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Q3 & 9M FY17 Earnings Conference Call Transcript February 07, 2017

Karl Kolah: Good evening everyone and thank you for joining us on Vaibhav Global Results Call for the quarter and 9 months ended 31st December 2016. Today, we have with us Mr. Sunil Agrawal - Chairman and Managing Director and Mr. Puru Aggarwal - the Company CFO.

We will begin the call with brief opening remarks by Mr. Puru Aggarwal on the financial performance followed by a discussion on the business operations, key initiatives and broad outlook by Mr. Sunil Agrawal. Following the management's opening comments; we will open the forum for your questions.

Before we get started, I would like to point out that some statements made or discussed on today's call may be forward looking in nature and must be viewed in conjunction with the risks and uncertainties faced by the company. A more detailed statement and explanation of these risks is included in our earnings presentation. The Company does not undertake to update these forward-looking statements publicly.

I would now like to invite Mr. Puru Aggarwal to start proceedings on the call. Over to you.

Puru Aggarwal: Good evening everyone, I warmly welcome you all to Vaibhav Global's Q3 and 9 months FY17 earnings call. I will begin with an overview of the key financial highlights for the quarter under review.

We have delivered a robust performance for the quarter under review. Q3 performance has been very encouraging with resumption of accelerated growth momentum. Revenues were higher by almost 15% year-on-year at Rs. 405 crore and overall volume grew by 12% due to improved performance in retail sales in US and UK markets as well as higher B2B business. TV revenues grew by 10% year-on-year to Rs. 285 crore. Web revenues expanded by over 24% to Rs 71 crore in Q3.

This strong rebound in volumes and revenues follow us from the increasing stake up of our 2 key initiatives; budget pay EMI scheme and easy returns policy by customers providing deeper market traction in the retail market. In addition, our expanded product range led by growing contribution of in house brands, better TV programming via engaging storytelling and on-air guest experts and improved web

and air interface in both geographies has improved the overall experience and customer engagement.

We continued to have very healthy gross margins, which stood at 58.3% in Q3 despite higher contribution from B2B revenues and impact of GBP devaluation in group consolidation. These margins are substantial differentiator for our business versus much larger players and signifying our ability to manufacture and source quality products at highly competitive prices. Encouragingly we have been able to maintain gross margins at these levels despite expanding the range of fashion and beauty products in our portfolio.

EBITDA for the quarter was higher by 49% year-on-year at Rs. 36 crore. Operating margins expanded 200 basis points year-on-year to 8.8%. And we believe that with further volume growth and stronger leverage of the fixed cost structure there is a significant potential for continued expansion in operating margins. In addition, Q3 net margins expanded 220 basis points almost doubling PAT to Rs. 23 crore. Also importantly we are continuing to see positive operating and free cash flows which were at Rs. 33 crore and Rs. 16 crore in the first 9 months this fiscal year. We see further improvement in cash flows in Q4 as we liquidate inventories following the closure of the holiday season sales.

With these comments, I now hand over the discussion to Mr. Sunil Agrawal to share his views on the business.

Sunil Agrawal:

Thank you, Puru. I welcome you once again to Vaibhav Global's Q3 FY17 Earnings Conference Call. Puru has given you an update on financial performance for the quarter under review. I will now give you an overview of the operational strategy for the growth ahead.

The performance on both financial and operating parameters has been heartening. Both TV and Web has shown double digit growth with expanding volumes. The recent operational initiatives are now enhancing customer traffic and beginning to bear fruit.

The EMI initiative through Budget Pay now forms 23% of gross retail sales. We have also invested Budget Pay installment options for our UK, TV customers and expect to offer these and these to UK web customers very soon. In the US we have already expanded Budget Pay to our web customers which has drawn very good response.

Another key activity we undertook recently was the successful rebranding of Liquidation Channel as Shop LC. Just to take you back in time to refresh your memory, Shop LC was originally known as the Jewellery Channel, TJC when it launch in 2007. Shortly after launch of the Jewellery Channel the US entered into recession and sales declined. Fully expecting to liquidate merchandise and cease operations the jewellery channel changes name to Liquidation Channel. However, instead of going out business the network experienced speedy and steady growth and has been operating our Liquidation Channel since 2008. As we now expand our offering to include a range of lifestyle and fashion products including beauty and fashion. Shop LC accurately reflects our current business model with its wide-ranging merchandise offerings to target a larger audience.

