Nomura Financial Advisory & Securities India Pvt. Ltd

"Justdial Limited 4QFY19 Earnings call"

May 14th, 2019

SPEAKERS: **Management, Justdial Limited**

Moderator: Good evening ladies and gentlemen. I am Pragyat, your moderator of the session. Thank you for standing by and welcome to the Justdial Limited (JUST IN) Fourth Quarter FY19 Earnings Call. For the duration of presentation, all participants' lines will be in listen-only mode. We will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Rishit Parikh. Over to you sir.

Rishit Parikh: Thanks Pragyat. On behalf of Nomura, we would like to welcome you all to Justdial fourth quarter earnings call. We have with us the Founder, M.D. and CEO of Justdial Mr. V.S.S. Mani, and also the CFO of the company Mr. Abhishek Bansal. Without further delay, now I would like to hand over the call to the management. Over to you guys.

Abhishek Bansal: Hi everyone. Welcome to Justdial's earnings call for fourth quarter of fiscal 2019. We'll quickly go through key financial and operational highlight for the quarter and full year. Operating revenue for the quarter stood at about 232 crores which grew at approximately 16% year on year. Operating EBITDA stood at healthy 58.8 crores witnessing strong 29% year-on-year growth. Adjusted operating EBITDA margin excluding ESOP expenses stood at 25% for the quarter. EBIT margins stood at 21.7% versus 18.6% during same quarter last year. Net profit for the quarter came in at about 62.5 crores, which went up about 61% year on year. For the full year, we have been able to deliver 14% Y-o-Y growth on top line and adjusted EBITDA margin improved to about 27.7% from 23% last year. Annual PAT stood at approximately 207 crores, which was up 44% year on year. Total free cash flow generation during the year has been robust at about 349 crores, about 30% year-on-year growth, considering 220 crores was returned back to shareholders via buyback. There has been accretion in cash on books of about 131 crores. Cash in investment stood at approximately 1,331 crores as on 31st March 2019. Now coming to operational highlights, mobile traffic witnessed healthy 40% Y-o-Y growth. Unique users on our mobile platforms alone are now over 110 million, which is a very healthy sign. Overall, including all platforms, we were able to grow at about 25% year on year to about 139 million unique users for the quarter. We added another 900,000 listings to our database and now we have about 25.7 million active listings, which has grown about 18% year on year. About 54% of the database today stands geocoded and we have 60 million plus images in listings in our database. Count of user ratings and reviews now stands at staggering 96 million. As far as paid campaigns are concerned, results of improving productivity of feet on street additions continue to be visible. During the quarter, we added about 15,400 net paid campaigns and we have now crossed 500,000 active paid campaigns. Overall, I think FY19 was a very healthy year for us from all financial and operating metrics. As a strategy on monetization, focus continues on adding to our feet on street team to cover the entire country in as much depth and breadth possible plus getting higher efficiencies out of them. As a business, overall focus continues on getting more users to use our product, which is undergoing continuous improvements, getting users to engage more, building on to current growth rate both, in terms of revenue as well as getting higher profitability and free cash flows. We shall now open the floor for any question.

Moderator: Thank you sir. With this, we open the floor for question and answer. Participants, if you wish to ask any question, please press 0 and 1 on your telephone keypad and wait for your name to be announced. We have the first question from Ravi Menon from Elara Capital. Your line is unmuted.

Ravi Menon: Hi. Thank you for the opportunity and congratulations on the decent earning growth. So Abhishek, I had a question on how much of the revenue addition this quarter or actually even for the full year has come from tier 2, tier 3 cities.

Abhishek Bansal: For this particular quarter, tier 2, tier 3 cities contributed about 27% to revenues.

Ravi Menon: And for the full year FY19?

Abhishek Bansal: For the full year, share would have been approximately 25%.

Ravi Menon: 25%. And this is the share of the overall revenue, right? Not just the incremental revenue.

Abhishek Bansal: No, this is share of the overall revenue. So tier 2, tier 3 cities broadly contributed last quarter 27% to revenues and approximately 47-48% to count of campaigns.

Ravi Menon: All right, great. Thanks. And it looks like it's getting to be an increasing share of the incremental revenue. So what would you say for like 70-80% of the revenue getting added seems to be coming from tier 2, tier 3 cities?

