



## Vaibhav Global Limited

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## Q3 & 9M FY20 Earning Conference Call January 31, 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 and nine months ended 31st December 2019. Today, we have with us Mr. Sunil Agrawal - Managing Director, Mr. Puru Aggarwal – Company's Group CFO, Ms. Dipti Rajput – DGM, Investor Relations.

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

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

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

**Puru Aggarwal:**

Good evening everyone and welcome to Vaibhav Global Limited's Q3 & 9M FY20 earnings call.

Let me begin by giving you an overview of our financial performance for the period under review, following which Sunil will talk about the operational performance, key initiatives and growth strategy.

At the outset, I would like to mention that - effective 1st April 2019, the Group adopted Ind AS 116 "Leases", applied to all lease contracts existing on April 1, 2019 using the 'modified retrospective method' and has taken the cumulative adjustment to retained earnings, as on the date of initial application. Accordingly, Group is not required to restate the comparative information. Effectively, this has resulted in recognizing a "Right of use assets" of approximately Rs. 27.94 crore on the transition date April 01, 2019, which increased further by Rs. 10.44 crore during 9M FY20 to Rs. 38.38 crore as on December 31st, 2019. This is after depreciation and amortization. The impact of Ind AS 116 on depreciation and amortization expenses is Rs. 6.71 crore and on finance cost is Rs. 1.15 crore for 9M FY20. A detailed note related to the said accounting standard has been shared along with the results table published day before yesterday.



I am glad to share that Q3 FY20 has been another strong quarter for VGL in terms of revenue and profitability. Overall, revenues have improved from Rs. 511 crore to Rs. 563 crore for Q3 FY20. For 9M FY20, these numbers stood at Rs. 1,488 crore compared to Rs. 1,352 crore for 9M FY19.

As you are aware, we have continuously been increasing our focus on the retail business which now constitutes nearly 96% of total revenues. Growth in the retail business came in at 14% y-o-y for the quarter and 16% y-o-y for the nine months. I am happy to share that we reported strong growth in both our retail geographies. On constant currency basis, Shop LC, USA, recorded a growth of 11% y-o-y for the Q3 FY20 and 14% y-o-y for the 9M FY20. On constant currency basis, TJC, UK, recorded a growth of 21% y-o-y for Q3 FY20 and 19% y-o-y for 9M FY20.

We have been early adopters of the omni-channel sales model which has enabled continuing deep engagement with customers through the electronic mediums of TV, web, marketplaces, social and new age digital platforms. TV revenues expanded by 11% and web revenues by 21% in Q3 FY20 in INR terms. For 9M FY20 TV revenues grew by 10% and web revenues by a strong 30%.

As indicated earlier, the Company has been scaling down its B2B business as it is non-core and the growth opportunities and margins are considerably larger in the B2C segment. In line with this, B2B sales came in at Rs. 65 crore for 9M FY20 as compared to Rs. 121 crore for 9M FY19.

Coming to the products profile - We are continuously diversifying our products portfolio within the fashion jewelry, accessories and lifestyle products categories and are happy to report growing contribution from the non-jewellery segment. For the nine months ended December 2019 non-jewelry segment contributed nearly 22% to retail revenues in INR terms. Another significant aspect of our retail revenues is Budget Pay where we offer products on EMI basis to our customers. For 9M FY20, Budget Pay constituted around 39% of total retail sales in INR terms.

Moving ahead - gross margins came in at around 62% for Q3 FY20 and 9M FY20. VGL manufactures and sources quality products at optimal prices, maintaining control over the entire supply chain, creating a deep value proposition to customers while maintaining industry leading gross margins. This is crucial to our competitive edge over our peers.

Q3 FY20 EBITDA increased by 29% Y-o-Y to Rs. 92 crore, as we expanded margins by 240 basis points to 16.3%. For 9M FY20, EBITDA at Rs. 216 crore improved by 27% and margins increased by 190 basis points. PAT at Rs. 66 crore for Q3 FY20 and Rs. 151 crore for 9M FY20 grew by 25% y-o-y and 24% y-o-y respectively. This expansion was achieved by realizing top-line growth on a stable operating cost platform.

During 9M FY20, we incurred capex of around Rs. 28 crore attributable mainly towards purchase of an adjacent factory building in Jaipur for Rs. 6 crore, investment of Rs. 4 crore in the solar power plant, and the balance towards equipment and furniture at new warehouses in US and UK, factory equipment and Global ERP.

In conjunction with healthy revenue and profit growth, our operating cash flows during 9M FY20 stood at Rs. 143 crore and free cash flows stood at Rs. 115 crore. For the quarter, we reported operating cash flows of Rs. 70 crore and free cash flow of Rs. 61 crore. VGL continues to be debt free at the net level and the company's net debt stands at negative Rs. 212 crore as on December 31st, 2019.



