



VAKRANGEE LIMITED

Result Update: Q2 FY14

Recommend	BUY
CMP	84.00
Target Price	94.00

ISIN: INE051B01021

NOVEMBER 29th, 2013

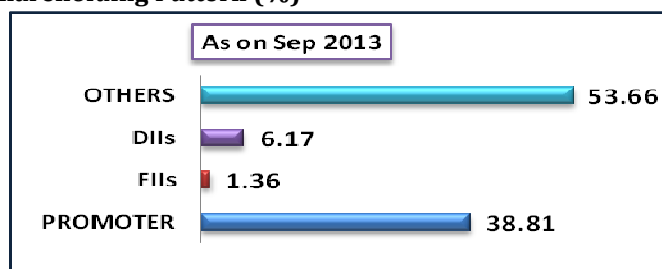
STOCK DETAILS

Sector	IT
BSE Code	511431
Face Value	1.00
52wk. High / Low (Rs.)	86.00/43.10
Volume (2wk. Avg)	310000
Market Cap (Rs in mn)	42249.48

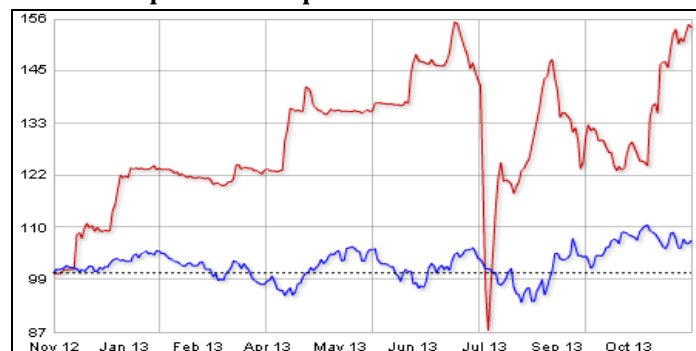
Annual Estimated Results (A*: Actual / E*: Estimated)

Years	FY13A	FY14E	FY15E
Net Sales	15557.75	17269.10	18650.63
EBITDA	3912.34	4838.16	5312.10
Net Profit	1092.72	1503.04	1651.17
EPS	2.17	2.99	3.28
P/E	38.63	28.11	25.59

Shareholding Pattern (%)



1 Year Comparative Graph



VAKRANGEE SOFTWARES LTD

BSE SENSEX

SYNOPSIS

- Vakrangee Softwares Ltd has changed its name to Vakrangee Ltd and it is one of the few leading e-Governance Service Provider in India.
- During the quarter, the company has posted robust growth of Net Profit and it is increased by 78.62% to Rs. 437.61mn as against Rs. 245.00 mn in Q2 FY13.
- Revenue for the quarter rose by 17.99% to Rs. 4263.77 million from Rs. 3613.58 million, when compared with the prior year period.
- EBITDA is increased to Rs. 1224.69 mn in Q2 FY14 as against Rs. 914.03 mn for the corresponding quarter last year, registering a growth of 33.99%.
- EBITDA margin is 28.72% as against 25.29% for the corresponding quarter last year.
- PAT margin is 10.26% as against 6.78% for the corresponding quarter last year.
- EPS (basic) for the face value of Rs. 1 stood at Rs. 0.87 in Q2 FY14 as against Rs. 0.49 in Q2 FY13.
- Vakrangee has been awarded 'CMMI Level 3' certificate by US based Carnegie Mellon Engineering Institute (SEI) and the company is now 'CMMI Level 3 certified' Company.
- Net Sales and PAT of the company are expected to grow at a CAGR of 11% and 35% over 2012 to 2015E respectively.

