



BP WEALTH

# Vakrangee Ltd



Playing a key role in transforming rural India



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## Company Overview

Vakrangee Ltd. (Vakrangee) is mainly involved in Document Management Services (DMS), Printing Management Services (PMS), IT & IT Enabled Services and rural retail venture (V-Mart). DMS comprises inbound document scanning, digitization, workflow management and document life cycle management, PMS comprises variable colour data printing and other services and IT/ITeS-enabled services comprise software development, tailored software development and election-related services. We believe ongoing e-governance projects and V-Mart retail format, which is currently gaining traction after receiving the mandate for opening 50,000 ultra small branches, would be the key growth drivers.

## Investment Rationale

### India's largest e-governance player now venturing into rural banking services

Vakrangee has vast experience in handling Government projects such as Election Automation, PDS, UIDAI, CSC, Financial Inclusion, IGRS, etc. and is now venturing into rural India by offering an efficient way to access the products and services offered by the Government and Businesses. Vakrangee has tied up with all the 26 PSU banks in its bid to enhance operations and pave the way for the Core Banking Services, Financial Inclusion (FI) Project and Direct Benefit Transfer initiative by the Government of India for the rural population. With the MOF and RBI's policy initiative to extend banking services to the unbanked locations in India, Vakrangee has secured the mandate to set up and manage total 50,000 'Ultra Small Branches' of various banks at the Panchayat Level in the states of Maharashtra, Delhi and Rajasthan in next 5+2 years period.

### 'V-Mart' Organized rural retail in India- A lower capex Franchisee model

Vakrangee has strategically transformed from offering e-Governance services to banking services and now into rural retail outlets. Witnessing the financial empowerment of the rural population by the GOI (through NREGA and Bharat Nirman), the company already has 3,200 functional stores providing BFSI, G2C and B2C services to the rural population. Additionally, Vakrangee has also tied up with insurance, telecom, DTH and automotive companies to provide B2C services to the rural population. The company plans to operate the rural set up on a Franchisee model with a two way channel, offering services to rural India as well delivering the rural produce to urban India amongst other elements such as product testing, tourism and awareness campaigns.

### Imitation of regional and infrastructural monopoly- Asset light model to improve return ratios

The banking services offered by Vakrangee are on an exclusive basis for the states of Maharashtra, Delhi and Rajasthan for a period of 5 years (upon which, can be extended for a period of 2 years). Similarly, the G2C services offered in Rajasthan are also on an exclusive basis. Since Vakrangee has a first mover advantage in the rural space, it has the operational/infrastructural experience and network at the grass root level that cannot be matched by any other retail chain. As the company is operating and expanding its rural retail business on a franchisee basis, the initial capex and incremental working capital requirement would be lower and which would translate into high return ratios.

## Outlook and Valuation

Vakrangee registered phenomenal growth in the past (revenue CAGR of 31% and PAT CAGR of 47% between FY11-FY13). The company is expanding its rural retail business on a franchisee basis which involves minimum capex from the company and this would convert into the high return ratios going forward (expected revenue CAGR of 32% and PAT CAGR of 76% between FY13-FY15E). Vakrangee planned to reduce the debt level from the existing level and therefore, interest expenses are expected to reduce from current level. We have assigned an EV/EBITDA of 7x to value this stock and arrived at a target price of **Rs 99** per share with a 'Buy' rating for an investment horizon of 12-18 month.

### Key Financials

YE March-Consolidated (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
<b>Total Income</b>	<b>8,897</b>	<b>13,532</b>	<b>15,472</b>	<b>18,179</b>	<b>26,905</b>
Sales growth (%)	108.1%	52.1%	14.3%	17.5%	48.0%
<b>EBIDTA</b>	<b>1,388</b>	<b>2,415</b>	<b>3,815</b>	<b>4,545</b>	<b>6,861</b>
Growth %	74.4%	74.0%	58.0%	19.1%	51.0%
<b>Adj. Net Profit</b>	<b>481</b>	<b>709</b>	<b>1,043</b>	<b>1,594</b>	<b>3,221</b>
Growth %	104.7%	47.2%	47.2%	52.8%	102.1%
<b>Diluted EPS</b>	<b>1.0</b>	<b>1.4</b>	<b>2.0</b>	<b>3.1</b>	<b>6.3</b>
Growth %	84.9%	44.4%	46.2%	52.8%	102.1%
<b>Margin (%)</b>					
<b>EBIDTA Margin (%)</b>	<b>15.6%</b>	<b>17.8%</b>	<b>24.7%</b>	<b>25.0%</b>	<b>25.5%</b>
NPM (%)	5.4%	5.2%	6.7%	8.8%	12.0%
<b>RoE (%)</b>	<b>14%</b>	<b>17%</b>	<b>20%</b>	<b>24%</b>	<b>32%</b>
RoCE (%)	15%	18%	22%	25%	36%
<b>BV/Share Rs.</b>	<b>7.1</b>	<b>8.2</b>	<b>10.1</b>	<b>13.2</b>	<b>19.5</b>
<b>Key Ratios</b>					
P/BV			8.0x	6.1x	4.1x
<b>EV/EBITDA</b>			<b>11.8x</b>	<b>9.6x</b>	<b>6.1x</b>
P/E (x)			39.2x	25.7x	12.7x

Source: Company, BP Equities Research

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

## Sector Outlook

Positive

## Stock

CMP (Rs)	79
Target Price (Rs)	99
BSE code	511431
NSE Symbol	VAKRANSOFT
Bloomberg	VKI IN
Reuters	VAKR.BO

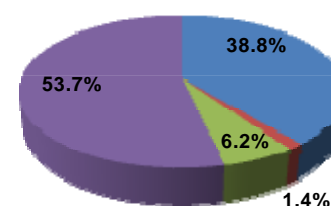
## Key Data

Nifty	6056
52 Week H/L (Rs)	87/43
O/s Shares (mn)	503
Market Cap (Rs bn)	40
Face Value (Rs)	1

## Average volume

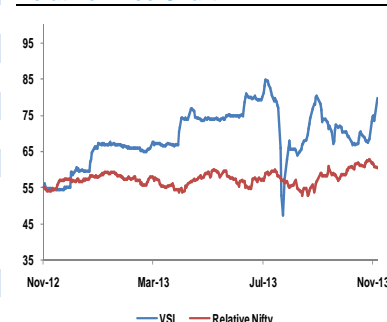
3 months	748,303
6 months	999,049
1 year	885,046

## Share Holding Pattern (%)



■ Promoter ■ FII ■ DII ■ Others

## Relative Price Chart



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# Vakrangee Ltd.

