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Q3 & 9M FY19 Earnings Conference Call

January 30, 2019

Karl Kolah

Good afternoon everyone and I thank you for joining us on Vaibhav Global's results earnings call for the quarter and nine months ended 31st Dec, 2018. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director and Mr. Puru Aggarwal, the Company's Group CFO.

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 afternoon everyone. I welcome you to Vaibhav Global's Q3 and 9M FY19 earnings call.

Let me begin by giving you an overview of our financial performance for the quarter under review, following which Mr. Sunil Agarwal will share further insights into our performance.

I am glad to share yet another quarter of robust performance for Q3 FY19. Overall, revenues crossed first time Rs. 500 crore mark and grew by 11% YoY to Rs. 511 crore. Retail revenues grew at a much faster rate of 23% YoY. In constant currency terms, we delivered 10% revenue growth in the US and 25% revenue growth in the UK. Retail growth was based on strong volume expansion on both the sales platforms. We sold 1.92 million units on TV, showing growth of 15% YoY, and almost 1 million units on Web, showing growth of around 25% YoY. As indicated earlier, both platforms are well integrated, and this symbiotic integration allows us to get differentiated visibility resulting in outperformance.

Overall, average selling price has been lower by 5% at $ 23.43 for Q3FY19 owing to higher contribution of lifestyle products. B2B revenues were lower during Q3 at

Rs. 28 crore compared to Rs. 67 crore YoY. As you already know that B2B remains an opportunistic business segment for the Company.

Our gross margins increased 660 basis points to 64% compared to the same quarter last year on account of higher revenue contribution from Retail sales. Gross profit during Q3 expanded 23% YoY to Rs. 327 crore. Our proficiency in manufacturing and sourcing 'quality merchandise' at optimal costs allows us to not only maintain industry leading gross margins but also to offer a deep value proposition to our customers. This is also key to the competitive edge we enjoy over our peers.

Our business model continues to have inherent benefits of leveraging of fixed cost. In pursuit of enhancing better customer experience and expanding the market reach further, the company has taken several initiatives during the quarter including enhancing Austin Call Center replacing some part of outsourced call center, augmenting marketing and affiliates departments, improving analytics abilities and adopting assured time delivery for a part of the business. We have been making investments in future growth including acquiring talent in specific functions like building talent for Social Media DR and expanding distribution which entails higher broadcast costs. Despite the cost of the new initiatives, EBITDA margins expanded further at 13.9%, from 62 crores to 71 crores, increasing by 15% during Q3.

PBT expanded from 55 Crores to 65 crores, increasing by 17%. Profit after tax during the quarter crossed Rs. 50 crore, marking a growth of 15% on y-o-y basis. This is another significant landmark in our growth journey.

In conjunction with healthy revenue and profit growth, our free cash flow position during the first 9 months period also improved and now stands at Rs. 158 crore. This is despite interim dividend payout of Rs. 5 per share in Q3, entailing a total cash outflow of Rs. 20 crore.

Underlying the improving cash position was strong operating cash flows of Rs. 76 crore and free cash flow of Rs. 73 crore for the quarter ended December 2018.

Our return ratios continue to be at robust levels – ROE at 23% and ROCE at 37% on TTM basis. Overall, the Q3 has witnessed another strong performance, with lots of new market initiatives. 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 to Vaibhav Global's Q3 & 9M FY19 earnings conference call.

Puru has given you an update on the financial performance for the quarter under review. I will now give you an overview of the operational performance, key initiatives undertaken recently and growth strategy for the next few quarters.

As Puru explained earlier, Q3 has been a milestone quarter for us where revenues exceeded Rs. 500 crore and profits surpassed Rs. 50 crore. Retail revenues growth was even stronger at 23% during the quarter. Gross margin expanded significantly to 64%, driven largely by higher contribution from retail revenues. EBITDA margins also expanded despite some key future-oriented initiatives. Overall, we delivered a robust performance on all key matrices during the holiday season.

