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 Q2 & H1 FY25 Earnings Conference Call held on Tuesday, 12th November, 2024.

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/1815792805388054.pdf

Kindly take the same on record.

Thanking you,

Yours Truly,

For Vaibhav Global Limited
YASHASVI PAREEK
Digitally signed by YASHASVI PAREEK
Date: 2024.11.15 18:48:11 +05'30'
(Yashasvi Pareek)
Compliance Officer
ACS - 39220

Encl.: a/a

"Vaibhav Global Limited
Q2 and H1 FY '25 Earnings Conference Call"
November 12, 2024

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 Q2 and H1 FY '25 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, ma'am. Ms. Disha Shah

Disha Shah: Good evening, everyone, and thank you for joining us on Vaibhav Global Limited's earnings conference call for the second quarter and half year ended 30th September 2024. 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 the financial performance by Mr. Nitin Panwad after which the management will be open for the Q&A session.

Before we get started, I would like to point out that some statements made or discussed on today's call may be forward-looking in nature and must be viewed in conjunction with the risks and uncertainties that we see. 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, sir.

Sunil Agrawal: Thank you, Disha. Good evening, everyone. Thank you for joining our Q2 FY '25 earnings call. I hope you've reviewed the results and investor presentation. I'm pleased to report a 13% revenue growth reflecting our continued momentum. Consistent with our guidance, we maintained strong gross margins at 63.5%, supported by strategic pricing and favourable product mix. Our vertically integrated supply chain has also enabled us to achieve stable and market-leading gross margins.

EBITDA margins came in at 8.7% of revenue compared to 9.5% for the same period last year. This decline reflects planned investments in digital marketing aimed at new customer acquisition, high airtime cost to secure better channel position in the US and airtime costs in Ideal World. These investments are expected to drive long-term gains in new customer acquisition as reflected in our record unique customer base of 6,82,000.

Now let me take you through our key retail markets. The US revenue declined 1.6% year-over-year in the September quarter affected by increased attention on the election activities and Olympics. With consumer confidence improving and the elections now behind us, we expect demand to pick up in the upcoming holiday season. In the UK, revenue grew by 15% year-over-year, majorly contributed by Ideal World.

With signs of improvement in UK economy like the consumer confidence index inching up, inflation and interest rates going down, we expect a recovery in consumer demand in the coming months. Additionally, Rachel Galley, an e-commerce brand we acquired in the UK three years ago, has now achieved EBITDA profitability. This highlights our capability to scale e-commerce brands and achieve profitability, demonstrating our disciplined approach to growing digital businesses.

Germany continues to perform well, recording 15.3% Y-o-Y revenue growth in Q2 FY '25. Q-on-Q revenue grew by 25%, while operating losses declined substantially by 41%. We are confident of achieving breakeven at the operating level by second half of FY '25. Our 4R strategy, that is widening **R**each, new customer **R**egistration & **A**cquisition, strengthening customer **R**etention and **R**epeat purchases continues to deliver positive outcome.

Our TV networks now reach 130 million households and our unique customer base has increased by 51% year-over-year approximately to 6,82,000. Even without our new acquisitions, the unit customer base grew 6% Y-o-Y. Customer retention stands solid at 41%, with an average of 23 pieces per customer annually on a trailing 12-month basis.

We have now completed one year since acquiring Ideal World and Mindful Souls, and I will provide a brief update on the progress. Ideal World operates 24/7, reaching 27 million UK households. We recently upgraded our Sky broadcast to HD network. The business is currently profitable on a direct cost basis, achieving GBP17 million in sales over the past one year. We expect Ideal World to reach full cost profitability from current quarter onwards, Q3 onwards.

Mindful Souls continue to perform well with PBT margin of 10% on a trailing 12-month basis. Mindful Souls now has a solid base of over 1,00,000 unique customers, which we aim to grow further. Leveraging VGL group's supply chain, we are further enhancing its profitability through better costs and are regularly launching new subscription boxes.

At VGL, community impact remains a key focus. We recently reached a milestone of 93 million meals being served to school children under our ***'Your Purchase Feeds…'*** initiative. We are currently donating 54,000 meals every school day. Our long-term goal is to reach 1 million meals every school day by FY '40.

On sustainability front, we generated 1.1 million kilowatt hours of solar energy this quarter, meeting nearly 100% of power needs for two of our manufacturing units in India. This aligns with our goal to achieve carbon neutrality for Scope 1 and Scope 2 emission by 2031. We are honoured to have received **'Excellence in Sustainability and Climate Action Award'** from Indo American Chamber of Commerce at the 20th Indo American Corporate Excellence conclave. This award recognizes our contribution to Indo-US trade, business and our commitment to ESG principles.

We look forward to keeping a balance between growth, investment and quarterly payouts to generate sustainable value for our stakeholders. The Board of Directors has declared an interim dividend of INR1.5 per share for the quarter, representing 89% of payout and implying a firm belief in our business model and strong growth prospects.

We remain vigilant in tracking the macro environment and market trends. I'm confident that our capabilities and our experience will allow us to sustain profitable growth. We reaffirm our FY '25 revenue growth target of 14% to 17%, with operating leverage and project mid-teen revenue growth in the coming years with decent operating leverage.

I will now hand over the call to Nitin to discuss the financial performance in detail. Over to you, Nitin.

