Vaibhav Global Limited

Q3 & 9M FY14 Earnings Conference Call Transcript
January 27, 2014

Karl Kolah

Good morning everyone and thank you for joining us on Vaibhav Global's Q3 & 9M FY14 results conference call. Today we have with us Mr. Sunil Agrawal – Chairman & Managing Director of Vaibhav Global; Mr. Sri Burugapalli – Senior Vice President, Corporate Strategies and Mr. Hemant Sultania – Group CFO, and Colin Wagstaffe – Managing Director of the Jewelry Channel.

Before I begin the call, I would just like to make certain statements. I would like to point out that certain statements made or discussed on today's call may be forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A more detailed statement and explanation of these risks is included in the earnings presentation. The company does not undertake to update these forward-looking statements publicly.

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

Sunil Agrawal

Welcome to Vaibhav Global's Q3 FY14 Earnings call. Once again I take this opportunity to briefly introduce Vaibhav Global for the benefit of those of you who are not fully familiar with the company, its operations and business model.

Vaibhav Global is a global electronic retailer selling fashion and lifestyle products on TV shopping and web platforms. In the US, UK and Canada we have access to over 100 million TV households. Our TV shopping channels reach customers directly on all major cable and satellite as well as DTH platforms such as Dish TV, DirecTV, Comcast, Verizon, Time Warner, Sky, Virgin, Freeview, Freesat, etc.

Our e-commerce websites in US and UK complement our TV coverage while diversifying customer engagement. Our strategy is to deliver deep value proposition to the customer through lowest price guarantee.

Our focus is on the discount seeking buyer, a segment that has historically delivered stable growth across economic cycles. Our customer proposition is supported by supply chain infrastructure that includes manufacturing operations in Jaipur and outsourcing operations in micro markets across China, Thailand and Indonesia.

Now I will briefly cover our financial performance:

In Q3, revenues increased by 49% to Rs. 370 crore as we saw strong demand for our products in the holiday season. Q3 EBITDA margin expanded to 13% up from

11.6% last year. Profit after tax increased to Rs. 32 crore from Rs. 19 crore. Our business model is predominantly based on low capex and continues to generate strong free cash flow which exceeded Rs. 100 crore in the first nine this fiscal year. Debtors are negligible in our retail business as customers pay right away by debit or credit cards. As a result net debt has reduced to 0.6 times equity in the first nine months despite repayment of preference shares of Rs. 44 crore plus Rs. 3 crore dividend in October last year. Return on capital employed has expanded to 51%.

Now covering the operating performance:

The revenue growth was driven by volumes while pricing largely remained stable. We sold 2.7 million units in the retail business during the third quarter up 42% year-on-year. That is an average 30,000 units shipped out daily to our customers buying on TV and web platforms. TV based sales volumes grew 29% and web volumes grew 81%. Web contribution has steadily increased reaching 32% by volume in Q3 compared to 25% in the year ago quarter. We believe that the mix is thus getting more desirable in line with our objectives.

Underlining these volumes is strong growth in several customer centric data points. Customer repeat buying activity in the first nine months increased to 16.3 from 14.9 in the same period last year. This is trailing 12 months' data. We added over 140,000 unique customers in the US during Q3 which was far ahead of customer addition in any single quarter in our history. Customer life time across the US operation has continued to expand – from 1.5 years to over 2 years, since FY11. In the same period customer retention rate has increased to more than 50% on some key platforms in US from 46%. These positive data points result from the success of our customer loyalty programs and multi-channel marketing initiatives.

Recently, we have made some important additions to our board and management team. As you may know Pulak Prasad of Nalanda Capital, Singapore joined our Board last quarter and more recently we have welcomed Vikram Kaushik and Mahendra Kumar Doogar to the Board of Directors. Mr. Kaushik has 40 years of experience with companies like Unilever, Britannia and Colgate Palmolive. He retired as Managing Director & CEO of Tata Sky and he is now associated as a consultant with a number of organizations. Mr. Doogar has almost 40 years of experience in corporate finance, taxation, statutory and internal audit, merchant banking, financial restructuring and structuring, project consultancy and fund management. He is presently on the board PHD Chamber of Commerce and many companies. We look forward to benefiting immensely from the individual and collective guidance of our expanded board.

