



## “Justdial Q3 FY 2016 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen day and welcome to the Justdial Q3 FY2016 Earnings Conference Call hosted by Citi Group Global Markets India 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 for an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Malhotra from Citi Group Global Markets India Private Limited. Thank you and over to you Sir!

**Gaurav Malhotra:** Thank you Zaid. Good evening everyone and welcome to Justdial 3Q FY2016 Earnings Call. We have with us the senior management of Justdial including Mr. V.S.S. Mani the Founder as well as, Ramkumar who is the Chief of Financial Officer. Without taking too much of time, I would hand over to the management. Over to you Sir!

**Ramkumar K:** Good evening friends. Let me begin by giving you the highlights of this Q3. First the top highlights the operating revenue for Q3 was 171 Crores a growth of 11% over previous year YoY. Adjusted operating EBITDA was 47.52 Crores with EBITDA margin of 28%. Net profit was 27 Crores with the net profit margin of 15%.

Some of the other key highlights before I give some color on the sales and the other aspects during the quarter, we were conducting about 355,000 campaign a growth of 5000 over the previous quarter, database listing of about 16.1 million and we had about 10200 employees at the end of this quarter.

Now coming to the key highlights and the key issues before us on the quarter is the topline growth. As we had reiterated in the Q2 the issues on the topline growth which has come down from earlier year to be 11% is essentially due to the decrease in the overall volumes, which has been impacted by the lack of scaling up of the sales force. We are in the process of addressing this scale related issues. We should see adding about 2000 to 2500 in the sales force particularly in the feet-on-street over the next nine, ten months and also we are going to be adding telesales - the 2000 – 2500 people includes the telesales.

We are expanding capacities in various cities where we needed to add capacity to in-house telesales so we believe with this action that we have taken on the sales front should address the growth related issues on topline. Once the topline growth rate comes back with the normalized 20% the margin issue should be taken care of.

Apart from that we did have some onetime expenses, which we have already highlighted in our report. The other aspect I would like to touch upon in this quarter is on the mass

communication we believe we are ready with the product where we can start the mass communication in this quarter so this should also address some of the user engagement that we have which we have not done much in the past two years so with this campaign that we are going to do it in the sustained period over the next few quarters should increase our user engagement so the two prong strategy of increasing the sales force and the consumer engagement with our direct agents as well as the advertising campaign should address both the topline growth and the usage.

I am happy to handover and we can answer any questions that you have.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead

**Sachin Salgaonkar:** Thank you for the opportunity, I have three questions. First question to Ram. Ram on CNBC today morning I guess you gave some comments about 25% revenue growth employee cost expanding around 30% for next year. Could you please us with all those exact details what you have given around?

**Ramkumar K:** Sure, what I meant was we will come back to the normalized 20%, 25% growth by FY2017 so obviously we are at 11% it may take another quarter or so before we start the acceleration to see and kick in with all the actions that I said on the sales front. Our hope is we will come back by 2017 we should have the 20%, 25% growth rate.

**Sachin Salgaonkar:** So I guess we have the same problem perhaps last quarter when the revenue growth was slow, can you help us understand how has the sales force increased from last quarter to this quarter and how we should look at the additions? The point I am trying to come as if 2000 to 3000 people will be added in the period of next ten months so does it mean that we will see an acceleration at the end of ten months or how we should look at it?

**Ramkumar K:** We have already put in place the plan to do the expansion right away you should see the the run rate coming in of about 200 people odd per month or 150 to 200 per month over the next few months we should see that. The previous quarter the addition has been on the feet on street to the extent of about 150 odd people that we have added on the feet on street but there has been some reduction on the telesales basically on the weeding out of bottom performance so the sales force overall considering it is marginally come down but as I reiterated the hiring plan is in full swing wherever capacity needs to be added that is in full swing so all these over the next few quarters should see the sales force being ramped up significantly.

**Sachin Salgaonkar:** A follow up question for that is clearly you guys start to taking corrective action last quarter but despite that revenue reduced a bit so is it because it will take a bit more time wherein things would reduce before it picks up or is it apart from the sales there are certain other issues which you guys also have to take care of?

**Ramkumar K:** Definitely we believe that it will take couple of quarters before we see the turnaround happening. Once we add sales force it takes at least minimum three to four months before they start producing so that is one aspect and the other is that look this is the bottom out phase, you may have maybe one more quarter before seeing the turnaround happening so it is a normal process. We are expanding scale here. The turnaround does not happen in one quarter. It may take couple of quarters and then once you reach the scale it is just gets back into the normalized thing and then we just keep maintaining the scale on that upward trend to maintain that 20% growth.

