eMudhra Limited

Q3 FY2023 Earnings Conference Call Transcript

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MANAGEMENT PARTICIPANTS:

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Moderator: Ladies and gentlemen, good day, and welcome to eMudhra Limited Q3 FY23 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pranav Mashruwala from Dolat Capital. Thank you, and over to you, sir.

Pranav Mashruwala: Thank you. Ladies and gentlemen, good day, and welcome to Q3 FY23 Earnings Conference Call hosted by Dolat Capital. We have with us senior management of eMudhra on the call; Mr. Venkatraman Srinivasan, Executive Chairman; Mr. Saji K Louiz, Chief Financial Officer; Mr. Kaushik Srinivasan, Senior Vice President, Product Development. I now hand the conference over to Mr. Venkatraman Srinivasan for his initial remarks. Thank you, and over to you, sir.

Venkatraman Srinivasan: Thank you. Good evening to all of you. Welcome all of you to our Q3 FY23 earnings conference call. Thank you for taking time out and then joining this call. The earnings presentation is available on our company's website as well as on the stock exchange portals. We hope we have had a chance to review it. Then I'll begin with a company overview.

I would like to briefly summarize the company's overview for all the participants. eMudhra is the company engaged in Trust Services, Digital Identity, Digital Transformation, Authentication and Cyber Security Solutions. Within this, we offer a wide range of services and solutions, including digital signature solutions, identity solutions, the e-authentication, paperless workflow solutions, certifying authority solutions, etcetera. Over the years, we have grown to become a leading provider of digital signature solutions and cyber security solutions in India. eMudhra has a strong preference in the Indian market and is also establishing its footprint in the global market.

We have several accreditations, such as ISO, the CMMI Level 5 certification, EAL-4+ certification and several other certifications. We are recently recognized as a Great Place to Work by the Great Place to Work Institute, which is a confirmation on our organization culture and faith that the employees have reposed on us. So now we will proceed to review our recent quarterly performance. We are pleased to announce that we have maintained strong financial performance in Q3 FY23, and we intend to sustain the growth in the future as well.

Our total revenue for the quarter was Rs. 624 million, a substantial increase of 39% year-on-year, a significant increase in the Enterprise Solutions business contributed to the growth in revenue. And I would like to present the key highlights and project wins of eMudhra for Q3 FY23. One eMudhra ranked No. 1 under Identity and Digital Trust category in H1 2022 in IDC report dated October 2022. eMudhra currently holds 13.3% market share in India on the Digital Trust and Identity category, and it's ranked first among 48 namely Indian vendors in terms of revenue during H1 2022, January to June.

eMudhra in association with IDC organized a close to a round table in Nairobi, Kenya, which was very well attended by senior leadership representing regulators, government, banking, energy and the telecom industry, and it has generated a good interest and lease. We have been mentioned in Gartner Vice of the Customer report for electronic signatures, which was published on 30th December 2022.

We have launched a Trust Services in Kenya with focus on driving adoption of digital regulators in the initial set of use cases in e-governance and BFSI And we have acquired a significant customer, which is the large state-owned entity. There is a Trust Services and e-stamping provider in the Indonesian market for driving e-signature and e-stamping use cases with the introduction of mobile-based digital signatures in the Indonesian market. This is a very significant win in the Indonesian market.

We have rolled out our Certificate Discovery product, which was on now the product inside the time of the public issue for a very large public sector bank in India that will enable key and certificate life cycle management across users, devices, et cetera, allowing the bank to secure their infrastructure using PKI technology. So we are confident in our future structures due to our focus on providing digitally secured solution and our decade experience in the rapidly evolving technology market.

The expertise and commitment to digital security has helped us to maintain the leadership position in the industry, and it has given us the ability to expand our market reach, both domestically and internationally. This experience would be an asset to us as we pursue new business opportunities. And it would be beneficial to our customers as they are able to provide up-to-date and secure solutions. May I now request Mr. Saji Louiz, CFO, to take us through the financial performance of the company.

Saji Louiz: Thank you, Chairman. Good afternoon to all the participants. Let me first take you through the headline numbers. Our total revenue for Q3 FFY23 grew by 39% on a year-on-year basis to Rs. 624 million. The Enterprise Solutions segment contributed most to this growth. Our 9M FY23 operational revenue shows a growth of 25% on a year-on-year basis to Rs. 1,719 million. Our EBITDA for Q3FY23 is Rs. 224 million year-on-year growth of 27% with a margin of 36%.

The growth and margin improvement were driven by the Enterprise Solutions segment and operational efficiencies. Our profit after tax grew by 46% on a year-on-year basis to Rs.152 million with a margin of 24%. Our 9M FY23 EBITDA and net profit were Rs. 667 million with a margin of 38% and Rs. 454 million with a margin of 26%, respectively. We remain dedicated to adding value to our stakeholders. We are committed to delivering high-quality services and are confident in our ability to continue growing and expanding our business. We are now open to answering any questions you may have about this recent performance.

