



IntraSoft Technologies Limited

“IntraSoft Technologies Limited Q4 FY '18 & FY '18 Earnings Conference Call”

May 29, 2018



IntraSoft Technologies Limited



**MANAGEMENT: MR. ARVIND KAJARIA – MANAGING DIRECTOR,
INTRASOFT TECHNOLOGIES LIMITED
MR. MOHIT KUMAR JHA – CFO, INTRASOFT
TECHNOLOGIES LIMITED**



Moderator:

Good Day Ladies and Gentlemen and a very warm. Welcome to the IntraSoft Technologies Limited Q4 FY '18 & FY '18 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 date of this call. These statements are not the guarantee for 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 '*' and 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 Limited, and Mr. Mohit Kumar Jha – CFO of the company. I am now glad to hand the conference over to Mr. Arvind Kajaria. Thank you and over to you, Sir.

Arvind Kajaria:

Thank you very much. Good Afternoon to all and I want to thank you for dialing into our March '18 earnings call. We have uploaded the investor presentation and financials on our website. I would now like to start the discussion. We are pleased to report an accelerated revenue growth of 37% in constant currency terms during the quarter from 25% last quarter and 16% in Q4 last year. We continue to build on the strong momentum last year and grew by 30% in constant currency in FY '18. 2017 was another year of strong growth for the US e-commerce market as consumers continued to shift their retail spending from the traditional brick and mortar to online. As per the US Department of commerce, online retail sales grew by 16.4% in '17, the highest since 2011 comprising 13% of total retail sales while off-line retail sales grew by 1.9% for the year.

We were ranked 231st in the re-based Internet Retailer Guide for 2018 featuring in the fifth straight year in the prestigious list. This help us attract larger brands and strengthen our relationships with existing partners.

The leading publisher added many more companies this year that were not considered in the earlier rankings making the list more comprehensive going forward. Looking at the retailers around us, we believe that we would have gained nearly 20 to 25 ranks in the old ranking system. 123Stores grew by 31% in '17 clearly outpacing the 16% for online retail and 18% for the top 1000 retailers hence increasing our market share.

With leading retailers ramping up their online market places to cater to the continuing shift from off-line to online and aspiring to be one of the top online shopping destinations, the addressable market for 3P sellers continues to expand on a sustainable basis. In our view, 3P sellers, who are well entrenched with a strong technology backbone, a healthy balance sheet, and a scalable model will continue to benefit and gain more market share.

This has been a year where we have strengthened and built on the foundation laid during the earlier years. The efforts put in by our technology and data analytics team continues to bear



fruits, which can be seen in the consistent gain in employee productivity over the last eight quarters. Our revenue per employee increased at an accelerated pace and reached the record high during the trailing 12 months Q4 FY '18. This shows the scalability of our platform and places us among the best tech companies in terms of employee productivity. We would like to update you on the investments we made in Q4 FY '18 that will further strengthen our technology backbone. As e-commerce continues to expand, customers have come to expect quicker deliveries of their purchases. As shipping cost represents a significant portion of our expenses, we have started the development of an algorithmic-based software that will leverage machine learning and Artificial Intelligence concept to optimize our shipping routes to be able to deliver the packages at a faster transit time using cost efficient transit options. The algorithm will interpret vast amounts of data, which will lead to substantial cost savings and strengthen our position vis-a-vis competitors to gain market share in the coming years once our software is ready.

Our focus during CY '17 has been on optimizing our inventory software module and building the demand for casting engine.

We improved our average inventory turnover from 13.4x during the trailing 12 months to 16.3x by the end of FY '18. We would like to update you that the increase in credit limit from our suppliers' have started kicking in, that can be seen in the improvement in our account payable days to 11 days during March quarter TTM basis. The runaway to increase suppliers' credit is gradual and happens in a step by step manner to reach optimum level. We believe that we are trending towards the path in a steady manner. In the interim, we would continue to capitalize on the growth opportunity by funding the buildup in inventory through internal accruals and the available credit with banks given our healthy balance sheet. Overall, we believe we have strengthened our basis for consistent growth in the coming years and I am very excited to be part of a growing US e-commerce market. I take this opportunity to thank the team who have worked very hard to make this happen. My gratitude also goes to all other stakeholders for their constant advice, encouragement, and support. I now hand over the floor to Mr. Mohit Kumar Jha who will discuss the financials in more depth. Thank you.

Mohit Kumar Jha:

Thank you, Sir, and Good Afternoon to all. Results for the year ended March 31, 2018, are in accordance with the Indian Accounting Standards. I would like to start with the performance for the quarter ended March 2018. Revenue from operations this quarter came in at Rs. 284.45 crores growing by 37% year-on-year in constant currency terms and 32% in INR terms. Income from operations for the quarter came in at Rs. 1.58 crores improving from a loss of 0.78 crores in the same quarter last year. As on March 31, 2018, our inventory stood at Rs. 123.9 crores, which includes Rs. 64.47 crores of goods in transit. Of this, Rs. 17 crores of inventory is outbound from warehouse to customer and pending delivery. Our account payable net of advances increased from Rs. 16.28 crores in FY '17 to Rs. 33.54 crores in FY '18, an increase of Rs. 17.26 crores in suppliers' credit. For the period ending March 31, 2018, our inventory days on trailing 12 month basis was 22 days, receivables 4 days and, payables at 11 days, respectively. Our working capital cycle for the period was 15 days on an annual basis improving from 18 days during the end of FY '17.



Now, I will take you through our highlights for the financial year March '18. Revenue from operations grew by 30% year-on-year in constant currency terms and 25% in INR terms. Our income from operation grew by 9% to Rs. 19.03 crores in FY '18 driven by our strong operating efficiencies. On a constant currency basis, income from operations grew by 16% in FY '18. To keep up with the growth momentum, we availed credit limits with our banks and financial institutions at favorable rate of interest. Overall, our balance sheet remains healthy and our cash position is comfortable to continue the growth momentum. Thank you everyone and we are now open to questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Varun Ghia from Equitree Capital. Please go ahead.

