

Transcript

Conference Call of Lycos Internet Limited Investor Relations

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. My name is Maria and I will be the operator for this conference. Welcome to the LYCOS investor conference call. The duration of this call will be one hour. For the duration of the presentation, all participants will be in the listen-only mode. After the presentation, a question and answer session will be conducted for the participants. I would now like to handover the conference to Mr. Rajesh who handles the Investor Relations; thank you and over to you, sir.

Rajesh K: Thank you. Hello everyone and welcome to LYCOS Internet Limited's earnings call to discuss the Q4 and FY15 financial results. I am Rajesh from Investor Relations team. Joining us today on this call are our chairman and Managing Director Mr. Suresh Reddy along with our CFO Y. Srinivas Rao and joining us for the first time in the Investor conference call Mr. Vijay Kancharla who is the co-founder of LYCOS. Mr. Vijay also serves as chief innovation officer of the Company and a Director in the Company. We will start the call with financial performance of the company with Mr. Srinivas for the recently concluded quarter and full year. Subsequently we will hand over the call to Mr. Vijay who will talk about innovation and market place of the industry and Mr. Suresh will give us a brief on the Company's operation and business performance. Before I hand over to the management, I would like to remind you that anything we say which refers to our outlook for the future is forward looking statement, which must be read in conjunction with the risk that company faces. The statement includes description regarding intent belief or current

expectations of the Company with respect to the results of the operation and the financial conditions of the company. Such forward looking statements are not guaranteed for the future performance and involves risks and uncertainties and actual results may defer from those in such forward looking statements, as results of various risks and uncertainties relating to the statement include but not limited to fluctuations in earning, the Company's ability to manage growth, competition, government policies and regulations etc. The Company does not undertake to revise any forward-looking statement that may be made from time to time on behalf of the Company. Now I would like to introduce Mr. Y. Srinivas Rao to take this call forward.

Y. Srinivas Rao: Hi, good afternoon to all. I will give you a brief on the financial highlights of our company. Regarding overall revenues for the year, we achieved a turnover of 1957 crores as against 1673 crores in the last year. There is an increase of 16.95% against last year. The EBITDA for the year was 585.89 crores as against 368.65 crores last year; an increase of over 58.92% year on year. The profit after tax for the year was 342.22 crores as against 262 crores last year; an increase of over 30.6% on year on year. When we come to segment analysis, the revenue from digital marketing segment for the year was 1493.92 crores as against 1215.71 crores an increase of 22.88% on a year on year basis. Revenue from software development segment for the year was 463.08 crores as against 457.65 crores. There was an increase of 1% on a year on year basis. The earnings per share for the year is Rs. 7.19 as against Rs.4.64 last year. This is the brief summary of the financials for the year.

Now I come to the other areas. I believe there has been queries regarding fixed assets, increase in the balance sheet. Now I will explain more details in this regards. I know as most of you are aware the requirements of SEBI. As per the SEBI requirement, as part of the

audited or unaudited financial results for the half year and every year end Company is required to submit a statement of assets and liabilities at the end of the half year in the format as prescribed in the listing agreement. As per the format given by SEBI, non-current asset will be having six sub categories like fixed assets, good will on consolidation, non-current investment, deferred-tax assets, long-term loans and advances and other current assets. All the assets have to be shown under any one of the aforesaid sub-categories. Any expenditure incurred in the nature of capital will be capitalized and has to be shown under fixed category. During the year 2014-15, we have spent for creation of new products or expansion of facilities, like on LYCOS Media and Rs. 36.88 crores, LYCOS Entertainment Rs. 63.96 crores, LYCOS Life Rs. 64.04 crores, IPs development Rs. 48 crores, new branches expansion Rs. 56.8 crores. We are happy to inform you that during this year we have done very well and so we are going for expansion. Out of our current year profit, we have gone for expansion and we earned an EBITDA of Rs. 585.89 crores after meeting all the regular expenditure, we have generated Rs. 80.91 crores as free cash flow this year, out of which we paid off the bank loan of Rs. 67.85 crores and the balance amount of Rs.13.06 crores is kept in the bank as on 31st March 2015. Now as per the Schedule VI of the Company's Act, this item will be shown under the head fixed assets and the detail description will be given under the relevant note. So if you go to the relevant note, you can find the description of all this, LYCOS Media, LYCOS Entertainment, LYCOS Life etc., etc. But in the format published as per the listing agreement prescribed by SEBI, only one item that is called fixed asset is shown. When you show under fixed asset it does not mean it is only machinery etc., it includes all the expenditure incurred for what I explained earlier. When we come to the receivables, we are happy to inform you, during the year, our receivables, in digital segment has reduced from 110 days to 106 days and on consolidated basis also, our receivables are decreasing from 171 days to 158 days. When we see the receivables for more than 6 months,

it is almost negligible it is reduced to Rs. 22 crores and less than 6 months Rs. 410 crores. This is a brief summary of the financials, and receivables, cash flows. If you have any queries, you are always welcome to rise at the end of the session. Now I am handing over to Mr. Vijay.