Moderator: We have a first question from the line of Vivek Sethia with HDFC Securities.

Vivek Sethia: Good evening, everyone. So just a few questions with regards to the operating metrics for both Trust Services and Enterprise Solutions, like if you could provide the breakup of channel partners and customers for both our services and enterprise as well as within Enterprise India and globally?

Venkatraman Srinivasan: If you see the breakup on the number and the number of partners and the retail customers. If you see the number of partners, the number of partners go to almost to 1,06,000 or 1,07,000 partners. And the retail customer, again, it grew almost 2,36,000 retail customers. But because these retail customers, it has a different kind of product mix, that's way this time in the presentation, we didn't put because we thought it was not making much sense to just to put the number of retail customers. Otherwise, retail customer has grown.

And also retail revenue, if you see last quarter, this Q3 FY23 to Q3 FY22, almost 31% retail revenue growth has been there. So that we continuously retail revenue growth is happening. On the partners of the Trust Services, also I'll brief you in terms of the numbers. So if you see, though the number of partners increased and also the number of digital signatures have increased by around 10% to 15% from the channel business. But the price has considerably declined.

Almost if you see our 1-year price declined by almost 35% because the existing other Certifying Authority also reduced and four or five new Certifying Authority have also come. So they have also gone ahead and reduced the prices. So it has reduced by almost 35%. So the 35% reduction has been taken care of by a 31% increase in the retail. Then the other thing is almost the SSL business has really started. So almost in this quarter, we could do almost Rs. 4 crores of SSL business.

And the other thing is the eSign and eStamp business has also picked up. So, while there was a 35% drop in the price of the conventional digital signature business that is compensated by the increase in retail, increase in SSL business and increasing the eSignature and eStamp business.

That's why the overall revenue from Trust Services is almost to remain at a similar level of Rs. 21 crores, Rs.22 crores and maybe even in the next quarter, I don't think much increase will happen in the Trust Services business because the newer Certifying Authority may further reduce the price by 10- 15%. But we are very confident that it will be offset by the further growth in the SSL business and also in the eSign business. So that's the Trust Services business as a component of the overall business has not increased, and it may almost remain a little bit more than the last year level. So, this is on the Trust Services business.

Vivek Sethia: Okay. So, on the Trust Services side, how do you see this mix panning up like in terms of DSC and SSL, if you could just repeat that part?

Venkatraman Srinivasan: So, DSC last year, SSL business was not at all there because around last November, December only we got all the accreditations and the enrolment in the Apple and all that thing. So now then we started recruiting the people for the SSL. We have put a department in place and all that. So that's where even in India and globally that started improving. So over time, what will happen, the retail DSC definitely is increasing, then the SSL increase eSign, eStamp will increase, but the conventional DSC sold through the channel. There also volume may not decrease but due to pricing, the overall revenue may decrease. So that's where the mix will change.

Vivek Sethia: Okay. So these competitors, which you spoke about that have come up like what you said about the reduction in revenue from channel partners. Are these like domestic or are these global?

Venkatraman Srinivasan: No, they are domestic only because the Indian digital signature business is fully run by the domestic people only. They are small, small companies which have come domestically, not from the global people.

Moderator: We have next question from the line of Abhishek Agarwal with Naredi Investments.

Abhishek Agarwal: The first question, what is the client retention ratio in trust service and Enterprise Solutions?

Venkatraman Srinivasan: The client retention ratio and trust service is very good because the overall, the number of customer retained is very and also the volume of the digital signature part has increased by 10% to 15%. The key issue is the price because of the competition. So that way, there is no problem with the client retention ratio. Similarly, on the Enterprise Solutions also all the clients have been retained, almost it is more than 96%, 97%, and new client has also been added. So returns on ratio has not been a problem.

Abhishek Agarwal: Okay. And second question, what is the contribution of retail in Trust Services?

Venkatraman Srinivasan: In retail, if you see, the contribution was 30% in the last year, 70% in terms of revenue are coming from the channel and 30% from the retail. So now what has happened is almost it has become kind of 55, 45 kind of thing. If you take only the conventional DSC business, the SSL business and other things are different because in the conventional DSC channel revenue -- the per unit realization has reduced so that percentage has significantly shifted in favour of retail.

Abhishek Agarwal: Okay. And sir, how many digital signature will be issued in this quarter? And how many of these are retail digital signatures? Because in retail digital signature, our gross profit margin is higher.

