



IntraSoft Technologies Limited

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November 14, 2016

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,

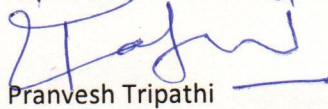
Sub: Submission of Transcript of Investors' Conference Call

With reference to captioned subject matter, please find enclosed herewith the transcript of Investors' Conference Call arranged by the Company on November 8, 2016 to discuss the financial and business performance of the Company for the quarter and half year ended on September 30, 2016.

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 FY-17 Earnings
Conference Call”

November 8, 2016



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



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Moderator:

Ladies and gentlemen good day and welcome to IntraSoft Technologies Limited Q2 FY17 Earning Conference Call, this conference call may contain forward looking statements about the company which are based on the belief, opinion and expectation of the company as on date of this call. These statements are not the guarantee of future performance and involve risk 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 0 on your touchtone telephone. 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 Mr. Kajaria.

Arvind Kajaria:

Thank you, I welcome everyone to the Q2 FY17 Earnings call for our company. I am joined by my colleague Mr. Mohit Kumar Jha – CFO and SGA, our Investor Relations Advisors. We have uploaded the investor presentation and press release on our website. I hope all of you have received it and would have had a chance to go through it. I should take you through some important events for the quarter gone by and then move on to giving you a perspective on our financials.

Recently we secured an USD 8 million line of credit from UPS capital which is a subsidiary of the UPS one of the world's largest package delivery company and provider of supply chain management solutions. UPS has for quite some time now been our preferred logistic partner and this line of credit from the subsidiary reaffirm the faith in the strong technology led business we have created in the US. We believe this facility will lower our cost of capital help drive revenues and profitability and most importantly help us eliminate any equity dilution. This line of credit coming around the holiday season is very exciting and will add to our growth prospects. Moving on to our quarterly performance.

Our shipments in Q2 FY17 grew by 78% year-on-year to 669714 orders, a proprietary technology platform allows us to scale order volumes with minimal human intervention enabling cost savings as we grow the volumes. So, the scalability of orders we have sustained our high customer ratings across all market places which again gives us immense confidence to reach a larger fulfillment growth going forward. For H1 FY17, we have achieved a growth of 92.7% in order ship on a year-on-year basis to reach 1293013 orders.

Our E-commerce revenues witnessed 43% growth year-on-year to 215.01 crores for the quarter while the H1 FY17 revenue growth stood at 64% to 434 crores. For Q2, our gross margin stood at 19.8% an increase of 1.8% YOY, while for the H1 gross margin was 19.6% versus 17.8%, an increase of 1.8% YOY. Our operating margin for the quarters stood at 2.24% versus 0.86% YOY. For H1 FY17, our margins stood at 2.16% versus 0.75% YOY. The strong uptake in margin is a reflection of improving business relation with our vendors and their



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increasing confidence in our ability to provide increased sales for the products and a strong technology backbone which has proven high scalability.

We added 37 suppliers and 20,000 products during the quarter taking the total to 1783 suppliers and 555,000 unique products. Our top categories were furniture patio garden with a 34% share, home improvement and art craft with 16% share, sports and outdoor with 15% share. Kitchen, dining and appliances with 12%. Toys, games and baby with 11% and musical instruments and gadgets with 10%. As on 30th September inventory at our warehouse was 58.32 crores, the increase is primarily on account of inventory for the upcoming holiday season. Additionally, goods worth 24.23 crores were under transit.

On 30th September 2016, account payable days, trailing 12 months, for our E-commerce business is 17 days and the accounts receivable was stood at 4 days. TTM basis our revenue per employee has increased 66% to Rs. 4.262 crores, this demonstrates the robustness and high automation levels of the technology platform which is capable of increasing the sales momentum many fold with minimal human interaction. The other income for the quarter increased owing to switching of among schemes in the mutual fund portfolio leading to profit booking.

Our strategy going forward will be to add many new suppliers and many new products, to improve the supply chain dynamics, leverage, investments and technology to drive efficiencies, increase reach by adding new market places and leveraging our association with suppliers and the products and finally to provide a better shopping experience with a better prospect. We believe we are on track and look forward to continuous quarters of high growth including top line and bottom line.

