



## Vaibhav Global Limited

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### Q1 FY 18 Conference Call Transcript September 07, 2017

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#### **Karl Kolah**

Good evening and thank you for joining us on Vaibhav Global's results earnings call for the quarter ended 30<sup>th</sup> June, 2017. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director and Mr. Puru Aggarwal, the Company's Chief Financial Officer.

We will begin the call with brief remarks by Mr. Puru Aggarwal on the financial performance followed by a discussion on the business operations, key initiatives and broad outlook by Mr. Sunil Agrawal. Following the management's opening comments we will open the forum for your questions. Before we get started, I would like to point out that some of the statements made or discussed on today's call may be forward looking in nature and must be viewed in conjunction with the risks and uncertainties faced by the company. A more detailed statement and explanation of these risks is included in our earnings presentation. The company does not undertake to update these forward looking statements publically.

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

#### **Puru Aggarwal**

Good evening everyone. I warmly welcome you all to Vaibhav Global's Q1FY18 earnings call. I will begin with an overview of the key financial highlights for the quarter under review. I would like to state that this is our first quarter of Ind-AS reporting and Q1FY17 results have been re-casted and re-grouped wherever necessary to make it a like to like comparison.

We maintain a positive growth trend in Q1FY18 as well, continuing the growth momentum over the quarters. Revenues increased by 5% YoY at Rs. 330 crore despite the adverse impact of GBP devaluation and rupee appreciation against US dollar. I would like to highlight here that our retail subsidiaries in the US and UK, that account for about 90% of revenues, delivered revenue growth of 10.2% yoy and 14.3% yoy respectively in constant currency terms. This is in line with what we have been guiding on our previous interactions with you – that is, low double digit growth on a sustainable basis.

The improved performance across segments is on account of strong volumes in both TV and web sales. TV volumes grew by almost 3% whereas Web volumes grew 27% YoY. The TV ASP was slightly lower at \$27.0 from \$27.2 in Q1 last year,

while Web ASP was up at \$18.1 from \$17.5. B2B sales improved by 12.5% yoy to Rs. 36 crore.

The continued rebound in volumes is on account of key customer engagement initiatives that we undertook last year. This has helped enhance market penetration and grow faster than the overall industry.

During the quarter, we maintained healthy gross margins, which stood at 64.1%. This highlights our ability to manufacture and source quality products at highly competitive prices and therefore offer deep value products to customers.

EBITDA increased by 27% yoy to Rs. 25 crore with margins growing to 7.6% from 6.3% despite lower fix cost absorption in Q1, which is a seasonally weak quarter for the business. We saw higher employee costs based on new hiring to improve overall customer experience and logistics, while Warehouse HR cost also expanded owing to quality manpower and increased sales volume. PAT for the quarter increased by 38% yoy to Rs. 15 crore, as profits once again grew faster than topline.

We are continuing to see positive operating and free cash flows, which were at Rs 8 crore and Rs. 4 crore respectively for the quarter under review. Net debt is down to 97 lakh at the end of Q1.

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

**Sunil Agrawal**

Thank you, Puru. I welcome you all once again to Vaibhav Global's Q1FY18 earnings conference call.

Puru has given you an update on the financial performance for the quarter under review. I will now give you an overview of the operations and our growth strategy for FY18.

We had a third consecutive quarter of positive volume growth and maintained the uptrend in financial and operating performance. It is encouraging to note that both TV and web have shown growth in volumes with overall growth of 10% yoy in Q1. This gives us confidence as the operational initiatives undertaken have led to a sustained increase in customer traffic across all platforms.

In Q1FY18, the EMI initiative through Budget pay formed 34% of Gross retail sales in the US and 43% of Gross sales in UK. Recently, we launched Budget Pay EMI options on TjC UK Web and Mobile platforms too. With this, Budget Pay is now available across all geographies and platforms.

