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Vaibhav Global Ltd (NSE Code: VAIBHAVGBL) – Alpha/Alpha + stock recommendation for Jul'14

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## Company Snapshot (As on 8<sup>th</sup> Jul'14)

Current Market Price – Rs 803.45

Dividend yield – 0.00%

BSE Code – 532156

NSE Code – VAIBHAVGBL

Market capitalization – Rs 2,590 cr.

Total Equity shares – 3.217 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 910.00/Rs 160.75

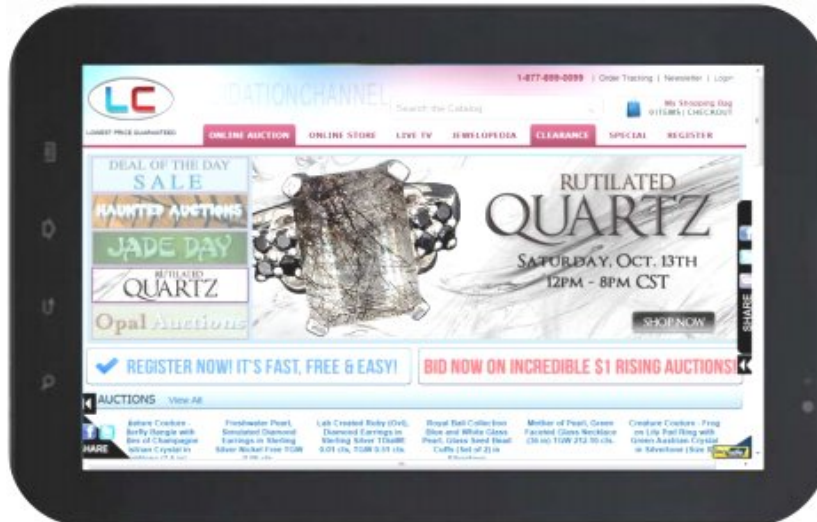
Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	594.77	338.18	525.83	646.49	892.89	1298.27
Gross Profit	<b>215.17</b>	<b>140.41</b>	<b>319.17</b>	<b>418.49</b>	<b>590.64</b>	<b>867.74</b>
Gross Profit margin (%)	36.18%	41.52%	60.70%	64.73%	66.15%	66.84%
EBITDA	<b>-103.40</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 – Introduction

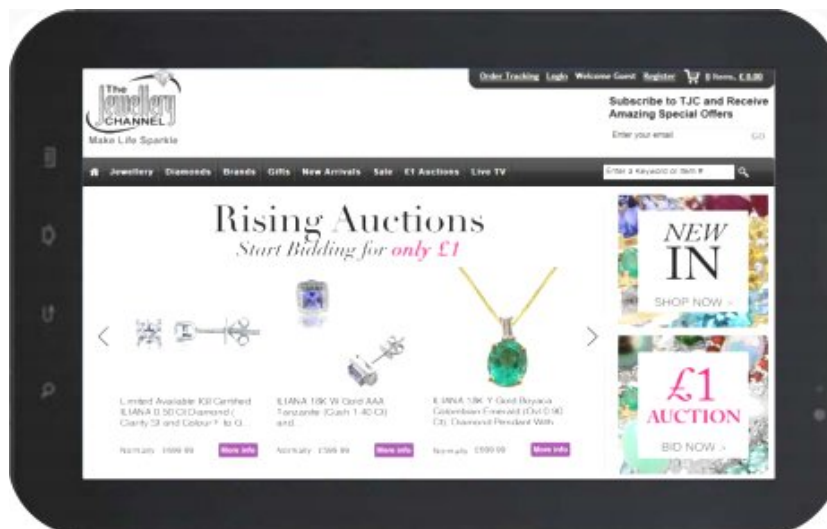
VGL is a vertically integrated **electronic retailer** of fashion jewellery and lifestyle accessories in the US, Canada, UK and Republic of Ireland. Yes, **e-retailer**, as the company sells its products via electronic media (dedicated Home shopping TV Channels & e-commerce platforms) in USA, UK, Canada 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.





