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Ref: Protean/Secretarial/2023-24/24

February 14, 2024

To,
BSE Limited ("BSE")
P.J. Towers, Dalal Street,
Fort, Mumbai – 400 001

Scrip Code: 544021
ISIN: INE004A01022

Dear Sir/Madam,

Subject: Transcript - Earnings Conference Call on Company's Results for Q3 FY 2024

Pursuant to Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation to our letter dated February 5, 2024, please find enclosed herewith transcript of Earnings Conference Call on Company's Results for Q3 FY 2024, held on Thursday, February 8, 2024.

This is for your information and records.

Thanking You,

Yours truly,

For Protean eGov Technologies Limited
(formerly NSDL e-Governance Infrastructure Limited)

Maulesh Jagat Kantharia.
Digitally signed by Maulesh Jagat Kantharia.
Date: 2024.02.14 19:55:14 +05'30'

Maulesh Kantharia
Company Secretary & Compliance Officer
FCS 9637

Encl: As above

Protean eGov Technologies Limited

Transcript of Earnings Conference Call on Company's Results for Q3 FY 2024 held on February 8, 2024

Management Participants

- Mr. Suresh Sethi, Managing Director and Chief Executive Officer,
- Mr. Jayesh Sule, Whole Time Director and Chief Operating Officer, and
- Mr. Sudeep Bhatia, Chief Financial Officer.

Moderator: Ladies and gentlemen, good evening and welcome to Protean E-Gov Technologies Limited 3Q FY24 conference call. As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. Before we begin, I would like to mention that some of the statements in today's discussion may be forward-looking in nature and we believe that the expectations contained in the statements are reasonable. However, these statements involve a number of risks and uncertainties that may lead to different results.

I would like to now introduce the management. We have with us Mr. Suresh Sethi, Managing Director and Chief Executive Officer, Mr. Jayesh Sule, Whole Time Director and Chief Operating Officer, and Mr. Sudeep Bhatia, Chief Financial Officer. With that, I would hand over the conference to management. Thank you and over to you, sir.

Mr. Suresh Sethi: Thank you very much. So, good afternoon. We will just take maybe 10 or 15 minutes to take you through a short deck, which talks about the results for the current quarter and the first nine months of this year. And then we will open up the floor for questions. As a starting point, we are again glad to report that we've had a robust 29% YoY revenue growth, the first nine months of the year. And our revenues again have been strong, based on three core businesses. This is in the line of taxation, where we've grown by 29%. Pension services has again shown a strong growth of 14% plus. And identity services, which effectively the underlying business is largely B2B in nature, we enable the entire BFSI ecosystem at large for working on top of the Aadhaar stack. That has shown a humongous growth of 68% year on year. These involve the services of eSign, e-KYC, online PAN validation, and e-Authentication. Now clearly, if you look at it, this growth is again a clear indicator of our leading position in some of these businesses. And also, it's a continued focus and alignment with the digital India story. As far as our strategic diversification strategy is concerned, we've clearly diversified, as we mentioned earlier, from three to seven lines of businesses. One of our focus has been to enable open digital ecosystems across multiple sectors in the economy. And again, happy to share that in the last quarter, we have started contributing towards creation of a new DPI, which is being built in the space of education and skilling. Education and skilling being a very, very key element for the nation as such, and globally, that is going to be a very significant digital public good that is getting created. Further, on our entire vertical integration atop our core sources in the identity stack, we have launched a comprehensive multi-sector API marketplace. Along with that, we've also launched an AI-powered C-KYC solution. These products and services, again, will strengthen our B2B and B2C offerings, as we said, be it in the BFSI sector or in other sectors which are using digital identity services or providing last-mile services. And they will also give us the ability to move up the value chain as we engage with our both existing and new customers, giving us opportunity to upsell and cross-sell. Other than the BFSI sector engagement, naturally, the other part clearly for us is that, again, the last quarter has gone into building further strategic partnerships in international geographies across Africa and Southeast Asia.

Just a quick recap, again, of the key businesses that Protean is involved in. So, if you look at it, right at the outset, the company has been working with the central and state governments in contributing to core digital public infrastructure. Our starting point is more when we were building e-governance platforms. And the big contributions of the company have been in the space of taxation and in the pension space as the central record-keeping agency in the country, which we today have the largest central record-keeping function for both the National Pension Scheme and the Atal Pension Yojana.

Leading on from e-governance platforms has been the company's foray into working on the foundational DPIs of identity, of data, and of payments. And that is where we enable the entire BFSI sector. We are one of the unique companies which works on all facets of digital identity, be it pan-validation, e-KYC, e-authentication, and e-sign, which are largely what is today driving the paperless, presence-less, and cashless sort of transactions that we are seeing, whether it is account opening in the banking sector, enablement in the insurance sector. Similarly, other areas where you are requiring bank services to be provided for authentication of any transaction in the capital markets or even in the property market. That is where these services are getting provided.

As you look at on the right, we have our emerging businesses. So, there our focus is clearly on the first factor to enable democratic access to creation of open digital ecosystems. The company has made strong forays over there. One of our very early contributions has been in enabling ONDC in the space of digital commerce and mobility. And as ONDC expands into other sectors like open finance, we remain at the heart of it as a tech provider, enabling the entire infrastructure level DPI. Similarly, we already have contributions in the space of agriculture, health. And as I mentioned, education and skilling is something we added in this quarter. Equally important for us is the open DPIs getting created in the space of data exchange. We have an account aggregator license where we are using a lot of the synergistic capabilities to work and build a digital identity and data services business.

Last and not the least for us is powering enterprise digitization. On one front, we are working at the infrastructure level. On the second front, we provide consumer and corporate tech as application service providers. And there we also have made a foray into infrastructure services in cloud and Infosec.