## Investment Rationale

### India's largest e-governance player now venturing into rural banking services

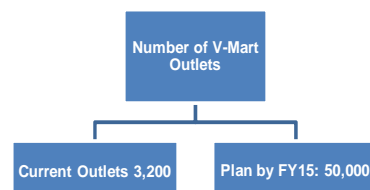
For over 2 decades, Vakrangee has been involved with back-end solutions for assimilating and processing data related to citizens and G2C interactions such as Electoral role accumulation and printing, MCA-21 automation, PDS and UIDAI. Vakrangee outpaced other Aadhaar Enrollment Agencies (Wipro Ltd., and Swathy Smartcards Hi-Tech) and emerged as the no. 1 player in terms of Aadhaar generation, data uploaded and no. of residents enrolled (~30 mn residents). Vakrangee was also involved in e-governance projects for Govt. of Philippines to dematerialize land deeds and digital record keeping.

As the Ministry of Finance and RBI rolled out the policy allowing banks to outsource rural banking operations to non-banking entities at unbanked locations, Vakrangee grabbed this opportunity from Government of India and has been empanelled by 26 PSU banks to set up and manage Ultra Small Branches (USB) of the respective banks at each Panchayat Level for the state of Maharashtra, Rajasthan and Delhi. All core banking activities, financial inclusion initiatives and the Direct Benefit transfer scheme will be routed through Vakrangee's USBs. The company currently has 3,200 stores and it plans to bring that tally to 12,000 stores by FY14 and a staggering 50,000 stores by FY15. The company has also acquired an 'in-principle' approval to set up a minimum of 15,000 white label ATMs as an operator between the banking entity and rural customers. Since rural India accounts for 56% of India's income, 64% of it's spending and 33% of it's savings and the fact that ~68% of the population lives in rural India, the volume of banking transactions will witness considerable traction. A target market which accounts for more than 50% of India's income and spending is bound to drive up the volume of transactions consequentially driving up service revenues which in turn will boost Vakrangee's top line.

**RBI guidelines allowing the banks to appoint BCs to reach unbanked regions and decision to transfer scheme benefit through bank accounts only would a major driver for Vakrangee going forward.**

### 'V-Mart'- Organized rural retail in India- A lower capex Franchisee model

From the systems integrator in the domain of e-commerce, the company has come a long way to evolve into a retailer providing all forms of products and services under one roof. Vakrangee first started offering G2C services through its Citizen Service Centres (CSC), then grabbed the opportunity to offer banking services to the rural population and finally evolved into a retailer offering various products & services such as insurance, telecom, DTH and automotive vehicles. It has strategic tie-ups with MTNL, Aircel, Airtel, Vodafone, BSNL, Tata Docomo, M&M, Tata Motors, Dish TV, Tata Sky, Videoccon, etc. to garner operational efficiencies.



### ⇒ The Retail Business Model

The scheme initially started off with placing one Citizen Service Centre between 6 villages which cut down the villager's travelling time to the distant government offices in the city center and was immediately accepted. As the idea evolved into forming retail outlets to provide a wider range of products and services, the company decided to introduce a Franchisee based model to the rural population. Vakrangee provides the training, technical support to enable the educated village youth to start their own business. As the entrepreneur is a local well versed with the rural market structure and consumer behavior, it gives Vakrangee a cutting edge while operating in an environment which has a relatively different market trend than the urban areas. The business model cuts down marketing costs significantly, at the same time the capex is almost negligible.

**The company would operate its asset light business model and incur only Rs 20,000 per franchisee for POS machine while the Franchisee owner (VLE) are expected to incur Rs 125,000 as a capex**

Unique Retail Model		
	Traditional Retail Model	Vakrangee Retail Model
Capex	High	Low
Human Capital	High	Low
Working Capital	High	-ve WC
Footfalls	Vary	Assured
Retail Category	Mainly Products	Mainly Services
Inventory	High	Just in Time

Source: Company, BP Equities Research

## Vakrangee Ltd.

⇒ Major factors driving the retail venture

**Bharat Nirman, NREGA and Minimum Support Price have increased rural income levels**

### Government Budget Allocation towards Rural Reform

Budget Allocation (in Rs. Bn)	FY11	FY12	FY13	Growth % Y-o-Y
Bharat Nirman	480	580	710	22%
MGNREGS	401	400	400	0%
Housing (Indra Aawas Yojna)	100	100	152	52%
Education (Sarva Shiksha Abhiyaan)	150	210	273	30%
Health (NRHM)	154	178	210	18%
<b>Total Rural Outlay</b>	<b>2265</b>	<b>2261</b>	<b>3171</b>	<b>40%</b>

