



LYCOS INTERNET LIMITED

Q1 FY 2016-2017 INVESTOR CONFERENCE CALL

Transcript

Conference Call of LYCOS INTERNET LIMITED

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. My name is Moumita and I will be the moderator for this conference. Welcome to the LYCOS investor conference call. The duration for this call will be for a one hour. For the duration of the presentation, all participant lines 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 floor to Mr. Rajesh, who handles the Investor Relations. Thank you and over to you sir.

Rajesh: Thank you Moumita. Good evening everyone. I welcome you all today to our first quarter, for the financial year 2016-2017. Today we have with us our Chairman and Managing Director, Mr. Suresh Reddy and joining him will be Mr. Ramesh Reddy, who is our Executive Director and Group CFO as well as Mr. Srinivasa Rao, who will give us the financial update. Today, we will start with Mr. Ramesh Reddy who will be giving us an update work going on with KPMG. And then Mr. YSR shall give us an update on the financials. And Mr. Suresh Reddy will give us business events during the year. Before we go ahead with conference, I would like to mention that during the conference call Certain Statements in this release reflecting our future growth prospects are forward – looking statements which involve a number of risks and uncertainties that could cause result to differ materially from those in such forwarding looking statements. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties with respect to fluctuation in earnings, our ability to manage growth, intense competition in online advertising including these factors which may affect our cost advantage, cost of resources and introduction of regulations that might impact the prospects, our ability to successfully complete the planned projects, general economic conditions affecting our industry. The company does not undertake to update any forward looking statements that may be made from time to time by or on behalf of the company. Now, I handover the floor to Mr. Ramesh Reddy, who will give us an update on our work with KPMG. Thank you and over to you sir.

Ramesh Reddy: Good afternoon everybody. This is Ramesh here. To start with, just a brief note. As you would have seen the results that have been published, we have had a good beginning for FY2016 - 2017, a consolidated revenue of Rs. 531.83 crores, up about 6.67%, an EBITDA of Rs. 160 crores and PAT Rs. 94 crores. You would have also noted that we have actually uploaded the standard figure as per the new format prescribed by the SEBI and the stock exchanges, as per the IND AS. Just to give a brief, the accounting standards are mandatorily changed for companies such as LYCOS, who have net worth greater than 500 crores and are listed on NSE & BSE from this particular year i.e FY2016-

2017. The accounting rules and the conventional conventions are different compared to the IGAAP accounting norms and rules that used to prevail up until March 31st, 2016. Some of the key highlights in those are in terms of how the revenue is recognized or how certain liabilities are quantified and how certain advances, loans or debtors and the credit period that is being extended to the customers over a period of time is quantified. And the cost of those particular items also needs to be captured, which could be just a kind of a provision that impacts the P&L.

So, there were obviously, considering the nature of our operations at LYCOS Internet, has been changed in the standalone as well as globally. With many operations happening in different countries, across many subsidiaries. We needed some definite guidance in terms of how to do this accurately and in an efficient manner to see that the reporting is completed in time. And as you are aware that the term for the existing auditors who have been serving the company for the past so many years is getting over this year. So, we need to also prepare for this transition and that has been on the agenda for quite some time. We took it on priority this year and to enable and help us to get this activity moving, we discussed with various consultants, advisors and on that we have chosen KMPG to help us through this period and also to help us to prepare for the future.

And as far as the norms and the guidelines stipulated under IND AS, we have chosen to publish the standalone figures this year, mainly because we will need more time. We are working on preparing the IND AS accounts basis for all the subsidiaries. The transition will happen after and you will be able to see across the company the whole operations in a uniform format.

For the purpose of understanding and consistency for the investors, we have prepared the statement as per the IGAAP, so that it can be comparative to the previous reporting, for helping the investors to understand how we did this quarter, compared to the previous quarter on the consolidated basis.

So, this is a brief introduction about the activities. We will be continuing this exercise and improving the systems and processes, taking the expert guidance from the consultants to help us in better reporting as well as the speed of operations. With this, I would like to handover to Mr. Y. Srinivasa Rao, to give the highlights of the financials and accounts that are for this particular quarter. And I would be adding up if there are any clarifications in the future. Thank you. Over to you.