I am glad to share that the contribution from the Lifestyle products category, in the US, now stands at 15% in Q3FY19 as against 11% during Q3FY18. We expect the uptrend to continue, aiding customer expansion, reduced returns while maintaining Average Selling Price (ASP). Non-jewelry contribution in the UK has already been at higher levels and now stands at 32% in the last quarter. With the success of this endeavor, we plan to further dedicate entire days to the broadcast of non-jewelry products in US. UK already does every Tuesday for Non-jewelry product. Non-jewelry fashion products provide synergistic adjacency to our fashion jewelry portfolio at similar price points, allowing us to target a larger wallet share of our customers' spending. At the same time, non-jewelry is a significantly larger market providing us the potential for long-term growth as we establish our presence further. We expect this quarter's 15% contribution, in the US, to show a continuously growing trend in future.

We continue to expand audience reach, gain more viewership and increase repeat purchases by constantly undertaking several initiatives. At TJC, in the UK, better channel positioning simulcast on Freeview led to expansion of customer base. In the US, in addition to the household expansion as informed by Puru, ShopLC enhanced studio operations by adding remote broadcasting capabilities to support offsite live programming.

Another milestone for us during Q3 was the sale of 75,000 units in one day, on the occasion of Shop LC's Birthday Bash. This also supports our continued social initiative, the One for One program.

We have also moved ahead in our pursuit of quality under the Malcolm Baldrige National Quality Award program. ShopLC has already applied for the Malcolm Baldridge Progress Level Award from Quality Texas Foundation after receiving recognition for the Malcolm Baldrige Commitment Level Award. We believe that quality is an ongoing journey that leads to significant sustainable business benefits over time.

We also saw growing recognition on our employee engagement and satisfaction initiatives under the Great Places to Work survey. This is for all our regions. Our Great Places to Work Employee Engagement Survey is a world renowned benchmark survey across over 60 attributes. We increased our overall Employee Satisfaction by 8% for Shop LC, US. Deeper engagement with happier employees is a core objective for us. We have now been recognized a Great Place to work for our China, India and UK units.

On the business front, our Budget Pay initiative has become an integral part of our strategy and made up for 38% of net sales in both US and UK in this past quarter. Budget Pay, which allows buyers to pay in installments for relatively higher value products, has helped improve our sales growth and expanded value to our customers.

Our mobile apps have performed well in both geographies. Sales via mobile apps of the total web sales for Q3 FY19 were 7% for UK and 13% for US. We continue to make investments in our apps, introducing new and exciting features and functionalities. We are also making efforts to grow our social media presence.

We offer select products on online marketplaces like Amazon, Ebay, Wish.com and WalMart.com as this supplements sales, helps reduce existing inventory and even allows us to acquire new customers.

During the quarter, we launched the 'Fulfillment by Amazon' Marketplace which enables us to place select inventory at Amazon Fulfillment Centers to be a part of Amazon Prime shipping. In addition, it provides us with additional marketing and operational support and we are confident that it will help us raise customer awareness and aid acquiring new customers at ShopLC.

Let me now highlight some key customer-centric data points that are vital to our business. In Q3, we added around 59,000 new registrations and we now cater to over 3,37,000 unique customers on an annualized basis. Average annualized quantity purchased by each customer has increased to 30 pieces in Q3 FY19 as compared to 28.5 pieces in Q3 of last year. Overall customer retention rate stood at 46.9% in the US and 55.6% in UK.

Overall, as explained earlier, our symbiotic omni-channel business model allows us differentiated visibility with our customers compared to pure-play TV or web sales models. Based on this visibility, we expect to deliver continued outperformance versus the intrinsic growth rate of the markets within which we operate. Our confidence here is based on the several growth initiatives we are investing in, along with the growth momentum already delivered in past several quarters.

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

Moderator Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Pritesh Chheda from Lucky Investment Managers Pvt. Ltd. Please go ahead.

Pritesh Chheda My first question is the growth has come but we do not see the operating leverage getting played out. First time after so many quarters I actually see the certain increase in the cost items. So, the question here is why is it so and does it sound a change in business model by any chance?