Source: Company, BP Equities Research

Bharat Nirman and NREGA, the 2 flagship schemes by the UPA have served to increase the income levels of rural households and elevated their lifestyles as well. Additionally, the Minimum Support Price scheme safeguards the interests of farmers and ensures price regulation and avoid losses. NREGA and Bharat Nirman account for a staggering 33% of the Govt.'s rural spending. Furthermore, the planned outlay of the public sector towards Rural Development and Special Area programs stood at Rs. 912.11 Bn in 2012-13 and grew at a CAGR of 17.8% between 2003 and 2013. The above factors prove that the Govt., over the years, has worked towards buttressing the rural households' average income and overall development, which in turn pushes consumption demand and stability for products and services. (*Handbook of Statistics—2012-13* [www.rbi.org.in](http://www.rbi.org.in))

### Deposit and Credit Statistics of Rural Population

The amount of Deposits and the corresponding no. of accounts stood at Rs. 5,732 Bn and 293 Mn accounts in 2012, growing at a CAGR of 15.3% and 8.8% between 2002 and 2012, respectively. Similarly, the amount of Credit and corresponding no. of accounts stood at Rs. 4,422 Bn and 42 Mn accounts in 2012, growing at a CAGR of 19.7% and 5.9% between 2002 and 2012, respectively. The above mentioned numbers emphasize the increase in number of one off as well as continuous transactions in the rural areas and thus a potentially viable target market.

### Income and Consumption Expenditure in rural areas outpacing

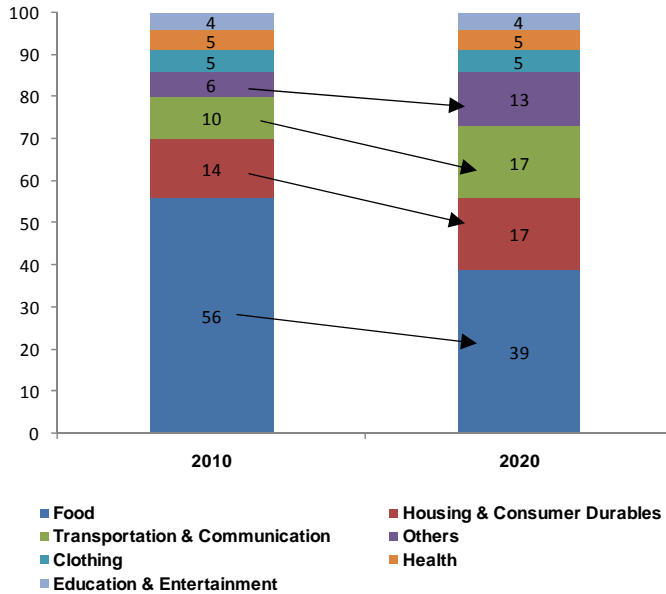
According to NABARD's Annual Report for FY13, the average monthly per capita consumer consumption (MPCE) in rural areas grew at a faster rate than urban areas between 2009 and 2012. Another report by CRISIL also stated that rural spending outpaced urban spending between 2010 and 2012. Discretionary spending of a typical rural Indian household rose to Rs. 24,000 in 2009-10, from Rs. 14,000 in 2004-05, growing at about 11% per annum. (*NABARD Annual Report 2012-13*)

### Increase in Tele-density in rural areas

Rural areas outpaced urban cities both in terms of growth rate of tele-density as well as in the number of subscribers. Increase in tele-density and the number of subscribers leads to a sustained demand for mobile recharges and subscriber payments that are routed through banking channels. Vakrangee's affiliation with telecom companies such as Aircel, Airtel, Vodafone, Tata Docomo, etc. along with its affiliation with all the PSUs and a sustainable demand give considerable traction to Vakrangee's retail operations.

# Vakrangee Ltd.

## Spending Patterns of Rural Population



*A shift in spending patterns of the rural customer from Food to Housing, CDs, Transportation and Communication to benefit Vakrangee operations going ahead.*

Source: Company, BP Equities Research

As per the estimated distribution of the rural population's expenditure, the percentage of income that is spent on Food will reduce to 39% (56%), Housing & CD will increase to 17% (14%), Transportation & Communication will increase to 17% (10%) and discretionary spending will increase to 13% (6%) by 2020. Estimated data illustrates that a structural shift in spending patterns from Food to Housing & CD, Transportation and Communication and discretionary spending will bode well for Vakrangee in terms of top line figures.

## Service Offerings

B2C	BFSI-Rural Bank Correspondent	G2C
<ul style="list-style-type: none"> <li>Telecom - Mobile recharge</li> <li>DTH service - Recharge, bill payments</li> <li>Education</li> <li>Healthcare</li> <li>Market Research</li> <li>Agriculture inputs</li> <li>Automobiles - Dealership of Tata Motors &amp; Mahindra</li> <li>FMCG Products</li> <li>White Goods</li> </ul>	<ul style="list-style-type: none"> <li>Bank A/C Opening - Savings, Current, Recurring</li> <li>Transactions- Deposits, Withdrawals, Remittances</li> <li>Balance Enquiry, Statement of Accounts</li> <li>Direct Benefit Transfer (DBT)</li> <li>Pension Disbursement</li> <li>Food Security related DBT</li> <li>Insurance - Life &amp; Non Life, premium payments</li> <li>Retail loans, ODs, Fixed Deposits</li> <li>Recovery of loans</li> <li>BSE/NSE Trading Bolts</li> </ul>	<ul style="list-style-type: none"> <li>Enrolments-UID Card, NREGA job Card, Election Card</li> <li>Land Record Digitisation, Electoral Rolls, E-Stamping</li> <li>Payment of Utility Bills, Taxes, Levies</li> <li>Railway Tickets, Certificates, Hall tickets</li> <li>Exam Fee Payments, Online Form Filling</li> <li>Election Commission, NREGS, NRHM, Bharat Nirman</li> <li>PDS, School Books, Food Coupon</li> </ul>

*A wide array of products and services offerings by Vakrangee which make it a standout and unique player.*