PEER GROUPS	CMP	MARKET CAP	EPS	P/E (X)	P/BV(X)	DIVIDEND
COMPANY NAME	(Rs.)	Rs. in Mn.	(Rs.)	Ratio	Ratio	(%)
Vakrangee Softwares Ltd	84.00	42249.48	2.17	38.63	8.19	20.00
eClerx Services Ltd	1115.70	33467.00	70.91	15.69	8.14	250.00
KPIT Technologies Ltd	143.85	27689.60	5.12	27.97	3.12	45.00
Hinduja Global Solutions Ltd	407.00	8381.70	41.02	9.92	1.26	200.00

Recommendation & Analysis - 'BUY'

The Company has changed its name from "Vakrangee Softwares Limited" to "Vakrangee Limited". During the quarter, Vakrangee Ltd reported Net Sales stood at Rs 4263.77 million as against Rs. 3613.58 million for the corresponding quarter last year, registering a growth of 17.99%. In Q2 FY14, EBITDA was increased to Rs. 1224.69 millions as against Rs. 914.03 millions for the corresponding quarter last year, registering a growth of 33.99%. EBITDA margin is 28.72% as against 25.29% for the corresponding quarter last year. PAT stood at Rs. 437.61 million in Q2 FY14 as against Rs. 245.00 million for the corresponding quarter last year, registering a growth of 78.61%. PAT margin is 10.26% as against 6.78% for the corresponding quarter last year. EPS (basic) for the face value of Rs. 1 stood at Rs. 0.87 in Q2 FY14 as against Rs. 0.49 in Q2 FY13.

The Company currently implementing Election related projects, UID Enrollment, Direct Benefit Transfer through Financial Inclusion, Public Distribution System, Common Service Centres, National Population Register, E-Mitra, Land Records and IGRS. Over FY2012-15E, we expect the company to post a CAGR of 11% and 35% in its top-line and bottom-line respectively. **Hence, we recommend 'BUY' for 'VAKRANGEE LTD' with a target price of Rs. 94.00 on the stock.**

FINANCIAL HIGHLIGHTS STANDALONE

Results updates- Q2 FY14,

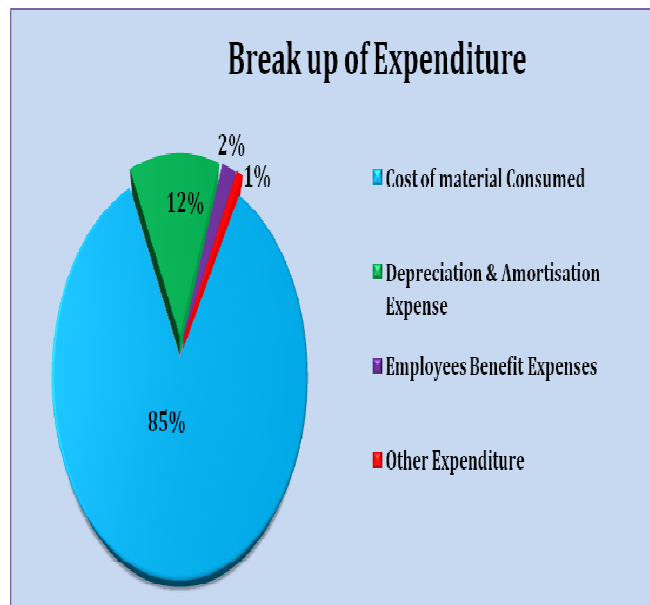
Vakrangee Software Ltd is one of the few leading e-Governance Service Provider in India. The company had ranked the fastest growing mid-sized company in India, reported its financial results for the quarter ended 30th Sep, 2013.

Months	Sep-13	Sep-12	% Change
Net Sales	4263.77	3613.58	17.99
PAT	437.61	245.00	78.62
EPS	0.87	0.49	78.34
EBITDA	1224.69	914.03	33.99

The company net profit jumps to Rs.437.61 million against Rs.245.00 million in the corresponding quarter ending of previous year, an increase of 78.62%. Revenue for the quarter rose by 17.99% to Rs. 4263.77 million from Rs.3613.58 million, when compared with the prior year period. Reported earnings per share of the company stood at Rs.0.87 a share during the quarter, registering 78.34% increase over previous year period. Profit before interest, depreciation and tax is Rs.1224.69 millions as against Rs.914.03 millions in the corresponding period of the previous year.

