# Vaibhav Global Limited

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## Investor/Analyst Conference Call Transcript
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**Karl Kolah** Good Morning everyone and thank you for joining us on Vaibhav Global's Q3 and 9M FY15 results earning call. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director of Vaibhav Global and Mr. Hemant Sultania, Group CFO.

Before we begin the call, we would like to state that there might be some forward looking statements made today. These statements must be viewed in conjunction with risks and uncertainties we face. More details, statements, and explanation of these risks are included in our earnings presentation. The company does not undertake to update these forward-looking statements publicly.

I would now like to invite Mr. Sunil Agrawal to make his opening remarks. Over to you Sunil.

**Sunil Agrawal** Good Morning and I welcome everyone to Vaibhav Global's Q3 & 9M FY15 Results Earning Call. I will quickly provide an overview of the quarter gone by and then Hemant will discuss the key financial performance for Q3 & 9M FY15.

For those who are joining us for the first time on this call, let me give you a brief background of the Company. Vaibhav Global is an electronic retailer of fashion and lifestyle products in the US, UK and Canada markets. These are sold on our proprietary TV homeshopping channels that have direct access to over 100 million TV households. Our e-commerce websites in the US and UK supplement the TV channels and widen customer penetration and enhance our engagement with them. Our core focus is to deliver a deep value proposition to discount seeking customers.

Let me give you a quick update on recent developments. In the first nine months we have made several key investments which will improve our physical, technology and human infrastructure and give us the capability to usher in next level of growth. We have successfully implemented an upgraded SAP based HYBRIS platform as well as upgraded TV business management platform at our US operations. Currently, we are implementing an advanced SAP-based web platform. We will also have the mobile applications and responsive website by end of March. In addition, the shift to an outsourced call center operation that supports our customers is now complete. We will continue the training process to further fine tune productivity of the resources. We are confident that this initiative will help improve efficiencies and at the same time enable us to focus on our core business. All these initiatives, we believe, will deepen customer engagement and enable us to drive stronger prospects for long term growth.

Demand for our deep value proposition remains positive even though competition has remained elevated. However, we have maintained our focus on margins and cash flows which we believe will allow us to emerge stronger from the solid platform that we now have.

We also took some crucial operational and financial transformations over the past couple of years. On the one hand, we have increased manufacturing and sourcing capabilities, while on the other we judiciously invest in both our front-ended operations, facilities and human capital. In addition, economic revival in the US has been established and consumer spending is improving, which will positively benefit VGL.

We have witnessed a gradual revival in momentum which is visible in from our results performance. Having concluded several investments, we believe that we are on the right track to benefit from the momentum of growth which may be expected to re-establish in the coming months. We are keen to expanding volume growth to our 1.46 million customers and deliver deep value proposition in high quality fashion and lifestyle products. This will help us attain our goal of a significant global retailer of repute.

Going forward, we see several factors playing out in our favor. Our operations continue to deliver healthy profitability and cash generation is robust. In November 2014, we paid our first interim dividend of Rs. 2.40 per share. During the quarter, the Company repaid the final tranche of long term debt amounting to Rs. 9 crore. Net Debt has been significantly reduced to Rs. 25 crore at the end of Q3 as compared to Rs. 119 crore at the end Q3FY14. We continue to maintain 40% plus ROE and ROCE.

With that I will now ask Hemant Sultania, our group CFO, to give you a brief overview of the Q3 & 9MFY15 results. Over to you, Hemant.

**Hemant Sultania** Thank you, Sunil. A very good morning everyone and I welcome everyone to VGL's Q3 & 9M FY15 results earnings call. Let me give you an update on the operational and financial details for the quarter under review and before we proceed into Q&A.

In Q3FY15, revenues were higher by 5.96% at Rs. 394 crore from Rs. 370 crore in Q3FY14. In dollar terms, revenues were higher by 6.3% as compared to same quarter last year. Gross margins remained stable during the year but were lower in Q3 as we offered shipping discounts in the holiday season. EBITDA for the quarter stood at Rs. 45 crore translating to margin of 11.4%. Last quarter's margins included higher SG&A expenses, primarily from content and broadcasting. We have started dual host programs on our TV channel, aggressive social media campaigns, increased household coverage, expanded warehousing facilities, launched some new categories and invested in improved channel positioning on channel bouquets available to our TV customers. These we believe are investments in strengthening our proposition even more.