[www.liquidationchannel.com](http://www.liquidationchannel.com)



[www.thejewellerychannel.tv](http://www.thejewellerychannel.tv)

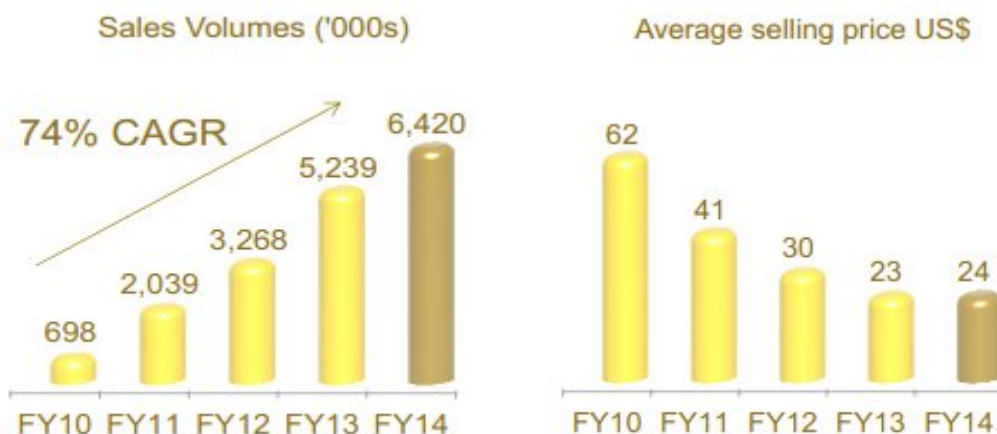
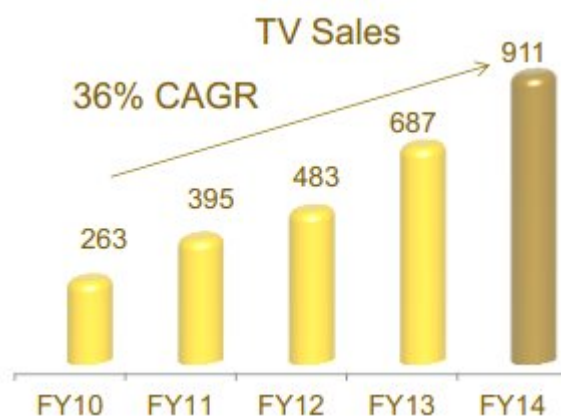
In addition to electronic retailing, VGL is also engaged in traditional B2B wholesale distribution to other electronic retailers and retail chains like Zales, Wal-Mart, QVC, Macy's in the US and Argos, QVC, and more in the UK.

