

Company Update

Vakrangee Ltd

Bloomberg Code: VKI IN

India Research - Stock Broking

BUY

Unique Business Model - Focussing on Expansive Growth Potential

Expecting huge growth with Asset Light model: The company is focusing more on asset light model like Vakrangee Kendras from capital intensive E-Governance vertical. Hence, the capex and working capital requirements of the company are going to be reduced. Revenue of Vakrangee has grown with a CAGR of 26.8% and PAT by 50.2% from FY13-FY17. During FY17, the revenue grown by 25.4% and net profit rose by 34.5% to Rs. 5308 Mn over revenue of Rs. 40005 Mn. We have strong conviction on the company's performance for FY18E & FY19E due to the structural reforms initiated by the Indian Government towards digitalizing financial transactions with long cherished objective of Financial Inclusion.

Unique Opportunity, Expansive Growth Potential: The company is planning to extend its network to 75,000 outlets by FY20E from the present level of over 35,000 centres. It has recently made strategic tie-up with Indian Oil Corporation Limited (IOC), to set up Vakrangee Kendras in more than 20,000 IOC Retail Outlets (Filling/Gas Stations) located in pan India. It has an exclusive five-year tie-up with Amazon for sale of products through Assisted E-Commerce model. Alliance with various partners like Amazon India, Redbus for offering bus ticketing services; Mahindra for promoting and booking automobile products.

Financial Inclusion opportunity will aid Vakrangee: The key growth driver has been the government's massive push towards financial inclusion through the Pradhan Mantri Jan Dhan Yojana. As a part of the Indian Government's financial inclusion plan, Vakrangee has been appointed as National Business Correspondent by 8 Indian Banks.

Valuation and Outlook

Vakrangee has been historically consistent on its growth profile. Increased focus on high growth and untapped businesses like Urban Retail, Financial Inclusion and Digital India over the next few years with first mover advantage shall put Vakrangee into a new growth trajectory. At CMP of Rs.446, the stock is trading at P/E of 24.9x, we give a "BUY" recommendation with a target price of Rs.530 per share at P/E of 29.6x FY19E EPS, which represents an upside potential of 19%.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Sales	27805	31907	40005	57892	81324
EBITDA	7232	8220	9460	12472	14985
EBITDA Margin (%)	26.0	25.8	23.6	21.5	18.4
Adj. Net Profit	3218	3948	5308	7823	9475
EPS (Rs.)	6.4	7.6	10.0	14.8	17.9
RoE (%)	39.4	31.1	29.2	32.6	29.9
PE (x)*	27.3	36.0	41.7	30.1	24.9

Source: Company, Karvy Research. *Represents multiples for FY15, FY16 & FY17 are based on historic market price

For private circulation only. For important information about Karvy's rating system and other disclosures refer to the end of this material. **Karvy Stock Broking Research is also available on Bloomberg, KRVY<GO>**, Thomson Publishers & Reuters

Recommendation (Rs.)

CMP	446
Target Price	530
Upside (%)	19

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	235901 / 3667
52-wk High/Low (Rs.)	458 / 163
3M Avg. daily volume (mn)	1.5
Beta (x)	0.8
Sensex/Nifty	31711 / 9827
O/S Shares(mn)	529.4
Face Value (Rs.)	1.0

Shareholding Pattern (%)

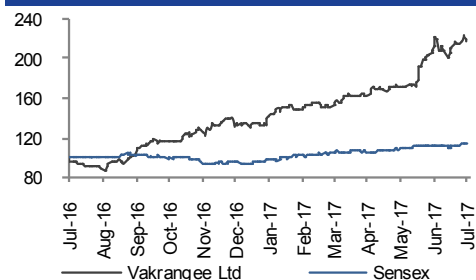
Promoters	41.6
FII's	24.1
DII's	7.1
Others	27.2

Stock Performance (%)

