Vaibhav Global Limited

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Q3 & 9M FY21 Earnings Conference Call Transcript
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Karl Kolah: Good evening everyone and welcome to Vaibhav Global's earnings conference call for the quarter and nine months ended December 31, 2020. Today, we have with us, Mr. Sunil Agrawal - Managing Director: Mr. Vineet Ganeriwala - Group CFO and Ms. Dipti Rajput - Head, Investor Relations.

We will begin the call with opening remarks by Mr. Sunil Agrawal on the business operations, key initiatives and broad outlook followed by a discussion on the financial performance by Mr. Vineet Ganeriwala. Following the management's opening comments, we will open the forum for the Q&A.

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 risks and uncertainties we faced by the Company. A detailed statement and explanation of these risks is included in the earnings presentation which has been shared with you earlier. The Company does not undertake to update the forward-looking statements publicly.

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

Sunil Agrawal: Good evening everyone and thank you for joining us today. To begin, I hope everyone is safe and healthy. With Covid-19 vaccines being rolled out in a phased manner, I would like to the reiterate the importance of continuing to maintain social distancing and taking necessary precautions. At VGL, our team remains our topmost priority. Furthering our efforts at keeping them safe and healthy, we have been encouraging, educating, and supporting our team members to get themselves vaccinated while maintaining all the safety protocols in the meantime.

As you may be aware, the retail landscape has structurally evolved rapidly over the last year in more ways than one - Digital shift has further accelerated; Omni-channel retailing is becoming increasingly relevant & Customer buying behavior is shifting in favor of value-based purchase. VGL business model is ideally suited for these trends and we are determined to make the best of the opportunity.

I am happy to share our Q3 results mark another quarter of relentless execution by VGL. Retail revenues, EBITDA and PAT increased by 30%, 37% and 41% respectively on Y-o-Y basis resulting in sustained margins expansion. EBITDA & PAT margins at 17.4% and 12.7% have improved by 110 bps. In a quarter normally expected to bear the impact of TV viewers focusing extensively on the U.S.

Presidential elections, we sustained the momentum of the previous quarters. Both the geographies of retail presence have reported robust YoY constant currency revenue growth.

Along with strong growth in topline and profits, we continue to generate strong cash flows and have consistently improved our return ratios. We reported ROE & ROCE at 30% & 56% respectively on TTM basis. Our net cash position improved with operating cash flows at Rs. 198 crore and free cash flows at Rs. 166 crore for 9MFY21. In line with our dividend policy, the Board has announced the third interim dividend of Rs. 7.50 per share aggregating to a total dividend of Rs. 17.50 per share in the first nine months of the financial year.

We remain closely aligned with the continuously evolving customer preferences especially in the times of Covid-19, resulting in strong traction across our omni-channel retail presence. On the overall, unique customer number at 4.7 lac increased by 33% YoY and is progressively inching towards the half million mark.

Our vertically integrated model and a strong sourcing network in over 20 source countries has consistently delivered with prudent time-to-market and efficient product sourcing. This has enabled us to rapidly expand and diversify product offering to our customers. Another noteworthy aspect of our supply chain is the ability for bottom cost and price discovery which drives our low ASPs as well as high gross margins. Customers associate our products with high quality and outstanding value and are increasingly engaging with us across our diverse platforms including TV, web, marketplaces, and social media channels. Omni-channel engagement drives retention and customer lifetime value. Summing up, the Company has been able to consistently capture a larger wallet share in two of the world's largest and most advanced consumer markets.

Here, I would like to discuss our backward integration efforts in the textiles segment where we see solid opportunity. Over the past few quarters, we have experimented and build a working understanding in this area and in December, we incorporated a new subsidiary called Vaibhav Lifestyle Limited for manufacturing and exports of textile/garments and related articles from India. We are excited and confident of reaping benefits from this venture, some of which include trend-spotting and agile placement on our retail platforms, greater control on quality and price, smoother integration with the existing portfolio of product offering with respect to margins profile, and the like. We are still in the initial stages and will share details as we make further progress in this space.

We are a technology driven global organization, where IT is embedded into the business processes, seamlessly tying up the points-of-sales and points-of-supply. Over the past several quarters we have been investing strategically in various initiatives for improved efficiencies and customer fulfillment. Some of these initiatives including wallet integration, new ERP, product personalization, Artificial Intelligence capabilities for various processes i.e. marketing automation and warehouse optimization.

And now to discuss some key developments during the quarter -

Shop LC expanded presence on third party marketplaces by listing products on Amazon, eBay and Walmart in Canada. To give boost to our influencer program we recently partnered with Mavrck, a leading all-in-one influencer marketing platform.

At Shop TJC, we launched the TJC PLUS customer loyalty program that offers members several benefits and services – such as unlimited free delivery, next day delivery, seamless access, and no minimum spends. The user-friendly platform encourages customers to order from Shop TJC's TV, website, customer service, mobile app and even via streaming devices. We have seen great response and are happy to serve our customers better through the membership program. Some of the other initiatives at TJC include, enhanced remote co-hosting, personalized product offering, launched our warranty program and placed products on two additional marketplaces (Etsy & Wayfair). I am happy to share TJC has been certified carbon neutral for the year 2019-20.

Moving ahead to our 4R's strategy that underlies our operating model, is focused on Reach, Registrations, Retention and Repeat Purchase to deepen customer engagement and fulfillment. We continue to undertake several customer-oriented initiatives to drive sustained improvements on each of these parameters. The reach of our TV networks at the end of the third quarter was 99 million TV homes, similar to Q3FY20. We reach TV homes through cable and satellite networks and over-the-air TV platforms. Our products are also available on digital channels, including our proprietary websites, smartphone apps, OTT platforms, marketplaces, influencer marketing, and social direct response. New registrations on TTM basis came in at 2.8 lac compared to 1.7 lac in corresponding period of the previous year. As discussed previously, the momentum of customer registrations has increased significantly over the last three quarters due to Covid; through expansion into new product categories and through expansion on new digital platforms. As at end of December, we have seen our customers buy an average of 27 pieces on TTM basis as compared to 30 pieces in the corresponding period of previous year. This has been achieved on a 33% higher customer base over the previous year. Finally, our retention rate stood at 51.4% on TTM basis compared to 50.7% for the same period last year. A balanced interplay of 4R's drives the business performance consistently quarter over quarter and year over year.

