

Vakrangee Softwares (VSL)

Biggest Fin. Inclusion & Rural Retail Marketing Co.

A financial Inclusion player: Metamorphosing from handling various e-Governance projects, including - Election Cards / Electoral rolls, PDS, UIDAI, CSC, FI, IGRS etc; co. is turning in to a kind of Micro Banker. With focus on financial inclusion & e-governance it has tie up with all 26 PSU banks, to run the – Ultra Small Branches in rural areas. Whereby it offers, banking services on real time basis, with direct access to CBS [core banking solutions] network of all PSU banks. This is enabling the company to play a significant role in – rural banking, DBT & financial inclusion schemes of government. Not only this, company also got in principle approval to setup 15,000 White label ATMs, which can further expand its reach/strength in rural hinterland.

Rural Retail – New Growth Driver: Going forward, riding on the proposed 50,000 strong rural high tech touch points, apart from e-governance and banking service offerings; company can provide a wide range of services [G2C & B2C], leveraging its advanced technology communication & transaction plate form, at its retail outlet named **V-Mart[Vakrangee Mart]**. These may include services like – life & general insurance, telecom related services, consumer durable & non durable marketing, agricultural equipments & consumables, as also rural advertising and surveys facility to private agencies.

High margin business: Transaction fee from DBT & FI schemes, plus other G2C & B2C service offerings; will grow exponentially along with growth in touch points “**V- Marts**”[Vakrangee Mart]. This will boost company’s bottom line significantly & sustainably, in coming couple of years. Present network of such V-Marts of over 3,000; is likely to be ramped up to over 12,000 in FY’13-14, 35,000 in FY 14-15 and will reach 50,000 plus by FY 15-16. This will put Vakrangee in to a new league, like a rural Retail MNC-FMCG company, **generating high ROCE, ROEs and high free cash flows.** It will be a **Zero debt company by FY’15**, generating **high free cash flow** and paying high dividends.

Valuation upside: The franchisee based asset light model will generate strong margins and sustained growth for company. From the projected 50,000 strong V-Marts, in next 2-3 years, company will be able to show spectacular results [as shown below], which can **lead to huge re-rating of stock** in next couple of years. Though our 12 months target is modest at Rs 125/-, we think going forward stock can very well touch Rs 180/- if not more.

Key Matrix @ CMP - 68	FY 13	FY 14e	FY 15e	FY 16e
Sales (Rs. Mln.)	15472	17947	33215	61420
EBIDTA (Rs Mln.)	3815	4422	8429	13480
PE @	32.7	21.2	8.1	4.3
P/BV	6.7	5.2	3.3	2.0
EV/EBIDTA	10.3	8.9	4.7	2.9
EV/Sales	2.5	2.2	1.2	0.6
ROCE	39.4	48.3	93.2	97.1
ROE	22.4	27.5	49.7	57.8

Initiating Coverage

25th September, 2013

Recom: **Buy**

Target Price: **Rs 125 / 180**

Share Price: **Rs 68**

Key data

52-Week High/Low	Rs. 86/Rs. 42
Bloomberg code	VKL in equity
3-m avarge volume	1 mln
Market cap	₹s. 37.6 b/US\$ 570 nr
Share outstanding	503 m
Beta	1.8
Promoters	38.80%
Foreign Institution	0.46%
Bodies Corporate	44.06%
Public	16.68%

Stock performance Vakrangee Vs Nifty



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Investment Thesis

With focus on 31-Mission Mode e-Governance projects of Government of India, Vakrangee has now extended the services to all 26 Public Sector Banks (PSU) setting up and running their Ultra Small Branches at Rural level where banking is done on real time basis directly integrated with Core Banking Solution (CBS) of all these PSU Banks like SBI, PNB, UBI, IOB, BOB, BOM etc. These Ultra Small Branches play significant role for attaining the Direct Benefit Transfer (DBT) and Financial Inclusion (FI) objective of the government of India. These Mission Mode and national importance projects of GoI including - Election Cards / Electoral rolls, PDS, UIDAI, CSC, Financial Inclusion (FI), IGRS etc are insulated from economic cycles [recession free business]. Because of company's recent foray into Micro-Banking [transacting rural banking business on real time basis], plus offering - ATM, G2C and B2C service delivery – under "V-Mart" [Vakrangee Mart] retail outlets, the ability of company to generate transaction based fee from single outlet increases exponentially.

