# Vaibhav Global Limited

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# Q1 FY22 Earnings Conference Call

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**Karl Kolah:** Good evening, everyone and warmly welcome you to Vaibhav Global Limited's Q1 FY22 earnings conference call. Today we have with us Mr. Sunil Agrawal – Managing Director, Mr. Vineet Ganeriwala – Group CFO and Ms. Dipti Rajput – Head, Investor Relations.

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

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 which we face today. A detailed statement and explanation of these risks is included in the earnings presentation, which has been shared with you all earlier. The company does not undertake to update these risks, forward looking statements publicly. I would now like to invite Mr. Sunil Agrawal to make his opening remarks. Over to you Sunil.

**Sunil Agrawal:** Thank you Karl. Good evening everyone and thank you for joining us today for Vaibhav Global's earning call to discuss Q1 FY22 financials and operating performance. Before we begin, I hope all of you along with your families are keeping safe and healthy. I hope that the worldwide vaccine drive will enable humanity to conquer the COVID virus soon. I also hope that we all will come out stronger from this difficult experience.

We all at Vaibhav Global have taken the significant challenge as an opportunity. In a rapidly changing environment, we have been considerably resilient and agile to scale up our retail business in both of our consumer markets. This has resulted in market share gains, driving volumes and elevated financial performance. Since the advent of COVID, we are seeing accelerated digital adoption. We have therefore gained traction on TV Home shopping, e-commerce and several emerging platforms. Customers increasingly recognize the deep value proposition of our brands, i.e. Shop LC and TJC. We remain well placed to leverage potential of advanced consumer markets of US and UK with rapidly evolving digital platforms.

In Q1 FY22 we entered the new financial year with another strong quarterly performance. Retail revenues grew at 23%, EBITDA grew at 26% year-over-year.

Excluding Germany, the EBITDA growth is 34% year-over-year. In Q1 our gross margins were at 65%. We gain operating leverage to expand EBITDA to deliver another strong quarter. Q1 ROCE came in at 60%. Our ability to profitably expand on a fairly stable operating base has allowed us to consistently deliver strong ROCE over the last several years. Our operations continue to be cash accretive, and we have once again declared dividend of Rs. 1.5 per share for Q1. We maintain a balance between growth investments and dividend payouts, a trend that we would expect to maintain by following our stated dividend distribution policy. Net cash on the balance sheet was at Rs. 510 crore at the end of Q1.

Our vertical integrated model is supported by a global network that procures a wide range of products from 33 sourcing countries. This has enabled rapid product diversification based on evolving customer needs. Currently, we have about 25,000 unique items available to customers and tend to add about a 100 to 150 new products every day by keeping a close eye on emerging trends, fashions and needs. These quality products are delivered to the customers' doorsteps and at guaranteed lowest price creating a deep value perception in the market. We have demonstrated a unique ability to drive both the lowest ASPs along with highest gross margins as compared to any other player in our industry. This is core to our ongoing success. Backing up the strong customer interface is our technology driven global organization.

IT is embedded into all our business processes, a seamless connect from point of source to point of sale. Over the past several quarters, we have made several strategic investments to improve supply chain efficiencies and customer fulfillment, including wallet integration, implementation of enhanced AR based system, product personalization and expanded artificial intelligence capabilities across functional processes. Other significant initiatives are also in pipeline, and we will share this with you as we operationalize them.

I will now take you through some of the key developments during Q1 FY22. Our expanding through marketplaces in new geographies such as in Canada, Germany and Japan, we have now commenced our retail operation in Germany with a launch of our local website and TV channel. With 38 million households, Germany is Europe's largest home shopping market and Shop LC GmbH has now started operating, broadcasting from a partner studio to over 17 million households across the country. Very soon we'll be starting operation from our own studio in Düsseldorf. Launch in Germany represents our entry into the third significant retail market globally. Having established a strong and growing presence in the US and UK over the last few years, we will now look to exploit the tremendous growth potential offered by online retail and TV Home shopping markets in Germany.

Another key initiative implemented in the recent past is the launch of TJC Plus for our UK customers. Under this membership program customers can avail a free and fast delivery apart from other benefits as the members. While the additional costs of such key initiatives are built into our reported financial performance, benefits in the form of customer acquisition and retention will accrue over the time.

Now discussing the 4R's strategy that underlies our operating model. We track reach, registrations, retentions and repeat purchases as a part of a continuous dashboard. We have undertaken several customer-oriented initiatives to drive sustained improvement on each of these parameters. The reach of our TV networks by the end of Q1 FY22 was 102.5 million TV homes. This is now further enhanced by 17 million households added in July in Germany. We reached TV homes through cables, satellite, telco networks and over the air antenna-based TV platforms. Our products are also available on digital channels, including all proprietary websites, smartphone apps, OTT platforms, marketplaces, influencer marketing and social direct response, with combined reach of almost 500 million people in three of the foremost consumer markets in the developed world. New registrations during TTM basis continue to be strong and came in at 2.9 lakh compared to 2.37 lakh in the corresponding period of the previous year. This reflects our ability to not only support changing customer preference but also respond to them with agility. Customers bought an average of 30 pieces on TTM basis from us compared to 27 pieces in the corresponding period of the previous year. As the engagements with the new customers deepened, we expect to continue to drive bigger volumes. Finally, our retention rates stood at 45.7% on TTM basis compared to 50.5% for the same period last year. This is partly impacted by high new customer addition in Q1 FY20-21 owing to essential items offered last year. Our retention rate of old customer base continues to remain strong.

