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Q1 FY-16 Earnings Conference Call Transcript
July 29, 2015

Karl Kolah: Good afternoon and thank you for joining us on Vaibhav Global's Q1 FY16 results earnings call. Today, we have with us Mr. Sunil Agrawal, and Mr. Hemant Sultania.

We will begin the call with brief opening remarks from the management, following which 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 we face. 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. Sunil Agrawal to make his opening remarks. Over to you.

Sunil Agrawal: Thank you, Karl, good afternoon and I welcome everyone to Vaibhav Global's Q1 FY16 result earnings call. I will quickly provide an overview and key financial and operating highlights for quarter ended 30th June, 2015.

Let me start with the update of the quarter and review. Revenues in Q1 FY16 were lower at Rs. 276 crore, a decline of 8.3%. This can mainlybe attributed to the lower sales of rough and loose gemstones within the wholesale segment and high price point products in the portfolio. Both these revenue lines have lower margin as compared to our core customer proposition of product price in the range of about $20. There is additional margin benefit in Q1 FY16 from the inclusion of import duty on closing inventory as advised by our local US and UK auditors.

The loss of revenue due to new web platform in Q1 FY16 was also approximately Rs.11 crore which is generally lower gross margin. As a consequence, Q1 FY16 gross profit was maintained at Rs. 185 crore and gross margin was at 67% from 62% year-on-year. TV volume improved 5% year-on-year while ASPs decreased due to discontinuation of sales of high-end products in both US and UK market. Web volumes were impacted during the process of transition to the new SAP/HYBRIS platform and mobile websites in the US.

Operating profitability had the impact of lower than anticipated sales volumes and expanded cost structure that affords stronger customer visibility to the business. Recent initiatives include a new responsive website launched in May end expansion on TV home coverage to 105 million households and investment in improved channel positioning in UK. These investments are important for longerterm business perspective and we remain committed to driving every initiative that improves our market proposition.

Q1 FY16 profits at the net level declined due to lower top-line, increased depreciation and higher tax provisions. We maintain zero debt, cash surplus status which allows us to be more aggressive in taking forward some of the initiatives to finance from operating cash flows. Our credit ratings for short-term bank facilities have recently been upgraded from CARE A3+ to CARE A2 indicating strong degree of safety regarding timely payment of financial obligations. CARE has withdrawn long-term rating as our long-term debts have already been repaid. ROE and ROC remain robust at 27% and 37% respectively.

Let me also highlight some vital customer-centric data point. In Q1 FY16, we added 43,000 new customers. We now serve 3,92,000 unique customers on annualized basis. Customer repeat buying activity is now at 18 times from 17 times on annualized basis. Average annual purchase by each customer stood at 26 pieces from 25 pieces same period last year, this is annualized data. The customer retention rate has been stable at 47% in US. These data points highlight the strong business fundamental and the deep bond we share with our customers.

We recently rolled our new advance desktop and mobile websites on SAP/HYBRIS platform which gives a superior experience and can be accessed by any mobile device. In addition, we have expanded the proposition and convenience factor for customers by accepting returns for 30 days for all price points in US. We are also evaluating EMI strategies that are currently the industry norm followed by most of our competitors. While recent performance has been subdued, our strong financial attributes and the various initiatives we have taken to continuously improve deep value proposition to 1.7 million TV and web customers make us confident that growth momentum should return in the second-half this fiscal year going into the holiday season.

Overall we remain focused on our objective of emerging as a formidable global retailer of high repute.

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

Moderator Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani You said loss on web sales was around Rs.11 crore this quarter is that what I heard correct?

Sunil Agrawal $1.7 million y-o-y compared to last year, last year's impact.

Mayur Gathani Okay. And this was due to the transition effect.

Sunil Agrawal Correct. So there was some technological gaps and also resistance to change. The feedback has been very positive overall but the transition cost us Rs.11 crore in revenue.

Mayur Gathani Okay. So that was implemented in May, but we are talking about the new website that we have launched compatible to the mobile, right?

Sunil Agrawal That is correct.

Mayur Gathani Okay. And that was active for the month of June 2015?

Sunil Agrawal Yes, for whole of June 2015 it was active; it went live on 22nd of May 2015.

Mayur Gathani Okay. And how has the impact been? I mean review that you have got from there?

Sunil Agrawal The feedback has been very positive I would say 95% customers like it, 5% have resistance to change. They said they loved their desktop side visible through their mobile phone. I could expand contract, this one I cannot expand in contract. So there is always that some people do not like change.