## 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.



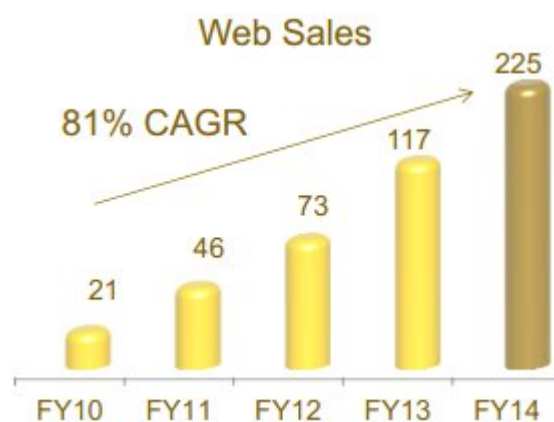


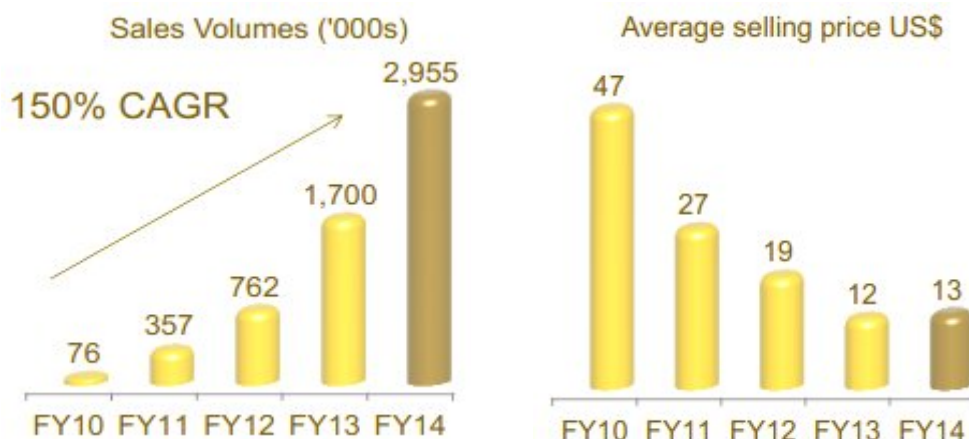
The company sold 6.4 million pieces during FY 14 against 5.2 million pieces in FY 13 with average selling price more or less constant at USD 24 per unit.

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.

**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.





It is important to note here that average selling price per unit for web sales is lower at USD 12-13 in comparison to USD 23-24 for TV sales as on web the company uses various marketing techniques like Clearance sale, \$1 rising auctions (more on this later), etc for faster clearance of unsold products on TV.

### Target customers of the company

VGL's focus is on discount seeking buyers and there too it focuses largely on 30-65 year old females. Also, the company ensures a sense of deep value proposition to the customers through **lowest price guarantee** and has a clearly defined policy for the same.

#### **What is the Lowest Price Guarantee?**

If you purchase a product from Liquidation Channel or [www.LiquidationChannel.com](http://www.LiquidationChannel.com) ("LC"), and find the same product advertised through a television or newspaper to a national audience for less within 30 calendar days from the date you place the order, we will pay you the difference plus an additional 20% of the difference. This offer shall expire upon the 31st calendar day after the order date (that is, the date you place your order with LC) and is limited to one product per person or entity. To take advantage of this offer, during the thirty calendar day period after your order date you must provide LC (at the email listed below) with a current and active television or newspaper advertisement that has been distributed or published to a national audience offering the product at a lower price valid within 30 calendar days of your order date. Our price guarantee excludes products sold by Liquidation Channel, [www.LiquidationChannel.com](http://www.LiquidationChannel.com), any affiliated companies, including, but not limited to, any company affiliated with our parent company, VGL. Please send the information by email ([customerservice@liquidationchannel.com](mailto:customerservice@liquidationchannel.com)), or contact us at (877) 899-0078 for other instructions on other ways to submit your information. The guarantee is not valid on misprints, and does not include shipping or handling.

As per the management, their target customer segment has historically delivered stable growth across economic cycles, including recessionary periods.



**Accidental discovery of customer segment** – In fact, VGL discovered the discount seeking customer segment accidentally and that too at the peak of recession in US and UK.

Basically, VGL started retailing jewellery through television channels in 2006-07 like any other player with average price point of \$ 150 and upwards for fine jewellery. However, as the recession followed the company wasn't able to scale up and started incurring huge losses as the fixed operating costs were very high.

Towards late 2008, the company decided to close down the TV operations and announced liquidation of inventory on TV channels at extremely low price points of \$ 10-30. To management's surprise, they were able to sell the entire inventory in a matter of few months. This influenced VGL to change its TV channel sell model to discount sell model where the products are sold on discount for the entire year.

It's been 4-5 years since the company adopted discount sale model and despite US and UK witnessing one of the worst slowdowns, VGL has been growing at a decent pace and profitably as well.

### Customer engagement techniques

On TV and on Web, VGL uses some interesting marketing techniques which we believe results in greater engagement of customers, higher retention rate and probably repeat purchases.

One of the techniques used on TV channels is **Drop Auction**.

**How does a drop auction work?** The initial price is displayed on screen once an item is available for auction. As the auction continues, this amount will drop and **each bidder will receive the lowest price indicated for that particular auction**. As soon as the items have been purchased the auction will end. Each bid is accepted on a first come first serve basis.

**When does an auction end?** An auction ends when the total number of items has been purchased or the time has run out for that particular piece to be aired. In certain auctions, a clock is shown on screen which will end when the count-down reaches 0:00.

