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Q3 & 9MFY18 Results Conference Call Transcript
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Karl Kolah

Good evening and thank you for joining us on Vaibhav Global's results earnings call for the third quarter and nine months ended 31st December, 2017. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director and Mr. Puru Aggarwal, the Company's Chief Financial Officer.

We will begin the call with brief 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 of the 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 publically.

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

Puru Aggarwal

Good evening everyone. I gladly welcome everyone to Vaibhav Global's Q3 & 9MFY18 earnings call. Let me begin this call with an overview of the key financial highlights for the quarter under review.

We continue to maintain the strong growth momentum for the quarter under review. In Q3FY18 revenues grew by 14% yoy to Rs. 460 crore, to give us our highest single quarter revenues ever. Our retail revenues continue to maintain a healthy growth rate. In constant currency, which gives a clearer indicator, our retail revenues expanded by 11% in US and 23% in UK respectively. This strong retail performance in Q3 is a function of 5.2% increase in volume growth and higher ASP's – 7.3% higher product pricing in TV and 23.4% in Web. In addition, revenue contribution from our B2B business was substantially higher in Q3, as we continue to optimally use favorable opportunities to our benefit.

Web sales once again showed significant growth. It was up 42% in Q3 and 40% in 9 Months 'FY18 – driven by strong expansion in volumes and higher pricing, as demand for budget pay products expanded. Our TV broadcast made available on web is gaining popularity. In Web, we saw growth across all segments including full price catalog sales, rising auctions and sales via TV content streaming on internet and app-based web platforms. Going forward, we see both TV and Web platforms integrating further and urge you to look at volume on both platforms as inter-dependent as our operations run on an integrated basis. Both TV and Web platforms are symbiotic in our B2C ecosystem.

During the quarter, we maintained healthy gross margin of 57.3%, despite a jump in B2B sales, which traditionally have lower margins. EBITDA increased by 66% to 61.7 crore and PAT by 77% to Rs. 45.5 crore yoy. Underlying our strong growth in profits is the ability to grow by leveraging the existing cost base and deriving significant operating leverage, a key USP of our business model. Additionally, manufacturing and sourcing quality products at highly competitive prices allows us to offer a deep value proposition to customers even when maintaining healthy margins.

Along with strong growth in revenues and profit has come significant expansion in cash flows, a key measure of success in any business – especially a consumer-focused business. In Q3, we have delivered positive operating and free cash flows, which were at Rs.34 crore and Rs.29 crore. We see further improvement in cash flows in Q4 as we liquidate holiday season inventories through 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 all once again to Vaibhav Global's Q3&9MFY18 earnings conference call.

Puru has given you an update on the financial and operational performance for the third quarter of FY18. I will now give you an overview of the operations and our growth strategy for the next few quarters.

I am happy to state that we maintained uptrend momentum during the holiday season. We delivered double digit growth in both US and UK markets in constant currency terms leading to superior financial performance. This is in line with our stated expectation of continued double-digit constant currency growth – something that we hope to maintain in the coming year as well.

At the same time, we continue to judiciously invest in the business to expand customer engagement and improve organizational productivity. Some of our recent initiatives include optimizing product mix to include more lifestyle products and various technology upgrades, improved programming, up-gradation of studios, a simplified website user interface, improved 24/7 customer care service, enhanced logistics, on-air guest experts, etc... We have received great response from our various brand launches, most recently that of beauty brands like DKNY, Calvin Klein, Nicole Scherzinger, Clinical results, Marilyn Monroe, Dior, Lieghton Denny Boutique, Lauren Stone etc., Such launches allows us to acquire new customers while garnering larger portion of our customer's disposable income.

With the objective of enhancing our brand and marketing processes, we have recently hired a new Director of marketing at Shop LC. TJC, our UK TV channel, is now available 24 hours on Freeview, a popular distribution network from previous 20 hours.

In order to improve our processes, we had embarked on Baldridge Quality Framework journey at our US operations earlier in the year, which continues to progress very well. We recently launched the same at our India operations with the help of American Society for Quality, called ASQ India. We expect this framework to improve our customer experience and employee engagement as well as reduce costs in years to come.

I am glad to share that we had four million-dollar days at ShopLC in Q3 compared to just one in the same period last year, this underlines the growing customer engagement at ShopLC.

We strongly believe that giving back to society adds to shareholder value by way of better customer and employee engagement. We, therefore, work to the best of our ability to help build a sustainable future for the communities we operate in. In this regard, we have been championing our signature One for One Program in the UK since over two years, donating a hot mid-day meal for every product sold. We have recently extended the program to our US operations where we have donated two million meals in Q3. Our contribution from TjC UK has been over 11 million meals till date.

