VAIBHAV GLOBAL LIMITED

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National Stock Exchange of India Limited (NSE)
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra, Mumbai – 400 051
Symbol: VAIBHAVGBL

BSE Limited
Phiroze JeejeeBhoy Towers,
Dalal Street,
Mumbai – 400 001
Scrip Code: 532156

<u>Subject: Submission of transcript of conference call</u>

Dear Sir / Madam,

With reference to captioned subject, we are enclosing herewith the transcript of Q1 FY24 Earnings Conference Call held on Thursday, 03rd August, 2023.

The Transcript of the earnings conference call is uploaded on the website of the Company and can be accessed on the link:

https://www.vaibhavglobal.com/admin_assets/Investor/Investor_Presentation/1773662259166963.pdf

Kindly take the same on record.

Thanking you,

Yours Truly,

For Vaibhav Global Limited

SUSHIL SHARMA
Digitally signed by SUSHIL SHARMA
Date: 2023.08.08 17:40:42 +05'30'

Sushil Sharma
Company Secretary

“Vaibhav Global Limited

Q1 FY '24 Earnings Conference Call”

August 03, 2023

MANAGEMENT: **MR. SUNIL AGRAWAL – MANAGING DIRECTOR – VAIBHAV GLOBAL LIMITED**
MR. NITIN PANWAD – GROUP CHIEF FINANCIAL OFFICER – VAIBHAV GLOBAL LIMITED
MR. PRASHANT SARASWAT – HEAD OF INVESTOR RELATIONS – VAIBHAV GLOBAL LIMITED

MODERATOR: **MS. DISHA SHAH – ADFACTORS PR**

Moderator: Ladies and gentlemen, good day, and welcome to Vaibhav Global Limited Q1 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Disha Shah from Adfactors PR. Thank you, and over to you, Ms. Shah.

Disha Shah: Good afternoon, everyone, and thank you for joining us on Vaibhav Global's earnings conference call for the quarter ended 30, June 2023. Today, we have with us Mr. Sunil Agrawal, Managing Director, Mr. Nitin Panwad, Group CFO, and Mr. Prashant Saraswat, Head of 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 financial performance by Mr. Nitin Panwad, after which the management will open the quorum for Q&A session.

Before we get started, I would like to point out that some statements made or discussed on this call may be 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 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 remark. Over to you, sir.

Sunil Agrawal: Thank you, Disha. Thank you all for joining us today on this earnings call. I hope you would have reviewed both our results and the presentation that supplies details on business operations and current market trends.

Let me begin with operational highlights of Q1 FY '24. At Group level, sales for the quarter were INR658 crores, an increase of 4.8% over the same period of last fiscal year. Our five-years, CAGR stays healthy at 11%, suggesting robustness of our business model under various kinds of economic cycles. In Q1, our gross margins continue to remain healthy at 61.2%. Our in-house manufacturing capability and a global sourcing base provides us with a competitive advantage and enabled market-leading gross margins. EBITDA margin for the quarter has been at 10% of revenue versus 7% in Q1 FY '23.

Similarly, our profit before tax margin was at 4.7% of revenue versus 3.1% in Q1 FY '23. Our sustained efforts towards cost optimization and better pricing have enabled us to improve profitability since last couple of quarters. We are confident of continually improving our profitability led by improved cost efficiencies and sales growth led leverage.

I would now like to touch upon each of our addressable retail markets. The consumer demand across territories was affected by macro challenges like, high inflation and consequent rapidly increased interest rate. In US and UK, consumer sentiments are still muted from a historic perspective, but are showing signs of improvement lately. Our efforts to outreach customers and household expansion continues in all the markets. We are augmenting our reach by adding more TV cable and OTA households. Additional marketing in OTT or connected TV homes also continues as here such customers' lifetime value is high versus traditional TV customers. Germany is faring well and clocking monthly revenue of EUR1.5 million and gross margin of 60%plus.

Recently, we added 13 million households through partnership with Vodafone, one of the largest cable TV service providers. With this arrangement, Shop LC Germany now cover almost 90% of total households in Germany and Austria. We are expecting to get additional distribution in Germany in Q3, which would get us over 95% of market penetration. As these airtime opportunities are not easily available, we will not hesitate to invest. With these investments, we now expect reaching breakeven in Germany by H2 of FY '25. We continue to gain market share across all the markets that we operate in.

Further, the 4R's, widening Reach, new customer Registration, customer Retention and Repeat purchases are our key priorities for growth. The reach of our TV network by end of Q1 FY '24 was approximately 141 million TV homes, which is 11% higher Y-o-Y. We reached TV homes through cable, satellite, telco network and Over-The-Air Antenna also called OTA platform. Our products are also available on digital channels, including proprietary website, smartphone apps, OTT platform and marketplace.

New registrations in trailing 12 months period came in at 3.1 lakhs. Our customer retention rates are 38% on TTM basis, vis-a-vis 41% of last year. Customers bought an average of 23 pieces on a TTM basis. Both repeat and retention rates were slightly lower due to higher price point and broader macro challenges.