Profit After Tax for the quarter was higher at Rs. 39.37 crore due to lower interest costs and lower tax provision.

The company continues to generate robust cash flow and has now fully repaid its long term loans. Net Debt was lower at Rs. 25 crore as on 31st December as against Rs. 119 crore a year back. Free Cash Flow was at Rs. 35 crore in Q3FY15 and Rs. 64 crore YTD. ROE and ROCE remain robust at 40% and 43% respectively.

Let me also highlight some vital customer-centric data point. In Q3FY15, we added 68,000 new customers. We now serve 3,98,000 unique customers on annualized basis. Customer repeat buying activity is now at 17.5 (times) from 16.3 (times) on annualized basis whereas average purchase increased to 26 pcs from 24 pcs. The customer retention rate has improved to 48% in the US from 47.4% in corresponding period last year. These data points underline our improving relationship with customers supported by multi-channel marketing initiatives.

With that, I conclude my opening remarks and I now request the operator to open this forum for questions. Thank you.

**Moderator** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani** Just wanted to check - how do we see growth because we are very happy with the value proposition of $20, $22 as average price, but volume wise how do you see and what can we do further do to increase volume?

**Sunil Agrawal** As I said in earlier calls, we are looking for expanding the reach of our broadcast which is currently to around 72 million households in US. We expect to reach additional 3 million homes within this quarter and for next year; we expect to reach another 5 to 7 million homes. Secondly we are focusing on improving customer retention. Our retention rate has slightly improved in this quarter, but as we improve our engagement and our cost center has stabilized that will help to increase our retention further. This will also help us in increasing g repeat purchase. By adding new variety of the products under new categories, we expect to increase our repeat purchase higher than what Hemant just mentioned.

**Mayur Gathani** Why are the Web volumes weaker this quarter?

**Sunil Agrawal** Last year, middle of the year, we started a feature called “Max Bid” in our Rising Options where the customer can put the maximum amount of bid and where somebody else bids, his bid will increase by $1. So, if somebody has to pay put in say $50, and other person who had to put $7, his bid will automatically go to $8 and like that. But we realized actually towards the end of last quarter and even beginning of first quarter that some people were gaming it. What happened is since there was no ready mechanism like eBay, many of the customers were putting in very high amounts like $100 something, and then they would go back and only buy the product which was at low value and exclude other people from bidding. So, we have taken steps against them by restricting them to not put ridiculous amount but certain multiple of our selling price and we also have limited number of items in shopping cart. Earlier, it was unlimited shopping cart, now we have put in maximum of 50 pieces at a given time. So, we realized that the people were gaming and that resulted in lower volume in our Rising Auction. Catalogue has actually increased but the Rising Auction which is actually exit mechanism for our inventory had slowed down because of this gaming thing.

**Mayur Gathani** What is the contribution of Catalogue today? How is it improved on the Web?

**Sunil Agrawal** Catalogue as of last quarter is approximately 45% from earlier below 40%.

**Mayur Gathani** What is the active customer base? I think Hemant mentioned it.

**Hemant Sultania** Total customer registered with us is around 1.5 million and we have around 4 lakh unique customers on an annualized basis.

**Sunil Agrawal** So, 4 lakh actually shopped on an annualized basis in last 12 months with us of the registered customer base.

**Mayur Gathani** If I heard him correctly, because we have been shipping free this quarter because of being the season, gross margins are lower this quarter, right?

**Sunil Agrawal** We took a bit of hit in shipping because of competitive pressure. We normally, do I not give these kind of discounts, and so, our shipping revenue is lower by 2% this quarter.

**Mayur Gathani** But our gross margins are lower by 2% or 3%, right, for this quarter compared to Y-o-Y?

**Sunil Agrawal** Yes, 1.5%.

**Hemant Sultania** Gross margin is 59% for this quarter.

**Sunil Agrawal** In the shipping revenue as a percentage of sales, we took a hit of 2%. So, gross margin is lower by around 1.5%.