**Sachin Salgaonkar:** Second question is what you earlier mentioned about the mass communication you are ready with the product how should we look at as the financial aspect so is there a one-off marketing expense we will see in one quarter or that could be spread up over a couple of quarters and as your estimate change in terms of what you intent to spend?

**Ramkumar K:** It will be spread over three to four quarters.

**Sachin Salgaonkar:** So 100 Crores spread over three to four quarter.

**Ramkumar K:** Yes.

**Sachin Salgaonkar:** Any particular timeline you guys are mentioning about launch of mass communication will it be in this coming quarter or could that take a bit more time.

**V.S.S. Mani:** Product launch would be in Feb around the February 25 and you get to see both the app and JD Omni - the other product that we are launching for vendors. So post that I think we would start seeing campaigns on.

**Sachin Salgaonkar:** My last question is on margins. Now Ram, I completely understand revenue pickup will take a bit of time will margins flow exactly in sync with that or is it because of the higher investments in terms of employees margins could remain depressed even after revenue growth accelerates?

**Ramkumar K:** So it will take time the initial investment as I said all these people coming on board will sort of impact the margin in the next one two quarters. Once these people start producing then the margins will come back to the normalized one. Today what is happening here is because

the sales growth has come down to 11 here the margin is getting impacted now once we get the sales growth come back to the 20% the margin will come back to the normalized 30%, 31%.

**Sachin Salgaonkar:** Thank you.

**Moderator:** Thank you. The next question is from Niket Shah from Motilal Oswal. Please proceed.

**Niket Shah:** Just wanted to ask you if you can just give us a breakup of paid campaigns, growth in tier one versus tier two and tier three because that is visible and your average realization coming down represent tier two, tier three would have been growing at a faster pace?

**Ramkumar K:** Absolutely tier two, tier three has been growing at a much faster pace than this one. I would say that both bulk of the growth has come from the tier two and tier three cities, which is what the smaller what we call the smaller towns and cities.

**Niket Shah:** Should tier one growth is actually were in single digits?

**Ramkumar K:** Yes it is in the single digits I would say as well as campaign is concerned.

**Niket Shah:** The other thing that I wanted to ask I am sure as competitors you would also look at Ask Me very closely is it whatever data is there available it is visible that or maybe there is an interpretation that Justdial has losing some market share to Ask Me, in terms of paid subscribe addition the Ask Me is actually at a faster pace than Justdial at least in last couple of quarters so any comments on that?

**V.S.S. Mani:** No knowledge at all whatever you are saying is not public information and I do not think they are so much focusing on listing business they are more focused on the Ask Me bazaar or something I do not really track that company sorry for that.

**Niket Shah:** Ram is it possible for you to quantify how much feet-on-the street guys you would have added between Q2 and Q3?

**Ramkumar K:** Roughly about I would say the 150 odd people we have added.

**Niket Shah:** Mani just one final question for you, if you can just highlight the early days into SearchPlus launch any issue that you are facing on a regular basis which obviously you will mitigate as you go forward if you can just highlight some of the issues that you might be facing? Thanks so much and best of luck.

**V.S.S. Mani:** The challenges we faced was more to do with execution of the vendor end which is what we are smoothening right now and our focus is as early as possible to get to our own logistics in the very hyper local category and of course then overall I would say the customer satisfaction is pretty high. In fact we have not got even 1% of customer grievance so far for whatever transactions executed on shop front and on things like delivery, services and stuff like that we have had a very pretty high 85% to 90% trust satisfaction level. So the sample test whatever we have done so far it is very encouraging so we are all set for February launch.

**Niket Shah:** The satisfaction level we calculated on a sample set basis or is that a rating system?

**V.S.S. Mani:** As far as shop front is concerned it is 100/100 is tested and as far as delivery, services are concerned we are basically hugely the complaints come when there is find things like that, that is how we keep tracking.

**Niket Shah:** Thanks and best of luck.

**Moderator:** Thank you. The next question is from Arya Sen from Jefferies. Please proceed.

**Arya Sen:** Good evening everyone. Firstly could you clarify on the product launch that you are talking about in February the JD Omni I understand but what about the app because the services already live rate so what is the product launch that you are talking about?

**V.S.S. Mani:** The app would be in complete in all respects when you get to see it in February. We will do a demo we will be able to differentiate between what is there and what is actually getting launched in February with a complete profile section, the seamless transaction across product verticals so that will be a big change and of course post that the communication to the masters reaching out people getting them onboard to use our products.