Source: Company, BP Equities Research

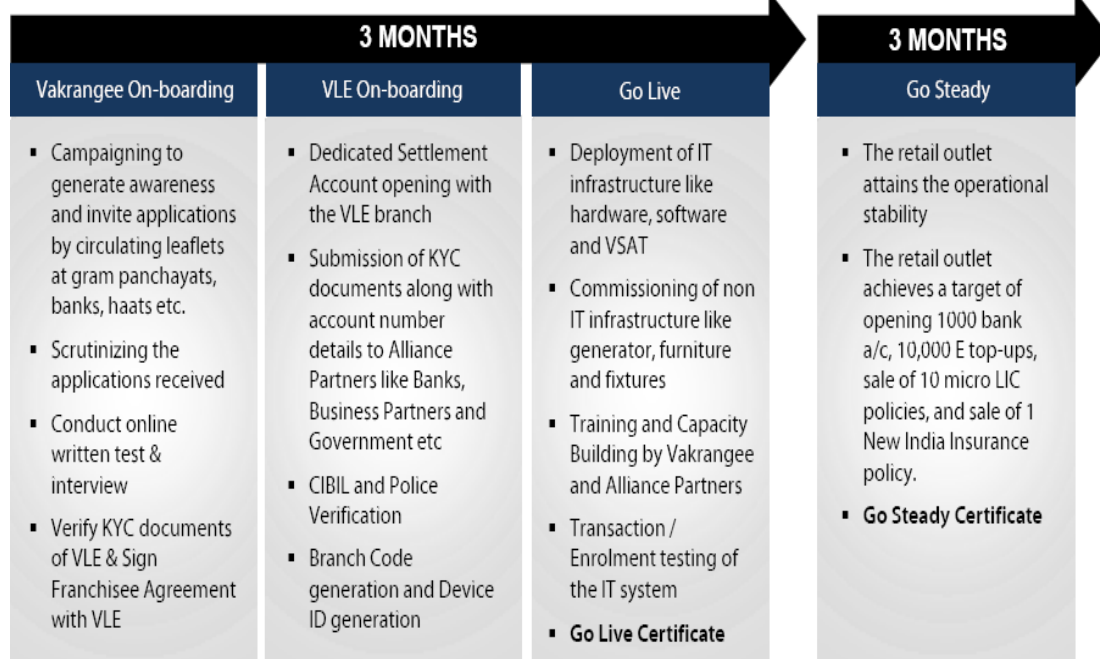
### One Stop Shop

Vakrangee is going to be a one stop shop for rural consumers with a wide range of service offerings ranging from Life Insurance to Automobiles and from Mobile Recharges to Banking services. Apart from the service offerings, each retail outlet will have a VSAT connections, uninterrupted power supply (DG Sets) and Just In Time inventory management. While Vakrangee everything under one roof, it has also planned out its retail venture with the highest level of efficiency and effectiveness.

*VSAT connection provides the seamless connectivity & integration of the retail outlet with the respective banks through CBS, and B2C and G2C partner systems.*

# Vakrangee Ltd.

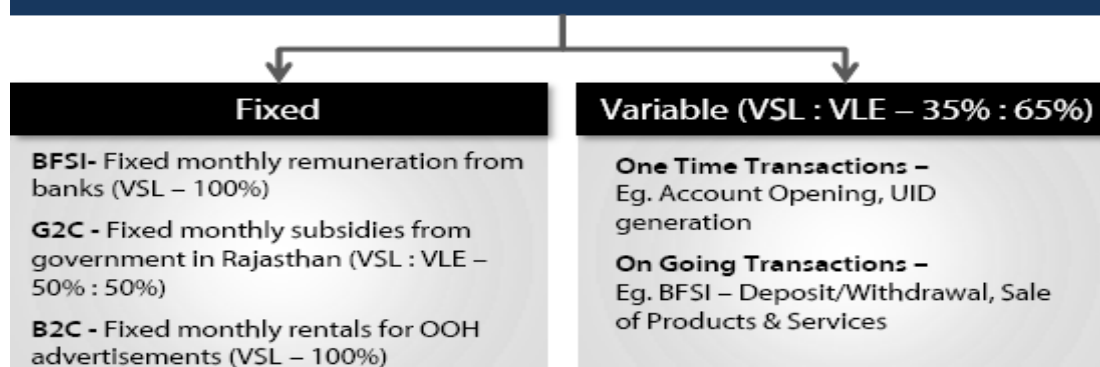
## Flow-chart of Operating Retail Outlet 'V-Mart'



*The company has very ambitious plan for setting up the 'V-Mart' franchisee model.*

Source: Company, BP Equities Research

## Revenue Streams



*Vakrangee has signed agreements with 31 PSU Banks including SBI & its associate banks, PNB, BoB, BoI, UBI, CBI etc and Several B2C Alliances across categories - LIC, New India Assurance, Vodafone, Airtel, Tata Motors, Mahindra & Mahindra, etc*

Source: Company, BP Equities Research

## Vakrangee Ltd.

### Imitation of regional and infrastructural monopoly– Asset light model to improve return ratios

Since Vakrangee has an exclusive mandate to set up and operate 50,000 Ultra Small Branches with additional permission to extend G2C and B2C services, it is India's first Rural Multi-Retail Outlet. As Vakrangee has earned an exclusive mandate, it essentially gives the company a monopoly-like status in its operating regions- Delhi, Maharashtra and Rajasthan. Vakrangee effectively has a first mover's advantage in offering a combination of products and services under one roof with an added benefit of comprehensive market knowledge due to the business model involving Village Level Entrepreneurs.

