



Vaibhav Global Limited

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Q2 & H1 FY20 Earnings Conference Call Transcript November 01, 2019

Karl Kolah:

Good evening everyone and thank you for joining us on Vaibhav Global's Results Earnings Conference Call for the quarter ended 30th September 2019. Today we have with us Mr. Sunil Agrawal – Managing Director and Mr. Puru Aggarwal – the Company's Group CFO. We will begin the call with brief opening remarks by Mr. Puru Aggarwal on the financial performance followed by a discussion on the business operations, key initiatives and broad outlook by Mr. Sunil Agrawal. Following the management's opening comments we will open the forum for Q&A.

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

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

Puru Aggarwal:

Good evening everyone. I welcome you to Vaibhav Global Limited's Q2 & H1 FY20 earnings call. I hope everybody had a great Diwali and I wish you all a joyous new year.

At the outset, I would like to mention that effective 1st April 2019, the group adopted Ind-AS 116 "Leases", applied to all lease contracts existing on April 1, 2019 using the modified retrospective method and has taken the cumulative adjustment to retain earnings on the date of initial application. Accordingly, group is not required to restate the comparative information. Effectively this has resulted in recognizing a "Right of use assets" of approximately Rs. 27.94 crore on the transition date April 1, 2019 increased further during H1 FY20 to Rs. 36.24 crore as on September 30th, 2019 after depreciation and amortization. The impact of Ind-AS 116 on depreciation and amortization expenses Rs. 4.31 crore for H1 FY20. A detailed note related to the said accounting standards has been shared along with the results table published yesterday.

I would now like to give you an overview of this period's financial performance followed which Sunil will talk about operational performance, key initiatives and growth strategy. Overall revenues have improved from Rs. 452 crore to Rs. 485 crore. It is important to note that our core retail business witnessed a healthy growth of about 13.3% YoY during the quarter. VGL has been an early adopter of the omni-



channel sales model catering to the retail industry across the US and UK through the electronic mediums of TV, web, marketplaces, social and new age digital platforms.

I'm glad to inform that B2C business has performed well in both the geographies with Shop LC, USA, recording a growth of 11.5% and TJC, UK, recording a growth of 19.3% on a constant currency basis for the quarter under review. TV revenues expanded by 6% and Web revenues by 32% in Q2 FY20 in INR terms.

For H1 FY20 we reported a firm growth of 17% in retail revenues which improved to Rs. 872 crore TV revenues growing by 9% and web revenues were strong 37%. Both the retail channels have reported robust performance for the half year ended September 2019. Shop LC US reported a growth of 15.6% and TJC UK recorded a growth of 17.3% in local currency terms.

As indicated earlier B2B has been a non-core and an opportunistic business segment. In view of strong growth opportunities in B2C with significantly higher margins the company has been scaling down B2B. Accordingly B2B sales were lower at Rs. 53 crore for H1 FY20 compared to Rs. 94 crore in H1 FY19.

We have been continuously diversifying our product portfolio within the Fashion Jewelry, Accessories and Lifestyle products categories. For the half year ended September 2019, non-jewelry products contributed nearly 19% of retail revenues in INR terms. Another significant aspect of our retail revenues is Budget Pay where we offer products on EMI basis to our customers. For H1 FY20, Budget Pay constituted around 38% of total retail sales in INR terms.

Moving ahead - gross margins came in at 61.3% and 62.2% for Q1 FY20 and H1 FY20 respectively. VGL's expertise in manufacturing and sourcing quality products at optimal prices allowed 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 26.5% YoY to Rs. 70 crore as we expanded margins by 210 basis points to 14.3%. For H1 FY20, EBITDA at Rs. 124 crore, improved by 25% and margins improved by 160 basis points. PAT at Rs. 49 crore for Q2 FY20 and Rs. 85 crore for H1 FY20, grew by 25% and 22.8% respectively. We expect to continue deriving significant benefits of operating leverage as growth in revenues exceeded incremental operating expenses.

During H1 FY20 we incurred CAPEX of around 20 crore attributable towards purchased of an adjacent factory building in Jaipur for Rs. 6 crore, investment of Rs. 4 crore in the solar power plant and Rs. 10 crore towards equipment at new warehouses in US and UK and global ERP.

