"IntraSoft Technologies Limited Q4 FY-15 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to IntraSoft Technologies Limited Q4 FY15 Earnings Conference call. As a reminder, all participant lines will be in the listen only mode. 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 telephone. Please note that this conference is being recorded. 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. I now hand the conference over to Mr. Arvind Kajaria – Managing Director of IntraSoft Technologies, thank you and over to you Mr. Kajaria.

Arvind Kajaria: Thank you. Dear all, I warmly welcome you to the FY15 annual earnings call for our company IntraSoft Technologies and I am joined by my colleague, Mr. Mohit Jha – Senior Manager, Finance, and our Investor Relations Advisors SGA. We have uploaded on our website the investor power point press release and a document which is known as the FAQ. I hope all of you have received it and have got a chance to go through it. For the benefit of all, I should start by giving a brief background on our business. IntraSoft Technology Ltd. owns and operates 123stores, an online E-commerce retail business and 123greetings.com, an online greeting cards business. 123stores is a multi-channel E-commerce retailer with a strong technology backbone that combines supply chain logistics with real time customer data to create a compelling shopping experience. The company's rank 392 on the internet retailers 2015, top 500 list and is ranked 1641 in the Inc. 5000 list of the fastest growing private companies in the US. 123greetings.com is the world's leading online destination for human expressions reaching approximately 95 million visitors annually. It is offering over 42000 e-cards across multiple languages, covers a mix of 3000 seasonal and everyday categories.

I shall now begin with a brief on our financial performance. We ended FY15 with a consolidated income Rs. 343.33 crores, up by a 130% from Rs. 149.54 crores in FY14. Profit after Tax was recorded at Rs. 5.96 crores up by 189% from Rs. 2.06 crores in FY14. The Board of Directors have recommended a final dividend of 10%; that is Rs. 1 per equity share for FY15, including the interim dividend of 10% announced during the year, the total dividend for the year stands at 20%. The performance is driven by the traction we are witnessing in our E-commerce business in the US. I am happy to inform you that during the year, our company was ranked 392 largest by the internet retailer magazine; we have gained a 107 ranks to move up from 499 last year. As the volumes scale up and we leverage our technology platform, we are confident that we should see a healthy growth moving forward. E-commerce revenues increased from Rs. 128.49 crores to Rs. 322.64 crores during the year a growth of 151 Y-o-Y. This growth was across all product categories, furniture, Patio, lawn and garden being the largest categories. The company had 1030 active suppliers during the year. Our top 5 categories were furniture, Patio, lawn and garden with a 41% share. Musical Instruments and gadgets were 14% share. Home improvement and arts craft with 13% share. Kitchen, Dining and appliances with 10% and toys, games and baby products with about 8% share. The orders we shipped through our platform grew multifold from 254670 to 772981, a growth of 204%. Our proprietary technology platform allows us to scale order volumes with minimal human intervention, enabling cost savings as we grow volumes. As we leverage our technology and efficient supply chain, we were able to offer our customers a better shopping experience, including a better price point. Accordingly, we were able to sell many newer, lowest priced products during the year, resulting in a lower average order value of Rs. 4174 but number of orders shipped, were much higher. Due to the growth of the company's revenues, we were able to get better discounts from our suppliers. As a result, we were able to improve the cost of goods sold as a percentage of our sales from 67.7 to 64.7, an improvement of 3%. As of 31st March 2015, inventory at our warehouses was Rs. 12.13 crores.

I should now give you a brief on our E-greetings business. 123greetings continued to see increased mobile usage year on year with more than tenfold increase in the number of cards sent from 0.93 Lakhs in FY14 to 9.59 Lakhs during FY15. The studio invites connect features continue to do well, the greeting card business revenue for FY15 was Rs. 20.27 crores. With this, I leave the floor open for Q&A and I would request forum to take it from here.

Moderator: Thank you very much sir. Ladies and gentlemen, we will begin the question and answer session. Our first question is from Satish Bhatt of Anvil Shares and Stock. Please go ahead.

Satish Bhatt: Sir I just wanted to know the, you are just a new beginner in this ocean of E-commerce business in USA, so I just wanted to know, what would your strategy going forward in terms of growth, in terms of your technology you would require and also the number of new products you have to add in your portfolio to become a reasonable size, can you just throw some light on that? And what type of a margin on a sustainable basis, when you want to reach a size of $200 million, $300 million, what type of sustainable margins you can make in this business?

Arvind Kajaria: Like you rightly pointed out, it is an ocean out there and we are increasingly watching many more products finding more and more online affinity. So generally, the US online business was about 6% of total retail but I have been reading reports that figure is more and more inching towards 8% which obviously means many more products to be sold online. Our strategy is basically to become a multi-channel retailer, while we continue to sell from our own websites; 123stores.com like any other E-commerce company, the advantage that we have, is that we also have a Shop-n-Shop format, and currently are selling on 8 other market places including Amazon, Amazon-Canada, EBay, Sears, Rakuten, Newegg and Let's Buy. So what this does is, is allows us to have additional channels so that the more and more products on the vendor's find increasing sales. It is a very technology driven company, which means that we have to list across all these places and it is only with the help of technology that we can manage these kinds of listings. To give you a better picture, we sell right now 200,000 products and across 9 places, that means the listing of 18 lakh products at all moments of time. It is a challenge because each market place requires its own dimension, its own statistics and that is exactly where technology comes into play. So to answer your question, I see huge growth in the US business, more and more, you know as time pressures increase and they are finding the channels are getting more efficient, like our partners Amazon, experimenting the same day delivery, drone delivery, so eventually all of these would augur very well for the online people and since Amazon's stated strategy to grow the third party business and we are very much there in partnership with them so our sales would correspondingly increase with not only with Amazon sales but as well as the other market places.