RBI and GOI Thrust towards Rural Banking – A Game Changer

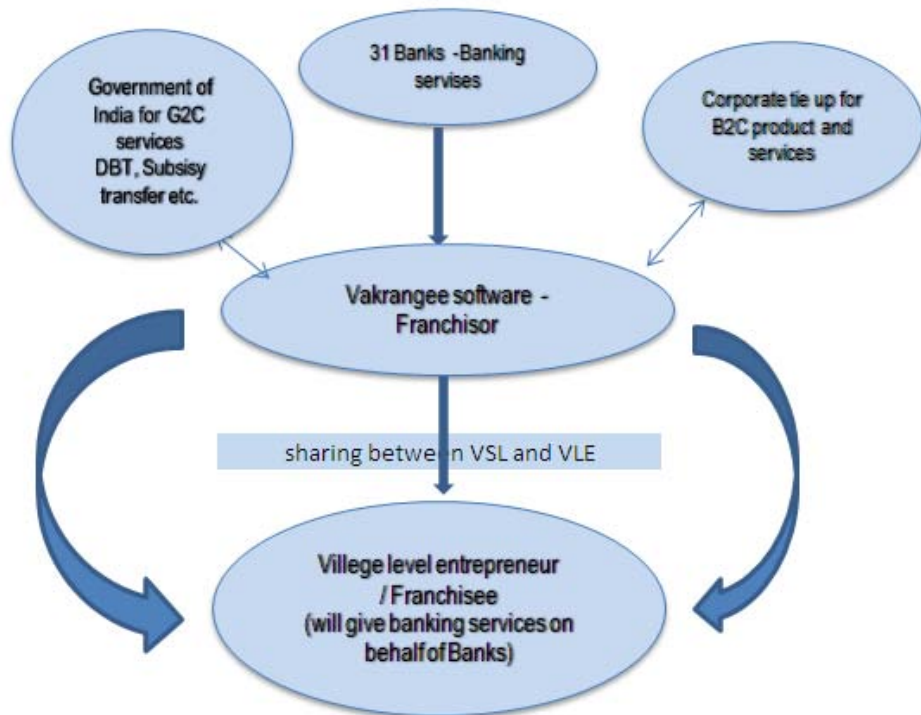
As the "Brick & Mortar" model of banking is not sustainable in rural areas, under the financial inclusion initiative –

- RBI, Ministry of finance and GOI wanted to expand the Bank services to the unbanked regions.
- Government has decided to transfer the entire social benefit scheme funds worth more than 3 trillion per annum, through bank accounts only.
- This Direct benefit transfer [DBT] is big driver for banking facility creation at the sub tier III towns in India.

The game changer for the VSL happened in 2012 when it was mandated by RBI and GOI to open exclusive 50,000 ultra small bank branches in Maharashtra, Rajasthan, Delhi and Goa. This will transform the company in to Rural Retail network giant, with technological capability to offer Banking, financial and non-financial transaction capability.

The company was also allowed by GOI to offer G2C and B2C services from these outlets. Hence it was the logical extension for the company to forward integrate and offer these various services to the people through its retail outlets. VSL has got the operation right to convert these 50,000 outlets into V-MART (Retail Hub) in next 5+2 years. At present over 3000 V-Mart[Vakrangee Mart] outlets are up and running, which can go to over 12,000 by this FY'13-14 end, which will touch 35,000 by FY'14-15 and 50,000 plus by FY 15-16.

This expansion will be through franchisee mode only, where in capex will be met by rural local entrepreneur and company will give him training, technology platform and its management expertise to run the business. As per RBI mandate VSL has already tied up with 31 Banks for BFSI services

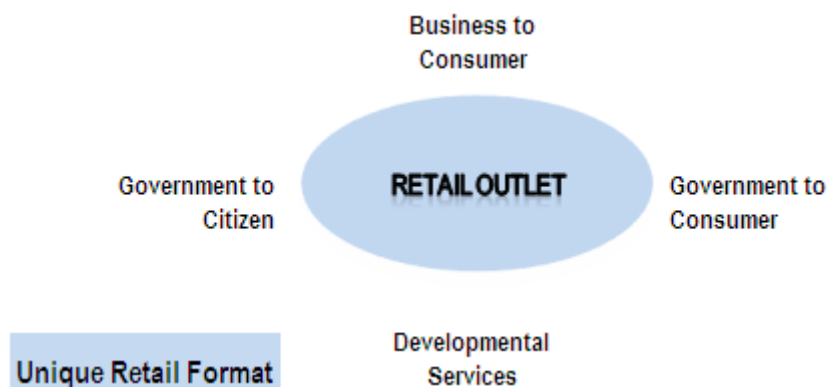


VSL has also tied up with LIC, GIC, Vodafone, Airtel, Idea, Tata Docomo, Tata Motors, Mahindra & Mahindra, dish TV, Tata sky and many more to provide B2C services

Revolution in Rural Retailing

Company’s unique rural retail network, which is being initially set up to offer e-governance services, will eventually metamorphoses in to a full commercial retail out let offering all kind of G2C and B2C services. These outlets will have 24X7 satellite communication facilities with full power back-up.

These will be managed by Village Level Entrepreneur [VLE], who will put in capex for the facility and maintain and run the outlet. Every transaction he does for any kind og below mentioned services, will earn him commission as also to company. It will be a unique government [supported] service centre and technical & managerial expertise given by Vakrangee. The market for this out let will be assured and competition free, as no other entity will be given licence to operate e-governance & micro banking services in that location. So it will be a kind of monopoly business.



