated around INR 91 million through internet booking engine, 42% quarter-on-quarter growth for our 904 hotels in Q3. So, every day around 1,500 plus room nights booking go through our systems.

Then I will take you on to the GeM marketplace on **Slide 17**. GeM as you know is one of the most revered projects of the government of India and it's highly dedicated and committed to shift its consumption online to bring in transparency in the procurement system. So, to eliminate corruption, GeM has been brought in by the government and it's really working successfully. So, the government on its part to promote GeM had organized a 6 week "National Mission On GeM" starting 6<sup>th</sup> September and ending on 17<sup>th</sup> October. So some of its success is highlighted on Slide 18, there was a 57% growth in the average transaction volume through its National Mission, approximately 1.3 times growth in average daily transactions. So everything and anything that the central government and around 22 states which have joined and if its procured through GeM there is no CAG audit, there is instant payout to the sellers, so lot of benefits and it eliminates corruption in the whole system so it's working very well. Government has now also on-boarded startups on its platform, the government has also launched "Womaniya on GeM" to enable women entrepreneurs and women self-help groups to sell handicrafts and handlooms to various government ministries, departments and institutions, and if you see the latest development from GeM, as per their twitter handle, if you follow GeM on twitter, Indian Railways is completely on-board on GeM. Indian Railways alone has committed INR 10,000 crore of procurement in FY20. The GeM platform is also being used to place orders for World Bank projects. Some of the new government departments like AIIMS, Army Campaign, all their procurements has moved on to GeM. So today if you see the latest release on the GeM twitter handle, GeM today has already turned around INR 18,900 crore of procurements till now. This year the total procurement on the GeM by the end of FY19 as projected by the GeM CEO is to touch INR 25,000 crore, nearly 3X of FY18 based on the current rate. SMEs will contribute 39% of the overall value on GeM.

GeM is also very active on the twitter handle and you can get regular updates to see who are the top buyers, sellers and on different platforms.

So if you move on to **Slide 18**, the first and the second info-graphic order value of the top 5 states and the top 5 ministries including the National Mission on GeM, the third info-graph is these are the top 5 sellers on GeM platform. So for the calendar year 2018 there was a 186% growth in the number of users on GeM, 772% increase in volume terms and 599% in value terms of buyers saving approximately 25% to 28% on an average across all categories, products as well as services listed on platform. Going ahead in 2020 we expect GeM to handle more procurement as compared to FY19 and more products and services will be added to platform. We also expect few states to start procuring from the GeM platform due to the benefits of GeM. Although it's not mandatory for the states to buy through GeM.

State governments apart from center procure goods and services around INR 8 to 10 lakh crore a year. May I remind you your company earns a good + 10 bps margins on every transaction that takes place on the GeM platform.

Now moving to **Slide 19**, I will hand it over to Vishal to give us an update on the strategic updates and the key business development. Over to you Vishal.

**Vishal Mehta:**

Thanks Vishwas.

Let me you give you a very quick update on some of the business developments of the company and then I will request Hiren to walk you through the financials.

**Slide 20**, we are launching a Tier-3 Data center in later part of this quarter, or early Q1, in GIFT City. We have received the design certification from Uptime. The data center will have a capacity of upto 1 megawatt. The Tier-3 design is to have an uptime of 99.982%. What that technically means is that no more than 95 minutes of downtime per year. It is build for high resiliency, very high speed processing and designed to be the backbone of interconnected data-driven era. Through this data center the company will be able to host very high-compute machine critical applications that requires high-resiliency and high-speed processing which becomes practically the backbone of the digital economy. If you've recently come across some of the regulations which have come up regarding storing of certain data, that all adds to the character of what we are wanting to do with this data center infrastructure. The company will soon shift its data center from some of the other cloud providers that we use. For our own computing we plan to use it and also offer it to third-party who are utilizing it on top of our platform. Closer to the launch we will provide many more plans, we will keep everyone updated about the developments of our data center.

