



Vaibhav Global Limited

Q4 & FY22 Earnings Conference Call

May 24, 2022

Karl Kolah:

Good evening, everyone and thank you for joining us on Vaibhav Global's earnings conference call for the quarter and the financial year ended March 31, 2022. 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 remarks by Mr. Sunil Agrawal on the business operations, key initiatives and a broad outlook, followed by a discussion on the financial performance by Mr. Vineet Ganeriwala, 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 that we face. A detailed statement and explanation of these risks is included in the earnings presentation, which has been shared with you all earlier. The company does not undertake to update these forward-looking statements publicly.

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

Sunil Agrawal:

Greetings to all and thank you for joining us today in earnings conference call of Vaibhav Global Limited for the quarter and financial year ended 31st March, 2022. I hope all of you, your colleagues, and near and dear ones are healthy and keeping safe. We delivered revenue of Rs. 685 crore for fourth quarter, up by 2.9% Y-o-Y and closed the fiscal year with 8.4% revenue growth, which is in line with the guidance we set out in Q3. The revenue growth is more encouraging when we compare it with Q4 of FY '20 and full year FY '20, which is 37.6% and 38.6%, respectively. We maintained our gross margin at 60% in Q4, and 62.3% for FY '22, which is at par with FY '21.

Our industry leading margins are made possible because of high product mix, efficient price management, efficient planning, in-house manufacturing and wide sourcing base. EBITDA margin for the quarter was 6.9%. Excluding Germany, it would have been 8.9% versus 12.8% last year. This reflects the impact of accelerated investments in digital marketing, marketplace marketing, and increased airtime on OTA platforms.

In FY '22, our Unique Customers were flattish over FY '21 owing to large number of customers who bought essential items during pandemic time. Our investments on digital platforms are generating desired results in terms of higher new customer acquisition. New customer acquisition on TTM basis stands at 2.3 lakhs. Adjusted for essentials, it is higher by 16% over FY '21 and 60% higher over FY '20.



FY '22 was a year of investments for us, wherein we made long-term investments in building our digital competencies, automation, channel upgrade, and geographical expansion. We continued with our planned investments in new OTA homes, elevated digital marketing spends on OTTs, social media search and third-party marketplaces. We believe these investments to be necessary for future growth and offers long-term profitability prospects. For instance, lifetime value of an OTT customer is almost 5 times more than a TV customer.

We also invested in our tech infrastructure, where we upgraded our website in U.S., moving into salesforce commerce cloud and upgraded our mobile and OTT apps in U.S. and UK. In UK, our freeview channel upgrade to channel number 22 from erstwhile channel 50 is yielding improved viewership and increased new customer acquisitions. We expect this benefit to sustain for long time to come.

Implementation of robotics automation at our UK and U.S. warehouses have started to yield positive results, with complete benefits accruing in coming quarters. Germany has also been faring well, and its performance has been as per our plan. We are expanding our customer funnel there through continuous onboarding new and prominent transponders, OTAs, social, search and marketplace platforms. We continue with our guidance to achieve breakeven in Germany by H2 of FY '24.

During the quarter, Shop LC has finalized architect for its upcoming headquarters in Austin, Texas, with expected completion by H2 of FY '24. This investment is expected to provide cost optimization, functional integration and resultant growth opportunities. VGL Group has also completed acquisition of Encase Packaging Private Limited. This acquisition will further strengthen our supply chain network, providing requisite flexibility, cost advantage and sustainable packaging.

Our vertically integrated supply chain network spanning 30 countries is the backbone of our business and a key differentiator, vis-à-vis our peers. The low-cost manufacturing with value sourcing enables to serve affluent but value conscious customers in our addressable market in U.S., UK and Germany. This helps us achieve industry leading gross margins at VGL. Further, the four R's, widening Reach, new customer Registration, customer Retention and Repeat purchases, remains to be our key priorities for overall growth.

The reach of our TV networks by end of Q4 FY '22 was approximately 124 million TV homes, which is 19% higher Y-o-Y. We reached TV homes through cable, satellite, telco networks, and over-the-air antenna, also called OTA platforms. Our products are also available on digital channels, including proprietary websites, smartphone apps, OTT platforms, and marketplaces. New registrations in trailing 12-month period came in at 3.2 lakhs. The number was slightly higher than last year owing to essential customers. As of end of FY '22, we registered an average purchase of 27 pieces on TTM basis by our customers, which is at par with FY '21. Our customer retention rates stood at 40% on TTM basis, vis-à-vis 51% of last year. The retention ratio is lower at Y-o-Y as last year had a wider base of customer who bought essential items.

Recently VGL has been conferred with IGJ Award by The Gems & Jewellery Export Promotion Council, also called GJEPC, for being the highest exporter of silver jewelry from India. And this is the sixth time in a row that VGL has won this award.

Sustainability is at the core of everything we do. And the same is reflected in our mission and guides our decision and actions. We're delighted to announce that recently we issued our maiden interim ESG report showcasing our efforts in sustainability factors, and our long-term goal along with plans to achieve them.