Mayur Gathani Okay. And what about the previous changes that we have taken in the call center and as well as software for the TV has that been completely done with and we are absolutely stable on those two fronts?

Sunil Agrawal Correct, they are both absolutely stable.

Mayur Gathani Okay. And what is the active customer base in unique customers for this quarter?

Sunil Agrawal For the quarter we had 166,000 unique customers.

Mayur Gathani Okay. And these are basically the buyers right, unique customers means those who have bought from you?

Sunil Agrawal Yes, that is correct. On annualized basis 392,000.

Mayur Gathani Okay. And active consumer base might be how much?

Sunil Agrawal This is active consumer base. The total customers who have ever bought from 1.7 million.

Mayur Gathani Okay, fine. And what was the customer addition for last quarter if you would have the figure with you?

Sunil Agrawal Yes, it is 42,800.

Mayur Gathani December was 68,000 September quarter was 53,000. We have seen some dip in this customer addition, what would you attribute to this?

Sunil Agrawal Partly a seasonality and partly some disruption in our web business and also the fact that we are not giving EMIs and some of our other competitors are.

Mayur Gathani Okay. And what are the plans for the EMI? I mean do we expect to launch in quarter three onwards?

Sunil Agrawal Correct, towards the end of the quarter three. But we launch at the end of quarter two and we will test it on different price point and see the pick-up and then go for launch based on the feedback.

Mayur Gathani And there was some note mentioned that there were 300,000 GDRs converted to equity shares. Can you throw some light on this?

Sunil Agrawal These are all promoter GDRs, two tranche have been converted, only one tranche remains that will be converted shortly as well.

Mayur Gathani And how much is that tranche?

Sunil Agrawal The remaining are about 390,000 GDR.

Mayur Gathani Okay. And what would the promoter shares be post then? Or what is the current promoter…

Hemant Sultania Around 68%.

Mayur Gathani So stake will go up to 68%. And what is the conversion rate?

Sunil Agrawal The same as one to ten whatever has been there, so when they were issued - one GDR equal to ten shares.

Mayur Gathani Okay. And you also mentioned some import duty thing which led to a gross margin improvement can you just throw some more light on that.

Sunil Agrawal Sure as advised by auditors in US and UK, we will not be including import duty in local countries in our inventory valuations. So advice for this financial year as per the local norms, we must include the import duties, hence we included in this quarter.

Mayur Gathani So that led to a gross margin increase?

Sunil Agrawal That would lead to overall gross margin increase, not as a percentage.

Mayur Gathani Not as a percentage, fair. And what is the outlook that we give now? I mean for the coming two to three quarters or maybe even this transition period is on for the web portal. So where do we see ourselves?

Sunil Agrawal As I said in last earnings call, H2 I am confident to start to have growth momentum and coming two to three years we see no reason for not attaining 15% to 20% growth.

Mayur Gathani So H2 we can see some double-digit growth?

Sunil Agrawal I am not sure double-digit growth but I am confident of the growth in H2, decent growth if not double-digit high single-digits.

Mayur Gathani Okay. And we can come back to the double-digit margins at least that we have been doing for sometime in previous years?

Sunil Agrawal So from next financial year onwards I am confident of double-digit growth, say somewhere between 15% to 20% onwards.

Mayur Gathani And SEZ is operational now or it will take some more time?

Sunil Agrawal SEZ will become operational in Q3. It is under construction, we already completed two floors and we hope to have move into that by beginning or middle of next quarter.

Moderator Thank you. Our next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda Just want to check - there has been continues deceleration in the sales momentum. How has the market behaved and is there a market share loss in the period?

Sunil Agrawal Market in US and UK both are growing markets. We have seen from the result of QVC and HSN, were the leaders they both have increased their sales of low to middle single-digits. So the market has expanded and if we have been stable revenue or this quarter we have shrunk the revenue slightly that means you lost the market share.

Pritesh Chheda Okay. See one part you said the websale attribution of Rs.11 crore which means about 5% of the growth being shaved off that still does not explain the minus 3% top-line growth, if you could minus 3% top-line decline, if you could shed some more light there?

Sunil Agrawal Sure. Rs.20 crore was loss from B2B as I mentioned in my opening remarks. Our B2B sale are lower by Rs.20 crore this quarter as compared to same quarter last year and that is mainly related to the excess inventory that we sell in the local market because both India and Chinese markets are pretty slow and we use to buy these auctions from AIMs listed companies in Zambia and Tanzania. So last quarter we were slow in buying these consignments because we use to use some of them for our use and the excess we use to sell. We are very selective in buying those because these markets are not absorbing any of the left overs so, that sales is impacted. So 20 crore from there and we reduced substantially our higher end inventory because we wanted to focus on mostly low end and that has been some sales loss from the high end product. As you will see on television our average revenue has come down to $18.