So, if you see the nature or the character of the company, largely three factors are driving our growth, whether it is the demographic shift, the digitalization that we see in our economy, whether it is the internet penetration, we have almost 1 million mobile subscribers being added each day in the current year. So, clearly there's a lot of penetration of digital services and more importantly, adoption of consumption of services digitally, which is where the ODEs, the infra layer and the layer on top become real. And last but not least is the financialization, whether it is about digital loans, the personal and consumer loans. So, digital loans themselves have shown a 45% year on year growth. And all our underlying assets of e-sign, e-KYC, OPV as we speak about, all contribute towards the creation of this digital India. Other sectors in which we are today committed and invested - in our country clearly there's low pension penetration, hardly under 14%. It is as compared to the other developed countries in Asia, which are somewhere around 70%. Even from a pure numbers perspective, we have around 6.8 crore pension accounts. And that compared to even EPFO is a very small number, we probably have a 10 times headroom of growth over there. Digital consumption is clearly poised to grow with interventions like ONDC. Industry reports clearly talk about a jump from 60 to 70 billion in 2022, almost a fivefold growth by 2030. Agri-tech, again, is a critical area where the DPIs are going to create a huge thrust with the potential to add almost 95 billion to the Indian economy. And the health tech industry is clearly estimated to also grow sharply between FY22 and FY25 at a CAGR of 41%. Important for us to add, before I get into the numbers, that in our existing lines of business, we clearly have all aspects. We have a B2G, a B2B and a B2C business model. A lot of our businesses are B2B in nature, which is the entire identity stack. The work we are doing in enterprise empowerment towards digitization and our pension business is today done as a licensed business, with a perpetual license coming from the regulator - just like any financial services business like a banking or an insurance business. The tax services posted a steady growth of 29%, as I pointed out earlier. Pension services also grew and there's a continued momentum, whether even if you look at from quarter on quarter or year on year growth. The growth in identity services clearly has been the strongest. As we spoke about it earlier from our strategic focus areas, these remain the three new products that we have brought out during the last quarter - Protean Rise, our API marketplace, the AI powered CKYC solution and ODE thrust into education and skills. I will hand it over to Sudeep from here to take us through the financials. So, Sudeep, over to you.

Mr. Sudeep Bhatia: Thank you so much, sir. So, effectively for the nine-month ended December 2023, the company has shown the revenue from operations of INR 660 crores. This is about 29% higher than the corresponding period of where the revenue was INR 510 crores. We have also provided the breakup of revenue, how the company is earning its revenues. So, as we covered in the previous slides, the tax services business, pension services, identity services and several others. On the tax services side, this business continues to grow at a healthy pace. So, around 29% YoY. Growth in pension services, this is again because there is that much headroom for growth and therefore, this business has grown around 14% YoY. Identity services, this is on back of the entire digitalization strategy and also the government initiatives in the sector and also the entire population using more and more Internet services, So, this is growing at an even healthier pace at around 68% YoY. And then there are several other open digital ecosystems and several infrastructure stacks, the API stacks that the company is building. While this is still the initial phase for some of these projects, but the company has still made progress from INR 13 crores to INR 23 crores in total. At the EBITDA level, we have got to around INR 126 crores compared with INR 113 crores. Profit before tax is INR 104 crores compared with INR 100 crores. And profit after tax is INR 80 crores versus INR 75 crores on a year-on-year basis. The next slide represents some of these graphs. So, basically, the revenue is growing at 29% YoY, EBITDA growing at 12% YoY and PAT growing at 6% YoY. And then there are certain slides about our business on how we started and we have covered some of this in the previous calls as well. So, we now invite everyone to ask any questions and management will be happy to address.

Moderator: Thank you. We will request the participants. If you would like to ask questions, you may please raise your hand. We will wait for a moment for the question queue to assemble. We will take the first question from Grishma Shah. You may please unmute yourself and ask your question.

Grishma Shah: Yeah. Hi. Good evening. Good evening to the management team and thanks for taking my question. A few questions. One, I want to understand this quarter three a little better. Why has the tax service vertical not grown? That's question one. And the other is your outlook on the employee cost going ahead and the repairs and maintenance. Those are the two operating level questions. And the other is the provision that you've done for in the P&L of INR 24 crores. So, if you could help us understand this a little better, that would be really helpful.

Mr. Sudeep Bhatia: Sure. So, thank you for asking this question. I will try to address these four questions that you have asked. One is the tax services where in the quarter you are seeing almost a flattish quarter, although on a year-to-date basis, there is a 29% growth. So, just to mention that second quarter for us in the current financial year was an abnormally high quarter. And there are certain initiatives that the company had taken and those literally delivered good results. However, the third quarter again, there is some bit of seasonality built. If you look at our third quarter last financial year, you will see that almost the same number of PAN cards have been issued. However, if you consider the second quarter to second quarter performance, which is where you will see that the second quarter in the current financial year was really heavy.

In terms of the second question with respect to the employee cost. So, yes, the employee cost for the company has grown on a year-to-year basis, about INR 15 crores. And this cost effectively, you would imagine that we are growing from three business verticals to seven business verticals. And therefore, this means that you need to invest into talent and also technology. So, that basically answers the questions on the employee cost as well as the technology cost. Some of the technology cost is actually going into building and maintaining some of the newer business verticals. So, basically cloud and some of the tools, et cetera, that we are purchasing.

And finally, your question on the provisions. So, there is a 7-crore net provision that the company has put in. And this is basically the expected credit loss line in the financial statement. So, there is a netting of entry. So, while you see that there is an INR 25-crore entry sitting in the expected credit loss. But at the same time, there is an offsetting entry in the other income. So, effectively, what has happened is, there is a pass-through mechanism whereby some of the revenue that we collect from the government is passed through to our franchisee holders. And based on the recent developments, we realize that this revenue may not be payable. So, basically once we collect this revenue, we will also make the payment. But at this point in time, we wanted to remain conservative because while the company expects that we are still going to collect this revenue, at the same time, a significant time has elapsed and we wanted to maintain prudent accounting practice. So, that addresses your question on the provisions as well.

