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

Q3 & 9M FY22 Earnings Conference Call
January 28, 2022

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 December 31, 2021.

Today, we have with us Mr. Sunil Agrawal – Managing Director, Mr. Vineet Ganeriwala – Group CFO, and Mr. Prashant Saraswat – Head, Investor Relations.

We will begin the call with opening remark 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. After which, the management will open the forum for a Q&A session.

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

I would now like to invite Mr. Sunil Agrawal to make his opening remarks. Over to you, Sunil.

Sunil Agrawal: Thank you, Karl. Greetings to all and thank you for joining us today in earnings conference call of Vaibhav Global Limited for the quarter ended 31st Dec 2021. I hope all of you, your colleagues and near & dear ones are healthy and keeping safe.

I hope you would have reviewed the results and earnings presentation. Revenue in Q3 grew by 3.5% YoY on a very high base of last year and grew strong 33.2% over Q3FY20. Our 9M revenue grew by 10.3% YoY and by 38.9% over same period FY'20. Post Q1 of this financial year, consumers went for revenge outings and vacations, thus impacting demand. This phenomenon continued in Q3 leading to muted revenue growth across digital retail industry.

Festive demand was encouraging, however demand tapered in later part of Q3, owing to omicron uncertainties. Gross margin were at 60.4% had a slight contraction of 1% YoY mainly due to product mix and demand supply mismatch at product level owing to longer transit times. Generally, EBITDA margin during the quarter was 11.4%, excluding Germany, it would have been 13.2% versus 17.4% last year. EBITDA margins were impacted owing to cautious investments in digital marketing, OTA households and elevated sea freights. A greater thrust is being laid on improvement through better cost and price management in the coming period.

During the quarter, investments on new OTA homes, Digital Marketing, Market Places Marketing, and OTT marketing continued. These investments are intended to support our growth ambitions for coming years. These investments have already given us 5% higher unique customers in Q3 compared to last year, and much stronger growth of 40% over Q3 FY20.

In US, our revenue and unique customer counts on OTT has tripled YoY, implying a great opportunity in this market for us. Our current investments will build on significant opportunities in the long run across our addressable markets in USA, UK and Germany. Retail is rapidly moving digital and we perceive that today's savvy shoppers want to feel digitally empowered online experienced, hence we recently finished upgrading our tech infrastructure on Salesforce Commerce Cloud.

Our recent expansion in high potential German market is faring well and offers tremendous growth prospects on TV, Digital and marketplace platforms. There have been certain earlier than planned airtime tie-ups resulting in higher than planned upfront investments. However, we may now be breakeven by third quarter of FY24 in Germany, which is approximately one year earlier than originally projected.

We believe in seeding investments for long-term growth. Recently, TJC UK announced Freeview Channel change to #22 from erstwhile Freeview Channel #50. This investment is expected to enhance the viewership of TJC's proprietary TV channel substantially with corresponding increase in its market share, thus providing long-term growth opportunities.

Similarly, Shop LC (USA) has decided to move its headquarters to an owned premise whose construction is expected to be completed by September 2024. This move is expected to bring operational synergies and substantial savings in future. We have also acquired 60% stake in Encase Packaging Private Limited India. This acquisition will further consolidate our existing integrated supply chain and give substantial saving in packaging costs. We perceive that these investments might impact return ratios in the short-term, but it provides huge growth opportunities for our future. Our vertically integrated model, and our supply chain network spanning 30 countries, is the backbone of our business and a key differentiator vis-a-vis our peers. The low cost manufacturing with value sourcing base enables to serve our value conscious customers in our addressable markets in the US, UK and Germany. This is very industry leading gross margins for VGL.

The 4R's, widening Reach, new customer Restrictions, customer Retention, and Repeat purchase remains to be our key priorities for our overall growth. The reach of our TV networks by the end of Q3 FY22 was approximately 127 million TV homes. We reach TV homes through cable, satellite, telco networks and over the air antenna-based OTA platforms. Our products are also available on digital channels including all proprietary websites, smartphone apps, OTT platforms and marketplaces.

New registrations in trailing 12-month period continue to be strong and came in at 3.1 lakhs compared to 2.8 lakhs in the corresponding period of the previous year. Our engagements with new customer deepens, we expect to continue to drive bigger volumes. Customers bought an average of 29 pieces on TTM basis from us compared to 27 pieces in the corresponding period of the previous year. This reflects our ability to not only support change in customer preference, but also respond to them with agility.

Finally, our retention rates stood at 42.3% on TTM basis compared to 51.4% for the same period last year. Retention rate has been lower owing to many essential customers as well as more stay-at-home buyers last year.

Q3 has been transient in nature. But the underlying long term business prospects are promising. Our team's confidence and optimism is reassuring and well prepared to capture future growth. We expect our overall revenue growth to be 8% to 10% in the current financial year, on top of 28% robust growth of last year. We expect our growth rate to be 13% to 15% in next financial year, and 15% to 17% in midterm.

Sustainability is at the core of everything we do. And the same is reflected in our mission and guides on everyday decisions and actions. We are enthused to share the fact that our SEZ unit in Jaipur has been conferred with IGBC Performance Challenge 2021 for Green Built Environment, Excellence Award under Factory Category and have become the first and only jewelry plant in India to achieve this milestone.

Vaibhav Global Limited has recently bought 84 two-wheeler electric vehicles for its employees. These EVs will be deployed for employee's commute. These are expected to sequestrate 25 tons of carbon every year and will aid in our sustainability effort to become a zero-carbon company in future.

Recently, we have crossed a milestone of 61 million meals through our One for One Program, Your Purchase Feeds, for school children with a run rate of 59,000 meals being donated every day. We have a robust cash flow model and track record of returning meaningful cash to shareholders. Hence, Board has recommended third interim dividend for the year which is Rs. 1.5 per equity share.

In the end, we would like to reiterate that there are multiple levers for future growth and margin improvement and our long-term ambition is to sustain growth whilst building decent operating leverage. With this, I now hand over the call to Vineet, to discuss financial performance. Over to you, Vineet.