We continue to explore new mediums to acquire additional customers. We have recently initiated listing of select products on online marketplaces of eBay, Amazon and Walmart. We have also started accepting PayPal Credit options on Web and Mobile sales in the UK. The overall experience and customer engagement has further boosted by an improved web and app interface in both markets. The Mobile Apps have been receiving good response from customers. We are also getting stronger visibility in the 107 million households we reach across the US and UK with our improved TV programming, engaging storytelling and on-air expert guests.

We continue to deliver deep value to our customers, by leveraging our manufacturing base in India and sourcing from micro markets in the Asian region.

With the recent initiatives and infrastructural upgrades in place, we are focused on improving overall customer experience in our retail operations.

Let me now highlight some vital customer-centric data points. In Q1, we added 35 thousand new registrations and now serve 340 thousand unique customers on an annualized basis. Annual Repeat buying activity of our customers is at 19.5 times as compared to 16.7 times in Q1FY17. Average selling price has been stable during the quarter at \$24.4, as compared to \$24.5 last year. Average annual purchase by each customer during the quarter is at 27.6 pieces versus 24.3 pieces in Q1FY17. Customer retention rate is now 47.8% in the US and 49.1% in UK.

To conclude, we are confident on further expanding and growing our unique business model. We hold our guidance of low double digit revenue growth for the rest of the year and expect to see leverage from margins as we utilize our business investments on a larger base.

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

- Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain** The volume growth in TV was quite low. Any specific reason for that, in US specifically?
- Sunil Agrawal** In US, our main attention for this last quarter was on web growth and that we have done very well. And television should continue to see volume growth in current quarter. One reason could have been our rebranding from Liquidation Channel to Shop LC. So that may have had slight impact but not too much. But we are seeing the volume growth come back again in current quarter better than first quarter.
- Sunil Jain** Any specific reason why we were concentrating more on web?
- Sunil Agrawal** Because in web, we had made a lot of changes, especially the Budget Pay and the new apps launched. So those attention was quite much by the business on web during last quarter.
- Sunil Jain** Okay. And this low double-digit guidance what we are giving that is on constant currency?
- Sunil Agrawal** That is correct, yes. But currency impact in quarter second onwards would be very minimal. Because in Q1, the UK last year Brexit happened, and it happened towards the end of first quarter. So in next quarter, the impact may not be much.
- Sunil Jain** And this margins, no doubt this is first quarter and normally it is a lean quarter, whether we can see some improvement in the margins from here?
- Sunil Agrawal** You mean the gross margins or EBITDA?
- Sunil Jain** EBITDA.
- Sunil Agrawal** Yes, as I said in my address, we will continue to see the leverage as we see expanded sales. We will continue to see the leverage at the bottom line.

**Sunil Jain** So as such the fixed cost which we are running, they are likely to remain more or less constant?

**Sunil Agrawal** Pretty much, although some costs, HR costs go up because of extra volume that we have and extra investment that we are making, some investment in innovation and all that, but that is not substantial.

**Moderator** Thank you. We have the next question from the line of Vikrant Kashyap from Kedia Securities. Please, go ahead.

**Vikrant Kashyap** You just talked about, you had been focused on web sales. But in UK, we have seen the growth has been respectively lower than US. What has been the key reason for that?

**Sunil Agrawal** In constant currency terms, UK saw 14.3% growth and US saw about 10.2% growth in constant currency. So in dollar terms and local currency terms, UK was actually faster growth than US.

**Vikrant Kashyap** Okay. On the basis of realization, the impact has been lower, the realization has been lower on...

**Sunil Agrawal** Because last year, the Brexit happened towards the end of Q1. So when you convert that into dollars and rupees, you see more impact in terms of rupees.

**Vikrant Kashyap** And we expect to continue to do so?

**Sunil Agrawal** No, in Q2 onwards, we should not see much of that, unless rupee strengthens substantially more, you may see it. But in pounds to rupees, you will not see, because pound had devalued in Q2 last year.