Grishma Shah: Sir, can I ask a follow up or I need to go back to the queue?

Moderator: You can continue.

Grishma Shah: Yeah, thank you. So, sir, this expected credit loss is related to which business? I mean, does it happen every year? Does it happen every quarter? I mean, it's a big amount. Earlier, it used to be three, three and a half crore per quarter. This is seven crores. And the other repairs and maintenance cost has also gone up. So, the EBITDA margins have shrunk to something which we've not seen in historically for the company.

Mr. Suresh Sethi: Grishma, two things. One is that this is related largely to the taxation business. There is a long-term government debt and following a very conservative accounting policy, we are basically showing a certain level of provisioning in this quarter. But otherwise, we are not in any way looking at not receiving these funds coming back to us. It is more about conservative accounting. So, that is why you see it. There has been some provisioning done earlier also. And this is just a continuum of following the same accounting policies. On repairs and maintenance, I'll ask Sudeep to just add some more because that was what she asked last time.

Mr. Sudeep Bhatia: Yeah, I did cover it in part of the investments that we have done. And in the newer business verticals, which are growing from three business verticals to now seven. And that has meant that we obviously invested in the technology, infrastructure and also create some technology, keep some technology ready for the new clients to onboard.

Mr. Suresh Sethi: This, Grishma, is more investment into emerging technologies, be it AI, be it the work we do in the ONDC stack. I think maybe the header is a bit of a misnomer when it goes as repairs and maintenance. But part of the increased amounts over there is coming into the new stack investments.

Grishma Shah: Fine. This is helpful. Thank you, so much and good luck.

Mr. Suresh Sethi: Thank you.

Moderator: Thank you. I'll remind the participants, if you want to ask a question, you may please raise your hand. We'll take the next question from the line of Shubham Ajmera. You may please introduce yourself along with your organization. You may please unmute yourself from your end.

Shubham Ajmera, SOIC Research LLP: Hello. Yeah. Hi. Am I audible?

Moderator: Yes, you are.

Shubham Ajmera, SOIC Research LLP: Yeah. Hi. It's Shubham Ajmera here from SOIC Research LLP. Sir, thanks for providing me the opportunity. I have some questions. So, first, it's like there is a degrowth in the revenue on Q-O-Q basis. So, can you please explain me the reason behind this? Do we have any seasonality impact in our business? Or if you can give some more clarity on that part.

Mr. Suresh Sethi: Some of our larger businesses, as I said, the three large businesses, if you see, is taxation, pension and identity. We've generally seen historically also that the pension and the tax business have a seasonality impact. And the third quarter is always comparatively a bit depressed compared to others. So, that is primarily the reason. The B2B business, which is largely driven on the identity side, that generally doesn't have a seasonality impact because that's pretty much a BAU continuity. These are two businesses we always see there's a slowdown in the third quarter.

Shubham Ajmera, SOIC Research LLP: Okay. So, can we say like it's Q4 would be much stronger and then Q1, Q2 and Q3, like how exactly it is structured in a year, we're seeing quarterly?

Mr. Suresh Sethi: Shubham, that is largely the historic trend. And we don't see any reason why it would not be the same this year. But I will not naturally comment with a forward-looking statement at this stage. But yeah, that is the trend and we expect similar sort of trajectory to follow through.

Shubham Ajmera, SOIC Research LLP: Okay, understood. And so, my second question is regarding this ECL provisioning. So, just wanted to get an idea, like, is this provisions kind of like one off? Do we anticipate any additional ECL provision in the future quarter as well?

Mr. Sudeep Bhatia: Okay, so there are certain government revenues from the past whereby these have been on the balance sheet and working through with the government to clear all the SLAs, et cetera, that does take time. In these particular invoices, some of these invoices are like four or five- or six-year-old. And the last invoice basically goes back to 2017. So, effectively while there is no ambiguity with respect to collection of these because we work with the revenue secretaries and CBDT and we basically provide the SLAs and that everything, all the steps have been cleared and therefore these invoices are now due for payment. But naturally, when you are working with the large sort of ministries, some of these SLA’s clearances require verification from another division. And therefore, in the process, the company has basically spent about seven, eight years. And therefore, just to be on a conservative side - we are a listed company, we do have to sort of answer to our shareholders as well - we have basically provided some of these on a conservative basis. As we move forward, there is still a provision at this point in time. There is no ambiguity why these monies will not be collected. But at a later stage, we'll obviously review the situation. And the response is coming back from ministry. And then effectively take a call at that point in time.

Shubham Ajmera, SOIC Research LLP: Okay, understood. So, as you mentioned that this relates to some older debtors or receivables, which has been pending from the government side. So, sir, can you quantify the amount, like how much is the debtors or receivable, which is aged more than three years for us?

Mr. Sudeep Bhatia: So, this is approximately about INR 30 crores.

Shubham Ajmera, SOIC Research LLP: INR 30 crores. And out of that, we have created a provision on INR 25 crores.

Mr. Sudeep Bhatia: No, the total amount was higher. Out of which we have created some of these provisions.

Shubham Ajmera, SOIC Research LLP: So, I just wanted to get the idea on like how much is the outstanding, which is more than three years. And we haven't created a provision on that debtors amount.

Mr. Sudeep Bhatia: So, effectively if it is more than three years or more than five years, basically we are not considering that because these are all collected collectible from one single department. Total net exposure of the company on these is approximately INR 60 crores as of date.

Shubham Ajmera, SOIC Research LLP: This is net exposure after ECL provisioning.

Mr. Sudeep Bhatia: This is a net exposure of INR 60 crores and remaining all is provided.

Shubham Ajmera, SOIC Research LLP: Okay, understood. And any idea, like, do we anticipate any more provisioning on this 60 crores as well?

