



Vaibhav Global Limited

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Q3 & 9M FY2016 Earnings Conference Call Transcript January 27, 2016

Karl Kolah:

Good afternoon and thank you for joining us on Vaibhav Global's Q3 & 9M FY16 results earnings call. Today, we have with us Mr. Sunil Agrawal, Chairman and Managing Director and Mr. Puru Aggarwal, the Company's Chief Financial Officer.

We will begin the call with brief remarks by Mr. Puru Aggarwal on 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 your questions.

Before we get started, I would like to point out that some of the 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. A more detailed statement and explanation of these risks is included in our earnings presentation. The Company does not undertake to update these forward looking statements publically.

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

Puru Aggarwal:

Good evening. I welcome everyone to Vaibhav Global's Q3 FY16 earnings call. I will first provide a quick overview of the key financial highlights for the quarter ended 31st December, 2015.

Revenues in Q3 were lower by 10.2% y-o-y at Rs. 354 crore. Revenue performance was impacted by over 40% decline in B2B revenues from Rs. 59 crore to Rs. 36 crore, which was due to lower sales of loose gemstones that we undertake on an opportunistic basis and that are not core to our global retail sales.

Retail sales on TV and web platforms were lower by 5%. Here I would like to highlight that gross retail revenues were actually higher by 2.5% but our recently introduced returns policy in the US had an impact on net revenues. Overall, Q3 revenues in the holiday season were weaker than our Budgeted estimates but were still higher by 18.6% over Q2 and we hope to take some of the momentum into Q4 as well.

Retail pricing or ASP was higher in Q3FY16, as we focused on products priced at \$20 and higher which are available on Budget Pay EMI. Our current pricing strategy accommodates the cost of Budget Pay and easy returns policy and we see pricing being sustainable at the same levels.

Q3 gross margin was higher at 60% compared to 59% in Q3 last year. We have consciously increased gross margin to incorporate Budget Pay and returns. Lower B2B sales contribution has also improved average margins.

EBITDA margin was impacted due to slower topline growth even as our cost base has expanded from more US households covered, larger manpower in planning, sales and merchandising in both US and UK. We believe that these are all good assets for our business and provide a strong platform for growth going forward based on the strong SG&A, technology and production capacities that we have at our disposal. All operational costs, including manufacturing, sourcing, direct cost, HR costs are lower year on year. So, in effect, EBITDA margin is impacted more by the lower topline and SG&A investments, whereas all other costs have been kept under control.

Depreciation increased to Rs. 6.4 crore in Q3 from Rs. 2.7 crore as our asset amortization now includes 1) amounts paid to improve the bouquet position of our TV channel in the UK, and 2) development costs of our new web platform.

Apart from these capital expenditure items, our Budget Pay EMI scheme has resulted in an increase in working capital in Q3.

With these comments, I now hand over the discussion to Mr. Sunil Agrawal to share his views on the business. Thanks you.

Sunil Agrawal:

Thank you, Puru. I welcome you once again to Vaibhav Global's earnings call.

Some key operational highlights: Q3 was the second quarter of sequential improvement in revenues. However, holiday season sales were weaker than management's expectations. Meanwhile, our focused initiatives are ongoing and we hope to see positive momentum in post-holiday season sales.

With the objective of expanding our global competitiveness, we have made a number of initiatives in the recent past. We laid the foundation for further cost optimization by successfully operationalizing our environmentally sustainable and tax efficient SEZ production facility, which is housed in a gold standard green building in Jaipur. The SEZ project was completed ahead of schedule at lower than estimated cost and is now operational.

We have also set up a new, cost effective call center in Mexico to provide additional support to our US-based retail operations.

Following the additions to VGL board in Q2, Kevin Lyons is going to join as our new President of Liquidation Channel shortly. Kevin comes with over 22 years of B&M and on-line retail experience. His last assignment was at H H Gregg a \$2Billion dollar retailer in US, where he was head of their Ecom division.

Heather Hamilton as Director of Sales and Programming at Liquidation Channel. Heather has more than twelve years of experience managing sales at other TV shopping channels in US. We also welcome Koteswar Rao as General Manager of IT to strengthen application delivery at VGL Group. Koteswar comes with deep experience of application delivery management at Infosys. We look forward to their contribution to our business growth.

Our recently upgraded Mobile ecommerce platforms continue to move towards full optimization. It has taken longer than we expected but with capable application

delivery capabilities now, we believe both US and UK platforms will shortly be positioned to enhanced customer experience and drive more traffic to our websites.

Black Friday was a red letter day at Liquidation Channel, our US TV sales platform. We crossed \$ 1 million in daily sales for the first time ever. In addition, our 'Budget Pay' EMI scheme and easy returns policy continue to elicit positive response from customers. We have focused on slightly higher price points, where installment schemes are applicable, resulting in better average realizations.

