DELIVERING JOY

Vaibhav Global Limited

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Q1 FY20 Earnings Conference Call Transcript
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Karl Kolah: Good afternoon everyone and thank you for joining us on Vaibhav Global's Earnings Conference Call for the quarter ended 30th June, 2019. Today we have with us Mr. Sunil Agrawal – Managing Director and Mr. Puru Aggarwal – the Company's Group CFO.

We will begin the call with brief opening 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 questions.

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 the risks and uncertainties faced by the Company. More detailed statement and explanation of these risks is included in our earnings presentation shared earlier. The Company does not undertake to update these forward-looking statements publicly.

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

Puru Aggarwal: Good afternoon everyone and thank you for joining Vaibhav Global Limited's Q1 FY20 result conference call. I will begin with an overview of this quarter's financial performance, which will be followed by Sunil talking about the operational performance, key initiatives and growth strategy.

At the outset, I would like to mention that - effective 01 April 2019, the Group adopted Ind AS 116 "Leases", applied to all lease contracts existing on 01 April 2019 using the modified retrospective method and has taken the cumulative adjustment to retained earnings, as on the date of initial application. Accordingly, Group is not required to restate the comparative information for the year and quarter ended 31 March 2019 and quarter ended 30 June 2019. The overall impact of this change on the quarter P/L is insignificant.

Moving on to the performance during the quarter under review - We have had a solid start to this financial year with strong performance in the US and UK consumer markets. Overall revenues increased by 13% from Rs. 390 crore to Rs. 440 crore YoY. Retail revenues grew by 21% in INR terms during the quarter with healthy contributions from both geographies based on expansion in volumes across our suite of customer engagement platforms, including TV, Web, Mobile apps, Smart TV interfaces, OTT platforms, social and third-party marketplaces.

We are seeing growing contribution from non-jewellery products, which creates more diversification in the business. Currently, non-jewellery products contribute nearly 18% of retail revenues. Another significant aspect of our retail revenues is Budget Pay where we offer products on EMI basis to our customers. Budget Pay sales now constitute around 37% of total retail sales in INR terms.

Overall, our ongoing growth indicates that we continue to gain market share in both geographies on the basis of customers' increasing preference to buy from Shop LC in the US and TJC in the UK as we offer deep value on every purchase made on our diverse platforms. While the revenue growth has been strong at Shop LC, it is important to note that during Q1FY19 we were off air for one of our affiliates, implying that we catered to fewer households as compared to Q1FY20. To be precise, in Q1FY19 we were present in 61 million households in the US as against 74.4 million households in Q1FY20. On a like to like basis, Shop LC marked a growth of 11% in revenues YoY, in local currency terms. TJC, UK recorded a strong growth of 15% YoY in local currency terms.

As you may know, our B2B segment has been a non-core and opportunistic business for the Company. In view of strong growth opportunities in B2C, we have been scaling down B2B. This quarter, our B2B sales decreased from Rs. 48 crore in Q1FY19 to Rs. 28 crore in Q1FY20, which is in line with the declining trend over the last few quarters. The lower B2B sales has resulted into a higher gross margin to 63.1% for Q1 FY20 as compared to 60.6% in Q1 FY19.

On the operating expenditure front - employee expenses increased 16% YoY but remained almost unchanged on a sequential quarter basis. A part of this increase on a YoY basis is attributed to the bonus paid to employees in June 2019 as against in July 2018 of the previous year, besides some new hiring in previous quarters to strengthen management capacity for future growth. Moving on to the broadcasting expenses - as explained earlier, we broadcasted in additional 13.4 million households in the US during Q1FY20 as compared to the same quarter last year. Further we also increased broadcast hours on some channels at TJC, UK. The combined impact is visible is higher content and broadcast expenses on a YoY basis. I would like to share, here, that we re-negotiate all our contracts on an on-going basis including broadcasting contracts, leading to improvement in cost savings for the business.

EBITDA for the quarter stood at about Rs. 55 crore, up by 23% compared to Rs. 44 crore in the same quarter last year. EBITDA margin stood at 12.4%, higher by 100 bps. PAT was up 20% to Rs. 36 crore in the quarter compared to Rs. 30 crore for Q1 FY19.

Our cash flow from operations and free cash flow remain healthy and stood at Rs. 35 crore and Rs. 32 crore respectively during the quarter. VGL continues to be debt free at the net level and the company's net debt stands at negative Rs. 216 crore as on June 30th, 2019. From the cash usage standpoint, last year we paid out an interim dividend of Rs. 5 per share and earlier this week shareholders have approved a final dividend of another Rs. 5 per share.

As you may know we have also announced buyback through open market purchases at a price not exceeding Rs. 1,000 per share and have allocated Rs. 72 crore for this purpose.