Mr. Sudeep Bhatia: We have no reason to believe why these will not be collected. This can be a matter of time. But at the same time our board did take a call on a particular sort of communication. And therefore, we just followed a conservative policy. But as I mentioned, this is a pass-through arrangement. And therefore, this particular impact that you are currently seeing is the net effect of receivable and payable. And that is what you're seeing in the financial statements.

Shubham Ajmera, SOIC Research LLP: Yeah, understood. And sir, my next question is on this employee expenses. So, I just wanted to get like what would be the expected range like within which these we can anticipate the employee expenses would be from going onwards. Like it would be in the same range of which is in the current quarter or if we can anticipate some more increase in these numbers or if we can get some idea on that?

Mr. Sudeep Bhatia: In terms of so, if I understand your question correctly, you are referring to the employee cost, which has increased compared with the last year.

Shubham Ajmera, SOIC Research LLP: Right.

Mr. Sudeep Bhatia: So, that is what I had covered in my response to the previous question as well. So, effectively, the employee cost has grown up by about INR 15 crores. And some of that is the natural increase and based on the natural progression, because there is a 29 percent growth that you are seeing in the revenues. So, some of that investment has gone into the business development and ramping up some of the customer facing and operations kind of workforce. But at the same time, as we mentioned, the company is growing from three business verticals to seven business verticals. And these four business verticals, which are in the initial phases, do require some investment. And the investment is going to be in the form of people and talent who will create these technologies and that will sell in the marketplace. And second aspect is making sure that some of these products are ready for demo when we go to the clients. So, effectively, these investments have resulted in this growth in the employment cost. As we move forward from here. I mean, there are no significant plans to sort of grow the employee base in the same proportion. So, you can expect almost sort of similar levels plus/minus the economic changes.

Shubham Ajmera, SOIC Research LLP: Okay, so it could be similar like INR 45 crores quarterly run rate with wage hikes, which will be like normally wage hikes, which will be expecting, right?

Mr. Sudeep Bhatia: Yeah. Yes.

Shubham Ajmera, SOIC Research LLP: Yeah. Yeah. And just the last point is on my repairs and maintenance expenses. So, this just again on the same part, like it would be in the similar range or like it could be expanded from here as well?

Mr. Sudeep Bhatia: So, we don't expect this particular cost, because in the initial phases, you do invest in some of these tech-infra and creating the demo samples that we have to show to the customers, for example, even for the cloud. First, you have to build some of these functionalities that the customers should be able to use on a pilot run basis. So, this is that sort of investment that we have done. And again, we don't expect that this kind of expense growth in this particular line is going to continue.

Shubham Ajmera, SOIC Research LLP: Yeah. Thank you. Just last question from my side.

Moderator: If you could please join back the queue as there are other participants waiting.

Shubham, SOIC Research LLP: Sure. Sure. Yeah. Thank you. Thank you so much.

Moderator: Thanks Shubham. We'll take the next question from the line of Pranav Tendulkar. You may please unmute yourself and introduce along with your firm name.

Pranav Tendulkar, Rare Enterprises: Hi, this is Pranav. I work at Rare Enterprises. Thanks a lot for the opportunity, sir. Sir, I just have two questions. First is that you explained that there was Q2 was a very heavy in tax services. That was because of various things that I think you did or the government did. And that's why the tax services were used more in that quarter. And this is a lag quarter. But generally, Q4 that is January to March or Q1 will be the heaviest quarter. And that will reflect the true seasonality. That is. Am I right in that?

Mr. Suresh Sethi: Largely, Pranav, that has been the historic trend. We expect it to go along the same lines. Yes.

Pranav Tendulkar, Rare Enterprises: Right. Right. So, also, second is that the other three verticals that you have started, the other income that you include in your revenue split up, that is coming from largely that, right? B2B piece. So, can you just explain a little bit more about what is the opportunity here? Who are typical adopters and how big this market is? And last question from my side, you also said that like you are doing implementations of various technical stack, public stack for Middle East and Africa. Can you just also highlight the opportunity in terms of market size, revenue size, et cetera, going forward there? Thanks a lot, sir.

Mr. Suresh Sethi: Sure. So, Pranav, if you look at other businesses, as we said, we've been talking about expanding from three to seven lines of business. So, out of the four new lines or emerging lines of business, one is clearly in the space of open digital ecosystems. So, that is where we are either playing at the infra level where we are providing the four rails on which the digital public infrastructure is getting created. This is in the space of ONDC, which is both for digital commerce and mobility.

Similarly, we are playing a similar role in the space of agriculture, where we are working with the central government to build the core Agri-stack, which is building the entire framework of registries and the consent framework for sharing Agri information, including digitized records and all for various use cases like lending, advisory and so on. The third area for us is in the space of education and skilling, where again, we are playing a role in the infrastructure level. So, when you're talking about the infrastructure layer, if you see currently our most relevant infrastructure layer is the payments infrastructure layer like UPI, which is run by NPCI.

And then you have the consumer corporate tech, which is built for various consumer services like Google Pay or a banking app for doing money transfer. So, similarly, in this space, we have an infrastructure layer opportunity. So, as there is growth in digital commerce, we talked about digital consumption going up by five times between now and 2030 from 60 to 70 billion to almost 340 billion based on interventions like ONDC, we see a play for ourselves in those markets as providing the network rails, because everything, every buy sell, every discovery of a financial product or every discovery of a mobility product will happen on those rails. And as an infrastructure provider, we would be having a part of the revenue coming to us as the core rails on which these services are provided.