We have now expanded presence to 111 million households in US and UK. Which we reach with improved TV programming, engaging storytelling and on-air guest experts for a great customer experience. We also recently launched the mobile application for Shop LC which is seeing a good number of downloads and initial sales activities is positive. We will shortly launch an enhanced version of mobile

app for TjC UK as well. Our experienced IT management team has helped us deliver best in class customer interfaces and timely technological updates.

We have received good response from our in-house brands, both in fashion jewelry and lifestyle products. Which we have exceed our initial expectations. Brands such as Royal Jaipur, Katie Rooke's, Jewel Studio, Giuseppe Perez, Milaan and beauty brands like Alicia Douvall are performing very well, as we are constantly imbibing feedback and adapting to evolving customer preferences.

Let me now highlight some vital customer-centric data points. In Q3 we added 53,000 new customers and now serve 344,000 unique customers, calculated on an annualized basis. Repeat buying activity of our customers is at 18 times versus 17.1 times in the corresponding period last year. Average selling price in the quarter has been \$25.3 against \$25.4 last year same period. Average annual purchase by each customer is at 25.7 pieces during the year as compared to the 25.2 pieces in the previous year. The customer retention rate is now at 45% in US and 51.1% in UK.

To conclude, I would like to reiterate here that we remain extremely confident about the business model. Over the years, we have developed a robust, low cost manufacturing/procurement base in India and South East Asian markets. In US and UK, we now have direct business in 111 million households. This presence on TV shopping is supplemented by a strong and expanding web platforms that enables substantially our customers' engagement life cycle.

The investments that we have made are helping us gain robust customer traction as we delivered deep value proposition to them. We believe we have the framework to deliver continued growth that will allow us to gain traction and market share over time. Our team is committed to execute of the plan to provide sustained long term value to our stakeholders.

With that I conclude my opening remarks and I request the operator to open the forum for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Jatin K from GS Investments. Please go ahead.

Jatin K: My first question is, I would like to know how has the competitive intensity changed as in we were saying earlier we were saying that competition has increased how is this the case now?

Sunil Agrawal: So, we believe that the competitors are continuing with the same offering as they did, they started 2 year ago. So, we have brought our offering to the level playing field from the EMI and from the branding point of view. Our average price point is still much lower than them and our web platform is also very stable and robust now. So they are continuing as they are and they are continuing to grow as well as from what we hear in the market because they are private company. So, they are doing well as well.

Jatin K: And sir, this EMI model has it hurt working capital a bit and how much has and it had an impact on our working capital?

Sunil Agrawal: So the cash generation that Puru has shared with you, is in spite of that EMI investment that we have done. So, approximate investment in EMI is about \$5 million.

Jatin K: And sir, my last question would be any sort of guidance you would like to have for the next quarter and for the next year?

Sunil Agrawal: As I give the guidance last quarter, we will continue to have low double digit growth in topline.

Jatin K: And what about margins, sir?

Sunil Agrawal: Margin will continue to expand as I shared number of times earlier. Our business model is highly beneficial to the topline leverage, because costs are largely fixed.

Jatin K: And gross margins we would like to maintain on this levels?

Sunil Agrawal: Yes, that is correct. The gross margin will be maintained around the current levels, so between 58% and 60%.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Sunil Jain: I got 2-3 questions. First of all, about the return, how much was the return ratios in the current quarter?

Sunil Agrawal: In the US?

Sunil Jain: Yes.

Sunil Agrawal: It is about 14%.

Sunil Jain: Is it seasonal or I mean, if I see the trend it is coming down every quarter?

Sunil Agrawal: During the clearance that we do, year-end clearance we do not take returns on the clearance. So, whenever there will be a clearance event the returns will go down.

Sunil Jain: And sir, about the gross margin no doubt, Q-o-Q and year-on-year it is not comedown much. But if I go to our good time, the gross margins are comparatively quite less. So, what is the opportunity where we can increase these grows margin?