Abhishek Bansal: So tier 2, tier 3 cities on an overall share basis are taking share by 1 to 1.5% each quarter. So if we were to translate that into how much of the incremental share is coming, it would surely be 50-60% plus.

Ravi Menon: And that is I guess what's putting some downward pressure on your revenue per campaign as of right now?

Abhishek Bansal: Yeah, so the mix when it is shifting towards tier 2, tier 3 where our ticket size is much lower, that tends to have a downward pressure on realization but the positive side to that is that the pricing there is so low that it is relatively easier for us to affect price increases in those particular territories.

Ravi Menon: Right. Have you seen any kind of employee attrition or some sort of pressure on compensation because we've been hearing that because of the food delivery companies, we'd expect that there is a bit of pressure. Are you seeing any of that?

Abhishek Bansal: See, definitely, there is a fight for talent in the market, on the compensation side as well. There are companies, which are willing to pay much higher salary levels, but in our particular case whenever we have whatever pressures or even lateral hires joining us, we have not seen our particular attrition levels worsening. So, to that extent I think we are fine as of now.

Ravi Menon: Right and this particular quarter what is the advertising and promotional spend?

Abhishek Bansal: Ad spend for the quarter was approximately 17 crores.

Ravi Menon: All right. Thank you. Best of luck.

Abhishek Bansal: Thank you.

Moderator: Thank you sir. I would again request to all the participants if you wish to ask any question, please press 0 and 1 on your telephone keypad and wait for your name to be announced. We have the next question from Mr. Vijit Jain from Citi. The line is unmuted.

Vijit Jain: Yeah, hi Abhishek. Abhishek when I look at FY19 non-employee operating expenses I see the decline about 6%. Now I know you've moved some of your network expenses to AWS, lower infrastructure expenses and what not. Can you talk a little more about how that move into AWS has impacted your operating expenses? Is that the reason why they are declining and how that move affects your D&A expenses and fixed asset investment requirements going forward?

Abhishek Bansal: Okay, so on other expenses excluding ad spend, it's not the shift towards AWS that is resulting into decline. In fact, the shift towards AWS is resulting in part of our CAPEX becoming OPEX in nature. The key reason for these particular costs to remain under control is some of our particular AMCs we have been able to negotiate them for long-term. So if I was paying a crore annually for a particular set of storages or servers, we tried to negotiate that okay for 2x or 2.2x the cost can I get it for three years. So, that helps me reduce my annual expense on that particular front. Apart from that, there are optimizations done on telecom cost, SMS cost, a combination of all those is what is resulting into almost flattish to slight decline in other expenses advertising.

Vijit Jain: Okay, so is there more room to go on that front in FY20 as well? Can you get more cost benefits from all those initiatives? That is my question.

Abhishek Bansal: See one way to look at it is that okay for these particular expenses also, instead of 8-9% increase, if we are able to control them even at 2-3% increase, for me, that is also optimization done to save that additional 5-6% growth. Last year, we benefited significantly from optimization of these particular expenses. Cost optimization tends to be a continuous exercise. We continuously evaluate our entire cost structure where all savings we can have, but this particular year the margin expansion was driven more due to top line expansion. Going forward as well, there could be some element coming due to cost benefits due to automation et cetera, but a good portion should ideally be coming from top line growth.

Vijit Jain: Got it. Thanks. That is my question.

Abhishek Bansal: Thank you.

Moderator: Thank you sir. I would again request to all the participants if you wish to ask any question, please press 0 and 1 on your telephone keypad and wait for your name to be announced. We have the next question from Sandip Agarwal from Edelweiss. The line is unmuted.

Pranav: Hi. This is Pranav from Edelweiss. Thanks for the opportunity. Sir, I have three questions. Firstly, for this quarter adjusted EBITDA growth was not meaningful despite the additional revenue coming to the quarter. What is the reason for the same and is it a quarterly phenomenon? That's my first question. Secondly, on the cash flows, you generated significant amount of cash flows and that led to addition to the cash balance. How should we think about it going in the future? I mean do you expect to give out almost all the cash or how much of the cash you want to retain? And lastly, can you comment something about the new Beyond Search platform which you created? How is the user engagement matrix or on JD Pay how they shaping up, anywhere you are seeing strong traction? Thank you.