Giving back to the society is a philosophy we strongly believe in. As part of the inclusion process, we have given our employees a safe work environment while protecting their livelihood and renumeration. During the second wave of pandemic in India we donated oxygen plant, 113 oxygen concentrators and 31 BiPAP machines to hospitals and people in need. Our flagship Your Purchase Feeds program has now provided meals to about 55 million children in the US, UK and India.

We have also invested in solar power generation and 100% of our Jaipur manufacturing plants power needs are now covered by green energy. We have also invested in rainwater harvesting, effluent treatment, tree plantation and most recently Miyawaki forest on one acre site in Jaipur. We remain committed to mitigating our impact on climate change across the value chain and have set ourselves a stringent target to minimize the carbon footprint of our operation.

As I conclude, I would like to reiterate our positive outlook for the business; we are confident of our business model, value proposition and our execution abilities. I would like to reiterate the guidance of 16% to 18% retail revenue growth in constant currency in our old geographies of the US and UK for the current financial year. With that I now hand over the forum to Vineet to discuss financial performance for the period under review. Over to you Vineet.

**Vineet Ganeriwala:** Thank you Sunil. Good evening, everyone and welcome to Vaibhav Global's quarterly earnings call. I hope that you and your loved ones are all safe and keeping well. I will now take you all through our financial performance for the quarter ended 30th June, 2021 in greater detail.

In Q1 FY22 we have carried the success of FY21 into the new financial year. Revenues stood at Rs. 682 crore, growing 24% year-on-year with retail revenues growing at 23% year-on-year. We achieved 21% growth in both US and UK in their local currencies. TV revenues have grown by 24.6% year-on-year to Rs. 426 crore and web revenues by 19.7% year-on-year to Rs. 243 crore during Q1 FY22. TV contribution to our retail revenue is now at 64% with the rest coming from the web segment as the business gains greater balance. TV includes customer accessing our products through our proprietary TV channels that reach their homes, both on conventional TV media as well as free to air channels on OTA platforms. Web includes online purchases on our proprietary websites and shopping apps apart from popular marketplaces and social commerce. Such omnichannel customers, our core focus is to promote and encourage customers to transact on both TV and web platforms, which gives them a unique shopping experience and such omnichannel customers tend to be sticky and have a significantly higher lifetime value than customers that buy only on TV or only on web.

In our overall product mix revenue contribution from non-jewelry products was at 31% in Q1 which is in line with FY21 levels, having grown from single digit level as recently as FY17. This clearly demonstrates our ability to expand wallet share by entering adjacent categories overtime. Non jewelry categories now include fashion accessories, lifestyle, beauty, and essential products. This trend has also balanced revenue streams from the previously high dependency on jewelry products. Our Budget Pay feature provides customer the convenience of buying on EMI basis. In Q1 Budget Pay based products contributed 38% to retail revenues. This feature has added a further level of affordability specially in high-value products, improving access and driving ASPs to some extent as well. Gross margins came in at 65% in Q1 FY22. As Sunil indicated earlier, we have maintained product contribution margins at 60% plus level across various stages of the business cycle and across a growing range of products. In fact, we require new products and categories to deliver margins at similar levels before considering inclusion in the portfolio. EBITDA margins came in at 14.4% in Q1 growing from 14.1%, increase of 30 basis points year-on-year. Excluding losses in new Germany unit, the EBITDA margin came in at 15.3% in Q1 expanding by 120 basis points year-on-year from Q1 FY21. Some of our key organizational investments include strengthening talent pipeline, greater sales & marketing visibility and cost associated with faster delivery to the customers. Consistently making such investments will allow us to continuously improve our competitive position in the market and continue the growth momentum. However, while investing in our future growth areas, we continue to see operating leverage in our core business model, also supported by various cost initiatives across the organization.

Profit after tax for Q1 stood at Rs. 99 crore, up 86.6% year-on-year. This however includes an exceptional item, other income of Rs. 33 crore towards waiver of paycheck protection program loan, net of expenditure. Under CARES Act, we were eligible for PPP loan and had taken a loan in our Shop LC subsidiary in US from the United States SBA administration to the tune of $4.8 million which was eligible for waivers subject to certain conditions. During the current quarter, we have received approval for waiver towards the same and have accordingly accounted for that as exceptional other income. Operating cash flow came in at Rs. 68 crore and free cash flow came in at Rs. 32 crore in Q1, driven by growth delivery in a capital light business framework. Cash in hand, net of debt was at Rs. 449 crore as of close of Q1 FY22. On a TTM basis ROCE and ROE were 60% and 31%, respectively. The consistency in these ratios signify the strength of our business model. As Sunil mentioned, we continue with our policy of recommending dividend every quarter and in this quarter, the board has approved a dividend of Rs. 1.5 per share for Q1.

