

**Event:** Just Dial 4QFY16 CONFERENCE CALL

**Date:** 23-May-16

**Operator**

Thank you for standing by and welcome to the time Just Dial Post-Results Conference Call hosted by Nomura. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. Now, I would like to hand the conference to Mr. Ashwin Mehta. Over to you sir.

**Ashwin Mehta**

Thank you. On behalf of Nomura, I would like to welcome you all to Just Dial's fourth quarter FY2016 earnings call. We have with us the senior management of Just Dial including Mr. V.S.S. Mani, the founder and Managing Director; as well as Mr. Ramkumar, who is the Chief Financial Officer.

Without taking too much time, I would hand over the call to the management. Over to you sir.

**Ramkumar Krishnamachari**

Good evening and good morning to all of our friends from the U.S. and other parts of the world. Let me start with the highlights of the financials and I would start with the yearly numbers. Then I would like to give you a color of what happened during the quarter and some of the highlights of the quarter.

So, first the financial numbers for the year ended March 31, 2016. Operating revenue increased by about 17% to about Rs.691 crore. The adjusted EBITDA increased by about 6% to Rs.196 crore, adjusted EBITDA margin was about 28%. Net profit increased by about 2% to Rs.142 crore. Net profit margin was at 19%. We had cash and investments of about Rs.737 crore. This is post Rs.160 crore of buyback that we did during the year. And our deferred revenue stood at Rs.211 crore.

And coming to the quarter ended March 2016, the operating revenue increased year-on-year by about 15% to about Rs.179.6 crore. Adjusted EBITDA was at Rs.45 crore. Adjusted EBITDA margin is about Rs.25 crore. Net profit was at Rs.35 crore. Now, coming to some of the highlights of the quarter, sequentially during the quarter, we grew revenue by about 4.8%, also during the quarter we did Omni revenue of about Rs.3.6 crore. Sequentially, our campaigns grew – we added about net campaign of about 12,000 on search plus about 1,800 on Omni - a total of about 14,000 campaigns. During the quarter, we added about 1000 – on the sales front and our belief is that we will continue adding, and we plan to add about another 2000 in the coming quarters.

And the deferred revenue sequentially grew by about Rs.8 crore from Rs.203 crore to Rs.211 crore. So coming to some of the operating metrics, as of the March 2016, we had total campaigns

of about 3,69,000, a y-y growth of about 11%. Our database stood at about 16.3 million and we had total of about 11,142 employees.

So with that we would like to open the floor to any questions and we would be more than happy to answer.

### **Question-and-Answer Session**

#### **Operator**

Shall I open up the lines?

#### **Ashwin Mehta**

Open up, open up the line.

#### **Operator**

[Operator Instructions] We have Niket Shah. You may speak.

#### **Niket Shah**

Yes, thanks so much for the opportunity. There are few questions on my end. Ram, first, I just wanted to understand, how is the OMNI revenue recognition likely to happen for FY2017 given the new accounting standards now coming in? And you know that is question number one. Second thing is on the employee count part of it, you added 1,000 odd employees in this quarter and adding another 2,000 odd employees I presume largely in the first part of the next year, which means that there is safely around 25% increase in employee cost coming up next year along with at least close to Rs.75 crore to Rs.100 crore kind of an ad spend. So, which would roughly impact your margins by around 500 basis points next year, is that a safe assumption. Just two questions for me.

#### **Ramkumar Krishnamachari**

Now, coming to the OMNI revenue recognition, we had two components to it, one is the setup fee and then we have the – in the rental option we have the monthly fee coming in. And then we have the – there we sell outright sale, where we have the setup fee and the software cost and annual maintenance fee. Now, Indian GAAP is very clear, we were able to recognize the setup fee upfront. As far as IFRS is concerned, the matter is under consideration. We are in discussion with both the experts as well as the auditors and we will be able to take a firm view sometime during this quarter. So, we will come back to you on that as to what exactly would be the accounting norms for the setup fee that we recognize upfront. Now coming to the margin compression that you talked about, yes it is a fair assumption that there will be a near-term compression of margin on quarter on quarter basis and after considering the ad spend, you would see some margin contraction in FY2017, but having said that we have to make this necessary investment in scaling up our marketing – sales and marketing infrastructure that's something

probably we should have done a year back. And it's important and imperative that we do it and these are investments as far as we are concerned. The benefits of which will completely accrue after FY'18. So we'll have to bear some brief compromise on margins in the near term.

**Niket Shah**

Great. Just one question to Mani that you know if you look at this quarter, the growth in number of paid campaign was only 11%, which is again lower than the last quarter of almost 13.5% yoy growth. So when is this likely to bottom out – is it likely going to be taking more couple of quarters or are you expect to see that happenings out in the first quarter.

**V.S.S. Mani**

It would take at least one more quarter to get back to those numbers

**Niket Shah**

Sure.

**V.S.S. Mani**

But you would see different – definitely a much better growth in the quarter after this current quarter.

**Niket Shah**

Right. And if you can just give us some highlights on OMNI, how has been the response, what are the targets for FY17 you're looking as far as subscriber growth is concerned? And what would be the exact revenue per campaign as far as OMNI is concerned because I presume there might be different ways of selling OMNI as well?