Expenditure :

During the quarter total expenditure increased by 14 per cent mainly on account of increase in Consumption of Raw Materials cost along with consideration of depreciation in the rupee impact. Total expenditure in Q2 FY14 was at Rs. 3523.77 million as against Rs. 3088.37 million in Q2 FY13. Depreciation & Amortization Expenses are Rs. 434.70 millions against Rs. 374.73 millions in the corresponding period of the previous year. Employees Benefit Expenses were at Rs. 66.68 millions and material consumed cost is Rs. 2948.91 millions in Q2 FY14 are the primarily attributable to growth of expenditure.



Latest Updates

- Vakrangee Softwares Ltd has informed that Vakrangee Holdings Private Limited and Vakrangee Capital Private Limited, promoters of Vakrangee Softwares Limited have acquired shares aggregating to 4.53% of share capital of the Company through open market during the period May 13, 2013 to June 13, 2013. Post the current acquisition, total Promoters' share holding in the Company stands at 38.80%.
- Vakrangee Softwares Ranks Number One in the Aadhaar Enrollment Project has outpaced the rest of the Aadhaar enrollment agencies and Emerged as the new leader in all three Categories namely number of Aadhaar Generated, data Uploaded and number of residents enrolled.
- **Bagged Financial Inclusion Project from the Bank of Baroda**

Vakrangee Softwares Ltd has informed that Vakrangee Finserve Limited (VFL), a Wholly Owned Subsidiary of Vakrangee Softwares Limited has bagged Financial Inclusion Project from the Bank of Baroda. From the project, VFL targets to achieve approximately Rs. 1258.00 Crores during the tenure of Five years. VFL has been selected for a period of five years and can be extended by another 2 year with mutual consent.
- Vakrangee Softwares Ltd has been awarded '**CMMI Level 3**' certificate by United States based Carnegie Mellon Engineering Institute (SEI) and the company is now 'CMMI Level 3 certified' Company".

Company Profile

The company was formerly known as Vakrangee Softwares Limited and changed its name to Vakrangee Limited in October 2013. Vakrangee is one of the few leading e-Governance Service Provider in India well equipped with cutting edge infrastructure, Highly experience professionals, strong investment and technological breakthrough on a continual basis in order to maintain strict time bond completion of mission critical and socially relevant projects.

Vakrangee Software Ltd incorporated in the year 1990, is a Pioneer and an established player in e- Governance, Document and Printing Management. It has been awarded 18th rank in the Deloitte Technology Fast50 India 2011 program, identified as one of the 100 Best Mid Size companies in India as per Business World.

Vakrangee currently implementing Election related projects, UID Enrollment, Direct Benefit Transfer through Financial Inclusion, Public Distribution System, Common Service Centres, National Population Register, E-Mitra, Land Records and IGRS. It has partnered with Nationalized Banks, Private Banks, Regional Rural Banks, Central government and State governments for successfully implementing these flagship projects that will benefit every Indian.

The Company has been certified with CMMI Maturity Level 3, ISO 9001:2008, ISO 20000-1:2011 and ISO 27001:2005.

Service Offerings

The Company is mainly focused on delivering full scale systems integration and on ground enrolment for massive, global e-governance projects. In this we cater to the central and state governments as well as many government institutions.

- ✓ System Integration
- ✓ IT Enabled Services
- ✓ IT Infrastructure Services
- ✓ Enterprise Solutions
- ✓ Enterprise Information Management Services

Opportunities

Vakrangee is a Major Player in India in the e-governance space. Continuing investments on e-governance initiatives by Central and state governments offer many opportunities for Vakrangee. The Company's integrated full services capability, global delivery footprint and scale have expanded its addressable market, strengthened its reputation and ensured its inclusion in the top tier list of vendors invited for the largest and most complex bids in e-governance space. These offer a sizable growth opportunity for the Company

Strengths of Vakrangee

- Vakrangee is a leader in AADHAAR (UIDIA) generation, enrolling more than 30 million people.
- It has an exclusive mandate to set up and manage 50,000 ultra small branches in Maharashtra, Rajasthan and Delhi.
- The Company has been given in-principle authorization to own and operate White Label ATMS (WLAs) and plan to roll out a minimum of 15,000 WLAs within 3 years.
- Vakrangee has tie-ups with all PSU banks for BFSI services and it has a strong Rural Retail Business Model that is exclusive, scalable and enjoys negative working capital.
- Immense capacity to manage a large volume of documents: the Company has achieved unprecedented success in the collection of electoral roll data
- Vakrangee has established working relationships with several key government departments and ministries.
- Vakrangee has robust IT infrastructure and proven technologies to enable such unprecedented scale and network