Abhishek Bansal: See firstly on adjusted EBITDA growth. So adjusted EBITDA for the quarter stood at about 61 crores which grew at a healthy 24% year on year. So, while the top line grew about 16%, there was 24% increase in adjusted EBITDA. For the full year, the growth was in adjusted EBITDA…

Pranav: I was referring more to quarter on quarter number and that sir I think there is some difference. So, it was flat quarter on quarter adjusted EBITDA.

Abhishek Bansal: Yeah adjusted EBITDA quarter on quarter, it was flat. So if this year separately if you see first two quarters had lower advertising spend. So ad spends were more tilted towards third and fourth quarter. Secondly, employee cost since we have been adding feet on street for last about three to four quarters. That particular additional manpower cost is what is resulting into flat sequential absolute adjusted EBITDA.

Pranav: Okay.

Abhishek Bansal: To your second question on increase of cash on balance sheet. So you are right that out of 349 crores of total cash that we generated, 220 crores was returned. Despite that, 131 crores cash accretion happened on the balance sheet. The thought process there is that we would want to return a good percentage of incremental cash being generated back to shareholders subject to permissible limits. So buyback we can do only once a year. There is a limit of 25% of paid up capital plus free reserves. Last year against the limit of 227 crores, we distributed 220 crores. So the next buyback proposal whenever we take it up with the board, so we'll evaluate. Thirdly, on your question of what are the various metrics -- on Beyond Search initiatives, what are the various matrices? So there, on JD Pay like we have recently taken UPI Live as well. On our particular curated content, lot of new particular features are being rolled out. At this point of time, most of these particular features are being discovered accidentally by users. So once we have certain critical mass of users coming for these particular services, we would disclose appropriate engagement metrics for these as well.

Pranav: But is there any feature where you are seeing strong traction or where you believe that there is high potential or is that any to higher engagement…?

Abhishek Bansal: So some of the features like the new features we have in various languages. In fact, the search that we today have we have made it universal in nature. Until sometime back, the search was restricted to searching only for listings or categories. Today, you can search for listings, categories, products, images, any generic search as well. So if you search for any particular personality, you get all details or whatever is available be it news articles or any particular curated content. So that particular vertical is definitely seeing good traction among users.

Pranav: Okay, thank you.

Abhishek Bansal: Thank you.

Moderator: Thank you sir. We have the next question. The line is unmuted.

Unknown Analyst: Hi Abhishek. Just two questions from me. First is regarding your conversion from the listings from tier 2-3 cities. How is that trending? Is that trending in the positive direction that more conversions are happening every quarter? And how it's fairing against tier 1 cities? It's my first question.

Abhishek Bansal: See as we discussed that tier 2, tier 3 cities they are gaining share both in terms of revenue as well as in terms of count of campaign. So the incremental growth definitely is coming from tier 2, tier 3 cities. In terms of conversion like if my sales person visits a particular x number of businesses in a particular day, conversion rate pretty much are similar in tier 1 as well as tier 2, tier 3 cities.

Unknown Analyst: Okay. Fair. And my second question is related to the unearned revenue. Now we've been seeing that for the full four quarters this last year, the unearned revenue would be averaging at about 30% growth while we are not seeing that in revenue. So my question is basically is there a part of billing which is not collected upfront which is the reason why the revenue is lagging the unearned revenue by a big margin? So basically, what kind of leading indicator is unearned revenue for your future revenues is my question.

Abhishek Bansal: See, unearned revenue this particular quarter March end to March end it grew about 22% year on year. Unearned revenue ideally is best looked at on a long-term growth basis rather than just for a specific couple of quarters. Unearned revenue obviously has a component of how much money we collect upfront versus how much we collect from monthly payment plan.

V.S.S. Mani: And we don't account any unrealized revenue.

Abhishek Bansal: Yeah, this particular unearned revenue is only that particular revenue which has come into the company. So whatever unearned is there, that is only for collections already done.