The other area becomes consumer and corporate tech, which means while you have the layer, the digital layer at the bottom, you're also going to build consumer applications like buyer applications, seller applications, similarly lender and borrower applications. So, that is another area we are playing where it is a SaaS market. So, you build the application, you give it to the service provider and you're earning on a SaaS basis. So, that, again, is very complimentary to say as digital consumption grows, more transactions will happen, and we will be earning at that level. So, that is in the space of ODEs. So, as I said, we've added a new ODE also in this very quarter where we've gone into education and skilling. So, that is one line of business. The second line of business is clearly building on the data front. So, while today we work at the foundational level, we provide e-sign, e-KYC services. As I mentioned, we've built a complete API marketplace and stack where companies can actually get microservices to complete an end-to-end digital journey, be it for onboarding of customers, lending use cases. So, various use cases come together, but it comes in the form of microservices. So, there, as we see in the country, that wherever there is any account opening, any digital journey getting enabled, this becomes a SaaS service and gets provided to the BFSI ecosystem. And we see a clear value-added play because now you're not providing an API for just authentication. You are providing an end-to-end microservice, including the UI-UX, in certain cases, data analytics. Digital lending is itself expected to grow 45% year on year. So, there's a huge market out there where you are enabling these use cases for flow-based lending versus balance sheet lending.

The other two businesses for us clearly - one is in the cloud and InfoSec. We naturally have some early wins. We have almost got now 25 plus clients across 10 sectors. But that's been a bit of a slow burn and we expect it to pick up. So, we naturally have, this is more like an annuity business. Once you are providing these services, you have a continuity and annuity coming into it.

And last but not least, you mentioned the international, which is the fourth line of business. International at this stage, we are working with multiple countries. If you look at the overall space, it's a huge space running into billions of dollars. And especially in African nations, there's a strong thrust to look at foundational DPIs being put in place, be it on identity, be it on payments, be it on taxation or social security. A lot of these countries are either in the process of developing policy around the same, or they are at a point where they are putting out RFPs for digital identity, for payments and other areas, as I mentioned earlier. And we are, as I mentioned, getting more partnerships in different countries to successfully bid for these. So, we've already participated in 13 bids and we are awaiting outcomes from there. And that is where we currently stand with regard to the international business.

Pranav Tendulkar, Rare Enterprises: Right sir. And when you say SaaS-based revenue models, does volume also include in the new infrastructure? Existing, I know that volume drives the revenue. But in new infrastructure also, all the SaaS models will have an element of volume, right?

Mr. Suresh Sethi: Absolutely. So, they are transaction-based models. And clearly, it's going to be a network effect. Some of these as we saw, UPI took its own point before there was an inflection point and you have humongous growth now, going on month on month, not even a year on year. The numbers are huge. So, in some of these cases, as we've seen, there's been strong, I would say strong growth in ONDC overall as an ecosystem. Because clearly today, if we look at quarter on quarter, there's growth. But there are almost 114 buyer applications now plugged into the system, which means anybody getting on any one of these buyer applications has the ability to discover the entire ONDC network. Similarly, today, there are 131 plus seller applications and 20 domains which have gone live in the space of ONDC. So, every month, there is huge expansion. And as adoption curve picks up, we are clearly going to see transactions and multiples happening over there. And each transaction will have a revenue count associated with it. So, we see it as a SaaS model, which is linked to transactions.

Pranav Tendulkar, Rare Enterprises: Perfect. I have a few questions, but I'll come back in the queue.

Moderator: Thanks Pranav. We will take the next question from the line of Deepak Lalwani. You may please unmute yourself, introduce along with the firm name and ask your question.

Deepak Lalwani, Unifi Capital: Hi, sir. This is Deepak from Unifi Capital. Sir, just wanted to check on the tax services piece again. You said that Q3 is seasonally a weaker quarter for you. But if you look at the year-on-year growth, it is still flat. So, if you can just throw some light on this revenue segment, if there's a slip of market share or there's a general volume issue here.

Mr. Suresh Sethi: So, Deepak, the tax business primarily, majority of the revenue is coming out of PAN issuance over there. Now, if you see, and very clearly, let me outrightly state that one, we have consolidated our market share year on year. It is largely a two-player market because the mandate for PAN issuance is with UTI TSL and us. And if you may, a third player in this space is the income tax department. But the IT department largely does a digital issuance of PAN on their website. So, anybody requiring a physical PAN card, that provision is only available with us and with UTI. So, between the two of us, we have a dominant market share and we've consolidated it over the last year. In terms of the numbers, the absolute numbers very clearly indicate that the third quarter on an aggregate base is lower. So, we haven't lost any market share in the period, but it is an overall lower number compared to the other quarters. And otherwise, if you see from a year-on-year basis, there's a 29% growth. And this 29% is naturally clearly driven with every issuance on every change request which comes into this revenue pool. So, there's been a 29% growth year on year.

Deepak Lalwani, Unifi Capital: So, if I compare your last quarter Q3, it was INR 98 crores versus this quarter you delivered INR 97 crores. So, I was referring to that number being flat on a year-on-year basis. So, you're saying that the industry itself hasn't added as much volumes?

Mr. Suresh Sethi: Yeah. So, this is one on the industry basis, and I will ask you to give this. So, on an industry basis, which is where I'm saying if in a month, the total number of PANs getting issued is 100. So, we are not losing market share is one point I'm making. So, even in this quarter, we've consolidated our market share. And the second fact is that the absolute numbers are probably peer to peer between the same quarter last year and this quarter. But if you see the earlier two quarters, there has been more issuance of PAN. And again, I would also call out, as we all know, PAN is not a saturation ID like Aadhaar, because Aadhaar we are giving it to a child when the child is born. A PAN actually manifests when somebody is getting into a sort of a first job, a working age comes into play, or you are opening your first bank account. So, that actually happens when the minors turn into majors. So, PAN we are seeing today, cumulatively in the country, there are total around 68 crore PAN cards issued. And if you look at our population of 140 crores, clearly there's a huge population out there which still will be eligible or be looking for getting a PAN card as they get into working, as they get into opening their first bank account. So, it's not a saturation market, but clearly whatever issuance is happening, we are consolidating and the numbers, if there is a matching between last year and this year, that's incidental. But we see it as a market which is consistent and there for us.