Vineet Ganeriwala: Thank you, Sunil. Good evening, everyone. A warm welcome to Vaibhav Global's earning conference call. While Sunil gave you some details on overall performance and business status in the just concluded quarter, I will now take you through our financial performance for the quarter and nine month ended 31st December 2021 in detail.

In person shopping, which gained momentum in Q2 continued during Q3 as well, which was later also impacted by Omicron led uncertainty in the digital retail industry. Consequently, e-com industry across the US and UK faced temporary headwinds with declining sales mix of online sales. Amidst this macro challenges though temporary in nature, our revenue grew by 3.5% over Q3 FY21. But when we compare it with same quarter of FY20, it is substantially up by 33.2%.

In local currency terms, Shop LC (US) revenue grew by 1.1% year on year and Shop T JC (UK) had a decline of 6% year on year in Q3 this year. In UK, the e-commerce industry was impacted the most amongst our addressable markets. The mix of e com market to overall sales retail in UK dropped by almost 4.4% during Q3, as suggested by the macro data. We believe these trends are temporary in nature, and we expect the industry to recover as shown by the macro indicators as well.

Our recent investment in UK where in Shop TJC's Freeview Channel will now be aired at #22 from erstwhile #50 and is expected to enhance our viewership substantially. We are confident that our new broadcasting rights in UK will allow us to strengthen our visibility in the long term. And we'll continue to gain market share out there.

Our TV revenues grew by 1.8% year on year to RS.Rs. 467 crore whereas digital revenue grew by 4.5% year on year to Rs. 268 crore, implying relatively improved traction and reassures our sustained investment on digital platforms. TV refers to our proprietary TV channels that includes free to air channels on OTA platforms as well.

Currently, digital sales mix to overall retail sales is 36% which includes our proprietary websites, shopping apps, OTT platforms, marketplaces, and social commerce. This omni channel offering promote and encourage customers to transact on both TV and digital platforms, which gives them a unique shopping experience. And such omni channel customer tends to be sticky and have a significantly higher lifetime value than customers who buy only on TV or only on digital. Omni channel also provides opportunity of cross selling over platforms.

During the period, the budget pay revenue mix was at 39% of retail revenue, ensuring flexibility to customers to buy high ticket size items as well with ease. As far as our product mix is concerned, jewelry accounts for 70% of the total retail sales and the rest 30% is comprised by lifestyle products, which includes apparel, home decor items, beauty and accessories.

Over the last many years share of non-jewelry has increased multifold, indicating our ability to take higher wallet share out of the same household. Q3 witnessed a slight dip of 1% in gross margins year on year, which was largely on account of the product mix. Through our robust vertically integrated supply chain we were able to manage supply headwinds, which is grappling the entire industry and maintained our gross margins at a very healthy level above 60%.

Our EBITDA margins dropped from 17.4% to 11.4% in Q3. This is attributable to increase sea freight, our accelerated investments on digital and broadcasting and our initial setup cost in Germany. We believe current EBITDA margins are not true reflection of our business model and expected to revert to our earlier levels of mid-teens in the medium term.

Profit After Tax for the quarter is Rs. 69 crore as against Rs.92 crore Y-o-Y owing to above-mentioned increased investments. Operating cash flow was Rs. 67 crore for the nine month period, impacted by higher than planned inventory which is expected to unlock in the coming quarters.

Free cash flow was minus Rs. 155 crore as we underwent major Capex towards warehouse robotics automation, purchase of land bank in USA for our new headquarters for shop LC, initial setup cost of Germany and towards upgrading tech infrastructure of our mobile websites and mobile apps. The said investments are expected to provide synergies in terms of cost optimization, functional integration and resultant growth opportunities.

On a TTM basis ROE and ROCE were 26% and 38% respectively. These ratios reflect short term impacts of conscious business investments which we are making but are still at a very healthy levels and that are at par with our normal pre COVID years.

Finally, the Board of Directors have recommended third interim dividend of Rs. 1.50 per equity share for Q3 FY22.

Towards the end, I would like to say that our balance sheet remains lean and healthy. We continue to remain alert and agile to ground developments. We are doubling down on market connect, digital initiatives and remain confident on our resilience and ability to outgrow markets. Gradual restoration of markets and normalcy is expected throughout Q4. However, we are adopting pragmatic approach to continue to gain further market share. With this, I hand over back to the Moderator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Poddar from Nippon India Mutual Fund. Please go ahead.

Manish Poddar: I had three questions. First one if could you probably help me understand, so in Germany, I think you all are mentioning the unique customer count is roughly now about 6000 odd, right? In the end of December, just in terms of repeat purchase or let's say frequency, how are these numbers tracking there?

Sunil Agrawal: Repeat purchase currently is tracking about 8 purchases per customer. So, digital customer is lower and the TV customer is higher. So, 8 purchases since we pretty much started in September. That would be about 4 months period. Now, annualized it will be higher. We don't have the data yet. Just let me reconfirm.

Vineet Ganeriwala: So, 8 is annualized repeat. It is improving month by month. So, when we started it was 2, 3. Now in the quarter we see already an annualized repeat of 8.

Manish Poddar: Okay. So, and then the next one is let's say your integration of the platform in both US and UK, would it be fair that you all are now present across platforms largely where you all have to operate?

Sunil Agrawal: So, all digital platforms, marketplaces, digital through mobile desktops, tablets and social media, YouTube's, OTT, pretty much everywhere.

Manish Poddar: So, would it be fair that a large part of the spends which you would require for probably integrating or the initial investment, which you need to do for US and UK is largely behind, and here onwards, whatever will be the integration plus, some bit of marketing spend, which you might have to do, depending on campaigns, that might be the only spend, which you would have to do, there won't be any material or cover in spends. That is what I am trying to understand for this two geographies?

Sunil Agrawal: Yes. So, we won't have as much Capex because our warehouse automations are done. Our major platform Capex are done, only further investments will be on marketing automation that we want to create through Salesforce marketing automation. So, we already signed up the agreement with them last year. So, there is a continued thrust on that space to leverage our customer base.

