IntraSoft Technologies Limited

"IntraSoft Technologies Limited Q1 FY-20 Earnings Conference Call"

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IntraSoft Technologies Limited

CHORUS CALL®

MANAGEMENT: MR. ARVIND KAJARIA – MANAGING DIRECTOR, INTRASOFT TECHNOLOGIES LIMITED
MR. MOHIT KUMAR JHA – CHIEF FINANCIAL OFFICER, INTRASOFT TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen good day and a very warm welcome to IntraSoft Technologies Limited Q1 FY20 earnings conference call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

Today, we have Mr. Arvind Kajaria – Managing Director of Intrasoft Technologies, and Mr. Mohit Kumar Jha – CFO of the company. I now hand the conference over to Mr. Arvind Kajaria. Thank you and over to you Mr. Kajaria.

Arvind Kajaria: Thank you very much. Good afternoon to all and I want to thank you for dialing in to our June '19 earnings call.

We are happy to begin this financial year with a quarter that delivered positive cash flow performance. FY19 was distinguished by a conscious revenue reduction, with the intent of enhancing revenue qualitatively by making it cash flow accretive. With this quarter, we continue to demonstrate the outcomes of these endeavors. Revenue came with cash flow, and net working capital and long-term debt continued their downtrend.

On the operational front, we solidified our value proposition throughout FY19. Our marketplace credentials and our expertise in marketplace management, on the bedrock of technology, our delivery engine, offer a value proposition that makes us the preferred partner to sell online. Our performance in terms of Accounts Payable days is reflective of the confidence that brand partners have in us. This year, our focus is to bring more brand partners on board and increase our business with the existing brand partners, under the new terms.

With our learnings in place, we are now focused on doing more of the same in the subsequent quarters. Our focus being to deliver topline growth at a lower working capital involvement and with reduced long-term debt.

Given the start to this financial year, we believe FY20 will reflect our confidence that the coming growth will be self-funded to ensure long-term sustainability and deliver strong value to all our stakeholders.

I take this opportunity to thank the team who have worked hard to make this happen. My gratitude also goes on to all our other stakeholders for their constant advice, encouragement and support. I now hand over the floor to Mr. Jha who will discuss the financials in more depth. Thank you.

Mohit Kumar Jha: Thank you Sir and good afternoon to all. I would like to start with the performance for the quarter.

Revenue from e-commerce for the quarter was US$24.22 million as compared to US$23.83 million in the previous quarter and US$38.23 million in the corresponding quarter.

Operating margin for the quarter was 0.94% as compared to 0.67% in the corresponding quarter.

Inventories at the end of June 30th was US$14.22 million. Inventories include inventories at the fulfillment centers of US$7.20 million, goods in transit from suppliers to the fulfillment centers of US$5.52 million, and goods in transit to the customers of US$1.50 million, reflecting 5.30 turns on an annualized basis.

Accounts Payable at the end of June 30th was US$4.24 million as compared to US$4.18 million last quarter and US$5.21 million same time last year, reflecting 16.40, 15.30 and 13.40 Accounts Payable days on an annualized basis respectively.

We generated operating cash flow of US$0.43 million this quarter, as against a cash flow of US$0.37 million during the same quarter last year. We repaid approximately US$0.16 million of debt this quarter. Borrowings now stand at US$9.87 million. Any cash surplus post reinvestment in operations would be used towards reduction of debt.

Thank you everyone and we are now open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Agarwal, an Individual Investor.

Amit Agarwal: I would like you to throw some light on two points. Though cash flows and capital efficiency are improving but they are improving at a very slow percentage and the other point is as per your last conference you have mentioned that the signs for sales growth will be visible this quarter. But as far as I understand the numbers there are no such signs, would you like to comment on the same?

Arvind Kajaria: Sales has to come under the new terms which is basically cash flow so that we can sustain operations and sustain the growth. Now we are exclusively focused on increasing the top line, so if you see that for the first time we have actually had a little up from the previous quarter which shows that the trend is reversed and that for us is a very positive sign. With no other agenda in place, all the other agendas that we had including the learnings etc. have been completed last year. So what we believe is that we are on a sales front now, we have hired few people in our US office to promote the sales. They have joined us already and as their action leads to sales we believe sales will come in the forthcoming quarters. But we believe the worst for us is over and whatever sales comes will now come under the new terms which means that it is sustainable. As regards your question of speed of sales, yes we would also have liked it to be faster but when somebody else is paying for your growth then it becomes that much harder to get the sales. So we are on it, we don't see any problem as such. We hope that the sales will increase in the quarters to come.