**Arya Sen:** UX UI will be roughly similar to what it is today right?

**V.S.S. Mani:** More or less similar yes, you would see a lot of changes in the transaction section. We feel the transaction section is not up to the mark. There you will see a better UX UI and overall more delightful experience for a user on the homepage and on the landing page noted it will be pretty much the same.

**Arya Sen:** The ad has been shot. That work was still going on what is the status of the ad, which you are planning to go out on TV?

**V.S.S. Mani:** It is still under process it will get shot it will be ready for March.

- Arya Sen:** Also if you look at SearchPlus through the affiliate commission model you are already earning revenues on some of the services is that correct?
- V.S.S. Mani:** Yes that is right.
- Arya Sen:** Is recharge and bill payments one of them.
- V.S.S. Mani:** Of course.
- Arya Sen:** And wherever you have a tie up with somebody else you are already earning right is that understanding correct?
- V.S.S. Mani:** That is right.
- Arya Sen:** That is it. Thanks so much.
- Moderator:** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please proceed.
- Ashwin Mehta:** Mani, I had the question in terms of challenges at the vendor end that you are seeing because from what I can see there would possibly be two issues; one is in terms of the vendors ability to finance inventory and secondly the fallback options if real time inventory is not visible and the vendor agrees to sell and he does not have inventory so what are we doing to sort of these issues and any other issues that you can highlight which are happening on the vendor end?
- V.S.S. Mani:** What we see as a huge opportunity today in this space is to actually empower and enable the vendors with a superior technology by which they will be able to compete with the giants, the online players as well as they are able to satisfy their customers even better with their own domain dot.com, their own app, their own complete inventory management system, delivery integration and all of that and that you would get to see it on 25th when we launch JD Omni. It is like in 10 minutes a person can get going with his own website fully in the sense enabled with payment gateway, he can start using it as a POS system, if it is got a retail outlet - it is a very interesting product. I think the way we need to address this problem is to address the root cause of it and address that bit. Once you address that for example once the person starts using the JD Omni technology, he got 100% access to his real time inventory actually speaking. This Omni technology helps him manage his supplier accounts, if he has credits with his customers 'Khata'- what they call it that also can be handled, it will have its own marketplace sales showing up in one screen. Market place could be any third party marketplace, it will be Justdial's marketplace, it will be his own

domain dot.com, if it is a frequently bought products like groceries and medicines and all that they would actually give their own customers an app, which is again created by this JD Omni and it actually almost happens on the fly it is a very interesting product so you would love to see it. That is the right way to counter this challenge.

**Ashwin Mehta:** Sir, have we gone ahead and enrolled vendors onto JD Omni or the development is still on and it will possibly happen towards February end and in that scenario would there be a possibility of a further delay because you would ideally want at least your JD guarantee vendors to be on JD Omni before you launch?

**V.S.S. Mani:** No, JD Omni is a separate product it is not dependent on the JD market place but what I am trying to say is if we have people on board for JD Omni we have access to their inventory instantly and JD marketplace gets enriched. Now as far as the JD Omni is concerned the trial is on, there are about two dozen shops of various parts of India who are using it, we getting great feedbacks from them, very good feedback so we are all set to launch it by the 25th when you get see it and post that it will be reaching out to every listing in Justdial every 15 million of the listings that we have we try to give a JD Omni for them, doctors will get their version of JD Omni, retail store will get their version of the Omni, the spa will get their version of Omni so on so forth.

**Ashwin Mehta:** Just a final question to Ram. Ram, what was the deferred revenues this quarter and what was the growth on a YoY basis there and secondly if you were to add listings or paid listings towards the higher end of what you have added in the past and specially given that this skew will be towards the tier two, tier three do you think the growth will materially improve at least in the next one or two quarters?

**Ramkumar K:** I would not say that you have to wait at least until Q1 before we see a turnaround in the growth on the topline. As far as the deferred revenue is concerned it is flattish on a sequential quarter basis on a year-on-year basis it is roughly about 9% growth on a year-on-year basis.

**Ashwin Mehta:** Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please proceed.

**Rajiv Sharma:** Thanks for the opportunity. Just a question on this whole hiring of sales force so when you know the problem that it is because that you do not have enough feet-on-street and you realize this problem in the last quarter itself then why you want to do a staggered hiring and why not hiring aggressively right away and getting the growth. Is it also the issue that the market is not good, there are demand challenges or I just wanted to understand this because

you realize this problem by September end last year in your 2Q results and it is now five, six months you had this five six months to tackle this problem of growth by just adding sales. So you could have done this in the last six months as well why you want to take so much time to address this issue?