Pritesh Chheda Okay. And when you introduce the EMI scheme how does it affect the cash flow or the margins?

Sunil Agrawal I do not expect it to effect the margins because we hope to increase the margin on those particular item where we introduce the EMI and the margin will be improved only to the extent that we expect to lose on terms of bad debt or collection cost. Now as far as the cash flow is concern we do not yet know what quantum of EMI will play with so have not analyze the impact of cash flow on that but we know that our cash flow is robust. We will use internal cash, we will not need to borrow from external sources.

Pritesh Chheda If you introduce the EMI scheme your balance sheet would have some debtor days or loans or advances?

Sunil Agrawal That is correct.

Pritesh Chheda And how much of the business do you think would shift to EMI?

Sunil Agrawal We do not know yet but we will know that our competitors are doing anywhere from 50% to 80% of their business on EMI.

Pritesh Chheda It is that large?

Sunil Agrawal Yes, all the TV players in US and even UK are doing that one, actually we are the last one to hold out right now.

Pritesh Chheda Okay. And how much of doubtful debts result on a EMI?

Sunil Agrawal As per the Q10 published by the public company QVC, HSN and EVINE. It is anyway from 2% to 4% of their EMI sales.

Pritesh Chheda That will be the extra cost that we will bear..

Sunil Agrawal Yes, correct.

Pritesh Chheda Okay. So in that scenario does you double-digit margin profile which you were enjoying earlier, can come into picture or it is a risk that you might not make double-digit margin?

Sunil Agrawal Sorry, can up explain what do you mean by double-digit margin?

Pritesh Chheda I said we were making double-digit margin at the peak.

Sunil Agrawal You mean EBITDA margins?

Pritesh Chheda Yes, EBITDA margin.

Sunil Agrawal As I said earlier the cost that will be borne on the EMI will be compensated by increase in the margin for this particular product.

Pritesh Chheda Okay. So your gross margin will expand?

Sunil Agrawal Correct, if at all the gross margin may expand to compensate for the probable bad debts you might have.

Pritesh Chheda Okay. And lastly, your thoughts on the competitive scenario, how was it? Is that further deteriorated? Where it is or any other thoughts?

Sunil Agrawal The competitive scenario is similar to what it was last quarter and this quarter as I explained in my opening remarks the loss of revenue explained by B2B, by the web launch, and a little bit because of the discontinuation of the high end products.

Pritesh Chheda Okay. And I just lastly there were two - three changes one, on the TV platform side, one on the web platform side and third is introduction of a mobile app if you can give update on all the three.

Sunil Agrawal Mobile app as I said earlier, when I answered to Mayur, it has already been launched on the SAP platform on 22nd of May, the mobile telephone devices for that would launch on 29th and of a tablet it was launched around 20th of June. So they all have been launched and are fully operational and largely all changes that were need to made were made. There are still enhancements to be done and revenue normalization to the level of prelaunch will happen by August end. The additional features that we need for revenue enhancement will kick-in from September.

Pritesh Chheda Okay. Just want to understand a little bit more on these enhancement of platform changes why typically it affects the sales?

Sunil Agrawal First thing is like any ERP, it is disruptive to the business. So this is web ERP, it impacts everything - accounts or warehouse or IVR or call center or scheduling everything. So in variably in a running business it is like a plane we have a 24X7 running business, there is no downtime. And when you launch an application of this magnitude for running business there can be always some disruption which is what we experience and some disruption is due to resistance to change, some customer do not like change and they would resist. As I said, 95% have been positive but 5% customer said, give me back my old website. I like to stretch to be able to stretch more mobile.

Moderator Thank you. Our next question is from the line of Malavika Mundra from Edelweiss. Please go ahead.

Malavika Mundra I understand the fallen volume in the web is mostly because of this resistance to change or the disruption because of the new platform. For TV sales is there some specific reason as the volumes grew only 5%. So other than the EMI thing you explained is there any other reason we can attribute to this?

Sunil Agrawal Nothing, the competitor's environment still same as it was previous quarter.

Malavika Mundra Yes and anything else?

Sunil Agrawal No nothing else and we are working towards it we know what the solution is and we will implement it by the end of this quarter.

Malavika Mundra Okay, fine, thank you. And another thing I wanted to know is this HYBRIS platform in the SAP. I think you all have implemented and that has been recognized as capital expenditure, right?

Sunil Agrawal Correct.

Malavika Mundra So it will be amortized over how long?

