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Q2 & H1 FY19 Earnings Conference Call Transcript
October 30, 2018

Karl Kolah: Good afternoon everyone and thank you for joining us on Vaibhav Global's Results Earnings Conference Call for the quarter and six months ended 30th September 2018. Today we have with us Mr. Sunil Agrawal – Chairman and Managing Director and Mr. Puru Aggarwal – Company's Group CFO.

We will begin the call with brief remarks by Mr. Puru Aggarwal on the financial performance followed by a discussion on the business operations, key initiatives and broad outlook by Mr. Sunil Agrawal. Following the management's opening comments, we will open the forum for the Q&A.

Before we get started, I would like to point out that some statements made or discussed on today's call maybe forward-looking in nature and must be viewed in conjunction with the risks and uncertainties faced by the company. A more detailed statement and explanation of the risks is included in the earnings presentation which is shared. The company does not undertake to update these forward-looking statements publicly.

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

Puru Aggarwal: Good afternoon everyone. I welcome you to Vaibhav Global's Q2 and H1 FY19 earnings call. Before I begin with the financial highlights let me share that IndAS 115 which deals with revenue from contracts and customers has been applicable from 1st April 2018. Accordingly, VGL's B2C and B2B sales for the comparative periods have been retrospectively adjusted. The effect on adoption of IndAS 115 has no significant reportable impact on our overall financial results.

I will now give you an overview of our financial performance for the quarter under review. I am happy to share another quarter of robust performance for Q2 FY19. Overall revenues grew 28% to Rs.452 crore driven by strong growth in both our retail and B2B businesses. Retail growth was based on volume expansion across both geographies - US and UK and both sales format - TV and web.

Retail revenue grew 26% YoY in INR terms with web and TV growing at strong 32% and 23% respectively. In constant currency terms we delivered 14% revenue growth in US and 24% in UK which is ahead of the growth guidance shared earlier. While we continue to report TV and web sales independently it is vital to note that both platforms increasingly come as an integrated offering to our customers and will continue to converge, therefore, we urge you to look at TV and web in aggregate as retail sales.

During the quarter, gross margins were at a healthy 62%. VGL's expertise in manufacturing and sourcing quality products at optimal prices allows it to not only offer a deep value proposition to customers but also maintain industry leading gross margins. This is key to the competitive edge we enjoy over our peers.

EBITDA during the quarter increased by 77% YoY to Rs.55 crore, as we expanded margins by 340 basis points to 12.2%. PAT grew by 96% to Rs.39 crore. We expect to continue deriving significant benefits of operating leverage on a fixed cost base, which is a key strength of our business model. This has been consistently visible in our past financial performance as well.

I would like to conclude by underlining some key points. In addition to the healthy growth in revenues and profitability our cash position has further improved by Rs.45 crore and now stands at Rs.104 crore net of debt. This was aided by strong operating cash flow of Rs.95 crore and free cash flow Rs.85 crore at the end of H1FY19. Our ROE and ROCE, calculated on TTM basis, expanded to 23% and 34% during the quarter, this is in-line with our objective of delivering profitable growth to our shareholders. I am glad to share that our Board of Directors has declared an interim dividend of Rs.5 per share.

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

Sunil Agrawal: Thank you Puru. I welcome you all to Vaibhav Global's Q2 and H1 FY19 earnings conference call.

Puru has given you an update on the financial performance for the quarter under review. I will now give you an overview on operational performance, key initiatives undertaken recently and growth strategy for the next few quarters. I am happy to share that we continue to deliver a healthy performance in line with our stated objectives. Revenue in Q2 grew at a robust rate of 28% year-over-year bringing with it profit leverage, allowing net profits to expand 96% to Rs.39 crore along with strong cash accretion. I am also glad that our board of directors has declared an interim dividend of Rs.5 per share.

We continue to invest in customer experience enhancements and technological initiatives which has helped us drive revenue growth. We have recently introduced a welcome pack for our new customers – giving them an understanding of our varied product catalogue, pedigree and promotions that we undertake. We continue to constantly improve TV channel positioning in key markets to gain more viewership and expanding our regular audience. We are using technology to further refine our customer targeting and expanding repeat purchases.

Our overall initiatives to reactivate some of our dormant customers have also borne fruit. Our in-house brands such as Sukriti, Morocco Collection and Chaos natural leather hand bags and TjC One for One home products, introduced during last one year have received very encouraging response. Third party brands introduced in H1 have done very well too. Brands launched in US were Art Natural beauty brand, Crayol Essence Beauty brand, Note Cosmetics, My Magic Mud Charcoal based Oral care brand, Manuka Doctor of New Zealand skin care collection, Sankom of Switzerland shapewear, Southwest handbag collection by P&G. Brands launched in UK were Babor skin care brand, Turbo body Massager, DMM makeup brand, Serenity Spa diffusers, Sun Believable Tanning brand, Hair Secrets hair extension brand, Naturally tribal skin healing brand, Sankom Switzerland shapewear, TW11 Collection fashion handbags and finally Harry Potter Children toys.