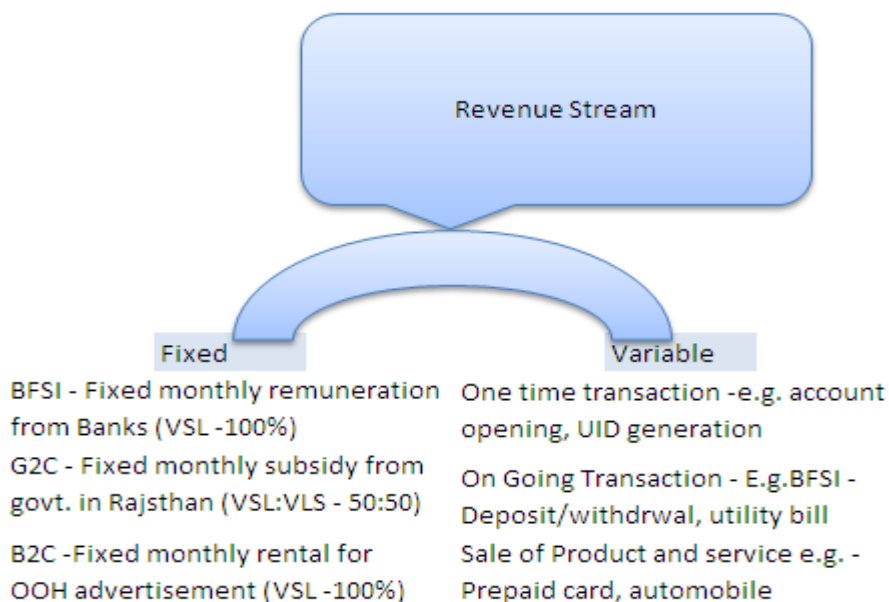
Categories	Categories			
	Sales & Distribution	Procurement (Rural to Out)	Feedback	Promotional
Business to Consumer (B2C)	Goods and Services	Rural produce, work force, bill payment	Business to consumer survey and questionnaire administration grievance redressal, market research	ATL, BTL, Mkt. campaigns, Product Testing
Government to consumer (G2C)	Railway tickets, certificates, Hall tickets	Exam fees payment, Online form filing	--III--	Tourist
Developmental Services	PDS, School Books, Food coupon	Enrollment (UID, Election commission/NR GES)	--III--	HIV, Polio vaccination, Educational Schemes
Government to citizen (G2C)	Direct Cash Transfer, UID card, Land record,E-Stamping	Payment of Utility bills, taxes/levies	--III--	Awareness campaigns

Source – Vakrangee and rca research

Revenue Streams for V-Mart [Vakrangee Mart]

While Village level entrepreneur (VLE) will be the owner of rural retail mart and will manage day to day operation. VSL will operate as a franchisor/Rural Bank correspondent for these 50,000 V-Mart outlets, spread across Maharashtra, Rajsthan and Delhi. VSL will help VLE for project management, infrastructure set up, training and technology up gradation and will share the fee as pre-defined agreement for each services.

Outlet will be open in such a way that one outlet will be able to serve around 1500 families and each outlet, based on all the services (BFSI,B2C,G2C), will earn total monthly revenue of Rs. 1,40,000 -1,50,000.