At VGL, we are guided by our belief in holistic approach towards sustainability, social responsibility, employee well-being, regulatory compliance, and transparent functioning. We also believe that such framework creates the guardrails for our prospects for long term sustainable growth. I am pleased to share that Vaibhav Global, was recently conferred 'Best Governed Company' (Listed Segment: Emerging Category) at the 20th edition of the ICSI National Awards for Excellence in Corporate Governance. I am happy to share that key operating entities within the group namely Shop LC(US), Shop TJC (UK), VGL India, and STS Gems (China) are all certified by Great Place to Work Institute. Also, Shop TJC and STS Gems (China) feature in the list of Best Workplaces in their respective countries. Further, our Jaipur SEZ premises received LEED Platinum certification under the LEED V4 Building Operations and Maintenance: Existing Buildings rating system. Vaibhav Global's SEZ building is the only manufacturing unit in Rajasthan and one of the only two across India to be certified as LEED Platinum under LEED V4 O+M.

At VGL, community give back is integral to the business model where every unit sold results in a meal for a school going child. I am happy to share that under our flagship CSR initiative, the One for One program, we have provided 47.3 million meals to school going children across India, US and UK. I am glad to share that Shop LC, has been as an award recipient for 'Business Champions in Education' by the Austin Chamber of Commerce. The program recognizes outstanding performance by local educators throughout the Greater Austin Area, as well as the businesses who are helping prepare, inspire, and provide opportunities to students and adults. I would like to express my heartfelt appreciation for the entire VGL team for all the hard-work and for accomplishing business and sustainability goals.

As I conclude, I would like to share that we are adept at successfully aligning our strategies to the dynamic operating environment with keen attention to customers preferences. The business outlook is upbeat, and we are confident of closing this year with 21-23% constant currency revenue growth. For next financial year '21-22 and on a medium-term basis, we are confident of delivering 15-17% constant currency revenue growth on the current elevated base.

With that, I now hand over the forum to Vineet to discuss financial performance for the period under review. Over to you, Vineet.

Vineet Ganeriwala: Thank you, Sunil. Good evening everyone and welcome to Vaibhav Global Limited's quarterly earnings call. I hope that all of you and your families are staying safe and keeping well. I will now take you through our financial performance for the quarter ended 31st December 2020.

We are pleased to report strong performance during the holiday season. In Q3, revenues stood at Rs. 725 crore, registering a strong year-on-year growth of 28.7%. Retail revenues saw substantial improvement to Rs. 716 crore, reporting an increase of 30% YoY. Both geographies contributed to the robust performance. In local currency terms, Shop LC (US) recorded growth of 20% year-on-year, while Shop TJC (UK) grew by 32.7% YoY.

In 9MFY21, our overall revenue grew by 25.9% to Rs. 1,874 crore while retail revenues increased by 30.4% to Rs. 1,856 crore. In local currency terms, Shop LC (US) recorded a growth of 19.9% and Shop TJC (UK) grew by 30.6% year-on-year.

Within retail, TV revenues grew by 24% and web revenues grew by 43% during Q3. Similarly, for 9MFY21, TV revenues improved by 24.1% YoY and web revenues increased by 43.4% YoY. Online shopping has been gaining ground globally and we have benefited from the trend. We have delivered equally encouraging growth in the TV segment as well. As of December 31st, 2020, the TV segment contributes 64% of the total retail revenue with web contributing the rest. With the objective of growing the base of omni-channel customers, we continue to focus on cross-promoting our multiple channels. Omnichannel customers represent a significantly higher lifetime value than TV only or Web only customers.

In our overall product mix, revenue contribution from non-jewelry products increased to 32% in 9MFY21, as compared to 22% in FY20. Non-jewelry categories include fashion accessories, lifestyle, beauty, and essential products.

A unique offering in the form of Budget Pay gives customers the option of buying products on EMI basis and is a value feature for buyers. For 9MFY21, budget pay contribution to overall retail revenues stood at 36%.

As you know, for the past few years, we have strategically been moving our focus away from B2B to the more profitable B2C business, which now forms over 99% of our revenue from operations.

Moving on to the margins profile - Gross margin for the quarter stood at 61.4% and 62.7% for 9MFY21. We continue to see gross margins in our targeted range of 60% plus backed by a global value-centric supply chain. Our deep sourcing network enables us to procure from micro markets at lower prices with a shorter turnaround period resulting in gross margins in our targeted range of around 60%.

We continue to reap operational leverage benefits of our unique business model. EBITDA margins expanded by 110 basis points year-on-year to 17.4% for the quarter, and 160 basis points to 16.1% for 9MFY21. PAT increased by 40.7% year-on-year to Rs. 92 crore during Q3FY21, and 43.3% year-on-year to Rs. 216 crore in 9MFY21.

We continued to generate healthy cash flows in the period under review. Our low capex business model supports strong cash accretion and conversion from operating profits. Operating cash flow stood at Rs. 198 crore, while free cash flow came in at Rs. 166 crore for 9MFY21. Cash and cash equivalents stood at Rs. 380 crore at the end of Q3FY21. Return on equity improved to 30% and ROCE grew to 56% on trailing 12-month basis.