During the quarter under review we paid around Rs. 20 crore towards final dividend declared for the previous year including income tax. As you may know we commenced buyback of equity shares through the open market on August 20th and we are happy to share that cumulative equity shares brought back as on 30th September stood at 326,969 shares for Rs. 27.32 crore and as on 30th October 2019 stood at 705,061 shares for Rs. 58.35 crore. Our cash flow from operations and free cash flow remained healthy and stood at Rs. 73 crore and Rs. 54 crore respectively during the period September 2019. VGL continues to be debt free at net level and the company's net debt stands at negative Rs. 194 crore as on September 30th, 2019.

Talking about our return ratios; we reported a return on average net worth of 24% and return on average capital employed of 41% for H1 under review. With these

comments I now hand over the discussion to Mr. Sunil Agrawal to share his views on the business.

Sunil Agrawal:

Thank you Puru. I welcome you all once again to Vaibhav Global's Q2 and H1 FY20 earnings conference call. This festive season I wish you and your loved ones abundance, health and joy.

Let me now take you through the operational performance, key initiatives undertaken during the period under review and growth strategy for the next few quarters.

I'm pleased to share that we reported robust numbers for the first half of this fiscal with retail revenue increasing by 17% to Rs. 872 crore and PAT increasing by 23% to Rs. 85 crore. Our efforts to become a preferred choice for Fashion Jewelry, Accessories and Lifestyle products for our customers have translated into healthy growth numbers at both our retail geographies. On constant currency basis, Shop LC, US, marked a growth of 15.6% and TJC UK marked a growth of 17.3% in UK for H1 FY20. Our guidance for full-year is 15% to 17% B2C revenue growth in constant currency terms.

In an environment where the sales channel boundaries are blurring, VGL's omni channel business drives and deepens customer engagement changing the playbook for retail productivity. 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. Concerted efforts at diversifying product categories within Fashion Jewelry, Accessories and Lifestyle portfolio, increasing the depth of product offerings within categories and expanding the brand portfolio have aided greater customer engagement and fulfillment. Contribution for non-jewelry segment was 19% to retail revenues during H1 FY20.

During the quarter under review at Shop LC, US, we launched various new brands including Hate Stain, Nemo, EZ-Yoghurt, in the home product category and Hollywood Browzer in beauty product category. Recently we rented additional warehouse space at Austin Texas to cater to the expanding demand for Lifestyle segments.

At TJC, UK, we launched various brands including – Isabella Liu Jewellery, La Roc Beauty Products, Banana Republic Fragrances. We also expanded product offerings under kitchen collection and garden tools categories. All these launches have been well received by our customers.

The Budget Pay sales now contribute 38% of total retail sales during H1 FY20. This program has aided sales growth and delivered value to our customers. We have also strengthened internal contours in order to enable better collection management of the growing Budget Pay sales. Further, unique sales format for our multiple platforms ranging from entertaining and compelling storytelling-based selling on TV to catalogue, based selling on web and mobile apps adds to the efficacy of the business model catering to a diverse audience.

At Shop LC, US, during H1 FY20 we broadcasted live from JCK Show in Las Vegas, from UC Silver Museum in Bali, Indonesia and from Jai Mahal Palace Hotel in Jaipur, India.

Moving ahead on this quality journey, Shop LC US applied for Malcolm Baldrige state-level award from Quality Texas Foundation after receiving recognition from Malcolm Baldrige progress level award. I'm confident that our continued commitment to processes and quality across every function will have lasting benefits to the

business over time. We continue to invest in foundation reinforcement initiatives that will translate into improved customer experience having a positive long-term impact on the business.

In the recent initiative we successfully integrated Five9 software into our IVR system which will lead to better customer experience and lower our telephonic cost. Further in October 2019 we are engaged with Harmonics as a video delivery partner. With their expertise in cloud and video streaming technologies we are confident of providing best in class OTT experienced to our customers.

I take this opportunity to call attention to the four **Rs** that together comprised our key strategic objectives for achieving accelerated growth. These are widening **Reach**, growing customer **Registrations**, bolstering **Retention** of customers and increasing **Repeat purchases**. In Q2 FY19 the number of TV households under our coverage reduced marginally from 100 million to 97.7 million. In Q2 we added over 39,000 new registrations and we now cater to over 351,000 unique customers on an annualized basis. Average annualized quantity purchased by each customer in Q2 FY20 increased to 30 pieces as against 29 pieces in the same quarter last year. Overall the customer retention rate now stands at around 51% for the group and is improving steadily. We see these metrics further expanding as we continue to experience wider acceptance in US and UK markets.

