VAIBHAV GLOBAL LIMITED

Ref: VGL/CS/2023/127 **Date: 04th December, 2023**

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

Subject: Credit Rating for Bank Facilities

Dear Sir / Madam,

This is to inform you that ICRA has reaffirmed the long-term rating at [ICRA]A (pronounced as ICRA A) and short-term rating at [ICRA] A1 (pronounced as ICRA A one) to Rs. 110 crore bank facilities of the Company. The Outlook on the long-term rating is Stable.

Facilities	Amount (Rs. in Crore)	Rating Assigned	Rating Action
Long-Term Fund based Limit	105.00	ICRA A; Stable	Reaffirmed
Short-Term Non-Fund Based Limit	5.00	ICRA A1	Reaffirmed

A copy of letter received from ICRA is enclosed herewith.

Kindly take the same on record.

Thanking you,

Yours Truly,

For Vaibhav Global Limited

SUSHIL SHARMA
Digitally signed by SUSHIL SHARMA
Date: 2023.12.04 15:25:16 +05'30'

Sushil Sharma
Company Secretary
FCS-6535

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December 04, 2023

Vaibhav Global Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Limits	105.00	105.00	[ICRA]A(Stable); reaffirmed
Short Term – Non-Fund Based Limits	5.00	5.00	[ICRA]A1; reaffirmed
Short Term – Interchangeable Limits	(15.00)	(15.00)	[ICRA]A1; reaffirmed
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in the extensive experience of over three decades of Vaibhav Global Limited's (VGL) promoters in the e-retail business and its end-to-end vertically integrated business model with an established supplier network. Focus on increasing the share of private label sales as well as attractive value positioning of its products helped VGL generate consistent high gross profit margins of over 60%. The ratings also favourably factor in the extensive coverage of the company-operated television channels with a reach of 139 million households as on September 30, 2023, across the US, the UK and Germany. The ratings also derive strength from the strong financial risk profile of the company, characterised by comfortable capital structure and robust debt coverage indicators along with its adequate liquidity position with cash and liquid investments of ~Rs. 149.8 crore as on September 30, 2023.

In September 2023, VGL acquired Ideal World (operates its proprietary TV shopping channel and is involved in teleshopping and digital retail of lifestyle products) and Mindful Souls BV (an e-commerce company, mainly serving the US, through proprietary e-commerce website and marketplaces), which were funded through internally available liquid balances. These are aimed at strengthening VGL's digital presence (via Mindful Souls) and its market position in the UK (via Ideal World) through various synergy benefits. This coupled with the onset of the festive season in H2 FY2024, is expected to result in a double-digit revenue growth in FY2024. The improvement in OPM, however, would remain constrained due to continued losses in German operations (breakeven of which has been further delayed till H2 FY2025), increased investments towards broadcasting and content charges. ICRA expects these investments to yield benefits over the medium term in the form of increasing household coverage and geographical reach. Along with limited capital expenditure (capex) plans, this will lead to improvement in the free cash flows over the medium term.

VGL's exposure to geographical concentration risk remains high with over 95% of the sales emanating from the US and the UK regions, where the company directly competes with established players in TV - home shopping segment and other e-commerce players. VGL's operations also remain susceptible to local regulations as well as demand prospects in these countries. While the company has forayed into the German market in Q2 FY2022, the revenues are yet to pick up meaningfully and hence the operations are loss-making at present. Around 39% of the company's sales (in FY2022) came through budget pay schemes, which expose VGL's OPM to the risk of bad/doubtful debts. ICRA notes that the company's profitability also remains susceptible to foreign exchange fluctuations on account of its overseas operations, though it hedges the major portion of its exposure through forward contracts.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that VGL's financial profile is likely to remain comfortable, supported by low reliance on debt and improved cash generation in the business, given the attractive value positioning of its products and established presence in the US and the UK markets. The ramp-up of new business as well as break-even of German operations within the stipulated time will remain under focus.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – The company benefits from the extensive experience of its promoters spanning over three decades in the fashion jewellery and lifestyle products, e-retail industry as well as its established track record over the years.

End-to-end vertically integrated business, focus on increasing the share of private label sales – VGL has its own manufacturing set-up in Jaipur, Rajasthan, which caters to ~70% of its fashion jewellery requirements. The company sources lifestyle products (like watches, hair accessories, etc.) and the remaining ~30% of the jewellery is retailed directly from its established supplier network in over 30 countries, including China, Thailand and Indonesia, among others. Thus, it has a vertically integrated supply chain where it has low-cost manufacturing base in Asia, does value sourcing from more than 30 countries and subsequently serves in developed markets of the US, the UK and Germany. This has enabled it to maintain a gross margin of more than 60% during the past five years. The management over the years has focused on expanding and strengthening its in-house brand portfolio, where margins are relatively better vis-à-vis third-party brands. The management has targeted to increase the revenue mix to 50% by FY2027 from 29% at present.