Some of the in-house brands launched over the last few months did well in the holiday season and generated greater customer response as compared to generic sales. It is still an initial phase for our in-house brands, but we constantly fine-tune our offerings with the benefit of ongoing customer feedback and that means introducing new lines and scaling back underperforming lines.

Our latest initiatives, that are Budget Pay EMI purchases covering \$ 20 plus products and easy return policy in the US, have resulted in higher working capital.

However, as the additional working capital float is now already there in the system, we see limited additional capital deployment into this initiative and therefore cash flows should improve in Q4.

Let me now highlight some vital customer-centric data points. In the first nine months of FY16, we have added 178 thousand new customers. We now serve 379 thousand unique customers, calculated on an annualized basis. Customers repeat buying activity is at 17.1 times compared to 17.5 times in the previous year. Average annual purchase by each customer stood at 25.2 pieces in the trailing twelve months to December from 25.6 pieces in the same period a year back. The customer retention rate is 47% in the US and 50% in UK. We compare favorably against larger peers on many of these data points.

Before I close, I would like to reiterate that VGL is now operating on expanded capacities built with the perspective of long term sustainable growth delivery. We are focused on using these fixed cost investments to build more visibility with our customers and creating a strong, globally competitive franchise in the fashion and related segments.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mayur Gathani from OHM Portfolio Equi Research Pvt. Ltd.. Please proceed.

Mayur Gathani: Just wanted to check, what has been the industry growth in this quarter because it seems you did very well on that particular day but overall the volumes are pretty weak for the quarter. So how do we read into this and what are the reasons you attribute for the festive season being at a low rate?

Sunil Agrawal: The industry as such has grown as evident from QVC, HSN and EVINE data. December quarter data is not available to us yet, but our Q2 data or US Q3 data pointed towards 4 to 6% growth at very high base.

The reason for our lower numbers, the initiatives we put in place following the competitive scenario change late last year are bearing fruits. We are seeing more

higher growth sales compared to last quarter y-o-y but because of the return policy that we introduced sometime again, the net sales are lower for us. But, we see that we are making progress quarter-over-quarter and we see coming times to be better for us.

Mayur Gathani: But generally I would like at it on a y-o-y basis, means quarter-on-quarter would not be the right comparison for the industry that you are in because October-November will be the busy season for you, so I am still not convinced the degrowth we are seeing, year-on-year we have been degrowing itself, I understand the things that you have taken and the changes you have made, so that was all done by Q2 of FY16, this quarter I am expecting there is certain degrowth as well.

Sunil Agrawal: Retail sales when you look at on the gross level, we have grown 2.5% quarter over quarter. So that means it was not for the return policy, we will be higher yoy. But because of the return policy that we introduce, we are seeing these negative numbers. But the return policy has been put in place for long-term perspective. That means we do not want to give customers any reason not to switch to us from the other players in the industry and that will bear fruit over longer period.

Mayur Gathani: To get the data right, without the return you are saying 2.5% was the gross level growth, is that correct?

Sunil Agrawal: Correct, that is on the Retail side. Wholesale, we did substantially lower. That is our rough opportunity sales that we do. That was 40 some odd per cent lower. But on Retail sales, on gross level, in rupee terms, we did 2.5% higher quarter over quarter.

Mayur Gathani: How do we take the B2B business going forward? It is 40% down this quarter, it has been down earlier quarter as well. So what is the trend in there?

Sunil Agrawal: There are two components of B2B business – one is our traditional business that we have been doing for long time to sell to other Retailers like QVC or EVINE or Macy's or J.C. Penney's. So that business is stable. There is another component of business that we buy auctions of rough gemstones and we sell a good portion of that rough in the local market by using some ourselves and the rest we sell. But seeing the China market and India market slower, where those Rubys and Emeralds rough are getting used, so we reduced our offtake of those materials substantially. That is why you would see those lower sales in that segment. But that also was not highly profitable, in top line it shows, but in wholesale level, gross margin was a pretty low. That is one of the reasons you are seeing higher gross margins in the last two quarters.

Mayur Gathani: What about the call centre in Mexico? You did shift some time back to a new call center which is outsourced. This is again outsourced one or this is your own?

Sunil Agrawal: Outsourced one again. But the cost is much lower and we found that the customer satisfaction level from Mexico call centre is even better than the Kansas call centre that we have. Both are outsourced. But one thing we are adding into this call center is also outsourcing some of the routine customer service calls as well which was all in-house earlier.

Mayur Gathani: In that case now you have two call centers running. Is it just volume uptick that helps me absorb these costs better?