Satish Bhatt: In terms of margins, what type of, maybe initially you may have lot of front end expenditure we have been doing. When you reach a size of maybe $300 million, $400 million or maybe $500 million, whenever you have reached, so what are the sustainable margins you can make, can you throw some light on that?

Arvind Kajaria: I was just going to answer that, I will do it now. So generally the industry is a 10% kind of an industry, we have studied the balance sheets of much bigger retailers and much more matured retailers, and you always inch towards a 10% margin. That is the dream that any E-commerce or any other retailer has; if you study the balance sheets of the existing majors. That said, we are at such a growth phase that for us to show profits and foresake growth from our perspective does not make much of financial sense. So, while we are continuing to increase our margins on a transaction basis, which means the difference between buying and selling and there is free cash flows in the company, we have taken a decision and we are more and more inclined to keep on investing that money into newer technologies, newer manpower and adding more and more vendors and market places. So let me give you a quick example of that. So, if we, we are right now talking to our tenth market place which we expect to launch sometime in September. Now, it is a 3 months of technical integration which requires a dedicated Manager for that market to help us and a technology product manager between. So, if I do not make those investments now, so the next 4 months I am not going to see FY16 come out with a similar growth rate that we have got. So I need to make that investment now and if we do that, then God willing we should see similar kind of growth rate. So that is what I am trying to say; that yes we are profitable at a transaction levels; that means as a philosophy, we will not sell any product at a loss but whatever free cash flows is available for us, we kind of re-invest into the business. I hope that has answered your question Mr. Bhatt.

Satish Bhatt: Just one final question Sir, you told you are more of technology driven company, where online experience is a key and in terms of; can you say, what type of business you can handle maximum per day so that site does not get crashed or something like that, if you can throw some light, means can you have a capability of generating $2 million sales per day?

Arvind Kajaria: I can give you some past experiences, our normal day-to-day average is hovering at anywhere between 2500 to 3000 packages per day, but on the Christmas season last year for a week, we touched almost 11000 packages a day. So up till 11000 packages a day, you know our systems have been already tested last year, right? Since then, we have already had about 5 months now to further learn from that whole shopping experience and expand the technology and create the bandwidth that is required to deliver in more and more products. So without pining on a number I feel that, given our current financial and human resources at our command, I think the least of the concerns is whether we can fulfill the order or not. So it has to grow in tandem, so it is not only the supply, you have to manage the market places, you have to manage the suppliers, you have to manage the financial resources, so I think, to answer your question directly; the fulfillment part of it is actually far ahead already of the other resources available with the company.

Moderator: Thank you. Our next question is from Umesh Gupta of Reliance Wealth Management. Please go ahead.

Umesh Gupta: Couple of things; first is on the, how are you going to fund the growth, in terms of both the working capital as well as R&D related CAPEX or other CAPEX, if given the fact that you are not too enthused about making a significant money, I would say?

Arvind Kajaria: The funding of the growth would come in two parts; I had earlier mentioned in one of my earlier press releases that we have appointed a banker in the US to raise money for our US subsidiary; 123stores so that discussions are still on, we have not persuaded vigorously because we have got free cash flows which we have kind of utilized, there is no point diluting at a very lower values, money is available with the company. So, to answer your question directly in two parts; one is that whatever free cash flows we have, we are going to intend to use it to fuel our growth and when we get short of that, as we had more and more market places, we feel that injection of more money would give us a higher growth rate and higher profitability, then we are open to both; taking debt against inventory, etc. as well as taking in equity partners in the US.

Umesh Gupta: Yes, but you hardly have any inventories, which was about Rs. 12 crores last year, right?

Arvind Kajaria: So I mentioned in my opening speech that as the volumes go up, on a ratio basis, the inventory levels would also go up, number 1. Number 2; let we explain that point a little bit further, this inventory number that you see is in March, which is generally a low volume and a low season month for us, inventory would be much higher in the month of September and October because if you do not have the inventory at that time, then you cannot take advantage of the main holiday buying season in the US which starts typically from Halloween, which is the end of October and continues till about the 21st of December, which is the last date when we offer committed shipments for December. As you know that, it is a practice in the US to open gifts for each other over Christmas lunch, so all deliveries need to reach on that period. So the inventory is much higher than what the number you have seen in the balance sheet because that is a March figure, typically it would be 3 or 4 times higher in the September, October period.

Umesh Gupta: Given that, what is the point of giving dividend, then?