Capex of Rs. 32 crore was incurred during 9MFY21, attributable to investments in newly commissioned solar power projects, studio improvements, warehouse improvements, ERP and other IT investments, plant and machinery, and mobile app upgrades. Cost consciousness and healthy Balance Sheet continue to remain our priority and while investing for future growth we will continue to be prudent. Our new initiative of Vaibhav Vistar and Vaibhav Lifestyle limited, will be value accretive and in-sync with the current business model that is characterized by low capex requirement.

As shared earlier, the board has approved an interim dividend of Rs. 7.50 per equity share, in line with our dividend policy of distributing 20-30% of consolidated free cash flows as dividends.

All-in-all, we have demonstrated resilience, agility and strength reflecting in our performance for the year to date. Going ahead, we remain confident of our prospects and appropriate resource mobilization places us well to deliver in line with the stated revenue guidance.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: When we look at your business model, it is very clear as to what your trends are, the way you have expanded categories from jewellery to accessories, to home items and now to fashion; we are expanding channels of distributions from TV to web to public marketplaces; and our sourcing SKU selection, range of the SKU and very strong focus on right selections of that margins as well as execution and finally all that filtering into operating leverage. So this sounds like a pretty remarkable, well-oiled machine in the way it has been functioning in an area or in a subject matter which wouldn't have been so obvious if one were to think about it, so there is something pretty remarkable about business model and equally about execution, so my question is this, something has to go wrong or what can that possibly be?

Sunil Agrawal: It is difficult for me to say what can go wrong, because we constantly worry about potential competition, potential execution challenge and constantly mitigate them. So, nothing jumps to me as to what can go wrong, except execution wise, we do not capture the opportunities. But we are constantly experimenting and testing and do not take large risks. So, I don't think I see anything on the horizon that can go wrong. The only thing is, we may not be able to capture on the bigger opportunity available to us. That is what I can say.

Bharat Shah: But Sunil, you see something going wrong may not necessarily mean falling apart or coming off the seams, even if the growth moderates or becomes nominal, that itself can be a threat to the overall power of the business model. So if we must worry something being a challenge, are there any meaningful breaches to the moat, any meaningful challenge to our advantages?

Sunil Agrawal: Not at this time, we are constantly testing, I firmly believe in Jim Collin's bullets and cannon ball concept that we constantly test with the new areas, opportunities with limited exposure and as we see success in them, we constantly expand as we are doing with the product category, as we are doing with the sales channels, as we are doing customer acquisition strategies. So, with those testing mechanisms in place, which is ingrained in the whole organization, I don't see really risk in growth prospects as well. Now as I mentioned earlier whether the growth could have been 40% or 35% instead of our guidance that we are giving of 15%-17% consistent growth to medium term, so that is a possibility, but we have balanced the two - we are growing consistently, we want to continue to deliver leverage and we want to continue to deliver 60% plus gross margin. So those are guardrails and given those guardrails, we consistently test and take risks and try to expand the business.

Bharat Shah: When you look at it internally, in the organization, one of the most important pivots of good business model will be people to kind of not just strategize and think through any challenges, but also executed very well - are there any worrying on the people front in terms of internal potential, capability, retention and ability to look ahead in a fast-changing world?

Sunil Agrawal: At VGL, we pay a lot of attention in employee development and retention. So, for retention, we take care of our teams in terms of compensation bonuses of shares, ESOPs and creating a great learning environment. So from retention point of view, we have not had any issue of any of our capable people leaving us. From development, the last one year has been phenomenal for us. We used to hire 10-15, maximum 20 management trainees from MBA institutes. This year, we have been able to hire almost 50 people. So, we got a great bench of talent coming into the organization and getting trained, getting coached and moving upward and moving forward. So, from bench point of view, I am happier right now than I have ever been in the organization.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investment.

Ashish Kacholia: You have given for the next financial year, you have kind of indicated 15% to 17% growth rate, so how does that translate into the registrations, retention, and repeat purchases metrics, this is over a period, ultimately, we must increase our registrations and retentions and purchases, so can you throw any color on this Sunilji and team?

Sunil Agrawal: We have internal targets on all the 4R's that is Reach, Registration, Retention and Repeat purchases. And the growth positions that we are giving to you are the interplay of these 4R's and all 4R's we are expecting to see growth, may be not in an absolute TV homes, but from the digital, marketplaces, and social we expect to continue to expand further and we will also look for geographical expansion in medium term. We hope to go to new countries as well. So that will add to the reach as well. From registrations, we have marketing spend targets in place that will continue to improve our new customer registrations. And for retention, we have marketing spend or new investment that will be made in salesforce, marketing, automation, cloud, and salesforce commerce cloud for our web platform. So those investments will help us into retaining more of those registered customers and the repeat, so new product categories and new innovation continues to improve our repeat purchases.

Ashish Kacholia: Any theoretical limits to the retention ratio of this 51%, I mean can we aspire for 70% to 75% kind of a number or this is kind of stoppage in terms of where it is?

Sunil Agrawal: It is too far out for me to say that our internal goal is more modest, because as I said earlier to Bharat bhai's question we have guardrail of investment that we make, so 60% gross margin, operating leverage, and growth projections, so we manage the business in a way that we constantly meet those guardrails.

Ashish Kacholia: On the influencer program, particularly with relation to Instagram, because that is like the number one picture social media platform in the world, so any thoughts that you can share with us on that?

Sunil Agrawal: That has been going very well both in U.S. and U.K. and we plan to further accelerate that with the induction of new Mavrck agency that I mentioned and our induction of our talent internally. So thank you for following it up and we will continue to expand on that. We see that as one of the main growth engines for us going forward.

Moderator: The next question is from the line of Nitin Bhasin from Ambit Capital.

Nitin Bhasin: One question, as there is a lot of changes happening in how customers engage with you and also you are using web, Instagram, etc., so how do you see in the next 3 years, the customer, purchase mix in U.S. and U.K. for you from the present mix in terms of split could you help us on that. What is your target that you are chasing on? What you imagine could become?

