



# IntraSoft Technologies Limited

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November 20, 2018

## Listing Department

National Stock Exchange of India Ltd  
Bandra Kurla Complex  
Bandra (East)  
Mumbai - 400 051

## Corporate Relationship Department

BSE Limited  
P. J. Towers, Dalal Street  
Fort  
Mumbai - 400 001

**Scrip Code: ISFT / 533181**

Dear Sir,

### **Sub: Disclosure under Regulation 30 of the Listing Regulations, 2015**

In terms of Regulation 30 of the Listing Regulations, 2015, please find enclosed herewith the details of Concall invite arranged by the Company on Thursday, November 15, 2018 at 1.00 P.M. to discuss the financial performance of the Company for the half year and quarter ended on September 30, 2018.

This is for your information and records.

Thanking you,

Yours faithfully  
For IntraSoft Technologies Limited

Pranvesh Tripathi  
Company Secretary & Compliance Officer





# “IntraSoft Technologies Limited Q2 FY19 Earnings Conference Call”

**November 15, 2018**



**MANAGEMENT: MR. ARVIND KAJARIA – MANAGING DIRECTOR  
MR. MOHIT KUMAR JHA – CFO**



**Moderator:**

Good day ladies and gentlemen and a very warm welcome to the IntraSoft Technologies Limited Q2 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 in 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 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 ‘\*’ and 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 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 and I wanted to thank you for dialling in to our September 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 fully owned subsidiary 123Stores incorporated in the United States of America. Accordingly, the updates for the e-commerce business reflect the consolidated performance of 123Stores only and not the consolidated operations of IntraSoft Technologies. I would now like to start the discussion.

We began this year with the intend to focus our energies on consolidating our operations and improving cash flow generation so as to ensure sustainability of our next growth trajectory.

As such, we had two focused areas, investing in our technological engine and realigning vendors with the objective of cash flow generation.

On the tech front, we feel that this is an opportune moment to use the data we have amassed over a long experience in the industry. Data drives operational decisions, whether it be regarding fulfilment method, the logistics partners, the shipping good, etc. This facilitates and expedites the decision-making process with minimum leakages in the supply chain. As we consolidate all these learnings and data into a tech engine, we believe we are laying the foundation for the scalability of our business.

Our long-term view of the business is that it must be operating cash flow positive, so that our growth is self-funded. Thus, on the vendor front, our objective was to align them with a long-term business outlook. As these vendor engagements progress, we are setting the base for sales growth which is expected to be both robust and cash flow accretive.

A tech integration coupled with vendor alignment offers tremendous long-term value creation. As we integrate vertically with each vendor, we become a part of their operating ethos. There is better application of our data driven technology by the vendors. This gives us the preferred seller status.



This is where the upside of our current two-fold focus surfaces. At the macro level, our unbound scalability will allow us to tap the large and ever-growing addressable market. At the micro level, the preferred seller status will grant us the growing share of the vendor's wallets. We believe we have come halfway in the current journey and we are bullish about our next leg of growth, given we consistently generated operating cash flow and reduced long-term debt in both the quarters gone by, a trend we see continuing in the subsequent quarters.

As the holiday season approaches in Q3, we are ready to accelerate with the ongoing cash flow momentum and thrive as a top 3p seller in the US online retail market.

I take this opportunity to thank the team who have worked very hard to make this happen. My gratitude also goes to all other stakeholders for the 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.

**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 US\$ 30.3 million as compared to US\$ 44.4 million in the corresponding quarter.

Operating margin for the e-commerce business was 0.63% as compared to 2.62% in the corresponding quarter.

Inventory at the end of September 30th was US\$ 15.4 million. Inventories include inventories at the fulfilment centre of US\$ 7.7 million, goods in transit from suppliers to fulfilment centre of US\$ 6.2 million and goods in transit to the customers of US\$ 1.5 million, reflecting 7.0 turns on an annualized basis.