Nitin Panwad: Thank you, Sunil. Good evening, everyone. Welcome to Vaibhav Global's earnings call. Following Sunil's overview of business performance, I will now cover the financial results for quarter two and half-year ending September '24. In Q2 FY '25, we recorded 13% year-over-year growth, totalling INR796 crores, up from INR705 crores received in Q2 FY '24. In a constant currency basis, this reflects 10.2% growth, supported by 9.3% rise in our volumes.

Our gross margin remained strong at 63.5%, benefiting from our vertically integrated model and favourable product mix. The EBITDA margin for the quarter was 8.7%. As Sunil mentioned earlier, the current margin profile reflects our ongoing investment in digital marketing, enhance channel positioning in US and airtime costs in Ideal World.

Sequentially, content & broadcasting expenses as a share of revenue fell to 19.4% in Q2 from 20.6% in Q1 and we expect this to reach 18% of revenue for full financial year. Profit after tax for the quarter was INR28 crores. Looking at regional performance- US revenue decreased by 1.6%, UK posted a 15% revenue growth and Germany revenue grew by 15.3% year-over-year.

As noted earlier, the existing business growth rate was affected due to audience focusing more on the US election, Olympics and cautious consumer sentiments in UK. In Germany, revenue growth remained strong, with quarterly operating losses sequentially decreasing by 41%, and we stay on track to achieve breakeven level at operating margins in the second half of the financial year FY '25.

For Q2, TV revenue reached INR456 crores, while digital revenue totalling INR294 crores. TV revenue grew by 12.3% year-over-year. And digital revenue increased by 11.8% year-over-year with digital contributing 39% of total B2C sales. This growth reflects our continued investment in digital marketing and related infrastructure. Additionally, our budget pay EMI option contributed 38% of total B2C revenue. We have now completed a year since buying Ideal World and Mindful Souls. Ideal World remained profitable on direct cost basis, and we expect it to achieve full cost allocation profitability from Q3 onwards.

Mindful Souls continues to perform well, achieving a 10% PBT margin over the past 12 months. With VGL supply chain now supporting Mindful Souls, we expect further improvement in its profitability. Our balance sheet remains strong with net cash positive position of INR100 crores. Free cash flow and operating cash flow were at INR11 crores and INR26 crores, respectively, which were affected by a planned inventory build-up for the upcoming festive season.

Currently, ROCE and ROE are at 17% and 10%, respectively. We are also committed towards creating and sustaining value for stakeholders and are pleased to announce that the Board has approved second interim dividend for the year of INR1.5 per equity share, reflecting 89% payout. Looking ahead, we stay committed to deliver strong returns to our stakeholders in the mid-to long term. We are confident in achieving our revenue growth target of 14% to 17% for FY '25 with operating leverage and project mid-teen revenue growth with decent operating leverage in coming years. Thank you. Over to you, moderator, for Q&A.

Moderator: So, shall we start with the Q&A?

Sunil Agrawal: Yes.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rushabh Shah from BugleRock PMS.

Rushabh Shah: Yes. So, my first question is sir, Budget Pay in US and UK is high. So why give products on credit and why not take it upfront? Is it because of the nature of the people living in those countries?

Nitin Panwad: So, Budget Pay ratio we offer based on the customer internal credit score. And customers can opt the Budget Pay option for the different products based on the EMI available for the particular product. We are offering since 2016, and we have seen quite a good acceptance with very low bad debt rate of the budget pay. And we're seeing customer traction towards especially buying the high-end products.

We can buy for paying upfront as a full amount and paying an installment as it gives an ease to the customer. So, looking to the low bad debt rate and customer acceptance, we are continuing to offering the budget pay within the internal credit assessment of the customers.

Rushabh Shah: Okay. So, my second question is, sir, sir, where do you allocate most of your time? Is it the product design which is the most important part of the business? Or just team building or customer acquisition?

Sunil Agrawal: So, this is Sunil. So, I assume you're asking this question from me. So, initial years, I spent quite a bit of time in product development and strategy. But last many years, a majority of my time goes in team development. So, I meet the team regularly- direct reportee and my skip levels and from outside stakeholders as well. And in addition to that, I read a lot, I read trade publication and the books published by renowned businessmen or strategists.

Rushabh Shah: Okay. So, my next question is, as we know, the people pay by invoice in Germany, and there has been a delay to get a breakeven in Germany. So, now what has changed that you have entered Germany again? Have you studied the mindset of the people -- and how is it different from U.K. and U.S.?

Sunil Agrawal: Yes. So, this television business, the costs are largely fixed -- so we have about 130 people there. Those people will be needed, whether you do EUR1 sale or EUR25 million sales or EUR30 million that we currently have. And also the airtime that we contracted for about 35 million homes, you would pay them irrespective of what revenue you get. So, the fixed cost nature of the business is such that once you start to get to a critical mass of customer which has good high repeat purchase intensity, then the leverage of this model is very high.

But initial three to four years that it takes for the business to assemble that critical mass of customers in this particular business model. And opposed to the other models where we have one store and that one store becomes profitable sooner. In this case, we have a store in everybody's living room about, say, 35 million homes living room, we have stores there. So, we have to set up that store cost right at the front.

And that is why it takes time. And the beauty of the model is that once you reach a critical mass a large portion of gross margin starts to flow to the bottom line.

Rushabh Shah: My next question is on the call you mentioned, our revenue per household just $2 and that other competitor is about $7, and the leader is at $60 -- so how has that evolved? And what steps have been taken to go nearer to the leaders?