Sustainability is at the core of everything we do. We are delighted to announce that recently, we issued our second annual ESG report. The report reflects our efforts towards value creation with focus on transparency, strong governance and ethical business practices. We are delighted to receive the Net Zero Energy Building certification by IGBC in India. Out of 3,600 nationwide green certified projects, only 16 projects across India have been recognized; our organization is one of them.

Further, it is my honour to share that this quarter, we surpassed the milestone of donating over 78 million meal to school children since inception of our mid-day meal program called '***Your Purchase Feeds…***'. We are serving approximately 48,000 meals every school day. This initiative aligns with our commitment to make a positive impact on the communities we serve.

We have a strong balance sheet. We are confident in our strategies and our teams. Our outlook for medium to long-term remains intact. We will deliver our original guidance of 8% to 10% revenue growth in FY '24 and mid-teens growth FY '25 onwards. We will gain strong operating leverage in current as well as next financial year. Our focus is on growth and profitability with prudent capital management. We have a robust cash flow model and a record of returning meaningful cash to shareholders. The Board has declared a first interim dividend of INR1.5 per equity share for this financial year.

With this, I now hand over the call to Nitin to discuss financial performance. Over to you, Nitin.

Nitin Panwad: Thank you, Sunil. Good afternoon, ladies and gentlemen. Let me share our quarterly financial performance with you. During quarter 1 of financial year 23-24, our revenue reached INR658 crores showing year-over-year growth of 4.8%. Our five-year CAGR for overall revenue and B2B revenue is healthy at 11% and 13%, respectively, suggesting robustness of our business model.

As Sunil mentioned earlier, our addressable market in US and UK are facing temporary challenges like inflation, muted consumer sentiments and macro uncertainties. In local currency, revenues in Shop LC US, Shop TJC UK were down by 4.9% and 6.9% respectively. The broader macro indicators have shown some sign of improvement lately. We continue to perform well in Germany, particularly after collaborating with Vodafone, major cable TV network provider. We are also under decision to get additional distribution in Germany by Q3 to increase our coverage in high definition to over 95% of households. As these lifetime opportunities are rarely available, we will not hesitate to invest. Hence, we are now expecting reaching break-even in Germany by H2 of FY25.

This quarter, TV revenue grew by 1.5% year-over-year to INR392 crores with five-year CAGR of 10%, while digital revenue in Q1 FY '24 increased by 7.7% year-over-year to INR237 crores. It has shown much stronger five-year CAGR of 20%. The digital segment's strong performance is attributed to wider discovery potential. TV contribution to our retail revenue is 62%, while balance 38% accrues from digital media. TV includes customers accessing our products through our proprietary TV channels that release via both conventional TV media as well as free-to-air channels, called as OTA platforms.

Digital includes online purchases on our own proprietary websites, shopping apps, OTT and social e-commerce. Budget-pay revenue constitutes approximately 39% of our total retail revenue during this period, providing a healthy and affordable experience to our customers, especially in this current inflationary environment. Jewelry accounted for 73% of total retail sales, with 27% of revenue accruing from lifestyle products. We aim to diversify into non-jewelry areas to achieve a better revenue balance. Additionally, it also improves our ability to take higher wallet shares out of the same customer.

Gross margin in Q1 continued to remain strong at 61.2%. EBITDA margin for the quarter was 10% versus 7% in quarter 1 last year. Better pricing and sustained efforts towards cost rationalization have helped us to continuously improve EBITDA margins since last few quarters. Profit after tax for the quarter is INR30 crores against INR20 crores of last year. Operating cash flow was INR0.3 crores and free cash flow was negative INR10 crores. Cash flow numbers reflect impact of planned increase in our inventory for upcoming season. We expect this to revert to normal level in upcoming months. RoCE and RoE of 16% and 9% respectively reflect impact of subdued profitability on TTM basis. However, the ratio has improved sequentially owing to improving profitability during the immediate few quarters.

As a company, we have committed to creating long-term value through strategic development, prudent investment and consistent payouts. Hence, the Board has recommended an interim dividend of INR1.5 per equity share.

We are confident in the business prospect ahead of us and are investing to capture growth and continuous healthy cash generation. We remain confident of our prospects and will deliver our stated guidance of 8% to 10% revenue growth in current financial year and mid-team growth from FY '25 onwards, with a strong operating leverage in current as well as next financial year.

With this, I hand over to moderator. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Shreyans Jain from Svan Investments. Please go ahead.

Shreyans Jain: Yes. So, my first question is, could you give us some more sense on the improvement in EBITDA margins that we've seen. So, there is an improvement of about 200-odd bps in your other operating expenses and the presentation, it has clearly mentioned that there is some improvement in the sense of logistics cost and advertisement. So just wanted to understand, sir, is it because of we've seen some volume degrowth about 15% to 20-odd percent in US and UK, so is it because of that? And I just wanted some more color on the other operating expenses bit?