With this, I leave the floor now open for Q and A. Thank you very much for your time and patience.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, earlier we used to maintain this guidance for outlook for 70% to 80% kind of a growth number in the top line and then gradual improvement in the margins. Sir, is there any change in your outlook for 17 and consequently for 18.

Arvind Kajaria: Thank you Mr. Jain. From our perspective, there is absolutely no change in our strategy or in the sales momentum we are experiencing. During the quarter, we did a very customary hygiene check which is preholiday to see whether some of the items that were not yielding as much margins as we think that they should, so we restricted the sales of these items enabling our category managers to renegotiate the contract at better terms for the continuing quarter, so with slightly muted sales for this particular quarter but because of that we had a much higher profit



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which again is a learning experience for us and we are very happy that our margins are what they are. As these products are renegotiated they will come back in the fold and we will continue on the sales momentum that we have been experiencing. From our perspective, it is difficult and I would strongly urge not to compare us from a quarter-to-quarter basis, we are a seasonal business attached to the US retail front, if you look at us from an overall annual perspective you will see that the healthy trend continues and we are very focused on maturing the business to its highest potential making our platform more and more intelligent, so it is able to take care of all the stakeholders which give the best volumes to our suppliers a better customer experience to the customers in the market place and yield the best possible return on capital for our stakeholders and shareholders.

Mohit Jain: Sir, in the first half you have done like 60% kind of a YOY growth, do you think that doable in the second half as well.

Arvind Kajaria: We certainly think it is not something out of the ordinary. We are experiencing the same momentum that we always have and we are very optimistic about the outlook.

Mohit Jain: Second is on the margin seasonality in the second half, so fourth quarter is typically for us it is loss making to breakeven quarter, so that thing will continue or do you think with the new exercise that you have taken, 3Q-4Q should be more even out in terms of margin performance.

Arvind Kajaria: As of right now, whatever we have been experiencing and I have been talking about in the last 7 to 8 quarters continuously, what we did was is a temporary hygiene check just to ensure purchase cost enhancement, I would not even call it as a course correction and it is very important to take care of all the learnings along the way. We see no major impact either in the Q3 or the Q4 numbers if you compare it on a year-to-year basis.

Moderator: The next question is from the line of Yash Matta from Vibrant Securities. Please go ahead.

Yash Matta: Can you speak about your technological advantage or something like that, do you have a technological advantage or moot in your business.

Arvind Kajaria: Can you be more specific or do you want me to give you a general answer.

Yash Matta: Yeah general answer and like how is your technology different from the other competitors in terms of that.

Arvind Kajaria: Our platform has been developed over years of experience and that experience allows us to understand how best to price our products in order to get the highest amount of sales. It is interconnected with all the market places, it is interconnected with all the suppliers and it is integrated with all the payment systems with the banks. The beauty of the system is that on its own, it is able to generate orders, place orders, execute orders and make the payments for the



orders. We see this as a very scalable system. All are very algorithmic driven and whatever intelligence that we gather, we put it on the algorithms and it scales on a continuous basis. It will take years to develop this kind of technology, it is not available for purchase and it comes with lot of commercial and technological experience.

Yash Matta: Sure, but the other players are in similar in line with your technology or are they behind it, like how are the other competitors in the market doing.

Arvind Kajaria: If you see the internet retailer magazine, you will find that we are already at 262 on the highest retailers in the US, so it would be mathematically safe to assume that 261 are better than us and the rest all behind us.

Moderator: We take the next question from the line Satish Bhatt from Anvil Share & Stock Broking. Please go ahead.

Satish Bhatt: Congratulations on the good set of numbers and sir you have started your focusing more on the margins as clearly been seen in the current quarter, sir I just want to know one of those good things which you have done your credit we can say payable days have gone up by 3 days in this quarter, so what is the maximum stretch from your customers because could see something like Wayfair he gets payable days of around 40 days so he has his own website and all, but do you think we can raise a figure of 30 days may be in the next one and one and a half years and what type of gross margin levy we have once we scale up the business with the new terms and all those things.