Also Hemant Sultania who has joined us as our Group CFO will assist us in driving stronger financial discipline across our group operations. He has immense experience with Dr. Lal PathLabs and Bata in his previous engagements. He is with us on this call today and he will also facilitate deeper investor relations interface.

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

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Saurabh Kumar of J.P. Morgan India. Please go ahead.

Saurabh Kumar You mentioned that the mix in terms of TV versus Web is getting favorable, we have now 32% web volume. Could you just probably give some insight in to what is the cycle for web purchases and also what will be the margins like versus TV? And second is on your net debt, since you are now significantly free cash positive should we expect this net debt number to keep reducing from here or would you like to cap it at some point?

Sunil Agrawal I will answer the first one and the second one I will let Hemant answer. The TV versus web your first point was the cycle for web versus television. First, both of these are real time transactions. Television is a real time live transaction and web is also real time. Now the difference between the two is that television is a push sale, where customer watches and then we get them to buy on impulse, whereas on web it is pull, the customer has to be looking for what he needs and then he buys because there is immense choice and people have to search what they are looking for. Television addresses more people who are watching in a relaxed mood but if they find something they will buy and web is for people who are more knowledgeable, more experienced and know what they want. From the margin perspective web catalog has margins similar to television.

Web has three channels for sales. One is the catalog, whatever the inventory we have in our warehouse is published on the web. If it sells through television which takes priority, it is taken off the catalog. The second is the streaming. Whatever the TV program, it is streamed on the web and people bid via Internet when they do not have television connectivity. The third component is the rising auction. Whatever the remaining, residual inventory on television, we auction it on web. Everything starts at $1 and then people bid against each other similar to eBay and then it will end wherever it ends. So that component has lower margins than the TV or web catalog. But that is also an exit mechanism for us. So a mix of the margin that you see is a mix of all the margins.

Saurabh Kumar So that explains the margin improvement?

Sunil Agrawal As the business increases on television, the residual inventories will also increase but the mix of the margin will stay where it is because the residual will be constant as a ratio of total sales whereas, if we scale up, the margin should stay stable in the foreseeable future.

Saurabh Kumar Just one follow-up question. As on TV you will to have to pay for broadcast to the operators, to Comcast and all, whereas on web this would not there. So should not web have slightly better margins just on that account?

Sunil Agrawal At this stage of life cycle in our business, we pay per household revenue to the satellite or cable networks. Unlike QVC which pays as a ratio of total sales because their revenue per household is something like $55 whereas ours is just around $2 now. So with us, it takes fixed price per household as broadcasting cost. So we are going to pay that per household for the foreseeable future irrespective of whether we sell $2 or $10. So from web point of view, the television cost is already there. So whatever we sell on the web we cannot say that that is free broadcast because we are not really acquiring customers from advertisements like banner ads or pay per click. We do some of it but not so much. So, most of our customers are actually transitioning from television to web or by word of mouth. Many of the customers do not get the television broadcast in their area so we get word of mouth from relatives or others and would look on the web and buy from us. So at this time of our life cycle, we cannot really say that the cost of the broadcasting on the web is zero because there is some cost for us anyway. I hope that answered your question?

Saurabh Kumar Yes, it does.

Hemant Sultania The company has been successful in repaying its debt this year. Out of the cash flow which we have generated, we have repaid around Rs. 47 crore for preference shares and around Rs. 23 crore of bank loans and, going forward, the company will become debt free by end of FY15.

Saurabh Kumar Just one last final question.Could you just give some highlights about the target demographic, if there is any such thing, for you guys. I mean what will be the target demographic, will it be like housewives in the US or…?

Sunil Agrawal Our target demographic is a 35 to 65 year old white female. That is almost 90% of our demographics all over America. The biggest market for us is California; number two is Texas State; number three is New York State followed Florida and other states. Most of the people are stay at home moms or retired people or people who have time and stay at home. We have a lot of people that watch us in the night, people who cannot sleep in the night, so we give them company and many of them write back that you gave us great company I do not get bored at night.