Talking about our return ratios - we reported a return on average net worth of 22% and return on average capital employed of 39% for the quarter under review.

Overall, we are happy to report that we are witnessing strong growth, margin expansion, superior returns and strong free cash generation. We look forward to building on this platform as the benefits of continuing initiatives create sustainable business advantages.

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 Limited's Q1 FY20 earnings conference call.

Puru has given you an update on the financial performance for Q1 FY20. I will now take you through the operational performance and key initiatives undertaken during the period under review.

I am pleased to share that we reported healthy numbers for the quarter with retail revenues increasing by 21% to Rs. 412 crore and PAT increasing by 20% to Rs. 36 crore. I would like to re-state here that this growth number is an aberration as during Q1 FY19 we catered to 13.4 million fewer households as compared to Q1 FY20. On a like to like basis, our retail growth for the quarter in INR terms stood at 14% YoY. The quarter has proven to be an encouraging start to this financial year, signifying our solid and growing connect in consumer markets of the US and UK, across platforms comprising TV, web, mobile apps, smart TV interfaces, OTT platforms, social and third-party marketplaces. We expect to carry the momentum through the rest of the year.

In our bid to improve customer experience, we undertook various measures during the quarter. As a fast fashion retailer, we have been judiciously expanding our product portfolio with fresh designs and introducing new brands. At Shop LC, US, we launched new fashion jewelry collection with Specialty Cut Stone, Opatra facial device collection, Smarter Chef kitchen collection, New Age handbag etc. In addition, we launched the upgraded 'Customer Insider', which gives an update on monthly events and new merchandise. We also launched a new monthly 'Lifestyle Flyer' to create excitement for our product extensions. We also organized two customer days during the quarter - one in May and one in June. These initiatives continue to bring us closer to our customers, substantially enhancing the duration and life-time value of each relationship.

It gives me immense pleasure to share with you that in June, 2019, Shop LC won the Malcolm Baldrige Progress Level Award from the Quality Texas Foundation at the 26th Annual Texas Quest for Excellence Conference. I am confident that our continuing commitment to quality across every function will have lasting benefits to the business over time.

At TJC, UK, we increased the broadcast hours for a few channels with the objective of improving viewership and acquiring customers. Additionally, we also made investments in upgrading our studio operations where we now have the Garden Set Up ready for live broadcasts. We have also introduced a new kitchen products line. With the objective of deepening customer engagement, we organize customer open days on a monthly basis at TJC, UK. This leads to multiple customers coming and visiting us, bringing their friends along with them, and increasing engagement with us.

We continue to strengthen our management teams across geographies. Amit Agarwal has now been made the President of Shop LC, US and Shrikant Jha has taken his place as the Managing Director of TJC, UK, which is a promotion for him coming from Vice-President of marketing and e-com at Shop LC, US.

Overall, the guiding principles of our business are based on 4 R's – widening reach, growing customer registrations, increasing repeat purchases and bolstering retention of customers. Continuing the momentum achieved in 2018-19 on each of the 4 R's, I would like to highlight these key customer-centric data points for Q1FY20. In Q1, we marginally rationalized the number of TV households under our coverage from 100 million to 99.4 million. This is an ongoing exercise based on a continuous ROI evaluation in each market that we access. Also, in Q1, we added over 36,500 new registrations during the quarter and we now cater to over 3,47,000 unique customers on an annualized basis. Average annualized quantity purchased by each customer in Q1FY20 increased to 31 pieces as against 29 pieces in the same quarter previous year. Overall, customer retention rate now stands at around 50% for the group and is improving steadily. We see these strong metrics across each of the 4R's percolating to a wider customer base as our products continue to get wider acceptance in the US and UK markets.

We strongly believe in giving back to the society and provided about 27 million meals through our 'One for One' program where we provide a wholesome meal to school children in India, US and UK for every product sold at our retail channels. On a continuous basis, we endeavor to better our ecological footprint and improve the environment that we operate in. Towards that end we taken several initiatives related to water harvesting, electricity consumption, solar power generation etc.

To conclude, I would like to say that we are confident of continuing the current pace of growth and expect to improve our market share in both the US and the UK. We believe such growth delivered on our strong business platform will allow us to continue to generate long term value for all our stakeholders including employees, customers, vendors, shareholders, communities and the environment at large.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: My question is pertaining to the percentage of non-jewellery sales that you mentioned has reached about 18% for this quarter. How do you see this number shaping up over the next 2 to 3 years?

Sunil Agrawal: What we do we look at is each product segment even within non-jewellery, whether it's Beauty or Home or Accessories, so each product must earn its keeps. So, as we are refining and as we are learning and developing our team, so we are bringing new products and compelling stories and compelling offers. So, as we are bringing it, it will continue to increase. We don't have a set target in mind but I can give an estimate of where I see it going. So, I see it increasing approximately 5% a year basis, year-over-year. Suppose it is 18% if we close this year say 20%, our estimate is it might reach to 25% next year and 30% year after. After that it will be too early for me to predict but this is a rough visibility I have and this is very rough for next 2 years.