Sunil Agrawal As explained by Puru in his remarks that we took several forward-looking initiatives like in-sourcing call center, part of the call centers from Mexico to Austin, additional air time and development of social media division which would be long-term sustained growth model for us. So, some of this was one-time for example the call center training, so Austin call-center training as well as another call center in US called on brand media, the training cost of almost more than a month was part of the cost. But this is a one-time cost so in longer run don't see that there is any issue on the cost front so you would see continued leverage of our growth.

Pritesh Chheda So what extent of the cost would be one-time cost in this quarter?

Sunil Agrawal I don't have exact calculation but part of this will be one-time and part would be there for example if we bought the call center, part of the call center from Mexico to US, so there is a slight increased cost there. Air time cost is initial and it will give us increases revenue growth in coming quarters so that will neutralize over the time.

Pritesh Chheda And what explains the rise in employee cost?

Sunil Agrawal Part of that is the call center coming into US. The call center in Mexico earlier was not counted in employee cost that is in SGA cost. But when we bring those people here, that costs into employee cost.

Pritesh Chheda Then there has to be corresponding reduction in your other expenditure line if you move some of your costs, so some other cost in other expenditure should have gone far, would have risen much higher. So, if you could give some granular breakup or understanding would be better.

Sunil Agrawal Line item wise cost increment will be difficult for us to provide but in generality you would not see continued cost increase in same ratio for a HR or other areas in coming quarter. So, the increase for this quarter was the initiative to add two call centers, one was on-brand which is the US-based, Savannah, Georgia call center which we've also initiated and one was Austin in-housing. So the training cost as well as the higher salary cost was the main reason in current quarter.

Pritesh Chheda The cash generation this year has been particularly healthy, so first I want to know is it a most sustainable cash generation of the business model, now I am hearing you are referring to the conversions of the EBITDA, so is this more sustainable and what would be your proposed usage of this cash in the Balance Sheet?

Sunil Agrawal One of the reasons for additional cash generation in this quarter was reduced B2B sales because B2B sales typically uses more cash and we did not go for any opportunistic purchases for this material that we usually sell for a longer trade. So, B2B sales from our strategy will not accelerate, so I don't see much use of cash over there except when we have some certain opportunity, we will use it but not usually. Other than that we are not looking for any large CAPEX investments in coming quarters for next one-year or so. So I see largely the cash generation should be strong.

Pritesh Chheda The proposed usage of it?

Sunil Agrawal We already initiated dividend paying after H1 so, that will continue and rest we will look at if there is any other opportunity to expand the business. But mostly organic and we don't have any plan for any inorganic activity at this time.

Pritesh Chheda Expand organic means a new geography or..?

Sunil Agrawal So, new any time if you were to get a great opportunity to get additional air time, we may get it or expand to any marketing initiative say social media if it comes across. We do lot of testing continuously, so if there is an opportunity we might increase that. But nothing large scale.

Pritesh Chheda Those are your OPEX expenses. So, the two things that you mentioned social media initiative and increase airtime, any case are your OPEX initiatives which will be part of your next year's P&L if you tend to increase it. But the cash which then stays in your balance sheet, which is your accumulating cash, what would you do with it?

Sunil Agrawal As I mentioned already, dividend has already been initiated. So, from outside the OPEX that is only visibility that we have.

Moderator We take the next question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain I want to dwell little more on the earlier participant's questions of employee cost and other expenses. So, you said that this employee cost is the new base or you think in employee cost there is some one-time expense of training or shifting call center?

Sunil Agrawal Training expense will go down definitely but other than that the employee in-housing that we bought in from Mexico to Austin, so that will continue. But we expect employee cost as a percentage of revenue come down in coming quarters and next year.

Runjhun Jain It would be really helpful if you can give some sense on one-time or one-time cost in other expenses because the increase is quite a bit, so we would like to understand where it should get sustained or settled there. Another question is in the past we always—when we shifted to Budget Pay and introduced all those features for the customers we deliberately—increased their average selling prices, specially for TV when I am seeing it is coming down on quarter on quarter basis. One of the reasons you said is because of the highest sale from the lifestyle product. But first question is that is it deliberate or do you think that it would sustain here or a potential of going down? Second would be are the margins on the lifestyle and the jewelry products would be same, what is the sense? If you can't give the exact number I am okay if you can give the quantitative reference.