The budget the initiative has been very well entrenched in our system comprising 39% and 37% of total net sales in US and UK respectively during Q2 FY19. It has aided sales growth and delivered value to our customers. We have also strengthened internal controls in order to enable better collection management of the growing Budget Pay sales. These initiatives are helping us improve customer engagement and acquisition.

I am glad to share that our mobile apps in both geographies are garnering very positive response from customers seeking value. In Q2FY19, sales via mobile apps are now at 14% in the US and 5% in UK of total web sales respectively. As informed earlier, we also offer a large portion of our channel inventory on online marketplaces like Ebay, Amazon, WalMart.com and Wish.com. This helps to supplement sales from existing inventory and also acquire new customers for the business. In addition to commercial growth, giving back to society is very important to us and helps us maximize stakeholder value. Our One for One Program, of donating a meal for every product sold, has been doing very well in both the US and UK. I am proud to share that we have now donated over 18 million meals till date through the One for One program at Shop LC, USA and the TjC UK combined.

Let me now highlight some key customer-centric data points that are vital to our business. In Q2, we added over 42,000 new registrations and we are now catering to over 329,000 unique customers on an annualized basis. Average annualized quantity purchased by each customer has increased to 29 pieces in Q2 FY19 versus 28.3 pieces in Q2 of last year. Overall customer retention rates stood at 46.4% in US and 54.3% in UK.

In conclusion, I would like to reiterate that we are confident of delivering a healthy performance going forward while leveraging the strengths of our unique business model. We are geared up to tap the upcoming festive season in the US and UK which is seasonally the strongest quarter for us. We expect to deliver 14-16% revenue growth, margin leverage and strong cash flows.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We would take the first question from the line of Himanshu Nayyar from Systematix Shares & Stocks. Please go ahead.

Himanshu Nayyar: Couple of questions, firstly on the social media side just wanted to understand from you in your view do you think that social media specially stuff like Instagram, etc would play a key role in creating more brand awareness for our products and what we are really doing to increase our traction on that, because I see a lot of competitors are. Our competitors have a much wider following in places like Instagram, etc where we are lagging behind so what are your thoughts on the same.

Sunil Agrawal: Thanks for the question Himanshu and thanks for your complements. So, it is a very good question you put up about the social media. We have in the past purchased or spent money to get the likes so if you see now we have almost some 600 odd thousand likes on Facebook and we also invested money in Instagram but we realized that spending money to get the likes really did not convert into sales so we changed our strategy to organically grow the following on Facebook, Instagram and we have set up a completely new group for social media now in US to take advantage of this phenomenon and what our new strategy is to go with product offering on social media rather than just publicity. And the product offering can generate sales as well as awareness on those platforms. So, this will still take another month or two months to really refine and get going and initial quarters and maybe a year where revenue may be very low but this is a new strategy we are following.

Himanshu Nayyar: Got it, great. Sir second thing is on our app, I think it has been quite some time now that we have had apps but I see that the proportion of sales through our apps is not that high so what do you think is the reason for that and what really we are doing to take that share up because I believe a lot of customers are moving in general. The industry as such is moving towards app sales right.

Sunil Agrawal: Yes, so we are investing money on that particular area, but do remember that our audience are watching us for number of hours, sometime some audience watches for 8-10 hours a day, usually that is on television or laptops, mobile phone may be not so conducive to watch us for a long duration. But even accounting for that we are still investing more resources into augmenting our app and adding more compelling offering on the app. Augmented reality or we can see the product on the face or on the hands how it looks so those areas we are investing our resources in.

Himanshu Nayyar: Okay, great sir. And my final question would be on our capital allocation plans given that we are debt free now and good to see a divided being announced, given that we are debt free the free cash generation should be quite strong in the medium term next to two, three years. So, have you decided on a significant CAPEX plan to utilize that cash or the dividend proportion would be increased or are you exploring any inorganic growth plan. So, if you can just highlight your broad capital allocation strategy for the next three, four years.

Sunil Agrawal: Sure. As you might have seen we have started dividend because we are seeing strong cash flows, and we are on net basis a negative debt company, so divided is the only visibility we have this time, we do not have any plan for any major CAPEX in next one or two years. And for your question about inorganic opportunity, we do not have anything on horizon yet but if there will be, at that time we will inform the investors once we have something in place.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: First, I wanted to know what would have been the market growth rate in the two geographies that we are operating and second is there any changes in competitive landscape if any because the industry is not very dynamic so your comments there.

Sunil Agrawal: So, QVC is a public listed company which now also owns HSN. So they have consistently reported single digit around between 3% to 5% kind of growth rates. Another company which is a private company called JTV, they are doing well but we do not know for sure what their growth rates are but what we hear from industry is that they are high single digit to low double digit growth right now.