	1M	3M	6M	12M
Absolute	0	29	52	127
Relative to Sensex	(2)	19	31	99

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

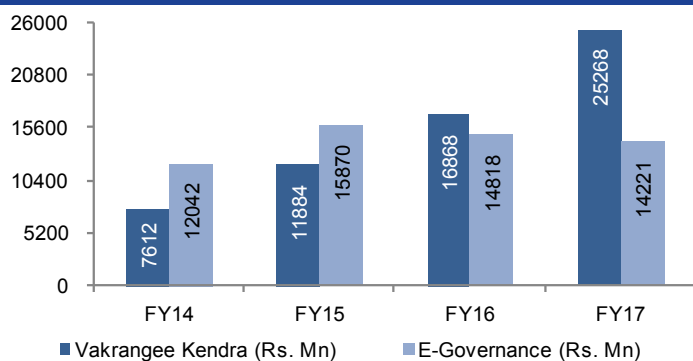
Analyst Contact

Prasanth Victor

040 - 3321 6271

v.prasanth@karvy.com

From its e-governance legacy business to Kendra - an Outlet based Business:

Exhibit 2: Segmental Revenue


Source: Company, Karvy Research

infrastructure setup to implement these projects. Due to this, management is planning to taper-off its e-governance legacy business as they are not participating in any fresh tenders; and expected to decline by 8-10% YoY and management expects, by FY20E, the contribution from this segment would be less than 5% which was 36.0% in FY17. Over the next few years, Vakrangee intends to focus more on franchisee-based model of Kendras while e-governance projects run through their contract periods.

Vakrangee is well known for e-governance project which used to be 100% of their business five years back. The e-Governance Projects segment offers collection services such as payment of utility bills, recruitment application processing, including online registration and issuance of birth, death and marriage certificates, land record digitization which enable citizens to get formal access with the government through local agencies. However, working capital is a major issue in this business as the process of payment from government is challenging task and its debtor days is as high as 120-150 days. Apart from working capital, the company has to build and maintain capex in terms of

Huge growth potential with Asset Light model:

Currently, Vakrangee has ~35,000 Kendras across 16 states in India and planning to extend its network to 75,000 outlets by FY20E from the present. This execution of this plan is primarily through asset light model, which is Vakrangee Kendra franchise model. Hence, the capex and working capital requirements of the company are going to be reduced and would maintain zero debt. Under franchisee model, the franchisee runs the Kendra and the supervision will be done by Block coordinators (i.e, one block coordinator for 40 outlets) who are appointed by the company. As the company is focussing to target 75,000 outlets by 2020E, the number of employees could be ~4000 by the year 2020E as against ~1800 employees in FY17. As it is franchisee based business, Vakrangee does not incur set-up capex on the Kendras, infact franchisee owners incur typically Rs. 0.15 Mn to 0.2 Mn in rural centres and Rs. 0.6 Mn to 0.9 Mn in urban centres to setup the outlet.

Exhibit 3: Expansion Plan

	FY16	FY17	FY18E	FY19E	FY20E
Rural Kendras	15671	25131	35000	45000	50000
Urban Kendras	5006	10075	15000	20000	25000
Total	20677	35206	50000	65000	75000