Hemant Sultania It should be over a period of three year.

Malavika Mundra Okay, fine. The total cost for this if you could tell me for the HYBRIS and the SAP platform that you all have spend?

Sunil Agrawal It is approximately $4 million and there is one more capital line item expense a £1.1 million which is approximately $1.8 million. We purchase the new EPG position in UK that is the channel position. In UK you can buy channel position on Sky, they bought recently for a better position for customers.

Malavika Mundra Right, so that is also capitalized.

Sunil Agrawal Yes, that is amortized over a period of seven years or ten years.

Moderator Thank you. Next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali Just wanted to understand can we get the UK and US volume growth this quarter?

Sunil Agrawal Yes, overall volume wise US is pretty stable. UK was minus 5%.

Jagdish Bhanushali This includes web and TV both?

Sunil Agrawal Right.

Jagdish Bhanushali So stable means I did not get that.

Sunil Agrawal Almost flat.

Jagdish Bhanushali I wanted to understand that it means we have not lost big market share in US it seems and UK it is flat and we are having competitive pressures in US currently. So any sense or how are we looking to the UK volumes?

Sunil Agrawal Yes, in UK we have some management changes. We changed three senior mangers not the top manager but the middle managers and that created some changes which is fully stable now. And we are confident of growth in this quarter.

Jagdish Bhanushali Okay. In Q2 FY16 itself?

Sunil Agrawal Yes, in Q2 FY16 itself we are already seeing the growth in UK. You must see that in US the average price point has gone down by 5%. So even if there is volume stable or flat volume the overall revenue has gone down - in dollar terms it is 4%, in rupee terms actually has grown by 2% because there were 6% exchange gain.

Jagdish Bhanushali Okay, so that is what my next question was. Are we trying to reduce prices of our products to push up the volumes? Because at this point of time we do not have EMI Pay, Stretch Pay available to the customers.

Sunil Agrawal Yes, it was not intentional, except that over $500 item we severally reduced the intensity of those items.

Moderator Thank you. Next question is from the line of Ashish Narang from Perfect Research. Please go ahead.

Ashish Narang My First question is do we have any plans to enter into the electronic segment like washing machine, etc., through our website?

Sunil Agrawal No plans right now.

Ashish Narang Okay. So this is not into our plan. And second, I just need to know that when do we expect to see some growth in our bottom-line like in H1 or in H2?

Sunil Agrawal As I stated earlier H2, we should start seeing growth and in coming years we should see much better growth.

Moderator Thank you. Next question is from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal In H2 when we are talking about growing, do we expect an improvement in EBITDA margin as well like we had 11% to 12% of EBITDA margin in H2 of last year. Do we expect an improvement over there?

Sunil Agrawal We do not yet know what level of improvement we will see in H2. I am confident to reach double-digit or close to double-digit in H2. So either it is high single-digit or double-digit. I do not yet know how exactly it will translate onto the bottom-line mainly because we do not know how much of that will be EMIs, so we will definitely have double-digit EBITDA. But I do not know if it will be improvement over 12% or not.

Deepak Agarwal Okay. And in the current quarter that is Q2 FY16, you said that you are seeing the growth in the UK, how about U.S.?

Sunil Agrawal U.S. is approximately similar what we have seen last quarter because till we bring in the EMI that our competitor has bought in and gain the market share I am not sure how much we can gain without that.

Deepak Agarwal Okay. And there is substantial growth in the depreciation during the quarter, what is that for?

Sunil Agrawal As I just explain earlier to that risk related two items. One is the HYBRIS/SAP platform of about $4 million which money was already paid to them earlier as advance - what change was converted to fixed assets and that is why you will see the net current asset go down substantially. And the second thing slot in the Sky channel that we purchased in UK for £1.1 million that is approximately $1.8 million.

Deepak Agarwal But the HYBRIS side will be implemented at the end of May that is only for one month.

Sunil Agrawal Yes. But as per the laws - as it becomes operational we have to capitalize it.

Deepak Agarwal No, capitalization depreciation would be pro rata right?

Hemant Sultania Yes, but on $4 million.

Sunil Agrawal Yes, so I would agree we have pro rate from…

Deepak Agarwal $4 million means approximately 24 crore - 25 crore and you said over a period of three years that is 12 quarters. So 24 crore for 12 quarters it is Rs.2 crore a quarter. So 2 crore a quarter, we have an increase already like Rs.2 crore increment already in the depreciation this quarter.