Y. Srinivasa Rao: Thank you Ramesh. Good afternoon ladies and gentlemen. It is a pleasure to speak to you all again. Let me briefly tell about the changes in the financial reporting and the new accounting standards. The Ministry Of Corporate Affairs made it mandatory to implement the Indian Accounting Standards; briefly it is called the IND AS with effect from 1st April 2016. Effectively the quarterly results for 30th June, 2016, is the first such reporting period for listed companies. IND AS comprises forty accounting standards that provide significant change in the financial reporting framework used by Indian companies to report their financial results. There are several differences between the current accounting standards under the Indian GAAP and the IND AS. In order to facilitate smooth transition during the financial year, for the first year of IND AS

implementation, SEBI relaxed certain rules. As per the SEBI we can publish or declare either standalone results or both standalone and consolidated results put together.

The financials for the quarter one of 2016-17 is prepared as per the new Indian Accounting Standards. And the consolidated financials are prepared as per the existing IGAAP standards. Going forward from the quarter two of 2016-17, both standalone and consolidated financials are prepared uniformly as per the new accounting standards that is IND AS.

So, now we come to see the overall performance of the company on the consolidated basis. During this quarter we had very good growth across all geographies. Our performance in all parameters has improved. Revenue for the first quarter of 2016-2017 was Rs. 531 crores, an increase of 12.2% on quarter on quarter and 6.67% on year on year. The EBITDA for the first quarter of the financial year 2016-17 was Rs. 161 crores, an increase of 12.6% on quarter on quarter and 4.35% on year on year. PAT for the quarter, quarter one of the financial year 2016-17 was Rs. 94.34 crores, an increase of 12.27% on quarter on quarter and 4.03% on year on year. Revenue for the digital marketing segment for the quarter one of financial year 2016-17 was Rs. 422.85 crores, an increase of 16.63 crores on quarter on quarter and an increase of 8.78% on year on year. Profit before tax from digital marketing segment for the quarter one of financial year 2016-17 was Rs. 139.48 crores, an increase of 15.52% on quarter and quarter.

Now, I come to the other areas. I believe there have been queries regarding the accounts receivables. Now, I will explain in more detail in this regard. Our core business is digital marketing, as you are all aware. We are happy to inform you that our receivables in the digital segment have been reduced to 86 days. It is a great achievement from our working capital management point of view. On the consolidated basis our receivables decreased from 118 days to 117 days on the year on year basis. Second, one regarding the utilization of EBITDA, during this year we have spent an amount of roughly Rs. 38 crores on capital expenditure, like upgradation of hardware, servers and product development expenditure. About Rs. 42 crores is used for the working capital and Rs. 76 crores is paid towards the taxes i.e opening tax liability and also the current tax. And an amount of Rs. 6 crores is paid to the banks.

During this quarter if you see, there is a loss in our standalone results. This is mainly due to implementation of IND AS standards and as per the advice of the KPMG, we have written off an amount of Rs. 2 crores, invested long back in Lanco Net Limited, because the value is considered to be impaired. So, we have written off 2 crores and that is included under the head other expenses of Rs. 13 crores. And another item is, as per the new accounting standards, we need to provide expected credit loss on our receivables. Actually this is not a loss, but to meet the requirements, we have to provide. And we have provided about Rs. 69 lakhs. So, because of these two main items, there is a loss in our standalone. Had we not provided these two, it could have been a profit. But to meet the requirements, we have provided this.

And also as per the new accounting standards, we have made and implemented new rules in revenue recognition and also calculation of deferment of taxes and also the way to

account for the investments and also to consider the employee benefits. And most of the items are revised and the fair value is considered while accounting the first quarter results. We are in the process of implementing the new accounting standards across all the subsidiaries. Going forward from the second quarter onwards, we will report uniform accounting as per the new accounting standards. So, with this I conclude. Now, Mr. Suresh, our CMD will take the call.

