VAIBHAV GLOBAL LIMITED

Investor/Analyst Conference Call Transcript
November 07, 2014

Karl Kolah: Good afternoon everyone and thank you for joining us on Vaibhav Global's Q2 & H1 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.

Sunil Agrawal: Good afternoon and I welcome everyone to Vaibhav Global's Q2 & H1 FY15 results conference call. I'll quickly provide an overview of the second quarter and then Hemant will discuss some key financial performance parameters for Q2 & H1 FY15.

Let me give you a brief background. Vaibhav Global is an electronic retailer of fashion and lifestyle products in the US, UK and Canada sold on our proprietary TV shopping and web platforms with direct access to over 96 million TV households and delivering a deep value proposition to discount seeking customers. We have developed a strong B2C franchise in these developed markets organically; an achievement we believe very few Indian or even Asian companies have been able to accomplish.

Let me give you a quick round up of the quarter under review. Q2FY15 witnessed moderation in revenue and volume growth owing to transitional issues we faced on shifting our call center to an outsourced model. We have been undertaking remedial measures including training processes to the outsourced call center team, which are allowing improved customer interactions. We have also expedited the smooth integration of the new retail operating software to our fast moving business.

While the resolution of these issues has taken longer than previously anticipated, we believe that we are on the right track and remain confident that the momentum of growth is expected to re-establish in coming quarters. We are already witnessing positive results and look forward to expanding volume growth as our 1.45 million customers continue to see the deep value proposition in the high quality fashion and lifestyle products we take to them.

We have also seen some aggressive tactics being employed by one of our close competitors, which we see as attempt to get past their own growth issues. While being cognizant of these disruptions, our focus remains on profitable growth and generating cash flows and we'll continue to maintain these long term objectives for now.

Over the past couple of years, we have undertaken several crucial operational and financial transformations, which will help us attain our goal of a significant global retailer of repute. On the one hand, we have scaled up manufacturing and sourcing capabilities, while on the other we have invested in both our front-ended operations, facilities and human capital. Our focus has also been on improving our IT platform which is intrinsic in creating a robust online retail interface. We are implementing an advanced SAP based web platform after having already implemented an upgraded SAP based human resources software platform.

Going forward, we see several factors playing out in our favor. Economic revival has been established in the US and consumer spending is improving. We look forward to positive demand trends in the upcoming holiday season that the management team including myself will monitor closely from our local offices in Austin and London.

We see a resumption of volumes by continuing to deliver customer delight. We are still in the early stages of establishing what we believe could become a valuable electronic retailing franchise in the next few years. We will continue to make focused initiatives towards achieving this objective.

Our operations maintain their profitability and cash accretion is strong, allowing us to resume paying both taxes and dividends. In our upcoming Board meeting next week, we will discuss an interim dividend and a payout policy for the future as well.

With that I will now ask Hemant Sultania, our group CFO, to give you a brief overview of the Q2 & H1FY15 results.

Hemant Sultania: Thank you, Sunil. Good afternoon everyone and I welcome everyone to VGL's Q2FY15 results earnings call. Let me give you an update on the operational and financial details for the quarter under review and then we can proceed into Q&A.

In Q2FY15, revenues stood at Rs. 321 crore from Rs. 318 crore in Q2FY14. In dollar terms, revenues were higher by 3.5% as compared to same quarter last year. The temporary weakness in momentum highlighted by Sunil has caused volume growth to be 8% in the second quarter.

Gross margins improved yoy to 65% from 60% in Q2 last year. This is on account of better product selection at channels and enhanced operational efficiencies at VGL India. EBITDA for the quarter stood at Rs. 38 crore translating to margin of 11.9%. EBITDA was impacted by higher SG&A expenses as we gear for higher sales in the holiday season. Profit After Tax for the quarter stood at Rs. 25 crore and was impacted by higher tax provision in the US and India and lower exchange gains. Tax provision was higher by Rs. 8 crore over the same quarter last year and exchange gain was lower by over Rs. 10 crore as the exchange rate has remained more stable than last year.

Let me briefly cover the operating performance. Our overall retail volumes, as I mentioned earlier, grew 8% to 2.4 million units. TV volume growth was at 11% in Q2, demonstrating improvement from the growth in Q1. Web volumes grew 2% in Q2 FY15 (18% YoY) and now contribute 28% of sales volume. This is the key impact of our transitional initiatives which we are working to address. TV revenues grew 7% YoY as average pricing was marginally lower on account of changed product mix. Web revenues grew 3% in Q2 FY15 (32% yoy) with marginal improvement in the ASP's.