**Mayur Gathani** With this growth of 70 million you are adding 3 million in this quarter and another 5 million, so what is the additional carriage that you intend to spend?

**Sunil Agrawal** Usually, this is in linear proportion to the expense and the revenue does not come immediately, but also the carriage cost does not come for the full quarter, because it depends on when the quarter of those households comes in. So, if it comes towards the end of the quarter, it does not hit the quarter.

**Mayur Gathani** But that is the only expense that will rise, right with increase in reach?

**Sunil Agrawal** Correct.

**Moderator** We have next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

**Sunil Jain** In last concall, you were talking about competition from one of the competitors and because of that the volume growth dropped in the last quarter and same is visible in this quarter. Can you give some update on that, how that is moving?

**Sunil Agrawal** The competitor intensity is still the same. The intensity reduced a little bit towards the end of December, but they restarted again in January. But, the numbers that we achieved was in spite of the competitive pressures. We maintained our margins. We did not give out discounts as well as did not go in for stretch pay or that installment payment that they are going with. We are staying with credit card payment in advance. However, we did some shipping discounts and we may continue with it for sometime but other than that we feel comfortable with our strategy.as we believe that these kinds of freebies are not long-term sustainable and we do not want to go into the price wars unnecessarily.

**Sunil Jain** So, the last time strategy what you had considered similar thing you are continuing and you are not changing the same?

**Sunil Agrawal** That is correct except small shipping discounts.

**Sunil Jain** So, the volume growth may suffer in the coming period?

**Sunil Agrawal** The volume growth we expect to be similar what we saw in last quarter for this quarter, but going into the next quarter, with our new Web platform and new mobile platform which will help us to increase our volumes.

**Sunil Jain** If you can just come back on this Web volume, why it was not able to increase? I was not able to get it properly.

**Sunil Agrawal** Our Web is consisting of three components -- One is the catalogue, of all the product have we have in our warehouse, we publish on the Web and if people are looking for specific product, they search, look at it and buy it. So, that is called Catalogue. Second is Web-Streaming I.e , streaming of TV signal through the Web to the people who do not have access to our TV broadcast and then the buy from the e Web. And the third is Rising Auction. Rising Auction generally helps us in clearing our left over TV inventory In this Rising Auction feature, we found out that some people were gaming We caught that gaming towards the end of December, early first part of January where people who were putting the max bid to exclude other genuine bidders from bidding. And the conversion that we usually used to see dropped because these people would exclude others genuine buyers and only buy the few products from what they won.

**Sunil Jain** So, in Rising Auction, if suppose they become a buyer and then you mean to say they do not take delivery?

**Sunil Agrawal** Yes, because we do not compel them to give credit card in advance because that is not the general practice in eBay or anywhere in auction.

**Sunil Jain** So, ultimately that the sales does not happen?

**Sunil Agrawal** Yes, although the system is automatized, so the product would get rescheduled again, there is no human intervention there. But still is a loss of opportunity for other customers to buy the product.

**Sunil Jain** Now, how do you stop that?

**Sunil Agrawal** We have put in a couple of changes -- One was to put in the maximum amount limit. Earlier there was no limit. They could put $1000 for $10 product and there was no limit. So, we put the upper limit, so people will not put ridiculous amount. Second thing, we put in the maximum number of items they can put in the cart. So, these two changes have made a difference but not absolute difference. Since, we are going to Hybris, our new platform for web business, we are not doing any changes in existing system any more as this will lead to a code change and will delay the launch of the new platform. We are also starting the authentication via mobile number as well as through e-mail. This will stop this gaming completely.

**Sunil Jain** So, what is customer going to gain from this means he was a spurious customer who was just trying to disturb your sales or anything he is not going to gain anything in that?

