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Q4 FY15 Earnings Conference Call Transcript
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Karl Kolah: Good evening everyone and thank you for joining us on Vaibhav Global's Q4 & FY15 results earnings call. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director of Vaibhav Global and Mr. Hemant Sultania, Group CFO.

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 the call today 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

Sunil Agrawal: Good evening and I welcome everyone to Vaibhav Global's Q4 and FY15 results earning call. I will quickly provide an overview and highlight of the quarter and the year ended 31st March 2015. Hemant will then discuss key highlights of the financial performance of the company.

This has been a year of transition where we made critical investments to further enhance our operations and strengthen our infrastructure. Let me highlight a few.

During the year we successfully executed the integration and post training process at the outsourced call center. We also upgraded the TV business management platform in our US operations. This is a next generation TV software platform which now enhances and integrates our TV auctions, scheduling and customer service, improving overall efficiencies.

The growth momentum in FY15 was affected by a few challenges we faced while implementing various initiatives and increasing intensity of competition faced in US. We have since integrated the operations post technology transitions and are taking measures to counter market competitiveness. We are also aggressively looking to diversify into other categories like home and beauty in the next few months. This we believe will help increase repeat purchase and further expand per household sales.

We are very enthusiastic about the launch of our mobile app for the US market. It will be a responsive website. This should be up and running before the end of next month and will give us access to a whole new client base and a new medium for our existing loyal customers to access our products.

We also took some crucial financial transformations over last few years, specifically last year. The company's strong operating cash flow enabled it to rationalize debt, pay off it is long-term loans and emerge as zero net debt company with cash surplus at the net level. During the year we returned to the list of dividend paying companies by paying an interim dividend of Rs.2.40 per share. However, we were unable to declare final dividend due to recent amendments in Company's Act 2013 which required past losses to be fully offset against current year's profit before declaring the dividend. VGL will be undertaking a capital restructuring exercise to address this and we would like to declare dividends regularly, hopefully starting with FY2016.

Looking ahead, we are confident that the operational and financial transformations of the last year will help us deliver on the next level of growth in our business. Our enhanced manufacturing and sourcing capabilities and improving outreach should help us expand volume growth to our 1.64 million customers. We aspire to be a international retailer delivering deep value proposition to our customers.

Hemant has taken the decision to relocate back to Gurgaon due to family reasons, therefore he will leave VGL as our CFO. However, he will join VGL Board as a non-Independent Director in the next AGM on July 28th of this year. As a board member, he will help me with strategy and also continue his compliance oversight that he has very ably done during his last one and half year tenure with VGL. We are aggressively looking for his replacement now.

I would now ask Hemant, our Group CFO, to give you a brief overview of Q4 and FY15 results.

Hemant Sultania: Thank you, Sunil. A very good morning and afternoon and I welcome everyone to VGL's Q4 & FY15 results earnings call. Let me give you an update on the operational and financial details before we proceed into Q&A.

In FY15, revenues were higher by 6% at Rs.1376 crore, in dollar terms revenue was higher by 5%. During the year gross margin remains stable at 61%, EBITDA was impacted due to additional cost undertaken for various initiatives and increased competition that Sunil spoke about.

Profit after tax for the year stood at 103 crore, compared to Rs.153 crore in FY14. Profits are impacted by Rs.17 crore on account of lower foreign exchange gains and by Rs.22 crore due to higher tax provision in FY15 as compared to the previous years.

The company continues to generate robust cash flow and we have now fully repaid the long-term loan. Free cash flow in FY15 was around 106 crore, term loans were fully repaid in the fourth quarter, and we are a cash accretive company. As on 31st March 2015, the company had outstanding short-term debt of Rs.76 crore, whereas it is current investment and cash balance stood at Rs.96 crore, therefore our net debt was negative 20 crore as compared to Rs.52 crore at the end of FY14. Our return ratios continue to be healthy, ROE and ROC for the year remained at 31% and 44% respectively.

Let me also highlight some vital customer centric data points. In Q4 FY15, we added 121,000 new customers and served 396,000 unique customers on an annualized basis. Customer repeat buying activity now stands at 17.89 times, up from 16.9 times on an annualized basis whereas average purchasing increased to 26 pieces from 25 pieces. The customer retention rate has now been stable at 46% in the US. These data points highlight the strong relationship which we share with our customers. Our robust balance sheet and recent operating initiatives should help deliver revenue and profit growth going forward and enhance shareholder value.

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

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta: When we are looking at numbers, average customer buying has gone up, the number of pieces the customer has bought from us on an average has gone up, the only reason why the revenues really have not grown is the number of customers have declined. Is that the inference we have to take out of this?