Deepak Lalwani, Unifi Capital: Sure, sir. In the other businesses, line segment, which has ramped up from INR 5 crores quarterly to aN INR 14-crore number, any specific segment which has sort of gotten traction here, whether it's ONDC, cloud, international, is there any one specific segment which is playing out for you?

Mr. Suresh Sethi: ONDC is definitely showing more traction because even in the DPIs that we are associated with, I won't use the word maturity because they are all at an early stage, but I would say ahead of the curve is ONDC because it was probably one of the earlier DPIs. Because the work on mobility started almost 2-2.5 years ago and ONDC as an enabler of digital commerce, open finance, mobility has been around now almost for a year and a half. So, there is more penetration, there is more coverage across the country. So, ONDC is the one which is giving us the uptake as of now out of the businesses.

Deepak Lalwani, Unifi Capital: Okay, sure. And lastly, on your provisions that you have taken in this quarter, so you have INR 60 crores which is in the receivables which is not provided for and on the payable side, what would that number be?

Mr. Sudeep Bhatia, Chief Financial Officer: So, for every 100 rupees that we collect, there is about 80% that we have to pay and therefore you can expect almost a similar knock-off there.

Deepak Lalwani, Unifi Capital: Okay, sure sir. And by your comments, you reckon that this INR 60 crores should be receivable from the government but it’s been 5 years since we have received this. So, as we stay conservative going forward as well, should we expect another knock-off of INR 60 Crores minus INR 48 crores ? So that incremental INR 12 crores should come in our P&L?

Mr. Sudeep Bhatia: So, if I go back in history about 15-17 years ago, historically, this particular line item has shown that the dues are collected after 7-8 or 9 years. However, because at this point in time, one would appreciate markets are fast, quarter on quarter results and the listed entity status, so many people are asking about the same things over and over. And therefore, we want to go conservative and therefore our board took this particular decision to take off this particular aspect but at the same time, we maintain that there is no ambiguity with respect to collections. Because whenever we speak with the government, they have been confirming, there have been email exchanges, so I mean there is no ambiguity on that aspect.

Deepak Lalwani, Unifi Capital: Sure. And just a bookkeeping question, the business that we are doing with government for which the receivables stand today, what portion of the revenues do we book on an annual basis for the service we are giving them?

Mr. Sudeep Bhatia, Chief Financial Officer: For this particular aspect?

Deepak Lalwani, Unifi Capital: Right.

Mr. Sudeep Bhatia, Chief Financial Officer): Okay, so this is effectively in a nutshell, if I talk about net of payable is INR 5 crores out of INR 900 crores.

Deepak Lalwani, Unifi Capital: Okay, sure.

Mr. Sudeep Bhatia, Chief Financial Officer: If I talk about on a gross basis will be about INR 15 crores.

Deepak Lalwani, Unifi Capital: INR 15 crores, okay. So, this INR 15 crores accumulated over the last 5-7 years has amounted to a receivable of INR 80 crores out of which you knocked off INR 25 crores. So, we could expect some more to come and then from there on you should be okay.

Mr. Sudeep Bhatia: Okay, so the total recoverable at this point as I said is around INR 60 crores. This is the receivable but at the same time there is a payable and that means the net exposure for us is minimal.

Deepak Lalwani, Unifi Capital: Sure sir, understood. And from the tech standpoint, as you made investments in this quarter, we have seen that in the repairs line item, has any of these expenses being capitalized or all these investments in tech and cloud being captured in the P&L itself?

Mr. Sudeep Bhatia, Chief Financial Officer: So, some of these items are one-off and therefore of the total increase of INR 15 crores, this is not like INR 15 crores, this is not the new quarterly trend that has been set for this particular line item. So, we expect that this particular line item has of the total increase of around INR 15 crores, I think around INR 7-8 crores is one-off and then the remaining 7-8 is based on the growing requirements of the new business verticals. But then one would also expect to see a corresponding revenue growth in those areas.

Deepak Lalwani, Unifi Capital: Okay, sure sir. Thank you. Those were my questions.

Moderator: Thank you Deepak. We will take the next question from the line of ENP Reddy. You may please unmute yourself, introduce and go ahead with your question.

Mr. Reddy: Good evening team. I have a couple of questions. One question is with respect to the profit we make for every transaction we do for E-KYC or Aadhaar, like how much a company earns for every transaction. And the second question is with respect to revenue on how much we will make on ONDC. Right now, I know the ONDC is very starting stage but going forward what are the revenue aspects on that platform. Thank you.

Mr. Sudeep Bhatia: Okay, so in terms of the overall identity business, this is where the millions and billions of transactions pass through. Just to give you a sense in terms of say online PAN verification, the company has done around 250 crore online PAN verifications in the year to date. And therefore, while everything contributes a small portion, in terms of getting to a particular number in this aspect, there is a fixed infrastructure and therefore on that infrastructure whatever number of transactions pass through the company earns revenue. But at the same time while you will see that the overall transactions will grow at a pace of like a 57%, 68% CAGR, because the overall cost of technology, overall cost of processing is much more reasonable when it comes to higher volumes and therefore, we pass on some of that benefit to our clients as well. So, in terms of the overall identity business, if you see the money that the company has made on the top line, almost 60-70% of that sort of comes down and from that we have to take off the fixed expenses and then goes into the P&L. In terms of unit economy, this is like in Paise, I mean one bps, two bps, five bps, etc. So, there are multiple of these services that we provide.

Mr. Reddy: Okay, but there is no finite number as to define how much bps we make for every transaction, right? There is no, is there any finite number?