Source: Company, Karvy Research

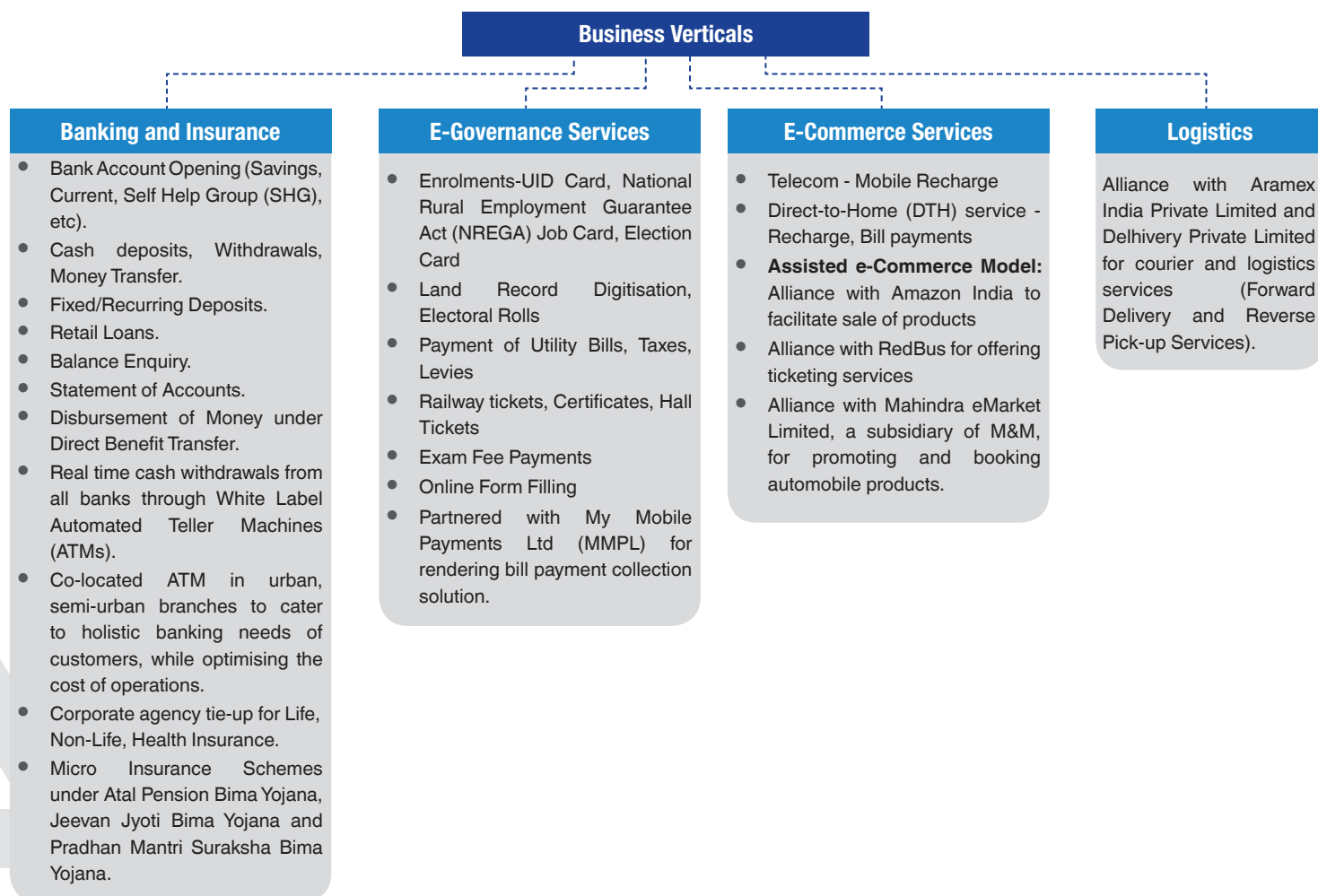
Financial Inclusion opportunity will aid Vakrangee:

The key growth driver has been the Government's massive push towards financial inclusion through the Pradhan Mantri Jan Dhan Yojana aims to ensure that at least one bank account is to be opened per household. This was done to push digital mode of transaction in the country, especially in low & middle class categories and also to provide financial services such as banking, insurance at an affordable cost to every citizen. With its large distribution network, Kendras model is majorly focusing on rural and unserved urban areas which shall put Vakrangee into a new growth trajectory.

