

# Vaibhav Global Ltd

**Strong company with high competitive Advantage**



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# Company Snapshot ( As on 10 Dec'14)

- **Current Market Price – Rs. 590.**
- **Target – INR 840**
- **Time Frame - 1-3 months**
- **Expected Return- 42%**
  
- BSE Code – 534804.
- Market Capitalization – Rs. 1890 Cr.
- Face Value – Rs.10.00.
- Total Equity Shares – 2.89Cr.
- 52 Week High/Low – Rs.975/480.



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Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	594.77	338.18	525.83	646.49	892.89	1298.27
Gross Profit	<b>215.17</b>	<b>140.41</b>	<b>319.17</b>	<b>418.49</b>	<b>590.64</b>	<b>867.74</b>
Gross Profit margin (%)	36.18%	41.52%	60.70%	64.73%	66.15%	66.84%
EBITDA	<b>-103.40</b>	<b>-27.67</b>	<b>59.27</b>	<b>73.98</b>	<b>63.90</b>	<b>142.22</b>
EBITDA margin (%)	-17.38%	-8.18%	11.27%	11.44%	7.16%	10.95%
Other Income	7.84	5.22	11.67	12.05	16.64	15.27
Depreciation	-12.46	-8.75	-8.10	-9.08	-7.32	-7.48
EBIT	<b>-108.02</b>	<b>-31.20</b>	<b>62.84</b>	<b>76.95</b>	<b>73.22</b>	<b>150.01</b>
EBIT Margin (%)	-17.92%	-9.08%	11.69%	11.68%	8.05%	11.42%
Interest cost	-22.17	-16.35	-14.54	-14.43	-14.46	-14.49
Profit Before tax (PBT)	<b>-130.19</b>	<b>-47.55</b>	<b>48.30</b>	<b>62.52</b>	<b>58.76</b>	<b>135.52</b>
Profit before tax margin (%)	-21.60%	-13.85%	8.98%	9.49%	6.46%	10.32%
Exchange fluctuation gain/loss	-22.89	-9.98	-5.89	16.27	21.02	19.77
PBT after exchange fluctuation	-153.08	-57.53	42.41	78.79	79.78	155.29
Net Profit	-153.01	-57.52	42.41	78.56	78.12	152.53
Cash flows from operations before tax	<b>17.98</b>	<b>-41.22</b>	<b>41.06</b>	<b>36.02</b>	<b>68.22</b>	<b>161.35</b>
Return on Avg. equity	--	--	31.90%	32.57%	33.94%	76.28%

# Vaibhav Global Ltd

VGL is a vertically integrated electronic retailer of fashion jewellery and lifestyle accessories in the US, Canada, UK and Republic of Ireland. Yes, e-retailer, as the company sells its products via electronic media (dedicated Home shopping TV Channels & e-commerce platforms) in USA, UK, Canada and Ireland and has access to over 95 million households in these countries through its TV Shopping networks - Liquidation Channel in USA and Canada and The Jewellery Channel in UK and Ireland.

VGL's TV shopping channels reach customers directly 24x7 on all the major cable, satellite and DTH platforms – Dish TV, DirecTV, Comcast, Verizon Fios, Time Warner, AT&T, Sky, Virgin, Free view, Freesat etc.



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## B-2-B to B-2-C

Over the years, VGL has gradually transformed the business from low margin and working capital intensive B-2-B (sales to retail chains) model to high margin B-2-C (direct sales to customers from own home TV channels and e-commerce platforms) model. This transformation can be gauged from the fact that TV sales and Web sales now contribute to 87% of the sales of the company against just 1.5% in FY 06.

The business sales mix of the company for FY 14 was as below:

**Retail via 24X7 TV shopping network** – TV Sales accounted for 70% of the total sales of the company in FY 14. TV Sales take place through live shows on all major cable, satellite and DTH platforms.



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The company sold 6.4 million pieces during FY 14 against 5.2 million pieces in FY 13 with average selling price more or less constant at USD 24 per unit.

As can be observed from the above illustrations, over the years the average selling price for VGL has trended down though the management expects it to settle around current levels.

Basically, besides offering jewellery to retail customers in US and UK, the company has also added fashion and lifestyle accessories such as hand bags, scarves, watches, office and home décor products, etc to its offerings. These are low price point products and therefore the avg. selling price has trended downwards, however these products have also resulted in wider offerings for customers, higher customer engagement, repeat purchases and thereby higher volumes for VGL.