Sunil Agrawal: The television or retail sales have gone up by 6%, and that reflects into increased repeat purchase, while retention rate is stable at 46%.

Viraj Mehta: Okay. So if we were to think, the actual number of customers which would have bought from VGL in FY14 and FY15, they would be more or less the same or they would be lower in FY15 or higher in FY15?

Sunil Agrawal: Unique customers in FY15 were 396,000 compared to 394,500 last year. There is an increase of 0.5% of unique customers who purchased from us during the year.

Viraj Mehta: Correct, okay. And the average realization per piece has gone down from $24 to $23. I know this is a very insignificant and a small reduction, but just wanted to get a sense, is this a function of higher competition in the system; is this a function of the product mix changing; is this also a function of how our web sales as a percentage of total sales is increasing? What of these three factors affect these numbers, not now but also going forward?

Sunil Agrawal: The change is very insignificant. This can happen due to change in product mix or the mix of Web and TV. This is not due to competition or because of any new product line that we are introducing.

Viraj Mehta: Okay. And for the first time in the presentation sir we have noticed that you have used the word competition a few times. Earlier, it was not such a significant mention in your presentations. So has there been any uptick in terms of competitive intensity in the last quarter that makes you do this or it is more or less the same. It is just probably that we think the duration of competition is going to last longer now?

Sunil Agrawal: One of our key competitor in jewelry segment launched Stretch Pay and other free shipping facilities last year. We thought it was short-term and not sustainable. It has been continuing almost for eight months now and it appears that it is helping our competitor. Further, when we look at the market space, especially the new categories like home and beauty that we intend to launch, we will be competing against the QVC's, HSN's or EVINE. These players are already on Stretch Pay for much longer than JTV. So we have to look at the whole market space and see that this is something that we may have to go into as well. If we originally thought, it's now something we want to go in and compete, so that is why we mentioned competitive activity a few times.

Viraj Mehta: And that would also increase our working capital requirement, is that correct?

Sunil Agrawal: We have a strong balance sheet and we do not expect to take substantial debt for that.

Moderator: Thank you. Our next question is from the line of Anshul Sehgal from Kotak. Please go ahead.

Anshul Sehgal: How I am looking at this result, and I would just request your views on this and the presentation is that as the previous questioner asked, you mentioned the competitive intensity a few times, and on top of that you are suggesting that you are looking at newer categories to grow. Now both these things looked at in conjunction, it seems that our growth is kind of stagnating and so we are going into new categories to grow and there is also an added incentive for the customer via free shipment or extended payment. Is that a fair way of looking at how things are just now?

Sunil Agrawal: There are two segments where growth is not visible for last two or three quarters, one is the web and the other is mobile. Our web platform that we have in US and UK are legacy platforms, kind of home grown platforms. So at both these places we are aggressively going in for state of the art technology platforms. In US, it is going to be SAP based HYBRIS and that should be launched within next couple of weeks. Mobile has been done and waiting for HYBRIS to be launched and that should be launched before the end of June. Due to this up gradation work, there was no enhancement work carried out in the current website for the last 4 to 5 months. This has affected our web revenue in the last quarter. But once the technology changes and mobile is launched in this quarter, there should be visible growth. It will take three to four months for customers to realize that it is user friendly and help us to ramp up our offerings and customer friendly measures. So the first half will be the transition period in the current year to put that technology in place.

Second factor was about the competitive intensity. In my previous calls or rather two previous calls I had mentioned that this is not sustainable. But when we relook at the complete marketplace, we are now the only holdouts for Stretch Pay. All major players in the TV & Web space in the US are giving Stretch Pay. And we originally thought that at our lower price point which is one third of the average price point from those vendors or those competitors, people would see it. But I think the lower first payout is quite attractive and therefore, we are going back into that strategy discussion and at what intensity we need to respond. Competition generally has anywhere from 50% to 80% of their entire product portfolio into Stretch Pay. So we are discussing internally at what level we need to respond, is it 10% or 50% or 75%. There is an also technological enhancement to respond which is quite complicated because there are a lot of integration points.

Anshul Sehgal: So you are saying that despite the lower price points you may need to stretch the payouts? Now, particularly in the case of Jewelry TV, how much more expensive are they compared to you?

Sunil Agrawal: We do not know exactly but our estimation is approximately $50 average price point.

Anshul Sehgal: Versus yours is $24, okay. And in web, we saw $1 increase in price point. Is that also something which is sort of an aberration or is that something which is going to happen progressively going forward?