Mr. Sudeep Bhatia: For every product there is a, for example, in terms of say E-sign it could be anywhere between 4 to 5 rupees, but at the same time if there are larger volumes, then depending upon who we are dealing with and what are the cross sort of revenues that we can expect there can be some subsidy there. In terms of some of the online PAN verifications, these numbers would be in the range of say 6 basis points, 9 basis points. So, depending upon who we are dealing with, what kind of traction there is, that is how we get to our revenues.

Mr. Suresh Sethi: If you see, these are largely B2B businesses. They are done with corporates. This is one on one. So, we have rate cards, which are slab based. And as Sudeep was mentioning, each one of these underlying, these are foundational APIs and DPIs on which you run your onboarding and account opening and all. So, depending on the amount of information you are sharing, an E-KYC would naturally have more cost to it. But again, it would always be a low value, but a high-volume transaction. And e-authentication would have just a yes or no. So, according to the data that is getting shared, there's a price point. And these are rate cards, which are slab based. And each deal is a one-on-one deal with the corporate. So, there is a range of pricing over there.

Your second question, I think, was with regard to ONDC. So, let me just address that. So, see, in ONDC, as earlier I mentioned, one is we are playing at the infrastructure level. So, we are, to simply put, we are the UPI of digital commerce. So, like NPCI, we run the tech stack for ONDC. So, any transaction passing through us, which means the network participants who are using the network, would ultimately have some sort of a low value charge which comes into the system. So, currently, since this entire ecosystem is at early stage of adoption, currently we are compensated by ONDC itself for the infrastructure and network rails that we have built. But down the line, it will be a market facing sort of charge, just like for UPI today, the sending and the receiving bank contribute. On top of it, very importantly, is the fact is where your SaaS model comes into play. So, when we are building, for example, at a core level, which is the level above the infrastructure, we do create adapters and connectors through which buyer and seller applications can connect into the ONDC rails. So, there is a SaaS model over there. Similarly, if somebody is not having their own tech stack, we also provide buyer and seller applications, which is again on a SaaS model. So, in our computation, if you look at networks like these today, if a seller gets onto an Amazon, he'll be paying 20% to the network operator. In our case, naturally ONDC is creating more democratic access. So, we see anywhere between 50 basis points to 150 basis points being the value that we will get out of the GMV that will run on ONDC. So, that is the way we are looking at the business modelling. And as the network grows, naturally, then the amounts will go up in a similar fashion.

Mr. Reddy: Thank you, sir. And one more follow-up question. So, with respect to ONDC new clients being added, will there be any update, constant update from your end in BSE segment, BSE stock exchanges? Because we see a lot of ONDC is being implemented on big players like Paytm, Ola, but there is no update from what we feel like there is no proper update. What are the big market players are coming into this ONDC network? So, this can give us insight on this.

Mr. Suresh Sethi: So, see, this is, this is end of the day, a regular BAU, right? Because each player coming in, it's like adding more merchants. So, it is not a significant event for it to qualify for a BSE declaration from our side. But we definitely keep the market and the respective stakeholders informed as to how the network is going. And at the same time, ONDC as a company also in which we have a strategic investment is also keeping the ecosystem informed about how the ONDC network is growing. So, I think those are the two touch points where you can keep seeing information on growth of ONDC. But at this stage, it doesn't qualify for a BSE reporting as such. You won't see it over there.

Mr. Reddy: Okay, thank you, sir. One final question. Any marketing plans, solid marketing plans for the new products being launched in this previous quarter, sir? Any marketing plan as such for that?

Mr. Suresh Sethi: We've basically done a launch of Protean RISE in the last quarter. If you see, there has been targeted marketing, which is more performance, more marketing towards targeted B2B service providers. And we've also used social and digital media for creating a more broad-based communication regarding the same. Protean RISE basically is our API stack, which is the API marketplace where we've got over 100 APIs put together, which help you to create micro journeys or micro services, or digital lending, onboarding, embedding of account aggregator as a framework for digital data analytics and scoring. So, all these pieces come together and our target market largely remains the BFSI vertical. So, that is where we did a lot of focus in the last quarter specifically. Other than that, we've launched the AI based, AI powered CKYC proposition, which again, we took to the market, but there is more targeted marketing and overall general social media engagement on the same.

Mr. Reddy: Thank you, sir. Thank you.

Moderator: Thank you. There's a question on chat window. For the PAN issuance business, can you talk about the seasonality quarter wise in terms of volumes that we see in the issuance?

Mr. Sudeep Bhatia: Right. So, in terms of the overall issuances in the last quarter, so we have issued about 1 crore new PANs in the last quarter. Second quarter, we did about 1.4 crores. And the 3Q23, which we are talking about, this is almost flattish in terms of the number of issuances.

Mr. Jayesh Sule: I would like to add on the seasonality factor of the PAN issuance. See Q2 is generally a peak period for the reason that it is the income tax return filing peak period, July to September. And it almost starts close to May, June kind of thing, but it's a peak filing period, July to September. So, that's the reason which we find the new applicant, the new filers come for making PAN applications. And then it kind of tapers out and in the third quarter, usually, historically, the volumes have been low.

Mr. Sudeep Bhatia: And then picking up in fourth quarter.

Moderator: Okay, we'll move to the next participant. We'll take the next question from the line of Mr. Atirek Roy. You may please unmute yourself.

Atirek Roy, Individual Investor: Hi, so this is Atirek Roy, an individual investor. So, my first question is, like, is there any government intervention in the price that we charge for any of our services, like capping the price or taking approval from the government before increasing the price?