Varun Ghia: Sir, few questions, first of all the inventory has been increasing since the last one year from 41 crores it has increased to 124 crores, and our model is such that we do not have to book inventory on our books, so is there some change in the business model or why has the inventory gone up?

Arvind Kajaria: Let me explain that, I think the numbers that you are talking about is 124 crores. As per GAAP, we have to book inventory which has left the warehouse pending delivery to the customer as part of inventory, so if you remove 17 crores from that it comes to 107 crores, on the warehouse it is about 60 crores, so the balance I think is about 47 crores which has left the vendor's warehouse, but has still not reached our warehouse, so that is fresh inventory and that is very good for us because that means that we are projecting for even higher sales moving forward because without inventory, there cannot be a increase in sales, so from our perspective...

Varun Ghia: Normally, you keep the inventory in Amazon's warehouse or other warehouse, right?

Arvind Kajaria: Correct.

Varun Ghia: So you are talking about the 60 crores in our warehouse, so what is that?

Arvind Kajaria: The 60 crores is at the Amazon warehouse as a fulfillment centre and 48 crores order that is goods which have left the vendors warehouse and yet not reached the Amazon warehouse, which is very good because that shows our confidence in building up the inventory and higher inventory leads to higher sales because finally our auto inventory system and auto replenishment system is on stream, so we will continue to book the orders and back it up by adequate inventory.

Varun Ghia: Sir, do you see this inventory level going up in the next few years?

Arvind Kajaria: On an absolute basis if top line has to increase then inventory has to go up. A simple way of looking that is if you add up the inventory there and the ones that are coming into the warehouse, which is 60+47 and we are able to turn the inventory anywhere between 16x and 18x which is what we have been historically doing then we can kind of reach the top line that we are projecting and that we are wanting to hit. If we do not book the inventory then the top line growth will fall.



- Varun Ghia:** Secondly, has there been an increase in SKUs from more suppliers?
- Arvind Kajaria:** We have increased the SKUs but not the suppliers because most of our suppliers are wanting us to increase the SKUs, what I mean by that if a particular vendor that we have developed a relationship with and if he has got like 800 SKUs in his catalogue and we were only selling 300, now with the deeper relationship, he is more wanting us to sell the balance 500, which means that we have to service that customer more rather than focus on new acquisitions.
- Varun Ghia:** How many SKUs are there right now?
- Arvind Kajaria:** I do not have that figure in front of me, but it should be anywhere between 600,000 and 700,000 SKUs.
- Varun Ghia:** Lastly, this debt increase has been mainly to fund the inventory?
- Arvind Kajaria:** Yes, which you can see on our books. Suppliers' credit is something that is a stepwise process although we have increased that by almost 95% in the current year. Like I have said previously, first we built the technology then the inventory software and now we have moved the management focus to increase suppliers' credit and the visibility of that is that we have managed to increase that by one day, but it is a good process and it takes time and we will continue to fund it through internal accruals and bank credit till such time both equalize because we do not want to lose the momentum in the market which is currently with us.
- Varun Ghia:** Because this increase in inventory will hamper your working capital going forward?
- Arvind Kajaria:** Not if the suppliers' credit keeps inching up which is what we are working towards. Last year that was not our focus, but this year we have made it our focus.
- Varun Ghia:** So it should go back to more than 20 days?
- Arvind Kajaria:** We are certainly aspiring to do that and I do not believe that there is anything that is a headwind for that.
- Varun Ghia:** Lastly, any comments on margins, like is there any scope for increment, recently we heard about Amazon starting its own logistics?
- Arvind Kajaria:** If you see the margins literally we have seen a fall in shipping as percentage of sales, we have seen a fall in employee costs, we have seen a fall in general, so all the operating leverages. The cost of goods is a function of growth, so if you were not to grow at 37% and let us say we were only to grow at 10% which if you see our December quarter of '16 where we only grew by 9%, our margins shot up, so if we have to grow then we have to introduce new products and the optimum pricing takes a little time, which is why the cost of growth comes in the form of COGs, which ultimately as we grow higher and higher after a certain point will begin to fall, so we do not believe that there has been any margin compromise from our side. This is just part of an



evolution of a growing company and we believe that whatever margins that we were enjoying earlier will come back in the coming quarters, we are very focused on that.

Moderator: Thank you. The next question is from the line of Sameer Shah from Value Quest. Please go ahead.

Sameer Shah: Sir, my question is regarding this cash flow, as the turnover is increasing, there is some cash requirements for working capital as well as the reported P&L is going down, then that increased turnover is actually negative for us. When we were growing at 9%, we were generating cash and we were making higher profits?

Arvind Kajaria: The way to look at it Mr. Shah is that in our model and in our business, we become valuable to our vendors only when we keep on giving them a good growth in top line and from our financial perspective more and more operating leverage kicks in. In our model, I have said it many times that the way to finance the inventory ultimately will be the suppliers' credit. Now, suppliers' credit takes a little time, it is a step wise process, it is a confidence building exercise, however, we do not want to lose the momentum in the market which is currently over there because in such a large market consolidation kicks in sooner or later and we want to be part of the top 10% rather than the bottom 25% to 30%, so in the interim what we are saying is while suppliers' credit catches up, we have cash on the balance sheet and we are leveraging that to fuel our growth. At one point, hopefully with every quarter, you would see a day or two improvement which will fund the inventory, so there is no change in our model is what I am trying to tell you.

Sameer Shah: Now, we have exhausted the cash that we had and we will now have to take debt if we want to continue the way it is?

