"IntraSoft Technologies Limited Q1 FY-16 Earnings Conference Call"

July 27, 2015

MANAGEMENT: **MR. ARVIND KAJARIA – MANAGING DIRECTOR, INTRASOFT TECHNOLOGIES LIMITED**
MR. MOHIT KUMAR JHA – SENIOR MANAGER - FINANCE, INTRASOFT TECHNOLOGIES LIMITED
SGA - INVESTOR RELATIONS ADVISORS

Moderator: Good day, ladies and gentlemen and welcome to IntraSoft Technologies Limited Q1 FY-16 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a remainder 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 this 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 – Managing Director of IntraSoft Technologies, thank you and over to you, sir.

Arvind Kajaria: Thank you. Dear all, I welcome everyone to the Q1 FY-16 Earnings Call for our company IntraSoft Technologies Limited. And I am joined by my college Mr. Mohit Kumar Jha – Senior Manager of Finance, and our Investor Relations Advisors SGA. We have uploaded on the website the business update presentation, press release and a document on FAQ. I trust all of you have received it and would have got a chance to go through it.

I shall begin by giving everyone a brief on our company. IntraSoft Technologies Limited owns and operates 123stores.com and 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 ranked number 392 on the internet retailers 2015, top 500 list and is ranked 1641 in the Inc. 5,000 list of the fastest growing private companies in the U.S. 123greetings.com is the world's leading online destination for human expressions reaching 95 million visitors annually. It is offering over 42,000 e-cards across multiple languages, covers a mix of 3,000 seasonal and everyday categories.

Last week we raised 28 crores for E-Commerce business. We sold 5.50 lakh shares at Rs. 510 per share. These shares were held by Intrasoft Beneficiary Trust, whose sole beneficiary of these shares is IntraSoft Technologies Limited. This trust was set up in 2007 pursuant to the Scheme of Amalgamation approved by the Bombay High Court and the Calcutta High Court, to hold the shares on behalf of the Company. The money raised would help us expand our E-Commerce business as we head into the holiday season in U.S. and would open-up better opportunities for the Company.

I shall now begin with a brief on our financial performance. For Q1 FY-16 we reported a consolidated income of 118 crores, up 97% year-on-year. Profit after-tax was recorded at Rs. 1.22 cr., up 47% year-on-year.

I shall now talk about our E-Commerce business. E-Commerce revenue increased 110% year-on-year to 113.36 crores. This growth was across all product categories with furniture, Patio, lawn and garden being the largest category. The company added 37 suppliers during the quarter. Our top six categories were furniture, Patio, lawn and garden with 36% share. Musical Instruments and gadgets with 17% share. Home improvement and arts crafts with 16% share. Kitchen, Dining and appliances with 13% and toys, sports, outdoor with 7 % share and games and baby with 5% share.

The number of orders we shipped grew from 116081 orders last year to 293894 orders, a growth of 153%. 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, lower priced products during the year, resulting in a lower average order valued at Rs. 3,857 but much higher number of orders being shipped. As we add new suppliers and expanded our product portfolio, there is slight increase in the cost of goods sold and as a result the COGS as a percentage of sales increase from 65.2% to 66.4%. As on June 30th, 2015, inventory at our warehouses was Rs. 17.71 crores.

I shall now give you a brief on our E-greetings business. 123greetings continued to see increased mobile usage year-on-year. The number of cards sent from the device doubled to 3.70 lakhs in Q1 FY-16. Mobile application downloads reach 6.88 lakhs as on June 30th, 2015. The revenue in E-greetings business for Q1 FY-16 was 4.37 crores. With this, I leave the floor open for any Q&A. Thank you very much for your patience.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: This is Rajiv Sharma from HSBC. Just a couple of questions from my side, Arvind. First is just trying to understand that one hand your E-Commerce thing is growing at triple-digit and you are very much relevant to Amazon in U.S. So what has happened? What is happening over the last six months, one year which is driving this? What sort of pattern? And second, while we are seeing a lot of growth in the Indian E-Commerce space you are still not a part of it. So is it at a very mature level your role comes into play or are the players already doing everything by themselves and the scope is less here. And that is it from my side.