Manish Poddar: And cloud also it happened in both the geographies?

Sunil Agrawal: Everything's on cloud now, US, UK.

Manish Poddar: For both the geographies, but for both UK and US?

Sunil Agrawal: UK, US, Germany all are on Cloud.

Manish Poddar: Okay. Great. So just two more questions, looking at your Slide 29, where you are talking about EBITDA margins for 9M. So, the EBITDA margins clocked in this 9M is 12.4%. Now there are two numbers, one is 14% and one is 15.4%, one highlighted in that. Can you probably help me understand what are these two numbers, first? It's on Slide 29.

Vineet Ganeriwala: Okay. So, the two numbers mentioned, first of all, our EBITDA margin for the 9M is 12.4%. If you exclude Germany, the margin is 14%. So, that's what 14% means that if we exclude the Germany loss, ,i.e., initial setup loss for this year, our EBITDA margins are 14%. That's what it means. Overall EBITDA is 15.4% down year-on-year. So, the 9M EBITDA is down by 15.4%. But the moment you exclude Germany loss, it is down by 5.2%.

Manish Poddar: Okay. So, like the bridge, which you have for the Q3, where in you mentioned gross margin, and elevated sea freight, which is have roughly about 170 bps impact. Would you have a similar number for 9M? And just wanted to understand, have you taken pricing increase to cover all this inflation, which you are seeing, at unit level, or at freight level, or anything of that sort? And I am just trying to understand from a pricing per se, have we covered that -- in Q3 170 bps is the impact, for 9M, I am not sure what the number is, first of all, if you can share that number? And second of all, have you taken the commensurate price increase to offset that?

Vineet Ganeriwala: So, our gross margins for the 9M is 63% against a gross margin of 62.7% for the same period in last year. So, there is a 30 bps increase in our gross margins. Some sort of pricing push we were able to do to our customers, but the entire impact of freight is not neutralized, there is some impact of freight in the 9M period as well. In the last quarter, the impact was very high. For a 9M period also, it will be like the level of 0.7% to 1% kind of an impact for freight. So maybe a 30 bps increase in gross margins but close to a percentage point impact on higher freight for the 9M period, these two numbers can be taken.

Manish Poddar: Okay. Just one last one. So, can you probably help me understand the conversion from EBITDA to OCF has been low in the 9M. Now, we have a lot of inventory which is there on the balance sheet or what is missing in the math?

Vineet Ganeriwala: Yes, you are right. So, our inventory has gone up from March to December it is up by about 180 odd crores. Part of that is because of all these supply chain issues, which the industry is grappling with in terms of the delay in supply so, the inventory in transit is also high. And part of it is also because we prepared for a higher sales quarter, but we are seeing lower sale too, we have item in hand as end of December. So, that's impacting the operating cash flow for the 9M period. Having said that the corrective actions in terms of our future buying is already on the ground hitting. So, we should see some unlocking to start from Q4 of this year.

Manish Poddar: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital Services Pvt. Ltd. Please go ahead.

Nilesh Shah: So, I just want to refer to a report of MasterCard, which came out in the last week of December, which talked about US holiday sales, jumping 8.5% and online shopping surged 11%. And categories, like apparel and jewelry grew at 47% and 32%, respectively. So, I don't know if you're aware of this report. But if you can just kind of share your perspective, because our growth rate has been starkly different from the growth rates, which this report specifically refers to?

Sunil Agrawal: So, I have not seen this particular report, Nilesh. But what we are looking is tracking the data from QVC or Evine or these comparable companies. All these companies had negative growth year over year in last quarters, last couple of quarters. QVC had 9% or 10%, negative growth and Evine had 7% or 8% negative growth. So, compared to them, we are gaining market share. I know from UK data; it shows that the non-food online purchase contracted in last quarter. And in US, I don't know exact report. Vineet, do you have access to the report.

Vineet Ganeriwala: Yes, so while the overall retail grew in both the geographies in this festive period, the online actually has contracted. So, if we look at US online sales to the total retail sales, so it jumped from 11% to 14% in FY20 on the back of pandemic. In Q3 of FY22 it is again down to 13%. So, there is a contraction in overall e com in the larger space. It is more prominent in UK. So, from a level of 28% online share to total retail sales in UK, actually it went as up as 33% in Q3 of last year, it is again down to 28% in Q3 of this year. So, in summary, what you were mentioning, while the MasterCard data also shows an increase in the retail performance, but online percentage to total retail mix is declining in both the geographies in the same period.

Nilesh Shah: Okay. I'll probably share the report. Because maybe here the share is declining, but basically still it grew in double digit. So, that was essentially my point. My next question is basically our new guidance for the current financial year of 8% to 10%, which means that in Q4 will probably have to grow at about 6%. And given that we did Rs. 750 crore in Q3 and Q4 which means we'll have to hit again Rs. 700 crore to Rs. 705 crore. How confident are we for this significantly tapered down guidance of eight 8% to 10% for this financial year?

Sunil Agrawal: Yeah. So, we are seeing the traction now of similar growth, as currently we are seeing the growth similar to what we have seen in Q3 in all geographies put together. But given the investments that we've done in the new channel position, and new OTA homes, and digital, as we have also seen from new customer acquisition growth is higher this year compared to last year's robust growth. All these customers and investments gives us confidence for maintaining this guidance.

Nilesh Shah: Again, I turn to the guidance for next year, which is 13% to 15% given that next year should be a normal year. I'm actually just wondering why should our guidance for next financial year be lower than the medium-term outlook given that now Germany kicks in and Germany can potentially add 3% to 4% kind of growth rates to our overall growth rate. So, in that context, if I kind of do ex-Germany, maybe then what we are guiding for is probably close to about 10% growth rate for US, UK. Is my understanding, correct? And why would we want to kind of guide for a lower growth rate versus our medium-term growth rate? Given that we anyway, now are dealing with a relatively lower base of FY22?