We are passionate about our social responsibilities and have linked our business directly with our flagship CSR initiative, the One for One program. I'm happy to share that we have provided over 30 million meals to school children under our 'One for One' program across India, US and UK.

To conclude - I would like to reiterate that we are confident of our robustness of our operating model and delivering a healthy performance going forward. We are geared to tap the upcoming festive season in the US and UK which is the strongest quarter for us. As an organization, we endeavor to maintain a simultaneous emphasis on operational excellence, financial performance, societal responsibilities and environmental sustenance to meet our objective of delivering joy to all our stakeholders including customers, employees, vendors, communities, environment and shareholders.

With that I conclude my opening remarks and 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. The first question is from the line of Pritesh Chedda from Lucky Investment Managers.

Pritesh Chedda: One observation is that there is continuing divergence in terms of the price led and the volume led growth for us in our business model and it's even much more pronounced in this quarter. So, if anything specific for the quarter if you could have any comments and secondly, is this the way this business model will eventually evolve where the pricing led growth will be much ahead of the volume? This is my first question. And my second question is when I hear you out in your opening commentary and when I heard that some more categories are being added like garden tools or kitchen articles, is there now that the narrowing line between us and other e-com players and if it is so then what would be our right to win?

Sunil Agrawal: So, your first question is about the price and volume led growth. As I mentioned in my earlier comments, we let our customers dictate where they want to take us within certain criteria. We won't let the price go too high because that will reduce our competitive differentiation. So, within 5% to 10% we let the price fluctuate and

customer demand. We don't lead the business with volume because we have multiple categories and it is not like the cement bag where the volume really counts. It is more about what the customer demands. So, the customer demanded slightly higher price point for last quarter, and we obliged by giving it to them. So that led to little lower growth in volume, volume has grown but this is a slightly lower growth. So, that's the first answer.

Pritesh Chedda: Here I will just ask, when we started the model, the pricing used to be \$20-\$21 and now it's about \$26-\$27 and one side you are commenting that the price should not go much high and we are a liquidation model, right, the Shop LC, shop liquidation. So, is this the maximum pricing that one would look at for the basket of products or then it has to be looked otherwise?

Sunil Agrawal: So, our competitive average price point is around \$55. Our aim is to stay less than half of their average price point, so that is the general aim. Now within that criterion, we could play between \$20 to \$27. Your second question was about the categories, so we believe that the adding additional categories leads to higher repeat purchase of a customer and new customer acquisition. So, within that criterion, we continue to add product category, but each category and each product SKU must stand on its own. We do not subsidize new product category just in order to add variety. So, we would test new product. If it doesn't perform, we will get out of it. So, adding any new category or any new line should not be concerning from a dilution of gross margin or EBITDA performance.

Pritesh Chedda: What was your customer addition growth rate or count for first half?

Sunil Agrawal: Customer for Q2, we grew 3.5% on our new activated customers. From registration point of view, we declined 7.7% in the quarter. So, that was partly because of the high price point, new customer registrations. So, there are two segments, one is the registration and other is actual activation. So, the activation wise we were higher by 3.5% and the registration we declined by 7.7%. One reason for decline in registration was that last year same quarter we ran a raffle to register lot of customers. So, the activation was lower, but registration was very robust last year because of raffle.

Pritesh Chedda: If we have to grow 14%-15% but then there has to be a 6%-7% customer growth because the other half would come from repeat purchase where your retention rate is 51%.

Sunil Agrawal: There are three areas, one is the customer acquisition, other is retention and third is repeat purchase and the fourth is the average price point. So, all these four factors would play into our topline growth as well as continue to leverage growth into the bottom line.

Pritesh Chedda: One is customer acquisition, second is retention, third is pricing and fourth is repeat purchase.

Sunil Agrawal: Yes.

Pritesh Chedda: But in customer acquisition and activation, it is activation that brings in revenues, right?

Sunil Agrawal: That's right.

Pritesh Chedda: So, it has to be three for your revenue line?

