



IntraSoft Technologies Limited

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February 15, 2019

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 February 13, 2019 to discuss the financial and business performance of the Company for the quarter ended on December 31, 2018.

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 Q3 FY-19 Earnings Conference Call”

February 13, 2019



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



Moderator: Good day, ladies and gentlemen and a very warm welcome to the IntraSoft Technologies Limited Q3 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 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 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Today we have Mr. Arvind Kajaria – Managing Director of IntraSoft Technologies and Mr. Mohit Kumar Jha – CFO of the company. 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 December 2018 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 United States of America. Accordingly, the updates for the e-commerce business reflects the consolidated performance of 123Stores, Inc. only and not the consolidated operations of IntraSoft technologies. I would like to now start the discussion.

At the beginning of this financial year we began the process of consolidating our learnings cumulated from years of industry experience. The objective being to be cash flow positive that would ensure working capital efficiency and thus sustainability in the long run.

The key focus here was to make revenue cash flow accretive. Thus, we reduced purchases from those vendors that make us working capital intensive. Though this lead to topline de-growth, from a qualitative aspect it increased the proportion of revenue that is cash flow positive. Hence, we generated strong positive cash flows consistently over the last three quarters versus the negative cash flows of the last financial year.

On the vendor front, we continue to deliver a strong value proposition. Consolidating the data, from the more than 3 million orders we have serviced so far, into our tech engine served as the backbone for the value we bring to their business. The increase in supplier credit is a clear indication of the confidence vendors have in our capabilities as a 3P partner.

As a result of supplier consolidation, our inventory is currently undergoing changes in terms of product mix and seasonality. While our overall inventory profile is improving, our inventory movement has been slower than anticipated and we are working on with our suppliers to improve



inventory efficiency. Inventory turns has come down due to decrease in sales, which will get corrected once we get back on the sales growth trajectory and our inventory efficiency improves.

Continuing the trend from the past two quarters, long term debt was reduced further. A direct consequence of strong cash flow generation.

A look at our cash flow metric this quarter, and for the nine-month period as a whole, gives us tremendous confidence with respect to the oncoming quarters. With the conclusion of the aforementioned consolidation, we will set the base for topline growth in tandem with cash flow growth.

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

I will now handover the floor to Mr. Mohit Kumar Jha who will discuss the financials in more depth. Thank you.

Mohit Kumar Jha:

Thank you, sir and good afternoon to all. I would like to start with the performance for the quarter.

Revenue from e-commerce was \$25.82 million as compared to \$51.49 million in the corresponding quarter.

Operating margin for the e-commerce business was 1.20% as compared to 1.96% in the corresponding quarter.

Inventories at the end of December 31 are \$14.78 million. Inventories include inventories at the fulfillment centers are \$7.46 million, goods in transit from suppliers to the fulfillment centers of \$5.91 million and goods in transit to the customers of \$1.41 million, reflecting 6.1 turns on an annualized basis.

Accounts payable at the end of December 31 was \$3.91 million as compared to \$3.7 million last quarter and \$5.43 million same time last year reflecting 14.7, 13.5 and 12.2 days of supplier credit on an annualized basis respectively.

We generated operating cash flow of \$1.43 million this quarter, as against a negative cash flow of \$ (0.46) million during the same quarter last year, and a cash flow of \$1.01 million in the previous quarter.

We repaid approximately \$1.1 million of debt this quarter. Borrowings now stand at \$9.35 million. Any cash surplus post reinvestment in the operations would be used towards reduction of debt.

Thank you everyone and we are now open to questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session.



The first question is from the line of Rajnath Yadav from Choice Equity. Please go ahead.

Rajnath Yadav: I have few questions. The first is as a percentage of topline your shipping and handling charges and sales and marketing expenses both declined on a Year-on-Year and sequential basis. So any specific reason behind the same?

Arvind Kajaria: Thank you, Mr. Yadav. Yes, shipping we have done better on a comparable basis because of the understanding of our business and our investment into the tech engine is beginning to bear fruits. On sales and marketing, it is generally linked with promotions during the October-December quarter which is probably why it saw a drop. But the commissions are standard so that can go up and down on an ongoing basis.

Rajnath Yadav: With respect to this shipping and handling charges this decline was mainly due to this algorithmic and artificial intelligence work we were doing is it because of that or something else?