Accounts payable at the end of September 30th was US\$ 3.7 million as compared to US\$ 5.2 million same time last year reflecting 13.5 days of supplier credit on an annualized basis. We generated operating cash flow of US\$ 1.01 million this quarter as against negative cash flow of US\$ 2.42 million during the same quarter last year and a cash flow of US\$ 0.37 million in the previous quarter. We are happy with the trend in Q3 as well.

We repaid approximately US\$ 0.9 million of debt this quarter. Borrowings now stand at US\$ 10.45 million. Any cash surplus post reinvestment in operations would be used towards reduction of debt. Thank you everyone and we are now open to questions.

**Moderator:**

Sure. Thank you very much. We will now begin the question and answer session. We have the first question from the line of Rajnath Yadav from Choice Equity Broking. Please go ahead.

**Rajnath Yadav:**

I have couple of questions. First I wanted to know, how many vendors are aligned to our credit strategy in terms of percentage?



- Arvind Kajaria:** Go ahead and your second question please?
- Rajnath Yadav:** Next question was on EBITDA margin. It is in a declining trend and it has declined from 1.52% to current level of 0.2%, so I believe this is mainly because of getting vendor credit and what would be the sustainable margin in case all the vendors agree for giving this credit?
- Arvind Kajaria:** Our sense is that approximately 20 to 25% vendors have converted into the new vendor credit strategy that we have come up with. We have increased the number of days that we wanted as credit, primarily because we believe that we have to get self funded. The other choice to increase the topline was to increase our own funding. At this moment, we believe that cash flow of vendors is the better way to grow the business. On your question on EBITDA margins, basically we have started investing in our US operations which is why the margins have fallen down.
- Rajnath Yadav:** Sir, coming to this alignment of vendors, sir still it is very low, 20% to 25% because we have started this process one year back, I believe?
- Arvind Kajaria:** Yes, at that time we were looking at about 15 to 20 days. We have now upped because of strength of our brand and we believe the value that we are giving to all the vendors, we are now asking for 30 to 35 days. Yes, it is a very slow process. It is very difficult to expect that the vendors will agree in one call. It is a systematic process of negotiating and increasing the credit. Along with that you know we also want to become a preferred seller like I mentioned. What it means is that we are in the top one or two of their online business which means that we also have to pause a bit and all the learnings that we had we have to integrate technologically with them, as far as packing details are concerned, as far as fulfilment issues are concerned, as far as shipping is concerned, so we took this year, position ourselves for scalability growth. From our perspective, we don't see an issue, just like earlier we paused and again we started, as soon as we believe that there is enough cash being generated from the vendors that who have signed on with us under the new credit, we will resume the topline growth.
- Rajnath Yadav:** Sir, in the press release, it is mentioned that you have not taken business from the vendors who have not aligned to this strategy, am I right?
- Arvind Kajaria:** Well, we have slowed down and the lower level vendors we have kind of avoided but that does not mean that they will not come back. All I am saying is that it is taking some time and I believe that our relationship is strong enough that they will come on board with us.
- Rajnath Yadav:** And sir now, we are approaching the holiday season, so what is the consumer mood and what is the expectation of company in terms of sales growth?
- Arvind Kajaria:** See, the real issue is one of how to fund the long-term growth Mr. Yadav, so either we invest our own capital or we take a pause, introduce our offering to the vendors, renegotiate the terms and start the growth journey again. We believe that this is a more surer way, more solid way, it has taken us couple of quarters, it might take us another quarter or so, but if you want to see long-term growth without the investment of our own capital, then this is probably the best way



that we can come up with. As far as Q3 goes, I think the holiday buying is robust and we will participate as much as possible with all the vendors who have signed on and all the new vendors that we will be able to sign on but the real growth will come when the alignment takes place. I have already indicated that 2 quarters have gone by, we are happy with the trend and it might take us another quarter or so before we start to grow.

**Rajnath Yadav:** So can we expect that the inventories which we have can be liquidated and the debt level to decline considerably in December quarter?

**Arvind Kajaria:** We have already done that for the two quarters. We don't intend to invest our own money into inventory anymore and as the older inventory gets sold, you will see the debt coming down.