Unknown Analyst: Okay. So that leads me to, so all the money is already collected, so these growth rates should somehow reflect into the revenue growth as well may be with a quarter lag or two quarter lag depending on what your duration of contract is average duration. So when…

Abhishek Bansal: See you are right. See actually unearned revenue obviously has a different base compared to revenue. You are right that if on a four to six quarter basis, there is a certain percentage of unearned revenue growth that will translate into commensurate revenue growth as well. But to say that okay today's unearned revenue growth will reflect as revenue growth two quarters down the line that might not necessarily be true. So if you see for last four quarters, there has been healthy Y-o-Y growth in unearned revenue which is also reflecting into revenues improving from 9-10% level four quarters back to 16% last quarter.

Unknown Analyst: Right. So basically if this level of unearned revenue growth continues the revenue growth might keep inching upwards is my question basically.

Abhishek Bansal: Yeah if there is continuous healthy growth in unearned revenue that to some extent indicates that okay revenue growth should also move in that particular direction.

Unknown Analyst: Okay, okay. That answers my question. Thank you. Thank you Abhishek.

Abhishek Bansal: Thank you.

Moderator: Thank you sir. We have the next question from Yashodhan Khare from Vimal & Sons. The line is unmuted.

Yashodhan Khare: Regarding the share buyback that we do biannually, I was comparing the share count, there has hardly been any reduction in the share counts of the public issue. Considering the fact that the buybacks are in the nature of a deemed dividend and also the fact that our stock price has been stagnating with a downward bias over the last three years. Why don't we actually buyback shares directly from the open market? The deemed dividends in the hands of shareholders doesn't actually amount too much since only a small portion of the share accepted. Don't you consider that the stock is underpriced and if you do, doesn't it make sense to increase per share value by actually buying back shares from the market?

V.S.S. Mani: So open market buyback, there's a restriction of 10% of paid up capital whereas in kind of tender offer it is about 25%. So that's why we opted for tendering of shares.

Yashodhan Khare: But the 10% of the paid up capital.

V.S.S. Mani: That's right. That's a cap.

Yashodhan Khare: But 25% is for the paid up capital plus free reserves but 10% of paid up capital even if you buy actually, the number of shares that are floating if that count is reduced, the per share value in the hands of the shareholder increases, right? That doesn't seem to be happening in the case Justdial. Or you consider the share to be fully priced?

Abhishek Bansal: See from our particular perspective, we can obviously control the operating metrics that we have. Whatever is whether the share is undervalued/overvalued that obviously market forces will take on course. Now as far as reduction in shares is concerned, post last buyback, there was reduction in shares by about 4% or so. So if you look at last couple of buybacks…

V.S.S. Mani: If you do open market buyback, we could do only 88 crores worth of buyback but in tender buyback, we could do 220 crores. Does that solve the problem for you?

Yashodhan Khare: Number of shares bought back.

V.S.S. Mani: 88 crores worth of reserves can be used in buying back the shares.

Yashodhan Khare: No, no. Number of shares. How many number of shares that are bought back?

V.S.S. Mani: Number of shares will translate…

Yashodhan Khare: Number of share was at 380 -- the share was at 380, and we paid at Rs.800 when the buyback came in. I mean we hardly got anything.

Abhishek Bansal: Okay, let me clarify.

V.S.S. Mani: Let me just clarify. The quantum of amount of money that can be used for buyback, please focus on that. If we do open market buyback, you could do only 88 crores worth of buyback. Is that clear?

Yashodhan Khare: Yeah.

V.S.S. Mani: But if you do tendering, you can go up to 220 crores. So, this is as per regulation. So hence we had to distribute more amount of money, so hence we chose 220 crores.

Yashodhan Khare: But I mean even if you do creeping acquisition when the shares are bought back, you still…

V.S.S. Mani: Cannot do beyond the…

Yashodhan Khare: I mean the per share value doesn't seem to be going up with all your buyback that's what I am trying to say that. How you do it is – because in net of issuance and ESOPs and everything, the share count hardly falls, you just look at the graph of the share count and all the free cash is going. Pardon.

Abhishek Bansal: See the two buybacks that we did when the stock was at around 350-375 level. We did open market buyback where we bought back shares at about average Rs.375 per share. The last buyback that we did as we mentioned earlier, the thought process was that whatever cash is there on the balance sheet, a good portion we want to return it back to shareholders which we did via that particular tender offer buyback. From our particular perspective, it's mainly the operating performance that we can control.