Nitin Panwad: Thanks, Shreyans. Nitin here. So the improvement in EBITDA margin is partially, as we mentioned in our investor presentation, is related to our logistic cost improvement. So there is a reason of lower volume, but also internal control improvement related to orders clubbing and also the negotiation with the shipping partners that help to reduce overall per piece cost on the logistics side. And in others, improvement in cost is mainly related to negotiation in our IT contracts and our marketing expenses that we optimized in our digital as well as our traditional marketing. So that overall helped to improve our performance over last year.

Shreyans Jain: Okay. Sir, but just when I see your annual report and when I see your other expenses break up, your IT spend and your advertising and marketing spends are not that big a number to significantly improve your EBITDA margins. So that's where the question is because 50% of your other operating expenses are largely content and broadcasting. So I don't think that would have gone down significantly, right, because you've added Germany also?

Nitin Panwad: That is flat year-over-year, excluding Germany. Germany is the 0.3% decline that we see in the profit compared to last year. In rupees term, relatively only air-time cost, in constant currency terms, it is flat. There's a low change in it over last year. And last year, we had some kind of contract with the IT side, especially the marketing clouds and the former clouds that we spend, it was coming. That is now we have optimized and also the learning related to digital marketing has helped to improve our overall marketing cost.

Shreyans Jain: Okay. And my second question is, sir, in the last quarter, the MD had guided for Germany operations to break even from H2 of FY '24. And in this presentation, we are clearly seeing that Germany operations would breakeven by H2 of FY '25. So in some sense, are we postponing the thing that -- do you think it will get delayed by a year?

Sunil Agrawal: Yes, Shreyans, this is Sunil here. So as we mentioned, we are getting more opportunities for airtime. Nitin also mentioned, we're getting HD opportunity and a major player. So, these investments, we have decided to make, and they will come into play in Q3. And with that investment, our profitability will be postponed because our new airtime takes 12 months to 18 months to mature and we are continuing to make the investments. And with these investments in place, we'll be confident to delivering operating leverage over last year, for continusly two years- this financial year as well as next financial year.

Shreyans Jain: Okay. And my last question, sir, in both TV and digital, we're seeing a volume drop. But on the other side, we're seeing improvement in your ASPs. So could you give us some sense on both the volumes as well as the ASP where do you see it heading? And in such an environment, also ASPs have been going up. So just wanted some understanding on what is really happening on the ground?

Sunil Agrawal: In the current inflationary environment, we are seeing people buying more higher end like gold product or diamond product or certified product that pushes the ASP up. And with the ASP going up, the volume drops. But overall revenue is almost close to being steady in local currency terms.

Moderator: Thank you. We'll take the next question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Hello, Sunil and thanks for this call. Sir, this previous answer, which you mentioned about lower volumes and higher pricing. So generally, I couldn't understand, usually in a softer environment, people tend to downgrade. So here, there is a higher pricing. So is it that the offerings that we are focusing right now is higher priced, it's a little bit difficult to comprehend what you mentioned?

Sunil Agrawal: Yes. In the current inflationary environment, people are buying more gold products. Our general offering was more of silver product or base metal products. The current environment we are seeing like gold chain or certified diamond product or platinum product. So, you're seeing more offtake of those products and that pushes up the overall average selling price.

Once the inflationary environment subsides, we expect that this kind of put maybe lesser on these, and we will level back to our regular or slightly lower ASP and the volumes will again go back up. Our current understanding is that the market environment is dynamic, and we'll continue to look at the opportunity and modify our option appropriately.

Pritesh Chheda: So this is transitionary in nature, what has happened, right?

Sunil Agrawal: Correct. We see it as transitionary.

Pritesh Chheda: Okay. My second question is on the reduction in the retention and the repeat purchases. So any comments there, what's actually happening?

Sunil Agrawal: Yes. So one is the macro environment. There are some people, who just are not in the market to buy. So they are pushed because of inflation, for example in UK, the mortgages have tripled or doubled or even quadrupled for many people because interest rates have moved from less than

1% to now up to 6%. US, not all mortgages are variable, people have fixed mortgages, but credit costs, rental costs, the food cost has gone up.

So, one is the macro environment. And second thing is the higher price point that they have a lower number of customers at those higher prices. And that would tell you about the number of customers in the repeat purchases.

Pritesh Chheda: Okay. On the cost side, costs were largely stagnant for, I saw it for the last seven quarters, eight quarters after the Germany operation creation, whether we see the employee cost or whether we see the opex cost, it moves into INR230 crores to INR250 crores per quarter. So this number, how will it change once you add this more cable connections or reach in Germany...

Sunil Agrawal: We have NDAs for all the cable contracts, we can't disclose the exact number of that, Pritesh but we have guided that for this financial year as well as next financial year, we expect to have strong leverage because we believe that the cost optimization that they are in place as well as the revenue growth that we expect 8 to 10% this year and mid-teens for next year- this revenue leverage will give us strong revenue increase with margin leverage.

Pritesh Chheda: So despite the connection increases, there will be an operating leverage, which will flow?

Sunil Agrawal: Correct.