Sunil Agrawal: It is a normal fluctuation. It is not a strategic decision to move the price point up. $1 here and there would happen due to product mix or customer pull or as web also has the tail of TV products coming in and what TV product comes into the web rising auction also dictates the average price point. So it is a normal fluctuation.

Anshul Sehgal: Okay. In the last quarter, small number of insider trades which were largely sale trades. Any trend there or that is only by chance that this happened? I mean share trades of Vaibhav Global, this was from one of the board members or from the ESOP Welfare Trust and some other minor trades I think. Some management trades as well. Any trend there or this is…?

Sunil Agrawal: Welfare Trust is employee ESOP Trust that only sells on behalf of employees who have their ESOPs vested in them. As far as the management is concerned, over last quarter I do not remember if there has been any substantial trade from the management. Hemant, do you know of any management trade?

Hemant Sultania: No, not to my knowledge. In fact, shares were bought by you and I think 20,000 or odd shares were sold by Mr. Rahimullah. And apart from that, nothing to my knowledge.

Anshul Sehgal: Okay. Would you be able to share what ESOP's have been granted and are outstanding as of 31st March?

Sunil Agrawal: Hemant?

Hemant Sultania: Regarding your query on stock options, around 830,000 stock options are pending as on 31-3-2015 and during the year around 545,000 options were granted to the management team.

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Anshul Sehgal: Sure. Just my last question, as regards mobile and the platform that we are shifting to, how is it that you hope to benefit from that, what exactly is going to happen as a result and how do you see the competitive landscape changing for you because of that? And sorry, just an addition to a previous question, you know about the competitive intensity, if you could just tell me sir how is it that you look at the pull for your product from the customer's side? How is that you differentiate yourself, of course cost is one aspect but what is it that attracts the customer to your product and away from some of the other products?

Sunil Agrawal: Sure. So I will address your mobile answer first. Currently, half of our ecom customers watch us through their mobile devices and our site is not optimized for mobile, so the bounce rate is pretty high. When the mobile friendly software launches in June, the customer experience is to be much better and we expect the bounce rate to be reduced significantly. Therefore, the conversion to be higher which would help in our sales. And the web platform itself is pretty robust, that is customer friendly, there customers can do more transactions on that. We can specifically promote to customers based on their purchase habit, their buying behavior and the browsing history which we cannot do on our current website.

Anshul Sehgal: I just want to understand what is the pull for the product? What is it about the product that attracts the customer? To my mind it is not a brand, it is a product that the customer has to like or there has to be something about the product that pulls the customer. I just want to understand that. I will also tell you why I am asking this, my sense is that there are many fashion jewelry providers other than TV there are on the off-line mode also there are many of those. Now how do we differentiate ourselves from those and what is it that the customer gets by buying our product and not somebody else's or an offline provider or a Jewelry TV, their products, what is it that the customer is getting?

Sunil Agrawal: Sure. So we publicize EEO on our TV and web constantly, exquisite design, excellent quality and outstanding value. Exquisite design means our designing is more aligned to the market, more trendy, eexceptional quality for the price that they are paying. We are the only ones that do platinum overlay, platinum plating on silver, competition does not do it; we are the only ones who give finishing to the under gallery of the ring. So customers feel comfortable with that and the value. So that is the biggest pitch that we have, at $20 what you are buying from us is equivalent to what they are buying from other people at $50, $40, $60 and that attracts customers. And that EEO is constantly in our communication internally and externally.

Moderator: Thank you. We have the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Again more on the same line of competition. I would like to understand like competitors were offering free delivery, whether we have also started that or not?

Sunil Agrawal: Not too much because our shipping rate is pretty low to start with. The competitor had a shipping rate of $6. Our average shipping cost is around $2.34. We do once in a while free shipping if we need to push a product. We believe that shipping should not be an issue for us at lower price point but we will continue to experiment that and technologically we are already there to be able to do that.

Sunil Jain: So since we are changing our stand of fighting with the competition, once on strategy you had said that you will be coming up with a plan for giving installment payment and all. So that is the key area and apart from that mobile app which may be coming which can give some comfort for the customer to buy the product. So apart from this anything else or these are the two main things?

Sunil Agrawal: Yes, so these two initiatives that we have done during H1 of this year and also the introduction of new products. We are very excited with our home line. We have already hired teams across the entire group for home textiles, home décor, home utility products and also beauty. In QVC and HSN, both business in these two categories account for more than 60% and we see a potential repeat purchase and enhancement for our customer because it very much targets those customers aged between 30 to 60 years.

Sunil Jain: So are we keeping any target for growth for FY16?

Sunil Agrawal: We are not giving guidance for growth but H1 will be soft because of the changes that we are putting in place, but H2 we believe will be strong.