Arvind Kajaria: That was partly because of that also partly because of our consolidation we learned how to package the products better. The sizes that the products used were earlier either larger or smaller and we were having difficulty in shipping it or pricing it as per the box. So that is the entire consolidation we have done and hopefully we will see the benefits of that as we move along in the quarters. The fall was a combination of both.

Rajnath Yadav: And sir, during this quarter we have reported a higher other income of Rs. 1.48 crores. So any specific reason?

Arvind Kajaria: That is the treasury income that is generated in the balance sheet of IntraSoft Technologies. You can see the details in the balance sheet.

Rajnath Yadav: Coming to the debt level side, can you give your insight on what will be the debt level going forward and how the company is planning to reduce it since we are consistently generating positive cash flows since last three quarters?

Arvind Kajaria: Yes, that is the whole effort that we took in the beginning of this year where we believe that internal cash flows should be good enough to finance the growth that is out there. So whatever cash flow we generate will be used to pay the debt and I see that reducing on an ongoing level.

Rajnath Yadav: Sir, and how do you rate your performance as compared to other third-party players? In the last meeting I believe I was told that there is some consolidation happening among the third-party sellers so can you explain this?

Arvind Kajaria: It will be difficult for me to pinpoint on any one specific 3P but generally what is happening is that people are wary of selling at a loss which has been the tradition to grow the topline because that is an unsustainable way to grow the business. That was good to start with, to build a reputation which I think most of the people have built.



Now the challenge is to accumulate all the learnings and make sure that there is a positive bottom-line to all our business and which is what I think 123Stores has done quite well in my opinion and I think that the consolidation is nearing its end and by March 31 we would have completed that consolidation and all the learnings that we have will now be used to increase the topline from April quarter onwards.

The beauty this time would be that with the topline we will not be achieving by increasing our debt. It will be financed, the entire purchase sale will be financed, by our internal accruals.

Rajnath Yadav: Sir, now we have entered into New Year I believe we have started approaching new vendors and negotiating with the existing vendors. So what is the since the company is getting for next year in terms of growth in the topline and EBITDA margin?

Arvind Kajaria: It is a journey so it is not that somebody negotiates with us and starts the full volume immediately. You start with x and then you go to 2x, 3x, 4x. That said I think our relationships are healthy, I anticipate more and more growth from the same vendors. We are also meeting lot of new vendors so personally I am quite bullish on increasing the topline beginning from the April quarter.

Rajnath Yadav: So any ballpark figures for growth and margin?

Arvind Kajaria: We would like to wait for the year end to see how it goes and maybe I can comment on that on the March quarter so that we have a better understanding of the market place. But on a holistic level after the March quarter I see the sales rising again.

Rajnath Yadav: And sir, till date how many vendors have migrated to our new business model? Last time I believe we have spoken it was around 15% or 20% order?

Arvind Kajaria: I do not have that percentage for you but if you see the AP number has gone up which basically means that there is more business from the vendors per se because we do not invest on the new vendors, we do not invest our own cash. So that is a clear indication and I would request you to look at that number so that then you will be able to understand by yourself that the business from the new vendors is going up.

Rajnath Yadav: Sir, it will be fair to assume that whatever topline we have generated in this quarter most of the vendors have migrated to our new model or what percent of the revenue is from our vendors who have migrated to the new business model?

Arvind Kajaria: Mr. Yadav, I have already tried to answer that question. I do not have the exact percentage for you. You said 15% to 20% I would think that the figure is close to that. But the key here is that it is a sustained effort and now our focus for the current year was not on the topline it was basically on incorporating all the learnings in to our tech engine which we have I think done and will be over by March. So from April onwards sales will resume to be our main focus.



Rajnath Yadav: And sir, last question. Can you update on various initiatives the company is taking to further improve the performance and optimizing various cost like shipping and market expenses?

Arvind Kajaria: So the key is the delivery part. The more automated it is the more we are able to scale. So I think the whole year we have invested in making that better and better. We have spent on right from the bottom which is the customer service to the delivery engine to the routing and also our engagement with the vendors.

We have spent much more time with them during this year than we have spent during the earlier two years, trying to understand their problems and explained to them the market place realities and I think that while it still may take time because it is an evolution, but we hear a lot of positive feedback from the market. And that prompts me to tell you that we are increasing our focus on sales moving forward.

Rajnath Yadav: So with this new business model have you faced any problem with our ratings on the market place?