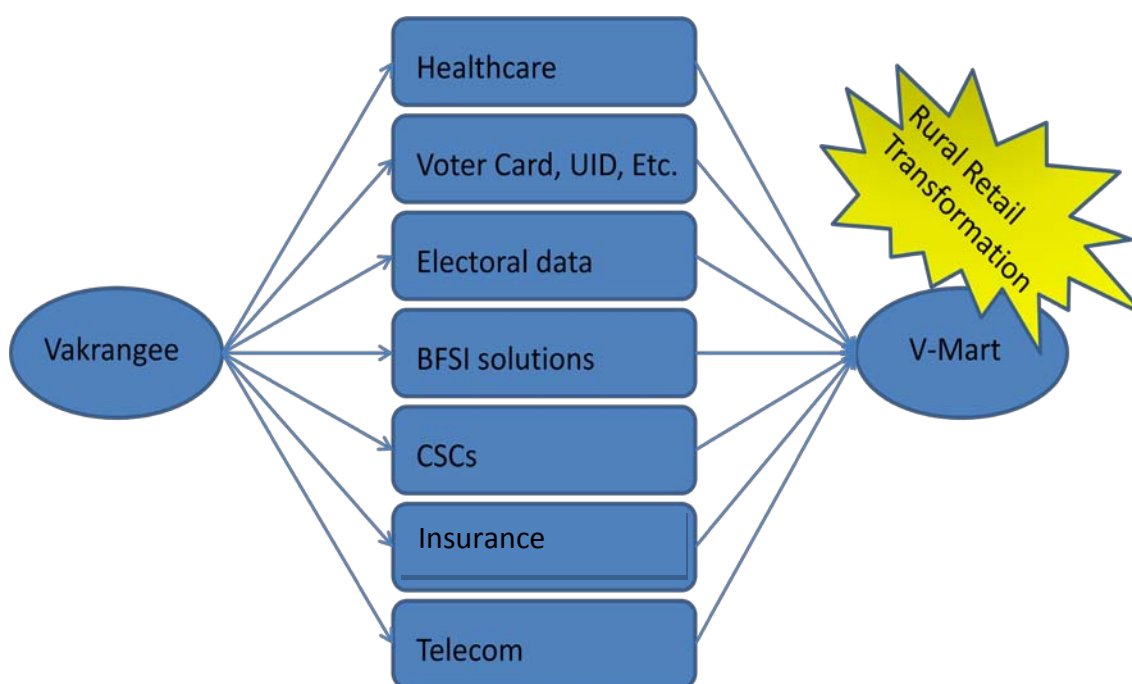


VEL will provide B2C, Rural Banking and G2C services from these outlets.

B2C services will include – Telecom –mobile Recharge, DTH Services – Recharge, bill payment, Education, Healthcare, Agriculture inputs, Automobile (Dealership of Tata Motor and M&M),FMCG Products , White Goods etc.

BFSI Services will be like Bank account opening , Transactions (Deposit/ withdrawal), Balance Enquiry, Direct Benefit Transfer (DBT), Pension Disbursement, Insurance (both Life and non-life), Retail Loans, Fixed Deposits, Recovery of Loan, BSE/NSE Trading Bolts

G2C will cover Enrolments of UID, NREGA, Election Card, Land Record Digitization, Payment of Utility Bills, Taxes, Railway Tickets, Exam Fee Payment, Online Form Filling, PDS, School Books, Food Coupon, NRHM, Bharat Nirman etc.



- *V-Mart one stop shop for rural market.*

Growing on Rural Theme – Huge Opportunity

Given the fact that 68.84% of the Indian population lives in villages, India can not grow in long term, without rural development. Government is running various schemes for the development of rural India but these schemes has leakages because of lack of proper mechanism to reach retail consumers and e-governance.

When a villager wants to avail of a government service, consumer goods, or even business goods, they have to travel to the district headquarters or to the nearest city. In other words, the last mile connectivity has always been eluding for rural consumers and its only for those – travelling to nearby towns cities, could get the government / businesses related services.

Nobody has tried to serve the rural consumers at his village, due to either lack of 24X7 reach/ connectivity, or un-viability of stocking and selling goods in small villages. Part of the difficulty of doing business in small villages is a matter of penetration. Only companies with an entrenched presence in villages or gram

panchayat levels, with connectivity infrastructure and deep pockets can drive this push.

Vakrangee achieved this presence across districts and panchayats across couple of states of India [at low cost], due to its e-governance project implementation work. Over the years company has gained extensive experience and developed expertise in creating software platforms that connect rural people to wide range of services. Now Company is in the process of creating 50,000 odd retail outlet network [in next 3-5 years], across select states in an unprecedented move to serve Indians in villages where they live.

It is India's and probably the world's first global Village level business model that is technology driven and viable with minimal capital investment. It is a revolution that will change the way Indian villagers shop and access services, and in turn it will transform not only village economy, but also - Vakrangee into a rural powerhouse, unique in its reach and service offerings to rural areas.

Major rationale behind selection of rural market can be summarised as -

- ✓ 64% of current national spending is in rural india, with more and more government and private sector focus on rural markets.
- ✓ This expenditure is bound to increase impressively owing to govt.'s money infusion [DBT scheme] in rural areas through pro rural reforms and schemes.
- ✓ Significant increase in MSP of agricultural produce over the years, along with the other factors [like – Land reform] has increased the disposable income of rural population.
- ✓ Lack of presence of efficient & technology driven distribution channels in the rural areas; gives the Vakrangee a first mover advantage in this kind of business [rural retailing].
- ✓ Least capital intensive model will give a boost to the earnings both for the village level entrepreneurs, as well as to the company.
- ✓ To avoid risks of default in the business, the company intends to use zero inventory model for distribution where the franchisee will keep zero stocks which reduces capital and also reduces the risk of capital blockage & financial costs.
- ✓ Even for BFSI business, the risk involved is mitigated by making the upfront franchisee deposit & transaction related deposits by customers.

The below tabular data sneaks a peek on why rural business is the most promising one:

1. Higher govt. spending and pro rural reforms

Budget Allocation (Rs. Bn)	FY11	FY12	FY13	YoY Growth
Bharat Nirman	480	580	710	22%
MGNREGS	401	400	400	0%
Housing (IAY)	100	100	152	52%
Education (SSA)	150	210	273	30%
Health (NHRM)	154	178	210	18%
Total Rural Outlay	2265	2661	3171	19%

The data in the table is the clear indicator of increased money supply to the rural India. This is a factor that explains increased disposable income.