Sunil Agrawal: All four are revenue line. I mean the price point, that also brings you revenue. The new customer brings you revenue, the repeat and retention. So, we have 4Rs – one is Reach, so how farther are we reaching in terms of television, through web or marketplace or social. So, we look at all those reach segments and then registration, repeat and retention.

Pritesh Chedda: What is the customer registration and activation run rate quarterly in numbers?

Sunil Agrawal: So, activation in H1 we were up by 6.3% year-over-year and in registration in H1 we were down by 1.7%. In Q2 registration was down by 7.7% and activation was up by 3.5%.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: There are three products currently in the company like Fashion Jewelry, Fashion Accessories and Lifestyle products, so can you give us the bifurcation of these three categories in topline in percentage terms and which category is going faster?

Sunil Agrawal: We only divide between Fashion Jewelry and Lifestyle, so as per Puru's comment the jewelry is 81% and Lifestyle is 19%.

Ravi Naredi: Which category is going faster?

Sunil Agrawal: Can you repeat the question?

Ravi Naredi: Like in both categories which category is growing faster in both Fashion Jewelry and Lifestyle?

Sunil Agrawal: So, as you saw in the financial numbers, we grew by about 16.7% in H1 overall, of that the Lifestyle growth in H1 was 49% and the jewelry sales saw 11% growth. In second quarter it was 7% but in H1 was 11%. So, the same kind of trend we see into the rest of the quarters as well.

Ravi Naredi: Are you planning to add more different type of categories in our product portfolio?

Sunil Agrawal: Yes, so we constantly look at the categories. We look at the competitors; we look at the supply chain as well. So, when we have new product ideas coming in from customers, from employees, from innovators, from competitors, so we constantly look at product categories and add that. It's a constant exercise. There is no kind of like Apple goes with Apple TV or Apple plus, it is not that way. We are retailers with very agile methodology where we would go what market would—we believe market would—take and what customer is asking for.

Ravi Naredi: My next question is the acquired subsidiary in China in the name of STS Trading Limited, so during 2018-19 year losses were around Rs. 11 crore. So, any comments on this particular number and what is the current status of the subsidiary?

Sunil Agrawal: China, you have to look at China and Hong Kong put together and both put together are profitable.

Ravi Naredi: They are profitable?

Sunil Agrawal: Yes.

Moderator: The next question is from the line of Kapil Banga, an Individual Investor.

- Kapil Banga:** I have couple of questions. First is related to the large debtor write-off. When you say the proportion of B2C sales is going up, why is such a large debtor write-off taken in H1?
- Puru Aggarwal:** The debtor write-off includes one-time write-off on account of the sales tax. In US in recent quarters there has been a new law on which Internet players also have been brought in under the net of sales tax. This law is yet under implementation in many of the states and in many, it has already been implemented. It was by county, not even by state and there are more than 3000 counties, so the process has been complex, being new one first time in the history of US. So, it took a while in doing that and on conservative basis in fact for that period we made the full provision into the P&L. So, there is about Rs. 8 crore odd write-off which we have taken in P&L is because of that, rest is normal write off on budget oay. So, in past years also you must have seen that there is some amount of non-collection which is very meagre at above 1% odd.
- Kapil Banga:** But the debtor days have shot up while the share of B2B business has gone down substantially, why is that?
- Sunil Agrawal:** As Puru mentioned in his opening call that 38% of our sales is coming from Budget Pay and the Budget Pay as the sales goes up and the percentage of Budget Pay goes up the debtor will go up because it's all through EMI payment that we get and we are not financing it from outside. It's all internally funded.
- Kapil Banga:** I had another query related to cash flows in the cash balance of the company. In H1 FY19 the cash flows from operation was over Rs. 93 crore, in H1 FY20 its Rs. 73 crore, so it's down by Rs. 20 crore. What's the reason for the lower cash flow in this corresponding period?
- Puru Aggarwal:** The major reason has been slight hike in inventory due to couple of reasons. One is that we have added more products in our basket, which leads to higher number of SKUs. So in a natural way, that takes the inventory level higher, that's one. Two, there has been a growth in business, so it also increased the working capital because of that, that's also a natural reason. And the third one is that we are on the onset of the season. As you know that Q3 is the largest quarter among all four, so stock is being built for the higher season sales and we are seeing good traction in topline, so these are the main reasons. Despite all these, being a prudent company on financials we do try to keep stocks as optimal much as possible, but without compromising on growth.
- Kapil Banga:** Just a follow up question where this season Q3 being the best quarter was there last year also, so is the higher growth coming in the cost of working capital and lower cash flows?
- Sunil Agrawal:** One thing as Puru mentioned was the Budget Pay is higher this year, so as a percentage of sales it's slightly higher. So, that will lead to higher debtors and also the investments done in fixed assets this quarter which was not done last quarter and also there was dividend paid out and share buyback purchase. So, that also impacted the cash flow.
- Kapil Banga:** So, company has cash and equivalentents of almost Rs. 280 crore including mutual fund investments and a debt of Rs. 90 crore. So, if the cash is unencumbered and it has been going up period after period, why is the debt still going up? Why the has that not been deployed to reduce the borrowings - in fact the borrowings are also going up?