**Rajnath Yadav:** And sir what is the future guidance for the debt level considering that majority of the vendors have aligned to our strategy?

**Arvind Kajaria:** As more and more vendors align to our strategy, the usage of our cash will go down, it will be used to repay the debt. We intend to become lower and lower debt and run the business from vendor credit.

**Rajnath Yadav:** And sir, the next question is on the utilization of this cash and cash equivalent of around 70 crores which is further expected to increase with the improvement in the operating cash flow, so why are we not using that instead of taking debt?

**Arvind Kajaria:** I have mentioned in our earlier call, this has been used as a working capital, so the debt is actually from this investment itself.

**Rajnath Yadav:** And sir, is there any change in Amazon policy towards third-party sellers in terms of profit sharing?

**Arvind Kajaria:** Not to our knowledge. Nothing is changed on the ground except that what I have already indicated, it is our belief that this is the best way to set the base for long-term growth. Had we not done this, then we would have faced the same issue 6 months to 1 year later, then we could not have grown the topline due to lack of capital, so we had to pause for a bit and take stock of the situation before we resume the trajectory.

**Rajnath Yadav:** So what is our yearend target in terms of vendor alignment, how much percentage we are targeting? Right now, it is 20 to 25%, so by year end, how much?

**Arvind Kajaria:** When you say 20 to 25% that does not account for all the new vendors who are coming to us on the new terms as well, so together I think there is enough business that is expected but like I am repeating myself, it takes a little time for us to convince them to increase the credit from 15 to 30 days or 35 days and also along with that I am repeating myself, we need to be the preferred seller which will be must occupied the one or two top position of their online sales, which means we have to be better technologically integrated in terms of how they pack the goods, how it is



best carried because now we become aligned which means that together our cost at the market place must be the cheapest, which means that there is anything that we have learnt over the past 2 years is part of the supply chain will now be integrated into our tech engine.

**Rajnath Yadav:** So will it be fair to assume that this year's topline growth will be flattish or something negative?

**Arvind Kajaria:** Well, our endeavour is to grow it as soon as our alignment happens. Till that happens, I am not able to give you an idea, but as of right now, we have done 30 versus 45. Things have improved on the ground, more and more vendors are coming. I hope and believe that that was the lowest figure that you will see before we start the journey.

**Rajnath Yadav:** Sir last question, sustainable margin, I have asked this earlier also but I am not able to get, what would be the sustainable EBITDA margin? Will it be 1% or 1.5%, we will align to historical level?

**Arvind Kajaria:** Mr. Yadav, at this moment of time, we are generating cash flow and using that cash to invest into the business, so the growth will come from the working capital profile. That said, the figure that you mentioned between 1 and 2% is something that we aspired. In the short term, we may not achieve it, but we are looking forward to restarting the growth without any equity or debt infusion from our side.

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

**Amit Agarwal:** Mr. Kajaria, our compared figures of 6 months is 2016 to 2018 and the sales have stagnated for 2 years, but if you see the profits after deducting cost of goods and sales or marketing expenses, that year we had 28 crores profit and this year we have 15 crores profit. This shows that the sales are stagnant and the margins are declining year after year. I think the business model, I think has just stagnated or collapsed, maybe there are too many sellers or maybe the Toys "R" Us company going bankruptcy, has dented the whole toys category, is it right or there was a judgement regarding sales tax policy for different states. Has that affected the business model? There is something defective about the sales model that we have not generating enough cash. We have been talking about reducing the debt but there is a hardly any reduction in the debt as such, so what has suddenly changed in last 2 years, earlier the growth was very good and the cash generation was very good and after two years, the sales are becoming stagnant and the generation of cash is getting reduced year after year. What is the reason? Is that there are too many seller or Toys "R" Us company going bankrupt, is that major reason behind it?