Financial Highlight STANDALONE

Balance sheet as at March31st, 2012-2015E

(A* - Actual, E* -Estimations & Rs. In Millions)

VAKRANGEE LTD.	FY12A	FY13A	FY14E	FY15E
SOURCES OF FUNDS	(Rs.in.mn)			
Shareholder's Funds				
Share Capital	250.24	502.50	502.97	502.97
Reserves and Surplus	3890.64	4652.89	6155.93	7807.10
1. Sub Total - Net worth	4140.88	5155.39	6658.90	8310.07
Non Current Liabilities				
Long term borrowings	1559.61	1456.85	1150.91	1001.29
Deferred Tax Liabilities	731.59	827.01	719.50	589.99
Other Long term Liabilities	69.92	78.37	56.43	59.25
2. Sub Total - Non Current Liabilities	2361.12	2362.23	1926.84	1650.53
Current Liabilities				
Short term borrowings	2082.49	2695.50	2210.31	1922.97
Trade Payables	1189.07	1747.92	2517.00	2919.73
Other Current Liabilities	965.57	1222.92	1528.65	1742.66
Short Term Provisions	214.56	406.85	512.63	594.65
3. Sub Total - Current Liabilities	4451.69	6073.19	6768.60	7180.01
Total Liabilities (1+2+3)	10953.69	13590.81	15354.34	17140.61
APPLICATION OF FUNDS				
Non-Current Assets				
Fixed Assets				
Tangible assets	4871.18	4183.72	4141.88	4307.56
Capital Work in Progress	0.79	0.00	0.00	0.00
a) Sub Total - Fixed Assets	4871.97	4183.72	4141.88	4307.56
b) Non-current investments	583.73	116.73	122.57	129.92
c) Long Term loans and advances	330.21	242.77	157.80	165.69
d) Other non-current assets	47.23	67.08	73.79	79.69
1. Sub Total - Non Current Assets	5833.14	4610.30	4422.25	4603.17
Current Assets				
Inventories	35.90	198.58	172.76	190.04
Trade receivables	4452.35	6613.69	9163.02	10563.85
Cash and Bank Balances	259.70	312.23	368.43	416.33
Short-terms loans & advances	317.95	350.97	400.11	440.12
Other current assets	54.65	1505.04	827.77	927.10
2. Sub Total - Current Assets	5120.55	8980.51	10932.09	12537.44
Total Assets (1+2)	10953.69	13590.81	15354.34	17140.61

Annual Profit & Loss Statement for the period of 2012 to 2015E

Value(Rs.in.mn)	FY12A	FY13A	FY14E	FY15E
Description	12m	12m	12m	12m
Net Sales	13521.44	15557.75	17269.10	18650.63
Other Income	42.35	74.23	175.50	201.83
Total Income	13563.79	15631.98	17444.60	18852.46
Expenditure	-11141.80	-11719.64	-12606.44	-13540.36
Operating Profit	2421.99	3912.34	4838.16	5312.10
Interest	-552.52	-858.37	-927.04	-1019.74
Gross profit	1869.47	3053.97	3911.12	4292.35
Depreciation	-874.00	-1569.43	-1757.76	-1933.54
Profit Before Tax	995.47	1484.54	2153.36	2358.82
Tax	-320.41	-391.82	-650.31	-707.64
Net Profit	675.06	1092.72	1503.04	1651.17
Equity capital	250.24	502.50	502.97	502.97
Reserves	3890.64	4652.89	6155.93	7807.10
Face value	1.00	1.00	1.00	1.00
EPS	2.70	2.17	2.99	3.28