Vijay Kancharla: Hi good afternoon. As you are all aware, LYCOS has launched a new division called LYCOS Life which focuses on consumer hardware and software for internet of Things(IOT). LYCOS Life is a division focused on innovation to enhance life experiences through connected devices, which we call the IOT. Imagine a future where your refrigerator knows what is inside and when your milk or orange juice runs low, your fridge sends an order to your online grocery store, which sends a drone with a delivery within 30 minutes. This is just a part of what to expect in our future. Currently we connect to internet via core windows which is desktop, laptop, mobile, cell phone plus tablet and television. With internet of things almost all the devices, equipment, and in some cases animals and humans will be connected to the internet. Why is this catching up now? The infrastructure to deploy IOT devices is moving at a rapid pace. The cost of deploying IOT devices is becoming cheaper and cheaper. iScos Internet Business Solution growth – IBSG predict about 50 billion devices connected devices by 2020. Currently we are at about 15 billion connected devices, so that's a huge growth. In terms of the market size, IOT market is going to be about 20 trillion dollar industry in the next decade. On a higher level, internet of things will connect variables, homes, cities, environment and businesses. Examples on a day to day life would be connecting health, work, automobiles, heaters and coolers, washing machines, refrigerators, pets, in-turn helping and health management, energy, electricity efficiency, safety at home, safety when driving and keeping track of pets and many more. IOT and big data work hand in hand. More connected devices will gather huge amount of relevant data. All the data gathered will be processed, analyzed and put back into the IOT

system, creating more and more intelligent IOT devices and objects which will make our daily life more productive and easier to manage. We have an announcement coming up next month to give more information. We have two new communication products. We will focus on communication and information management for IOT. Two products we will release next month, will simplify the way people leverage internet for their daily use. This is what we are doing in the new LYCOS Life division. If you have more questions feel free to ask us. I want to hand over to Mr. Suresh Reddy.

Suresh Reddy: Thanks Vijay. First of all I would like to thank everybody for being on the call today for taking time from your busy schedule to understand what we are doing and we are always very happy to be connecting to our investors, who are always behind us and who are there for the business to grow and benefit all of us in the process. We particularly wanted to have Vijay on this call. Me and Vijay started the business and he's been handling...he's been in the bay area of California in the US for years and he is in-charge of all the new ideas and what are the new markets that we need to be in. With that I will come to the core business itself.

We have had a fantastic year; very, very happy with the overall performance. We have achieved over 22% growth on digital side. We are expecting larger growth going forward. We are doing all we can to make sure we meet the growth rate. We are very happy with that. Few points I will talk about today. One is we got listed on National Stock Exchange. There was a lot of discussion on my previous call about this. We were able to accomplish that and I think that is a significant achievement. It brings credibility to what we are doing. We will continue to do things to help us keep that credibility index continuously growing. That is a long-term effort that we are going to put in. That's number one.

There was also discussion in my previous call that we talked about media coverage. We have been doing a lot more on the social media; some of you might have noticed that. We have also put efforts to get covered in some of the larger TV channels. This time we were able to be on CNBC, while it is short but we were able to make a small impact through that as well and this will also continue to grow going forward. With that I come to the plain core topic – there has been so many questions about dividend and I want to first address that and then start going into the other parts. I know we have had a fabulous year; we have actually had a PAT of 343 crores. Ideally speaking this is the time to give a dividend. I have taken it personally on myself to make a case to the board and the board looked at it very seriously. There were two schools of thought on how we should handle this. So in that perspective, we looked at what are the things we have done, why do we need to do dividend now? We need to give the money back to the investors to an extent. Of course we need to effectively use the money to grow the business. So this is the logic in the thought process. Secondly, there is also another perspective....further credibility that this cash is realized. So that is the point we made to the board. The Board said, we have used....we had free cash flow of 81 crores this year. We have used some of the money. We've used 68 crores of that real money to pay banks. We paid off lot off long term and short term bank loans. The reason we did that is, these are high interest debts that we have taken in India; we are paying 14% to 15%. We had made a case previously that we would like to repay this particular debt with loans from outside the country and where we can get a lower interest rate. We were not able to get that loan completed yet, so that became one of the bottlenecks, the day we get that, then we should start looking at paying dividend. Because this is expensive, it is hurting the bottom line, it is not prudent financial practice to pay dividend when you are paying this kind of high interest to the banks. So this is the logic that we...so simultaneously this year we plan to continuously pay down this loan as much as looking to replacing this loan with a lower

interest. And when one of these two happens, we would be in a stronger position to be able to pay dividend. And I know this may not be very satisfactory explanation, but this is the logic that went into the boardroom that day and hence we took a lot of time, hashing out all particular angles as to how we should address this. We were very aware; we are acutely aware how much this is important to all of you. So that is taking into account, I just wanted to get that out, and I will be happy to answer more questions on that.