Pritesh Chheda: And when you say substantial, sometime back, we were, let's say, at about 13% to 15% margin. And then we created the Germany expansion. So how far -- so you gave us the volume growth -- revenue growth guidance. But how far are we from those 13% to 15% margin of the business?

Sunil Agrawal: Yes, we can't get there immediately. We don't give exact guidance on the margin side, but we do expect leverage over last year and the next year over current year. There is meaningful leverage that we just saw in this quarter.

Pritesh Chheda: Okay. And sir, my last question is ex Germany. So ex of Germany, what is the margin in the business. So US and UK are our main operations. So either you can give us the impact of Germany on margin percentage, some idea?

Sunil Agrawal: So excluding Germany, Germany is impacting on 2.5% of our margins, EBITDA margins. So you can consider it like 10% we reported last quarter. It will be 2.5% additional.

Pritesh Chheda: Okay. So -- and for last year, that is March '22 through '23 fiscal, where we reported 7%. So there are also this 2.5%, 3% impact?

Sunil Agrawal: We don't have exact number.

Pritesh Chheda: We want a ballpark number, we don't want exact?

Sunil Agrawal: Ballpark will be similar like this.

Pritesh Chheda: 2.5% negative impact. Okay. And sir, lastly, this 5% growth, which was reported in quarter 1, how much of it is, let's say, favoured by the 5% decline, which was there in quarter 1 last year which I can see or should we just ignore that for your guidance of 8% to 10% top line growth this year?

Sunil Agrawal: Yes. So our guidance remains seeing 8% to 10%, but 5% growth this quarter, you see the improvement in our overall business in UK, US and accelerating Germany business is helping us to get the 5% growth, but full year guidance remain intact of 8% to 9%, 10%.

Pritesh Chheda: So there is a better business environment versus what it was in the last few quarters because, see, one way is that I look at this 5% as it is but one way I look at this 5% or minus 8% of last year. So that's the reason, why I asked you. Is it -- do you see improvement in business environment?

Sunil Agrawal: Pritesh, can you repeat the question, please.

Pritesh Chheda: Sir, one way is that I look at this 5% growth, which is reported in the year on an absolute basis, but the other ways I look at this 5% versus the 8% decline, which was there in the base quarter. So I just want to check, is there an improvement -- do you see an improvement in business environment? Or is just that you are favoured by this 8% base effect?

Sunil Agrawal: So both things- environment started with the war in Ukraine and the logistics problems and then resultant inflation and the fear of recession that was pretty tough in these economies. So we are seeing some improvement in the environment in recent weeks or recent months. But there is a base effect, definitely.

Pritesh Chheda: Thank you very much, I will come back in the queue for more questions. Thank you.

Sunil Agrawal: Thanks, Pritesh.

Moderator: Thank you. We'll take the next question from the line of up Utkarsh Somaiya, an individual investor. Please go ahead.

Utkarsh Somaiya: Thank you for the opportunity. So I'm new to your company and just wanted to get an understanding of your business model. So if you could just help explain and throw some light on it, it would be very helpful? Thank you.

Sunil Agrawal: Utkarsh. That's a big question for this call. We have vertical business with manufacturing of fashion jewelry, apparel and sourcing of life style products from India and Asia. And we own retail -- electronic retail in US, UK and Germany. Predominant sales come from television, live television 24x7. We're focused on being value-centric and highly customer-centric retailer in these markets. And we have a high repeat purchase frequency. We have on an average about 27 products per customers buying a year from us and we have a cost model, our costs are mostly Asian, revenue are dollars, pounds and euros.

Utkarsh Somaiya: Okay. So essentially manufacture in India and Asia and you retail it in US, UK, Germany. Is that correct?

Sunil Agrawal: Correct. And we own the brand. We own our retail brand, our brand is our own, we don't have third-party brands. The majority of the products that we sell is our own branded product or our own umbrella brand product. We don't have a fear of third-party having leverage over us.

Utkarsh Somaiya: You retail essentially on TV, you mentioned, right? And you don't have physical retail stores?

Sunil Agrawal: We don't -- No, we don't have any physical retail. It is on TV network as live TV shopping and about 38%, 37% through digital.

Utkarsh Somaiya: Okay. And sir, if I were to kind of understand your right to win and a moat, you hold any moat. Is there anything you could throw some light on that?

Sunil Agrawal: Yes. So number one is being a vertical model. It's very, very difficult to replicate. It could either be manufacture or mainly retailers. We are retailers in our industry, which are highly competitive, and we are manufactures for the last 40 years, more than 40 years. So we understand the space of these areas very, very well. To have replication of this vertical model is extremely difficult.

And the low-cost structure all across the business, ether in Asia or in western worlds, that is also difficult. And the customers are highly loyal. As you could see from the repeat purchase. So the customer buys 27 products a year. And it is very difficult to take those customers away because of the quality and the brand affinity.