**Vikrant Kashyap** So the impact of currency will be more or less negligible in this coming quarter?

**Sunil Agrawal** It will minimize from Q2 onwards.

**Vikrant Kashyap** Okay. And we have seen B2B growth in this quarter too. So going forward, do you see more of B2B sales? And does it impact our margins at all?

**Sunil Agrawal** Not really. B2B is looks higher from year-over-year. But overall numbers, when you look at B2B is not substantial. So overall, it doesn't really impact.

**Vikrant Kashyap** Okay. And we have started selling some of our products to new vendors, say, you have mentioned eBay, Amazon, and Walmart. So what kind of traction we are seeing? And how many new products are we planning to launch more and more products on these channels?

**Sunil Agrawal** Yes. So this is a new venture for us. So we are slowly releasing our own web feed into those platforms. So we are not buying anything new for them or stocking anything new. But existing fixed price catalog that we have both in US and UK, part of that catalog is published on their websites. So it's kind of a higher velocity for the same inventory.

**Vikrant Kashyap** Okay. Sounds well. And will you please share how much has been the contribution or growth contribution from jewellery side and non-jewellery side, if you can? What kind of growth and traction we have seen in this quarter?

**Sunil Agrawal** So the total jewellery for this quarter has been 93%, and total non-jewellery has been 7.3%.

**Vikrant Kashyap** Okay. And the mix has been changed over the quarter, last quarter?

**Sunil Agrawal** The year-on-year, it is fairly constant. There is only 3% growth of lifestyle year-over-year, this quarter-to-quarter.

**Vikrant Kashyap** We have introduced new products in lifestyles in previous 2-3 quarters, if I remember well.

**Sunil Agrawal** Correct.

**Vikrant Kashyap** So do we see a traction in those products that we...

**Sunil Agrawal** So especially in UK, we are seeing very good traction on beauty and home as well as scarves. So we are seeing a good success there. US, there were some people change. Team changes has happened in non-jewellery product areas, merchandises and buyer we recently changed. And we hope to see an increased traction in coming quarters.

**Vikrant Kashyap** Okay. And do we expect our average selling price to remain around \$24.5?

**Sunil Agrawal** Yes. So we try to keep the price points similar, more or less within 5% or so range, around \$25.

**Vikrant Kashyap** \$25, plus minus 5%.

**Sunil Agrawal** Yes.

**Moderator** Thank you. We have the next question from the line of Chinmaya Garg from Dron Capital. Please go ahead.

**Pathik Gandotra** I just did not get that TV sales in the US. Now, you said volume growth was lower in this quarter because you are focusing on web. And I think I also heard you saying that has recovered since.

**Sunil Agrawal** Yes, it has. So we had single-digit growth in volume on television for the first quarter in the US, while UK was strong. So we are seeing that recovery happening in Q2 now.

**Pathik Gandotra** So, I mean, if I just take TV sales, will they be in line with company's revenue growth?

**Sunil Agrawal** I can't say exactly because it is not quarter yet and I can't specifically guide that, but it is more than 2%.

**Pathik Gandotra** Okay, I understand. And second thing is, so this whole experiment or this whole new venture with Amazon and eBay, you think eventually it will be accretive? Do you get your margins from marketing on those platforms?

**Sunil Agrawal** Yes, we are getting the margin on them. So it is still a start for us. It is not a major noticeable portion of our business yet. We have created teams in US and UK for that venture, especially with the local people who are expert in that business side.

So far, the margin has been decent, fairly close to our web margin itself. So we don't see any dilution from that margin but only accretion to the topline and margin.

**Pathik Gandotra** Yes. Because I mean, maybe on the gross margin level, but I'm talking at an EBITDA level, it should be the same or better? I don't know.

**Sunil Agrawal** Yes. So, overall, it will be beneficial for us because we are not seeing any dilution in topline or bottom line from that platform. So our idea is to continue similar margin as we are seeing on our own web.