**Arvind Kajaria:** Well, it is a little bit of combination of all but just to have my answer on that. The question one, again Mr. Agarwal what we faced was one-of capital. If we keep on buying inventory with our own capital, then at one point we become stuck, so a better way is to take a pause. You are seeing the high of 16 versus the low of 18 which I have already told you that this is a desired pause before we start the trajectory again. So my humble request is that the two may not be very-very like to like. What we are saying is that on the ground, we are able to negotiate better. It terms



with better skill in the game of the vendors. We are more aligned. There is also lot of operational details which I am repeating myself, packing details, catalogue details, all of that earlier we were may be not aware of the whole thing, so it was the whole learnings that we have now incorporated into the tech engine and in a quarter or so, you will see we will start the sales engine again. Once that happens, it will sort itself out. You asked a question about the sales tax. Yes, the sales tax is called economic nexus which has been levied. It has affected everybody as well as us, it is simply a charge on the market place, so selling \$100, you have to add the applicable sales tax and collect from the consumer and pay to the government.

**Amit Agarwal:** How much is that reason affected for the total performance of the company? Thus, you although mentioned last year about Toys “R” Us going bankrupt, so how much is that category affected us and what is the percentage of toys in our total revenue?

**Arvind Kajaria:** Toys as portion of sales would be anywhere between 8 to 10%. We are mainly now focusing on furniture, home improvement, etc. Toys tend to go up in the October to December quarter.

**Amit Agarwal:** Toys “R” Us going on bankrupt hasn’t affected the performance at all that means?

**Arvind Kajaria:** That was last year sir.

**Amit Agarwal:** So this year can’t be the major factor for the poor performance of the company?

**Arvind Kajaria:** No, this year we have learnt from the past experience which is why we are making these changes that we don’t want to invest into any kind of situation that we can get stuck with the inventory which is why we made the change and it is why we believe that the vendor must have a deeper skin in the game.

**Amit Agarwal:** After technology expenses and marketing process, there is no margin left, we thought after two years, the margin will expand because of your technology and you really talked about your technological system, but the margins are evaporating, so I can’t understand, is this business model open to everybody, so there is more sellers on the market and never expected that the margin will expand with the time, the margin was getting squeezed with the time and there is no hope that the margin will expand next one year or so?

**Arvind Kajaria:** I appreciate what you are saying Mr. Agarwal. Yes, there is competition on the ground when there is such a large market, there is bound to be competition and we are now investing to beat the competition. At least we believe that our model is still very much robust. We have paused for couple of quarters to learn and set the base for growth. When you have a larger vision, then you need to invest the time and the resources to set the base. It was difficult to imagine that the whole thing would happen in a linear fashion, but from our perspective we are seeing the improvements on the ground, yes, it might take couple of quarters, but if you have a slightly longer term view, I believe that our model is very much stable and robust. Should I answer the question on the economic nexus what you asked?





- Amit Agarwal:** Yeah.
- Arvind Kajaria:** So what has happened is that you know the online, earlier it was not being charged that state tax between 4 and 6% which is now being charged, so the real thing is that it has affected the offline purchase and online has come slightly more in priority.
- Amit Agarwal:** So that has affected our business model altogether specially in furniture because I think that is the category where you must be supplying directly to the consumer rather than giving to FBA?
- Arvind Kajaria:** No, I don't think so, it is really affected because by now it is very clear what sells online and what sells offline and the two have different needs and modalities. I was just trying to explain the implication of the tax. I don't think so it is affected. We are too small to have such a large impact. There are enough vendors and there are enough categories and enough products to deal with.
- Amit Agarwal:** But you think you can expand the margin again in the next one year, I am surprised the margin has really squeezed. There is no cash generation?
- Arvind Kajaria:** If you see some of the expenses have gone, we have invested in the US operation which is what has reduced the margin.
- Amit Agarwal:** I am talking on simply after deducting cost of goods and shipping and marketing expenses? I am not talking about the administration expenses at all right now?
- Arvind Kajaria:** Yes, some of it includes a little storage cost that we had to bare. These are all short-term learnings that we have and these are the exact measures that we are on the process of correcting, so that such situations don't come up. These are the learnings that we are factoring in before we start our next level of growth.
- Amit Agarwal:** That means, right now we can't be very robust about the sales growth for next two years, right?
- Arvind Kajaria:** I would not say that.
- Amit Agarwal:** If you are practical that means there is no hope of robust growth for next two years, sales growth?
- Arvind Kajaria:** No, I did not say 2 years, what I was saying was one quarter. I think that the fall would get arrested and then we would start the upward journey after one quarter. Two years is a long time. I think I have already indicated we are halfway through the process and we have seen good traction on the ground. We will see how the holiday season goes and we will start the upward journey again. It is more by design.
- Amit Agarwal:** Is the ranking of Amazon, your ranking was very good last year, has your ranking gone down or improved compared to the last year?