Ashish Kacholia: Can you talk a little bit about what would be the impact of this rising sale of non-jewellery items on the gross margins and on the EBITDA margins?

Sunil Agrawal: Nothing. As I said earlier each product in the product category must make its place or find its place or earn its place. So, we have certain criteria for gross margins, for contribution per minute and customer acquisition. So, I don't see any impact on EBITDA or any of the metrics because of this increase.

Ashish Kacholia: So, whether it is jewellery or whether it is non-jewellery you don't think there will be any change in the gross margin or the EBITDA margin trajectory?

Sunil Agrawal: None.

Puru Aggarwal: Ashish just to substantiate this point if we look at the journey of last 3.5 years where we have been little more intense on non-jewellery products, EBITDA has not seen any contraction rather has seen expansion because both the products are complementary to each other.

Ashish Kacholia: Actually it is a very positive development from the simple point that while we may have certain doubts about how scalable the jewellery business is but if we can get similar metrics on non-jewellery sales then theoretically, sky is the limit as far as the scalability is concerned. Am I right in my thinking?

Sunil Agrawal: We would like to think that Ashish.

Ashish Kacholia: Does this mean that for getting more non-jewellery sales we need more TV time or something like that? That is also one of our constraints, right?

Sunil Agrawal: Yes TV time is a constraint, so each product must earn its place. So, if we see certain category doing well we increase air-time for that category. Just an example, last weekend we saw the Facial Massager was doing very well, so we increased the time for that. So, that our production team / sales team takes a real-time basic decision.

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

Pritesh Chheda: On the cost side we had done this built-up in costs in the last year, I don't see a corresponding trickling down to slightly faster revenue growth - if you could give some comments there?

Sunil Agrawal: Our Q2 had increased expense base so you will see the leverage there. So, in coming quarters we would see some acceleration, even I would say some moderation of increase of expenses and there you will see even better leverage.

Pritesh Chheda: On the operating leverage side we saw this 250-basis points improvement on Q-o-Q and some reduction in cost on Q-o-Q basis. Will you build up on this margin further as you progress in the future quarters because your revenue base keeps on rising and your cost moderates a bit - if you could call out what kind of margin expansion do you see in FY20?

Sunil Agrawal: We don't give guidance on the margin, but we believe that with the revenue guidance that we give between 14% to 16% revenue growth, we see the expense not growing to that level, so there will be leverage to the margin.

Pritesh Chheda: Lastly on the cash generation, your cash generation has been healthy but slightly lower than what you generated last year, so any points over there? And when I was looking at your presentation and was just trying to collate 2-3 data points, so you have a Rs.20 crore reduction in net current asset yet your cash generation in the quarter is Rs.35 crore on the EBITDA of 55-56, so if you could make us understand this sheet?

Puru Aggarwal: One reason is that Q1, as you know, is not one of the really very great quarter for us because our business has a seasonality to an extent and this you will be able to see going forward particularly in Q3. Going forward you will see a strong cash generation as you have seen in Q1 as well.

Pritesh Chheda: So, just some mathematics here, your EBITDA is 55, your cash profit is about 40+ and you have a 20 crore reduction in net current asset on a QOQ basis, so your cash generation in the quarter should be 40+20, 60 but you are calling out 35 so I was unable to understand this.

Puru Aggarwal: Let me have a look at more deeper and would be back to you.

Moderator: The next question is from the line of Runjhun Jain from Nirmal Bang.

Runjhun Jain: Just 2-3 clarifications, first is what is the criteria for you to select product for non-jewellery or like the earlier participant said it can be anything under the sky and sky is the limit for this. So, like you said the face massager, we have seen that you have been doing bags and apparels, so is there any criteria you've decided internally or it's a random pick?

Sunil Agrawal: We have product development and merchandising teams at both US and UK and we have corresponding merchandising teams in China, India, Thailand, Bali. So, there is a lot of interaction, lot of market research, competitive research, trend research, we also look at customer suggestions that come to us. On an average we get about 500 products suggestions every month from customers. So, it could be product extension ideas, new product ideas, problem solving that they want to look from us, so we collate all the data points and our team comes up with a product based on what would be appropriate for us. And then we test with small runs and if the product does well, we quickly accelerate that product velocity because of our own supply chain we can do that. It's a long process but we are very quick in executing on any opportunity that comes our way.

Runjhun Jain: So, there is no particular product category you would be restricting yourself to?