Now, I would also like to highlight some key customer-centric data points that we track. In Q3, we added over 50,000 new registrations and we now serve over 334,000 unique customers on an annualized basis. Repeat buying activity of our customers is at 19.8 times as compared to 17.9 times on an annualized basis. Average annual quantity purchased by each customer during the quarter is at 28.5 pieces versus 25.5 pieces at the end of Q3FY17. Customer retention rate now stands at 48.7% in the US and 50.2% in UK.

Before closing, I would like to reiterate that we will continue to bring deep value to our customers by leveraging our low cost India manufacturing base and sourcing from micro markets across Asia. We believe we have significantly differentiated capabilities and we will continue to undertake several initiatives that maintain our business momentum. We are confident that our robust business model can successfully deliver double-digit growth along with strong leverage, leading to sustainable long term value enhancement for all 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 a question-and-answer session. The first question is from the line of Ronak Jain from Vibrant Securities. Please go ahead.

Ronak Jain My first question was regarding the volume growth. In this quarter, we have actually seen a de-growth in the TV sales volume, and if we compare the overall volumes, it has also grown like 2.1% on a year-on-year basis. May I know the reason for the stagnant growth in the volumes?

Sunil Agrawal So, Ronak, first of all as Puru mentioned in his opening remark that please look TV and Web combined because we cross-promote heavily Web on our TV because our servicing cost is much lower on Web. So for people to buy on our Web streaming or TV streaming through Web that has grown exponentially over last few quarters because of that promotion. And even our Web full priced catalogue has seen much more jump because we've been aggressively promoting that on our TV. So first of all look that in combination. Secondly, year-over-year, you may have seen that our average selling price has increased. That shows that overall value has improved for customer.

Ronak Jain But sir, the thing is, we being a discount retailer, we need to concentrate on selling at lower point and increasing the volumes, right?

Sunil Agrawal Let me differ on this one, Ronak. In our business, since the product is very differentiated, on an average day, we air about 150 new products every day and the price point also varies from $5 up to $500 or sometimes even more than that. So for us to track volume on day to day is just not possible. So as a business we took a decision to look at the total revenue in dollar terms and average price point. So we don't look at volume growth day to day like a cement manufacturer would or like a beauty soap would because then they sell millions of the pieces of same kind. So it's a different business model with huge number of SKUs and lot of variety.

Ronak Jain So you suggest us to look at the overall growth only, not the volumes growth.

Sunil Agrawal Yes because the volume growth is suitable for a commodity business or a single-brand or very few SKU business. For us, it is not really suitable.

Ronak Jain So going forward, we should expect the growth in average selling price?

Sunil Agrawal No, we expect the average selling price to be constant, but the total dollar to be high, but sometimes it can change depending on what market or what customer is pulling. So as I said, we have very varied price point in whatever the customer pulls, we offer it to them and we're very agile in offering what the customer is pulling.

Ronak Jain Second question was regarding the Budget Pay, so previously I remember in the last concall you had told that around 2% of the total value goes towards the customer defaults on 2%. So what is the number in this quarter?

Sunil Agrawal So the Budget Pay for us is not every sale is on Budget Pay. The Budget Pay sales contribute approximately 35% of total retail sale. And of the Budget Pay sales, about 2.7% in US and about 0.8% in UK is a bad debt.

Ronak Jain 2.7% in US and 0.8% in UK.

Sunil Agrawal Yes, correct.

Ronak Jain Okay, we only bear the cost of these bad debts, right? So we haven't tied-up with any financial firms and all.

Sunil Agrawal Correct. So, overall much less than 1% because say, Budget Pay sales is relatively low of the overall sales.

Ronak Jain Sir, just to confirm, it is 35% of the overall retail sales?

Sunil Agrawal Yes. And of that, 2.75% in US and 0.8% in UK.

Ronak Jain And what is the proportion of the products that are returned? Do you have a data regarding that?

Sunil Agrawal So, you mean the returns on Budget Pay versus normal pay or total overall return?

Ronak Jain Total, maybe total would be fine.

Sunil Agrawal So, total return in the quarter Ronak is 14% And nine months was 17%.

