"Intrasoft Technologies Limited Q2 FY-16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Intrasoft Technologies Limited Q2 FY16 Earnings Conference Call. As a reminder, all participants' 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 * then 0 on your Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Arvind Kajaria – Managing Director of Intrasoft Technologies. Thank you and over to you, sir.

Arvind Kajaria: Dear all, I welcome everybody to the Q2 FY16 Earnings Call for our company Intrasoft Technologies and my colleague Mr. Mohit Kumar Jha – Senior Manager of Finance, joins me. We have uploaded the business update presentation, press release and a document on FAQ on our website. I hope all of you have received it and would have got a chance to go through it.

The quarter gone by was an exciting one for us. We integrated with jet.com an e-commerce market place post, which we are now present on nine market places. We expect good momentum from jet.com especially in the upcoming holiday season. During the quarter we formed a 100% subsidiary of 123stores Inc in India under the name of 123stores E-commerce Private Limited to increase focus on the e-commerce business by consolidating all operations related to e-commerce under 123stroes Incorporated to further increase financial and operational efficiencies.

I shall now begin with the brief on our financial performance. For Q2 FY16 we reported a consolidated income of Rs. 154.68 crores up 159% year-on-year. Profit after tax was recorded at Rs. 1.66 crores up 80% year-on-year. For H1 FY16 our consolidated income was up 128% to Rs. 272.69 crores and profit after tax was Rs. 2.89 crores up by 64% year-on-year.

For trailing 12 months, ended September 2015 our consolidated income was Rs. 496 crores and profit after tax was Rs. 7.09 crores.

We continue to maintain the sales momentum driven by the large opportunity available in the US e-commerce market and the increasing need of 3P sellers such as us. E-comm revenues increased 169% year-on-year to Rs. 150.59 crores. This growth was across all product categories. Furniture, patio, lawn and garden continues to be our largest category. Our top 6 categories were furniture, patio, lawn and garden with a 28% share. Musical instruments and gadgets with 26% share. Kitchen, dining and appliances with 14%. Home improvement and arts and crafts with 13%. Sports and outdoor with 8% and finally toys, games, baby products with 6% share.

The number of orders we shipped grew from 118,606 last year to 377,083 a growth of 218%. This is the highest order shipment in our history and surpasses the order shipment even though it was during the last holiday quarter. Our proprietary technology platform scaled up well and order volumes with minimum human intervention enabled cost savings as we grew volumes.

One of our marketplace partners Amazon.com celebrated their 20th birthday by launching Prime Day on July 15th a shopping event that offers shoppers new deals as fast as every 10 minutes and from every product category. This event was met with tremendous success and contributes as one of the key partners to Amazon.com 123 stores revenue on Prime Day was up more 500% year-on-year. We look forward to this becoming an annual event in the future.

During the quarter the company expanded its catalogue to cater to the upcoming holiday season demand, is now partnered with more than 1440 suppliers, and is now selling more than 265,000 unique products on its website and partnered market places. As we leverage our technology and efficient supply chain, we were able to offer customers a better shopping experience including a better price point.

Accordingly, we were able to sell many newer lower priced products during the year resulting in a lower average order value of Rs. 3,994 as compared to Rs. 4,720 year-on-year. But we achieved a much higher number of orders shift. As the operations of the company continue to expand expenses related to shipping and handling, represent an important area of cost to goods sold.

Moving forward we shall report a summation of the cost of products as well as the shipping and handling expenses as cost of goods sold which will now include shipping. The slight decrease in the gross margin was because of the addition of newer suppliers and products to the catalogue and also because of the slight shift in the sales mix.

As the sales momentum continues to improve the overall, gross margins will trend upwards as the year progresses and we continue to increase our purchases from these newer suppliers.

I shall now give you a brief on our e-greetings business. 123greetings.com continue to see increase mobile application usage year-on-year with increase in the number of cards sent from 2.4 lakhs in Q2 FY14-15 to 2.52 lakhs during Q2 FY15-16. Mobile application downloads reached 7.63 lakhs as on 30th September 2015. E-greetings business revenues for Q2 15-16 was Rs. 3.39 crores.

With this I now leave the floor open for Q&A. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, I would like to understand our detail about our business offerings that is own market place and tie up with Amazon, EBay, etc., I would like to understand the percentage of sales through the market places and what are the margins in that and all?