Sunil Jain: Sir, does any other competitor also have mobile apps?

Sunil Agrawal: They already have.

Sunil Jain: Okay. And sir last question about tax rate, what tax rate we can expect in FY16?

Sunil Agrawal: Hemant?

Hemant Sultania: This year our tax rate has been around 19% of PBT with US and India paying full taxes. In FY16, we intend to move our Indian operations to SEZ which will give us some tax benefits. However, I see the tax percentage to be around 23% to 25%.

Sunil Jain: Okay. And sir last question, one more question about margins. Are we seeing any pressure in EBITDA margin in the coming quarter, coming year?

Sunil Agrawal: As I said, H1 will be soft because of the changes we are putting in place and these are technological changes so there may be some pressure in H1, but H2 should be robust.

Participant: Thank you. Our next question is from the line of Shashikant from Perfect Research. Please go ahead.

Shashikant: My question is regarding dividend, as you have mentioned that there are some changes in the Companies Act which prevented you from paying dividend. So can you elaborate on that what are the changes in the provision?

Hemant Sultania: Around 12th of May, Rajya Sabha passed an amendment which is yet to be gazetted that unless you adjust your brought forward losses and depreciation not in accordance with the Companies Act with your current year profits, you cannot declare dividend. Earlier, the provision was that brought forward losses or depreciation whichever is less has to be adjusted. Now the entire losses have to be adjusted. So given that we have brought forward losses of around 250 crore plus, we were not in a position to declare dividend. However, we will undertake a capital restructuring exercise and adjust around 600 crore lying in share premium account, with the brought forward losses with the approval of High Court and once this is done, we intend to pay dividend going forward.

Moderator: Thank you. Our next question is from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

Jaineel Jhaveri: I wanted to know what is the average age of the consumer that we have, do we track that and what would it be?

Sunil Agrawal: Yes. We track them through the service that we conduct and they are 30 to 60 year old predominantly Caucasian’s white female where a minority is of Hispanic and African Americans, but their ratio is around 10% each only.

Jaineel Jhaveri: But 30 to 60 is very wide, do we have a closer number maybe 45 or some kind of an average where we have most number of people?

Sunil Agrawal: I know we have, but I do not have it in front of me. Hemant, if you can pull that information and share with Jaineel later?

Hemant Sultania: I will do that Sunil.

Sunil Agrawal: And if possible during the call otherwise later.

Jaineel Jhaveri: Okay, that's not a problem, thanks. And second question I had is that, so in terms of the dividends since there was not one declared at the end of this year, is there a thought process on maybe like a quarterly dividend or something along those lines, interim dividends, once this issue is taken care of?

Sunil Agrawal: Yes, so as soon as this issue is taken care of and as it is done during the year we will decide interim dividend. So we intend to declare it twice a year.

Jaineel Jhaveri: Okay. And when would that be, after H1 and then after the year… or two interim dividends and one final dividend?

Sunil Agrawal: One interim, one final.

Moderator: Thank you. Our next question is from the line of S. Natrajan from HBJ Capital. Please go ahead.

Shochis Natrajan: I needed to know about the volumes, will it go any further in the future in first two quarters of FY16?

Sunil Agrawal: We expect volumes to go up in H2 of this year, H1 maybe soft because of changes we are putting in place.

Shochis Natrajan: Okay. And how much will it be?

Sunil Agrawal: We usually do not give guidance but it should be robust in H2.

Shochis Natrajan: Okay. And in context of your peer competition, you said that your peers also have a mobile app with them so what is the major advantage for the customers from your mobile app and their mobile app?

Sunil Agrawal: At least we will be at the same playing ground. Currently we are not. So our bounce rate is pretty high because the customer experience on our mobile devices currently is not good, so conversion is low. So we hope to see it go up.

Shochis Natrajan: Okay. And can you tell me that will this peer pressure sustain or will it be in a short-term basis?

Sunil Agrawal: The peer pressure of Stretch Pay of installment payment?

Shochis Natrajan: Yes.

Sunil Agrawal: It has been about eight months that they have launched it and it is working for them so I believe that it will continue and all the other major players are also doing Stretch Pay and they have successfully done for more than 10 years. So I suspect that it should continue and it is kind of an industry norm now and we are the only holdouts. We thought that we could sustain holding out because of lower price points but clearly our volumes have not grown and we attribute that to two factors, one was mobile and the other was the installment payments.

Moderator: Thank you. Our next question is from the line of Varadarajan Raghunathan, Individual Investor. Please go ahead.