Moderator Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda My first question is on the business model. It's been some years that we've seen constant change in the price per unit and especially in the Web sales, it has risen and on the overall company level also it has risen. Just wanted to understand two to three years from now what should your business model look like from the price point perspective and also from the portfolio perspective, that's question one. Question two is on the growth, it's been couple of quarters that we are seeing double-digit constant currency growth, what kind of visibility do you have on this growth, so if you could shed some light there?

Sunil Agrawal Okay, the first point is about price point visibility.

Pritesh Chheda And product mix.

Sunil Agrawal Yes, so price point visibility at this time is similar to what we have done in Q3. So we are not seeing any change in our price point going forward. But again, as I just mentioned to Ronak's question, we respond to what customer is pulling within reason. We don't want to go much higher because we want to occupy the value segment and we want to differentiate ourselves from our competitors like QVC, HSN, EVINE, or JTV, so that we want to be in a 20's price point both at the US and UK. So that is there. From the product portfolio point of view, we expect lifestyle product to contribute for current financial year between 10% to 12% in US and approximately 20% to 22% in UK.

Pritesh Chheda So balance 90 and 80 will be jewelry.

Sunil Agrawal Correct.

Pritesh Chheda Okay. And how will this mix change over years?

Sunil Agrawal It will be gradual change. We expect, for example, in US to be 15% next financial year and in UK, we expect it to be 25% next year.

Pritesh Chheda Okay. And on the second question, the growth visibility side, what kind of visibility do you see?

Sunil Agrawal So, as I mentioned in my opening remarks, we expect low double-digit growth in coming quarter and as well as coming year.

Pritesh Chheda Okay. And lastly I just have a question on cash flow. If you could tell us what was the operating cash flow for nine months and what is the free cash flow for nine months and what is going to be the prospective utilization of it?

Sunil Agrawal Yes, just a moment, Puru will answer that.

Puru Aggarwal So, it is 34 crore and 29 crore.

Pritesh Chheda So, that is for the quarter three, right, for the nine-month?

Puru Aggarwal Okay, nine month is 31 and 17 crore.

Pritesh Chheda 31 crore is the operating cash flow?

Puru Aggarwal Right. And 17 crore is the free cash flow.

Pritesh Chheda Okay, so you typically at the end of December would have inventory that brings it down right, that's how it is?

Puru Aggarwal Yes. So, this is holiday season and this is a trend that in the month of Jan and some part of Feb we liquidate this inventory.

Pritesh Chheda Okay, so your year-end number will look completely different from your nine month number, right?

Puru Aggarwal Yes, so Q4 would have even higher free cash flow.

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

Sunil Jain My question relate to more of a margin and the other expenses that the other expenses on the contrary year-on-year has declined and more of remained constant. So what is driving that, means why that expenses are remaining more of stagnant?

Sunil Agrawal Let me just see. Yes, so there were some savings in the marketing, branding, production and airtime. So, that has led to some decline.

Puru Aggarwal And also just to add to Sunil's comment, we have very aggressive policy on depreciation, means we depreciate the assets very fast. So the additions, which we had done in past in terms of Hybris etc., those we had depreciated faster. So depreciation even is low in this quarter.

Sunil Agrawal And also you might have seen, the number of homes have declined in last quarter, so that savings also has reflected here.

Sunil Jain See what we do is more of an investment also in this particular line of expenses. So, is there any specific policy like for the future what we used to do investment for acquiring new houses and all? Is there some changes in that policy?

Sunil Agrawal No, we constantly reviewed the homes. Actually there is a review every week of the home's performance. And so there is certain churn that happens. Sometime the churn will be negative, sometimes it will be positive. Our endeavor is also to look at opportunity of getting the new homes at attractive prices. And if you get the opportunity, we will take it. But at any given time we don't expect us to increase by more than 10% within a year.

Sunil Jain So, these expenses are more of factoring, I mean, nothing extraordinary gain or lower expenses in this.

Sunil Agrawal No, nothing extraordinary, this is nature of the business. Sometimes, the negotiations lead us to get a better price and sometimes number of homes change.

Sunil Jain So, anything you can guide on the overall margin for the year? How much margin we can do? Because there is a substantial improvement in EBITDA margin. No doubt the gross margin has remained there only or might have declined a bit, but the EBITDA margin has improved substantially.

Puru Aggarwal So, there is a factor of leverage as we continue to grow the topline. So the leverage will accrue to the EBITDA and PAT.

Sunil Jain Yes, to anything which you can guide on that.

Puru Aggarwal No, on EBITDA we are not guiding, only topline we are guiding of low double-digit continued growth for current quarter as well as next year.