Arvind Kajaria: We have a shop-in-a-shop format where in the US most of these larger websites the names which I have mentioned but I will do it again. People like Amazon, EBay, Jet, and Rakuten they allow third party sellers to come and sell on their website. So our expertise and our USP is that over the number of years we have increased our reach to sell on nine marketplaces as well as our own website. The approximate sales from own website is about 5.5% the balance comes through a combination of all of these put together.

Sanjay Shah: And how about margins over there we sell at marketplace we have a better margins or we tie-up with other Amazon and all they have better margins?

Arvind Kajaria: I believe due to the openness of the web and the competitive sectors that we operate in very similar prices are available across all marketplaces, which is why also we partner with as many people as we can because people have their own individual preferences to buy at a particular place. I believe that prices are all the same so our USP is that no matter where you buy it from it could be Amazon, eBay, Jet eventually since we are the people listing on those products the shipment order the value comes to us. The margins are a very similar it is the same from our own website and it is very similar across all the marketplaces. If you want to see a detailed explanation of our margin then our balance sheet would be a good place to understand that.

Sanjay Shah: So there is like we provide a marketplace for these vendors basically?

Arvind Kajaria: Yes, so the vendors are basically not digitally equipped to sell online by themselves. It is a very big challenge to keep up with the online sales which is now getting automated manage the inventory, manage the customer expectations, the sale support etcetera. So what we have done is we have kind of taken over that part of the business and we buy the goods from the vendors and then in turn list on various places. So as the listings increase then the number of suppliers increase our volumes is expected to increase in the future. And which is where our technology place a huge role because it is able to automate the entire process and seamlessly deliver across as many platforms as we chose to supply on.

Sanjay Shah: Sir, what about the risk of unsold products and when we buy from the vendor we have to buy it on our books; am I right?

Arvind Kajaria: Yes, that is approximately 70% of our models requires no inventory at all which means when you buy something from a particular marketplace an order comes to us and we electronically place an order on the vendor. And per basis that is one item by one item it gets ships straight from the vendor's office or warehouse or factory to the user's home. So it is a very efficient model where there is no double handling of goods and products and there is no risk of unsold inventory from that aspect.

Sanjay Shah: The whole business works some few percentage business even we buy the product and then?

Arvind Kajaria: 70% of the business works the way we have mentioned and approximately 30% to 32% where we taken inventory where we participate in promotions like you see in the newspapers of the large websites in India similarly so the US people manage their promotions or conduct the promotions on an ongoing basis. For that, we have to stock the products because we experience a large volumes of sale. An example is given in our press release about Prime Day. So large sales means that the vendors are not equipped to supply those products on a particular day whereas the specialized fulfillment agency is required to ship 1,500 or 2,000 orders on a day. Yes, those orders come on our books but we have a back-to-back arrangement with the vendors that in case they does not sell then we do have the option of returning it back to them.

Sanjay Shah: It sounds good.

Arvind Kajaria: In most of the cases.

Sanjay Shah: Can you explain to me what is the Shop in Shop partnership means what services we provide to Amazon, eBay and what do you mean by that Shopping Shop?

Arvind Kajaria: When you go to a marketplace and you type let us say you type a glass, a plate, cup whatever and when you see an item listed there that page will mention 123stores. So even though you are an Amazon customer the good are being sold by 123stores. That is more commonly known as a Shop in shop format. So we operate as a shop within a larger shop called Amazon.com.

Sanjay Shah: In this case, we use only the platform base everything else is done by us; service providers?

Arvind Kajaria: Yes, we only use their platform that is the sales engine. The supply is done by us; the delivery, logistics is done by us, the entire customer support from start to finish is done by us and any returns or any issues along the way are addressed directly by us. The customer directly knows that he is buying from 123stores.com. He has our listing details on that page.

Sanjay Shah: Now continuing this question in this case what are the commission we have to share with these people?

Arvind Kajaria: So various marketplaces have various commissions and they differ from categories to category. Generally speaking it is the commissions vary from about 8% to 15% depending on the website and the categories that they operate in.

Moderator: Thank you. The next question is from the line of Satish Bhatt from Anvil Shares and Stock Broking. Please go ahead.

Satish Bhatt: Sir, I just wanted to know one thing, that lot of things now Amazon is talking about. Amazon has become profitable, so what type of momentum you are seeing in terms of US retail market. So we have to think of growing maybe 2x, 3x what Amazon grows on a sequential basis. So can you throw some light on the strategy regarding what type of products we are launching which can give us geometric progress and growth in the coming quarters and in the coming years?