Varadarajan Raghunathan: I just had a question, I have been tracking Vaibhav's progress over the last four, five years, it seems like a lot of your actions are more practical depending upon how you read the market place and then how you react to the competitors rather than a well thought out one to two years sort of strategy. For example, you have come up with a little bit of competitive pressure over the last couple of quarters or so. Given that it is a fairly open-ended question, do you think there are spaces in terms of your managerial talent that you have to fill up Sunil that can actually sort of club these blind spots and make yourself a little more proactive, because obviously you came into this business model purely by sheer luck if I may say so, and you have been improvising upon it and obviously I think you have done a good job of it. But given where you want to be from here on, do you think it makes sense for you to beef up management team with maybe local talent, are there specific areas where you think you need a little more augmentation?

Sunil Agrawal: It is a good question Mr. Varadarajan, thank you. It is always our strategy or we strive for hiring local talents everywhere. As you would see our US and UK operations are managed by local managers who have great experience into their respective markets. Even our CIO is in US and we recently hired our senior VP of HR from Unilever or from Stonyfield Farm Unit which is part of Groupe Danone. So they come with a lot of experience and lot of background of local markets and at the board level also we have inducted senior managers who come from these kind of industries. We are also looking for advisors from discount space in US to come in and advise us. One gentleman should come and meet us in a couple of weeks; he comes from Walmart background. So we are looking for talent constantly because you are right, what we do not know we do not know and we could use help from outside to advise us. Having said that, this particular instance of Stretch Pay was something that we believed that this should not impact us, but it did. So we are constantly looking for that to your answer and would continue looking in future as well.

Moderator: Thank you. Our next question is from the line of Darshan Modi from Prospero Tree. Please go ahead.

Darshan Modi: Just had a question on this Stretch Pay, so what do your competitors typically offer, like how many months of credit or if the payment is in installments how many months can the customer pay? And I believe that the entire cost of this Stretch Pay would have to be borne by us, right?

Sunil Agrawal: Correct. Yes, so it is anywhere from two to six payments, payable monthly. So first payment is paid immediately along with the shipping and taxes if any and the rest are billed through the credit card. And yes, the cost has to borne by us that is correct. And what we are hoping is to be able to build up the cost a little bit to offset whatever cost there would be.

Darshan Modi: Alright. And in all the other segments, except for jewelry we are definitely not going to be a vertically-integrated player because we would not be having manufacturing with us. So can you give me an idea about the expected EBITDA margins or the target EBITDA margins that we are working in mind with, especially with this new home range and the beauty and lifestyle range of products?

Sunil Agrawal: So for EBITDA I cannot comment, we will look at the gross margins. So even for the new product sales, home and beauty and accessories we are looking at similar 60% kind of gross margins. And so far we have been able to get that margin and also received good response from customers.

Darshan Modi: Alright. So from your answer, is it fair to assume that in the jewelry space because of us being vertically integrated we would probably enjoy the lowest cost advantage and the best margins in the industry but it may not be the case in the others but then because we are already investing in the channels you do not really need those kind of margins in the other products.

Sunil Agrawal: Our effort is to sustain 60% kind of gross margins Darshan, but again, as I said at 2 billion or higher revenue level, it may be slightly different because if we go for large volume then for bread and butter items, say towel sets, we may lose 2% or 3% just to gain customer attention. But for the foreseeable future, I do not expect it to change much. What we have seen, just to give an example, how it sustains; we sell almost 50,000 watches a month now. We saw that the vendors we were buying the watches from were in-turn buying batteries or movements at higher price. So we started buying those in bulk and giving them to those small manufacturers and in this way we can sustain our gross margins.

Moderator: Thank you. Our next question is from the line of Anshul Sehgal from Kotak. Please go ahead.

Anshul Sehgal: Just to take that point of stretch payments again, do you think that it could be that the customer is associating value with price and so he is saying or she is saying that from Jewelry TV if it is a $50 product and Jewelry TV is giving it to me in the first installment of about $10 and then I have to stretch my payments, I am getting a higher value product by paying less upfront, why should I go for a lower value product which is lower in cost which will of course cost me less but also the value proposition to me is less. So in that context your stretching of the payment, could it be that it will be counterproductive to you further because the customer may think that the value proposition is still lower, is there a risk of that happening?

Sunil Agrawal: If it was so, we would not have observed the robust growth that we did before our competition came with Stretch Pay because it was clearly visible that our $20 in the US, compared to $60 of competition, was receiving good response. So, if our first payment is lower than the competition; if they are selling for $50 in three payments so the $17 first payment, and if our first payment is at $10 or $8 then we come to the same equilibrium position as we had last year. So that is our hope and expectation. But again, we will test different price points, how it goes and based on the pull and response we will expand different price points.

