



IntraSoft Technologies Limited

“IntraSoft Technologies Limited Q4 FY-19 Earnings Conference Call”

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IntraSoft Technologies Limited



**MANAGEMENT: MR. ARVIND KAJARIA- MANAGING DIRECTOR.
MR. MOHIT KUMAR JHA- CHIEF FINANCIAL OFFICER.**



Moderator: Ladies and gentlemen good day and welcome to the IntraSoft Technologies Limited Q4 FY19 earnings conference call.

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

Today, we have Mr. Arvind Kajaria – Managing Director of IntraSoft Technologies, and Mr. Mohit Kumar Jha – CFO of the company.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now 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 wanted to thank you for dialing in to our March ‘19 Earnings Call.

We have uploaded the investor presentation and financials on our website. Kindly note that we have presented our performance for the e-commerce business in the press release and presentation, as the company’s primary business is in the area of e-commerce, carried out by its wholly owned subsidiary 123Stores, Inc. in the US. Accordingly, the updates for e-commerce reflect the consolidated performance of 123Stores, Inc. only, and not the consolidated operations of IntraSoft Technologies Ltd. I would now like to start the discussion.

We are delighted to deliver a year of cash flow performance. This year was distinguished by a conscious revenue reduction, with the intent of first enhancing revenue qualitatively by making it cash flow accretive. Looking at the last 8 quarters, in terms of operating cash flow vis-à-vis revenue, we clearly see this qualitative shift. Cash flow generation has strengthened, even at lower levels of revenue, as against comparable periods of the last financial year.

This year was a year of consolidation. Data and learnings, acquired over the years of consistent scaling, have now been consolidated into our delivery engine and marketplace expertise. This has strengthened our value proposition to the brand partners. It has furthered the preferred seller status accorded to us by our long-standing marketplace credentials. Our performance in terms of accounts payable days is reflective of the confidence that our brand partners have in us as their partner for online selling.

This confidence also has a direct bearing on our inventory profile, which we saw improving over the year. Over this period of consolidation, as sales decreased, the inventory turns came down. Going forward, as we get back on the sales growth trajectory and the inventory profile further improves, it will translate into inventory efficiency.



With this quarter, we concluded what we had set out for ourselves at the beginning of the financial year. The process of consolidating experience driven learnings is now complete. Our cash flow consistency, the driving factor behind reduction in long-term debt, has set the base for working capital efficiency and long-term sustainability.

With all of these components in place, we head into FY20 with the confidence and the ability to self-fund the coming growth, to deliver robust ROE year after year.

I take this opportunity to thank the team who have worked hard to make this happen. My gratitude also goes on to all our other stakeholders for their constant advice, encouragement and support.

I now hand over the floor to Mr. Jha, who will further discuss the financials in more depth. Thank you.

Mohit Kumar Jha:

Thank you Sir and good afternoon to all. I would like to start with the performance for the quarter and the financial year.

Revenue from e-commerce for the quarter was US\$23.83 million as compared to US\$43.71 million in the corresponding quarter. For the financial year, it was US\$118.16 million as compared to US\$179.40 million in FY18.

Operating margin for the quarter was 1.13% as compared to 0.94% in the corresponding quarter. For the financial year, it was 0.87% as compared to 1.88% in FY18.

Inventories at the end of March 31st was US\$14.33 million. Inventories include inventories at the fulfillment centers of US\$ 7.23 million, goods in transit from the suppliers to the fulfillment centers of US\$ 5.60 million and goods in transit to the customers of US\$1.50 million reflecting 5.7 turns on an annualized basis.

Accounts Payable at the end of March 31st was US\$ 4.18 million, as compared to US\$3.91 million last quarter and US\$6.24 million same time last year, reflecting 15.3, 14.7 and 12.9 Accounts Payable Days on an annualized basis respectively.