### Unique Business Model



### Regional Monopoly

*A combination of a unique business format, exclusive mandate and involvement of Village Level Entrepreneurs (VLEs) denote a regional monopoly like status to Vakran-*

Source: BP Equities Research

### Evolution of Vakrangee

#### Evolution of Vakrangee

Year	Significant Events
1990	Incorporated the Company
1993	Undertook the computerisation of Central Election Commission
2005	MCA 21 Project for Ministry of Corporate Affairs
2007	Engaged for land record digitisation in state of UP
2007	Smart Card Project for UP, Haryana & Rajasthan
2009	Integrated Land Record Digitisation for the Govt. of Philippines
2010	Passport Seva Kendra Project & CSC Punjab
2011	UID Enrolment Management & UID linked Haryana Public Distribution System
2013	White Label ATMs, Property Registration Project for Maharashtra, MSP for NPR, CSC Project for Rajasthan, Rural Branch Management for 26 PSU Banks, Rural Retail Outlets

Source: Company, BP Equities Research

#### Margins as a sub-contractor

Project	EBITDA Margin (%)
Voter ID Cards	18-20%
Printing Electoral Rolls	18-20%
RSBY Smart Card	12-15%
MCA 21	12-15%
Passport Seva Kendra	12-15%
DMS Projects for B2B	7-10%

Source: Company, BP Equities Research

#### Margins as Prime Bidder

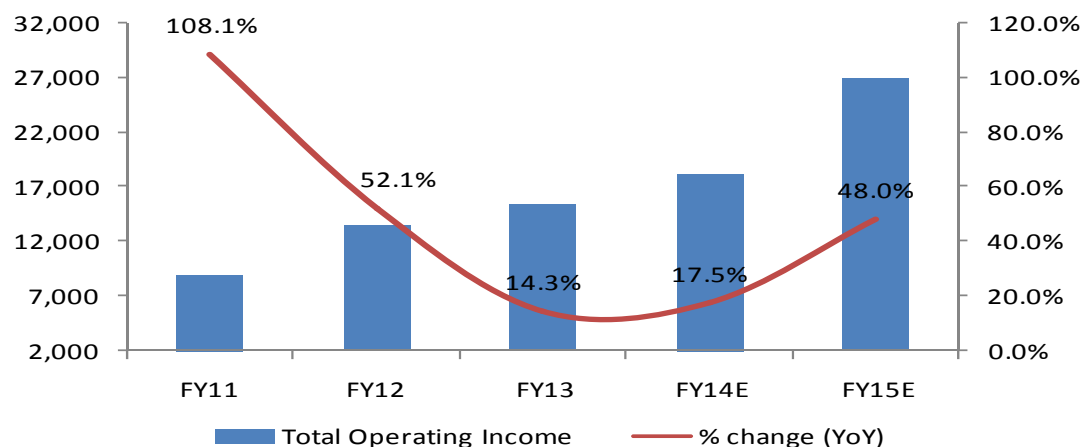
Project	EBITDA Margin (%)
Haryana PDS	23-47%
UIDAI	29-37%
Rural Mart	15-22%
Maharashtra IGRS	19-20%
Election Related	20-21%

*Vakrangee has evolved from a sub-contractor with low margins to a Prime Bidder with relatively much higher margins in play.*



# Vakrangee Ltd.

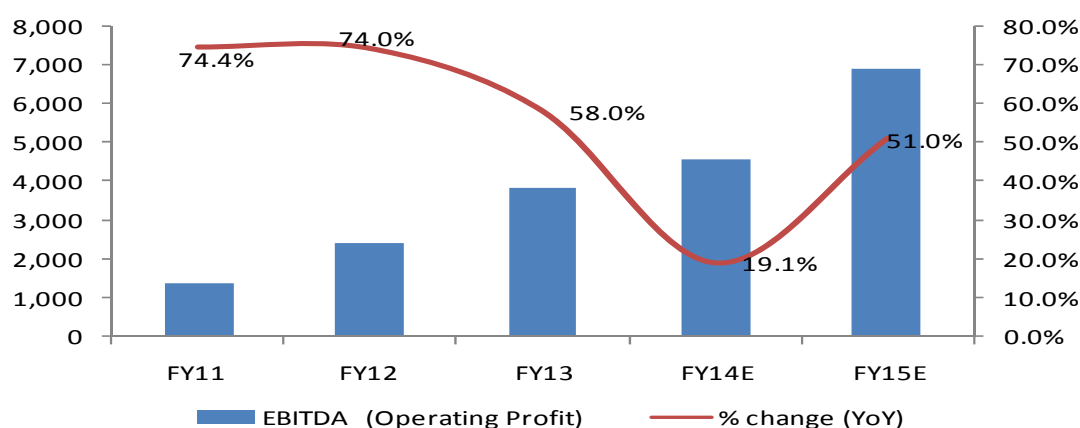
### Revenue Trend (Rs mn)



Currently, Vakrangee has only ~3,200 operational outlets and we expect Vakrangee to achieve ~35,000 outlets BY FY15. Therefore, we expect operating revenue to increase to grow at a CAGR of ~32% between FY13 to FY15.