**What is the starting price?** The starting price is a value established at the beginning of an auction. However, the company does not claim that it is the substitute value, appraised value or suggested retail price of the item.

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.

Also, the fact that every bidder pays the same lowest price (even if his/her bid price is higher) ensures that none of the customers feel cheated or bad.

**\$1 Rising Auctions** – For web sales, besides the regular catalogue sales, the company also uses the technique of **\$1 rising auctions**; however that is largely for clearing the unsold inventory on TV/web catalogue.

Accessories  
 Gemstone  
 Luxury Auctions

**SHOP BY DURATION**

Ending in 10 Minutes  
 Ending in 30 Minutes  
 Ending in 1 Hour  
 Ending in 2 Hours  
 Ending in 6 Hours

**GEMSTONE**

Diamond  
 Emerald  
 Ruby  
 Sapphire  
 Tanzanite  
 Amethyst  
 Topaz  
 Citrine  
 Garnet  
 Peridot  
 Opal  
 Apatite

Enter Gemstone





**METAL**

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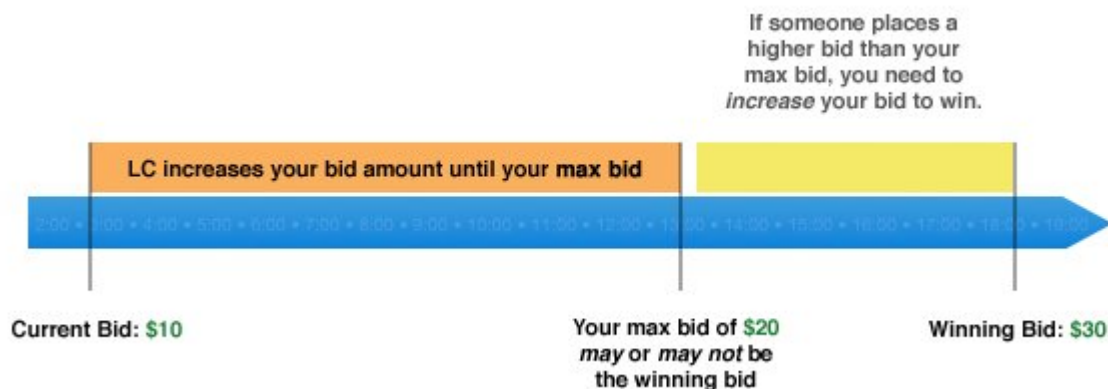
[Watch List](#) | [Pay Now](#) | [Bid History](#) | [Your Personal Favorites](#) | [Auction Help](#)

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Sort by: [Time - Ending Soonest](#) | Per Page: [20](#) | [1](#) | [2](#) | [3](#) | [4](#) | [5](#) | [6](#) | [7](#) | [8](#) | [9](#) | [10](#) | [Next »](#)

 <p>Simulated Diamond (Rnd) Ring in Sterling Silver Nickel Free (Size 7) TGW 2.78 cts.</p> <p><b>00:00:00:01</b></p> <p><b>\$4 (4 bids)</b></p> <p>Est. Ret. Val.: <del>\$100</del></p> <p>* Catherine</p> <p><a href="#">LOGIN TO BID</a></p>	 <p><a href="#">Play Video</a></p> <p>Belgian Teal Fluorite (Cush 2.60 Ct), Diamond Ring in 14K RG Overlay Sterling Silver Nickel Free (Size 9)TDiaWt 0.010Cts. TGW 2.610 cts.</p> <p><b>00:00:00:03</b></p> <p><b>\$21 (19 bids)</b></p> <p>Est. Ret. Val.: <del>\$230</del></p> <p>* Sandra</p> <p><a href="#">LOGIN TO BID</a></p>	 <p>Artisan Crafted Red Chalcedony (Rnd) Ring in Sterling Silver Nickel Free (Size 6) TGW 3.830 cts.</p> <p><b>00:00:00:05</b></p> <p><b>\$13 (13 bids)</b></p> <p>Est. Ret. Val.: <del>\$79</del></p> <p>* Kim</p> <p><a href="#">LOGIN TO BID</a></p>	 <p>STRADA Champagne and Black Austrian Crystal Japanese Movement Frog Ring Watch with ION Plated YG and Stainless Steel Back (Stretchable)</p> <p><b>00:00:00:09</b></p> <p><b>\$15 (13 bids)</b></p> <p>Est. Ret. Val.: <del>\$96</del></p> <p>* Janel</p> <p><a href="#">LOGIN TO BID</a></p>
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Basically, in rising auctions everything starts at \$1 and then people bid against each other similar to eBay and here again the auction ends when the time ends which is displayed to the bidder.