Venkatraman Srinivasan: **Yes.** Generally, if you see per quarter, almost around 5.5, 6 lakh digital signatures are issued. So out of that, almost you can say some 30,000 to 35,000 signatures are retail signature. So this is what generally happens. So now because the retail is growing, it could be 40,000, 45,000. And also now we have started issuing retail eSign also. So that could be another Rs. 5,000, INR 6,000. And the conventional channel signature, which is issued is out of the 5, 5.5 lakh if you reduce this 40,000 balance that 5 lakh or 4,90,000 conventional channel, digital signature will happen. But there, the price has, as I said, has reduced.

Abhishek Agarwal: Okay. And sir, last question, what kind of EBITDA margin are you expecting in Q4 and the next financial year 'FY24?

Venkatraman Srinivasan: For Q4, we expect to maintain the current EBITDA margin, so it should not be a problem. But one thing is for the next year, 'FY24, we are also trying to grow this US market grow a lot of other foreign markets. So, we are recruiting. We have recruited our US market head. We are recruiting 5, 6 salespeople there. We are recruiting some people in Kenya, then we are recruiting people in Saudi Arabia everywhere. So, because of that, the salary cost may increase and other office maintenance costs may increase.

And that may but those may not lead to immediate, it will lead to results, but there could be a 3-month 6 months lag or a little more lag so that, the EBITDA margin next year could reduce by

1% or 2%. But I don't think -- and similarly, the product sales also may increase, but taking a mix of both, there could be some reduction of 2%, 3%, but I don't think a major reduction will happen.

Moderator: We have next question from the line of Ravi Mehta with Deep Financial.

Ravi Mehta: On the pricing front, are you seeing the retail prices holding up or some pressure there?

Venkatraman Srinivasan: No, no, retail price is holding up. There is no problem because it's at the retail level, it is not -- DSCs not a price-sensitive product. It is only this major channel partner through whom all the competitor suturing authorities are trained to sell. That's where they are applying rivers pressure to reduce the price. Whereas the other people are not selling direct retail. Mostly we are the only people selling direct retail. And at the retail level, it's a once in a 2-year product and used generally by director, company secretary and CFO like that. So that trade is not a very price-sensitive product. So, retail prices are definitely holding up.

Ravi Mehta: And any lever to increase that to offset margin pressures? Is it possible?

Venkatraman Srinivasan: Yes. That is what we are trying this, I said, 31% increase in retail business has happened. But because of the reduction in the channel price considerably reduction 35%, it has offset the reduction to some extent, but it has not increased the margin. So that's what has happened. It has not reduced and retail alone had increased, probably it would have increased the EBITDA margin, which has not happened because of both of offset.

Ravi Mehta: So just a small clarification. The retail revenue that grew by 31% as per your opening commentary. Is that fully volume driven or there is some price element also into it?

Venkatraman Srinivasan: Mainly volume driven.

Ravi Mehta: Sure. And another question was on the enterprise side. So, we were expecting a good uptick in emSigner as a product, but probably looking at the Q3 numbers, it looks like the uptick has not yet come. So directionally, any road map on that?

Venkatraman Srinivasan: No, a lot of uptick has happened so almost if you see, ESS India from Rs. 17 crores it has gone to Rs. 22 crores within a quarter, which is a significant increase. And in the foreign geography also increased there, but because the last quarter went from Rs. 9 crores to Rs. 19 crores to almost more than 100% growth, comparatively, this quarter appears a little lower, but otherwise, good uptake is there. And even in American market, we have penetrated the Indonesian market, we have penetrated. So, when you see just quarter-to-quarter, a little bit aberration happens, but overall, a lot of uptake is there.

Ravi Mehta: And some color across the products in the enterprise side like emAS and emSigner and emCA. So...

Venkatraman Srinivasan: emAS is only going in the Indian market that continues to go in the Indian market. emSigner a lot of wins in the Middle East, African market and also a good will in the US market has happened. In Indonesia, also, we have won some one big company that has already won, but that revenue may be realized in the next quarter, not in the last quarter. So emSigner has almost 50% to 60%, it cost to emSigner. Then emCA also, a lot of win is happening in the defense section. And also in some of the foreign countries emSigner, emCA is winning. So that way on both the segments, there is a good uptick.

Ravi Mehta: And in this segment, there is no pricing pressure or any competitor – so it's only in the DSC?

Venkatraman Srinivasan: No, no. It's only in the DSC, yes.

Moderator: We have next question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: So my question is on the pricing aspect for the Trust Services. So, in terms of the retail pricing and the channel on the pricing, what is the difference in terms of the retail and channel pricing. And as the channel pricing has dipped significantly so have we seen such kind of pressure earlier also from the channel or this is the first time we are seeing this competition there?