Sunil Agrawal: We are going to transfer some of the Kansas calls to Mexico calls as well, some of the Austin customer service calls to Mexico as well.

Mayur Gathani: How many days working capital is there post the EMI and pre EMI, can you give us the difference?

Sunil Agrawal: On sale basis it is 84-days from 67-days.

Mayur Gathani: The debt currently that is Rs.65 crore. Is it dollar denominated debt?

Sunil Agrawal: It is all dollar, rupees, everything put together, but largely our working capital is in dollar denominated, because we have a natural hedge, that is in India and India exports to subsidiaries in US and UK and they pay in dollars and their costs are taken in dollars.

Mayur Gathani: Out of the Rs.65 crore how much will be dollar-denominated debt?

Sunil Agrawal: More than 90% is dollar denominated; what we do is we send US dollar invoices, in UK it is British pound invoices and that is what is discounted with the bank facility.

Mayur Gathani: You could see this number increasing as well?

Sunil Agrawal: From the visibility we have, this should be the peak for the foreseeable future. I do not see any reason why it should increase.

Mayur Gathani: What is your guidance for FY17?

Sunil Agrawal: I can only say at this time that I am confident the platform that we have put in place, the initiatives we have put in place should lead to much better results in FY17. At this time, it is still too early for me to be able to give a specific guidance.

Mayur Gathani: In Q2 you had mentioned that post the App and Website, there were certain applications that you are working on that you would make it more convenient for the consumer. So has all that been done or still the work in progress?

Sunil Agrawal: Some have already been done; we have launched some Apps in UK and a few in US but the major initiative on downloadable App is yet to be done for both US and UK and we are working with a developer on that, it will take 3 to 4 months to have all of that in place.

Mayur Gathani: Which one is not yet launched?

Sunil Agrawal: For example, Live TV Streaming Apps are there in US, some fixed price catalogs Apps are there in UK but have comprehensive Apps which would have streaming, fixed price catalog, rising auction, web clearance page, all of this is still in development, may take another 3-4-months to launch fully.

Moderator: Thank you. The next question is from the line of Abhay Kumar from Legens. Please go ahead.

Abhay Kumar: Seeing the q-o-q results, it looks like approximately 19-20% sale has increased in top line and same thing with EBIT data; around 18-19% increase. The first question is if we take the festive gist, that is the Thanksgiving Day and the Christmas Day and the New Year Day and all these things outside this, last quarter was a transit point for a lot of developments which has been done both in the angel of platforms, stocks, promotions, call centres, overall, so this quarter we expected a lot of improvements. Seeing q-o-q improvement of 18-19% in top line

and EBIT data, the impression is like, this was a minimum thing to happen because of three good big days coming up – Thanksgiving week, Christmas sales and new year sales. So if you take out that effect, so nothing much has happened, right?

Sunil Agrawal: As I mentioned earlier, we have put a lot of initiatives in place as Returnability; the EMI, the Branding. There are three major initiatives we took starting last quarter; Returnability was given in May...

Abhay Kumar: Easy Pay also you have started?

Sunil Agrawal: That is EMI, we call it “Budget Pay”.

Abhay Kumar: So question would be like the whole sale is recorded inclusive of all the EMIs or you are recording the sale only the amount of EMI which you are receiving every month.

Sunil Agrawal: We record all the sale that we invoice. One EMI we collect right away and two EMIs are collected in 30-days and 60-days respectively. But as soon as the goods are shipped out, we record that sale.

Abhay Kumar: Second one is apart from EMI, you have started returnability. One simple mathematical question is, what is the percentage of returnability you received last payments?

Sunil Agrawal: Approximately 15%; it used to be around 5% prior to returnability.

Abhay Kumar: Assuming all the customers would have been the same, previously, if this 15% was not there, the sales would have increased by 15%, right?

Sunil Agrawal: 10% because 5% was already there for the sales would have been higher by 10%.

Abhay Kumar: Second question is why is there so much of top level retrenchment like people are going out, this person is resigning and you are appointing a new person, again, resigning, again appointing a new person?

Sunil Agrawal: Sometimes people do not grow with business. Sometimes they choose to go. So, it is a combination of both. But we are confident of the people that we have got in place are very capable to take the business forward and do justice to shareholders as well as customers.

Abhay Kumar: Why I am asking this is, the reasoning is the same when last time these people entered the board with good background, good experience and a lot of positivity from your side and also from our side, we expect good things to happen for the Company. It somehow gives a look that for some reason the top level is again and again changing the positions. Is there anything which is little more dangerous or tough we should know or it is all the basic things and you are doing it for the better of the Company?