2. Increased MSP of agricultural produce

Rs. / quintal	FY12	FY13	YoY Growth
Paddy	1000	1110	11%
Sugarcane	139	145	4%
Wheat	1120	1285	15%

Increased minimum support price along with subsidised food grains and other govt. initiatives like loan waiver schemes have increased the rural income and made the rural markets more and more attractive for companies in FMCG, telecommunications, automobiles, BFSI, agricultural equipments, etc.

3. **DBT Transfer** – Cash subsidy transfers for food, fertilisers and fuel will also boost the rural purchasing power and thus spendings. Government will utilise this linkage to direct transfer in villagers' account.

4. Telecom scenario in rural segment

Number of mobile subscribers (millions)	Q3-FY'11	Q3-FY'12	% change
Rural	306	395	29
Urban	601	740	23
Tele density (in %)			
Rural	28.4	36.4	28
Urban	137	166	7

The rate of growth in the rural sector seems to be out performing that of urban markets by a large margin. This paints a picture that rural India is indeed growing and the future of India lies in the rural segment only.

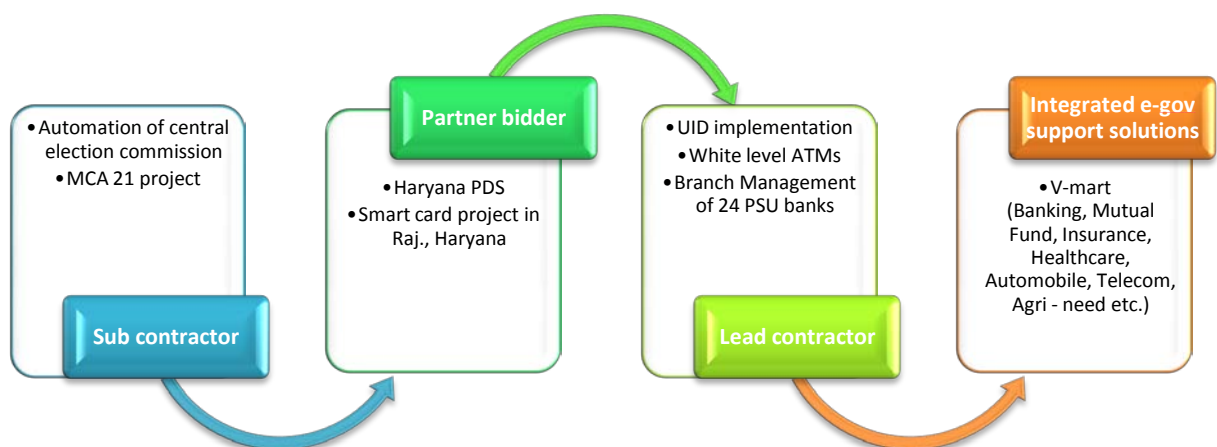
5. Future prospects

- ✓ Health spending to rise 2 fold from Rs. 1.1 trillion in 2010 to Rs. 2.5 trillion by 2025, with focus on women & childrens.
- ✓ 100% road connectivity by 2020, will enable low cost logistics for rural areas – boosting consumption.
- ✓ 100% literacy by 2020, leading to higher demand of technology driven services.
- ✓ Transition from agricultural driven economy to a services driven economy.
- ✓ Rural per capita FMCG spendings to equal current urban levels.

From these data we can see that the companies who are investing now to develop a strong rural presence will be better equipped to grab a share of the increasing rural expenditure and thus will mint money in the long turn.

Vakrangee's Journey from bottom to top of the Value Chain

Vakrangee Softwares Ltd. was founded in 1990 with a vision of becoming a leading e-governance and ITeS solution provider in India as well as global markets. Over the years they have emerged from being sub contractors to being a partner in bidding for large projects to being a lead contractor.



Moving up in the value chain has helped the Vakrangee to increase the operating profit margins significantly from 15-18% to 20-25%. The clientele of the company consists mainly of various govt. organizations, which ensure the continued business for many years to come. Over the years, with the help of enterprising team of leaders, Vakrangee added many feathers to its cap. Some of the achievements are mentioned as under:

- ✓ CMMi level 3 organization.
- ✓ India's largest e- governance implementer, present in all domains of e-governance & support solutions.
- ✓ Consistently recognised as Asia's one of the fastest growing companies by Deloitte's fast 500.
- ✓ Featured in top 100 mid size companies list of Business World.
- ✓ Huge order book of Rs. 100.30 bln
- ✓ 56% CAGR growth in past 3 years

With the new business plan in the company's kitty, there is an expectation that the company will perform in the new venture too and will be successful in generating higher and higher cash flows which is critical for sustainability of the business.

Asset Light Business Model

VSL is in the process of setting up a franchisee as directed by RBI under national mission of financial inclusion initiative and company is expecting to roll out target outlet (50,000) by FY'15-16. Company will these outlets as retail stores branded as "**V-Mart**" [Vakrangee Mart]. Company has already opened more than 3,000 such franchisee (2012-13) and targeting cumulative, 12000 franchisee in FY 14; 35,000 by FY 15 and 50,000 plus by FY'16.