**V.S.S. Mani:** There was a 10% growth in the feet-on-street but yes, we need to really ramp up. There were certain changes in the HR and changes in the areas so we were thinking of first cleaning up the mess and then kind of go ahead and do this hiring process now you would see in the next couple of months you would see a lot of hiring in the company next quarter when we speak which would have at least add 15% to 20% more feet-on-street than what we have now.

**Rajiv Sharma:** I agree Mani that you will get aggressive now. I am just trying to understand why you do not want to front load this if it is just a matter of hiring sales guys why you want to keep it staggered?

**V.S.S. Mani:** You need to find the management team otherwise you will end up with lot of attrition, hire people but then you if you cannot retain, you are right, six months back we could have started and you would not have seen today's thing. You have understand our business is going after those 15 million listings and getting them pay, become the paid listing the ones that are sitting as free listers and our business is to enable and empower them and definitely the core for us is to get the feet-on-street and we blundered there probably because of our over-focus on SearchPlus and so much product changes, so many new products that we have launched, so that is the mistake from our end I would take the responsibility, you will see that it will turnaround in the next quarter. And once we hire a person usually the person breaks even after three to four months.

**Rajiv Sharma:** You have seen some top level exits including Sandipan and your IT Head so how are you placed in terms of management bandwidth after these exits?

**V.S.S. Mani:** We have hired some very excellent people in the IT software division. There are three, four really good hires. And Sandipan's exit was planned internally we were getting a hint from when that he wanted to actually take a break from more like a sabbatical type of a thing, so we were prepared for it so we have the new CTO who joined us, Raman has a pretty good experience. He has worked for Sling Box and various other companies so that technology front we are not facing any challenges on the software.

**Rajiv Sharma:** In terms of just one last question on your SearchPlus, the start up space has really expanded seems when you decided to come out with SearchPlus and you are now rollout in February so how do you plan to differentiate is it the Omni solution which will be a differentiator and

from a customer perspective what you think will be the hook apart from that having everything on one app move where will the real hook be from a customer engagement perspective?

**V.S.S. Mani:**

As well as that area is concerned I think we have predictions are coming right, the space has shrunk, a lot of companies are shutting down and I know more than many of you know because I get offers to buyout companies. So it is a good thing that they all spent money made people aware there is so many things that you can do online. Eventually India is such a small market that the horizontal player is the only one who will win unless you are a vertical who is a multinational, if you are a vertical you have to be a multinational, if you are a horizontal and you have all this - what Justdial's strategy of SearchPlus - is the winner in this market. You will see that happen soon and as more pressures come to other online players when they are not able to sell things at a negative gross margin because of funding of pressure and all that you would see that local vendors would be far more competitive and getting them online will be the key. So a market place like Justdial looks much more promising than ever before and that is the thing so we are very happy about this developments. Finally if you want to win the game you got to be giving the vendors the technology if you are giving them the backbone, the kind of stuff that they require to face this new changing world then you are their friend for ever and your partnership is eternal and that is what our goal is. With them we want to give them technologies and such state of art and which is where we feel that we will have a far better chance to succeed.

**Rajiv Sharma:**

That is very helpful. Thanks a lot.

**Moderator:**

Thank you. The next question is from the line of Rohit Gajree from UTI Asset Management. Please proceed.

**Rohit Gajree:**

Sir I had two, three questions. First question is if I will go with listing growth that number also seems to be slightly moderating. There has been a growth almost slightly sub 10% at the same time if I look at campaigns by listing even that number is flattish at 2.2% so what is the focus going to be, is it going to be more are we kind of milk the listing and increase the paid campaign as a percentage of listing or it is going to be doing both from the company. Second question I have is can you tell us what how much effort is being put into the SearchPlus and what would be sort of the fixed sort of cost we incur for which always there are very little or no revenues which are baked into the P&L at this point I think these are the two basic questions.

**V.S.S. Mani:**

Between SearchPlus and Omni alone we should be burning like couple of Crores a month. I do not have the exact figures and apart from that lot of other activities that we do we would be burning some 3, 4 Crores overall. These are all keeping the future in mind, so obviously

there are no regrets. Now answering your question whether you want to expand the listing and grow or you want to milk the existing listing. It is very obvious that the existing listing percentage is so minimal 2.2% there is so much more to grow with this existing listing. And more listings – definitely - more listings are in the remote areas of the country. We have to cover those areas, not that we have not covered it, but we have to cover even more. The potential of getting up to 20, 25 million listings is possible and there are lot of people who operate from home, operate from a briefcase, the self-employed - so that is another segment to tap so we have a large number of business out there yet to come into the JD ecosystem at the same time with better internet penetration you would see that businesses will realize without a online strategy they cannot survive and that is where we will have a big advantage.