Suresh Reddy: Thank you YSR. Thank you all of you for being on the call today. There have been questions regarding our appointment of KPMG. We brought in KPMG fundamentally to help us with transitioning towards new accounting standards. We are looking to bring new auditors for next financial year as P.Murali & Co term gets over. So to help with the transition and to get us ready for the new auditor, we thought it would be smart for us to bring in KPMG. And we will see how it will play out.

Now, coming to the results, we are extremely happy with the overall results. We have made some smart strategic directional change in the last quarter. One is, bringing in Brightcom as a separate unit, creating a new brand. So, there were additional expenses and additional trade shows that we have to participate to put the brand into the eyes and ears of the people who make the decisions. To give you some perspective, this year Brightcom has been to number of trade shows. We are at the Dmexco, Cologne in Germany and then 19th to 21st, we are going to be in Digiday and then we will be in Cannes, Lyons and bunch of other such. We also hosted a video roundtable in New York, fundamentally to highlight video advertising and election spending. This year it is going to be very big in terms of election spending. To bring these two together, we got the top executives from few top video programmatic buying companies, including SpotXchange, AOL, Trade Desk and New York Daily News as such. Phil Rosenstein from MediaPost actually moderated this event and it was a huge success. We are very happy to report that all these things have helped put us in the right place.

Global Seller Trust Index put together the top programmatic advertising companies across the world. We came in the top twenty. We actually featured at the nineteenth position. We were ahead of Criteo and Microsoft AdExchange. So, I am very pleased to say that this is a smart strategic move. Yes, the numbers would have been larger, had we stuck to the older name. But, what we are working on actually puts us in a different place, where it will start to grow at a much faster rate. So the rate of shift is going to be very large in the coming quarters. I am very pleased with the work being done by the Gali and her team.

Coming to some business highlights for you today. One is from Brightcom we have signed up with Medula, which is a big conglomerate for US Hispanic population, fundamentally Spanish speaking US residents. It is a big community, almost 20% of the US now are Spanish speaking people. And especially during the election year, it is going to be very important. We are happy to tell you that we have made this partnership. We have also made partnerships across all the devices at all levels, including display, video, mobile and social, all the areas. So, this is going to bring a lot more inventory to the table and credibility to the company. We are very happy about that. Number two, we have started new operations for Brightcom in Singapore and Philippines this quarter and we are looking to start growing that. Obviously some of these are expenses that are coming in, so hence going forward these should start to give better profitability.

Next is, in terms of expanding our product line, we have started header bidding and in-view to be marketed by Brightcom. In-view is, when you run an ad, there is the display area and then there is an area that goes below the display area, on your desktop or laptop or your mobile. So, those areas we are able to give the advertiser ability to run ads, in the areas that are viewable immediately. This is a new product and is a new area that we are offering.

And in terms of the quality of the traffic, we have done some interesting work. We have signed up with GeoEdge in terms of to improve ad verification and then for fraud detection. So, it overall gives again very important security to the advertisers that this is a clean proper traffic that they can easily advertise.

Before I go to the other divisions, I also want to touch upon a few points in terms of corporate. One is, yes, there has been lot of questions regarding where we stand with respect to our settlement discussions with Daum. We have been making lot of progress. Unfortunately, we cannot talk too much. We cannot make too many announcements about this, because this is a very sensitive topic, both on the one side we are negotiating and the other side it is with the court. So, we just have to be very careful on talking too much. And hence you may not hear much about it from us and there is a reason behind that. So, I just wanted to explain that to you today.

In terms of other areas, we have LYCOS Media. We have signed up with ADX, which actually is another very significant move in the right direction, because it brings additional traffic inventory, which means more business, more revenue for us, plus it also improves our CPM rates, which translates into better margins. This is a very important sign up that we have made in this quarter from the LYCOS Media perspective. We also have another announcement coming days. We have done something very interesting in terms of launching a new product there for the sports area. You will get more details in the press release. We are waiting for the approval from the partners.

