

October 07, 2022

Vaibhav Global Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Limits	153.00	105.00	[ICRA]A(Stable); reaffirmed
Long Term – Interchangeable Limits	(12.00)	-	-
Short Term – Non-Fund Based Limits	5.00	5.00	[ICRA]A1; reaffirmed
Short Term – Interchangeable Limits	(15.00)	(15.00)	[ICRA]A1; reaffirmed
Total	158.00	110.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the extensive experience of over three decades of Vaibhav Global Limited's (VGL) promoters in the e-retail business and its end-to-end vertically integrated business model with an established supplier network. High share of private label sales as well as attractive value positioning of its products helped VGL generate consistent gross profit margins of over 60% over the last five fiscals. The ratings also favourably factor in the extensive coverage of the company-operated television channels with a reach of 127 million households as on June 30, 2022, across the US, the UK and Germany. The ratings also derive strength from the strong financial risk profile of the company, characterised by comfortable capital structure and robust debt coverage indicators along with its adequate liquidity position with cash and liquid investments of ~Rs. 201.9 crore as on June 30, 2022.

After witnessing a robust YoY revenue growth of 28% in FY2021, VGL's revenue growth rate softened to 8% in FY2022 on account of re-opening of the brick-and-mortar retail stores. The decline in the growth rate is also partly attributed to the high base. Its operating profit margin (OPM) declined to 10.2% in FY2022 from 14.6% in FY2021, primarily due to an increase in broadcasting and digital marketing expenses as the company tied up with new over-the-top (OTT) and over-the-air (OTA) platforms and incurred losses in the newly launched Germany operations. Besides, significant capital expenditure (capex) towards purchase of land for setting up new integrated headquarters in the US, upgradation of IT infrastructure, warehouse robotics automation, upgradation of its channel position in the UK, among others, led to negative free cash flows in FY2022. Nevertheless, the overall financial profile of VGL remained comfortable given the low dependence on debt and healthy net worth position. ICRA expects these investments to yield benefits over the medium term in the form of increasing household coverage as well as cost savings. Along with limited capex plans, this will lead to improvement in the free cash flows over the medium term.

VGL's exposure to geographical concentration risk remains high with over 95% of the sales emanating from the US and the UK regions, where the company directly competes with established players in TV - home shopping segment and other e-commerce players. VGL's operations also remain susceptible to local regulations as well as demand prospects in these countries. While the company has forayed into the German market in Q2 FY2022, the revenues are yet to pick up meaningfully and hence the operations are loss-making at present. Around 39% of the company's sales (in FY2022) came through budget-pay schemes, which expose VGL's OPM to the risk of bad/doubtful debts. ICRA notes that the company's profitability also remains susceptible to foreign exchange fluctuations on account of its foreign operations, though it hedges the major portion of its exposure through forward contracts.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that VGL's financial profile is likely to remain comfortable, supported by low reliance on debt and improved cash generation in the business, given the attractive value positioning of its products and established presence in the US and the UK markets.

ICRA has reaffirmed and withdrawn ratings assigned to the Rs. 48-crore bank facilities as the company's sanctioned limits have been reduced.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – The company benefits from the extensive experience of its promoters spanning over three decades in the fashion jewellery and lifestyle products e-retail industry and its established track record over the years.

End-to-end vertically integrated business model with an established supplier network and high private label sales – VGL has its own manufacturing set-up in Jaipur, Rajasthan, which caters to ~70% of its fashion jewellery requirements. The company sources lifestyle products (like watches, hair accessories, etc.) and the remaining ~30% of the jewellery retailed directly from its established supplier network in over 30 countries, including China, Thailand, and Indonesia, among others. This results in a shorter lead time for the company. Besides, high share of private label products (~90% of total sales) has helped VGL generate healthy gross profit margins of over 60% over the last six fiscals.

Extensive coverage to 127 million households; strong brand presence of VGL-owned channels in the US and the UK as well as attractive value positioning of products – VGL is an online retailer of fashion jewellery and lifestyle accessories on its proprietary TV home shopping channels (three 24x7x365 channels) and e-commerce platforms with live telecasts in the US, the UK and Germany. In FY2022, VGL generated 63% of its sales from its TV platforms, with the balance 37% of sales coming from web platforms. VGL's TV home shopping platforms provide direct customer access to ~127 million households on a full-time equivalent basis. The company offers value proposition to its customers by pricing its products at attractive price points, averaging around \$30 per piece.