Mr. Suresh Sethi: Okay, so largely in our taxation business, since we run it as a mandated contract with the income tax department, there is a price reference point which is mutually agreed to with the income tax department as we renew our contracts. And that happens at the end of every contract period. Other than that, the other business where we have a perpetual license as a central recordkeeping agency with the pension regulator. Over there, this business was converted into a perpetual license in 2021, at which stage, now we have three players in the market. And the regulator has taken a soft stance. Each player is allowed to determine their own rate card, which remains constant across all market participants. So, it's a single rate card. And we have the ability to or we have to hold on to the same pricing, what was at that time, indicated by the players for a period of five years. So, we get a chance to renew the pricing. So, it's, I would say, a softly regulated pricing structure, but it is still left open to the market participants, the three CRAs to do whatever price point they want to do their business at. And incidentally, also, in this case, since we've been the CRA for the nation since 2009, we have almost a 98% market share in the NPS business. And in the Atal Pension Yojana, we are the only service provider in the market. Other than that, all other businesses, just to add also, just to clarify, all of the businesses are more B2B and the new businesses are more driven as SaaS models. So, over there, there is no regulatory or government dictated pricing controls.

Atirek Roy, Individual Investor: Sure, sir.

Moderator: We'll take the follow up questions from Mr. Pranav Tendulkar. You may please unmute, sir.

Pranav Tendulkar, Rare Enterprises: Hi, sir. Sir, in your presentation, could you also start providing some leading indicator of ONDC volume, etc. That is one. And second is that also you could include a slide about various implementations in various countries that would be helpful for us. Just a question. In terms of investment that we are doing in various initiatives, we are expensing off, right? It was asked in this call, but I missed the answer.

Mr. Sudeep Bhatia: Yes. So, some of that, which is capital in nature. So, for instance, if you are working towards a particular technology stack, you have deployed people, you have purchased some tools and you expect that there is going to be a platform or a technology stack that will be used. So, that is capitalized as per India's provisions. In case there are any operational expenses in nature or running that infrastructure after capitalization, in that case, that is sort of running operational expenditure. So, in case your answer is, if you are capitalizing everything, we are capitalizing only what is eligible.

Pranav Tendulkar, Rare Enterprises: Alright. How much of our manpower cost or manpower in terms of number is employed in the new three ventures? That's it. That's my last question. Thanks a lot.

Mr. Sudeep Bhatia: In terms of, I will divide this into, say, sales and development teams and then the tech and product teams. So, I think because there is a tech and product team that is, and of course, we are a tech heavy, tech product heavy sort of organization in terms of overall headcount. And, but at the same time there is a portion of their time that goes into and the company maintains those timesheets. And based on that all the computations and the financial accounting is done. So, I think in terms of actual, I mean, there are definitely some people in the lower cadre who will be dedicated towards working on the new stack compared with the other, but there are continuous sort of reallocations. And therefore, it is very difficult to say these number of people are fully dedicated earmarked for the new business verticals.

Pranav Tendulkar, Rare Enterprises: Got it, sir. Thanks a lot. Thanks a lot.

Moderator: Thanks Pranav. We will take a couple of questions from the chat. So, what is the headcount addition in Q3?

Mr. Sudeep Bhatia: In 3Q?

Moderator: Yeah.

Mr. Sudeep Bhatia: Total, I think around 10 odd people in the third quarter.

Moderator: Next is going ahead into FY25, what percentage of business do we expect from the new business verticals?

Mr. Sudeep Bhatia: That will be a forward-looking statement. See, we are in the DPI space and some of these technologies that we are creating, these get their moment after a couple of years. And therefore, while say, for instance, ONDC if you go on the internet, you will see like enough and more about ONDC, how it is sort of growing at multi-X speed. But at the same time, we cannot sort of build that into our projection and therefore our projections remain sort of fairly conservative when we do our own business planning and targets.

Moderator: Thanks. Next is in terms of the margin profile with the new businesses coming in, what kind of a trajectory do we expect going ahead?

Mr. Sudeep Bhatia: In the initial 12 to 18 months until the investments do not get fully offset by the revenues, I mean, so that is usually a breakeven period for any kind of new business. But after that, we expect that the overall margin profile of the company is only likely to grow from there because that is how we are building all these stacks.

Moderator: Thanks. Next is how do you see the adaptability of public cloud stack that you are building? And if also you can share what is the opportunity size on the government business in the public cloud market?

Mr. Suresh Sethi: So, the cloud stack, again, for us, is a significant item. We got a MeitY certification that made our cloud also enable to bidding for government initiatives. And part of our strategy naturally has been to look at the government infrastructure, which today both from a government perspective and the regulator perspective, a lot of regulators are open to having cloud hosted technology or stacks, especially towards infrastructure services. The other side we clearly see an opportunity is in the space of small businesses, startups, which are clearly also looking at having more flexibility in building their businesses. Annually, I think the cloud market, if I get my numbers right, is growing almost at the pace of incremental volume of almost... Do you have any numbers readily available with us? We can anyways share with you. I don't have the numbers on my fingertips, but we can share the numbers with you. But there's a significant more than triple digit growth happening in the cloud space year on year from new cloud consumption.

Moderator: What is the quantum of ESOP cost in 3Q?

Mr. Sudeep Bhatia: In 3Q approximately INR 4 crores that was booked in.

Moderator: What is the quantum of expenses that are capitalized for tech stack and other developments?

Mr. Sudeep Bhatia, Chief Financial Officer: So, overall capex that we have incurred is to the tune of about INR 50 crores of which because this is capex in nature and therefore, we expect that as soon as the some of these, a portion of these are not towards running the usual infrastructure, but are towards creating the new technology stacks. So, you can take this number approximately INR 50 Crores.

Moderator: Thanks. That was the last question. In case management has any closing comments, you may please go ahead.

Mr. Suresh Sethi: I think we are good and I would just definitely say we made note of the fact that you'd like to see more information on ONDC as part of our tech, we'll do that. And we will also give maybe a sharper insight into the new businesses and the market opportunity that we see over there as there were questions about cloud market at all. So, some of that will incorporate into our next presentation. Other than that, nothing more to add. Thank you very much.

Moderator: Thank you. On behalf of Equirus Securities, that concludes the meeting today. Thank you, all the participants and the management team, for allowing us to host this call. Thank you.

Mr. Sudeep Bhatia: Thanks.