- Sunil Agrawal:** So, till the time we are able to repatriate the dividend from our US and UK, the debt is in India whereas the cash is lying in the US banks. So, there is a dividend tax incident and when we need that more cash here, we will pay the tax and repatriate that cash into India. There is a withholding tax incident in US if we repatriate.
- Puru Aggarwal:** In addition to that to add to Sunil's point, we do try to have a strong financial discipline. So, as a result of that the internal accrual either we try to do give back to the shareholders which we have been doing through dividend and through buyback and maintain the cash chest for further growth in business. As you know that business can never be static, every company always has more opportunities in horizon. So, the point is to build a chest for that. We keep that cash separate and for the regular business which has been growing as a result working capital also is growing, so that is being funded at local business through banks. But still its way below than the entitlement which we have from banks. Consortium banks also want us to utilize some and thus, it's a couple of reasons and combination of that.
- Kapil Banga:** Conservative financial policy would also entail keeping the leverage low, not increasing the leverage that has gone up.
- Puru Aggarwal:** Having Rs. 285 crore cash and cash equivalent including cash in subsidiaries, there is Rs 90 odd crore short-term working capital — I am not sure that it can be seen as very aggressive.
- Moderator:** The next question is from the line of Runjhun Jain from Nirmal Bang.
- Runjhun Jain:** I just wanted to enquire about the volume; as the management has been guiding us in the past, I also looked at the combined volumes of TV and Web but that has also been muted with web driving the volumes this quarter. So, first of all, I wanted to understand why this has been happening and is there any particular reason and you think that there should be some recovery from here onwards? Whatever the growth we have seen is due to the increase in the realization or sales value this quarter. In the past we have seen deliberate attempt from the management to drive the realization or sales per piece in different direction. So, in the past when Budget Pay was initiated we have seen that the prices had gone up, in between we have seen the prices came down and we have been seeing in the past that because of the Lifestyle products the sales per product has been down because those were not as high value as jewelry initially. So, what is the reason of this sudden increase in sales per piece value?
- Sunil Agrawal:** As I answered on Pritesh' query Runjhun that we look at revenue per minute or the margins per minute and the less expected returns on a particular price point or category. So, it's matrix productivity. So, it is somewhat similar to when DMart or Future Group would look at per square feet revenue of the retail space. We look at per minute revenue. So, when you look at DMart or Future Group I'm not sure you look at the volume in their case, you look at per square feet revenue. Similarly in our case it's per minute revenue and there is a net of returns and that for us is always positive and that for us, there is a complete focus. Hence that depends on what customer is pulling from us. So, actually on day to day or hour to hour nobody actually looks at volume in our company. They only look net of return, revenue and margin. And its matrix productivity, so matrix productivity was only introduced only recently, last year only, which accounts for margin, the new customer acquisition and certain percentage of lifetime value of that customer, the expected return of a particular product category or price point and the shipping revenue versus shipping cost. So, it's a matrix productivity that is tracked on an hourly, daily, weekly and monthly basis.
- Runjhun Jain:** We appreciate that but in the past also when we have been guiding, we have always been guided in volume terms, constant currency volume terms or volume terms. We

have always talked about volume growth and that is I always understand that the key driving factor for our company because higher the volume, higher the margins due to the fixed cost nature.