VGL distributed 84 two-wheeler electric vehicles to its employees for their commute without any cost. These EVs will enable to sequester approximately 25 to 28 tonnes of carbon every year. Another important aspect of sustainability efforts is our one for one midday meal program, '**Your Purchase Feeds....**'. Recently, we have crossed a milestone of 63 million meals with a run rate of 59,000 meals donated every single school day.

We'd like to reiterate that there are multiple levers for our future growth and we are doubling down on our efforts to various strategic investments. In our addressable markets of U.S. and UK, inflation has reached its multi-year peak levels, which could soften the consumer sentiments. We however, perceive this as an opportunity for us, as this may result in down trading by customers due to shifting demand for value products from branded ones. And we are well positioned to cater to this possible economic environment.

During last few months, despite industry-wide supply chain constraints, we were able to operate uninterrupted owing to our vertically integrated supply chain. Further, our omnichannel model facilitates a greater level of engagement and provides deeper value proposition to our customers.

While the greater economy is grappling through inflationary pressures, demand and cost challenges, we being value player, are optimistic on medium and long-term growth journey of VGL and would like to reiterate that our long-term investments would support our growth ambitions. Supported by our value positioning and integrated supply chain, we are confident to combat the inflationary challenges and deliver continued growth and expect the current financial year to have mid-single digit revenue growth.

However, our outlook for medium to long-term remains unchanged and we are confident to maintain and deliver our original guidance of mid-teens growth. We remain cautious of the ground developments and will take informed business choices accordingly. We will keep our focus on growth and profitability with prudent capital management.

We have healthy cash and bank balance, which we will deploy prudently considering future growth drivers and efficient operations. We are evaluating avenues to provide more value conscious options in these times, while maintaining overall profitability and healthy cash position. We have a robust cash flow model and track record of returning meaningful cash to shareholders. The Board has paid dividends of Rs. 4.5 per equity share during first nine months of FY '22 and have further recommended final dividend of Rs. 1.5 per share for this year.

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. We hope everyone is staying safe. I hope you have reviewed the financial results and the presentation. While Sunil has given an update on operational performance and key initiatives undertaken during the year, I will now take you through our financial performance for quarter and financial year ending 31st March, 2022.

As Sunil mentioned earlier, revenue growth got softer during the quarter owing to various macro headwinds. Still in line with our guidance, we delivered revenue growth of 2.9% in fourth quarter, and closed the financial year '21-'22 with a growth of 8.4% y-o-y. When we compare these numbers against FY '20, growth rates are significantly stronger with quarterly and annual growth rates of 37.6% and 38.6%, respectively.



In local currency, Shop LC U.S. and Shop TJC, UK revenue de-grew by 2.3% and 7.1% respectively in Q4. However, the growth was robust when compared with Q4 FY '20 and was 25.8% and 25.2% y-o-y over FY '20 respectively.

In full year FY '22, in constant currency Shop LC grew by 4.8% y-o-y, but it was 28.1% over FY '20. While UK was flat year-over-year over FY '21, for FY '20 it grew by a strong 32.3% in constant currency terms. With economies opening up and people moving to in-person shopping after a sharp jump towards digital medium a year ago, we faced macro headwinds after tailwinds of last year. But we believe this is a temporary aberration in the ever-increasing digital transition, and at the same time are taking strategic steps to utilize this opportunity to serve customers with expanded value proposition and filling product gaps.

Our freeview channel upgradation in UK has positioned us in close proximity to market leaders. This is expected to further strengthen our channel's visibility and enhance the viewership substantially. Revenue from TV was flat at Rs. 416 crore, although on a very high base of last year. Digital revenue grew by 3.5% y-o-y suggesting positive traction and reassuring our investments on digital platforms. Sales mix of digital continues to improve, which currently is at 37% versus 22% five years back.

TV includes customer accessing our products through our proprietary TV channels that reach their homes, both on conventional TV media, as well as free to air channel on OTA platforms. While digital includes online purchases on our proprietary websites, and apps, apart from popular marketplaces, and social commerce. Our core focus is to promote and encourage customers to transact on both TV and web platforms, which gives them a unique shopping experience and such omnichannel customers tend to have a significantly higher customer lifetime value than customers that buy only on TV or only on web.

Revenue mix of Budget Pay has improved by 300 basis points to 39% in FY '22 against 36% in FY '21. Fashion jewelry accounts for 70% of our retail sales, while non-jewelry maintained its share at 30%, implying segment-wide growth in this year. The non-jewelry segment comprises lifestyle products, which includes home decor, apparels, beauty care, hair care and accessories.

Gross margins continue to remain at 60% and above levels, which is attributable to our strength of having a vertically integrated supply chain. Drop in EBITDA margins reflect our planned OPEX investments on digital marketing, marketplaces, increased airtime for OTA platforms and our initial setup cost of Germany. We are optimistic of reverting back to our earlier levels of mid-teens of EBITDA margin from next year, led by continued customer growth, improved productivity and cost optimizations. We have undertaken a cost optimization program in the recent times and are expecting annualized visible saving of \$6 million to \$7 million through this cost efficiency initiatives, taken during the last few months.