**V.S.S. Mani**

Right. So, the revenue is pretty much same, like there is – we have this Rs.20,000 per setup fee. And the setup fee is basically designing the entire products customizing for them as – in my point of view as far as IFRS is concerned, I think we should be accounting upfront because that job is a separate contract with the customers.

**Niket Shah**

Correct.

**V.S.S. Mani**

Then the second thing is the rental model, where we have two options, you can pay Rs.2,000 a month or you can go for a combo offer with Justdial listing, which is Rs.3500 a month. So, it depends on what a customer goes for and of course if you don't want to go for the rental model and if you want to go for an outright purchase, you have two options. One is OMNI outright, which is Rs.65,000 and there is OMNI supreme, which is at Rs.99,000.

**Niket Shah**

Okay. So, Rs.65,000 for a year or...

**V.S.S. Mani**

So, that's an outright model allows...

**Niket Shah**

So, this purchase for one – one-time payment, right.

**V.S.S. Mani**

One time payment, yes that's correct.

**Niket Shah**

And what's the difference between Rs.65,000 and Rs.99,000?

**V.S.S. Mani**

So, Rs.99,000 is a bit of bundling of JD package listings along with it.

**Niket Shah**

Sure.

**V.S.S. Mani**

So that they get an additional benefit for a period of three years.

**Niket Shah**

Sure.

**V.S.S. Mani**

So that is kind of built-in with that.

**Niket Shah**

And what kind of numbers are we expected to do in OMNI for 2017?

**V.S.S. Mani**

OMNI should take off now because we have really improved the product and in the next two to three weeks, you would see actually a very good product, which the market has not seen.

**Niket Shah**

Okay.

**V.S.S. Mani**

So, hopefully, the numbers should pick up a much faster than before. One strategic shift we have done is we actually kind of custom created OMNI for every listing in JD. So, in other words, earlier the executives used to go and demo let's say a category, which is not relevant to his business, but now they're able to demo a category, which is actually his own store, so that makes a lot of sense. When you see your own website, your own mobile app, how it looks like and they get a fair idea about it and hence it makes it more saleable.

**Niket Shah**

Sure. And if you can just also comment on JD search plus, how that has taken off in terms of traction...

**V.S.S. Mani**

So search plus is actually related to the traffic growth, so we have to push advertising and make people aware about this entire thing that you can do at Justdial...

**Niket Shah**

Right.

**V.S.S. Mani**

So that's again, as I said, we were waiting for all this and now that we are already I think next quarter when we have a call we would have done a campaign at least.

**Niket Shah**

Sure.

**V.S.S. Mani**

So, that is one thing. So, thereon, you would see a growth in traffic and – see you need some bit of an inorganic push also these days...

**Niket Shah**

Correct.

**V.S.S. Mani**

In this very noisy environment.

**Niket Shah**

Sure.

**V.S.S. Mani**

Of course the decibels have come down now. So, we are all set to advertise JD search plus. And you would see that will give us the tremendous growth and noticeability about Just Dial being the go-to destination, for pretty much anything and everything.

**Niket Shah**

Sure.

**V.S.S. Mani**

That's what this.

**Niket Shah**

Great. Best of luck and I will come back in queue for more questions.

**V.S.S. Mani**

Thank you.

**Operator**

Thank you, Niket. Next we have from Sandeep Agarwal from Edelweiss. You may speak.

**Sandeep Agarwal**

Yeah, good evening to Mani and Ram. Although Niket has asked most of the possible questions, but I have one question with Ram still. There is a sharp drop year-over-year basis on the

provision side, so can you please explain that part. And secondly, although, you are not quantifying the impact – rough calculations on the impact of salary and the advertising cost depending on where I take the number if 50, 75 or 100 at least between 500 basis points to 650 basis points, 700 basis points. So, can you throw a ballpark number, I am not asking for a guidance, but so that we are not way off the mark.

**Ramkumar Krishnamachari**

Yeah, coming to the first question, you asked us the drop in provisions, you're saying?

**Sandeep Agarwal**

Yes. Yes, Ram, I am just talking about that provision drop.

**Ramkumar Krishnamachari**

Which provision I mean I didn't get your question there.

**Sandeep Agarwal**

I am sorry. If you see the balance sheet item which has been given, the provision numbers consolidated, it is showing from Rs.20.30 lakhs in 31 March, 2015 to Rs.50.5 lakhs in 31 March 2016, so that is the number I'm talking about the short-term provisions.

**Ramkumar Krishnamachari**

Yeah, short-term provisions keep moving. We're talking about Rs. 5 crore coming down to Rs. 2 crore, right.

**Sandeep Agarwal**

No. I'm talking about Rs. 20 crore coming down to Rs. 5 crore, yes.

**Ramkumar Krishnamachari**

2030 lakhs you said...

**Sandeep Agarwal**

Rs. 2030 lakhs that is Rs. 2030 lakhs, which is Rs. 20 crore fall into 5 crore.

**Ramkumar Krishnamachari**

These – see, normally these are provisions relating to incentives and other things, so those keep moving from quarter-to-quarter depending on when the actual payments are made, et cetera. So I

will come back if there are any significant or material movement there, otherwise it's a normal provisional movement for us.

**Sandeep Agarwal**

Okay, thank you. So on this other part of the...

