



# IntraSoft Technologies Limited

**Regd. Office :** 502A Prathamesh, Raghuvanshi Mills Compound, S.B. Marg, Lower Parel, Mumbai - 400 013  
T: +91-22-2491-2123 F: +91-22-2490-3123 E: intrasoft@itlindia.com W: www.itlindia.com CIN : L24133MH1996PLC197857  
**Corp. Office :** Suite 301, 145 Rash Behari Avenue, Kolkata - 700 029. Tel: +91-33-4023-1234 Fax: +91-33-2464-6584

November 15, 2017

**BSE Limited**  
P.J.Towers, Dalal Street,  
Fort, Mumbai

**National Stock Exchange of India Ltd**  
Exchange Plaza, Bandra Kurla Complex  
Mumbai

**Scrip code: 533181 / ISFT**

Dear Sir,

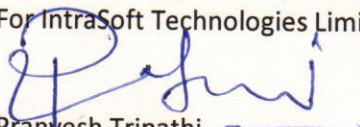
**Sub: Submission of Transcript of Investors' Conference Call**

With reference to captioned subject matter, please find enclosed herewith the transcript of Investors' Conference Call arranged by the Company on November 10 , 2017 to discuss the financial and business performance of the Company for the quarter and half year ended on September 30, 2017.

This is for your information and records.

Thanking You,

Yours faithfully,  
For IntraSoft Technologies Limited

  
Pranvesh Tripathi  
Company Secretary & Compliance Officer



Encl: as above



# “IntraSoft Technologies Limited Q2 FY2018 Earnings Conference Call”

November 10, 2017



**MANAGEMENT:**

**MR. ARVIND KAJARIA - MANAGING DIRECTOR -  
INTRASOFT TECHNOLOGIES LIMITED  
MR. MOHIT KUMAR JHA – CHIEF FINANCIAL  
OFFICER - INTRASOFT TECHNOLOGIES  
LIMITED**



**Moderator:** Ladies and gentlemen, good day and a very warm welcome to the IntraSoft Technologies Limited Q2 FY2018 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 and update of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. 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 “\*” followed by “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. I want to thank you for dialing to our September 2017 earning 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 a revenue growth of 37% in constant currency during the quarter improving our growth of 22% during the last quarter. We continue to build on the strong start we have since this year began and grow our relationship with our suppliers. Offline retailers continued to be under pressure due to the increasing shift to the online world. Marketplaces continued to attract customers due to increased benefits of assortment and convenience.

Accordingly, this is leading to an expansion in the market for 123Stores as well. We continued our focus on automation. Innovation in the supply chain and developing algorithms to achieve superior unit economics. During the quarter, the benefits of these innovations and automation were reflected in the inventory turnover ratio, which improved to 18 times from 15.5 times in the previous quarter.

This helps us in efficient use of capital along with savings in various costs. The savings in turn helped us price our products better and make us more competitive. This allows us to stock even more products which in turn becomes eligible for Prime members thereby providing a fully and a truly differentiated retail experience to our customers. Our relationship with our suppliers continues to be more engaging. We remain firmly focused on delighting our customers as we continue to innovate and raise the bar in terms of assortment, service and the experience.

We are well positioned to approach the holiday season with key improvements across catalogue, merchandizing and marketing and look forward to further strengthening our position as one of the top growing online retailers in the US. 123Stores was ranked number 689 among the fastest growing private US companies by INC5000 based on the year 2017, basis revenue growth from 2013 to 2016, a marked improvement from number 1641 in its 2014 list.

I will take this opportunity to thank the team who has worked tirelessly to make this happen. My gratitude also goes on to our 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 for listening.

**Mohit Kumar Jha:** Thank you Sir and good afternoon to all. Results for the quarter ended September 30, 2017 are in accordance with the Indian Accounting Standards. I would like to start with the performance for the quarter ended September 2017.