Arvind Kajaria: The consolidation has got nothing really from the rating perspective. You can actually see our ratings online and I think it has been consistent.

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

Amit Aggarwal: Can you help me to know what is the percentage of toy category sales in this December ending quarter?

Arvind Kajaria: The exact percentage you are wanting if you can send me an email I do not have percentage with me but we can certainly checkup and come back to you.

Amit Aggarwal: If you can give me a vague idea right now?

Arvind Kajaria: I would say anywhere between 10% and 12%.

Amit Aggarwal: And what was that two years back same quarter, December quarter 2016 December?

Arvind Kajaria: Again, I do not have that figure but if you are asking me to take a guess it would be anywhere between 15% and 18%.

Amit Aggarwal: So last year in the conference you were talking about a big offline company going bankrupt and that affected your topline. So is the affect still there or it is just for a very short period first two, three months?

Arvind Kajaria: So Mr. Aggarwal if you have been following us which I know in your last call also I answered. The learnings from all of those events is what has caused us to have and go through this consolidation period which we have. The key was to make sure that all purchases from new



vendors, and convert the old vendors also in to the new vendors, progress in to credit purchases so that we do not have to go through that whole event that happened in December 2016.

And again I am happy to report that it is not only toys it is with all categories that no matter who the vendor is as we are signing more and more people, their purchases would be made on credit moving forward.

The percentage is much lower than expected in this quarter, but it is progressive which you can see from the AP. So we will add toys, we will add furniture, we will add sports, we will continuously add now because all the consolidation has been put in the engine, we will continue to add more and more vendors and that is what will increase the topline and get the momentum back.

But this time it will not be at the cost of huge debt that we had to take on our balance sheet earlier.

Amit Aggarwal:

But I could not understand why suddenly there was a drop in turnover of the inventory since beginning of this year because you have increased inventory and hoping that the sales will rise further and suddenly the turnover slowdown and there is a degrowth of the sales have become slower. What is the basic reason behind the sales?

Arvind Kajaria:

It is not sudden. We have started this from April. Our focus throughout the year has been on improving cash flow generation which would lead to self-sustainable growth without the need for further capital infusion. Therefore, consciously reduced purchases from vendors where we saw de-sync with our cash flow objective. This is what lead to the fall of revenue because given the size of the addressable market we could not have kept on investing our money and borrowing more and more.

So we had to then adopt a model where it was having self-sustainable growth which is what we have started from April which is what saw the cash flow accretion but also saw quantitative degrowth in the topline. And I think that phase is ending as of this quarter and from April onwards we should see internal accruals financing the topline.

Amit Aggarwal:

So you think that there is nothing wrong with the market situation as such, the personal adjustment we are making right now?

Arvind Kajaria:

It is the learning that we had to take a pause. I think the market is even larger than we had anticipated and I think that the 3P player with the best tech engine and a self-sustainable model is what is going to set the way and I would request you to ask your team to do research. There are lots of people who are burning cash and we do not believe that burning cash or investing more and more cash on an ongoing basis is a self-sustainable model for the 3P market. That is what we believe.

Amit Aggarwal:

And last year in the conference you were saying this drop ship channel was 50% of our total sales. What is the percentage this year, in this quarter?



Arvind Kajaria: So we expect it to be 50:50. I think this quarter it was 40:60 but we are fully geared up for the drop ship model because it is very sought after model because there are lot of things, items which cannot be stocked. So we do not want to miss out on those items and we have fully furnished our engine to make sure that our drop ship channel is one of the most efficient in the entire 3P market.

Amit Aggarwal: And do you think drop ship channel consumes our inventory or our capital or it is free of capital consumed in that?

Arvind Kajaria: No, that is the beauty of the drop ship business that it does not require capital but at the same time you have to have operational efficiencies otherwise you are priced out in the market. And that is exactly what we worked out it includes packaging, it includes delivery routes, it includes educating the vendors sometimes on exactly how to packages goods so that the weight, etc., is most efficient, and we can therefore price it better on the market place.

Amit Aggarwal: So I am trying to understand compared to last year the percentage is almost the same so why there is a drop in sales in FBA product because we never wanted to consume more of our cash but drop ship channel does not consume any cash. So why there is a drop in that channel also in sales compared to last year? That should have been consistent.