Sunil Agrawal: That is the judgment for you but I personally believe that the Company is positioned for robust returns in coming times. Some of the changes were made by us and some changes they wanted to move on for whatever the reason people might have had. So, as I said earlier, I am quite confident of the people that we have in place and I am confident that Vaibhav will give robust returns on capital and will make customers happy.

- Abhay Kumar:** My next question, the losses have been written off as per your resolution from Jan '16 with the old premium account. So will this give a way for a better dividend from this much out of your profits?
- Sunil Agrawal:** Yes, that has been applied to the high court for their approval. Once we have the approval from the high court we should be in a position to declare the dividend.
- Abhay Kumar:** Final question out of all these; any guidance on EPS or are you getting to a structure where you can project your business top line?
- Sunil Agrawal:** So we still put in a lot of initiatives and they are not yet fully in place so that to give sustainable guidance to the street. At this time we are guiding that we have things in place and we are confident of business growing and giving a good return on capital. In numbers terms, we are not in a position to give guidance at this time.
- Abhay Kumar:** This question is arising because the markets which you have captured and the competitiveness market, there is a wide gap, so there is a big scope for you to do. So things which are not available, the Easy Pay, the Return Back Policies, switching to better platform and the App developments which you are doing, all are falling in place, your price point is also very reasonable and attractive. So as an investor, they always get the question again even as a customer, why and where the sales is not able to improve apart from the regular channels of whatever you are doing at Liquidation Channel and what are the App development you are doing or whatever the e-Commerce that you are doing, do you feel there is something which you are missing which could increase the top line because you have so many USPs, the pricing is best, you have such a good base of manufacturing in India, the outsourcing, such a big call centre and everything is falling in place, as an investor, we come to this, why something is not moving ahead like?
- Sunil Agrawal:** As you rightly said, we have put all the initiatives in place, we have taken all the steps that should be taken. If there is something I do not know I do not know. But whatever we have visibility we have taken care of. So, I am confident that we will continue to grow in quarters and years to come.
- Moderator:** Thank you. The next question is a follow up question from the line of Mayur Gathani from OHM Portfolio Equi Research Pvt. Ltd. Please go ahead.
- Mayur Gathani:** Can you give me the breakup as to the B2B business what percentage we sell to QVC, etc., and what is the trading that we do on the stones?
- Sunil Agrawal:** Right now I do not have the breakup of that, Mayur. What I can do is we can give the breakup later. Totality Rs.36 crore for this quarter versus Rs.59 crore last quarter.
- Mayur Gathani:** On the bad debt front, what are we assuming as bad debt and why would there be an increase in bad debt on the EMI?
- Sunil Agrawal:** So far we are seeing approximately 2.5% of EMI sales not collecting beyond due date. So all our collections are the automatic charge on the credit card through the credit card company. It does not involve any human intervention. Our experience is about 2.5% so far. That 2.5% will still go through the process of human touch or the collection agencies. Still it is too early in the whole scheme to know fully where final number would be but given that our EMI sales are currently 20% of the whole sales, so 2.5% would mean about 0.5% of total revenue might be hit. That is only US revenue. In UK we have not started EMI. So it is only related to US Retail sales.

Mayur Gathani: But in that case why if you are charging the credit card company, you are debiting the credit card company, why would there be a bad debt to you, is it not the credit card company liable to pay you?

Sunil Agrawal: No, it is not credit card company, we charge directly to the customer credit card information that we have on our file, it is done through the credit company, but if there is no balance the customer has or has changed the credit card or the credit card has expired, then the money would not come to us. So there is no guarantee by anybody on this one. It is a kind of unsecured credit to the customer.

Mayur Gathani: What is the industry now for this, I mean, for others how are they fairing on the bad debt?

Sunil Agrawal: We look at some data on QVC and HSN; we are seeing below 2% of total sales towards the allowance that they make; some make 1%, some make 1.5%, some 2%. In our case, only 20% of our sales coming through EMI, so the ratio will come to 0.5%. Once the number of sales go higher say 30% or 40%, then the bad debt may go higher; 0.5% is we are seeing now.

Mayur Gathani: Some may absorb in the margins, right?

Sunil Agrawal: Yes, correct. Last two quarters our margins have increased. We intentionally increase our margins to cover these costs of the returnability as well as the EMI.

Mayur Gathani: But how does it basically work, let us say, a product is \$20 an average and if someone wants to go on an EMI and there are two options – he could go for the EMI, he could not go for the EMI – so will that be a little higher when he goes for the EMI?

Sunil Agrawal: No, the price is same for both.

Mayur Gathani: So where do you make the additional money?

Sunil Agrawal: Overall, Completely.

