



## Vaibhav Global Limited

CIN: L36911RJ1989PLC004945

Regd. Off.: K-6B, Fateh Tiba, Adarsh Nagar, Jaipur – 302004

Phone: 91-141-2601020; Fax: 91-141-2605077

Email: investor\_relations@vaibhavglobal.com; Website: [www.vaibhavglobal.com](http://www.vaibhavglobal.com)

# Q1 FY21 Earnings Conference Call Transcript

## August 03, 2020

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**Karl Kolah:**

Good evening everyone and thank you for joining us on Vaibhav Global's earnings conference call for the quarter ended June 30th 2020. Today, we have with us Mr. Sunil Agrawal – Managing Director; Mr. Vineet Ganeriwala – Group CFO and Ms. Dipti Rajput – DGM, Investor Relations.

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

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

I would now like to invite Mr. Sunil Agrawal to start proceeding on the call. Over to you.

**Sunil Agrawal:**

Good evening everyone and thank you for joining us today on Vaibhav Global Limited's Q1FY21 earnings conference call. I hope all of you, your colleagues and near and dear ones are healthy and keeping safe. I would like to take you through key business highlights, give you an overview of the Company's performance and share my thoughts on the business going forward.

We have started the current financial year with another exceptional performance in the first quarter. The headline numbers marked a considerable improvement YoY - Retail revenue improved 32%; EBITDA margin expanded 170 basis points to 14.1%, and Profit after Tax increased 47%.

As this growth has been achieved on a largely stable balance sheet without any significant capital expenditure commitment, we have seen strong improvement in return ratios and free cash generation. Overall, we are highly encouraged by these numbers that reflect the success of some of the strategies we have executed over the last few years. In addition, Q1 performance has been delivered in what is



normally a seasonally subdued period and in the backdrop of the widespread impact of the COVID-19 pandemic.

Our performance showcases the inherent strengths of the business model. Over the years, we have emphasized on qualities such as 'inclusion' and 'agility', which have helped navigate through the dynamic operating, technological and competitive environment.

Towards the end of the fourth quarter of FY20, we saw nervousness in the markets, and we responded with agility. In addition to our regular fashion jewelry and lifestyle products, we quickly offered health supplements, kitchen appliances, home-cleaning products, masks, sanitizers, and the like to our audience. This resulted in significant volumes increase to 3.2 million pieces from 2.3 million in Q1 last year - a 39% increase. This also resulted in addition of 84,000 new customers compared to 28,000 in Q1 of last year. On TTM basis, we served 426,000 unique customers in Q1FY'21 compared to 347,000 in Q1 last year - an increase of 23%. The ties that we have deepened with our existing customers and the new ones that we have built, will have a long-term impact on the business growth. We see this momentum continuing to take us forward in the foreseeable future, allowing us to achieve stand out operating and financial performance reflected in revenue growth and improved profitability.

Till date, the lockdowns enforced in any geography have not disrupted our business activities. Our retail operations at Shop LC (US) and Shop TJC (UK) witnessed robust business growth with revenues up by 20% and 32% respectively in local currencies. Our global supply chain network includes manufacturing set-ups in India and China and direct sourcing from micro markets in more than 20 countries. When China and India were in respective lock-downs, other countries picked up the slack and kept retail operations adequately stocked. This diverse and wide locally staffed sourcing footprint has helped us serve our customers at elevated demand levels and continued to offer a wide range of products, quick turn-around in product offering, and gross margins around the target levels of 60%.

Our team is our priority and we have taken appropriate precautionary measures to ensure safety and health of all during this period of the pandemic while continuing business operations. We paid extra compensation to our warehouse and studio staff during lockdown period. Staff that are not really needed to be onsite are continuing to work from home. We are carrying out numerous initiatives to keep all our team members engaged and informed during this pandemic. We have not retrenched or furloughed any of our employees in any location due to COVID-19.

Here I would like to share some key initiatives undertaken during the quarter that will drive future growth as well. At Shop TJC (UK) - Pixlee, a User Generated Content and Influencer Marketing Platform, was integrated into the TJC (UK) Website; To strengthen our social marketing program we engaged with TV page platform that enables online ambassadors; we started simulcast on one of the most popular channels in UK called 'More 4'. At Shop LC (US) - Home shopping celebrity Chuck Clemency, who has been in the industry for over 27 years, joined us as an expert guest host. At our warehouse, we streamlined our workstations and added automated conveyers. We have also invested in on-boarding expert talent for expediting growth on emerging platforms.

We continue to focus on our strategic objectives of expanding the 4R's underlying business performance – widening Reach, growing new customer Registrations, improving customer Retention, and increasing Repeat purchases. At the end of Q1, the reach of our TV networks stood at 100 million TV homes as compared to 99.4 million in the same period last year. We are strengthening our presence on our omni-channel sales platform which include proprietary TV and Web platforms, social



media, OTT and marketplaces. An omni-channel customer has a significantly higher lifetime value as compared to a single channel customer. New Registrations in the quarter jumped to 96k from 36k same quarter last year.

Our Repeat rate defined as average annualized quantity purchased by each customer on TTM basis stood at 27.2 pieces per customer compared to 30.5 pieces last year. This is down due to substantially high new customer acquisition achieved this quarter; Customer Retention rate stands at 50.5% from 50.2% in Q1 of last year, improving steadily.

Now to talk about some of our achievements - I am happy to announce that Shop LC (US) received Governor's Achievement Level recognition from Quality Texas Foundation for on-going quality improvement and high performance. This recognition indicates a well-deployed, effective, systematic approach to organizational management, with good performance levels and trends evaluated against industry standards. In another notable achievement, Shop TJC (UK) has been recognized among UK's 'Best Workplaces' and 'Best Workplaces for Women' by Great Place to Work® Institute.

As the world continues to reel under the impact of COVID-19, we continue to show our solidarity with the frontline medical and law enforcement teams who have been working tirelessly for the last several months now. We donated over 160k masks across hospitals, care homes, police stations and grocery stores in the US, the UK and India. In these challenging times we provided ~3.4 million meals to people in need through Akshaya Patra India. Coming to our flagship CSR initiative, the 'One for One' program, we crossed a huge milestone during the quarter and have now provided over 40 million nutritious meals to school children across India, the US, and the UK since program's inception five years ago in UK and 3 years ago in US.