**Pathik Gandotra** Okay. This does not cannibalize any of your existing sales or something like that?

**Sunil Agrawal** Not at all. We expect to get additional new customers from that channel.

**Pathik Gandotra** Okay. And are you satisfied with the existing customer base, I mean, target customer base? Are you going to increase the number of customers? Are you getting into more TV households, or you are done there?

**Sunil Agrawal** We constantly look for new homes, as you know, from our earlier calls. But we have to meet our criteria of price point. And within certain period, if they don't make the certain numbers, we exit them. So we constantly churn. And if you might have noticed, we have now 107 million homes. Same period last year, we had 110 million homes. We are actually lower by 3% this quarter.

**Pathik Gandotra** Yes. I understand. And in terms of products that you sell, is the product basket increasing?

**Sunil Agrawal** So we constantly look for new products. So we have expanded into home categories in US and UK both. In home, we continue to look for solution-based kind of products. So what we look for is that the product should have a compelling story for customer to feel that she can't live without the product and so she will pick up the phone and call us or on the website push the buy button. So we constantly look. We have a team in India, China, Thailand, Indonesia, and in US and UK constantly looking for new ideas and products. And we recently hired an Innovation Manager for the Group who would also focus on product innovation and product idea sourcing, who creates stage-gates. So we are pretty excited with that product sourcing, whole strategy of the pipeline that we are going to put in place.

**Pathik Gandotra** So how much is jewellery now out of the total sales?

**Sunil Agrawal** 93%.

**Pathik Gandotra** Still, it is a long way to go for getting newer products. Okay. And now, about the seasonality in your business now, is the next quarter a normal quarter or that next is also seasonally a weak quarter?

**Sunil Agrawal** First is usually weak quarter always. Second has to get better, third is the best, fourth is quite good too.

**Pathik Gandotra** Okay. So you are going to get into that,. And in terms of your dividend policy, buyback, etc. how will you give back to shareholders? Any thought about that, anything?

**Sunil Agrawal** Haven't discussed. We just had board meeting this morning. We didn't discuss dividend yet. Maybe end of this year, I mean, after this year finishes, that discussion might happen.

**Pathik Gandotra** And how much is the promoter shareholding right now in Vaibhav Global?

**Sunil Agrawal** 68%.

**Pathik Gandotra** Okay, fine. And the debt is now down to Rs.97 lakhs, right? This is virtually zero. You will start generating, becoming net cash right from next quarter if the performance goes on the same way, right?

**Sunil Agrawal** Correct, we expect that.

**Pathik Gandotra** Okay, great. Any other geography that you are entering apart from UK and US?

**Sunil Agrawal** No plan at this time.

**Moderator** Thank you. The next question is from the line of Chirag Lodhia from Valuequest. Please go ahead.

**Chirag Lodhia** I just wanted to understand, so you mentioned on your growth outlook of low single-digit for FY18. And as I understand, in this quarter, you have grown by 10% and 14% in constant currency. So is it one should assume in coming quarters our growth rate should be much lesser? How one should look at it?

**Sunil Agrawal** We gave guidance for low double-digit numbers, and we have constantly maintained that. We have done that in first quarter, and we expect to continue the same low double-digit topline growth on net numbers. And we also guided that because of expansion of topline that you should see the leverage on PBT and PAT.

**Chirag Lodhia** And, sir, how is overall competitive intensity? I mean, last year, overall competitive intensity has gone up. So how is the scenario right now?

**Sunil Agrawal** So the competition still growing and they are doing well. They are continuing with the same strategies as they were. But now that we have put all those customer-centric strategies in place, so we now are level playing field but with a much lower price point than them.