Profit after tax for the quarter is Rs. 27 crore versus Rs. 56 crore y-o-y, owing to earlier discussed increase in investments and headwinds. Adjusted for loss in Germany, PAT for the quarter would have been Rs. 41 crore. Operating cash flow of Rs. 86 crore in March '22 reflects the impact of higher inventory, part of which is because of higher transit inventory, because of port congestion and lack of air-freight capacity.

Negative free cash flow is on account of planned CAPEX towards technology infra upgrade, warehouse automation, free view channel upgrade in UK, new headquarter in U.S. and initial setup cost of Germany. However, in spite of these investments on TTM basis, our ROCE and ROE continue to be strong at 31% and



23% respectively. And this reflects our short-term impact of conscious business investments, though they are still at par with normal pre-COVID years.

The Board has paid dividends of Rs. 4.5 per equity share during the first nine months of FY '22 and have further recommended final dividend of Rs. 1.5 per share for the year.

Towards the end, I would like to say, that we are confident to continue our growth trajectory with healthier margins in the long run. Our current investments will help build on significant opportunities in the medium and long-term.

With this, I hand over back to the moderator.

Moderator: Thank you. We have the first question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Yes, thank you for the opportunity, sir. My question is with respect to your growth guidance for '23, which is mid-single digit. It means that it doesn't factor any revenue accretion from our new geography in the assumptions. That's how it is? And when I'm trying to then correlate with the mid-teen margin, which was our original margin before we went into the new geography and the cost associated with it. So if we have a mid-teen growth assumption, I couldn't correlate with the mid-teen margin. So, if you could help us understand these two growth assumptions of yours.

Sunil Agrawal: Yes. So, Pritesh, thanks for the your question. So, the guidance of mid-teen margin is for next financial year.

Pritesh Chheda: Mid-teen?

Sunil Agrawal: Yes.

Pritesh Chheda: So, it is for FY '24 guidance for mid-teen margin?

Sunil Agrawal: That is correct. For this year, we are giving a guidance of mid-single digit revenue growth earning leverage for this year. So, there will be leverage by end of the financial year, although, the first quarter is still tough, because last year we had very high base of 25% growth. And also, there is still lot of opening up pressure. But for the year, we are confident of mid-single digit growth. Now, we do not know how long the opening up will continue, that is why we are giving this guidance of mid- single digit for this year. We may, if the situation changes, do better than this. But this is what we feel comfortable at this point of time.

Pritesh Chheda: This doesn't assume any significant revenue assumption from Germany?

Sunil Agrawal: Yes. Not a very significant. We are on the track of where we originally planned when we launched the channel, and we are confident by next financial year H2, it will be breakeven. So, we are not giving revenue guidance for Germany specifically at this time. This is still relatively small. But overall, this does contribute to the overall sales. I can't say whether the local U.S. and UK will be flat, or slightly grow, because we have not broken down in our guidance. It may change from geography to geography, where the opening up may be higher or lower.

Just to give an example, I'm traveling to UK next week. And for London, the flight cost is three times I paid pre-pandemic. So, the UK is really an opening up environment right now. It may change from time to time, so we're not giving individual unit level growth guidance. But overall, for the year, we are giving mid-single digit growth guidance for this financial year.



Pritesh Chheda: Okay. And my last question is, sir, on the Budget Pay side, where do you think it will stabilize because it has already reached about 39%? And it takes some slice off of our cash flow. So, where do you think will the Budget Pay number stabilize, if you could help us understand that?

Sunil Agrawal: Yes. So, we have -- around 40% approximate guidance for the Budget Pay. So, we are well within the guidance. It can go a couple of percentage up and down. And during these economic challenge times, giving Budget Pay is helpful for our revenue.

Pritesh Chheda: Okay. Sir, if it is going to -- it has already reached 39% and if you are capping it at 40%, which means incrementally we should not see it eating much of our cash flows.

Sunil Agrawal: Yes. We don't expect it to go above 40%, it can be 1% or 2%, plus or minus. When we look at the daily and weekly numbers, we don't really pay as much attention to how much we've achieved so far. We look at what is the right for the customer, what is right for the product and the environment at that time.

Pritesh Chheda: And sir, lastly, the German costs, business cost has already been baked into our P&L from the last four quarters. Is that correct?

Sunil Agrawal: Yes. So, it is part of OPEX now.

Pritesh Chheda: Yes. And Vineet was talking about a \$6 million costs saving, I couldn't catch that. What is that, sir?

Vineet Ganeriwala: I'll take that, Sunil. So, we undertook a cost optimization exercise across all the geographies, looking at the challenge in hand. So, whatever measures we have taken in the last three, four months, we see an annualized saving opportunity of \$7 million to \$8 million already from the measures taken. So that's what I was referring, when I mentioned about the cost drive.

Pritesh Chheda: So, it is reflected in the quarter four or it is going to reflect in the next four quarters?

Vineet Ganeriwala: So, the full benefit will be coming in the next four quarters and this is baked in when Sunil was mentioning that, while the revenue guidance is mid-single digit, we also expect operating leverage to flow in the full year. So, this will partly come from the revenue growth and partly from all the cost drives we are doing in spite of any inflationary challenges we will face.