Moderator: Thank you. The next question is from the line of Ram Shankar who is an individual investor. Please go ahead.

Ram Shankar: There is increase in inventory vis-à-vis when compared to the last nine months; there is around some Rs.14 crore increase in the inventory. You are saying that the revenue growth as far as Retail is concerned. What is the reason?

Sunil Agrawal: We expected a bit more revenue than we actually did from the holiday season. So there was an inventory bill that we usually do for Christmas season and some of this will be towards that. We will continue to reduce the inventory we have; so far in January we have reduced the inventory from where we were December end, so we will continue to do that. Second was towards the end of this quarter we bought a rough parcel from the auctions and that rough would be **(Inaudible)** 33:26 combination of these two.

Ram Shankar: Second question is in 'Google Trends', if you put a Liquidation Channel option, people are searching only in four states across the US what I see in last one year term. So are we doing anything to increase the customer enrollment or any other thing that you would like to share on that?

- Sunil Agrawal:** We launched our new Hybris in May of last year. Now, prior to launching of the new Website, and as I mentioned in my comments, the Website did not stabilize for us quite some time, even now it is not fully optimized. So first thing is when you launch a Website, the whole optimize data that the customer can see or at least Google Analytics can see has changed because earlier side was PHP site, and now it is Java based SAP Hybris site. So we have to create all those links again and optimization all over again. Also, secondly, about the stability of the site was not fully there. Even now I would not say that the site is fully robust yet to the level that I would have liked because as you would see from our presentation, the Web performance year-over-year is more negative than the TV performance which should be other way round. It is mainly because of the website issue that we faced and that was one of the reasons of the changes in IT that you might have noticed recently.
- Ram Shankar:** What I mean is in 'Google Trends', if across the people wherever they are searching by putting as Liquidation Channel or whatever search if you are doing, what I feel is, it is on decreasing stage, I am not sure about that, I do not have knowledge in that. So if you go through it, the number of searches it is in decreasing stage from 2013- if you take monthly wise and if you take the cumulative also. What I want to mean here is that the customers are not searching either because they have directly saved web pages, I do not know the reason, just I want to ask because you are saying that we are doing so many activities in last concall that in Facebook to enroll the customer. We have implemented so many things such as dualhost program, then you have changed the web program, you have launched Budget Pay, you have launched the Returns Policy, whatever competitors were doing you have already done it. One thing what the feel is the word of mouth marketing that will change, we are mostly using because we are not doing any as such marketing activities. So in that word of mouth marketing, whether is it working or not working in that angle, I am asking?
- Sunil Agrawal:** Word of mouth, we depend on refer a friend initiative that the customer can refer their friend and they and their friend gets a discount and also we depend on channel surface, who surfs the channel income across our programming and we are largely into the shopping genre on all the platforms. We depend on that largely but from the website perspective I believe that once we have made it fully robust and put all the functionalities back what we had originally and what any additional we were expecting to put post Go Live with Hybris, I think with the new IT team that we have in place, we should be able to have it fully operational in near future.
- Ram Shankar:** As far as receivable is concerned, if you see in cash flow, there is Rs.10 crore receivable in the last nine months, but when you see the balance sheet that is showing somewhere around Rs.30 crore vis-à-vis compared to last quarter. What I want to say is September 2015 quarter the receivable is around Rs.27 crore, now it is somewhere around Rs.50 crore. So if you say the Budget EMI, it is around Rs.10 crore which is showing in the cash flow. I did not understand that basically. Any other receivable is pending apart from that EMI?
- Puru Aggarwal:** If you look at our receivables it has a mix of the two things – one is related with the Retail business. So in Retail business in UK it is the same. In LC because of EMI schemes it has gone up from 2-3-days to 8-9-days. So in Retail business there is not much. The total impact is about \$2.5 million which has increased because of all these initiatives. Then rest is opportunistic debtors which has arisen due to the rough part which we had taken up and part of that has already been sold which is standing in the debtors and part is still into the stock which will be liquidated in this quarter.
- Ram Shankar:** The new channel position we have acquired in UK. Is there any improvement in that?

Sunil Agrawal: There is a slight improvement, but not to the level that we like to go to the come from page one. So I suspect the people usually have it on their programmed remote in UK and not as much from the channel 1 to 2. There was a slight increase but not as much as we expected.

Ram Shankar: Sir, regarding this Web volumes, is there any increase after the implementation because the last 2-3-quarters it has an almost stabilized one?

Sunil Agrawal: As I addressed in my opening remarks, Web is still not where I would like it to be, volumes are lower if you have seen the presentation sent out by Shiv, CDR today, the Web volume have been lower in a q-o-q whereas it should have been higher given the industry dynamics. Once we have it stabilized with the help of the new IT management that we have, we expect to see it go back up, if not in this current quarter but in next quarter onwards.