Venkatraman Srinivasan: Earlier also, we have seen -- if you see the last 6, 7 years, the price varied from so much we so it will be 10 years back, it was even Rs. 2,000 -- then from there, it went down to Rs. 300, then went down Rs. 185, then went down to 125, then almost it became kind of unviable level, then everybody joined and then again increased to Rs.375 from Rs. 375, again, came to around Rs. 250 kind of level at an average level when we were doing the public issue. So, after that -- 4 or 5 more Certifying Authority have come.

And to penetrate in the market, they are reducing the prices. So that's where they are going down and going down by 35% or 40%. I think maybe one or two more quarter, they may even go down a little more, which we have to fight. And then over time, it will become unviable and some of the Certifying Authority will move. So, like that, the cycles, this happens. It is not the first time.

Amit Chandra: Okay. Sir, just to understand better. So, in terms of the issuing authority who are eligible to issue this license through the channel partner network. So, what are the enterprises? And what are the kind of companies which are coming in and selling it at a lower price? And what is the -- our pricing in terms of till like what level the pricing can actually go in and the pricing war will settle at what pricing levels. So that's what I want to understand in terms of what extent it can.

Venkatraman Srinivasan: Currently, you see when we were doing this prospectus and exercise, the price was around 250, we had taken around 245. Now the price has gone to around s. 160 kind of level. And earlier, if you see 3 years, 4 years back, prices have gone down up to 110 level and then, again, start up to 375. So, I feel still it can go down 110, 120 level also is possible.

So, which is what we should be ready, and then we should give the full competition to them. And then at that level, some three, four of them who are very small and do not have the numbers may move, then again, the price can increase. It may not significantly affect us to us to that extent, we will definitely shift in retail, and our enterprise increase will also compensate for the decline also.

Amit Chandra: And can there be a reverse shift that retail can shift to the channel network because of the pricing difference, is there any difference in terms of the offerings, if anyone buys directly and through a channel?

Venkatraman Srinivasan: I will explain this still then you can understand. In the channel, what is happening, there is a first level partner called RA, then there is a second level partner called the Sub RA. Then there are third, Sub RA themselves are several times chartered accountant. Then there is a third level who are chartered home company secretary. Then in the fourth level is retail. The first level in the country itself there are some party people. So, who are commanding and all the certifying authority just to try to sell to those 40-50 people in a big way, then the next level they sell not so much directly to the next level, third level, which is what we are attempting.

So, from the first level to second level there will be some pricing reduction, but from the second level to third level and to the end level generally there is no price reduction. So, the price reduction, so even in the last seven eight years, when the prices have varied from Rs. 100 rupees to even some Rs. 400, Rs. 500 and again come back to Rs. 300 and again whatever time the end user prices remain that 1,500 to 2,000 only so it is not translating into the end user price, I think.

Amit Chandra: Okay. And sir, in terms of the Enterprise Solutions business, so how our enterprise business is linked to the IT services on all the growth and the slowdown that you have seen in the Enterprise Solutions outside. So obviously, it has increased significantly in the last 2 quarters, that has come off. But is it an indicator that the slowdown in the IT services globally will have an impact on this revenue segment?

Venkatraman Srinivasan: No, no. IT service and this may not have any impact. If at all due to budgetary constraints, the new product expenditure, they reduce, then it can have a good-- our product is all really by getting into our product, they will save a lot of money. So that's why I don't think the postponement of decision will happen. And in the last quarter again, because the previous quarter was 100% growth, there is a little bit reduction in the last quarter.

It is not that the growth has slowed down already. But the revenue booking also is based on the when you are delivering, then when you have completed the various other things are there. So that's where it is. On the overall trend-wise, we are very sure from last year Rs. 36 crores, Rs. 37 crores this year, we may reach almost Rs. 69 crores-Rs. 70 crores. So on that there is no doubt at all on the international business. So, it may not follow the IT services pressure or anything like that.

Amit Chandra: Okay. So, on a steady-state basis, what kind of the growth that we can expect from the enterprise business? And also, in terms of the geographical expansion that you are planning, so which geographies you're seeing the highest potential in terms of expanding the enterprise business?

Venkatraman Srinivasan: No. We have been whatever growth rate we have been growing at 37%, 40%. So, the enterprise business, we feel that much growth is possible.

Moderator: We have next question from the line of Tushar Sarda with Athena Investments.

Tushar Sarda: I was just going through your presentation. I'm not studying the company in great detail previously. But what I see is that your Trust Services are not growing as much as the Enterprise Solutions and also the India business seems to have flattened out, whereas international is growing very fast. So, if you can explain this to me. I've joined the call a little late. So, if you've already explained my apologies.

Venkatraman Srinivasan: Yes, yes. I already explained. Anyway, I will repeat.

Tushar Sarda: So sorry there are too many calls going on.