Pritesh Chheda: Okay. And any changes in the competitive dynamics?

Sunil Agrawal: There is no visibility here, we do not see any changes in foreseeable future.

Pritesh Chheda: Any changes in the budget EMI increases or any of those where cash flow can be utilized.

Sunil Agrawal: No such plans.

Pritesh Chheda: No such plans. Then in the quarter, you have changed the constant currency growth rate guidance from I think earlier you were mentioning about 11 – 12% now 14 – 16%, so where does this confidence come from and any data points.

Sunil Agrawal: Actually, it comes from what I call is, Four R, so one is Reach that we have expanded the reach of our programming whether its television footprint, or through e-com or through market places. So, we are increasing the reach. Second is registration, the customer acquisition. We have seen the growth of customer acquisition stronger in recent months than we have seen in earlier periods, and third is repeat purchase, as you might have seen the repeat purchase has also increased and the fourth is retention, so as you have seen UK numbers has a robust retention rate. So, all these four R's are pointing in good direction.

Pritesh Chheda: So, it is reach, retention, repeat purchase and.

Sunil Agrawal: New customer acquisition. Registration.

Pritesh Chheda: And my last question is on the cash flow side. You have reported about 91 crore odd operating cash flow it is a fairly good number but, my observation is that lot of the cashflow has come from your operations for the current year and we have not released any cash flow from the inventory contrary to that the inventory has gone up, it went up last year and it has gone up now also. So, any comments there on the full capital side.

Sunil Agrawal: So, for the inventory, what I understand in dollar terms it is slightly lower year over year although our revenue has increased pretty substantially. In Rupee terms we are slightly higher so in terms of number of days cost of goods sold has substantially declined. So, inventory is in the right direction for us and what was your next question. Pritesh other than inventory what was the other question?

Pritesh Chheda: It was that the cash flow release from the inventory has not happened that was precisely the question.

Sunil Agrawal: So, as you see the answer to the question, in dollar terms it has not gone up, in cogs terms it has come down quite substantially, in this period end of September compared to the same period last year. Puru can answer if he has any thoughts.

Puru Aggarwal: Hi Pritesh. In fact in terms of number of days it has been down significantly because the business has been growing up in both these geographies so naturally in tandem with the growth in the business, stock is also supposed to go up. And specially we are entering into the season time right, so 30th September is just the start of the season where we are in the phase of building the stock. Despite that in terms of numbers of days the stock has been down.

Pritesh Chheda: So, if I adjust in the rupee inventory, just adjust the rupee depreciation and adjust the growth rate which you have reported about 15% odd in 1H. Then whatever is the leftover is how you are saying that the COGS as in the number of days has come down that is what your response is.

Puru Aggarwal: Yes, so just to be very precise inventory at the end of the reporting period 30th of September is 385 crore.

Pritesh Chheda: Dollar number and the number of days that would be more.

Puru Aggarwal: Number of days actually it has been down by 40 days in terms of COGS there are two ways to calculate one is to calculate in terms of sales, one is to calculate in terms of COGS. So, in terms of COGS it is down from 243 days to 203 days.

Pritesh Chheda: Okay.

Sunil Agrawal: And Pritesh we have vertical business model, so we count inventory at all location but not the intercompany sales.

Pritesh Chheda: Yes, because on consolidation it goes off.

Sunil Agrawal: Yes, it goes off and inventory is counted for across the group. So, it is a very unique vertical model.

Moderator: Thank you. We would take the next question from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: My question was more of a medium-term question, as I think about the future of the company, how should one project sales and profitability going forward. Profitability one can understand operating leverage, but then how do we think about growth, how can you guide us that okay there is so much of e-commerce sales happening in the US or the US economy or the UK economy is growing like this. We are a subset, if you can give us some kind of a advice as to how to project your revenue it will help us have a better feel for the future shape Vaibhav can take.

Sunil Agrawal: I will take this question. As you know US TV/ E-Com market is quite substantial US and UK both put together and when we look at the market share that we have compared to our public listed companies we are just about around 2.3% right now. So, looking at the market size it is quite substantial and from the cost perspective we are the lowest cost producer. And when we add the brands and our agility in the business, we believe that we have a leg up over our competitors in terms of gaining market share and as we have been gaining for many quarters I think 12-13 quarters we have been gaining market share now. So, given the market size and our cost perspective and our agility I fully expect us to continue our growth rate of mid-teens going for mid-term, mid-term would be from two to four years time horizon.

Anil Sarin: Anil Sarin: Thanks for that, I have a follow up. The companies that you are competing with mainly it is better known in the US than in the UK the names of the competitors so talking about the US HSN and QVC, etc., now they have taken decades to reach those numbers of whatever 2 billion and 6 billion, etc. You have based on how the market is shaping up would you like to hazard a guess is it possible for a company like ours to even think of billion dollar revenue and if yes, some kind of a reasonable date in the future would you like to hazard a guess.