Arvind Kajaria: I will answer the first question regarding payable days. Suppliers credit payable days is a function of your relationship with the vendor, it is a question of confidence that he has on your business and your level of importance that he perceives and the level of safety that he perceives. If you have seen and tracked the last two quarters we have gone up from 14 days to 17 days, I think it is a clear indication of the success of our business model and the great value that we provide to our suppliers for taking the products online. As we continue to show solidarity in the business as we continue to give them volumes as we continue to incorporate best practices of making the payments on time we are very confident that this number should see its way up. We felt is that like you said at 40 days there may be others even higher or lower but our endeavor is to see that number continuously go up as in the retail world it is a signal of how important you are to the vendor. Does that answer your question?

Satish Bhatt: Gross margin improvements.

Arvind Kajaria: Gross margin improvement is a function of optimizing your cost getting better pricing point on all your logistic contracts etc., and achieving higher volumes which amortize the fixed costs. I have said earlier and I am saying it again, we are on path to do that and if you have watched us over the last quarters, you have seen some margin expansion on each quarter and our belief is



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that, that trend would tend to continue. My request is that you look it on an annual basis rather than on a quarter-to-quarter basis.

Satish Bhatt:

And sir the exercise which you have done in terms of bidding of products which are low margin, sir do you think the exercise is over and we will be back on track for higher growth may be in the next one or two quarters from here.

Arvind Kajaria:

Sir, this is a customary hygiene check before the holiday season, you know, we have reached a threshold level where we are a strong player in the market and we saw no reason to sell products that were not yielding the expected margins, plus we had developed the algos over the last 6 months which allowed us to understand this behavior of the products, so we took the opportunity before the holiday season to identify those products and go back to the negotiating table with the vendors and see what best we could happen. As and when these contracts mature, these products would, the sales would again open up and it would continue to see higher momentum. The additional thing is that new products are still being added as I said a little earlier, we have added 20,000 products in the quarter, so as a matter of principle we don't see ourselves slowing down, we still believe that 62% on a half year basis has been a very good growth for us and we see no real reason for anything to slow down or there is nothing to report which can slow down the sales so our momentum continues as far as you are concerned.

Satish Bhatt:

Sir, any big vendors added in the current quarter and/or any big brands something like that.

Arvind Kajaria:

Yes, we have been very successful in adding couple of very big brands which are available to buy on our website, we have added in particular, we have taken the wholesale distributorship of a brand Samsung and many such brands which earlier were not with us and additionally moving forward on a slow and shore steady way, these will continue to contribute to the large growth that we envisage for our company.

Moderator:

Next question is from the line of Nishit Rathi from Trust Capital. Please go ahead.

Nishit Rathi:

I just wanted to ask the Advances numbers shows significant improvement over the last 6 months, sir can you share some light what exactly happened out there.

Arvind Kajaria:

Yes, that is exactly I have been trying to say is that certain vendors were being historically played in advance because our model was not yet proven or we had not negotiated for a long time and we believe that given the strength of our numbers and the strength of our distribution and our technology we see absolutely no reason to pay upfront to many-many vendors that we were historically doing. So we restricted the sales of those items, stopped paying those advances or slowed down the advances and hopefully we would convert them into a credit which is how we believe that retail companies should operate which is why you have seen a major drop in the amount advance to vendors.



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- Nishit Rathi:** In March that number was 20 crores, can you just throw some light what that number is in the September quarter. 20 crores was the advance to suppliers what is that number today as of 30th September.
- Arvind Kajaria:** Mohit will you answer that question please.
- Mohit Kumar Jha:** Sir, advance to supplier stood at 7.5 crore approx. as on 30th September 2016.
- Arvind Kajaria:** See that there is a substantial drop, so we negotiated these contracts and which is why you have seen the AP grow.
- Nishit Rathi:** Okay, sir when you calculate the AP days, can you just help us to understand how do you calculate that number is there do you subtract these advances from the gross AP day, like you take trade payables, you add the other creditors and you subtract the advances is that how you calculate this?
- Mohit Kumar Jha:** Sir, see these advances are given to suppliers from whom we are expecting the materials to be delivered. Those invoices which we have already booked during the period are our liabilities and those are counted only for this ratio purpose.
- Nishit Rathi:** Sir, okay I will take this off line, I will just take this offline. Okay.
- Moderator:** We take the next question from the line of Nirav Dalal from May Bank. Please go ahead.
- Nirav Dalal:** I had just one question, now that this quarter you have added couple of large distributorship so do you see that now you would be moving more towards bigger brands or you getting more accepted by bigger brands as a platform?
- Arvind Kajaria:** Sir, we are vendor agnostic, our ethos is that we would take on anybody who needs presence online, we would take on products that are expected to do online. So whether they are big brands or smaller brands we would have a very similar approach that is the advantage that our technology platform does. It does not differentiate in the products and we would continue to sell whether it is big, medium and small, that said yes, we are very pleasantly surprised that even the bigger brands are choosing to come on our platform which obviously means that we have something really valuable to add to all our vendors and it is a matter of great excitement for us.
- Nirav Dalal:** And that is good and in terms of vendor additions, do you see that momentum pickup going ahead or do you see that you would be adding 30 to 40 vendors every quarter.
- Arvind Kajaria:** Yes, vendor addition is very important to our long-term strategy. It takes us anywhere between 4 to 6 quarters to mature a vendor to its highest potential especially while negotiating