Sunil Agrawal: So from the customer point of view, we will continue to see the growth on Television because we still believe there is a lot of runway in front of us for TV, even though there is a cord cutting happening, but we are seeing over the air and OTT, these both spaces have huge runway for us. OTA, we have just started entering them, we are seeing a lot of potential. So, on the television space, we see growth, but digital we expect to see more rapid growth than television, so I think from new customer acquisition as well as from the revenue point of view, we expect to reach about 50-50. So, let me take you back, the digital customer should even be higher in next financial year than TV customer from new customer point of view. From the revenue point of view, we expect to cross 50-50 in about 3 years' time.

Nitin Bhasin: And you know when you acquire these customers, how are you seeing the customer acquisition cost now change on a web versus TV? How should one think about the factor difference between them? Have you done any metric on customer acquisition cost?

Sunil Agrawal: For TV it is difficult for us to calculate per customer acquisition cost because we are there for selling as well as for acquiring customers. We do not really spend much on cross-channel promotion on television, because we did not see much ROI on that, we still do some, but not a whole lot, so TV, we don't know. But from digital, yes, we do, we constantly monitor our customer acquisition cost through social platforms, digital marketing, Shopping, SEO and general spends we do not know the exact cost but PPC and other mechanics, we monitor those costs very closely.

Nitin Bhasin: But you don't have a number to share what it is right now and how it is progressing?

Sunil Agrawal: Number is so different in different spaces, for example, OTT has different number, we pay for say ROKU, we just download 50,000 means first 50,000 downloads and we paid a certain amount to them. Next space is to engage those downloads into purchasing behavior, so that is one way to spend. Shopping has a different spend, PPC has a different spend. Social DR has very different spend, so it is very varied with different practices, so there will be long number for me submit and share here.

Nitin Bhasin: And when you shared earlier this 50% in 3 years, you are indicating 50% for both U.S. as well as U.K.?

Sunil Agrawal: Yes, on a metrics basis.

Nitin Bhasin: Last question from me is, if you could help us the in the last 3 months or 6 months, some experimentative bets that you have started taking and early days for them and where you are seeing that success is yet to be seen, can you share anything, while I can see that in the web, you moved very rapidly in the last 9 months or 12 months, proprietary moving to Shop LC mobile then to marketplaces and then to social retail of targeted products on Instagram, Facebook and Pinterest, then OTT, etc. So if you could tell us, one or two experiments that have not worked and one or two experiments you are very hopeful about to fast pace the growth of the Company in the next 1 or 2 years? Just want to get a sense of because you know it more closely because right now, from outside it is very difficult for us to form a view on what initiatives you are taking.

Sunil Agrawal: Experiment that kind of worked and not worked. Marketplaces this year would be almost 3 times what we sold last year on marketplaces, Amazon, eBay, Walmart, Wish and now Etsy and Wayfair. So, from sales point of view, there was tremendous success, but from customer transition to the main business, it was not as successful as we expected. So, we expected going in that we may be transitioned 5% customer to the main business, but actual transition is less than 2%, so that was the disappointment to us. It is profitable after expensing everything, but not as profitable on the main business, because there is a shipping expense because we ship free to them and then we pay marketplace expense and also advertising expense on that. But there has been very successful in learning point of view. What works on marketplaces on enhanced brand content or positioning, so that marketplace division and the main business division, they learn from each other from advertising point of view, from content point of view, there is tremendous learning going on. From success point of view, we are feeling tremendous success in OTA. Social DR is tremendous success, because the new customer acquisition is really good in social and all the customers that we get are 100% ours. In marketplaces, the customer that buy from us, the number of customers who buy on our marketplaces today is larger than our own in-house customer base, but they are not our customers, they are marketplace customers. The customer who transitions to us are our customers, we do not count those customers as ours till they transition, but social DR are 100% our customers. So, we market to them and we see repeat purchase going up and higher. So that is why Ashish follow up on social DR, because it is enormously powerful. The customer is valuable, and the acquisition cost of that customer is lower, than acquisition cost of our direct digital spend that we do on Google or Bing. So there has been tremendous success for us. The product innovation that we are doing constantly, like apparel, so far has been very successful, we did food that was successful. We did candies and biscuits, so that was very successful for us and some perfumes that we launched mid-market brands have been tremendously successful. So as we are learning about the product, we are seeing lot of traction. We launched personalization jewellery line that means people can get the engraving done of their name or the initials of their names on necklaces. We have just launched couple of months over 3 months ago and that has been successful. We are seeing lot of successes in testing, but there have been some disappointments too, in terms of marketplace customer transition.

Moderator: The next question is from the line of Manish Poddar from Nippon AIF.

Manish Poddar: Few questions, first one is, if you can help me, let us say with your broad subscriber base, how many subscribers would you have right now?

Sunil Agrawal: We do not really work on subscriber basis, because we are not a social media Company. On TV home basis, we have 99 million homes as I mentioned, that our signal goes to and we have some data of viewership. It is not a full data of viewership, but the customer who registers with us and come and buy with us are really customers for us. Social media is relatively new initiative for us, so subscribers are not a whole lot. The customers we get from them is our customer that we value.

Manish Poddar: How much would that number be, these customers which are registered or who buy from us? So, what I am coming across is, I think in the FY20 presentation, you have given a customer base of roughly about 350,000 odd customers, so I am just trying to circle is, what is that number right now?

Vineet Ganeriwala: Sunil, I can add on that. Our unique customers on a trailing 12-months basis right now are 4.7 lakhs, so the number which you are referring to 3.5 was last year December.

Manish Poddar: So, if I get it right, in these 9 months, you have added roughly 30% base and this number in the last 3 years, from FY17 to FY20 was largely flattish, so is that a correct understanding?

Vineet Ganeriwala: Yes, you may say it was largely flattish and right now, it is 33% growth year-on-year.