The company has also introduced tools like **max bid using auto bidder** which allows the bidders to place the maximum bid price (though they can change the max bid price if they wish) for any product and their bid price is automatically adjusted till the max bid price depending on the bid prices of other bidders.

**Free gifts for top 40,000-50,000 customers** – As per the management the top 40-50k customers of the company account for a major share of the revenue and in order to engage with them on better terms (reciprocity) the company sends them free gifts every year.

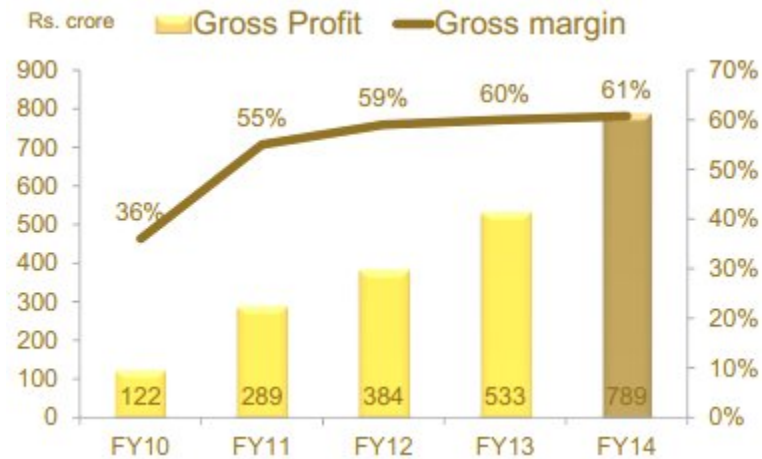
VGL's Customer centric data	FY 12	FY 13	FY 14
<b>Total Registered Customers</b>	862,000	1,093,000	1,352,000
<b>Customer Retention Rate</b>	42%	46%	48%
<b>Customer Lifetime (for US)</b>	1.75	1.95	2.04

Basically, the company is using interesting marketing and customer engagement techniques when it has to carry out regular sales and also when it has to clear unsold inventory and the above techniques do seem to be working in favor of the company with increasing avg. repeat purchases, improving customer retention rate and customer life time.

### **Isn't the company selling its products very cheaply?**

Considering the lowest price guarantee, drop auctions, \$1 rising auctions, the obvious question that arises is, isn't the company selling its products very cheaply and how is it profiting by selling at such huge discounts?

Well, to know if the company is really selling its products cheaply or is only creating a perception of deep discounts, it's important to check the gross profit margins of the company.



*Note: Cost for calculation of gross profit includes material cost, job work charges and certain direct manufacturing related charges.*

So, from the above illustration we know that despite including low-price point lifestyle and fashion accessories, despite targeting discount seeking customers and despite using marketing techniques like drop auctions, clearance sales, \$1 rising auctions, etc., the gross profit margins of the company have scaled up over the years and are really good at 60-61%.

Basically, the company is able to sell products costing Rs 39-40 at Rs 100 to its customers and this is when they claim lowest price guarantee, thus indicating low cost sourcing capability of company.

Also, with auction techniques, the company is only creating a perception of discount while it is actually selling the products at decent mark-up.

In general, we find gross profit margins of 50% or above as really good while gross profit margins of 25% or less are generally indicative of high competitive intensity, low value addition or commodity nature of the industry.

## Low-cost sourcing

Despite selling the products at decent mark-up to cost price, in order to make claims like lowest price guarantee, the company should be able to source the products, raw materials cheaply in comparison to competitors.