Before I conclude my opening comments, I would like to restate that Vaibhav Global Limited continues to drive agility and inclusion across every aspect of its business. This is resulting in sustained financial delivery that is visible in our ongoing retail revenue growth, operating margin expansion, growing earnings per share and rising returns on capital employed and cash flows. We expect the momentum to continue this year as well and we look forward to improving value for all our stakeholders. In the short term our revenue growth will continue to be at elevated levels owing to consumer propensity to online shopping during current pandemic. The elevated growth may continue in the medium term as well, however, I would like to reiterate that we are favorably positioned to deliver 15-17% retail revenue growth in constant currency terms. And you may already be aware that the business model has inherent advantages of significant operating leverage.

To conclude, I would like to express my sincere gratitude to VGL team, who make the magic happen, thank our vendors for their continued support, and our community partners who give us a meaning to what we do every day.

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 Limited's Q1FY21 earnings call. I hope that all of you and your families are safe and healthy. I will take you all through our financial performance for the quarter ended 30th June 2020.

We witnessed a good start to FY21 with both geographies recording strong performance during the first quarter. Our revenues increased by a strong 25% YoY to Rs. 550 crore.



Gross margin came in at 64.3% even as we expanded our portfolio of products to essential items. We have continued to see increasing sales contribution from fashion accessories, lifestyle and essential products in our overall product mix. We have maintained target gross margins of around 60% over the last several years while sustaining our deep value offerings across a growing number of product categories. Margins are also supported by our ability to source from micro-markets at lower costs and a quicker turnaround time compared to our competitors.

Q1FY21 EBITDA margin expanded by 170 basis points YoY to 14.1% and profit after tax grew by 47% YoY to Rs. 53 crore. As we expand revenues on a stable operating cost base, operating leverage continues to play out and this trend may continue during the rest of the year as well based on the growth visibility for the business.

Earnings per share increased from Rs. 11.02 for Q1FY20 to Rs. 16.37 for Q1FY21, driven by growth in profits. These financial numbers indicate a positive trend and strong traction for our product offerings among customers, even more so in the extremely challenging circumstances several businesses across the globe are finding themselves in.

As you all probably know, we have been focusing on the retail or B2C business, which constituted almost 99% of our total revenues in Q1FY21. We have been early adopters of the omni-channel sales model. We continue to expand the engagement with our customers through multiple platforms we operate on such as television, web, mobile apps, marketplaces, social media platforms and several new age digital platforms. This adds to our strength and gives us the flexibility of cross-referencing customers, which is beneficial to business growth.

While headline revenues grew at 25% on a YoY basis, retail business revenues from our omni-channel platforms were up 32% YoY. Within retail, TV home-shopping based revenues were higher by 25% YoY and revenues from web platforms grew 47% YoY. Web contributed 37% of retail sales in Q1FY21 up from 33% in Q1FY20 as revenues continued to get more balanced between the two sales channels. While we continue to report these numbers separately, it is important to note that the two platforms are continuously converging to form a symbiotic omni-channel ecosystem along with several other emerging sales channels that I just mentioned.

Volumes in both TV and Web were strong, showing YoY growth of 39% and 40% respectively. ASP's were lower on y-on-y basis due to transition in the sales mix based on the larger range of offerings.

In addition, we see our platforms increasingly become product agnostic. The contribution from non-jewellery mix to retail revenues has been expanding – it now stands at 36% as compared to 18% in Q1 last year.

Growth in both the geographies has been robust. On constant currency basis, Shop LC (US) grew 20% y-o-y, while TJC (UK) grew 32% y-o-y for the quarter.

We reported healthy cash flows for the quarter. Operating cash flows for the quarter stood at Rs. 87 crore and free cash flow came in at Rs. 82 crore. ROE was 26% and ROCE improved to 49%. The uniqueness of our business model supports high cash accretion on a low asset base and low capex requirement for a significant scale up. Combined with a negative net debt position results in higher ROCE on a consistent basis.

We have put in place our dividend distribution policy, based on which VGL would endeavor to maintain a total dividend pay-out ratio in the range of 20% to 30% of the



annual consolidated free cash flow of the company. Based on the same, the Board of Directors declared an interim dividend of Rs. 5 per equity share for Q1.

To conclude, we have witnessed another quarter of strong growth, especially in the challenging scenario the world finds itself in. This has been possible due to our agile business model, which has helped us consistently to adapt to change. Cost consciousness is firmly embedded in the Company's culture. In current times, we have renewed our focus on cost rationalization and cost re-basing by renegotiating contracts. We maintain a strong Balance Sheet that allows us to reward shareholders while evaluating any new growth opportunities. Going forward, we expect to maintain our growth momentum to add further value to every stakeholder associated with the company.

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

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers.

**Pritesh Chheda:** Sir, at this juncture do you want to call out for a sustainably higher growth rate on a constant currency basis for us in FY21? And also a much higher growth rate on a sustainable basis from here on versus a 12% to 15% growth rate that we were earlier calling out on constant currency?

**Sunil Agrawal:** First of all our earlier growth rate guidance has been 15% to 17% increase in retail revenues for the last couple of years. So, the current pandemic environment is something unknown for us. We have responded in a very agile manner, and we have also acquired a lot of customers. But there are still a lot of unknowns. We may continue with higher level, but at this time we are continuing our guidance of 15% to 17%, mainly because there are a lot of unknowns.

**Pritesh Chheda:** Okay. Any supply side challenges that you are incurring or any challenges for the 15% to 17% growth rate generation?

**Sunil Agrawal:** Not at all, from supply side.

**Pritesh Chheda:** Okay. And third question is, on the US operations, what has been the market growth rate in the QVC business there? And any market share changes that you would have seen in the quarter gone by, if you have some educated guess there? And from the initial commentary, you mentioned that the platform has become product agnostic. So, in a later stage, someday TJC, which is a jewellery channel in the UK, also eventually must be repositioned at some later date into a different name to accommodate the product agnostic platform?