Puru Aggarwal: Rather than to limit ourselves to a billion I would want to say that we want to grow at a consistent pace in coming years, wherever it will take us, it will take to half billion or billion or two billion that is not what I am looking at. I am always looking at consistent growth. I am a follower of Jim Collins who believes in 20-mile march. Consistently grow and consistently deliver.

Anil Sarin: In terms of the category we are in the five, six different categories that we are in what is the size of the market over there and we have a right to compete over there and ideally over a period of time this is the kind of market share that we can reach I was trying to get some kind of a mental framework around that.

Sunil Agrawal: So, as I mentioned earlier on Pritesh's question about the growth rate of peers. It is between 2 to 4% or 2 to 5% kind of growth rate. Given our cost structure that we have, given our closeness to the sourcing channels allowing us to sell cheaper than our competitors, given our agility to be able to sell through social media, through market places. We believe that we have a leg up over them and continue to gain market share in mid-term. So, I cannot give you exact number of what market share will be four years down the road Anil I can only say is, I am confident of mid-teen growth rate for coming period at least mid-term.

Anil Sarin: Okay, great. I had just one quick question which his more of a book keeping question, that is your employee cost as per the table that you have published the employee cost has gone up YoY quite substantially and also gone up as a percentage of revenue. So, is this due to some temporary factors or why has this gone up and is it going to remain like this in future.

Sunil Agrawal: There are two factors for that, this year we are expensing ESOP for the first time which we did not earlier periods this is a new regulation IndAS. So, that goes into employee compensation and second thing is we are now bringing our call center from Mexico in-house seeing a customer feedback. So, the earlier cost was not booked in employee cost now it is part of employee cost, so these you will see as a percentage it will go up but when you look at total operating cost we will continue to have leverage on total operating cost basis.

Puru Aggarwal: Just to add to that point of Sunil. If you look at admin cost it has been getting compensated from the employee benefit expense. So, there is interchange to an extent from professional expense to salary expense.

Anil Sarin: Okay. So, we have to see the total cost and thereby there is no not too much of increase is what you are saying.

Puru Aggarwal: Yes, because the call center which was in Mexico earlier that was being in admin cost as professional cost. Now having converted them into self- employee so is sitting in expense of employees cost.

Anil Sarin: So, it is not fully converted yet.

Sunil Agrawal: There will be some further transitions you will see in coming quarters, so it is still in the process.

Moderator: Thank you. Next question is from the line of Pratik Giri from Vallum Capital. Please go ahead.

Pratik Giri: Even this quarter if you look at our volumes, they are significantly good and congratulations for the same. Sir I just wanted to understand that what led to this volume growth. Volume growth was quite mute since last few quarters and this was my question in the last con-call as well. So, what led to this volume growth and will it continue, at what pace sir?

Puru Aggarwal: So, we don't give guidance for volume growth Prateek, what we give is the revenue growth, because we have so much interchangeability of the product. So, for example when we look at say Future Group, they don't even look at volume. We are a multi-product company and a multi-category company, so revenue is most important that you should look at. Now, volume for this particular quarter grew because the average price point was the main factor because it didn't not go up. In fact it was slightly lower on an average when you look at it overall. So, the revenue growth meant volume growth because the average price point is flat revenue growth will be in volume growth. If the price point fluctuates higher it may not show as much volume growth. So, my point would be to encourage you to look at the revenue growth rather than volume growth in our business.

Pratik Giri: And in last con-call we have got the guidance of $25 ASP that is our target is to be in am I right sir?

Sunil Agrawal: Right. So, our average price point will be anywhere between $22 to $28 price point. So, it can vary depending how customer demand is, what the particular seasonality is, if it is a gift giving season it can be lower, if it is a self-purchase season it can be slightly higher. And the product mix changes, if it goes more to the lifestyle product it can go lower, jewelry tends to be little higher.

Pratik Giri: Okay, thanks sir. Sir secondly if we look at tour TV broadcasting cost it is coming down significantly year on year from 262 crore in 2016 we reached 210 crore this year I guess. So, this cost is coming down and on the other hand we are saying that we are going to increase our reach to our customers which is pretty good thing and downsizing the cost and still increasing the reach. So, I just wanted to understand how are you going to do this in lowering the cost and still increasing the reach?