Total capex requirement of setting up a outlet is around 1,45,000 (1,25,000 VLE and 20,000 VLS). Average franchisee takes around 3-4 months times to become fully operational and take around 3 months time to achieve BEP.

This network of low capital intensive retail chain can be used by VSL for its existing operations. Presence of a franchisee at village level will eliminate the need for employees going to villages for data collection and will significantly reduce the existing operating expenses of VSL. Further, the model envisages village level entrepreneurs to infuse capital of Rs. 1 lakh (Working Capital) for getting a franchisee which eliminates major capital expenditure/Working capital that VSL needed to expand at village level. The result, VSL gets a point of contact at each village, without doing a significant capital expenditure. Moreover, the model helps village level entrepreneurs a business opportunity which can give a sustainable cash flow (depending upon the business in the surroundings) through commissions.

This model of village level retail chain faces no competition as of now, as organised retailers are not focussing on rural India due to their capital intensive distribution model which is not capable of generating sufficient returns for them to sustain. VSL, on the other hand uses the retail chain as a support for its primary activities such as data digitisation, e- governance support, financial inclusion, DBT transfers, white label ATMs; and thus capable of generating sustainable revenue & profits from this format.

Company has already tied up all telecom service provider, various agri-chemical, fertiliser, seed companies, mutual fund, insurance & automobile players. Vmart will offer single solution for various needs of villagers.

Foray Into high Margin segment

VSL is well established player in e-governance domain in domestic market. Company has emerged from sub-contractor to partner (consortium Bid) and from partner to prime/lead players in last 20 years which is backed by strong technology led solutions and strong network of franchises.

Company has gained vast experience over the years, which actually helped VSL to convert its business from sub-contract (low margin) to prime bidder (high margin). Company has foray into different areas of operation especially with rural e-governance which offer huge scope and less competition.

Margin as a sub- Contractor		VS	Margin as a Prime Bidder	
Project	EBIDTA Margin %		Project	EBIDTA Margin %
Voter ID Cards	18-20		Haryana PDS	23-47
Printing electoral Rolls	18-20		Unique ID (Aadhaar)	29-37
RSBY Smartcard	12-15		Rural Mart	15-22
MCA 21	12-15		Maharashtra IGRS	19-20
Passport Seva Kendra	12-15		Election Related	20-21
DMS Projects for B2B	7-10			

Source: Vakrangee Softwares & RCA research

Strong Revenue growth – Recession free business

VSL is one amongst few credible organizations with exclusive focus on e-Governance. VSL has an In-depth experience of handling various e-Governance projects including Election Automation, PDS, UIDAI, CSC, FI, IGRS and many more. Vakrangee is a CMMi level III organization engaged in the e-Governance domain offering IT & ITeSservice.

Company has revenue visibility for next many years which give us a comfort that cash flow generation activity will continue even if there is slowdown in domestic economy because of following reasons.

Company has a strategy of focusing only on the projects that are under National e-governance Plan

- ✓ Government of India IT spend is estimated at INR 168bn for FY 2013-14 and there is an allocated investment of around INR 400bn till FY 2015, in Mission Mode projects alone
- ✓ Government is among the biggest spenders on Information Technology
- ✓ India has been developing at a fast pace, for which it needs technology solution providers like Vakrangee.
- ✓ Government trying to ensure that the benefits of development and delivery mechanism reaches each and every rural citizen of India
- ✓ E-governance initiatives are insulated from economic cycles
- ✓ Government spend on IT dependent on long term strategic planning

- ✓ Increased awareness among the citizens and support to RTI, implementing Citizen Charter, Anti Corruption Drive will further boost the e-Governance sector

VSL has strong order book position which gives revenue visibility for next 7 years.

Project	Revenue Visibility	Project Size (Rs. Bln)
UID Biometric Enrollments	2nd Phase for 2-3 years	9.69
Smartcard Based Public Distribution system in Haryana	Allocated in FY 12 for 5 years	1
Common Service Centers in Punjab and Rajasthan	Allocated in FY 13 for 5 years	7.62
Computerization in Sub-Registration Office on BOT basis in Maharastra	Allocated in FY 13 for 2 years	0.32
Lok Sewa Kendra Madhya Pradesh	Allocated in FY 13 for 2 years	0.04
E-Mitra Rajstha	Allocated in FY 13 for 2 Years	0.25
Maharastra financial Inclusion	Allocated in FY 13 for 5+2 years	9.8
Rajasthan + NCR Financial Inclusion	Allocated in FY 13 for 5+2 years	12.58
White Level ATM	Alloted in 2013 for 5 years	50
Election and Other Misc. activities	Annual allocation	9
Total Order Book (Rs. Bln)		100.3

Source: Vakrangee Softwares & RCA research

Company & Management Background

The company started as system integrator doing prestigious IT projects like Election commission automation, MCA-21, Passport Seva, RSBY, Land Record , Property Registration and currently the leading player in UIDAI project in this country. Also the Public Distribution System (PDS) project done by this company is first of its kind based on Aadhaar authentication. This PDS system shall be the system for the future in this country and this is further accentuated by the fact that the food security bill has been passed by the parliament. Then it got mandate from all the 26 PSU banks for setting up and managing the brick and mortar Ultra Small branches at the panchayat level which has become very very significant looking at the direct benefit transfer scheme of Gol.