**Sunil Agrawal:** So, market share wise, in three years, the data that we recently looked at, we increased our market share from 1.5% to 3%. But we have a long runway in front of us, we are looking at only television/e-commerce players. We do take market share away from other brick and mortar as well, but I am not counting that. So, we have a lot of runway in front of us, from 3% up to the industry leader, which is Qurate Group, they have 93% market share. Thus, there is a lot of runway in front of us.

Now second point is about the TJC (UK), so, TJC (UK) is already product gnostic. Because it used to be The Jewellery Channel, so we renamed it TJC about four years ago. And since then it has been product gnostic and we don't need to change the name for the product sake.



**Pritesh Chheda:** So now it is known as just TJC, it's not known as The Jewellery Channel, nothing of that sort?

**Sunil Agrawal:** That's Correct.

**Moderator:** The next question is from the line of Lakshminarayanan KG from ICICI Prudential Asset Management.

**Lakshminarayanan KG:** A couple of questions. First is, over the last four or five years, how the demographic of your customers in both the US and the UK has changed in terms of age, as well as any other income patterns? That's the first question. The second question is that, from a fulfilment rate, how the efficiency has improved in the last four, five years? And the third question is that, if you look at the product placement via TV channels, and also various other things like Amazon, Google Marketplace, etc., what is the kind of margin difference that actually happens between television and the other channels?

**Sunil Agrawal:** Sure. So, your first question is about customer demographics. On the television space, the customer age group is same, it hasn't changed, because people who stay at home are people who are retired, spend more time on television. But with our switch more and more towards digital and social, our average age has come down a bit. I do not have exact data right now with me, but we are seeing, we just discussed last Board Meeting only, we presented the age group. So, we are seeing more 20s and 30s age group showing up as a ratio of customer group. Your question about fulfilment. We have added automation in our warehouses over the last year, and that has improved our picking and packing productivity. But our productivity compared to Amazon is still about one-third. So, they are 3X more efficient than our warehouses. And that is our future growth path or further cost reduction path, as we go into the new automated warehouses that are in the plans, we will improve our efficiencies substantially.

**Lakshminarayanan KG:** Sir, on that front, where are the warehouses right now and where are we planning to add any warehouses?

**Sunil Agrawal:** Within the US and the UK only, so we are continuing to add automation within our warehouses. We are planning three years out, as we see running out of capacities, we will add warehouses locally. And over the longer term, we will add warehouses in different locations, especially in the US we will be adding warehouses in East Coast and West Coast. Right now, we are located in South Central location of the US. So, to get closer to the customer and faster to the customer, we will be adding warehouses locally. But that is still in early stages of planning, no concrete location or CAPEX plans on that yet.

The third question was about product placement at the marketplace and other properties, and how the gross margin differs. So, our gross margin is identical at marketplaces, as well as our own digital properties. Because the same feed that goes on our platform goes automatically on marketplaces like Amazon, Walmart, Wish, E-Bay, Overstock and Google. So, all those market-places have automatic feeds, so it's not manual feed. So, the gross margin is very similar because the product is same.

**Lakshminarayanan KG:** But you will be paying some placement fee, etc., in these platforms. So, on the margin at your end, what is the difference? Not the gross margin but after deducting expenses.



**Sunil Agrawal:** I do not have the exact data, but yes you are right, we do pay placement fee, the sales fee and also some advertising fee on those platforms. I don't have exact profitability numbers in front of me for each segment.

**Lakshminarayanan KG:** Just trying to understand this - you have kind of put all the costs together for television and then if you put cost for this as well, so at the operating margin level what delta actually is there? Because as the mix is changing towards more of non-television, so is it good or bad for the organization as we move forward for the next five years? That's the reason I asked this question.

**Sunil Agrawal:** So, as I mentioned in my opening remarks, our business is pretty much omni-channel and we try to move customers extensively into different channels, because their lifetime value goes up by at least 5x if we do that. So, our interest is to move people from social to our digital properties, from social to even marketplaces, and from marketplaces to our digital properties; and if possible, to television as well. Because that is where the lift for business comes in.

Now when we look at standalone basis, all properties, whether it is marketplace or digital or television, or even social now, they are all profitable for us on a standalone basis. But our main benefit comes when we move customers from one channel to another.

**Lakshminarayanan KG:** On the first point on the demography, what is the average age right now for our customers in the US and what is it in the UK?

**Sunil Agrawal:** I don't have an exact average age, but our customer demographic used to be from 35 to 75 years, now is about 25 to 75 years.

**Lakshminarayanan KG:** Got it. And is it skewed towards the above 50 year, any idea on that?

**Sunil Agrawal:** So, television is skewed towards the older age. Digital is a little lower, marketplace is even lower, and social is the lowest.

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

**Chintan Sheth:** Sir, I have a set of questions. So, if you look at our growth on TV compared to others, that has been growing faster for past three, five years. And on TV, my understanding is that we run roughly two TV channels, each in the US and the UK, through which we broadcast our product. So, my first question is, can we sustain our rate of revenue growth in TV from the existing broadcasting space? And if you aim to grow much faster than that, whether we need to add channel count or broadcasting space per se, to grow TV side of the business?

And related to that, since our web sales has been stronger than our TV sales, I understand our omni-channel model where a lot of our efforts on TV front is driving web sales as well. So, in that context, how do we see your incremental investments in TV and web over the medium-term in terms of building a platform or building broadcasting space, in either medium?

**Sunil Agrawal:** TV revenue growth will continue for quite visible foreseeable future. The reason is that we still are not into the prime channel positions that our competitors are. So, as I mentioned in my opening remarks, we just contracted with More4 in the UK. Similarly, in the US we are going to experiment with those prime channel positions. They are more expensive, so we have to experiment in small markets and see how those markets pan for us. In the UK it has been doing well for us. So, when you look



at HSN/QVC, their estimated revenues are about \$25/\$60 per home, our revenue is just around \$3 per home. So, from TV space also we see a lot of potential for many years to come. From web sales, there as you see the ratio of our sales in the web continues to grow up, because web has more potential and we are continuing to invest in web platforms, on native web, as well as web related properties like OTT, which is smart television, also social media, and other marketplace that is web-based and those are seeing much higher growth than our own digital as well as traditional.

