



“Dhani Services Limited  
Q1 FY2022 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Dhani Services Limited Q1 FY2022 Earnings Conference Call hosted by Investec Capital Services. 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 “\*”, then “0” on your touchtone phone. Please note that this conference is being recorded. From the management team we have Mr. Sameer Gehlaut - Founder and CEO, Mr. Nikhil Chari - Head of Healthcare and Communication, Mr. Pinank Shah – Group CFO. I now hand the conference over to Mr. Nikhil Chari. Thank you and over to you Sir!

**Nikhil Chari:** Thank you and good evening everyone. Thank you for joining this call. We are pleased to report that during the past quarters we continued to make strong progress on our laid out plans for transitioning our model to a subscription based model. So first coming to some of the key metrics on customer and paid subscription attribution.

During the past quarters, we were able to grow our customer base to 31.5 million, which is a 20% increase from the 26.2 million customers that we had in the previous quarter. What is encouraging for us is that since we transitioned our model to a subscription based model, every month, every quarter, we have been able to see growth in our customer base.

Now coming to the paid subscriptions, during the past quarter, we recorded a paid subscription base of 2.63 million subscriptions, which is a 46% increase from the past quarter, where we had 1.8 million subscriptions.

Now coming to the monthly active users, we recorded an average of monthly active users of 8.4 million during the past quarter, which is a 24% increase Q-over-Q. So, against all key parameters of customer acquisition and paid subscription acquisition, we saw very heavy growth.

Now coming to our paid subscription penetration, during the past quarters, we increased our paid subscription penetration as a percent of our total customers to 8.33% which is a 150 basis points increase quarter over quarter. What is encouraging over here as well, that every quarter since we launched our paid subscription since the first quarter of FY2021, we have consistently been able to see quarter-over-quarter increase in our paid subscription penetration. So, this in a very strong way validates our business model as well, to see that our customers really value the product and subscription that we are offering to them.

Now coming to the monetization aspect, what is most encouraging is that over the past quarters, we increased our ARPU with which we measure as the average monthly subscription price to Rs.117 per subscription, which is an 11% increase over the past

quarter where we had the average subscription value of Rs.105. Here again, the trend over the past four quarters has been very consistent with quarter-over-quarter, we have been able to increase our subscription as a subscription value to our customers.

This again speaks testament to the fact these are products our customers value a lot and this is largely a function of both – our customer deducting more products and also a function of more customers upselling to our products with higher value. If we take the example of a flagship of Dhani One Freedom product, it is a function of a customer moving from a lower credit band to a higher credit band because after few months, the client will see a real strong value in the product we are offering.

Now if we breakup our total subscription of 2.60 million, almost 80% of our paid subscriptions, are for a flagship ordered for One Freedom and Doctor. So, we have seen a very healthy balance between both our transaction finance products and our health products and we are seeing consistent growth along both these dimensions. So, both the engines of our model are working very well.

Now coming to some of the customer engagement metrics, over the past quarter, the average time spent per day per user for our customers grew from 5 minutes to 7 minutes, which is almost a 40% increase quarter-over-quarter. So, not only are we getting a large number of customers coming on to our platform, once they start using our products, they get more engaged. This is another metric we have seen consistent quarter-over-quarter growth over the past 5 quarters.

Now coming to our customer acquisition funnel, over the past quarter, we saw almost 15 million users downloading the app and this is the number that has been fairly consistent over the past four quarters which bodes well to the number of customers we see will be onboarding over the future quarters as well. We are happy to see this metric also trending very nicely.

Central to our customer acquisition funnel and engagement, is our Dhani Card, which we had launched in November of 2020. Now this is a card that offers free of charge to our customers, which is available, both, in the digital and physical format. Given its wide acceptance, this provides a lot of versatility to our customers and provides a high level of customer engagement with Dhani. This is something that instantly gets a convenient transaction power in the pockets of our customers, given that our customers typically do not have a credit card. Given that our Dhani card is seamlessly enabled with our wallet, we are also able to launch a lot of loyalty programs, which ensures further customer stickiness. So, this Dhani card is something that is central to our business model and we have seen very strong validation over the past 7 months.