Sunil Agrawal: Very good question. Last almost two year we have optimized our cost structure into air time substantially. And even on web expenses that we were going to extend the reach. So, we were successfully able to reduce our cost through negotiation and also exiting from non-performing locations because we have internal cadence of assessing performance of particular segment or particular affiliate, if they are not performing, they negotiate, and if they do not negotiate, we exit. So, air homes also if you tracked us, our number of homes that we cover had gone down over the last few quarters because of those negotiations. Going forward we do not expect this cost to continue come down, in fact it may go slightly up but our cadence or leverage will continue to be there, because we have a very strict evaluation criteria for the new homes that we had or even simulcast if in one particular affiliate if we have only one location we try to get second location or third location. QVC on an average has almost four locations on every particular TV affiliate. Our broadcast has currently around 1.4 locations at every home on average. But overall when you look at affiliate broadcasting, this marketing cost as a percentage of revenue it should stay pretty stable in coming quarters.

Pratik Giri: Sir have given a new guidance of 14% to16% revenue growth. So, I think sir my question will on this volume front, this quarter we have got good volumes so, how do we look at it going forward? Do we have volume in our focus area or is it only the revenue so the volume and the value mix?

Sunil Agrawal: I will suggest you make your model with revenue only because volume can vary. When you make a revenue model for Future Group or t-mall you do not look at the volume, you look at the revenues, revenue per square feet. So, for us it is revenue per home and the total revenue.

Pratik Giri: And we are pretty confident of achieving this for the next two, three, four years saying 14-16% topline growth.

Sunil Agrawal: Correct. This is our expectation.

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

Sunil Jain: Sir my question relates to more of a margin expansion. No doubt there is a leverage of high-volume growth but whether we got any benefit of rupee depreciation in this?

Sunil Agrawal: Definitely, when you look at that revenue in dollar-terms, it was 14% and 24% for US and UK respectively, whereas on aggregate you saw around 27% growth so there is a definitely rupee impact in the exchange gain.

Sunil Jain: But if I see your gross margin, that gross margin is not showing any improvement.

Puru Aggarwal: So, in fact what happens when you translate the top line with a particular set of numbers, the same set of exchange number you use for expense translations as well. So, as percentage they largely remain the same. And this is where you see the almost same gross margin 62%. Because expense also has been converted in the same set of numbers.

Sunil Jain: Yes, but there could be lot of supply no doubt so it may be some international market but there could be lot of supply from India also. So, you might have gained it.

Puru Aggarwal: So, in Indian supply you also, if you look at actually the major sourcing is through imports. And then just to further explain Indian side is just a part of it, it is the large business that happens in US and UK. So, Indian unit has been a fraction and the advantage which is there is not significantly visible here. But definitely there is an advantage.

Sunil Jain: And sir is there any FOREX gain in this quarter?

Puru Aggarwal: Yes. So, as Sunil mentioned the top line visibility has benefited because of the exchange gain, so is the other numbers also has been which Anil Sarin had a question just before. So, one reason was that there is expansion because of higher USD, earlier the USD expense was being multiplied by 64 now that was multiplied by 70, so that inflation happens in expense part also. But coming to your point, from top to bottom it keeps on getting off and by the time you reach to the PAT gain still persist, it is there but it becomes very insignificant.

Sunil Jain: Okay. And sir second thing, you said that the ESOP cost is there in this quarter, is it possible to quantify how much is that?

Puru Aggarwal: 4.4 crore this quarter, it was there in last comparative quarter also but it was less. So, quantum is more.

Sunil Jain: Yes, this is likely to be there in the coming period or this is one-off.

Puru Aggarwal: No, it is going to be there in fact there has been a change that we adopted IndAS starting from 1st April 2016 and thereafter it is there in P&L, it is going to be there in future as well. Yes. So, just to give apple-to-apple comparison there is a context before April 2016, and today the substance remains the same but just because of the accounting treatment now it is being recognized in P&L so as a result the profit which we see today is despite that expense which means if we compare with the earlier set of accounting, the profit would have been even higher.

Moderator: Thank you. Next question is from the line of Chirag Lodiya from Value Quest. Please go ahead.

Chirag Lodiya: Sir my first question is on sales. So, if you can just help us understand what percentage of your revenue is coming through budget Pay EMI today and third-party ecommerce side, and which are the products which are gaining the traction. So, some granularity on growth would be really helpful.

Sunil Agrawal: So, US we have 39% of sales coming from budget EMI, and UK is 37% of sales coming from budget EMI.

Chirag Lodiya: And what would be the number corresponding?

Sunil Agrawal: So, look at the total revenue number for this month and then correspondingly draw the approximately 38.5% of revenue of the total retail sales is coming from EMI. Our presentation has retail sales data from there you can take it.

Chirag Lodiya: No, YoY I am asking. Share today is 39% what was the same last year.

Sunil Agrawal: So, last year US was 35% and UK was 36%.

Chirag Lodiya: Okay.

Sunil Agrawal: Our market place is still not large number so far between US and UK in H1 is just about a million dollars, but interestingly, the customer acquisition is pretty high for those platforms and we are finding ways how to transition them without violating any of the market place rules. So, there is still a learning process for us.