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**Web Sales** – Web sales accounted for 17% of the total sales of the company in FY 14. Web Sale comprises of Catalogue sale, rising auctions and Live TV streaming on Web. As is the case worldwide, online sales of VGL have been growing rapidly and even faster than TV sales, though on a smaller base.



Basically, the company kicks off the auction with a random price which drops from there. For instance, it could be displaying a product and put up an initial random price of \$100 per unit, then lower it to \$50, then further to \$30 and it may ultimately end up selling the product at \$20 per unit. The company keeps limited stock of each item and continuously displays the availability of the items on the TV screens. The quantity of each item is reduced every time a bid is received, but those making an early bid to secure their purchase don't lose out in comparison to those who make late bids as everybody pays the final lowest price.

So, drop auctions give a sense of huge discount to customers and at the same time both falling prices and reducing availability of the items keep the interested customers glued and also results in impulsive buying.



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## Market opportunity for VGL

As per the management, the market size for fashion accessories and fine and fashion jewellery in US and UK combined is ~\$ 98 billion and out of the same electronic retail accounts for more than \$ 10-15 billion sales which is also the target market for VGL.

It is important to note here that electronic retail is growing at much faster pace in comparison to the conventional brick and mortar model and is therefore increasingly gaining share in the total sales of fashion accessories and jewellery.

Particulars	Vaibhav Global	ShopHQ	HSN	QVC	
	US and UK	US	US	Only US	Global
Revenue	1,290 crores	3,840 crores	13,842 crores	35,112 crores	51,600 crores
Gross Profit Margin	61%	35.9%	34.50%	36.20%	37%
EBITDA Margin	12%	3%	11%	23%	21%
Households Reached	95 mn (68 mn in US)	87 mn	95 mn	98 mn	195 mn
Revenue per household	\$2.3	\$7	\$24	\$60	\$44
Units shipped	9.4 mn	9 mn	47 mn	107 mn	169 mn
Average Price point	\$23	\$78	\$58	\$60	\$51
Internet/Mobile sales %	17%	46%	37%	43%	37%

VGL and other home shopping TV companies in US

## Valuations

Before discussing valuations, let's recall all that we have learnt about Vaibhav Global in the above sections:

- VGL is an electronic retailer (through home shopping TV channels and e-commerce platforms) of jewellery, fashion and lifestyle accessories in US, UK and Canada and has access to over 95 million households in these countries through its TV Shopping networks – **Liquidation Channel** in USA and Canada and **The Jewellery Channel** in UK.
- Over the years the company has successfully transformed from a B2B to B2C business model and TV and web sales now account for more than 87% of the sales of the company.



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- The company's target segment is discount seeking customers as the management believes that this segment delivers stable growth across economic cycles, including recessionary periods.
- VGL's low cost sourcing capability enables it to sell products at decent mark up to its cost price while still focusing on discount seeking buyers and also delivers a sense of deep value proposition to its customers by claiming lowest price guarantee.
- The company uses interesting customer engagement techniques like drop auctions, \$1 rising auctions, free gifts for top 40-50k customers and the same have helped the company in improving customer lifetime and retention rate.



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- The current business model is low on fixed assets and working capital intensity, generates good cash flows and has allowed the company to repay almost its entire debt.
- The business model also has high sunk cost and therefore there's very good scope for improvement in EBITDA margins of the company from 11% to 15-20% in the long run with the improvement in scale of operations.
- As far as scale of opportunity is concerned, VGL accounts for less than 2% of the total electronic sales of fashion accessories and jewellery in US and UK
- The overall pie of electronic sales is itself becoming bigger thereby increasing the size of opportunity for VGL
- At the moment VGL's TV channels reach is only about 95 million households out of potential market size of 165 million households in US, UK and Canada combined.



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- Considering the avg. price points, none of the major TV shopping networks are competing in the deep discount segment and VGL also has an edge in this segment on account of its very low cost sourcing capabilities.
- VGL's been in the electronic retail business only since the last 7-8 years and at the moment its revenue per household is only \$2.3 while the leading home shopping companies like HSN, QVC, etc which have been in the business for more than 25-30 years have a much higher base of registered customers and derive revenue of \$25-50 per household.
- Lastly, the company has a strong team with experienced promoters at the helm and their interests are directly aligned with those of minority shareholders.



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Coming back to valuations, at around current price of 800-820, VGL is available at a market cap of 2,600 crores. We know that it's almost a debt free company and we also know that the business model is good, being low on capital requirement and consistently growing at 25-30% on annualized basis.



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## Reach us



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