Amit Agarwal: And the cash flow improvement, percentage is very low like 0.37 to 0.43, the only thing is the improvement in cash flow is very low because we have suffered on growth a lot for the same. Last year it was very good but this year the improvement in cash flows is minimum.

Arvind Kajaria: So this is the first quarter only, so if you compare with last year it was 0.37 to 0.43, so it's actually about 10% to 15% more than last year.

Amit Agarwal: Yes that is very low. I thought we are taking a hit on sales and the improvement should be much more higher.

Arvind Kajaria: Yes I agree with you but sales come so will cash flow. So if you just focus on the earlier questions where we are now completely focused on the sales growth and we believe that's the next trajectory that we have been planning. That is the entire effort we have been putting in to make sure that the sales come under the new terms which is what we did all of last year, so the journey we have started now. So I think it will start showing, this quarter has seen the trend that we want to show you which is little bit uptick in revenue, little bit uptick in cash flow, reduction in inventory, up in AP and slight increase in gross margins. So we believe that all our financial parameters are in place and now we need to press the accelerator and focus on increasing the top line which is exactly what we are planning to do going forward.

Amit Agarwal: Since we have taken the hit on sales growth by degrowth in the first quarter, do you think we can end this year on the same topline or marginal growth or less growth compared to last year?

Arvind Kajaria: No, at this moment we believe that we should be able to beat last year's top line and the last year's cash flow performance.

Amit Agarwal: My second question is what do you expect how much would be the expenditure on the intangibles assets in this current year?

Arvind Kajaria: It would be similar to last year. We expect that this project will be completed within this year. The benefits of which are very visible if you see the percentage of shipping that has gone down so it has helped us with the engine and we expect that this project will be completed this year. With the technology changes happening in the marketplace new things coming up every day, at 123 we need to be on top of our technology so certain amount of investments were needed to be made which we have made.

Amit Agarwal: There is a slowdown worldwide, so do you expect any in the USA market also, online US market for this year or next year, are there any signs of slowdown in the USA market?

Arvind Kajaria: No, we are not seeing any signs of slowdown in the segment that we operate which is basically the online marketplaces. It all depends upon the reputation which took us some time to build, now that it is built we believe that as and when more and more brand partners, and they are coming, we should see a visible growth in topline, topline will also get additional cash flow. So hopefully everything that you mentioned I cannot commit on the speed but directionally we have taken exactly what you want us to take.

Amit Agarwal: And the last question is on because right now we are focusing on reduction of debt. So is it important to pay the dividends because dividends take 3 crores per annum around about? Is it necessary to give dividend every year when we are hitting it in the face and we are focusing on reduction of debt?

Arvind Kajaria: The dividend comes from the Indian income which is the treasury income which is why we have rewarded our stakeholders. However we will note it and discuss it at the board level.

Moderator: The next question is from the line of Satish Bhatt from Anvil Shares & Stock Broking Pvt. Ltd.

Satish Bhatt: Mr. Kajaria I think what initiative we have taken some years back so where our topline has degrown from a sequential $38 million to maybe something like $24 million and I think current run rate is something like last year was 118 and now we are talking about all the learnings being over, so what type of growth we are seeing, are we seeing something like 30%-40% growth or suddenly we will require money for inventory also? As long as I think you don't increase the inventory churn it would be very difficult to get the sales growth coming in and you have a TTM Accounts Payable days of 16.4, what was the current quarter if you can just throw some light on that? What is the exact run rate as of now rather than TTM?

Arvind Kajaria: I will answer the first part and then Mohit can answer the second part. So the reason why we slowed the sales was that it was requiring our capital. So under the new terms which is in effect we get credit for the entire period of the inventory from the new brand partners, so we believe that more sales will generate more cash. So we now have an open road to growth. As regards your speed of growth we have started that process, we believe it will accelerate. We now need to put in more and more sales people who are reaching out to the brand partners and making the sales happen. That process also we have started by hiring people in our New York office to do the sales.

Satish Bhatt: How many people you have added in the current quarter for that?

