FOUNDER MANI MAY CONTINUE TO RUN OPS

Reliance Dials 8888888888 to Shop for Justdial

Announcement expected after JD considers fundraising proposals at board meet tomorrow

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Mumbai:

Even as the Future Group buyout remains caught up in legal crosshairs with Amazon, Asia's richest man Mukesh Ambani is making a move on his next strategic target.

Ambani's telecom-to-petrochemicals conglomerate is in advanced negotiations to buy Justdial (JD) from its founding promoters in a deal worth ₹5,920 crore-6,660 crore ($800-900 million), said multiple sources in the know. The transaction, once successful, will help Reliance Retail leverage the merchant database of the 25-year-old information search and listings company as well as its pan-India network, to further accelerate its own local commerce and payments play.

Justdial has called for a board meeting on July 16 to "evaluate" fundraising proposals. A formal announcement is expected on that day.

Reliance is already the largest organised retailer in the country while Justdial is the market leader in local search engine segment with nearly 150 million average quarterly unique visitors across multiple platforms like mobile, apps, website and 8888888888 telephone hotline.

DEAL CONTOURS

First generation entrepreneur and managing director VSS Mani and family control 35.5% of the company which currently is valued at ₹2,787.9 crore.

Deal may Trigger Open Offer

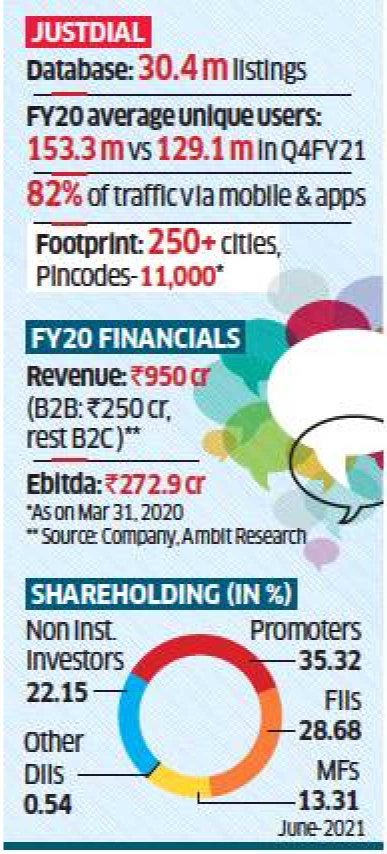
Reliance is planning to buy partially from Mani and would trigger an open offer for an additional 26% of the company's equity which at current prices could lead to a ₹4,035 crore payout.

If the open offer is fully subscribed, Reliance will end up with over 60% stake with Mani staying on as a junior partner to run the operations and ride the future upside. The deal will also see a primary infusion of capital into the company by Reliance, added the sources mentioned above.

The Justdial stock has already appreciated 52.4% in the last six months, to touch its 52-week high of ₹1,138 to close at ₹1,080.15 on Wednesday.

Much of the appreciation, feel market analysts, is in anticipation of a deal.

Talks between both sides have been going on since April in multiple spurts but gathered momentum after sale talks with Tata fell through, earlier this year. Shardul Amarchand Mangaldas and Co, Cyril Amarchand Mangaldas and Goldman Sachs are the advisors in the transaction.



ET in its March 8 edition had reported that Tata Sons engaged with the Justdial management to explore an investment to support Tata Digital's efforts to create a super app. However, those discussions ended abruptly.

Mails to Reliance and Justdial last Saturday did not generate a response. Neither did calls and messages to Mani.

However, sources said last-minute glitches, especially around share price volatility may impact timelines.

"Other than its network and loyal customer base, a key factor is also JD's comparatively modest valuations that can be built upon," said a company executive who spoke on the condition of anonymity as the talks are in private domain. The stock is trading at 35 times FY23 earnings compared to peers like Indiamart that is trading at 50 times multiple.

OF MULTIPLE PIVOTS & MOONSHOTS

Starting out as a phone-based service in 1996, listing local services, the company was a market leader in discovery, till the convenience of ecommerce players followed by the onset of an army of VC-backed, discountdriven hyper competitive "vertical" specialists, several of them with unicorn valuations, like Practo (doctor appointments) Urban Company (home improvement), BookMyShow (ticketing), Zomato (food delivery), Paytm (payments) MakeMyTrip (travel) took away the initial sheen off Justdial, post its 2013 listing.

For long, the company struggled to add additional layers to its core service offerings even though after pivoting digitally through the JD app — positioned as India's first super app — it sought to offer a variety of services, offerings, commerce and even payments between FY15 and FY17 in the form of Search Plus, JD Omni and hyperlocal delivery, though it quickly abandoned the lastmile services. But Search Plus didn't deliver on its promise of 'full stack' B2C services forcing the company to yet again change tack to focus on B2B (launched earlier this February) and transactional B2C offerings.

This is the first of the upcoming products as Justdial departs from a 'one-size-fits-all' approach, argues Vivekanand Subbaram of Ambit Research. "Unlike common perception of internet businesses being winners take all, we believe that the B2B marketplace model has room for multiple players with a variety of business models existing in tandem. Justdial's strength is its sales presence in tier 2 cities (markets excluding its top-11 cities) and traffic. The company capitalised on the rise of middle cities by driving a virtuous cycle of traffic, paid campaigns, realisation and hence revenue. We expect Justdial to aggressively target retail-oriented B2B categories to acquire leads via JD Mart," he said.

LAGGING IN COMPETITION

But despite the long runway, not everyone is convinced of immediate results as Justdial has lagged in the face of competition from fullstack consumer vertical companies or horizontal platforms like Google and Facebook. The company managed a mere 3% revenue CAGR in its top 11 cities over FY18-20.

"We factor in a sharp dip in the company's operating performance in the near term on account of the impact of the second wave of the Covid-19 crisis on collections/revenues," said Manik Taneja and Swapnil Potdukhe, internet analysts with JM Financial. That's where industry players feel a player with deep pockets like Reliance can capitalise the business for the next phase of growth.

The number of paid listings that were growing at 30% yoy till FY15 have shrunk to 5.5% CAGR growth. Between FY20 and FY21, paid listings are also down by 15% but the company remains profitable and debt free. "Mani grew his company frugally, always focused on cash flows and not growth unlike other players. Even though he has a loyal base, the lead generation has become suspect," said a rival CEO from an internet firm who did not wish to be quoted.

After aggressively on-boarding kirana stores and assisting them with sourcing and procurement, point of sale machine, financing, inventory management and tax return filing services, among others, Reliance has been looking to embed its ecommerce app JioMart into WhatsApp, allowing its 400 million users order products and services without having to leave the messaging app.

Last April, Facebook Inc. had bought a 9.9% stake in Jio Platforms for $5.7 billion.

"Reliance Retail has an ambitious plan of digitally connecting kirana stores (B2B) which would serve as a back-end for B2C new commerce, over time," said Vivek Maheshwari of Jefferies.