Revenue from operation touched Rs. 286.99 Crores, a growth of 37% in constant currency terms. Income from operations at Rs. 6.28 Crores as against Rs.4.90 Crores in the corresponding quarter and a growth of 28% over Q2 FY2017. Now I will take you through some of the highlights. Revenue from operation touched Rs. 1045.01 Crores, a growth of 18% over trailing 12 months ended September 2016. There was an improvement of Rs. 25.26 Crores in free cash flow generation on YOY basis. Free cash flow generated during the trailing 12 months stood at Rs.3.67 Crores in comparison to Rs.-21.59 Crores last year.

As we continued our focus on reducing our requirements of additional capital while moving towards higher levels of growth in the future. As on September 30, 2017 our accounts payable days, trailing 12 months for our e-commerce business was 10 days and inventory and account receivables days were at 20 and 4 days respectively. Thereby we witnessed an improvement of two days in the working capital cycle.

Thank you and we are now open to questions.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Rajnath Yadav from Choice Equity Broking. Please go ahead.

**Rajnath Yadav:** Thanks for the opportunity. Good afternoon everyone. First of all congratulations to IntraSoft team for posting a good set of number for Q2 FY2018. I have a couple of questions. Sir my first question is on the increase on the tax expenses. It is related to sales tax issue, I just wanted to know?

**Mohit Kumar Jha:** Good afternoon. This is not at all related to sales tax. Our tax expenses are mainly on account of income tax expenses. So on transition to Ind-AS we were obligated to make an additional provision of deferred tax liabilities to the tune of Rs. 37 lakhs mainly on account of unrealized gains from our investments. We intent to realise the gains in the current quarter, which will allow us to reverse the additional deferred tax liability.

**Rajnath Yadav:** Sir, is the company facing any issue from the crackdown of the US tax authorities on the third party retailers? This is regarding sales tax.

**Arvind Kajaria:** We are not aware of that. We have our sales consultants who regularly file returns. As of this movement, we do not have any enquiries.



- Rajnath Yadav:** Sir, again in this quarter, I believe there was a rise in long-term debt and this was mainly due to the credit limits. So are we witnessing any increase in credit limit from the vendors? And what will be the future guidance for the increase for the debt levels?
- Arvind Kajaria:** The use of the money has been traditionally on September 30 is the inventory which is inventory buildup for the holiday quarter. We need these goods to increase the sales during the holiday quarter. I have indicated that we are moving towards better and better credit terms with our vendors and we hope to show you the trend of reducing the cash requirement, the working capital requirement as we pursue growth as I have repeatedly said.
- Rajnath Yadav:** Because in the last conference call also it was said that we will try to increase the credit limit, but still the problems persists and there is an increase in debt level, some sort of guidance.
- Arvind Kajaria:** Sure. Due to increased purchases on account of upcoming holiday season towards the end of the quarter we hit credit limits with some of our suppliers resulting in a decrease of accounts payable days from 12 to 10 days. This decrease was well covered by improvement in inventory days. We expect payable days to improve next year after the holiday season is over.
- Rajnath Yadav:** Sir last question any update on the addition in the new marketplaces?
- Arvind Kajaria:** The momentum with the current market places is strong. We are in talks with some other market places but as of this point, I have no other firm views to offer you.
- Rajnath Yadav:** Thank you Sir. This was from my side.
- Arvind Kajaria:** Thank you Mr. Yadav for your support.
- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** First is on the intangible assets. Is there any change in your accounting policy during the quarter, during the year because of the existing intangible assets is now coming under balance sheet.
- Arvind Kajaria:** Mohit would you like to answer that?
- Mohit Kumar Jha:** Intangible assets are very well covered under other intangible assets as per the Ind-AS balance sheet. If you see our PPT it is included under fixed assets.
- Mohit Jain:** Sir what is the nature of doing intangible assets?
- Mohit Kumar Jha:** These are mainly software licenses for our business use.
- Mohit Jain:** This is not capitalized or anything, this is software bought from outside?
- Mohit Kumar Jha:** Yes.