**Chintan Sheth:** So, incremental investments given the growth will still look lower, because our efforts in the digital and web and social side will continue to grow the business. And even if we go for the higher cost primetime channel space, it kind of offsets the overall trend in terms of broadcasting content, that is the way we should look at it?

**Sunil Agrawal:** Yes, we will continue to see leverage, because we are more measured in our approach as a business, so there will be leverage into free cash flows, as well as into operating profits.

**Chintan Sheth:** Okay. So, incremental greenfield channel or incremental additional channel, even though cost will be front loaded, you believe that can be offset by the increase in the growth from the other mediums?

**Sunil Agrawal:** That is correct. And we have very rigorous method of evaluating any new opportunity. So, every new channel we take, we evaluate for one month, three months, six months, one year and 15 months. And at every level, we must meet certain criteria, otherwise we exit that market with a lot of agility. I don't believe such kind of agility is normal for this industry.

**Chintan Sheth:** So, if I need to ask cumulative, how many hours of broadcasting content we display through our TV on a daily basis?

**Sunil Agrawal:** We are live 24/7, so that many minutes a day. Now, how many channels that we have broadcast on, currently it is less than two channels per home, I don't have the exact number, but it is less than two channels. QVC is about 3.5 to 4 channels per home, so we have a lot of room to grow from that point of view.

**Moderator:** The next question is from the line of Ashish Kacholia from Lucky Investment Managers.

**Ashish Kacholia:** Can you just talk a little bit about what is our strategy and the kind of traction that we are seeing on the Instagram platform? I see your web page on Instagram and it's quite interesting with a lot of following. So, if you can just talk a little bit more on that.

**Sunil Agrawal:** So, earlier we used to just advertise on Instagram. But since last about four months, we have started to present the product through the videos and through still images on Instagram, and that is getting a lot of traction. So, we are getting revenue directly from that, as well as from following. And we will continue to accelerate that method of promotion. It is called Social DR, Social Direct Response. And we are setting up a very robust team to take advantage of that.

**Ashish Kacholia:** Okay. And what are the kind of investments or what are the kind of percentage of sales that you hope to do on this platform over the next two, three, five years, whatever?

**Sunil Agrawal:** It is very new, so to give a position on that - we have our internal position but to state the position to a wider community maybe too early. But we are setting up a team of about 8 to 10 people, between the US, the UK & India to accelerate that business.



**Ashish Kacholia:** And on Facebook, do we have a similar kind of a commerce channel on Facebook as well?

**Sunil Agrawal:** Exactly. Same feed goes on both, Facebook and Instagram. We are also really excited about the future growth potential in that space.

**Ashish Kacholia:** Yes, it looks very interesting because I see a lot of women commenting, "Oh, this looks so good and this looks so nice." It seemed to be quite a buzzing kind of a channel, so that is kind of very interesting. Ultimately, I think it's a question of how big a community can we create. I think this is a real classic case of success building on itself. So, if we get this right, I think it can just completely change the fortunes of our company.

**Sunil Agrawal:** That is true. And actually, what we have done is we are setting up a very strong innovation team, product innovation team as well, because social is all about innovative products. Although we were innovating earlier also, we were more trend spotting earlier. So, we are setting up an innovation team who can come up with a solution product which customer or people want, something that is outstanding in the market. And that will play into these particular channels. And we are very excited with the whole ecosystem that we are creating.

**Ashish Kacholia:** Yes. My thought would be that suppose we were to be the Zara of this space, the fast follower model, so you have a lot of these very expensive designs that come out on Harry Winston or all these very expensive jewelers, right? But the consumer aspiration is such that they want those same jewellery, but they want at \$30. So, if you can deliver \$30,000 piece at \$30, then that's like an insane value. So, do you feel that we can do something like this?

**Sunil Agrawal:** So, Zara model we have been following up for many years, Ashish. Our idea is to go one step further also for special channels, to come up with a solution product that are not yet out there. Looking at the problems that people face, for example, customers might be rushing for certain solution in their life, and they can't find a product for that. So, we want to be able to address that need, in addition to what is already out there for cheaper.

**Ashish Kacholia:** Great, your thought process seems to be on the right track and I just hope we can really execute on this. I would just say that you should not under invest in this. I mean, if need be, instead of 10 people, if you feel that there is more potential then maybe 20 people, 30 people. I mean, as much as this part of the business needs, I think that kind of investment we should give it, because we have the cash flows now to do that.

**Sunil Agrawal:** Of course. Thank you for the advice.

**Moderator:** The next question is from the line of Akash Singhania from Motilal Oswal Asset Management.

**Akash Singhania:** I have two questions. The first one is, we have seen a lot of new first-time customers this quarter. So, I wanted to understand whether these new first-time customers are as profitable as repeat customers, or there has been any cost of acquisition, like discounts, rebates or incentives to any of the new customers?

And the second question is, in the non-jewellery sales, which has almost doubled this quarter on a Y-o-Y basis, almost from 18% to 36%. So, can you tell what trends you are seeing in terms of a resell for this and cross-sell for these customers from our jewellery part? So, these are my two questions.



**Sunil Agrawal:** So, from the new customers point of view, the cost of acquisition is not anything meaningfully extra. We give incentives on social or marketplaces to transition to our own channel, but they are not really meaningful. So, these new customers came mainly because of the product offering and the engagement that we had during this time. Because during pandemic, other retailers, brick and mortar were closed, and people didn't want to go out, so shopping online and on television was predominant. So no, we did not spend much money in acquisition of these customers. Our opportunity is to engage these customers and have their repeat purchase rates similar to what our historical customers have shown. So, that we have a waterfall methodology drafted in both channels, in the US and the UK to utilize these customers or to engage these customers to outside products, say jewellery product or the other home product or accessories product - they might have bought some essential, they might have bought home product, they might have bought jewellery during this time, how to engage them further. So that continues to be our opportunity and our task. And that is why we are not giving a firm elevated guidance at this time, because we don't know how much we can engage this customer. We hope to do so because we are seeing in current quarter our sales growth is continuing to be at a higher level even though the essential product has gone down substantially. So, we are seeing that right now. But how long it will continue, we don't know.