Arvind Kajaria: We have added about two people and we continuously hope to do that as we move along with every quarter.

Satish Bhatt: Can just Mohit give the answer on that?

Mohit Kumar Jha: AP has increased vis-à-vis last quarter, it was 4.18 million now it is 4.24 million. Regarding quarterly AP days movement, we will try to give it in our next presentation. As of now it is not in front of me.

Satish Bhatt: Because you already have the new system in place, so that is the turnover which has happened in the current quarter would be on the new terms, so how is that reflected in the AP days whether you have 20 days or 25 days or 15 days?

Arvind Kajaria: I think that answer has been given, so it is reflecting 16.14 days.

Satish Bhatt: That is TTM, I want for the current quarter.

Arvind Kajaria: We will put that in our presentation.

Moderator: The next question is from the line of Amit Agarwal, an Individual Investor.

Amit Agarwal: I would just like to know that earlier in your presentation in the graph you used to show how many suppliers we have and how many SKUs we have every quarter. Now there is no graph showing that. If you show that in future presentation that will be very good because otherwise we don't know how many SKUs are being added every quarter or how many suppliers are being added to the whole supply chain.

Arvind Kajaria: Okay Mr. Agarwal we will take a look at your suggestion. Thank you.

Amit Agarwal: Can you throw some light regarding this quarter if you have the number?

Arvind Kajaria: Yes we are focused on adding anywhere between 10 to 12 new brand partners every month. Some quarters we hit the target, some we don't but that is the general target to add about 100 brand partners every year. So this endeavor though we have started from April which is four months back, last year we did not add anybody under the old terms. We just continued and moved them to the new terms. We did not add any new suppliers. The new supplier initiative is again restarted after a year from April 1st and this year we tend to do so.

Amit Agarwal: What is the total number of suppliers?

Arvind Kajaria: It's about 400.

Amit Agarwal: What about the SKUs?

Arvind Kajaria: I don't have that number with me but we can certainly share that number.

Amit Agarwal: And you just told you have added two people in the marketing team, what is the total strength for the marketing team there in USA?

Arvind Kajaria: Cumulatively we have about six people in the marketing team right now as we speak.

Moderator: The next question is from the line of Rahul Dhruv from Active Box.

Rahul Dhruv: I just wanted to basically know this whole initiative that you have taken which is basically improving the cash flow. There are two things that have changed and I wanted to know if they are structural which is, one is that the gross margin which used to be in the 20s or early 20s or late teens is now around 16% and the working capital days which used to be around early 20s is now at mid 40s. These two changes are they going to remain this way going forward after all the changes that we have done?

Arvind Kajaria: The reason for reducing the top-line was that some of the sales was what we call disease sales that means they had some portion of loss built in either because the package was too large and it had too many returns or anything connected with the supply chain. So the moment we stopped those sales then the profit on the current and profitable SKUs is what is showing you the improvement in gross margin. We will come back to those suppliers with renewed terms and renewed packaging. What we have learnt and that is what is going to add more to the margins and the top-line. What I'm saying is that the margin has gone up because we removed some SKUs which was making us lose the margins. Your second was on working capital….

Rahul Dhruv: My question was on the margins falling more than going up. I'm talking about margins being in the 20s as well as I am talking about gross margins which have now come down to a 15-16. I'm saying is this a sustainable margin after that all the changes or can we..?

Arvind Kajaria: I now understand your question. We have invested in some personnel like I have been mentioning. They take a little time maybe two months to settle in and start being productive but we first have to make that expense.

Rahul Dhruv: Gross margins before we dissolve the changes used to be in the 20s, now there in the 15%-16% range, gross margin which is cost of goods sold and shipping and handling. So I'm saying that are they sustainable at the current level of 16% or can we go back to the 20%?

Arvind Kajaria: So gross margin if you add up all three, right, if you take up the COGS, the shipping and the marketing because sometimes product categories inter-change, so you see the SME is gone down, the COGS have gone up so maybe we did a lot of shipment of the lighter items or something in electronics where the marketplaces charges a lower fee. So if you see the quarter-on-quarter comparison when you add up all the three on a quarter wise basis you will find that there is not much difference.

Rahul Dhruv: My second question was on the working capital which is basically almost double what it used to be from around +20 days to 45 days odd net working capital. Is that again a sustainable number or you think they will come back down?