Sunil Agrawal: So, there are 2 factors, the gross margin as Puru explained, one was slightly elevated B2B sales and other was the GBP conversion into Dollars and Rupees. So, because of the GBP conversion, we lost about 2% point of gross margin. Although in constant currency it is robust, so the loss were actually notional, in real sense it does not matter but in Rupee conversion that 2% is hit.

Sunil Jain: So, point is like how this will come back, means we have lost, that is okay and it has come down. So, is there any possibility or anyway we can either take the price increase or whatever it may be? Is there any possibility that this cross margin whatever we lost because of GBP it can come back?

Sunil Agrawal: So, it is only temporary. The percentage wise because the opening and closing rate of inventory is different the margin hit was temporary, once the rate stabilizes in the GBP versus Dollars then it will go back up.

Sunil Jain: So, you mean to say once the year is over thereafter when the inventory will be at a lower level and sales will also be corresponding to that then automatically this growth margin will look like more of a normal.

Sunil Agrawal: Correct, that is correct.

Sunil Jain: And sir, this quarter we got a very good volume growth, so at least this growth can be maintained we can assume at least?

Sunil Agrawal: We believe so.

Sunil Jain: And around one month has already gone in the current quarter, so how is the feeling? Means, how this month is going?

Sunil Agrawal: So, as I give earlier that guidance is low double digit growth in topline as well as volume.

Sunil Jain: So, that we are getting in January also.

Sunil Agrawal: Correct.

Sunil Jain: And sir one last question about this we had this class action suit, which got transferred to the location I think Texas. So, now what is the status, because after since last one year we had not heard anything, so is that something going on or it has already been close or something?

Sunil Agrawal: It's still going on, they file for class certification for the lawsuit. So they file for only California class certification, not the US national, has really whittled down from where it was earlier and in Texas to get the class certification for by only one plaintiff an uphill task.

Sunil Jain: So, what we should means we are not expert in that so, what we should assume means, we should ignore it what to do? One of the chances probability of any hurt on us, is that very nominal?

Sunil Agrawal: We personally do not feel it to be a threat or any danger to us. So, but we are still defending it vigorously. Because it is a legal environment and never know but we believe that there is no merit in the case because it is difficult to prove a class damage to people who have paid money for the product and they enjoyed the product and they are 1,000 of different SKUs to certify a class over different product range for different consumer taste, different geographies, different age groups is extremely difficult. This is what the given advice by our counsel, even the judge has mentioned that in one of the hearing, how can you certify class for such a diverse kind of product?

Sunil Jain: So, is there any hearing in coming period, may be 3-6 months.

Sunil Agrawal: Yes, so we expect the hearing to be done within this quarter, so at least to start this quarter but a decision of the class certification will come by August of 2017.

Sunil Jain: There is a defined timeline or something like that?

Sunil Agrawal: That is the current timeline, it can always change but this is the current timeline advised by the court.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Runjhun Jain: Sir, I just have one question, you said that the return ratios or return percentage was lower in this because we have a clearance sales this year, year-end clearance sales. So this could also could be the reason for the higher volumes and this could have one-off effect and can come down in Q4, is the understanding right?

Sunil Agrawal: So, we have the year-end sale last year also. So, this year we did slightly low, one week of clearance sale in October as well. So, next year also we expect to do the same thing.

Runjhun Jain: In Q4 sir, I mean this 3 months, the year end clearance would be ended? So these 3 months would about have normal sales, so due to that the volume number which we saw a great improvement in this quarter can come down?

Sunil Agrawal: So, year-over-year we will have same credence of sale events. So, last year in January 2016, we would have had a short duration of clearance and we had the short duration of clearance in January 2017 too. So, as I give guidance to when Sunil asked the question, we expect to have low double digit topline as well as volume growth in current quarter as well.

Runjhun Jain: So, we can expect this low double digit volume growth also in this for Q4?

Sunil Agrawal: Correct.

Moderator: Thank you. The next question is from the line of Ram Shankar, he is an individual investor. Please go ahead.

Ram Shankar: Sir, I am having some few questions. What you see the new Presidency changed how our business will be in future?