The second question was about non-jewellery sales, cross-selling, those customers other products. So, as I said, this would also be pretty much similar answer to the first one. So, we have a waterfall system in place with about more than 10 tactics to engage those customers into different ways through discounts, through offerings, through catalogue, through calling, all those methods. And we are continuing to do that, and we are seeing some traction on that. But it's still too early to say how much we would be able to transition those customers into other business.

**Moderator:** The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management.

**Pulkit Singhal:** Just wanted to just check on this 32% retail revenue growth momentum. Is it fair to say that, April we have been a bit impacted, but I mean the way we are looking at in June, the recent trends in June, July, they are working at a higher level?

**Sunil Agrawal:** So, 32% revenue growth was for the whole quarter, April, initially couple of weeks were slow, but after that it really picked up for the whole quarter. And we are seeing Q1 type of revenue growth currently in July. But how long will it continue we don't know; it is still very early in Q2. How long it will continue, we do not know, so that's why we are not having any elevated guidance at this time.

**Pulkit Singhal:** Okay. And to that extent, the product mix could reverse as well? I mean, it is possible?

**Sunil Agrawal:** Product mix has already changed from Q1 to Q2. Q1 we had approximately 17% essentials, the trend we are seeing right now is only about 7% essential, less than 7%. But still the sales were at the elevated level. So, we are continuing to offer products that are needed. Jewellery sales have again resumed to be at a higher level, and other products continue to sell well. In jewellery, earrings are selling well because a lot of people are on Zoom calls, the tops are selling better than, say, bottoms or skirts. So, we are moving in very agile method, with what the customers will need.

**Pulkit Singhal:** And what percentage of the web sales of Rs. 203 crore do we have from other platforms versus our own platform?



- Sunil Agrawal:** I don't have the exact data right now. But maybe we can share that later with you. I can only tell on the marketplace that I remember. Marketplace was about, for the whole year last year was about \$4 million approximately marketplace, and this year's current revenue trend is about \$10 million to \$12 million. That is only data that I have visible to me.
- Pulkit Singhal:** \$10 million to \$12 million this year or this quarter?
- Sunil Agrawal:** This quarter gives a run rate of \$10 million to \$12 million for the whole year. So last year, we did about \$4 million in marketplaces, so this year it is about 3 times higher. So, what it tells me is that, even when we are selling on marketplaces, like Amazon, Walmart, eBay, it shows our product strength because we are competing there with millions of vendors. So, our product strength is robust, so we are able to grow 250%, 300% in marketplaces in competition to other players. That gives us confidence in the product.
- Pulkit Singhal:** And sir, in terms of the cost that we have seen this quarter, whether it be in terms of employee cost and other expenses. I mean, they grew 20% and 26%. I am just wondering whether there are some one-off elements this quarter because of the COVID situation there are higher costs. Is there something that you would like to call out? Or do you think these are more sustainable run rate as you would have seen?
- Vineet Ganeriwala:** Yes, we have some COVID costs, as we may call it, because like Sunil mentioned in his opening remarks, we paid higher salaries to our warehouse staff and studio production teams, who operated in this COVID pandemic, from the site. So altogether, if we remove that extra COVID cost which we paid during Q1 and also there is some FOREX translation coming into play because the average rate being higher for Q1 this year, if we remove both of these, the employee costs would be increasing at a rate of about 8% to 9% year-on-year, which is pretty much what we expected it to be.
- Pulkit Singhal:** Right. But that should reverse by Q2 or that will continue as you continue to have elevated costs because of the COVID?
- Vineet Ganeriwala:** So, the COVID cost of 4% to 5% will reverse from Q2, but the FOREX translation would depend on the prevalent rates.
- Pulkit Singhal:** Okay. And lastly, what is the CAPEX plan for the year?
- Vineet Ganeriwala:** So, last year we incurred about Rs. 35 crore of CAPEX, so our run rate CAPEX is pretty much similar. Unless, like Sunil was mentioning, we go ahead and invest in some of the warehouse or office premises which will come on as we see viable project for that. Other than that, the run rate CAPEX is close to Rs. 30 crore for the year.
- Moderator:** The next question is from the line of Lakshminarayanan KG from ICICI Prudential Asset Management.
- Lakshminarayanan KG:** If you look at your sales returns, what is usually your sales return? And how you are handling that logistics issue given its COVID? That's one. And second, in terms of the non-jewellery items, something like handbags, etc. So how do you manage the SKU mix and what is the proportion of that in our sales, and what growth it is actually seeing? And how do you plan to grow that particular non-jewellery item in your portfolio of products?



**Sunil Agrawal:** Sales return is a normal part of business in our case. So, last quarter of financial year 2020 we saw elevated returns because people got nervous. But in first quarter, Q1 FY21, that is our normal return rate, which was approximately 18.6%. But we have teams in our warehouses that handle the returns and like any other warehouse people we were there as well, and we paid extra during the COVID times and they were there and they are still out there. So, our returns, in fact, it used to be about two days backlog, but right now we have not even two days backlog, we are refunding to the people same day of the product reaching us, to make them comfortable.

**Lakshminarayanan KG:** This 18% return is something which has been there for the last three, four years? And how do you handle that returns, once the return happens, do you kind of refurbish it and send it to the place of origin, how do you handle that part?

**Sunil Agrawal:** So, some portion of return, very small portion I were to say, if we sold wigs to the people, and if it comes with a seal broken then we don't sell it. Or say it is lingerie we sold, we don't sell it back, we put it into trash. But most of the product, for example, jewellery, we inspect it for quality, if it is the right quality, we put it back. If it is earrings then we steam it, sanitize it, and then we put it back. If it is other household products, if it is usable then we put it back. So, a very small portion of that is discarded. Since most of our product is sourced from Asia, we don't send back to Asia. If there are small products which do not go on air, we put it on our rising auction or clearance. Rising auction is a mechanism of starting everything at \$1, and at whatever price it clears, it clears. So, we have very good mechanism of exiting the small tails or returns. We don't have accumulation of inventory, as you would have seen our cash flows. Because we don't accumulate inventory of our small tails, we have a good mechanism, so we don't accumulate.