**Rohit Gajree:**

I think you have already elaborated on the sales force you are saying you will need to add more people and that is the only way to get the revenue momentum; however, if I look at another metrics like the campaign per employee let us say just to the productivity of the employees I think even that number has sort of petered down that number on a year-on-year has only gone shy of 3%; however, that growth in sort of campaign per employee use to be much higher may be a couple of quarters back, so do you have any view or insight of what is happening over there?

**Ramkumar K:**

How did you arrive at that number campaign per employee?

**Rohit Gajree:**

No, it is something I derived the number of campaigns divided by employees, just to see how productive every employee is.

**V.S.S. Mani:**

The employee productivity is the only thing that has saved us in this whole process. They have done a good job, the management has neglected lot of things so the employee productivity is going up that is a good sign. Existing customers are spending more money that is a good sign. Yes the aggressive way we use to expand in the past in terms of geographies, in terms of getting more people on street and all that if you see our last five years record, you would see that the first three years has been phenomenal so there is some correlation with that because the market is so underpenetrated you need that and that is where we lost our focus with all the noise around. Every morning you wake up and you read something and you get probably lost in that and then you are into your new products thinking about your future which is rightly so because you need to give those new directions, new shape to Justdial. So I think that was the blunder, you would see that now we have woken up you will see in the next few quarters we will really ramp up to the extent that some of you may complain that why you have so many employees in this feet-on-street.

**Rohit Gajree:** So as I looking if I take back that this was some sort of laps in execution and which can be resolved and there is a slowdown in growth momentum is not due to some type of structural or a competitive intensity led slowdown but something that we can take?

**V.S.S. Mani:** Competitive is zero according to me because the easy way to find out competition is to ask your sales person what are the challenges he is facing in the market, how many customers are objecting because they are taking some X, Y, Z names. Barring one or two categories there too it has actually more acted as a complementary role because some of these verticals have really spent so much money that the people in that profession and that business have realized that some online play we should have and that invariably because the market leader Justdial. So in terms of numbers if you take any segment whether it is doctors or restaurants there will be more paying customers that we would have than any other vertical will have, may be not in value terms. So what I would say is competition is not denting us at all it is our own oversight and that is a very big oversight here. It is a good wakeup call for us at the right stage. You would see things turning around. Only thing it is very big ship when it turns around it takes a while so that is the issue here, so we may have to wait for one or two more quarters to see the change.

**Rohit Gajree:** One final thing, now we have organic business then there is SearchPlus and there is Omni so would Omni would be sold as a separate product or no?

**V.S.S. Mani:** Although beautifully synchronized, so very well-knitted that same customer gets Omni and due to which he is able to run his online and offline business effortlessly, he is able to list in Justdial and display his products with images and the inventory status and he is able to not only participate in JD market place perhaps in two three other market place also. Omni is a technology to enable him to play this new market. The new market is not just brick and mortar but it is also online. Obviously, with the Omni kind of a product being used, Justdial's listing will also have a brighter chance to for him to participate in the Justdial's ranking listing as well as the market place. So it is all very well connected. As far as the user is concerned, yes as I always said SearchPlus is a must for Justdial. Search without transaction capability may not make sense in the future. So here the user who comes and finds these things is also able to click and do his transaction and that too with the new concept that you will see when we launch the product, there is something called one touch pay. Thanks to one of our partners that if you are a credit card user once you save your card, after that it is like a one touch pay somewhat like apple pay and you would see that is kind of a thing will make much easier for consumers. For users they will be able to find what they want they will be able to see the price they will be able to compare the price and with one touch make payment using their credit or debit card.

**Rohit Gajree:** Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please proceed.

**Pankaj Kapoor:** Sir my first question is on the non-search services. Any revenues that we got from the market place in the quarter if you can elaborate on that, I understand that will be very small but any non-search related revenues that we have currently and given that we are talking about Omni and obviously a pickup in the market place model going forward. Any sense, which you can give that how much, could be the revenue condition from the non-search revenues in the coming years?