So, if we come to some of the tangible metrics for our Dhani card, in the past quarters we saw 2.7 million customers adopting our Dhani Card after full KYC, which is almost 200% increase over the prior quarter. Not only are customers adopting our Dhani Card, but we also see increased daily utilization of the card. So in the past quarter, our unique customers using the Dhani card daily was 72000 which is a 57% increase from the prior quarter, and this is consistently seen increased on a quarter-over-quarter basis.

Now coming to some of the progress that we have made on some of our recently launched products, in the month of March 2021, we launched our e-pharmacy product and this is something that has also grown very nicely for us. In the past quarter, the average daily delivery that we were able were almost 2200 packets on a daily basis, serving almost 2 lakh unique customers in the past quarter. This is something we see trending up very nicely. So, all the new products we are launching are also seeing very good traction being taken up by the customers.

We are also very excited about the future pipeline. In the current quarter, we will be launching a card for business. This will be targeted at the SME segment. This is a segment that has a lot of large unmet needs, because currently, there is no digital card solution that exists to facilitate expense management of businesses. So, this will be a very convenient and a very simple solution for businesses to implement. We are going to have a very user-friendly dashboard, which our businesses can use to track, reconcile and manage their expenses. This is something that will have an immediate and tangible impact for businesses through better expense management and reduced slippages. So we are very excited to extend our card business from individuals to businesses as well. We see a lot of synergies between our individual card owners and our business card owners because underlying the platform remains the same, we offer the payment and the wallet which is convenience through internet wallets and closed loop payments will be a combination of e-commerce unified in-app experience and the subscription models that we can offer to, both, the individual and business owners which can offer higher value-added services to our customers, both or professional and personal use. This is something that we are very excited to launch during our current quarter.

Also, now coming to some of the infrastructure update, we are building a very strong foundation for the future growth of the company, especially on the technology front. At present, we have ramped up our technology to almost 300+ engineers and we also re-aligned our technology staff along each individual business lines, so that each and every product gets the dedicated focus, both from a product and an engineering perspective. We have seen the impact of this, because as we launch our product, because of the dedicated focus, we have seen very good update from our customers on these products. Since all the core-functionalities are built in-house, these have been reliable and flexible, so we can

respond to the customer needs as we see. Given its highly modular architecture, it makes it very scalable as well and because of this, we have been able to launch 10+ products very quickly, in a short span of just 12 months.

Now coming to some of the financial numbers, coming to the as-on-date, unit economics per paid subscription now we keep updating this information, based on the data that we have at the end of each quarter so, the uploading profit per customer per annum, at present, is approximately \$12, which is roughly a 15% increase from the \$10.5 we had last quarter. This is largely a function of the increase in average subscription value per customer that we talked about earlier. And this app scale creating profit per customer per annum roughly translates into a 30% operating margins and this is something we are actively working together and going forward, maybe anticipate as a subscription value, to keep trending upwards, which bodes well for the monetization on a profit basis as well for our subscription model.

Now coming to financial update, in the past quarter, we recorded revenues of 3.08 billion compared to 2.37 billion in the prior quarter. EBITDA of -1.49 billion compared to -0.83 billion in the prior quarter. Profit after tax for this quarter is -1.92 billion compared to -1.5 billion in the past quarter. This is largely a function of the investment that we are making behind our product.

Now coming to a snapshot of our legacy loan book, our loan books net of provisions at the end of the quarter stood at 36.26 billion compared to 43.37 billion in the prior quarter and this legacy loan book is something that has contracted each quarter and we anticipate that this will run off in the next fiscal.

So with this quarterly update highlights are over, and we would be happy to take any question.

**Moderator:**

Thank you so much. We will now begin the question and answer session. The first question is from the line of Jonathan Tatur from Clairmont group. Please go ahead.

**Jonathan Tatur:**

Good afternoon. Thank you for the opportunity. 2 question; so first, could you give some clarity on retention and subscriber attrition rates? Second, the last quarter, you required 2.1 million new subscriptions in the quarter. Could you give some colour on what equivalent number of new subscriptions signed up this quarter is?