Yashodhan Khare: No, I understand that as a capital allocation policy in the hands of individual shareholder like me, the per share value is what I'm concerned with. The per share value doesn't seem to be going up. I leave that to you, I mean this is just a thought. I mean you can just – there's no point arguing. I don't want to get into argument but I mean the per share value of Justdial share doesn't seem to be increasing despite these buybacks. I have another question, don't you think that the platform is trying to do too much. I mean JD Social I don't see anybody using. Doesn't it make sense to kind of do less and concentrate on doing less rather than doing more?

Abhishek Bansal: See we have always been a horizontal platform. So there could also be an argument that there are platforms which are trying to be very niche but we also know what is the financial state that they are in. So for like last 20 years we obviously have been focusing on ensuring that we have good amount of free cash flows. The 1331 crores of cash that we have plus another 480 crores that we have distributed via our three buybacks over last 3-3 1/2 years, that reflects the strength of this particular business model.

Yashodhan Khare: Okay. I have a last question. I have been speaking to some clients and everybody has heard of Justdial but nobody downloads the app. Now everybody is afraid that if they download the app, they will get these pesky calls or they will start getting messages or something like that. Actually I am using the app for the last one year or so, I don't get any calls and neither do I get any pesky messages. So why don't we actually do an active campaign for increasing the use of the app because everyone is on the phone and the app is not downloaded on phones, people don't have the app on their phone.

Abhishek Bansal: See okay. One, obviously suggestion is relevant. We'll take that into consideration. Second, at this point of time, last quarter we had 139 million unique users across our four platforms. The four platforms obviously that we have mobile site, mobile app, desktop site as well as voice platform. Being a horizontal, we are agnostic from which particular platform a user comes and actually ends up taking the information. But still point taken. We would ideally want as many Indians to have our app in their mobile phones.

Yashodhan Khare: So it's the mind of the user na, you're not in the mind of the user. Mind share we are not able to capture. That affects Justdial. If I tell someone to buy Justdial share, he's kind of reluctant because he's used Urban Clap, Flipkart, different business I'm not trying to compare it but they don't understand the difference in the business model. So we're not able to capture the mind share that's what I am telling and if you can do something about increasing the per share value, I will really appreciate. I mean you should look into my whatever analysis I have done, you can also do, but the per share value is not going up. So do you think it's a fully priced stock, do you think it's underpriced or do you think it's overpriced?

Abhishek Bansal: See on a day-to-day basis we're obviously focused on getting our operations right. In the long run, we believe that whatever if we are running our business in appropriate manner, value per share et cetera should ideally fall into place.

Yashodhan Khare: Sir it's long time since new issue. We are an internet business. Look at the multiple of the internet businesses in India which don't even generate the kind of free cash flow that Justdial generates. We don't seem to be getting the multiple. We have to find the reason for that. I could only look at the reason is that the per share value is not going up, the intrinsic per share value. I may be wrong. May be we're not able to capture mind share but if you look at the internet businesses and look at the multiple that they're getting. Justdial is not even getting 50% of that. That should be concern for the management also.

V.S.S. Mani: Yeah most of the internet businesses are not profitable businesses and there is no multiple as much. May be they are doing top line multiple except for Info Edge. I think it's only a matter of time. Few more good quarters delivered well with top line growth and bottom line growth market cannot ignore our stock. So end of the day…see we cannot change the value of the stock. We can focus on our business, not on how's the stock…

Abhishek Bansal: Yeah you have to focus on the business and numbers are really good for the last one year. I mean that's really nice good performance but still you don't seem to be getting in.

V.S.S. Mani: We will go around…

Yashodhan Khare: If you look at the per share, yeah. Thank you for giving me the opportunity to ask you questions.

V.S.S. Mani: Thank you so much.

Yashodhan Khare: Thank you sir. Bye. Thank you.

Moderator: Thank you sir. We have the next participant Mr. Rishit Parikh. The line is unmuted. Mr. Rishit your line is unmuted.

Rishit Parikh: Yes, can you guys hear me?

Abhishek Bansal: Yes, please go ahead.

Rishit Parikh: Yeah so just wanted to get a little more detail in terms of the sales productivity that we're talking about, right. What are the key metrics that sales guys get measured on – I want to get some perspective on what could be the volume growth of paid listings addition going forward and any color on the sales ramp up that we're expecting for FY20 and where would it largely be concentrated? Will it be tier 2, tier 3 or tier 1 – some portion will be tier 1?