The company continues to generate robust cash flow and repay debt. Net Debt was lower at Rs. 36 crore as on 30th September as against Rs. 88 crore a year back. Free Cash Flow was at Rs. 29 crore in H1FY15. ROE and ROCE remain robust at 41% and 45% respectively.

Let me also highlight some customer-centric data points which we deem important. In Q2FY15, we added 53,000 new customers and we now serve 400,000 unique customers on annualized basis. Customer repeat buying activity increased to 19 times from 18 times on annualized basis. The customer retention rate has improved to 50% in the US from 49% in corresponding period last year. These positive data points underlie our improving relationship with customers backed by multi-channel marketing initiatives.

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. The first question is from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta: This is the first time we have seen you commenting on competitive intensity, so if you can throw some light - who is this competitor and because what you had mentioned is there is no real competitor in discounted jewelry space. So we just need some more color on that?

Sunil Agrawal: Company called Jewelry Television is a private company with turnover of around $500 million. So from the market sources what we understand is that they have had four years flat sales they have not seen growth and probably in this season of last two quarters of 2014, they want to show some growth may be to get some investment or till the company public we do not know what the real reason is. But they are doing tactics which does not make economic sense like giving installment payments for items as low as $30, three installment or four installments and free shipping or low shipping. In our view this not a fabourable business model and it could be desperation or it could be any other reason. They cannot compete with us pn priving. But what we seeing them is pushing sales for eg, if the product ASP is $60 they would take it in three instalments and would say that a customer is required to pay only $20 to get this item. Not at all talking about the other two payments which the people have to make. So,we think this is short-term strategy and in long term it does not sustainable and we are responding very selectively because we do not think this is long-term threat to us or an issue.

Viraj Mehta: Okay. Now my other question is, if you look at a three-year horizon per item value that yourself has dropped from close to $40 to slightly above $20 now. With an increase in the web sales, do you see that trend reversing over the next two to three years?

Sunil Agrawal: At this time we do not have visibility of price point moving up.We can see the price point to be largely within this range. It may move up $1 or $2 at the mostand we believe this price point to be a sweet price point for impulse purchase and for very high repeat purchase as Hemant has mentioned.

Viraj Mehta: Sure and my last question is on your B2B business. There is some fall in those sales if I compare this first half or this quarter to the same period last year. And this is an environment where US is seeing general descent recovery so can you throw some light on that?

Hemant Sultania: Our B2B sales have two major components, one is that we sell to other retailers in US and the second is the sale of our residual stones or product that we had in our factories. So the sales in US has been stable but residual sales here was low. Domestic B2B sale is done sometime out of opportunity buy that we do from time to time in auctions or in bulk deal. We didn't have much to off load last quarter.

Viraj Mehta: Okay. And what will be the total quantum of cost that will be involved in transitioning as you mentioned from your own call center to an outsourced third party call center and how did in absolute amount affected your margins?

Sunil Agrawal: I do not have the data off hand with me. But we look at a long term and the cost should not be additional burden to us plus not to forget the advantage of the superior technology we can use of the outsourced call

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

Sunil Jain: About this competitive intensity what you have talked is that still continuing in the current quarter as well?

Sunil Agrawal: Yes it still is, so we are selectively responding wherever we see necessary otherwise we are letting it take its own course. I do not see that they will be able to continue like this for very long because in our opinion that is very margin dilution and also impacts customer behavior in the long term which is not sustainable. we will keep an eye on them and align our strategies accordingly.

Sunil Jain: Okay. And second thing, you said that other company size is 500 million that is Rupees?

Sunil Agrawal: No, dollars.

Sunil Jain: Okay and that is a private Company you said?

Sunil Agrawal: Yes, it is a private company called Jewelry Television.

Sunil Jain: That is based out of US only and own by the US people?

Sunil Agrawal: Yes it is US owned Company and US centered Company. They buy from other people; we used to be one of the biggest vendors to them before we started our own TV channel seven year ago.

Sunil Jain: Okay. So we see price wise any correction because of this?

Sunil Agrawal: No. Prices have not changed. Their price point is similar. What they are trying to do is to do the installment payment so the consumer sees the installment and they only publicize the installment. But that is a short term strategy because in long term customer will be stressed when those installments become due leading to debts problem for JTV

Sunil Jain: And second thing, in normally second quarter it is an off season I think and due to lot of discounts sale. So looking at margin it does not look like you had done any great discount sale in this particular quarter.