Chirag Lodiya: So, all the growth which is coming is from our base business itself.

Sunil Agrawal: Yes, correct.

Chirag Lodiya: Right. Then sir second is on gross margins, so when I look at your ASPs in TV as well as web it has gone up YoY for the quarter as well as for the first-half but gross margins are lower YoY so why such thing.

Puru Aggarwal: So, gross margin is a function of material cost, this quarter if we look at the B2B sale has been higher and that has impacted a bit gross margin but there is no major significant deviation.

Chirag Lodiya: And sir how you calculate gross margin?

Puru Aggarwal: So, it is the raw material cost plus the conversion cost.

Chirag Lodiya: So, in the results which you give it is RMC plus inventory divided by sales that is the correct understanding?

Puru Aggarwal: So, RMC is the opening stock plus purchasing minus closing stock that is the material consumption. Then you add the conversion cost which is the production cost of the direct expense.

Chirag Lodiya: Okay. In P&L it would be sitting in other expense that is the fair understanding?

Puru Aggarwal: In P&L you will find largely into manufacturing cost.

Chirag Lodiya: If we do calculation on the basis of cost of material consumed plus purchase of stock in trade, plus changes in inventory divided by total revenue, gross margins are different and the reported gross margin in the presentation is different.

Puru Aggarwal: Okay. So, the investor presentation is more from the understanding of the true business while the published balance sheet is more in relation to the accounting standards.

Chirag Lodiya: Okay. So, which is the right one.

Puru Aggarwal: Both are right one in fact the gross margin which is being there in presentation is quite substantial in terms of understanding of the business.

Chirag Lodiya: So, sir your reported margins are down by 300 bps for the first half so just trying to understand why such sharp decline in gross margins?

Puru Aggarwal: It is largely because we have higher B2B.

Chirag Lodiya: Rs.842 crore is your topline for the first half vis-à-vis Rs.685 crore in this last year same period and in percentage of sales when I will do the number it does not change materially so I will just give you the exact number. So, your B2B share.

Puru Aggarwal: So, the B2B has gone up from Rs.66 crore to Rs.94 crore.

Chirag Lodiya: Correct.

Puru Aggarwal: Which is a upside of 42% which is pretty significant.

Chirag Lodiya: But sir when I look at your percentage of sale it is just 11% of revenue versus 9.6% so it is just 1% change in revenue it is showing 3% decline in gross margin that is something, in absolute terms if you see it is just 10% of your revenue.

Puru Aggarwal: Yes, so if you recall our previous commentary in earlier interactions, we have maintained a position that B2B is an opportunistic business for us. Our core business is B2C. So, our gross margin in B2C always has been very consistent, in B2B being opportunistic business we do take this route to the get rid of inventory. So, margins there may be different. And higher the sales, and lower the margin.

Sunil Agrawal: And Chirag when you look at the B2B business it has gone up by 1.5% and 1.5% is the margin there you see 10% or 12% I do not know exactly I do not have in front of me what exactly are the percentage. So, that will make a difference of almost 1.5% to the total variation. Q2 to Q2 variation is only 1.1% and H1 to H1 variation is 2.3%. So, the rest of the difference could be because of the product mix. Whereas within jewelry we have multiple categories so this kind of margin variation is possible. If you are selling just one standard cement bag and then 1% or 2% would matter a lot. Product variety is so immense that this kind of fluctuation you can expect. That is why we give a guidance of (+60%) margin not 62.3 or 62.5.

Chirag Lodiya: Alright. And sir just last question, at what rate we have translated this September 18 numbers?

Puru Aggarwal: So, the methodology was that we take the six months number on average base from 1st April to 30th September and then three months numbers already reported are reduced from that, so the effective rate which worked out was 69.81 for the quarter.

Chirag Lodiya: And what would be the same in the base quarter just to see the impact.

Sunil Agrawal: So, the last year Q2 was 64.23.

Chirag Lodiya: And same thing would be for first half, how it would be.

Puru Aggarwal: Yes, so it is 68.43 versus 64.31.

Moderator: Thank you. Next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: I have two, three questions. One regarding your subsidiary that you have formed STS and you mentioned that it is for imports and exports. Will you please elaborate what is the purpose of making this subsidiary and how it will contribute to our company?

Sunil Agrawal: So, you are talking about the Chinese subsidiary.

Vikrant Kashyap: Yes.

Sunil Agrawal: Yes, so it is for mostly non-jewelry product in China. So, right now what happens is currently China we have only manufacturing operation which is mainly for fashion jewelry or low-priced jewelry so this is a separate subsidiary for a non-jewelry product. And right now, we currently export via Hong Kong, so this will allow us to export directly from China.

Vikrant Kashyap: Okay, fine. And in the opening remark you have mentioned about Welcome Pack. So, will you please elaborate what this pack is and how it is going to help you in acquiring customers or retention of customer.