Sunil Agrawal: Yes. So, we have gained market share over last many quarters, maybe last four, five years, we continue to gain market share. So, our current run rate is around $3.5 or around 3. Our current market share is about 4% compared to Qurate and Shop HQ that we calculate internally, and that grew from less than 2% a few years ago.

We continue to gain market share over the years and I'm confident that we'll continue to gain market share for many years to come, owing to our vertically integrated business model, and agility to bring the trendy products to the customer in a very short time because we are so closely aligned with supply chain.

Rushabh Shah: Just a thing on market share. Do you think we are gaining market share continuously over the years. So, we have gained market share at a more rapid pace since you only say we sell products at a 50% price of our customers. Has the leader lost quite a bit of market share in the previous years? Or we are lagging somewhere?

Sunil Agrawal: So, I don't remember saying we said at 50% because many of the retailers sell the branded product, for example, they sell Bose or Apple or Samsung or other branded products. Our strategy is more like Zara, where we make our own in-house brands, and we sell product that seems much lower than their nationally branded products. Now we also have set the guardrails of 60% plus gross margin and leverage to give to the stakeholders.

So, if we were to go out and buy the customers that many e-comm companies have initially, then we can scale the business rapidly, but that will entail lower gross margins and maybe higher marketing costs that will dilute our EBITDA margins. So, we keep our growth guardrails in place, continue to gain market share and continue to gain leverage at the bottom line. So, that is our business model. Within that guardrail, that is, if we can achieve higher growth rate we will.

Rushabh Shah: Okay. Thank you. I'll get back in the queue.

Sunil Agrawal: Thank you, Rushabh.

Moderator: The next question is from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Hi, thank you so much for the opportunity and congratulations again on a steady quarter. So, the first question is more of a macro question. So, any impact on our business model due to Trump getting re-elected as in we import all our materials into the U.S. So, from your past experience with the earlier Trump administration and current developments, any comments on that?

Sunil Agrawal: Yes. Thank you for the question, Nirvana. We believe that we are the lowest cost producer and the tariffs would impact equally everybody. So, we don't foresee us getting impacted any adverse. In fact, with our gross margin of 62% plus our cost will be lower than other competitors because their gross margins are lower. So, it will be at advantage if at all the tariff across the board comes into picture.

Moderator: Sorry to interrupt, may we request Mr Laha to please rejoin the queue. Thank you. The next question is from the line of Rupesh Tatiya from Intelsense Capital. Please go ahead.

Rupesh Tatiya: Okay. Sir, first question is on this budget pay or financing. So sir, very fundamental question is why do we finance these purchases through our balance sheet, is it not better to do some partnership and let the financing going in someone else's balance sheet. Maybe I don't have historical context of it, but maybe if you can explain that a little bit?

And then the second question I see is related to that only in FY '23, we had INR26 crores as impairment. In FY '24, we had INR33 crores as impairment -- this is significant compared to our profit after tax. I mean if I look at it, it's almost 20%, 30% of our profits -- so maybe you can explain what kind of RoA we make or what kind of interest rates which are and how are we covered? I mean, how are these impairments considered in our model?

Nitin Panwad: Yes. Yes. So, thank you for the questions. I'll go to your first question, the budget pay. So, we have fairly good experience with the financing. Initially, when we started, we explored the option to financing from a third party. But there are two things, two issues we have found where the financing cost was higher. Also, the customer experience while many the customers are not getting credit as credit costs from the different financing companies were higher.

So, then we have find out that it's better to offer ourselves as we give a better experience as well as our bad debt costs are lower than the third party. So, over the years, we managed to keep the lower bad debt's rate even with the financing cost of -- let's say, interest cost of two, three months, we're even better than these other financing companies available out there. That is why we went for the option. And over the years, we are pretty steady on our doubtful debts ratio in the financing cost side.

The other point you mentioned about impairment. I'm not exactly where you are mentioning that this number in FY '23 -- actually '22. Actually, we have a gain of INR28 crores which was a PPA loan that we have shown in our exceptional items. It was actually a subsidy that we have received from US government during the COVID year.

Rupesh Tatiya: Because I'm looking at last Annual Report -- sorry to interrupt, sir, I'm looking at the Annual Report. There is a line in other expenses, impairment losses on financial assets allowances for or write-off of doubtful debts. There is a line item in other expenses in your Annual Report?

Nitin Panwad: Yes, it is actually a bad debt. It is actually bad debts on the budget, the EMI options that we offer to the end consumer. It is roughly -- this is around 1% of the cost to sales ratio and it is in line with, I think, past many years, if I'm referring the current number, that what you mentioned.

Rupesh Tatiya: INR32 crores in FY '24, if you that is 1%, then the total asset under management will be INR3,200 crores. I don't think that is the correct number.

Nitin Panwad: Yes. INR32 crores, if I refer the Annual Report, INR32 crores is 1% of about INR3,000 crores top line.

Rupesh Tatiya: No. But you are financing 40%, right? So, this is roughly INR1,200 crores…

Nitin Panwad: I got your point now. So, our financing, 40% is the ratio of the customer of the budget pay. The budget pay varies from two installments to five different installments. So, first installment, we collect upfront. So that's why these outstanding is different than the sales ratio, which I mentioned in my commentary, it is 39%. So, outstanding it varies based on two months to five months, different installments.

Rupesh Tatiya: So, what is the interest rate that we charge, sir? Because this number sounds really high to me.