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commercial contracts. One never really gets optimum pricing in the first quarter, it is only when you develop a relationship and sales effected and we understand the consumer behavior for those products that we really get interested, so adding vendors and new products are very important because that brings new fuel, a new ammunition to our overall offering to the consumer. So, we would continue to add that at more or less the same pace that we have been doing.

Nirav Dalal: Okay, so 30 to 40 vendors every year.

Arvind Kajaria: That is the number that we feel comfortable with right now.

Moderator: Next question is from the line of Chetan Vohra from Value Quest. Please go ahead.

Chetan Vohra: You mentioned that you will be working as a wholesale distributor for Samsung, right, so how it would work, what is the nature of this transaction.

Arvind Kajaria: Like any other retailer, we are authorized to sell Samsung products online and we would continue to do that. You know, I don't understand your question fully.

Chetan Vohra: Sir, I wanting to understand how it differs from the retail thing, you said the wholesale distributors and not retail so just got.

Arvind Kajaria: Well as far as I am concerned both mean the same thing, we have access to Samsung products and we are authorized to sell Samsung products from our website as well as on all the market places that we are present that is what I mentioned.

Chetan Vohra: Okay.

Moderator: We take the next question from the line of Amit Agarwal from Leevay Investment. Please go ahead.

Amit Agarwal: What is the price of each order this quarter, because your average price has been falling every quarter, do you expect the same happening in coming quarters also.

Arvind Kajaria: Sir, average price is probably not the best way to understand a model, the reason is that currently we are focused on toys because toys is finding a lot of momentum online so the moment you sell toys equated to a low price product our average realization falls. A better way to look at it would be the number of orders executed, it will give you a better idea of our sales and operational performance.

Amit Agarwal: But do you expect the same happening in the coming quarter, it will keep on falling.



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- Arvind Kajaria:** Q3 which is America's main gifting season is usually accompanied by purchase of a lot of toys. Yes, we are working with a lot of very popular brands on toys and if that continues and we think it will then you will see a similar trend in the coming quarter.
- Amit Agarwal:** Another question is what is the biggest hurdle in the market today? Is it availability of the capital or fluctuation of the categories we are dealing in, any specific reason that fashion category has not been added till now?
- Arvind Kajaria:** We don't know of any known hurdles in the market nor we are short of capital, what we are sure of is performance. We would like to have the optimum performance and we want to make sure that our customers are well taken care of that our resources are aimed at giving the best shopping experience, in our belief that is the only sure short long way of succeeding in this business. As far as fashion is concerned, it is product category that is susceptible to lot of product returns, so while it looks very good we have tried it in the past and the customer has a propensity to return a much larger portion that compare with other products. As we find a solution around that we will accelerate, we are still in some fashion products but overall it is not a very high yielding category as of now.
- Amit Agarwal:** Basically this is the category we are going to work for next 2 to 3 years, these are the only category we are going to work for next 2 to 3 years.
- Arvind Kajaria:** Each of these categories have unlimited amount of products and we will continue to expand those products, we would also look out for new categories as and when we find that this momentum and we have adequate resources, when I say resources this is not only capital it is also a capacity to deliver at a 98% efficiency which is absolutely a must to retain the customer ratings without which we would lose the respect in the market. In fact, one of the strong points 123stores/IntraSoft has been very high customer ratings which in turn has given us the volumes and the profitability that we now enjoy.
- Amit Agarwal:** And my last question, under which category are you showing Amazon commissions because I cannot figure it out.
- Arvind Kajaria:** Yeah sure, Mohit please take that question.
- Mohit Kumar Jha:** You can figure it out from our sales and marketing expenses.
- Amit Agarwal:** Okay that does not mean that it includes only advertisement expenses, it is more than that.
- Mohit Kumar Jha:** Yeah it includes advertisement as well as the commission to market place.
- Amit Agarwal:** Okay.