Arvind Kajaria: On your first question we have been doing this business for the last six years and I think the whole traction as far as the technology integration has come about in the last one year or so which is where you see the scalability. So earlier we were experimenting with a lot, there was very steep learning curve and as that plateau and we understood exactly where we need to make a mark where is our USP, where is the advantages and as those crept into day-to-day operations. As the modules in the software's were built and it delighted the customer with the fastest delivery at the cheapest price. I think the scalability was seen and reflected in the numbers. My sense on that is that any E-Commerce business for it to survive and thrive the number of orders being delivered seamlessly must continue to go on. And as it goes on it is signal that your backend processes are in place, your team is in place, your technology works, your pricing works. So I believe that, that is where our focus is. We want to continue to deliver more and more packages on an everyday basis. Take advantage of the fact that we are able to sell our products across multiple platforms, multiple marketplaces and as we increase that our number of sales and orders would continue to grow there. I think that is the answer to the first one. On the second part, our model is more suited to a matured E-Commerce market where the marketplaces themselves has evolved. Our model may not be very suited to the Indian market as of right now when all these modules and customer experiences are being discovered. The infrastructure for E-Commerce is being created by the local players. I think once all that is out of the way a third-party seller like us comes into being We thrive and we excel when everything is at a very efficient level which in the U.S. markets is already achieved which is where we want to focus, which is why we are focusing there because we know that, if an order comes we are able to deliver that technologically. India still has to reach maybe it will take couple of years for the big boys to kind of set that into motion. And once we do that we are quite open to addressing the Indian market as well. But for the time being our focus remains the U.S. because we feel there is a huge growth and as we sign on more and more products we hope that our sales traction then only increase. I trust that answers your question, Mr. Sharma.

Rajiv Sharma: I wanted to understand, who is your competition in U.S? When you are dealing with Amazon and in other markets, who you really compete with? And second is what is the kind of co-relation in your profitability and scalability with the Amazon revenues and growth?

Arvind Kajaria: So there are a number of sellers that are available. I believe there are over a 1 million sellers on the Amazon marketplace itself but what we are differentiated is that we are able to sell at multiple marketplaces at the same time which obviously requires technology management which I think the other third-party sellers are not really looking to do or geared-up to do. So my sense is that there must be at least a 100 or so people which are trying to replicate in a similar model to us. There is listed company in the NASDAQ which is kind of doing a very similar or close to model than us and they have seen great traction over the last two years. So what multiple marketplaces allows us to do is basically get access to the U.S. online shopper. So as habit you may shop at marketplace a and not go to b, c at all. So we cover the largest spectrum of the marketplaces our accessibility to those people keep on increasing by virtue of the fact that they are all shopping at these marketplaces. Your second question I am sorry, I forgot that. You will have to repeat that, I am so sorry.

Rajiv Sharma: No, worries. So it is what is the kind of co-relation you have with the Amazon scalability and revenues? So is it one-on-one or…

Arvind Kajaria: So we in particular have no relationship with Amazon as far as margins are concerned. Margin is a very internal looking thing. As we scale our revenues as with any other business your G&A should fall, your fixed expenses should fall. And that is where the profitability would come from. So at a point we believe that, that point has not yet come through as I have said in many of my calls and many of my communications. That is because the market momentum is with us right now and we need to scale-up much more. So while you see profits at a gross profit level at a transactional level we always make a profit. But then we have reinvest that money back into infrastructure, people and a little bit in inventory to make sure that growth momentum continues.

Rajiv Sharma: So your pricing is basically variable, there is no fix fee element to it or it is or it is like that up to 100 orders or shipments you will have ex-component which is not one-on-one and then it scales up on a variable kind of pricing or it is all variable only?

Arvind Kajaria: No, on the sales side we are dependent on the marketplace and we are competing with 100 of others to make sure that we are the absolute bottom. And that pricing it economics from the fact that we are able to negotiate based on volumes, right with our vendor. So higher the volume the better the discount the vendor is able to offer you which is where our model which is the multi market model comes into play because our sales accessibility increases with the addition of every marketplace. And you get larger volumes we are able to secure a better pricing not only with the vendor but also with the logistics company which as we all know follow a volume based discounting system. So a combination of this which forms a bulk of our left side which is the cost gives us a competitive edge when we go and price our product in the marketplaces.

Moderator: Thank you. The next question is from the line of Vaibhav from iWealth Management. Please go ahead.

Vaibhav Hatkar: Just wondering about your margins here. It have gone from 1.1% to 1.2% to 0.17% and further on in the call that you said that it will be growing more and more in the volume wise. So I was just wondering if you will be keeping up this going ahead. You have raised a QIP of 20 crores so, going ahead for increasing more volumes, do not you think that there are further round of QIPs?