Venkatraman Srinivasan: And structurally, there are 2 things. So, one is the main digital, conventional digital signature which is sold through channel and sold through retail. What is sold through channel, in the last one year there has been about 35% price reduction. So that's where even in spite of a volume increase of 10% to 15%, there is an overall reduction in the DSC business which is sold through channel. This got compensated by a 31% increase in retail and also some amount of SSL business and eSign business.

So that's why the overall trust service business almost remained stagnant over the last 2 quarters and also stagnant compared to the early area. So this is what is in the Trust Services business. And again, what I explained is the trust service through channel, there could be further price reduction. But with our retail increase and the SSL increase and the eSign increase, we are poised to maintain the overall Trust Services business. It may not grow in a big way, but it may not de grow also. So, this is what I explained earlier.

Then coming to the enterprise business, enterprise business in India also, it has grown and abroad also, it has grown. So if you see India year-on-year from almost Rs. 147 million, it has grown to Rs. 222 million, which is almost 50% growth over the one year. Similarly, in abroad also in 1 year from 94 million, it has grown to Rs. 169 million, which is a good growth, even 9-months-to-months basis. There is a considerable growth in the India business as well as the overseas business. So the enterprise business, there is no problem on the growth from the enterprise business.

Tushar Sarda: So, what is the growth you expect in Enterprise business going forward? Will it continue the same growth rate?

Venkatraman Srinivasan: Yes. Almost last few years, we have grown at 38%, 40%. I think similar growth should be possible.

Tushar Sarda: And who are your main competitors? And what is your market share in the enterprise business?

Venkatraman Srinivasan: Enterprise is a very large business. And predominant competitors are global competitors, and there is no specific this is the total value of the market or something like this. So that the value market is also huge. And if you see segment-wise competition is different. If you see the paperless workflow solution, DocuSign and Adobe is the competition. And then if you see the CEA Solution, there is an Access and then there is a BrainKey and then One More Interest, they are the competition.

And then if you see the authentication solution, there is a solution called Okta, those kind of solutions are the competition. So in different different segments, different different competition. And if you see conventional digital signature, it is predominantly Indian competition, which is the -- there are other Certifying Authority such as Sify, then PantaSign, then there is Verasys, Capricon. So these people are the competitors.

Tushar Sarda: Thank you. **Moderator:** We have a next question from the line of Varship Shah with Envision Capital.

Varship Shah: Year-on-year, why is it in a very sharp increase in operating expenses and other expenses. This is what the pro EBITDA margins falling. Could you just give to some color on that?

Venkatraman Srinivasan: Yes. Because as we explained earlier, we are trying to grow in the international market. So we have set up an office in the US and we have a head for the US market, and we have hired some salespeople that then we have created our office in Qatar, Saudi Arabia, Kenya and all this. So we have hired people there. So because of all this and also strengthening the setup in India to back our international markets, actually these costs have increased but this will have the corresponding effects, maybe there may be a lag of 6 months lag of 9 months, but the effect will be felt at the time. So that's where the costs have increased, and the EBITDA margin is slightly lower.

Varship Shah: Have they been incurred or will they be increased going forward as you try to grow in these markets.

Venkatraman Srinivasan: What is that?

Varship Shah: So all these costs have you already been incurred, but will they increase further as we try to grow in these markets?

Venkatraman Srinivasan: Cost will increase, correspondingly, revenue will also increase. We have only started in all these geographies. So in all these geographies, when the revenue further and further increase, we have to put more people, but that will be taken care of by the revenue.

Moderator: We have next question from the line of Gautam Rathi with CWC.

Gautam Rathi: So we understand the enterprise business is a large part of your growth driver going forward, right, when you think 3, 5 years out. And that is also the exciting part of the business. And one of the previous calls, I guess, a couple of quarters back, you had explained a large part of the revenue today in the enterprise business is more of licensing, right, where you give the solutions on-prem. And that's like 80% is onetime and then 20% is something which is like a growth on top of a maintenance kind of thing, right?

And so can you just help me understand a few things around it. One is, there was a clear focus by the company to move more and more customers towards the cloud journey, right, instead of giving on-prem solutions towards the cloud-based solution which you have. So can you give some color around it, what's the proportion of incremental customers coming on the cloud platform versus on-prem today?

Venkatraman Srinivasan: No, incremental number of customers on cloud coming will be high. But in terms of the revenue, the conventional license model will be better because in licensed model in several foreign jurisdiction, this emSigner. We still starting from $200,000 to sometime $400,000, $500,000. But the cloud customer, it will be some $100, $300, $200 per year kind of thing per customer. So that's where I think in the cloud, we have now got some 1,500 to 2,000 customers, but that will not still be a very significant revenue.