Sunil Agrawal: We did see similar discounts sales in US as last year; in UK we did discount sales for a shorter period this quarter. The efficiency was largely because of the product selection and also the manufacturing efficiencies in India were better this quarter. We have changed the management team and the new management team has done better in terms of efficiencies in plant.

Sunil Jain: And this call center shift is it already over or it is still continuing?

Sunil Agrawal: I think by the end of this month all the transitions will be over, the training is going intensively, and we expect them to deliver as much as we were doing when the call center was in-house.

Sunil Jain: How it has impacted the sale if you can explain a bit.

Sunil Agrawal: Sure. There are two components, one was technical component. It was outsourced and it was through VPN. We were seeing little bit of lag between when the call center was in-house versus when it is outsourced and our software as the software was not made for the outsourced call center. So the software had to be upgraded to integrate the lag and then we also put in dedicated pipes which we had not expected to put. The telephone company has taken a little longer to put those dedicated pipes. We have put multiple pipes now and the software has also been upgraded on the technical site.

The other reason were the new agents in comparison to our own inhouse agents who had worked with us for many years, five-seven years and who knew about our product, about our processes and everything. So it took us longer than expected to train all those new agents. Further, the deal with the new call center was done on the bureau system i.e any of the 500 agents they have in the bureau can take the call. Now to train such a large population proves to be very-very uphill task. So what we have reconfigured with them is to have one hybrid system, whereas certain dedicated agents and certain overflow will be transferred over to the bureau. So we are thoroughly training those dedicated agents and overflows.

Sunil Jain: Okay. And what we were guiding is like yearly growth of around (+20%). So will that get impacted because of this quarter or you will be able to makeup in the coming quarter?

Sunil Agrawal: We do not have the visibility . Our aim is to take benefit of this model. I strongly believe that this model is very unique, very difficult to replicate and the margins and growth potential is quite high in the long run, but since it is a new model there are new things which we are learning every day and trying to tap all new opportunities we get. All the new issues which we face every day makes us more experienced and help us in moving forward. So I am very convinced and optimistic of the potentialiaty of the model.

Moderator: Thank you. The next question is from the line of Aksh Vora from Praj Investments. Please go ahead.

Aksh Vora: Just wanted to know this Jewelry TV channel, even they have web model and TV channel - two versions or they just do sales from TV?

Sunil Agrawal: Similar to us they have both the models but they have fix price model not the reverse auction model that we have.

Aksh Vora: As I have seen in the past also we have guided that our web sales would be over passing our TV sales in growth numbers. But for the first time we have seen that web model growth is lower than the TV model growth. What has it mainly impacted for web version?

Sunil Agrawal: It is mostly related with technical areas. We are transitioning to the new SET based hybrid software that we will get installed in January. We stopped new enhancements in our existing web platform few months ago which affected . the growth of web. But I am convinced that the web is our growth engine and that will continue in coming quarters.

Aksh Vora: Okay. Secondly what would be the mix currently between US and UK revenue wise?

Sunil Agrawal: So from H1 US is approximately 59% and UK is about 25% and rest is B2B.

Aksh Vora: So sir 25% even in UK the sales is impacted or we are not seeing the growth size limiting or just can you have a view on UK based.

Sunil Agrawal: In UK we are still transitioning to a lower price point model and while transitioning the growth is still there.. Growth was not as robust as US was, because the model in US is much more established than in UK. So as the model for lower price point and mixed product of jewelry and non-jewelry product establishes we will see similar kind of growth in UK in coming years.

Aksh Vora: And this competitor - are they selling imitation jewelry or it is a real jewelry or it is?

Sunil Agrawal: Mostly it is silver jewelry and they sell base metal jewelry as well. They do not sell accessories like we do but they sell mostly silver, some gold and little bit of base metal. But the average price point as we know from market is around $60. Which is almost triple our price points.

Aksh Vora: Are there any more competitors like Jewelry TV are there any more which sells the accessories or which are into jewelry but with a lower price points compared to us?

Sunil Agrawal: No. All the other retailers have similar price point like QVC which is around t $6 billion in US. They are around $58.7 as of their last results. HSN is also around $60. There is a company called ShopHQ, they are also around $85-$90, there is a company called Rocks TV and we believe they are alsoaround $80 to $100 price point.

Aksh Vora: In real sense no one is our real competitor in same price point.

Sunil Agrawal: In the same price point no one.

Aksh Vora: Okay. So probably this year we will be having a little lag on the growth side and in the long term probably we will be able to see again the growth coming.

Sunil Agrawal: I am very confident on the model and the growth potential this model has.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: I missed out the opening remarks. So given the current quarter performance are we still maintaining our top line guidance of 20% or are we probably going to miss the guidance for the current financial year and next year onwards we will be back on track?