Arvind Kajaria: So I think your first question was on margin, I will first try to address that and then get on to the second question. So margin is a function of growth. It is not that we are not making money. We are making money we are very profitable at the transaction level. But once we get that cash flow it is our choice to either redistribute it as profits or reinvest that money to growth. As I have said repeatedly, right now the momentum is there. The vendors are recognizing our role as a third-party seller. They are wanting to sign-up with us because it removes the headache and the pains of what we call DIY which is Do It Yourself. And the moment they tie with us we take care of online nuances leaving them completely focused on product development something which we are not only good at we are also passionate about. So we continue to find those vendors the option there being that if we go slow and show profits those vendors might sign on with other people. And if our momentum slows down in which case while we may make sure profits on a current basis on a higher level but eventually our growth and our profitability will be compromised. So we see that as a negative we want to continue to grow at least till the market opportunity exists.

Vaibhav Hatkar: And then the basic premise will be how much further scalability do you see in this?

Arvind Kajaria: So the market is very large. We have not even touched many many vendors. We have not touched many many products. So as we are more technology oriented, we do not need to have a domain expertise on sporting goods or kitchen goods or kitchenware we leave that aspect to the vendors. All we are concerned is that we able to list on the various marketplaces and sell it at a price that is most competitive. So we could continuously add more and more products as we go on and which is exactly what we are doing. So the growth that you see is coming from a better understanding, a better integration with vendors on part-I and part-II experimenting with the new wave of products that our category managers get us into the system every quarter.

Vaibhav Hatkar: And then what will be your fixed cost in it?

Arvind Kajaria: What will be our fixed cost?

Vaibhav Hatkar: Yes.

Arvind Kajaria: So fixed cost is basically stuff like rent, electricity of course at certain level salary is also fixed so these would be our fixed cost. We do not on an operational front we have very little requirement for any fix cost. But yes, to develop our team especially in the U.S. where we need to add-on more and more people to handle the kind of growth we are getting. I think that is where the investments would need to take place as we move on.

Vaibhav Hatkar: And sir, going further ahead if I see that your order shift are 2.9 lakh.

Arvind Kajaria: Correct.

Vaibhav Hatkar: So are you targeting like I say 3.5 lakhs, 4 lakhs within a year or a 4.5 lakhs within a year. So what are target in order achievements? As you have said rightly that volumes will be your main concern there?

Arvind Kajaria: So we would not like to limit ourselves to 3.5 lakhs - 4 lakhs. Our job here is to keep on making sure that we have an efficient distribution system. What I mean by that is that so long our customer ratings are high which it is right now and we continue to evolve into shipping more and more orders. I think the market is large enough to support not only the figure that you mentioned but much more on that. The key is to keep on delivering the packages efficiently and so long as we are doing that the users would keep on coming back to us and you should see the volumes. The key is uninterrupted supply chain management where is where I think our entire focus is.

Moderator: Thank you. The next question is from the line of Ashok Agarwal from Technochem Consultant. Please go ahead.

Ashok Agarwal: Mr. Arvind, I am Ashok Agarwal from Kuala Lumpur, Malaysia. I have talked to you earlier also. Our business is successful and specifically it was Shop 'n' Shop format. And my impression is that almost 90% of the revenue comes from marketplaces and maybe about 10% maybe coming from our own website. So my question is what measures does the company take to develop 123stores as a brand actually? Because most of the shoppers may not be even knowing they are shopping at Amazon but they maybe not be knowing that the product eventually coming through 123stores. In the long run I think you may also be trying to develop the brand in any of the 123stores. What are your efforts and approach to that?

Arvind Kajaria: Yes, I understand your question Mr. Agarwal. I will try my best to answer it. So E-Commerce is more to do with size than anything else and I think the brand that we build is a brand that is capable of fulfilling and selling at the same time. So if we build a brand that is very inward looking and promotes only sales of 123stores, we would to lose millions of dollars in sales and lose the accessibility to the various marketplaces and also lose the economic benefit of volumes that we have managed to sustain, grow, and develop over the last 10 quarters or 12 quarters. So I think the real essence of any E-Commerce business is to achieve the economies of scale thereby allowing you to become the most efficient purchaser of the products. So naturally it is a volume based game. So if you purchase 1,000 sets of let's say a kitchen cabinet and if you are purchasing 5,000 then actually your purchase cost would go down because the vendor is more likely to give you a discount. So where we are focus on 123stores as well which means we do not want to create a brand that is inward looking like some of the others have done. What they do is they have to spend millions of dollars on customer acquisition and oppose to that our model is that we take advantage of the ecosystem that these marketplaces provide and use the economies of scale to sell from our website as well. So what I am saying is that we are never going to stop selling at the marketplaces and we are not going to stop selling through a 123store. We are going to simply treat 123stores as yet another platform and keep on expanding our sales distribution network. I hope that make some sense.

Ashok Agarwal: Is it that 123stores also would come up with any mobile app because that facilities greater traffic?