Moving on to **Slide 21**, we have entered into an agreement with IBM for a collaboration whereby we will enable the company to develop, implement and promote blockchain applications. This becomes one more revenue stream for the company. In the past most of the data centers were built out in such a way that somebody can host and co-locate their servers and they charge rentals. Our appetite is to not just offer a rental, we will provide applications in such a way that not only the software-as-a-service or platform is offered, even infrastructure is offered as a service. We believe this becomes the basis and genesis of anyone and everyone who would want to actually built out any application that he would not have to go to anyone, but we become a one-stop-shop for anyone to be able to process very high secured, highly resilient, highly computing, scalable framework. Our data center combines the best of open technology Linux with the best enterprise computing in one platform. As per some of the latest reports that if you have read from KPMG and others blockchain has a potential to redefine open and shared economy across areas including payments, trade finance, KYCs, fraud reductions, clearing settlements and many more. Many financial institutions in associations with FinTech firms are establishing consortiums to co-create development. In India it is estimated that blockchain has a potential to generate up to US\$5 billion in business value over a period of next 5 years. So, we believe



that forward investing into disruptive technology solutions will become very core to our build-out for the future.

**Slide 22**, we see there is a great scope for business to grow by having an omni-channel presence. I briefly touched upon it earlier; we have entered into a strategic merger alliance with Suvidhaa so that we have an omni-channel presence. In some ways for standalone businesses to do B2C in the past and even today in the present we see that they are not profitable and in order to actually go out and build-out a profit because you are working with very-very high data driven margins that you need to own certain touch points and we believe omni-channel is a right way. This essentially means that there is a potential to actually make one-plus-one a larger number than a two. Suvidhaa has a vast network of more than 90,000 outlets under 4500 pin codes across India with a large presence in Tier-2, Tier-3 towns.

Suvidha acquired 5% of the marketplace business. They paid INR 25 crore and remainder will be through a scheme of amalgamation. Subsequent to the merger all sales channels through the marketplace and channels enabling retailing of products will be continued to be managed by the merged entity. The technology implementations and the stores that are essentially being able to generate revenues will continue to generate the revenues for the entity.

Moving on to **Slide 25**, with an aim to completely move out of the cash burning business which has let very low margins, we entered in the deal where Ingenius, who is one of the largest operators of B2B marketplace aggregation; for its industrial kind of goods, wanting to expand into other categories and in that way, the trading and the distribution part of our business is not something that we will focus on going forward. With this deal, Infibeam Avenues will completely not have any of the product-related business as part of the standalone as well as consolidated enterprise. We will continue to focus on our core web services Platforms and Payment Solutions businesses and will continue to look at the International expansion opportunities for such services.

**Slide 26**, more than two-thirds of the transactions within India are believed to be in cash. You can think of it as 700 million people who fall in this category of un-banked or under-banked having access to cash and digital instruments but not comfortable transacting in the digital world. So, as a result we made a strategic investment of INR 6 crore to acquire 48% of Instant Global Paytech Private Limited. Instant Global is in the business of serving the un-banked and the under-banked by providing a lot of services to certain types with thousands of physical and digital touch points. The company plans to establish off-line access to 10,000 plus franchisee points across India. These retail locations will allow walk-in customers to conveniently transact in cash across the counter in secure, reliable, real time and trusted manner. This investment will deepen our off-line penetration and address so much larger economy as we move towards the digital India.

Now I will ask our CFO Hiren to discuss the financial performance for company in Q3 FY19. Hiren over to you.

**Hiren Padhya:**

Thank you Vishal Bhai. Good afternoon everybody.

I will discuss the financial performance during Q3 FY19. Please turn over to **Slide 28**. Kindly note that we will be reporting standalone financial performance for the first three quarters of FY19 and we will report audited and consolidated results for Q4 and full year FY19 in the Fourth Quarter. Practically, this quarter we will be discussing only standalone financial performance.

Q3 has been a strong quarter, led by impressive performance by our Payments and Platforms business. This quarter the growth was broad-based and comes from across all the Platforms and Payment Solutions that we provide. All key financial numbers have more than doubled which Vishal bhai has already mentioned in the beginning. This is mainly because of five reasons; (1) strong execution of our business through 112% increase in payments processed to INR 115 billion in Q3; (2) Increase in contributions from GeM; (3) Increase in increasing bill payment processing through our BillAvenue solution, processing bill of over INR 1.25 crore daily; (4) 42% increase in the booking generated in Q3 through our Internet Booking Engine; and (5) Over 1500 room nights booked daily through our ResAvenue channel manager platform.

If you see the value of payment process has more than doubled year-on-year in Q3 and we have maintained the trend of doubling in all the three quarters of FY19.

Payment business has been able to achieve strong growth and maintain its gross take rate despite high competitive intensity shown by heavily funded players. Our payment business continued to show healthy operating margins and stable profit when competitors are heavily burning cash. Our strength lies in the technologically advanced and broad-based solutions that we provide to the industries complemented by an excellent tech-support, strong leadership and first-mover advantage that we have in the industry.