Anshul Sehgal: When do you propose to start this and since you are going to do this the working capital is clearly going to expand and in that context this year's operating cash of about 106 crore, is that likely to be maintained in the future or that will probably get stretched, downwards that is?

Sunil Agrawal: So first thing is when do we expect to start it. It will take about four months for this technological change to be put in place. So this process should start from H2. Second thing about whether it will impact the cash flow; we have enough cash with us so we should be able to use that cash to sustain this. Whether the free cash flow will change a little bit, it may but we do not expect us to go for any fund raising to sustain it because our own balance sheet is pretty strong.

Anshul Sehgal: Right. But how much would the impact be on say last year's number was 106 crore, could it be that that number goes to say 50 crore or will we remain in that 10% ballpark around that number?

Sunil Agrawal: It is too early for us because we are going to experiment into how much we are going to implement, whether it is 10% or 75% of sales that we do, we do not know yet. So we have not done that exercise of how much free cash flow we will have post this exercise, it is too early for us.

Anshul Sehgal: And any estimate of this Stretch Pay, how much has it positively impacted Jewelry TV, any estimate that you would have or how much has the growth in Jewelry TV been versus your growth in this year in volume terms?

Sunil Agrawal: That is a private company so we do not know exactly but obviously it is working for them because they are sustaining it now seven, eight months down the road. We hear from the market, there is 20% to 25% growth but that is not conformed number.

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

Pritesh Chheda: I joined the conference late, just about 15 minutes back, so my guess is that question will be repetitive but seek your response. One, when do you see the growth in the business coming back? And second, I was just looking at the quarter four or the gone quarter number, what explains the slippage in the margins in the, I think it is, B2B driven business but what explains the change in numbers?

Sunil Agrawal: So coming to the first question about growth Pritesh, H1 will continue to be soft because of the changes we will make on account of mobile as well as Stretch Pay. Coming to the wholesale business – wholesale business has two components, one is the sales to other retailers, like QVC or EVINE or Macys in US, so that is stable. Other portion of wholesale sales is when we buy the gem stones in auctions from mostly listed companies like Gem Field or Richland. These auction purchases recently have been low and we have not sold much of those into the India / China market. So that has impacted the wholesale business. But this is a low margin business and therefore our gross margins or even EBITDA last quarter was same year-over-year, even though we expanded the households and expanded the managerial strength.

Pritesh Chheda: Okay. And on the business side we had these platform changes and the mobile platform coming up and I think at the company level also there were changes on the call centers. So there were three, four changes, all that has come through now or there is something yet to come or your thoughts there?

Sunil Agrawal: Sure. The call center change is completed and is functioning very well, the metrics there are very robust, and we are happy with that. The web platform should be changed within next two weeks. That is going from our home grown platform in US over to Hybris. And mobile platform will come two weeks after that, which is almost ready as soon as web platform comes it will come on top of that. So this should be in place before the end of June, web as well as mobile. But to get customer to experience the benefit of that and company to see uptick because of that will be in H2. H1 we will not see benefit of that.

Pritesh Chheda: Okay. And lastly from your presentation I picked up, you have written about exploring new product lines, so I am just wondering what can be these new product lines?

Sunil Agrawal: I explained in my comments, it will be home, there is home textile, home décor and home convenience products like bed sheets or bath mats or towels, robes, cushions and all that and we already starting selling them in small numbers and response has been very positive. And second thing is beauty. Beauty will include face cream or nail polishes or lipsticks and anti-ageing creams and all that. We have done the testing in UK already last month and they have received good response. So we hired teams across the group for both these product categories and these two product categories constitute about 60% of HSN or QVC's business.

Pritesh Chheda: Okay. And I will just have a last question. After what you have seen in the last couple of quarters, competition, some platform changes at your end, do you think the business that which is flowing in today at least you can call it as stable business or there can be a downside to this business as well?

Sunil Agrawal: So H1 maybe soft-flat or maybe slightly lower, I am not sure yet because of the changes that we are putting in place. But I am confident that H2 will be very robust.

Moderator: Thank you. Our next question is from the line of Resha Haria from Prospero Tree. Please go ahead.

Resha Haria: Just wanted to know, in the new segments that we are entering of home and beauty, are there existing players in this space at a similar value proposition?

Sunil Agrawal: Most price points for other players are higher, the average price point is $50 to $60 and we hope to come into this segment at $20 to $30 price point.

Resha Haria: Okay. And what would be the EBITDA margins through web channel sales, if you could give a number, a ball park number around that?