**Mohit Jain:** Second is on your third quarter outlook for margins. Given that we are moving more towards inventory should we look at it from a perspective where your 3Q margins can actually be stronger given that inventory typically comes with a higher margin business.

**Arvind Kajaria:** I will take that question. Mohit, there is a very little difference between drop ship margin and inventory margin. The idea being customer satisfaction. We at 123Stores always aimed to make sure that the delivery is seamless and to the complete satisfaction of the end buyer. Having said that, you know if you see even this current quarter results you are getting a higher income from operations even though the margins have been constant. So the way to really look at us is not from a margin perspective, but from an absolute perspective. So I believe that we would not allow our competitors to creep in into a market, which is going through a big momentum right now rather we would keep the competitive pressure from our side and because of the virtue of our internal strong economics and the way we handle automation and we are able to operate at a lower cost because of our efficiencies we will continue to make absolute profits higher and higher as we go along.

**Mohit Jain:** Now that the revenue growth has now started to normalize where we were one year back?

**Arvind Kajaria:** Sorry, I did not get.

**Mohit Jain:** The revenue growth has more or less come back to the level where we were one year back before this closed down. So do you think that this 36% or 37% any outlook on 2019 will be helpful?

**Arvind Kajaria:** Well the market momentum is certainly that. Our team is much focused. All our softwares are doing well and operational. The cash flows are strong enough to invest in any kind of growth opportunity that comes. So I see absolutely no reason as of this time to tell you that we should not keep up with these growth momentum and growth levels.

**Mohit Jain:** Sir, last is on accounts payable. While we understand the credit limit growth rate as mentioned to you in the press release also but if I look at it on a YOY basis this number is actually down in absolute terms also.

**Arvind Kajaria:** Operationally Mohit, one needs to understand that for us at 123Stores our relationship with the vendors are very important. I have already indicated several times that our vendors are more than willing to offer the credit, but negotiations with these vendors happens once a year in January. It is highly embarrassing for us to go back to them every 14 days and ask for more credit. In turn it raises the question whether we are operating without any capital itself. So my sense to you is that if you see the trend lines I have indicated enough times that I think there should be absolutely no problem in getting the kind of vendor credit that is going to generate enough free cash flow to support our growth but operationally for the past nine quarters our management and the senior teams focus has been on the inventory software the benefits you have already seen in the financials I think that focus will continue for another quarter. We have some leverage and some distance to go in that. Once we achieve that and the beginning of the year comes we actually meet with the suppliers to talk about our trade potential for the next year, we will probably bring





it out. So my overall guidance is that you will get credit due credit at this time, I am also telling you that 123Stores is not going to be embarrassed in front of our vendors on a short-term basis.

**Mohit Jain:** This could typically be in the next quarter concall with us, but that time you would have spoken.

**Arvind Kajaria:** This would start happening beginning of January, Mohit.

**Mohit Jain:** So that is when next quarter hopefully it will be somewhere in January?

**Arvind Kajaria:** Yes.

**Mohit Jain:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Thanks for taking my question. Just wanted to check on the recent news that Amazon will be providing discounts to 3P sellers during the holiday season. So have you seen any impact of this already starting with you guys, how much of the catalogue is covered under this scheme and are there any other segments where we operate but may be someone else's is covered in this scheme but not us?

**Arvind Kajaria:** I am not at liberty to comment on the practices of other companies; however, if you read my press release I have written and for your benefit I will read it now. During the quarter, we continue to work with market places on special promotional offers to our customers. This resulted in us passing an extra discount to the customers, which has recovered to the market places as a discounted sales and marketing fees. Accordingly, so that portion covers what I think you were asking.

**Mukul Garg:** So you basically cannot disclose the policies, and the promotions in detail and in fact, which we have seen in the quarter from them?