So, beyond that, next coming to the business itself, this year, I will just talk a little bit about the quarter itself, the quarter we have had a lot of new publishers into the system as well as platforms, we just highlighted four of them right now in our press release, I will just talk about those. We have signed up PlayBuzz, which is our large social media conglomerate, which actually gives us access to a lot of users who use social media called PlayBuzz, We also signed up a newspaper as one of our publishers, The Denver Post, which is pretty large in Colorado, then we have been working with, we have actually signed up with Gannett Broadcasting, which is also, brings a lot more traffic into the system. And then we have signed up a programmatic platform, a new programmatic platform MediaMath. So, in this context I want to...we are very, very happy to say our relationship with our programmatic partners, the SpotXchange, BrightRoll, LiveRail, Tremor Video, AOL have continuously grown, yes, AOL is now merged with Vodafone and we are expecting to see a lot more happening in that front. So far we have still been working with the same people, nothing at stake, but we see that also as an opportunity for us to grow the business in these fronts. And then coming to our technology side, on the technology side, fundamentally there are two major products that we are continuously making changes on, in terms of advertising side one is on our compass, which used to be OneTag if you all remember from the past. Compass is continuously evolving, we are now just about to add RTB, which is real time bidding, which

should help publishers get better yield, so which will again come back and add more business and come back and add more publishers back to us, which we are very excited about. So we are hoping to see the benefit from that in the coming quarters. Then on the online campaigning part we have also added, ability to add first party data, for example, let's say you are sending a campaign to Ramesh, which you can say Ramesh you should look at this, so that kind of information data is already part of the campaign, so that has been added to the compass system. Then the new deal, which I was talking to you guys about on the last call with respect to LYCOS Search, the large advertiser that we have signed up on syndicated search. It is working extremely well and we are hoping to see big benefits going forward, we have hashed out all the details, and the partner there is still not open to announcing that name, but however, we think we are in a position where will be able to announce the name fairly soon, it is a very large player, so we are very, very pleased with that growth, that can add additional 70 odd million to the top line this year. So, we are very excited about that. And then on top of it, in terms of programmatic buying, we have added newer technology to be able to do video on mobile, advertising video on mobile, so that is the hot new take in this quarter and we are actively participating in that. So this puts us really on the map to scale rapidly on the programmatic buying, which is the hottest area right now. And then we have already announced the formation of new division, LYCOS Life, but the launch of it should happen in June. Today we talked a little bit about the reason why we are getting it in this context I want to give you the thought process of putting other product development efforts slightly on the back burner and push this forward. So we took that strategic decision because we felt this is going to grow very fast and there have been questions as to why this is relevant to LYCOS. In my view, all the Internet companies at one point or another will have to go in this direction and we want to get head start in that space. You can go back and see what happened in the past, there used to be one window where you accessed the Internet,

then came four devices, and today I am saying you are inside the Internet and every indicator is showing right now that it is moving at a very rapid pace. So we feel that it is important to get a head start there and start moving faster. We are very, very pleased with the amount of energy and effort our Chief Strategy Officer, Brad Cohen has put in bringing this forth, taking what we conceptualized and he has brought it forth and we are going to have a press meet on 4th of June where we will talk about details on the products that are going to come out.

Then, you might have heard of the news on the patent that we put up, there is a lot of thinking that went behind using the patent. Because we have additional eight years left on the patent, so we need to look at how we need to monetize it, it is only smart to make proper use of it. The context is right and there are some of the patents, which are relevant to the Internet, relevant to Search, plus relevant to IOT as well. Just for example, one particular patent has got, I was looking at one article, somebody wrote in the US, it has got 536 citations from some of the largest companies in the world. So, it is wonderful that you know, we are sitting on this treasure and we will see how we can monetize it, whether through licensing or through sale. So, these are some of the exciting new things that we are working on. With this, I will stop and I will open up for questions and thanks again for being on the call.

Rajesh K: Maria, can we start the Q&A session?

Moderator: Sure sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you can do so by pressing * and 1 again. We have our first question from Mr. Gaurav Gupta of Individual Retail Investor. Please go ahead.

Gaurav Gupta: Good afternoon Mr. Reddy, congrats on such a fantastic result that you have shown and congrats to your entire team as well. I have a couple of questions that I need to ask, since it is my first time on such a con call, so there are 4 or 5 questions, I hope you will answer them.

Suresh Reddy: Can you make it two questions, because we will have to let others talk as well, there have been complaints in the past. So, let us keep it to two questions.

Gaurav Gupta: Okay, I will start with the two questions. The first question is that since we will be launching very soon the hard good division of LYCOS Life, so what kind of revenues we are targeting in that and the expected margin that we are targeting into that?