To conclude we have demonstrated resilience, agility and strength reflecting in our performance for the quarter. Going ahead, we remain confident of our prospects and look forward to deliver in line or ahead of our stated growth guidance. With this, 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 Manish Dhariwal from Fiducia Capital Advisors.

**Manish Dhariwal:** My compliments on excellent results and an observation that 38% of our revenues are now getting contributed by the EMI plan which is very significant. In fact, it's up from 23% a couple of years ago. When a customer is buying on an EMI so there is a credit risk that is been taken. How is that managed?

**Vineet Ganeriwala:** Yes, our Budget Pay revenues are at 38% of our total revenues. And we consciously try to maintain it around at 40% levels only. Also we usually offer this for high price products and the installment ranges anywhere between two to six installments. The first is charged upfront before the goods are dispatched to the customer and the remaining installments are charged every month, after every 30 days. Over a period of time like we have subscribed to various kinds of fraud checks mechanisms, all the processors we have subscribed to, which filters the bad customers and only the good customers' orders actually flow in and are accepted under this Budget Pay mechanisms. What we have observed over a period of time is that health of receivable is quite good. Even in the peak pandemic period, the level of bad debts last year was about 1.2%-1.3%. In fact, in Q1 this year we have recovered further from our old receivables and the bad debts as of Q1 is only 0.7% as we speak. The health of the receivable is good. All the fraud check system led support is available to filter out the bad customers at the initial stages and so no concerns on the receivables as such.

**Moderator:** Next question is from the line of Yash Joglekar from Ambit Capital.

**Yash Joglekar:** My question was relating to TV segment. How has the TV sales grown so fast than web in this quarter?

**Sunil Agrawal:** We have taken some new distribution in US, specially OTAs, and the beauty channel in UK. This distribution has helped television a bit and also the product mix makes a difference. Last year there was a lot of essential sold on TV and web and people could not get fast enough on TV. So, lot of them are coming through web. Web last year was a bit extra accelerated. When you look at the ratio wise it is still pretty healthy web economics that we have.

**Yash Joglekar:** Also, when I have a look at the TV channel expenses that is the content and broadcasting expenses. That has gone up year-on-year around 45%. Is it likely to remain at the same levels for the rest of the year?

**Sunil Agrawal:** We took some extra new TV homes so that elevated the expenses and also, we spent a lot in digital marketing during the quarter. That was the reason and for the coming, rest of the year I can't give exact guidance because I don't have in front of me but what we can say is US and UK markets will have continued leverage while we continue to invest in German market.

**Yash Joglekar:** And also, I actually missed the part on the new registrations so if you could please repeat it?

**Sunil Agrawal:** Can you repeat your question on registration?

**Yash Joglekar:** So, from your opening comments, I actually missed the new registrations part. The figures on the new registrations?

**Vineet Ganeriwala:** The new registration on a TTM basis continued to be strong and was 2.9 lakhs in Q1 compared to 2.37 lakhs in the corresponding period of the previous year, following our ability to not only spot the changing customer preferences but also respond to them with agility. So that was the comment.

**Yash Joglekar:** Can you repeat the last year's figure?

**Vineet Ganeriwala:** So, the numbers you are talking about or the comment I am sorry to.

**Yash Joglekar:** The TTM number for the last year?

**Vineet Ganeriwala:** 2.37 lakhs.

**Moderator:** Our next question is on the line of Kanwalpreet Singh from Ambit.

**Kanwalpreet Singh:** I wanted to get your sense on how you view customer growth? The reason I am asking this is because last year there was a big jump up in registrations and almost 40% of the total customer counts were from new registration. Do you see any risk from physical retail opening up again? And as you also mentioned earlier that less web traffic happening now. So, any risk to sales growth because of lower registration for the full year? Any risk you see on that front?

**Sunil Agrawal:** Kanwalpreet, the number of new customer registrations we had in Q1 FY22 was worth 53,000 compared to last year's Q1 of 84,000. But when you look at the year before that, it was only 28,000. From Q1 FY20 of 28,000 the number today, the last quarter was 53,000 from the year before. So, from steady state we have grown substantially year-over-year even though the economy level been up. Last year was an extra jump that we got on new customer because of essentials. But overall, when you look at the repeat purchases and ASP also combined have gone up a little bit. Our revenue growth will continue to grow and we are confident of our guidance that you have given of 16% to 18% growth for this financial year even on the top of elevated growth last year.

**Kanwalpreet Singh:** The other thing that was another feature that I saw with us this quarter that your sales growth had come from increase in ASP. I understand that last year there was sales of essentials so maybe that skewed average selling price. But over the longer trend do you think there is room for ASP to increase?