Abhishek Bansal: See firstly on the sales productivity, it varies from team to team. So whenever a new joiner comes into sales, the first three to six months we focus that okay that particular person should focus on converting a particular customer irrespective of the value. So if a particular sales person is able to convert the customer that boosts their particular motivation levels which eventually results them getting more high value customers as well. As and when a particular sales person tenures, they obviously focus more on value. The incentive structure that we have again is linked to for certain grades of sales employees. It is a mix of how much, how many campaigns they get and what is the value they get. For tenured employee, it's primarily linked to what is the total revenue they get. Secondly to your question on sales ramp up, as you would have seen in last about four quarters, majority addition has happened in our feet on street cold-calling team. That is the team which is producing fabulous results. We would want to expand in that particular team itself. As far as data is concerned, there is significant scope to grow that particular team. May be two to three times of where that strength stands, however, at the same time you want to make sure that they don't compromise on overall productivity plus we should have adequate managerial bandwidth to be able to manage such larger teams.

Rishit Parikh: Great. And secondly in terms of – so this is just more of a broader question. Now we have about what 65 million SMEs in India and roughly another 10 million, 15 million odd freelancers, right? We have about 30 to 35% on the platform already. So going forward what is the strategy? Is it in more of a hunting strategy or more of a farming strategy? My sense is I mean, you know, more farming would be easier given your relationships are already existing with those customers and the sales effort would be lower. So what's the strategy? Are we looking to target those set of customers or it's more of a hunting side that we're looking on?

Abhishek Bansal: See there are two sides to this. One is the data based part. As far as database is concerned, we would eventually want to reach that particular 70-80 million listings, doesn't matter whether those particular listings are monetized or not. We would want that if there is a police station nearby, we should be able to furnish that particular information. Second part comes as monetization. Monetization, yes there is a good amount of existing listings itself which are yet to be monetized but at the same time whatever incremental listings keep getting added to the data base, they also show healthy signs of monetization.

Rishit Parikh: Okay. And last question from my side, could you provide some color on revenue on margin outlook for FY20? Just to maintain the current sort of growth rate at about mid teens requires significant uptake in terms of paid listings addition assuming that your realizations stay flattish. Any thoughts around that, what would you think for the coming year?

Abhishek Bansal: See for fiscal 2019 when we commenced the year we said that okay mid teens is what we would want to achieve as the first target which we have been able to achieve. We growth rates for last two quarters have been as broadly 15 to 16% year-on-year growth. So the focus is at least on getting the inputs right both in terms of having adequate feet on street, expanding our particular database, getting the pricing right which as a combination should help us deliver decent or better revenue growth versus what we have been recently witnessing. Now revenue growth obviously has two levers, paid campaigns growth and realizations. On realization, lately in last couple of quarters as you would have seen it's mainly driven more by paid campaign growth. Going forward, we would want to be able to arrest the downward pressure – inherent downward pressure that we have on realization but a good portion of the growth should ideally come from paid campaign itself. That is also because we have added to our feet on street team. As and when those folks become productive, they start contributing more to campaigns first and later to higher values.

Rishit Parikh: Okay, so FY20 should roughly see a slightly better growth than what we've seen in the last two quarters roughly if I have to take a fair estimate. Is that a fair understanding?

Abhishek Bansal: See as I said that we're focusing on inputs at this point of time. What exactly will the revenue growth be et cetera that obviously is an output of our efforts which we'll have to see over time.

Rishit Parikh: Okay. Okay, fair enough. Thank you.

Abhishek Bansal: Thank you.

Moderator: Thank you sir. At this time, we do not have any further questions from the participants. I would like to turn the program back to you for your final remarks.

Abhishek Bansal: Thank you everyone for joining us. As mentioned earlier, our focus continues on building on our current growth rate levels both in terms of top line, bottom line. At the same time, we try to ensure that continuous improvements on the product should result into more users come into the platform and engaging more. In case, you have any further queries, do reach out. We would do our particular best to address. That's it from our side. Thank you.

Moderator: Thank you speakers. Thank you participants. That does conclude our conference for today. Thank you for participating. You may all disconnect your lines. Thank you and have a nice day.