Nitin Panwad: So, we don't charge interest to the customers. It is an interest-free for the end consumer. Customer don't need to pay. But the advantage is that customers get pretty well option of wherever we offer to the customer a budget pay option. And many of the cases where we have opted to the third parties. So credit -- third parties don't give to the good customer as in our internal credit score. So eventually, we may lose the sales. That is why we went for our own financing.

Sunil Agrawal: I also see in my financials, this is Sunil, Rupesh ji. So, I see in my financials for H1 FY '24 the bad debt was $1.65 million for H1 FY '24. So, the velocity of the bad debt is approximately $3 million a year -- sorry it was $2 million in H1 FY '24. It was INR15.52 crores of H1 FY '24. And for H1 FY '25, it was INR13.55 crores for H1 bad debt. So, what you might be seeing is just the doubling of that for the full financial year, about INR32 crores of the bad debt amount or towards the budget pay. And that is across all three organizations; US, UK, Germany.

Rupesh Tatiya: Yes. It's just that the number sounds really high to me, sir, I mean, INR1,200 crores, let's say, I mean, I don't know, 40%, 50%, your financing on INR1,200 crores financing, INR32 crores is roughly 3% hit to the margins and that number sounds really high to me. So, that is my point. Maybe I don't know you can…

Nitin Panwad: So, let me give you one more reference. Any third party financing company we go, there is one more company available like FlexiPay in UK. They charge straightaway 7% of sales regardless of EMI options, they charge 7% of sales. Different financing companies, they don't go below even when the interest rate were lower around 1%, 2% before the -- during the COVID or before COVID time, the minimum financing cost from the different companies was 3% to 4%.

Rupesh Tatiya: But that is to the customer, right? Sir, that is not…

Nitin Panwad: No, that is to us because it is zero cost for the customer.

Sunil Agrawal: We can't charge from customer because our competitors don't charge from customers. We will have to bear this cost whether our balance sheet or we take it from outside factoring.

Rupesh Tatiya: Okay, sir. And the second question, sir, is on the content and broadcasting piece. So, that also is a very first principal basic question that we were doing INR350 crores spending in FY '22. I think that number went to INR415 crores in '23, INR500 crores in '24 and now it's going to be INR600 crores in '25. So, that number has gone up by 80%. And adjusted for acquisitions, our revenue has grown by -- not even by same amount. I mean our revenue has grown by INR200 crores, INR300 crores, adjusted for $35 million if I adjust between Ideal World and Mindful Souls, the revenue hasn't grown.

So, I mean maybe you can talk from your experience or whatever is your internal modeling, but this incremental INR250 crores spending that you're doing on content and broadcasting. Can it bring, let's say, INR1,000, INR1,500 crores revenue to us? And then at what timeframe? I mean, if you can explain that a little bit internally how you look at success of this spending? That is one.

And then the second question is some other Indian platform company I track. And they basically don't do any ad spending if the sales velocity is good. They basically do spending only when the sales velocity of customer acquisition numbers start going down. And over the years, it has worked phenomenally well for them. So, at the first principal level, I mean can you justify this kind of spend to yourself and to probably to me, to investors?

Sunil Agrawal: Thanks for the question. This is Sunil. There are two components of content and broadcasting costs. So one is the air-time cost and other is the e-comm marketing costs. So, we look at a different criteria for both these costs. Now within the air-time costs, we started Germany three years ago. So, there's upfront fixed costs, as I mentioned in my earlier comment. And Ideal World, we started one year ago. So, that is upfront cost. So, Germany will break even in this current quarter and next quarter. So, in H2, it will be at the EBITDA level, it is breakeven. But the cost is already up there for 35 million homes. For Ideal World, the cost there for 27 million homes as it scales at a fully allocated basis, it is breakeven this quarter. So, the upfront costs are there for the air-time. Also in US, we took an air-time with a lower channel position that will give us a growth in coming years. So, we made these three investments in air-time that ramped up the cost for future sake.

The second component is digital advertising costs. We started ramping up digital advertising about a year ago and where you see the content broadcasting costs go up noticeably because of that. And we are seeing benefit of that in terms of new customer acquisition. And that customer lifetime time value is -- one year lifetime value of that customer is higher than the customer acquisition cost for us at all the six brands that we have within VGL portfolio. At each brand, the one-year margin is higher than the customer acquisition cost. So, with that strategy, we started spending -- ramping up the spend on digital market.

Now your third point was about the Indian companies who don't spend on advertising until they see the ramp slowdown. So, our model may not be apple-to-apple with the Indian model. I have not studied the companies you mentioned, but with our competition within US, UK and Germany, we don't see organic customers coming in at our scale. Maybe at Amazon scale or Walmart scale with their footprint or their momentum from earlier spend that they have done, we get a lot of organic.

But within our space, from Google SEO that we do on bing SEO we do, the sales is not as meaningful from organic services as there might be from the Indian companies that you're comparing.

Rupesh Tatiya: Okay, sir. So then...

Moderator: Sorry to interrupt Mr. Rupesh, maybe I request you to please rejoin the queue.

Rupesh Tatiya: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Hi, thanks for the opportunity again. So, following up from what the last participant was asking. So, the content and broadcasting costs this quarter has seen a fall Q-o-Q. So, has this number now peaked out for the foreseeable future? And for the coming quarters on an absolute basis, how do you see this number panning out? It was INR154 crores in this quarter.