Arvind Kajaria: So what is increasingly happening Mr. Bhatt, is that more and more vendors are realizing that it is quite a big challenge to sell on these marketplaces and plus they are feeling that maybe they can only sell on one. But it is almost impossible without a technology platform that we have created to sell on multiple platforms. And if they do not sell on multiple platforms, then they lose the customers who are more often going to jet.com or sears.com to shop.

To answer your question directly, I think right now the momentum is more suited to the vendors, where we are tying up and they need our services to help them go online and sell their products more and more online. Amazon has its own strategy unfortunately; I am not the best person to comment on it. But from what I have read is that they are more interested in becoming the largest fulfillment in terms of FBA, in terms of customer safety, security, acquisition etcetera. And large part of their retail they want to outsource it to vendors like us.

So we see a momentum on both sides where we are increasingly adding newer and newer suppliers, which brings more and more new products to our fold. And we are increasing the number of marketplaces so we are not dependent on any one marketplace or any one vendor to see both margin growth as well as topline growth. So while it is not a direct answer, what I am trying to say is that there is so much momentum in the market right now, that those issues of competing or not trying to understand Amazon strategy, at this moment is not that important for us. If we continue to do a good job, in terms of fulfillment and our technology scales up, then I think we have in our opinion enough business to work on right now.

Satish Bhatt: And so two questions. And sir, regarding this year maybe we may hand around $100 million plus or minus $5 million, $10 million here or there. But when you think you can reach a size of million dollar range level, you will be really significant player in the big commerce market in USA. And whether we have any technology backlog is still there, whether we have to invest in technology, in case then how much money we will still have to invest in technology to become a million dollar company?

Arvind Kajaria: So from the core technology platform, we believe that that has been over and done with and we have completed the basic module, which requires us to scale to actually any amount. That said, what exactly happens is that each of these market places keep on coming up with their own evolutions and technologies. And we have to keep in line with them for example if somebody develops in PHP then we have to suit our module to that particular platform. If somebody develops in some other language, then we have to talk to their software in that particular language, which is what requires the additional cost, which will also what requires the additional time.

But at the same time it actually works to our advantage because not many people would have this kind of a technology team and the level of skill that is required to integrate. Whether we become much larger from here depends on how many vendors we are able to add. The more vendors that we are able to add, the more categories we are able to add, the more to our product offering, that we continue to add, the numbers should go up. As you have seen that the past one year trend has been very encouraging, and there is now almost a queue in the pipeline for vendors wanting to work with us and add which is very different from let us say where we were three years back, where we were doing all the marketing.

So obviously in our view, that we are definitely providing a service that they need, and as we continue to perform quarter-on-quarter as we continue to sell the products and give them sales volume we trust that the vendors will come to us and a combination of increase in market places and increase in vendors is what will drive us the topline growth.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: So the G&A increase which happened during QoQ is there a one-time cost, etc., involved in this in this particular quarter?

Arvind Kajaria: No, this is the increase in J&A is in commensurate with our topline increase Mr. Jain. What happens is that lot of new managers who were added to the pool because if you do not add managers prior to the quarter then for next quarter, we will not have new vendors and we will not have new products.

Mohit Jain: So this does not go to your employee cost, is it?

Arvind Kajaria: No, you are right absolutely. The salary goes to the employee cost, but the traveling to the US, the whole attending of the conferences and fairs and visiting the vendors at their location is not included in the employee cost.

Mohit Jain: So we should see this more like a percentage of sales than in absolute growth number.

Arvind Kajaria: Yes, eventually if you follow it, everything will become a percentage of sales and some portion of that is being used from the current profits to invest for maybe next quarter’s and year’s growth.

Mohit Jain: And second thing is on your gross margins. You talked about this shortfall because of the product mix change. So what exactly has happened during the quarter and how should we see gross margins going forward?

Arvind Kajaria: So we added a couple of high value products also and low value products as well and what we realized that COGS in itself may not be the best number to report because a shipping and handling also forms a portion of it.

Mohit Jain: No, I was hoping for COGS that one thing is reclassification or maybe inclusion of shipping into cost of goods sold?

Arvind Kajaria: No, we have not reclassified, we are simply saying that shipping will now be part of COGS so we have to look at the number in its totality, which will give you a better idea of the margins per se.

Mohit Jain: Right. The second thing what I was trying to ask was that if I look at COGS purely from the way you showed it earlier, that is excluding shipping and handling charges, then this number should trend up or do you think it can remain stable?