So, in case of VGL, their customer proposition is supported by an integrated supply chain infrastructure that includes in-house manufacturing operations in Jaipur and outsourcing from low-cost micro markets in China, Thailand and Indonesia.

As per the management, similar to well known fast-fashion retailer ZARA, about 50% of the products sold by the company are manufactured in-house at Jaipur facility and the rest they buy from the above mentioned countries where the cost to VGL is actual cost to the seller plus barely 5%-10% markup.

It's important to note here that promoters of VGL have a long standing history of sourcing and manufacturing operations in China, Thailand, etc and have therefore good knowledge of these markets. Even before tapping these markets for fashion and lifestyle accessories, VGL had been sourcing gemstones and jewellery from China and Thailand since early 2000 and was then selling to Wal-Mart, Sears, QVC, Macy's, etc.

**Expansion of manufacturing and sourcing capacity** – In FY 14 the company sold around 9.4 million units and in order to maintain the growth trajectory, the company recently expanded its manufacturing capacity in India to ~6 million pieces annually.

At the same time it has also strengthened its supply chain infrastructure in China, Thailand, and Indonesia, thus increasing global sourcing capability to 12 million units, which as per the management can be enhanced further as per the requirement.



## 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

We believe there lies very good potential for VGL to maintain its growth trajectory and we base our optimism on the following factors:

- 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.

- 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.

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## Vaibhav Global – Performance Snapshot

Before starting retail operations in 2006-07, VGL was largely selling to retail giants like Wal-Mart, QVC, Macy's, etc and was profitable, however the business lacked in the qualitative aspects as the margins were low, was very working capital intensive and thereby had to be supported by reasonably high debt.

In 2006-07 the company started retail operations with home shopping channels; however big-ticket acquisition of 2006, very high initial fixed operating cost at TV channels and recession in following years ballooned the operating losses of the company and forced it into a CDR (corporate debt restructuring).

However, what recession did was that it helped the company identify the discount seeking segment and with low cost product sourcing capability, rapid growth in volume and sales in discount seeking segment and overall focus on cost-cutting, the company achieved the break-even stage soon, turned profitable in 2011 and even exited CDR cell in 2013.

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
<b>Gross Profit</b>	<b>215.17</b>	<b>140.41</b>	<b>319.17</b>	<b>418.49</b>	<b>590.64</b>	<b>867.74</b>
<b>Gross Profit margin (%)</b>	36.18%	41.52%	60.70%	64.73%	66.15%	66.84%
<b>EBITDA</b>	<b>-103.40</b>	<b>-27.67</b>	<b>59.27</b>	<b>73.98</b>	<b>63.90</b>	<b>142.22</b>
<b>EBITDA margin (%)</b>	-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
<b>EBIT</b>	<b>-108.02</b>	<b>-31.20</b>	<b>62.84</b>	<b>76.95</b>	<b>73.22</b>	<b>150.01</b>
<b>EBIT Margin (%)</b>	-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
<b>Profit Before tax (PBT)</b>	<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
<b>PBT after exchange fluctuation</b>	<b>-153.08</b>	<b>-57.53</b>	<b>42.41</b>	<b>78.79</b>	<b>79.78</b>	<b>155.29</b>
<b>Net Profit</b>	<b>-153.01</b>	<b>-57.52</b>	<b>42.41</b>	<b>78.56</b>	<b>78.12</b>	<b>152.53</b>

<b>Cash flows from operations before tax</b>	17.98	-41.22	41.06	36.02	68.22	161.35
<b>Return on Avg. equity</b>	--	--	31.90%	32.57%	33.93%	76.28%
<b>Net debt</b>	191	176	164	146	115	52

As the above performance snapshot suggests, VGL has witnessed very strong growth in the last 4-5 years, its gross margins have trended upwards and are really good at 65-66%, operating leverage and cost-cutting has enabled a turnaround and improvement in EBITDA margins to 11% and low CAPEX and working capital intensity has resulted in very good operating cash flows and debt reduction from 191 to 52 crores and probably debt free before the end of FY 15.