Sunil Agrawal: Yes. So, for television, this is Sunil again. For television, we see this season numbers to be relatively flat unless we come across a major opportunity that we don't want to miss but we don't have anything in offing. So, we foresee this to be flat. For digital marketing, we will continue to gradually ramp up as we see productivity gain within our digital space. So -- but as a percentage of revenue, you won't see any meaningful increase. This year, we expect it to be 18% by the end of this financial year.

And for going forward for the next few years, you can expect this to be 18%, maybe slightly lower, but leverage will not come a lot from this particular area. The leverage will come from HR costs because our costs are largely fixed. Some SG&A and some from margin improvement as we scale the digital portion because the margin on digital portion is the higher than television portion.

Nirvana Laha: Okay. So, it will come from gross margin on digital side?

Sunil Agrawal: Yes. Digital space has a higher gross margin than the television space.

Nirvana Laha: And sir, so you said it will continue at 18%, but sir, right now, if you were at 20% in H1 and you're guiding for 18% for the full-year. So for H2, you have to be at around 16% to achieve that 18% guidance. So, you're seeing two, you will be at 16% and then you'll again ramp up to 18% in FY '26.

Sunil Agrawal: For the whole year, yes, because H2 is really higher revenue and cost as a percentage of revenue drops because it's a fixed nature, airtime cost. The percentage expense as a percentage of sales dropped -- and for next year, H1 may be higher than 18% and H2 will be lower than 18%.

Nirvana Laha: Okay, got it. And sir, out of this INR154 crores, can you split this between TV and digital so that we understand exactly what part will grow and what will not?

Nitin Panwad: Yes. Out of this 18%, 11% is related to airtime cost and rest 7% related to the digital marketing cost.

Nirvana Laha: Sure. And the 7% is digital and where exactly and platforms like Meta and you can break that down a little bit?

Nitin Panwad: Yes. So majority spend through Meta. But there's some portion in different affiliates, SEO-Google but majority of spend through Meta.

Nirvana Laha: And business wise, is it possible to split the 7% between the Mindful Souls and the U.S. business, U.K. and Germany?

Nitin Panwad: Yes. Internally, we do like Mindful Souls is a pure D2C company, which has a higher digital marketing costs compared to U.S. and U.K. business. So percentages varies between the different brands.

Nirvana Laha: Sure. Would it be fair to say that half of the 7% probably goes to Mindful Souls?

Nitin Panwad: Not exactly half, but good amount of portion to Mindful Souls.

Nirvana Laha: Okay. And on Mindful Souls, can you tell us what was the Y-o-Y and Q-o-Q revenue and volume growth?

Nitin Panwad: Mindful Souls is Q-o-Q flattish for what we are seeing right now. But month-over-month, in recent months, we have seen started seeing improvement in Mindful Souls. And profitability is also getting better with the regional supply chain getting started from October onwards.

And then the upcoming season events that we are seeing and different -- four different new products we have launched in a couple of months back. So, expecting the subscription numbers will improve, which will reflect in improving our quarterly and monthly revenue going forward.

Moderator: Sorry to interrupt, Mr Laha, may we request you to please rejoin the queue.

Nirvana Laha: Sure.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: Yes. Thank you for this opportunity, a couple of questions. If you look at the broadcasting cost, basically the airtime over a long period of time, what is the inflation we can expect in this particular cost?

Sunil Agrawal: So, the per home cost doesn't go up unless we take the home in a better channel position and also, the number of homes is not really expanding. So, while cable is shrinking, but we are moving from cable to OTA homes, i.e., over the air homes. So those homes can be more expensive than the cable. So as the mix changes, then the cost may move a little bit, but per home, wherever we are, hasn't really gone up to us per home basis.

Anuj Sharma: Okay. And then there is a shift in the mix from TV to OTA or OTT, what's the inflation or what's the premium you have to pay per household suppose?

Sunil Agrawal: So, depends on channel position, from cable, the normal cable we used to have in the 100s and OTA usually is in 30s, 40s, 50s, the cost is almost double or sometimes even more than double. But that universe is smaller than cable. Cable is about 60 million homes in the U.S. and OTA is about 23 million. So its about just one-third universe.

Anuj Sharma: Got it. And also, we have been investing in digital. But can you just explain how do you go about budgeting this digital spend, how do you really forecast or what we say in deciding the budget on digital? That will be helpful.

Sunil Agrawal: Yes, so digital usually is linked to productivity of the spend. So, if you see the spend, productivity is coming down, then we ramp down the spend. And if you see the productivity is strong based on our criteria, what is the ROAS we look at? So, different platform has different ROAS, Meta has different, Google branded is very different, Google paid shopping is different, affiliate has different.

So, we look at those productivity measures and ramp up and down. Overall, we look at the total band of say if you have a $1 million spent budget for the month for all the brands put together, some brands sometimes spend more because they see more productivity, some brands spend less because they are seeing less productivity. But overall, we are pretty close to our projections.

Anuj Sharma: Okay, okay. And this question is around the budget schemes. So, what incentive a customer has, so assuming there is no interest and there is option for 2 installments, 3 installments, 5 installments and outright pay, wouldn't it be logical from the customer viewpoint to take 5 installments or the maximum installment? And do you see that shift happen? I mean, people from upfront going to let's go the maximum possible installment, which is free of interest. How is that shaping up?

Nitin Panwad: So, we leave the decision to the customer. We offer that customer an option. If we are offering for budget pay, ideally we would like that customer can opt it because margin of the product is decided based on that. But it's up to customer if they want to pay a full amount or go for EMIs. So, the customer, they don't want to take a risk for credit default, which may take their credit ratings lower.