Arvind Kajaria: We would like it to become not only stable but to see a fall, which in our belief and working, we do see it falling as the numbers scale up. But in the current quarter because October to December is a major sales push for us, we over invested in attending adding new suppliers to the list. So when you add a new supplier what happens is that the normal trade discounts that we get, the way the retail industry works is that the more sales you achieve for a vendor, the higher is the quantum of trade discount.

So when you add vendors you never hit the discount because you want to have the experimentation and history of working with a particular product as well as a vendor. So we have added as you can see, lot of products we increased from almost 200,000 about six months back to 265,000. When this sells, then it is selling at a competitive price and we may not be making adequate margin initially.

Mohit Jain: So then this increase becomes more normalized and your margins should trend up?

Arvind Kajaria: Hopefully this will be reflected in the coming two quarters. The impact of this will be seen in the coming two quarters.

Mohit Jain: And therefore is there a target, EBITDA margin range for 16 or 17 that you are looking at?

Arvind Kajaria: We are not focused on getting a number or hitting a number. We are focused on seeing that this is on our way down. So what I am saying is that I think which is why we thought that reporting that gross profit is a good way of informing the financial community that we are profitable at a gross profit and then we are choosing to reinvest that differential margin into development activities. So with this it should become quite clear.

Mohit Jain: So there is no particular EBITDA range so to say, you can choose to invest more in sales and marketing and therefore your margins may remain stable from this?

Arvind Kajaria: The answer really lies in the momentum in the market, which is currently very high. So we do not want to miss out an earlier gentleman said that he would like to see us as a much larger company. We cannot do that, we cannot become a much larger company until and unless we reinvest into adding more and more products to our portfolio.

Mohit Jain: Last question is on balance sheet. This long term investment that you have shown of around Rs. 35 crores, what does it include in this particular quarter?

Arvind Kajaria: Which item is that?

Mohit Jain: No, in the consolidated balance sheet if you go to non-current investments, it is around Rs. 35 crores for this quarter. This used to be like Rs. 9 crores in March, which has become?

Arvind Kajaria: Let Mr. Jha speak on this. So he is just taking out the tab for that, can we move on to the next question in the meanwhile that you might have. Can you come back on this question; he is just taking out the file?

Mohit Jain: Yes, that is fine.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaram from Ambit Capital. Please go ahead.

Vivekanand S: I have a couple of them. One is with respect to the composition of your employees. If you can help me with a mix of how many are located in India and how many in the US and also a segregation of the employees by business function, tech, sales and business development, that is one. And secondly, I had a couple of questions on the balance sheet, which is one pertaining to the increase in trade receivables in half year. And the last question is on the inventory, where is it recorded in the console balance sheet. Thanks?

Arvind Kajaria: I think I have forgotten the first question; you will have to repeat that please?

Vivekanand S: The first question was the mix of employees, so I wanted it in two forms. One is how many are in India versus the US.

Arvind Kajaria: So we have reported the number of employees.

Vivekanand S: You have 180 odd, right?

Arvind Kajaria: Yes so all of those employees are currently housed in our Calcutta back office. We have one employee in the US but as we move forward, we intend to now spruce up the hiring in the US. Currently the way it works is that the front teams the sales team and the vendor teams, they are travelling up and down on a regular basis. On your second part of your question was?

Vivekanand S: One more question on the employee side. Sir, you mentioned the sales and the vendor teams they shuttled back and forth. So how many would be in sales and business development and how many in tech and how many in customer service, these three?

Arvind Kajaria: So, the teams are quite equally divided. The largest team of course is the tech team with about 20% of the composition followed by the purchase team, followed by the sales team, followed by customer support. Our biggest two teams are customer support as the higher the number of orders, the higher the number of issues that need to be dealt with. So the customer support team goes up, followed by the fulfillment team. Of course, the fulfilment team is now the smallest because it is supported largely by technology. Finally, the finance team. It is in probably in that order. On the balance sheet if you would care to?

Vivekanand S: I will repeat my query. So two questions one is on the trade receivables. Secondly, where is inventory recorded in the balance sheet?

Mohit Kumar Jha: Yes hi, this is Mohit, Senior Manager - Finance. The first question on trade receivable part as our topline growth our trade receivable is also on a growing trend.

Vivekanand S: And sir, what is the thought process here and how many days of receivables do we have and then we are likely to have in future as well?

Mohit Kumar Jha: Typically, our trade receivable is all our market places, where we get our money and it is on an average 7 days' time we get our money back to our account.

Vivekanand S: Okay, so it is mainly from the 9 marketplaces with whom we have tied up right?

Mohit Kumar Jha: Yes, that is right.

