October 28, 2024

Vaibhav Global Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Limits	105.00	105.00	[ICRA]A; reaffirmed and outlook revised to Positive from Stable
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	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The Positive outlook on the long-term rating reflects ICRA's expectations that the revenues and the profit margins of Vaibhav Global Limited (VGL) are likely to improve, going forward, led by the ramp-up of the acquired business, pick-up in growth in the base business along with expected breakeven of the German operations in H2 FY2025. ICRA expects VGL to report a double-digit revenue growth over the next two to three years with steady improvement in OPM, led by the expected breakeven of the German operations as well as the recently acquired Ideal world. The financial risk profile of the company is also expected to remain healthy, characterised by strong liquidity position and comfortable capital structure with below unity gearing and robust debt coverage indicators.

The ratings continue to factor in the extensive experience of over three decades of promoters in the e-retail business and its end-to-end vertically integrated business model with an established supplier network. Focus on increasing the share of in-house brands as well as attractive value positioning of its products helped VGL generate consistent high gross profit margins of over 60%. The ratings also favourably factor in the extensive coverage of the company-operated television channels with a reach of 130 million households as on June 30, 2024, across the US, the UK and Germany.

ICRA notes the regular investments undertaken by VGL towards broadcasting and content charges, which exerts pressure on its OPM. These investments are being undertaken to increase household coverage and geographical reach of VGL. Ability of the company to generate adequate returns on the investments will be critical determiners for OPM and will remain key monitorable.

VGL's exposure to geographical concentration risk remains high as over 95% of its sales emanate 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. Around 39% of the company's sales (in FY2024) 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 overseas operations, though it hedges the major portion of its exposure through forward contracts.

Key rating drivers and their description

Credit strengths

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

End-to-end vertically integrated business, focus on increasing the share of in-house brand sales – VGL has its own manufacturing set-up in Jaipur, Rajasthan, which caters to a part of its fashion jewellery requirements. The company sources lifestyle products (like watches, hair accessories, etc.) and a part of the jewellery is retailed directly from its established supplier network in over 30 countries, including China, Thailand and Indonesia, among others. Thus, it has a vertically integrated supply chain where it has low-cost manufacturing base in Asia, does value sourcing from more than 30 countries and subsequently serves in developed markets of the US, the UK and Germany. This has enabled it to maintain a gross margin of more than 60% during the past five years. In Q1 FY2025, the gross margin stood at 69%, led by better pricing and product mix. The management over the years has focused on expanding and strengthening its in-house brand portfolio, where margins are relatively better vis-à-vis third-party brands. The management has targeted to increase the revenue mix to 50% by FY2028 from 29% at present.

Extensive reach to 130 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 (24x7x365 channels) and e-commerce platforms with live telecasts in the US, the UK and Germany. In Q1 FY2025, VGL generated 61% of its sales from its TV platforms, and the balance 39% from web platforms. VGL's TV home shopping platforms provide direct customer access to ~130 million households on a full-time equivalent basis. The company offers value proposition to its customers by pricing its products at around $30-40 per piece on an average.

Strong financial profile – The debt profile of the company comprises working capital borrowings. Led by adequate cash flows, VGL's dependence on debt has remained limited, translating into comfortable financial profile. VGL has a comfortable capital structure with a gearing of 0.2 times as on March 31,2024. The debt coverage indicators too, have remained robust, as evident from an interest cover of 22.9 and net cash accruals vis-a-vis its total debt of 54% in FY2024. The company continue to maintain its net cash surplus position of Rs.158 crore as on June 30,2024.

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 business remains 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 revenue is 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, as seen in FY2023 and H1 FY2024 when revenues of the company were impacted due to inflationary pressure and a subsequent decline in discretionary spending of the consumers. The demand conditions in the UK market remain subdued, though there has been a gradual rebound in consumer demand in the US, which coupled with scale-up of German operations and the recently acquired businesses of Ideal World and Mindful Souls, resulted in a 15% YoY revenue growth in Q1 FY2025. The company forayed into the German market in 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, which is expected to break even in H2 FY2025 at the operating level. The company's ability to profitably ramp up German operations and that of the acquired businesses 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 38% of the company's sales in Q1 FY2025 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 instalments as per the number of instalments offered. In FY2024, the company has written off doubtful debts and advances of ~Rs. 32.89 crore against Rs. 25.71 crore in FY2023 on a consolidated level(which translates into ~1% of group's revenue). Any significant increase in bad debt/doubtful debt 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

Environmental considerations: VGL's exposure to environmental risks is mainly related to responsible sourcing, given its reliance on external suppliers as well. The company oversees its sourcing from the first stage of procurement. VGL conducts knowledge sharing sessions with its supplier base as well as make 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.