The new point is with respect to LYCOS Life. There has been talk in the background in terms of getting ready with the next version. There have been some changes and we are going back and forth. Yes, we are also looking at the competition, what is going on. So, we have stalled the launch of the next version, because of few things we wanted to take into account, hence we expect that to come out in this next quarter. We also have a few new products that we have worked through and we should be able to launch all those at the same time. We have been working continuously on our “like” campaign and our sponsored campaigns on the Facebook. We have had two hoardings that we have put up in Hyderabad. It is still in the test mode. We will launch the full fledged, once the new version comes out. We are looking and seeing extremely good results from our test campaigns.

Then finally before I close, I would like to talk about the joint venture that we have with Apollo. It is called APLY. We have launched e-commerce site for a textile client. We are launching a new, entire omni-channel campaign for kids wear brand across hundred locations in India. We have signed up with Apollo-Leathers, to do their corporate site and a

fashion client has signed on as well. There are four letters of intent in the pipeline, which we are expecting to close in the coming few weeks. We will see how this whole thing plays out in terms of revenues. We still don't have major visibility. We hope to have visibility in the next six months on exactly how this will play out. But, it is all looking right. And we are working diligently to get this all working. So, with that I would open up for questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, 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 may do so by pressing * and 1 again. We request the participants to limit to one question per person during the initial round. Thank you.

Sir, our first question comes from Mr. Sanjay Kaul from FE Securities. Please go ahead sir.

Sanjay Kaul: Good afternoon everybody. I had a suggestion to make. We have this company running now, we have two portions. You have bought out this LGS Global in India and you have the core business of digital marketing. Why not demerge both the businesses? Form two separate companies and list both of them. Keep the LGS business separate and keep the core business separate. A guy who is coming into your business, stock investor, he will be able to appreciate your core business in digital marketing, value it better. Because, this is creating quite a bit of mess here, your LGS business. The sundry debtors are going up. There is no profitability on per quarter turnover. It is a suggestion. You can look at it, if it makes sense.

Suresh Reddy: Good afternoon sir, let me explain that. Number one, yes, we agree with you that it would be a better way to keep these two entities separately. And we have also discussed some of the options internally, obviously there are challenges, because we have debt, which came from the old business and we have other business to share. So, we will work through some of those challenges and update you. And then in terms of the AGM, again we will take a call. We may have to postpone it, mainly because of all these shifts and changes in accounting standards. So, it has been very taxing for the finance department, given a lot of sudden increase in the changes. So, that is where it stands. We will give you clarity about when the AGM will be held.

Moderator: Sir, the next question comes from Mr. Joseph. He is an Individual Investor. Please go ahead sir.

Joseph: I would like to point out the fact that you mentioned earlier that some of your investors who are looking for an exit and that you are looking for potential investors. Looking at the kind of interest in your space and recently I have heard that even two 32 years old guys managed to get 1 billion dollars valuation from a site to sell their digital marketing company, how is that panning out for you guys?

Suresh Reddy: Okay, good question. Thank you. Coming to your first part was about, the two 32 years old, we know both of them fairly well. We have worked together, and actually working alongside on the Yahoo relationship that we have. I think you are

talking about the Directi guys, Divyank and Bhavin. So, that aside the value added business exists and clearly there are no two thoughts about it. The issue is not the recognition. The problem has been the recognition of the value by the market, plus like you rightly pointed out, some of the existing investors have been there for the long time. I am talking about the large institutional holders.

Moderator: Thank you sir. The next question comes from Mr. Prabhakar Reddy. He is an Individual Investor. Please go ahead sir.

Prabhakar Reddy: I am a retail investor from Nellore. I am invested in LYCOS for the last two and a half years. I am seeing the price going down and down. I have two questions sir, when are you paying 25% of EPS as dividend? Next question is, what you are doing to lift the price to the credible levels, price of the LYCOS.

Suresh Reddy: Okay, thank you. The first part is 25% of the EPS, we have just started now giving 5% dividend. I know it is small. But, it is a start. So as we sort out a lot of things going forward I think we should be getting to that point. I cannot give you a date as to when we will do that. But, our intent is to have a cash flow and a growth rate simultaneously. When the cash flow is high, we will be able to start paying dividends, because we don't want to compromise the growth rate also of the company. And also it is a huge market, we want to be one of the key players globally. So yes, it may look short term that we are not giving a good dividend, but it is more important for us to sustain in the business and grow.