**Ramkumar Krishnamachari**

And secondly coming to the expense that we had on the – we're talking about the advertising or ad spend, we mentioned earlier also that while on the ballpark, we're saying Rs. 100 crore we're going to spend, it is going to be in calibrated over several quarters, it's not like that any quarter I'm going to spend Rs. 25 crore, Rs. 30 crore and then look at it. We will start with maybe 10-15 crore look at it, how the effectiveness of that spend is, before spending further, so it is going to always be calibrated and will depend on the effectiveness of the campaign and how well we do. See, foremost objective is to ensure that we communicate to the mass consumer about the JD, Search Plus platform. That's the most important thing and depending on the effectiveness it can be 50, 75 or even 100.

**Sandeep Agarwal**

Okay. So and on the employee cost side, if you can throw some light.

**Ramkumar Krishnamachari**

On the employee cost, definitely as I mentioned we're aggressively ramping up and scaling up. We believe that will continue in FY17 as well. We added 1000 in Q4. We will add – in the subsequent quarters as well. It takes normally at least anywhere between three months to six months for these salesforce to start producing and you will see compression near-term due to the fact of the scaling up. And as I mentioned earlier also the full benefit of this we will see in the FY18, just like what we're impacted by what we did not do a year back, we will get the benefit of what we're doing now at least a year from now.

**Sandeep Agarwal**

And finally, one last question to Mani. Mani, are you seeing a significant jump in our rankings on the JD app download and also are you seeing tremendous – very high growth kind of scenario in the unique visitors on the app side if you have any way to monitor that. So if you can share in your views on that.

**VSS Mani**

Our focus so far has been to complete the product. So you would see those growths happening after some kind of a stimulus like we inorganically trying to push it. And then of course with the word of mouth it is going to spread. I think the product we have right now is very, very world

class truly amazing product. So you would see those growth in relative terms vis-à-vis other apps if you are keeping track of. You would see a big spike in Justdial's downloads and the usage.

**Niket Shah**

Okay. Thank you. That's all from my side.

**VSS Mani**

I just going back to the question on the provision, what was there, last year was dividend and that's not there this year. That's why you are seeing that drop.

**Niket Shah**

Okay. Thank you.

**Operator**

Thank you, Sandeep.

**Ashwin Mehta**

Yes, Mani, this is Ashwin here. I had a question in terms of OMNI wherever you've gone live, what has been the feedback from the establishments, are there things that you need to rework or improve upon based on the real life situations there. And does that change our outlook in terms of targeting 20,000, 25,000 kind of OMNI sales by FY17 end.

**VSS Mani**

In fact, we've got some very good testimonials from many of the installations. The bit we also learned is that we need to give them something like a quick start like as you know that these days on smartphones, you don't have to go to the settings to do several things there is the short cut, there is the search, master search, which can search and go and get your task done. So we have just worked on those features. Those features should go live hopefully by the second week of next month and that will make it even more user friendly for them and the key to OMNI success would be when these customers recommend us to their peers and their friends and people on the other businesses. We are quite bullish about the way OMNI has shaped up. It's only getting better and better. We don't have to revisit OMNI as the product.

I don't know if how many of you know what all OMNI encompasses, and we did of course show a bit of it on the other day in the launch day. But OMNI by itself includes customized website with transaction capability, a mobile site, a mobile app, complete integration of payment gateway, one tab payment, vendor has a dashboard on his cell phone where he can track his business almost by the minute. He has a vendor module with a POS system with billing capability at his store level, inventory management system, we have something called auto purchase order which they love it. And then customer management system, campaigns to

customer, loyalty to reward points for customers, HR and payroll, bill payment for any utilities, AMC, maintenance, pretty much anything and everything a business would need is just on one click and two clicks.

So it is definitely a compelling product for businesses and you would see that once the numbers grow that would multiply further due to reference from one satisfied customer to getting us few more.

### **Ashwin Mehta**

Okay. And just another one in terms of Ram, given the effect of the accounting policy change do you think the next two quarters would be similar or lower or better in terms of growth versus what you saw in 4Q, because even mathematically if you were to kind of add 15,000 to 20,000 listings. The growth would possibly still be in that 11% to 14% order.

### **Ramkumar Krishnamachari**

Look, as I mentioned earlier, we are still in the discussion as to how exactly would be the impact on the revenue as well as your concern. We'll come back, I think your assumption possibly could be right in terms of the near-term, volatility could be there in terms of the growth, but hopefully once the people start producing and that starts reflecting in the growth, I think we should come back to the high growth that we were witnessing, sometime in maybe Q3, Q4 onwards. So near-term definitely as you keep adding there are possibilities where these near-term volatility could be there.

### **VSS Mani**

I would like to add here basically it's important for everybody to understand the product OMNI, has three components to it. One is customizing the product to a business which is there is a fee that is a charge and that has to be accounted upfront is our point of view because this is a special customization that we do - irrespective of the customer whether he lasts for a month or two or a 20 or year, 20 years or 10 years whatever. So that is one clarity that we want to bring in. The other component is of course you can rent it or you can buy it outright, outright purchase is a license.

So that would obviously be an outright sale and accounted, but when you are renting obviously you can account it on a monthly basis as it gets accrued. So in my point of view, overall in terms of recognition of revenue whether in the new accounting or old accounting it is pretty much the same. We are still talking to the concerned authorities.