**Arvind Kajaria:** From time to time, not only Amazon, actually everybody has a kind of a promotion even in the offline world, you have furniture days, you have various other days by all the retailers, so if you want to promote that category within their market place, they will normally would get in touch with somebody else and we would participate in that promotion. It is everyday normal business activity, which of course, goes to the top third party supplier, sellers.

**Mukul Garg:** Another part was on how you are seeing any change in relationship with your delays, there was another news item where Amazon is probably starting something of its own so is there something which will help 3P sellers like you establish more attractive pricing with the delivery people because these are obviously for us?



- Arvind Kajaria:** Again, I cannot really comment on the practices of other corporate but from an economics point of view when your suppliers are going through competition. It has always been either a better pricing or better services for you.
- Mukul Garg:** Understood. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.
- Nirav Dalal:** Thank you for the opportunity. Congratulations for good set of numbers. I just wanted to know whether there is any decline in the revenue sharing rate with Amazon because if I see the cost as a percentage of revenue we have come down, so just wanted to know.
- Arvind Kajaria:** Nirav be kind enough to look at my press release but for your benefit I will read it. During the quarter we continue to work with market places on special promotions offers. This resulted in passing an extra discount to customers, which has recovered from the market places; it is discounted sales and marketing fees. Accordingly, there is an increase in the cost of goods sold as a percentage of sales, which was offset by decrease in sales in marketing expenses as a percentage of sales approximately 1.5%. This had no financial impact on our margins. So what is happening is that whatever discounts in terms of fees we get from the market places we tend to pass it on to the consumers, which is recovered from the market places, is discounted sales and marketing fee. Accordingly there is an increase in the cost of goods sold as a percentage of sales, which was offset by decrease in sales and marketing expenses as a percentage of sales approximately 1.5%. This had no financial impact on the margins. So what is happening is that whatever discounts in terms of fees we get from the market places we tend to pass it on to the consumers. So as a percentage CoGS appears to be higher.
- Nirav Dalal:** There has been no change in terms of the shipping and handling charges. They would be around that 15% as well, I guess.
- Arvind Kajaria:** It is a very mature competitive market. One cannot expect much variance unless there is some major oil price or whatever.
- Nirav Dalal:** Not a problem. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Varun Ghia from Equitree Capital Advisors. Please go ahead.
- Varun Ghia:** Basically I just had one question. So is IntraSoft looking to venture into any other geography apart from US and Canada?
- Arvind Kajaria:** Right now Varun, the momentum is with us. All our suppliers are well engaged with them. We would like to see maturity in that market before we can even think of moving on to other geographies. We do not want to spread ourselves. It is a very competitive market, and we feel





there are miles to go in the US market alone, so first we would like to achieve that before we think of expanding.

**Varun Ghia:** But Amazon itself says that India is biggest growing market currently. That is why they are investing so much in India, so how do you look at that.

**Arvind Kajaria:** Again, I cannot comment on the corporate practices of other people, but from our perspective, we have been in the US market for about eight years now. We are well entrenched. We have a very good relationship and we would like to do justice to our vendors and what their sales do and reach a position of premium strength and the top three or four before we would like to take that call.

**Varun Ghia:** Thanks a lot.

**Moderator:** Thank you. The next question is from Ashwini Aggarwal from Ashmore India. Please go ahead.

**Ashwini Aggarwal:** A quick question on the balance sheet. Deferred tax asset number which is there which is roughly 16 Crores as of September 2017. So what is this on account of and when do you get to realise this asset? Or is there no certainty to realizing this asset?

**Mohit Kumar Jha:** This primarily includes MAT credit available to our company, which is net of deferred tax liability. This asset will be realised in the coming period once we have that profit in our books to offset this asset.

**Ashwini Aggarwal:** When you are linking it to your P&L why was it not possible to use some of this MAT credit in the current quarter or in the current financial year because you have a positive PBT and there is a tax expense including one that has been provided by you against financial income to be booked in the future quarters, but I am just wondering?