Vivekanand S: And sir, on the inventory question? Sir I see that you have mentioned the inventory number of around Rs. 32.3 crores; where is this recorded in the balance sheet?

Mohit Kumar Jha: It is reflecting under inventory only. If you see our consolidated balance sheet under inventory it is Rs. 32 crores reflecting there.

Vivekanand S: Oh, it is in the console statement, not in the standalone one.

Mohit Kumar Jha: On the standalone you will not find any inventory because in consolidated, we have inventories from our 123stores business, which is a US subsidiary.

Moderator: Thank you. The next question is from the line of Vaibhav Baid from Motilal Oswal Securities. Please go ahead.

Vaibhav Baid: Just wanted to understand from a layman's perspective, that if supposing I am selling a product A, I am a vendor for you; so why is it that I can basically list my product on all these Amazon and the Jets of the world. So what is so different about your website that we are forced to sell on your website?

Arvind Kajaria: Well, vendors in the US are more focused on building a brand. And they do not have the technology teams rather they do not want to invest in technology teams to do their online selling. That is not to say they cannot do it. But it is more efficient for them to partner with us because we are able to amortize the cost over let us say 500 or in our case 1,440 vendors providing a uniform standardized service to a technology platform. If they have to do it on their own selves, for example most of the market places require that you answer an e-mail within 24 hours. For that then you would have to hire two customer support agents just to answer Amazon's queries. From an economic point of view, it becomes un-remunerative for them without adding any value to either their sales margin or volume. Additionally logistics is based on volume. So typically these SMEs do not enjoy the kind of volumes discounts that we would get from our logistics partner. So there is an economic angle to it as well.

Vaibhav Baid: And sir, on your competitors in the US, sir could you give us some names?

Arvind Kajaria: Yes we will be putting it up on our website in our business presentation shortly. We are doing a peer-to-peer analysis, it should be with you shortly.

Moderator: Thank you. The next question is from the line of Vaibhav Vatkar from I-Wealth management. Please go ahead.

Vaibhav Vatkar: I just wanted to hear about the strategy that you would be taking on ahead. So I think so Christmas shopping festival is coming right up ahead. And right in the call you said that your shipping cost are also going up. So to stay on the profitability and to enter into reinvest those, what will be your strategy ahead? So you are now chasing like top line whatever you are getting in the topline after gross margins you are investing into your things. So what will be the best way to handle that?

Arvind Kajaria: Our basic stated ethos is to be profitable at a transactional level, which means that after COGS the product cost and shipping, we will normally as a philosophy not sell anything at a loss. Once we enjoy that profitability, once we enjoy that free cash flow, we want to keep on reinvesting mainly into developing people because ultimately they are the ones who get the vendor acquisition. So the strategy is to remain profitable, the strategy is to remain increasing vendors, increase more and more market places, add more products and enhance the team both in terms of price and quality so that we become even better and better at what we do. The technology platform has seen a bulk of its investments and the minor integrations, which will continue will also be looked at from this free cash flows.

Vaibhav Vatkar: And sir, right now in the quarter you had said that your shipping cost had increased. But in your product mix furniture is the highest, is not it sir?

Arvind Kajaria: Correct.

Vaibhav Vatkar: Which has been getting your highest revenues. But incidentally, in this quarter it has moved some of the losses has been from Q1 to Q2 of 8% and then it has moved to (Inaudible-35:11). So is not the place where we will have revenues have decreased if suppose it would have been this mix would have been the same as the Q1 so how much would be the increase in the revenues then?

Arvind Kajaria: I will have to check the numbers but again coming back to what I had mentioned earlier is as a philosophy we do not sell anything at a loss. We only invest in the learning curve of new products that we add. So certain for example 1% or 1.5% maybe further invested into putting up new products online, mainly because we do not hit the kind of volumes to enjoy the trade discounts which maybe our competitors are getting. But we do not see that increasing beyond say 1% or 2%.

Vaibhav Vatkar: Sir, what I am trying to understand here is that for current quarters, last two quarters, your average value has been decreasing when you were enjoying 4200 plus average value?

Arvind Kajaria: Okay now I understand. Sorry I did not understand your question earlier. The average values has fallen because of our new product mix we have included a lot of toys, lot of games, we have got some of the best brands to come on to our platform. Now the moment you start games then the average volume falls but the number of orders goes up. Which is why you have seen the average volume. So we are not very focused again on increasing value, we are more focused on the increase in the number of orders because that is what makes us special to both the vendors and the marketplace. Because the vendors come to us because they see us as their future long-term online partner for increasing their sales. So we are not focused on and margins are not dependent on the value because the margins remain the same whether they are at $800 a piece or $100 a piece or $50 a piece.