Suresh Reddy: Okay. This is a very interesting question, at this point I am not talking much on that whole area right now, like I said this is a new area and we want to do it at the appropriate time and appropriate, so next quarter I will be able to give you more details. This is more for competitive reasons I am not able to talk much about it, you'll have to excuse me.

Gaurav Gupta: Okay and the second question is with respect to the balance sheet, I was looking for the last three years balance sheet and I observed that the quantum of amount that is parked in loans and advances it is very huge, nearly 33% of our asset side. I have dropped a mail with respect to this as well, if you can highlight what kind of loans and advances are these, be it short term or long term, because it is as per FY14 balance sheet it is nearly 600 crores as well as FY15 balance sheet it is again 600 crores on a balance sheet size of Rs.2100 crore, so it is a very huge amount.

Y. Srinivas Rao: Hello Mr. Gaurav, can you repeat?

Gaurav Gupta: In the assets side if you look into the non-current asset portion there is 5th item that is long term loans and advances, if you will look into this 142 crores in the FY15 and 141.91 in the FY14, that is shown over here in the latest release, but if you will

look into the annual report of last year, that was FY14 we will see that nearly 140 crores was in long term loans and advances, not much detail was provided over there as well as in the current asset part there are two things, short term loans and advances that is E and other current assets that is F. Again there we are having something like this 295 crores and 169 crores, so again if you will look in the annual report of last year then there is no much information provided about this, so I just want to know that what kind of loans and advances or other current assets or long term loans and advances are these because ultimately our money is parked into these kind of items and it is not a small money, nearly 30% to 33% of my assets are parked into these, so if you can teach about them if they are earning something for our company or they are some non-performing kind of assets?

Y. Srinivas Rao: Sure, I will briefly explain to you, later on I will send you the details in mail that I will reply, but briefly I will tell you, these advances consists of three, four items mainly, one is advances to media purchase to get the better prices by negotiating. This is a recurring item, old advances are squared off when we receive invoice again new advances are created, but it is an ongoing process so at any point of time some amount will be lying as advances. Second one is, we give security deposits to different government departments like excise department and also when we are raising tenders, we give some performance advance deposits, and some rental deposits are there and one more item is we have ESOPS Trusts for executing ESOPS scheme we have created a trust. For trust we have given the loan and again trust applied for the shares in the company, we got back some money immediately, but this is shown only as a loan till such time that is squared off, so all these consists of this amount. This is a part of the business, it is required for the running of the business this is a liquid asset. If you want further details we will give you later on all the details in your mail.

Gaurav Gupta: Okay, no issue, I will expect the details in the mail and thanks for taking this. I will come back in queue if there is no other investor having questions. Thanks a lot for taking my questions.

Y. Srinivas Rao: Okay, thank you.

Moderator: Thank you, sir. We have with us the next caller is Mr. Avinash Dulani of Astute Investment, please go ahead.

Suresh Reddy: Yes, please go ahead.

Avinash Dunani: Hi sir, congratulations for good set of numbers. Sir, can you throw some light on what kind of investments have we done in India, advertising, lines can you throw some light on that, what exactly it is?

Suresh Reddy: Okay, to answer your question, Avinash, basically we have three divisions and each division works on their set of products that are relevant for them to continuously grow the business and continuously be relevant in the business. So, in that context LYCOS Media is nothing but the LYCOS Website Network and related business. So, this is the business that sits out of Boston and we have everything that works from there. So, under that we have products that have been developed that are in the process of development and have been developed. Some of the key things that I can talk about there is LYCOS TV that you already seen being running at this point and it is being developed in the background, the latest version is not up yet. Then LYCOS Messenger is something that has been in the works and like I said, we have put that a little bit on the backburner, but the work is still on. There is lot of energy, money put into that. And then LYCOS Shopping is another one, where we had a partner, where then we pulled out from the partner. So, we are looking at it from a different context. So, these are some of the products that are related to that area. We can give the break up on that. Just to give you a broad thing. On the advertising side, like I mentioned to you, one is, one of the big hot ones last quarter was

being able to advertising, video advertising on mobile, because which has actually start effect revenue almost immediately. And it is a long term, which is slated to stay. And then we have also spent money, we have continuously spent money on OneTag, now Compass and this year we have added some new features, which I mentioned to you in the beginning of the call. So, that development has also taken money into it. So, all the money is spent in that, as all these are put under this category. And then on the business intelligence module, we have done a few things, which make it smarter, where we have been able to add first party data, which I talked about. And then LYCOS Life anyway, lot of travel, lot of work, lot of details that are going into building of this product. And very rapidly the team has put together tremendous amount of energy to get those. They are coming out with two products there. And some of those expenses are related to that. And so this is, I will give you a more get you a more detailed break up, but this is the overall larger view of things of how the money is spent.

Avinash Dulani: Okay. So, this will be the regular process where you will be going on adding assets to all these three categories?