- Moderator:** Next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.
- Nishid Shah:** My question is slightly different. I heard a lot of questions on the top line growth and all but if you really look at it your year-on-year growth in the number of orders executed is almost 77% to 78%, am I right.
- Arvind Kajaria:** Absolutely sir.
- Nishid Shah:** So, there is no stoppage on the momentum side or slow down on the momentum side. So that is very heartening to note, but in terms of the cost structure, I was looking at the presentation of Wayfair and one of the company's which has recently raised money internationally Cymax Stores which is also online retailer. Cymax has got gross margin of 31.5% and if we look at Wayfair, their gross margins are almost 24% currently and the aim to go to 27% to 28%, so would you like to respond on to these as to how we are targeting on a medium-term basis, on the gross margin front.
- Arvind Kajaria:** Sir, I don't have the numbers in front of me nor do I have the allocation of how they arrive at a gross profit, sometimes different people calculate gross profit in a different way. That said I believe that probably we are one of the most profitable online retailing companies out there, so from a margin perspective while percentages may vary what matter is that we are cashflow positive and we are profitable. At the same time I have said it in the past and I am saying it again that our model is centered around increase in sales, amortizing fixed cost and lower all the other operating costs. I think we are well-versed and well on road to do that. The journey is inching every quarter towards a better cost structure thereby leaving open to higher profitability, so every quarter you see number of orders being delivered, more it is delivered to better our contracts appraised, we get a lower higher percentage of discounts, so which leaves better margins. The fixed costs are amortized over a larger delivery. I have repeatedly said that the margins are very similar whether it is a high value product or a low value product, so the more orders we service would automatically translate into a higher margin, sir, I hope you will understand that it is difficult for me to comment on other peoples' balance sheet.
- Nishid Shah:** No, what I was trying to prompt you was to look at the medium-term target or the goal like the medium term in 3 to 5 years where would you like to reach like Wayfair clearly states in their presentation that they are aiming at an EBITDA margin of 8% to 10%, we are currently around 2.5%, so would you like to put a number to medium term target on to EBITDA level as to what would be the operating level margin that you would be happy with?
- Arvind Kajaria:** We are still building the business, I have find it very difficult to pin a number but what I can share is that for all the balance sheets of the retail majors globally it is basically a situation where you put a gross margin of about 20% to 25% which does not include any kind of advertising or customer acquisition cost and eventually you work towards an EBITDA of 4% to 5%. If you compare our numbers, we are slowly inching towards those global standards and



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we see that with every quarter we would endeavor to make some improvements yielding some results and hopefully in your timeframe that you mentioned may be reaching those numbers but to give you a number would be very difficult because every quarter we do learn because the market place is and us it is still a business which is being built.

Nishid Shah:

No I think this is useful and I do appreciate that market is a very dynamic place and every quarter you see some changes or the other. My other question is on you mentioned that you signed up some large companies for distribution sales online, would that entail higher margin or would that have the current level of margins that you enjoy.

Arvind Kajaria:

Per se the products itself would not yield a higher margin as against the average, because I have repeatedly said that we are focused on volumes rather than value but however that these companies are very popular products and having an automated sales engine would automatically give us better products and more faster moving products to sell. So you should see a growth in the number of products being sold and thereby in turn amortizing the fixed cost and thereby yielding higher margins, so it is an indirect way of kind of getting higher margins.

Moderator:

Since that was the last question, I now hand the conference over to Mr. Kajaria for his closing comments, over to you sir.

Arvind Kajaria:

Gentleman, thank you for taking the time to participate in our Earnings Call. We will continue to endeavor to build a business that is capable of both growing the top line and the bottom line and we will continue to hold the interest of all our stakeholders at heart and I must thank you for your continuous guidance and support. All the best. Thank you very much.

Moderator:

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