In December 2019, we completed the buyback program of 8,65,675 shares at an average price of Rs. 831.72 per equity share, deploying an amount of approximately Rs. 72 crore (excluding transaction costs). Further, I am happy to share that our Board declared an interim dividend of Rs. 7 per share.

Talking about our return ratios - we reported a return on average net worth of 25% and return on average capital employed of 43% on TTM basis.

So overall, another strong quarter and nine-month period, with growth in revenues, margin expansion, strong cash accretion, which is being returned to shareholders through buyback and regular and increasing dividends.

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

**Sunil Agrawal:**

Thank you, Puru. I welcome you all to Vaibhav Global's Q3 and 9M FY20 earnings conference call.

Let me now take you through the operational performance, key initiatives undertaken during the period under review and growth strategy for the next few quarters. This has been the best quarter for VGL with the highest ever revenue and PAT recorded by the company. The first nine months of the current year have been very robust, with retail revenues increasing by 16% to Rs. 1,423 crore and PAT increasing by 24% to Rs. 151 crore.

We witnessed healthy growth in both the geographies. On constant currency basis, Shop LC US marked a growth of 14% and TJC UK of 19% for 9M FY20. Our guidance for the full-year is 15% to 17% B2C revenue growth in constant currency terms. And we are well on track to achieve the same.

Our omni-channel sales model helps us drive deeper customer engagement, thereby boosting our retail productivity. While we continue to report TV and Web sales independently, it is vital to note that both platforms increasingly come as an integrated offering to our customers and have been converging in a symbiotic manner. As indicated in the past, we are driving our customer engagements by promoting web sales on TV and TV sales on web and the lifetime value of an omni channel customer is significantly higher than that of either platform individually. Therefore, it is meaningful to look at TV and Web in aggregate as retail sales.

We continue our efforts in diversifying product categories within Fashion Jewellery, Accessories and Lifestyle segments to increase the depth of our offering to customers. Contribution from non-jewellery products to retail revenues was 22% during 9M FY20, up from 17% in corresponding period last year thus gaining larger share of consumer wallet and expanding visibility in product categories that represent significant market size.

Budget Pay has been instrumental in further improving the value proposition to customers. Budget Pay sales made up 39% of total retail sales during 9M FY20. We also continue to invest in improving the quality of programming and studios, storytelling and engagement as well as supply chain and logistics to get our customers a wide range of products backed by a deep value proposition. The product categories that we are focused on, have demonstrated strong demand from customers and we continue to engage deeply with our target segments across established and emerging platforms. This, we believe, is a differentiated proposition that is likely to drive long term growth with sustained gain in market share.



In addition to our existing customer engagement platforms, Shop LC (US) commenced broadcasting on Amazon Live during the quarter. We also integrated Pixlee with the Shop LC website. This will enable user-generated content sharing and boost customer engagement by leveraging our presence on leading social media platforms such as Instagram and Facebook.

In the UK, TJC shopping app was launched on the apple store for iPads. We also launched the TJC (UK) HD channel on Freeview TV platforms across UK. This is in addition to the standard definition channel.

Another key initiative during the quarter was the launch of our Community Forums which went live on e-commerce websites in US and UK.

I am happy to share with you that Shop LC (US) was recognized as the 'Global Business of the Year' for 2019 by Round Rock Chamber of Commerce, Austin, Texas. In December, Our Greater China subsidiary, STS Gems, was named among the Best Companies to Work in 2019, among 44 other companies, for the fourth consecutive year by the Great Place to Work Institute.

I would now like to call your attention to the four Rs that together comprise our key strategic objectives for achieving accelerated growth – First is widening our Reach; Second is growing new customer Registrations; Third is improving customer Retention and fourth is increasing Repeat purchases. In Q3 FY20, the number of TV households under our coverage reduced marginally to 99.2 million from 99.5 million in corresponding period last year. This is based on an ongoing evaluation of ROI from each micro-market addressed by our network. During the quarter, we added over 52,000 new customer registrations and now cater to over 3,53,000 unique customers on an annualized basis. Average annualized quantity purchased by each customer on TTM basis is stable at 30 pieces per customer. Overall, the customer retention rate now stands at around 51% for the group and continues to improve steadily.

I would also like to update you about another initiative that we are passionate about. We have a direct linkage between our business successes and our engagement with the societies that we operate in. Under our flagship CSR initiative, the One for One program, we have provided nearly 34 million meals to school children across India, US and UK.

As a Company we truly value our employees and are committed to their well-being. As you all know we have our operations in China. The outbreak of Coronavirus in China is a cause of concern for the entire world community. In our efforts to extend support to our employees we have called Indian employees back to India. For those who are still in China, we have provided them with safety toolkits to protect themselves and their families. We will continue to support and assist them in every possible manner.

On the business front, we have announced leave from work until 10th February and will further evaluate the situation as they arise in China. We have built up inventory for the current quarter and do not see any major disruption in operations on account of this outbreak.