Sunil Agrawal Yes, so in this one, just to break down the Rs.4.3 crore we have depreciation of Rs.2.1 crore in U.S., 1 crore in UK, Rs.1.1 crore in India and Rs.10 lakh in Hong Kong and China operations. So this is how the break-up of Rs.4.3 crore is. So let me explain to you the increase of various over last year same quarter – Rs.1.4 crore is increase in U.S., Rs.0.5 crore in UK, Rs.0.5 crore in India and the China, Hong Kong is flat.

Deepak Agarwal That is fine. But what is causing it? Is it so as you said the HYBRIS would be around Rs.2 crore a quarter so it cannot come entirely for one month it cannot be Rs.2 crore, yes.

Sunil Agrawal So let me give you that detail again. Rs.70 lakh has been the HYBRIS, Rs.20 lakh has been the earlier AMS operation.

Sunil Agrawal Rs.30 lakh has been Sky; the new channel, the Rs.20 lakh has been the studio upgrades in U.S. and Rs.50 lakhs in India for the last year we purchase office in BKC in Mumbai and some other software and other plant and machinery in India. So these are the increases which equals to Rs.2.3 crore additional.

Moderator Thank you. Next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali You just mentioned that we are looking for maybe single-digit or double-digit growth in H2. Wanted to understand as we are losing some market share what gives us such a confidence that we are going to gain some market share and also grow as well edited.

Sunil Agrawal The fact that we have 105 million homes this year at same quarter versus 95 million homes last year same quarter so, we are already 10% more homes then last year but we did not grow. I will explain two factors of not growing: one was the B2B impact of Rs.20 crore and 11 crore of that impact so that is Rs.31 crore impact, these would not be available for next H1. And also the strategies that we are putting in place that is EMIs and all the other strategies for custom engagement should give us that growth. Now that is the visibility we have as of today.

Moderator Thank you. Next question is from the line of Shashi Kant Individual Investor. Please go ahead.

Shashi Kant You had mentioned that our customer retention rate is around 47%. So what is the historical retention rate of customers in our business?

Sunil Agrawal The data was 48% last year same quarter and this year it is 47%. So there is 1% decline vis-à-vis last quarter.

Shashi Kant Okay. There is another question, how much money we on average make from our single customer in his lifetime?

Sunil Agrawal The lifetime value in US is approximately for TV customers $400. There is the margin that we make from that customer. From a customer who buys from TV plus web together is about $1200 and the customer who buys only on web is about $100. I do not have the exact data with me right now but I am telling you from memory it can difference by small margin but average is approximately $400.

Moderator Thank you. Next question is from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin My question is regarding the increase in the employee cost that one saw in the first quarter. While there has been an increase in gross margin, there has been a decrease in EBITDA margin, between the gross margin level and the EBITDA margin level there has been some extra cost. What have been those costs and how are they going to reoccur?

Sunil Agrawal Anil that is good question, between the gross margin and EBITDA margin the biggest cost for us are the distribution cost, airtime cost and salary cost. Now distribution cost as I mentioned earlier we have increased homes by 10 million new homes in last 12 months. The cost has been there but they have not translated into the increased revenue because of the competitive pressure or internal the web implementation. The second part is about salary. The salary increased from Rs.40 crore last year to Rs.46.6 crore this quarter. For the extra people that we employed for higher growth did not materialize and also some cost is investment because we invested in people for non-duly products like beauty, home textile, home décor, all these groups have been in place they are scouring the markets, looking at the product, testing the product and that is an investment that was made in this quarter but has not resulted in sales this quarter which will result in sales in coming quarter and coming year.

Anil Sarin Okay, thanks. And also the second part was that this technology implementations have been going on. So there would be some cost in relation to it that can be divided into two parts. One is the cost of license but the cost of implementation, etc., would some of that be part of this one-time cost or everything is capitalized?

Sunil Agrawal The in-house implementation is all expensed out. Only the money paid to the third-party for their software license or the customization of the software would be capitalized.

Anil Sarin So my question is that during this quarter what is the technology related cost, which I presume will not be repeated in the coming quarters now that the platforms are fully implemented and in place?

Sunil Agrawal The operational cost are regular IT costs and I am sure those IT personnel will be there for enhancements, for new changes, and for new platforms. So I do not see any cost that is not repeatable next year from a recurring basis. Depreciation will come in as cost recurring and the IT cost will be there. What will not be there is the loss of revenue we had due to disruption. The revenue that we lost Rs.11 crore and that is on equal basis like for like basis not accounting for any growth due to new platform. So hopefully that will be much reduced in this quarter and in H2 that would not be at all and we start seeing the benefit of the platform in H2.