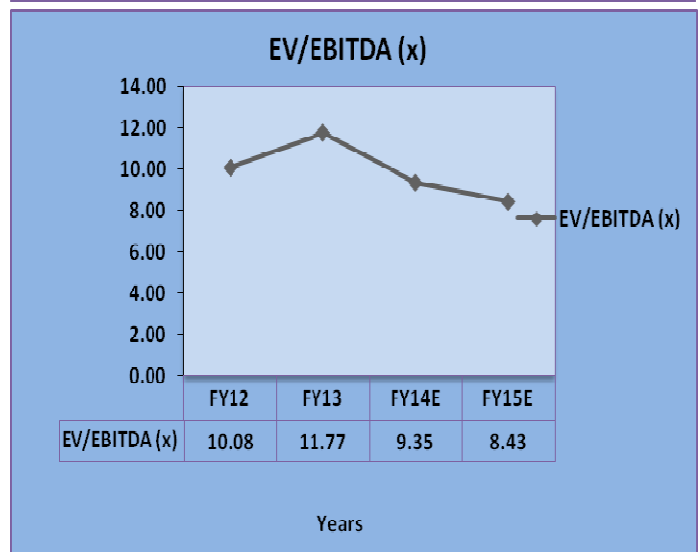
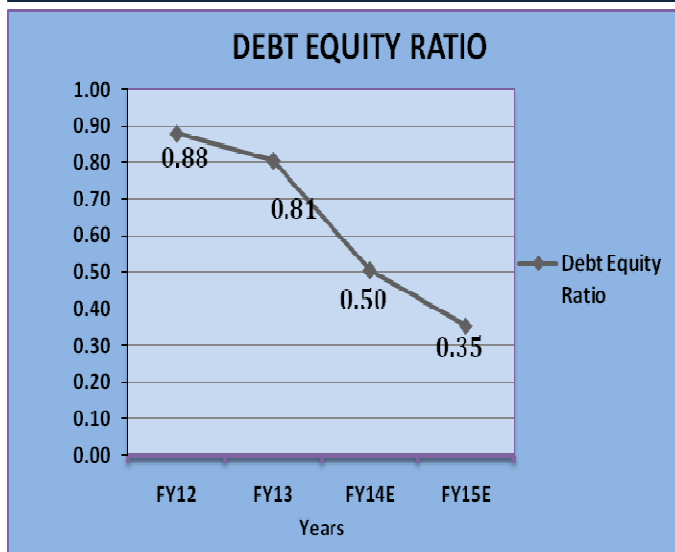
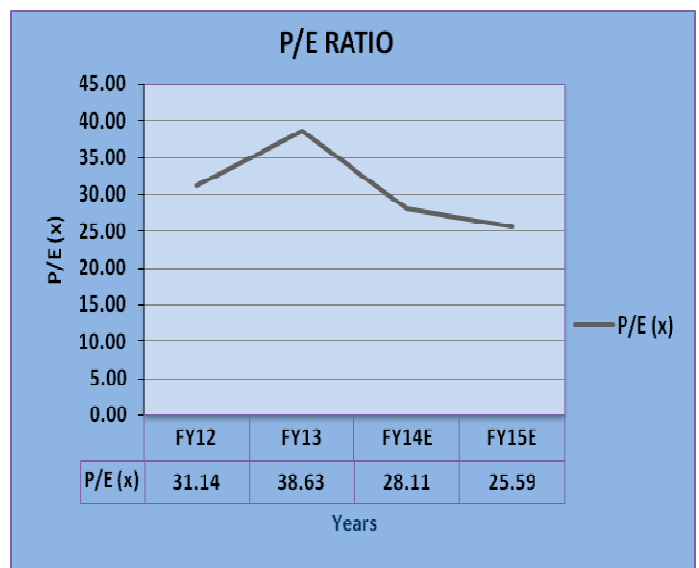
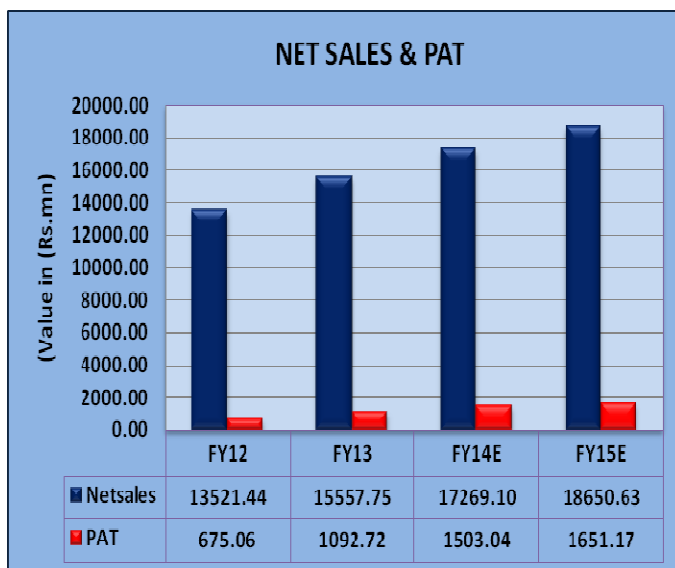
Quarterly Profit & Loss Statement for the period of 31st Mar, 2013 to 31st Dec, 2013E

