

Vaibhav Global Ltd.

BSE Code: 532156 | CMP : ₹855.55 | Face Value : ₹10 | Target price: ₹1275 | HP* : Two years

About the company

Our Pearl Pick for the month of September is Vaibhav Global. The company is an electronic retailer of fashion jewellery and lifestyle accessories. It owns and operates the Liquidation Channel in the United States, and Jewellery Channel in the United Kingdom. The company meets retail customers where they are on, particularly, proprietary home shopping TV and web platforms with direct access to almost 100 million TV households in the US and UK combined; and digital platforms, including marketplaces, social media platforms and mobile apps.

Company's revenue mix as on Q1FY20 stood at TV sales- 62.3 per cent, Web sales- 31.4 per cent and B2B- 6.4 per cent. The retail segment of the business contributes nearly 92 per cent of the total revenue.

Why to Invest

TV sales to grow on rationalisation of users : TV home shopping sales constitute nearly 70 per cent of the total retail sales and include live shows on all major cable, satellite and DTH platforms. During Q1FY20, volume of TV sales grew by 6.6 per cent on yoy basis. Also, average selling price grew to US\$ 29.2 from US\$ 28.9 in Q1FY19. In fact, the company has achieved highest ASP in Q1FY20 since FY16.

The company focused more on rationalising its user base by removing TV coverage from the region wherein it was getting lower response to the region wherein it expected better response. Due to this reason, the company has been able to increase its sales volume despite lower household coverage.

On TV retail shopping, Shop LC (US) and TJC (UK) have a combined reach to 100 million households. TV sales are also being benefitted from over-the-air presence among the cord-cutter population who can catch the feed directly on their TV sets, and through our presence on smart TVs and streaming devices.

Web sales maintain strong momentum: Almost 30 per cent of the total retail sales came from the web. During Q1FY20, volume of web sales grew by 33.7 per cent on yoy basis. Also, average selling price grew to US\$ 21.3 from US\$ 20.7 in Q1FY19. Web sales comprise catalogue sales, rising auction and live TV streaming.

Specifically, company's mobile apps performed well in both the US and UK markets. Sales via mobile apps as a percentage of the total web sales stood at 6 per cent in the UK and 14 per cent in the US for 2018-19. Enthused by this response, company is planning to further invest in apps by introducing new and exciting features and functions.

Enhancing focus on B2C business : B2B sales comprise wholesale distribution to various retail chains in the US and UK, as well as opportunistic sale of rough gemstones to various manufacturers. In view of strong growth opportunities in B2C, the company has been scaling down its B2B business. In Q1FY20, revenue from B2B business declined by 42 per cent on yoy basis, whereas, company's B2C retail revenue grew by 21 per cent on yoy basis.

Other Rationales :

- Shop LC launched new fashion jewellery collection with Specialty Cut Stone, Opatra facial device collection, Smarter Chef kitchen collection, New Age handbag collection, etc., all of which have received good response from customers.
- Non-jewellery products have supported 18 per cent growth in sales and the management targets to touch 30 per cent by FY22E.

* HP : Holding Period

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DSIJ INVESTMENT ADVISORY UNIT (CRU)

Management Commentary

- The management has given constant currency retail revenue guidance of 14-16 per cent for FY20.
- In May 2019, VGL announced the buyback of its equity shares at the maximum price of Rs. 1,000 per share with a maximum buyback size of Rs. 72 crore.

Financials

In last 4 years the company's net sales has grown by 42 per cent to Rs. 1814 crore in FY19. With improving margin, the company's profit after tax has grown by 286 per cent to Rs. 154.17 in FY19. In the recent quarter Q1FY20, the company's net sales increased by 13 per cent yoy to Rs. 440 crore. EBITDA for the quarter grew 25.60 per cent yoy to Rs. 50.8 crore, with corresponding margin expansion of 117 bps. EBITDA margin for the quarter stood at 11.55 per cent. Increasing B2C business helped in the margin improvement. Profit after tax for the same period grew by 20 per cent yoy to Rs. 36 crore. PAT margin for the period improved to 8.19 per cent from 7.7 per cent in Q1FY19.

Investing in the stock

The company has a share capital of Rs. 32.66 crore, with promoters' holdings at 57.78 per cent. Therefore, the free float available comes to 1.38 crore shares and the two-week average traded quantity comes around 4997 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given.

Price	Accumulation
750-790	20 per cent
600-635	40 per cent
550-570	20 per cent
<500	20 per cent

Valuation & Outlook

The company's focus on increasing the share of B2C in its overall revenue is likely to aid revenue growth (which can be seen from recent quarterly numbers). Besides, rationalisation of TV coverage is helping company to invest in increased volume, by focusing on region where it is getting good response. Notably, over the coming years, company is likely to benefit from economies of scale as it has already invested on fix cost. The company is virtually debt free which further lend us confidence to invest in the company. In terms of return ratio, the company's ROE, ROCE and ROA improved significantly to 25.42 per cent, 27.95 per cent and 18.54 per cent, respectively, in FY19 from 11.46 per cent, 11.69 per cent and 6.97 per cent in FY16, respectively. In terms of valuation ratio, the stock of Vaibhav Global is available at attractive valuation of 17.3x P/E as against 21.82x five year median P/E. Also, P/B of 3.94x looks attractive when compared to five year median P/B of 3.97x. Owing to all these factors, we see an upside of 50 per cent with a target price of Rs. 1275 over the next two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	1813.98	1570.66	1438.94	1276.65	1375.52
Total Income	1828.15	1581.12	1454.64	1293.57	1388.45
Total Expenditure	1610.73	1422.23	1352.73	1218.31	1241.56
PBIDT	217.42	158.90	101.91	75.27	146.89
PAT	154.17	112.47	64.58	39.82	103.17
Dividend %	10.00				24.00
Adj. EPS(Rs)	47.20	34.52	19.85	12.25	31.86

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Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	439.96	461.53	-4.67	390.12	12.77
Total Expenditure	389.12	419.82	-7.31	349.65	11.29
PBIDT (Excl OI)	50.84	41.71	21.89	40.48	25.59
PAT	36.01	32.46	10.97	30.05	19.86
PBIDTM% (Excl OI)	11.55	9.04	27.77	10.38	11.27
PBIDTM%	12.40	10.14	22.29	11.38	8.96
PATM%	8.19	7.03	16.50	7.70	6.36
Adj. EPS(Rs)	10.98	9.94	10.46	9.22	19.09



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