### **Ashwin Mehta**

Okay. And we've seen almost 12,000 paid listings being added this quarter. So do you think the traction is improving on that front, because it seems to be an improvement over what we did last two quarters?

**VSS Mani**

Definitely, it should increase further as adding more feet on street means more demos, more presentations and more sign-ups. And our renewal rates have been pretty good. So overall you would see that like Ram pointed out the mistake that we did like having a flattish salesforce for the last 18 months. We're paying for that now and as we have increased the salesforce and now you would see that the numbers are growing as well.

**Ashwin Mehta**

Okay. Thanks and I'll come up for a follow-up later.

**Operator**

Shall I take next question?

**Ashwin Mehta**

Yeah.

**Operator**

Next we have Aditya Pandey from Capital Matrix. You may speak.

**Aditya Pandey**

I just have got two questions. The first is on the ESOP for FY17 - what will be the pick up expected.

**Ramkumar Krishnamachari**

It should continue at the rate that we're currently incurring, which is about roughly Rs.5 crore to Rs.6 crore per quarter. So that should be the rate that you should assume for FY17.

**Aditya Pandey**

Okay. Because in the current quarter it was quite low.

**Ramkumar Krishnamachari**

Yes, that is because there was a write-back, of about roughly 100,000 shares, a total of about Rs. 5 crore was written back because those option related to some of the employees who exited, of course this is just a one quarter effect, but then as you move, as these get allotted, those costs would come in. Quarterly you could assume about Rs. 5 crore at least from ESOP.

**Aditya Pandey**

Okay. And one question on the when we can see the full fledged start of Search Plus in the coming year and what should be the tentative time when we can see the meaningful number getting cleaved in our P&L because of the Search Plus.

**VSS Mani**

Search plus, there is no hurry to monetize Search Plus, most important is to get thousands of transactions, millions of transactions to take place. And we know how to monetize it indirectly. And which we're doing it very well. And so you would see that overall revenue pie growing is what's our goal is right now. Whether it is coming as transaction revenue or whether it's coming as fee that the customer is paying is immaterial to us. Right now the key is to get vendors accustomed to an online transaction and promptly respond to those transactions.

**Aditya Pandey**

Yeah.

**VSS Mani**

And also I want to highlight one thing, it's a better environment for Search Plus now as compared to what it was, say a few quarters back because there is a much more rational approach from competition and other market players, the pricing is getting rationalized. So the deep discounting era is over. So our Search Plus strategy was always to enable and empower all the brick and mortar businesses with an online distribution capability.

So hence this is going to be much more a powerful proposition because you would see that the price difference will be very narrow, in many cases these providers will have a much better price offering. So as we advertise and then users learn about it, then it's only a matter of time, then people make it a habit to come to JD first and check out the rates for both online and offline players and then buy from whatever suits them the best.

The one good thing about Search Plus is that the whole delivery is almost instantaneous, so people get fulfillment within few hours of placing an order, if it is at the right time of the day. So those are the big advantages. And so to your question of creating awareness and you would see that take off.

**Aditya Pandey**

So is there any finalized percentage that has been charged on the transaction or is it yet to be finalized. I mean the transactional revenue that you are planning for JD search plus?

**VSS Mani**

Yes see there would be a transaction fee charged to vendors who are not paying us for the listing. People who are paying us for the listing we don't want to double charge them right now, we want to give them Search Plus complimentary and then we can adopt later as the volumes grow.

See India and China are very different markets so please do not try to replicate that Chinese model in India. So it is – we are way, way behind them. So I think the right way to think in a model like justdial right now is to have one place where you can do several transactions, one app that can do the job of multiple apps and which has a beautiful social section which we are launching this week.

You would see that our social section, the beta version, which we're launching hopefully in the next few days, is like any other social media where you see your friends' ratings. And actually if a friend has rated a movie you can like it, you can comment on it, you can have interaction with a friend and you can even click on that "Book Now" tab and book a ticket.

If a friend has rated or reviewed a restaurant, you see it on your wall like how you see it on social media, a nice lovely post with a visual delight and you're able to like it or you can act on it, inspired by your friends' post and you're able to transact wherein you can book a table in the restaurant, or order food from the restaurant, or book an appointment in the doctors, innovative things. So those are things like if you've seen we have a very complete offering which is Search, Search Plus, social integration and JD OMNI.

Why JD OMNI? Because small businesses do not have a technology to play the online game well, so we give them JD OMNI. JD OMNI is not about just playing, having your own online presence, it is also completely automating your business, making you far more efficient, you are able to track your business by the minute on a dashboard on the cellphone. So that's a very powerful proposition. Which means much more deeper relationship engagement with the same vendors who have been associated with us for years together. That enablement helps us get access to the inventory and the realtime price. This realtime price and inventory helps us give a better offering on the J.D. marketplace which is fulfilled instantaneously.

And then the other aspect of Search Plus which is for services, you are able to pretty much transact online. You don't have to call any more, obviously you have a choice to call, you have a choice to drive J.D. app which has its own driving directions - where we are not using Google Maps or any third-party map...we're using our own. So the offering is complete in all respects. And that is why the Evangelist Program also, we did a pilot, with Evangelist Program.