Moderator Thank you. Our next question is from Sunil Jain of Nirmal Bang Securities. Please go ahead.

Sunil Jain You said that you had reduced net debt by around Rs. 23 crore. If you see your presentation, your net debt is around Rs. 114 crore at the end of last year and now it is Rs. 119 crore. So that does not show decrease of Rs. 23 crore. If you can throw some light on this?

Hemant Sultania I have also included preferential payment in this which is around Rs. 47 crore.

Sunil Jain No, but bank borrowing are net in both places, means net debt is Rs. 114 crore?

Sunil Agrawal The point here is that the cash component has reduced in these 9 months compared to the last FY13 but gross debt has reduced. Rs. 23 crore has been paid off during the nine months. Debt has reduced but the net debt did not reduce because the cash also reduced in December because of the preferential pay off and the bank payoff.

Sunil Jain Ok. Apart from this if you can tell me what is the dollar terms revenue growth for this quarter and nine months?

Sunil Agrawal This quarter is 30%; for the year is 27%.

Sunil Jain This is going well ahead of your target rate of around 20%, so would you be considering revising your guidance of 20% growth in dollar terms?

Sunil Agrawal We will be focusing more on the revenue and margin drivers than the absolute number because we are in the cycle of the business where our growth is quite fast. So many times we even do not know how fast we are growing. So going forward we will be focusing more on the margin and profit drivers than the absolute numbers.

Sunil Jain That one point is very clear that you are focusing more on margin drivers. So can you throw some light on what could be the targeted areas for that?

Sunil Agrawal There are three things we focus on. How to improve the customer retention rate. Two, how to increase the customer repeat purchase. This is to retain the customer that we have already added. So our retention rate is more than 50% now, as I shared with you earlier, which in FY11 used to be 46% in US. That means out of every 100 customers we added three years ago, more than 50% are staying with us now. HSN, one of our closest competitors, which publishes this data, their retention rate is lower than 50%. That is number one. Number two is repeat purchase. So this repeat purchase has consistently gone up from 14.9 to 16.3, which is the average of UK and US this year.

Moderator Thank you. Our next question is from Deepak Agrawal of Impetus Advisors. Please go ahead.

Deepak Agrawal I have some data related questions first. If you look at the slide 16 of your presentation, shareholders' equity and then net debt you add them up then it will be Rs. 312 crore? And if you look at the asset side Rs. 67 crore and Rs. 229 crore that is Rs. 296 crore so what is that Rs. 16 crore shortfall on the asset side?

Sunil Agrawal Let us take some other questions. Hemant will check this and come back to you.

Deepak Agrawal Our overheads apart from material and employee cost have been rising very rapidly over the last six months, it has risen by Rs. 50 crore. Where is this additional expense going?

Sunil Agrawal I can give you some of the major expenses where it is going. Content and broadcast cost has increased because of new distributions we have grown in US. We recently acquired another 6 million homes that is full time and another 24 million part time homes. So part of that is airtime and call handling charges. We have recently outsourced call handling IVR to a third party rather than having fixed IVR within our offices. So the capacity is there to receive more calls than the fixed hardware we that we had earlier. Then, with the volume of packaging, the distribution cost has gone up because the volume has increased substantially and packaging, distribution and freight cost comes within the other cost whereas in this cost the corresponding shipping revenue is goes in to the top-line. So the absolute numbers look higher in that case. And we also had the advertising and promotion expense which has gone up because last quarter we had a campaign of free gifts with purchases over two weeks in November and December. We ran this campaign and there was an expense of almost Rs. 5 crore of free gifts. So that is already parked in within the P&L.

Deepak Agrawal So this is you are saying the cost of free gift is included in ads and promotion?

Sunil Agrawal Yes, that is correct.

Deepak Agrawal But overall if I look, we have Rs. 153 crore of expense in the quarter so Rs. 5 crore is not a major amount in that. Overall, as a percentage of sales, this continues to remain at around 39% to 41% of sales. So is there any kind of operating leverage in our business, I mean with the sales rising so rapidly, we do not see any reduction of these expenses in your percentage of sales?