Extensive reach to 139 million households; strong brand presence of VGL-owned channels in the US and the UK as well as attractive value positioning of products – VGL is an online retailer of fashion jewellery and lifestyle accessories on its proprietary TV home shopping channels (24x7x365 channels) and e-commerce platforms with live telecasts in the US, the UK and Germany. In H1 FY2024, VGL generated 61% of its sales from its TV platforms, and the balance 39% from web platforms. VGL's TV home shopping platforms provide direct customer access to ~139 million households on a full-time equivalent basis. The company offers value proposition to its customers by pricing its products at around $30-40 per piece on an average.

Strong financial profile – VGL has reported a healthy revenue rise, with a CAGR of 11% in FY2023 over FY2020. After a healthy revenue growth of 28% in FY2021 due to the pandemic, which led to higher online sales, the company was able to sustain its high revenue base despite opening up of the economy and reported a modest revenue growth of 8% in FY2022. However, in FY2023, due to the inflationary pressure and subsequent decline in discretionary spending by the consumers, revenues declined marginally by around 2% on a YoY basis and stood at Rs. 2,691 crore. Revenues were additionally impacted due to cyber attacks in Q3 FY2023. The OPM declined to 7.4% in FY2023 from 10.2% in FY2022 due to accelerated investments in digital marketing and broadcasting and initial losses in Germany operations. The demand conditions in the UK market remains subdued, though, there has been a gradual rebound in consumer demand in the US, which coupled with scale-up of Germany operations, resulted in a 7% YoY revenue growth in H1 FY2024. Its OPM also improved to 8.9% in H1 FY2024, led by cost-saving measures as well as other measures aimed by improving the operational efficiency.

Going forward, VGL's increasing reach on various digital platforms with ramp-up of operations in Germany as well as expansion of its product portfolio (mainly in the non-jewellery segment) along with synergy benefits and strengthening of its digital business through recent acquisitions, will drive growth in FY2025-FY2026. VGL's dependance on external borrowings has remained limited, which coupled with its healthy net worth, resulted in a comfortable capital structure with a gearing of 0.2 times as on September 30, 2023. The debt coverage indicators too, have remained robust, as evident from an interest cover of 21.3 and net cash accruals vis-a-vis its total debt of 53% in H1 FY2024. Cash and liquid investments, although declined to Rs. 150.0 crore as on September 30, 2023 from Rs. 273.5 crore as on March 31, 2023, continue to remain healthy and support the liquidity position of the company.

Credit challenges

Exposed to intense competition – VGL sells its products in the US, the UK and Germany, where it competes with several large and established players like Qurate Retail (QVC), Shop HQ as well as other e-commerce players like Amazon. It also faces stiff competition from traditional retail formats. Besides, the company's business remains exposed to local regulations applicable to online retail industry in these operating countries.

High geographical concentration, given the discretionary nature of spending; demand remains susceptible to economic slowdown in these regions – VGL faces high geographical concentration risk as ~95% of its revenue is derived from its online retail operations in the US and the UK regions. Further, given the discretionary nature of spending on fashion jewellery and lifestyle products, its demand prospects remain susceptible to economic slowdown in these markets, as seen in FY2023 and H1 FY2024 wherein, due to the inflationary pressure and a subsequent decline in discretionary spending of the consumers, revenues declined marginally by around 2% on a YoY basis. The demand conditions in the UK market remain subdued, though there has been a gradual rebound in consumer demand in the US, which coupled with scale-up of Germany operations, resulted in a 7% YoY revenue growth in H1 FY2024. The company forayed into the German market in FY2022 to diversify its geographical presence. While the customer traction in Germany has been increasing on a month-on-month basis, the revenues are yet to pick up meaningfully and hence the operations are loss-making at present. The company's ability to profitably ramp up operations of Germany within a reasonable period and further diversify its operations are key rating factors.

Vulnerability of profit margins to risk of bad debts from budget pay schemes as well as foreign currency fluctuations – Around 39% of the company's sales in H1 FY2024 took place through budget pay schemes, which expose VGL's profitability to the risk of bad/doubtful debts. The budget-pay scheme allows VGL's customers to pay the dues in two to six instalments, with one getting paid immediately and the remaining amount getting paid in monthly installments as per the number of instalments offered. In FY2023, the company has written off doubtful debts and advances of ~Rs. 25.71 crore against Rs.21.50 crore in FY2022 on consolidated level. Any significant increase in bad debt/doubtful debt write-offs can adversely impact the profit margins and liquidity of the company and remains a key rating sensitivity. The OPM of the company also remains susceptible to foreign exchange fluctuations on account of its foreign operations, though it hedges the major portion of the same through forward contracts.

Environmental and Social Risks

Environmental considerations: VGL's exposure to environmental risks is mainly related to responsible sourcing, given its high reliance on external suppliers. The company oversees its sourcing from the first stage of procurement. VGL conducts knowledge sharing sessions with its supplier base as well as physical visits to ensure compliance with the applicable code of conduct. The company is focusing on using sustainable practices (including products and packaging) from the beginning to the end of the product life cycle.

Social considerations: VGL is exposed to privacy and legal risks as it is present in the e-tailing sector involving large access to customers. The company offers relevant training and guidelines to the staff handling such information and use masking mechanism to protect sensitive personal information of the customers. Being a manpower intensive segment, retail entities are also exposed to the risks of business disruption due to inability to properly manage human capital in terms of their safety and the overall well-being.