Sunil Agrawal: Yeah. So, good point. Having burned the finger once, right, we just want to be conservative. And given that the last year, or the current financial year, the growth rate has been very strong through May. The first quarter was pretty strong. And we want to be careful not to comp higher growth provision for first quarter in next financial year. So Q4 of FY22, and Q1 of next year, there will be subdued growth and from Q2 onwards, you will see a strong growth.

Nilesh Shah: Okay. Also, the B2B businesses essentially backed though on a low base, but that has grown quite well. So, just wanted to understand that while our overall retail business didn't manage to kind of grow relatively at a higher pace, but the B2B business grew at a higher rate. So why would this have happened given that overall demand was perhaps sluggish in markets like US and UK?

Sunil Agrawal: So earlier, we were selling B2B from our US subsidiary to Macy's, or Evine all these companies. And that was not giving ROI. But 2 years ago, we started offering our manufacturing capability, to directly source from our supply chain in India and China. And that seems to be getting good ROI for us. And these retailers, mostly digital retailers, and some BNPL retailers as well, so they are finding our value to be compelling and buying from us. There is one customer from Japan and a couple of customers in US, and couple in Europe, so they have been having higher offtake from us. It doesn't have any front-end expenses and gives us a bit of a scale in our supply chain.

Nilesh Shah: And just one last point. There were again, media reports that in the quarter gone by there were some kind of information which was being sought by the US authorities from retailers for all the BNPL exposure that they have, and all of that. Just wanted to ask if you're aware of that, have we received any such communication, any thoughts on that, given that BNPL is now close to 40% of our revenues?

Sunil Agrawal: So BNPL has been around this number for us for many years now, within that 35% to 40%. So, we've not increased much exposure on this. And no, we've not received any inquiry or any communication from government.

Nilesh Shah: Thank you. That's helpful.

Moderator: Thank you. The next question is from the line of Ashish Kanodia from Ambit Investment Advisors Pvt. Ltd. Please go ahead.

Ashish Kanodia: Yes. Thank you. So, sir the first question is on the ASP. So, when we look at the TV ASP, it has gone up materially by almost 25% YoY. So, just want to get more clarity on what is driving this higher ASP? And a related question on this is, I think on the gross margin, there was a comment that it's related to mix. So, you know, while the TV ASP has gone up, if you can throw some more color also that how the mix got impacted, which hurt our gross margin?

Sunil Agrawal: So, on TV this year, even to some extent even on E COM our customers were putting more orders for higher-end product, probably they had more disposable income. So, we offered them what they needed. And more related to jewelry, but not so much apparel, handbags and beauty products, which they pulled in amongst higher products, so beauty accessories, like anti-ageing equipment and all that, but largely driven by jewelry that gave us high price point.

The next point about product mix. So even though this kind of disruptions happen, when people are staying home they were buying a lot of home product like home improvement, home games and bedsheets and all that, when people goes out, they want more apparel or handbags or some beauty products and some accessories, jewelry, outgoing accessories. So, when the transit times are longer and the product mix changes, so there is a disruption into supply chain demand versus supply. So that leads to a bit of a disruption. And that refers to our commentary on gross margin in product mix.

Ashish Kanodia: Sure. That's very helpful. Now, our second question is in terms of digital and broadcasting. So, in terms of investment into digital and broadcasting days, do you see the current quarter numbers being, true reflection of more of a sustainable run rate? Or do you see that there is more investments to be needed? And particularly on this, I just want to understand, because what happens is, there are two key things, which happened during the quarter, so I think one was your, faster airtime in Germany. And second thing was also the improvement in our channel to 22 from 50.

So, because this might have happened in between the quarter. So, do you see that, the broadcasting and digital expense are going up in subsequent quarters?

Sunil Agrawal: So, we could do to take opportunities wherever offered to us. Actually, last couple of quarters, we had opportunities in OTA space, in US and acquiring one SKY channel in UK, and in Germany, also, we found many opportunities are faster than we expected. So, they give you opportunity and the airtime usually returns investment, which takes about almost a year, sometimes even longer than a year to get to our cadence of airtime, cost versus revenue. So, we take this opportunity whenever offered. From a digital, actually -- from business point of view, we're seeing more traction in digital space. And we've made investments in digital marketing, marketplace digital, OTT digital, and mobile and desktop digital. So, we've seen good customer acquisition, and you must have seen from the numbers, and they're helping us quite a lot. And so, your question about continued investment in coming times. So, from OTA point of view, if the opportunity comes, we will invest, but we don't have a clear visibility on how much more investment or more opportunities will come. So, I would guide you to look at our current run rate of our investment of digital and airtime combined to be there in Q4, and next year, as well. But our guidance is taking that into account of revenue growth, as well as leverage for the next year will definitely give leverage in our existing geographies compared to this year, most definitely. But hopefully, we're closer to FY21.

Ashish Kanodia: Sure. And just last bit is I think the base quarter is also inflated because of a lot of consumers buying essential items. So, is it possible to give some color that if you kind of take out the customers who were first time buyers last year and just bought essentials. So, if we have to take that out how does the retention ratios look? Or the other way around could be when we look at the TV and web volumes, so for example, if TV volume is down by almost 20% on a YoY basis, but if you have to actually exclude the essential items, right, which are not something of our core customer, then how that the typical TV volume would have looked like if that is available?

Sunil Agrawal: That is not available right now. But Prashant can pull the data and share with you, Ashish in due course. But we do see, when you look at 2-year stack, our customer numbers are really robust. We have vivid color on that. So, in Q3 FY20 when you compare with that, our total customer number is 40% higher, compared to last year it is only 5% higher. So, the customer numbers are very robust for us and that gives us confidence of continued future growth.

Ashish Kanodia: Sure, sure. That's really helpful. That's all from my side. Thank you.

Sunil Agrawal: Thank you, Ashish.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Runjhun Jain: What is the freight charges status now? So, has it stabilized or you see that it is at the higher level and still would take probably some more time to come down? Because we have also seen from the other industry and other players that it is now stabilized and probably picked out.

