SMART SYNC SERVICES

Vaibhav Global Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	198	129	53.49%	127	55.91%	543	489	11.04%
PBT	108	12	800.00%	5	2060.00%	133	40	232.50%
PAT	106	10	960.00%	4	2550.00%	127	33	284.85%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	502	467	7.49%	567	-11.46%	2001	1828	9.46%
PBT	48	39	23.08%	82	-41.46%	236	188	25.53%
PAT	40	32	25.00%	66	-39.39%	190	154	23.38%

Detailed Results:

1. The company had a good quarter with a consolidated revenue rise of more than 7.5% YoY and PAT rise of 25% YoY.
2. FY20 was good for the company with a 9.5% YoY rise in consolidated revenues and a 23% YoY rise in consolidated profits.
3. TV sales accounted for 67% of sales while web sales accounted for 33%. Mobile sales accounted for 60% of web sales in FY20.
4. Non jewellery items now account for 22% of sales.
5. The company has a TV reach of 74 million households in the USA and 25 million households in the UK.
6. The key demographic for the company remains the age group of above 45 which 83% of which still prefers watching traditional TV.
7. The revenue growth in different categories in FY20 is:
    - TV sales: 11% up YoY (Rs 1285 Cr)
    - Web sales: 24% up YoY (Rs 633 Cr)
    - B2B: 54% down YoY (Rs 69 Cr)
8. Shop LC revenues grew 12.66% YoY to $192.2 million in FY20.
9. TJC UK revenues grew 18.48% YoY to GBP 60.9 million in FY20.
10. TV sales volumes have fallen to 6.07 million in FY20 from 6.275 million in FY19. Correspondingly average selling price has risen to $29.9 from $26.4 a year ago.

11. Web sales volumes have risen to 4.11 million from 3.52 million a year ago. The average selling price here has also risen to $21.7 from $20.7 a year ago.
12. Gross margins have declined slightly to 61.6% from 62.5% in FY20 while EBITDA margin has risen to 13.9% from 12% in the same period.
13. PAT margin has also improved to 9.6% in FY20 from 8.5% a year ago.
14. The company has a negative net debt of Rs 194 Cr.
15. Operating cash flow for FY20 was at Rs 211 Cr while free cash flow was at Rs 176 Cr.

Investor Conference Call Highlights:

1. The company has augmented product offerings across its omnichannel sales platform to include over 250 essential products, including masks, sanitizer, health supplements, kitchen accessories, colouring books, board games, etc.
2. The management has stated that the aim of the gross margin is to keep it above 60%. The exact value may vary as the product mix keeps changing.
3. The management is guiding for 15-17% revenue growth in FY21.
4. The company is aiming to expand rapidly in the OTA and OTT segments and acquire new customers with their essentials category who after the experience from the company may continue to stay in these segments or even start ordering from the default jewellery segment for the company increasing repeat purchases and customer stickiness.
5. The company has formulated a dividend payout policy of distributing 20-30% of free cash flow each year. The payout for FY20 was at 25% of free cash flow.
6. The management expects a growth rate of 17-20% in the UK to persist for FY21 and beyond.
7. Currently, jewellery accounts for 80% of sales in the USA and 58% of sales in the UK. The management does not have any ratio or product mix in mind and will allow each product line to develop on its own.
8. The management has stated that the guiding principle for them to add new product lines is to see immediate product traction and to maintain overall gross margins at >60%.
9. The company continues to see good growth in online marketplaces. Although the transition from these marketplaces to the main site is low, the customer stickiness is the same as for direct customers in digital platforms.
10. The management has stated that the growth in web sales in Q4 has been low at 10% YoY mainly because of the high base in Q4 last year and some nervousness from the COVID-19 situation in March. The management remains confident of maintaining a growth rate of >25% in this category in FY21.
11. Although the essentials category is currently 15% of total sales, the management does not expect it to stay at this level in the future when incremental demand for these products goes down. But in the short term, this has helped the company a lot with customer engagement and getting its name out there.
12. Around 40-45% of sales for the company are on EMIs. The company has not seen any delinquencies on them yet since they are mostly small-ticket items.
13. The company does weekly reviews of all marketplaces based on the performance and potential of the medium. For most of these platforms, the company pays a fixed fee depending on the number of outlets or homes in question.
14. B2B sales remain opportunistic for the company and thus it can vary a lot depending on contracts and new customers coming in.

15. The company is also looking into influencer advertising and promotions on Instagram, Pixel, and TV Page to open up new avenues for growth and customer acquisition in the web channel.
16. The management has mentioned that the dip in gross margins has not been due to the addition of essential category, rather it may be because the company ran a clearance sale in Q4 because of the impending environment which has resulted in a dip in gross margins.
17. The management is guiding for 15-17% constant currency growth for the company in FY21.
18. The management has refrained from providing any guidance on average selling price as it may vary depending on the changing product mix. The average selling price has fallen QoQ in Q4 mainly due to the addition of the essentials category.
19. The number of unique customers in Q4 rose 6.6% YoY to 178,000.
20. The company is seeing jewellery with low price points with the motive of faith like crosses and of affection like charm bracelets, etc doing well in current times and the company is agile enough to bring back high price items like rings and handbags once the economy comes back strong and demand for such products revives.
21. The management has clarified that it has a similar margin profile for all items in jewellery irrespective of pricing.
22. The company has not faced any supply issues from the lockdown in India as the India specific products like turmeric powder was indeed available as it was essential goods and the non-essential goods were easily sourced from other locations.
23. The management had mentioned that QVC earned almost $60 per household per year while Shop LC earned only $3 per household per year to show the potential and room for growth for the company in this medium.
24. Other competitors for the company include JTV and ShopHQ which both earn almost $10 per household per year. JTV is the only one that is purely based on jewellery and it makes around $500-600 million of sales each year.
25. The company may see platform costs for TV go down as cost-cutting in cable continues.
26. The increase in finance costs is mainly due to exchange loss on the dollar loan which is classified as interest expenses according to Ind AS.
27. The company has a debt of Rs 63 Cr on the books which mainly on account of the working capital loans.
28. Most of the company's mobile sales is through the website and the company has recently brought onboard a CTO to accelerate the mobile app development and develop it as a sustainable source for mobile engagement with these customers.

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 done well to pivot fast to selling essential goods in the current disruptive times due to COVID-19 where a clear demand for such products has risen in the market. It has also helped the company enhance and expand its customer engagement to a more varied customer base than its traditional jewellery customer set. The company is also looking into innovative means like influencer promotion programs and expanding smaller ticket jewellery items of faith like crosses and rosaries which may prove instrumental in current times where high ticket and discretionary purchases like handbags may go down. It remains to be seen whether 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 earn 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 sector to watch out for.