**Sameer Gehlaut:**

To answer the first part, which is around retentions, these are early days for us in terms of how the consumer behaviour is. But at a very big picture level, we have around 0.8 million subscribers One-Freedom. To give you a big picture number, we have already acquired around 1.5 million customers, of which 0.8 are there, so that is like 60% retention. This data

will pan put over the next coming months and we will see more behavior because this product – One Freedom Credit, got started out in the month of January. That is on the retention part. So far, we find that retention rates are quite healthy and we have made certain changes to our products. So, the retention rates on customers acquired over the last 2 months are even higher than that. Maybe they reach to the same level after 6 months of vintage, we do not know. So, we will have to see that over the next coming months. What was the second part of the question, please?

**Jonathan Tatur:** What is the number of new subscriptions that you signed this quarter? Last quarter it was 2.1 million new subscriptions acquired in the quarter. I was wondering what the equivalent number is for this quarter?

**Sameer Gehlaut:** We would have acquired upwards of 4 million or something. We have stopped keeping track of free subscriptions actually. So that is the reason we have moved to a whole bunch of data around customers paying to us rather than on the free subscription. Free subscriptions are way higher than the previous quarter.

**Jonathan Tatur:** Understood. In terms of the new SME product that you are launching, if this is on a product, would you also look to offer transaction finance on a subscription model to SMEs in the same way as to individuals and how about the price work, would it be on a similar subscription basis or how are you thinking about the SME products?

**Sameer Gehlaut:** We are not interested in providing SME finance or SME transaction finance. This is just an enabler for businesses. To give you an example, if it is a fleet owner who has 20 trucks, he has to give money to drivers who are ferrying goods from one part of the country to another. This card solution will enable the money movement through the card, where the driver, if he is given \$1000, he can spend \$800 only on petrol pumps, \$200 on cash and certain other aspects. Through the card system, owner of the business will be able to control all expenses, approve or decline vouchers which he can read on his dashboard. So it is a solution to these businesses on a small subscription basis. It is not transaction related in terms of financing them.

**Jonathan Tatur:** Absolutely, makes sense. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

**Abhishek Sharma:** Thanks for taking my question. Just one question on this pie chart – 2.63 million customers, paid subscribers, are these unique subscribers and if that in indeed the case, then One Freedom credit is a bundled offering. Is that understanding correct? Also, what is captured

under Doctor? What is the nature of service captured under Doctor in the pie chart? Thank you.

**Sameer Gehlaut:** The total subscriptions are 2.6 million. The unique user would be approximately around 1.5 or 1.6 million. The One Freedom is a bundled offering which includes Doctor as well as transaction finance given what limit the person gets. The simple doctor subscription is a subscription where the customer pays \$2 a month, gets access to doctors 24\*7 and also gets unbranded medicines at his doorstep, prescribed by the doctors at 50% discount to the retail price for the same medicine at the chemists and other retailers. So, that is the doctor subscription. Doctor subscription is very different from the e-pharmacies which is branded medicines also. We have covered the whole spectrum of primary care through our offerings, so you can get discounted medicines at 50% which are unbranded, you can get branded medicines at 25% discount through e-pharmacy and at the same time you have access to the doctor 24\*7 as well as specialists through the doctor subscription.

**Abhishek Sharma:** If I look at all the offering, so there is health also which is a monthly subscription at varying rates, so where is that captured in this pie chart, would that be also under doctor and if yes and how much?

**Sameer Gehlaut:** Health would be under others because health subscription, which involves the certain subscription where you can order medicine etc that would be under others it is not in the doctor part.

**Abhishek Sharma:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sumit Bhalotia from Emkay Ventures. Please go ahead.

**Sumit Bhalotia:** Thanks for taking my question. My first question is on the residual book, loan book that we have which has been winding down as the guidance that you have given, so in this quarter again we have seen impairment cost I think on Rs.180 Crores, Rs.185 Crores, could you throw some color on that, because we have been providing very high for the last few quarters, so what going forward somewhere should we expect to how this will change?