Sunil Agrawal: Since last 2-3 quarters we have stopped giving a specific guidance for the top line or bottom line and as I said earlier. I remain very confident of the business model and the potential that it has and the market size available to us. Since it is relatively smaller new business compared to QVC's or the HSN's of the world, there are new opportunities and new issues that you see and we will handle them appropriately but the potential for business is immense.

Subhankar Ojha: Okay, so in terms of the web and the TV sales what is the ratio that you are maintaining?

Sunil Agrawal: For US it is about 24% of the total sales in H1 compared to 20% last year. And UK it is 11% compared to 9% in H1 last year.

Subhankar Ojha: Compared to 9%?

Sunil Agrawal: Yes. UK was 9% last year and increased to 11% this H1.

Subhankar Ojha: So any specific reason for the growth in webs?

Sunil Agrawal: Yes. Because as I said earlier web for us is growing faster only because of the technical issue last quarter was little bit slower, but in long term web will continue to be faster **Subhankar Ojha:** Okay. And in terms of the payout policy so is there any thought process that has been finalized?

Sunil Agrawal: The board will meet on Tuesday and finalize dividend payout. So I cannot pre-empt the board.

Subhankar Ojha: You mean this Tuesday, next Tuesday?

Sunil Agrawal: Coming Tuesday.

Subhankar Ojha: So you are going to announce the dividend also?

Sunil Agrawal: Yes. We are going to announce the interim dividend.

Moderator: Thank you. The next question is from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: Just a couple of questions on the financials. Why do we carry such a high cash balance when we have short term debts pending?

Sunil Agrawal: The idea is to bring down the debt at least the long-term debt within the coming quarter or before the end of the year. We will continue to keep the working capital with us because we have the line available to us in dollar terms which costs us only 4.5%. We want little bit cash available to us for say dividend payments or any other stone acquisition opportunities that we get from time to time.

Deepak Agrawal: So you are saying the bulk of the short term debt is in the FOREX.

Sunil Agrawal: Yes. All the working capital is in FOREX. So it will get good natural hedge for us. It is about Rs.60 crore. It is a natural hedge against any exposure that Indian operation may have in foreign exchange.

Deepak Agrawal: Okay. So it cannot be hedged for you because you have dollar earnings and then you have, okay that is fine.

Sunil Agrawal: We have rupee exposure for payables purchases or the products we purchase expenses in India and the dollar exposure in terms of working capital largely correlates with that. We did that exercise a few months ago and after that exercise we stopped doing any forward cover that we used to do two years ago.

Deepak Agrawal: The difference in the cash balance as per balance sheet and as per cash flow given in the results.

Hemant Sultania: We exclude the fixed deposit which are lying with the bank.

Moderator: Thank you. The next question is from the line of Darshit Shah from Equirus. Please go ahead.

Darshit Shah: Sir I like to know what would be the tax rate that you will be paying going ahead it would be in the similar range what we paid for this quarter on 28% - 29%.

Hemant Sultania: No. It should be around 25-26% for the group as a whole.

Darshit Shah: And that would be, we will be paying that going forward.

Hemant Sultania: For this year.

Darshit Shah: Okay. And next year would be in the similar range?

Hemant Sultania: We will be consuming all our losses so in India and US we will be paying at the maximum margin rate taxes from next year onwards.

Darshit Shah: Okay. So that would be.

Hemant Sultania: Near around 33%-34%.

Darshit Shah: But close to marginal rate probably next year.

Hemant Sultania: But we intent to go to SEZ . We have already taken a land there **Darshit Shah:** Okay. So you bought the land somewhere in India?

Hemant Sultania: Near Jaipur, near our factory two kilometer from here so we will go into the SEZ area **Darshit Shah:** Is there any clarity for us to get any exemptions once we move up to that SEZ?

Hemant Sultania: As we are growing, our business is growing so the new businesses will be moved to SEZ and that is where we have to pay only MAT for the first five years. So that will bring down the tax exposure, but this SEZ facility will take around a year to come and then only we can reduce the tax liability.

Darshit Shah: That is roughly around two years down the line.

Hemant Sultania: One year down the road.

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

Sunil Agrawal: So I thank all the participants and to spend time with us. If you have any further questions, please feel free to write to Karl Kolah or to Hemant Sultania. Thank you very much.

Moderator Thanks you very much members of the management. Ladies & gentlemen on behalf of Vaibhav Global that concludes this conference call. Thank you for joining us.