Suresh Reddy: There will be some part. And what we do, we do amortize. What we are doing is, we do amortize for a period over the life of the product. That is how it works. We have been doing that in the past and it is a typical situation with the product companies. So, there will be money that goes into it and plus we start getting it done going forward. Some of the products that we are working on, we believe we will be able to get much more revenue than what has happened in the past.

Avinash Dulani: Okay. So, can you share some return ratio and what kind of returns are you expecting from all these three categories?

Suresh Reddy: I don't remember it from the top of my head, but we will be able to respond back to it. Can you please send us a mail and we will send you the details, return ratios and also the numbers, we will have to get back?

Avinash Dulani: Okay sir. Thank you.

Suresh Reddy: Thank you. Thanks Avinash.

Moderator: Thank you sir. We have with us the next person is Mr. Manish Jain of M J Capital Advisors. Please go ahead.

Manish Jain: Good afternoon Mr. Reddy.

Suresh Reddy: Hi Manish. How are you?

Manish Jain: Good sir, good. Congratulations again for the good set of numbers.

Suresh Reddy: Thanks.

Manish Jain: Sir, I have two questions. One is on your margin, on the digital marketing business especially in the quarter four, which is at 47%. So, the digital marketing business with 47% margin seems to be on very high side. So, this is first question. And my second question is on the capital employed. So, if you see your capital employed on the digital marketing business, over a period of time if you see FY13, it was 845 crores and it has moved to 1600 crores. And simultaneously if we also see the revenue, it has moved from 859 crores to 1493 crores. So, capital employed is behaving the same way as the revenue, which in my view, being a service industry, the capital employed should not rise at such a fast pace. So, I would like to know from you, what are the factors which are going towards such a high capital employed and how it will behave in the future?

Suresh Reddy: Perfect. Thank you. So, I will take your first question first. Margins wise, I don't know, 47% I don't know, maybe you are talking at the net profit level; I don't know where you are coming from.

Manish Jain: No, no, it is, if you see the segmental, it shows 148 crores profit before interest and tax at a revenue of 315. So, it comes to 47%.

Suresh Reddy: The reason here is programmatic buying and there is lot of revenue that comes from, we have this arbitrage business that works on a higher margin. So, the contribution this quarter has been more from that. So, programmatic buying has higher return. So, when you are looking at the net of these, obviously it is all coming in the last quarter and hence you might be seeing the difference. But, if you look at the overall year, we are looking between 17% to 27% is what we have seen over the year. So, it does get clubbed and it might look pronounced in one quarter and it might not look as pronounced in the previous quarter. So, you have to expect.

Srinivasa Rao: Can I explain it sir I can add small thing?

Manish Jain: Please go ahead.

Srinivasa Rao: The 147 crores received against 316 crores , about 46%, this is before income tax and before interest.

Manish Jain: Yeah, yeah, before interest, right. It is the operating profit. Operating profit, 47%.

Srinivasa Rao: Before interest and before tax, it is like that.

Manish Jain: Yeah, which was 28% in Q3. So, 20% jump in one quarter, which is difficult to digest.

Srinivasa Rao: No, no, actually if you reduce the tax on interest, the ultimate percentage works out to around 28% only, 27%-28%.

Manish Jain: No, no, but Mr. Srinivasa, if you see in Q3 our margin was 142 crores on a revenue of 493 crores before interest and tax. And Q4 we have got 148 crores profit on a much lesser turnover of 315 crores. So, from 28% it has moved to 47%. 20% jump in one quarter.

Suresh Reddy: Correct, Just to give a little more depth into how the revenue mix is and how the margins are different from division to division you will see. Within our advertising division, we have sub groups. One is your network business, which is a flat interest, flat margin. And then we have MediosOne business which has got the higher margins. So, it depends upon which is the biggest contributor in which year. And that is the reason you are seeing an abnormal changes and this will wobble every quarter. You will not find like consistent, so we are not selling one product which is selling at Rs.10 and the cost of making it is Rs.7 and Rs.3 will be the difference. So, it is a mix of various revenues and sometimes some mix goes up and sometimes some parts come down. And that is the reason. You will get the details once you see it at the sub level.

Manish Jain: Okay. And second on the capital employed.

Suresh Reddy: On the capital employed side, this is a more detailed question. Like I think we already addressed that in the previous caller's question, which is, lot of this as the business starts to grow, we need to invest into media that we buy. So, obviously it grows parallelly along with the growth of the business. This trend will not continue. So, that is the reason some of the things that we are doing, we want to do low investment, high return kind of products that we find exciting and good for the business.

Manish Jain: Okay, thank you.

Moderator: We have our next question from Mr. Amar Mouria of Indian Securities. Please go ahead.

Amar Mouria: Thanks a lot for this opportunity. Congratulations to the LYCOS team for the fantastic numbers and also for paying off the debt during this whole year. So, this was a very, very prudent move. Sir, I have two questions.