To conclude, we continue to maintain an emphasis on achieving operational excellence, financial performance, societal responsibilities and environmental sustenance to meet our objective of delivering joy to all our stakeholders including customers, employees, vendors, communities, environment and shareholders.



We believe that our informative and entertaining live broadcast TV and e-commerce retailing is structurally attractive in both US and UK and we have right strategies and levers in place to help us drive profitable growth sustainably.

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

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

**Pritesh Chheda:** A couple of questions: One small observation is that your ASP has gone up but gross margin seems to have come down in the quarter. If you have any comments there? And obviously the non-jewellery part is rising. So, is it to do with that or any other observation?

**Sunil Agrawal:** Pritesh, we look at gross margin more as a minimum 60% threshold and overall productivity ratio that we have internally for our product level, hour level, host level. So that we look very closely - that against our targets that productivity levels are in line or not. And average price point, generally within a band, we let customers decide the pull. If they are pulling a little bit higher price point, we will let them pull, but usually we decide between a band where we want it to be. So, this is still within the band overall and we are happy to let the customer decide the momentum a little bit.

**Pritesh Chheda:** Is non-jewellery also a reason for it to be lower by any chance?

**Sunil Agrawal:** Non-jewellery margins, we look at productivity ratio. They are comparable to jewellery at the group level. So, that is not the reason. As I indicated earlier also, we are constantly looking at 60% plus gross margin as long as we are north of 60% and our productivity ratios are in line, we are happy to let the consumer decide what product they need.

**Pritesh Chheda:** My second question is we have about Rs.200 crore of cash in the balance sheet, yet I see an interest expense of about Rs.2.5 crore in the quarter and this expense has also risen. So, if you could draw the reason for these two things?

**Puru Aggarwal:** One reason is IND AS 116 which impacts this particular head. We have some working capital from banks just to keep the business healthy and competitive at unit level. VGL India has that. So according to the IND AS, the exchange rate impact to the extent of difference between INR interest rate and Libor linked interest rate goes to the finance cost. So that is one reason that you are seeing this expense higher.

**Pritesh Chheda:** How much will be IND AS component in this?

**Puru Aggarwal:** Some part is IND AS impact.

**Pritesh Chheda:** Last year in our operations, we had gone through this whole operational rejig, where we spent in our systems, in our operations and now we are seeing the EBITDA margin expansion. So, do you think that these margin expansions are now more sustainable as you scale up your business and what kind of margins do you think are possible in the business on scalability?

**Sunil Agrawal:** We will continue to see the leverage coming in as we continue to increase our top line at constant (+60%) gross margin because major part of our costs is largely fixed in nature. So, we are continuing to see the expansion and we are not giving guidance on margin expansion, but we are confident of the leverage.



**Pritesh Chheda:** On UK business, has it turned profitable and generating cash flow in the nine months FY'20? I am specifically asking because until last year the shape was different. So, do you have any comments for the UK business for the nine months?

**Sunil Agrawal:** UK business has been profitable and cash generating for last more than four years. So, I do not know what your source of information is?

**Pritesh Chheda:** The extent is smaller.

**Sunil Agrawal:** Yes, we are continuously increasing year over year. As the top line is increasing in the UK, the leverage is also increasing exponentially.

**Pritesh Chheda:** What would be the gross and EBITDA margin in the UK business for the nine months?

**Sunil Agrawal:** The UK EBITDA margin was at 13% for current financial year nine months and the US EBITDA margin was at 12.5%.

**Moderator:** Thank you. The next question is from the line of Sabyasachi from Centrum Portfolio. Please go ahead.

**Sabyasachi:** Just to extend the question on ASP and gross margin, on the TV sales, so we see a sharp uptick in the ASP, not just this quarter but in the past few quarters if I look at Q1, Q2 and Q3 the ASP is hovering around \$29-30 whereas in the last year it was around \$24-25 or \$26 and the gross margin has come down in this quarter. Is it something to do with the high value but low margin products are getting sold or how to look at it?

**Sunil Agrawal:** As I mentioned earlier to Pritesh's question, within a certain band, we let the customer decide what they are pulling and that decision usually comes to us through the matrix productivity ratio that we maintain. So, matrix productivity considers the gross margin per minute. It considers the shipping cost, shipping revenue, the return rate expected and the new customer acquisition. So, this matrix productivity ratio is a guiding principle for us in our daily decision-making across the entire retail organization. So as long as the productivity ratio is positive, we let the customer decide what product they are pulling and the product is pulling for slightly higher price point, we present that product on television, on web, both channels accordingly. And since we have vertical operations, our turnaround time for product is very-very quick. So, we can pull those products in. But as I said in earlier earning call that our overall B2C average right now is around \$26.87 in Q3 and for nine months also it was pretty much similar; it was \$26.69 average per piece. Our competing customer is over \$55 or so. So, our aim is to stay 50% or below of our competitors. So that is why we are okay to let it be around this price point.