Sunil Agrawal Over time, I think I had explained earlier also, we believe that this is our starting up time in the US given the size of the industry. So we are continuing to make investments in to promotions and broadcasting, expansion of our air time footprint. So in the initial one or two years you may not see the benefit of scale in terms of these expenses because we are investing in this area. What you will benefit is one or two years down the road or three years down the road when those investments do not need to be made in the same ratio of increasing sales. But just to give you a reference, Rs. 24 crore has just increased in the packing distribution out of this Rs. 50 crore that you are saying. But there is a corresponding increase in sales as well because this is not a sunk cost. Corresponding revenue increase includes shipping and handling revenue. So just this Rs. 24 crore is just in one head.

Deepak Agrawal This Rs. 24 crore that you are talking about YOY compared to the previous year quarter?

Sunil Agrawal It is only packing and distribution.

Deepak Agrawal But this is the total amount for the quarter?

Hemant Sultania This is total.

Moderator Thank you. Our next question is from Prashant Kutty of Emkay Global Financial Services Ltd. Please go ahead.

Prashant Kutty My first question is on the growth side. So if you look at it you said a large part of the growth was driven by the holiday season. How much of this growth do we feel is sustainable in the ensuing quarters actually?

Sunil Agrawal Last quarter growth was no doubt about the holiday season, mainly because of the promotions that we ran this year that were not run last year. So coming quarter YoY we continue to feel positive about growth from the growth drivers like repeat purchase and per household revenue rather than just a number. But overall we feel positive for coming quarters.

Prashant Kutty So we feel that this promotion has actually continued in the coming quarters as well or was it just a one-off holiday season which you actually saw through this promotion and which ran off actually in this quarter?

Sunil Agrawal We are continuing to analyze all the promotions. We do many different promotions. Free gift was one of them which had revenue impact. We will analyze our promotional activities and refine them as we go. We will retain whatever benefitted us and do not retain what did not work, especially from ROI perspective. That activity is continuous for us and you have seen the growth quarter-over-quarter continually at least last three quarters and this is a continuous process.

Prashant Kutty My second question is on the margin side. We spoke about probably focusing a lot on margins going forward. However, on one side we are saying that our content cost, which is probably one of the main causes of generating operating leverage, will probably remain high for the next one to two years. So then are we talking about this margin improvement may be post that period and probably sustenance in the next year or two or are there any other margin levers which we are missing?

Sunil Agrawal Some of the investments will continue for example airtime or people development and logistics and operations development. Those investments will continue for the next one or two even may be three years. So the leverage of scale will start to flow to us post that investment period. 10 billion market size is viable for us in electronic retail, fashion jewelry and there we have only 1% of market size right now. We will continue to invest to look for long term perspective and not look for leverage so early but may be down the road you will see those benefits.

Prashant Kutty So do we safely assume that may be a 12% to 13% would probably be a more sustainable number as far as margins are concerned over the next two years?

Sunil Agrawal We are looking at sustaining free cash flow as well as growth for us. We are not looking so specifically at EBITDA at this stage of our business.

Moderator Thank you. Our next question is from Darshit Shah of Equirus Securities Pvt. Ltd. Please go ahead.

Darshit Shah One question actually is that our business model is quite different from our competitors' that is QVC and HSN. So can you just run up on what strategy we are going to play against? Obviously those two are very bigger players so how are we different and how we would continue to gain market share from these guys?

Sunil Agrawal As I said earlier, we are a discount retailer. Just to give an example, its like Southwest Airlines versus American Airlines and United Airlines. We are a discount player in this space where there is no other discount player and I do not know if QVC or HSN would want to convert to discount model because they have all different services and brands presented on their platforms, and they take returns and all that whereas with us below $200 we do not take returns because we give great value to customers. Our price points are very low. Compared to $60 with them, we are $20. And we are mostly on automatic IVR systems, 75% of our calls go through automatically without any human intervention whereas with them it is almost reverse. 75% goes through people and 25% through IVR. So it is more like comparison of say Wal-Mart or TJ Maxx versus say Macy's or Saks Fifth Avenue or Neiman Marcus. So there is a different space, really.