Manish Poddar: Just couple of more questions, first is, if you look about new launches or let us say, when you are going across geographies, do you look at a particular ASP for the customer, because if you look at your ASP over a period of time keeps on increasing generally at high single digit odd inflation and I believe that will be how prices of the end products would be moving, but you have got a mix of products, so how should one really think about ASP, let us say from a medium term per se?

Sunil Agrawal: Our ASP target usually is about 50% of our competitor, so to retain our value, perception in mind of customers, it can move a little bit 5% to 10% plus or minus because we usually let customer dictate what they want to pull from us, and we have very varied bouquet of products. So, when we go to new geography, we would map our competitors and try to stay at 50% of their ASP and this is what we do in U.S. and U.K. as well. Sometimes, it moves over, you are right, last 4-5 years, it has moved up a bit, but we try to cap it around 50%, can be 45%, can be 55%, but around that space.

Manish Poddar: Sir, would it be a fair understanding, let us say if I look at from, let us say 3 or 5 year per se going ahead, this average pricing, let us say if it is $25, would revenue be function largely of new subscribers or more repeat purchases and pricing would largely be in this $25-$26 range blended or how should one think about it? That is what I am trying to understand.

Sunil Agrawal: New customers, high retention of those customers and more repeat purchase by those customers, so the other 3 'R's we play in that.

Manish Poddar: And just one last one is on the cash usage, so if you could probably highlight, I think you have significant amount of cash pool now on the balance sheet and you are adding significant cash flow from operations incrementally, so why just give out dividends of 20% to 30%? What is the cash usage in the entire scheme of operations as such incrementally?

Sunil Agrawal: Last financial year, we gave out pretty much all the cash we generated, we gave back to the investors and we balanced our need of cash for potential organic acquisition or organic expansion and then rewarding shareholders. So, we balance that need and if we consistently see that we do not have such opportunities, then we will give back that too.

Moderator: The next question is from the line of Anil Sarin from Centrum.

Anil Sarin: Just wanted to know, I noticed that the gross margin trend is sort of dipping, no complaints on the operating margin front, but the gross margin used to be earlier 62% to 63% and now if I heard you correctly, you are saying as long as it is about 60% it is fine, so could you comment on that?

Sunil Agrawal: Sure Anil, so our guideline is that we will maintain above 60% gross margin for the year and that we keep in focus and within that guardrail we give out promotion. For example, this Christmas season, we gave out shipping promotions, so shipping revenue is part of topline revenue and if we give out those shipping promotions, as I mentioned on TJC plus in U.K., so those will impact our gross margin. So, within that guardrails we experiment constantly and would give those promotions.

Anil Sarin: Next one is on this Social DR, marketplaces etc., what is the revenue share they currently have and what do you think the revenue share of these digital markets would be by FY23 end?

Sunil Agrawal: For marketplace projections, we have three years of projections for every space, but they are not in front of me right now, but we expect marketplaces and social DR and our own digital to grow faster than our TV business. So 3 years from now, third financial year from now, we should see digital total revenue be more than 50% of our total revenue, all put together, marketplaces, social DR and digital.

Anil Sarin: In between when we had earlier interacted, you had mentioned that you made some senior levels hires on data analytics, etc., that is where you come to know who your customer is, what their behavior is, are you continuing with those initiatives and having a lot of bandwidth dedicated towards mining and exploring and predicting where the customers are and what they are doing?

Sunil Agrawal: Absolutely Anil, that is a very crucial area for our business growth sustenance. So, in AI as well as data analytics, we have hired people and we are continuing to hire. So, we are talking to one more person, very senior, to get him on board as well in addition to the people we already hired. So, you are right, we are focusing on that space consistently.

Anil Sarin: And if you were to benchmark, sorry to just labor that issue a little bit, if you were to benchmark, like where are these well acknowledged leaders who do it very well, where would you be relative to those leaders, we would be at what percentage of that efficiency would you be, if that is the benchmark you want to have?

Sunil Agrawal: Efficiency in what regard Anil?

Anil Sarin: Like how Amazon does it. They do multiplicity of things which retains the customer, in terms of suggestions, in terms of the whole set of value that they bring to the customer. So, if you were to benchmark, I remember you were mentioning a few quarters ago that you are thinking of having more warehouses in different parts of the U.S., so that the delivery time can be cut down, so things of that sort, not only delivery time, but I am saying in terms of having a better understanding of what the customer is. I mean you would have some kind of a role model, somebody who you would be wanting to be as good as if not better than and where are you today as per your own assessment?

Sunil Agrawal: So, from Television content and story point, I think we are ahead of QVC or equal or ahead of QVC or other key shopping networks, because our story we have the benefit of being vertical. We can tell a better story of the sourcing and how it has come about designing and all that, so we are very good in that. From digital understanding of customer, I think we are still behind other players, definitely behind Amazon and probably behind QVC also. I don't know exactly where QVC is, but I am definitely behind Amazon from understanding the customer and offering product recommendation to that level, following through a customer all through the journey. We are investing in that. We just contracted with sales force, marketing automation, CDR and their customer suite. It is the top of the line and that is in implementation phase. Once we completely implement that, I think we will be very close to Amazon in terms of customer engagement. From logistics point of view, we have recently hired a very capable head of logistics at U.S.. In U.K. we are quite there already with TJC plus, very much similar to Amazon Prime and we are able to deliver to customer within 24 hours of ordering now in U.K. In U.S., we are behind. We hope to catch up with Amazon, if not within next financial year, but after that. For that in U.S., we will have to have multiple warehouses to be able to do that. So, there is a longer term than in U.K. So, we are there in some areas, but we are getting there in other areas.

Anil Sarin: Last question from my side, you started by talking about some kind of lifestyle garment unit that you have set up or apparel unit, so if you could throw some more light on the rationale, and what is the potential in a 'blue sky' kind of a scenario?