Sunil Agrawal: So, as I said our limit would be to the people that we have in place. For example, we don't have a person for food articles. QVC has a very strong food business - we don't have a merchandizer of food, so we are kind of restricted in that area. For few months we didn't have a beauty buyer in LC, so we recently hired one - a very capable person. She comes with 20 years of experience in beauty. So, when she came in, she started merchandising, collating lot of beauty products for coming in September or next two quarters. So, just a limitation to the people that we have who can manage those categories and we are very strict in evaluating and hiring right people.

Runjhun Jain: Like what we have been doing in terms of cost saving measures or in terms of the restructuring we have started since this last year for call centers shift, I mean getting it in house and all. So, you think that exercise is kind of now stabilized and it has started giving you any initial signs of benefits that you had hoped for?

Sunil Agrawal: Yes, all the restructuring expenses are already taken into account, so we don't foresee any of those large expenses. So, it is pretty much steady state - now the evaluation of all our call center partners will continue and if we see need to change we will continue to change. But we don't foresee any bump in those expenses in foreseeable future.

Runjhun Jain: One just confirmation, Mr. Puru said that adjusting for the last year's blip in Q1, our adjusted growth for Shop LC is 11% if I heard it right?

Sunil Agrawal: Correct, yes. On apple to apple basis, it is 11%.

Runjhun Jain: We have seen that there is a sharp increase in the TV selling price quarter-on-quarter. I'm just trying to understand this volatility. Last time also we've discussed this - initially we increased the prices consciously to take care of the Budget Pay and the returns. Then it was coming down as per, probably, the market dynamics. But again this quarter we have seen a sudden increase, so how do you explain this volatility because there is nothing much in web sales. That is flat.

Sunil Agrawal: When you look at the increase from Q1 of FY19 it was $28.9 and now $29.2 there is only $0.3 change which is 1% change. Now this is within range, we look at 5% range that we can be, so it is well within that range.

Runjhun Jain: I'm just looking Q-o-Q and even during the last year if I see, across the quarters, the volatility was huge like from 29 went down to 26.6 then 25, so now it is 29. So, how should we see the direction at least?

Sunil Agrawal: We compare seasonality to seasonality, so Q1 FY19 in the presentation sent to you the TV price was $28.9 and this quarter Q1 FY20 it's $29.2 and web was pretty much flat from $20.7 it is $21.3. Now seasonality in the next quarter or quarter after next, because of gift giving, the price point changes. So, because the different seasons have different incentives to purchase with this particular summer month, so it may be self-purchase which is usually higher and gift purchase in Q2 and Q3 usually brings the price point slightly lower. But again we still look at 5% variation in price point and we let the customer largely dictate what price point they are pulling at what time.

Runjhun Jain: I was under impression - because last time when we discussed this there was a thought that because of non-jewellery products coming in and getting little higher contribution that is why the price point is changing. So, I was just trying to understand if the average selling price for the non-jewellery business is also inching up.

Sunil Agrawal: The non-jewellery price point is lower than our fashion jewellery price point. That is the general average. Yes, you may be right I don't have the data in front of me. But the non-jewellery product price point has slightly increased because we identified some products which at a higher price point which have been doing great for us. So, as I said earlier, we let customer dictate what price point they are pulling. But we still have a certain guideline within our company that we don't want to increase beyond certain level so as to keep differentiation from the competitors.

Moderator: The next question is from the line of Yash Gupta from Prince Polyplast.

Yash Gupta: Our average selling price per product is at 29.2 and 21.30 - are you focusing on to increase these levels in near future?

Sunil Agrawal: As I answered to Runjhun, Yash, we look at the price band of (+/-5%). We have certain price points in mind. We don't want to go beyond that price point to keep our differentiation from competitors. Now for rest of the year, price point may vary because of seasonality but year-over-year, say last year our TV price point was

26.4 and our web price point was 20.7. Now within this full financial year this price points may very (+/-5%). We don't have a specific directional directive to our team. We look at the total dollar volume in a certain hour or day rather than what is the pieces that we pull during the day. We look at the pieces also on a weekly basis or on a monthly basis but not hourly basis.

Moderator: The next question is from the line of Vikrant Kashyap from Kedia Securities.

Vikrant Kashyap: In the opening remarks you said you want to grow market share. I would like to understand what is your current market share in both geographies and where you want to see yourself and what is the market size on basis of which you are saying that you are gaining market share?

Sunil Agrawal: Market size roughly, Vikrant, is approximately $15 billion in US and UK combined. So, we look at the current TV/e-com companies in our space, we don't directly compare ourselves with pure e-com players. We also compared ourselves with some informercial companies which play within our space. So, out of the 15 billion, our market size at 250 million or 270 million is still less than 2%. But we are seeing that our average growth rate is approximately 15% and the market growth is low single-digit, so we are gaining the market share and we expect our growth rate to continue to be within this range and this will ensure that we continue to gain the market share.