**Sunil Agrawal:** We found two kinds of people who are gaming – one was people who are bored in the night and we saw this activity more in the night from 12 o'clock to 5 o'clock in the morning, they would keep on bidding on every item and they would get the e-mail, "Congratulations! You Are The Winner." And that kind of congratulates the e-mail message would kind of give them high or that sense of achievements. Another kind of buyers were people who were excluding other people from bidding by putting the very high max bid amounts, so that genuine buyers would give up early in the game. So for an item which is worth $20 and other maximum bid would come at say $9 or $10 and they can take it at $10 or $11, because if they put max bid at $50, if somebody has put only $9, they would get it at $10, whereas if it was a genuine auction, then it may end up at say $15 or $17. What they would do is they would not convert the auctions which were very high value and only take the items which were low value.

**Moderator**: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

**Maulik Patel**: On this call center platform integration, what could be the prior assessment that how much volume could have lost because of this platform migration? And post the implementation and completely migrating, do you see that we are better against competitors in a backend?

**Sunil Agrawal:** The call center is the outsourcing operation, this is not a migration of platform; migration of platform was software that we upgraded and that was completed last quarter. So, the call center outsourced to Kansas third-party was an effort to allow us to focus on our core business product and product merchandizing and presentation and selling and customer engagement. So that migration took longer and was more cumbersome that we expected coupled with longer training period of those 100 agents in the call center than what we expected.. Our main reason for this was to allow us to focus on our own core areas and that migration is largely done, the training is still continuing and we are going to train them continuously. We have also branded that specific area of the call centre as Liquidation Channel in US so that these outsourced call centre employees seeped in our culture and we are putting in incentive plans for these employees

**Maulik Patel:** How the competitors do it - do they have a similar outsourcing model or they have an in-house?

**Sunil Agrawal:** In US we have seen mostly are in-house. In UK we have seen they outsource a lot. But our focus was on our core employee base and we are also in Austin which is a more expensive location whereas our competition is more into different locations which is less costly but in house. What we have done right now is outsourced to a third-party which is at a less costly location and maybe one or two years down the road we will see if it makes sense for us to acquire our own call center in those locations

**Maulik Patel:** What is the guidance for the tax rate for this year and next year?

**Hemant Sultania:** Going forward we should be taxed in the range of around 25-28%. We are also building our infrastructure in SEZ so that will reduce our tax outflow. This facility will take around a year to come.

**Maulik Patel:** And how much we are spending on that?

**Hemant Sultania:** It should cost us around $2.5 to $3 million.

**Moderator:** Thank you. We have next question from the line of Rahul Bhangadia from Lucky Investment Managers, please go ahead.

**Rahul Bhangadia:** Did you say the free cash flow in Q3 was Rs.35 crore if I am not wrong.

**Hemant Sultania:** Yes.

**Rahul Bhangadia:** Just wanted to understand, when you say free cash flow, you basically remove the working capital requirements and the CAPEX, whatever you may have done, right?

**Hemant Sultania:** When we do free cash flow, we take cash generated from operations and then we deduct the sale of fixed assets.

**Rahul Bhangadia:** I just wanted to know if the 9 months free cash flow was Rs.64 crore, just trying to understand that the net debt has gone down by Rs.27 crore, so what accounts for the difference?

**Hemant Sultania:** If you see the 9 months cash flow, it is there only. Our stock has increased in comparison to Q2, which is the major difference.

**Moderator:** We have next question from the line of Pritesh Chheda from Emkay Global Financial Services, please go ahead.

**Pritesh Chheda:** On the drivers of growth, one you mentioned, increase the reach, so if you could tell us the quality of the distribution that we have today in the 98 million household, how much is full time, how much is part time, and in the full time when you say it is 24 hours running channel, if you could just give some idea on the reach?

**Sunil Agrawal:** 98 million homes is all full time equivalent, the gross equivalent is much larger, I do not have that number here, the gross households that we reach in UK is all full time, 25 million, in US and Canada, I believe the gross is about 110 million homes, some of them may be duplicated, which we do not count in our calculations for full time equivalent. So what we do is, depending on the value of those hours, we convert into full time equivalent and then we come to 72 million homes. Just to give you an example, if it is a night time, 6 hours in night time, so they do not calculate at 33% of the calculation, but actually at around 15% because nighttime is about half productive as daytime.

**Pritesh Chheda:** So let us say in US if it is 110 million homes, then the full time would be how much out of it, let us say 24-hour running channel in that household?