We generated operating cash flow of US\$0.71 million this quarter, which after accounting for US\$ 0.8 million tax paid in the quarter came to a negative cash flow of US\$(0.09) million. This is against a negative cash flow of US\$ (3.22) million during the same quarter last year, and a cash flow of US\$1.43 million in the previous quarter. For the year as a whole, we generated operating cash flow of US\$2.72 million as against the negative cash flow of US\$(8.23) million in FY18.

We repaid approximately US\$2.16 million of debt this financial year. Borrowings for our e-commerce division now stands at US\$10.03 million, though we remain net debt free at the group



level. Any cash surplus post reinvestment in operation would be used towards further reduction of debt.

Thank you everyone and we are now open to questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Amit Agarwal, an individual investor. Please go ahead.

Amit Agarwal: This is regarding presentation of the gross profits, my suggestion is if we include direct marketing sales expenditure that would give a better calculation to the investor for presentation of the gross profit, am I right or wrong?

Arvind Kajaria: We will consider it in the presentation.

Amit Agarwal: My second question is historical GPM has been roundabout 5.5% and this year it has been 4.11, is this the new normal or we are going back to 5.5?

Arvind Kajaria: Sorry historical what?

Amit Agarwal: Gross profit margin after deducting sales and marketing expenditure our gross profit margins have been 5.5 for last 2-3 years roundabout, 5.8-5.9 but this year it has been 4.11 and this quarter it is 4.69.

Arvind Kajaria: So, we cannot look at the margins in isolation Mr. Agarwal. It has to be looked at in conjunction with the cash flow, so when we achieved those higher margins we just talked about, we also had a cash outgo of 8.23 million last year which essentially means that to sustain that we would have to borrow more and more money.

Amit Agarwal: I'm not talking about the sales top-line; I'm just talking about margins by selling each and every product is 4.11 on total turnover which is less than last 2-3 years.

Arvind Kajaria: I'm trying to explain that. Earlier, we were investing more of our money so we were getting a better cash discount which was leading to higher margins but was backed by much higher inventory levels which is not what we are looking for in the future. So, if you remove that portion the margins may have slightly come down but if you see our cash involvement in the business, it has dramatically come down and which is what—I know you have been on my calls which is what—I have been trying to say for the last few quarters that unless we have a self-sustained growth model which allows us to take full advantage of the enormous market we had to correct that financial mechanism before we press the accelerator.

Amit Agarwal: That's what I am asking is it the new normal 4.50 or somehow we are going to get back to the 5.5 level getting better deal from the suppliers or something like this?



- Arvind Kajaria:** Right now our focus is on growth. We are back to growth from the April quarter like I said in my release and we may not look at margins on an individual basis, we will look at it with cash flow. If it comes with cash flow of course we will increase the margin. But for the time being that is where our focus is, so maybe it will take some time to get back to the margins that we were earlier enjoying but definitely we will not need to go back to the debt levels or the inventory levels that we earlier had which we think is a very risky proposition.
- Amit Agarwal:** Will the internal accruals be good enough to give us the sales growth of 20% or we should expect less growth this year itself, 10%-9% or flat growth something like that?
- Arvind Kajaria:** We have started the growth phase Mr. Agarwal and as you see in the financials and I'm repeatedly saying that now financial parameters are no longer a constraint to our growth which it was. So, we will now focus on expanding our sales team, we will expand our distribution, so all of those areas are what we are looking at. So, it may take some time to get back to the earlier levels but yes we are shooting for the earlier levels that we were growing at. But this time we will not require external money.
- Amit Agarwal:** Earlier levels means like 30%-40% or like what?
- Arvind Kajaria:** The market is certainly there and it is our endeavor and focus to reach those levels. It may take some time to reach those levels but we are certainly going to try and it is part of our plan to reach the earlier levels of 25% to 30%. But it might take couple of quarters of incremental push to reach those levels.
- Amit Agarwal:** And how is this quarter like already two months have gone for this quarter?
- Arvind Kajaria:** I've actually answered that. We have started on the sales momentum. It will take couple of quarters to build it out but I think the growth will come. We are all very focused on it.
- Amit Agarwal:** In this year there is a huge reduction in employee expenditure. Has there been a layoff or some expenses have been capitalized this year? Earlier it used to be at (+) 20, now this year it is 15 crores or roundabout.
- Arvind Kajaria:** I would request you to just go through my earlier conference calls and read that. Earlier our focus was on automation because without automation it is just impossible to consistently feed this level of delivery and the efficiency that the market demands. So, over the last year like I said all the learnings have now been automated, so those positions are no longer required in that particular department. So, they have all been automated and this is where our strength is going to come from.
- Amit Agarwal:** So, in the long run this expenditure is not going to go up on a very high percentage like 15-16 crores?