Key Management

Dinesh Nandwana - Chairman & Managing Director

Chartered Accountant with 22 years experience in overall Management, Operations,, Finance & Corporate Affairs. He led the evolution of Vakrangee since inception by ensuring continuous advance and improve e-governance solutions leveraging world class technologies, processes and people.

Santosh Dash - CEO – Retail & BFSI (Global)

An IT veteran with an MBA gold medallist and B Tech. More than 18 years of experience in blue chip organizations like PwC, IBM and ICICI and expertise in BFSI, Agri, Retail and Govt business.

Pradeep Kumar - CEO – Government Business

Ex IRS officer with a MBA and B Tech in telecommunications, has 18+ Years experience in Global business development and execution of large public sector IT projects.

Dr Nishikant Hayatnagarkar - Director – R&D

PhD in Computer Science from I I T (Mumbai) with experience of 24 years in the field of software and chip designing, Leads the SI LOB for Vakrangee.

Promoters Raising stake

In June 2013, promoter group, comprised of **Vakrangee Holdings Pvt Ltd and Vakrangee Capital Pvt Ltd raised its stake to 38.8% from 34.27% by acquiring a 4.53% stake in Vakrangee Software Ltd**, which shows management confidence in future plan.

Financials and Valuation

Income Statement (Rs. Mln)	FY 13a	FY 14e	FY 15e	FY 16e
Revenue from Operation	15472	17947	33215	61420
Expenses				
Operating Expenses	11218	13317	24390	47204
Gross Profit	4253	4630	8825	14216
SGA Expenditure	438	208	396	736
EBIDTA	3815	4422	8429	13480
EBIDTA Margin %	24.7	24.6	25.4	21.9
Depreciation	1571	1665	1872	1871
EBIT	2244	2757	6557	11609
EBIT Margin %	14.5	15.36	19.74	18.90
Interest Exp. (income)	859	350	280	-356
Other Income	52	-	-	-
EBT	1438	2407	6277	11965
Tax Expenses	394	794	2071	3948
PAT	1044	1612	4206	8016
EPS	2.1	3.2	8.4	16
PAT Margin %	6.75	8.98	12.66	13.05

Contribution from Segments

Income Statement (Rs. Mln.) - Segments	FY 14e	FY 15e	FY 16e
Rural Retail	8288	28677	55213
BFSI	3091	11008	22767
G2C	2242	7399	14598
B2C	2955	10270	17848
UID	2200	1100	750
Other E - Governance Projects (PDS, IGRS)	450	380	360
PMS/DMS	7009	3059	5098
Total Revenues	17947	33215	61420
Cost of Sales:			
Rural Retail	6123	21053	42467
UID	1386	715	488
Other E - Governance Projects (PDS, IGRS)	350	240	280
PMS/DMS	5458	2382	3970
Total Cost	13317	24390	47204

Cash flow statement (Rs. Mln)	FY 13a	FY 14e	FY 15e	FY 16e
PBT	1,437	2,407	6,277	11,965
Depreciation	1,571	1,665	1,872	1,871
Interest Expenses	792	350	280	(356)
Other adjustment	3			
Operating Profit before WC changes	3,802	4,422	8,429	13,480
Change in Inventory	(293)	171	(108)	(401)
Change in trade Receivables	(2,073)	2,075	(1,305)	(4,873)
Change in Short term loan	5	2	(10)	-
change in Other Current Assets	(1,448)	1,426	(20)	-
Change in Account Payable	536	(558)	351	1,310
Other non Current Assets	471			-
Cash generated from operation	1,001	7,539	7,337	9,516
Taxes Paid	(264)	(794)	(2,071)	(3,948)
Cash flow from Operation (A)	736	6,745	5,266	5,568
Cash flow from investing activities				
Capex	(930)	(240)	(960)	(300)
Other Investmet / Disposal	532	-	-	
Net cash flow from investing activities (B)	(398)	(240)	(960)	(300)
Cash flow from Financiag Activities				
Interest Expenses	(792)	(350)	(280)	356
Dividend Paid on Equity Shares	(100)	(131)	(421)	(802)
Tax on dividend Paid	(16)	(21)	(68)	(130)
Proceeds/ (Redemption) of debt	594	(4,309)	(1,110)	-
Issuance of Equity and Premium	11			
Warrant & Share Application Money				
Net cash flow in financiag Activities (C)	(303)	(4,811)	(1,878)	(576)
Net Increase/Decresase in cash & Equivalent (A+B+C)	35	1,693	2,427	4,691
Cash & Equivalent at the beginning of the year	284	319	2,012	4,439
Cash & Equivalent at the end of the year	319	2,012	4,439	9,131
Free Cash flow to Firm	(194)	6,505	4,306	5,268
Free Cash flow to Equity	400	2,196	3,196	5,268