Vikrant Kashyap: Also we had been focusing on OTT platform and we had migrated to such online channels like Amazon, so how is the performance over there?

Sunil Agrawal: There are two separate parts, one is the OTT and other is the marketplace. So, marketplace is showing great growth for us. I don't have the numbers right in front of me but Q1 of this year compared to Q1 of last year we had approximately 140% growth. But it's from a very small base last year.

Vikrant Kashyap: We were also saying that we will gain customers from migration from their websites to our own websites, have we seen that?

Sunil Agrawal: Yes, so we are seeing that migration but the percentage of migration has not improved much. We have improved slightly year-over-year—of course the absolute number is high—but the percentage has not gone up significantly. It is slightly higher than year-over-year. But we are again brainstorming, testing different ways to migrate more and more of those customers. Your second point was about OTT - OTT is the smart television and streaming through players like Apple TV or Amazon Prime or Samsung TV or all such players. So, we have dedicated one specific smart executive recently for that initiative and he is learning fast about that industry. That is still very new and extremely new for shopping channels or video commerce companies, so we are learning and testing different strategies and experimenting. It is still not significant part of the business but as the channel matures and people start to be comfortable on shopping on that platform including QVC, HSN, us or other players, we will definitely gain market share there as well.

Vikrant Kashyap: Can you please share our customer retention rate in both the geographies?

Sunil Agrawal: On an average it is about 50% between both channels. US is slightly lower than UK but, on an average, it is 50%.

Vikrant Kashyap: Our Budget Pay, EMI facilities that are doing very well, so where do you see that? Are they bringing in different new customers or different set of people to your channels and is there shift or change, I want to understand from earlier to now, after being more than a year? So, how is the change to your company?

Sunil Agrawal: We don't have separate data of customer acquisition through Budget Pay. It is difficult for us to evaluate which customers have come because of Budget Pay. But we see that the Budget Pay is very helpful in our sales, about 35% of our US sales is Budget Pay and slightly over 40% of UK sales is by Budget Pay and that proportion is going up slowly year-over-year. And we recently did one day where we said every item is on Budget Pay and that day we had a noticeable uplift in the sales. But even on that day US compared to the normal 40% or 42% that day we had a take-up of 53%. Not a whole lot more but the sales uptake was higher. So, we see that the Budget Pay helps the sales but we don't have quantum how much. Intuitively we know.

Vikrant Kashyap: One more point I would like to understand - In a way we also have mobile platform. Has it helped in getting more client or maybe people are ordering more through mobile platforms, have you seen the shift?

Sunil Agrawal: Most definitely. Our mobile platform as such is increasing rapidly but within mobile platform mobile app is also increasing rapidly.

Vikrant Kashyap: So, we have seen traction over there?

Sunil Agrawal: Yes, we are on track on that. We have a dedicated team to improve customer experience on that constantly. We are making good deal of investment there.

Vikrant Kashyap: So, the videos that we saw on the television, that seems to have been rendered on web and also to mobile?

Sunil Agrawal: Mobile has three components, one is the TV broadcast that goes on to mobile which gets us approximately 27% - 28% of the web revenue. The second portion is the catalog, where all our inventory is visible to the web surfer, that revenue is approximately 45% to 50% and the third component is online auction where we start everything at $1 in US, that is our tail and inventory which is left from television, we put it on auction and the customer buys that. They compete with each other and whatever the final price is given to them, so that is approximately 25% to 27% of revenue. These are three segments within web. All three are available on desktop or tablet or mobile or mobile app.

Moderator: The next question is from the line of Prateek Giri from Bellwether Advisors.

Prateek Giri: My question is that if we see our volumes have been growing continuously and even our web is doing fantastically well, therefore, if we see the number of customers that data is nearly stagnant. So, if we see that even in 2016, we were having 3,62,000 customers and 2019 we were having 3,42,577 customers, so items per customer is increasing. Don't you think that growth driven by this method will be having a ceiling, it can't go beyond a particular level, so I just wanted you to comment on that; that volume has been growing but the number of customers being stagnant, nearly stagnant or is it that I'm missing something behind these numbers?

Sunil Agrawal: We look at four customer metrics - **Reach**, we try to reach more customers through our TV, our e-com presence, through marketplaces and through social media. Social media is not just an advertising means but actually selling products on social media. That is the first R. Second is **Registration**, how many more customers are we registering? In the last quarter we registered 6% more customers year-over-year, so there is a 6% growth. Then the next is how many customers are we retaining, are we increasing our **Retention** rate year-over-year? So, that we increased 5.1% same quarter-over-quarter. The last is **Repeat purchase**, how many more pieces are we selling year-over-year. That we increased 3% this year. All these metrics are constantly increasing. Now 3% of the repeat purchase is only for the quarter or on annualized basis it is 6.8%. All our Rs except the first R of reach, the television footprint was slightly low this quarter year-over-year but other than that we have increased all other Rs for this quarter and with this data we have looked very closely on daily-weekly-monthly basis - all the Rs.