Arvind Kajaria: I believe, the board also believes that IntraSoft is a mature company and it has been around for a long time, the greetings business continues to be highly profitable and therefore, we feel that the shareholders must get their dividends and the fact that they invested in the company from that portion of the business and as we continue to grow this business, even if we do not give dividends for example, it is not going to be enough to fuel the growth of the E-commerce business. So, it is like a reward for being a continued shareholder of the company.

Umesh Gupta: And other thing was on; the overall business model, so you kind of source the goods from SMEs in US or from outside or what is the supply chain thing?

Arvind Kajaria: I would be happy to walk you through that. Our target suppliers are only US based, small and medium enterprises and to our last estimates, they are about as per the business bureau, that is the where we get the data from, it is approximately 10, 000 such vendors over there. So, they are mainly 'Mom and Pop' shops or anyone between $5 million and $50 million in top line, have the SME status and they are primarily product focused and more often than not, they have a couple of range which they manufacture internally or they manufacture overseas and own the copyright to the design and the product. So that is our target because these are the typical people who are caught in a dilemma of watching their products go online and selling more and more online but do nor probably have the resources and the technological skill to kind of go and sell by themselves on the online market places. Even if they did, the kind of competition from a price perspective is so strong that they would have to employ additional resources and resources in the US typically cost anywhere between $6000 to $7000 a month, so if you take 2 resources, that is subtracting $15000 from your bottom line and not really giving you anything back because the prices remain the same on the market places and additionally you would need a IT Tech team in the back to sell on more than one market places because obviously then technology dynamics comes in to place.

Umesh Gupta: The other thing on this was, how do you work this out? In your presentation, probably I think you have mentioned that you dispatch directly from the supplier base or so, so how does it work, is it like you instruct them and they do the packaging and do it or they are like your people who are stationed at let us say, significant suppliers and how does it work?

Arvind Kajaria: Happy to walk you through that, so you know we shift from 800 locations every day in the US, 800 different locations, so it is not possible for us and nor does the technology warranted that you have any of our people at any of these locations. It is a very technology driven thing, so let me explain how this quickly works; as a shopper you come to Amazon and let us say, you like a table and you see the price at $99, you buy it, the order goes to Amazon, Amazon places a back to back e-mail order to us and we do our checks and we place a back-to-back order with the supplier and in the e-mail is the customer's name and the shipping label that we dispatch to them and when the product is ready as per the contract, let us say, between 3 to 5 business days, he puts the shipping label on the box that is packed by him because it is his product, calls the UPS number, who is our logistics partner and UPS comes and collects it and delivers it directly to the users' home and the moment the users finds it, the chain is complete and everybody knows that the transaction has been completed and the relevant stakeholders get their money, whatever is due to them.

Umesh Gupta: So even the supplier gets money after you get money or when do different people in the chain get money?

Arvind Kajaria: We have different levels of negotiations and agreements with the different suppliers, the ones that we have built a relationship with; they normally enjoy a credit period. Some ones that are new and we need to build a relationship with them; we normally pay them at the point of dispatch, very rarely, I would say, less than 5% of the orders would be ever pay in advance payment for. The UPS and FEDEX normally raise a monthly bill and we would pay them on that basis after the auditing is done and the Amazon and the other market places, they cut their commission before they are paying to us because the money comes into their account initially and not to us.

Umesh Gupta: And all of these are return policy, do you have back-to-back return policy with the suppliers?

Arvind Kajaria: In the US, it is a 30 days, no question asked return and there can be, there are 3 ways that any product can be subjected to return; a) if it is a defective product, b) if it is damaged during transit and c) it is called buyer's remorse, which means he does not like the product. I will give you an example of how we treat all three. If it is a damaged product, it goes back to the vendor or the vendor ships one for free because we do not take any product liability on our head; that is the domain of the vendor and he needs to service the product absolutely free of cost. If it is damaged during transit, then we debit the logistics partners, pay the vendor that extra money and the good is shipped absolutely free of cost to the customer, in the third situation; if the buyer has, for example, bought a shirt and he does not like it or she does not like it, they are free to return it to us but if the product is not damaged, if it is damaged then we can tell them 'No', if it is not damaged, then we would take it back and we normally charge a 15% to 20% re-stocking fee in which case we pay for the expenses that have incurred in receiving and selling the product and sell the product back on to the market place.

Umesh Gupta: And the other question was on how did you zeroed on doing this business in US and there are definitely other geographies also and is there any plan to launch it in India or so?

Arvind Kajaria: We were attending a dinner in San Francisco where someone from Amazon spoke about opening up Amazon to allow third party sellers and somehow or the other we felt that we would fit into this model given our experience in online technologies for the last 15 years. So I think that was the key signal or game changer if you may. Yes, the other geographies are very much within our realm , we are open to the idea but I believe that the US market in itself is so large and we spent so much effort and time and money of treating that whole value chain that we would like to see much higher growth over there and once we sustain that growth for maybe two or three quarters and we are happy with kind of the traction we are getting and the customer ratings remain as high as it is right now, then of course the opportunity to do, replicate this model across US, UK and the Europe is there, India is also an opportunity but if I have been able to explain the model, our model is only successful when there is a large and number of market places and the domain vertical channel, E-commerce companies have either been acquired or merged into the larger players. So I see that happening in India the next 2 or 3 years, so once that happens then you know, bulk of the shopping places is being done only through market places, I think then we could potentially see our entry into India.