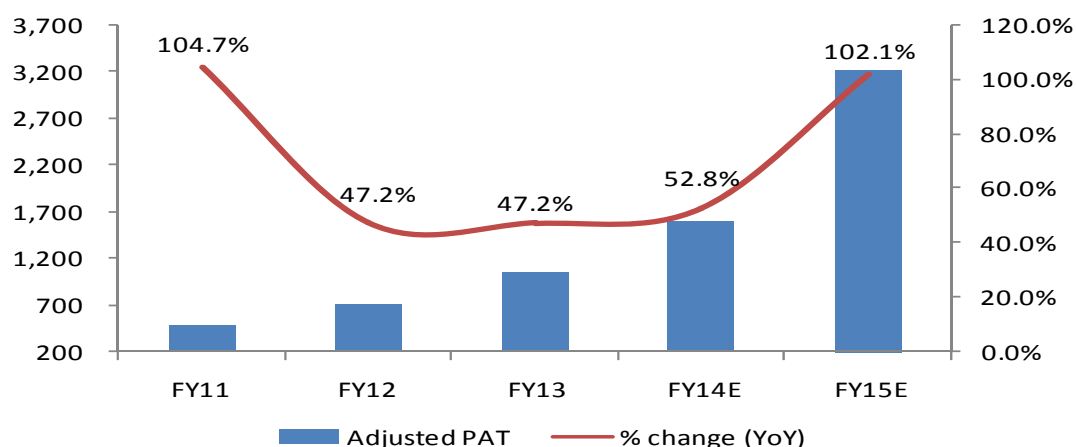
Source: Company, BP Equities Research

### Operating Profit Trend (Rs mn)



Source: Company, BP Equities Research

### Net Profit (Rs mn)

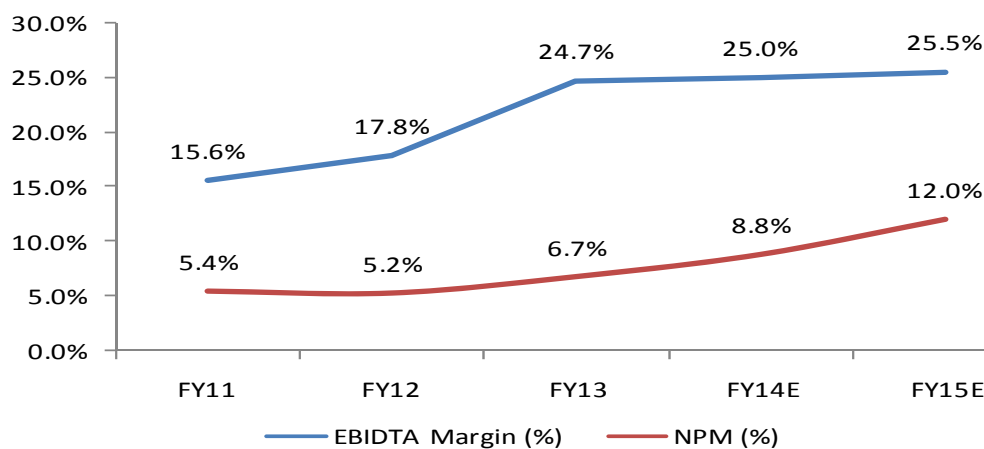


Vakrangee has planned to operate V-Mart outlets on a franchisee model which involve very low capex requirement therefore we believe the return ratios and profitability will improve due to lower requirement of incremental depreciation and interest expenses.

Source: Company, BP Equities Research

# Vakrangee Ltd.

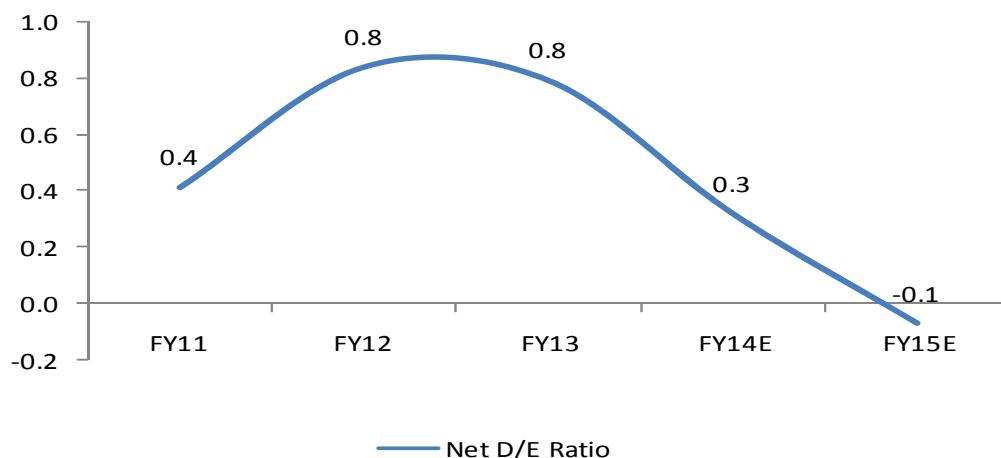
## Margin Picture



*Net profit margin is expected to improve on the back of Vakrangee's plan to reduce the debt and expected improvement in operational efficiencies*

Source: Company, BP Equities Research

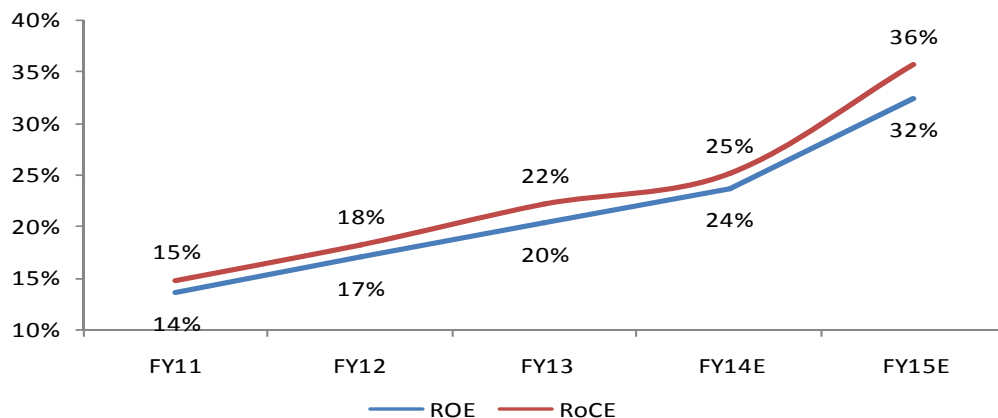
## Improving Leverage Ratio



*The Leverage ratio is expected to improve substantially on account of continuous reduction in debt and improving profitability*

Source: Company, BP Equities Research

## Attractive Return Ratios Trend



Source: Company, BP Equities Research

## Vakrangee Ltd.

### Industry Overview

The Indian IT sector is estimated to aggregate revenues of USD 108 billion in 2012-13, with the IT software and services sector (excluding hardware) accounting for over USD 95 billion of revenues. During this period, direct employment is expected to reach nearly 3 million, an addition of 188,300 employees, while indirect job creation is estimated at 9.5 million. As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to nearly 8 per cent in 2012-13.