**Sabyasachi:** I missed the productivity matrix of fourth; one is gross margin per minute, shipping cost, return rate and the fourth one you said?

**Sunil Agrawal:** New customer acquisition. We allocate certain weightage or value to each customer acquired by the particular products minutes. So, we calculate how many new customers acquired per minute based on the airing of certain product. And that has a weightage on matrix productivity. So, it is the margin per minute, the shipping cost, shipping revenue, the return rate and the new customer acquisition. All these are considered and they have certain weightage in the matrix productivity.

**Sabyasachi:** What is the typical return rate?





- Sunil Agrawal:** So, the typical return rate is about 18.9% in three months, jewellery return rate for nine months is at 21%, the home category return rate is at 6%, the fashion category return rate is at 14% and the beauty category return rate is at 16% in first nine months for the current financial year. So overall average is approximately is at 19%.
- Sabyasachi:** On the volume part, I see that TV volumes have kind of declined by almost 10.5% this quarter YoY. Is it because of the higher sales value or how do I look at it?
- Sunil Agrawal:** We usually do not look at the volume on a daily basis. We look at the total margin on productivity ratio base - how much of the margin, how many new customers acquired, how much net of potential return margin and what is the net shipping revenue. We actually do not look at volume on a daily basis. Volume usually is dictated by what customer is pulling and if a price point is higher, the volume generally tends to be slightly lower. So, it is a factor of price point but again we let the customer decide what they are pulling. At the end of the day the revenue growth and margins are what matter for the business.
- Sabyasachi:** Directionally, if I can kind of estimate or kind of factor in the volume growth, if I have to do it in probably a year or two years basis, due to this cord cutting and all those things, do we see the TV volume coming down and the web volume picking up, is that a directional thing?
- Sunil Agrawal:** Again, as I said, we do not look at volume and we do not really predict volume, so we would encourage you to create your model based on the current average price point, what is the latest price point, which is \$26.87 right now, so we encourage you to create your model based on that price point. It could go slightly up, slightly down but you will not see meaningful change there. At least we do not expect it and we do not project volume as such. We project revenue and margins and new customer acquisitions.
- Sabyasachi:** On the US market, what is your medium-term outlook per se?
- Sunil Agrawal:** As we said, both combined, 15% to 17% top line revenue for medium-term, i.e. would be two to three years and leverage benefit on the EBITDA and PBT.
- Sabyasachi:** But the UK business will continue to grow faster because of the low base and the US would be hovering somewhere around 10% to 12%. Is that the current assumption?
- Sunil Agrawal:** So, we are not giving separate guidance for both units, but our average guidance of 15% to 17% top line growth is for both units combined.
- Sabyasachi:** Last question on the ASP again. The average sales price last time we spoke in Q2 you spoke about some rare gem stone being sold in last quarter, in Q2 I am talking about. Is the same scenario in Q3 the similar kind of gem stones got sold and that is why your ASP is higher?
- Sunil Agrawal:** Yes, there are certain gem stones for example, last quarter, we had one particular gem stone called Grandidierite that did very well, in the current quarter Tanzanite did very well. So, it could change from time-to-time. Grandidierite still sells but Tanzanite took more velocity compared to Grandidierite. So, it keeps on changing a bit. As I said, we let the customer decide whatever the volume they are pulling in from us, we will present more of those items within certain time. But that is not a major portion of our revenue but a certain portion we look at the opportunity and cash it.
- Moderator:** Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.



**Vikrant Kashyap:** I must appreciate your thought on providing support to your employees in China for their good health. I have got a couple of questions: number 1, you said you have commenced broadcasting shows on Amazon Live. What is your strategy there?

**Sunil Agrawal:** So, it is still at discovery phase and for Amazon also it is a discovery phase. So, we have not seen revenues started coming in a meaningful way, very few pieces selling there. But it is to be in the forefront of any change that might happen in the industry. So right now, I cannot predict what will be the sales volume from that model.

**Vikrant Kashyap:** Just to acquire customer or direct sales?

**Sunil Agrawal:** Same strategy that is there for other market-place platforms. We have decent revenue actually. Current financial year we expect to do about \$5 million revenue on both channels put together on the marketplace platforms and next year we expect it to double. So, that revenue is also there now but the main objective is to see if the customer can transition to our main business and the lifetime value of those customers is meaningful, very comparable to our TV business. Live television also that is one of the objectives in place.

**Vikrant Kashyap:** So, in previous quarters, we have talked about our presence on other web markets or the eCommerce channel. Have they started resulting in, are you getting customer pull to your website?