Arvind Kajaria: That is not part of our plan, this is within the cash in our balance sheet which is what we are utilizing. We do not plan to go for additional debt beyond what is available in our balance sheet and we believe that much cash is healthy enough to enjoy the top line that we are currently experiencing.

Moderator: Thank you. The next question is from the line of Rajnath Yadav from Choice Equity Broking. Please go ahead.

Rajnath Yadav: Sir, I have couple of questions, can you let me know what was the volume of the orders which we have shipped in FY '18?

Arvind Kajaria: We do not have the exact numbers, the graph representation is on the presentation that we have put, we will try to give you that number soon.

Rajnath Yadav: Sir, in this quarter the top line growth was very good, so what was the reason behind that?

Arvind Kajaria: The reason is basically deep relationship with our vendors, our automated inventory module, ordering module and the fact that we still retain the highest ratings on all the marketplaces, we



continue to enjoy customer support and our ordering systems make sure that we are always in stock, so combination of all of this is what is leading to the growth and we are confident of keeping up with this growth moving forward.

Rajnath Yadav: Sir, it was great that you have mentioned this adjusted gross margin in the presentation, but I have seen that it has declined both sequentially and on an annual basis, so is there any other concern apart from this traditionally weak quarter which has led to the contraction in the margin?

Arvind Kajaria: There has been no sudden events or any events to speak of except that we sold, we had a bumper sales in a particular high-value item where the shipping cost is lower, but the COGS is higher because of the average order value. Additionally, we participated in a promotion by the marketplaces, it has been going on for six months now where the marketplace sees the charge much lower than the traditional 15%, so by virtue of that the COGS tends to go up because that is where the maximum hit is taken, but from our perspective, the margin what you have seen the fall is only because of the cost of top line growth because of introduction of new products from existing vendors, which will give fruits later on.

Rajnath Yadav: Sir, if you see the sales and marketing expenses, as a percentage of sales it has declined from 14.5 to 12.8, so can you explain how we are able to improve that?

Arvind Kajaria: Like I said earlier, we are selling electronic item where the marketplace fees is much lower compared to the traditional 15%, so that has reduced as a percentage but because of that the COGs has gone up, which is what you are seeing. There has been no change in model or change in pricing which has led to the fall in margin.

Rajnath Yadav: Sir, in the last meeting you mentioned that a market consolidation is going on among the third-party players, so can you update on the same and also kindly update on the company's venture into vitamins and prescribed medicine business?

Arvind Kajaria: It is not specifically for us because as any industry matures there tends to be more serious players, more healthy players, and recently I read a report where 20,000 sellers have crossed a million dollars in sales, so that is in my view that is a consolidation. About vitamins etc., new categories we take up as it comes along. The opportunity for the current categories that we have is so large and we are still a very small drop in the ocean, so we would like to among the leaders before we start taking on new categories. I am not saying we will not but that will come at a later stage when we are able to grow the sales and keep our current category vendors much happy.

Rajnath Yadav: Sir, can you give the data for this free cash flow for this quarter?

Mohit Kumar Jha: I have the annualized figure, and that is 58 crores negative free cash flow.

Moderator: Thank you. The next question is from the line of PK Agarwal from Tracon. Please go ahead.



- PK Agarwal:** As I can see in your figures, you have a cash equivalent at Rs. 79.41 crores, but at the same time your long-term loan has gone up to 79.47 crores in Financial Year '18 as compared to 16.27 crores in Financial Year '17, so if we have our cash equivalent to 79 crores then how come your long-term loan has gone up and that is a matter of concern?
- Mohit Kumar Jha:** Let me explain to you what is happening, if you see the balance sheet we have some investments, we have taken SBLC limit against that and we are using it as working capital in the US. It is pledging and then borrowing against that, so that is the other income that you see in the financials, if you see income from this investments and the finance charges is what you see as a cost of borrowing.
- PK Agarwal:** Margins will be under pressure because of this long-term loan?
- Arvind Kajaria:** They are offset by the income in other income.
- PK Agarwal:** Okay, if that is the case because otherwise you can save interest on say about 79 crores, that should be a huge saving which can uplift your bottom line?
- Arvind Kajaria:** Yes, the way we tend to finance the inventory is by increasing the suppliers' credit, but we do not want to lose on the top line growth in the interim, the way to increase if you see the suppliers' credit, we have increased it from 17 crores to 35 crores, that comes as an interest-free to us and we believe that is our model and that is the way we intend to grow. In the interim because there is a strong momentum, we have used the cash in our balance sheet to fund the difference.
- PK Agarwal:** Okay, so your point is on one side you are funding your suppliers', on the other hand you are increasing your long-term loan?
- Arvind Kajaria:** On one side we are getting funded by our suppliers', not funding, so as that goes up our loan will reduce. Now, if you were not to grow the top line then this situation wouldn't occur, but because there is a strong momentum in the market which we want to capitalize on, we have taken this route.
- PK Agarwal:** What you mean is that your long-term loan going up from 16 crores to 79 crores is not a matter of concern to you?
- Arvind Kajaria:** No, because the inventory is there on the asset side.
- Moderator:** Thank you. The next question is from the line of Nishit Rathi from CWC. Please go ahead.
- Nishit Rathi:** Arvindji, just one question, I just wanted to understand is there anything specific that has caused our inventory turns to kind of reduce a little bit from 18x last quarter, we have been maintaining an 18x asset inventory turn in Q2 and Q3, it has fallen to 16x, so anything specific and what are the qualitative factors affecting this?