Strong financial profile – VGL has reported a healthy revenue rise, with a CAGR of 14% over the last six years. After a healthy revenue growth of 28% in FY2021 due to the pandemic, which led to higher online sales, the company was able to sustain its high revenue base despite opening up of the economy and reported modest revenue growth of 8% in FY2022. The OPM declined to 10.2% in FY2022 from 14.6% in FY2021 due to an increase in broadcasting and digital marketing expenses as the company tied up with new OTT and OTA platforms, initial losses in the newly launched Germany operations and elevated sea freight charges. The company also incurred significant capex of over Rs. 300 crore towards purchase of land for setting up new integrated headquarters in the US, upgradation of IT infrastructure, warehouse robotics automation, upgradation of its channel position in the UK, among others. Nonetheless, the same were funded entirely through available cash and liquid balances. VGL's dependence on external borrowings remained limited, which coupled with its healthy net worth, resulted in a comfortable capital structure with a gearing of 0.1 times as on March 31, 2022. The debt coverage indicators too, have remained robust, as evident from an interest cover of 46.1 and net cash accruals vis-a-vis its total debt of 113% in FY2022. Cash and liquid investments, although declined to Rs. 201.9 crore as on June 30, 2022 from Rs. 468.4 crore as on March 31, 2021 continue to remain healthy and support the liquidity position of the company.

Credit challenges

Exposed to intense competition – VGL sells its products in the US, the UK and Germany, where it competes with several large and established players like Qurate Retail (QVC), Shop HQ as well as other e-commerce players like Amazon. It also faces stiff competition from traditional retail formats. Besides, the company's operations remain exposed to local regulations applicable to online retail industry in these operating countries.

High geographical concentration given the discretionary nature of spending; demand remains susceptible to economic slowdown in these regions – VGL faces high geographical concentration risk as ~95% of its revenues are derived from its online

retail operations in the US and the UK regions. Further, given the discretionary nature of spending on fashion jewellery and lifestyle products, its demand prospects remain susceptible to economic slowdown in these markets. The company forayed into the German market in Q2 FY2022 to diversify its geographical presence. While the customer traction in Germany has been increasing on a month-on-month basis, the revenues are yet to pick up meaningfully and hence the operations are loss-making at present. The company's ability to profitably ramp up operations of Germany within a reasonable period and further diversify its operations are key rating factors.

Vulnerability of profit margins to risk of bad debts from budget-pay schemes as well as foreign currency fluctuations –

Around 39% of the company's sales in FY2022 took place through budget-pay schemes, which expose VGL's profitability to the risk of bad/doubtful debts. The budget-pay scheme allows VGL's customers to pay the dues in two to six instalments, with one getting paid immediately and the remaining amount getting paid in monthly installments as per the number of instalments offered. VGL has been incurring bad debts of ~Rs. 15-20 crore per year during the last four years, accounting for 1.2-1.5% of sales. Any significant increase in bad debt/doubtful debts write-offs can adversely impact the profit margins and liquidity of the company and remains a key rating sensitivity. The OPM of the company also remains susceptible to foreign exchange fluctuations on account of its foreign operations, though it hedges the major portion of the same through forward contracts.

Environmental and Social Risks

VGL's exposure to environmental risks are mainly related to responsible sourcing, given its high reliance on external suppliers. The company oversees its sourcing from the first stage of procurement. VGL conducts knowledge sharing sessions with its supplier base as well as physical visits to ensure compliance with the applicable code of conduct. The company is focusing on using sustainable practices (including products and packaging) from the beginning to the end of the product life cycle.

Being present in the e-tailing sector involving large access to customers, VGL is exposed to privacy and legal risks. The company offers relevant training and guidelines to the staff handling such information and use masking mechanism to protect sensitive personal information of the customers. Being a manpower intensive segment, retail entities are also exposed to the risks of business disruption due to inability to properly manage human capital in terms of their safety and the overall well-being.