**Sunil Agrawal:** Correct, it is still in low single-digit transition, but it is meaningful. Overall that division is profitable now within 2.5-years of starting and the growth in that division is pretty rapid. So, as I mentioned, we expect to do \$5 million this current year and next year we expect to do double at least of the revenue only and transition benefit is additional.

**Vikrant Kashyap:** We have seen growing web sales. So, is it the result of that customer pull or is the result of your transition from TV to web and web to TV?

**Sunil Agrawal:** TV to web, majority of that, the marketplace to web is a very small portion still, but it is there, it is profitable but the contribution to web growth is still limited.

**Moderator:** Thank you. The next question is from the line of Aditya Mehta, an individual investor. Please go ahead.

**Aditya Mehta:** My question is regarding growth rate. So, if we see our growth rates have been coming down as compared to last financial year; our TV sales were growing by 17.5% and now they have grown by around 10% and web sales too is from 36%, they have become 20%. So how do we see growth going forward in the coming years?

**Sunil Agrawal:** So, the number I have over here, Aditya, is that TV sales grew by 11.1% in the quarter and 8.3% in the nine months year-over-year, this is in dollar terms, web sales grew at 20.3% in current quarter and 28.5% in nine months. So last quarter TV actually grew higher than the nine months. So, I do not know the source of your data.

**Aditya Mehta:** I was comparing Q3 FY'19 figures with Q3 FY'18, that data I was mentioning.

**Sunil Agrawal:** '18-19 I do not have, so I cannot comment on that. But the trend is pretty stable for us. The growth within television is between 8% to 11% and on the web is between 20% to 30%.





**Aditya Mehta:** If we see your unique customer base has been range bound. It is not increasing, around 3.5 lakhs only. So how can we increase that going forward?

**Sunil Agrawal:** We have many initiatives in place to increase that; one is to additional simulcast or HD broadcast like we did in the UK as I mentioned, and that is showing good results for us. Other is our digital marketing. So, we have allotted budget for the current quarter and next year to increase acquisition through digital properties. Marketplace is another one. Social DR through Facebook and Instagram, marketing through influencers and direct marketing. So that division has recently been started and we have partnered with Pixlee platform. So, we hope that we will get the growth through our customer acquisition through digital properties on those areas.

**Aditya Mehta:** So, we are active in social media marketing now?

**Sunil Agrawal:** Correct. So, we have initiatives in place for television side as well as digital and social. So, in longer run, I am quite comfortable for having continuous growth. That is what I mentioned in my opening remarks. We have the four R's that is customer first reach through digital properties as well as through television. We are continuing to expand reach through digital, television, social. Next is registration through customer acquisition. So, if the price point stays constant, we usually see higher customer acquisition. If the price points went higher, our customer acquisition will be rather flat. The third is the repeat purchase. And the fourth is retention. So, we constantly look at all these four R's and that drive our revenue growth and margin growth. So, the business seems very simple, just revenue growth but actually very complicated business, lot of moving parts and we look at aggregate of all moving parts and we stay within our guidance of 15% to 17% overall growth year-over-year.

**Aditya Mehta:** In medium term for two to three years?

**Sunil Agrawal:** Yes, correct.

**Aditya Mehta:** As far as China is concerned, so we are sourcing from China. So, has it been impacted?

**Sunil Agrawal:** As I mentioned in my opening remarks, we are supposed to open on 1<sup>st</sup> February after Chinese New Year. So, we have delayed that for 10-days for now. So, we are not reopening our China operations for another 10-12 days. And we will read the situation. We have already evacuated all Indian expatriates to India. So, it is Chinese employees are staying at the homes right now and we are supporting them with whatever they need. So far, we have had no issues in the operations, and we have enough inventory within our channels for this current quarter. So, we should not see much issue from the business side.

**Aditya Mehta:** So, this situation continues for the next few quarters. So how will the sourcing really get affected, can we do from other countries?

**Sunil Agrawal:** So, our guidance will not change because of the situation. We can manage.

**Moderator:** Thank you. The next question is from the line of Vinay Khattar from Edelweiss. Please go ahead.

**Vinay Khattar:** Just one question around our customer acquisition. Is 52,000 one of the highest numbers that we have done in last eight to ten quarters or we have had such good customer acquisition numbers earlier also?



**Sunil Agrawal:** I am sure we have had earlier also but I do not have the data right now, Vinay, Dipti is pulling the data and she will let us know in a few minutes.

**Vinay Khattar:** What is our customer acquisition strategy? Because if we have about 50% attrition rate, with 3.5 lakh customers we will need to add about 45,000-50,000 customers just to maintain this number, what is the customer acquisition strategy that we can have so that we significantly add more customers than what we are losing?