**Sunil Agrawal:** That is a good question, I do not have the data right now, but I believe it must be around 60 million or so, which is just full time, but that is a rough estimate from the back of my mind. Hemant, can you give exact data to Pritesh later separate?

**Sunil Agrawal:** We will pull out and give it to him.

**Pritesh Chheda:** The total household with satellite connection is about 120 million in US?

**Sunil Agrawal:** The total household is 110 million including over the year, that means some homes in US do not have any cable or satellite, but they only take the signal from the antennas. The actual cable satellite household a little over 100 million.

**Pritesh Chheda:** Total cable household is about 100 million?

**Sunil Agrawal:** A little over 100 million of cable and satellite, I do not have the exact number

**Pritesh Chheda:** Which means we have virtually there now everywhere in US, either part time or full time, whatever?

**Sunil Agrawal:** We cannot say, because we know that there are many markets we are still not on. Some homes may be duplicated as well, so when we calculate full time equivalent, we do not count them. 110 million may not mean that we are in all US homes because there may be some duplication too.

**Pritesh Chheda:** In UK, when we said 25 means, that is the 25 million household market, and we are there in 25 million?

**Sunil Agrawal:** That is correct.

**Pritesh Chheda:** There it is 100% and it is a 24-hour channel?

**Sunil Agrawal:** Yes, and Canadian market, out of about 20 million homes we are in only about 11 million homes for only 4 to 5 hours in the night, so in full time equivalent basis, we are just about 2.5 million homes in Canada out of 20 million.

**Pritesh Chheda:** And what is the update on the UK performance, how it is happening, and any changes there? UK was typically a more dependent on jewelry and that is how the name used to be. So any change in the model there and what is the outlook there?

**Sunil Agrawal:** In UK we are changing our name to TJC, rather than the jewelry channel, and the transition is happening right now. As of in April it will be only TJC. Non-jewelry product ratio in UK is now around 15% whereas in US it is around 8% to 9%. So UK actually is moving forward with non-jewelry products faster than US.

**Pritesh Chheda:** What is the size of the business now and the profitability there? And if you could tell us 9 months, what would be the size of the business in US and the profitability and in UK - size of the business and profitability?

**Sunil Agrawal:** We do not break down both businesses separately for competitive reasons, but I can give you approximate ratios of the two businesses; it is about 30% and 70% in UK and US respectively.

**Pritesh Chheda:** This is the revenue side?

**Sunil Agrawal:** Revenue side, yes and from profitability side, the gross margins are pretty close to US gross margins, around 55%. and then when we club both US and UK with manufacturing, we get 61% gross margins, and EBITDA percentage UK is about half of US.

**Pritesh Chheda** So, which means it is again three-fourth, one-fourth?

**Sunil Agrawal** As a percentage of sales, UK EBITDA is half of US, not absolute dollars.

**Pritesh Chheda** And the two other data points which you discussed was retention of customer and repeat purchases. There was one number given by Hemant on 17 Vs 14 repeat purchases. Let us say, a year earlier to this what would be this number and similarly, the number of pieces, 26 Vs 24 a year earlier what would be the number?

**Sunil Agrawal** I will give you the nine-month' number; the purchase is 16.3 last year and now it is 17.5 and the quantity a year ago was 24 Vs 25.6.

**Pritesh Chheda** lastly, on the growth outlook, you said with effect Q1 you should start seeing growth. Any thoughts on you reverting back to the volume growth which the model used to clock for the last 2 to 3 years; do you believe that you will revert back to that growth?

**Sunil Agrawal** Definitely, we will, because the model is very robust and powerful and as we are making it more diverse with other categories apart from jewellery, we are confident of achieving the growth. Next year onwards we would have better growth because we will have both our web and mobile platforms o operational. In medium term, i.e. 2 to 3 years, I am confident of 15% to 20% growth that we used to see.

**Moderator** Thank you. We have next question from the line of Darshit Shah from Equirus Securities Private Limited. Please go ahead.