**Arvind Kajaria:** Ranking comes once a year. We were at I think 232 last year. I am sure that most of the other 3Ps are also facing similar issues that we are facing. To the best of our knowledge, our ranking if it goes down, it should be only by a couple of points.

**Amit Agarwal:** Have we lost the market share?

**Arvind Kajaria:** The market is large enough, so I don't know whether we can see it in terms of market share. The more important is to occupy larger and larger portion of the vendors so that the stickiness and the cost of switching is high, so that once we get in, then there is a little chance of switching to somebody else.

**Amit Agarwal:** Don't you think as the management, you should think out of the box of new system, other thinking of new category or going to the new geographies like UK or Canada for higher margins because the margins are very less? In the long term we have done. We can't just keep on waiting to improve the margin than the sales growth, can't we think some of them out of the box ways to get out of this stagnation?

**Arvind Kajaria:** I appreciate where you are coming from sir. We have done all the learnings and we are very focused on correcting it, may be if you give us a quarter and we have a discussion after that I think may be hopefully you will see the improvement, but from our perspective, first we need to get this capital out of the way, otherwise if we start other markets, we will be even more spared in capital and growth will suffer, so this is short term, this is the best way. Once we get this out of the way, then many-many avenues open up.

**Moderator:** Thank you. The next question is from the line of Pramod Dangi from Trust Lotus. Please go ahead.

**Pramod Dangi:** What is that we are preparing for the coming Christmas season? How we are preparing and what is our outlook for that?

**Arvind Kajaria:** I have just spoken about that. I will elaborate further. All the vendors that we have aligned with which will not give us any negative cash flow. We have put all the catalogue online. We believe that the supply chain tech engine that we spoke about is also ready, so we should see robust growth for those vendors who have aligned with us. Some of the vendors who are still not aligned with us might take time. Some will come in November, some will come in December, some will come in January, so as they progressively come with us, you will see a sales growth. As far as the holiday seasons goes, we are best prepared whatever I just mentioned.

**Pramod Dangi:** And second, if I look at from the number of vendors which have migrated to your new credit terms, if I compare with 1 year back, what will be percentage of the vendors who have agreed to migrate and who have not agreed to migrate?

**Arvind Kajaria:** So as of right now, 20 to 25% people are migrated into the new terms, which basically increases the vendor credit from 15 days to 30 days. Rest of the negotiations are on. We don't cancel any



vendor, we keep on the negotiating process and we believe that as they see our value they will come on board. This was a necessary change because we needed the capital to grow and we wanted the vendor skill in the game.

**Pramod Dangi:** Any particular category of the goods we are looking for next, going forward for next 1 or 2 or 3 years or you continue to be in the home improvements and the home furnishing?

**Arvind Kajaria:** No, furniture is selling very well online, home improvement is selling very well online, pets is selling very much online, so right now, the potential of these categories are still very high and this is where our focus is for the time being.

**Pramod Dangi:** And new kind of category we are looking to aid over the next 3 to 4 quarters?

**Arvind Kajaria:** See, the more the issue is alignment with the vendors, so if you take on new vendors, then it is closed on the process. Right now, we would like to start the growth trajectory with the people who have been with us to 2 to 3 years. It is much easier with them and once that takes off, then of course we will invest in the other new vendors as well. So, that process we will start from January.

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

**Arvind Kajaria:** Thank you everybody for attending our call. I appreciate your questions and the time you have invested in this call. We look forward to scaling and we look forward to many good quarters ahead. Thank you for your time.

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