Finally, I believe that in India you have to set it up for people to make them use your product. And we did a pilot of Evangelist Program and we learned a lot. It was on the average taking about 45 minutes to 50 minutes to fill up a profile section of a user more because of capturing his travel document details, and Aadhaar details and stuff like that. So now we are switched on to, we paused it for a while and we're building an OCR-based system which is just in 15 minutes you can scan these documents and then information is fed into the system.

So a lot of nice things have happened in the last quarter and we're very excited about it. So it is – when we have the final offering in the market, you would see that it is perhaps the most comprehensive product launch for many, many – for a long time.

**Aditya Pandey**

Thank you all the best.

**Operator**

Thank you Aditya. Next we have Rajiv Sharma from HSBC. You may speak

**Rajiv Sharma**

Yes hi thanks for the opportunity. Just few questions from my side. So Mani, this OMNI product sounds good, but what's your thought on the competition which also has similar products may not have the depth, but from SME perspective the product itself being coming from four, five different players and even some verticals offering very specialized thing, so how are you reading the competition? And does this mean that you need to be very aggressive, it's kind of a land grab thing or it can be a very gradual drive from your end?

What is your targets with OMNI for this year, I understand Search Plus it's difficult to quantify and you can indirectly monetize it. But what's about OMNI – what is the kind of penetration we can see this year? And any specific numbers or some color will help.

And just some bookkeeping questions how much revenue is coming from metro markets and Tier 2 markets? Yes, that's it from my side.

**V.S.S. Mani**

Well we target to achieve at least 25,000 to 30,000 Omni this year, in this financial year. It's a steep target, but it's doable. As far as competition is concerned our product is very, very different from what's there in the market. I don't think any product – any product out there in the market offers what we are doing. There could be something to do with billing, there could be somebody taking you online, there is none as integrated as JD OMNI.

Secondly, it's not just about having OMNI, but we're also driving traffic to your website, we're driving traffic to your other distribution channel. So it's a complete offer hence businesses find it irresistible. But initially, the thing is about switching from the current system to what we're offering. So basically for us the competition is there – what they are using, the current Khata system them or may be some semi automated system, things like that.

But with the new quick setup process that we have which is made so user friendly and also completely control given to them through a mobile app – where they can manage their entire setup and all that make it even more compelling. So I don't think competition is an issue for us in

this phase. It's more about we educating the customers and getting thousands of customers in place so that that they bring us other referrals.

And as far as OMNI and Remote in a Tier II city or a Tier I city, it's a productivity improvement tool anywhere there's a good business they would love to use the product because it just makes a lot of sense to switch to OMNI.

### **Rajiv Sharma**

Yes Mani just small follow-up there. So if you do 25,000, you know your revenues next year overall from OMNI will be not more than Rs. 55 crores. So this seems not enough to move the needle. So how will you get back to the growth rate? Then it is more about monetizing Search Plus, even if you have to improve from 17% to 20%.

### **V.S.S. Mani**

You're going to see an increase in search monetization, as well. You're going to see revenue coming out of OMNI. And a combination of all this is what you'll get to see as growth. See I can give you a figure of 50,000 this will be very unrealistic for me when I have achieved only 2500 so far. So what is probably realistic is what I'm saying. But you never know how it takes off, you know. If acceptance is high, it could be double the digit, the number that I've said. But these are too early days to really predict a number.

### **Rajiv Sharma**

Okay.

### **Ramkumar Krishnamachari**

Rajiv as stated earlier also we are creating the base and the scale for the next several quarters. So you will see whatever initiatives that we are taking - the full benefit that will accrue in Q3-Q4 onwards. So definitely it's an ongoing process for us. As I mentioned, we had to do what we should have done really a year back, that which we are doing right now. So the benefit you can see that coming through.

### **Rajiv Sharma**

Yes, my only issue here is that OMNI will just be 8% of your current paid campaigns, by next year. Why don't you think if this is such a great product it could be 50% of your current paid campaigns? And so what is that you're collecting from the market which makes you think that this will just be a niche?

### **V.S.S. Mani**

Can you rephrase this question because I'm not getting it? Are you referring to our own search monetization with this OMNI, are you referring to...

**Rajiv Sharma**

No, no. So let me rephrase it. So what I'm saying is you said 25,000 OMNI for the next financial year, that will just 8% of your current paid campaigns. What I'm trying to say is that it's not a big enough, you yourself are suggesting that this will be just a niche offering. So if the product is great, why don't you think a mass adoption for this?

**V.S.S. Mani**

Yes see there are ways how you go about doing this. If you try to – you can also offer OMNI for free for the first few months also. But you have to understand in this Indian market there are certain ways that you have to go about. You cannot just go about saying that its land grabbing and give it for free. And then people are not inclined to use it even. When they pay some money they tend to use it. And when they use it they understand the power of it. And through them we get several references. That's the right way to go as far as the Indian market is concerned - that is our belief.

**Rajiv Sharma**

Great. And one another related question is that, the whole marketplace - other various horizontals - after this deep discount trend reversing, they themselves are now kind of trying to figure out what should be the new value creation of business model, don't you think for Just Dial it is a great opportunity to be very aggressive, the next two...