Arvind Kajaria: I am just trying to explain that there are lots of issues in packaging, there were lot of issues in delivery which was not making us efficient in the market place. I think all of that is what we had to take a pause after three years of growth and which we have done and I am happy to report that almost all the learnings to our mind has been completed and this will be fully final completed by March and then from April you will see a growth back. And this time the growth will come without increasing debt.

Amit Aggarwal: What growth ratio should we expect in the next financial year?

Arvind Kajaria: The earlier gentleman asked me that question.

Amit Aggarwal: I understand that but still?

Arvind Kajaria: What I am trying to say is that please give me some time. What I can tell you is that there is going to be growth, how much of a growth we just still need couple of months to understand exactly where we are going. So when I have the March call I will be in a better position to explain that. But at a very top level at a very high level I believe that we will be back on the growth track and this time without the need to increase debt.

Amit Aggarwal: And my third question is last year our inventories were Rs. 100 crores around about, our inventory is around the same. So this quarter should we also do well phase wise because the inventory is Rs. 100 crores?



Arvind Kajaria: Yeah, so the inventory will now continuously go up but so will be AP. So it will be financed inventory and it will require less and less of our capital as we move forward and that is the whole idea because without inventory you cannot get topline.

Amit Aggarwal: So the topline should pick up in this quarter also or not?

Arvind Kajaria: Not in the current quarter because we have not completed our learnings. I have to tell you that this would end by March and from April onwards we will get back on track.

Amit Aggarwal: So the total inventory of Rs. 100 crores have not helped this quarter at least?

Arvind Kajaria: It is not a question of help; it is a question of that we are slowing down sales. I mentioned earlier so I would like to repeat myself. It is a question of that we are holding back because we believe that the other financial parameters are more important for the long term sustainability and it is very important that we explain that to the vendors.

So we took a pause which was necessary to ensure that we have the capital and all the other resources to finance the long term growth which is what we have done. And again I am kind of repeating myself but I believe that since we are nearing completion I thank everybody for their patience. We have put in that effort I think the fruits of that effort will start from April onward.

Amit Aggarwal: And among all the categories which has the highest gross margin category furniture, toys or the other, or music which is the highest margin business among all the categories?

Arvind Kajaria: Right now, I think all margins are very similar but our focus is we are getting very good traction on furniture and home improvement products.

Amit Aggarwal: So toys are the?

Arvind Kajaria: Yeah, toys will regain focus once we negotiate better with our vendors.

Amit Aggarwal: And one last question.

Arvind Kajaria: We are not focused on any one category Mr. Aggarwal. We will focus on all our categories because we want to get back to a growth momentum as soon as possible. So whoever comes and understands the value that we get to them it takes a little time to convince them. But once we convince them then they become a client for a long, long time.

Amit Aggarwal: And my another question is how much you spent on advertising per annum because of marketing on Amazon to get customers to your products, do you spend any money or rely on organic growth?

Arvind Kajaria: We do not. We spent very little money on our sales, but we do that for clients who want exposure to new brand launches that they might want to have. So we charge them and we spend that money with our expertise on the various market places.



Amit Aggarwal: But not anything on the regular basis?

Arvind Kajaria: No, we do not need to because that is the commission, we pay to Amazon so that is what you should see as advertising fee.

Amit Aggarwal: And one last question. How is your percentage of sales doing 123Stores.com? I want anything about this for last two, three years? What is the percentage of the sales through that site?

Arvind Kajaria: So that I have mentioned in my earlier calls that that is not a focus area for us because that would lead to further losses and very little topline. It is virtually impossible to draw a customer from Amazon. So if the same furniture is available with us at our website and the same furniture is available at Amazon, it will be very difficult to expect that the customer will buy from us rather than from Amazon.com.

Amit Aggarwal: What is the percentage of sales, total sales from the website?

Arvind Kajaria: I would say less than 0.5%.

Amit Aggarwal: Earlier it used to be 5% around about, three or four years back?

Arvind Kajaria: Yeah, but when we realized that we are competing with Amazon and in the process losing a lot of money. It did not make sense for us to do that. So that is not the model that we are pursuing. What we are pursuing is giving sales channel to all our vendors. So when they tie up with us almost overnight we are able to sell their products on Amazon, on eBay on Jet, on Rakuten, etc., and that is why they come to us.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr. Arvind Kajaria for closing comments.

Arvind Kajaria: Thank you everybody for participating in our earnings call. I appreciate all the questions and as usual we value your suggestions and advice and hope to continue to do better in the future. Thank you all.

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