**Sunil Agrawal:** So, as I mentioned earlier, we have customer acquisition strategy from television. So, within television, make the program more interesting, so more customers can log in. We have the data from Comscore that tells us how many customers on an average watch us. So, we know that there are many more customers watching us than they are buying. So how to make our programming more attractive for them to start engaging with us. And then acquire the customer through digital properties, through digital marketing, through Google and through shopping comparisons and through social media, through marketplaces. So, we have those strategies in place to acquire more and more customers. We always are very prudent in our business approach, for example, any new market that we acquire, we are only into say 99 million homes right now out of potentially about 130 million homes. If we acquire more homes, that is very expensive rate, but it will reduce our ROCE or ROI. So, we look at the homes and we have very strict cadence. So new homes must create certain productivity within certain months - 3-three months, 6-months, 9-months, 12-months, 15-months and 18-months. If they do not hit our cadence for two quarters, we exit from that home. And that is why you see that in this quarter we reduced our number of homes slightly. Not that we did not acquire many new homes. We did but we also exited a number of homes that are not productive for us. So, we have very disciplined approach in terms of productivity. The same goes for digital customer acquisition as well. So, any strategy that we have for digital customer acquisition, if we are not giving ROI we do not continue the strategy, we look for additional resources, for example, marketplace strategy has been very good for us, has a great ROI. We are present on Social DR that we are doing - we have influencers marketing - we are still in initial stages - we will continue to refine them - focus on ROI on that. So, in opposite to the digital platforms that we have in India for example, Flipkart or Amazon, they are acquiring customers at any cost and they are burning a lot of cash. And our approach is very different; our approach is more disciplined, and more cadence determined. So, we will continue to look at customer acquisition but within reason.

**Vinay Khattar:** The next question is around the product selection strategy. Now, you mentioned earlier in your call that 60% gross margin is one of the criteria's that has put in place before our product can be brought in as an offering. I am wondering can we increase more verticals and how do we grow the product basket per se so that the client offtake and client acquisition and a lot of other things can fall in place. Wider the product basket, easier it is for us to get more sales and more clients. So other than the gross margin strategy, is there any other matrix that you want to focus on and what do we want to do in terms of adding more products or more verticals to this product basket?

**Sunil Agrawal:** That is a good question. We constantly go to the different trade shows and markets like China market, Indonesia, India, many different locations within these countries, even outside these markets. We go to Italy and Vietnam and Cambodia. So, we constantly are on lookout for new compelling products and within the US, the UK also we look for those products. And every product has to be presented and every category has to be presented to the team and the team has to have view of the product categories making sense for us, for customer demographics, for margins, for price point and overall ASP strategy. So, there is a lot of reasons for us to look at the product critically and if we find there is a reasonable chance of this becoming successful, we will definitely bring it. As I mentioned in my earlier call, on an average



day, we have 150 new products aired. So, there is a lot of new churn coming in and going out of the business. And the product that does well, gets quickly ramped up. So, there is a lot of experimentation, products sourcing, trend spotting teams are very deep and wide and they are spread very wide.

**Vinay Khattar:** Sir, one of the things that you mentioned was that our average selling price on the B2C side is approximately half of what larger competitors do. But if I were to adjust those larger competitors figures for electronic items like televisions and laptops and all, for the rest of the basket, their ASPs would also be comparable to us?

**Sunil Agrawal:** I do not have the data on that one, Vinay, but I do not believe it will make meaningful difference because when I look at their jewellery, they sell branded jewellery and their jewellery with the national brands is pretty expensive and when I look at their dresses, they are expensive too or shoes for that matter. So, we as a company adopted a strategy, we call it Zara strategy, Zara Inditex, they are about €22 billion company and they do not have any outside brands, they always develop their own brand and they have 50% kind of gross margin. So as compared to Gap which is in the US and they sell US-centric product or say for that matter Macy's, they sell third-party brands and their gross margins are at 40s or 45s. So, we have adopted Zara strategy right from the beginning and we want to keep the strategy, not pull in the high third-party brands like Apple or Samsung which will give us 20% or 15% kind of margin, they may give us the top line but it will also make us dependent on third-party brands. So, we have not taken that strategy and we are happy to see our strategy is working as it has done for Zara Inditex.

**Vinay Khattar:** One last thought. If I were to just divide the actual active customers by a number of households, you are close to about 0.3%, and this has been a fairly stable number in that band if I were to say. Is there any chance that this could go up to 0.5, 0.6 or even closer to 1% level and how does that happen because some of the larger competitors that you have would be doing numbers where the conversion ratios would be appreciably more than what ours has been?

**Sunil Agrawal:** So, this is a very good observation, Vinay. QVC has about 10 million customers compared to our 300,000-odd customers. So, their customer book size is much larger than ours. But they have been in business for much longer than us. So, we are kind of start up in the space. So, we are learning everyday additional ways to acquire new customers and to increase the lifetime value of the customers by way of increasing repeat purchase, increasing retention rate and also the sales value, maybe sometimes price point higher, basket value goes higher. So, as we are learning, we are implementing all those learnings into our business. But as I mentioned earlier, we have four levers as we call the four R's. We constantly look at them and refine them as we learn.