Sunil Agrawal: So, volume is one of the components, and for us, volume is important as long as our average price point stays 50% or lower than competitor. That is our driving force. Other than that we don't really look at volume on a daily basis. We look at our four R's, one is reach, second is the customer acquisition, third is the retention and then repeat purchase. So, these are tracked but volume is not as primary as these four R's are. So, when you look at our business model we do guide approximately similar volume as what we have been seeing in the past. But that is the approximation for us because we do not know what exactly customer will pull as long as we are able to keep it below 50% of our competitor.

Runjhun Jain: Just to clarify this further - I just wanted to know that there is no one-off factor in this quarter because this is the volume what we as a street look in the company as an important buyer. We don't have the matrix available with us, so there is no one-off in this quarter for this low-volume number.

Sunil Agrawal: Usually not, so sometimes when we see there is a story about this all. I will give you a story, I will give you a background about one Gemstone we discovered during this particular quarter, the gemstone is called Grandidierite, so this gemstone is very rare, one of the top 10 rare gemstones declared by Forbes and there was a great story during the quarter and this is slightly higher price point. So, because of that pull, that story, we sold a lot of Grandidierite that might have pulled the average price point higher. There is another stone called Tanzanite there was somewhat similar story about mines shutting down that pull. In Lifestyle product there was one product called Opatra skin massager. That was about \$1199 product that sold very well during the quarter. So, the airtime given to these products were to be much more than the lower price point product. So, that pushed the average price point higher. To the point I made earlier that when the customer pull something we go with that. But as long as overall average price point we can keep below 50% of our competitors. There is a general principle that we go for.

Runjhun Jain: And what is that price point of the competitor?

Sunil Agrawal: \$55.

Runjhun Jain: So, we are above the 50%?

Sunil Agrawal: We are approximately 50% at \$27.

Runjhun Jain: But this is likely to come down little bit, right?

Sunil Agrawal: Yes, so we expect in season time, it will come down because season is more gift giving and a relatively higher price point generally doesn't sell as much.

Runjhun Jain: One more observation in that, the number of households this quarter has been reported lower than the last quarter. So, is there any reason for that and why it has been so?

Sunil Agrawal: We constantly review our household or the TV agreement portfolio. We do not have any agreement in US which is long-term. So, if some particular contract is not working out, we exit out of that contract and during the quarter there were a couple of contracts that we did not find productive enough - we have certain benchmark that we look at. 1-3-6-9-month, 1 year and 18 months, so some homes were not working

out and we gave notice. We could not agree to the certain price point on them, so we exited. But we look at the business overall, overall growth perspective and overall productivity and then we take a decision accordingly.

Runjhun Jain: In terms of the gross margins also we have seen has come down little bit despite lower bulk sales. Is there anything to read in that?

Sunil Agrawal: No, this is within the fluctuation range that we have. Our guidance has been above 60% and we are very careful about that guidance but above that if there is a fluctuation of 1% or 1.5% year-over-year we don't really look at it so much.

Moderator: The next question is from the line of Vinay Khattar from Edelweiss.

Vinay Khattar: I just wanted to understand the customer acquisition that we have. Now if I look at last 3-4-5 years data, our unique customer range has been between 3-3.5 lakh in between in 2015-16 it went up and now again it's within that range. We keep on adding 20,000-30,000 customers in quite a few quarters. This number doesn't seem to go up and if I were to look at competition specially some of the other international players our number of household touch points are not dramatically lower than them as compared to the number of unique registrations and the customers who are buying things from us are. So, one, what will it take for this to become a secular trend on the upside and second is - the channel options and our positioning alright to gain large customer registration and customer mind share?

Sunil Agrawal: A unique customer as you have seen in Q2 there has been a growth of 6.5% year-over-year and there are multiple leverages that we have; one is unique customer, one is the average price point and retention and repeat and based on these we look at the business and drive the business forward. Now we can go for a very low channel position, very prime channel position but the cost there would be tremendously high and that will impact our EBITDA and our overall business. We generally follow more like Walmart strategy. We stay on the periphery of the prime locations but get decent margins and decent pricing and continue to grow our business based on that model. We still try to continue to take some low channel positions, but we look at them in the longer run. We tried some last year, so some of those households that we exited were some low channel positions, but they were not as productive as the peripheral channel numbers at lower cost for us from overall productivity point of view. But we also look at acquiring customers through web properties and through marketplaces and we have been seeing the customer traction from those areas to be productive for us, especially marketplaces. Web, we have recently contacted an agency, they will actually start the campaign for us in November. So, we are hoping to restart a web marketing spend that we had scaled down during H1, so we hope to see some more spend in H2 for marketing through web properties.