Umesh Gupta: And last question on the growth rate, so you know your growth rate in last year has accelerated much more than what your historical was, which is on also good but last year it had accelerated a lot, so 2 things; 1) any specific reason for that, I mean more market places or whatever and 2) what is the trajectory going to be?

Arvind Kajaria: See, top line growth is a function of sales. So sales comes from 2 things; one is the number of market places that you have access to and we added I think 3 market places last year and is also a function of how many suppliers you had. So more products, more market places, typically needs more sales. So that is one logical explanation, but if I can give you some insight into not only our business but the whole retail business, as the systems become more and more mature and there is a whole kind of history to it, as the software becomes more intelligent, we learn how to deal with returns like you asked earlier, we learn how to price it better, we understand the shipping mechanisms better, we understand how to price it better, you know it helps increase the sales. So I think it is a combination of adding vendors, adding market places and improving our own logistics and as more and more modules of the software come into place. I think we will continue hopefully to see more and more traction. As far as the growth in the US market, I think I covered that point in Mr. Bhatt's question but you know we are seeing increasing number of products, finding affinity with the online shopping world, for example, furniture earlier was not something that one would typically go and buy online but increasingly we find that even bulkier products, people are finding it cheaper and more lifestyle wise happier buying it online. So, if that shopping experience continues to find favorite online in the US and our accessibility to the US online shoppers increases many folds, it is already there in almost all the major market places. In fact, I forgot to mention Ali Baba which we launched in January of this year in the US. So there are 4 or 5 that we could be more on which we are in talks with, so as we complete the entire universe of accessibility to US online shoppers, I think the traction should hopefully have the same kind of momentum that it has right now.

Moderator: Thank you. Our next question is from Abhishek Kumar of Yes Securities. Please go ahead.

Abhishek Kumar: I had one question on the split of your E-commerce revenues between the market place model and what percentage of revenues would be coming from your own 123stores?

Arvind Kajaria: That figure is approximately 7% to 8%, which we come from our own website but we are equally focused, we treat 123stores as yet another market place; although, that is not the only area of our focus but that is what the number approximately is and we will continue to drive growth on that website as well as all the other market places as well.

Abhishek Kumar: You would be spending some marketing spend through Google ads to basically migrate some traffic to your own website. Rather than doing that, would it not be prudent to focus your entire marketing or your sales spent towards the market place model, which is anyway generating the bulk of your revenue?

Arvind Kajaria: That is a fair question if I can give a best internal answer is that generally market places have an in built commission of anywhere between 8% to 15%, which then becomes available to us as a marketing spend and there are lot of products that we, you know there are lot of ways, for example, you rightly pointed out, is as Google ad words or any other price comparison website that we can make that ad spent as substitute for commission and increase sales. So from our perspective, just to give you our thought, for us it is not that material whether we send it from 123stores or Amazon or EBay or anywhere else, what is more important for us is that our customers, our suppliers, products keep on seeing an increasing trend because that is how they build a trust in us and that is how we continue to be their top online partner and the way we look at it is that trust and the relationship continues to build, we would have absolutely no issues moving forward, so to answer your question, we would stay equally focused and committed to increasing not only from our website as well as the market place and not only from the market place as well as from our website.

Abhishek Kumar: Next question was on your product categories; in terms of margins, is there any material difference between these various product categories and any particular reason why we are focused on these 5 product, for the top 5 product, I mean I just wanted to understand is it because of the genesis or is it the focus of the company towards these?

Arvind Kajaria: To share our ethos with you, Mr. Kumar, we are not focused on any one particular category because we are not domain experts, right? We do not have any particular affinity to garden or we do not understand toys over garden. We are more a technology driven company; that stated ethos is to ensure satisfactory fulfillment both on the part of the vendor as well as to the end users, so we do not differentiate between categories, we would continue to add more and more products and categories that come our way if it is profitable to add those products. Why we stumbled upon these 5, is actually for no particular reason, we on a regular basis, our vendor acquisition team attends fairs and conferences in the US on an absolute regular basis, it is just that certain products, you know, we found suppliers that we build a initially a very good relationship and those relationships continues to develop and grow. So in not only the retail world but with any world, even the financial world, if you have a client with a good relation, it continues to give you more and more business, so that is our ethos and from a margin perspective, generally speaking electronics; because of the sheer competition, has a lower margin profile and let us say, something like a garment or an 'home and garden' which is not manufactured by so many people. But again, from us, it is more to do with a gross margin profile, so as long as we make a transactional income which is similar across categories, we would not ideally differentiate. That means, we would not say, 'Hey, we will sell electronics and not sell garden' and vice versa.

Abhishek Kumar: So, just one last question on this particular point; from an inventory, as you mentioned earlier that maybe going forward, your inventory might increase and looking at these, some of these categories like furniture, patios and all these things, I mean rather than usual or the bulk category in the E-commerce which is probably books and clothing, these might require a bigger warehouses and probably more complicated logistical capabilities, so would that pose a challenge once you plan to increase your inventory levels?