**Moderator:** Thank you. The next question is from the line of Shankar R, as an individual investor. Please go ahead.

**Shankar R:** In last concall you told that you are going to hire one marketing agency and in the month of November onwards they will start working for you. What is the status, have you started on this sir?

**Sunil Agrawal:** Yes, correct, in US we already started that. Only digital marketing, not the television or the print or outdoor media. So, they started experimenting different strategies for us and still it is in early stage because been just for month and a half, but we are experimenting different strategies with them.

**Shankar R:** I joined late. What is the new customer addition from last quarter sir?



- Sunil Agrawal:** The new customer registrations are 52,241.
- Shankar R:** Is it normally fair to say that TV push marketing and web marketing, now what comes from TV to web. So, do you have any sort of data, whether the customers those are using web, whether they purchase more?
- Sunil Agrawal:** Yes, we do, we constantly look at the data. So, the lifetime value of a customer who buys only on television versus the customer who buys only on web is 3x, TV customer is 3x more valuable than web only. And the customer who buys from the both is 3x more valuable than a TV customer.
- Shankar R:** What about other competitors, QVC and all, basically how they performed last quarter?
- Sunil Agrawal:** QVC lifetime value wise they do not break up separately TV, web and life time omni-channel customer. But their lifetime value is slightly higher than us right now. Now from a business point of view, QVC has been pretty flat last couple of quarters in terms of revenue. So that means we have gained market share constantly over last few quarters over them.
- Moderator:** Thank you. The next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.
- Deepan Mehta:** Mine is on more macro and broader question that why are we focusing only on two countries, I mean, what is preventing us from launching the service product in many other geographies I think be it Western Europe or Middle East, Australia and similar profile of population and income levels?
- Sunil Agrawal:** Good question, Deepan. We constantly monitor our current business opportunities and also look at other countries where potentially we can go. In fact, we were in Germany in 2007 during the late recession. We exited from the market in 2008. So that market is actually bigger than the UK that we are in. Japan is another market which is bigger than the UK and we have those markets in sight. But when we look at our management bandwidth, we look at whether we should take our attention away from our US and UK business or not and are there enough opportunities within the US and the UK or not. So, if we find that within our management bandwidth, we have sufficient opportunities available to us within the US and the UK, we continue to pay attention to that. As I mentioned earlier, two years ago we went into marketplaces, now we are going into social media marketing, we are going into influencer marketing. So, these are additional opportunities available for our management bandwidth. So, when we see that we have additional management bandwidth and some opportunity presents itself in these two markets, existing companies or even Greenfield, we look at that and capture on that. Other markets are Middle East, India, China. Those markets are still new markets and they have not shown profitability in long distance marketing yet. So, we want to go into the market which are the proven markets rather than be maverick because we have very high efficiency levels in terms of operations and comparatively much lower price points than any competitor. So, we would go into those markets which are already comfortable in long distance shopping.
- Moderator:** Thank you. The next follow up question is from the line of Sabyasachi from Centrum Portfolio. Please go ahead.
- Sabyasachi:** Two follows-ups. One, on the simulcast that you have recently launched I think in last quarter. What are the cost implications for the same?



**Sunil Agrawal:** So, the costs are much lower than the full channel. If it is high, we would not pay. But even on simulcast, we constantly look at our cadence of the cost that we are paying for that and the lift we are seeing from that simulcast. Lift is not very high because it is duplicate on platforms, sometimes we have triplicate as well. The lift is still small and the associated cost is lower than full channel.

**Sabyasachi:** It gets reflected in the content and broadcasting cost only?

**Sunil Agrawal:** Correct, it does.

**Sabyasachi:** If I compare year-on-year, the absolute cost amount and also as a percentage of sales, I think it has gone down substantially from last Q3 FY'19 to Q3 FY'20. Any color on that?

**Sunil Agrawal:** Two reasons for that; one thing is we were spending quite a lot of money in certain marketing activities but we were not getting the ROI. So, we scaled down those marketing activities. Second thing is we continue to negotiate the air time cost. We have very micro level evaluation mechanism that we look at every week on the air time agreements. We have more than 100 agreements in the US and we have got six agreements in the UK. So, the UK we do not look at so often but the US we look at weekly basis and so if a market is not performing, we either lower the cost or exit. So, as you saw, there were some exits because our absolute number has come down and there was some renegotiation that saved the cost.

**Sabyasachi:** I did not understand actually on the modeling part. So basically, what I do is that I have the ASP of TV and web both and then I have the volume numbers and multiply and derive revenue and the currency impact to the revenue in INR. I did not understand how to derive without the volume numbers, if you can help?

**Sunil Agrawal:** Price should be kept constant and when we are giving the guidance of 15% to 17% growth, so your volume would increase 15% to 17%. Now, if the volume for some reason increase by more than 15%, 17%, then the ASP would be different because we are giving a guidance of net revenue number.