### National e-Governance Plan

The National e-Governance Plan (NeGP) was approved on 16th May, 2006 with the vision to make all government services accessible to the common man in his locality, through common service delivery outlets and ensure efficiency, transparency & reliability of such services at affordable costs to realize the basic needs of the common man. The NeGP is a multi-stakeholder programme which primarily focuses on making critical public services available and promoting rural entrepreneurship. It comprises of 31 Mission Mode Projects (MMPs) and core e-infrastructure. During the year 2012-13, with the core infrastructure largely in place or at advanced stage of completion the department also began monitoring their utilization on a monthly basis in terms of the number of citizen centric transactions taking place per month. Up to end December, 2012 around 10.3 crore transactions were recorded and efforts are on to increase it to 12 Cr. per month by the end of FY14.

### Common Service Centres

The Government has approved the Common Services Centres (CSCs) Scheme for providing support for establishing 100,000 Common Services Centres in 600,000 villages of India. The Scheme envisions CSCs as the front-end delivery points for Government, private and social sector services to rural citizens of India, in an integrated manner. The objective is to develop a platform that can enable Government, private and social sector organizations, to align their social and commercial goals for the benefit of the rural population in the remotest corners of the country through a combination of IT-based as well as non-IT based services. As on date the total number of CSCs rolled out in 33 States/UTs of India is 99, 357.

### Competitors

Although Vakrangee faces competition from a variety of e-governance players in the industry, it hardly faces competition from IT players that offer the similar combination of products and services to the rural markets. This unique evolution of Vakrangee from a mere sub-contractor to offering G2C, B2C and BFSI services gives it a competitive edge. Over and above, Vakrangee boasts an array of affiliations with companies which are highly renowned and experienced in their respective fields which makes them a cutting edge in the industry.

***Although Vakrangee faces competition from a variety of e-governance players in the industry, it hardly faces competition from IT players that offer the similar combination of products and services to the rural markets. This unique evolution of Vakrangee from a mere sub-contractor to offering G2C, B2C and BFSI services gives it a competitive edge.***



## Vakrangee Ltd.

### Details about Top Management and Major Milestone achieved

Management Details	
Name	Designation
Dinesh Nandwana	Chairman & Managing Director
Nishikant HayatNagarkar	Executive Director—R&D
Ramesh M. Joshi	Non—Executive Independent Director
Kunnel Prem	Nominee (LIC)
Sunil Agarwal	Non—Executive Independent Director
B. L. Meena	Non—Executive Independent Director

Source: Company, BP Equities

Major Milestone	
1993	Computerization of Central Election Commission
2005	MCA 21—Ministry of Corporate Affairs
2007	Land Records Digitization in UP
2008	RSBY—Smart Card Project—UP, Haryana and Rajasthan
2010	Passport Seva Kendra Project CSC Punjab
2011	UID Enrollment—All India Project, UID linked Haryana PDS project
2012-13	Offering G2C, BFSI Services and Portfolio of B2C Services at Gram Panchayat Level through V-Mart Initiative

Source: Company, BP Equities

## Vakrangee Ltd.

### Key Concerns

#### **Liberalization of FDI in retail could pose a threat to Vakrangee in terms of competition**

Foreign companies with more resources could pose a major threat to the retail operations of Vakrangee. Policy easing of Foreign Direct Investment might bring about investments from foreign retail giants which more resources at their disposal and compete directly with Vakrangee. Furthermore, the Government further relaxed the norms by allowing foreign retailers to set up stores in cities with a population of less than 1 million, which could turn out to be a source of direct threat to Vakrangee.

#### **Untested retail model might cause operational burdens**

Since this combination of product and service offerings to a relatively new market is largely untested, there can be concerns regarding the operational sustainability of the retail model. Although the venture into rural markets is a bright prospect, the lack of past ventures into this market seem to question it.

#### **Only BFSI and G2C businesses enjoy exclusive mandate, no barrier to entry in B2C services**

Although Vakrangee has an exclusive mandate to set up and operate BFSI and G2C services, there is a possibility of potential competition in the field of B2C with hardly any barrier to entry in the rural market except 'market knowledge'.

#### **Operations concentrated in Delhi, Rajasthan and Maharashtra**

Despite having a unique business model, Vakrangee's operations are solely involved in Delhi, Rajasthan and Maharashtra. Although the company could expand operations in the other states going ahead, it might take a while owing to the level of bureaucracy inherent in the Govt. of India.

*Policy easing of Foreign Direct Investment might bring about investments from foreign retail giants which more resources at their disposal and compete directly with Vakrangee.*

## Vakrangee Ltd.

### Outlook and Valuation

Vakrangee has shown robust revenue growth in last 2 years and grew at a CAGR of ~31% between FY11-FY13, we believe the franchisee model would be a main revenue driver going forward on the back of the Government initiative to allowing banks to appoint BCs to reach unbanked regions and decision to transfer scheme benefit through bank accounts only.

Vakrangee has secured an exclusive mandate for 5+2 years to set-up and manage 50,000 ultra small branches in 80:20 ratio for rural and urban India. Out of total 40,000 rural branches, Vakrangee will open nearly 70% of branches in Maharashtra, ~25% in Rajasthan and remaining in Delhi. Currently, Vakrangee has only ~3,200 operational outlets and we expect Vakrangee to achieve ~35,000 outlets BY FY15. Therefore, we expect operating revenue to increase to grow at a CAGR of ~32% between FY13 to FY15.