Liquidity position: Adequate

VGL's liquidity position is adequate, supported by unencumbered cash and liquid investments of ~Rs. 149.8 crore as on September 30, 2023. Despite the acquisitions, the company maintains its net cash surplus status. The company does not have any long-term borrowing as on date and hence there are no scheduled debt repayments. The cash flows are likely to improve, going forward, as VGL expands its household coverage, improved products offerings along with benefit of operating leverage. Additionally, it does not have any major capex plan in the near term. The company has sanctioned fund-based working capital limits of Rs. 113 crore where the average utilisation stood at 84% during the last 12 months ended in September 2023, which provides additional liquidity cushion.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate a healthy improvement in revenues and profitability while maintaining a comfortable working capital cycle. Reduction in geographical concentration risk through greater diversification would be another positive factor.

Negative factors – The ratings may be downgraded if any major debt-funded capex/acquisition or an increase in the working capital intensity results in a moderation in the capital structure or debt coverage indicators/liquidity position of the company. The ratings may also witness pressure if any sharp weakening in the demand conditions in the US and the UK markets result in a significant decline in revenues and profitability of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in Retail Industry Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VGL. As on September 30, 2023, the company had nine subsidiaries and five stepdown subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1989, VGL is involved in e-retailing of fashion jewellery, fashion accessories and lifestyle products like watches, hair accessories, beauty and home décor products sourced from across the globe. VGL has nine direct subsidiaries and five step-down subsidiaries, through which it operates 24-hour TV channels (Shop LC in the US, TJC in the UK, Shop GmbH in Germany) and e-commerce websites (shoplc.com, tjc.co.uk and shoplc.de) that complement the company's TV-based operations. The company derived 60-70% of its consolidated revenues from sale of fashion jewellery (including gemstone-studded jewellery), which is primarily manufactured at VGL's 100% export-oriented unit (EOU) at Sitapura, Jaipur. The balance came from the sale of lifestyle and beauty products. The company generated 61% of sales from TV platforms in H1 FY2024, and the balance 39% from web platforms. VGL is promoted by Mr. Sunil Agrawal, the Managing Director of the company.

In September 2023, Shop TJC Limited, UK (wholly-owned subsidiary of VGL) acquired Ideal World for 1.125 million pound (Rs. 12 crore approximately), which was funded through liquid balances. Additionally, a share purchase agreement was executed through Shop TJC Limited for acquisition of 100% shares of Mindful Souls for a total consideration of 12 million euro (Rs. 105 crore approximately) funded through liquid balances.

Key financial indicators (audited)

Consolidated financials	FY2022	FY2023	H1 FY2023
Operating income	2,752	2,691	1,363
PAT	237	105	59
OPBDIT/OI	10.2%	7.4%	8.9%
PAT/OI	8.6%	3.9%	4.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.5
Total debt/OPBDIT (times)	0.6	1.0	0.8
Interest coverage (times)	46.1	24.4	21.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Dec 04, 2023	Oct 07, 2022	Jul 12, 2021	May 27, 2021	-
1	**Fund-based Limits**	Long term	105.00	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-
2	**Interchangeable Limits**	Long term	-	-		-	**[ICRA]A (Stable)**	-	
3	**Non-fund Based**	Short term	5.00	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-
4	**Interchangeable Limits**	Short term	(15.00) *	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-

*Sublimit of fund-based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based Limits	Simple
Short Term - Non-Fund Based Limits	Very Simple
Short Term - Interchangeable Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**PC/PCFC**	-	-	-	105.00	[ICRA]A(Stable)
NA	**Non-fund-based limits**	-	-	-	5.00	[ICRA]A1
NA	**Short Term - Interchangeable Limits**	-	-	-	(15.00) *	[ICRA]A1

*Source: Company*sublimit of fund-based limits*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Vaibhav Global Limited	Rated Entity	Full Consolidation
VGL Retail Ventures Limited, Mauritius	100.00%	Full Consolidation
STS Jewels Inc., USA	100.00%	Full Consolidation
STS Global Supply Limited (formerly STS Gems Limited), Hong Kong	100.00%	Full Consolidation
STS Global Limited (Formerly STS Gems Thai Limited), Thailand	100.00%	Full Consolidation
STS Global Limited (Formerly STS Gems Japan Limited), Japan	100.00%	Full Consolidation
Vaibhav Vistar Limited	100.00%	Full Consolidation
Vaibhav Lifestyle Limited	99.99%	Full Consolidation
Shop LC Gmbh, Germany	100.00%	Full Consolidation
Encase Packaging Private Limited	60.00%	Full Consolidation
Shop TJC Limited, UK^	-	Full Consolidation
Shop LC Global Inc., US^	-	Full Consolidation
Mindful Souls BV	100.00%	Full Consolidation
PT. STS Bali^	-	Full Consolidation
STS (Guangzhou) Trading Limited^	-	Full Consolidation

^ step-down subsidiaries of VGL

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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