**Moderator** Thank you. We have the next question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

**Runjhun Jain** What has been the sales return ratio for the quarter?

**Sunil Agrawal** So far 19% has been the overall return rate for the business.

**Runjhun Jain** Which is little on the higher side this quarter, right?

**Sunil Agrawal** So last year, same quarter was 18.8%, so pretty close actually.

**Runjhun Jain** But I think last quarter, we have reported around 15%?

**Sunil Agrawal** Last quarter maybe low, but last year same quarter was 18.8%.

**Runjhun Jain** Does the sales return also has any seasonality? No?

**Sunil Agrawal** Sales returns now year-over-year, it is kind of same. If our average price point goes up, the return rate goes up. If our average price point goes down, return rate goes

down. So it is all dictated by the price point and also the product mix. So jewellery generally have higher returns and the lifestyle products have a lower return rate.

**Runjhun Jain** But sir in terms of jewellery, the breakup in terms of the category of the sales which has not moved much. So the jewellery, we have currently 93%, which is more or less same in the last year also. That doesn't give the movement of this change. What I am trying to understand is, if you are saying the price point, the price point we have seen that in web, it is little bit higher. But otherwise in TV sales, it is flat. So I am just trying to understand, is there any whether sequentially it has moved up or it is just a random aberration that you think that should normalize over the year?

**Sunil Agrawal** The movement is very minimal year-over-year in June.

**Runjhun Jain** Not year-on-year, sir. I understand your point. But I am talking about q-on-q. Because year-on-year, I understand last year we were under restructuring and then doing so many things, which I believe got normalized this quarter. So I am comparing more on q-on-q than on year-on-year.

**Sunil Agrawal** I see. So I don't have data on last quarters. I am trying to pull that out, how much is the average price point. And usually, our return rate is dictated by the price point. So you are right that the product mix may not have changed much. But year-over-year I can say that return rate as well as the price point are pretty constant. Quarter-over-quarter last year, for Q4 was also 15% and this year, the quarter just gone by, also has 15% return rate. So sometimes, it is a matter of clearances. In clearance we don't take returns. So year-over-year is a better way to look at rather than quarter-over-quarter.

**Moderator** Thank you. We have the next question from the line of Ram Shankar, who is an individual investor. Please go ahead.

**Ram Shankar** Yes. Actually, regarding this, we had a discussion earlier. So in that, there is a option for doing live in Facebook, okay? There is only one feed is available that has been given to YouTube, YouTube Live. Our channel feed has been given to YouTube Live. Now, what the competitor they are doing is, they are actually showing it in Facebook it was live. And they are just recording some program and they are putting it in Facebook for something. For example, if you are showing some jewellery for one hour or half an hour that they are putting it as a live in Facebook. Is there any other option you have planned to show like that, that earlier recorded whichever inventories are not completed, do you have those sort of plan, anything new?

**Sunil Agrawal** So, Facebook, we have live broadcast from LC. So our feed goes to Facebook Live. But we not have recorded feed to Facebook yet. In YouTube also, we do not have recorded feed yet. Live one, we did experiment it earlier for a little bit. But I will have to check on what is the timeline for going back live on YouTube again. And then we can let you know.

**Ram Shankar** And one more thing. Because when you see YouTube JTV, there are so many people who are watching and vis-à-vis ours, we have started I think in August 18<sup>th</sup>. So afterwards, there is the live watching. If you see people, they are watching only five or ten. What JTV they have did, in JTV, their website, they are not putting the live program. They are showing it as a one-hour period, they are doing, and they are giving the feed to either YouTube or they are doing it through Facebook Live. So, is it because of why more customers are watching simultaneously at any point of time?

**Sunil Agrawal** Thank you very much for your feedback, Mr. Ram Shankar. I will have my people look at JTV and compare ourselves and learn from that. I appreciate your feedback and intelligence.

**Moderator** Thank you. We have the next question from the line of Chinmaya Garg from Dron Capital. Please, go ahead.

**Chinmaya Garg** I just wanted to know what would be our average ticket size for Budget Pay?

**Sunil Agrawal** That is a good question. And let me see if I have the data here. So can we go to somebody else till we look at the data. This may take few minutes.