- Arvind Kajaria:** I will be happy to answer that, so if you do the math Mr. Rathi, out of the 124 crores that we have 17 crores is actually material which is already left our warehouse to be delivered to the customer, which technically should not form our inventory but as per GAAP rules, we have to report it as part of inventory.
- Nishit Rathi:** That number we would have had in opening balance also, right, in last quarter also 90 crores inventory you had 45 crores goods in transit?
- Arvind Kajaria:** Correct, because the top line is growing, this number will continue to see growth.
- Nishit Rathi:** The inventory turn average is basically your full quarter average inventory versus you are taking the average inventory there for the quarter, right?
- Arvind Kajaria:** That is right.
- Nishit Rathi:** If you are taking the average inventory is basically, the sales momentum has slowed down a bit on the asset turn, I am just trying to understand maybe we are stocking a little bit more to be adequate or maybe the sales momentum has slowdown a bit?
- Arvind Kajaria:** I do not think so that is the case Mr. Rathi, what I am trying to tell you is that we do not look at a particular date before we enter and order the stuff. Basically now our ordering system is automated, so that is as we order the inventory as per demand, so 48 crores of that inventory has not even reached our warehouses yet, it is all fresh inventory. Now your question on why the turn reduced from 18 to 16, it could be because of seasonal factors, it could be something which is on a day-to-day basis. The way to look at it is the range is between 16 and 18, I do not think so it will fall below 16 and I do not think so it would rise beyond 18, it is just that in this particular quarter, we may have ordered more than what was ordered earlier quarter. Now, that from our perspective is very good because that means that we are projecting to have because of that inventory a higher turnover.
- Nishit Rathi:** Sir, inventory has gone up from 90 odd crores to 120 crores and I am saying that we adjust the outbound inventory from both the sides, logically, we have increased inventory by anywhere between 25% to 30% for the current quarter, so if our inventory turns are not going to fall any further, is that an indication of how the sale should go?
- Arvind Kajaria:** Absolutely, that is what I am trying to say is that from our perspective there has been absolutely no change and because of our technology modules that we built, we are very sure that whatever we are ordering is going to be sold.
- Nishit Rathi:** 16 to 18 is something which you track very, very closely because it is an automated thing?
- Arvind Kajaria:** Correct, so I do not think it will fall below 16, 16 to 18 is what you should take it.



Nishit Rathi: Also Arvindji, if you could also give some sense on the qualitative aspect of how we stand, if you could give some color as to who are the key competitors in each of our segment maybe not this time, going forward because that is something since the space is evolving so fast, how is our leadership position evolving in different segments, like we are part of three to four segments, like house furnishing and sports and all of those things, toys, if you could give us how do we stack up, it will be very, very helpful for us?

Arvind Kajaria: I can throw some light on it, so the best way to understand the space is to read the Internet retailer outlook and they give segment wise data on how each sector is providing, but for your question on our part, the market size is so large and there are so many players that it is impossible to get a leadership position at this stage, which is what we are endeavoring to increase our top line so that we get to that status, but in each of the categories the sales online and all on these platforms are maybe 20 to 30 times from where we are right now, which has been occupied by the other players, so we do have that opportunity to grab that marketplace, which is what our endeavour is.

Nishit Rathi: Arvindji, I read the Internet retailer, the question I am not able to understand is that not many 3P players who are above us and especially in those categories, so that is the reason why I was trying to understand because you will be seeing competition directly in the marketplace, so if you could give us some color there, it will be very, very helpful. We have read the Internet retailer, we have seen the players out there and there are four to five players in the top 300, but we cannot find who are the guys competing with you in your categories specifically?

Arvind Kajaria: In our next update we will try and give a slide on competition, which should be helpful for you, but just to disclose that there is a lot of competition over there, maybe they are not as big as ours yet and which is why we follow a pattern of growth because we do not want to allow people to come into this market very easily, but we will share a slide with you next quarter that should give you more insights.

Moderator: Thank you. The next question is from the line of Amit Agarwal, an Individual Investor. Please go ahead.

Amit Agarwal: Sir, could you throw some light on other general expenses?

Arvind Kajaria: What light you want, Sir?

Amit Agarwal: Because all your major expenses have been covered in sales and marketing and shipping, so what other expenses you have because there is 14 crores, so annually that is pretty big amount, is this rent of building or what?

Arvind Kajaria: This includes all the Internet connectivity, it includes the server charges, the cloud charges, the travelling up and down, the rent, the telecommunication, and everything else that it takes to run the company, you will see that we have been gradually reducing that and having the operating leverage kick in.



Amit Agarwal: The second question because last year you told us we will be increasing our top line without increasing the debt, so this year you have changed the business model a bit, so is this temporary thing or it is going to be permanent that you keep on increasing debt for the better top line growth?

Arvind Kajaria: The supplier credit is a way we intend to finance the growth, Mr. Agarwal, but in the interim if we do not use our own funds then we will be losing the market opportunity out there. I repeat that moving forward, we tend to finance the entire inventory by suppliers' credit, but that is going to take some time and each quarter we intend to bridge that gap. What debt you are seeing is possibly the maximum debt that we are going to use to grow the business, I do not anticipate that debt levels to go beyond that, so the way it works is that if it is a Rs. 100 debt and we get additional Rs. 20 from suppliers' credit over the next two quarters then that debt would come down from 100 to 80 rather than go from 100 to 120 irrespective of the growth in top line.

Amit Agarwal: My another question is, Sir, last year we had no debt, but still we were able to grow 30% in constant currency, this year we have increased that, so are we supposed to believe that we might grow at the rate of 40% in constant currency this year roundabout if not the exact number, roundabout 40%?

Arvind Kajaria: The problem or the opportunity both is that the Prime customers now want same day or next day delivery, which means that if you do not have the goods in stock you cannot continue to service the Prime customers and they are almost forming 30% to 40% of the entire user base, which is why we are financing and increasing the inventory because we do not want to lose our opportunity, so if you calculate the amount of inventory that we have minus the 17 crores which is technically already sold and multiplied by the average turnover ratio then you should get some sense of what our top line possibly could be. In my opinion, we are on track to do that and we have shown that suppliers' are with us because we have increased that by one-day and I have a fair view that this would continue to increase, but this is a step-by-step process, which cannot be changed.