Liquidity position: Adequate

VGL's liquidity position is **adequate**, supported by unencumbered cash and liquid investments of ~Rs. 201.9 crore as on June 30, 2022. The company does not have any long-term borrowings as on date and hence there are no scheduled debt repayments. While the cash flows were impacted in FY2022 due to lower profitability and high capex, the same is likely to improve, going forward, as VGL expands its household coverage. Apart from maintenance capex of ~Rs. 50 crore each year, the company has planned capex of \$20 million towards building construction in the US (to be funded entirely from internal accruals) over FY2023-FY2025. The company has sanctioned fund-based working capital limits of Rs. 105 crore where the average utilisation stood in the range of 70-80% during the last 12 months ended in July 2022.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate a healthy improvement in revenues and profitability while maintaining a comfortable working capital cycle. Reduction in geographical concentration risk through greater diversification would be another positive factor.

Negative factors – The ratings may be downgraded if any major debt-funded capex or increase in the working capital intensity results in a moderation in the capital structure or debt coverage indicators/liquidity position of the company. The ratings may also witness pressure if any sharp weakening in the demand conditions in the US and UK markets result in a significant decline in revenues and profitability of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VGL. As on March 31, 2022, the company had nine subsidiaries and four stepdown subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 1989, VGL is involved in e-retailing of fashion jewellery, fashion accessories and lifestyle products like luxury watches, hair accessories, beauty and home décor products sourced from across the globe. VGL has seven direct subsidiaries and five step-down subsidiaries, through which it operates three 24-hour TV channels (Shop LC in the US, TJC in the UK, Shop GmbH in Germany) and e-commerce websites (shoplc.com, tjc.co.uk and shoplc.de) that complement the company's TV-based operations. Around 70% of its consolidated revenues in FY2022 was derived from sale of gemstone-studded jewellery, which is primarily manufactured at VGL's 100% export-oriented unit (EOU) at Sitapura, Jaipur. The balance came from the sale of lifestyle and beauty products. The company generated 63% of sales from TV platforms in FY2022, and the balance 37% from web platforms. VGL is promoted by Mr. Sunil Agrawal, the Managing Director of the company.

Key financial indicators – Audited

Consolidated financials	FY2021	FY2022
Operating Income (Rs. crore)	2,540	2,752
PAT (Rs. crore)	272	237
OPBDIT/OI (%)	14.6%	10.2%
PAT/OI (%)	10.7%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.3	0.6
Interest Coverage (times)	80.0	46.1

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Jul 12, 2021	May 27, 2021		
1	Fund-based Limits	Long-term	105.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Interchangeable Limits	Long-term	-	-	-	[ICRA]A (Stable)	-	-	-
3	Non-fund Based	Short-term	5.00	-	[ICRA]A1	[ICRA]A1	-	-	-
4	Interchangeable Limits	Short-term	(15.00)^	-	[ICRA]A1	[ICRA]A1	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based Limits	Simple
Short Term - Non-Fund Based Limits	Very Simple
Short Term - Interchangeable Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	PC/PCFC	-	-	-	105.00	[ICRA]A(Stable)
NA	Non-fund-based limits	-	-	-	5.00	[ICRA]A1
NA	Short Term - Interchangeable Limits	-	-	-	(15.00)*	[ICRA]A1

Source: Company; *sublimit of fund-based limits

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Sr.	Company Name	Ownership	Consolidation Approach
1	Vaibhav Global Limited	Rated Entity	Full Consolidation
2	VGL Retail Ventures Limited, Mauritius	100.00%	Full Consolidation
3	STS Jewels Inc., USA	100.00%	Full Consolidation
4	STS Global Supply Limited (formerly STS Gems Limited), Hong Kong	100.00%	Full Consolidation
5	STS Global Limited (Formerly STS Gems Thai Limited), Thailand	100.00%	Full Consolidation
6	STS Global Limited (Formerly STS Gems Japan Limited), Japan	100.00%	Full Consolidation
7	Vaibhav Vistar Limited	100.00%	Full Consolidation
8	Vaibhav Lifestyle Limited	99.99%	Full Consolidation
9	Shop TJC Limited, UK^	-	Full Consolidation
10	Shop LC Global Inc., US^	-	Full Consolidation
11	Shop LC GmbH, Germany	100.00%	Full Consolidation
12	PT. STS Bali^	-	Full Consolidation
13	STS (Guangzhou) Trading Limited^	-	Full Consolidation
14	Encase Packaging Private Limited	60.00%	Full Consolidation

Source: Company; ^ step-down subsidiaries of VGL

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