**Sunil Agrawal:** Our target is not to increase too much because we want to be differentiated in the market, want to be approximately half of our other retail competitors so as to create the differentiation. So, ASP tend to go up when it is more of jewelry or less of essentials. Essentials are all about $11-$12-$13 items. So there the ASP went down quite substantially. But when you look at from year before we are in line with that number.

**Kanwalpreet Singh:** Last question on the TV expense again I am sorry I am repeating what my participant asked earlier, but could you give a sense of how much of that was in Germany because that is a new addition right? So, could you quantify the cost of TV and broadcasting of Germany?

**Sunil Agrawal:** Do you want to break separately? What we can do is to give you the breakdown of total operating loss incurred in Germany during the quarter because I don't have that number of breaking separate right now.

**Kanwalpreet Singh:** Any sales against the loss in Germany or is it only investment?

**Sunil Agrawal:** Germany is very beta phase right now because we are just testing broadcasting from a third-party studio. Our own studio will be operational before the end of this quarter. We will be starting to record sales from not in current quarter but from next quarter onwards.

**Moderator:** The next question is from the line of Chintan Sheth from Sameeksha Capital.

**Chintan Sheth:** One question was I am observing the recent registration. You already pointed out about the retention being low because of last year's lot of essential customers kind of adding in our network and that that resulted into going down a bit. But if I look at a sequential number on the TVs and the registration as well as on the unique customer number, some numbers TTM basis are kind of declining. Is there anything needs to be worried about that or this is because of the last year's base having more essential customers getting out of the network?

**Sunil Agrawal:** It's all about that, very high number of customers that we acquired as I gave you the number. Given FY20 we only registered 28,000 customers and in FY21 also it 84,000 and FY22 it was 53,000. We did phenomenal growth from the year before. But last year was very unusual and we took the advantage of that situation of customer needing certain products and we offered them that led to very high registration. But the key thing is, we are able to continue the overall momentum of revenue growth and exceed our guidance of 16% to 18% constant currency revenue growth.

**Chintan Sheth:** So, this is not a worrying sign. It's just a temporary base effect kind of catching up in terms of registrations.

**Sunil Agrawal:** Absolutely.

**Chintan Sheth:** Second is we discussed some of the newer markets we want to target through UK and Germany as a base in other than European geographies in years. So, this was kind of coming up positively surprise in terms of timing of those announcements because we were of view that first we will be kind of stabilized in our German expansion and then we expand to other geographies from there. So is the expansion to Switzerland, Ireland and Scotland are in place or the thought process are in place and we can expect it as soon as next year, that's the key thing.

**Sunil Agrawal:** Germany signal goes to Austria and Switzerland. Switzerland it's not growing right now but it will start to go. But Austria, it goes naturally. We are already shipping to Austria from Germany. Switzerland we are not at this time but this doesn't mean that we have additional outposts in Switzerland or Austria and same thing from UK. As UK broadcast to Ireland and Scotland anyways.

**Chintan Sheth:** It will be through TV channel or it will be e-com, web-based sales which we will be happening because?

**Sunil Agrawal:** Both.

**Chintan Sheth:** Lastly on the size, when we indicated that we have around 3% market share overall in the retail e-com sales. If I try to further slice it down to our target segments which was the age group between 40 to 65 and the product categories between jewelry and lifestyle products. What is the management's broad estimate in terms of what can be the size of that particular demographic spending on the relevant product category in any of in these geographies? If you can share some qualitative or quantitative guidance to that?

**Sunil Agrawal:** We don't have exact data on that. We do market research from time to time but I don't have the data right now but we do know that our product segment that we are addressing and growing, making larger investment there is jewelry and fashion has tremendous market size in the geographies that we go in. We are addressing those customers through multiple reach out platforms that is the television, mobile app, marketplaces, desktop, social DR and as well as influencers. We have multiple or mix-channel strategy continues to give us growth as well as resilience in change of the customer's preferences. The customer sees us from multiple channels, gives more lifetime value. We are very confident of our strategy and comfortable in our growth guidance.

**Moderator:** The next question is from the line of Rahul Ramakrishnan from Vista Investments.

**Rahul Ramakrishnan:** In one of your previous con-calls like a couple of times you have mentioned that QVC is at $60 per household while we are at $3. Now this $3 is revenue divided by the number of active households, correct?

**Sunil Agrawal:** Correct.

**Rahul Ramakrishnan:** Going by that logic we can't aspire to be $60, right, because there are certain items that QVC sells that we will never sell, not never sell but we don't like say a vacuum cleaner or something. Is my understanding correct that you shouldn't look at $60 as a benchmark?

**Sunil Agrawal:** So, from the point of product wise there's nothing that we won't sell, but the main difference in the strategy is they sell third-party brands. We follow more Zara strategy of developing our brands so that we are not….