Sunil Agrawal: Fashion apparel is about 10 times the size of market than fashion jewellery in both in U.S. and U.K., so market is big there and our demographics, 40 plus demographic, fast fashion, there are not many retailers in U.S. and U.K., we could not find many, we found Chico's and rest is all from Amazon or from Walmart or Target or all these retailers. There is no ZARAs or no BOOHOOs or no H&Ms which 40 plus which is our audience, so we found that there is a gap there in the market, but we do not want to take it as a large risk, so we want to test how it is going. So far, the test is going phenomenal and as we are learning, we will keep on expanding that. The reason we went into manufacturing ourselves is to understand that space deeply which is our strength having done fashion jewellery and because that space has a lot of potential, you have to understand the backend as well and we are putting people in say Bangladesh, putting people in Vietnam, our people to understand that space better, so we understand the component cost, to understand the gross margin of the industry and to capture more of that economic pie and be able to give to our customer better than Amazon or better than Walmart, so that is our effort in the direction. How successful we will be, I don't know yet. It is too early, but there is a large market space that we see.

Anil Sarin: Sir, just a follow up, so this is a pilot, or this is full-fledged kind of a unit, I mean?

Sunil Agrawal: It is a unit just about 50 workers right now, but we are planning to scale it up to 100 in next couple of months and then keep on scaling it up as time goes. So it is basically a low capex model, we have believed in Jim Collin's bullet and then cannonball, so we are testing and expanding, testing, and expanding, testing, and expanding.

Anil Sarin: This Canada, Germany, Japan etc., you have been piloting, if you can give us an idea of how big these markets are and what you are expecting, let us say, in the next couple or may be 3 years, these new markets?

Sunil Agrawal: So, Canada is just a simple extension from U.S., we do not plan to launch in Canada anytime soon, but ship from U.S. So, there is just an extension of U.S. From Germany and Japan, they both are bigger markets than U.K., even for QVC it is much bigger than U.K. and we are targeting both in Japan and Germany. As we see, the right time for us on the understanding of the market point of view and our ability of sparing our talent we will go on those markets.

Anil Sarin: In terms of, how entrenched is the competition, so it is bigger, I am sorry, as an aside I can say is that while U.K. may be much smaller than U.S. and financially also from an economic standpoint, they may be doing worse than the U.S., but your success has been at least to a distant observer like me it appears that U.K. is actually outpacing U.S., so one is the size and the other is how well you are performing within that, so coming to Japan, there are these Uniqlos and there are lot of local competition, so what is your outlook over there?

Sunil Agrawal: We are trying to understand those markets through marketplaces right now, product customer behavior, although in Germany we had experience earlier, so it will be much easier for us to get into that market. But so far pilot products in Japan are not fully available. The pilot in Germany that has started to become available and we are seeing good traction for our products there, but it is too early for us to really commit where exactly we are going, but we will be going probably to Germany before we go to Japan.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment.

Pritesh Chheda: I have a couple of questions, one, it is a small observation, does the incremental customer which comes on digital is slightly more costly customer versus what would have come on the web and I am trying to draw this observation from the fact that if you look at the SG&A cost increase, what we see now versus what we were seeing for the last 3-4 years, it is quite a different increase of growth rate that we see, so if you could clarify on this whole aspect?

Sunil Agrawal: So, the customer coming to us from web, it may seem more expensive because we are paying them on customer acquisition cost initially. On television, the customer acquisition cost is in terms of airtime expense that we already pay. So the comparison is not really apple-to-apple between the two. The SG&A cost increase that you have seen is largely because of the shipping, so with this shipping promotions and the shipping cost were partly higher in Q3 because of elections and COVID issues and partly our LSP ratio has gone up which have higher shipping costs. So, it is not the customer acquisition cost there, but more related to the shipping cost.

Pritesh Chheda: If we look at Q3, the SG&A cost increase for the whole 9 months, is fairly a high number, so in that as well the shipping cost was a part?

Sunil Agrawal: Yes, shipping cost is a major component of increased SG&A.

Pritesh Chheda: So, should that normalize, all the other cost other than shipping should have grown at the single digit what we see in the past 3-4 years?

Sunil Agrawal: HR cost increased double digit, but lesser than our sales growth and other costs are much lower than the revenue growth.

Pritesh Chheda: My second question/observation is, we have gone on the Walmart as one of the third-party position in Canada, isn't it a slightly conflict of interest there and what are the terms of trade and what is the idea behind being in Walmart?

Sunil Agrawal: So, we are in Walmart U.S. now as well as in Canada. Walmart U.S. has been doing very well for us as a marketplace and Canada was natural extension to that. I couldn't get your point about the conflict. Where do you get this conflict?

Pritesh Chheda: Are these marketplaces similar? So, Walmart typically has a habit to even source themselves and they follow a source and sell retail model unlike Amazon and eBay which is a pure marketplace, so I was just wondering is there some dissimilarity between the two, Amazon type model and a Walmart?

Sunil Agrawal: So from marketplace point of view, Walmart is trying to catch up with Amazon in increasing the marketplace presence. So, they are inviting vendors like us with open arms to come on their platform. Support that we are getting form Walmart right now is even higher than Amazon.

Pritesh Chheda: And another question on the manufacturing side, so there are we going to get into textile manufacturing what you are answering to the other participant?

Sunil Agrawal: As I mentioned that we have only 50 people in that unit right now. We will be expanding that as we are seeing success of that at capturing more margin for our own retail channels and we will continue to expand till we sustain. So, we will always have a mix of that, some in house manufacturing, some outsourcing, so we are outsourcing a lot of apparel from China and India also and we may also manufacture, so that we can discover the bottom cost and capturing their economic pie if we can, but we will always have a mix of manufacturing and outsourcing.

Pritesh Chheda: It is like working more like a buying agency?