Darshit Shah I guess if you look at the margin profile of QVC and HSN, their operating margins are bit higher than what we make and although in spite of the fact that we source it from places like Indonesia, Thailand. So do you think probably our margin is to move where those guys are making I mean down the line say two, three years after that?

Sunil Agrawal For the margin there are two areas, gross margins and EBITDA margins. From gross margin point of view we are way ahead of them. We are making 60%+ gross margin, QVC makes 40% margins. From EBITDA point of view, QVC is a listed company called LINTA or Liberty Interactive, they make 20% EBITDA whereas we are at more like 12% to 14% range EBITDA. So that is a factor of scale. QVC's airtime cost is just about 4% of their sales whereas our airtime is more like 15%, 17% or 18% of our sales. So as we reach closer to this scale the EBITDA margins will be closer to them or more comparable.

Darshit Shah And I guess I just heard you so there is no difference between web sales and TV sales. I mean both are almost in the similar range if I am not wrong?

Sunil Agrawal Both of them are around 40% web sales versus total sales. In our case, we are more like 20% web versus total sales.

Darshit Shah And the margin profiles are almost for us it is almost similar for both web and TV sales?

Sunil Agrawal No, our web is slightly lower than television because of the liquidation model rising option where we liquidate our television remaining inventory. That was slightly lower.

Darshit Shah So we see drastic improvement in web sales so we do not see any margin declines because of that?

Sunil Agrawal Because if the ratio of the total web sales increases to total sales, we hope that the catalog as well as streaming sales will be larger portion of the component. If we compare the dilution of margins, the scale benefit will be more than that.

Darshit Shah And, where do you see growth for the next two, three years? Do you think this model is more sustainable obviously we are seeing good traction since 2011 when we started this model? So where do you think the future of this model obviously we have much more idea now that it is almost two, three years we started this model?

Sunil Agrawal This is something new, so I cannot predict what it will be. The last two, three years has seen phenomenal growth added for the future.

Moderator Thank you. Our next question is from Ritesh Poladia, he is an individual investor. Please go ahead.

Ritesh Poladia I want to understand from where you source your raw material. Is it India made or do you import from other countries and what would be the proportion?

Sunil Agrawal About half of the products that we sell on our TV or web platforms is manufactured by us in India. Half is sourced from China, Thailand and Bali and we also source some small portion from Turkey and Italy, the plain silver products.

Ritesh Poladia As your retail sales is primarily through TV and web, this will be primarily driven by debit and credit cards?

Sunil Agrawal Yes.

Ritesh Poladia And who would be the bankers to that effect?

Sunil Agrawal They are all credit card processing companies and the money then goes on to our banks. In the US, our credit card processor is Litle & Company. So they keep the money for about two to three days and it is automatically transferred to Bank of America. And in UK, the credit card processor is Barclays Bank and the money after these two, three days is automatically transferred to our bank account there.

Ritesh Poladia So Barclays and Bank of America would be our bankers?

Sunil Agrawal Barclays in UK is also a credit card processor.

Ritesh Poladia So who would be the banker for us?

Sunil Agrawal Barclays are the bankers as well as credit card processor in UK.

Ritesh Poladia Secondly, if I look at your standalone and consolidated results I believe whatever would be the standalone revenue most of that would be transferred to the US so that would be the cost for the US. Would my understanding be correct?

Sunil Agrawal Yes, correct.

Ritesh Poladia On that I believe there was one transfer price case. So what is the status of that?

Sunil Agrawal The transfer price case will go to the tribunal now. There was an addition of about Rs. 53 crore of income [ithat would mean a tax liability of about Rs. 15 crore if it is fully sustained by the tribunal but we believe that there is a strong possibility that it will be decided largely in our favor because it is a totally arbitrary decision that the ITO has taken.

Ritesh Poladia So have we taken any actions so that these kind of cases does not come or do we believe that we are not at any fault?