**V.S.S. Mani**

Yeah, yeah, you're right absolutely. I'm sorry to cut you there, but we are exactly thinking on the same lines and not just that we had predicted this 18 month back, that this is how its going to be. I had predicted that this is what is going to happen and most of these outfits would be up for sale and/or they would perish because of inability to raise money. Let me make you understand that the Indian market is not huge to cater to a vertical, unless the vertical goes in multiple geographies outside of India, there is a slim chance of them being successful.

Indian market is a market for a horizontal player, it's a market for a steady player who understands truly what is enabling and empowering other businesses. We don't want to compete with our own customers. So we are only focusing on enabling and empowering our customers, thanks to all the spend from various online players in the last two three years, they have created awareness among consumers that there are a lot of things you can do online now, you don't have to go and do it offline. So hence this is a better environment for small medium businesses to get themselves online and reach out to their customers saying that you don't have to step in to our store anymore or come to us or call us... you can just do it online, and this is the technology which they are using which is OMNI.

**Rajiv Sharma**

Mani, my question was this that while couple of them maybe struggling on the horizontal side, there are few which are like Amazon which are getting share and Alibaba is likely to come in directly...obviously you are not directly competing with them but my question is your plans are aggressive for the full year maybe 12 to 18 months but what I don't understand is if aggression is in the next three months and things could again change and market share shift may happen and you maybe too late.

**V.S.S. Mani**

Okay, our strategy is very different from Amazon or Amazon's of the world – we are focusing on every small business, medium sized business telling them you need to have your own online presence, you need to have a technology which is automated, which is fully controlled by you, you don't have to rely on any third-party to do this. Okay, now after doing so, you should also participate in every marketplace opportunity that you may have, which could be of course Just Dial and it could be several others. There is one small difference between us and them - which is we are highly focused on hyper local.

So our sourcing is invariably very hyperlocal, hence the fulfillment experience is almost instantaneous for a consumer who could be JD OMNI customer or a JD Search Plus customer and that's a big difference. So if the other large organizations which have a different model elsewhere in the world where they operate - if they have to switch over to our kind of model we will call them as competition, otherwise we are happy that they are all spending money to create more awareness to change the habits of people which is the biggest competition for all of us, the habits of people have to change to doing things online.

**Rajiv Sharma**

Okay, that's useful. Thank you. Thanks a lot.

**Operator**

Thank you, Rajiv. Next we have Shaleen Kumar from UBS. You may speak.

**Shaleen Kumar**

Yes, hi, thanks for the opportunity. Just couple of question from my side. First question for Ram, Ram this 1,000 employee which we have added, is this pertaining to Search, Search business?

**Ramkumar Krishnamachari**

Sales, yes, predominantly the sales, and some are on the OMNI sales.

**Shaleen Kumar**

So are we going to have a separate sales team or like a combined sales team cross-selling the product, how are we going to strategize this?

**V.S.S. Mani**

So we have a combined sales team right now, and also a core team working on OMNI we are trying both simultaneously, whatever works the best is what is going to be the way going forward, because the target clientele is the same...you need to understand that the customer at the end of the day is the same.

**Shaleen Kumar**

Right, continuing with that so 2,000 what we are going to add - again the focus will remain the same - that sales people who can cross-sell both, Search as well as OMNI.

**V.S.S. Mani**

Right...

**Shaleen Kumar**

Okay.

**V.S.S. Mani**

A good OMNI presentation takes about 25 minutes...

**Shaleen Kumar**

Right.

**V.S.S. Mani**

If you are a prospective customer, I can actually create your own store. Instantaneously, and do a demo of an online transaction one or two transactions on your created mobile site or a website or an app even and then I can also show you your vendor module how you can work on your POS system and billing and supply that, so let's say it takes about 25 to 30 minutes. So our main focus is to reach out to as many businesses and demo the product to them. The live demo is good enough to sell, there is no need for selling as such...a good demo is good enough to make a first customer decide this product.

**Shaleen Kumar**

Good, good so right now we have sold somewhere around 4,000 plus OMNI this since the launch is that a right number?

**V.S.S. Mani**

Ram, will have the more accurate number.

**Ramkumar Krishnamachari**

As of March 2016 we sold about 2,500.

**Shaleen Kumar**

Okay. And how many of those 2,500 are existing customers in the Search?

**Ramkumar Krishnamachari**

It's a good mix of both. Obviously because we have the existing relationship we did approach them.

**Shaleen Kumar**

Right.

**Ramkumar Krishnamachari**

We'll have a good mix of both paid Search OMNI as well as non-paid Search OMNI customers.

**Shaleen Kumar**

Right, right. And then just want to understand the consumer behavior over here. What is the preference over here - when consumer go for OMNI do they prefer like a outright buy or is it a rental model, which one is preferred?

**V.S.S. Mani**

70%, 30%. 70% of the customers prefer the rental model. Ram, am I right?

**Ramkumar Krishnamachari**

Yeah. You are right, Mani.

**V.S.S. Mani**

About 30% prefer outright. In fact, we didn't have outright to begin with we have to introduce it because of generally the demand from our customers.

**Shaleen Kumar**

All right. And any specific specific sector, segment where you see higher attraction for the OMNI?