Amit Agarwal: This year we might be touching 1600 crores turnover or roundabout?

Arvind Kajaria: Whatever that mathematics comes to, yes.

Amit Agarwal: Sir, you talked about the software that will help in delivering the goods faster...

Arvind Kajaria: Correct, and cheaper.

Amit Agarwal: But I assume that mostly your goods are delivered by Amazon because they are FBA, so how does that software help in delivering the products faster?

Arvind Kajaria: The 50% of our business is still drop-ship and the warehouses be it Amazon or any other warehouse does not accept a product which has two packages, so you cannot put a table and chair in a warehouse for example, that would continue to be drop-shipped. Now, as our business



is going up, so is the number of drop-ship packages and this software will help us identify the most efficient routes and possibly the most profitable transit times. This is the mode we are trying to create, so when it comes to drop-ship, all the other factors can equalize, but the biggest cost is shipping so we believe that we are going to shave off 7% to 8% of the shipping cost once this software is ready and that will give us a very strong competitive edge in the drop-ship segment of our business.

- Amit Agarwal:** Sir, this drop-ship method is basically third-party courier service?
- Arvind Kajaria:** Yes, we use many, many courier services, we use many, many what is called less than total load carriers, which are enough of them, but because they are so many of them, it is very important to identify which is the cheapest source and shortest transit time.
- Amit Agarwal:** What is the area of the country you are covering in the drop-ship method in USA, is it 100%, 50% or more than that geographically?
- Arvind Kajaria:** Geographically, we are 100% in the US.
- Amit Agarwal:** Geographically 100%, you can drop anywhere?
- Arvind Kajaria:** Yes, anywhere in the continent of United States.
- Amit Agarwal:** Plus, there has been talk by Mr. Trump that he is going to increase the postal services for Amazon particularly, if it happens will it affect us negatively or it does not matter to us?
- Arvind Kajaria:** So long as it is industry wide and not particularly 123Stores than the cost increase, if it happens at all, it will be factored into price and it will not affect us directly.
- Amit Agarwal:** What percentage of our goods are delivered by the USA postal services?
- Arvind Kajaria:** USPS is very good in smaller packages, less than 2 Kg or 1 Kg.
- Amit Agarwal:** What percentage of goods are then delivered through them?
- Arvind Kajaria:** I do not have the figure with me, but my best guesstimate would be that it would be anywhere between 7% to 10%.
- Moderator:** Thank you. The next question is from the line of Jay Tejwani from AQF Advisors. Please go ahead.
- Jay Tejwani:** Sir, you mentioned that electronic product, what is this as a percentage of our total sales for this year as well as the quarter?



- Arvind Kajaria:** I do not have that figure in front of me, but it would be we have seen a bump up in sales of that one particular vendor who we have a very deep relationship with. In my guesstimate, it would be anywhere between 10% to 12%.
- Jay Tejwani:** How do you see this moving forward?
- Arvind Kajaria:** We will continue to grow our relationship with the vendors, if the product sells and we make a margin on it, we will continue to sell because the more we sell then the operating leverages kick in. It is not only for this product, it will go for all the products that we deal in.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** My question is that what is the cost of debt we have, short-term and long-term?
- Arvind Kajaria:** It is linked to prime rate in the US and normally it is for good company, this couple of percentage points above the prime rate.
- Giriraj Daga:** Would it be able to have the number for us?
- Arvind Kajaria:** Generally, it is anywhere between 2.5% to 3% above the prime rate.
- Giriraj Daga:** What is our investment we did last year?
- Arvind Kajaria:** Sir, you can see it in the other income.
- Giriraj Daga:** That is roughly about 6% to 7% in between?
- Arvind Kajaria:** Yes.
- Giriraj Daga:** Second, what is the limit we have on the long-term and short-term debt, you must have tried some limit in terms of amount?
- Mohit Kumar Jha:** Limit is there, we are enjoying 11 million with one of the financial institutions, \$ 11 million and approximately \$ 5 million with another bank, so it is \$ 16 million overall.
- Giriraj Daga:** My next part of question is coming on inventory, so just some clarification required, there are, when we say look at the balance sheet, we look at the number of 124 crores, but when we look at the factsheet, we look at a number of 59 crores, if you can just give the difference between these two?
- Arvind Kajaria:** Because of GAAP accounting, 17 crores is something which has left our warehouse, sold, but yet to be delivered to the customer and approximately 47 crores has left the vendors warehouse, but has not reached our fulfillment centre, and 60 crores is actually in the warehouse, so $60+17+47$ should exactly give you the numbers that you are looking for.



- Giriraj Daga:** This end of paid inventory is warehouse inventory, which we talked about?
- Arvind Kajaria:** Yes.
- Giriraj Daga:** My next is on the payable side, like what percentage of our customers are on cash payment basis as of now?
- Arvind Kajaria:** I would say less than 10%, we are not favoring those vendors that we have to pay upfront. We are moving on and have moved on to a completely credit model, but with some of them we are hitting the limits, so it is a gradual process it will take some time.
- Giriraj Daga:** Sir, correct me if I am wrong, but you have 48 crores worth of goods which is left from the vendor and which is booked in our accounting in the 124 crores, but should not that be part of our trade payables also or have we paid cash to them?
- Mohit Kumar Jha:** All these goods are on the way to our warehouse and this is part of our goods in transit and whatever is the money payable to our vendor or suppliers', that forms part of our trade payable.
- Giriraj Daga:** When I look at the number, it is 35 crores?
- Arvind Kajaria:** Yes, so the differential is what we have invested.
- Giriraj Daga:** But ideally when you have not even received the goods, so you must not have paid them, right, I assume only 10% must have gone through?
- Arvind Kajaria:** Correct.
- Giriraj Daga:** I assume out of 48 crores, 40 crores at least must have come from at least transit vendor side of it and other payables must have been 20 or 30 crores whatever be the number?
- Mohit Kumar Jha:** Mr. Giriraj, we enjoy the credit limit with the vendors, so whenever we hit the credit limit so we need to pay, so that does not mean that we do not enjoy the credit limit, so it is a combination, so by seeing the numbers on the balance sheet, I do not think you will be able to fetch any data in terms of percentage.
- Giriraj Daga:** If you can just help me on this part, that the 48 crores worth has left from the vendor warehouse and have we paid them in cash or have we not paid them, if we have not paid them then that must be part of the payables, right?
- Mohit Kumar Jha:** If you would have the credit limit with the vendor then we would have paid by March and that will not form part of credit payable as on that date.
- Giriraj Daga:** My last question, when we calculate the inventory on TTM basis, we show 22 days so that only the warehouse inventory we talk about, not the total part?