Moreover, our ability to generate cash from our business allows us to invest it back into our business, mainly to improve our technology and provide better services to our clients. Our investments are being channelised for our growth through our constant endeavor to improve our platform and payments to ensure high quality services to our customers.

This financial year we have invested in our own infrastructure to help us build for the future. We are planning to launch our own 1 megawatt capacity data center by early Q1 FY20 to be located at GIFT City and we have some great plans that we will discuss as we proceed further in this year. To prepare and achieve our internal targets for 2020 we are focusing on strengthening and sharpening the Web Services Platform and Payment businesses and thereby divesting our marketplace business which is a cash burning business.

We look forward to a strong Q4 when we will declare consolidated and audited financials, and we will be able to discuss a larger picture of the company and the way we look forward for 2020.

I would now request Vishal bhai to take the final few slides.

**Vishal Mehta:**

Thank you Hiren.

As far as the strategy is concerned, we discussed the strategy last quarter. Most of the strategy continues being the same. The divestment that we have done in the prior quarters have just helped us focus and reinforce the purpose to focus on both web services and digital payments.

On **Slide 32**, I would like to summaries, we believe we have got a very strong business model to help us scale the business; one which is most profitable as well as has a growth potential. We think that as we build out the business we will focus on long-term and invest in places where there is a potential to generate good shareholder value. We believe that we are focused not only on a number like profitability for growth but, we believe growth and profitability is a right way and it is the right approach that one has to look at the long-term.

We want to focus on many-many more digital initiatives that are in the government, Government e Marketplace is just one of them. We believe that there are many more any initiatives that our platform and framework can be utilized for to handle.

International being the very core area of growth, we believe growth potential can be fueled. We will require local support. Every country has a different framework, legality, as well as integrations, and hence local people will have to drive local operations. We will continue building up on those initiatives so that we can expand our footprint, internationally.

We believe that we have got a very strong team in place and we want to think about long-term vision to build out this company as we go forward for our shareholders.

I would like to close the presentation on this note.

I would like to request the moderator to open the floor for questions and answers. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the questions and answers session. The first question is from the line of Nitin Shah from Blue Moon Capital. Please go ahead.

**Nitin Shah:**

I want to know about the data center and its business prospects, revenue and profit prospects along with it?

**Vishal Mehta:**

Data center businesses have evolved quite a bit in the past few years. To give you some reference points, most of the data centers that come up, they come up with the concept of providing a physical presence along with all the components whereby customers can come and place a server or a compute or a storage unit in terms of co-location and you would end up paying a rental for utilization of such data centers. So, when you think about data centers in the past, for any merchant, it was really about, could I essentially utilize your data center to host my server, compute storage and each of the data centers provided certain level of reliability. In the past few years; that business has evolved to actually position itself as the cloud service, the format, so, not only would you have a data center offer just the physical presence in the framework but also the entire opportunity where somebody can just host it

without having to invest in any of the equipments. I think majority of the data centers in India are built for co-location which is even meant for larger clients, it could be an Amazon or it could be someone else.

What we have done in our data center is we are opening up in such a format that that there is not a co-location service but it's a cloud-based service. So, any merchant who wants to hold application or run application can utilize our compute and storage. In terms of our focus, because a lot of companies offer storage-as-a-service, flash storage and others, our whole concept is to focus on compute which is very high compute applications. Any application that requires a lot more processing that becomes a very interesting target for us and hence the recent announcement on Blockchain. Because the moment, you would utilize Blockchain as you can tell Blockchain is an open source piece of software but the fact is that you would require a lot of compute as the number of nodes would keep on growing and hence we will always keep opening up for a very high compute applications and we would charge customers in that format, as they grow the number of nodes, we would essentially make it variable. So, there is no fixed charge but as your applications grow in size and scale we get paid more as you grow your own network. So, much like our concept of transaction-based model we would continue building up on top of a similar format to be able to give out data center services.

We already have the applications with us and we believe that when we talk about processing 30 million transactions a quarter the entire FinTech opportunity can potentially which also requires a lot of compute can potentially be utilized and that becomes the basis of how digital transactions would potentially be in a very secured way processed through our services.