Your next question was about non-jewellery product, how the mix is changing? So, as you might have seen, our non-jewellery product has steadily increased as the ratio of total sales. And we expect that to continue. Because as we are learning more about the product, as we are learning about customer taste, as our merchandising, our sourcing is getting better, that ratio will continue to steadily increase. Although within this quarter it has increased suddenly because of essentials, but in long run we see that continue to steadily increase over the time. And we are also learning, for example, the fabric, kaftans are receiving great traction, so we just started a factory for kaftans in Jaipur. It's a contract factory - it just started last month only. So, as we see traction and volume increasing for us in certain category, we will go deeper into it, into contract manufacturing or our own manufacturing. We will continue to go deeper and retain our value proposition for customer and capture the channel margins as much as we can.

**Lakshminarayanan KG:** And what is the mix right now, jewellery and non-jewellery?

**Vineet Ganeriwala:** So, the non-jewellery is right now 36% and jewellery is 64% for this quarter.

**Lakshminarayanan KG:** And would it be in terms of your arrived operating profit margin, how that mix would be approximately? Would it be similar or it would be the other way around?

**Vineet Ganeriwala:** We have quite similar margins across the different product categories and maintaining the gross margin above 60% is one of the basic rules we follow for the product to find a space on our TV or web.

**Sunil Agrawal:** Right, we start with our gross margin. So, whenever a merchant merchandises a product or whenever our India or China, or Thailand or whichever of our local units offer a product to channel buyers, they keep the margin in mind. So, we have this rule that we won't sell any product below certain margin. So, we start with that. And



if the product doesn't meet those criteria, it doesn't get picked out. So, it doesn't go from product to margin, but from margin to product.

- Moderator:** The next question is from the line of V.P. Rajesh from Banyan Capital Advisors.
- V.P. Rajesh:** My first question was regarding the new customers that have come on the platform. Can you just comment on what is the driver for that?
- Sunil Agrawal:** There are two drivers for this, the main driver is that people were staying more indoors, and brick and mortar retail was not as prevalent. Combined with that, our essential and home product offering that we sourced very quickly and offered. And the second is that more and more we are transitioning customers from different sales channels, for example, marketplaces. As I mentioned earlier, we are seeing sales tripled from those areas and we are transitioning those customers to the main business - from social DR we are transition to the main business, from OTT that is streaming platforms, we are going aggressively in to marketing to those customers and transitioning those customers to the main business.
- V.P. Rajesh:** Okay. Most of the people in these markets, especially in the US, they had these payments given to them for unemployment, \$600 or something. So, do you think your sales were impacted because of that kind of stimulus? Or do you think that kind of customers coming on board are sort of sustainable and will stay with us for a longer period?
- Sunil Agrawal:** So, stimulus might have helped them sustain their normal buying behavior which may not have happened if this money had not come. We don't believe that this money has actually highly elevated our sales or customer acquisition. That was mainly the result of us offering the right product at the right time, and elevated viewing or online shopping.
- V.P. Rajesh:** My second question is, could you share the customer acquisition costs, especially on Instagram or Facebook that you were earlier talking about?
- Sunil Agrawal:** I don't have an exact data on that, Mr. Rajesh. Everything is baked into our P&L. From television properties and from our digital properties, all our marketing costs are not really high. We are relying more and more on the product strength, and the product stories that catch people's eyes. From Instagram and Facebook, our platform costs are approximately 30% to 40% of our sales currently, that is the cost that we pay to them. So, if you have 60% margin, that is easily affordable for us.
- V.P. Rajesh:** 60% is excluding your marketing cost of goods?
- Sunil Agrawal:** Correct. So, outside cost of goods, our gross margin is 60% or 64% in last quarter. Off that 60%, we are spending about 30% to 40% into platform cost but they are still very small revenue for us at this time. So, they don't really count into our overall mix. Now from the platforms of marketplaces that is Amazon, Walmart, eBay, Overstock, Google, our platform cost is approximately 30% to 35%, there is a fee we pay to the platform and the marketing we do within those platforms.
- V.P. Rajesh:** Okay, that's very helpful. And the other question I have is that what is your repeat customer, what percentage of customers are repeat in this quarter where they had bought in the past and they are coming directly to you?
- Sunil Agrawal:** We look at repeat in terms of how many pieces that they have bought from us on an average over last period, and we look at trailing 12-month numbers. So, as I mentioned, the repeat purchase is about 27 compared to 30 last year. And the



second thing we look at is retention, how many customers that purchased a year before in last 12 months, that number is 50.5% compared to 50.2% of corresponding period a year before.

- Moderator:** The next question is from the line of Sabyasachi Mukerji from Centrum Broking.
- Sabyasachi Mukerji:** I had two questions. First, you mentioned that you are witnessing elevated revenue growth for the current quarter. What's your outlook in H2 of current financial year given that the US elections are scheduled? If you can throw some light on that.
- Sunil Agrawal:** So, we may see elevated growth continue if the habits or the behavior continues, if people stay indoors, we will see elevated growth continue. If the elevated growth does not continue, if you find that people are able to travel very openly as they used to travel before, we will go back to 15% to 17% growth. Now, how much of the new customer that we have acquired during pandemic, how many we can transition to the H2, we do not know yet. So, that is why we are not giving higher guidance at this time.
- Sabyasachi Mukerji:** Second question I had, had two parts. So, I was going through your annual report. First of all, if I look at your other expenses between FY19 and FY20, absolute value remained the same, at Rs. 70 crore odd of other expenses, and hardly anything, any additions are there. So, this figure seems to remain constant over a considerable period of time, which is why we are seeing operating leverage. To your thought, how much this number can see a rise or nearly constant growth in near and medium term, if you can throw some light on that.
- Vineet Ganeriwala:** Our model is unique and we operate on a very stable kind of a fixed cost, which will not go up commensurately as the revenue goes up. So, we have been able to drive operating leverage for the last many years. And we expect to continue doing the same. In this quarter also, the same was reflected in the expansion of EBITDA margin to 14.1% and even PAT margin coming closer to 10% now. So, we do not give any guidance on our profit margin expansion. But yes, cost being largely stable, except shipping cost which will continue to go up in terms of volume growth, the other costs are more or less stable. So, we will see operating leverage going forward as well.
- Sabyasachi Mukerji:** So, items out of that other expenses corresponding to your doubtful debts which arise from write offs from the budget pay I presume. And the budget pay was around 39% of the sales in FY20, which translates to around almost Rs.770 crore, so out of Rs.770 crore you have almost Rs. 19 crore doubtful debt, which is around 2.5%. Do you see the same level of provisioning of doubtful debt going ahead?
- Vineet Ganeriwala:** So, the doubtful debts and advances that you are talking about last year, maybe besides the budget pay it would also have some element of B2B doubtful debts also there, which as a strategy we have been reducing over a period of time. So, going forward, these will only reflect the B2C numbers which are very healthy. So, if we look at our bad debts for the US and the UK, they are to the tune of about 1-1.2%. So, you should see that only going forward.
- Sabyasachi Mukerji:** So, this number will come down, kind of doubtful debt we have, this number will come down?
- Vineet Ganeriwala:** In terms of percentage of revenue it will remain same in terms of B2C to the level of 1-1.2%, it should remain at that level. The gross number will follow the B2C revenue trend.