Sunil Agrawal: We have buying agency ourselves in-house, but manufacturing is important for us to discover the cost and that is the potential growth area for us, apparel, and fashion for 40 plus demographics, so we want to discover the cost on that and also manufacture if it is something very low cost and if we can deliver cheaper than our third-party vendor, then we will manufacture ourselves.

Pritesh Chheda: Manufacturing of shirts, trousers or shorts may be of that sort also or?

Sunil Agrawal: Right now, what we are manufacturing is more of unsized apparel like what they call, kaftan's, so right now we are not into sized apparel manufacturing yet. For that we are going outside. So Kaftan is what we are manufacturing quite a lot in our small unit. Size apparel, we are sourcing from outside because we are not expert in that yet.

Pritesh Chheda: And my last question is, in your 15% constant currency growth outlook, how much should repeat purchases be a contributor to this 15% constant currency growth and how much should be by virtue of new customer either by reach or by retention?

Sunil Agrawal: I cannot give the specific component of repeat purchase within that 15% to 17%, I do not have it. But as I mentioned we have quarterly, monthly, even weekly, and yearly projections for all the 4R's. Now, there is an interplay of all those four, how much will be the reach in advertising on digital spaces, on television, what customer registrations we expect on the daily, weekly, monthly basis, how much is the retention rate we expect over next 3 years on each segment, how much is the repeat purchase of them over next 3 years, so what we do is, we do 3-year larger projection and for next year we do details projection, but I don't have a specific component of repeat for that 15% to 17%.

Moderator: The next question is from the line of Chintan Sheth from Sameeksha Capital.

Chintan Sheth: One query I have on the initial remark you made regarding the customer preference changing towards value purchases, but the basic understanding about those U.S. and U.K. market being a developed market is that they are more brand conscious and not a saving economy as such like India. So, if you can elaborate more on this changing preference which we are seeing, vis-a-vis what they are, both the countries have received the cash subsidies from the Government and that has also played some part of increased consumption in the discretionary front, so if you can provide more light on that comment on customer preference changing towards value buy versus earlier brand conscious buying, they do?

Sunil Agrawal: My comment on the value front was more to do with the current COVID environment and where many of the families have limited resources and unemployment is relatively higher both in U.S. and U.K., but in longer run, U.S., and U.K. both have tremendous audience for value conscious purchases. As we have seen, the Walmart has grown phenomenally well over decades in U.S. compared to say, Macy's, Saks Fifth Avenue, or Neiman Marcus they have not grown. So there are Macy's of the worlds are full priced retailers and Walmart are the discount retailers. So, discount retailers have consistently grown in U.S. and U.K. whereas full priced have not. So, value segment is always there, we will always be there, but current environment is little bit more towards value and we are driving that aggressively.

Chintan Sheth: Second is on the gross margin trend, typically you did hint on higher logistic trade cost being passed onto the consumer led to lower gross margin, but anyways I was looking at our sales mix which you also alluded to that sales has increased from 32% last year same quarter to 35% this quarter and typically what we have seen is on the web portals, we have more discounted products moving through that portal and our ASPs are significantly lower than what we get that on the TV screens. So despite that if you look at our ASPs on the web also grown at 10% on a Y-o-Y basis. Despite that we have seen contraction in the gross margin, we did allude to the logistics part but if there is anything else you can highlight on that it would be helpful?

Sunil Agrawal: There are three components on that. The live programming goes through web for the audience who are not watching TV, who do not have access to TV signal, there is a fixed price catalogue of all the inventory we have in the warehouse that is published on the web and the third is the rising auction. So rising auction model is where the margin is lower and that is mostly an exit mechanism of our remainder of inventory from television or from the web or aged product. So that is why we don't have problem of inventory piling up as you might have seen. Now, margin on FPC and on streaming is similar to television, so there is no difference there and rising auction, as the percentage of web will not grow as much as the web sales will grow. The marketplace margin is high, social DR margin is high, catalogue margin is high and web TV margin is high, only rising auction is low. So margin wise, we don't see an issue as we increase the percentage of web business. So as the percentage as we saw, there is a very slight contraction in gross margin. Our business model is to continue to be above 60%. So, they will be sometimes you see lower, sometimes you will see higher, but there is not much to read into that except the shipping revenue may get contracted in coming times to follow what Amazon model is, but we will try to compensate that by increasing the gross margins.

Chintan Sheth: Then lastly on this, the subscription model which we piloted in U.K. and are we planning to replicate in U.S., have we launched it or are we in the process of it?

Sunil Agrawal: We have not launched it yet; we are still evaluating how U.K. is doing and are evaluating what will be the impact of that in U.S. when we launch. So, we will decide on that, may be 6 months down the road, where we want to go whether we want to roll it out in U.S. or not.

Chintan Sheth: So how has been the traction there in U.K., because if I compare the Amazon Prime in U.K. versus our annual package or monthly package, both are priced similar, but what we get in Amazon is on the top of the shopping experience and delivery experience, they also offer entertainment. So, I am just trying to understand whether, how is the traction we are getting in the U.K.?

Sunil Agrawal: Amazon does add lot more value into their package, than what we have added so far. But so far, we already have a good number of customers, actually the velocity of customer engaging with that program is higher than our expectation and we expect to add more to the pot in coming months. So we are working on initiatives internally. We can't share right now what all those initiatives will be, but we plan add more of those initiatives. That will not be dilutive to us, but customer will pursue more value to that.

Chintan Sheth: And on the IT front, the web portals and mobile apps, any improvements and anything new we are planning over there, any investments apart from what we are doing? I can look at Reevoo being the part in the U.K. web portal, but the similar kind of engagement is missing in the U.S. portal?

Sunil Agrawal: We are constantly learning from each other and improving the customer experience and trying to improve the customer experience on both the portals, the U.S. and U.K. learn from each other. For example, in U.S. has Better Business Bureau that is the rating system which is not in U.K., so we are trying to gain customer confidence in each position, each geography where the customer would relate with them.