They pay full amount, but it's up to us, up to the customers who want to take the budget pay options or not. But we offer unanimously for the products for all the customer, not distinguish from the particular product, particular customer based on their whatever credit score.

Anuj Sharma: Okay. But logically, if it's interest free, won't the customer gravitate towards the maximum installment option?

Nitin Panwad: Yes. Logically, you're right, and we see that customer also majority customer go for the budget pay, but some of the customers are also -- they don't go for budget pay.

Anuj Sharma: Okay. But do you -- would you disclose the breakup between the two installment, the three installment and five installment and how they have shaped up?

Nitin Panwad: We do put the product, two installments, three installments, five installments, customer can select based on the available installments out there.

Anuj Sharma: No, I'm saying from an investor viewpoint, a shareholder, would you classify what percentage of that 40% is availing the five installment versus the two installment as a bucket.

Sunil Agrawal: So, first this depends on how much we offer it. So, every product has a unique feature of -- from two to five. And whatever we are offering, they can either take that or they have to pay full, 40% customers, we offer budget pay. Some products we don't even offer anything. For that product, they have to pay full anyways if they want to buy, especially lower-priced products. Product $10, $15 product, we don't offer any budget pay.

Anuj Sharma: Okay. And my last question is, let's suppose a customer defaults. What are the recovery options we have? Generally, what process we follow for recovery? And when do we generally give it up saying that the cost of recovery is higher than the estimated recovery amount?

Nitin Panwad: The system already built accordingly after how many days the payment need to be retried, after how many days of interval payment need to be adoptive, acceptance or card update or token updater happens. And after how many days that we send the reminders to the customer via e-mail or physical letter, then later on transferred to the debt collection agency. So, this was the process, pretty long process, robust process that we have that we follow when we see failure in the installments payment.

Anuj Sharma: Okay. And my last point is if the customer really defaults, his credit scores are impacted. Is that correct?

Nitin Panwad: Yes. So, we don't -- unless we pass on to the debt collection agency, then score is impacted. And we don't transfer that if it's a really substantial amount to the debt collection agency. But internally, as soon as customers do a default then customers can no longer buy on the budget pay option, while they can buy on making full cash down payment.

Anuj Sharma: All right. Thank you so much. Thank you.

Moderator: Thank you. The next question is from the line of Pradip Maity from RGI Meditech Private Limited. Please go ahead.

Pradip Maity: Yes. Thank you, sir for giving me this opportunity. I have a couple of questions. My first question is what is the gross margin for digital revenue? Can you comment any exact number?

Sunil Agrawal: Gross margin for Meta products or certain Google products is anywhere from 65% to 75% depending on product to product.

Pradip Maity: Okay. Actually, want to know about average gross margin, total digital revenue?

Sunil Agrawal: Total digital revenue has a lot of components because we also have rising auction $1 auction, where we sell products at 5% to 7% margin only. So there is a clearance mechanism because we come up with 100 new products every day. And the small quantities are not sufficient to sell on television, we sell through auction.

Pradip Maity: Average gross margin sir for digital revenue?

Sunil Agrawal: I think including RA and excluding RA. So, I'll have. Prashant pull out that number in the meantime, you can ask some other questions.

Pradip Maity: Okay. How the digital revenue become 50% of total revenue?

Sunil Agrawal: Yes. So, our rising auction will be limited because it won't rise as a percentage. But the other margin, other component, there is a fixed price catalogue or meta or Google product overall margin will grow up even further. We are not giving separate guidance on that, but that margin will go up higher.

Pradip Maity: Okay. And my second question is why companysold Encase Private Limited? What is the issue with that company?

Nitin Panwad: So, for the Encase that we are finding that earlier our idea was to get China Plus One strategy and get a cheaper packaging products, which we use in US, UK and Germany for the end consumer. Now we are finding that many of the products ate available out there in China itself with even lower pricing after duty. So, and the margin is not in line with what we guided to our investors. -- above double-digit margin that we are guiding to investor is not coming with that business. That is why we decided to exit that and source from the third-party China.

Pradip Maity: Okay. And with that last one question. What was its acquisition cost, when we bought that company and what is its selling cost?

Nitin Panwad: Yes. So, we bought -- we invested this company roughly around INR4 crores, and we sold that in round in INR50 lakhs.

Pradip Maity: That means INR3.5 crores approximate the company lost in that acquisition. Am I right?

Nitin Panwad: Yes, you are right. And we already booked that loss in March '24 accounts.

Pradip Maity: Okay. Okay, sir. Thank you. Nothing else.

Moderator: Thank you. The next question is from the line of Angad Katdare from Sameeksha Capital. Please go ahead.

Angad Katdare: Thank you for the opportunity. First question is in our cash flow statement. There's a grant of loan of INR7 crore, also impairment of loan of around INR1 crore. Can you throw some light on these two line items?

Nitin Panwad: Sure, sure. So, this was the loan related to the Encase Packaging, which was outstanding for a long time. It is the same loan that we have done a mortgage of the property lying with the Encase Packaging, the land and building and plant and machinery. Though the mortgage and the property valuation was coming and fully covered with the loan outstanding. But for the conservative accounting, we have taken a loss and booked the impairment of INR1.1 crores for this outstanding loan.