But in the cloud, another model we are playing in America for a large customer, private cloud models are yearly license we gets so that there will be a recurring revenue also. But at the same time, the enterprise assets uses this cloud in a private way. So there also the revenue could be more. So in our first customer per year, we got $300,000 revenue in that model. So that's so depending on the model, it will fluctuate. In cloud what will happen, the number of customers could be very high, but the revenue may not be as high until we reach a very big number.

Gautam Rathi: Right, right. And how do you guys internally think going forward, right, when you think about the next 3, 5 years, do you really want to be more of an on-prem player? Or do you want to move shift more towards the cloudification journey for your customers?

Venkatraman Srinivasan: We want to be both because our industry, two things are there. Main BFSI industry want on-prem or private cloud. So they don't want to get into public cloud because of the regulatory reason and all that. So that is where we are having a strategic advantage because we have built a specific BFSI version, which is not there with the DocuSign or the Adobe and all that other companies.So this industry most probably may go to private cloud or the on-premise, but the other industries can go to the general cloud. So that's where we are trying to capture both the industries by offering different things. So over time, it may -- we may not be able to fully shoot, but it may get into a still 60% on premise and private cloud and 30%, 40% public cloud.

Gautam Rathi: Understood. So just the reason why I wanted to understand is the part which is on-prem is more of a onetime business, right, for 5 years and then you need to keep on adding customers every year to get the growth in that business. Whereas the licensing -- the cloud would be more of a recurring kind of nature. That is why I just wanted to understand this better.

Venkatraman Srinivasan: And also the disadvantage is that now in a lot of cloud, you can pull from one cloud and go into a competitor cloud.

Kaushik Srinivasan: Just to further add, even in the on-prem licensing, we put restrictions on the number of users. Add more departments, more users, they typically have to buy more licenses even in the on-prem.

Gautam Rathi: Okay. Can you help us understand if you want to give a customer cohort, right, how does this generally move? So if they have bought Rs. 100 product today. So how does this customer -- when you retain it over the next 3, 4, 5 years, how does this journey happen? So 100 goes to 20 next year and then you keep on adding products to take it to back to say some 40, 50 levels? Or how does it happen?

Venkatraman Srinivasan: No, no. Initially, they won't go even on an on-premise model. They may not go for all the department together. They may go for one department. So they say they spend 200. Then they may go on adding many departments so that itself may go our first bank in Middle East, almost from went from $200,000 to more than $1.5 million like that it increases. Very few people stop with what they have and only 20% maintenance they give, but number of almost 50% people go for additional license, go for additional country in Chile for own countries then go for multiple country. So that's revenue keeps increasing.

Gautam Rathi: This is the journey which you're saying, right? So can you give some numbers around it, like a net retention ratioor a similar number year-on-year, how does it move customer cohort rather than a customer which we are taking as an example, if you just take a cohort of all the customers during the year, how does that move, if you can give some numbers around it.

Venkatraman Srinivasan: So from existing customers, how much revenue increase and how much is new like that?

Gautam Rathi: Right, right. Like over the years, right?

Venkatraman Srinivasan: I cannot readily give you that number. We will prepare and then.

Gautam Rathi: Maybe I can connect off-line. Its ok, Thank you.

Pranav Mashruwala: Yes, this is Pranav. So just, could you help us get some more light on some of the new products that are under development and what stage they are? And when can we expect to launch them...

Venkatraman Srinivasan: We have three new products we envisage in the prospectus. If you see, one is the certificate discovery product. And the second is the IOT certificate products and the third is the remote signing product. This Certificate Discovery product almost developed fully. Fully in the sense maybe 90%-95% developed, and with the demo and POC everything shown, we have got a first large win also. It's one of the large public sector banks in India, which has given the order for this particular Certificate Discovery product.

So with that we hope a number of and also one or two other larger companies are in the pipeline for such product. So with that we feel that we have the next quarter we will be able to sell those products and then get revenue out of these products. Then the second product is IOT certificate and then the remote signing product. They are all in development so they may take another three to four months to develop. So most probably by April, May of this year those can be launched.

Pranav Mashruwala: So we have identified the target markets and target clients for these products?

Venkatraman Srinivasan: Yes, target client set that is known. And once the product is ready, then we can market that. Even for the Certificate Discovery products, our target client is known and we have already started marketing to the target clients.

Pranav Mashruwala: Okay,great.

Venkatraman Srinivasan: And all the integrating ourthis discovery product with our emSign. So that once it discovered, the certificate expiry is discovered automatically, it can also enable sales from the MSAN. So that process also started now.

Gautam Rathi: Sure, sure. And so on this, some of the existing current that we have any new use cases that we can think of our client market to have another potential line of revenue. So help us...

Venkatraman Srinivasan: Please get your question clearly.