Sunil Agrawal: Yes, that is a good question. When we make new customers, so UK has been doing this for quite some time, but US has not been doing it. So, this package consists of a letter from the local head of the business, Managing Director or President and then it has a sample of some perfumes and some beauty products and also history about our company and also free sterling silver spoon charm to denote our One for One program where we give one meal for every piece they purchase. So, this increases engagement with the customer.

Vikrant Kashyap: Okay. And will you please share with us your market share in US and UK and what was it in last year same quarter.

Sunil Agrawal: I do not have a separate data for that, we have a combined data which tells us that we are approximately 2.3% right now.

Vikrant Kashyap: What was it last year.

Sunil Agrawal: We were around 2% last year.

Moderator: Thank you. We would take the next question from the line of Suman Mitra, an Individual Investor. Please go ahead.

Suman Mitra: Just curious to know now your revenue guidance has significantly gone up from the last three, four quarters as I am watching. Some of your competitors not direct competitors but in the similar field competitors in B2C they are spending significant amount of money on analytics, segmenting of the consumer all those stuff like more on the data analytics part and beefing their entire backend staff. It is good that you have declared the dividend after a long time but like to know what is your game plan on all those stuffs basically reaching to the target customer base and ensuring more repeat customers? Thank you.

Sunil Agrawal: If I understand your question correctly, you mentioned about analytics what are we doing about analytics and what are we doing about customer acquisition and what are we doing about customer retention, correct?

Suman Mitra: Absolutely, because some of your competitors may not in the same field but in the more or less in B2C they are becoming extremely aggressive and they are more interested in monetizing their existing data and they are getting significant result out of that, that is for sure. That is happening in India and across the world all the big firms are already doing. So, we would like to know your game plan on this.

Sunil Agrawal: So, let me address the analytics. So, we currently have bright people doing the analytics for us for US, UK, India separately. We are planning to create a center of excellence for analytics in India. With a lead in US, so that was a decision recently taken. It will take few months to establish the center and that will give us a constant feedback on various aspect of the business. It is not only front-end analytics will be about the scheduling, event planning, about the backend logistics, within front end logistics and the backend logistics, production every which way. So, there is a plan and we have certain resources within the group that will be folded into within that center of excellence. So, that is one, second thing you asked us about what are we doing to increase customer acquisition. So, there are multiple things we are doing about customer acquisitions one is increasing our footprint within US and UK, more channel position, Simulcasting in additional homes in US. We recently hired very capable and experienced affiliate expert in US to help us acquire by the channel positions and good positions. Other than that digital customer acquisition through PPC, SEO, through keyword marketing. We have capable digital team that does it both in US and UK. Third is about acquiring through market places that is Amazon, Walmart, Wish and eBay and fourth is about Social media that I mentioned we have decided to bring a separate group for social media and selling the product on social media so that will add to the customer acquisition as well.

About the retention third aspect, we have a separate group within both businesses that looks at retention so first of all we have customer contact, any kind of contact aggregation within the company so just to give you an example in US every month we typically get between 15,000 to 20,000 customer contacts that could be through product feedback, through call center, customer service, text, email, through social media through other better business bureau, employee feedback, through the forums. So, we have 15,000 to 20,000 of those customer contacts and we look at what are the positive, what are neutral, what are negative feedback and then we constantly contact those customers who have specially given a negative feedback and address those concerns that they have, we call these detractors. So, we try to convert the detractors into our advocates. So, as to improve our net promoter score and we closely track net promoter score both for the US and UK and we have seen tremendous growth in net promoter score over last many quarters. Just to give you example, two years ago US net promoter score was at 40 now stands at 57 and net promoter score is on scale of 1 to 10, if a customer has given us 1 to 5 is a detractor, 6, 7, 8 is neutral, and only 9 and 10 if someone gives you he is a promoter. So, the score of 57 is a result of all the positives score received are 9 and 10 and reducing or subtracting any score if you see from 1 to 5 from that score gives us 57.5 is pretty tough matrix that we track on a monthly basis. And give you example Costco and Amazon are the only higher net score than us. eBay is lower, or Target is lower, Macy's is lower, Walmart is lower than these number. So, we constantly do deep analysis of all the customer contacts that we have.

Suman Mitra: Great, thanks. I have two more questions, the second question is that since the whole business model now is completely changing specifically B2C and you are in the forefront of that, in terms of the percentage revenue what is your total IT spend of the percentage revenue given an approximate number from what was last year and what is approximately it will be this year?

Sunil Agrawal: So, as Puru mentioned in his remarks that please look at our business holistically TV and e-com because e-com we utilize a lot in exiting the product we sell on TV. So, on e-com there are three portions – one is live TV streamed on mobile devices or desktop or laptops. Second is the catalogue that are all the products that are sitting in the warehouse and third is the rising auction that exits the tails remaining in the business. So, look at the business holistically that is my request to you.