<b>VGL – Business model low on capital intensity and high on return ratios</b>						
<b>Particulars (in cr.)</b>	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>
<b>Income from operations</b>	<b>594.77</b>	<b>338.18</b>	<b>525.83</b>	<b>646.49</b>	<b>892.89</b>	<b>1298.27</b>
Net fixed assets	41.28	21.71	19.54	20.82	28.97	37.45
<b>Sales/Fixed assets (ratio)</b>	14.41	15.58	26.91	31.05	30.82	34.66
Inventory	184.74	156.67	147.88	171.79	209.08	196.15
Receivables	39.08	12.51	23.39	37.46	35.58	54.26
Payables	72.26	45.65	38.56	67.81	63.65	98.38
Net working capital	151.06	123.53	132.71	141.44	181.01	152.03
<b>Working Capital/Sales (%)</b>	<b>25.40%</b>	<b>36.53%</b>	<b>25.24%</b>	<b>21.89%</b>	<b>20.27%</b>	<b>11.71%</b>
<b>Return on avg. equity (ROAE)</b>	--	--	<b>31.90%</b>	<b>32.57%</b>	<b>33.93%</b>	<b>76.28%</b>

So, although there was an extremely tough transition period from 2006-2011, change in business model from B-2-B to B-2-C and that too through an electronic medium has brought about sweeping changes in the business quality of VGL.

**Some important points related to EBITDA margins of the company:**

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%

As can be seen above, QVC, which is the largest home shopping company commands EBITDA margins of 20% + despite lower gross profit margins in comparison to VGL. Well, this can largely be attributed to scale of operations of QVC.

In the business of electronic retail through TV channels, Content and Broadcasting cost is a huge sunk cost, especially when the scale of operations is low. When the company starts broadcasting the channels on cable TV and DTH platforms to reach a particular number of households, it starts incurring the content creation cost and the carriage fees even without generating any sales; however this cost doesn't increase in proportion with sales and therefore reduces (not in absolute terms but as % of sales) as the scale of business improves.

Also, smaller players do not get the benefit of paying carriage fees based on the percentage of the net merchandise sales to the subscriber base of any cable TV/DTH operator, while companies like QVC have that kind of arrangements because of their very large size.

Coming back to VGL, content and broadcasting cost accounts for 17% of the sales of the company against ~4-5% for QVC and therefore we believe there's very good potential for VGL's EBITDA margins to inch higher to 15-20% or even higher in the long run with higher avg. revenue per household.

## Shareholding pattern

	Jun'14	Mar'14	Dec'13	Sep'13	Jun'13
<b>Promoter and Promoter Group</b>	<b>40.78%</b>	<b>40.90%</b>	<b>40.88%</b>	<b>40.99%</b>	<b>40.46%</b>
India	37.04%	37.14%	36.27%	36.13%	35.58%
Foreign	3.74%	3.76%	4.61%	4.86%	4.88%
<b>Public</b>	<b>32.10%</b>	<b>31.91%</b>	<b>31.89%</b>	<b>31.76%</b>	<b>32.25%</b>
Institutions	15.87%	14.67%	13.60%	12.81%	12.83%
FII	15.64%	14.44%	13.60%	12.81%	12.83%
DII	0.23%	0.23%	--	--	--
Non-Institutions	16.23%	17.24%	18.29%	18.95%	19.42%
Bodies Corporate	4.80%	4.92%	4.89%	5.45%	6.19%
<b>GDR (shares with Promoters)</b>	<b>27.12%</b>	<b>27.19%</b>	<b>27.23%</b>	<b>27.25%</b>	<b>27.29%</b>
<b>Total</b>	<b>32,266,885</b>	<b>32,175,618</b>	<b>32,138,993</b>	<b>32,110,722</b>	<b>32,064,201</b>

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of Vaibhav Global the promoters own 67.90% equity stake (including shares underlying GDR).