Sunil Agrawal: We do not expect any change to or impact to our business because we are not B1 or L1 or H1 dependent company and we are not so much of, we have no government contracts where they can influence us. So, we do not really expect our business to be affected, as long as the US economy continues to be normal, we do not expect any change, if the economy grows we can continue to we can expect our business to accelerate even further.

Ram Shankar: Sir that, do it yourself, it is a very good thing, how the response from the customers?

Sunil Agrawal: So, it was reasonable for the first show that we had and we expect to noticeably expand that in next financial year.

Ram Shankar: Are you giving any sort of manual while sending those items to customer's sir?

Sunil Agrawal: So the first show, we did not give a manual, but that is a very good point that you make. We are considering creating VTs and putting that on YouTube and on our site as well. So for all the projects that we do will give them the guidance. Not the print manual but in form of VT on the site.

Ram Shankar: Normally, if you give in a white paper in which how to do assemble those things are we trying? I am just asking in that way, because it will be easy as a customer to think of it.

Sunil Agrawal: Thank you for your suggestion. I will discuss that suggestion with my team and also do some survey on that and take this forward. But I appreciate your suggestion.

Ram Shankar: Sir and whenever I am downloading via Google chrome, last time also I mentioned this that is some error, the video is not getting downloaded earlier one month back I tried. So, that issue also needs to be taken with the team sir.

Sunil Agrawal: As you saw which video did you download sir?

Ram Shankar: No, when I am trying to watch live TV in Google chrome, I was unable to see the video.

Sunil Agrawal: For UK or for US sir?

Ram Shankar: I am talking about US.

Sunil Agrawal: Okay, so thank you very much for your suggestion, I will definitely take up with my technology team but have you tried recently in recent days?

Ram Shankar: Yes, recently it is very good, I have tried recently it is working fine, because I am talking about one month back. So, I am not sure about the current status and what is the competitor intensity sir? Because how our customers, we are encouraging the customer, any other activities we are doing? Like last time it all that we are doing in Facebook and other activities we were doing, I have not joined the earlier part of the concall, I do not know, so that is why I am asking. How are we increasing the customer base apart from the increase in the household this thing?

Sunil Agrawal: The biggest customer increase comes with our TV programming. Programming has to be engaging the co-hosting and guest hosting has to be interesting for people to watch for longer and then call us. And then also web engagements through social media, through other marketing initiatives, search engine optimization, the link shares, the banner ad, the Google ad words, all those areas also we are hitting hard. The referral program, the charity programs, the social programs that we do across US and UK. So, every possible venue we are there to engage existing as well as potential customers.

Ram Shankar: After this changing to Shop LC, is the customer numbers increased that the way I change the Liquidation Channel to Shop LC?

Sunil Agrawal: It is very short period for us to really make a judgment. We have received very positive feedback from customer for our name as well as for our new set that we have new app and everything we have received, so far positive response. But it is too short time for us to make a judgment that we have received high customer registration yet or not.

Ram Shankar: What is the growth volume in US sir, how much growth volume in US, what is the growth percentage in volume wise?

Sunil Agrawal: So quarter-on-quarter in the US it is 13% growth.

Ram Shankar: In US we are having 13% growth in Q3.

Sunil Agrawal: In US, yes correct.

Ram Shankar: And UK sir?

Sunil Agrawal: UK was 18% higher volume.

Ram Shankar: Volume growth and we are maintaining average selling price is 25.

Sunil Agrawal: So, US is \$22.50 and UK is 20.24.

Moderator: Thank you. The next question is from the line of Moiz Tambawala from Florintree Advisors Pvt. Ltd. Please go ahead.

Moiz Tambawala: Just a couple of data points, if you can share the number of customers added during the quarter as well as the unique customers for the quarter?

Sunil Agrawal: So, we added 53,000 new customer registrations during the quarter and the unique customer we do on annualize basis is 344,000 unique customers in trailing 12 months.

Moderator: Thank you. The next question is from the line of Aksh Vora from Praj Financials. Please go ahead.

Aksh Vora: I just wanted to know, what is the sales coming out from the EMI budget we rolled out. So, what is the breakup in that format?