Moderator Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria My first question is on the B2B revenue front, like in the first half we had seen a slowdown and suddenly we have seen a sharp jump in our Q3 B2B revenue. So what is our thought process for the B2B segment. So, do we just sell the spare production what we have to the B2B, or do we have a specific target for the growth of the B2B front also?

Sunil Agrawal B2B is an opportunistic sale for us, especially when we buy in auctions from large auction houses like Emerald, Zambia, or the Tanzanite or Rubys or Amethyst. They are large purchases we make. So whatever we use, we use, rest we sell to the other dealers. And some higher end gemstones we don't make or don't sell. So that we sell in either rough form or cut form. So these are more opportunistic and should not be taken as a business guidance. So that's why we always guide for our retail B2C business only, because that is where the most margin comes and that's where the most value is.

Ronak Morjaria Okay, so this is not any kind of a focus area that we target anything from this segment.

Sunil Agrawal You should not make a business model on this at all, I recommend you to make a business model on B2C which is where the 99% of business value of Vaibhav is.

Ronak Morjaria Good. And also we are seeing good set of growth in the UK segment, so what is driving good set of growth in the UK segment? We are seeing, it's showing a better growth versus US?

Sunil Agrawal I think the UK has had lead in introducing more lifestyle product at lower price point. So, as I have mentioned, the UK had higher contribution of lifestyle product. And I also mentioned that many known brands were launched in UK. So that got us additional new customers and per customer purchase, repeat purchase jumped there.

Ronak Morjaria And over there also other players provide Budget Pay and everything or?

Sunil Agrawal Yes. It's same, everything is same.

Ronak Morjaria Okay. And lastly, since we have now some of our customers are switching from TV to Web TV, so will we try and reduce the number of homes on the TV front going ahead and focus as and when we see the increasing Web TV subscribers?

Sunil Agrawal The number of homes will only dictate by the pricing that they offer. If you see performance not coming up on certain markets, so we'll negotiate at lower price or exit if it doesn't work. That is what you have seen in last quarter, so we renegotiated some of them for the TV and some we exited because the price did not work out. So, but business overall is robust to handle any of such churns for us.

Moderator Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia Sir, if our business grows in double digit next year in FY '19, should we expect a further expansion in EBITDA margins because we have a contribution margin of something like 65%, right. So our margins should again expand disproportionately next year?

Puru Aggarwal So, the gross margin will stay in the region of 60% to 62%, but EBITDA should expand. There is always a factor of leverage in our business

Ashish Kacholia To get this double-digit margins, do you have to invest big time into SG&A or I mean the current level of SG&A kind of, will sustain this double-digit growth?

Sunil Agrawal So, we have the leverage in SG&A, with the HR in distributions. So all these factors have leverage factor, all the factor.

Ashish Kacholia Okay, so it's not unreasonable for us to believe that their double-digit volume growth next year should again result in EBITDA margin expansion.

Puru Aggarwal Correct, that is correct. As a percentage of sale, EBITDA should increase next year.

Ashish Kacholia Okay. That was my first question. My second question sir is, are you anticipating any disruptive pricing by any other player in the market, you had the situation once, one of your competitors got funded and then he kind of went on to disrupt the market. Have you seen any or heard anything like that which can kind of potentially disturb our ship?

Sunil Agrawal So first of all, the competitor did not disrupt in pricing or margin, but they did by easy pay or Budget Pay. So they started giving multiple payment options to customer, five or six payments. So that had disrupted us. Now that they have Budget Pay and we have Budget Pay and then our cash flow already absorbs all that accounts receivable in our current asset, so we are not expecting any such disruption in foreseeable future. I can't see what disruption can there be in the electronic TV retail business model now.

Ashish Kacholia Okay. So as of now, I mean, it seems to be a good steady ship and I mean there doesn't seem to be anything on the horizon, as of now at least to disturb us.

Sunil Agrawal Correct. We have no visibility. And in fact we have created robustness in the business, by us, say for example, giving return ability which we did not have earlier. So while we went with Budget Pay, we also added return ability to the business model. And we also invested in our logistics, in our manufacturing, in our web platforms, in our web-app. So we went way beyond any potential disruption for our business model.

Ashish Kacholia Okay. And sir my last question is whether you see any scope for the business model like this to play out in India for us?

Sunil Agrawal Not in near future because India is still kind of land grab scenario. So none of the players are making money and that is not the place we want to be.

Ashish Kacholia Okay. So what then, I mean, are we just happy with the low double-digit growth for our company or I mean there are some other horizons to be explored for us.