**Arvind Kajaria:** The bulk of the profits are from the e-commerce business which is based in the US and the taxes of that are paid in the US. MAT is applicable to the standalone IntraSoft Technologies, but we do hope to realise it in the future.

**Ashwini Aggarwal:** Second question I saw that while margins have been reasonably stable over the last three quarters, Q2 of financial year 2017 and Q3 of financial year 2017 you had extraordinarily high margins relative to the history you have shown even in your presentation. What was that on account of and was it a kind of one-off thing that we should not expect anytime in the future?

**Arvind Kajaria:** I have repeatedly said Ashwini and I will be happy to explain you further. The way you should look at our business is on a constant margin basis but we will generate extra and absolute profits. So you have to look at us numerically rather than a percentage basis. What I mean by that is with increased margins we allow competitors to go in, and that is you have not invested enough in new growth products, which from 2019, 2020, 2021 you will not head towards maturity with some products. So what our efficiencies we have proven again and again is allowing us to do is to



make more dollar profits at the same margins and that is what exactly we are trying to do. Was that somewhat clear or would you like me to offer an explanation?

**Ashwini Aggarwal:** I get that. I was just wondering if there is seasonality element to it, which drove this?

**Arvind Kajaria:** These are marginal variations in the quarter may be that quarter we did not put in another new products; probably we did not invest in some other marketing initiative. When I say marketing it means the other way around. That means acquiring new products, new customers, but on a trend basis, I am again telling you that we believe that we are going to see either constant margin or slightly declining margins but you are going to focus on improving the absolute profits number on a quarterly basis.

**Ashwini Aggarwal:** The way I should look at the margin is cost of goods sold plus sales in marketing as a percentage of revenue, because there is an offsetting element in those two line items?

**Arvind Kajaria:** Absolutely right and also because you know we are generating so much free cash flows and hopefully our finance cost should come down as we move along which will be factored into this naturally.

**Ashwini Aggarwal:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Amit Agarwal an individual investor. Please go ahead.

**Amit Agarwal:** This is regarding the headcount. What is total headcount of the company?

**Arvind Kajaria:** We have approximately about 105 trained people in the stores business. 100 to 105 people in the stores business and 40 to 45 in other business.

**Amit Agarwal:** There is a cost reduction of 10% compared to last year?

**Arvind Kajaria:** Correct.

**Amit Agarwal:** And the reason for that?

**Arvind Kajaria:** If you read my release, we have been focusing on automation. So that is an operational efficiency benefit that we are getting, which is what is allowing us to price our products better, have a more automated supply chain, give few suppliers a better experience and also saving cash dollars for the company and I believe that this is even in my opening remarks I had mentioned that we continued our focus on automation innovation in the supply chain and developing algorithms to achieve superior economies.



- Amit Agarwal:** Because you are saying you are growing by 20% or 30% per annum so employee's salary is going to increase either by 10% or 5% at all in the future because hardly a growing company has cost issues in the employee?
- Arvind Kajaria:** It is only possible because we are able to automate parts of the supply chain, which erstwhile was managing manually and that is where IntraSoft expertise is to focus upon both .
- Amit Agarwal:** That is very good.
- Arvind Kajaria:** Thank you Sir. Appreciate your support.
- Amit Agarwal:** Another question was I was going through Amazon for a particular report, there they were showing the first party sales are growing at the rate of 30% quarter-to-quarter compared to last year. So are we gaining the market share in Amazon or we are just constantly compared to the other third party products how are we placed compared to the other third party products? Is there any way we can control gaining the market share over there in Amazon market?
- Arvind Kajaria:** It is difficult for me to comment on the numbers of other corporates but I have said repeatedly and I would like to highlight again that the size of the addressable market is quite large and we still remain a very small insignificant portion in terms of percentage so our growth will be factored by our internal expertise and efficiency and our ability to drive sales efficiently and at a lower cost and while we continue to do that these kinds of sales momentum that we are experiencing should be possible for us.
- Amit Agarwal:** Can you ballpark a number about 1200 Crores turnover this year?
- Arvind Kajaria:** I have roughly indicated that we are on a 30% year-on-year growth in terms of revenue.
- Amit Agarwal:** That is very good. Another question is what is the percentage of these products in our sales compared to the bad sales from vendors only?
- Arvind Kajaria:** Mr. Agarwal, you should look at what is called the inventory turnover ratio. We are turning our inventory 18 times in a year. We would not like to differentiate between FBA and any other model that you have in your mind primarily because ground level situations change very fast and change on the basis of seasonality and on products. So sometimes that can be misleading; however, all of that is factored into this turnover ratio. So if you monitor that you would get a sense of what you are doing.
- Amit Agarwal:** Thank you. That is it.
- Moderator:** Thank you. We will take the next question from the line of Satish Bhatt from Anvil Shares & Stock Broking Private Limited. Please go ahead.