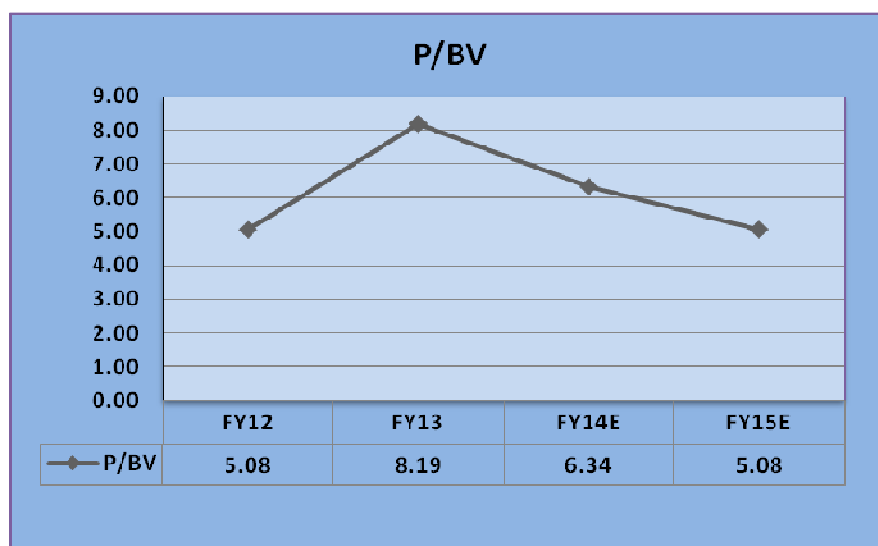
Value(Rs.in.mn)	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13E
Description	3m	3m	3m	3m
Net sales	4660.83	4019.51	4263.77	4519.60
Other income	35.53	58.42	49.99	53.99
Total Income	4696.36	4077.93	4313.76	4573.59
Expenditure	-3579.87	-2928.23	-3089.07	-3245.07
Operating profit	1116.49	1149.70	1224.69	1328.52
Interest	-236.57	-218.50	-198.09	-213.94
Gross profit	879.92	931.20	1026.60	1114.58
Depreciation	-424.07	-413.34	-434.70	-473.82
Profit Before Tax	455.85	517.86	591.90	640.76
Tax	-140.01	-186.96	-154.29	-179.41
Net Profit	315.84	330.90	437.61	461.34
Equity capital	502.50	502.97	502.97	502.97
Face value	1.00	1.00	1.00	1.00
EPS	0.63	0.66	0.87	0.92

Ratio Analysis

Particulars	FY12A	FY13A	FY14E	FY15E
EPS (Rs.)	2.70	2.17	2.99	3.28
EBITDA Margin (%)	17.91	25.15	28.02	28.48
PBT Margin (%)	7.36	9.54	12.47	12.65
PAT Margin (%)	4.99	7.02	8.70	8.85
P/E Ratio (x)	31.14	38.63	28.11	25.59
ROE (%)	16.30	21.20	22.57	19.87
ROCE (%)	42.35	58.89	65.83	64.50
Debt Equity Ratio	0.88	0.81	0.50	0.35
EV/EBITDA (x)	10.08	11.77	9.35	8.43
Book Value (Rs.)	16.55	10.26	13.24	16.52
P/BV	5.08	8.19	6.34	5.08