Gautam Rathi: For some of the existing products, do we have developed any new use cases or , let's say, it may be in some another industry

Venkatraman Srinivasan: No, no, that's a continuous process. So anywhere use cases for the existing products are also done. And along with the existing product, the new product is also not a completely different line between the same line only. We have same cyber security and digital transformation line only is also that. So that way, this will also complement the existing products.

Moderator: We have next question from the line of Sarang Sanil with RW Investment Advisors.

Sarang Sanil: Sir, I believe you said that the Q4 margin would be in the same range as Q3, which is about 36%, right?

Venkatraman Srinivasan: On that exactly nobody can predict it. I can say it should be around that.

Sarang Sanil: No, sir, I asked is the cost. In Q2 call, the guidance was that in H2, we'll have 38% to40% margin. And I understand the operating expenses went up because we are setting up offices in different countries and employing different people. So, I want to understand, so we would be below 40% this year on the margin front, right? And one more thing. I believe that our margins would improve it is better. We have retail Trust Services, enterprise and outside India business is growing and less of channel partners. So sure, 2 parts that is enterprise and outside India has been growing very well, but still, our margin has been somewhat disappointing. But going forward, you would have the same strategy, right? Retail enterprise and outside India, I believe?

Venkatraman Srinivasan: Though, they are growing. As I said, the channel -- the pricing channel has fallen down by 35%. In spite of the 35% reduction in pricing the channel, we have been able to maintain the margin around this. So that's what one has to include that also if that reduction had not happened. So this profit would have been much, much higher.

Sarang Sanil: Because we have volatile pricing in the channel partners, we are uncertain about the margin guidance and also maybe on the revenue front because of the pricing. But going forward, you would on going forward, you want the enterprise and outside India business also to grow faster. Right?

Venkatraman Srinivasan: And also the retail DAP business.

Sarang Sanil: Sir, any price hike that you would be taking because we already have a pricing premium or domestic players in the retail side of DSC. Would you be willing to take any more price side?

Venkatraman Srinivasan: No. price hike, we will not take at this stage. We will try to more aggressively to sell to retail to increase in number rather than price hike.

Sarang Sanil: So the same strategy as volume over...

Venkatraman Srinivasan: **Yes.**

Moderator: We have next question from the line of Gautam Rathi with CWC.

Gautam Rathi: I just wanted to understand one more thing. So in your presentation, you called out that you work with 10 out of the top 10 banks, right, in India for the eSign product. So just wanted to understand when you think of the product...

Venkatraman Srinivasan: Different, different products.

Gautam Rathi: Okay. It's for different...

Venkatraman Srinivasan: Yes, maybe [emAS 0:47:23] product in some bank in emSigner product to different products.

Gautam Rathi: Okay. So when generally these banks work with you, if I take a product which is eSign, right, if a bank is working with you for eSign, so is it that you are the sole, sole supplier for eSign for that bank? Or is there multiple players also with the bank? And they have the wallet share on them?

Venkatraman Srinivasan: Take multiple players everybody because banks are all bigger entity, they don't want to depend on single supplier. So you may take a panel deal also or there is another company who was reselling the NSDL esignature. So they will take. But over has taken emAS solution on-premise, there, there is no compression so there just to use only our emAS solution. They are not taking any either solution, but in nature, taking multiple vendors is always possible.

Gautam Rathi: So in eSign generally, there are multiple suppliers. So do you have -- so what I understand is eMudhra has one of the best eSigns in India, right, as an Indian player? So do you have some data set around what was the wallet share for, say, one of your bank, top banks maybe three years back? And what would be it now? Is it like the direction is it moving towards like a higher share you have been able to get in that bank?

Venkatraman Srinivasan: So wallet share, we do not have because nobody shares the data. But three years back, if you see because of the other uncertainties at the time, we were not offering leasing services in between for some time started getting our volumes are constantly improving. That's what we are monitoring

Gautam Rathi: And just one last thing. In your DRHP, I was just going through -- so there was a company which had a large concentration BlueSky Infotech. So I just wanted to understand how does it work?

BlueSky Infotech is also a company which buys DSC from you in wholesale, right, like a normal reseller, any other retailer. It's the same pricing? Or is there a different mechanism there?

Venkatraman Srinivasan: No. It's the same pricing. But gradually, consciously, we are reducing the purchase from purchased by BlueSky Infotech. So that's why if you see the over the years, in this year-end, the overall transaction with BlueSky could be much lower than what it was last year.

Gautam Rathi: But I understand that is one of the group companies, right?

Venkatraman Srinivasan: Yes, correct.

Gautam Rathi: what is the difference? Why can't that be taken as a direct customer? Why can't that be in-house rather than going through that channel? How does BlueSky Infotech help us?

Venkatraman Srinivasan: No. It was for historical reason, it was set up. This has been explained earlier also will again explain to you because we wanted to understand because we were really selling only channels, you see three, four years back, we were only selling channel. We were not selling retail. We are not selling to the second-tier partners also. We are selling only to major partner.