Moderator: Thank you. We have the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thank you for the opportunity. This is a challenging period, I guess. If you can elaborate on, you did mention that the tailwind for last year was converted into headwind because of the physical movement, shifting of the customer preference to offline shopping rather than online shopping. How much that trend has an impact to the industry, because I tried to understand when I look at QVC, and others commentaries, their challenges are slightly different from what we speak about? We still, after three quarters, continue to blame the offline channel as preference of customers are changing to offline shopping. While they are facing challenges in the procurement, as well as understanding what the consumer wants. So, I'm trying to understand from your end, what actually is impacting our growth?

Sunil Agrawal: Yes. So, thanks for your question, Chintan. So, this is true, the QVC had supply chain challenges. We have those challenges but upto small extent. We have longer transit time. We don't have any shortage of inventories, but we have more cash tied up into that. So, I do not know full -- to what extent is the supply chain challenge versus the opening up challenge at QVC. But QVC group had substantial negative y-o-y growth, whereas we had positive growth and we are guiding for positive growth for the year.

Chintan Sheth: So, do you see this offline consistently abating over the quarters from Q2 and since that to reopened and at the end of 4Q, where there is flat or 8% to 9% growth the base is kind of likely to normalize from Q2 of next year. And despite that, and despite Germany, we are kind of revising our growth guidance lower, which means there is -- you foresee structural change in demand in fact, obviously, inflation you've spoken about, but we did benefit from our down trading of by providing a value proposition to customers, which eventually favors us compared to our peers. So, I'm trying to understand your next year's growth rate?

Sunil Agrawal: So, we have already given guidance for next year onwards of mid-teen growth y-o-y. So, we're confident of mid to long-term growth prospects for the company. Now for the current financial year, we have opening up as well as inflationary or potential eyeball diversion due to other stories in the media and potential inflation. So, all these factors put together we are giving guidance of a mid-single digit for the current financial year. If the situation improves, our performance will improve as well.

Our effort has been to give prudent guidance to the Street, to the investor community and that we have done for many years, for multiple years. Last year, we were not able to meet this guidance because of rapidly changing environment, and we're learning from that and giving more prudent guidance as we go forward.

Chintan Sheth: Sure. And lastly, in the investment, which we did for the HQ in Austin, how does it fit in terms of our capital allocation given the situation where we see clear or impending slowdown? How do we judge our capital allocation decision to invest in larger HQ versus we could have reserved that cash for a weaker period and upcoming weaker environment in terms of business?

Sunil Agrawal: Yes. Thanks for the question, Chintan. As I mentioned multiple times, that we have very good cash flow generating business. That is why we are confident and we continue to pay dividends, even if the performance for this quarter was not the best one. We have confidence in future cash flow of the business as well. So, that is why we continued with dividend payout, as well as continued our investment into OPEX and CAPEX. We continue to make investments into better channel position, digital marketing, marketplace marketing, and the CAPEX in terms of better channel position, digital infrastructure, automation in warehouse, and new headquarters in the U.S.

Specifically, your question about new headquarters in Austin, we have three buildings right now and there are rented buildings. Consolidating all under one roof will create more efficiency and cost benefit. So, we did our ROI analysis for that premises, so we will have positive ROI of going into our own premise.

Chintan Sheth: And how much we paid for that?

Sunil Agrawal: So, we paid approximately \$12 million just for the land and that will be constructed over the next two years which will cost another \$20 million or so.



Moderator: Thank you. We have the next question from the line of Sameer Dalal from Natvarlal & Sons Stockbrokers. Please go ahead.

Sameer Dalal: Yes. Hi. My questions actually are a continuation to the earlier questions on the margin front. So, if you look at Slide 27, you all have talked about major OPEX investments where web marketing went up by 151% marketplaces 38%, increase in air time OTA is 30%. And then if I look at Slide 28, the margin hit because of this increased cost was about 2.2% because of the accelerated investment in digital and broadcasting. So, my question is, are we going to continue at these higher rates for this part of the business? Or I mean, this is for the yearly? Or is this going to stabilize and come down a bit, what exactly is the plan of action?

Sunil Agrawal: Thanks, Sameer. Thanks for the questions. For the digital and marketplaces, we see a lot of growth potential in those places. And once we get that customer in, and if we can convert those into multi-channel customer, the lifetime value of customer increases. And we have multiple platforms that we can convert that customer into. Within our e-commerce space, we have web TV, and with live streaming gaining traction in U.S., it is very interesting for the viewers.

We have rising auction, that \$1 auction platform that also gets customer addicted or hooked to our digital platform. And we have other additional potential to target that customer to OTT platforms on Fire TV, on Roku, and Samsung and all other Smart TVs. So the value addition of that customer is high. We are making the investments to continue to acquire these customers, and so that we can transition them and gain into their lifetime value.

Having said that, the investments we've made during last financial year in U.S., UK, Germany on digital, this year those investments maybe at same or slightly lower levels than last year. But if given them all, we can design around similar levels for this financial year as well, from a absolute dollar perspective, not the increase of mid-single digit growth, but on absolute dollar terms.