Moderator: Thank you sir. Sir, the next question comes from Mr. Teja V, an Individual Investor. Please go ahead sir.

Teja V: I have gone through the sales figure for LYCOS Internet Limited. I found that many negative comments have been posted by the previous consumers and none of the replies have been received from your side. So, how do you want to address that?

Suresh Reddy: Okay sir. Let me clarify this. Every time there is a negative comment, within hours we actually go ahead and try to reach who it is. Sometimes people post and we don't know who they are. So, when we know who they are, we are able to reach them.

Moderator: Thank you sir. Sir, we have the next question from Mr. Srikanth. He is an Individual Investor. Please go ahead sir.

Srikanth: So, my first question is, we have revamped and launched lycos.com website. There are some sites, where we have LYCOS TV and then LYCOS News ventures, which have been developed, but it seems to be discarded now? What is the development on that, that is the first part of the question. And the second part is, so there are lot of disclosure by RTA saying you have been selling the shares at regular times and could I have your comment on that?

Suresh Reddy: Okay. Let me answer your second question first. I think a lot of people have reached out to us. When we have, like I said we have loans from various banks or otherwise, that have been taken in the past, for which the old promoters have moved out and myself and Vijay have pledged the shares and some of the shares go in as a pledge. Some of the shares, the way the pledge is, they do a transfer of shares and they keep them under the pledged account. There is no other reason. And then coming to your first question regarding LYCOS TV and other LYCOS initiatives, we have talked about it. We have decided to drop a lot of things and focus on LYCOS Life. I think we talked about it when we launched LYCOS Life. So, it was an idea to put all the energy behind LYCOS Life. Yes, there is a new page of LYCOS that has been put together. We are not satisfied with it. We want to do something very interesting, so that it really changes the way it is done. We have some samples, which we are not satisfied and so we are redoing some of those things. You should see them very soon. But, I don't want to launch something which is half baked at this point.

Moderator: Sir, the next question comes from Mr. Naresh Uppu, an Individual Investor. Please go ahead sir.

Naresh Uppu: Hi, Suresh and everyone. So, my question is like, we had an acquisition of mysms. So, how is this acquisition integrating with the current company? How it is contributing to the LYCOS?

Suresh Reddy: Thank you for the question. We have had, as you have noticed we have got the approval from the shareholders to issue. And that has not happened yet, if you look at our share distribution. So, there have been some challenges on the methodology and how to make this deal work. Unfortunately it is quite complex, because they wanted to do it through an Indian company. There were some challenges in doing it. It is owned by a Hong Kong company, for which we have to transfer. So, there is a lot of detailing. And so, we are having to redo that. So, whatever was approved, we will have to get a second approval now to complete that transaction.

Naresh Uppu: Okay, thanks sir.

Suresh Reddy: Thank you. Next question please.

Moderator: Thank you sir. Sir, the next question comes from Mr. C A Akash, an Individual Investor. Please go ahead sir.

C A Akash: I just, it is not a complain as such, but it is just a concern being an investor. And just to make it clear that I am also as much interested in the company as you as a benefiter are. You just said that it affects you more, because your share has also got pledged. So a small recommendation sir, if you can just consider it. It is just a suggestion. And the business is growing good. Your results are coming good. But, the thing is that if we go by the buzz and because I am an investor and I keep talking to people, be it institutional or individual investors, so the concern is that sir, people are becoming skeptical. And they are also not wrong on their part there because as soon as an investor, be it individual or an institutional investor, they all want to think dividend and growth as in

capital appreciation. You answered for the dividend part and you answered as well as for the capital appreciation part. But, the thing is that sir, if I can give one more suggestion; all said and done you know the things which I am going to say. But, still I want to reiterate the same thing and a small suggestion. And the suggestion goes like this sir. Sir, you are a 400 crores profit making company annually. And your market cap is just about around 500 crores. So, can't the company come and buy back certain shares just to give that boost, because you just told that you are looking in for a better institutional investor for the coming quarter, but you are slow on that part. And you agreed to that, you just said that. So, can't it be possible that, because you have cash on board with you, 400 crores company and a 500 crores market cap, which will boost the investor confidence and at the same time, the capital appreciation will also happen. If you can just consider this?