Sunil Agrawal Let me start with your first question about the guidance on how much is one-time and how much is continued. I don't have the breakdown on this **Runjhun** but there was some portion of training for about a month of training of our Austin call center as well as on brand Savannah call center. I don't have in front of me how much we spent on that particular time but my rough estimate should be maybe around 3 crore or so - that is again I am just giving from my memory.

Runjhun Jain But that would be part of other expenses, not the employee?

Sunil Agrawal This is the employee cost for example our own agents if we are training them with our own people. So, we are paying salary but they are not productive at this time so we count that as a HR expense but goes towards the training. Second question was about the margin, so margin is largely dictated by what customer pulls from us. The second part was average selling price.

Runjhun Jain Right.

Sunil Agrawal So, usually average selling price dictated by what customer is pulling within a certain range. So, we have certain range for us, within that range if customer is pulling lower price point products higher, more velocity we will offer it to the customer. So, we are comfortable within this range so plus and minus 5%-7% is what you should be looking at. So it could either way. Now LSP margin from both at US and UK that is pretty comparable to jewelry, so usually we see it within two percentage points of jewelry, sometimes it is lower, sometimes it is higher. Currently in US the Lifestyle product is about 2% higher in margin than jewelry and in UK about 3% to 4% higher than jewelry in Lifestyle, so that is a current. But we always look at it has to be within the certain range for each other.

Runjhun Jain In terms of ASP you were saying that the 5%-10% is okay. But the peak what we have seen in Q1, was only referring to TV sales, and I take your point that it is more of a consolidated business and we should not look TV versus web. But I'm just using the opportunity because we have got the different data set. So if I have to dwell this on, Q1 we saw 28.5 kind of average selling price which has come down to 24.6 which is almost the decline is much lower than what you are saying in the range of 5 to 7 and this is I remember we have actually increased deliberately to compensate for ourselves for the Budget Pay and for the higher sales return. So, is the management comfortable with this kind of a decline in the ASP because only thing is I'm not able to see any much concern in terms of margins on this? I mean the margins we have seen the operational leverage playing out. But is this just you are saying that because of the low selling price products are more moving out, so this is only the reason for this?

Sunil Agrawal **Runjhun** you actually answered your own question.

Runjhun Jain I just wanted a confirmation.

Sunil Agrawal Because it is a consolidated business so we look at….

Runjhun Jain There is nothing much to read in this.

Sunil Agrawal Yes, nothing much to read in. This is the normal fluctuation of the business. Now, you made a very interesting point about the Budget Pay, so just to tell in Q3 average price for Budget Pay product for us was about $64 compared to $60.4 last year same quarter, so actually Budget Pay price has gone up. But overall price has come down. One of the reasons was in US we have added one additional day a month for under 10 days. So we do every Friday under 10 anyway already, but last quarter we added one more day every month because we saw that having that day acquired additional customer for us and that customer is valuable on other days which is not under 10 days.

Runjhun Jain Earlier how many days we had under 10?

Sunil Agrawal So, we had 4 days under 10 a month is US, now it is 5 days under 10, so one additional day a month.

Runjhun Jain Just one data point, you also said that the Budget Pay is contributing 38% of our revenues as of now; can you give a comparative number of last year or last quarter?

Sunil Agrawal This year this quarter was 37.8% and last year it was 38.1% same quarter. When you look at nine months wise it is 38.3% this year nine months and last year it was 35.9% same nine months.

Moderator We take the next question from the line of Prateek Giri from Vallum Capital. Please go ahead.

Prateek Giri I just wanted to understand our growth trajectory in next few years. So, if we see in UK there are 27.2 million homes and in USA there are 125 million homes, out of which in UK already we are covering 25 million households and in USA we are covering 85 million households which is nearly 80%-85%.

Sunil Agrawal So US we have got 74 million actually and UK 25 million.

Prateek Giri I took this number from previous one of the investor presentation. So that's what I wanted to say that when we have reached to a level where we have touched the benchmark of it if 85 million households, so we are left with very few million households. So how do you see the expected growth shaping up in next few years because we already have capped our market to a higher extent? It’s not that more than 30% or 40% market is still left for us to tap down.