Vaibhav Vatkar: Sir, then is it fair to having that your shipping cost and your lower value items will be increasing, so as shipping cost will be increasing more and more than your increasing the topline?

Arvind Kajaria: Yes sir, you are right. But I would like to put it slightly differently. The shipping portion of the cost may increase on the lower value. The higher value products would have a lower percentage of shipping, which is why exactly the reason why we decided to report it together with COGS so that the same is neutralized. As you would see, sometimes COG up and down or shipping up and down but moving forward when you are able to match it with this current quarters numbers, it will kind of neutralize and make much more financial sense.

Vaibhav Vatkar: So after the introduction of this product mix, so what are the traction that you are seeing from the customers more into which category that you are seeing?

Arvind Kajaria: So I have reported on the press release the percentage of each category.

Vaibhav Vatkar: I have that but may be if you can help with this?

Arvind Kajaria: So, we are very excited on toys, games because this is finding more and more affinity online and also our enthusiasm comes with signing up of couple of very high value brand names. So we would continue on this path. We are seeing an actual improvement in all over including furniture, including musical instruments. So all our products are seeing some kind of momentum. But in the recent past we had added toys and games, which is where we see, the reason why we see the average value fallen, but the number of orders have been increased.

Vaibhav Vatkar: And sir, concerning this Christmas season, sir till now what has been your vendor additions?

Arvind Kajaria: I have reported it to 1,440 brands as on September the 30th.

Vaibhav Vatkar: And how is it going like for October, November, December because the last quarter in the last third quarter also you had some tremendous growth there?

Arvind Kajaria: Generally as a philosophy, most vendors do not focus on adding distributors and partners during this current quarter. Their focus is more on sales and it takes normally three to four months, it is a process to add brands on to our platform. So even if we add somebody now, their products will not come online before Christmas. So normally, the quarter that you actually invest is in July quarter, which is just gone by because that investment in vendor brings new products to the holiday season.

Vaibhav Vatkar: So it takes a quarter for that vendor to?

Arvind Kajaria: Yes, so traditionally all retailers not only 123 stores or whoever focus more on sales this quarter and development activities beginning from the January quarter.

Moderator: Thank you. The next question is from the line of Vijay Patil an individual investor. Please go ahead.

Vijay Patil: Could you please explain about that write off?

Arvind Kajaria: Yes sure. When we started the e-commerce venture, we pursued 3 or 4 models at the same time because we did not know what will work out. We thought that the auction format will work out and we thought the marketplace model for itself worked out. So as we got traction on the current model we pursued the development on that and put on hold the other models. When we recently reviewed the assets under development and found them non-revenue generating we found it prudent to write them off. Anyway, since April 13 we were advised to debit all software development expenses directly to the PL account thus there has been no addition for the past two and a half years.

Vijay Patil: So it is basically the softwares, which are not going to be used in the future?

Arvind Kajaria: So they were parts of the development process.

Vijay Patil: Is it all the third party products also or it is your own product?

Arvind Kajaria: No this was all in-house basically, all the employee cost, the salary cost, which was capitalized.

Vijay Patil: And in future you are going to continue with this and you have mentioned that?

Arvind Kajaria: In future as a policy we are debiting all cost to the PL account.

Moderator: The next question is from the line of Ritesh Rangwala from Global Securities. Please go ahead.

Ritesh Rangwala: You have reported like 150%, 160% growth in your revenue. What I wanted to ask was what percentage of this would you attribute to your growth in the marketplaces that you have added in the last one year versus your marketplaces that have been around from more than a year? I mean just a rough percentage would be okay.

Arvind Kajaria: I understand your question. The growth is primarily coming from the existing marketplaces itself, which are the older ones. Especially for the numbers reported till now, but we have added couple of new marketplaces in the current year as we reported jet.com being the last one. Now these take time to mature, it takes time for debugging, bugging all the small things to get sorted out. And for us to understand how they like to be treated in terms of customer and what is the e-mail query and the system etcetera. So we are normally very, very slow because we would like to have the preferred seller status us on all the marketplaces.

Ritesh Rangwala: But then would you say that a typical marketplace for it to actually start being meaningful revenue generation from would take almost a period of 6 to 8 months or longer?

Arvind Kajaria: That would be more or less correct.