And, as far as your question on revenue and profitability we will share more about our plans and our opportunity where we launch it. The time of launch will be close to end of this quarter or very early next quarter. It's reasonable to believe that it will actually help us in terms of significant contribution to revenues in FY20; typically, you would imagine that for any application which requires very high compute to be hosted and based on the proliferation of that each of that will contribute to our additional margin and revenues.

**Moderator:**

The next question is from the line of Rahul Shroff from Raisonneur Capital. Please go ahead.

**Rahul Shroff:**

Mr. Vishal you guys are looking to process close to INR 50,000 crore of transactions this year. I would like to know what kind of transaction processing are you looking at for the next year and you think that there will be any impact on margins looking at the kind of growth you guys are experiencing?

**Vishwas Patel:**

I think what have seen that payments have become more and more in-ground with the more and as more people finds out the benefits of how easy it is to do digital payment, we see massive growth in that option and I think you all must have seen now nobody goes to a paan-wala to do a recharge, nobody goes and stands in the queue to buy a movie ticket, so, the more and more people go online

the payment business is going to grow and a lot of new verticals are coming on board, so, the growth that we see, be it next-gen in the form of education, we see a lot from utilities coming online, there are like 78,000 utilities, but right now around 400 or 500 only are accepting it online so, the next-gen of utilities that come online is where we see a lot of growth coming-in and our focus area is going to be there, and we are not just focusing on offering of a vanilla payment gateway, the strategy is platform and payments, so what it gives to BillAvenue where you do utility payment and soon education payments will come on-board or when we do ResAvenue where we give a full-fledged hospitality solution that is an invoice payment, collection, along with a booking engine on the merchant's website, along with payment gateway. The Platform + Payment strategy helps us in enhancing margin, so any other new PG competitor that comes up with easy money and starts charging out, so, the typical merchant will ask, "what will I do with your Vanilla Payment Gateway? I need a full-fledged solution which includes the entire inventory distribution, collection through invoices, as well as the payment systems". So that's where the key changer of our strategy is that, when we give a platform plus payment strategy, it not only enhances our margins where we have the ability to charge more but also it enhances stickiness because the merchants get trained on to the platforms which has all the payment services inbuilt. So, that's been our strategy for years and we expect that we have been doubling over the last 2-3 years year-on-year so next year also we hope for the best.

**Rahul Shroff:**

In terms of Suvidhaa the recent merger that's ongoing what kind of synergies do you see and what kind of equity stake do you see us ending up with in the merged entity?

**Vishal Mehta:**

So, with Suvidhaa basically initially they have taken 5% of the enterprise and the rest of it is through the scheme of amalgamation. Suvidhaa has local physical touch points so services like utility payments and many more, which Vishwas touched upon as part of the presentation, those services can be offered to merchants already utilizing the Suvidhaa network they have in fact already on-boarded. So, as a result, it becomes a distribution of framework. When you actually have a digital good and when you have a distribution touch point, then anyone who can walk into a store which is powered by Suvidhaa or a Suvidhaa Store can actually pay and the back-end as well as the front-end servers, they potentially allow a utility payment to go through our network, so that's one. The second thing is that we can utilize it for logistics locations. So, we think about being able to pipe certain kinds of services and products, so, as marketplace moves onto an omni-channel forefront, you see the biggest challenge in India is that products have razor-thin margins so the waterfall all the way from the manufacturer to the end customer is much more compressed than what you would see in other countries. I am generalizing it but I am talking about the majority of the categories. So, what ends up happening there is that if you want to actually go and work on services in silo in other words that I will only offer one service it may be product buying and selling then the margin is very small but when you actually talk about offering the entire scope, and Vishwas touched upon it as platform and payments, in the software industry people talk about something called as a full-stack and not just partially one

particular small piece of software but the entire solution. Then there is a potential to generate better margins and have more stickiness and hence that omni-channel approach for retailing that when you have a physical touch point as well is that then it becomes an opportunity when you are closest to the customer it's called a forward deployed note in our language which is very close to the customer that allows you to service the customer at a very low cost compared to what you would do if you had a centralized location. If you look at the business models, in B2C retailing, in the past, majority of the companies who have participated, they lose thousands of crore and while there is a lot of appetite in willingness to do that because for a long-term approach but for countries like India we believe omni-channel is a far more superior concept where you already have a distribution network and that distribution network can do a lot of things including last mile. So, we do believe that there will be synergies and since we have already started the process, we have integrated utility payments as first and eventually we will open it up for many more.