Arvind Kajaria: I would like to tell you exactly where our USP in this is. So we are not an inventory-led model company, which means that when we identify a vendor and he has got 40 products, we will not take 10 pieces of all the 40 products and store all of it and not know whether it sells or not. Typically, what happens Mr. Kumar is, we enter into a promotion with a market place. So just like in India, we have these 'Independence Day sale' or the 'Father's day', 'Mother's Day' sale, where the market places normally would give you a $10 or a $15 coupon off and the vendors because of the quantities, would again give $5 to $10 off making it very lucrative for the user; that is when we would normally stock, say 2000 pieces of a necklace for 'Mother's Day' because for 2 reasons; 1) is that no market place and no retailer likes an order cancellation rate, so none of our suppliers are capable of supplying 2000 pieces over the weekend on a drop ship model. And if we do not anticipate the sale, we would have to cancel all the orders and those 2 offers are only valid for those 2 days. So we have to stock that and ship that within 6 hours of getting that because most people would like to get that product to give it to their mother or whoever on Mother's Day and the 2) is when you buy bulk, the inward transportation becomes very competitive. So normally we would order a container load, so the cost is actually much lower to stock that product than actually drop ship it piece by piece from the suppliers. So these are the 2 considerations which we take into when we take inventory.

Moderator: Thank you. Our next question is from Sadanand Shetty of Taurus Asset Management. Please go ahead.

Sadanand Shetty: What is the number of vendors you would have today?

Arvind Kajaria: 1030 vendors is what is currently active, they own all the brands. Over 1300 brands is, what we are dealing with right now.

Sadanand Shetty: And what would be your target on a yearly basis, maybe next year or couple of years?

Arvind Kajaria: So I had mentioned earlier, hopefully you were on the call; that we feel the universe is around 10,000 vendors in the US, which is within our immediate target and if we increase the target that exponentially increases to about 100,000 vendors. We have a dual strategy; one is to increase the volume business from the existing suppliers because sometimes they find it easy because now we have a 3-year history of dealing with a particular vendor, we understand his product, and our customer support team knows how to handle that particular product, etc., and we know how to price it better and probably we have achieved the volumes enabling us to get the trade discount which would help us to price it absolutely the cheapest in the whole chain. So that is where I think the bulk of the growth is coming from but as we get more and more resources into the company; both managerially as well as financial and technological, there is a whole universe of people out there and we would continue to expand people within the 5 categories that we are currently dealing with, as well as enter into new categories. So we see growth coming in from both places; the existing vendors as well as the new vendors.

Sadanand Shetty: What is the average age of your vendor relationship?

Arvind Kajaria: I can probably next time put it up on the website on how the vendor traction has happened but to give you a sense, I would say it would be approximately 2 years right now. The way we look at it in our business is, Christmas is important so we have spent almost 2 Christmas' with most people.

Sadanand Shetty: Most of your sales come through the big event like Christmas?

Arvind Kajaria: The cream comes from Christmas, let me put it that way, the day-to-day bread and butter is universal, we have a X amount of sales on an everyday basis, but typically the 4^{th} quarter is almost double that of the other quarters.

Sadanand Shetty: How much that could be in terms of percentage, you can able to tell us?

Arvind Kajaria: It is double that of the other quarters. So Q4 would be double that of Q1, Q2, Q3, like that.

Sadanand Shetty: Can you throw some light on your vendor acquisition process?

Arvind Kajaria: Yes absolutely. So pretty much like the stock market, we get a list of the products moving up the chain. So when I read the newspaper; although, I am not very active in the market, you know, you see the stocks going up. So similarly, we get a monthly publication of the products that have moved up in the sales figures, so that catches the attention of our BIT (Business

Intelligence Team), who then sees the product and hands it over, to the vendor acquisition team. And that team would do its research and see, you know, salability, etc., and then make an appointment with particular vendor at a conference that they are attending. And at that point, we would visit them and give our credentials and exchange the price lists and that price list would be accompanied by a catalog, that comes in, in a digital format and we feed into software and then we list it across the market places and the relationship starts. Typically, that is how exactly; although, I made it sound very simple but on a holistic basis that is what the process would look like.

Sadanand Shetty: You are a multi-channel partner for many market places, what is the process of qualifying to be a multi-channel partner to large market places?

Arvind Kajaria: Every market place has their own way of assessing whether you are worth it or not. To start you off, you need to have some kind of history in online sales, so if you already have a website where you are selling, then you are more likely to be accepted than not. Then they would ask for financial information, they would probably take some trade inquiries, they would probably take your 'Dun and Bradstreet' ratings. That is to start you off and in the first 2-3 months; that process is very slow, where they would typically restrict you, not only for the number of products, but also the number of sales per day because they would not want their customers to get any kind of a compromised shopping experience. And that would typically continue for about 1.5 to 2 months, for even sometimes 3 months and within that time, let us say, even if you are selling 3 products or 4 products a day, you would get customer ratings, so every time you buy a product, you get rating on that product which is in public domain and then after 3 months then the rating takes over, so if your ratings fall then the trouble is that you may not make it or they may delist you, etc., But if your ratings continues to go up, then they open up the filters and then communicate more freely with you and you become more and more integrated with the system. So it would take, anywhere between 1 to-1.5 years before you actually come hands in gloves completely with any market business. That is what our experience is; I would not know what other peoples' experiences are.