**V.S.S. Mani**

Actually, it's a good mix of both products and services, but I would imagine the products will at some point takeoff because they really desperately need a complete system, which they can manage the inventory and also have their own website and sell through multiple channels. Apart from this multiple outlet stores are also one, who are taking key in interest. Like a business owner owning more than four different businesses. So there is a good mix of all types of people but when people see the demo they are like wow. It's just that the number of installations will then multiply. It's like any other software which is ready to use... the inertia of shifting from existing system to the new one is one big challenge.

So that's why what we have done in OMNI is, we are going to them a support - on every ZIP code there will a person available for support - on call he would be there at your door step within few hours or something like that. In addition to that, we have a support team - you can dial the number and talk to them they'll help you guide you through that.

And to make it even more user friendly we are introducing a quick setup thing which is like pretty much you can quickly upload products or add images, even you can use your mobile phone to do so - do the adding images or you can play with your discount rules, you can have your referral campaigns, promotional campaigns everything is configurable and instantly doable. So those things are going to make it even more easy and more attractive.

**Shaleen Kumar**

Right, right, is it safe to assume the stickiness of this business is much higher than the Search?

**V.S.S. Mani**

Several times higher than Search.

**Shaleen Kumar**

All right. And then in terms of the profitability how is OMNI vis-à-vis Search?

**V.S.S. Mani**

Actually in OMNI once you sell the product, it's a hosted cloud solution and the cloud hosting is fraction of your cost. And initially you may have some kind of help the customer may need, but once he is set, he is on his own.

**Ramkumar Krishnamachari**

On a recurring basis other than the marketing costs - which will form bulk of the OMNI costs, so you will see that OMNI as it scales up will be a high margin product for us. The incremental costs are going to be marketing and little bit of support thrown in, but all these put together, we would assume Omni to be a high gross margin business for us than Search.

**Shaleen Kumar**

Just a question for Mani, in a long-term perspective let's say three to five years down the line how big can OMNI be vis-à-vis Search in terms of the revenue distribution?

**V.S.S. Mani**

At some point OMNI and OMNI revenues are going to meet Search revenues. Because see Search is to drive traffic where people who want something but they do not know where to go to so they come to JD to find it, discover the price and transact. So these two are two separate offerings but OMNI is like a backbone to your business which helps you run the latest of technology, the new changing ecosystem. Hence I personally feel today businesses are smart they know how to cut costs and if you use OMNI you can slash your cost big time. You will also be able to generate revenue from new channels. In addition the worry of your customers getting taken away by other online players - that risk is averted because you have a robust online offering. So your customers are not going to move to other online players for convenience at least, because that convenience we are giving them.

And with our delivery tracking technology that we have on OMNI where our vendors' customers can track delivery real-time, it makes them really well equipped to face this new world. So I would believe as we go forward in the next two, three to four years, OMNI could be a huge revenue item for Just Dial and equally competing with Search. By then you would have seen revenues from Search Plus which has transaction revenues as well.

**Shaleen Kumar**

Thanks, great. That's all from my side.

**Operator**

Thank you, Shaleen. Next we have Akshay from Fidelity. You may speak.

**Akshay**

Hi, guys. Congratulations on the decent set of numbers. I just had some follow-on questions on OMNI. I understand the point that it is a product and it should be more profitable on gross margins, but that's at steady stage right? So maybe just talk us through how the economics look in FY17. Over FY18, 19, 20 I understand that this business is more profitable, but in FY17, revenue would be anywhere between Rs. 60 -100 crore. So you will have some costs associated to that business how are they?

But second question is that there are two elements suite this business. One is the regular annuity sort of revenue that you have, second in upfront. The margin profile on both these businesses would be fairly different. So, on the upfront portion of the sales, how do you think if or does it allow you to book it upfront as the whole amount of setup cost? How the margins on that? Thank you.

**V.S.S. Mani**

See, the numbers – the setup cost is because there's a bit of customization bought for every specific business, obviously the setup cost. And the presentation to conversions in OMNI could be very different, the math worked differently here. So the cost is of course accounted upfront. I mean the revenue is also booked upfront.

My point is here as far as OMNI-related expenses are concerned, there are all sunk costs already – the technology bit is done, the hosting bit is done. The capacity is built for hundreds and thousands of stores. So every additional store is not going to cost us any additional money. So you need to understand that it's all about pure sales. If you increase your number of OMNI installations, the margins just grow up leaps and bounds.

**Akshay**

Yeah, I get that. But I'm saying that your sales force should be similar, right, but your cloud hosting expenses would be one buying...

**V.S.S. Mani**

That's already booked, that's already reflecting. On the last quarter result also you would see those expenses.

**Akshay**

Fair enough. And my second question was, you charged Rs. 25,000 for setup. What is the cost associated with that setup? That can't be 100% margins, right. There are some costs over there.

**V.S.S. Mani**

Yeah, that would be revealing trade secrets so I wouldn't want to comment on that.

**Akshay**

Okay. I think directionally Mani I understand that.

**V.S.S. Mani**

Yeah. Cost is much less than...

**Akshay**

No, that's fine. What we want to understand is, is the margins on the setup comparable to current margins of the company, lower or higher?

**Ramkumar Krishnamachari**

It's strong. I'd say that – what we're talking about is that fixed cost that's already the company is inquiring. Additional setup is...

**Akshay**

I understand that is for the annuity bit of your OMNI element. My question right now is particularly about the upfront implementation fee that you charge, say, Rs. 25,000 is what you charge for setup...