Prateek Giri: I have more questions on this point but I would like to take it off-line. Secondly I was just thinking that our web is firing and as per general consensus web is more used by youth. So, just wanted to get your sense on how the profile of our customer has changed in last 2-3 years? Is it that 35-50 range age group of females or is it that we are moving to 25-30 group people as well because even they go for such kind of products particularly in terms of jewellery-fashion jewellery? So, can we get some data on that if possible?

Sunil Agrawal: Prateek, average age of e-com customer is slightly younger for us, not a whole lot, but we try to encourage our television customer to go to web and our web customer to television because the lifetime value of a multi-channel customer is almost 3 times than our TV customer and it is almost 7 times the pure web customer. We constantly encourage customer to go multi-channel for us. Now in India maybe a web customer is younger but in western world, pretty much everybody is shopping on web now. Amazon has made it so ubiquitous that everybody shops on that. So, we don't really much difference in the behavior there. And a lot of our customers currently are getting acquired through television footprint, through web also but not majority. Majority is still through television.

Prateek Giri: Our company has been performing really well since last several quarters. That is really very commendable because the data of TV viewership is not that encouraging in those two countries but still, we are performing very well. Congratulations for that.

Sunil Agrawal: Thank you, let me clarify one point - you say TV is not encouraging but there is a phenomenon that is happening in the US that is not really reported widely, that the cable and satellite distribution is shrinking slowly but our age demographic is not slowing that much. But nevertheless, whatever we are losing on the cable side, we are gaining on OTA side - OTA is over-the-air. Most of the new televisions have built-in antenna and people get HD broadcast for free and the OTA homes, if you do a bit of research, OTA homes are increasing rapidly in the US. Four years ago, OTA homes were about 6 to 7 million, which are nearly 18 million now. Now that increase is almost equivalent or slightly even more than the loss of cable or satellite; and this is free and most of the people who are buying new television get this program - even if they are subscribing to Netflix or Amazon Prime, they are getting OTA broadcast for free on their television. Of those 18 million homes, we are already in 10 million of those homes and we are seeing the productivity of those homes to be very good.

Moderator: The next question is from the line of Foram Parekh from Indiabulls Ventures Limited.

Foram Parekh: I just wanted to know - we are listening a lot about the global slowdown and since the slowdown is there in US, UK as well, so are we confident that we will be able to increase the market share and we would see increased footfalls?

Sunil Agrawal: You have used a very good term here, footfalls. So, we don't have literal footfalls but click fall definitely. You have to click our channels or click the mouse and get to us and we are seeing customer registration increasing year-over-year and the customer retention increasing, customer repeat purchase increasing. I am confident of our business model and that we will continue to deliver growth year-over-year. So when you look at average year-over-year we will definitely deliver between 14% to 16% growth year-over-year because of the potential market size available to us in our business model and our value proposition. We are very confident.

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

Ashish Kacholia: My question is basically on the online side. We are doing about one third of our sales online, am I correct?

Sunil Agrawal: That is correct in US it is about 35% and UK is about 24%.

Ashish Kacholia: My question is basically do all these 33% of sales, are these customers migrating to online from our TV universe - in the sense that are they customers both online and on the TV?

Sunil Agrawal: Yes, not all of them. Some are pure online but many of them are multi-channel and as I mentioned earlier, the lifetime value of multi-channel customer is substantially more than pure channel customer. We make every effort to migrate the customer from TV to web and web to TV. To answer your question the web customer is some of them pure web but I would say more than 50% is multi-channel.

Ashish Kacholia: If you are saying more than 50% so let's take that number is 50%. So, are you saying that 50% of 33%, so about 16% is purely online customers?

Sunil Agrawal: I don't have their exact data with me Ashish. I can check and let you know off-line how much of our web customers are pure web, but I think it will be lower than 50%.

Ashish Kacholia: Whatever that number is say suppose it is 40% also - then in that case it's about 10%-12% of our sales would be coming from a pure online customer kind of a base?

Sunil Agrawal: Correct, your assumption is correct.

Ashish Kacholia: How do we go about acquiring these pure online customers?

Sunil Agrawal: We invest in SEO, we invest it through marketplace for example all the Amazon, Walmart, eBay so all those customers mostly come on online and all our PPC, SEO, shopping on Google. All these campaigns we spend some money, not a whole lot but will spend some money to get those customers.

Ashish Kacholia: We are spending some money and about 10%-12% of our sales is coming purely from online?

Sunil Agrawal: I'm not sure about the exact number but there is a certain percentage that comes from pure web.