Suresh Reddy: Yes Amar, go ahead.

Amar Mouria: Yeah, first is on the margin part. If I see, our margin is very, very sensitive towards the revenue mix. And if I am not wrong, this particular quarter we would have made higher revenue from videos, more revenue from videos and that is the reason the margin has (not clear)?

Suresh Reddy: That is correct. Right.

Amar Mouria: So, going forward, going forward what is the kind of revenue mix you see in financial year 2016? Because the point I am making here is, because we are likely to announce a very huge deal in Search, so I believe Search is having a low margin business as compared to the videos. So, what kind of margin profile we can see going ahead, considering that what kind of expectations, because lot of media buying has already been done, so we would be having a fair amount of visibility about the revenue, how it is going to shape up. So, it would be prudent, if we can get something on the revenue profile, how it is going to shape up in this coming year as well as the margin profile?

Suresh Reddy: Thank you Amar that is a good question, very good question. First point is, there are two components. I will talk about the revenue profile and then we will talk about the margin profile. There are two components with the revenue. One is, our consistent bread and butter business, which has been growing year on year at a constant growth rate, which is our LYCOS Advertising and LYCOS Media and that is what the product, all the pieces right now is continuously, that is part of what is the revenue mix today. So, that will grow. I expect the growth rate around 25% to 30%. We have had years where we have had 40% growth. This year I think we ended up with around 22%. And then we expect it to be in the same range, 25% to 30% growth rate this year. But, I will not commit the number there because, then the LYCOS Life, that is the, I mentioned in the past also about the breakup so we are hoping that LYCOS Life will bring that break out to the revenue. We will have to see how that will pan out. And obviously it is a new product. We need to get into it, get a feel to

it and get a deeper understanding on how it may play out. While we have our estimates, but we are not talking about those estimates right now. So, the reason that we have moved that ahead of others will give you an indication as to why we are planning to start that. So that aside, coming to the margins, margins percentage is itself, I am expecting range of about 25% margins, give or take, year on year. If you take over a period of, average margins over a period of five years we should be seeing about 25%. So, that is the sense we have.

Amar Mouria: Okay. So, one more thing, when we talk about LYCOS Advertising and LYCOS Media, what is the part of LYCOS Advertising?

Suresh Reddy: What is the?

Amar Mouria: Like in LYCOS Advertising, what is there, Search, email?

Suresh Reddy: LYCOS Advertising has components. Within LYCOS Advertising, we have a mix of, mixed bag of different features that we do, where we have video advertising as part of it, Search and Banner. So, Banner and video are interplaying because of the change in the market place. Year on year this mix changes a little bit, based on how the market is changing. If you look at last year, you would have seen a lot more banner. This year you will see a lot more video. Then there is our arbitrage business. We are talking about MediosOne business, which are day to day, which are market place driven, arbitrage opportunities that we take advantage of, to improve our margins. We always have a team which is on the lookout for that. That is another component that comes. Then we also have services component that is related to LYCOS Advertising that goes part of that.

Amar Mouria: Okay. So, what would be, if I look at the total revenue mix, what is the LYCOS Advertising revenue today and what is the LYCOS Media revenue today and what is the LYCOS Services revenue today?

Suresh Reddy: LYCOS Media, if you take the split today of the 1957 crores, about 440 odd is our services or the (not clear) software business and 1500 is the entire LYCOS,

the digital part. Of that 1500, 15% comes from the media side, LYCOS Media and 85% is LYCOS Advertising

Amar Mouria: Okay. My second question is, it is more of an advice rather than the question part of it. Since we are IT company and product development expenditure and normal R&D expenditure is part of our business and it is part of every IT company who want to be in business. So, instead of cancelling that expenditure, why can't we actually do expenses in the same year that will not bloat our balance sheet? And second question is again related to the margins. Let's take for example; what was our total R&D expenditure in this particular year? If you would have explained that early expenditure, what was the actual margin during this year?

Suresh Reddy: Yeah, this is a very good advice. This is the accounting treatment that has been done at the consolidated level over the years. This is what we have been doing even when we were a private company. The reason being is, the product that is developed is not just for that year at the same time we are depreciating what has been billed in the past. As the business grows, it may seem that way. But, if you would have come to us in 2005, we were 10 million dollars business. Today to where we are. So, this is a growing business and so it is not fair to start taking off at the same year. This product we believe can produce a lot larger revenue going forward. So, you should give it due time for it to be taken off. That is the logic behind why we amortize the product creation expense.

Amar Mouria: Sure sir. Sir, I have few follow-ups, probably I will come in the queue and then if opportunity permits, I will ask. Thank you sir.

Suresh Reddy: Yeah, let the other people come. Thanks Amar. Thanks.

Amar Mouria: Yeah, thank you sir. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you would like to ask your questions, please press * and 1 on your telephone keypad. I repeat, if you would like to ask your questions, please press * and 1 on your telephone keypad.