- Arvind Kajaria:** Correct.
- Giriraj Daga:** But still when I look at year-on-year, we have moved from 27 days to 22 days while our inventory has doubled at our warehouse from 29 crores to 59 crores, our revenue has gone up by about 25%, still our days have gone down?
- Arvind Kajaria:** You mean from 18 to 16?
- Giriraj Daga:** No, I mean from 27 to 22 days, the inventory days TTM account?
- Arvind Kajaria:** That was much at a smaller inventory.
- Giriraj Daga:** But that was 29 crores, right, 29 crores last quarter the warehouse inventory which has become 59 crores this quarter, so it has more than doubled?
- Mohit Kumar Jha:** Our inventory at warehouse in the last quarter was approximately 47 crores, now it is...
- Giriraj Daga:** I am talking year-on-year?
- Mohit Kumar Jha:** Year-on-year it was from 29 now it is 59.
- Giriraj Daga:** Correct, but our working days is showing 27 days to 22 days, it is showing declined, ideally it should have gone up, right?
- Mohit Kumar Jha:** Mr. Giriraj, you need to see the top line growth as well.
- Giriraj Daga:** Yes, it is 25%, right?
- Mohit Kumar Jha:** It is 37% for the quarter.
- Giriraj Daga:** For the quarter, but for the full year it is 25%...?
- Arvind Kajaria:** Mr. Giriraj, the buildup of inventory has been more towards the end period, so while you are calculating on a year wise, the maximum inventory has been built up in the February-March quarter, so you cannot average during the year.
- Giriraj Daga:** This is monthly average or daily average, inventory days which are calculated is monthly average?
- Arvind Kajaria:** It is quarterly average, yes, so if you now calculate on the quarter wise basis you will get the answer that you are looking for.
- Moderator:** Thank you. The next question is from the line of Rahul Dhruv from Pegasus. Please go ahead.



Rahul Dhruv: My question is answered, but I just want to again ask you on the debt, let us assume you have a 40% growth in top line this year, would you expect that debt levels at the end of the year to remain at where they are all over?

Arvind Kajaria: Let me explain that Mr. Dhruv, we use the cash that was available to fuel the top line, without inventory there is no top line. Now, our model and I have been repeatedly saying is one that will use the suppliers' money to fuel our growth including that of the inventory, so moving forward on a continuous basis, we expect this to come down on a consistent basis. That said, with the top line going up, you will see an increase in absolute inventory because without the absolute inventory we cannot fulfill the Prime customers orders that are available to us.

Rahul Dhruv: Which means the debt level can go from here?

Arvind Kajaria: No, but I have said that in just a little bit earlier that we do not anticipate it increasing the debt much further, that is not our model, so I am trying to answer your question directly now is that we do anticipate our bump up, so if we increase from 17 to 35 on suppliers' credit, if that should double from here by the end of the year then we do not need to borrow that extra 35 crores. If you are not able to do that then of course we will not go for that stupendous increase in the top line, so our model is clearly not to borrow money to raise inventory in top line beyond what cash we have comfortably available with us, beyond that we would look strictly at suppliers' credit.

Rahul Dhruv: Right now, the debt level is the same as the cash level?

Arvind Kajaria: More or less, so I think that is an optimized debt level that you are seeing right now, this is more to prepare for the big days that come up during July and moving forward as well, plus the top line is going up so we would definitely need to keep a higher inventory, and I would say that this is one of the highest levels that you can see of debt.

Rahul Dhruv: The net spread, the returns that you are getting on your cash versus the interest that you are paying on your debt is the spread negative or positive?

Arvind Kajaria: No, you can see that, the difference is between the other income and the financial charges.

Rahul Dhruv: So other income is totally that only?

Arvind Kajaria: Yes.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from AshMore. Please go ahead.

Ashwini Agarwal: Few questions, first is that this non-current investments and current investments, what are these assets, could you help me understand what type of investments are these?

Mohit Kumar Jha: Non-current investment consists of investments in bonds and NCDs.