Ashish Kacholia: I'm just trying to say that suppose there is fear amongst investors that this is a TV company and in TV cutting the cord is happening and all that kind of stuff, right? My point is that we are a retailer, we are going to be selling some jewellery and some products. So is there a case where we can make a case to the investing community that we are a cost efficient retailer of a particular type of product and we will continue to succeed whether cutting the cord happens or it doesn't happen. If cutting the cord happens in a very substantial way we have the capability to take our business online in a more significant manner.

Sunil Agrawal: As I mentioned in the previously, the cord cutting on the cable and satellite is to save the $80-$100 bill that people get but most of those customers or equivalent amount of those customers we are gaining through OTA. OTA is over-the-air or antenna, the modern television has the antenna built-in and most of the programs people get in HD. So, people are getting free programs, local channels as well as some national channels and all the shopping channels are on that and that platform is very productive. We are already earning more than 7 million of those homes - we pay them monthly and we get good channel position. The channel number on that platform is not too many, so the people don't have much choice and we get much better productivity from that platform. That is one. Other is e-com and e-com plus marketplace migration plus social migration, all put together, I am confident of our model. Even if there is a cord cutting that happens, we are very agile and we will make this business model sustainable over a long period of time. We have demonstrated our agility in 2008 when recession came and also when competitors became aggressive, we demonstrated again. I am confident that if there is any change in the marketplace, we will be able to handle that.

Ashish Kacholia: Any data that you can share for us as to what percentage of our sales would be coming through social media like Instagram?

Sunil Agrawal: Social is still very new. We have started this just about six months ago. So, far, we have launched about 20 products through social media like Facebook and we have not actually launched on Instagram yet. With 20 of those products so far we might have acquired may be about 200 customers, not too many. It is very new but we are learning. In the last call also I mentioned that for our TV ads we need to get people's attention in few seconds like may be 5 seconds or 10 seconds. In social we need to get their attention within a second or second and a half. So, advertisements need to be very different than the television or e-com. We are learning as we are producing, we are seeing the productivity and learning fast on that. But that is still new for us. But marketplace is gaining rapidly for us. As I mentioned last year our total revenue on marketplace was just about $2.5 million. This year we expected to be approximately $7 million from marketplaces and the customer acquisition is also robust.

Ashish Kacholia: When do we hope to go live on Instagram?

Sunil Agrawal: I don't remember the exact date; I can let you know separately.

Moderator: The next question is from the line of Abhishek Jain, an Individual Investor.

Abhishek Jain: I have a couple of questions; first on the selling by the promoters. When the Company is, as you are saying, actually on inflection point and operating leverage is now coming in handy, so why there is selling by even so-called non-core promoters? Yesterday also I think actually there was another round of selling 3 lakh shares, my first question is this.

Sunil Agrawal: Yesterday there was no promoter selling. There was some non-core promoter - if they need money they will sell. I sold recently and the main reason was to get the entry of a large Indian mutual fund. We did not have Indian mutual funds as our investors and our interest was to increase our visibility and liquidity. That's the only interest.

Abhishek Jain: Second question is regarding the buyback. What is your status as of now on the buyback?

Sunil Agrawal: Our shareholders have recently voted on that so all the votes will be concluded by August 5th.

Puru Aggarwal: August 5th is the last date for voting - that gets concluded that day. Next day it would be published in newspapers and then there is a process to file it with the regulators which takes seven working days to get the approval. So, around 20th of August it should be opened.

Sunil Agrawal: We are confident of opening this buyback window from 20th of August.

Moderator: The next question is from the line of Ram S, an Individual Investor.

Ram S: Just regarding on Friday you're running under $10 campaign which is very successful. So, are we planning any sort of under $10 on Budget Pay on some other day - is there any sort of plan there?

Sunil Agrawal: That's a good question and congratulations for your keen observation of our program. That needs a lot of dedication and work. Thank you for that. So, under $10 Day we don't give Budget Pay because the problem happens when customer wants to return that product. The label fees that we charge on a product return is approximately $5.99 and Budget Pay on under $10 is say $3 or $5, so we won't be able to cover our label fees from the refund that we will need to make to them. We will try.

Ram S: What I'm asking is if it is a $50 item you can have an under $10 on 5 Budget Pay. We can put on single day all should be under $10 and the item may be a $60 or $40, whatever it may be, we can have a $6 Budget Pay or $4 Budget Pay. I'm talking in that angle, not the individual Friday item.

Sunil Agrawal: That's a great idea, it never occurred to me. I will definitely discuss with my team. Thank you very much Ram.

Ram S: Second thing is during 2013-14 you shifted the call center to some other third-party. Now we are converting from third-party to our internal call center. Is there any improvement in customer because with this thing?