**V.S.S. Mani:** See the numbers are so small that we do not want to really discuss about it but they are growing. The issue here is as you must understand the SearchPlus for us is not as a revenue compulsion, it is more as a feature for our search and that is how it should be. That would perhaps get us more listings; more people come and participate in Justdial. Now Omni of course as we launch the product we will be able to give you a breakup on Omni revenues as we find it is because that is something like it is not really we are competing with somebody in the market. We are far more open to give such data, which is less detrimental to how company in terms of that data being available with market.

**Pankaj Kapoor:** Ram in this current quarter was there any impact because of the pricing reset that we did last quarter so was there any impact of that as such in the current quarter number?

**Ramkumar K:** Not much, we did do the rationalization but it is a normal quarter I would say when it compared to Q2 and maybe the impact of the rationalization is an effect in this quarter but I would not call it as material, because definitely we will see in subsequent quarter whatever rationalization has been done will result in increase in the overall number of campaigns as well so net-net it should be a revenue beneficial. So it is very difficult for me to tell you exactly this is the impact of the rationalization on the various contracts other than saying that it is possible that in some category the pincode combination the prices have come down but very difficult for me to quantify at this point of time.

**Pankaj Kapoor:** On the ad spend that we are planning to do a 100 Crores in the next few quarters any idea whether this will be concentrated in terms of endorsement fees or this will be spread across largely across different media and different channels?

**V.S.S. Mani:** Come again.

**Pankaj Kapoor:** The advertising expense will be that growth any concentration on channels?

**V.S.S. Mani:** Yes, it would be primary television it will be television and digitals 25% would be digital 75% would be television.

**Pankaj Kapoor:** Lastly, of course we are now getting with all the sales force hiring and that should turnaround things a bit but just a question here that given that the operating environment has also change significantly given the large number of presence of a different vertical specific vendors and the kind of discounts and its schemes that they currently running do you think that there is a possibility that the conversion between our hiring and the impact it can have on the listing can take longer than the traditional times?

**V.S.S. Mani:** Not really, see hiring will definitely have a directly proportional response in the productivity and in the overall revenues and the number of campaigns. As far as verticals once again, I want to repeat that see if you do an assessment about what percentage of business is really gone online it will not come to beyond 5%, 6%. So it is still a lot of business done offline and JD is a source where you can not only purchase online but also you can discover and go to the shop and buy it go to the business and do, transact with them. It is a discovery place so a search destination will always be in flavor till the whole world moves to doing everything online so that is where the big advantage is, but the fact that the vendors' customers are going online to discover - that is where the vendor has to see that he should have a budget for a online play and this is how we see it.

**Pankaj Kapoor:** No, my question was rather more on the sense that we now have a large number of vertical in specific market places already in exist can show or whatever reasons are burning money by giving out discounts and all which probably could even of the attractive features at least in the very near-term and which might have some impact on the conversion rates of us?

**V.S.S. Mani:** Which are the market places you are saying?

**Pankaj Kapoor:** No I am talking about the general, that common excepted names like you have PayTM and the Shopclues of the world?

**V.S.S. Mani:** I do not know if PayTM actually publishes the shops name and number and maps and directions to reach their shop to buy the product. I do not think so, whereas Justdial provides all the information about the establishment. It is all transparent. You can buy it online now through us or you can go to the establishment and buy it, you can fix so this is how it is, it is a big difference. This is a big market as far as a horizontal player is concerned. I would definitely say for vertical players, it is a very tiny market they need to really look at markets outside of India to really survive as a company. Some of them are smart they are actually doing that.

- Pankaj Kapoor:** That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please proceed.
- Sandeep Agarwal:** Thanks for the management team for taking my question and Happy New Year to Mani and Ram. Mani I have few questions and to start with if you see our numbers suddenly if you see the revenue growth has come down from 24%, 25% year-over-year growth on a quarterly basis to 16% then 11% and then 10%, 11% in last two three quarters and if you correlate this data with our metrics as which we provide our listing fall have also has happened in the same way, obviously campaign is a derivative of that so I was trying to understand and I can understand that because of sales team and other things there could be a problem in the campaign conversion and growth there but listing is also come down and as a percentage the growth percentage of listing has come down sharply so that is point number one. Point number two I also wanted to understand what is happening on our pincode I know most of the pincode activities would have been done so what is your sense there. Will our realization per city will now go up on a particular advertisement because earlier if they were 100 pincodes which we have sold as a consortium now you will be able to sell 10, 15 because most of the establishment will have relevance in 10 to 15 pincodes only so that is point number two and point number three is that is it true are you seeing that trend that in the larger cities where our penetration would have increased significantly so there the growth has become extremely difficult also because of the awareness of vertical play as in more awareness of mobility and data and all those things. Probably we are not having that kind of growth or maybe even some decline versus the newer cities which were Justdial is still the number one brand and the vertical options are very less known and all those things. So these are three questions other than that I have one more question on the SearchPlus side you said that it is not necessarily a revenue proposition for us right now but will it be true to say that even if there is a small number of that in the revenue then our revenue growth of x that would have been even slightly poorer. So this is fourth question and the last question is are you increasing the feet-on-street now very aggressively in the newer cities and if yes then will the profitability per employee on that come down sharply because the pricing will be different.
- V.V.S. Mani:** First is the larger cities are the worst affected ones in as far as the sales force is concerned, whatever additional manpower we added actually we added a lot more into the remote tier two, tier three cities, so that is the thing because those were opening up so we had to add, we never realized that the larger cities we had to add more people. That is why you would see the in future growth you will see a larger contribution from the top ten cities than in the previous two, three quarter. Then to come to the SearchPlus revenue - how much ever significant you make the SearchPlus revenue it will not be able to compete with what search