Angad Katdare: Okay. And my second question is on the inventory days, it has increased from 72 to 86 days. I know it's due to the upcoming festival season. But fair to assume these are the base going forward? Or if not then what can we take as a sustainable inventory base?

Sunil Agrawal: Yes. So, we expect the after season, that is at the end of December as well as end of March, the inventory comes down because we run two clearances. We run December clearance and we run March clearance and inventory strategically comes down. So, from the base point of view, you should look at the last year's days as a guidance for your future position.

Nitin Panwad: Yes. And even if you refer the cash conversion cycle, -- so we have maintaining around 170 days cash conversion cycle, we are keeping the similar kind of cash conversion cycle for upcoming period around 170 days.

Angad Katdare: Okay. So, at the clearance of December and in March, just assuming will the gross margin have impact on the -- will we have impact in that quarter?

Nitin Panwad: Yes. So, that is why our first quarter margin was pretty healthy 66%. And the second quarter and the full year guidance that we have given a 200 basis point improvement in last year. So for full year, we are guiding 64%. That guidance was incorporated in Q3 and Q4 clearance that we have planned. So, it is baked in already.

Angad Katdare: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Rushabh Shah from Buglerock PMS. Please go ahead.

Rushabh Shah: Yes. Thank you for the opportunity. So, my question was when a customer buys from your platform and then he doesn't have a repeat purchase. So, do you offer him any incentives for the retention of the customer?

Sunil Agrawal: Yes, definitely. We have pretty robust e-mail, text flows in place to get the customer back -- so we increasingly increase offers for them to come back. The first offer is to offer a complementary product, more complementing product to what he bought. The second is for the free gift and then percentage discount and $10 gift card and $20 card. So, we have a lot of these processes in place to get the customers back.

Rushabh Shah: So, my next question is a target audience of 50-plus age group. And you are considering investing in the OTT platforms also. So, have you been able to convert the audience in or rather add new customers in the new generation platform?

Sunil Agrawal: Yes. So, that's a good question, Rushabh. Now we have a lot of OTT sales and sales growth is also pretty robust. But we have been able to move many of our existing customers over to OTT.

But to acquire new customer OTT, it still is a new area there is -- we get a lot of app downloads, but still, there is no ecosystem to convert those downloads into customers. So the new customer acquisition OTT is relatively low. -- but the customer conversion and you see customer conversion over the OTT who are buying from us and have cut the cable connection or even existing customer is still buying some television or e-com and then them buying our OTT is pretty good.

Rushabh Shah: Sir, just on the customer part of it, what is more important for you? Is it adding new customers or the conversion of the customers from one platform to another?

Sunil Agrawal: We both have KPIs on both fronts. So, if see slow down the new customer acquisition, then the funnel will dry. So, we don't want for funnel to dry up -- so we want funnel to be fully populated. And then once the customer comes in, we want to retain the customer and then also move them to other platforms so that the lifetime value goes up. And when we move from one platform to another lifetime value shoots up quite substantially.

Rushabh Shah: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: Hello, sir. Thank you for the follow-up. Sir, my question is, let's say, for INR4,000 crores sales whenever we reach what would be the content spend velocity would we need? Is INR600 crores spend enough? Or we have to go to, let's say, INR720 crores, INR750 crores kind of number?

Sunil Agrawal: So, the television broadcasting, we expect that to stay relatively flat. It may go up a little bit but relatively flat. -- but the digital cost may go up because as we scale up our digital customer acquisition and retention, so that may go up. So, as I mentioned earlier, in longer run, this 18% may stay relatively flat. So, our internal operation is showing 17% to 18%, but guidance I want to give to you is relatively flat, the leverage will come from HR cost, SG&A and margin improvement.

Rupesh Tatiya: So just to summarize, even at INR4,000 crores, do you expect 17% to 18% content & broadcasting cost?

Sunil Agrawal: So, it may go lower, but at this time in our journey, I don't want to give a guidance below 17-odd percent.

Rupesh Tatiya: Okay. And then, sir, I mean, if I look at the model from gross margin to EBITDA walk, right? I mean 60% gross margin, 20% employee cost, 20% content broadcasting cost, 10% maybe manufacturing packaging shipping all that cost. So, 60% gross margin results in 8%, 9% EBITDA margin. And I mean whatever operating leverage you're talking about in HR and all that is like 1%, 2% kind of thing.

So, to meaningfully see a jump from 10% to 15% margin. To me, it looks like gross margin is the biggest lever. I mean your gross margin, I think, has to go above 65, probably close to 67, 68 and only then we can see the mid-teen kind of margins. So, what are your thoughts on that?

Sunil Agrawal: First lever is the HR cost. We have two new businesses in Germany and ideal word, and we staffed substantially for these two relatively new businesses. And as we scale up, the HR cost will drop down quite substantially across the group. And we also believe as we are creating efficiencies through AI, will gain efficiencies in our knowledge or work across the group as well. So you'll see substantial gain in HR costs from currently 19%. So, it has a potential to go down as we were 13%, 14% in years to come.

Now the affiliate cost, there is the content & broadcasting cost, which is currently -- we expect it to be 18%. That may go to 17% and SG&A, as we scale up, we'll see leverage here because as you scale the shipping costs goes down, the other areas goes down as well. The rents, the other expenses go down substantially. And so margin may go up from 64% that we are projecting for this year. It may go up a couple of percentage of maybe 2% or 3% over the years but other areas will also have leverage opportunities.

Rupesh Tatiya: Okay. Thank you for answering my questions, sir.