Vineet Ganeriwala: We saw an impact of about, say 2% EBITDA margin in Q2, which has come down to about 0.7% EBITDA margin in Q3. So, we do see some softening in terms of the overall impact. However, the current reality is that it is still far away from the normal levels of the last year. While the Baltic index and other freight rates also show a decline in the current month, the corresponding end mile delivery has increased substantially in the last 2-3 months owing to the port congestion in different parts of UK and US and the non-availability of the last mile delivery operators etc. So, all put together the inward freight cost, though the impact have reduced quarter on quarter, but it's still not back to the old levels. We hope it will continue this way to improve and in the coming quarters we should start seeing some more unwinding of the same.

Runjhun Jain: Sir, can you also quantify the Germany impact like you had given for Q2 that it was 2% impact in Q2, what is in the Q3 now on EBITDA?

Vineet Ganeriwala: 1.8% in Q3. So, the 11.4% EBITDA margin which you see so excluding the Germany loss for Q3 it is 13.2%. So, 1.8% is impact out of that.

Runjhun Jain: Okay. Sir, last question. You have said that the demand was impacted because people were going out. However, in the later part of the month, December at the end of the quarter, we have seen that there were restrictions all around the world. And people were again, kind of getting stuck at home and not going out much. So, you see that has increased any demand? So, what I'm trying to understand is, is there an improvement in the demand in this month or in the late half of the month in December?

Sunil Agrawal: So, from a business point of view, as I mentioned to earlier question So current quarter, we are seeing similar revenue growth in the US, UK as we saw during last quarter. So, we are not seeing demand pick up robustly, yet we are modifying our product mix, product offering to customer based on where they are right now. And some items are receiving uptick, and some are still not, for example, home products are still not as robust. But higher end jewelry is still, it is getting a lot of demand, high end jewelry or high-end jewelry equipment, are still there in demand. So, we're constantly monitoring it. But the growth hasn't come in yet. We expect our investments in OTA homes, or OTT marketing, digital marketing and the new channel position in UK. So, those initiatives to benefit us in the coming weeks and months. And therefore, our guidance for current year to be 8% to 10% and next year to be 13% to 15% growth on the current levels, on YoY basis.

Runjhun Jain: That's helpful. Just last question. Can you give any outlook on the margins because Q4 being our, seasonally weakest quarter in terms of margin. So, what is the overall margins you believe that -- I mean any outlook for this year or next year?

Sunil Agrawal: So, we give guidance of 60%+ margin always. And for Q4, our guidance will be about 60% margin and even for next year, it will be above 60% gross margin. Our effort is to increase wherever we can. But given that there is a headwind of limited freight, we don't want to give more optimistic guidance where it will be substantially above 60%.

Runjhun Jain: Perfect. Thank you.

Sunil Agrawal: Thank you, Runjhun.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum Broking Pvt. Ltd. Please go ahead.

Sabyasachi Mukerji: Hi, good evening. Thanks for the opportunity. So, my first question is on the investments made into digital marketing, OTT marketing, and OTA homes that impacted around 2.2% of EBITDA margin. So, that works out to be somewhere around Rs. 15 crore, Rs. 16 crore in this quarter. Are we maintaining or are we likely to maintain this kind of run rate, quarterly run rate, in terms of investment in the coming quarters as well?

Sunil Agrawal: I believe digital marketing investments will continue, because we are seeing good return on that investment within our platforms, customer acquisition and ROCE, that you see on that acquisition. So the current spend, should continue on marketing side, in the coming quarters as well.

Sabyasachi Mukerji: Okay. My second question is, on the Germany operations. So, we are probably clocking around, half a million revenue in terms of monthly run rate. And you mentioned that we are fairly going to break even Q3 of FY24. So, what level of monthly revenue run rate you expect at that point in time, so that we will be breakeven probably at the operating level?

Sunil Agrawal: So, we are not giving guidance specifically for Germany. Based on our internal numbers of customer acquired, the retention rate and repeat all these metrics gives us confidence to become profitable by Q3 of 2024. But we're not sharing the revenue guidance on Germany separately.

Sabyasachi Mukerji: Okay. What would we be Opex involved on a monthly run rate, if you can help me with that number?

Sunil Agrawal: I don't have it in front of me. And we're not giving specific guidance for Germany's revenue and profitability by quarter because it still 2 years away. So, we're not sharing that far out guidance at this time, will be too premature.

Sabyasachi Mukerji: Okay. I understand. A follow up on Germany. My next question is you mentioned in the last call that you'd be seeing up $3 million to $5 million loss in year one of operations. I believe we have already hit $5 million, close to $5 million by December end. So, what is the estimate now stands at? I mean Germany loss in FY22 and FY23, if I may ask?

Sunil Agrawal: So, we expect the loss to be approximately $6 million dollars for Germany for this financial year.

Sabyasachi Mukerji: And you expect it to narrow down in the next financial year or will it remain elevated?

Sunil Agrawal: Most definitely we have to become profitable by Q3 of 2024. It will be lower next year.

Sabyasachi Mukerji: Okay. Last bit, you have launched this, TAMSY and Rachel brands. So, if I may know the revenue from TAMSY and Rachel for this quarter?

Sunil Agrawal: It is still very small because it’s a very start up space for them. We're not sharing separate revenue for them because it is not significant yet. Right now, for us we have to identify the customer segment, the customer creatives that are resonating with them, and overall retention and repeat from them. But still too early for giving separate revenue on that.

Sabyasachi Mukerji: Okay. And one last question. So, you have invested in this Encase packaging. How will it help us? If you can let us understand, what is the thought process approach over here?

Vineet Ganeriwala: So, Encase packaging is a jewelry hard box manufacturer, it's an ISO operational unit based out of Sri City, Andhra Pradesh, it's a fully automatic and semi-automatic machine infrastructure ready kind of business. So, we used to buy our jewelry boxes from China wherein the import duty in US was 25%. And the import duty of the same jewelry box from India is zero. So, at the same cost the jewelry boxes will now be manufactured in India and exported to US. So, which will give us a substantial reduction in our packaging material through import duty savings. So, a ballpark calculation shows that this initial investment of Rs. 4 crore should be paid back in 18 to 24 months' time at the max through this duty saving. Besides of course, this cost advantage, what we also get is lot of agility, a lot of experimentation, now, facilitate with us to design and change our jewelry boxes like we do for our products. And last, but definitely not the least, this will add substantial boost to our effort to develop a sustainable packaging material. So, we're trying to do that for quite some time now. And with this acquisition, it will give us a tremendous support in that journey as well.