Suman Mitra: Okay, thank you. And final question in terms of this particular whole tariff war what is going on between US, China and US is trying to protect. Do you see any threat or opportunity? I am not very familiar with all of your competitors like there is a second wave of the import tariff is going to come from China which is going to come in December do you see any kind of opportunity for that or alternatively if there any, there may be some tariffs on Indian products do you think that, what is your opinion holistically?

Sunil Agrawal: Sure, good question. This may be seen as a threat by other retailers, but we look it as an opportunity, because if the tariffs will go up the cost will increase for all retailers. For us our gross margins are much higher than anyone else so for us the impact will be lower than anybody else. And secondly, we are pretty agile in terms of sourcing the product from China or Thailand or Indonesia or India. We have our own operations in all these four countries whereas other retailers do not have their own operation they depend on vendors. So, for them to be agile will not be as easy as it is for us. So, competitively it will be better for us.

Moderator: Thank you. Next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.

Ashish Kacholia: Sunil, I had a question regarding the emergence of synthetic diamonds or lab grown diamonds in the jewelry industry. Would you have any thoughts on how we can leverage this opportunity because the cost of diamonds as I understand is like fallen substantially it is very hard for customers to or for that matter even experts to differentiate between the real and artificial diamonds. So, is there an opportunity for a fashion jewelry like us to kind of tap into this opportunity?

Sunil Agrawal: Ashish, I need to remind you that we are in fashion jewelry not the fine jewelry and the synthetic diamond that are being made are of very high clarity and very high color, so those compete with those bridal products or anniversary products or in a gold or platinum jewelry they are using that. So, we do not really sell those products and synthetic in my opinion the prices will continue to go down as we saw with synthetic Ruby, Sapphire, Emerald when they came people were afraid it might impact the business, or it may be an opportunity but over the years the top quality ruby sells for about $25,000 a carat. And equal and same quality of synthetic ruby was for $1 a carat now.

Ashish Kacholia: So, my point is that if the prices of synthetic diamonds can fall on this trajectory for us who want to sell a diamond jewelry piece at $25, doesn’t it open up a huge opportunity?

Sunil Agrawal: When we try to sell synthetic Ruby, Sapphire, Emerald Ashish the customer’s response is not so much, and the story is really is not there. The natural gemstone that we sell has story that this is rare this comes from one location, and this is how we go into the mine there is so much involved into the getting the stone out from there, there is so much about the particular culture about, that particular community we talk about, the families that we take out so there is sentimental value, there is rarity value, which synthetic we do not have. So, our experience synthetic has not been really great.

Ashish Kacholia: Right sir. And do we feel that the UK market is going to be a bigger growth driver for us than the US market.

Sunil Agrawal: It is just the matter of the team that we have put in place and the opportunities we have with some air time opportunities in UK, we have seen this robust growth. So, if we have similar opportunities in US, US will see same growth as well. So, I am not saying that the UK market economy, UK economy is growing faster than US, No. It is just a situation that gives us this opportunity and we can make the best use of that in UK. And just to build on that point we are giving a guidance of 14% to 16% growth in coming periods on constant currency terms and matrix of both US and UK combined.

Moderator: Thank you. Next question is from the line of Parth Dalal an Individual Investor. Please go ahead.

Parth Dalal: Sir contribution from the lifestyle products would be how much currently?

Puru Aggarwal: For H1 it is 14% lifestyle and 86% jewelry.

Parth Dalal: And is this high margin, the lifestyle products are high margin or just an opportunity….

Sunil Agrawal: So, the margins are largely similar to jewelry maybe 1% higher than jewelry. But the benefit of lifestyle is, the new customer acquisition in lifestyle is higher than jewelry and the return rate is much lower than jewelry.

Parth Dalal: Okay. And we are promoting this through like what you said Amazon, eBay, Walmart, right.

Sunil Agrawal: As well as our own TV and websites.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir just on the cost side how much of the cost would be India based or Indian INR based.

Puru Aggarwal: So, it is available in standalone results of VGL India, other than that everything is overseas.

Pritesh Chheda: Perfect, even I was calculating it that way so the RM which gets negated on the consolidated so other than RM whatever cost I see in standalone is ideally the cost in INR basis right, so about 10% of your total cost is INR based so 10% to 12% is that a proper way.

Sunil Agrawal: Yes, so make sure you add the labor cost as well there the direct cost is also added to the product.

Pritesh Chheda: But that will not be a part of raw material right, that would be any case you have a employee cost in standalone?

Sunil Agrawal: Yes, so employee cost there is combination of the labor cost as well as the other administrative cost here.

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

Sunil Agrawal: I would thank you all for participation and your support. If you have any further questions, feel free to reach to CDR India or Puru Aggarwal at VGL. Thank you very much.