Sunil Agrawal That's a good question Prateek. We look at our business in Four Rs, so that may sound a bit clichéd but we internally track it very diligently. So first R is reach that you mentioned, so US is 110 million homes, out of that we are 74 million so there is still a growth potential of additional reach of about 35-40 million homes. In UK we are almost full reach from the TV point of view. The additional reach that is available to us is through the web and social within the reach R. The next is registrations that is the new customer acquisition. As Puru mentioned our customers universe is about 337,000 customers compared to QVC’s similar model, between US and UK alone they have about 11 million customers. So, we reach as much home but we have not acquired a large portion of those homes yet. So, reach wise we are there but within the reach I must also mention that our broadcast within US is about 1.4 channels per home and QVC is almost 3.5 channels per home, so they have simulcast, they have HD, they have multiple channels, so within the home there is also number of channels per home and we are only 1.4-1.45 approximately. The second registration I mentioned, 337,000 versus QVC's 11 million and the third is repeat purchase. So, how many repeats can we increase, currently we are 30 repeats a year. So, can we make it 40-50-60 that is additional revenue and fourth is retention. We are at 46.9% in US and about 55% in UK. Can we improve it to 75%? So there are four levers available to us.

Prateek Giri I was just curious to know that if we look at the TV viewership data from US and UK, it has been coming down even it might be on your table as well that viewership is coming down significantly year-on-year. So, under this environment is there any way that we can leverage the Netflix and other OTT mediums to push our sales or do something on those platforms?

Sunil Agrawal This again another good question. Now TV viewership is pretty widely understood to be going lower because of OTT platform like Netflix or Amazon Prime, Amazon Firestick and all that. So when you go granular within the data our target audience which is 45 to 70 year old females, their viewership has not come down. It's constant year-over-year. But having said that that is all past data doesn't mean in future it may not come down. So with that in mind we have made investment in OTT. So we are in pretty much all OTT platforms. We have smart TV application, where the customer can buy through that smart TV application. Many of our competitors don't even have e-commerce enabled application. So, our application is very advanced. We are also aggressively investing into social media e-commerce as well as our own website e-commerce as well as mobile apps. So, we are making all those investments to make our company future proof incase our audience declines in coming years or decade.

Moderator Next question is from the line of Amit Aggarwal, individual investor.

Amit Aggarwal Since we are already having airtime so what is our strategy on experimenting with new product line other than Fashion Jewelry or Lifestyle product? Just for the sake of example like Select Furniture, what is your thought process on that?

Sunil Agrawal Amit we constantly experiment in new product lines. I don't know if you know or not one of our best-selling products in our UK channel was a mattress that we sourced locally. It sold out in shorter time than we expected. So, we constantly experiment with the new product. We have buyers constantly scouting locally as well as overseas and mostly overseas, so we are very much able and ready to source the experiment and that you would see from our rapid growth into Lifestyle products. UK is already at 32% of the revenue which is coming from the Lifestyle product.

Amit Aggarwal Other than Lifestyle product and Fashion jewelry.

Sunil Agrawal Lifestyle doesn't mean just a scarf or handbag. For us Lifestyle would be mattress, it would be beauty, it would be electronics, it will be kitchen product, anything.

Amit Aggarwal So, we keep on experimenting?

Sunil Agrawal Yes.

Moderator Next question is from the line of Aejas Lakhani from Edelweiss Multi Strategy Funds Management Pvt. Ltd. Please go ahead.

Aejas Lakhani I was referring to your investor presentation page #8, you have mentioned that Shop LC launched Fulfillment on the Amazon marketplace and you could place selected inventory at the Amazon Fulfillment center through which you could raise brand awareness to convert customers from Amazon to Shop LC at the low acquisition cost. So did this kind of a set-up contribute to an increase in SG&A and how did the semantics of this deal work?