- Sabyasachi Mukerji:** And the other thing was on the rent part. So, I see almost your rent coming down from Rs. 16 crore to Rs. 8 crore, anything over there I am missing out on this?
- Vineet Ganeriwala:** So, last year it was the IndAS restatement which we also disclosed separately. So, it was largely because of that, otherwise the rent has not come down to 50% in the last year. But that is a regrouping which was applicable last year because of the IndAS restatement. From the current year level, you will see these levels of rental impacted by renegotiations and also some contract-based increments as well.
- Moderator:** The next question is from the line of Akash Singhania from Motilal Oswal Asset Management.
- Akash Singhania:** My question is, sir we already have a net cash of almost Rs. 250 crore, and post our dividend policy actually we can almost double our cash flows in the next one year. So, in terms of deployment of capital of our cash flows, are there any acquisition opportunities? And if there are acquisition opportunities, your views or perspective on the kind of capabilities, synergies and size of acquisition we would be interested or looking for.
- Sunil Agrawal:** So, we are continuing to build some cash within the group for any potential opportunity that may come our way. So far, we have not identified any specific opportunity. But we want to be prepared if something comes. But at this time, I can't give any visibility on that.
- Akash Singhania:** Okay. In terms of any areas in the front end, back end, in terms of business segments or capabilities or synergies, you look to any target acquisition in any respect or any area, if you could share your perspective?
- Sunil Agrawal:** If you look, it will be mostly in the front end, whether it is a digital or other TV/e-commerce player to expand our customer base.
- Moderator:** The next question is from the line of Runjhun Jain from Nirmal Bang Securities.
- Runjhun Jain:** Sir, I would like to ask you a little bit more about the growth. We have done an amazing growth in this quarter, and you are saying that in near to medium term it is likely to continue. And you are also saying that the essentials have come down and this is a normal sales and normal product which has been selling. So, why the management is not confident of probably upgrading the guidance or of continuity of this growth?
- Sunil Agrawal:** The main reason is that we believe that this pandemic behavior of people staying indoors is helping online shopping and TV shopping. And we do not know when it will end. So, we believe that once it ends, then the situation may again revert back to our 15% to 17% growth levels. So, that is why we are not getting the firm guidance. And also, this is still very early in the current quarter, it's been only one month that we have seen the elevated levels. And if the behavior changes next week or next month, then the growth may not sustain. So, pandemic is so uncertain, unprecedented, it is very difficult to replicate any past behavior into the future. So, we don't want to take that risk of giving a guidance and not meeting that.
- Runjhun Jain:** Fair enough. Sir, one more thing. During this quarter we have seen that the average selling price has come down, both for TV and web. Despite that we have reported an improvement in the gross margin. Sir, wanted to understand any reason specifically why we are seeing the average selling price coming down? And what is driving the gross margin?



**Sunil Agrawal:** So, the lower price point doesn't mean that it has lower gross margin. In fact, our lower price point overall strategy has allowed us 60% kind of gross margin compared to other retailers who don't make these margins. So, on TV and web, both we offered a lot of home products and essential products, and even the jewellery high price points were not selling as much as the lower price points. So overall during this pandemic, a lot of lower price point products were sold. And as we have said many times that we offer customers what they need, we are very agile in offering the right product to the customer. And we would offer, so depending on the customer what they are pulling rather than just pushing.

**Runjhun Jain:** Great. Sir, just last one bookkeeping question. Is there anything one time or one-off in the interest cost? Or that should be the run-rate I mean, I don't know what, but that has come down quite drastically. I mean I know it is only the bank charges are there probably and all that because it's a debt free company. But as compared to the last quarter why it has been so down?

**Vineet Ganeriwala:** So, there is no one-off in the interest cost. But what gets added to the interest cost is also the FOREX impact of the working capital loan which we have in India in USD. So, it would depend a large part on that FOREX rate movement between quarters. So maybe in this quarter the impact of that FOREX loss on that working capital loan was not that much, which might be causing this number to be low. But overall, also, our utilization of the working capital limit has been a little low when we look up year-on-year. So, our net interest cost is also down.

**Runjhun Jain:** Sir, is it possible for you to quantify the FOREX impact?

**Vineet Ganeriwala:** Sure, I can just have a look and give it to you separately.

**Moderator:** The next question from the line of Ikshit Naredi from Naredi Investment.

**Ikshit Naredi:** So, you have a manufacturing facility in China, is there any impact on manufacturing part or any kind of export problems you are facing between China and the other countries, like the US and the UK?

**Sunil Agrawal:** No, we are not facing any problem for our product categories from China in the current environment. Only when the China was in lockdown, at that time we couldn't ship anything from there. But now everything is normal.

**Ikshit Naredi:** Okay. And is there like any more different type of products like you are planning to add in portfolio in the UK or the US?

**Sunil Agrawal:** We continue to add more than 150 products every day. So as customers pull the product, we offer to them, and we have a lot of trend spotting people who are continuing to merchandise and look all over the world what is new, and then we offer it. So, it is an everyday phenomenon in the company.

**Ikshit Naredi:** Right. And are you planning to enter in any new geographies, like in any new location or something?

**Sunil Agrawal:** Not immediately. Our longer-term goal is to get into Germany and Japan, but there is no immediate plan.