Ritesh Rangwala: My second question was basically on the way you add vendors. I wanted to understand now say suppose there is a XYZ vendor in the US, and he becomes your vendor basically. So 123 Sores has installed a software there. Now is that vendor exclusively going to only supply products through you or would he also be supplying to your competitors?

Arvind Kajaria: No, the vendor is free to supply to us or to anybody else that he chooses, and we are free to buy from him or anybody else that we please. There are some exclusivity but generally 123 Stores prefers to have competition because we are more focused on fulfillment and for us to really scale and for us to have importance we need to ship more and more orders. If you sign up exclusivity then while you do have some control on that product you miss out on selling those competitors. So we see ourselves more as a platform where people come and sell more and more products and our platform is utilized to the optimized level.

Ritesh Rangwala: But then to some extent sir, do not you think that makes you a little vulnerable if the vendor is dealing with multiple aggregators like could he pitch, give a better deal to your competitor versus you or do you ever face cases like that or?

Arvind Kajaria: I hope my category managers are smart enough to get us the best deal. We are looking on the ground and they have to be managing that relationship.

Moderator: Thank you. The next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah: And I think in your press note you have captured it that your trailing 12 month run rate is now over Rs. 500 crores. What I wanted to understand was basically a broad-brush picture on our next two three year basis. What direction the company is shaping and what challenges you expect? Last year internet retailers that magazine which captures the online e-commerce companies in United States ranked you at 392nd position and you are captured as one of the top fastest growing companies in the US. At the rate at which you are growing and I did some numbers, the growth rate at which you are growing, you should be reaching within the 250, 260, 270 top e-commerce companies in the United States, right?

Arvind Kajaria: Thank you for your question Mr. Shah. So the endeavor and the hope here is to continue to once we have finalized the model and we are happy with it, the hope is to continue to serve more and more vendors and more and more marketplaces at the same time. Our belief is so long as our fulfillment engine works seamlessly and we are able to iron out and sort out the issues and keep the three partners that we have on the left side vendors, on the right side marketplaces and our logistics partners, happy and focused on working with us, I see us growing at very similar or hopefully even better rates than what we have been growing historically and should that happen, I believe that we should climb up the value on that magazine you just spoke about. The way is performance, the way is operational efficiency.

Nishit Shah: No sir, that is a third party endorsement that we got a comfort on, from internet retailers. Now as I am taking lead from what you are saying. If you continue growing at the rate or even improve from the rate at which you are growing, then in not so distant future maybe 24 months, 30 months down the line you would be hitting a run rate of almost $450 million to $500 million. So that will pose a different kind of challenges for a company in terms of how you manage people, how you retain people and how you attract talent to manage those complexities. So I just want to understand how are you gearing up for all of that? And the scale that you will see in a not so distant future?

Arvind Kajaria: We are continuously evolving our management structure the model. We believe that as we involve more and more senior people into it, more and more strategic decisions that they are able to take that senior management can focus on this step. We intend to spruce up our HR infrastructure to a much larger level. As part of your question, we will also be sprucing up and adding a number of employees to the US subsidiary directly. We are aware of the challenges, we are regularly talking to consultants, we are regularly talking to people who specialize in helping smaller companies scale up. We are aware of the challenges. We will set up a structure that addresses as we go along, keep up with the growth path.

Nishit Shah: Also e-commerce opportunity is in Europe is also very big. For some time may be you just want to consolidate and grow and capture the markets that the US market offers, which is a mother of all market at this point of time. But surely you guys will have some strategy to go to Europe and maybe look at some other markets. Would you give some thoughts on that?

Arvind Kajaria: Yes, while you are absolutely right, sir from a numerical aspect, what I believe what 123 Stores has created is a massive distribution channel in the US and we spent a lot of time, effort and capital in developing this relationship, developing the software, developing the knowhow and the learning curve and all the mistakes that have been made along the way. So our real strength is our ability to sell large volumes online and backed by an ability to fulfill that. I do not see that same expertise as of right now if we move on to some other geographies.

That said, if you considered from a reverse aspect, all people it may be even European manufacturers looking to now sell in the US which probably they did not have a hold till now is where we fit in to the picture much better than sir, what you might have explained at least from our point of view. So rather than us going to other geographies, we think a much larger opportunity is having other vendors from other geographies reach out to us and help them fulfill and sell in the US market which you rightly pointed out is the largest market. So I think our focus, our strength, our USP is in US sales and fulfilment and for the foreseeable future, that is where we see us growing much larger than what we are right now.