Arvind Kajaria: Yes. As I have repeatedly said mobile is a very important device now in terms of purchasing from E-Commerce. We will work on an app in the near future. However, that traction will take some time because we are not over duly focused on that right now because the sales would be increasing marginally. Right now the need of hour is to expand more and more marketplaces. In fact one marketplace you just very deeply integrated in the final stages and we should be able to launch it in the next 15 days to 30 days. So the moment we do that our sales increase, cost decreases leaving us more and more focused to add more products.

Moderator: Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Sir, there is one additional question so I mean meeting some of the E-Commerce logistics company the pier ones and they seem to be doing the same thing facilitating vendors in managing their sales and listing on various marketplaces in India. Now I understand that you are not started with India. But what I am trying to get understand is that will you look at getting into logistics or does it make sense for you to have a similar model like this pure play logistics company and do the same thing what you are doing for Amazon in US or you think you can stick to this model and still get there when the maturity is there in the India market?

Arvind Kajaria: If I have understood your question correctly, I do not believe we are looking to get into logistics right now. What our endeavor is to create a global sales and fulfillment brand. So our belief is that there are hundreds and thousands of vendors over there who do not have expertise to go online and effect sales while they realize the importance of things going online and they would miss out on a sales channel if they are not able to sales online. So we want to make sure that we are the agent. We are the people that they go through and our belief is that there are 'n' number of products and endless number of products that we can continuously add to our roster and there are multiple marketplaces that we have still not integrated with and the opportunity as far as we are concerned is large enough not to focus on anything else for the time being. Let me tell you that, US is a far-far larger market than India at the time being and all our systems already go. So if we have to show profitability and become at a net profit level then it make sense to have a leadership role at that stage and once we believe that India is matured and yet to be seen what kind of model will be successful in India. We do not know that we do not know whether it is marketplace model or the third-party seller or the logistics model. So we are not wanting to have discover that market for the time being. We are happy scaling in the US and rewarding our shareholders and seeing that once we had seeing that once we stay in that position and we feel there is an opportunity and there is an ROI on that investment that we would have to newly make in India of course we will be very happy to address that at that time.

Moderator: Thank you. The next question is from the line of Sweta Seth from Stewart & Mackertich. Please go ahead.

Sweta Seth: Sir, just two questions. I wanted to know some more use of your proceeds from this QIP you have done. I understand it would be use for your expansion. Could you throw some more light on that?

Arvind Kajaria: Yes, so as we attain higher volumes we would need to improve our management bandwidth. We would need to improve and hire much more people because we have to reach out to far more vendors and have much more liaison with the marketplaces and also we would need to investment a portion of that into inventory for the holiday season. A bulk of that money is going to be used for these three purposes.

Sweta Seth: Okay. And is it I mean on the HR thing you were talking about in US as in the office you were planning to open?

Arvind Kajaria: Right. So the management team would be expanded in the US as well as in India. As we grow onto larger things like data security, data analytics, data intelligence so, all of these would come into play and we would need to put in teams that can handle all of this moving forward.

Sweta Seth: Okay, sure, sir. Sir, second question would be currently all your vendors would be US based, right?

Arvind Kajaria: Correct.

Sweta Seth: Are you planning to tie-up with some other vendors other than US region?

Arvind Kajaria: Yes, we have tied-up and are planning to tie-up with people from other regions. The only difference being that the brand has to be register in the US you could be located wherever but we will not deal with you because if you are not registered as a US brand because we do not take product liability on heads. So for example, if you are from India and you want to sell in the US and you want to use our services and if you want to deal with us then you first have to register your brand. If you do that then we will be happy to kind of locate you. But we have dealt with a few European brands and we are happy to report that it is met with a large amount of success.

Sweta Seth: Okay. So I mean what would be the effect of that on your cost of goods sold, would it come down as a percentage?

Arvind Kajaria: So cost of goods sold has got very little to do with which region the product is coming from. It is more function of what is the sale price we able to get and what is the cost of management and other infrastructure cost that we are able to amortize over a larger sales value. So again if you want to see an increase in margins then you have to have a much larger sales growth to do that and that is exactly where our focus is, is to very efficiently in a cost effective manner, without kind of losing money which is what we have registered from the first day is to grow the business. And if you do that then there is much free cash flow available which we can look at a combination of using for growth and declaring profits.

Sweta Seth: Okay. Sir how much percentage of your sale would be through your drop ship model currently in Q1?

Arvind Kajaria: I do not have that exact number in front of me. But the last time we reported it and put it on our website it is about 74%.

Sweta Seth: Okay. And going forward sir do you think to reduce going forward and going to warehouse model so that your COGS can improve?