Sunil Agrawal: We do not break EBITDA separately for web channel mainly because for us the web and television are very integrated. On web there is a rising auction mechanism where people bid against each other starting at $1. This is largely an exit mechanism for television streaming and therefore for us they are very well-integrated.

Moderator: Thank you. Our next question is from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

Jaineel Jhaveri: Basically I just wanted to know, are you seeing kind of a trend with the particular age of your customer moving higher and higher, like are you seeing a trend where you are not able to capture the younger audience?

Sunil Agrawal: So average age or the range of the age stays constant for us on our TV platform.

Jaineel Jhaveri: Right, but it is a very big range that you gave me, that's why I am trying to ask like see between 30 to 60, so are you at least seeing a trend that is going more from 30 towards like is the same people who are just getting older and you are not able to capture newer, younger audience?

Sunil Agrawal: No, even the newer audience is coming into these age, they prefer to be catered upon in the sense that they sit in front of television for entertainment, for keeping company and then would want the product offered to them or give suggestions or what is trendy right now. So I suspect it is a factor of age when people sit in front of television or streaming and want to be given company. Now from the social media where we are very active especially on Facebook, we are seeing more of younger audience joining us and we already have almost 400,000 likes on Facebook and we are seeing newer and newer customers join us and engage into buying product and spreading word about us. Especially on Valentine Day in February we had a good viral kind of campaign where we gave one free gift for new registration and that helped and we got lot of new customers and these customers continue to shop with us.

Jaineel Jhaveri: Okay. But also are you seeing any kind of impact on this cord cutting basically and going away from cable operators and people just using online pay as we go kind of things?

Sunil Agrawal: We have not seen much mainly because our streaming continues, whether through television or through Roku or through Netflix or through Samsung TV. We are on all the platforms and as such our engagement with customer continues.

Jaineel Jhaveri: But Apple does not have one and I do not think you are on Google Play. Do you have an app that goes live on Google also?

Sunil Agrawal: Yes, Google TV we are there but not on Apple TV. We are also on Samsung TV, Roku, Xbox etc.

Jaineel Jhaveri: What would that be in terms of your sales, say if you put aside TV and normal cable users, what percentage of your sales would be coming through this new age non-cable operator and non-web?

Sunil Agrawal: I will have to get the data, I do not have access because this is first time I am asked this question. If you can give your email address to Shiv or Karl, we will be happy to share this with you.

Jaineel Jhaveri: That’s not a problem, I will tell Karl to get back to me with these. Also, I think my question was mainly regarding that only. Thanks again for taking my questions.

Moderator: Thank you. Our next question is from the line of Ram Shankar, Individual Investor. Please go ahead.

Ram Shankar: Because of Jewelry TV, only we got affected or did QVC or HSN also get affected and what is the intensity when we compare with QVC and HSN?

Sunil Agrawal: Both QVC and HSN have published numbers of single-digit growth. They are at a higher number level at 8 billion and 2 billion. But EVINE has recently shared negative numbers by 1% or 2%. So large players continue to grow from doing customer engagements and therefore JTV does not seem to have impacted these large players much. But if they are growing at 20-25% a year we should understand it is almost $80 million to $100 million additional sales, so that revenue has come from somewhere else in in addition to us. I do not know to which competitor or where they have impacted.

Ram Shankar: And one more, in Jewelry TV, if you go to each and every product, the customers have given some or other reviews, but in our liquidation channel I do not see not even a single review from customers, is this because of technology or they are doing like that?

Sunil Agrawal: Once we have the new technology HYBRIS platform, we should be able to offer the reviews feature to the customer. Secondly, our new product velocity is very high, almost 100 new products every day. So a lot of products come in and go out through rising auction and the consumer does not have much time to see those products again and there is a sense of shortage we specifically create for customers that they have to buy now otherwise they will lose that opportunity to buy. So even if you put those solutions in place, I do not know how much benefit we will get form the reviews system because of the velocity. Having said that, in UK we have the review feature and they have reviews on a lot of products – about 5,000 products which you can see over there.

Ram Shankar: Okay. And one more question, our customer repeat purchase is around 18x, so what I feel as an individual investor is that we have squeezed our customers to the maximum. What all other activities you are doing to bring new customers is what I want to know about, apart from your mobile app because the customer should know you are having a mobile app, those who are seeing TV only they will see the mobile application and all.

Sunil Agrawal: We do not have mobile application yet, we will have it before the end of June. So there will be a mobile optimized site, we may not be going with applications as such because people don't download apps as much as they would want mobile optimized site, so when they log-in to http://www.liquidationchannel.com the site will fit in as good as an app, and that is good for any device whether it is iOS device or whether it is Android device. So once we have those devices, the benefits should be visible to us.