Social considerations: VGL is exposed to privacy and legal risks as it is present in the e-tailing sector involving large access to customers' data. 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: Strong

VGL's liquidity position is strong, supported by free cash and bank balance of Rs. 69.9 crore and Rs. 127.7 crore of investments in mutual funds such as liquid funds and corporate funds as on March 31, 2024. The company does not have any major debt repayments. The cash flows are likely to improve, going forward, as VGL expands its household coverage, improve products offerings along with the benefits of operating leverage and profitable ramp-of operations of the acquired entities and channel in Germany. Additionally, it does not have any major capex plan in the near term. The company has sanctioned fund-based working capital limits of Rs. 113 crore where the average utilisation stood at 72% during the last 12 months ended in June 2024, which provides additional liquidity cushion.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate a healthy increase in revenues, along with achieving breakeven of German operations, leading to an improvement in profitability while maintaining a comfortable working capital cycle.

Negative factors – ICRA may revise the outlook to Stable in case of a delayed breakeven of German operations or any major debt-funded capex/acquisition or an increase in the working capital intensity, which results in a moderation in 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 the 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 Retail
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VGL. As on June 30, 2024, the company had nine subsidiaries and five 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 watches, hair accessories, beauty and home décor products sourced from across the globe. VGL has nine direct subsidiaries and five step-down subsidiaries, through which it operates 24-hour TV channels (Shop LC in the US, TJC and Ideal World in the UK, Shop GmbH in Germany) and e-commerce websites (shoplc.com, tjc.co.uk, , www.idealworld.tvand shoplc.de) that complement the company's TV-based operations. The company derived 60-70% of its consolidated revenues from sale of fashion jewellery (including 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 61% of sales from TV platforms in Q1 FY2025, and the balance 39% from web platforms. VGL is promoted by Mr. Sunil Agrawal, the Managing Director of the company.

In September 2023, Shop TJC Limited, UK (a wholly-owned subsidiary of VGL) acquired Ideal World for 1.125 million pound (Rs. 12 crore approximately), which was funded through liquid balances. Additionally, a share purchase agreement was executed through Shop TJC Limited for acquisition of 100% shares of Mindful Souls for a total consideration of 12 million euro (Rs. 105 crore approximately) funded through liquid balances.

Key financial indicators (audited)

Consolidated financials	FY2023	FY2024	Q1 FY2025*
Operating income	2,691	3,041	756.0
PAT	105	127	27.4
OPBDIT/OI	7.4%	8.8%	7.6%
PAT/OI	3.9%	4.2%	3.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	1.0	0.8	-
Interest coverage (times)	24.4	22.9	-

*Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Oct 28, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based Limits	Long term	105.00	[ICRA]A (Positive)	04-Dec-23	[ICRA]A (Stable)	07-Oct-22	[ICRA]A (Stable)	27-May-21	[ICRA]A (Stable)
								12-Jul-21	[ICRA]A (Stable)
Interchangeable Limits	Long term	-	-	-	-	-	-	12-Jul-21	[ICRA]A (Stable)
Non-fund Based	Long term	5.00	[ICRA]A1	04-Dec-23	[ICRA]A1	07-Oct-22	[ICRA]A1	12-Jul-21	[ICRA]A1
Interchangeable Limits	Short term	(15.00)*	[ICRA]A1	04-Dec-23	[ICRA]A1	07-Oct-22	[ICRA]A1	12-Jul-21	[ICRA]A1

**Sublimit of fund-based limits*

Complexity level of the rated instruments

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	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 II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Vaibhav Global Limited	Rated Entity	Full Consolidation
VGL Retail Ventures Limited, Mauritius	100.00%	Full Consolidation
STS Jewels Inc., USA	100.00%	Full Consolidation
STS Global Supply Limited (formerly STS Gems Limited), Hong Kong	100.00%	Full Consolidation
STS Global Limited (Formerly STS Gems Thai Limited), Thailand	100.00%	Full Consolidation
STS Global Limited (Formerly STS Gems Japan Limited), Japan	100.00%	Full Consolidation
Vaibhav Vistar Limited	100.00%	Full Consolidation
Vaibhav Lifestyle Limited	99.99%	Full Consolidation
Shop LC Gmbh, Germany	100.00%	Full Consolidation
Encase Packaging Private Limited	60.00%	Full Consolidation
Shop TJC Limited, UK^	-	Full Consolidation
Shop LC Global Inc., US^	-	Full Consolidation
Mindful Souls BV	100.00%	Full Consolidation
PT. STS Bali^	-	Full Consolidation
STS (Guangzhou) Trading Limited^	-	Full Consolidation

^ step-down subsidiaries of VGL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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