ArihantCapital
Generating Wealth

Q2FY25 Result Update
12th November 2024

Vaibhav Global

CMP: INR 270	
Rating: BUY	
TP: INR 577	
Stock Info	
BSE	532156
NSE	VAIBHAVGBL
Bloomberg	VGM:IN
Reuters	vaib.ns
Sector	Gems, Jewellery And Watches
Face Value (INR)	2
Equity Capital (INR cr)	33
Mkt Cap (INR cr)	4,596
52w H/L (INR)	542/ 263
Avg Yearly Volume (in 000')	62

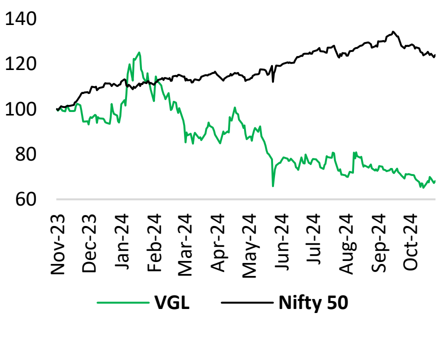
Shareholding Pattern %

(As on September 2024)

Promoters	57.30
FII	19.20
DII	0.73
Public & Others	22.77

Stock Performance (%)	1m	3m	12m
Vaibhav Global	(8.1)	(7.5)	(34.6)
Nifty 50	(4.3)	(1.9)	22.3

VGL Vs Nifty 50



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VGL's reported a mixed bag of results. Revenue was up 12.97% YoY to INR 7,964 Mn, missing our estimate of INR 7,896 Mn by 0.86% (+5.35% QoQ). EBITDA was down 5.26% YoY to INR 602 Mn, missing our estimate of INR 711 Mn by 15.39% (+5.37% QoQ). EBITDA Margin contracted 83bps to 8.66%, missing our estimate of 9% (-3bps QoQ). PAT was down 4.32% to INR 278 Mn, missing our estimate of INR 302 Mn by 8.03%. (+1.19% QoQ). Margins were lower due to high A&P spending and airtime costs. There was also a significant inventory build up this quarter in anticipation of upcoming seasonal demand.

Germany making strides: The fixed broadcasting expenses and fees incurred to enter into and keep the German operations running (for 35 million homes) will be covered in Q3 and Q4 of this year.

Ramping up digital advertising: They started ramping up digital advertising about a year ago which caused content broadcasting costs go up significantly. The benefit in terms of new customer acquisitions, and customer lifetime value being higher than customer acquisition cost at all the six brands in the VGL portfolio is visible now. The ramp up will take place majorly next year.

Budget Pay: The service isn't offered to lower end products (USD 10 to USD 15). For high end products, 40% of them opt to pay in 5 installments.

Guidance: They have targeted a 200bps improvement in gross margins for FY25 (stable range 60-64%), and gradual improvement toward a 15% stable EBITDA level. The digital business is expected to grow at a CAGR >15%. They maintain the FY25 revenue growth target of 14-17%.

Transition to OTT: The company's has been attempting to transition to digital and OTT platforms, but with an aging customer base, is finding the process harder than expected. However, new customer acquisitions on OTT platforms are healthy and on the rise.

Outlook and Valuation: With the current post- election interest rate environment, and the upcoming seasonal demand, we expect US and UK demand to perk up significantly and margin recapture to take place in H2. Ideal World is now profitable on a full cost basis, and Mindful Souls is readily scaling up its existing customer base. Germany continues to display strong revenue growth, and is on track to achieve EBITDA breakeven in H2. Considering all the investments being made in digital infrastructure, they are well en-route to attain the 50% digital revenue contribution by FY27, which is ideal considering the better margin profile. Considering this, we assign a TP of INR 577, valued at a P/E multiple of 30x the FY26E EPS of INR 19.24 entailing an upside of 114% and a strong BUY rating.

INR Mn	FY23	FY24	FY25 E	FY26 E
Revenue	26,909	30,410	34,949	40,102
Growth	*-2.2%*	*13.0%*	*14.9%*	*14.7%*
EBITDA	2,273	2,951	4,256	5,313
EBITDA Margin	*8.4%*	*9.7%*	*12.2%*	*13.2%*
PAT	1,051	1,267	2,217	3,252
EPS (INR)	6.30	7.60	13.20	19.24
P/E (x)	42.79	35.50	20.43	14.01

Source: Company, Arihant Capital Research

INR Mn (Consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Net Revenue	**7,964**	**7,560**	**7,050**	***5.35%***	***12.97%***
Raw Material Costs	2,691	2,342	2,544	*14.92%*	*5.78%*
Gross Profit	5,273	5,218	4,506	*1.05%*	*17.02%*
Gross Margin	*66.21%*	*69.02%*	*63.92%*	*-281bps*	*229bps*
Employee costs	1,502	1,446	1,366	*3.89%*	*9.99%*
Other Expenses	3,170	3,202	2,506	*-1.00%*	*26.51%*
EBITDA	**602**	**571**	**635**	***5.37%***	***-5.26%***
EBITDA margin	*8.66%*	*8.69%*	*9.49%*	*-3bps*	*-83bps*
Other Non Operating Income	89	86	34	*2.70%*	*158.75%*
Depreciation	260	249	226	*4.47%*	*14.93%*
EBIT	**430**	**408**	**443**	***5.35%***	***-2.90%***
Finance costs	37	34	29	*7.37%*	*26.83%*
PBT	**393**	**374**	**414**	***5.17%***	***-5.00%***
Tax Expense	115	99	124	*16.15%*	*-6.58%*
Effective tax rate	*29.35%*	*26.57%*	*29.85%*	*278bps*	*-50bps*
PAT	**278**	**274**	**290**	***1.19%***	***-4.32%***

Source: Company, Arihant Capital Research

Operational highlights

- Higher airtime costs to secure a better channel position in the U.S. along with additional airtime costs in Ideal World also contributed to lower EBITDA margin. These investments drove increase in customer base which is at all time high levels of 682k (+51% including acquisitions and +6% ex- acquisitions).
- The US' revenue declined 1.6% YoY in the September quarter, affected by increased attention on the election activities and Olympics. With consumer confidence improving and the elections now behind, demand will pick up in the upcoming holiday season.
- In the UK, revenue grew by 15% YoY, majorly contributed by Ideal World. With signs of improvement in the UK economy, like the consumer confidence index inching up, inflation and interest rates going down, there will be recovery in consumer demand in the coming months.
- Germany continues to perform well, recording 15% YoY growth in Q2. QoQ revenue grew by 25%, while operating losses declined by 41%. The company plans on achieving EBITDA breakeven in H2.
- **Branding:** They have 31 brands contributing to 31% of B2C sales. Target brand contribution is 50% by FY27.
- Lifestyle revenues now 34% of H1 top line vs 30% in FY24. Digital revenues remain at 39% of top line. Budget pay contribution is 38% of revenue.
- **H1 Geographical mix:** 12% Europe, 29% UK, 59% US vs 9%, 28%, 63% respectively in FY24.
- Ideal world now profitable on direct cost basis.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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