Anil Sarin Okay. So switching tracks a little bit, if one looks historically in the last couple of years, you leave out fiscal ’14 was also a little bit but prior to that the volume growth use to be quite healthy 25%, 30%, 40% - even and between then and now the product slate or the product spread has been increased to include home décor and household items and also we are due to include cosmetics in future. So with the offerings increasing and the platform becoming more efficient you are projecting revenue growth or volume growth to be 15% - so what is the disconnect? What I am trying to understand is with more products with better technology and history of delivering more than 20% volumes in the earlier years, why are you talking about 15% volume growth going forward.

Sunil Agrawal At this time the visibility is for that number are welcome 25%-30% any day but the current visibility is of 15%-20% kind of growth that I have.

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

Sunil Jain Sir, my question was related to this import duty which you had said is included in the inventory so whether that has increased the profit to that extent?

Sunil Agrawal That is correct.

Sunil Jain So how much is that amount and that is included in this quarter?

Sunil Agrawal Yes, that is correct, for this financial year our auditors both locations said that this should be included. We were not including earlier, we were understating our profits in local countries. They wanted us to include so that it was any taxation incidence and it can come through. I do not have the exact data but approximately it is Rs.4.5 crore to 5 crore. The gross margin would have increased by approximately 1.5% to 2% because of that incidence.

Sunil Jain And sir, second thing this EMI scheme, why we are now delaying to impalement that scheme?

Sunil Agrawal I have asked multiple times to my own internal IT team and they have explained to me thoroughly that it is very large effort because EMI impacts our financial accounting, our warehouse, our scheduling, our IVR, our customer service, our web platform, collection services every which way we cannot make a mistake coming in to season and have any hiccups in implementation so they want to implement well and make it doubly sure that this is no hiccup.

Sunil Jain So you mean to say that it is more on operational part rather than anything else?

Sunil Agrawal Yes, this is all internal operational part, of course we have some third-party developer that we use in Gurgaon..

Sunil Jain Okay. And the other part of that competitive scenario was the free delivery and all so, that is also implemented or you are going to implement it in the coming period.

Sunil Agrawal Our shipping cost are generally quite low, we are not going to go towards free shipping and they are not giving completely free, they do free on large part then they do 2.99 on some part, they do 5.99 on some part. So average revenue for them would be somewhat similar to what we have - which is lower than what it used to be it is true. To counter that we have enable not free returns but return ability at all price points as I mentioned in my opening remarks. That hopefully will give counter any shipping discount that they have offered.

Sunil Jain So you mean to say, you will start implementing goods return in US also?

Sunil Agrawal Yes, we already have as of last week.

Sunil Jain Okay. So that is a big chunk which comes back, what we see in US and all the goods return is over 25%-30% is that correct…

Sunil Agrawal That competitor at QVC is around 19% QVC, HSN and the average price point is $60. In UK our average price point is around £23. So at £23 we see approximately 21% return rate, at $18 price point we expect our return rate to be approximately 15%.

Sunil Jain Okay. In the U.S.?

Sunil Agrawal In the US compare to currently 5%

Sunil Jain So this was not there earlier? If I…

Sunil Agrawal This was not there earlier we just introduced it.

Sunil Jain Okay. So this is going to have a big impact on the margin or how you will adjust that loss from this?

Sunil Agrawal There is no loss because the product that comes in is used again into the product and reselling and most of this will be sold on our rising option but return shipping is paid by the customer. And actually we make a little bit money on the return shipping because we are shipping the labels to them for $5 they can return back, it cost us $3 so, the $2 will be use towards processing of those return.

Sunil Jain Okay. And about the growth what you had talk you are confident about at least higher single-digit growth in the second-half, one factor you said that your customer base has increased. The other confidence which comes from all these initiatives like EMI and return policy what you had started all these initiatives we think are becoming more of supporting to whatever your thinking is.

Sunil Agrawal Correct, the investment we made in the website, mobile website the return ability, EMI and larger customer base this year versus last year.

Sunil Jain But the point was like as compare to the market we are selling the product at very competitive price and low price. Apart from that all other aspect you are meeting with the market but only difference which is remaining is the low price. So are you planning to increase that lower price which you generally said that are very much less than the market.

Sunil Agrawal Yes, so we do not have any intention to increase it meaningful. It may move two dollars plus or minus but nothing much more I mean we would not go to $30 average price point.

Sunil Jain My point was like if you are introducing this particular aspect of return of good so to cover that somewhere to protect your margin and all you have to come up with something like that.

Sunil Agrawal The expectation of return ability is to increase the customer engagement and to engage customer who would not buy from us because we are not taking returns, we are the only one not taking return. But it does not impact the gross margin.