**Sameer Gehlaut:** If you see some of the other competitors and even like blue chips like HDFC Bank through that HDB Financial, they are also sitting at NPA of 8% for these consumer loans, so that the system on the ground so far as these consumer loans, personal loans that state is the pretty tough on the ground so those guys are finding it difficult and that is how one of the banks even giving small loans and personal loans I think there NPAs have become 8x so the same is our situation, so I would say that there is any COVID related wave or anything we will see better outcomes but again it is based on how the macro plays out, but the good part for

us is that this is the small book and it is getting winded down very quickly and again I cannot really forecast what is going to be the overall loss rate. We will have to see, but we are much better place than everybody else in the market place, because we have a strong robust collection force that is on the roles of the company, so that really helps us, let us see how far that close.

**Sumit Bhalotia:** Another question is on this One Freedom credit product that we have so we have around 0.8 million paid subscriber, so what kind of capital will be deployed for these paid subscribers, I am giving as different is non-included than the loans that we have because it is completely different product and.

**Sameer Gehlaut:** It is just included in the loan book because it gets booked as a loan itself, so this business is all conducted by the registered NBFC within the group of Dhani and just to answer your question, so typical customer has average limit of around Rs.15000 of transaction finance from us, of that the typical average utilization is around Rs.3500, so it is around 20%, 25% is the average utilization, so you can work out the maths in terms of what is outstanding as on date.

**Sumit Bhalotia:** Slowly this number which as of now as per the maths that you told Rs.3500 per user and 28 million paid subscribers we have, this numbers will start becoming of substantial position of the net loan book that we would be left with three, four quarters?

**Sameer Gehlaut:** Yes, that is right as you know the One Freedom subscription keep going up, this number keeps going up in tandem.

**Sumit Bhalotia:** One question on the pharmacy business, in last quarter we had discussed about the physical stores that they are opening, so how has the experience been on that front?

**Sameer Gehlaut:** Because of the lockdown, there has been little slow, but things are now again picking up on the physical stores. We have also added couple of other cities, so we will match up to our goals for the rest of the financial year, so the idea is to have in 25 leading cities of India, we should be present with many stores that we can even supply the branded medicines within one hour, so that is our goal and we will be able to achieve that.

**Sumit Bhalotia:** One last question if you may allow, how has the competitive scenario changing in this pharmacy space post, so we have seen lot of other players getting into this e-pharmacy business as well as the online doctor consultation business and there has been a recent transaction also which has been done so how do you see the competition changing in the space and what is the impact on all?



**Nikhil Chari:** What we have seen of course as you saw in the news on the e-pharmacy of course we have seen a lot of consolidation happening with PharmEasy, MedLife and then of course Tata taking 1mg so actually to the competition we have seen better pricing discipline what the discounts the other players are giving. Of course Amazon is the only one which has e-pharmacy business in the state of Karnataka that of course we will have to see closely how that pans out, but our differentiation factor as Sameer also mentioned that these health shops which someone like an Amazon one likely to implement and big part of the customer experience is how quickly we were able to deliver the medicines to our customer, so there is one hour delivery even for the branded medicine is going to be a huge differentiate for us and as you can also imagine for the existing e-pharmacy players who provide medicines let us say into three days, they largely cater to the chronic segment so approximately 80% of the business that goes through the existing competition is going to be chronic medication and chronic medications only comprise about 40% of the overall pharma market, because we are going to have this one hour delivery model on the branded medicine side as well, a) it opens up a huge chunk of market which is a huge segment, which is like 60% of the overall pharma market, if there is a huge segment for us because of the physical infrastructure that we are going to putting up and b) it is also going to differentiate us in the meaningful way from the existing competition.

**Sumit Bhalotia:** Thank you very much for patiently taking all the questions.

**Moderator:** Thank you. The next question is from the line of Khushbu from HSBC. Please go ahead.

**Khushbu:** I just have a query with regarding the paid subscription members which you have mentioned, is it like if we have to calculate the revenue generated from this paid subscribers, should I just assume that these numbers are subscribers someone who have paid subscription throughout this quarter period, is that the right way to make assumption?