Sunil Agrawal: Yes, in US it is 28% of total sales coming from EMI right now and UK has recently being launched, so last quarter was little over 8%.

Aksh Vora: And sir, one more thing is I think, so our main stream revenue model for growth predominately for now is TV. So, the volume growth is little bit shrink in TV. So, is it because of the new app launch and various initiatives we have taken over past couple of quarters or is there a trend changing or something happening or I am just not able to understand that thing.

Sunil Agrawal: The volume growth actually has just come back to us on TV. So as you see the web growth is pretty robust and the TV also is double digit volume growth, so we are quite pleased with this volume growth coming back to us in after all the initiatives that we have put in place, we have started to see the growth in we expect to see it continue to grow.

Aksh Vora: And I just wanted to know in this quarter performance, we have the B2B sales also little bit inching more towards that B2B sales. So, the mix would be going on as of we saw in quarter 3 or it would change and shift more towards TV going ahead?

Sunil Agrawal: So, in long run we expect to see web continue to increase the ratio of their sales, especially the catalogue sales, which are full margin sales. Within the web rising auction that we have is more of a clearance mechanism for us. So, as a percentage of sales that we should just about 18% right now, we expect to see it continue to grow year-over-year. The B2B sales it will be always between 10% to 15% of our sales. So, we do not expect it to grow beyond 15% or not below 10% in foreseeable future.

Aksh Vora: And sir, any reason why the B2B sales were up this quarter?

Sunil Agrawal: So, we have some good customer engagements from our B2B, Evine is one, KayJewelers, which is Signet listed company, largest jewelry retailer in the world. So they are growing business with us and couple of other customers, large customers and some opportunistic when to buy the rough from the auctions from this AIM listed company, Gemfields. So, excess material we sell into the local market and so those opportunistic sales as well.

Aksh Vora: That was just for the quarter or it is likely to continue going ahead?

Sunil Agrawal: So the wholesale business that is selling to other retailers that will continue definitely but the roughs are more opportunistic, so we do not know what exactly when we will auction, when will get a good deal and how much spare we will have.

Aksh Vora: And sir, lastly which are the new categories that we have introduced in lifestyle and the beauty products we have introduced, so and what would be the contribution from the same, I know it must be very minuscule at this level but then if you can quantify what would be the value added contribution from those products?

Sunil Agrawal: So, the most promising category we see is the beauty product category, within the lifestyle. In UK especially it is growing very rapidly. In US also post the name change lots of middle market brands have shown very strong interest to go on-air for us. Many of those brands did not want to go on Liquidation Channel, so with Shop LC there will be lot of interest and we will continue to see lot of traction there. I do not have break up of how much beauty is contributing as a percentage of total sales but I know total non-jewelry lifestyle in UK is approximately 17% of our sales and in US it is approximately about 7% of our sales.

Aksh Vora: And can you just give me, how much did it grow compare to previous quarter or the comparable quarter, non-jewelry in US and UK?

Sunil Agrawal: I do not have that data with me, Aksh.

Aksh Vora: No issues.

Sunil Agrawal: But it has definitely grown in both locations that we know and expectation is that next year it will see a continued growth faster than jewelry.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Sunil Jain: Sir one question. See, you said that the unique customer came to 344,000 where is if I see the last quarter it was 347,000 but unique customer added was 47,000 last quarter where as it is 53,000 this quarter. So, why that total unique customer quarter-on-quarter from September quarter to December quarter is declined?

Sunil Agrawal: That is a good question. I do not have the data of last quarter in front of me, I have only Q3 right here. So, we are showing 47,000 unique customers that we had added. So, I do not have the data for year-to-date trailing 12 month from the last quarter. Let me reconcile that data and we can have a separate conversation of that now.

Sunil Jain: And sir, second question is there any scope for increase in prices on web or may be on TV channel?

Sunil Agrawal: You mean the margin or the average price?

Sunil Jain: Average price?

Sunil Agrawal: As you might have seen we actually took some average price point lower because we believe we found that is the better model for us to get more unique customer, more new customers and better overall engagement.

Sunil Jain: So, you are trying to keep that around these levels?

Sunil Agrawal: Yes, we want to keep it around these levels not increase further.