**Sabyasachi:** So, this 15% to 17% basically is a blended constant currency growth for both the markets put together?

**Sunil Agrawal:** Correct.

**Moderator:** Thank you. The next question is from the line of Kapil Banga, as an individual investor. Please go ahead.

**Kapil Banga:** First question is on the new customer addition. I heard your response that you gave to your earlier participant. But the initiatives have been in place since a long time, I mean, for the last 1.5-years hardly this number has increased and it has been range bound. So, this initiative has not actually materialized into an increase in new customer addition. Could you elaborate on that?

**Sunil Agrawal:** The new customers addition is 52,241 but not at the speed that would be increasing year-over-year, so that is true. New customer acquisition comes from all different channels. Example, marketplace - we know how many new customers we acquired from marketplace or for that matter; social DR which is very new; new customer acquisition through digital initiatives that we have just taken up – we know how many new customers we have acquired. But there are also some marketing activities that we were spending quite a lot of money on, but we were not seeing ROI in terms of new customer acquisition and hence we scaled down. So, we look at each tactic or



initiative wise, we look at overall productivity in some new customer acquisition and the revenue and the related margin. So, we look at blended business on each initiative and take a decision. And we also look at our business guidance that we have given is overall revenue growth and leverage. We constantly look at that number, give that, internally on a weekly basis or a monthly basis, even on daily basis we look at constantly. So, volume is something or the new customer is something that is actually for us secondary, not the primary for us. Primary for us is the net revenue growth overall and net margin growth and cost control.

**Kapil Banga:** I had a query on the cash flows also. So, this quarter the revenue and EBITDA both have gone up. But if you see the operating cash flow that has actually gone down. So, on a higher base, we are incurring a lower cash flows and I understand because that is the major reason that would be the share of sales that is coming from Budget Pay. Now, share of sales coming from Budget Pay is only going up. So, can we expect incremental sales to generate less cash for the company as has been the trend in Q3 as well as nine months?

**Sunil Agrawal:** From number of days basis, our inventory is constant. The absolute number has gone up but number of days inventory is constant and even the working capital overall is rather constant. But we have had some CAPEX during the quarter as Puru has mentioned there were certain CAPEX investments, factory building and some warehouse investments and some other areas. So, you will see some small variation, but overall free cash flow is healthy and as you would see, end of the year we expect it to become even healthier.

**Kapil Banga:** So, the question was on operating cash flows, not on free cash flows. So operating cash flows have also gone down and you are saying working capital has been constant.

**Sunil Agrawal:** It has not been constant in absolute terms but in terms of the number of days, it is constant. Absolute number is higher. But I do not have exact calculation with me right now.

**Kapil Banga:** But the working capital intensity of operations has remained the same, the number of days are roughly at the same level. Then why would the operational cash flows go down on YoY basis?

**Sunil Agrawal:** I have to look at the numbers again, Kapil, but as I understand from the numbers that we have reviewed, as the business increased by approximately 14%, 15%, our inventory and receivables have gone correspondingly higher, and that has consumed additional cash. It is a good question. I will again review it - how much has been exactly consumed by the working capital and what are the use that has been there. Maybe Puru can answer.

**Puru Aggarwal:** Kapil, corresponding to the business growth, the debtor and stock have been up. As Sunil said, in terms of days by and large it is the same barring the debtor part, as Budget Pay has increased to 39% from 38%. So that means in terms of number of days it has gone up by half a day from 20.5 days to 21 days (net debtors). So, both the increase in absolute value of debtor and stock is funded from internal accrual – consuming cash earned. And if we account for that, the balance is operating cash.

**Puru Aggarwal:** Just to be more precise on stock, on 31<sup>st</sup> March our stock level was Rs.407 crore which has gone to Rs.449 crore, so there has been an increase of Rs.42 crore. Now if you do the math for the growth which is 14%-15%, so you apply it on Rs.407 crore and you will reach to Rs.449 crore. So precisely, the increase in working capital has been into the same ratio. And that obviously has been self-funded out of the operating cash flow. Otherwise the company normally borrows more money. So, it is





just because of these two reasons that because of the higher growth the debtor part as well as stock part have gone up which is self-funded out of operating cash flow. These are the only impacts. The third impact you would see is the tax payments. Tax payments as you know that we have multiple geographies, and all the geographies as such are pretty tax efficient from 21%, 19%, 16%, 20% sort of, India is of course the highest, but then we have SEZ, so that too is very tax-efficient. Yet because of the higher profits tax payments is also higher. So, these are the three major factors. If you do math correspond to the growth and profits, you find the math in place.

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

**Sunil Agrawal:** Thank you all for your participation in Q3 investor conference call. Feel free to contact Dipti Rajput or Shiv Muttoo if you have any further questions that we can help you with.

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