revenue is giving as of now. So unless you are talking about GMV and somebody wants to value for that, there is no play out there in terms of actual because we only account for net margins whatever we earn that is all we account for. So that is the thing and as far as the listings are concerned you are right, I think if you go back last year same time we have done a lot of campaign to get lot many new listings on board and that process we stopped because it is a quite expensive process for us and we said okay we will pause it for a while. We are going to restart that thing and you would see a lot more new listings coming on board. That would definitely have a very positive impact on the overall revenue as well. So even more feet-on-street will help you get more listings on board as well because they are also covering the market inch-by-inch and they would actually get a lot more visible businesses which are not yet on the JD ecosystem they bring them on board and they can be potentially converted in the future.

**Ramkumar K:** Having said that it is not explain the correlation yes it could be there but definitely it is not that our conversion rate should not go and there is no reason why by adding more and more people leave aside the additional overall listing growth why our conversion rate cannot go up from the 2.2% to maybe 3% with the additional sales force coming in and the conversion happening from the existing listings. So I would not say that it is a big factor for us to drive the number of paid listing yes it is one of the factors, but more important is getting more and more of the sales force to reach though 15 million listings and get the conversions up which is what is the focus is so I think that is what it is.

**Sandeep Agarwal:** No that is true Ram I understand that but my only worry was that all the things have happened in the three quarters so I was just trying to draw a parallel if there is any but one of my question remain unanswered on the pincode side so if you can help on that because what I understand is that if that activity gets over probably in net you should be able to get more money for the same kind of advertisement in a city.

**V.V.S. Mani:** Absolutely as far as if you look at from an inventory point of view, the money that we are making through this pincode strategy it is far better than what we were making before but it also allows the customer to focus narrow and try to get the right kind of zip codes than earlier where there was the tendency from some customers who would take far flung areas also which is also now kind of making sense to him. So overall we have to think both from the user perspective as well as the advertiser perspective. This pincode strategy definitely is a better strategy and getting to sell fixed positions to the vendors is definitely a very good strategy for a long-term basis is what we feel.

**Sandeep Agarwal:** Last one question which if I can chip in, Mani and Ram both I just want to understand one last bit that if you see our margins were in the range of 28% to 30%. I am not talking about ESOP adjustment obviously doing that it would have been higher in this year we have seen

a significant decline in that and in FY 2017 even if we take the advertising cost which is 100 Crores right now which can go up or down we do not know exactly but if you take that then we will be ending up at mid teens kind of margin which can again come back some extent in 2018 so is it fair to say that the days of mid 20's or mid 30s margins are definitely not going to come back and we will be probably in early 20's or late teens kind of margin on a long-term basis point number one and point number two with significant increase if you see even we see quarter-on-quarter number there is 30% increase in employee cost while the revenue growth is 11% so where is the miss is it because commensurate revenue has not come right now because hiring has happened in last few months or is it that the cost of earning the revenue has gone up?

**V.S.S. Mani:** If you look at if the cost of earning the revenue has not really gone up that is significantly in fact it has been almost flattish, I am saying Ram.