Vinay Khattar: So, do we see this number headed closer to 4 lakh customers over next 4-8-10 quarters? What is the trajectory that Sunil ji, you have in mind for customer addition, given that you see the other three R which is repeat purchases and the price point and so on, they will all operate within the range, right? We don't expect a secular trend that \$26 will go up to \$46 or \$36 over. It's not feasible because then you become too close to competition in terms of pricing and other factors which will then cause a pull-down on the customer side. So, if customer is going to be one of my key drivers, can I see a number of 400,000 or 450,000 in the next 4-6-10 quarters possibly and what do we need to do for that?

Sunil Agrawal: That's a good question and a good observation. We don't give guidance on that; we have our internal targets on unique as well as new customer acquisition that we track. But we overall give a guidance of 15% to 17% revenue growth on constant

currency terms. We used to give it for lower number 10% to 12% then 12% to 14% and 14% to 16% and now 15% to 17% for this financial year as well as for mid-term, for next couple of years that guidance we are giving. How we drive that is combination of all four Rs.

- Moderator:** The next question is from the line of Aksh Vora from Praj Fincorp.
- Aksh Vora:** Just wanted to know what is the geographical revenue mix in terms of Indian currency and in terms of percentage also it would be helpful.
- Sunil Agrawal:** I can give you in rupees terms, Aksh. In Q2, US revenue was Rs. 329.8 crore in rupee terms which was 12.3% growth in year-over-year over last year. In the UK the revenue in rupee terms was Rs. 128.38 crore which was 14% growth in rupee terms year-over-year.
- Aksh Vora:** Have we planned on any further geographical expansion or any other markets we will be planning to enter into?
- Sunil Agrawal:** Not within near-term. We constantly monitor Germany and Japan as potential future markets but there is nothing in offering at this point.
- Aksh Vora:** What is the thought process behind entering into a new market? I know there is a huge potential into our existing markets but then what is the thought process that management goes behind for entering into new market?
- Sunil Agrawal:** Right now, we are not actively looking or even passively looking at outside US or UK because there we have a lot of potential within these markets. Our market share is even slightly lower than 3% in these markets. So, a lot of potential, so if at all we want to expand we may expand acquiring within these markets if an opportunity arises. So, first we will look at these markets to expand our footprint and once we have reached a certain percentage of the market share, we'll look at outside of US and UK.
- Aksh Vora:** What is the thought process behind if not in near-term probably, after a few years, if we might enter what is the thought process, we look out to enter into any market? Any per capita income we see for people or any measures we look out for to enter into market or to seize a particular market?
- Sunil Agrawal:** First of all, we have to see that market is a developed market for long distance shopping, long distance electronic shopping. For example, India is still not developed from that point of view, so we would not enter India till the time India is ready from that perspective and is profitable for electronic players because we are very low cost provider, so we are not mavericks. So, we will go to a market which is already developed. Germany and Japan are the markets which are comfortable with the long-distance shopping and have a lot of aged population who have time and stay at home, they are alone, and they have time and they want to be entertained and educated and kept given company. So, our basic principle of business is that we entertain people, we give them company, we educate them and, in that process, we sell the product. Those two markets are good from those points of view, Germany and Japan. Italy and France are also there but they are smaller markets and very difficult markets to really scale.
- Moderator:** The next question is from the line of Vikrant Kashyap from Kedia Securities.
- Vikrant Kashyap:** What is our FOREX gain for the quarter in H1?

Sunil Agrawal: Vikrant do you have any other question, or can we come back to you with that number?

Vikrant Kashyap: How is our engagement with likes of Amazon and Walmart and eBay? Are we getting customers to our website?

Sunil Agrawal: Revenue growth is pretty good. In H1 the revenue growth was approximately 130% year-over-year. Customer transition is still less than 5% of the customers that we acquire. So, we are still learning how to transit those customers in increasing numbers.

Puru Aggarwal: For H1 the gain has been Rs. 4.10 crore and for quarter it has been Rs. 2.48 crore.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum Portfolio Management.