Sadanand Shetty: What are your targets? You are adding up more market places over the next 1 or 2 years, you talked about 3 I think earlier?

Arvind Kajaria: Yes, so radar right now is 3 market places, which has just come up and couple of them have been very heavily funded and they have a model which is very different and unique in terms of managing the customer's expectation. So we are right now in talks with them, some kind of technical integration has happened but like I said, it is a 2 to 3 months' process and sometimes it can take longer or depending on the kind of human resources available at that time. I believe, I have no conviction to tell you this, but I believe that many others, even some of the larger retailers are opening up their market places because they have realized that only a market place model can really offer the kind of selection that is now become the norms of the day for the online shoppers. So as these larger boys, some of them open up their website, I am very sure that they now have the absolute credentials to be accepted right in the first go. I hope that answered your question.

Sadanand Shetty: Yes partly, how has that become relevant to you, retailers opening their market places, where do you come into the picture there?

Arvind Kajaria: Because the moment they offer their market places, it gives us opportunity to sell on that market places and yet another sales channel opens up for us so let us say, if there is a particular market place with a track, only a small sub set of US online shoppers who do not go to any other website, so today we have no access to them. I will give you an example, let us say, if there is a jewelry market place which has opened and those shoppers do not buy jewelry at Amazon and they only buy it at let us say, abcjewelry.com, so once they take in third party vendors like us, then we would have access to those users as well.

Sadanand Shetty: I have a last question; what would be the share of multi-channel operators in overall revenue of market place companies, would you have any idea?

Arvind Kajaria: Yes, I can share with you what I have read in some Amazon reports, you know, they started about 5 years back, 5, 6 years back, I am not very sure about when they started, somewhere in that time zone from 0 to 100 and I last read that almost 40% of all of Amazon sales now come through third party sellers like us. So if that be true of Amazon and eBay of course, does not has its own retail, I think they have some branded solution but 90% of it comes through third party like us. So a fair guess would be that almost 50% is being supplied through third party sellers like us. That is my guesstimate.

Sadanand Shetty: We have not seen this kind of a trend in India, is it a new phenomenon in US markets and other markets?

Arvind Kajaria: No sir, I mentioned it earlier in the call, for this, our particular model to really thrive, there has to be a competition amongst the market places themselves and I think India now from what I understand and read, all the big boys are actually now adopting the market place model in all earnest and I think that has been front-landed by a US major. So as we move more and more towards that model, that will give birth to more and more people doing models like us, including us maybe one day where we find it profitable to operate in the Indian markets as well.

Moderator: Thank you. Our next question is from Nishid Shah of Ambika Fincap. Please go ahead.

Nishid Shah: I have couple of questions; is it this the way large market and I understand 10% of the retail sales come from the online and runs into several billions of dollars, what will be the minimum size for being relevant in that market? I mean, you doing about $52 million, $53 million of sales, what do you think is a relevant size for you guys to remain profitable and relevant in the market place?

Arvind Kajaria: Good question Sir, thank you. What I can tell you is that the market is so large that I do not think so and the product categories are so vast that in my personal estimation, I do not think so that there would be a time where there would be, maybe one or two or even three players who will honor the market and kind of impact, eventually it may happen but I do not see that happening for the next at least 2 to 3 years, I see an opportunity for firms like us to keeping up with the momentum where more and more vendors are finding that rather than do it on your own and lose money, it is better to go through a specialist channel like ourselves. Our nearest competitor is currently at a billion dollars of sales, one billion US dollars and they are a NASDAQ listed company, so that is where I believe that is our nearest competition. The other people are there, they are about 30, 40 people out there, so we are all helping build as a market, build this particular model and eventually I think there would be some people who would succeed either because of technology or other resources and would shine and rise faster than the others. So if I have understood your question and my best answer to that is, I think that the sky is the limit, in terms of profitability, I had earlier mentioned in the call, so it is always the dream of any retailer to get a gross margin of 10%, we will get close to that on a transactional level, whether we continue to re-invest that back into the business, depends on the momentum that we have personally got as IntraSoft and what is our shareholder ethos whether they continue to support us, investing in growth or would they like to stop the growth and take the profits out. So it is a combination of many things happening at the same time, to sum up the opportunities there, the margin profile is around 10% for not only us, for the industry and we would continue to invest till we find that it is more profitable to take the money out and we will also have to see what our shareholders' expectations are.

Nishid Shah: I think you are referring to Wayfair that is a billion dollar and NASDAQ listed company, right?

Arvind Kajaria: Yes, that is one of the people that we track.

Nishid Shah: But they are largely into furniture and shop furnishing, right?

Arvind Kajaria: Yes, they are very focused on furniture and home and garden.

Nishid Shah: And they enjoy about $2.5 billion of market cap, right?