Growth driven by mix of Products Avenue:

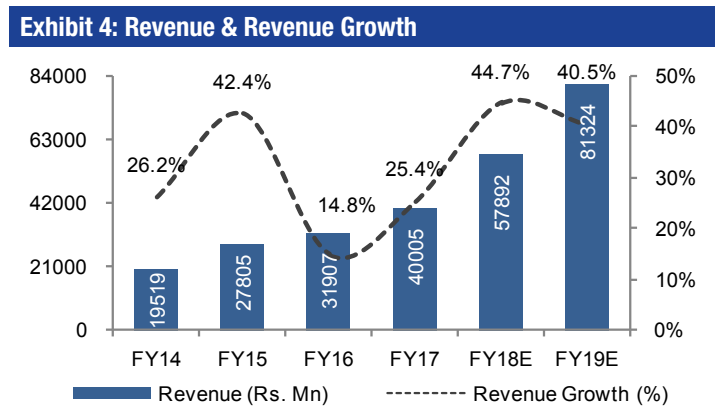
The different services provided through the Vakrangee Kendra include Banking, Insurance, ATM, e-Governance, e-Commerce and Logistics services to people in the rural and urban markets. All the Kendras run under commission based model which ranges from (Franchisee to Vakrangee - 65:35/80:20). Regarding product and services, Kendras provide access to more than 80 Mn products and over 1000 services under one roof across various verticals such as E-Governance, Banking, Insurance, E-commerce and Logistics.

It has recently made strategic tie-up with Indian Oil Corporation Limited (IOC), to set up Vakrangee Kendras in more than 20,000 IOC Retail Outlets (Filling/Gas Stations) located pan India. It has an exclusive five-year tie-up with Amazon for sale of products through Assisted E-Commerce model. The company has entered into alliance with various partners like Redbus for offering bus ticketing services, Railway Ticket Booking, Mobile/DTH recharge, Mahindra for promoting and booking automobile products. Banking services like account deposit, withdrawals, money transfer, ATM services, corporate agency tie-up for insurance, etc.,

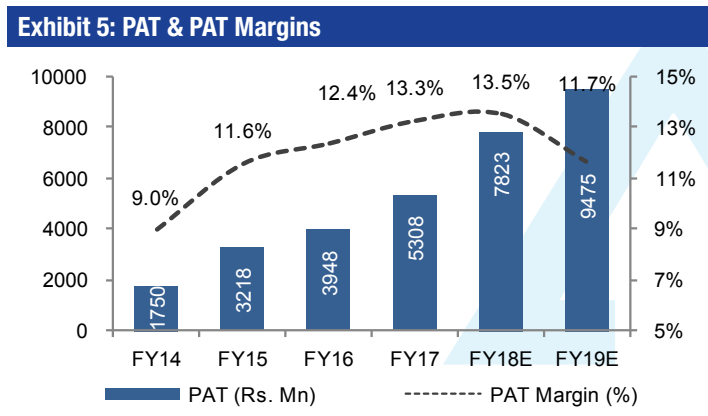


Expecting Strong performance in FY18E & FY19E:

Revenues of Vakrangee have grown with a CAGR of 26.8% and PAT by 50.2% from FY13-FY17. During FY17, the revenue grown by 25.4% and net profit rose 34.5% to Rs. 5308 Mn over revenue of Rs. 40005 Mn. EBITDA and Net Profit Margins stood at 23.6% and 13.3% as against 25.8% and 12.4% respectively in FY16. Consolidated EPS for FY17 stands at Rs. 10.0 against Rs. 7.6 in FY16. Vakrangee’s business is progressing rapidly driven by the rising share of Vakrangee Kendra Business. We have strong conviction on the company’s performance for FY18E & FY19E structural reforms initiated by the Indian Government towards digitalizing, rising penetration of ATM; and strong potential of Vakrangee will drive the revenue growth ahead. We expect the revenues to increase by CAGR of 42.3% from FY17-19E. However, there could be some reduction in EBITDA margins which is due to commission sharing ratio ranging from 65% up to 80% depending upon the milestone revenue target.