**Darshit Shah** My question pertains to the competition in which you mentioned which has started coming in for last quarter and we are seeing the impact on volume growth as well as on the margins. So, what is your take on where do you see this competition heading probably next year down the line and how we would be facing that? The second question is to understand the margins have been affected partly, mostly because of that competition. So, when do you think that we will be inching towards 12% or more what you were probably making last year?

**Sunil Agrawal** So for the competition, I do not know how long they will continue the same practices because their financials are not very strong. So, that is something we do not know. From our side, we are making our business resilient to such competition by adding the different categories that is not impacted by JTV and we are going aggressively in new segments, for example, Home Textile is something we tested with a decent result and we are going to expand into that in coming years. We are also expanding the lines in various accessories like bags, handicrafts, scarves and hair accessories.. So, we are trying to make our business resilient to competition and also our web platform is going to be very robust in coming quarter and we are seeing a lot of customer migration towards web and mobile and with the robust platforms coming online, that will give us excess to those customers who may not be engaged as much with us right now. Also, the Rising Auction that we saw customers gaming us, that has been corrected and that will also help us in our growth.

**Darshit Shah** So, sir probably from next year onwards, do you see this year, probably you will be making close to around 10%, 10.5% kind of EBITDA margin for full year. So, do you think probably, we will be reaching around 12% or so mark for the next year?

**Sunil Agrawal** I cannot commit to that EBITDA of 12% but what I see is that the growth of top line will achieve that in coming year. EBITDA is a factor of, say, for example, if you were to take new 5 or 7 million homes, so, the new homes are EBITDA dilutive initially and depends on when we take those homes. So, we do not look for high EBITDA but what we are looking for is higher growth.

**Moderator** Thank you. We have next question from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.

**Deepak Agarwal** It was mentioned that we invested Rs.39 crore in dual channel and channel positioning, etc. What is this dual channel, could you just explain?

**Sunil Agrawal** It is dual hosting i.e the product is sold on TV by two hosts. So, usually, there is our host and there is either one of the managers or an outside expert going on live e to add a sense of authority or sense of importance of that particular product and we believe that this is helping out programming and we are going to expand that to a longer period of time.

**Deepak Agarwal** These are basically all expensed out, right?

**Sunil Agrawal** Yes, this is already expensed in the P&L.

**Deepak Agarwal** Our inventory has gone up even in the seasonal quarter, typically in the seasonal quarter, the inventory should go down. Why this built up happening there?

**Sunil Agrawal** Usually, we built up slightly higher for higher revenue. Last year, I remember, we were short of inventory and we did not want this to happen this time. But we believe by March, it will normalized again.

**Deepak Agarwal** What was the Content and Broadcasting cost during the quarter?

**Sunil Agrawal** Around 15% of total revenue for the quarter and for the 9 months revenue 17%.

**Deepak Agarwal** Why the tax rate were low this quarter?

**Hemant Sultania** Tax rate is low because we saved some tax in US in Q3 and last year the MAT provision was done in Q3 only because we had carry-forward losses. But if you see on a 9 months basis, tax is around 17% of revenue whereas last year it was around 8% to 9% of revenue.

**Sunil Agrawal** We made higher provision in earlier quarters. So, this quarter we did not have to make as much.

**Deepak Agarwal** My last question is on this what is this patent case against America's Collectibles Networks and what is the status on that?

**Sunil Agrawal** Yes, they had filed a patent case on the reverse auction process that we have. They own a patent by virtue of acquiring a company that own the patent. So, we challenged that patent's validity in patent review board in USPTO office which has been accepted which is very rare. That means the chances are more than 50% of that the patent will be cancelled.

**Deepak Agarwal** They have a patent on reverse auction process.

**Sunil Agrawal** Yes, they actually acquired a company that had the patent, which arranged the validity of the patent's itself and that has been accepted for reviewing of that patent to be ready of that process. How can a reverse auction be patented? Reverse auction had been there for long time.

**Moderator** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for your closing remarks. Over to you, sir.

**Sunil Agrawal** I thank all the participants for the participation, and if there is any further follow-up questions, feel free to write to CDR India or to Hemant Sultania at VGL. Thank you for your time.

**Moderator** Thank you. Ladies and Gentlemen, on behalf of Vaibhav Global Limited, that concludes this conference call. Thank you for joining us.