**Rahul Ramakrishnan:** I am totally aware of that. My question was actually the fact that there are some households where we would never cater to even though we are active in a 100 million households just because of the kind of products that we sell. By that logic if we divide revenue by households, we are actually also using in the denominator lot of households which we will actually never cater to which was not the case with you, you see and hence the $60 is as more justified, I guess?

**Sunil Agrawal:** Let me complete my thought. We are selling more OEM brands and for that what is the ceiling, we don't know because nobody has tried this before. We're the only one who's doing this on self-developed vertical model brand with the value proposition at the price point that we sell. So, we give their references, their $60 as reference but what is our ceiling, is it $20 or is it $100, nobody knows because nobody has attempted this before.

**Rahul Ramakrishnan:** My second question is what's the difference between registrations and unique customers. How would you define that?

**Sunil Agrawal:** So unique customer is customer who's purchased from in last year trailing 12 months irrespective of the registration was done during the year, during the period or 5 years ago.

**Rahul Ramakrishnan:** My last question is could you please tell me the share of revenues through your social DR and marketplace currently? Just an approximate figure.

**Sunil Agrawal:** It's not a whole lot large. Marketplaces, last financial year, we did approximately between US and UK, if I remember from the top of my head; we did about I think $8 million or $9 million. Do you have it Alok?

**Vineet Ganeriwala:** Sunil in INR terms so in Quarter 1 we would be about Rs. 15 crore of market place revenues.

**Rahul Ramakrishnan:** If I remember from your last con-call you were quite enthused about your progress in the marketplace as well as the social DR. So does that enthusiasm sustain, is it still going as per your expectations?

**Sunil Agrawal:** Yes, social DR for example was Rs. 4 crore compared to Rs. 1 crore last year. So, Rs. 4 crore in Q1 FY22 compared to Rs. 1 crore in Q1 FY21 but marketplace we came down actually. It was Rs. 15 crore from Rs. 21 crore last year because last year we sold quite a bunch of essentials through marketplaces. But the jewelry as such has gone up in marketplaces for us, jewelry or other products have gone up, essentials was a large portion of sales on marketplaces last year.

**Moderator:** The next question is from the line of Jay Tejwani from Julius Baer Wealth Advisors.

**Jay Tejwani:** My first question is on the employee cost. We saw a rise in employee cost. Is this primarily attributable for Germany?

**Sunil Agrawal:** To a large extent and also, we increased wages in US recently because the wage, there's a pressure on wages in US owing to immigration controls and other policy as well as the economy opening up. So, Germany as well as US wage pressure even in UK there were some additional minimum wage introduced by government during the year. That also added to the pressure.

**Jay Tejwani:** Where do you see employee cost landing for the year, approximately?

**Sunil Agrawal:** We don't have projection on the employee cost right now. I don't have the numbers off the top of my head but as the percentage of sale, employee cost will continue to be as in Q1. Although as Q3 sales in season time as sales also goes up, the percentage will come down but when you look at compared to last year; there is an elevation in this first quarter the same percentage of sale will continue for the rest of the year. I don't see it coming down substantially. So let me take it back. It may come down somewhat because we have been introducing robotics in our warehouses both in US and UK. It may come down somewhat there but I do not know how much contribution will that be. Outside of that, I don't see any major changes coming in. Where we made some investment into manpower, we hired more than 50 management trainees in India during pandemic or over the course of pandemic. That is investment we made in talent during the period and some other strategic investments we made like AI and ML so those investments post Germany.

**Jay Tejwani:** My next question is amongst the new sales platforms that we are on, where are you seeing the most traction?

**Sunil Agrawal:** That's a very broad question. Our own e-com platforms, mobile or mobile apps or desktops, so those are having the most traction, followed by social DR, influencers. Marketplace as I mentioned, it actually went down this quarter because last quarter we had very high essentials sales but I think as that essential bump normalizes our sales will continue to grow out in market places as well. I am just giving you this map, a general impression I don't have a data right in front of me but that's my general impression.

**Moderator:** Next question is from the line of Susmit Patodia from Motilal Oswal AMC.

**Susmit Patodia:** My first question is on delivery cost. There's a sharp reduction. Anything specific or its just because of the value increase? Any specific initiatives we have undertaken?

**Sunil Agrawal:** We are negotiating our contracts with all the shipping companies. Last year was very disruptive because there was a shortage on the capacity. Now this capacity is increasing across both US and UK, so we are negotiating with them to reduce the cost and increase the velocity or the speed to the customer. We have made some improvement during this quarter over quarter Q1 and we expect to improve further in Q2. Now that has been offset to some degree by the shipping costs from supply chain, Asia over to US, so those shipping costs have really gone up and the delays have gone up too. Those delays have built into our working capital and inventories as well as the costs. But over the course of the year, we expect that to normalize and help our shipping cost overall as a percentage of revenue. I think over the year in coming quarters this area should improve.

**Susmit Patodia:** The second question is for Germany; will that be a difference in broadcasting cost when you move to your own studio? Currently it looks like it's about Rs. 7-8 crore a quarter.