Sunil Agrawal With Amazon it is we publish on their website and hot-selling product we store with them. The advantage of storing with them is that there is no shipping cost on Prime. We have Prime ability is called Seller Fulfill Prime. So when we ship the product for two days delivery for their customer it costs good bunch of money. So, storing product with them costs actually lower to us. Now the customer transition to us - we can't overtly market to that customer but we have our branding within the product and the packaging. So, if they look for us then they find us. So the transition to us is still small, it's a low single-digit but our effort is to continue to expand our market awareness so that whenever the customer sees us on a TV or through web or through any other marketplace he or she would recognize us and would have more confidence to buy from us.

Moderator Next question is from the line of Prateek Giri from Vallum Capital. Please go ahead.

Prateek Giri You just mentioned that basically the market is a 45-year-old lady, so I was just thinking that in coming next few years we will be getting a pack of people who will be more towards these OTTs and all rather than TV.

Sunil Agrawal I anticipated your question and answered before you finish. Let me answer that. I have been in this industry for about 30 years and this worry has been there. The target audience is getting older so what will happen to the young audience habit? So in 30 years I haven't seen the change. So within last 30 years we have been selling to television companies and then we started our own television 12 years ago, so that question has always been there. But we see the audience when they get older, they want to be entertained, they want to be informed because they are lonely at home. They don't have children, they don't have grandchildren there. So at that time the linear television is the company for them. OTT is something that they need to pull what they need to watch or see. But most of our audience we see that they want to be entertained through linear television. They want to get the information. They want to be educated and kept company with and our model is such that we engage customer with calling out their name, calling out the text that they send to us, e-mail that they send to us, reading about them. So it's kind of relationship that we built with those customers and it kind of creates a community for them, so they take us as a part of their family. As such I explained that we become part of the community for them and it is not just for buying that they come and see us.

Prateek Giri QVC and HSN have got merged, am I right?

Sunil Agrawal Correct.

Prateek Giri I just want to understand that their synergies, the logistic benefits will it be hampering our market although we both are in very different ASP ranges, but it's still just a rough idea that the synergistic advantage they will be getting, will it be hampering our market anyhow?

Sunil Agrawal I don't think so. When QVC bought Home Shopping Network, they were looking at Amazon for example or looking at expanding the overall market reach. So, it's been two years since they acquired HSN and you have seen how growth continued all those two years. I'm not seeing any impact on us from their merging.

Prateek Giri I would like to congratulate you for the kind of business model we have been building in last these many years because if you look at the ASPs of these QVCs and the other players, they are I guess in $55-$60 range and still they don't make that much handsome margin which we make in $30 range.

Sunil Agrawal So gross margin wise you are right, but EBITDA margin they are much ahead of us. So that's our ambition to reach their EBITDA someday.

Prateek Giri I was speaking in terms of gross margin only.

Sunil Agrawal Our gross margin comes from there are two factors to it. One is the vertical business model and the second thing is our house brands. QVC-HSN, they rely on third-party brands and those brands don't afford that kind of margin whereas our house brands afford a (+60) margin. So, we follow a sort of a Zara or Inditex model where they market their own house brands rather than third-party brands and they are also into 60% kind of gross margin level.

Moderator Next question is from the line of Ankur Kumar, Individual Investor. Please go ahead.

Ankur Kumar You just said in the answer to the previous question that you are in this business for 30 years. So, we understand that in the jewelry business, you have a moat where you source from the low-cost destination process in India and then export it to America, where you have such high margin. But when we have entered into the non-jewelry product, there will be a huge competition, you have been sourcing them locally. So, what is the kind of advantage we had that we can generate higher margins and increase sales? Secondly I want to know about growth guidance for the future. Last quarter, you said that it will be around 13% in high-teens. So, previous two quarters were quite good but this quarter we had lagged with only 10% growth, so I want to know.