Sabyasachi Mukerji: Okay. Great hearing from you, guys. Thank you. Thanks a lot. That's all from my side.

Sunil Agrawal: Thank you, Sabyasachi.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Just one long term issue. Clearly, it looks like that the year of 2021 benefited us and our business much more. Because it's a peculiar situation that the world goes in. And that probably impacted consumer behavior. And accordingly, we had supersized growth compared to over healthy, longer-term growth of about 17%, 18% that we've witnessed prior to that. So, clearly 2021 appears to be an outlier kind of a year.

Especially now when Vineet was sharing the data that ecommerce as a percentage of the retail also seems to have corrected in US, UK. Not a huge deal. But certainly, there is some amount of softening. Now, given all of that our business model is being pretty well crafted, well-articulated, high gross margin. With the improvement of the business, there is that operating leverage which kicks in, good way to capture customers and then retain and grow them and do all of that in a capital efficient way. And keep aiding product categories, various SKUs to keep the customers hooked and use various sales channels to keep expanding our funnel, and which has worked well all these times.

But given the last two quarters where September and June saw initial early signs of some amount of softness, and December clearly belied our expectations and shown us clear softening. So, if all of this is taken into account, on our longer-term bases, is there any challenge or difficulty that you're viewing or need to revisit our business model? Or do you think there is something which has impacted the business model itself if that is a concern?

Sunil Agrawal: Thanks for your questions. So, business model, we don't look at business model on quarter-to-quarter basis. We look at stack basis. As I shared the numbers on 2-year stack basis, the growth is consistent with 5-year CAGR. So, up to financial year '21, our 5-year CAGR was 14.8%. And the 2-year stack, when you look at, when I share the number is more than 14.8% CAGR. So, given that stack, and the long-term trend, we are actually doing better than 5-year trend, not anything lower.

And in future growth also, as I mentioned in midterm, our growth trend, we have given guidance of 15% to 17%, which is higher than our previous 5-year stack of 14.8%, CAGR. And the investment that we constantly make so, we don't shy even if the sales were not trending as good as we wanted. We continue to make investment on our headquarters in US or getting the channel in UK or investment into packaging company, because we are confident of our business model. And we are walking the talk, not just saying.

So given this, all this investment that we've made, betters chance to digital platforms, including OTA, OTT, mobile app, marketplaces, and OTA homes and channels. We are confident of our future growth in midterms. Given next year, even though there's so much uncertainty around, we are going conservative and giving the guidance for next year, having burned our fingers for last two quarters. So, I want to be sure that we don't repeat that mistake again.

Bharat Shah: No, which is fine. I'm not particularly deterred by the fact that a couple of quarters being softer. My question is more fundamental. And partly, I think I heard you saying this, that our confidence remains, therefore investments in additional asset building on digital and general building activities apace and going on Germany investment is a proof that we are pursuing the longer-term path rather than a shorter-term path. But my question goes, that you see last year -- now it is quite evident that we benefited given the fact that people were cocooned at home and were bored and didn't know what to do, probably bought some jewelry or whatever other stuff. So, that might have given run time additional incremental percentage to our performance. But on the core part, the longer-term growth phase in terms of the opportunity, would we believe it is earlier figures 16%, 17% growth or higher?

Sunil Agrawal: So, this is what I reiterated, Bharat Bhai, including FY21, which was robust here for us, including the pandemic benefit that we got. So, when you look at 5-year CAGR from FY17 to FY21, it was 14.8%. Now, for future, we are giving 15% to 17% growth rate projections, which I'm confident that we will. Now, only for the current financial year we'll be 8% to 10%. And next year will be 13% to 15%. So, when you look at current year, and project it out to next 5, 7 years, our CAGR will be equal or better than past 5 years of 14.8%. That I'm confident because our business model is very unique, vertical business model, low cost, direct to consumer, high gross margin, and retention of customer to great lifetime value and highly engaged customer. I don't see any threat to the business model or fundamental change to this model which is coming or will come in.

Bharat Shah: What you said that 15% to 17%, which is clearly higher than the past 5 years. But on longer term next 5, 6 years, is definitely an important one. I didn't realize we were talking about coming 5, 6 years that 15% to 17%. So that answers my one part of the question. The other part I wanted to -- and equally I'm great that you're not moved away from making investment into the business, because that will be like taking the defeat in ensuring that we kind of retract back. I'm glad you have not done that.

But my second part of the question, was that when we think about the more engage, more lifetime value, loyal long-term customers. Would you say the same loyalty factor and the same kind of customer behavior? Because clearly newly acquired customer behavior there must have been something not exactly as in the past otherwise what we acquired last year is customers should have contributed in a similar way in the current year. So, clearly new digital age, non-TV space acquired customers if they keep getting larger percentage of the activity, would we say the same thing about lifetime ratio, loyalty and uniqueness of the model working in our favor?

Sunil Agrawal: Yeah, so the digital customer that we are acquiring has lesser lifetime value and lesser repeat purchase. That is true. We also made investment in OTA homes, and the new channel in UK which is a substantial investment for us, especially in difficult times shows a lot of confidence on our side.

Now the OTA homes and OTT home that we are going into, I'll just give you a reference. So, let me finish first OTA. So, OTA homes you need substantial investment in this financial year, it is US and now for new channel positions in UK. So, those customer lifetime value is same as TV lifetime value.

Now to offset any digital customers, for lower lifetime value, we've also invested substantially in OTT space. OTT is like Roku or Amazon Fire or YouTube or AT&T or Samsung TV. We're in about 10, 12 different platforms. The lifetime value of that customer is even higher than TV customers.