Arvind Kajaria: Under the new terms we have the credit to add to working capital so I would like to know where you got that number from Mr. Dhruv?

Rahul Dhruv: I'm just taking the inventory as of last quarter and dividing it by sales to get 52 days of inventory days and receivable days is again the same thing and payable days. So I'm looking at a number of inventory days of 52, receivable days of 6 and payable days of 13 and that basically nets me around 46**.**

Arvind Kajaria: There is some legacy inventory still left, so as that is being sold the number of turns will go up. So that is what is spoiling that number that you are looking for.

Rahul Dhruv: Are we looking at going back to what used to be 20 to 21 days number earlier from what it is right now 46?

Arvind Kajaria: Yes, you will see a gradual reduction. I can't comment whether we will hit the exact number but yes it is certainly our endeavor to and with every quarter you should see some improvement. As you have already seen this quarter, so if you compare last quarter with this; in most of the parameters that you have mentioned we have seen that growth. We have seen that improvement and we believe that under current quarter also you will see similar growth and changes.

Moderator: The next question is from the line of Nishit Shah from Ambika Fincap Consultants Pvt. Ltd.

Nishit Shah: I think for good governance you should give out the inventory number that has been spoiling your inventory churn and all, it's more than a year. If any independent person looks at your number in a year back, one year back exactly you had a $8 million of negative working capital and after that now you have been talking about 0.5 million kind of a working capital improvement or positive cash flow coming in. But then that has come at the cost of significant reduction in the sales, so your sales have also come down so a lot of people may even question that how long a company will be able to survive? So the issue is lot of people also talk about whether the company is transparent, how much is the inventory you are stuck with and for one year we have been on the conference call discussing about the inventory, old inventory and all in. I think if it is 3 million-5 million-10 million you should say that because then one knows that how much is the current inventory and how much is the improvement that you are seeing from the new system that is happening. I don't know whether it makes sense to you but definitely I will as an investor and as a large investor that you must specify what is the inventory lying with you. If it is $3 million or $5 million you must say that this is the inventory which is old inventory and you are holding onto it.

Arvind Kajaria: Okay Sir point noted, we will make that in our presentation the next time.

Nishit Shah: Can you give me the number right now?

Arvind Kajaria: No, I don't have that exact number with me but as I said I have taken your suggestion.

Nishit Shah: I think this is the most important thing in the company. If you don't have the number it is as simple as you don't want to give that number. You don't have the number; it should be on top of the management's mind. This number has to be there. Obviously this is the most important thing in the company that company stuck with such a big inventory.

Arvind Kajaria: We have discussed this in our previous calls and if you read Mr. Mohit Jha's saying, we have said that inventory was 14.22; inventories include 7.2 goods at the fulfilment centers. Of that we believe anywhere between 2 and 3 million is the legacy inventory which is being slowly sold out and that is the effect that you are seeing; it has reduced dramatically from 5 to sbout 2 to 3 and then every quarter we are selling something and you are seeing the benefit of that in all the numbers. That number what you are asking is mentioned there in Mr. Mohit's third paragraph.

Nishit Shah: Exactly my point is so this is like taking the things head-on that now you are saying because first you said that we don't have the numbers at this moment right now.

Arvind Kajaria: I said I can give you a range, you asked me for the exact number.

Nishit Shah: Now let me finish. Now you are saying $2 to $3 million now can we know how much of that inventory is reduced of the old inventory reduced in this quarter?

Arvind Kajaria: I will have to get back to you on that, I don't have the exact number but we can put it in our next presentation as per your suggestion.

Nishit Shah: I am sure that this is a very important thing for investors also to know who have been invested for a long period of time that this is a vital information and that should have been available with the management when you are doing a call and I hope you understand that this is very-very important and relevant from the company's perspective also in the marketplace.

Arvind Kajaria: Yes sir. I have noted the point; we shall put the point in our next presentation.

Nishit Shah: Of course that information if you can publish it on the company's website or if you can communicate it to the investors.

Arvind Kajaria: Alright.

Moderator: We don't have anyone in the question queue.

Arvind Kajaria: Thank you all for participating in our call. We appreciate your support and encouragement and we look forward to subsequent quarters of growth. Thank you again, good luck.

Moderator: Thank you very much. On behalf of IntraSoft Technologies Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.