Sameer Dalal: Sure. If I can ask you another question related to this, you talked about the fact that you can get a lot of customers onto your platform which can be used then, help retain these customers. Can you give us some idea of what kind of additional customers you have got, because of these additional spends?

Sunil Agrawal: We don't have separate breakup, Sameer. The numbers that we shared of new customer acquired is mix of TV, OTA, OTT, digital and customer transition from marketplace over to us.

Sameer Dalal: Correct. But my question is- is there any way to quantify if these spends are actually bringing in the kind of customers that we need?

Sunil Agrawal: Yes. We look at it constantly and we look at what ROAS we are getting from each channel. We have now three different channels, U.S., UK, Germany, and within these each, we have social, we have Google search, we have Bing, we have influencers, we have affiliate marketing. So, each have different criteria for judging as to what ROAS should be from each of them. So, we constantly monitor and modify our marketing strategies.

Sameer Dalal: Okay. One of the other reasons for the margins to be lower this year was the sea freight elevated prices. Given that we've had this, are we taking any price increases to offset this? What exactly are we doing because they still remain elevated if I'm not mistaken?



Sunil Agrawal: Yes. They have moderated a little bit, but they still are elevated. But as you've seen from our gross margin basis, we're able to pass on majority of that to our customers and get to our gross margin of 60% plus.

Sameer Dalal: Right. So, any more price increases we can expect for any of these cost increases that we are facing? Or, I mean, that's not something you're looking at all?

Sunil Agrawal: Well, inflationary pressure is there, Sameer. That is everywhere.

Sameer Dalal: That is my point.

Sunil Agrawal: It is a component, it is going to be there, as per the analysis, this is going to be there for the whole of this financial year. But good thing is that we can pass on to the customer because we're not logged into a particular product. We bring in 150 to 200 new products every day. And within that we are able to build up the margins, and the product which has really gone out of cost, we discontinue. So, we are able to do prior adjustments across our selling platforms.

Sameer Dalal: Okay. Now coming back again to the similar kind of question that first person asked, you've given us mid-single digit growth guidance and these talked a lot about the fact that our channel upgrade from 50 to 22 in UK is going to actually bring a lot more customers onboard. So is that view now a little bit changed that this year, it may not be the case or I mean, see the two statements are not gelling together where we say that we'll get a lot more eyeballs. But then it also says that we're not going to be able to translate those eyeballs into customers. So, I'm just trying to get a feel on why we are being so, I'm not saying pessimistic but conservative on giving a growth guidance?

Sunil Agrawal: So, the first point about UK channel. We launched this channel in January, middle of January. So, at that time, the UK TV customer acquisition was trending about 20% to 30% negative year-over-year. So, as of May, first 20 days, we are seeing about 8% growth on TV acquisition year-over-year. So, we are seeing new customer coming in from TV. Lifetime value of that customer is higher compared to even web customer. But how the buying behavior of that customer will be, given the macro situation, the customer going out or inflationary pressure or the recessionary pressure that might happen, we are conservative on giving the guidance.

Sameer Dalal: Okay. And the last question I have is on the inventories. We've seen a big jump in the last quarter also you've talked about the fact that inventories were higher because sales through didn't happen. And of course, we have seen inventories go down from I think last quarter to this quarter. But what would be the comfortable level of inventory that you would be happy to sit on or would this be the new trajectory for the inventory levels at about Rs. 620 crore odd?

Sunil Agrawal: Yes. So, inventory level was a bit high this year compared to last year. What we are looking forward is to moderate that and not take hard right turn or hard left turn, but moderate it over this financial year. So, we're not giving specific guidance on the inventory, but it will be lower in terms of number of days, also in absolute dollar terms.

Moderator: Thank you. We have the next question from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: Yes. Hi. Thanks for the opportunity. My first question is kind of a follow up to one of the previous participant's question. If I looked at your OTT digital spends, over the last four quarters it has ranged around Rs. 14 crore, Rs. 15 crore in a quarter. Whereas if I look at the OTT revenues in one of the slides that you have put up,

it's around Rs. 14 crore, I mean \$1.8 million, Rs. 14 crore, Rs. 15 crore quarterly run rate in the last two quarters. So, where do you set this benchmark of, let's say, spending one unit in the digital or OTT space? And how much do you get in return in terms of the revenue from that particular OTT customer? And do you have some kind of quantification in this regard?

Sunil Agrawal:

Yes. Thank you for your question, Sabyasachi. So, the Rs. 25 crore in Q4 is in digital marketing spend and not OTT. OTT is a very small subset of the digital spend. We do spend on Fire TV and Roku to get our apps on those platforms downloaded, but that is a small subset. And whereas, -- since the number you picked up was only OTT. So, to the earlier question from Sameer I answered, we would have overall digital spend to be about similar or slightly lower for this financial year, given the current productivity we are seeing on digital front. If we can get to higher productivity of the spend, as we are levying every day, or as we are going into the new platform, for example, we're going to TikTok now. If we see higher productivity on that, we can increase our spend over there.

So, the current projection for us is to spend about similar level or slightly lower than last year in absolute dollar terms.

Sabyasachi Mukerji:

No, so just to understand this thing. So, if you -- let's say if you spend \$1 in digital, so how much does it yield in terms of revenue?