Chintan Sheth: Because selecting a product on the Shop TJC, U.K. website is easy, as we see the Reevoo benchmarking in terms of rating with a specific product, that is missing in Shop LC, U.S. We were hoping to see the BBB website this quarter, but it was not working, so I was wondering whether we have hands on Reevoo like feature in the Shop LC, U.S. that will be more intuitive to your customer in terms of buying experience?

Sunil Agrawal: In U.S. we focus more on product level rating by the customer and we follow up. If there is any negative rating, we follow with customer, we look at the product closely, so there is a team for dedicated focus on the customer ratings and improve the rating constantly.

Moderator: The next question is from the line of Astha Jain from HEM Securities.

Astha Jain: My question is that can you give me the breakup of the gross margin from U.S. and U.K. geography, I mean what kind of margins we are garnering in U.S. and U.K. geographies, can I have the breakup of those margins?

Sunil Agrawal: U.S. gross margin last quarter was about 56% and U.K. was 55%, so remember that these U.S. and U.K. gross margins are clubbed with supply chain gross margins to come up with a total group gross margin. The sales from supply chain are netted off against the purchase of retail units and that is why group gross margin was 61.4% last quarter, whereas U.S. was 56.2% and U.K. was 54.9% to be precise.

Astha Jain: And Sunil, can you just give me, like what kind of gross margins we are garnering from TV and web in these geographies if it is possible for you? I just want the aggregate numbers for TV and web?

Sunil Agrawal: It is too much of detail, so Dipti will get in touch with you, she will give those details to you.

Astha Jain: One more question from my side, because in the last two quarters, we have seen due to the pandemic situation brick-and-mortar kind of sale was at halt but now I am feeling that it is now coming back to the normal, so what are your views on that? Are we maintaining the growth levels because even in India also we are seeing now people are moving towards shopping and all, so do we see any sort of impact on the web or TV for this, I mean reopening of the economies or something like that? Any comments on that?

Sunil Agrawal: Definitely, we believe there was a positive impact on the Company because of COVID 19 and that is why the growth we have seen is what you have seen. That is why next year we are giving a guidance of 15% to 17% on this accelerated growth where we may have people not be at home as much as they were during pandemic, but with all the initiatives in place we have, we are confident of achieving 15% to 17% for next financial year. For this complete year on constant currency basis, I am giving this for this current financial year, they are giving a guidance of 21% to 23% growth for the full financial year.

Astha Jain: And another question is that, can you throw some light on our EMI and how the things are going, what are the policies and have we created some sort of bad debts or something like that, have we taken into account everything and then we have done this projection because I am seeing that your Budget Pay, they are increasing constantly, so any views on that part, what is the policy behind this if you can throw some light on it in detail?

Sunil Agrawal: We give Budget Pay to the people who have credit card, or they give credit card information to us. So, if they have credit card, then we assume that they have a creditability and they have credit worthiness. So first payment, we collect right away and balance 2, 3, or 4 payments we collect over next 2, 3, 4 months. Our bad debt ratio for budget pay over first year is below 1.5% and we project that kind of bad debt to go forward on the Budget Pay and we project that in our financials.

Astha Jain: So, we are expecting this to increase forward, even on the inventories also, we are expecting the same sort of bad debt percent?

Sunil Agrawal: On online, on rising auction, we do not give Budget Pay, but on TV auctions or FPC, we do give Budget Pay. On marketplaces and social DR, we do not give Budget Pay unless it is expenses, we give Budget Pay for only social DR, but not a marketplace, so it depends on what ratio will be higher, those Budget Pay expense will be there. Bad debt on digital and TV are not different, they are constant and are very miniscule, so we don't see much risk on bad debt going forward and we have a good collection process in house as well. We have partnership with our credit card company as well for collecting and we have in-house team as well to collect any delinquent receivables.

Astha Jain: So, any sort of provisioning we have done for these things or have taken already or any view on that?

Sunil Agrawal: We have filters in place when customer orders a product. We automatically have a filter for judging that customer as they would be eligible for high end Budget Pay or not. It not, we don't give it to them. Any customer who has any delinquent payment doesn't get it. Any customer who has a delinquent payment in the past do not get it, so those filters are already in place through our systems and through our customer service agents.

Astha Jain: And one more question for you from my side, can you just comment on the market share which we are getting in these geographies or any comment on that part like what kind of market share we are enjoying right now?

Sunil Agrawal: Between television/e-com companies, our market share is less than 3% right now. So, we still have a lot of runway in front of us.

Astha Jain: And any idea on those competitors if you can throw some light on them?

Sunil Agrawal: Competitor when we look at only the television space, then it is Qurate Group, or Shop HQ, Jewellery Television, in U.K. there is Ideal Shopping and all those, but from digital space, we are competing with Amazon, Walmart, Costco, Tesco in U.K., we are competing with large space of retailers, but the 3% market share I gave was only when compared to television/e-com players.

Astha Jain: One more thing, I just wanted to know, is there any sort of surveys or something like that, which can give an idea or give certain data about our Company, other competitors and how much market share they are gaining or something like that? Are we subscribed to any such kind of surveys or any surveys which are going on in the market right now? I am just guessing, only if you want to share something on that point.

Sunil Agrawal: The data that I gave you basically is our tracking of their published numbers, so from that we pull out all the information that we share with the market. Other than that we do not subscribe to any service that gives us the data on the market share of that space per se. We are subscribed to lot of information that comes from the customer demographics, from the customer habits and overall market trends and all that, but not from the market share perspective.

Moderator: Ladies and gentlemen, that would be the last question for today. I now hand the conference over to the management for closing comments. Thank you and over to you.

Sunil Agrawal: Thank you all for your participation in our Q3 & 9M FY21 Investor Conference Call. Once again, I wish you and your loved ones health and safety. Feel free to contact Dipti Rajput or CDR India if you have any further questions that we can help you with.