Arvind Kajaria: Yes Sir, from what I last saw; although, I have tell you I have not seen.

Nishid Shah: But my issue was, they also have about $40 million, $50 million of losses on the books, now in your case, at $52 million, you are still profitable; although, you are investing into the business, but my issue was that 3 years down the line, even if you grow to some size, you will still be very smaller compared to these guys because they have a market valuation on their side, they are able to invest for the future and they are also able to raise money and you know, that is an unfair advantage to them in terms of how they are able to compete vis-à-vis you, whereas you will always be concerned about the bottom line and making a business more profitable for IntraSoft, so where do you balance and how do you see you shaping up over the next 3 years?

Arvind Kajaria: Thank you for that sir; that was very well thought of. So I will try to answer that along the way but I specifically address this very interesting question; so 2 or 3 things; one is that we think that, given our technology, our need for human beings would be much lesser than other people, so we would have a distinct cost advantage on the administrative front, on the HR front vis-à-vis are competitors because we are more technology driven than otherwise. So, that is where the free cash flows are coming from and I have been saying that right through in my press releases for the last one and half years at least that we are not so profit-oriented because it is not that we do not make profits, it is just that we would continue to invest in growth and I do not see that Wayfair has an unfair advantage; although, you kindly said that which is fair enough but I would not like to see it as an unfair advantage because in my opinion, absolutely nothing stops us from a) raising money and b) I believe that the Indian investor is very intelligent and once they understand, they can actually co-relate between making a loss per say on a transactional basis and utilizing the money into re-investing and re-think even larger returns later. So I believe that once the company is able to communicate to all its shareholders, the real workings of the company in terms of where the money is being invested and if we have to forsake profits for growth, I am sure they will support me, if they do not, then we will of course take it at that point of time.

Nishid Shah: I think that is useful, my other question was, you operate in multiple countries, you have a large back office operations and technology and HR everything over here and you have a front-end in US, you are also operating in some other countries, so are you thinking on the lines of having an International auditor so that whenever you want to raise money, even for a 100% subsidiary in US or something and also when you have any plans on international listing, just your thoughts on that?

Arvind Kajaria: So as the company grows, it requires that the auditor's profile also goes and grows along with the company, so yes we definitely have in plans to adopt a larger profile of the auditor that we have got, we are in talks with people and it is my belief and endeavor that we would get on board those auditors at the earliest possible time. As far as international listing goes, we are already a listed company in India and if we get support from the domestic investors, once they fully understand our model, then I do not see that need but if they feel and if we all feel that international listing would add to shareholder wealth and value moving forward, it would depend on the scale of the business, then you know, I am not averse to that.

Nishid Shah: Can you throw some light on management bandwidth because you are growing at more than 100% and hopefully you will grow at such scorching pace in near future also, what are the kind of additions in terms of marketing and in front end as well as in terms of people in HR and finance that you are adding?

Arvind Kajaria: As of, the model that we have conceived from a management aspect is that we are currently aided in totality by a very competent team of senior managers and each senior manager handles and heads individual domain, so there is a senior manager who looks after the vendor acquisition and he has been in the retail business for the last 10 years, he has been with us for the last 3 years, then there is a manager who manages all our relationships with the market places and is in constant dialogue and visits them on their annual conferences, then there is a manager, who heads finance and micro payments to all the vendors and manages all the relationship with all our bankers and all the rating agencies, etc., somebody in charge of fulfillment and customer support, so our ethos is from a management perspective, I would like to be more directionally connected, I would like to spend my time more with entrepreneurs and people in the industry at a more strategic level to see what direction we should ideally take. Sharad, who is the Executive Director, is very competent in technology; he has spent the last 17 years developing not only 123greetings from his vision but also the entire Enterprise Software what we have, what we call the Market Place Software which is the back bone of all the deliveries taking, so he is very fixated by that and we are very ably helped by a team of 30 odd people and technology and product engineering. Yes, as we read in the papers and everywhere, attracting good talent is always a challenge and without that talent, not only IntraSoft but any company worth its salt cannot go beyond a normal growth rate. I have been hiring people for the last 25 years in my career and I think that the way we will go is, at a Board level we will be more strategic but at operational level, we would continue to rely on professionals who I am obliged to hire.

Nishid Shah: That is very useful, the last question from my side is; what is your vision on a 3-year basis, where do you see the company?

Arvind Kajaria: So very high level philosophy, we would like to be in a situation where we have a direct access to every US online shopper which means that we are selling on every single market place, our vision statement would be that; wherever it sold, it must be fulfilled by 123stores, there is also an opportunity to cross border, throw some light on that; we have come across lot of European manufacturers, in fact we are dealing with a few of them, who found us to be the ideal partner for online selling, so these people they have had some trouble of storing their goods in their warehouse, offering customer support, you know it becomes night time in Europe. Luckily, in India we have the culture where we are able to work throughout the night, in Europe it is not, so by working through us, they have got rid of all those issues, so they just contract with us and we take care of the entire fulfillment engine and they can spend all the time on product design and development which anyways they were supposed to do and on the reverse side, as our existing vendors, we built relationships, we are in a position, maybe a couple of quarters down the road, as our resources like you mentioned, managerial and other resources grows, we have an opportunity to create that same infrastructure in Europe and sell the American products in Europe. That is the correct vision that I have.