Sunil Agrawal:

Yes. So, there are two components of that. One, revenue you get right away. So, within the digital spend, we have two kinds of campaigns. One is to acquire new customers, which gives revenue right away, and other is to get revenue right away and the ROAS right away. So, within those two, it changes from channel to channel. For example, the social revenue ROAS is lower than Google. Google is high. Within Google, there is search, there is shopping, there is remarketing, there is banner ads. Then there is affiliate marketing and there is influence marketing and brand-to-brand it differs. So ROAS differs from channel, verticals, and within verticals it differs whether it's through customer acquisition or to get the sales from that.

So, I don't have an overall number Sabyasachi, because it's too amorphous number yet, but we constantly review the tactics or the strategy in terms of what productivity we need to give. So, I don't have a one number to answer on that because it is pretty complicated mathematics or analytics or what they say the calculations we do on a weekly basis.

Sabyasachi Mukerji:

Okay. My next question is, of course, we have seen volume decline in TV in FY '22 and web volume growth of hardly 1%. So, where do you see the TV volume and the web volume growth in the next, probably not I'm talking about FY '23, but for the next two to three years, where do you see this number?

Sunil Agrawal:

Yes. So that's a good question. So last few quarters, our volumes have been moderated, because the pull at this time for the customer is of slightly higher price point. For example, the plain gold chains sold very well in recent quarters. Probably for inflationary pressure, for whatever reason, they did. And lower to mid-price point there was a little moderate pull from the customers, probably because of low number of eyeballs watching us, people going out. So, we are able to get our agility in supply chain and our velocity of new product coming in is very high. We moderate, we modify, and serve customer on what they look.

In terms of our guidance for coming year, I would encourage you to benchmark last financial year's ASP for us and build your model with mid-single digit growth on that ASP. We have similar volume growth. Let me correct that. So have similar

ASP for current financial year as last year's ASP and grow volume in mid-single digits on that.

Sabyasachi Mukerji: Last question, a bit book keeping one. So, I see the packaging and distribution spend expense in Q4 being higher than Q3 despite our revenue going down. Do you -- I mean, why this have happened, can you explain?

Vineet Ganeriwala: Yes, I'll take that, Sunil. So, packaging, all depends a lot on the products being sold, the mix of the products, volume metric, etc. Plus, there are also impact of the fuel surcharges, peak season surcharge and so on and so forth. So, it may not be apt to look at quarter-by-quarter number. Our recommendation would be to look at year by year for the same. So, for the quarter, it grew by 4% in spite of all the rate increases, etc., which has happened during the year. As I was mentioning, and you would have noticed in the presentation as well. So, we have undertaken a lot of measures in this shipping and packing cost already, which should give us at least a saving of around \$2 million for the year.

Moderator: Thank you. We have the next question from the line of Ashish Shah from Business Match. Please go ahead.

Ashish Shah: Hello, sir. Thank you for taking my question. Sir, on slide 28, where you have mentioned the major CAPEX investment is done in FY '22. Sir, can you talk a little bit about your investment in the two D2C brands that you did in FY '22? And you mentioned in the earlier calls, I think a couple of quarters back that you are experimenting on going for D2C brands. So, any early thoughts on how has the experimenting and testing gone and how do you see the future?

Sunil Agrawal: Yes. Thanks for the question, Ashish. These two brands are Tamsy and Rachel Galley. We're slowly ramping them up. It would have been faster, if we not had as much opening up as we've seen, we might have ramped them up quicker. So, we are ramping up but slowly, so as not to burn cash and keeping our guidance of this current financial year. But we are learning quite a lot from them. The revenue is not going to be substantial, both brands put together this year would be just around between \$2 million to \$4 million. So there's a very wide range we're giving because we're monitoring and looking at without burning much cash if we can increase customer acquisition, retention and repeat. So, we're still experimenting and testing.

Ashish Shah: Sure, sir. That's very helpful. And sir, just one bookkeeping question, any CAPEX guidance for the next year and for FY '23 and '24?

Vineet Ganeriwala: I'll take that one, Sunil. So, we don't give any CAPEX guidance as such. Sunil mentioned about the land and building expenditure, the headquarter one for U.S., which will be spread over the next two years. We expect that to be completed in H2 of FY '24. But that will be about say \$20 million spread over all this two and a half years. So that will be an additional CAPEX. But other than that, we have done a significant CAPEX expenditure in the last year. We expect our CAPEX, other than the land and building one to be moderate only for the next two years, maybe in the range of Rs. 50 odd crore, which we used to have year prior to the last year. But yes, if any substantial opportunities come our way, we would not shy away from investing there.

Moderator: Thank you. We have the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thanks for the follow up. On the channel upgradation how much we have spent and this is capitalized, I guess. And if we capitalize, for how many years we need to amortize it?