Ram Shankar: About competitor Q3 activities, Jewelry TV, HSN and QVC, any update do you have?

Sunil Agrawal: They are doing what they were doing earlier quarters. So there is no change from their activity point of view as it is not visible to us.

Moderator: Thank you. The next question is from the line of Mihir Naik from Concept Securities. Please go ahead.

Mihir Naik: In August 2015, you reported one class action lawsuit. So I want to know information on that like what the suit is and what are the updates on the same?

Sunil Agrawal: There is not much improvement in the class action lawsuit. These kind of lawsuits take long time to conclude. We believe that we have robust defense on allegations that they have. It is more about the start price and the savings that we show to the customer and we have the research background on the prices that we have, we should be able to respond on all their charges which we believe they do not stand much merit.

Mihir Naik: You see remote possibility of materializing the same?

Sunil Agrawal: We do not see any material risk on that lawsuit.

Mihir Naik: Second question is I want to understand the exact competitive scenario. The de-growth we are experiencing in the numbers and the margins sinking as well, I think it is because of the competition from the other players. So I want to know more about it – QVC, HSN and other competitors?

Sunil Agrawal: Gross margin wise we are actually up. Since our costs are largely fixed -- broadcast cost or manpower cost, they are largely fixed except some variable cost of shipping, so as the top line increase there is a good leverage, but reverse is true as well, the top line is de- growth, the leverage is negative. So, these are very high gross margin that we have, the growth leverage would be substantial once we are able to get back the growth momentum again. From the competitive point of view, there were a lot of activities since last year's October to December quarter and since then we have responded aggressively to the various initiatives that I have outlined earlier and I expect those initiatives to bear fruits in the current and coming quarters.

- Mihir Naik:** Can you share some details like what kind of competition we are facing from other players and what are their strategies, why our customer is moving to their channel, etc.?
- Sunil Agrawal:** QVC, HSN they continue to be average \$60 price point retailer with about \$9 billion and about \$2.5 billion revenue respectively. They are mostly related with third-party brands, nationally known brands. JTV was a competitor that did only Jewelry. There were also \$50-60 price points. They are private companies so we do not know exact financials, but from the market that we hear from what we watch and at times the employees change, what we understand is that they launched EMI payment last year and that initially we thought would not impact us but it did and we started responding to that two quarters ago with various initiatives and have already shared the progress on those initiatives, I expect to see the benefit of them in current and coming quarters.
- Moderator:** Thank you. The next question is from the line of Raghu J, who is an individual Investor. Please go ahead.
- Raghu J:** First question is, you were talking about the EMI; in the EMI Scheme you said that the price range, the way we cover up for the individual not paying is by actually increasing the overall price. So when you increase the overall price do you see potential drop in terms of the customer buying patterns because of that?
- Sunil Agrawal:** We do not have any evidence of that yet and also the increase that we have done is not a very remarkable or sizeable, it is a slight increase that customer may not notice as much. With us giving returnability and giving EMI, and also launching many internal brands, so that allowed us to charge that much little higher and customer has not responded negatively. As you would see that on gross levels, our year-over-year revenue is higher this quarter.
- Raghu J:** The next question is the overall numbers if we look at by when do you expect to come back to previous year's top line numbers for example?
- Sunil Agrawal:** We are confident that we will reach it shortly but we are not being able to at this time give a concrete guidance. I am confident of the platform that we have, the business that we have and in our ability to respond very quickly or even proactively take steps, returnability was a step that we took proactively, branding was a step that we took proactively. So I am confident of our ability but still we are not at a stage of being able to give a concrete guidance.
- Raghu J:** We have this Home Furnishing and Life Style products also, right. What are the margin levels on that compared to the rest of it and what is the percentage split between Gems and Home Style products?
- Sunil Agrawal:** The margin is very similar on both. The reason is that we merchandize reverse merchandising. So we know what our retail price points are. Unless we can get our kind of margins we do not bring that product on air. We do not bring third-party large national recognized brands where margin would be a limitation. As far as the ratio is concerned, 10% of our overall sales from Life Style product and similar was the number same time last quarter.
- Moderator:** Thank you. The next question is a follow up question from the line of Abhay Kumar from Legens. Please go ahead.
- Abhay Kumar:** The tax has been Rs.3.21 crore compared to Rs.0.71 crore last quarter. What is the difference and what is the explanation?

Puru Aggarwal: Last year we had some tax advantage because of the previous losses which were completely set off. So now the taxes which we have are largely taxable. So we would be in the range of somewhere 20 to 25% tax bracket.