- Arvind Kajaria:** We expect it to work in terms of percentages. So, it will continue to be in the same percentages now when the sales rise. But this is where we spend the whole year doing the work and that is the achievement that you see.
- Amit Agarwal:** Since now you are cash flow positive, so this year the focus will be on reduction of the debt or will we be investing that much money into further inventory to boost up the scale of sales?
- Arvind Kajaria:** I have mentioned that the inventory should be backed by brand partner's credit. The entire inventory when it goes up it will be backed by credit, so whatever cash flow comes in will be used to pay the debt as Mr. Jha had mentioned in his speech.
- Amit Agarwal:** It will be just paying off the debt basically now?
- Arvind Kajaria:** Correct.
- Amit Agarwal:** That will be the focus?
- Arvind Kajaria:** We intend to see debt going down every quarter moving forward even though sales will go up.
- Amit Agarwal:** Our standalone company doesn't have much profit, so how is it possible the company is giving dividends outflow of 3 crores roundabout?
- Arvind Kajaria:** You have to look at it at a group level, so the parent company has got the fund which is invested in the mutual funds and the interest thereof is used to pay dividend to the shareholders. It's all there in the annual report, so if you would just care to go through it.
- Moderator:** The next question is from the line of Giriraj Daga from KM Visaria Family Trust.
- Giriraj Daga:** My question is on the growth side. When you mentioned that we are on a growth plan, so what number do we have in mind? So, will we again see the historically 25%-30% kind of growth or we have moderated in the growth number at 15-20 or 10-15, what is the number you have in mind for the full-year basis?
- Arvind Kajaria:** We spent the year getting our financial model into place like I just said earlier. Now we believe that phase is over for us as of March of 19, from April we have restarted our growth engine and we are actively making the sales calls etc. whatever it takes to improve the sales number now because now with the sales number it will come with cash flow. So, it might take a couple of quarters to reach the higher levels of growth but it is our intent and our focus to come back to the earlier levels of growth. Though it might take a couple of quarters for you to see it very visibly. But some growth you will begin to see from the current quarter.
- Giriraj Daga:** If you look at the balance sheet, our intangible asset has gone up by something like a 9-crore kind of a number. What is that pertaining to?