**Rahul Shroff:**

What kind of equity do you think we will end up having in the merged entity?

**Vishal Mehta:**

Today the deal is valued at INR 500 crore. Suvidhaa will be the controlling shareholder but we will have substantial equity in the merged entity. It will be of course announced at the time of scheme of amalgamation.

**Moderator:**

The next question is from the line of Nikunj Patel, as an Individual Investor. Please go ahead.

**Nikunj Patel:**

On what criteria we took the decision for not acquiring UniCommerce and what will be the impact?

**Vishal Mehta:**

Unicommerce, if you recollect, was a piece of software that was allowing us to get into the warehouse of certain brands and retailers and many others. So, it was more around the warehouse management and that allowed us to power many of the e-retailers as well as certain distributors. In terms of closure and the completion of the deal, there was certain debts and warranties which were not met within the timelines so as a result if you think about the impact to us Unicommerce was doing approximately about INR 20 crore a year that's the impact of revenue. It was break-in or slightly negative, it was trying to become positive when announced the acquisition. In fact, it will reduce the cash burn by not going forward with the deal and impact to revenue would be in the lines of INR 20 crore. It's a lot of intellectual property so if you recollect, we had announced the acquisition for INR 120 crore. The impact to the revenue would be to the range of INR 20 crore, we had never consolidated them in our financials, so as a result there is no change in the numbers that we have announced so far. But the revenue impact is marginal and we believe that there is a cash flow and the impact to the amount of cash that we would have invested that we would have planned for or allocated for Unicommerce that is no longer required.

**Nikunj Patel:**

So, it means that there will be cash by not acquiring this Unicommerce company, right?

**Vishal Mehta:**

Yes. So, it was structured as a convertible instrument and that cash obligations do not have any more relevance now for us.

**Moderator:**

The next question is from the line of Hitesh Akhani from Sunrise Stock Broking. Please go ahead.

**Hitesh Akhani:**

Vishal Bhai can you please provide me details on Bharat Bill Payments System and what you expect this year and next year?

**Vishwas Patel:**

I think BBPS, we have covered extensively in the slides, what it means is the Bharat Bill Payments Systems, so in a sense if I were to give you a more macro picture is that we have been given license as an operating unit by the RBI, what this license entails us to do is that the BBPS system is managed by the NPCI but, they don't touch the agents nor do they touch the billers. It is the operating units or OUs licensed entities like us who had to one side get the billers and the schools and all others to put it onto the system and on the other side through the APIs we can pull that and give it to the agent institutions and the agents. So on every bill that is processed from a biller perspective that is the money to be made on every bill and on the other side, on the agent network, every bill that this processed through us there is a certain money that comes to us. As it scales up, today around INR 1.25 crore of daily bills are being processed on our systems, we expect it to go up to around INR 60 to INR 70 crore a day as more and more utilities come on board. So as of now there are 108 odd utilities which are live on the systems, even though there are lakhs and lakhs of agents still the utility is on-boarding is less so that's why the volume of INR 1.25 crore is limited today but, there are more than 30,000 agents in Guwahati but Assam Power is not live on BBPS. The day Assam Power comes in or other power, other utilities in that area come in, this will go up exponentially. The other new verticals that are expected to go online, be it insurance, be it schools and colleges of the local areas that the local transactions will go in. So, right now it's just the starting but still it's our processing is almost touching INR 365 crore yearly going to almost INR 400 crore and going forward we expect it to grow at least 10X, that's our estimates. Government says that there are 2.5 crore bills that are generated every day in our country across different kind of utilities, municipalities, power companies, telephone companies. So the scope is enormous, it is the new system that is coming in, and it's going to be the only system where all the utilities and everything consolidates on a single platform enabling the end user to at one stroke pay either his school fees, his electricity bill, his insurances, mutual fund premium, everything, so, all those things will come on-board on single platform. So, you can very well anticipate the growth. So monetary perspective I think it's quite reflected in the results that we already gave. The future scope is something which I am sure you all can see the scope and how fast it will evolve.

**Moderator:**

Ladies and gentlemen, due to time constraints that would be the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

**Vishal Mehta:**

Thank you all for participating in our Q3 Conference Call. We look forward to continuing this practice of reaching out to our Investors through this call and if you have any other additional questions please feel free to reach out to our Investor Relations. Thank you and thanks for being here today.

**Moderator:**

Thank you very much. Ladies and gentlemen on behalf of KR Choksey Shares & Securities Private Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.