**Ramkumar K:** The year-on-year employee cost has gone up 21%.

**V.S.S. Mani:** That has shrunk actually, but the point here is the other overheads have gone up very well because we met those targets we met all those numbers of increasing cost in every head and we just did not do enough to the increase the sales. So yes the margins can definitely get affected when you do a 100 Crores campaign but then if we do not spend that 100 Crores and keep 1000 Crores in the bank also then people will question you what business you are running, so once the product is ready there is no waiting, you need to just go and grab the market and of course you have a product which is completely differentiated from what is out there. So hence there is even more reason for you to advertise and reach out to people not only that you should have the evangelist and all of those. I think margin should be a lesser concern area for us right now rather than focusing more on the growth. When we can grow at a 25% why have not we done that? That is what it making us repent, in the last two quarters we are regretting that how did we let this to happen. So we are focusing bringing back the growth and then we will focus on margin. Margin will automatically take care of itself. We are a very frugal company if you see, we are not that way big spenders although the nature of our business is to have lot of people...

**Ramkumar K:** So the issue is to look the 100 Crores is not that every year I am going to spend 100 Crores so this is going to be one-off and every year it may come down to 7%, 8%-odd spend on the marketing and advertising. Coming to the sustainable margin growth that we alluded to we believe that once we get the topline growth back into the 20% - 25% I think the margins will come back on a sustainable basis to the high 20s that we have seen or experienced because we genuinely believe that the operating leverage is there, it is just not getting exploited given the fact that the top line growth has not come through. Once we get there I believe that the sustainable growth will be there in the 30s despite the fact that I am saying

the investments will continue to make on developing the SearchPlus product and anything that we get on the SearchPlus once that scales up with whatever number it will get will be a margin accretive because the costs have been upfronted already so we do not have any reason to believe that once the growth the normalized growth rate comes back on top line the margins should be anything lower than what it was earlier.

**Sandeep Agarwal:** Thank you. That is all from my side.

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

**Miten Lathia:** Good evening. Just wanted to know if there was a feedback loop to our sales team so are sort of interface with our paying clients and the sales team is there an alternative check in the system to understand how our customers feel about our sales team?

**V.S.S. Mani:** There is a full-fledged customer support system with 300 odd employees handling customer grievances, making their experience superior so that is very much in place. Any specific reason you are asking this question?

**Miten Lathia:** No, I am just trying to understand whether some bit of sales slowdown is happening because customers may not have been happy with what they were getting in terms of their interaction with the sales team so just trying to figure out if we can close that loop?

**V.S.S. Mani:** Always there is scope to improve, I am sure in every department and we are not saying we are doing a fantastic job everywhere but what is very obvious to us looks like is the complete saturation in the number of sales people for the last almost three quarters or four quarters rather except for this last quarter we had a 10% increase in the feet-on-street which was again overall it was just was 3% of the overall sales force so we need to really push that up and that should kind of help us reach 2 million vendors and in fact there is lot more to tell them about our product, lot more to show and tell so that is the focus area for us right now and when you see our product, I hope to see all of you...Ram will send an invite for February 25 and you would have a fair idea about future prospects of JD when you see the overall product.

**Nitin Lattia:** Wish you all the best. Thank you.

**Moderator:** Thank you. Next question is from the line of Abhiroop Verma from Karvy Stock Broking. Please proceed.

**Abhiroop Verma:** Thank you for the opportunity. I have a question here. As you have acknowledged some of the managerial outlooks in the past and the slow ramp up here as the whole landscape is changing very fast how Justdial is planning to come back on the top of the pack with the leadership position and the brand recall and the mine space at all?

**V.S.S. Mani:** There are always right ways to do things and as you know we have been around for 20 years as a company and there are certain ethics, cultures that we follow. We do not want to get into this rush of mad negative gross margin businesses. There are so many different ways to grow fast and then come down crashing also. So we deliberately did not choose that path. Now when we chose the other part which is the difficult path, then it took us like time, lot of time to build a great product, create a thing that can make sense to customers and they value that and then they come on board. For us the customers here are the vendors who bear the money and of course the user experience should be as delightful as possible. So keeping that balance in mind, I think after the launch of this product and you will see that the visibility of JD will be far more and you will definitely have lot of nice things to talk about us.

**Abhiroop Verma:** One more question here is regarding the mass communication which we are planning in this quarter is this the first step of this advertising campaign which we were planning in the last few quarters is that a 100 Crores campaign is the first step?

**V.S.S. Mani:** Basically the launch of the product yes that is right.

**Abhiroop Verma:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question, due to time constraints. I now hand the conference over to the management for closing remarks over to you Sir.

**Ramkumar K:** As we mentioned, definitely the focus will be on the execution intensity over the next few quarters making sure that we have the sales force on board and also on making sure that we continue charge the mass user engagement and hopefully things should turnaround in couple of quarters and thank you for all the support.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Citi Group Global Markets Private Limited that concludes today's conference call. Thank you all for joining us. You may disconnect your lines now.