**Ramkumar Krishnamachari**

Yeah. Rs. 20,000 that's for the setup of both website and app...

**Akshay**

Setup, yeah, right. So you're saying the margins for setup also will be higher than company average?

**Ramkumar Krishnamachari**

Correct.

**Akshay**

Okay, thank you. Thank you guys, all the best.

**V.S.S. Mani**

Thank you.

**Operator**

Thank you, Akshay. Next we have Nishid Shah from Ambika Fincap. You may speak.

**Nishid Shah**

Hi. Congratulations on a good set of numbers. Mani, my question is, you guys in the last conference call talked about a very good growth FY17, and a very good margin. Now suddenly why you guys are saying third quarter or fourth quarter? When you are so confident on a product

like OMNI and if you're talking about 25,000, 30,000, or on the higher side if it can do 50,000 installations, actually your margin should be going through the roof in FY17 itself.

**V.S.S. Mani**

That is correct.

**Nishid Shah**

I mean – and if you – I mean, allow me to finish. If you take three months cost on 10,000 – I mean 2,000 people, that will not cost you more than Rs. 10 crore, Rs. 12 crore. The people that you hire for the call center or the people you are hiring on the field force...

**V.S.S. Mani**

Right.

**Nishid Shah**

...that's not going to be more cost. I mean – so could you elaborate on these because I think the whole confusion is on the margins and on the growth. And in that the fantastic product that you guys have introduced is getting diluted.

**V.S.S. Mani**

See, as we probably have earnings call next quarter, we should be far clearer in those target numbers. So right now I shouldn't be giving a number and then not meet it. Most important is whatever we say we should out-perform that number, that's one important thing. Secondly, you are spot on when it comes to the kind of potential revenue growth and margin potential in this if OMNI takes off and why not 50,000, why not 60,000? Why not sell 300 OMNIs a day because we sign up like what – Ram, correct me, what's the number that – number of campaigns we sign everyday?

**Ramkumar Krishnamachari**

You are asking about Omni...

**V.S.S. Mani**

No, no, non-OMNI how many we sign a day?

**Ramkumar Krishnamachari**

Actually about – total about 1,200, yes. 1,200, 1,300, yes.

**V.S.S. Mani**

Yes. So why shouldn't 20%, 25% – why should we get additional signup for OMNIs is what we have in the wish list. So once we start seeing those numbers, we'll give better information to the market. But I'm very keen to meet analysts in our office to give a first-hand experience of the product at any which time you want to, and get a fair idea about what the product is.

**Nishid Shah**

No, my first question Mani was that last quarter you guys – I again went through the transcript, you were very clear on the growth as well as on the margins. Now why we're talking third and fourth quarter, why not first and second quarter. I want to understand that.

**V.S.S. Mani**

See sales forces productivity starts after two to three months. So till then then you're burning on them. Secondly, the advertising, if it kicks in – and we do it like in the next quarter. So obviously the margins could be an issue in that respect, probably Ram was trying to highlight.

**Nishid Shah**

Okay. But if you can just let me know in the month of May how many OMNIs you're signing on an average per day?

**Ramkumar Krishnamachari**

We can't release those numbers at this point of time.

**Nishid Shah**

Ram, that's a very useful information.

**Ramkumar Krishnamachari**

No, no, we understand – we will inform definitely in Q1 conference.

**Nishid Shah**

Okay. Anyway, all the best.

**Ramkumar Krishnamachari**

Thank you.

**Operator**

Thank you, Nishid. Participants are requested to ask only one question at a time, thank you. And next we have Nandesh from IIFL. You may speak.

**Nandesh**

Hey, thanks for taking my question. Ram, you guys have written back ESIC liability of somewhere around 28 million. Could you just explain the nature and how the accounting has been done? Is it under employee expenses?

**Ramkumar Krishnamachari**

So it is under other income. This was a provision that we had made way back in 2010, and that's something we made as a matter of abundant precaution at that point of time. Now this expense is time bound and the matter is actually subjudice, but the amount is time bound and we took legal advise and expert advise, and we have written it back, and that's reflected in the other income.

**Nandesh**

Got it. And second thing, if I'm correct, you told that you have somewhere around 2500 JD OMNI customers as on March 2016. So if I just apply Rs. 20,000 as a setup cost, the revenue should have been in the range of somewhere around Rs. 50 crore. Am I missing something over here?

**Ramkumar Krishnamachari**

So we accounted for Rs. 1,800 contracts multiplied by Rs. 20,000 which is Rs. 3.6 crore.

**Nandesh**

But...

**Ramkumar Krishnamachari**

2,500 we signed up. We setup the website and app for 1800 and we recognized revenue for that.

**Nandesh**

Okay, and then – got it, that's a lot. Okay.

**Operator**

Thank you, Nandesh. Now there are no further questions.

**Ramkumar Krishnamachari**

All right. Thank you, thank you all. And definitely with the steps that we have taken we're hopeful that FY17 would be a better year in all metrics and we look forward to speaking to you again in the Q1 conference call.

**Ashwin Mehta**

Thanks, Ram, thanks, Mani, thanks to everyone for joining us for the call today.

**V.S.S. Mani**

Thank you, Ashwin.

**Ramkumar Krishnamachari**

Thank you.