Abhay Kumar: So every quarter we are going to see this now, assuming the sales is status quo or little...?

Puru Aggarwal: We have slightly tax advantage on account of SEZ operations.

Moderator: Thank you. The next question is from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

Jaineel Jhaveri: I just wanted to know that what would be the plan CAPEX for next year? Are we looking at any new channels or new markets where you would have to spend for channels?

Puru Aggarwal: In fact, this time last few quarters if you look at we have done work in advance, we have built up capacity in terms of manufacturing by way of putting SEZ and we have built a marketing capacity as well by way of putting platform in terms of Hybris and other initiatives. So large investments already has taken place. Going forward, we do not see much CAPEX for next year except the maintenance CAPEX or some opportunistic capex that we may do but not big one.

Jaineel Jhaveri: So what would that number be kind of for the whole year?

Puru Aggarwal: In fact, our annual budgets are under preparation. We as policy finalize somewhere about a month before the start of the financial year. So we will have broader discussion about it. But at this point in time the broader thing which we can share with you is that for next year we do not have big CAPEX in pipeline.

Sunil Agrawal: Jaineel, for your question about expanding into different countries, we do not have a plan to expand in next financial year. So there is no expected CAPEX spend from that point of view.

Jaineel Jhaveri: So it would just be more penetration into UK and the US?

Sunil Agrawal: Correct. So continue our growth momentum back in our current markets before we look for new markets?

Jaineel Jhaveri: You kind of seem confident that the growth will come. Where does this kind of confidence come from? A lot of people have tried asking the same question many-many different ways. But in terms of confidence like why do you feel like the customers going to come to you, do you feel like maybe the customers moving away from TV Shopping, moving into different areas of maybe going to Amazon and Walmart and online shopping and completely moving away from TV or that is not what you are not seeing?

Sunil Agrawal: That is a fair question. As I have explained a couple of times earlier, the other major players in US market has grown q-o-q, y-o-y at a very large base. We are differentiated in that market US and UK have discount Retailer and discounter traditionally done well in any business environment. The model is working for full service Retailer like QVC, HSN there is no reason it should not work for us as a discounter.

Our cost base is much lower as a percentage of sale than any of those players. Having done all the initiatives that are available to a customer from any of those

players, having put all those in place, with our cost base being very low compared to any of them, I am confident that we will drive the top line as well as the EBITDA higher in coming quarters. There could be sometimes operational issues that we face, for example, in website, we launched in May and I am a bit frustrated that we have not been able to get the growth in that or really the benefit of this platform yet but I have capability, I have a team around me to be able to do it for us.

Jaineel Jhaveri: But you are sure there is nothing to do with the product portfolio and the taste that the customer wants is not something that Vaibhav Global as a company can provide?

Sunil Agrawal: I do not believe this is anything to do with that because we are still supplying to those players – QVC and EVINE, one of our good customers. So we know their taste. We have the same market. If we have merchandizes from same market and we understand those and as you would see our retention rate is stable around 48-49-50% which is one of the highest in the industry. Our customers who have been with us are with us. Average purchase frequency is 25-26 products per year which is amazingly high, has not gone down. If the product was an issue, we would not have this kind of a repeat purchase.

Jaineel Jhaveri: Just one point to what you were mentioning about QVC, I think a lot of their growth is also coming mainly either from their apps or their mobile-based or Apple TV/other apps, those kind of sales for them are growing much faster than the traditional TV channel sales.

Sunil Agrawal: Yes, that is correct and that is where we have not been able to benefit as quickly as I would have liked having launched the world-class platform in US, we have not been able to capitalize on that so far. But with the capable IT team in place, I am confident that we should be able to do that next quarter onwards.

Jaineel Jhaveri: Hybris is the same platform they use or have we chosen something different in terms of technologies?

Sunil Agrawal: Hybris is one of the top rated platforms in the world which large players like Nike or Sears and many other use. QVC platform is home grown and JTV is IBM web sphere.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Portfolio Equi Research Pvt. Ltd.. Please go ahead.

Mayur Gathani: As per your presentation, you have now covered 5.4 million households in Canada. If I am not mistaken, last quarter it was only 2.4 million?

Sunil Agrawal: Correct, we have gone with an additional broadcast in Canada, but still the broadcast is mostly in the night time, because by law we cannot get into the full time having the broadcasting from US. There is a talk of change of law. If that happens, we can see substantial growth in Canada.

Mayur Gathani: As on current date, how much does your Jewelry contribute and the newer Home Furnishing, etc., what is the bifurcation?

Sunil Agrawal: 90% and 10%.

Mayur Gathani: Where do we see this going forward in the next two years let us say?