**Sunil Agrawal:** So, Germany broadcast cost is not Rs. 7-8 crore a quarter, total broadcast cost is substantially more than that. But our studio versus second screen that doesn't make a difference, but the third part is studio is very plain and very sterile kind of studio. Then we have own studios which have multiple sets, the bedroom set, the kitchen set, the living room set, the jewelry set, so our customer experience will be much different.

**Moderator:** The next question is from the line of Yash Joglekar from Ambit Capital.

**Yash Joglekar:** From the investors presentation what we understand is that, the company has made a roughly Rs. 36 crore CAPEX. So, can you just give us clarity on what is the nature of this CAPEX?

**Vineet Ganeriwala:** So, a part of this CAPEX has gone in new Germany establishment, like we stated earlier this year we intend to spend about $2 million of CAPEX in that unit. So we have spent already about a million dollar out of that, so that is what is going into the CAPEX. The remaining part is largely towards IT. We continue to invest in IT as a part of our growth strategy and towards our aspiration to become more and more digital. Some significant IT CAPEX which are coming in this quarter is upgrading of our mobile website for US, mobile App upgradation for both US and UK and the warehouse automation which Sunil was talking about. So, we are automating both our warehouses in US and UK and putting geek robots out there. This is a large chunk of the CAPEX which you see in Q1 this year.

**Yash Joglekar:** My next question is regarding Germany. This quarter Germany reported roughly Rs. 62 million losses, so what would be the run rate of this loss going forward? Will it be in the same ranges?

**Sunil Agrawal:** Yes, our guidance is $3 to $5 million for the losses for that unit. So, we are not giving, I don't have in front of me what is a quarter wise position and this is already a quite a big range regards this new operation for us. So, we are not giving guidance of a quarterly number. For the whole year you'll have to look anywhere between $3 to $5 million.

**Moderator:** The next question is from the line of Sahil Sharma an individual investor.

**Sahil Sharma:** What I wanted to understand due to ours great ROCE of 60% plus and the debt free cash flow we have Rs. 500 crore of cash in our book. And given that we are OPEX heavy and not very CAPEX heavy business, how do we plan to utilize this cash and any time frame for utilizing this cash?

**Sunil Agrawal:** Our dividend policy is already stated 20% to 30% of free cash flow and we're adhering to that policy and for the rest of the cash, if there's an opportunity for us for inorganic growth, we will take that opportunity. From organic point of view we have Germany in front of us and then also we will be establishing our own premises in UK and US. Currently we are in rented premises, but to increase efficiency, reduce cost we will go into our own premises down the road. So some of the cash may be utilized there as well and after that if you see extra cash coming in or extra cash on the balance-sheet then we'll be happy to have extra-ordinary dividend distributed.

**Sahil Sharma:** My second question is if you look at how customer interactions work with e-commerce platforms. Platforms which have a more wider range of products that are offered, customer end-up spending more time on these platforms to able to grab a larger part of the customers wallet. So do we have any plans of diversifying the SKUs like jewelry, essentials and lifestyle product. So, any plans of diversifying like increasing the SKUs as well?

**Sunil Agrawal:** So, our total items in our inventory is about 25,000 usually at any given time in US is about 18,000 to 20,000 in UK. So, we want to retain the total items around to this number. It may go up some, but we don't want to go the Amazon way which has a long tail strategy. We believe that us keeping the SKU breadth to a limit would create that value proposition, the story points that you can share with customers. So customer engagement is high. If you spread too thin, too far, then that value proposition or the interest may go down and we want to create ours rather than to copy Amazon.

**Moderator:** The next question is from the line of Amit Jeswani from Stallion AMC.

**Amit Jeswani:** Just wanting to understand more about the budget-day sales that we do. Do we take on credit risk because that's seen that it is written in your advertisement that we get 1.5% as default risk, is that right? Isn't the credit card company taking the default risk here?

**Sunil Agrawal:** No, we take that risk because there are lots of companies that are ready to take the risk and the cost of taking the risk, they charge a substantial amount and with our process of collection which is very robust and cost-effective, we found it much better for ourselves to assume that risk.

**Amit Jeswani:** Assuming we sell something which is worth £100 today and after first payment we of course collect the first payment upfront, but after first payment if that person doesn't basically pay the second or the third installment. Do we just call them or how does it go? How does the recovery program go? Because the shipment is already done, right?

**Sunil Agrawal:** Yes, shipment is already done. So usually, first of all we ship to a customer who has a credit card on file with us. Without any reference we don't give out if somebody's paying by debit card, we don't give a credit. So, credit card has to be there. So, if the credit card is there, we assume that the credit card company has done the check on that customer, whether is Visa or MasterCard or Amex or Discover, that's number one. Number two, proof of creditability the customer has paid the first installment with shipping and taxes. So, these two are sufficient for us to take the risk and once if the customer doesn't pay, we have multiple ways of following up, emails, phone calls, text and eventually if the customer is large enough then we give it to the collection company.

