

Amazon integration going well; full rollout by Mar '17

We hosted Vakrangee in the US for our CalGEMs conference and then in the UK for investor meetings. The updates on the company were: (1) Vakrangee will be integrating another 500 of its outlets with Amazon services by the end of June, thus taking the total number of Amazon-capable outlets to 1k. It maintained its target of rolling out Amazon facilities in all its existing 20k outlets by March '17; (2) On a blended basis, the company is seeing a total of 20-25 orders per day, with an average order size at Rs. 450. For the mature outlets, the company is seeing 80-100 orders per day with average order size of Rs. 700; (3) Vakrangee has completed the integration with Tata AIG's systems. Rollouts are expected in the first 7k centers within the next 1-2 months, followed by phased rollout in all 20k outlets; and (4) The company has opened centers in 8 IOCL outlets. Vakrangee expects to roll out stores in 20k of the total 26k IOCL petrol pumps.

Vakrangee building up a strong network in rural areas

Vakrangee has historically been an e-Governance enabler. Through various outlets, it provides ancillary services to rural populations. Some of the services Vakrangee offers are bill collection, voter ID card printing, recruitment, health initiatives, etc. Vakrangee currently has a total of c. 20K outlets and wants to extend them to 75K outlets by 2020. In July '15, Vakrangee tied up exclusively with Amazon. As part of the 5-year agreement, Amazon will use these outlets as physical ordering and collection points for Amazon India's products and will pay 4-15% of GMV (gross merchandise volume) as commission.

How does it help Amazon vs competitors

The tie-up holds key advantages for Amazon, which helps it to guard against competition: (1) **Develop a stronger presence in underdeveloped areas:** The tie-up gives Amazon the potential to increase its presence in rural areas as against stronghold in urban areas; (2) **Access to a different sub-base:** The tie-up gives Amazon access to a different and untapped customer base. Such stores are showing good traction with an avg of 20-25 orders/day; and (3) **Improve last-mile connectivity:** Going forward, Amazon and Vakrangee may also experiment with alternate delivery models, with Vakrangee and its franchisees playing a deeper role in Amazon India's logistics chain.

Investor focus - Key takeaways

The company also addressed key investor concerns: (1) Management does not see the 75k outlet target by 2020 as aggressive, as the company has the requisite employee hierarchy to deliver on growth; (2) Vakrangee does not see the increase in internet penetration leading to disintermediation, as their target consumers still prefer physical stores and companies like Amazon also prefer to trade through them in order to ease logistical bottlenecks; (3) Management believes that any of the services it provides is uneconomical on a standalone basis, and the portfolio of services it has built up will enable it to guard against competition; and (4) The company is looking to appoint additional independent directors and new auditors to address shareholder concerns.

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Sticking to rollout plan, good store traction

We hosted Vakrangee in US for our CalGEMS conference and then for meetings with investor in the UK. Below are the updates and key points of discussion.

What is new?

- **1,000 Amazon outlets by end of June:** Vakrangee will be integrating another 500 of its outlets with Amazon services by the end of June. This will take the total number of Amazon-capable outlets to 1k.
- **Rolling out Amazon to all 20k outlets by March '17:** The company maintains its target of rolling out Amazon facilities in all its existing outlets by March '17 (20k in total). Going forward, for incremental outlets additions, Amazon facilities will roll out simultaneously as the outlets open.
- **20-25 Amazon orders per day per outlet, more for mature outlets:** On a blended basis, the company is seeing a total of 20-25 orders per day, with an average order size at Rs. 450. However, for mature outlets the company is seeing 80-100 orders per day with average order size of Rs. 700. As per company's experience, consumers start with ordering lower ticket items like daily groceries before moving to higher ticket purchases like apparel and electronics, which explains the outlets' slow maturity.
- **Tata AIG rollouts in next 1-2 months:** The company has already completed the integration with Tata AIG's systems. Rollouts are expected to happen in the first 7k centers within the next 1-2 months, followed by phased rollout in all 20k outlets. The company has seen good response in pilot test outlets.
- **Expected to have outlets in 20k IOCL pumps:** The company has opened centers in 8 IOCL outlets. Vakrangee expects to roll out stores in 20k of the total 26k IOCL petrol pumps.

Investor focus – key takeaways

The targeted 75k stores by 2020 looks aggressive

Management's response: Overall, the country has 260k clusters identified by the government, which enables it ample room to grow. Moreover because of the exclusivity condition, no other competitor will be able to open an outlet within the same cluster. Vakrangee believes that by virtue of being the designated national BC (Business Correspondent) of 8 banks, they have a growth advantage over other competitors. The company has a total of 1,106 block level officers, with each officer having a target of opening 12 outlets per year, which enables the company to achieve the target of 15k outlets.

Increase in mobile internet will lead to disintermediation of the company's services

Management's response: The increase in internet penetration affects both banking and ecommerce services. However Vakrangee mentions that (1) the company mainly caters to rural or urban slum pockets that are not well versed with the ecommerce market but more comfortable with the physical outlet experience; (2) many of the service providers do not cater to deliveries in Vakrangee's catchment areas (ex. Amazon does not deliver to many slum pockets, owing to the difficulty in finding the right address); (3) the transactional sizes in Vakrangee stores are typically lower at around Rs. 400, which would attract additional delivery charges by ecommerce competitors (Vakrangee consumers do not need to pay any delivery charges)

It is surprising that there is not more competition in such a high return business

Management's response: As per management, none of the services provided by Vakrangee are profitable on a standalone basis. As such, Vakrangee's main differentiating factor versus the competition is that Vakrangee provides the entire

bouquet of services. The competition will find it harder to build the portfolio of services that Vakrangee has built, as it has taken it many years to cement their infrastructure, licenses and partnerships.

Franchisee selection is a tedious process

Management’s response: In terms of franchisee selection, the company advertises for applications. Post a basic aptitude test, the applications are forwarded to the concerned bank. The main vetting of the CVs happens at the bank’s end, and Vakrangee selects the final franchisee on the basis of the shortlist provided. Hence most of the work around franchisee selection is done by the banks.

The auditors of the company are not well known

Management’s response: The company recognizes the concern and is looking to appoint one of the big four auditors to look into both financial and operational functioning.

Why did the last CEO resign

Management’s response: Vakrangee was looking to change the organizational structure to appoint 5 individual CEOs and CFOs for individual verticals, which did not sit well with the previous CEO. Right after his departure, the company announced the appointment individual vertical management. In the last board meeting, Vakrangee also appointed Mr. Subhash Singhania as CFO of the company.

The company does not have enough independent directors on the board

Management’s response: Currently four of the board members are independent. The company is looking to add more independent board members to provide comfort to the investor community.

Exhibit 1: Vakrangee: Progress on many fronts

	Status	Target
Amazon services	500 outlets	1,000 by Jun'16 end All 75k outlets by Mar'17
Tata AIG Kendras	Systems integration complete	7k outlets in next 1-2 months Phase wise rollouts in rest of the outlets
Outlets in IOCL petrol pumps	Opened centers in 8 IOCL pumps	Expects to roll out stores in 20k out of 26k IOCL petrol pumps

Source: Company data, management comments

Exhibit 2: Vakrangee: Stick to 75k FY'20 rollout target

	FY'16	FY'17E	FY'18E	FY'19E	FY'20E
Rural Kendras	15,671	25,000	35,000	45,000	50,000
Urban Kendras	5,006	10,000	15,000	20,000	25,000
Total	20,677	35,000	50,000	65,000	75,000

Source: Company data, management comments

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