Sunil Agrawal We'll continue to look at opportunities wherever we are present. But then we cannot discuss any of those plans at this time. But India is not in cards right now.

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

Gopinath Reddy Sir, regarding Amazon kind of platforms that we were getting into, how is it going now?

Sunil Agrawal So that is going well, it still is very initial stage for us, the revenue is not meaningful, our aim is to make our inventory visible without any additional cost to potentially new customer segment. And hopefully transit those customers over to our platforms. So there is a business premise behind this. So far it is as per our expectations and in coming years, we should see much more benefit of that strategy. So we are on Amazon, Walmart, eBay and Wish, all four platforms in US. And we are on Amazon and eBay in UK.

Gopinath Reddy Are we seeing any competition coming from other players who are procuring from the same places that we are doing from like, what I mean to say is, is there any manufacturer from India or South East Asia who is competing with us on those platforms?

Puru Aggarwal So, Amazon or eBay platforms are very wide and there must be a lot of those people. And in fact they are more than 100,000 vendors on those platforms. So our idea is to offer our product along with our storytelling capabilities and that has been receiving a good response. And just to tell you some strategic point on that, the market place that we have, we try to promote it through social media, so through Facebook and through Instagrams we have some promotion strategies tested recently and that has worked well for us. So idea is to expose our product, same product without any additional investment to much wider audience and try to get those customers to come to our main platforms.

Gopinath Reddy Leaving these storytelling and other advantages that we have regarding marketing our products aside, just when we calculate only the manufacturing cost and procurement cost, do we have any competitive edge vis-à-vis the other manufacturers in India in terms of manufacturing and procurement?

Sunil Agrawal So probably our scale of operation gives us some advantage, not a whole lot, but there is some advantage of scale because we are the biggest procurer of the rough stones and biggest procurer of the semi-precious or the low price point gemstones. So we have goodwill, we have relationships and financial strength to be able to pay right away and to be able to buy at a better price. So that is the only strength I see.

Gopinath Reddy How closer is the nearest competitor sir?

Sunil Agrawal So we don't have analysis on that Mr. Gopinath because this is not a listed environment. So mostly it is private companies, we would not have visibility on the data. But we do know that we get preference wherever we go to buy. We get preference because of our volumes, so vendors would give us the preference.

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

Runjhun Jain One question, I just wanted to understand your gross margins in more detail. This is the one-quarter we have seen a decline in the gross margins, sequentially also, because of this healthy growth in the sales, our EBITDA margins have shown the leverage benefit and has increased quite a bit. So I'm just trying to understand, is that just because of the holiday sales, the gross margins have come down and how do you see going forward?

Sunil Agrawal So the main reason for gross margin is B2B. So as you would see there is substantial expansion in B2B sales during current quarter. Now from B2C point of view, our margins are stable and actually quite healthy.

Runjhun Jain Sir also in the past you were saying that, B2B is not a focus area for you and that is why we were seeing in the past two quarters or three quarters some decline in that segment. So, why there is a sudden increase in that B2B sales in this quarter?

Puru Aggarwal So B2B sales are opportunistic sales as I mentioned in my earlier comment. So we got the opportunity for example when we go to the auctions and if there is a good price or good deal that we can buy, so we consume some portion of that purchase and the rest we sell in the local market. Our aim is to not have too much investment into current assets. Therefore, we would liquidate what we don't think we would be able to utilize in our B2C model. So, opportunistic, you would have seen some quarters in the past also, some increases you might have seen, otherwise it is not a focus area, so you should not build it in your business model, your business model should be built on B2C business side.

Runjhun Jain Yes. But sir I'm just wondering that because the B2B business is not a very big portion of our overall sales, it is not even, you know, it's just 1.5% or so. So, still, that has the capability of influencing our gross margin to an extent, through such an extent. And for future also, we should build the gross margins like you said, in the range of 60 to 62.

Sunil Agrawal Yes, so this quarter the B2B business was about 15% of total sales. So it ranges anywhere from 8% to 15% of our total sales. So this particular quarter was at the higher end of our range of B2B. For nine months it was 12% including the last quarter. And the same quarter last year it was 12%. So there is an overall jump in B2B as a total percentage.

Moderator Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Sunil Agrawal I thank you all for participating and your robust questions. Please feel free to ask Karl Kolah or Puru Aggarwal at VGM for any further questions or queries you may have. Thank you.

Moderator Thank you. On behalf of Vaibhav Global Limited, that concludes this conference. Thank you for joining us.