**Amit Jeswani:** My last question, on your accounting how does like these numbers are coming on the receivables?

**Sunil Agrawal:** Yes.

**Amit Jeswani:** There's Rs. 167 crore which was part of March 2021 data, that is the total receivables which we have Rs. 167 crore, right?

**Sunil Agrawal:** So, most of that is the BudgetPay receivables, some maybe through B2B business, very small portion that might also be there.

**Amit Jeswani:** Now that near expanding into newer geography, our total inventory was about Rs. 450 crore. Would that mean for every new geography that we get into the capital employed except for the initial CAPEX for studio and some people and the losses of $3 to $5 million, how much inventory do you think we'll have to build up?

**Sunil Agrawal:** So, we look at the forward number of days and from that perspective when you look at our overall working capital, it is comfortable from forward number of days. We believe that by the end of this financial year, our forward number of days will come down as the overall company compared to last year.

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

**Kapil Banga:** I had a couple of queries, first is you mentioned the guidance of 16% to 18%. What are the top two or three risks that you see that could lead to under achievement vis-a-vis these targets possibly?

**Sunil Agrawal:** I don't see much risk except unless every customer leaves their home and goes to Caribbean. I'm just kidding. That is only every customer goes on holidays and don't purchase don't surf the websites and all that.

**Kapil Banga:** On a higher base we have certain contribution came in from healthcare products and this opening up people moving out. You still see that with these variables ,we'll be able to achieve 16% to 18%?

**Sunil Agrawal:** Yes, we are confident of overall 16% to 18% for the whole year, so from quarter to quarter it may change. But for the whole year we are confident of 16% to 18% constant currency growth of US and UK over last year's elevated base.

**Kapil Banga:** Driven primarily by the core products?

**Sunil Agrawal:** Yes, so the product point of view we're very agile. For example, right now the handbags are selling like crazy. We can't have them enough in our inventory and last year nobody wanted handbags. There is an example. We would quickly get that handbag even by air, usually will come by sea. We get them by air offer to the customer and address their needs. Last year it was essentials, so we scrambled all over the world to get that essential to our customers. So, product wise we will address what the customer need is and offer, but having said that, our core product usually and other home products or home solution products or beauty products, they continue to move, with ebb and flow but they continue to be the core products. Other than that, I think our reality to get what the customer what they need defines up to a large extent of our success.

**Kapil Banga:** Just that in last couple of quarters there was a tailwind in the form of stimulus checks also and that could not be there going forward. That could be an additional headwind?

**Sunil Agrawal:** Could be, but we haven't really tracked that as much because we are still not Walmart or Target or Amazon yet. We are much smaller player than them whom those cheques impact. Market share is pretty smaller, so we should be able to handle these issues easily.

**Kapil Banga:** Second question is on something that I had a query earlier as well in some of the concalls. You have a great platform, you have access to US households, households in UK, which can actually be leveraged for further revenue generating opportunities, opening it for advertisements, generating some ad dollars etc. Any thoughts on that using the platform because that will be a low CAPEX, high ROCE business, additional growth opportunity, we see Fire Stick, when we switch on the TV we use Fire Stick, we see all sorts of ads. Can that be implemented on VGL's platforms?

**Sunil Agrawal:** So Kapil, here advertising business is conducive on market place platforms, there are some Amazon or Walmart or all the marketplaces they get vendors to compete in the advertise for their product and get this revenue. Since we are all proprietary product, opening our channel for third party advertiser would not make sense. Why would anybody advertise on our platform for our products, maybe on television they may, but we believe that their noise would not justify the revenue we get from that initiative. So, we have thought about it long time ago, but since many years we have not thought on that area.

**Kapil Banga:** Actually, whenever I switch on Fire Stick, I like it's not a marketplace. It's a media delivery platform. This thought always strike me this can be done by VGL or not.

**Moderator:** The next question is from the line of Arpit Shah from Stallion Assets.

**Arpit Shah:** Just wanted to get an update on the TJC beauty channel, how many hours we have been operating on that and what kind of revenues you started generating from that?

**Sunil Agrawal:** So, we're live only 4 hours on beauty channel. The revenues we're not breaking down separately by the channel. I don't have that number right in front of me, but from business point of view last quarter, it was profitable by small number but it was profitable from variable cost point of view and as we see more traction we will expand air time for that channel. So right now is only 4 hours live.

**Arpit Shah:** And the margins would be on similar lines as the company or would it be a lot bit higher or lower, how would the model look like?

**Sunil Agrawal:** Similar margins, so we range from the front end at the retail side the range between 50% to 65% margin and it is in the same line. In fact, we don't take in any new product in our entire business which would give us less than 50% margin. That is why we can't go into Bose or Apple or Samsung's of the world, because there are the guardrails that we have set for our business, no product will come in which is below 50% margin.

**Arpit Shah:** Do we aspire to have different channels for different product lines across UK like we have facility can we have a similar line for clothing, what we have different channels for the product line is that an acquisition that we may target?