We have with us Mr. Prem Doshi from Ace Investor. Please go ahead sir.

Prem Doshi: Good afternoon Mr. Reddy and the whole team. Congratulations for the superb year on year performance.

Suresh Reddy: Thank you.

Prem Doshi: I have two very basic questions. My first question is whether this LYCOS Life which we are targeting the end consumer, is this for the Indian market or for the US market?

Suresh Reddy: For both the markets.

Prem Doshi: For both the markets?

Suresh Reddy: More specifically for Indian market to start with, but we are looking at more global later.

Prem Doshi: Okay. And sir, my next question is what has been the progress with the Cayman entity.

Suresh Reddy: That is a very good question Prem. We have actually been working on moving all the assets under the Cayman entity. We expect that it will move much faster, because we have multiple subsidiaries in various countries. Some of the countries take more time, when we are dealing with Governments from various countries. They are taking more time than the others in terms of applications put in, transfer of States. There is a large process in some cases, which has actually caused the delay. What we wanted to do is to move the subsidiary, the current subsidiaries of LYCOS India, under the LYCOS Cayman.

And the Cayman is 100% sub of LYCOS. That is the structure we are trying to go for. And so in that scheme of things, there have been delays because of things that are outside of our control. And once we have all that sorted out, then we will be ready to start. So, that is the reason for the delay. Okay, next question.

Moderator: Thank you sir. The next question comes from Mr. Pranay Sanklecha, an Individual Investor. Please go ahead.

Pranay Sanklecha: Good afternoon sir.

Suresh Reddy: Good afternoon.

Pranay Sanklecha: Yes. First, I would like to congratulate you for the wonderful set of numbers that our company has produced this quarter also.

Suresh Reddy: Thank you very much.

Pranay Sanklecha: Okay. Sir, my question is that we always have a very high receivables every quarter and the payables are less. So, I just wanted to get an idea of that that what is the company planning or what span of time is the company planning to reduce these receivables?

Suresh Reddy: Yeah, that is an ongoing effort. I think Mr. Srinivasa can tell you what we have accomplished from last year to this year. It is a slow process, but it is an industry related thing. I have told this in the past also, we pay our publishers in thirty days, but we get paid in 90 days to 120 days. So, that is the reason where this builds up and we have a smaller (not clear) But, in spite of that we have done a lot of things. And the main thing to LYCOS is also beginning to help in terms of negotiating better terms with our clients. So, we are hoping to see better numbers going forward. Mr. Srinivasa, if you can tell us what is the gain we got from last year to this year on the digital side, in terms of the receivables days.

Pranay Sanklecha: Okay. And sir, my second question is that by what time is the company planning to become debt free completely?

Suresh Reddy: Yeah, that is our endeavor. Based on what we have done last year, our estimates are eighteen months.

Pranay Sanklecha: Eighteen months?

Suresh Reddy: Yeah.

Pranay Sanklecha: Okay, thank you sir.

Moderator: Thank you sir. We have our next question from Mr. Ramesh, an Individual Investor. Please go ahead.

Suresh Reddy: Yes Mr. Ramesh. Please go ahead.

Ramesh: I had a question on the software development segment. If you look at the clear numbers compared to last year and this year, the top line growth has been almost flat, whereas the profit before tax and interest has significantly fallen. My question is, (a) I know that this is not a primary focus area for LYCOS; we are focusing more on the digital side. But, on the software side, are there any synergies with the digital marketing business? If there are not, then why are you not looking at hiving off this or selling off this business to someone who is focused on this area?

Suresh Reddy: This has been one of the big discussion topics on our board . It is important that we bring it up. So, one of the reasons is the loans, the working capital loans that we have, which is completely full up to their limit when we merged with LGS came with that decision. So, it is part of that decision. This is all tied in to that scheme of things. Once we are able to make it debt free, specially that part debt free, then we are in a position to look at options on what to do with that business, either hive it off or sell it or do whatever. But, at this point since it is tied with the large debt, it doesn't make sense. I don't think there will be takers to take that right now. So, that is the reason we are stalling on that. That doesn't

mean we want to kill that business, but we would continue to focus, the core management attention as you rightly said is on the digital side. That business is continuous to be there and because of the merger and because of the past relationships, that business continues to continue and the margins obviously is swaying back and forth year on year.

Ramesh: Okay. And I had a second question on the revenue which is coming from LYCOS Advertising. Is there some sort of split which you can give us between mobile, videos, banners and things like that?

Suresh Reddy: We evaluated that sir, but we have decided against it. Reason being, for competitive reasons, we don't want to go more deeper. It just causes more conflict for us in building the business. So, for that reason we have kept it under one umbrella.

Ramesh: Okay. Maybe you can just answer one part of that, how big is mobile?