Sunil Agrawal There are four components of this transfer pricing. One was the interest on the loan. We had given dollar loans to a subsidiary and instead of the maximum that they could have charged which was the going dollar rate whereas they have charged 16% on the dollar. So the loans will still stay and if there will be at all any exposure it will be at the very minimal LIBOR rates but not the interbank rupee rates that they have charged. The guarantees should be very minimal. The corporate head office had charged the guaranteed bank charges from a subsidiary but then we have been charged arbitrarily 7%, 8% kind of charges on the guarantee amount. So those are not sustainable really in the long run.

Ritesh Poladia In your segmental disclosure, there is some intra-segment revenue. I believe that is transferred from wholesale to retail. Would that my understanding be correct?

Hemant Sultania Your understanding is correct there.

Ritesh Poladia So this Rs. 136 crore for the quarter that would be more of a sourcing from other countries?

Hemant Sultania We are sourcing in China and Bangkok also but in the revenue part we make an intersegment revenue adjustment.

Ritesh Poladia Secondly, there is a change in management team I believe Mr. Agrawal who was the Chairman has become the Chairman & MD and the MD – Rahimullah has become Director. What was the rationale for this?

Sunil Agrawal Mr. Rahimullah is more of a stone expert and as our company has become a retail company because as you know this company had a background of being a jewelry manufacturing company or stone processing company and in last seven years it has totally changed to a retailer. I have the background, I have lived in the US for a long time and hence have interacted deeply in to the retail segment. So as the company has become a retailer, the idea was for me to drive the company forward.

Ritesh Poladia You said in the US, primarily California, New York and Texas would be your regions. What would be the same for Europe?

Sunil Agrawal Just let me correct it. Our customer base is all over US but in California, Texas and New York, populations are large so they are number one, two and three customer states for us. It goes all over US.

Ritesh Poladia And in Europe which countries would we cover?

Sunil Agrawal We are in UK right now so we broadcast all over UK.

Ritesh Poladia As your from presentation I can see that your average price on the web is about $13 and I have a very limited understanding but this model would be scalable. So what stops you from coming to India?

Sunil Agrawal See, the Indian market is very different, Ritesh. Indian market, first of all jewelry is more investment led in India whereas in the western world, US and UK, it is more of a fashion product. And we are really not in investment jewelry, we are in fashion led jewelry. So the Indian market would be very different than the US, UK. And secondly, to go in pure web requires a lot of investment in customer acquisition and that is not our model. Our model for web is transfer of customers from Television over to web or to have customer buy from both channels. As you have seen, the multi-channel customer for us is at least 5X more lucrative than the one on just one channel alone. So our aim is always to have customers engaged on both channels, both platforms simultaneously. And if you were to come in India, it will be only web and it will be four, five years of losses and that is not our business model.

Ritesh Poladia Lastly, Mr. Prasad has joined your board. He is an independent director. On BSE, he is mentioned as a Director and Mr. Vikram Kaushik would be Independent Director?

Sunil Agrawal That is correct. Pulak is our interested director because they hold 12% in the company.

Moderator Thank you. Our next question is a follow up question from Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty If we could just know what is the percentage of lifestyle accessories in our revenue how much percentage would that contribute?

Sunil Agrawal Yes it is about 10% in the quarter and 10% for year-to-date.

Prashant Kutty And, could we know what are the gross margins that we earn on this business? Is it similar to what we earn in the fashion accessories?

Sunil Agrawal It is similar.

Prashant Kutty Could we know what is the tax rate that we are looking at going forward?

Sunil Agrawal For next financial year we are looking anywhere from 15% to 17% tax because the US we will start to pay full taxes.

Prashant Kutty But UK still continues to have accumulated losses, am I right?

Sunil Agrawal Yes, that is correct.

Prashant Kutty And, one more question with regard to this. Web sales, you just mentioned that because we have this reverse auction, which is why our margins are comparatively lower in web sales. But my sense is in TV probably your content distribution cost is higher whereas in web you will probably not incur these. So may be as scale goes up should it ideally be a case wherein you would be earning higher margins vis-à-vis TV or, correct me if I am wrong or if my thought process is wrong?