Sunil Jain: And sir, last question about will there be any impact of change in the US policy for import on the entire product if there is any increase in the tax on import?

Sunil Agrawal: So, if it is there for us, it will be for everybody else. So, I do not believe it will unless it brings the whole US into recession. But I feel that the economy wise the new administration would not want the economy to go down because that will take their whole promises to the negativity.

Moderator: Thank you. The next question is from the line of Gopinath Reddy, he is an Individual Investor. Please go ahead.

Gopinath Reddy: Sir, we have a competitive advantage in terms of lowest cost producer or procurer for jewelry. Is there a similar kind of a thing or anything like that for the rest of the new items that we are entering into like home décors as such?

Sunil Agrawal: So, we go it reverse way. We know when we look at our competitors or our trends, so what is selling we then map it from our sourcing abilities. If we can procure the item at our margin and cheaper than our competitors then only we go into it, because our customers would expect from us to deliver the value. So, we actually play the reverse merchandising strategy here.

Gopinath Reddy: Second thing, I really wonder why when we are giving at such a low price, the usual nature of any customer is when a similar kind of a product is available at a damn low price they should have flock into it, why do you think that is not happened with our company, I mean of course we are increasing the volumes but not at the expectable level given the price differential with the competitor. Do you have any idea why it is happening?

Sunil Agrawal: So, one thing is in US or in UK or any developed market just the price itself is not sufficient as we have learned. It is how you deliver it and the facilities that you give along with that. The facility here would mean EMI, how many split payments do we give. We give 3 split payments many of our competitors give 4, 5, 6 split payments. So, if you were to give 6 split payments, it will definitely it will spike volume quite more than because they will feel yes, we giving the same facility as others. But we want to be more prudent for our business for our cash flow and everything. So, we are happy with our current 3 split payments that we do for the products which is more than \$20 price point. Below \$20 we rarely do multiple EMIs. So, not only the price counts but other things as well counts and the next is the perception of value. So, we are definitely great value but how do you appear to a customer. So, we have to make sure that our perception is also there for the low value and the third thing is, reach to the customer, are we reaching all the prospective customers or as wider audience as possible. So, we constantly strive to reach wider and wider audience but it is not necessary that at any given time we have reached the maximum potential.

Gopinath Reddy: The last one is a request sir if you can place the number on which we can dial for this conference call in the disclosure files in the exchange itself that will be helpful because every quarter I am searching for which number to contact, so I can reach this conference call?

Sunil Agrawal: There is a very good suggestion Mr. Gopinath. We have taken note of that and we will do it next time onwards.

- Moderator:** Thank you. The next question is follow up from the line of Ram Shankar who is an Individual Investor. Please go ahead.
- Ram Shankar:** Sir, regarding this Royal Jaipur and other thing new branded items you told that we will, we are launching, so what is the status of that?
- Sunil Agrawal:** As I mentioned the Royal Jaipur and Giuseppe Perez and Katie Rooke's all these brands have been launched and have been doing well. So, we continuing to expand them and sometimes tweak a little bit based on the customer feedback. So, not only Jewelry brand but lot of beauty brand as well. For example, there is one company in UK called Opatra that has done very well. The productivity ratio of that brand is actually double of our average of last three months. Alicia Douvaell is a great beauty brand, 30% up, ASTALIFT, Prism Perfumes, Jojoba Oil, there are lot of these brands that have done very well for us.
- Moderator:** Thank you. The next question is from the line of Jatin K from GS Investments. Please go ahead.
- Jatin K:** Sir, what would be our dividend policy for this year and the coming year since, we are generating decent free cash flows?
- Sunil Agrawal:** So, at the end of the year it will be up to the board to decide, so probably we will know the policy after annual board meeting.
- Moderator:** Thank you. As there are no further questions from the participant, I now hand the conference over to the management for closing comments.
- Sunil Agrawal:** I thank all the investors to participate in this conference call. I look forward to your continued interaction in future calls. In the meantime, if you have any question or so enquiry, feel free to reach Karl Kolah or Puru Aggarwal at VGL. Thank you very much.
- Moderator:** Thank you. On behalf of Vaibhav Global Limited that concludes this conference. Thank you for joining us.