Suresh Reddy: Yes, it is a good suggestion. The thing is, this 400 crores is not all cash coming into India. And it doesn't work like that. Because money is required, for the nature of our business is, money is required to keep the business growing. A lot of this money is put back for the growth and paying off loans and paying taxes. There are lots of other pieces that come together. Yes, I do see your point. We can start buying out some of the stocks that is coming into the market, and we are very well aware of that. But, we are trying to balance both sides. And it has not been simple for us as well. We will at some point, We just don't want to do it arbitrarily and then put the business in jeopardy. So, we just want to do it at the right time. So, I don't know the time yet, but we have to see when it all comes together and there will be an inflection point, where we will be able to do it. Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Saurabh Prabhu, an Individual Investor. Please go ahead sir.

Saurabh Prabhu: Hello, good evening. Sir just wanted to understand the road ahead for LYCOS for the next one year sir. So, are we looking at new acquisitions for FY17-FY18 or will we be looking at consolidating our overall business, because if you look at the last three years, we have been doing lot of acquisitions and are looking at restructuring the company. So, do I look at more consolidated operations for the next year or do we see acquiring smaller companies?

Suresh Reddy: It is a tough question, because there are three parts to the business. One is, we have our LYCOS Media and our LYCOS Networks, that part would stay put. It will consolidate, pull pieces together, we may expand geographies on that. Then in terms of LYCOS Networks, we have launched BrightMedia, lot of money is going on branding that and we are very gung ho on how that whole thing will come together. So, that is the organic part. Then there is LYCOS Life, which is a new product and there is the marketing expense, marketing the product, product development expense and all those things that will come together. Now, you are talking about growth through acquisitions, we don't want to go into another fourth area. Obviously we have to stick to these three areas. There will be places, both in advertising as well as IoT, we will reach a point where we will need a small outside help.

Saurabh Prabhu: Sir just wanted to know about the workforce. And digital marketing is something which is in the nascent stage in India. So, where do we recruit our resources from? So, do we look at the major B-schools or the major engineering colleges in India? And also abroad, where we have our subsidiaries, what are the resources we are looking at for the digital marketing?

Suresh Reddy: Digital and all the news you hear about is going digital from India perspective is not digital marketing. That is about digitizing, automating work. So, what we do is digital media and digital advertising. What we have done in the past is, we have recruited fresh recruits. We have trained them. In fact in Hyderabad some of the very smart programmers and the technology of all the different ways of doing digital and some of the companies that have propped up have come from the old employees of Ybrant, who have come because we are one of the earliest to set this up. And we continue to have a program of training and bringing in new people, as fresher training them and bringing them up to speed. And then in terms of outside India, it is a different ballgame. We are now trying to hire publisher manager and publisher recruitment and publisher customer support people on the publisher side. We are trying to hire sales guys who go after ad agencies for business and go after large advertisers. That is a different breed. And then there are traffic managers who are placed primarily in Israel. We have about hundred people in Israel, who do this. And then we have close to eighty people in Argentina that covers that region. Then we have the additional sales guys at various locations. This is how it is set up.

Moderator: The last question is from Mr. Sumit Sarogi, an Individual Investor. Please go ahead sir.

Sumit Sarogi: Sir, over the next financial year can we see some good chunk of working capital development and intangibles under development getting materialized?

Suresh Reddy: Yes, that is what I was talking about. We are seeing the first few things of what we have done in the past. Now, you will start to see the results. This is just the first quarter and it is very minimal in my view in terms of what is expected. You will start seeing bigger growth going forward in the coming quarters. And all these assets will start to produce additional revenue, additional profitability.

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

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