Suresh Reddy: It is all like I said, I can't separate mobile and advertising today, because there is portion of advertising, mobile and video advertising today. There is portion video advertising that goes towards, that goes across various platforms. Let me give you a simple example. Let's say you ran a Facebook campaign. You know how much you spent and you don't know how much of it has gone into mobile and how much of it has gone into desktop. So similarly when campaigns are flowing through in 3 hours, we are doing multi platforms. And when our publishers come, we are doing multi platform. So, for us it is more important to have a strong relationship with these publishers. But, on a broad scale, for our own internal consumption, we do have the breakup and yes, there is lot of discussions on mobiles picking up and there is also recent conversation on desktop being flat. Yes, desktop has been, has not diminished. The users of desktop continue to use desktop. The users of mobile have gone up and hence there is all this discussion about, yes, mobile is the next big thing. But, unfortunately the real estate on mobile is very small. So, what kind of return,

what kind of margins can you get? So, it is always better to have a full bouquet to offer . So, that being said, I will answer your question. It is about 15% I believe.

Ramesh: Okay, alright. Thanks a lot sir.

Suresh Reddy: Thank you Ramesh.

Moderator: Thank you sir. We have our next question from Mr. Srinivas Reddy, an Individual Investor. Please go ahead.

Srinivas Reddy: Hello. Good evening.

Suresh Reddy: Hello. Please go ahead.

Srinivas Reddy: Yeah, my first question is regarding, you were mentioning that it is 96 crores debt is there still. But, if I see the figure sir, if I show long term debt only 6 crores, where is the difference? Why is that difference there?

Suresh Reddy: 96 crores is sum of long term and working capital. We were talking about high interest Indian Bank loans. So, we have this long term, like you rightly said it is very small. But, there is this working capital loans, which also has been blocked by, when we merged with the company. So, that is what we are paying off and actually reducing our debt. So, that 96 is a combination of long term plus working capital with the Indian Bank.

Moderator: We have our next question from Mr. Dayakar Anne, an Individual Investor. Please go ahead.

Dayakar Anne: Sir, congratulations. And I actually had one question which was kind of answered and that is regarding the receivables versus sales of the software division. It sounds as though the sales are almost equal to the receivable days. So, with the profit margin being what it is today, on the face of it, it looks like probably while the focus is not there, we are probably wasting our time there. So, you may want to comment on that. I think you have answered it in some detail, but if there is anything more, you can add to it.

And the second one is about, people still are wondering what is happening to the pledged share.

Suresh Reddy: Okay sir. Receivables , I think I touched most of it sir. Fundamentally this is a business and you have to see in context of things. It does generate profit and hence they are used to service the loans that have been (not clear). So, it may seem like it is losing money, but it is actually servicing the debt that is there. And then we are using the rest of the money to pay off the debt. So, that is how it is. So, it is not like a loss making division. So, that is one point I want to add. In terms of pledged shares, we also mentioned in the, I think in the publication that all the debt regarding....., we have pledged about 2.25 crores share of Redmond, which is our promoter share that have been to ICICI Bank and that loan has been completely paid off as of September end. And then we have gone through the process and there is a pledge release form, which has also been filed and it is in process with ICICI and we are waiting for that to be released. At this point other than for academic reasons, we have no use for those shares. But, of course it makes a difference and gives comfort to the shareholders. We can assure you that there is nothing against those pledged shares. And I can't talk on behalf of the bank. Whenever it is released, we will immediately let you know.

Dayakar Anne: Sounds good sir. And even the explanation around the receivables, the software division relevance makes sense now.

Suresh Reddy: Thank you sir. Thank you.

Moderator: Thank you sir. We have our last question from Mr. Suryanarayana Reddy, an Individual Investor. Please go ahead.

Suryanarayana Reddy: Hello, good afternoon sir.

Suresh Reddy: Good afternoon Mr. Reddy.

Suryanarayana Reddy: What about dividend sir?

Suresh Reddy: I explained to you at the beginning of the call, we are not able to convince the board, for good financial prudence it is important that we pay the debt off, before we actually start taking the fruits of the labor. So, that is the logic behind this. So, it is like we are in a family and we have a loan, instead of going and celebrating before we pay off the loan, we first want to pay off the loan and then have the festival and that is the logic that you are seeing here. From the same angle, we have decided not to do the dividend right now. But, as soon as we are able to replace it with a lower interest loan or as soon as we are able to pay the debt, one of the two, we will be able to start paying dividend at a reasonable level.

Suryanarayana Reddy: Okay sir. Thanks sir.

Suresh Reddy: Thanks Reddy.

Moderator: Thank you sir. I would now like to handover the floor for the closing comments. Over to you sir.

Suresh Reddy: Thank you very much and it was nice to be able to get all your feedback and we will, wherever we have promised to get back to you with appropriate information, we will get on it and get those information back to you. And always feel free to get in touch with us through email or through email or through our social media connectivity. Thanks again for being on the call. I appreciate it. Thanks. Bye.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.