S. Mukerji: With a fundamental on the Budget Pay side, you said that Budget Pay is internally funded and not financed by any third-party or the banks and I look at Indian market, mostly electronics or other appliances we go for, those are funded by third parties like Bajaj Finance or whatever. How is the market there and why do you go for this internal financing?

Sunil Agrawal: We looked at those options also initially and we found the cost to be pretty high. It did not make business sense for us to fund especially when we don't need funds. Our deposits in US gain us just around 2% interest and when we pay the cost of these getting funded from third parties, it is much higher than that.

S. Mukerji: As you scale up, will you look for third-party financing or will you do it on internal financing only?

Sunil Agrawal: So, it depends if we need funding, we may but at this time we just don't require funding. The cost is more than what we are getting from money in the bank, that doesn't make sense.

S. Mukerji: The capital work-in-progress that I see in the balance sheet is Rs. 6 crore, what is that there?

Sunil Agrawal: So, Rs. 6 crore was invested in our new factory building that we purchased adjacent to our existing building in Jaipur. Is that number you are referring to?

S. Mukerji: Yes and that is for which production?

Sunil Agrawal: For fashion jewelry production.

S. Mukerji: Your current factory would be fully utilized?

Sunil Agrawal: We have two different areas, one is in SEZ, so we still have capacity there and this other factory, that had a full capacity, it needed more space. So, not really needed it for production as much as we needed space for management of non-jewelry products. So we pushed some of our jewelry into that and created the space for non-jewelry within our existing buildings.

S. Mukerji: On the gross margins I saw that on a year-on-year basis the gross margin came down, hardly probably 1% or 1.5% points but is it due to something on the product

mix that more of your Lifestyle products are getting sold and margins are lower in that, is that understanding correct?

Sunil Agrawal: This percentage is very small, Sabyasachi. We actually look at more in terms of what is the per minute metrics productivity for our product that is going on air and when that satisfies our requirement or above our requirement, we stay focused on that. And at the end of the period if the overall gross margin is slightly within the range of 1%-2% we really don't pay as much attention to that as long as we are above 60%, that is a guidance that we have given.

S. Mukerji: But purely on margin profile since Lifestyle products would be, I guess, traded mostly the margin profile are lower than your gems and jewelry?

Sunil Agrawal: The Lifestyle product is so strong, say India or China or Bali for our channel. So we keep similar mark up here in the supply side for those products as well. So, the combined margin for that is also 60% up.

Moderator: The next question is from the line of Govind Saboo from India Nivesh Portfolio Managers.

Govind Saboo: Since we are looking at healthy volume growths in our web sales so I just wanted to understand what is driving customers on our website to buy the product?

Sunil Agrawal: Our web sales as well as TV sales are more like omni channel. For example, our web sales include the sales for the product shown on television but streamed through web. So, people sometimes they do dual screening, they see on the TV but buy through web. It will be counted as web sales; and for some people who do not have TV signals they can see the streaming through the web and buy from it. Then we have a rising auction, \$1 auction, that means every item is priced at \$1 and people bid against each other and it sells - wherever it lands, we sell it there. This is used mostly for the remainder inventory of the television. The third is FPC, so there is very small percentage of product that is merchandised specifically for web but it is mostly television product that is sold through the web and through promotion on television. So, they are very closely-knit channels.

Govind Saboo: Are we saying that we are promoting our website on our TV channels itself?

Sunil Agrawal: Yes, aggressively.

Govind Saboo: Aggressively on TV channel that is what is driving the customers?

Sunil Agrawal: Yes, so this is omni-channel experience, so what we try to do is, customers we acquire through web, we drive them to TV and customers that we acquire through television we drive them to web because a customer who buys from both channel has a lifetime value of at least three times more than the TV alone. So, the reason for that, because TV is only push marketing so customer sitting back, and we are giving suggestions to them. And web is only pull, so customer is searching for particular product that he or she is looking for and buy. So, if we can address both the needs, the customer lifetime goes up and the lifetime value goes tremendously higher.

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

Sunil Agrawal:

I thank all the participants for their robust participation and if you have any further questions or query feel free to reach out to Karl Kolah at CDR, India or Dipti Rajput at Vaibhav Global. Thank you very much.

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