Charts





Outlook and Conclusion

- At the current market price of **Rs.84.00**, the stock P/E ratio is at 28.11 x FY14E and 25.59 x FY15E respectively.
- Earning per share (EPS) of the company for the earnings for FY14E and FY15E is seen at Rs.2.99 and Rs.3.28 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 11% and 35% over 2012 to 2015E respectively.
- On the basis of EV/EBITDA, the stock trades at 9.35 x for FY14E and 8.43 x for FY15E.
- Price to Book Value of the stock is expected to be at 6.34 x and 5.08 x respectively for FY14E and FY15E.
- We recommend '**BUY**' in this particular scrip with a target price of Rs. **94.00** for Medium to Long term investment.

Industry Overview

The IT&ITeS industry in India has today become a growth engine for the economy, contributing substantially to increases in the GDP, urban employment and exports, to achieve the vision of a powerful and resilient India.

Indian firms, across all other sectors, largely depend on the IT & ITeS service providers to make their business processes efficient and streamlined. Indian manufacturing sector has the highest IT spending followed by automotive, chemicals and consumer products industries.

Market Size

India's total IT industry's (including hardware) share in the global market stands at 7 per cent; in the IT segment the share is 4 per cent while in the ITeS space the share is 2 per cent. The industry is dominated by large integrated players consisting of both Indian and international service providers. During the year, the share of Indian providers went up to 65 per cent-70 per cent due to the emerging trend of monetization of captives.

India's IT and BPO sector exports are expected to grow by 12-14 per cent in FY14 to touch US\$ 84 billion - US\$ 87 billion, according to Nasscom.

IT spending in India is projected to reach US\$ 71.5 billion in 2013, an increase of 7.7 per cent as compared to US\$ 66.4 billion projected for 2012.

The enterprise software market in India is expected to reach US\$ 3.92 billion in 2013, registering a growth of 13.9 per cent over 2012 revenue of US\$ 3.45 billion.

Investments

Indian IT's core competencies and strengths have placed it on the international canvas, attracting investments from major countries.

Between April 2000 and June 2013, the computer software and hardware sector attracted cumulative foreign direct investment (FDI) of Rs 53,757.60 crore (US\$ 7.97 billion), according to the Department of Industrial Policy and Promotion (DIPP).

More recently, online retailing, cloud computing and e-commerce are the major driving forces behind the rapidly increasing growth in the IT industry. Online shopping has increased with the emergence of internet retailing and e-commerce.

Some of the major investments in Indian IT and ITeS sector:

- Baring Private Equity Partners Asia plans to buy IT services firm Hexaware Technologies in a deal estimated at about US\$ 400 million
- Cognizant has been selected by the Saudi Electricity Company (SEC) to develop a comprehensive billing and revenue management solution based on SAP utilities enterprise software to meet the functional, technical, and operational requirements of SEC's rapid growth
- Prisma Global has acquired majority stake in German technology venture Prisma GmbH for about Rs 27 crore (US\$ 4.00 million). The company will now own the Intellectual Property (IP) of technologies developed by the German firm

- Wipro have secured a large IT outsourcing contract worth US\$ 500 million from the US-based financial services company Citigroup. Wipro will be responsible for application development and maintenance, as well as providing infrastructure management services, for Citi's global operations
- Tech Mahindra has signed a five-year agreement with UBS Fund Services (Luxembourg) (UBS FSL) for its new platform, Tech Mahindra Managed Data Services (MDS), designed to support asset managers, wealth managers, investment banks, custodians and administrators. The company's Brazilian subsidiary Complex IT has also signed two deals to deliver enterprise solutions for oil and gas, and banking sector

Government Initiatives

As a part of the National Electronics Policy, the Government of India is planning to set-up 15 new laboratories under public-private-partnership (PPP) model for hardware and software testing. The labs will facilitate registration and testing of IT products before they are launched in the market.

FDI upto 100 per cent under the automatic route is allowed in Data processing, software development and computer consultancy services; software supply services; business and management consultancy services, market research services, technical testing & analysis services.