Sunil Agrawal: The idea was to convert part of that call center not completely. We will always keep off-shore low-cost centers because Austin is an expensive place and we will not be bringing all the agents in-house. So, SLA continues to be strong. I haven't tracked recently what it was in the last Quarter 1 but we have received good customer feedback on our customer NPS (Net Promoter Score). So, latest Net Promoter Score in the US is 61 which used to be in high 50s, so that is slightly up.

Ram S: Regarding this online portal, basically Amazon, TJC UK or eBay. We are very good on eBay, our customer subscription. What is the plan? When I'm logging into amazon.com more than a lakh products are available. How I will choose Shop LC? As a customer I cannot see - if I'm typing only Shop LC then the product will come. If I'm going to that particular thing or the place only that will come. So, what is the plan to improve the customer search when they put jewellery your products will come? What is the plan for that?

Sunil Agrawal: That is a very good point. On Amazon especially, the product has to speak for itself. It has to stand against the competition, so our product profiling, if you would see some product on Amazon, you would see how we are romancing the product, how we are giving the information about our factories, our direct sourcing, our One-for-One program, our images, the videos. We do a lot of background work to create that searchability of the product on Amazon and same has started, so actually we have learned quite a lot on Amazon, what all is required and we are transferring that knowledge to our own website and that is helping us. Product has to stand in the search bar of Amazon - if a customer is searching for inexpensive ring or they are searching for amethyst earrings. Our product has to have a great SEO attributes to come up in the search and we are applying all those marketplace algorithms to come up.

Ram S: How many new customers added in this last quarter?

Sunil Agrawal: The overall customers that we added last quarter were 36,499, overall. I don't have the marketplace data with me right now, but overall marketplace revenue quarter-over-quarter is up by about 130%-140%. I don't have exact data, but it is between 100%-115% year-over-year and I think the consumption is in proportion to that.

Ram S: My question is if I am purchasing in Flipkart, then in the invoice only the seller name will come. Like that, if a customer purchasing through Shop LC in marketplace, how he will know that you are selling that product - whether the Shop LC invoice will go or how they will come to you because you cannot violate marketplace norms. So how we are planning to bring that customer to our port?

Sunil Agrawal: Marketplace, especially Amazon, works two ways, one is fulfilled by Amazon and one is we ship to the customer. So, some products we keep at Amazon which are heavy and incur higher shipping cost, so we will rather keep at Amazon and they ship free for us. The product which is not heavy and which is not very fast selling on Amazon, we would ship it from our fulfillment. Now on every product goes in our box with our invoice and we send a welcome kit to that customer and customer can then choose to reach out and search our website. So, the customer has to search, we cannot actively market to that customer. On eBay we can do that, because we have all the information and eBay doesn't mind. So, we market to that customer from eBay.

Moderator: The next question is from the line of Sayyam Virwadia, an Individual Investor.

Sayyam Virwadia: My question is that growth of our business is dependent, as you told, on four **R**s of reach, registration, repeat and retention. So, as of now our retention rate is 50% and how much are repeat purchases, how much time are repeat purchases?

Sunil Agrawal: Repeat purchase for this quarter on an annualized base is about 31 compared to 28.5 last year same quarter on an annualized basis - so it is up 6.8%.

Sayyam Virwadia: Retention rate is 50%, so can we increase it up to 70% or 80% or can we increase that repetition rate?

Sunil Agrawal: I cannot answer that if it can go to 70-80 from 50 right now. Our aim is to continue to improve it year-over-year and quarter-over-quarter. We look at this very closely, but we don't have any 5-year target in mind. We have certain target for the year, that is an internal target and we don't publicize it but we have a certain target. We review it pretty constantly.

Sayyam Virwadia: What are the steps we are taking to increase these numbers?

Sunil Agrawal: That's a good question; there are a lot of actions in place and not just one. We look at the customer journey from awareness through our friends and family and through TV, through web and to consideration which is they consider to purchase, then actual purchase, then out-of-box experience and then product enjoyment and then advocacy. All these customer journey points we track very judiciously. We get approximately 16,000 to 17,000 customer interactions every month in the US alone. We tag every interaction on the customer journey mapping in terms of positive, negative or neutral. Most of negative is looked at on priority by our concerned departments, positives are also analyzed. We are actually now applying AI through our new division that we have started recently, to take out the actionable from such a vast number of interaction and all those interactions lead to action points by concerned departments to improve the customer experience. A lot goes behind the scenes to improve these **R**s. To your point it is not easy, but we do a lot of exercise to improve these numbers.

Moderator: As there are no further questions, I now hand the conference over to the management for their closing comments.

Sunil Agrawal: Thank you. I thank everybody for your robust participation. If you would have any further questions please feel free to reach out to Dipti Rajput at VGL or Karl Kolah at CDR India and we will be happy to answer. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Vaibhav Global that concludes this conference. Thank you for joining us and you may now disconnect your lines.