- Arvind Kajaria:** This is the delivery engine that we are investing in which if you see has a benefit by reduction in the shipping cost. So, we need to have one of the best delivery engines out there in the market place for us to be efficient and long-term relevant to the business.
- Giriraj Daga:** So, we are done with that investment or anything will spill over to FY20 also?
- Arvind Kajaria:** I believe some portion of that is still left. I will be able to give more color in the next quarter hopefully.
- Giriraj Daga:** How much cash you are holding in the parent company and what is the investment yield we are getting there?
- Arvind Kajaria:** Mohit would like to answer that question please?
- Mohit Kumar Jha:** Approximately we have around 72 crores of investments and our current yield on those investments on average basis would be 8% to 8.5%.
- Moderator:** The next question is from the line of Rahul Dhruv from Pegasus.
- Rahul Dhruv:** My question was on the toys inventory. Now the overall inventory has fallen to about 99 crores, how much out of that is in the toys that we have to still dispose over the next two quarters?
- Arvind Kajaria:** We have seen a systematic reduction Mr. Rahul. There may be couple of million still left in the toy section which is being sold gradually. We believe that during the course of the year it will be sold as we have been doing since the last year.
- Rahul Dhruv:** You don't have a number?
- Arvind Kajaria:** I just gave you a number. It's in the range of 1.5 to 2 million.
- Rahul Dhruv:** \$1.5-\$2 million?
- Arvind Kajaria:** Yes.
- Rahul Dhruv:** So, that's cleared out quite a bit?
- Arvind Kajaria:** Yes.
- Rahul Dhruv:** My next question was, you mentioned internal growth rate and internal growth rate is a function of two things, one is the operating margin and second is the receivable days or the working capital days. Now operating margin was in the range of 1.2 to 1.6, we have fallen from 2.6, this year. The key question for anybody who is trying to project going forward—I know it's not as simple but still project going forward—would be if the operating margin goes back to a 1.4%-1.5% level or not and that will decide our internal growth rate, so do you have any number on that which we can work with?



- Arvind Kajaria:** If I understood your question correctly, the focus is on becoming efficient. So, having optimized cost on Ops, on running the system which we have done if you have seen the automation benefits through reduction in overhead and employee expenses, that's one. The second is reduction in shipping expenses because you can go off there and you need to be fully automated and connected with many-many parties to get efficient. So, we do believe that the margins will go back but it's not going to be in a hurry. But it will go back in a systematic manner as we get more and more efficient. So, if you see the numbers we have got more efficient in those areas and we will continue to get efficient. So, to answer your question directly, yes we will go back but right now our focus is cash flow which means that we have got to use more and more of our earnings to invest into the sales team etc. So, you may not see a growth in margins on the face of it but efficiency will be there and we will use the money that is generated to expand the sales team and generate higher sales.
- Rahul Dhruv:** What I was trying to get to is that internal growth rate if you put a simple scale of OPM and working capital days, you basically come to a grade, and that grade would probably come to say at 1.5% operating margin with 20 days of working capital would work on to around 27% growth. So, if you want to look for that kind of growth you will have to achieve these two parameters which is working capital at 20 and operating margin at 1.5 and what is the journey to that or how long is the journey to that is what I'm trying to get?
- Arvind Kajaria:** We have started the journey. If you have seen the AP days have gone up, so the credit profile has improved and that is exactly what we have been trying to do in the past year. So, we believe that the funding will come through decrease in working capital days.
- Rahul Dhruv:** That will be the short-term growth. I am saying the sustainable growth.
- Arvind Kajaria:** The sustainable growth is increasing margins to efficiency. So, yes 1.5% is something that we are looking at but it might take a few quarters before we get that. So, in the short-term we are looking more and more at increasing our terms of trade, reduction in inventory, fully reversible inventory in case of non-sale. So, these are the items that will help us grow faster and further and from a long-term sustainable perspective we aim towards 1.5% to 2% operating margin.
- Rahul Dhruv:** On the fixed assets, the amount that we have invested in the backend engine, are we done with that and what kind of CAPEX should I look at going forward?
- Arvind Kajaria:** What kind of?
- Rahul Dhruv:** CAPEX, investment.
- Arvind Kajaria:** This is all part of a technology company where you keep on investing and things that make you more efficient into software that will make you more efficient. I think we are about the 70% mark there and the benefits are very visible if you see the reduction in shipping and handling expenses. Like I told the earlier gentleman probably in the next quarter I will be able to give a



better color as to when this will finish. Apart from that we have no other CAPEX plan as of right now.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to Mr. Arvind Kajaria for closing comments. Thank you and over to you Sir.

Arvind Kajaria: Thank you all for attending our call. We thank you for your encouragement and support. We look forward to coming back on growth ways and look forward to making the most of the opportunity in the marketplace. Thank you very much.

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