**Sunil Agrawal:** It may be possible, but the product line has to be big enough and we have to have a substantial supply chain of product categories to supply to our main business first. If you see over flow from the main business, then we would consider that. But we're not bringing anything which should compromise our main sales storefront so to say.

**Arpit Shah:** What kind of App download we have seen in Germany, UK or any updates? What is the strategy added on social media?

**Sunil Agrawal:** If I don't have a number of downloads with me right now but we are seeing the ratio of web apps sales going up year over year, higher than the e-com business itself. So app is improving rapidly for us. I don't have the data in front of me.

**Moderator:** The next question is from the line of Rahul Ramkrishnan from Vista Investments.

**Rahul Ramkrishnan:** I have two question, follow-ups, last year you set up a manufacturing unit for apparels and I think you had about 50 or 100 people working there. So has there then been any ramp-up over there or are you seeing good traction over there?

**Sunil Agrawal:** Yes, very well actually. So, we have actually set up the process setting up additional unit on that. So, we already have about 250 workers there and we expect to see this improve or increase further to almost 400 to 500 before the end of this financial year.

**Rahul Ramkrishnan:** So that's like a 5X increase in the employee's count there.

**Sunil Agrawal:** Yes, that's increasing very rapidly, in fact fashion has one of the best growth rates for us. Fashion apparels having best growth rates for us right now.

**Rahul Ramkrishnan:** My second question is, as you have seen since FY16, there's been a lot of technology related upgrades that you've done to your platform your app, like even continuously investing in technology, automation and all that and you kind of ramped it up even last year. So, all those things are actually like both expenses. Do we expect those kinds of expenses to continue or are you finally like going to just ease up on it?

**Sunil Agrawal:** IT is something that is constantly evolving and changing. I don't expect it just to slow down. If at all, this may only accelerate going forward. I wish it would slow down but I don't think it should because the technology is so rapidly evolving. We should be ahead of the curve, there should be no reason we should behind the curve.

**Moderator:** The next question is from the line of Kanwalpreet Singh from Ambit Capital.

**Kanwalpreet Singh:** On gross margin your guidance is always 60% and if I'm not mistaken this quarter, it's around 65%. So, any category that you can highlight where you enjoy a good gross margin and any risk that this may fall back to 60% level.

**Sunil Agrawal:** First of all, any category that we take in, must make this threshold, so we don't have any category that just stands out huge in margin wise. Every category has some threshold and also category has another guardrail is per minute margin that they must make. Nothing stands out from a margin point of view, but our guidance is at 60% and plus. So, if from 65% goes to 63% not 62%, so don't get worried. We look at the business depending on per minute margin against the target. So, there is a minimum that we require the percent to which, but if you look per minute margin or per square centimeter of our real estate on website that point of view our product has to make the numbers.

**Kanwalpreet Singh:** Because when I look at your results over the last 4-5 years actually, it has always trended upward, like 60% you stay is the benchmark has always gone higher. From 62, 63 and now it's at 65, so any long-term focus that went into this to bring it to 65 or is this the nature of what products are being purchased and that is leading to this margin increase?

**Sunil Agrawal:** Yes, product being purchased, manufacturing and getting more efficient and also the shipping. We are giving more and more shipping discounts in today's Amazon world and we are trying to build up that margin a little bit on the front end. A lot of factors into play, but as I mentioned earlier if you go below 60% then there's something to be considered or something to be, attention needs to be given. Anything above 60% is we are fine with it.

**Kanwalpreet Singh:** The last question would be, another trend I have seen is that the differential between the ASP on the web and TV has continuously reviewed, but there's still some differential and I understand maybe that comes from your rising auction. So, where do you see this settling down, would web ASP be similar as a TV ASP? And if you could give a sense of how much as a percentage of total volume is rising auction.

**Sunil Agrawal:** So, our web has three channels. One is the rising auction as you mentioned, other is fixed price catalog where entire our inventory is published. The third is the TV streaming, the live programming streaming through web for the customers who don't get TV signal. So, all three have different ASP, so that TV streaming is similar to TV ASP. The rising auction is substantially lower, so rising auction is just around $11 or $12 ASP and FPC is slightly higher than TV, so what you see is mix of all these three. Now in long run from a visibility point of view, the ratio should be similar going forward because rising auction is an exit mechanism for items not moving through TV or retails remaining on TV. Even on the web if the item is really struggling and not doing well, it could go into rising auction. So, the ratio should stay constant in the near future.

**Kanwalpreet Singh:** So, the differential between your TV and web ASP should be at similar levels going ahead?

**Sunil Agrawal:** Yes, that is what I see right now. When some new change or new opportunity comes, so that may change the mix. But the visibility I have right now, it should stay the same.

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

**Sunil Agrawal:** Thank you everybody for your robust participation and your support to the business. If you have any further question, please feel free to reach out to CDR India or VGL. Vineet Ganeriwala at VGL and Shiv Muttoo and Karl Kolah at CDR India. Thank you very much.

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