Sunil Agrawal I recently answered that question. That on TV we already paid that money – airtime cost. So we do not really have any savings. These are sunk costs. Whether we sell more on TV or more on web, it is already paid. So till the time we reach the distribution cost as a percentage of revenue, which QVC does or HSN does, it is similar for us.

Moderator Thank you. Our next question is from Rahul Bhangadia of Lucky Securities. Please go ahead.

Rahul Bhangadia My question is pertaining to your airtime cost. Is it continuously reducing as a percentage of sales or is it going to be a step function in terms of our size?

Sunil Agrawal Airtime cost will go up as long as we continue to increase the distribution in the US. In UK, we are fully distributed all over UK. In US and Canada out of the potential 140 million homes we are only in to 65 million homes.

Rahul Bhangadia So once you reach this full 100 odd million homes after that the percentage will start coming down. That is how it will work?

Sunil Agrawal Already actually coming down as a percentage of total sales because our cost of airtime is not increasing as much as our sales is increasing. So, it is slightly coming down. But once we are fully distributed and if we continue to grow as fast as we are, then the cost as a percentage of revenue will go down significantly.

Moderator Thank you. Our next question is from Nishit Rathi from Trust Investment Advisors Pvt. Ltd. Please go ahead.

Nishit Rathi Just wanted to find out if you could just give us some insight on how do you manage the fashion risk because you are into fashion jewelry so what are the fashion risks that are there. Any numbers you could share in terms of how do you manage that?

Sunil Agrawal If you have seen any Zara store, it is fast fashion. On a typical day we have about 500 unique SKUs on TV. Out of the 500 unique SKUs, 100 are new every day and we try with small quantities of new SKUs. If it does well, we expand and expand and expand. Whatever the remaining quantities of that particular SKU, whether it is not sufficient to take on TV or it has not sold well, we put on rising auction on web and it liquidates very rapidly on web.

Nishit Rathi So we have not been faced with a situation that we are stuck with lot of inventory and even if we get stuck we have the option of giving it back to our vendors?

Sunil Agrawal Similar to Zara model, we have 50% of our own manufacturing and rest we buy from micro markets where the cost is at their actual cost plus barely 5% or 7% or 10% markups. We will not give them back but we have built in our mechanism to exit any leftover inventory via rising auctions. We have clearance sales two times during the year, one is in the summer and one is after Christmas.

Nishit Rathi If let us say a month or a two months do not go as we might have planned, then we have mechanisms out there to ensure?

Sunil Agrawal There is turnaround if the demand is more than we have in the inventory, we can quickly turnaround more products in. And if the demand is slower than we expect, we can slow down the tap very quickly.

Moderator Thank you. Our next question is from Elesh Gopani of Gopani Securities & Investments Pvt. Ltd. Please go ahead.

Elesh Gopani I wanted to know what will be the net loan after 31st March, 2014, we will repay the full loan?

Sunil Agrawal The loan we expect to further pay down in the next two months. About Rs. 20 crore to Rs. 25 crore.

Elesh Gopani So what will be the remaining?

Sunil Agrawal So currently the gross loan that we have is Rs. 119 crore as of end of December. So the gross loan will go down to below Rs. 100 crore.

Elesh Gopani So we have repaid Rs. 22 crore and after this it is again Rs. 112 crore?

Sunil Agrawal Yes, so sorry Rs. 119 crore is net debt as of now, not gross. So it will go below probably around Rs. 90 crore to Rs. 95 crore – net debt at the end of this year.

Elesh Gopani Rs. 95 crore will be remaining at 31st March 2013?

Sunil Agrawal Yes, Rs. 90 crore to Rs. 95 crore as of 31st March and by end of 2015 we expect this to go down to zero.

Elesh Gopani So we will repay the full loan in the next year?

Sunil Agrawal Yes, correct.

Moderator Thank you. As there are no further questions from the participants I now hand the floor back to the management for closing comments.

Sunil Agrawal Thanks all the participants to participate in the investor call and feel free to ask any further query that you may have from Karl Kolah of CDR India or Hemant Sultania of Vaibhav.

Moderator Thank you members of the management team. Ladies and gentlemen, on behalf of Vaibhav Global Limited that concludes this conference. Thank you for joining us.