- Satish Bhatt:** Sir Congratulations on the good set of numbers. Just wanted to know that you told you invest a lot of amount of money into the new products for getting sales maybe in FY2020 or FY2021, so what type of investments you have made in this first half, if you can just throw some light on that?
- Arvind Kajaria:** When you identify a new product the margins may or may not be the profit may or may not be the same as the matured products. There is always an entry point which we introduce new products.
- Satish Bhatt:** What is the entry point cost you have paid for the six months of the year?
- Arvind Kajaria:** It is all factored into the CoGs. So you should monitor CoGs to get some idea on how this expense is going, but it is something that we have a control on. It is something that we would continue to do on a conservative basis so that the numbers are well within our range. You would hopefully not see much deviation from the percentages that we have been showing over the last so many quarters.
- Satish Bhatt:** Thanks Sir. All the best.
- Moderator:** Thank you. We will take the next question from the line of Tushar Jikwane an Individual Investor. Please go ahead.
- Tushar Jikwane:** Hello Mr. Kajaria. Congrats for a fantastic number for Q2 FY2018. I just had one question regarding your category. I see that you do not have high margin category like fashion. So do you want to add some more categories into the existing categories that you have or are you thinking about it?
- Arvind Kajaria:** The categories that we are in are very well entrenched. There is an endless scope to increase the categories that we already have. Our focus is on increasing the number of SKUs within the categories. We understand the pricing; we understand the future of these categories. That said , we are not averse to new categories. You mentioned fashion. The team will take a call on how to introduce new products. We are open to it, but we have to see what is the kind of feedback, what is the kind of returns, what is the kind of customer expectations, etc., etc. It is all a detailed plan before we will get into it. Right now we are very happy with the categories that we have.
- Tushar Jikwane:** I am also going into your ratings. This economy rate anyways it has come down. Earlier it was something like 4.6 or something has come down to 4.3. Any issues?
- Arvind Kajaria:** Where did you see these ratings?
- Tushar Jikwane:** On your website, at the bottom of your website, 123stores.com there is a eKomi, customer award, eKomi, so an earlier rating was something like 4.5 to 4.6 now it has come down to 4.3. So is there any issue with respect to the customer feedback or something like that?



**Arvind Kajaria:** I will double check on that, but to my knowledge as of this time, I am not aware of any concerns that customers have had. Our ratings continue to be strong and we continue to enjoy the premium placement across all the market place.

**Tushar Jikwane:** That is it. Thank you.

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

**Arvind Kajaria:** Thank you all for your questions. We appreciate the interest in IntraSoft Technologies. As a team we are committed to bring value to all our shareholders and all our other stakeholders. Thank you very much for your time and attention this afternoon. All the best.

**Moderator:** Thank you. Ladies and gentlemen, with that we conclude today's conference call. Thank you for joining us. You may now disconnect your lines. Thank you.