Nishid Shah: You are not quantifying it.

Arvind Kajaria: It is difficult at this stage.

Nishid Shah: I think I would say that it is both the large technology companies in US who have started in garage and you guys have started off from India.

Arvind Kajaria: Literally a garage, a long way to go.

Moderator: Thank you. Our next question is from Umesh Gupta of Reliance Wealth Management. Please go ahead.

Umesh Gupta: Just one query with you, probably very basic but would you be always interested in non-branded stuff considering you are a sort of selling to a market place, internet and not directly selling?

Arvind Kajaria: Did you say, non-branded?

Umesh Gupta: Yes. Are you into non-branded products only or you have..?

Arvind Kajaria: No, we are only into branded products. We do not sell any white label or non-branded products. We do not take any product liability on our head.

Umesh Gupta: No, for example you source your products through SMEs, right and sell it on market places, so those SMEs obviously would be in the business of, for example if it is a furniture, it would be an unbranded furniture, right?

Arvind Kajaria: No unbranded furniture, it is completely branded.

Umesh Gupta: Whose brand would be that?

Arvind Kajaria: Whose brand? It belongs to the SMEs, so we do not deal with wholesalers and distributors and other retailers, right? These are actual brand owners; that is why I use the term, 'brand owner', their brand is registered with the US Government, and otherwise we do not deal with them.

Umesh Gupta: Okay, so you are saying these are very companies, have a niche brand and stuff.

Arvind Kajaria: Yes, between $5 million to $50 million.

Moderator: Thank you. Our next question is from Ashok Agrawal of Technet. Please go ahead.

Ashok Agrawal: I have seen the management presentation and it is clear that company's efficiencies are increasing and cost of goods sold has come down from 67.7% to 64.7%, so is it not getting translated into bottom line; this kind of savings?

Arvind Kajaria: Yes sir, I have tried to address that question earlier but I would specifically want to address this. Yes, the question is whether we should make the money and distribute further dividends thereby compromising growth or make the money at a transactional level and reinvest that for more growth. So, the Board as we have seen; that such a momentum may not exist on a perpetual basis, if vendors tie up with other retailers then they may not favor us. So, at this time it makes more sense to go and penetrate the market and take the largest share possible with all the financial resources at our command. So, what I am saying is, we are making money at a gross profit level which is basically, sale minus purchase and then we are using that money to invest in HR and travel and meeting people and infrastructure. So, while you will continue to see a trend where the top line and the number of vendors and products are increasing, it may not necessarily reflect in terms of profit, in terms of numbers at a net profit level.

Ashok Agrawal: Okay, I have one more question; last year the growth rate was showing 130%, of course we were not been able to quantify the vision, let us say, which is for say, 5-10 years but can you give the guidance for one year let us say, immediate, current year guidance, something like? Can we expect same growth rate?

Arvind Kajaria: The number of market places that we have added is constant. We expect to add two more, adding to sales. The number of products that we have added, we are adding about 10,000 a month, it is listed in our FAQ, so we are increasing the product availability almost by 60%, so sales from existing products, sales from new products, sales from existing market places and sales form hopefully, the two market places or even maybe hopefully 3, that we are adding. So, the momentum I personally believe that there is nothing at least in my thought that I see as a challenge for keeping the momentum on, sir.

Moderator: Thank you. Our next question is from Sadanand Shetty of Taurus Asset Management. Please go ahead.

Sadanand Shetty: It is a bit academic question, if I am not mistaken I have used your 123.com, early 2000 during the era of **pets.com** how did you manage to remain relevant so long in an era when most of the companies have not existence today in India and globally? Just wanted to know that DNA that made you and sustain you so long?

Arvind Kajaria: Well, I can only answer that on a personal philosophy basis; I hope that finds favors with you. As a group, we always try to partner with somebody rather than compete with somebody. So, if you see, if you probe a little bit more into 123greetings, you will find that we do not fight with facebook, we simply use their ecosystem. For example, if you download our mobile app 123greetings from either Google play or iStore, you can actually send that card now on your

WhatsApp group, so I have actually using a WhatsApp ecosystem to advance 123greetings rather than let them evolve and we die our death. So, as new technologies emerge, what our team tries to do is, try to find innovative ways where we can use that new sunrise technology with our content and like you rightfully said, not only remain relevant but hopefully add value to people's lives. I love helping people communicate in life that is my basic ethos.

Moderator: Thank you. Ladies and gentlemen, that was the last question, I now hand the floor back to Mr. Kajaria for closing comments, over to you sir.

Arvind Kajaria: Thank you gentlemen, it was very kind of you to spend your very valuable time. At IntraSoft, we are very open to having your valuable suggestions and advice and it will be our endeavor to add as much as possible to the shareholder wealth and one of our wishes also is to show, hopefully to ourselves and the world that we are capable of building technologies that can achieve big things in the international markets. So again thank you for your time and patience and I hope that you would continue to support us.

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