**Chinmaya Garg** Okay. Just one more thing. How has been our payment experience with Budget Pay?

**Sunil Agrawal** So payment experience is good. We do create some provisions for that in our own financials. So in UK, the bad debt for Budget Pay has been under 1%. It is running around 3% of the Budget Pay sales.

**Chinmaya Garg** In US?

**Sunil Agrawal** US, correct.

**Chinmaya Garg** Okay. And you mentioned 35% of sales in US are under Budget Pay. How much this would be last quarter?

**Sunil Agrawal** Let me see, hold on. I need a few minutes to find it out.

**Chinmaya Garg** Sure. And also, how do you make these provisions? I understand these are short-term loans, so provisions, it is a rolling basis. I understand that will not be much. But on what basis do you make these provisions?

**Sunil Agrawal** So based on our experience, we create the provision for any outstanding amount. So all financials account for that. In fact, KPMG, who are our new auditor, has done extensive exercise to calculate all the potential exposure on that and had created a complete provision.

**Chinmaya Garg** How much is the tenure of that EMI?

**Sunil Agrawal** So we give three EMIs. So one they have to pay right away. And then one month and third one in two months.

**Chinmaya Garg** Okay, understood. If you could just give average selling price whenever available, that will be great.

**Sunil Agrawal** Yes, so they are pulling it out, and we will give you in a few minutes.

**Moderator** Thank you. We have the next question from the line of Chirag Lodhia from Valuequest. Please go ahead.

**Chirag Lodhia** Sir, if you can just help us understand how this online market place model works. I mean, what kind of margins you share with Amazon? What are the costs associated with us relating to this? That will help us.

**Sunil Agrawal** Sure. From a gross margin point of view, we try to keep similar gross margin as we have our own website. So when a customer comes to our website, he doesn't find difference in prices. Because our main aim from that is to invest to get the revenue and second to get the customer over to our website in long run. So we do not want different prices. Now, the Amazon and Walmart and eBay, their commission is varied from product-to-product, anywhere from 5% to 20%.

**Chirag Lodhia** Okay. And what are other costs associated?

**Sunil Agrawal** So there are no other costs, because our product feed is the same as our website feed goes over to those platforms. So there is no other costs associated.

**Chirag Lodhia** So distribution cost is borne by us, or they only supply?

**Sunil Agrawal** You mean the shipping cost?

**Chirag Lodhia** Yes.

**Sunil Agrawal** So, either we charge from the customer or we add those costs of shipping onto the price of the product. Sometimes, we give free shipping promotion from the platform, but we add that cost on the price.

**Chirag Lodhia** So overall margins, per se from this model, should be much higher than what currently we are reporting, that is fair understanding?

**Sunil Agrawal** Yes. So gross margin should be higher. Now, the scale has to be there to pay for all the people that we have kept for that particular initiative. So we have some people in US, some people in UK, and a back-office operation for that in India.

**Chirag Lodhia** Right. And we started this in this quarter only?

**Sunil Agrawal** Yes, the quarter in question. So I am going to answer that earlier investor had asked for Budget Pay ratios. I missed the name of the lady there. So in US, this quarter, Q1 was 34% and Q4 of last financial year was 31%. In UK, the Q1 of this financial year was 43% and Q4 of last financial year was 34%. The reason there is a jump in UK is because the web Budget Pay came in Q1 of this financial year.

**Moderator** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

**Sunil Agrawal** I thank everybody for their participation and their support. If you have any further inquiry or questions, feel free to reach out to call Karl Kolah at CDR India or Puru Aggarwal at VGL. We would be happy to answer any of your questions. Thank you very much.

**Moderator** Thank you very much. Ladies and gentlemen, on behalf of Vaibhav Global, that concludes this conference. Thank you for joining us.

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