So just to give you reference, a TV customer lifetime value is approximately $700 or $800 and OTT platform customers lifetime value is over $3,000. We're acquiring customer from every space possible and looking at that acquisition cost against the lifetime value of the customer. So, we're also looking at across return on ad spend. So, we looked at the spend versus what is the return coming from customer very minutely at every platform, whether it's influencer or mobile or Google within mobile or desktop, Google or Facebook or Tik Tok, everywhere Tik Tok, we're just experimenting now, so it's not really meaningful, but Facebook and Google, within Google, there are multiple areas. So, we are looking at every channel and looking at what is the revenue and lifetime value versus our spend. And from that basis, we are measuring our business and making investments.

Bharat Shah: Right. So, what we are saying is, that the digital customer may be less loyal. But our newly acquired or newly being acquired, OTT, OTA customers should more than make up for it because they were far almost 3.5- 4 times the lifetime value compared to the TV customers. So, that's kind of a balancing multiple sales channels that we are doing.

Sunil Agrawal: Correct. So, balancing, we are not consciously doing okay, we have acquired so many digitals, so we must acquire more TV customer. So, I do not give that impression. We are looking at every opportunity possible to acquire customer in a profitable way. If you're acquiring, say, five digital customers, but if you're able to acquire them profitably, we'll do it. We're looking at each channel, what is the cost of acquisition and what is the lifetime value of the customer. Even if there's a more front-end investment, we will make it.

Bharat Shah: No, no, clearly, that I'm aware of the financial discipline and generating healthy return on each of the investments whether digital or non-digital. So, that sensible cadence is something that I'm familiar with that of labor. Thank you for all the answers, Sunil. And I hope this will hopefully improve our forecasting machine a little better, forecasting remains a hazardous business always and therefore when we make projections always there is a challenge. But I'm glad that you're there and if there are answers which are thrown up are very satisfying, as it has been for last two, three quarters that we are fine tuning, improving our customer comprehension, improving our model in such a way that we have hopefully more improved capability to make a bit more meaning out of the future.

Sunil Agrawal: Yes, you're right, last two quarters, we did not meet the guidance. And that is the reason we went conservative this quarter in our guidance. And you're right, the forecasting in, as we have seen, last two quarters that we have given how we see and how biggest investments we have made, we feel confident of the guidance that is given in our future.

Bharat Shah: Sure. So, to summarize, business model remains intact, our confidence of future remains intact, therefore our investments are continuing on digital channels, non-digital channels, geography expansion and other forays, automation and whatnot. And the core part of the business that is as the business expands, our operating margins would improve and operating leverage would kick in, remains intact. And in fact, our future growth rates are likely to be higher than the last 5-year revenue growth which includes fiscal '21 and which was an elevated year. So, despite that, we are expecting the future growth rate to look higher than the last 5 years growth. So overall, everything stays except this not particularly very helpful kind of a beachhead.

Sunil Agrawal: That is correct. Very well summarized, Bharat Bhai. Thank you.

Bharat Shah: Thank you, Sunil and all the very best.

Sunil Agrawal: Thank you, Bharat Bhai.

Moderator: Thank you. The next question is from the line of Kimberly Paes from Equentis Wealth Advisory Services Pvt. Ltd. Please go ahead.

Kimberly Paes: Yeah, thanks for taking my question. So, we've mentioned about mid-teens margin in the medium term. But what sort of margins can we expect in the near term like the next few quarters, considering that even the German losses in the near term will be slightly higher than expected?

Sunil Agrawal: So, from the sales growth we've already given the guidance. This year, this full financial year we will be breaching 8% to 10%. growth year over year on top line. Next financial year, we are expecting 13% to 15% growth rate on top line. And thereafter, 15% to 17% growth rate on top line.

Kimberly Paes: Actually, I was asking about the EBITDA margins?

Sunil Agrawal: Yeah, so we don't give guidance on EBITDA margin per se, but we give guidance on gross margins to be 60% and up of our business. This year, Germany lost approximately $6 million. Next year, we are not giving guidance this quarter. But we'll give guidance in next quarter, what will be the German losses next year, we want to see it trend better. Outside of Germany, UK and US will have operating leverage compared to this year’s growth of US and UK. Our effort will be to get to last year's EBITDA margin. But we're not giving guidance to reach last year's EBITDA. But definitely it will be leveraged on this year's EBITDA margin ratio.

Moderator: Thank you. The next question is from the line of Latika Jetha from Concept Investwell Pvt. Ltd. Please go ahead.

Latika Jetha: So, my first question is, in the past you had mentioned that VGL has been doing influencer program. But I want to understand if VGL is doing the promotions, via these influencers by creating product visibility? Or these influences are helping us in selling while doing live streaming? So, influencers are leading change in the market pretty fast. And recently there was a headline that announced a $1.7 billion goods in a single day on Alibaba's platform. So, just wanted to get a sense of how VGL fits into this influencer program thing?

Sunil Agrawal: Thank you, Latika. A good question. So, we are utilizing influencer currently for content creation, and posting those creatives on Facebook, Instagram, and getting customers from them. So, right now, that is the only utilization we are doing. We are not utilizing them for live streaming yet. Because both in US and UK, influencer live streaming is still at very infant stages. As that space matures, US, UK, Germany we'll definitely go there. But it is not there yet. So, we're creating relationships with those influencers for content creation and posting our content on social media yet at this time.

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

Mayur Gathani: Thank you for the opportunity. Sir, I wanted to probe a little bit more on the operating margins. I mean, today we are at 12% or so with the Germany impact, with the impact of your continuous investments in your new channels, etc. So, even if I take the Germany impact off we will come to, some 11.5%, we will come to 2% additional, 13.5%, the freight might give us let's say 0.5% so it'll become 14% margins. And you say you continue to invest in the newer, channels, etc, whatever the OTT platforms and all. So, I want to know, where is the operating leverage coming in? I mean, I can see 14% margin over the next 2 years' time in this company. But how confident are you on the operating leverage? I mean, the operating leverage, should take us to 16%, 17% plus margins, is that a fair understanding?