**Sameer Gehlaut:** Right way would be to think about 26 lakh people basically paying us Rs.117 in the last month. It is the month ending June 30.

**Khushbu:** We have to calculate the entire subscription revenue for this quarter, what will be the better way to calculate it, because we have like two millions of paid subscribers and the average unit revenue which you have mentioned, so if you have to use those numbers, how should that you can tell?

**Sameer Gehlaut:** I think it would not be very different, I will have to check, but again if you average out the subscription between this quarter and last quarter and multiply that with the average of subscription value which means this quarter and last quarter that would be the number.

**Khushbu:** Thank you.

**Nikhil Chari:** May be we will double check this, but that would be my hunch.

**Moderator:** Thank you. The next question is from the line of Jonathan from Clairmont Group. Please go ahead.

**Jonathan Tatur:** Thanks. Just followup question, so what is the current customer acquisition cost?

**Nikhil Chari:** Current acquisition cost on the paid subscription is I think around Rs.750 in that ballpark.

**Jonathan Tatur:** Thank you and just one more question if I may, you talked about the monthly use in terms of the trends for daily active users, is that also something that you were each track and number of using?

**Nikhil Chari:** Yes, we do track it, daily average users are at record high and they have exceeded one million on daily basis.

**Jonathan Tatur:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

**Abhishek Sharma:** Thanks for my followup question. Just back to the pie chart of 2.63 million paid subscribers, given the fact that the Doctor is now the biggest part of this pie, so what the number represents here, are the small bundled customer along with you other offerings in finance or are you selling the Doctor service, is a part of this Doctor service also unbundled?

**Sameer Gehlaut:** Doctor service is unbundled as well, but you can just take Doctor also which is completely unbundled, so we would have some customers who have only taken Doctor service as well and some are bundled with One Freedom and the credit line product, so that is how it is.

**Abhishek Sharma:** Is that the breakup Sameer, in terms of how many of these are bundled versus unbundled?

**Sameer Gehlaut:** Bundled would be with One Freedom and with the credit line product, so it is bundled with just two products balance number would be on standalone basis.

**Abhishek Sharma:** A large part of this would be bundled?

**Sameer Gehlaut:** Yes.

**Abhishek Sharma:** Thank you.

**Moderator:** Thank you. The next question is from the line of Keshav Heda from CRISIL. Please go ahead.

**Keshav Heda:** As you mentioned about the e-pharmacy that you are planning to deliver medicine in 60 minutes, so what is the capex that you are expecting this year and the number of stores that you will be opening this year?

**Sameer Gehlaut:** As I said the goal is to be in 25 cities with one hour delivery of branded medicines through the year and our internal expectation is to have 15000 deliveries on daily basis of branded medicines by the end of this fiscal. The last quarter we were at 2100.

**Keshav Heda:** What would be the number of stores if you have any?

**Sameer Gehlaut:** The stores again it is work-in-progress in some cities, we have to open more stores and some cities we have to open less so it is hard to put exact number to that, but we have more settled on the number of cities where we want to accomplish this objective.

**Keshav Heda:** Another question, I would like to ask is what would be your cash burn in terms of fresh stores which will open?

**Sameer Gehlaut:** Our cash burn would be sort of minimal, because the way we think about it is the stores also have natural footfall, so those footfalls will be able to ensure that we are not losing money on these stores and that is why if you remember the last call, we mentioned that from being on the first floor or the second floor now we have started opening Dhani Pharmacies on the ground floor, so that they do not become like load center, you have a natural business as well and but the primary goal is to supply medicines in one hour that also gets accomplished with this, so if we expect 500 of these shops over a period of time I do not think that more than 10% of these shops would be unprofitable on standalone basis.

**Keshav Heda:** Thanks.

**Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Nikhil Chari for closing comments.

**Nikhil Chari:** Thank you everyone for joining the call and please feel free to ask any question and the contact information given at the back of the presentation. Thank you so much.

**Moderator:** Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.