Nishit Shah: On a different note, what really worries you I mean if you have to look at I mean everything is going for you, you have a fantastic growth, you are likely to improve on that, you will reach some scale? I mean I just want to understand what can go wrong, what really worries you?

Arvind Kajaria: We do have our thought processes I think we have understood the business pretty well from that aspect we do not have any issues. As with any evolving business, it requires a solid a team and within that team, making them responsible for it, the domain expertise is where the challenge lies. Obviously to attract the highest quality of talent with so much of much larger players, it would take a lot of effort to get very skilled people, well domain expertise with a management background, with a product background to join us. And obviously as you rightfully said at that level, you would certainly need all these skills along the way if we have to hit those numbers you just spoke about. So our real challenge that I see it, is putting up the structure in place.

Moderator: Thank you. The next question is from the line of Ashok Agarwal from Techint India Private Limited. Please go ahead.

Ashok Agarwal: We see the numbers of orders fulfilled during the quarter, 377,000 and perhaps 383,000. So that amounts to almost 4,200 orders per day and it looks to be a very massive jump almost three times than what it was earlier back. So are we one of the previous interactions you mentioned it was stated that the backbone has a capability of almost 10,000 transactions per day. So is it that we are very close to that threshold or we have already taken actions to sort of technically our backbone can handle maybe several times more than 4,200 per day?

Arvind Kajaria: So, if I understand your question Mr. Agarwal, you are saying you are trying to understand what is our top capability of fulfilling orders on a daily basis. Is that it?

Ashok Agarwal: Yes, because 4200 per day is the average of the 90 days but for obviously in your Amazon sales rate where the orders must have gone much, much higher than this number. So it is basically just to it will enable us to grasp let us say technically we can go how many times in number of orders let us say per day?

Arvind Kajaria: So as per our understanding, I believe and we all believe at 123 Stores that the technology is in place to scale up maybe 3 to 4 times from here without any issues. So the order capability is maybe 3 to 4 times from here. But we cannot increase that because the vendor relationships take some time, the market place relationship takes some time to develop. So it is not only about the capability of fulfilling, it is all the other factors that cumulatively must come up to a certain level and that level right now is the number you mentioned at the average of 4,000 and something.

Ashok Agarwal: I also want to know that how many more marketplaces we intend to add in say next say 1 to 2 years?

Arvind Kajaria: So that depends on what opportunities are available for us. We believe that there are at least three very large retailers who have still not opened up their website to allow third party sellers to sell on them. We believe that at one point they would do so, and if they do open we are very hopeful that they would invite us and I would add on. Plus some of the large portals also have shopping modules where we are not yet currently selling on. So to answer your question the overall ethos is to keep on adding add many places as it is possible to increase our edge. Our belief is that the larger the reach, more vendors would come to us and use our engine. The more orders we get the more profitability and amortization for 123 Stores.

Ashok Agarwal: My last question Mr. Kajaria, was I was going through one of your interview on India Infoline maybe two weeks back and it does mean that would mean that you have mentioned there that Indian operations may start in future perhaps as early as in next one year. Is it something whether I have correctly heard or is it rightly reported?

Arvind Kajaria: Sir, I have the intention here as well and I mentioned a little earlier that our strength is actually the US market, which is where we have been there for the last six years. We are not saying no to anything but we feel that the time is little away for our kind of model to succeed we definitely need two things, one is a mature marketplace already available which are competing against themselves so they value our services and the infrastructure the whole logistics environment has to be very good for our technology to be supported by that.

So I think you know as what I think I am saying what I was saying is that while India seems to becoming a hot market a very large e-commerce market, couple of these things that we require, our model requires, we are still away from that. But we are not opposed to entering. That is what I was saying. There is no thought on that.

Ashok Agarwal: And one more last question is our standalone business itself is contributing say Rs. 9.83 crore of revenue and almost Rs. 3.17 crores as a net profit. So what is this standalone business, is it what exactly?

Arvind Kajaria: Yes, we provide the back-ended services to 123 Greetings. That business is recorded in the standalone.

Ashok Agarwal: To support to 123 Greetings basically?

Arvind Kajaria: Correct.

Ashok Agarwal: Say technical support to 123 Greetings?

Arvind Kajaria: Yes and 123 Stores but not to that volume only certain products but in its totality to 123 Greetings.

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

Arvind Kajaria: Thank you gentlemen for taking interest in our Earnings Call. I hope all your queries have been answered. I again thank you for your support and wish everybody a Very Happy Diwali and all the best for the future. Thank you.

Moderator: Ladies and gentlemen, on behalf of Intrasoft Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.