Moderator: Thank you, sir. As the current participant has left the queue, we move on to the next question, which is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Good afternoon, sir. Congrats for a good sets of numbers. On the Germany, I just wanted a couple of your inputs. One is that this acceleration investment that we are talking of. So is it an investment that we now will have to make to meet our targets maybe from a medium term, for example, you must have some targets on Germany for FY '26.

So this additional investments are now expenses that are required to set FY '26 targets or '27 targets? Or will it mean that yes, while we will deliver breakeven by one year. But on the medium to long term, we are looking at a much larger operation than the larger profit pulling in Germany?

Sunil Agrawal: Yes. Good question, Sachin. So air time, it's not something that you can go and buy. You have a network here to make relationships and you get offered those network positions because I would say there are limited channels in each platform. And those channels rarely come with these opportunities. So we think those channels whenever they come, whether it is Germany, US or UK, we got this opportunity for getting on Vodafone. Vodafone has 13 million homes. So we already have a channel there.

We're getting the second channel in HD. The first channel was in SD . It wasn't high definition. We're taking the HD channel, that will come to us in September. And there's another broadcaster called Tele Columbus, so we are taking that opportunity that will also come to us in September.

Now these investments that we do, it takes about a year to a year and a half for this to become profitable. And that's why, the revenue will accelerate because of these investment, but the ROI will start to come after one year. That's why, we're postponing our profitability by one year in the expectation of scaling the business faster than our original plan.

Sachin Kasera: So just again, so is it fair to assume that internally, and I don't want to ask specific guidance or numbers from you. But internally is what you are budgeting for financial year '26 and '27 before we did this Vodafone deal. This very likelihood that we will do much better than that now internally, without setting a specific number? Could you tell us that, that would be very helpful.

Sunil Agrawal: That is Correct, because of the investment, our projections for '23-24, '24- '25, '25- '26 will be higher most definitely.

Sachin Kasera: Sure. And how will this curve work out in the sense, sir, will be Germany losses because I believe it is acceleration in investment, we'll also start to see some revenue growth. Is it that the absolute, it is just a delay? And has the absolute EBITDA margins will not increase? Or because of this, there could also be again, once again a surge for the next four quarters in the absolute EBITDA of Germany, before we start to see, some sort of a reduction or a break-even as you have mentioned?

Sunil Agrawal: So, we are already seeing year-over-year improvement into our EBITDA numbers. Slightly, almost flattish, but very little improvement in recent weeks because of what we invested in earlier periods. But as we take on a new market, so initial periods will have more negative because of the investment it takes time to build that customer list. And the customer repeat purchase is very high on TV model. So as time goes, after six months or nine months, it will be beneficial to us year-over-year in terms of EBITDA.

Sachin Kasera: So H2 there could be some impact because of this Vodafone deal on Germany as well as the overall numbers?

Sunil Agrawal: Sorry, can you repeat the question?

Sachin Kasera: In second half of financial year, there could be an impact on the absolute EBITDA and some impact on margins because of the one-time step-up in the spend in Germany and…

Sunil Agrawal: Correct. So, the spend is, there is no one-time spend. You have to pay them every month. So, there is two, as it comes on board in September, it will come in the middle of September, one will come in the beginning and one will come towards the middle of September. We will see some impact in that particular quarter. But each quarter, we expect overall for the group to have operating leverage over last year.

Now, operating leverage over last year, one factor, as Pritesh earlier mentioned, is the factor of bills being lower last year and other is our cost optimization. Now for Germany, the cost is higher but other in US and UK, there are cost optimization that is helping overall for us to get the leverage year-over-year.

Sachin Kasera: Sure. And sir, one question on the interest rates and its impact because I believe, we also have an installment model and as you mentioned that the rates have gone up. So did it also have some bearing on us because I'm sure somewhere there's a cost inbuilt into the cost of interest in this installment model. So has that had any impact or is it that, we have absorbed the entire impact of the increasing interest rates in the installment model. If you could just give some inputs on that?

Sunil Agrawal: Sure, so our interest rate, our EMI budget pay that we call, it is no interest free for the consumers. We bear the cost of financing. For the consumer, there is no impact. However, consumer is taking it favourably in this current inflationary environment. And the financing for the consumer is expensive now. And as a group we are giving the item to the customer, with a no interest cost.

So, as a company balance sheet and company's profitability, there is no impact on it. But we also having some spare funds that we are investing. That's why the other income is also increased. If you see in our P&L, our interest income is also higher on that. But on the consumer side, or budget side, that we don't see an impact in our P&L for interest.

Sachin Kasera: And sir, where do we book this impact of this funding the easy pay model? The cost to the company is part of other expenses or it is adjusted in the interest income? How do you account for it?

Sunil Agrawal: So as I mentioned, there is no interest cost for us because we finance from our own funds. So only bad debts is the part of the P&L, if there is any bad debt. That is in our SG&A cost line item. But on the P&L side, there's no financial impact. We're spending somewhere around USD20 million. I don't have the number, but somewhere around that.

Only balance sheet, you will see the latest outstanding at the end of the season. So to your point, what will be the opportunity cost of the fund that we deploy is much less. So USD20 million if we had in the bank today, we would get 5% or 6% interest rate in terms of rupees. And that income of USD20 million is a foregone kind of cost to the company.