In the 12th Five Year Plan (2012-17), the Department of Information Technology proposes to strengthen and extend the existing core infrastructure projects to provide more horizontal connectivity, build redundancy connectivity, undertake energy audits of State Data Centers (SDCs) etc. The core infrastructure including fibre optic based connectivity will be leveraged and additional 150,000 Common Service Centres (CSCs) will be setup to create the right Governance and service delivery ecosystem at the Panchayats.

Some of the major initiatives taken by the Government to promote IT and ITeS sector in India are:

- The Government of India has fast tracked the process of setting up of centres of National Institute of Electronics and Information Technology (NIELIT) in Northeast India
- The Government of Brazil has liberalised the issue of short term work visas, a move which will make it easier for Indian IT professionals to take up assignments in Brazil
- India and Vietnam have signed two memorandums of understanding (MoU) for partnership in the field of information, communications and technology (ICT)
- The Cabinet has recently approved the National Policy on Information Technology 2012. The policy aims to increase revenues of IT and ITES industry from US\$ 100 billion to US\$ 300 billion by 2020 and expand exports from US\$ 69 billion to US\$ 200 billion by 2020
- The Government of India plans to set up 15 new laboratories for testing hardware and software products under public-private partnership (PPP) model

Road Ahead

As IT is increasingly gaining traction in small and medium business activities, the sector offers impressive growth opportunities and is estimated at approximately US\$ 230 billion–US\$ 250 billion by 2020. In a bid to reduce cost, governments across the world are exploring outsourcing and global sourcing options.

Technologies, such as telemedicine, mHealth, remote monitoring solutions and clinical information systems, would continue to boost demand for IT service across the globe. IT sophistication in the utilities segment and the need for standardisation of the process are expected to drive demand.

Digitisation of content and increased connectivity is leading to a rise in IT adoption by media. Emerging technologies present an entire new gamut of opportunities for IT firms in India. Social, mobility, analytics and cloud (SMAC) provide US\$ 1 trillion opportunity. Cloud represents the largest opportunity under SMAC, increasing at a CAGR of approximately 30 per cent to around US\$ 650 billion–US\$ 700 billion by 2020. Social media is the second most lucrative segment for IT firms, offering a US\$ 250 billion market opportunity by 2020.

Disclaimer:

This document prepared by our research analysts does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable but do not represent that it is accurate or complete and it should not be relied on as such. Firstcall India Equity Advisors Pvt. Ltd. or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provide for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.

Firstcall India Equity Research: Email – info@firstcallindia.com	
C.V.S.L.Kameswari	Pharma
U. Janaki Rao	Capital Goods
B. Anil Kumar	Diversified
Ashish.Kushwaha	IT, Consumer Durable & Banking
Suhani Adilabadkar	Diversified
M. Vinayak Rao	Diversified

Firstcall India also provides

Firstcall India Equity Advisors Pvt.Ltd focuses on, IPO's, QIP's, F.P.O's,Takeover Offers, Offer for Sale and Buy Back Offerings.

Corporate Finance Offerings include Foreign Currency Loan Syndications, Placement of Equity / Debt with multilateral organizations, Short Term Funds Management Debt & Equity, Working Capital Limits, Equity & Debt Syndications and Structured Deals.

Corporate Advisory Offerings include Mergers & Acquisitions(domestic and cross-border), divestitures, spin-offs, valuation of business, corporate restructuring-Capital and Debt, Turnkey Corporate Revival – Planning & Execution, Project Financing, Venture capital, Private Equity and Financial Joint Ventures

Firstcall India also provides Financial Advisory services with respect to raising of capital through FCCBs, GDRs, ADRs and listing of the same on International Stock Exchanges namely AIMs, Luxembourg, Singapore Stock Exchanges and other international stock exchanges.

For Further Details Contact:

3rd Floor,Sankalp,The Bureau,Dr.R.C.Marg,Chembur,Mumbai 400 071

Tel. : 022-2527 2510/2527 6077/25276089 Telefax : 022-25276089

E-mail: info@firstcallindiaequity.com

www.firstcallindiaequity.com