Sunil Agrawal: There is quite still long-term, I do not yet know where we will be two years down the road, but our hope is by the end of next financial year we should see somewhere between 15% and 20%.

Mayur Gathani: What was the new customer added this quarter?

Sunil Agrawal: 178,000 for the nine months, last quarter it was 52,000.

Mayur Gathani: What is the unique customer base remain?

Sunil Agrawal: 379,000 customers on annualized basis.

Moderator: Thank you. The next question is from the line of Mihir Naik from Concept Securities. Please go ahead.

Mihir Naik: Can you give me a number of repeat purchase from our Web platform specifically of last 2-3-quarters?

Sunil Agrawal: I do not have repeat data for just Web, because a lot of our customers buy both from Web and TV. So there is cross-sales, but we have given you the data for across the enterprise.

Mihir Naik: Can you share the details that specific initiatives taken by our competitors to compete with us in this particular area where the average realization is \$30 or something or whatever our realization is?

Sunil Agrawal: I do not see any specific step that they have taken in last quarter. What JTV did was last year they introduced EMIs across all price points. The average price point appears to be between \$50 and \$60. Since it is a private company, we do not know for sure what they have. QVC does EMI for about 40% product, HSN does the EMI for about 65 to 70% of the product, JTV does it for about 90% of the product.

Mihir Naik: Do we have any kind of segmentation of customers where out of the whole Fashion Jewelry industry maybe like 20% of the customers buy discounted Jewelry and some others are high priced buyers, do we have any kind of market research on those data?

Sunil Agrawal: We have done existing and prospect customers research recently. What I can say is that our average customer household income is approximately \$50,000 per year and the prospects that could be QVC, HSN customer is about \$56,000, \$57,000 average household income. So there is a small difference between the annual income of the two customers....

Mihir Naik: This data is interesting; from this data can we say that if the same person who is buying from us increased to \$60,000-65,000, he may move to the QVC and JTV?

Sunil Agrawal: People may move, but this is a very hypothetical assumption. But given our returnability now and launch of internal brands recently we do not believe that those customers who are making more money would move away from us rather we expect a bit younger customer who has more brand affinity would come in and join us.

Mihir Naik: Going forward, it is clear that from the last 2-3 quarters, we are seeing in the numbers the result of the same competition. So going forward, what will be our

strategy to quantify them? The EMI is our follow up strategy. So going forward, what will be the thing that will take the customer from them or retain to us?

Sunil Agrawal: As I mentioned earlier, in addition to the EMI returnability we have launched quite a number of internal brands, some are American designers, some are British designers and recently we have launched an Italian designer who is designing for us and we are manufacturing all the product and his response was phenomenal, is the event which we did for 12-hours give us 50% better productivity than our normal product and we still have more brands and more collections in the pipeline.

Moderator: Thank you. The next question is from the line of (Rahul K from Florintree Advisors). Please go ahead.

Jagdish Bhanushali: This is Jagdish Bhanushali here. Want to understand q-o-q when I see your gross margins have shrunk 620 basis points in spite of lowering of the bulk sales that we do. I am comparing q-o-q where our institution sales has reduced drastically which is similar to the Q2FY16. So wanted to have an understanding on that.

Sunil Agrawal: One of the reasons is that during the Thanksgiving period, we come up with those deals which we call Doorbusters and those Doorbusters are usually designed to attract new customers and customer loyalty as they say in western world during this customer period all the customers are up for grabs. So we create those deals with attractive margins and there we take typically lower margins than normal products. Second thing is from December 22nd to December 31st we ran clearance sale and this year clearance sale we started two days earlier than last year. So those days led to lower margins.

Mihir Naik: So is it fair to assume that once again we will be back to the Q2 margins and Q4 where there would not be any Thanksgiving sales coming up, I assume that our volumes would be subdued compared to Q3 which is the best quarter for us but we would see gross margins again inching up as the level of Q2 is?

Sunil Agrawal: I do not think it will reach at Q2 level; in Q2 there was substantially rough sales and I am also checking if there was a duty write back which auditors in US had advised us. So one reason could be because of that, but I definitely believe that our gross margins '15-16 will be higher than '14-15 and '16-17 may still be overall at the same or higher level than '15-16.

Mihir Naik: Could we get a quantification of the duty benefits that we have got in Q2?

Sunil Agrawal: It was \$458,000.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management of Vaibhav Global for closing remarks. Over to you, team.

Sunil Agrawal: I thank all the investors to participate in the call. Should you have any further query, feel free to write to CDR, India or to Puru Aggarwal at Vaibhav Global. Thank you, again.

Moderator: Thank you very much, members of management. Ladies and Gentlemen, on behalf of Vaibhav Global, that concludes today's conference call. Thank you all for joining us.