Sachin Kasera: Got it. And, sir, because of this inflationary environment and the higher cost of living, are you seeing any trends, where your defaults or your bad debts of this outstanding amount of USD20 million dollars has increased and hence this year or next year, you may have to provide more towards these bad debts?

Sunil Agrawal: Yes, so we have actually kind of very robust credit given to the customer, that we constantly monitor this, and we haven't seen an impact in increasing our bad debts so far, but we regularly review it, that how is the impact, especially in current situation. But we haven't seen impact or a higher impact compared to previous periods.

Sachin Kasera: Thank you very much, sir.

Sunil Agrawal: Thank you.

Moderator: Thank you. We'll take the next question from the line of Ritik Tulsyan from Concept Investwell Pvt. Ltd. Please go ahead.

Ritik Tulsyan: Hi, thank you for the opportunity. So I have a question regarding Germany. So we are making additional investment and currently Germany contributes 6% of revenue in terms of geography. So in two year- three years, where do we see Germany heading in terms of geography contribution? So that is my first question.

Sunil Agrawal: Thank you for the question, Ritik. We have internal projections, but we are not sharing that as a projection. The current growth rates are very, very high, but how it will shape, tt is still too new market to be able to give guidance on that and we are only a year and a half or just about that into this market. But what I can say from other players, like quarte group and other players, Germany has more households than UK, and for them the Germany revenue is more than UK. So, we expect in longer term, maybe 7 years, 8 years term, Germany surpassing UK by about 20% to 30%.

Ritik Tulsyan: Okay, thank you. That is good enough. And second question is regarding your own brand portfolio. So like, if you can give us some color like how your own brand portfolio is panning out in this environment that is my second question?

Sunil Agrawal: Yes. So, we have two levels of brand. One is the umbrella brand say, for example, US and Germany we have Shop LC and UK is TJC. So, most of our customers know us by the Umbrella brand. And then within Umbrella brand, we have many sub-brands. We have more than 30 sub-brands for different product categories and different price points. We have designer brands, we have product-centric brands. So, overall, about 29% of our revenue comes from our own B2C brand and there are about 31 house brands within the Umbrella brand. And our target is to take it to 50% from 29% to 50% by FY'27 from inhouse brands.

Ritik Tulsyan: Okay, thank you. Thank you for the opportunity. Thank you.

Sunil Agrawal: Sure thank you.

Moderator: Thank you. We'll take the next question from the line of Kimberly Paes from Equentis Wealth. Please go ahead.

Kimberly Paes: Yes, thanks for taking my question. So, in our recent analyst day where we had guided that we are also targeting an increasing share from non- jewellery products, like lifestyle products. So I think, we had a target of 50% by FY'26, so how are we progressing on that and also what would be the margin difference between Jewellery and non-jewellery products?

Sunil Agrawal: Yes, thanks for the question, Kimberly. So, in last earnings call, we had extended the lifestyle jewellery lifestyle product revenue to be 50-50 to FY'28. The reason is that in last one and a half years, we are seeing more uptake of jewellery especially the higher price point Jewellery in inflationary environment. We do not yet know how long will the inflationary environment last and we are seeing lower uptake of non-jewellery products, especially in the U.S. In UK, we are seeing still robust uptake on non-jewellery products, but because of U.S being lower, we have changed the guidance to 50-50 of LSP and jewellery by FY'28.

Kimberly Paes: And what will be the margin difference between jewellery and non-jewellery?

Sunil Agrawal: So, margin is about similar. So, what we do Kimberly is to select product that gives us margins. So, we don't take any product whether jewellery or non-jewellery which would give us less than 60% margin. So, margin is a criteria for us. What we look at, we get 60%, and the product should give us our targeted margin per minute of TV time or expected revenue from the website, from the pages that we have. So, we have the criteria in place, and our product will give us the margin, and we take it in otherwise we phase it out.

Kimberly Paes: Okay. Thank you.

Moderator: Thank you. We'll take the next question from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Sir. Can you give us some information on the sensitivity of investment in the sense…

Moderator: Mr. Kasera may we request you to kindly use your handset? Sir your audio is feeble.

Sachin Kasera: Is it clear now?

Moderator: Yes, sir. Please proceed.

Sachin Kasera: Yes. I am just trying to understand the sensitivity of this investment that we are doing additional investment in Germany. So, if suppose the investment is going to increase by 20%, say in FY'26, we will now get 20% higher sales or is there a leverage out there also so that, unless if you are planning a sales of INR100 in FY'26 in Germany, but now that we are going to spend 20%, 30%, 40% of whatever the next number higher, the sales would be higher and my profit would be higher by X plus Y percentage?

Sunil Agrawal: Yes, it's a good question. So, the television revenue in Germany is about 70% and the e-com is 30%. So, if we – for example, if we increase our investments by 20%, the expected revenue after 1.5 years is 20% higher on TV side. And their high leverage business, so the 20% higher revenue, large portion of that revenue outside the spend that we do on the airtime falls to the bottom line. So, that is why we take the airtime opportunity whenever it comes within our price range, we take it because the leverage benefit is very high.