**Moderator:** The next question is from the line of Jason Soans from Monarch Network Capital.

**Jason Soans:** You did mention earlier in the call that you want to increase your market share in the US - it's already increased from 1.5% to 3%, and you would want to increase it -



there is a long runway for growth. Just wanted to understand, in the US as well as in the UK markets, what is your current market share and who is the dominant competitor out there?

**Sunil Agrawal:** So, the most dominant competitor is the Qurate Group, they own about more than 90% of market size in both the US and the UK

**Jason Soans:** And just one question what I wanted to know, you did mention that in your low price point products are selling and you see a lot of competition from the Qurate Group as well. So just wanted to know what you think is the USP of our products for the US value proposition?

**Sunil Agrawal:** So, we are mostly house brand company. So, we develop our own brand and sell it under our brand, something like Zara. We are more like Zara and Qurate Group is more like Macy's, they sell third-party brands. They sell national brands of all different products. They have some of their house brands too, but majority of their sales comes from say Samsung of the world or Bose headphones, and all different products. And the average price point they have is about double than our price point, so it's a different positioning in the marketplace.

**Moderator:** The next question is from the line of Chintan Sheth from Smeeksha Portfolio Advisors.

**Chintan Sheth:** Sir, one thing, on the reversal of the US pay support from the government - will that have any impact on consumer purchases? From your inputs earlier that our jewellery sales has been higher in the month of July, that is kind of reflecting better that the actual consumption demand is coming back from essentials to jewellery. So, any impact of payroll reversal from the government will have an impact on our consumption, how do you see that?

And secondly, on the technology side, like we saw in 2015, 2016 with budget pays and easy returns, any new innovations coming in, in terms of service offering from the competitors or something like that which might disrupt our market going forward?

**Sunil Agrawal:** So, on your first question, the US especially, the government has stopped giving the unemployment benefit to the consumers as of 31st of July. So far in the first two days, we have not seen any impact on our business for that. But will there be impact, I do not know. There is so much unknown at this time, so to make a guess, we shouldn't be making a guess. Second thing is, in the UK there are no such issues so we don't expect anything there. Second, about any IT issues. So far in the last two, three years we have continued to invest proactively in our customer offerings, whether it is shipping promotion, IT infrastructure, or team, we continue to make those investments and we are pretty proactive anticipating any future requirements. We don't have any visibility of any issues at this time.

**Chintan Sheth:** And competitive landscape remains steady and we are continuing to gain in this quarter as well, like what we saw in the past three years our market share has grown from 1.5% to 3%? Do we feel that we have gained the market?

**Sunil Agrawal:** We definitely have gained the market and we are confident we will continue to gain market share in the short to medium term.

**Moderator:** The next question is from the line of Kapil Banga an individual investor.



**Kapil Banga:** Sir, you have given guidance for 15% to 17% growth and a gave 25% plus - you upgrade your own guidance and walked the talk. So that is a hallmark for good management, congrats on that.

I have two questions, and these are on long term strategy. First is, so we now have a very strong moat, we control the TV channel, we control the website and app through which we have direct access to millions of households in the US and the UK. Now in the next leg of growth, is there a possibility to also use these robust platforms as marketplaces, at least initially on a limited basis wherein third-party sellers can access their deals and sell products, maybe non-jewellery products and these act like marketplaces? So, this will actually give a higher revenue with limited capital deployment and will also lead to broader choices of products for our customers, making Vaibhav Global's platform more immersive and more indispensable for the customers, and also increase the wallet share. So that was my first question. Could you share your thoughts on this, please?

**Sunil Agrawal:** So, we see ourselves as a product development and very agile company. And with that, going into becoming a marketplace like Amazon or Walmart marketplace or eBay would be a big jump. So, we haven't really considered going that route yet. But in future you never know where the future will take us. At this time there is no visibility for this one.

**Kapil Banga:** Okay. So on a pilot basis, would you want to try it in the near term?

**Sunil Agrawal:** So, this initiative, if at all anybody goes, has to go with full preparation and a lot of marketing budget to get the vendors and the customers. So that is a strategy that has to go in a major way. Because you can't go pilot in this kind of new venture if you had to go that direction. That is my thought on that.

**Kapil Banga:** Sir, second question is that you started by selling jewellery and went into women-wear and all. So understandably most of the products continue to be focused on woman. Now we have successfully diversified into new products like hygiene products, health products and jewellery products has now fallen to 60% of the revenues. Any plans to add diversified customer centric brands that will increase the utility of this platform to entire family and helps us get a larger wallet share of the family?

**Sunil Agrawal:** We continue to develop our in-house brands, for example, we have a home smart brand, both at the US and the UK, developed internally. So, within home smart we have kitchen, we have living room, we have bedroom products like bed sheets or duvets or kitchen knives, and kitchen utensils. So those kinds of brands, we are extending to different segments within home. For health, similarly we are developing other brands. And we have other higher end brands for home called Symphony Home that takes care of higher end, high quality products. And within handbags or accessories we have Sukriti which is another handbag hand painted collection. And in jewellery we have many different brands that goes for men and women as well.

So, to your point, we are developing our house brands and making sure those brands resonate within those particular customer segments, that can extend to entire family.

**Kapil Banga:** So, I saw the men's trimmers also on the website a couple of days back, so men's centric products are also something that you are venturing into.

**Sunil Agrawal:** Correct, we are. We have been doing that, but not to that level. So that ratio has started increasing in recent times. But the trimmer was not under our own brand, but it is something that we want to continue, then we will bring it under own brand in future.



- Kapil Banga:** I just had a feedback. This was a question that I had during the last con-call also regarding the app downloads on the Play Store. So, the app, just a follow-up observation on that. And you mentioned that you have hired a senior guy on the technology side and it will take time. But app downloads have still not picked up very well. And some of the recent reviews on the app are not encouraging. So probably the client engagement and client satisfaction on the application can be improved further. That was just a feedback.
- Sunil Agrawal:** Very good observation, Kapil. We are continuing to work on our app, both in the US and the UK and the new app is under development. And hopefully we will have that launched in the current quarter.
- Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Sunil Agrawal:** Thank you, everybody, for your robust participation and for your continued support. If you have any more questions, feel free to reach out to Dipti Rajput or CDR, India. Thank you very much.

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