Now to your other question, how do we promote to the customer? For us it is largely word of mouth from TV point of view and from our 24x7 broadcast when people surf the channels, on website we do SEO, we do PPC, we do banner ads, a little bit we do link share and all those activities are done by our marketing team on ecom sites and as well as social.

Moderator: Thank you. Our next question is from the line of Mallikarjun Yadav from Value Pick. Please go ahead.

Mallikarjun Yadav: I am an individual investor. I am just trying to understand, when you say you getting into apparels and other kind of businesses in terms of home and you would sell at a considerably lower price than the others who are already in the market and have a scale of economies. How is it possible and how can you actually offer it at that price at $20, $25 which you stated earlier vis-à-vis the other players? Is it that you are going to sell a lower quality product or is it that, or how is it going to happen actually, I am just trying to understand how would you differentiate from a competitor in terms of price with regards to home based?

Sunil Agrawal: That's a good question. First of all, we are not going to garment yet but we are going to home product like home textile, home décor, or living room, bath room etc. About how do we compete with Walmarts of the world? I was in China recently along with my merchandizing team, and we compared the prices of towels with Walmart and Homestead – they are the two major players in US. This set of 12 towels at Walmart was being sold at for $49. And when we were merchandizing, our price was also coming at $49 giving our gross margins. We could not sell cheaper than them and our value proposition is that we should sell cheaper than them. In that case what we do is, to differentiate the product like make the product with a bit of satin in there or a bit of bamboo fiber inside the cotton towel so that it is not head-to-head competition for exactly same product. So we make embellishments into the product to offer the customer the value proposition, and on television we have a medium where we can talk about those features whereas Walmart cannot talk about those features. So we take advantage of our medium, differentiate, embellish it, and create value perception in customers.

Mallikarjun Yadav: And how could you differentiate it not from the Walmarts but the other players like QVC or other players who are in apparels are there any one like that there or you are the one getting, not apparels I am sorry, the home decors.

Sunil Agrawal: Yes, they are there already, QVC, EVINE, and HSN…

Mallikarjun Yadav: And would you differentiate from them, because they are in the same process of actually getting it at a lower cost, isn't it?

Sunil Agrawal: That's true, but for QVC and HSN they usually buy from domestic players because they want to return the unsold product back to the vendor. Whereas we do not return and we buy directly from China, Thailand, Bali, India from medium or small manufacturers. So we believe our cost to QVC is better, our cost of purchase versus Walmart is comparable because Walmart is quite large, they have scale and they buy directly from China. So when we merchandize against QVC, HSN we find that we are cheaper than them but for Walmart we do not find it easy to be cheaper than them and so we have to embellish and create differentiation in the product.

Mallikarjun Yadav: So if my understanding is right, we are the only players in terms of television sales or other sales who kind of get it from the Asian regions and sell it, and not the other players who are on the TV sales, am I right?

Sunil Agrawal: Largely yes, that is correct largely. They do have some direct buying programs, but that is not major. And also, even if they buy directly from a Hong Kong vendor or a China vendor, they take the return privilege into account. If they for some reason cannot return then they have to bill that price up, that is called import addition and that increases their retail price points. For us we do not need to return because we have this rising auction mechanism where we can exit the product. The tails of the non-seller we can exit and they cannot do it usually because they mostly sell brands and through brands who would not want to be sold into this $1 auction. So the model is different and our model is conducive to have the exit mechanism that they cannot or will not.

Mallikarjun Yadav: So one last question, thanks for the patience. With regards to Stretch Pay, I know it is a lot of people have asked, I am just wondering, with the Stretch Pay as in other earlier question has been asked, this will kind of strain your balance sheet in terms of working capital again in-turn impact your free cash flow which might actually I am sure you might not give me a number today how much would get impacted, but with all this getting into a new product line won't it actually, the current free cash flow scenario, the cash rich scenario get impacted because of all with the stretch payment coming in, is that the right strategy to be adopted? I mean given you are already a very low cost player, is it not that kind of hurting you, I mean to getting into a stretch pay?

Sunil Agrawal: That is a good point and we have pondered on that point whether we need to get into Stretch Pay because we are already such a low price point and value vendor. But clearly it has impacted the sales to some extent, because we have not seen the growth ever since our competitors went into Stretch Pay mode. So again, it will be testing mechanism.

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

Sunil Agrawal: I thank everybody to participate into the Vaibhav Global's Q4 and FY15 conference call. If you have any further questions feel free to contact CDR India or Hemant Sultania at VGL. Thank you.

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.