Sachin Kasera: Sure. And sir, till the time Germany reaches a good level of profitability, we don't intend to take up any markets or for example, in the way Germany we got an attractive opportunity and hence we increase the investment in the business. Similarly, if another good opportunity comes either in the existing market or in a new market, we are still open to that because that would mean that again we are pushing the overall guidance or the numbers for 2025-26 again by a year?

Sunil Agrawal: So, your first question that will we take a debt, we don't believe so, because we are very cash positive, we are giving dividends every quarter. So, there is no need to take any debt. Second thing, going into new market, we will expand a new market after Germany becomes profitable and steadily growing. Then we will go into the new country. Now once we go into the new country, we will have three growing and profitable businesses to support the fourth one.

Sachin Kasera: Got it. Thank you very much.

Sunil Agrawal: Thank you Sachin.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: So, I just have a follow up. So, ex of Germany, let's say, your stable operations of UK and U.S, there is a deterioration in profitability over the last three years for the flat sales or maybe a minor drop in sales. So, if you could explain this deterioration over the last three years, what explains it?

Have we added any cable households there which has taken up the cost or any reason you want to highlight and explain us and the reference is, let's say, you were at the peak at about 13% to 15% margin and from there we have come down and Germany explains a part of it, but a larger part also gets explained by the fact that there is a deterioration in the U.S-UK margin?

Sunil Agrawal: Thanks Pritesh for the question. So, as you have mentioned that one of the reasons was Germany, that is reducing the overall EBITDA margin, but also that there is an operating de-leverage came when we have seen a decline in our sales. In the scenario of improvement in our profitability, we invest heavily in our upcoming future quarter's growth.

We invested in our digital marketing, in our website platform upgrades, in our shopping apps, that's what -- we are confirming our future potential growth. So, that was the investment that we have done on that time. That is also that came later on and then 2021 we have seen some pressure on the cost side that has actually impacted the overall profitability in our UK and U.S markets.

Pritesh Chheda: So you say there are two reasons, one is the investments in digital and second is the cost increase in the operations themselves of U.S and UK. These are two reasons?

Sunil Agrawal: Yes, so let me clarify that Pritesh. So, we made investments into new businesses. Germany being one and digital brands..

Moderator: Excuse me sir, I'm sorry to interrupt sir, your audio is not clear.

Sunil Agrawal: So, Pritesh in addition to Germany, we invested into digital marketing, that is through Tamsy, Rachel Galley those two brands, as well as all the three brands within U.S, UK, Germany. We also invested quite a bit into digital marketing, Google, Facebook, TikTok, these investments also, so to get the future growth on them. And also a lot of people for managing new businesses, and those people that we invested in are still there. So, we didn't remove those investments from the business because we see potential.

So, as we scale and those big businesses become profitable, our leverage will come into play and based on those leverages, we are now giving you guidance of, even if the revenue growth is subdued, for example, now revenue growth is only 4.8%, but there's substantial leverage that we saw this quarter compared to the year before and those came from some of those investments maturing and some cost optimization on volume and shipping.

Pritesh Chheda: Okay. And what will be our tax rate?

Sunil Agrawal: ETR is 24% for overall growth.

Pritesh Chheda: Thank you very much.

Sunil Agrawal: Thanks Pritesh.

Moderator: Thank you sir. We'll take the next question from the line of Rohan Mehta, an Individual Investor. Please go ahead.

Rohan Mehta: Good afternoon, sir. I just wanted to ask about the digital revenue mix of about 38% that has come in. How has that impacted the overall profitability? And if we see over the last few quarters, how has the digital revenue mix changed, if you could throw some light on that, please?

Nitin Panwad: So, last five years, digital revenue CAGR was 20%. So, it was pretty healthy in last five years and digital profitability side would you like to add? **Sunil Agrawal** So from digital properties we have within digital three properties. We have live TV on ecom for the customers who don't get the signal on TV. The second is the catalogue. The third is the auction. So, all the products that are left over from television, we auction it at USD1 and people bid against each other and scale it up. So, as we are increasing our overall digital revenue, that auction model, which is zero margin, is not increasing.

In dollar terms it is pretty flat. What is increasing is the catalog and the live television, live streaming. And those margins, both those margins are similar to TV margins. So, as we are scaling our digital revenue, our margin doesn't have any dilution. We will still continue to give guidance of 60% plus even though we are giving digital versus TV revenue to be 50-50 by FY26. But our margin guidance is intact at 60% plus.

Rohan Mehta: Okay, understood. All right. Thank you, sir. That was the only question from my end. All the best. Thank you.

Sunil Agrawal: Thanks Rohan.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Sir, you have mentioned that you will retain your guidance of mid-teens growth in the medium term, but you also mentioned that in Germany now we are looking at a much larger revenue than what internally we are projecting. So, is it that because of the change in macro environment, we are looking at compensating the higher growth in Germany in the medium term from the projected lower revenues in the US or UK or is it that we may revisit the guidance maybe three quarters or four quarters down the line once you see the benefits of this Vodafone deal?

Sunil Agrawal: Yes. So, next year's guidance of mid-teens do take into account of improved economic conditions. We do not know at what level it will improve, but we do expect it to improve. Germany will increase and it's increasing very rapidly, but the base is still very small. So, as you saw the overall business, revenue from Germany is just around 6%. It's still pretty small.

Even if you're growing, seeing a growth of 50%, we're still only 9%. But it doesn't add meaningfully to overall growth that we are looking at. But we are expecting economy to improve a bit and also the investments that we made into OTA, OTT, digital marketplaces and our own brands, they will also contribute along with each other.

Sachin Kasera: Yes, but sir, I'm sure you would not have budgeted the Vodafone investment and its revenue implication when we met this guidance two quarters back, right?

Sunil Agrawal: Yes, so we did two quarters ago when what we made investment into Vodafone was already in the picture when we gave the guidance on next year's so this financial year's H2. So, that was already mid teen. But the additional investment that we're going to make in September, that was not mid teen.

Now, those will push the profitability all to the next year. But we are also now giving continued guidance of mid-teen for the next year. Earlier what we did was, we gave mid teen for mid-term. Now we are specifically giving mid teen for next financial year. On the back of what we are seeing in Germany, we are also seeing green shoots in the UK and U.S.

Sachin Kasera: Sure. And just one clarification in one of the questions you mentioned that 6 years, 7 years down the line Germany would be 20% to 30% higher than UK, that is as of now your assumption or that is what you can as of now forecast?

Sunil Agrawal: That is correct. We don't know exactly 6 years, 7 years. It could be 7 years or 8 years or 6 years, somewhere around that, yes.

Sachin Kasera: Sure, sure. And any sense you could give us when do you expect Germany to start matching UK say, that should be much earlier, say in the next three years to five years?

Sunil Agrawal: You are too specific, we are not giving that guidance that far away. But what I can say is the market potential for Germany is larger in UK.

Sachin Kasera: Sure, thank you.

Sunil Agrawal: Thanks Sachin.

Moderator: Thank you. The next question is from the line of Nikhil Arora, an Individual Investor. Please go ahead.

Nikhil Arora: Congratulations sir, a good set of numbers. Only one question I had. So, considering the company's growth ambitions, are there any new markets or regions that are being targeted for potential entry in near term future?

Sunil Agrawal: So, we are not looking to enter a new country till we have Germany profitable and growing rapidly. So, once we have Germany fully stable and the other entities UK and U.S are back to our double digit growth we won't be going to new countries. We have Japan as our next target whenever we are ready from these perspectives. Having said that, if we get an opportunity to get into expand to e-com space within these three countries, we will do that.

Nikhil Arora: Okay sir, but not in this financial year, right?

Sunil Agrawal: Yes. So we have the cash, if we will get any opportunity to acquire a business in these three countries which is purely e-com and is growing and is profitable, we will. So, there is no timetable for that, but we are open to those thoughts and we keep looking at the opportunities.

Nikhil Arora: Okay sir, thank you so much sir, all the best.

Sunil Agrawal: Thank you.

Moderator: Thank you. Thank you. The next question is from the line of Parth Dalal an Individual Investors.

Parth Dalal: So when we say that 90% household we have already reached in Germany and still we see increase in investments over there, is there anything that the management is looking, any inorganic opportunity out there, anything to read in that sir?

Sunil Agrawal: So, in Germany we are looking at new investments we will make. One is on the HD platform on Vodafone. In March we made the investment to go on SD, standard definition. Now we are getting the opportunity for high definition on Vodafone. There is another opportunity we are getting on Tele Columbus for full footprint on their platform. These two opportunities we are going to take in September.

Inorganic opportunity in Germany, we are not specifically looking for Germany, but any opportunity comes in U.S, UK or Germany predominantly in U.S or UK, we will take it.We are conservative, it ha to be profitable and scalable business.

Parth Dalal: Okay. So what you explained by September, that will eventually take up the household rates to 95%, right?

Sunil Agrawal: That is correct plus HD on 13 million homes. In 13 million homes we have two channels.

Parth Dalal: Got it sir, thank you. So, nothing on the table in terms of any inorganic opportunity in Germany right now?

Sunil Agrawal: Not right now.

Parth Dalal: Okay, thank you sir and all the very best. Thank you.

Sunil Agrawal: Thanks Parth.

Moderator: Ladies and gentlemen, as that was the last question. I would now like to hand the conference over to Mr. Sunil Agrawal for closing comments. Over to you sir.

Sunil Agrawal: Thank you operator. So, I want to thank all the participants for your time and great questions. If you have any further questions, feel free to reach out to Prashant Saraswat at VGL or Amit Sharma at Adfactors PR India and they'll be happy to answer your questions. Thank you once again.

Moderator: Thank you very much, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of Vaibhav Global Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.