Sunil Agrawal: Thank you, Rupesh.

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

Parth Dalal: Sir, for the Mindful Souls slide, we have mentioned there are four new products for the quarter. And earlier, I think Nitin sir said that a lot of expense goes in there. So how to read this only four new products for the quarter, whereas our US, UK, you said that we have a big churn like 100 new products a day.

Sunil Agrawal: Yes, Mindful Soul is subscription business. For subscription business, there's a lot of thought and a lot of promotion that goes into a new product launch. Rather than on television, you get -- you make some changes to the ring or pendent or earing based on the stone that you have or exempt stones we have or the color of the scarf you have -- so you gain a lot -- you get a lot of velocity coming in for television because that customer watches us for hours every day.

So, we constantly need to bring new for them without a lot of depth that a subscription business needs and the promotion cost for the new products that we get in is very low or almost non-existent on television business. Whereas on e-com business, we have to promote a lot before the product gains traction. So a bit different business model and not really comparable television to subscription model.

Parth Dalal: Okay. So the four new product that is mentioned is the subscription products?.

Sunil Agrawal: Correct.

Parth Dalal: Okay. And for -- sir, do we have budget pay in Germany?

Sunil Agrawal: We don't have budget pay. Actually, it is a pay by invoicing. So it is 21 days payment after receiving the item. So, for installment payments -- we don't have that, just the payments in 14 days – 21 days credit to the customer for pay by invoicing.

Parth Dalal: Okay. So, what is stopping us , I mean, start the budget pay set up there? Is there any regulatory limitation?

Nitin Panwad: Yes. It is -- we're finding it is not easy to operate with the pay by invoicing and the other competitors are also not offering to the end consumer. While in UK and US, the competitor offering the budget pay, so we are going until we see a profitability, good margins over there, then we can think of to offering installments payment for them.

Parth Dalal: Got it. Got it. Agreed. And in the same slide for Germany, it is mentioned immediate TAM increased by 20%. So, is this recent thing, anything that has happened recently? Or how are we comparing this 20% year-on-year? Or -- what is the time period?

Nitin Panwad: So, it means that when we started Germany, so comparing to UK, US, where we have our existing market starting Germany has increased our addressable market by 20%.

Parth Dalal: Got it. And final one from my side. So, any other acquisition on the cards, sitting on the table with the management?

Sunil Agrawal: So, not anything on the horizon. Our aim is to get Mindful Soul starting scaling up and Ideal World, giving us meaningful positive EBITDA before we go for a new one.

Parth Dalal: Sir, because there was this social media post somewhere, which said Vaibhav Global looking to acquire -- Create and Craft in U.K. So, I don't know if there is anything to read in that?

Sunil Agrawal: No plans right now.

Parth Dalal: No. Okay. Got it. That's it from my side. Thank you.

Sunil Agrawal: Thank you, Parth.

Moderator: Thank you. This will be the last question, which is from the line of Nirvana Laha from Badrinath. Holdings. Please go ahead.

Nirvana Laha: Hi, thanks a lot for the follow-up opportunity. Sir, the digital growth this quarter Y-o-Y was only 11.8%. This was without Mindful Souls in the base. So, next quarter onwards, we'll have that in the base. So, what is your comment on this growth and organic digital growth, what kind of number are you targeting going forward?

Sunil Agrawal: Yes. So, we had some new airtime coming for Ideal World in US. So, those new airtime will give us more television growth and digital was not as robust on that one. But going forward, we expect digital growth to be faster than TV growth.

Nirvana Laha: Sure, sir. So just doing some math, the numbers that you said about 18% content and broadcasting and 11% part remaining more or less fixed, which has to do with TV. So, I think you're planning to grow the digital spend by 15% year-on-year for the next few years. So will the digital growth, therefore be higher than the 15% or in line with 15%? Or how will it be?

Nitin Panwad: Specially if you refer that past 10 years, digital CAGR is 18%, it was actually without the aggressive investment on social media marketing. And we expect that this growth rate will continue to grow as we are investing more on social media marketing. So, we are expecting that the growth rate will be higher than the investment of 15% that you mentioned year-over-year.

Nirvana Laha: Okay. And sir, when you say that gross margin for digital sales is higher than TV sales, what is it driven by? Are we able to sell costlier products via digital -- or how is the gross profit per unit going up in digital versus TV?

Sunil Agrawal: Digital ecosystem, even when we compare ourselves to say, Amazon or other D2C players, we find that the players have to absorb higher marketing costs meta costs or goggle costs or affiliate costs. Therefore, the margin potential is higher in digital business space than television.

Nirvana Laha: Okay. Sir, I'm not sure I understood the explanation. I'll take it offline. Last question from my side. Any plans on lightening the balance sheet, sir, I believe we made some investments in land, etcetera, in the US, which we are not using. So, any plans of working on the balance sheet to make it more slim?

Sunil Agrawal: Yes. For that end, we are looking for rezoning of that land into partial commercial and partial warehouse cum light office use. First, we have rezoning done and part of that land will sell for local retail and that may lighten the balance sheet from that extent. And we don't foresee much capex in coming times. So, balance sheet will continue to be lighter than we had in the past few years.

Nirvana Laha: Got it. Thank you so much, sir, for answering the questions and all the best to you.

Sunil Agrawal: Thank you, Nirvana.

Moderator: Thank you. As this was the last question for today. I will now hand the conference over to Mr. Sunil Agrawal for closing comments.

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

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

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