- Ashwini Agarwal:** These are all in the US or they...?
- Mohit Kumar Jha:** No, this is in India with the parent company, IntraSoft.
- Arvind Kajaria:** I believe that all of them are mentioned in our balance sheet Ashwini, if you just have somebody look at it.
- Ashwini Agarwal:** The latest one is not released?
- Arvind Kajaria:** No, even the last one, you will get a flavor of what our investments are like and the balance money, the long-term is all in debt mutual funds.
- Mohit Kumar Jha:** Yes, Ashwini, you are right, full balance sheet is yet to be released, so on the face what you are seeing is the non-current investments in bonds and NCDs.
- Ashwini Agarwal:** Current investments are also in India or these are cash balances in the US?
- Mohit Kumar Jha:** No, these are again investment by parent company, IntraSoft, in the form of debt mutual funds.
- Arvind Kajaria:** The revenue of that is recorded in the other income.
- Ashwini Agarwal:** The second question is that is there a change in strategy in the sense that four quarters ago the sense that I got was that you had deliberately slowed down growth because you did not want to buildup debt and the effort was to fund the growth through suppliers' credit, but over the last four quarters, what has happened is while your growth has picked up, your supplier days have come down resulting in some buildup of debt, so is there a change in strategy that you said that you felt maybe that you were foregoing a lot of growth by being more conservative, is it a conscious stepping away from what the strategy was four quarters ago?
- Arvind Kajaria:** Not really Ashwini, let me expand on that. When we had our conference call four quarters ago, we were changing our model into suppliers' credit, which is why we slowed the growth. Now, that what I have been consistently saying is that, yes, we are enjoying the suppliers' credit, but it is a step-by-step process, but our sales demand is far more than the pace that we are enjoying with our suppliers' credit, so we have one of two choices either we slow the top line and grow the company much lower than it is capable of or have the confidence and invest the surplus money with us to fuel the growth and eventually help suppliers' credit, so I am repeating and I am again telling you that it is our model that eventually suppliers' credit will fuel this entire inventory buildup because without inventory, there is no top line growth, so there is no change in the business model at least from our perspective.
- Ashwini Agarwal:** The other thing that you mentioned in response to an earlier question is that your vendors have not really changed while your number of SKUs have gone up, so presumably you are dealing with the same relationships, that is kind of mystifying is it not that even though you are having deeper and deeper relationships with the same vendors, your credit is not coming through?



Arvind Kajaria: You have to go through the CFO Department, they want the quarterly balance sheet, you have to wait for your ratings to go up and you do not want to be seen as somebody who is always short and only working with them to get suppliers' credit. In the real world, it just does not work like that, it works that it is an ongoing process, it is not a destination it is a journey, so if you keep on performing well and the relationship keeps on happening, the credit would automatically come. They can also see that we are not ordering because we have filled up the credit and that is when the sales team wants the financing to raise the credit, so that is a journey, and if we were not confident of the buildup then probably we would have not gone this route, but our ordering software is perfect, which is what gives us the confidence, so why should we lose out on the growth, which is where we are, so if you were not to grow at this level then of course we would not need this inventory and the whole thing would be seen which is very evident from if you see our December '16 numbers, we did not grow, so we had lot of surplus cash, but what I am saying is that we are very confident of this and anyway 17 crores of this is something that has been sold. Only to comply with the accounting norms, this is being shown as inventory.

Ashwini Agarwal: That was going to be my last question, I mean again I am a little lost here because what you have sold and is on transit out is also counted as inventory, what you have purchased and is transiting in is also counted as inventory...

Arvind Kajaria: Correct.

Ashwini Agarwal: This is kind of insane accounting is it not?

Mohit Kumar Jha: Mr. Ashwini we have two types of Goods-in-transit, one is that goods in transit inward, which is from suppliers' warehouse to our warehouse, and one is goods in transit outward which again has two parts, one is from suppliers' warehouse directly to the customer and one is from our warehouse to customer, so that 17 crores which Mr. Kajaria was mentioning is the goods which is from both the warehouses to the customer's place and pending delivery, so as per US accounting policy, we only recognize revenue from sales of products upon delivery to the customer.

Ashwini Agarwal: The ownership does not change based on the order and the credit card details being received and the consignment being shipped, that is what normally when a sale would happen, right, the moment the order is received and payment is made the sale is done or you recognize it at the point it is delivered?

Mohit Kumar Jha: Yes, we recognize on delivery.

Arvind Kajaria: We wish for it to be the way you are suggesting Ashwini, but these are the accounting rules and we have to recognize it at delivery, but that is why we have disclosed that, it is very clear for you to see what are the three elements of the inventory that we have.

Ashwini Agarwal: Sure, but that does not apply to your purchases, I mean that is kind of weird, it does not apply to you, your purchases are your stock the moment your supplier ships it, the two do not make sense?



Mohit Kumar Jha: Mr. Ashwini it all depends upon where the risk and reward is transferred for goods is concerned, so this is the terms you need to.

Arvind Kajaria: We are billed on shipment, Ashwini, so the moment that bill is generated, it is treated as per accounting norms onto our books, so that is why it forms part of goods-in-transit inwards, but you can see the numbers.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, couple of questions, firstly two years back when we were growing at 100%, then we changed our model, now we are in the process, right now we have not achieved an optimal stage of suppliers' trade. The moment we achieve that, do you think the growth rate can revert back to the historical rates or if not then what will it take for the growth rate to accelerate that level?

Arvind Kajaria: When you see growth rate at historical level, Gaurav, what do you mean?

Gaurav Rateria: Prior to Fiscal '16, like Fiscal '15, Fiscal '14?

Arvind Kajaria: Those were at much lower bases, as the base increases our growth will be more centered around you know risk, reward and around the resources that we have. The model clearly is to make sure that our relationship continues to flourish and our technology led deliveries platform continues to deliver at delightful rates of 97% and beyond at the shortest possible time, so long as we have been achieving both of this and the cash flow is managed by suppliers' credit, we will continue to grow at whatever that level be. The addressable market is large as we all know. It is a question of operating efficiency which we are again and again focusing on and we are, so I do not think so that the levels of 100% that was on much lower base will be reached, but I think the best is yet to come.

Gaurav Rateria: Arvind, are we averse to doing some categories because of margin issues or it does not matter as long as our relationship with the vendor is great, we will probably go across different categories?

Arvind Kajaria: In the current categories that we are, we are nowhere. We are still a drop in the ocean, there is a huge marketplace out there, so we want to make sure that we have covered all the top suppliers' in the categories that we have rather than spreading ourselves thin and go onto more categories. We will go, but at a later date when we have fully or at least substantially developed our sales in these categories for which we believe that there is a long way to go.