So -- but at the time, the major partners several times when the price problem came, they create trouble. So that's what we wanted to understand the retail business, understand the partner business and all that. So that's why we comment to that on a totally arms basis. So then -- and at that time, the purpose was also there because the rules of approving the digital signature were all a lot of physical papers. So physically paper need to be collected. It has to be attached by sub RA, RA and all that. Then in 2019, and all these regulations also changed. So that way the need for this has gradually change. So that's where going forward, we feel directly a lot of things can be done by eMudhra itself. So that's why the BlueSky may not be doing that.

Moderator: We have next question from the line of Sarang Sanil with RW Investment Advisors.

Sarang Sanil: Sir, anything to call out on the other expenses side, because we see on a Y-o-Y basis, it's grown. Anything to call out that on other expenses side?

Venkatraman Srinivasan: No, the other expenses because, as I said, because we are establishing a number of offices that were -- and more people are there with the company, let's say, the other expense also going up. So other than that, there is no specific particular reason for it to go up partly.

Sarang Sanil: Sir, what would be the main component, the other expense?

Venkatraman Srinivasan: All other things, other than salary, whatever is the all electricity bill and the bus transportation, what we provide to the employees, then marketing, so many things.

Sarang Sanil: Because when we've seen the annual report on the other operating expenses, we could see mainly the commission was a big component. But now that you said that setting of office

Venkatraman Srinivasan: Operating expense is separate other expense is separate. Operating expense is a direct expense relating to sales, which consists of two, three things. Whenever on any sale, any hardware component is involved, we purchase those hardware, we don't manufacture it, so that becomes an operating expense.

Similarly, whenever pay any partner commission for a particular sale. So those things, for example, even an enterprise, we several times pay 20% partner commissions. Similarly, in channel also, we pay partner commission. So those commissions are all directly related to sales. That is what becomes operating expenses. The other expenses or the other administration, selling and various other expense.

Moderator: We have a next question from the line of Deep Master with One Up Financial Consultants.

Deep Master: I just wanted to understand a bit more about your enterprise business in terms of kind of how it be positioned versus someone like a DocuSign. So if you could kind of just kind of describe where you would compete with someone like DocuSign or sort of where you rank on the enterprise space versus some of the other major players? What are the sort of USP that we can kind of bring to large enterprises?

Kaushik Srinivasan: Yes. On the enterprise solution, I think this is more in context of emSigner, which is our e-signature working on paper transformation product. There, in terms of basically how we are positioning ourselves, DocuSign position itself as a general-purpose contracting platform, whereas we have sort of verticalized the whole offering to suit specific industries and more specifically, industries such as banking and financial services, where we have a specific version. We also offer sort of on-prem private cloud deployment, ability to give a lot of flexibility to clients, which DocuSign does not offer because completely on shared cloud. And our whole platform relies on this identity backed digital signature. So when you sign a document, SSC, there's an identity link like Adhaar or Pan or whatever, DocuSign is a simple type you sign electronic signature.

So except in US markets, pretty much the rest of the world relies on this identity backed digital signature for authenticating or basically ensuring retail validity of transactions. And that's what gives us sort of unique advantages when we go and position to all of these regulated industries and primarily, the focus is on BFSI, right?

Similarly, now we are undertaking efforts for pharma, insurance. Because pharma again also, there's a lot of regulation, there's compliance requirements and also insurance also that are -- which are again a regulated industry, right? So that's how we are distinguishing ourselves. As far as the recognition goes on Gartner, we are sort of an alongside some of these global players as a global full service enterprise workflow platform. And the kind of customers we've got over the years are also fairly marquee names with which we are able to penetrate various markets.

Deep Master: So who would the other payers be on the identity backed side in terms of digital signatures and authentication?

Kaushik Srinivasan: Sorry, come again?

Deep Master: Who will the -- so apart from DocuSign like you said is not in the identity backed digital signature. So who are the key players in that we sort of compete with on that side in the non-US markets?

Kaushik Srinivasan: Non-US regionally, there are smaller players who build some small platform to cater to specific use cases, but nothing is comprehensive as the one that we have or for instance, the other big companies are.

Deep Master: So there's no large global players sort of spanning across geographies with this particular offering?

Kaushik Srinivasan: Yes. So it's DocuSign and typically Adobe. Adobe Sign also is another product. But these are the two names that we typically encounter when we talk to global companies.

Moderator: Thank you. As there are no further questions from the participants, I would now like to turn the call over to the management for closing comments. Over to you, gentlemen.

Venkatraman Srinivasan: So I would like to thank everybody for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with our Investor Relationship Advisors. And thank you once again, and have a great day. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings

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