- Vineet Ganeriwala:** Yes. Chintan, we have spent approx. Rs. 74 crore on these broadcasting rights and we amortize it over 15 years.
- Chintan Sheth:** Over 15 years. Okay. And second, if I look at the OTT numbers, the customer -- that will be repeat element, I guess, but the revenue per average customer, it seems to be little high over \$500. Obviously, there will be a demand of repeat purchase, and we don't know the volumes there. But that is typical to other channels as well?
- Vineet Ganeriwala:** Sorry Chintan, can you repeat the question, please?
- Chintan Shah:** So, the OTT revenue, we can make out from the chart is around \$1.8 million for the fourth quarter, and we have around 3,000 to 3,200 unique customers with us. So, average works out to be around \$500 plus revenue, obviously there will be repeat purchases and units will vary. But does that reflect with all other platforms we have, that the per customer revenue works out to be around \$500 kind of number?
- Sunil Agrawal:** Yes. So far OTT is generally one group that we say. The e-com is different, TV is different and the customer who buys from TV plus e-com is very different. So, this number is just for OTT and overall for the retention and the lifetime value is pretty high on OTT as you saw in our investor presentation.
- Chintan Sheth:** Right. And secondly, I was looking at per unit, expenses, you mentioned packaging and distribution. Anything in other OPEX part which mean to absolute numbers remaining flat, but I think there is some element of higher cost. Any provisioning or anything we did this quarter?
- Vineet Ganeriwala:** I will take that. So, I already spoke about, shipping and packaging. Content and broadcasting includes the airtime and the web marketing largely. So, web marketing is higher and that's a conscious investment. Airtime expenditure is higher also y-o-y by 30%, but that's also in line with the investments we made in the various OTA homes during the year. Like Sunil was mentioning, these two expenditures will not now substantially increase in the current year, both web marketing and airtime. Of course, any significant opportunity comes in airtime or OTA homes, we may opt for that if it makes sense for us. Other than that, there is no significant increase in any costs in terms of like jump in the quarter.
- One correction, Chintan, the amortization of the freeview UK channel is 10 years and not 15 years.
- Chintan Sheth:** Right. One last question on the Austin office, the three centers currently you have what kind of annual rental saving we can expect beyond FY '24?
- Vineet Ganeriwala:** So I will take that. So, we when we modeled it, we found, I will not speak about the rentals alone, that all OPEX put together, we should get OPEX savings of about \$1.5 million per year.
- Moderator:** Thank you. We have the next question from the line of Ritik Tulsyan from Concept Investwell Pvt. Ltd. Please go ahead.
- Ritik Tulsyan:** Hello. Yes sir, so my first question is, so sir there has been changes in the leadership team. So, any specific reason for those changes? Also, hiring from outside or you are looking from within the VGL team? And I'll ask the next question after this question has been answered.

- Sunil Agrawal:** Yes. So, the change is a fact of life, Ritik. So sometimes, we just leave for better opportunity. Sometimes we take a decision for various reasons. So, we're looking internal as well as external for replacement of these positions.
- Ritik Tulsyan:** Okay, sir. And my next question is, e-commerce industry itself is facing headwinds in U.S. and UK. And in case of television, I believe the headwinds are even stronger, like you said, and substantial part of business comes from television. But you mentioned you are gaining market share. So, is it that the industry is de-growing itself, but we are gaining market share over there? So little bit clarification would be beneficial for us, sir.
- Sunil Agrawal:** Yes. So, when the growth of earlier year was very, very high and there is a change in customer behavior, you have to look the trend in longer perspective. That is why we gave the number of FY '20 as well. So, for us, we continue to gain market share, whether the industry is gaining rapidly or for external circumstances is not showing growth. So, we'll be having growth of market share in any circumstance.
- Ritik Tulsyan:** Okay. And my last question is that how should we look at the TV business going forward? So, anything on that aspect? How should we look at the TV business going forward? So like, do you have any plans in mind, which you can share with us?
- Sunil Agrawal:** Yes. So, we look at TV business, as a long-term business, because our market share is just about 3% of the listed players we see the financials from. And also the OTA homes, the over-the-air free antenna, that side of business is growing, and we are gaining more and more homes into that space. So, there's a cord cutting happening on the cable side, but our market share is small, so we can continue to grow in that space. And OTA space is growing, and we are gaining more and more space or customer share in that space. For next 7 to 10 years, we don't see a reason to be concerned about TV, linear TV.
- Having said that, we are making appropriate investments into OTT space, that is connected TV, Smart TV, on set top box TVs, as well as on digital and social. So, all put together, we are confident of our long-term growth, irrespective of the platforms.
- Moderator:** We have the next question from the line of Aditya Mehta from GK Capital. Please go ahead.
- Aditya Mehta:** Yes. Hi, sir. Thanks for the opportunity. Sir, my question is regarding manufacturing units, which we have set up few quarters back for the manufacturing of apparels. So how is that unit scaling up?
- Sunil Agrawal:** Yes, very well. We have good number of people. We need some additional small CAPEX for improving the machines and processes. So, we are happy with the progress. We are happy with the apparel progress on our TV channels also. So, we are generally happy with the progress on that.
- Aditya Mehta:** So, how much of the revenues we are generating from that unit?
- Sunil Agrawal:** So, I don't have the specific revenue number. It's not a whole lot, but it is as per our projection.
- Aditya Mehta:** Okay. And sir, for FY '23, how much loss are we anticipating from our Germany operation?