Gaurav Rateria: How many more vendors we can potentially add over let us say period of two to four years?

Arvind Kajaria: The universe of vendors is exceptionally large, I am sure you are aware of that, but traditionally we have been adding around 50 to 60 vendors a year, we will continue to do along that path, but we changed our model two years back, we would not like to enter vendors that need cash



payments, so it will probably be gradual, but around 40 to 50 vendors is what we believe can be done.

Gaurav Rateria: Last question from me, very high level views from you with respect to any competition in the categories where we operate from the private labels of the large e-commerce companies? Thank you.

Arvind Kajaria: Competition is always there, the idea is to keep creating a more efficient delivery system that can outpace anybody else. The edge that one can have is that if competition is agreeing or staying on the website that they will deliver in six days if you can do that in five days then it automatically comes to you, so the real competition is how to become more and more efficient, but yes there is a lot of competition out there, I do believe that, we are very favorably placed as of right now.

Gaurav Rateria: You would not be overtly worried about any private label concerns of the large e-commerce companies in the categories where you operate?

Arvind Kajaria: They have been already there for some time, it is not a new phenomenon and you know there are enough people out there with their own labels looking for third-party people to take them online, so I think even if we have to grow many, many times from here I still think that we would not have exhausted the market.

Moderator: Thank you. The next question is from the line of Sameer Shah from Value Quest. Please go ahead.

Sameer Shah: Sir, what would be the cost of this new software and how will that be accounted?

Arvind Kajaria: We have basically embarked on a project which is basically AI based which will help us reduce the transit time as well as the transit cost, so this is expected to give us the shipping edge for our drop-ship packages.

Sameer Shah: In terms of quantification, this will be rolled out this year?

Arvind Kajaria: Yes, we just started it from this year, I will be able to give you more light on it in my next conference call.

Moderator: Thank you. The next question is from the line of Ruchi Agarwal from SKP Securities. Please go ahead.

Ruchi Agarwal: Sir, I just have a question regarding your inventory, you explained that though 17 crores are inventory outwards and the 48 to 49 crores is inventory inwards, but those 49 crores will also be recorded as inventory outwards in the suppliers' book as per US GAAP rules because we are accounting for both inwards and outwards, suppliers' have to account for the outwards, right?



Mohit Kumar Jha: Ruchi, since we are booking this on a shipping point, so the risk and reward and everything has been transferred to us, so this goods cannot appear in both the books since we have recorded this is an inventory, so supplier will not record this is as an inventory at their point.

Ruchi Agarwal: We are recording inventory in our books for the suppliers' at the shipment point and for the buyers at the delivery point, right?

Mohit Kumar Jha: Yes, that is right.

Moderator: Thank you. The next question is from the line of Satish Bhatt from Anvil Share & Stock Broking. Please go ahead.

Satish Bhatt: Sir, last two quarters you started gaining momentum in the business and I just wanted to know whether this momentum which has just developed, which is going to accelerate because of your new philosophy of ordering on with a new inventory software, so it would be right that we should be growing at 40%, 50%, 60% from here, because now the kick has to start, so do you think the inflection point has come for a super at least a growth which is where twice what we were reporting maybe last year something like 25% to 30% or what is the inflection point you are seeing for that growth to just pick up to 40%, 50% to 60%?

Arvind Kajaria: Thank you for your question, Mr. Bhatt, yes if you have been following us, we first needed to get the technology done, which is out of the way then we needed to make the ordering system which is out of the way, so now we are absolutely ready to press the accelerator which is exactly what we have done from this quarter onwards, which is what I said in my earlier con call. The question is how much of suppliers' credit can we get to fuel the growth, because the more growth that you have, if it is not backed by suppliers' credit then we have to put in our own money, so which is what I have done in this quarter, so hopefully, you will see a corresponding increase in suppliers' credit, which will continuously fuel the top line.

Satish Bhatt: Whether you are able to see 50%-60% growth, maybe a quarter or two quarters down the line, that is my basic view?

Arvind Kajaria: Absolutely, that is what we are endeavoring to do, but we are limited by the fact that we will not like to increase our debt beyond what is available as cash in our balance sheet, we are very clear on that.

Satish Bhatt: Does that mean that you are AP days has to go up drastically by 7 to 8 days during the course of the year?

Arvind Kajaria: It may not go in the course of the year, but even if we improve by one day in a quarter that will cause the kind of growth that we are talking about.

Moderator: Thank you. The next question is from the line of Mehul Sanghvi, an Individual Investor. Please go ahead.



Mehul Sanghvi: I am an individual investor, my question is very simple and very clear, when would the shareholder believe that sales to market gain is 1x or 1.25x, so being a shareholder, when will the value be created by you in coming days or coming years, I need a very simple answer from you. I heard everything from your sales perspective, your cycle perspective, your GAAP perspective everything, but my question is that, when would I expect sales to market cap of 1 time or 1.25x, when would the market behave such? What will you do to create value for shareholders in the coming years, please?

Arvind Kajaria: Our endeavour is to increase our cash flows, our top line, and we believe that the way to do that is to increase the suppliers' credit. As the money comes in and it fuels growth without the investment of our own capital, I believe you will see that. In the interim, we are going to use our funds to finance, so in any case once our business model is better understood then hopefully you should see that you are aspiring to.

Moderator: Thank you. The next question is from the line of Varun Ghia from Equitree Capital. Please go ahead.

Varun Ghia: Sir, one last question with regard to the tax from this year the tax rate would be around 20%, right?

Mohit Kumar Jha: Our average tax rate would hover around 20% to 21% from this current financial year onwards.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Arvind Kajaria: Thank you everybody for your deep interest in IntraSoft Technologies. We appreciate your questions and we will try our level best to answer and shape whatever we can in the near future. Thank you for your interest. All the best.

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