Balance Sheet (Rs. Mln)	FY 13a	FY 14e	FY 15e	FY 16e
Share capital	502	502	502	502
Reserve & Surplus	4636	6096	9812	16897
Total shareholders' Fund	5138	6598	10315	17400
Minority Interest	29	29	29	29
Debt	5419	1110	-	-
Capital Employed	10585	7736	10343	17428
Deferred Tax Liability	829	829	829	829
Other long term liabilities	78	78	78	78
Current Liabilities				
Trade Payable	1755	1197	1548	2858
Provision	407	407	407	407
Other current liability	172	172	172	172
Total	13826	10419	13377	21772
Fixed Assets				
Gross Block	8188	8428	9388	9688
-Accumulated Depreciation	3817	5482	7354	9224
Net Block	4371	2946	2034	463
Non Current Investment	23	23	23	23
Long Term Loans and Advance	243	243	243	243
Other Non Current Assets	98	106	106	106
Current Assets				
Inventories	538	367	474	876
Trade Receivables	6527	4452	5757	10630
Cash & Equivalent	319	2012	4439	9131
Short Term loans and advances	192	189	199	199
Other Current Assets	1507	80	100	100
Foreign Currency Translation Reserve	9			
Total	13826	10419	13377	21772
Key Matrix @ CMP - 68	FY 13	FY 14e	FY 15e	FY 16e
Sales (Rs. Mln.)	15472	17947	33215	61420
EBIDTA (Rs Mln.)	3815	4422	8429	13480
PE @	32.7	21.2	8.1	4.3
P/BV	6.7	5.2	3.3	2.0
EV/EBIDTA	10.3	8.9	4.7	2.9
EV/Sales	2.5	2.2	1.2	0.6
ROCE	39.4	48.3	93.2	97.1
ROE	22.4	27.5	49.7	57.8
EBIT Margin %	14.5	15.4	19.7	18.9
EBIDTA Margin %	24.7	24.6	25.4	21.9
PAT Margin %	6.7	9.0	12.7	13.1
Book Value	10.2	13.1	20.5	34.6

Quarterly Result -(Rs Mln)	Jun '13	Jun '12	Var %	Mar '13	Var%
Revenue	4020	3394	18	4661	-14
EXPENDITURE					
Increase/Decrease in Stocks	47	5	840	-163	-129
Employees Cost	97	29	230	106	-9
Other Expenses	2785	2527	10	3636	-23
EBIDTA	1091	833	31	1081	1
EBIDTA Margin %	27.15	24.53		23.19	
Depreciation	413	360	15	424	-3
EBIT	678	473	43	657	3
EBIT Margin %	16.87	13.94		14.09	
Other Income	58	12	403	36	65
Interest	219	208	5	237	-8
EBT	518	277	87	456	14
Tax	179	72	147	143	25
PAT	339	205	66	313	9
PAT Margin %	8.44	6.03		6.70	
Prior Year Adjustments	-8	-	-	3	
PAT (after adjustment)	331	205	62	316	5
Basic EPS	0.66	0.41		0.63	

Valuation: Ready for Re-rating

Company got mandate to open 50,000 VLE's store by FY 15-16, We believe stock will be re-rated in FY15 onwards once 70% (35,000) outlets will be operational and start contributing in VSL's overall profitability. Present network of V-Marts of over 3,000 which is likely to be ramped up to over 12,000 by the end of March'14 and will reach 35,000 by the end of March'15. **This will put the Vakrangee in to a new league in terms of growth. Further it will be generating very high ROCE [upwards of 80%], attractive ROEs [over 40%] and huge free cash flows, like MNCs in FMCG sector. It will be a Zero debt company, very soon [may be by FY'14-15], and then with its ability to pay high dividends [due to low capex needs & high free cash flows], it could command much better valuations.**

Further we believe by FY 15-16 all 50,000 outlets will be operational and will get scalability in terms of operating performance by H2 of FY 16. Since average outlet take 3 months to become operational and another 3-4 months to generate profits; we believe FY'16 EBIDTA margin will be down by 250 bps which will again see improvement from FY16-17 onwards. Our 12 month target is Rs. 125/- based on 8x EV/EBIDTA for FY15e (40% discount to other FMCG companies which majorly derived revenue from rural market). Our FY 15-16 target price is modestly Rs. 180/- (7x FY16e EV/EBIDTA).

[Our valuations still don't include the benefits of white label ATM network installation led profits, in to account. We will consider and cover them [these could be equally high as FI & DBT transactions], when company will receive final FIPB approval and the network roll out plan for white label ATMs is finalised.]

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Appendix 1

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