Sunil Agrawal: So, we're not getting specific loss guidance on that. It will be lower than what it was last year, and in H2 of FY '24, we expect it to be profitable.

Aditya Mehta: Okay. And for FY '23, what was your EBITDA margin guidance?

Vineet Ganeriwala: So, for the current year, we are not giving any EBITDA guidance. We mentioned that we will deliver positive leverage for the current year. And what we are mentioning is that for the next year, which is FY '24, we believe we are confident of our EBITDA margins to come back to the mid-teen levels, which we saw in FY '21.

Moderator: Thank you. We have the next question from the line of Sohail Kamdar, an investor. Please go ahead.

Sohail Kamdar: Hello. Thank you for taking my question. In Content and Broadcasting, I'm seeing that the expenses for the full financial year is increased by almost 35%, whereas the revenue has increased by only 8%. So, how should we see that? Is that mostly operating expense or it's a variable? How it is linked to the sales?

Sunil Agrawal: Yes. So, we made some investments into OTA space and we found that investment to be productive for us. For the current financial year, we should look at similar number like in the last year numbers that we had. Last year investment that we made are on the track for meeting our cadence. So, from absolute dollar point of view, you should plan your model based on similar numbers of last year.

Sohail Kamdar: Okay. So, absolute number would be similar as last year?

Sunil Agrawal: Yes.

Moderator: Thank you. We have the next question from the line of Pooja Doshi, an investor. Please go ahead.

Pooja Doshi: Thanks for taking my question. Sir, current quarter inventory being high, I wanted to understand if there are any obsolete, non-moving or slow-moving inventory and if you can quantify the same?

Sunil Agrawal: Yes. Thank you for the question, Pooja. So, we have the provision, we have a process of exiting the tails or slow-moving inventory through clearance mechanism and our rising auctions. So, we don't have much of non-moving and whatever the inventory, which would be slow or non-moving, which is aged inventory, we have a provision created for any aged product. So, the value of inventory continuously goes down as per our cadence.

So, we are confident of our quality of inventory over the long-term or over the course of this year to be able to reduce on absolute dollar terms or rupee terms before the end of this financial year.

Pooja Doshi: And also, if you could help me understand the process of identifying a bad inventory and items stock? Like what would be the exact process to do that?

Sunil Agrawal: Yes. So, at any given time, we have 60,000 SKUs in the system. So, we have automatic algorithm of product, if it is lower than expected productivity, it goes into the clearance flag or goes to rising auction flag. And from there, it sweeps out to automatic scheduling of the product for customer to bid on and we start such products at \$1, and it ends wherever it ends. The customer gets that product. And if it is aged product beyond a certain timeline that we have, it has clearance from

certain time to certain time, and keeps on depreciating over that time. So, we have very robust mechanism in the company to create provisioning as well as exiting of aged product.

Pooja Doshi: All right. Could you help me with the trend of returns to sales ratio for last eight quarters if you have those numbers handy?

Sunil Agrawal: Yes. It's pretty constant. We haven't seen returns going up in last quarters. It is fairly constant.

Pooja Doshi: And what would the range be then?

Sunil Agrawal: So, for U.S. it is around between 16% to 18% returns. For UK, it is about 26% to 28% range.

Pooja Doshi: So sir, you said this has been constant since last couple of quarters, right? The 16% number and 25% number you said?

Sunil Agrawal: Yes. So, U.S. is between 16% to 18% and the UK is from 26% to 28%.

Pooja Doshi: Okay. Perfect. And sir last year, I wanted to understand shipping and freight cost as a percentage of sales, what would that number be for this year?

Vineet Ganeriwala: So in absolute dollar terms, it will grow maybe in line with the volume growth and you can factor in the \$2 million savings which we are projecting for the year.

Pooja Doshi: Okay. All right. And sir lastly, on seasonality, is there any seasonality in sales? Like usually, a lot of companies have inventory buildup during Q3. So, do you have something similar or it's even through all the quarters?

Sunil Agrawal: Yes. So, there is seasonality in the sales. But Jewelry is not a lot of seasonality. It is mostly fresh-purchase, and it sells for pretty much all year round. There are sometimes some colors for example, some gemstone like Smoky Quartz, Black Onyx, that sells more into winter times than the summer times. During Summer times or spring time, some lighter colored gemstones sell better.

Now, in apparel, there's some summer fashion, some is winter fall. So, there is a difference between these. But for our inventory makeup after our provisioning policies, we don't have any concerns with overall inventory.

Moderator: Thank you. We have the next question from the line of Siddhant Dand from Goodwill Warehousing. Please go ahead.

Siddhant Dand: Yes. So, firstly you answered in the previous question about the shipping costs being in line with the volumes, but because our ticket size is lower, does it affect us in a way with inflation, especially with shipping?

Vineet Ganeriwala: No, like I said, you can project our shipping cost in line with the volume growth and factor in the savings for that.

Siddhant Dand: Okay, so it's not a major issue.

Vineet Ganeriwala: It's not a major issue.

Moderator: Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the conference back to the management for closing comments. Please go ahead.

Sunil Agrawal:

So, I want to thank all the participants for your time and 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 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 Melissa. Thank you.

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy

