SMART SYNC SERVICES

Vaibhav Global Q1FY21

Financial Results & Highlights

Brief Introduction

Vaibhav Global is a company dealing in fashion jewellery and lifestyle products. They mainly source and assemble their products in India and South East Asia and sell these products in the US and UK primarily. They sell both to businesses and retail customers whom they reach through TV sales channels and shows through they reach more than 100 million TV homes in the US and UK.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	77	109	-29.36%	198	-61.11%
PBT	0	10	-104.00%	108	-100.37%
PAT	0	8	-103.75%	106	-100.28%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	555	444	25.00%	502	10.56%
PBT	67	45	48.89%	48	39.58%
PAT	53	36	47.22%	40	32.50%

Detailed Results:

1. The company had a good quarter with a consolidated revenue rise of 25% YoY and PAT rise of 47% YoY. Retail revenues rose 32% YoY.
2. EBITDA grew 42% YoY with margins at 14.1%.
3. The company has declared an interim dividend of Rs 5 per share.
4. TV sales accounted for 63% of sales while web sales accounted for 37%. Mobile sales accounted for 59% of web sales in Q1.
5. Non jewellery items now account for 36% of sales.
6. The company has a TV reach of 75 million households in the USA and 25 million households in the UK.
7. The key demographic for the company remains the age group of above 45 which 83% of which still prefers watching traditional TV.
8. The revenue growth in different categories in Q1 is:
    1. TV sales: 24.8% up YoY (Rs 342 Cr)
    2. Web sales: 47% up YoY (Rs 203 Cr)
    3. B2B: 83% down YoY (Rs 5 Cr)
9. Shop LC revenues grew 20.3% YoY to $51 million in Q1.
10. TJC UK revenues grew 31.5% YoY to GBP 17.1 million in Q1.
11. TV sales volumes have risen to 1.88 million in Q1 from 1.35 million last year. Correspondingly average selling price has fallen to $24.1 from $29.2 a year ago.

12. Web sales volumes have risen to 1.3 million from 0.93 million a year ago. The average selling price here has fallen to $20.6 from $21.3 a year ago.
13. Gross margins have risen slightly to 64.3% from 63.1% last year while EBITDA margin has risen to 14.1% from 12.4% in the same period.
14. PAT margin has also improved to 9.6% from 8.2% a year ago.
15. The company has a negative net debt of Rs 279 Cr.
16. Operating cash flow for Q1 was at Rs 87 Cr while free cash flow was at Rs 82 Cr.
17. ROE was at 26% while ROCE was at 49%.

Investor Conference Call Highlights:

1. On a trailing 12-month basis, the company served 426,000 unique customers in Q1FY21 compared to 347,000 in Q1 last year, an increase of 23% YoY.
2. The company's global supply chain network includes manufacturing setups in India and China and direct sourcing from micro-markets in more than 20 countries. When China and India were in respective lockdowns, other countries picked up the slack and kept retail operations adequately stocked.
3. New registrations in the quarter jumped to 96,000 from 36,000 the same quarter last year.
4. The company's repeat rate defined as the average annualized quantity purchased by each customer on a trailing 12-month basis stood at 27.2 pieces per customer compared to 30.5 customers last year. The customer retention rate stands at 50.5% from 50.2% in Q1 of last year.
5. The management continues to guide for 15-17% revenue growth in FY21 keeping in mind the uncertainties ahead.
6. In the last 3 years, the company increased its market share in the UK from 1.5% to 3% emphasizing huge room for market capture and growth for the company.
7. The company is still 1/3rd as efficient as Amazon in its warehouse operations thus showing room for operational efficiency. It is looking to add automation within its warehouses to do so. The majority of the company's warehouses are in the UK and the USA.
8. The company will add warehouses as soon as it runs out of capacity. It is also planning on setting up warehouses in both the East and West coasts in the USA. Right now it only has 1 location in South Central USA.
9. The gross margins for the company is almost the same in online marketplaces like Amazon and its own digital properties.
10. The company's primary focus is on moving its customers from all channels (including social media) on to digital properties or television as this increases lifetime value a lot (at least 5x according to management).
11. The current customer demographic is from 25 to 75 years.
12. In terms of age, TV has the oldest customer set while digital has a little lower set. Social media has the lowest age set.
13. TV revenue is expected to rise continuously as the company is still getting only $3 per home as compared to $25 to $ 60 for most of its competitors like QVC.
14. Currently, the company is broadcasting at less than 2 channels per home while QVC is at 3.5 to 4 channels per home. This also shows the room for operational growth for the company.
15. For the last 4 months, the company has started to advertise products through videos and still images on Facebook & Instagram. It is still early days to project the growth for this medium.
16. The cost of acquisition for new customers is still very small and this si because it has become comparatively easier to acquire customers due to a decline in footfall in brick and mortar stores.

17. The company has a waterfall systems in place, which is about more than 10 tactics to engage those customers in different ways through discounts, through offerings, through the catalog, through calling, etc.
18. The product mix has reversed already with essentials falling to 7% from 17% in the last quarter. Jewellery is rising on the other hand improving the product mix for the company. Kitchen products are also continuing to sell well for the company.
19. Marketplace sales for the company was at $4 million in Fy21 and is expected to be around $10-12 million in FY21, an increase of almost 3 times.
20. Employee and other expenses have risen 20% & 26% YoY respectively as VGL paid higher salaries to its warehouse staff and studio production teams who operated in the pandemic from the site. Without these extra costs & forex changes, the increase would have been 8-9%.
21. The OCVID cost of 4-5% is expected to reverse from Q2 onwards.
22. Other Jewellery and household products, no other products are sold back and are mostly discarded if the seals are broken.
23. Most of the unsold items are cleared off using auctions or clearance sales.
24. The company is seeing good traction in the fabric Kaftan and it has started a factory for it in Jaipur which started last month.
25. The company reiterated that it will only be going into new products which yield gross margins of above 60%.
26. The company has also been aggressively marketing to customers in OTT and streaming services to transitioning those customers to the main business.
27. The platform costs for the company on social media is 35-40% of sales currently. In online marketplaces, these costs are at 30-35%.
28. The management believes that elevated growth levels should stay as long as people continue to stay at home. Once normal activities start, growth should come down to the earlier 15-17%.
29. The company has had negligible addition to interest costs form forex impact on its working capital loan.
30. The company continues to add more than 150 products each day.
31. The company has a long term plan to enter Germany and Japan, but there are no plans to do so in the short term.
32. The most dominant competitors for the company in the UK and USA are the Qurate Group which has more than 90% market share in both countries.
33. The management has described VGL as Zara which develops its own products and sells them under the central brand, while Qurate is like Macy's which its own brands as well as third party brands.
34. The company has not any impact on its customer set from the reversal in payroll provision by the USA government.

Analyst's View:

Vaibhav Global has established itself as an influential player in the jewellery exporting and telecommerce business. They have consistently delivered good revenue growth in recent years and continue to grow their business through new selling mechanisms and product offerings. The company has had a blockbuster quarter with profit growth of more than 47% in the current uncertain times. It has expanded its customer engagement to a more varied customer base than its traditional jewellery customer set and into newer mediums like social media. The company is also looking slowly establishing its presence in the digital medium where sales growth has been the fastest. It remains to

be seen how long the company will be able to maintain its current growth pace and match up to its other TV seller rivals like QVC and JTV, all of which have an established customer base and earns way higher per household than the company. Nonetheless, given the company's prudent and efficient cost management, its resilient supply chain, and its agility to introduce new products fast depending on changing situations, Vaibhav Global seems to be an interesting jewellery stock to watch out for.

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