Sunil Agrawal First thing is about the LSP product, so it is a valid question which I've answered earlier also that our LSP product sourcing strategy is very similar to jewelry. When we buy this product, we don't look at it, this is a $10 price and I can sell it for 20 I will buy it at 10. No, we look at the composition cost of a product. For example, if you buy a bag, leather bag. We look at the leather cost and the stitching cost and the hardware cost within the leather, and then we look at the component cost and we pay the price. And many of the large manufacturers we can't buy from them because they have higher margins. So, we typically buy from small, medium-sized manufacturers in India, China, Thailand, Indonesia, all these small direct sources. Whereas Walmart and all those people they buy from large manufacturers because they can't, go to that level or they have not gone to that level of costing. And also, if some products for example, does not give us a desired margin we just would pass on that product - we just would not market. So, that is our strategy from LSP point of view and as I mentioned earlier today also, our LSP margin is slightly higher than jewelry. Not to say that that is our strategy, our strategy is to maintain (+60) margin and that we continually will do. But if there is an opportunity, we will definitely look for higher margin. Second point you had was about the growth guidance. So, we gave a growth guidance of between 14% to 16% last quarter for our retail constant currency basis and this we met. US saw 10% and the UK saw 25% when you look at in metrics, they constitute around 15% growth for the quarter. And also, I would request you and all the investors to look at us for from year-over-year basis because sometimes there can be events in the country that we operate in. For example, there is election cycle every four years. During that election cycle, lot of people watch election news and at that time the growth rate goes slightly lower. So, but when you look at annual basis our growth, we are confident for next 2-3 years to have this kind of growth.

Moderator Next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia I just wanted to touch upon one point, in how much of our sourcing is from China?

Sunil Agrawal About half of our sourcing is from India that is our own manufacturing and rest half is divided between China, Thailand and Indonesia. Let me take it back. So, we source about 5% to 7% locally in US and UK as well. So the remaining half is India and half is between the three countries - China, Thailand and Indonesia.

Ankit Kanodia Almost equally divided between the three countries?

Sunil Agrawal Not equally; I would say half of the remaining would be China and half between Thailand and Indonesia.

Ankit Kanodia So do you think any political threat or something like that, is it easy to bank on China or can you see some issues in future?

Sunil Agrawal Ankit first of all, if there will be any import tariffs in US it will be applicable to all the importers, not only for us. But especially with us the huge advantage is that we are sourcing from other centers in place. So, we can easily make our product mobile and then we also don't have this issue of same category or the same SKU to be repeated. If it doesn't make sense we can change very rapidly. We air almost hundred new products every day. So, our new product velocity is extremely high and for us the change is much easier than any other retailer.

Moderator We take the next question from the line of Vasu Lalan, Individual Investor. Please go ahead

Vasu Lalan I want to know - are you planning for any new geographies?

Sunil Agrawal Not at this time

Vasu Lalan How much time does it take if you plan for new geographies?

Sunil Agrawal So from the past - to start a new channel, hiring the team and all the logistics, it takes about eight months to a year.

Vasu Lalan Are you confident like you tell that for next 2 to 3 years the growth rate will be maintained around 16%?

Sunil Agrawal 14% to 16%, yes.

Vasu Lalan And then afterwards if growth rate will be stable or slow down then you can go for new geographies?

Sunil Agrawal We will look at the opportunity because we believe within US and UK also we have lot of opportunities looking at the competitors and our strengths. We should continue to grow very well, so we will go to other countries not just for the sake of growth but only if we see opportunities. Because growth-wise, we believe that within US-UK, we have ample growth for our foreseeable future.

Moderator We take the next question from the line of Srinath Potul, Individual investor. Please go ahead.

Srinath Potul Now that we are investing in social media, so what are the platforms we are basically looking for?

Sunil Agrawal Largely Facebook.

Srinath Potul So the audience we are addressing would that drastically change with social media or would we address the same audience like 45 to 70?

Sunil Agrawal Our experience so far has been that the audience that we are attracting for our product is over 40 years old. Our product is not designed for 20 something or teens or tweens.

Srinath Potul So the Instagram could be like out of?

Sunil Agrawal We do publish on Instagram, but we don't make much customers from Instagram.

Moderator Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Sunil Agrawal I thank you all for your participation. If you have any further questions, please feel free to reach to Shiv Muttoo or Karl Kolah at CDR India or Puru Aggarwal at Vaibhav. Thank you very much.

Moderator Thank you very much. Ladies and gentlemen on the behalf of Vaibhav Global Limited we conclude today's conference. Thank you all for joining us.