In Jan'06, promoters subscribed to 63.25 lakh shares through GDR issue at Rs 325 per share while in Apr'12, the promoters further increased their stake in the company by coming up with an open offer and acquired 8,728,563 equity shares representing 27.53% of the paid up capital of the company at Rs 41.75/- per share

Besides high ownership of promoters, Nalanda Capital, a well-known private equity firm is also invested in Vaibhav Global.

In Oct'07, Nalanda India Fund subscribed to 4,110,600 equity shares of Vaibhav Global at Rs 230/- per share on private placement basis. It's been around 7 years since the allotment and Nalanda India hasn't sold a single share.

In fact, **Mr. Pulak Prasad**, co-founder of Nalanda Capital has been recently appointed as one of the Directors of the company. Other prominent inclusions to the Board of Directors are:



**Mr. Vikram Kaushik** – Mr. Vikram Kaushik has more than 40 years of experience with companies like Unilever, Britannia, Colgate, Tata Sky, etc. He was the Vice President Marketing, Sales and Exports at Britannia, later on joined as a Director on the Board of Colgate Palmolive. Thereafter, he served as the Managing Director and CEO of Tata Sky till December 2010 and played a major role in establishing the DTH industry in India.

**Mr. Peter Duncan Whitford** – Mr. Whitford has 34 years of experience across various fields including as Group CEO and Chairman of the Wet Seal Inc. which is a young women’s clothing and accessories retailer with focus on lower price points. He was also president worldwide of a division of Walt Disney Company in his previous assignment.

We like the fact that company has included professionals with strong background in retailing and cable TV/DTH industry as VGL’s business operations is largely about retailing on TV channels.

As on 30<sup>th</sup> Jun’14, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Vaibhav Global
Mr. Sunil Agarwal and PAC	Promoter	67.90%
Nalanda India Fund	Public	12.74%
Panyaek Jainkijmanee	Public	1.31%

### Dividend Policy

Dividend Payout ratio						
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Dividend Payout ratio	--	--	--	--	--	--

Before starting retail operations in 2006-07, Vaibhav Global was profitable and consistently paid out dividends till 2007, however as they started incurring losses the company stopped paying dividends.

In the last 5 years the company has reduced its net debt from 190 crores to just 50 crores and will most probably be debt free before the end of FY 15, and as per the management they are likely to formulate a dividend payout policy for FY 15 and years ahead.

Considering the current operating structure of the company i.e. low CAPEX, low working capital and thereby very strong operating cash flows, we believe the dividend payout in case of VGL should be good (30-40% or even more), though it will only be known once the company announces the same.

## 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.
- 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.

- 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.
- 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.

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.

At the current stock price, the market is valuing the operating business of the company at Rs 2,600 crores. In the trailing twelve months ending Mar'14, the company has delivered pre-tax operating cash flows of ~155 crores.

Given the trajectory of growth at which the company's business happens to be and the potential size of the opportunity, the current valuations of the company seem reasonable to us at 16.75 times TTM pre-tax operating cash flows of the company.

Considering the AAA bond yields and the current valuations of VGL, the market expects VGL's earnings to grow at around 3% p.a. over the long term, though; to us it seems that it will continue to grow its earnings at a much higher rate for many years to come.

### Risks & Concerns

- As per various reports, in 2009 Mr. Sunil Agarwal pleaded guilty to the charges of offering bribe to US Govt. official for faster clearance of VISA for employees and was fined \$100,000 and 18 months of supervised probation. Based on our research, we didn't find proper disclosures of the same for that period, however in the recent past the company has significantly improved its disclosures.
- In the past the company has been very aggressive with its expansions, especially during 2005-2007 (TV channels in UK, Germany, acquisition of STS, brick and mortar retail stores, etc) and the same also contributed to the downfall of the company in that period. We hope management has learnt from past mistakes.
- At the moment the company is not facing much heat from its competitors in the discount seeking customers segment, however in case QVC, HSN or for that matter any new player with deep pockets decides to break into the space, it may/may not succeed but will definitely impact VGL's growth and profitability.
- The Company sells its products in US and UK and is therefore exposed to Foreign exchange fluctuation risk. Basically, appreciation of rupee against the dollar and pound will impact the profitability of the company.

## Katalyst Wealth – Alpha/Alpha + service



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