Arvind Kajaria: Again we are focused on selling at a profit. So whether the sales comes through drop ship we are not going to say no. sales comes through a warehouse we are not going to say no. But generally I would like to inform that the percentage of margins tend to be much higher from the warehouse because of economic reasons such as bulk purchases. So yes, it is part of the money that we have raised. It is going to be used for making bulk purchases and yes, theoretically that should result in a lower cost of goods sold.

Sweta Seth: That is exactly my question was, so as in do you see a major percentage here and there in your cost of goods sold. So that margins could be improved a little bit going forward? Since you have raised such amount…

Arvind Kajaria: I will have to take a step back and answer that question. While I think you are absolutely right, the margins will increase. Hopefully increase at a gross profit level again to repeat myself we are going to use the cash flow to again hire more people and kind of increase the salability metrics for the next quarter. So I see a lot of growth and it would not be wised right now from a financial perspective to kind of stem that growth by fearing to invest that money into growth.

Moderator: Thank you. The next question is from the line of Nisha Shah who is an Individual Investor. Please go ahead.

Nisha Shah: Sir, we know your product categories, can you just share a few top product that are selling currently?

Arvind Kajaria: In terms of categories or exact products?

Nisha Shah: Products.

Arvind Kajaria: So these seasonal products which keep on changing. Over the winter we saw some success with a product call Ice Pellets which is basically use to throw on the snow and it helps melt the snow in a non-toxic format which is very safe for pets around the house. So we saw a lot of traction on that. We also are seeing a lot of traction on some photographic drones that we are selling right now. It seems to be a quite a rave in the US right now. On an ongoing basis, we sell multitude of products including pressure cookers which sees a lot traction it is company that we have been dealing with about two and half years now. We also have a lot of things in furniture, fire places, kitchen equipments, so, actually the list goes on and on. If you would like a better idea of what is selling currently then please do visit our website 123stores.com and on the front page you can see almost all the products that are currently having a lot of attraction.

Nisha Shah: Sure, sir. Sure, definitely. Sir do you recently raised 28 crores so what kind of revenue potential do you expect from these?

Arvind Kajaria: The market is right now growing at a very fast pace for a model like us because there are still so many thousands of vendors that have not gone online or not having a strong strategy to go online. So I think as you reach out to more and more on these people located across the US I think our model would see attraction hopefully very similar to the one that we have been able to achieve in the last four quarters or five quarters. And also as the technology builds the bridges between the marketplaces we are more and more deeply integrated. I think the attraction would continue to be seen. I do not want to give a number but I think hopefully we should see the same kind of traction that we have been seen in the last three quarters or four quarters.

Nisha Shah: Okay. Sir, can you just throw some light on your greeting business, I mean what plans do you have with regarding to that business?

Arvind Kajaria: Greeting continues to grow of course it faces a lot of challenges from newer products, the messaging systems and stuff like the apps of different company. But I think what we have done very well is rather than compete with them we have tried to use the ecosystem. So what we are now doing is we are able to successfully distribute our content and allow you to use whatever app or device that you are comfortable with. So I am very bullish about that business. We would like to see that grow, it may not grow as fast as a store's E-Commerce business, but we hopefully think that as we add more and more devices and more and more applications onto where this greeting card can be viewed on. For example, if you have a Group on a particular application. Now you can actually send 123greeting cards to the whole group in one card. So you can post that one card and that everybody in your group would get that link and if they press they would come back to 123greetings.com. To sum it up, yes, there is a lot of competition but if we keep on involving onto whatever new platforms will come then I think that growth will come. And also we are very focused on 123invitations which uses very similar content to 123greetings and that should also give us some revenue on growth as we move along.

Nisha Shah: Sure, sir. And sir, how many vendors do you see foresee yourself adding in this current year, I mean in FY-16?

Arvind Kajaria: Our vendor acquisition team is very active and it is a team of about 20 people that is continually soliciting new business. We hopefully we would like to add something like 30 vendors to 40 vendors every month for the current year.

Nisha Shah: Okay, sir. And sir, do you see how is it maintaining this kind of growth going ahead?

Arvind Kajaria: I have explained that, the market is very much there. So if you are able to scale our management bandwidth invest enough in development of HR resources and have enough money to invest in the inventory so that we can participate in promotions with the marketplaces. Yes, I think the growth momentum can very easily succeed and keep up with what we have been doing.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Arvind Kajaria: Thank you all for attending. I hope I have been able to answer most of your queries. In case you have further questions, please contact us directly or SGA which is our Investor Relation Advisor. Again thank you for your support and thank you for your time. Bye-bye.

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