Moderator Thank you. Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani How confident are we that we will launch the EMI by September? Because we have seen some delays in our software, our TV software or the web portal launch, we have some technical issues here and there. So it looks like the growth for the coming H2 depends on how fast we get going with the EMI?

Sunil Agrawal So far as of this morning my CIO seem confident to be able to launch in September. It is up to business side of how much utilization we will do for EMI? So EMI we feel confident to be launched in September. We will test progressively for different price point and increasingly how much we want to utilize that. The uptake of the technology, uptake of this facility will not decide how much it will be. But technology, we feel confident should be launched by end of this quarter.

Mayur Gathani Yes, so I take that point. But again you are saying that it is not going to be for all the products you are going to decide overtime as to which products get into the EMI category which stay out of it. Then what will bring this double-digit growth or single-digit high level growth that we are looking forward in H2 or maybe in the next year.

Sunil Agrawal As I mention to Sunil Jain earlier we have web platform that we launch just now which is much user friendly. It will have one click checkout in H2 which we do not have now. It will have many more customer friendly features which we do not have now. And this new web platform allows us to do that. It allows us to do customer segmentation, AB testing which we will do in H2. We have more customer base then we had last year. We have the return ability that will give reason - we should at least avoid any customer not to buy from us. The EMI which will create the perception, we are also giving value, we are not less than anybody else. We may not give our 100% or we may not give 50% that our competitors are doing or 80% the competitors are doing but at least the perception will be there that we are there with them. We are working to have them.

Mayur Gathani Okay. Because see web only contributes 20% currently to your revenue and it cannot jump from 20% especially in the TV that is the major line and EMI is where TV will come in right?

Sunil Agrawal Yes, so TV has EMI, TV has return ability, and TV has more homes this year than it had last year.

Mayur Gathani Fair. Are we are at 78 million for the homes?

Sunil Agrawal 105 million between US and UK.

Mayur Gathani Yes, any uptick that you are looking for the next year that you want to go up more in the US side?

Sunil Agrawal We are looking at anyway from 5% to 10% growth a year.

Mayur Gathani And just to assimilate everything correct if I understand this that we are looking double-digit growth and a near double-digit margin in FY-17 if all things that we spoke about fall in place?

Sunil Agrawal Right, that is correct.

Moderator Thank you. Next question is from the line of A. Ramashankar from Individual Investor. Please go ahead.

A. Ramashankar HSN revenue for example if you take financial year of 2015 it is approximately $2 billion out of which 400 that is 20% is jewelry - which puts over the 340 million - 350 million so we are already doing 200 million. So where will we get the growth. We are going to eat HSN or QVC share or where we are going to get the growth that is my first question?

Sunil Agrawal That is a good question. HSN has approximately $2.8 billion sales, QVC in US and UK put together has about $7 billion sales. So that gives us about $10 billion just between the two of these player and we have EVINE, we have JTV, we have eBay's of the world, and we have Amazon platforms where many smaller players participate. Some of our customers come to us from Wal-Mart or Target as well. We do not have data at this time where our customers have come from so far. We did some survey, the answer was that they also buy from these players all the one that I named, but we do not know what ratio we get from where. But the market size that is available to us between the jewelry, fashion jewelry, moderate price point jewelry and lifestyle product on web and TV is approximately $20 billion between US and UK, so jewelry and lifestyle products on web and TV between US and UK; our market share is just a little over 1%.

A. Ramashankar If growth is more than why we are going to home and beauty segment what is the reason behind now going to home and beauty segment?

Sunil Agrawal The $20 billion market size that I gave you includes home and beauty as well. But I will still answer the question. It is so because our customer base who buys jewelry from us, she buys home product or beauty product from other TV networks or other stores or web. If their engagement with us is worth 26 pieces a year for average customer we believe that once we offer a compelling product in other categories she will buy that from us rather than everybody else because we offer deep value to her.

A. Ramashankar Okay. You have told that 3.9 to lakh customer annualized ways in shopping with us. So earlier in last concall you have mentioned that is 3.96 lakh where there is a drop in customer? What is the reason?

Sunil Agrawal The reason as I explained earlier one was a web disruption, other was lack of EMI that our competitors have.

A. Ramashankar So why are we losing in TV also? From the TV the customers are calling directly the number you have given. Even though we can say that they are purchasing from web, and why there is not significant growth we are seeing in TV?

Sunil Agrawal This unique customer annualizes both TV and web together so it is not just TV alone, I do not have a break-up of this; how much is web, how much is TV, or how much is web and TV together? So the loss from 397,000 to 392,200 is of both together and as I mentioned earlier it is combination of web disruption and competitor activity intensity.