The company is expanding its rural retail business (V-Mart) on a franchisee basis which involves minimum capex requirement from the company and this would convert into the high return ratios going forward. The company has planned to reduce the debt level from the existing level and we believe with higher free cash flow, Vakrangee would reduce its debt level substantially. As the capex requirement is minimum and lower debt level in next few years, we expect margin picture would also improve going forward. Therefore, we believe PAT to grow at a CAGR of ~76% between FY13 to FY15.

We have valued the stock on EV/EBITDA basis and we believe the company's operating performance would improve substantially with asset light business model. We have assigned an EV/EBITDA multiple of 7 to value this stock and arrived at a target price of **Rs 99** per share for an investment horizon of 12-18 month with a **Buy** Rating.

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## Vakrangee Ltd.

## Income Statement

YE March-Consolidated (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
<b>Total Operating Income</b>	8,897	13,532	15,472	18,179	26,905
% change (YoY)	108.1%	52.1%	14.3%	17.5%	48.0%
Expenditure	7,509	11,117	11,657	13,634	20,044
<b>EBITDA (Operating Profit)</b>	<b>1,388</b>	<b>2,415</b>	<b>3,815</b>	<b>4,545</b>	<b>6,861</b>
% change (YoY)	74.4%	74.0%	58.0%	19.1%	51.0%
Less: Depreciation & Amortization	550	874	1,571	1,848	1,928
Add: Other Income	6	46	52	55	60
<b>EBIT</b>	<b>844</b>	<b>1,587</b>	<b>2,296</b>	<b>2,752</b>	<b>4,993</b>
% change (YoY)	121.3%	88.0%	44.7%	19.8%	81.5%
Less: Interest	176	558	860	526	495
<b>PBT</b>	<b>668</b>	<b>1,029</b>	<b>1,437</b>	<b>2,226</b>	<b>4,499</b>
% change (YoY)	111.7%	54.0%	39.6%	54.9%	102.1%
Less: Tax	92	106	296	632	1,277
Less: Deferred Tax	95	214	97	0	0
<b>Reported PAT</b>	<b>481</b>	<b>709</b>	<b>1,043</b>	<b>1,594</b>	<b>3,221</b>
% change (YoY)	104.7%	47.2%	47.2%	52.8%	102.1%
Less: Extra Ordinary Items	0	0	0	0	0
<b>Adjusted PAT</b>	<b>481</b>	<b>709</b>	<b>1,043</b>	<b>1,594</b>	<b>3,221</b>
% change (YoY)	104.7%	47.2%	47.2%	52.8%	102.1%
<b>Adjusted EPS</b>	<b>1.0</b>	<b>1.4</b>	<b>2.0</b>	<b>3.1</b>	<b>6.3</b>

Source: Company, BP Equities

## Balance Sheet

YE March-Consolidated (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
<b>Liabilities</b>					
Equity Share Capital	237	250	502	502	502
Reserve & Surplus	3,234	3,919	4,636	6,230	9,451
Equity share Warrants	85	0	0	0	0
<b>Net Worth</b>	<b>3,556</b>	<b>4,169</b>	<b>5,138</b>	<b>6,732</b>	<b>9,954</b>
Total Loans	1,639	3,785	4,387	3,387	3,187
Minority Interest	0	29	29	29	29
Net Deferred Tax	517	732	829	829	829
<b>Capital Employed</b>	<b>5,713</b>	<b>8,715</b>	<b>10,383</b>	<b>10,977</b>	<b>13,998</b>
<b>Assets</b>					
<b>Net Block</b>	<b>2,724</b>	<b>5,516</b>	<b>4,371</b>	<b>3,574</b>	<b>2,046</b>
Investments	34	15	23	23	23
Other Assets	26	47	98	118	141
Long Term Loans & adv	292	330	243	255	268
<b>Current Assets</b>	<b>3,817</b>	<b>5,238</b>	<b>9,082</b>	<b>10,957</b>	<b>16,830</b>
Cash	176	284	319	1,245	3,893
Loans & Advances	125	196	192	225	333
Inventories	177	244	538	598	769
Debtors	2,745	4,455	6,527	7,172	9,877
Other Current Assets	593	59	1,507	1,718	1,958
<b>Total Current Liabilities</b>	<b>1,180</b>	<b>2,447</b>	<b>3,443</b>	<b>3,949</b>	<b>5,310</b>
Current Liabilities	868	1,218	1,755	2,062	3,052
Provisions	137	215	407	478	708
Other Current Liabilities	175	1,014	1,281	1,409	1,550
<b>Net Current Assets</b>	<b>2,637</b>	<b>2,791</b>	<b>5,639</b>	<b>7,008</b>	<b>11,520</b>
Foreign Currency Translation Reserve	0	15	9	0	0
<b>Capital Applied</b>	<b>5,713</b>	<b>8,715</b>	<b>10,383</b>	<b>10,977</b>	<b>13,998</b>

Source: Company, BP Equities

**Vakrangee Ltd.****Cash Flow analysis**

<b>Cash Flows</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>
Opening Cash Balance	49	176	284	319	1245
Cash Flow from Operating Activities	-452	2164	737	3502	3743
Cash Flow from Investing Activities	-409	-3617	-398	-1050	-400
Cash Flow from Financing Activities	988	1561	-303	-1526	-695
Net Inc/(Dec) in Cash and Cash Equivalent	127	108	35	926	2648
Cash and Cash Equivalents at End of the year	176	284	319	1245	3893

Source: Company, BP Equities

**Valuation Ratios**

<b>YE March</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>
P/E			39.2x	25.7x	12.7x
P/BV			8.0x	6.1x	4.1x
EV/EBITDA			11.8x	9.5x	5.9x
Market Cap./Sales			2.6x	2.2x	1.5x

Source: Company, BP Equities





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**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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