Vineet Ganeriwala: Yeah, sure. Though we don't give clear guidance on the margin number per se. What we see our business is such that we will continue to see operating leverage. If you look at the last 5 years as well, so from a single digit, we moved up to 15.3% in the last year. This year is definitely an anomaly with the Germany investment, the Germany losses of about Rs. 35 crore already in the nine month, plus the elevated freight costs. And more than that all these accelerated investments which we are doing in the digital space, as well as all the OTA homes broadcasting, because of which we see an upfront higher expenditure. Hence, the margins are down to about 12% for the 9M period, as of now.

What Sunil also mentioned a few minutes back, for the next year, like in our revenue guidance of 13% to 15%, we expect the operating leverage to come back. Our endeavor would be to go back to the earlier kind of margin levels. But definitely there will be a much improved EBITDA margin from the current year. And once the Germany's market starts giving profit, all these elevated freight level goes out of the way, post that every 15% to 17% growth year after year, will continue to give the operating leverage story year after year. So, one has to look from that perspective, that the long-term operating leverage story remains intact. A one shot, one blip of the current year expected to normalize and unwind in the next year itself.

Mayur Gathani: I completely understand that, sir. My question was more on this, the investment that you continue to do on newer platforms, OTTs, etc that's around 2% today. So, that should become a part of the business right? Then we can't say that this 2% is your one off, it's a continuous investment. At Germany, I understand, logistics, yes, freights, etc. I mean, over time, I'm sure it's going to come back to normal, there'll be some elevated impact. But the investment in OTT platforms, they will continue for a much longer time if we want that 15% to 17% top line growth?

Vineet Ganeriwala: Sure. So, the margin reco., which we give what we say that, like enhanced investment in broadcasting and digital, we don't mean the OTT thing out there. So, what is increasing this year largely is the increased investments in the OTA homes. So, this year, we contracted a lot many new OTA homes, like any other TV broadcasting, so, when we contract a new home the cost comes up front, the revenue comes with a time lag. Hence, this year, the upfront cost is reflecting in the margins. At the same time, we have stepped up our investments on the digital marketing spend as well. So, it is almost 3 times the level of what we used to do in the same quarter of last year.

So, both these put together the airtime cost increase of these OTA homes and the digital marketing spend upfront, both these helps in acquiring more customers, which we are doing right now and the revenue follows with a slight time lag. Hence short-term impact on margins.

Sunil had answered to one of the questions previously mentioned that the run rate of increase will not be there, like you're seeing in the current quarter for this expenditure. So, one can factor in rate of air time and this web marketing spend while making a guidance for the next year. So, to summarize, while the cost may remain at this level, the revenue will enhance, hence the operating leverage will start flowing in. For the short term since this is substantially increased investment, you see a dip in the margin because of that.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Portfolio Advisers Ltd. Please go ahead.

Chintan Sheth: Thank you for the opportunity. I'll still probe on the revenue growth part. Sunil sir, mentioned about the growth on the 2-year basis has been higher than the 5-year basis. But if I look at our registration numbers has gone up compared to what we were having in FY20. But our volumes hasn't grown. We are not a player where we play on ASPs, right? The business depends on the volumes. So, if the volume doesn't grow then there is seriously some challenge or some issues with the business, I guess or demand has shifted structurally to something else. So, are you seeing the same concern? Are you having the same concern? Because if I look at the TV volumes on Q3 FY22 the volume has been flat or there is no growth at all, despite our registration has grown from less than 2 lakh to 3.1 lakh currently. So, how should I understand this?

Sunil Agrawal: So, our business is very dynamic. And we are not in cement or biscuit business where the SKU level is very small. And revenue is given only by volume. Our price point varies from $5 to $5,000 and SKU base is very, very wide. So, we let customer decide what they want to pull in and will offer a similar product to them what they're pulling in. Also because of agility, sometimes you'd see the ASP change. But that is the strength of the business. Not a challenge. Given that customer wanted higher price point, we offered higher price point and got our revenues to where the best we could.

Now in future times, will ASP remain at 32.4 that we saw in 9M? I don't think so, I think it will come down. Because when the business normalizes people will stay at home or buy what they need, it will over the time will moderate. So, that's why we don't give a specific guidance on volume. We give guidance on revenue and the gross margins because the business is so dynamic.

Chintan Sheth: But one would wonder that with new registration and more SKUs versus what we had 2 years back, there should be some pickup in volumes, I'm not sure how to look at it. But the way the number of customers are increasing, number of SKUs you are having is higher, then we are seeing a quarter where there is no growth at all.

Sunil Agrawal: Chintan, when you analyze, say D-Mart, you don't analyze them by number of pieces sold or how many number of kilos they sold. You analyze them by a per square feet retail space revenue growth, right? Here, you have to look at per minute revenue or per square inch of our real estate homepage growth. And this is what we look at, not exactly by volume, but by revenues and gross margins.

Chintan Sheth: Sure. And one clarification on the guidance, sir, is it ex of Germany? Or how should we look at it?

Sunil Agrawal: So, going forward, we are giving consolidated guidance. Because Germany we started breaking down and giving complete numbers. So, we will be consolidated going forward.

Chintan Sheth: And broadcasting absolute costs for the quarter will kind of stay at the absolute level, we'll stay at this level or more investments we are looking at from Rs. 90 crore run rate this quarter, it will stay at this level or we should expect a little bit more increase in coming quarters?

Sunil Agrawal: So, broadcasts itself would not be higher than this number, but digital marketing maybe. But from percentage to revenue basis, you may see stable or slightly lower in the coming quarters. I can't give a specific quarter guidance but overall, you may see some leverage here.

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

Sunil Agrawal: So, I want to thank all the participants for your time and for great questions. And I also thank you for your support to VGL in past years. If you have any further question, feel free to reach to Prashant Saraswat at VGL or Karl Kolah at CDR India. And we'll be happy to answer your questions. Thank you once again. Over to you.

Moderator: Thank you on behalf of Vaibhav Global Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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