A. Ramashankar And in last concall you mentioned that there is 4 lakh customers, if a customer is registered with us then you can take it as a new customers. You mentioned that 4 lakh customers are our new customers.

Sunil Agrawal So our customer base is 1.7 million customers of that only 42,800 registered in last one quarter and total for the year last i.e; 12 months is about 284,000 new customers registered so, the new customer and from the old base about 400,000 customers purchased from us in last 12 months.

A. Ramashankar Sorry, out of 1.72 million customers how many have purchased in last quarter?

Sunil Agrawal So last full year i.e.,12 months 392,000 customer purchased from us.

A. Ramashankar Okay. And, in one of our competitors at HSN they said that mobile sales grow 59% and mobile is representing 14% of the total business. The same way QVC also they are saying that 41% is the mobile and 39% is the net revenue. What is our expectation? How much mobile revenue you are expecting?

Sunil Agrawal Currently our web sales is 19.6% of total sales compared to the competitors 40% sales. And if I give breakdown in US it is 23.8% and UK is 12.4%.

Moderator Thank you. Next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali Just wanted to understand you just mentioned that return in US is what I think it is about 5% right now.

Sunil Agrawal Correct.

Jagdish Bhanushali And we expect it to move to 15%?

Sunil Agrawal Yes, 14% to 15%.

Jagdish Bhanushali That is for the year as a whole or who is that?

Sunil Agrawal Progressively because we just launched last week the return ability. So progressively this is expectation to have 14% to 15% return rate in US.

Jagdish Bhanushali And does this return exactly work? Does the customer just looks at the product and then gives it back to the salesman or how is that?

Sunil Agrawal They have to ship it back. We put a label in the package they can use to ship it back. It cost them $5 which we deducted from the refundable amount. So it will cost them $5, the actual cost to us is approximately $3. The $2 we utilize towards the processing of those returns.

Jagdish Bhanushali Okay. So it will not impact our margins.

Sunil Agrawal No. not percentage of margin but it will impact the total revenue. So we expect the return ability to help the revenue equivalently or more.

Jagdish Bhanushali Okay. And one more I wanted to understand, do we have another plan if the EMI system does not work just in case?

Sunil Agrawal EMI - they are going to test slowly over the weeks and once it will go with the price point or the intensity that is appropriate and customer would love it because they get the benefit of that and it is a norm that they expect from everybody. Not that JTV has launched, it is completely become industry norm and we expect that to help us.

Jagdish Bhanushali Right. But just in case do we have backup plans other than EMI.…

Sunil Agrawal We are always thinking of how to augment the revenue and there is always a debate about it, always thoughts about a lot of activities and a lot of thoughts on that but nothing that I can share concrete with you right now.

Jagdish Bhanushali Okay. And could you give us some sense about this Q2 panned out till now?

Sunil Agrawal The Q2 as I said earlier will continue to be soft because we have not implemented EMI yet. We have the web launch it is not fully resolved yet. It is largely there but the revenue that we are seeing now in July is slightly less than same period last year the web revenue. We expect this to normalize by end of August.

Jagdish Bhanushali Okay. And same goes with the TV as well or there is mid growth in that?

Sunil Agrawal As I said, UK we are seeing the growth, in US we are not seeing the growth mainly because of the competitive intensity.

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

Sunil Jain This is more regarding Q2 only. Normally we have off season sales in Q2, will that be there in this year or not?

Sunil Agrawal Yes, same as last year we will have the clearance sales.

Sunil Jain So that can have an impact on margin in the Q2 as compare to Q1 or not?

Sunil Agrawal It will be same kind of margins as we saw last year in Q2.

Sunil Jain Okay. Last year Q2 was comparatively good?

Sunil Agrawal Yes, so I am not seeing any diversions so far from the gross margin perspective.

Sunil Jain Okay. And sales wise we may not be able to pick-up in the second quarter?

Sunil Agrawal Yes, we would not be able to pick-up in the second quarter.

Sunil Jain Okay, fine. But last year's sales can be achieved?

Sunil Agrawal At this time I am not giving guidance for the current quarter, if it will be flat or it will be slightly soft at this quarter because this is B2B component. The web is not growing compare to last year as yet which we expect to grow starting September.

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

Sunil Agrawal I thank everybody for your participation. If you would have any further questions, please feel free to write to Shiv Muttoo or Karl Kolah at CDR India or to Ghanshyam Gupta or Anshuman Khandelwal at VGL. Thank you very much.

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