Source: Company, Karvy Research



Source: Company, Karvy Research

Strong corporate governance & execution capacity:

Vakrangee operates on a franchisee model making it asset light, offering real-time banking and other services to unserved and underserved rural and urban population. Starting with E-governance projects, the company has gained exceptional understanding on consumer behaviour and expanded its business more on franchisee-based model of Kendras.

Besides enhancing bouquet of service offerings, the target of strategic tie-ups is to enhance profitability of Vakrangee Kendra outlets by serving a platter of products and services to customers and fulfilling his needs. The company is also planning to further enhance the services by adding GST Registration and Payment services, Railway Ticket booking services and providing Loan products through Tie-ups with NBFCs and Banks.

The company's board has appointed PricewaterhouseCoopers (PWC) as a new statutory auditor from FY18E onwards. As on date, the company is fully debt free which is another key milestone achieved in FY18E. In last five years, the long term and short term debt peaked at Rs. 3900 Mn & Rs. 7500 Mn which are now fully paid-up through internal accruals as free cash flow generation is very strong due to asset light franchisee model. Vakrangee has a tax rate at ~35%. Vakrangee's Legacy Business (E-Governance vertical) has been Capex Intensive as well as Working Capital Intensive, thus limiting the Free Cash Flow generation. Going forward, the company's plan is to focus on Vakrangee Kendra outlet business, which will free the cash enabling the company to distribute in the form of dividend. In FY17, the company declared a dividend of Rs. 2 per share equivalent to 200% of face value and resulting into a healthy payout ratio. Going forward, the company is planning to maintain the dividend payout in the range of 15% to 25% of profit after tax on consolidated financials.

Exhibit 6: Peer Group Comparison

Company	Sector	Market Cap (Rs. Mn)	FY18E		FY19E	
			EV/EBITDA	P/E	EV/EBITDA	P/E
Vakrangee	e-retailer - Consumption & Services	235928	18.8	30.1	15.3	24.9
Info Edge	Online - E-Commerce	126616	48.6	68.4	35.7	48.9
Dmart	Retail stores - Consumption	558836	41.9	74.0	32.2	55.1
Jubilant Foodworks	Domino's Franchisee - Consumption	72107	23.0	67.4	18.5	47.4
Titan	Tanishq Jewellery Franchisee - Consumption	472746	31.6	46.4	26.5	39.0
WestLife Development	McDonalds Franchisee - Consumption	36326	47.6	496.8	33.8	139.0

Source: Bloomberg, Karvy Research

Key Risks

- Swift change in government policies.
- Slow ramp-up in addition of Vakrangee Kendras.

Financials

Exhibit 7: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
Revenues	27805	31907	40005	57892	81324
Growth (%)	42.4	14.8	25.4	44.7	40.5
Operating Expenses	20573	23687	30545	45420	66339
EBITDA	7232	8220	9460	12472	14985
Growth (%)	35.3	13.7	15.1	31.8	20.1
Depreciation & Amortization	1649	1640	734	419	434
Other Income	59	56	53	75	80
EBIT	5643	6636	8779	12128	14631
Interest Expenses	749	560	501	55	0
PBT	4893	6076	8278	12073	14631
Tax	1675	2128	2970	4250	5155
Adjusted PAT	3218	3948	5308	7823	9475
Growth (%)	83.9	22.7	34.5	47.4	21.1

Source: Company, Karvy Research

Exhibit 8: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
Cash & Equivalents	382	1672	6032	9846	17382
Sundry Debtors	11993	8595	8244	9789	10254
Inventories	1694	5071	4992	5318	5789
Loans & Advances	207	2	1	0	0
Investments	16	15	18	18	18
Gross Block	10495	10607	10306	10656	11056
Net Block	2728	1322	287	218	184
CWIP	101	0	0	0	0
Other Assets	3251	4246	3110	3069	3069
Total Assets	20372	20923	22684	28259	36698
Other Liabilities & Provisions	2213	846	400	428	410
Debt	3530	2950	1440	0	0
Deferred tax liabilities	425	130	0	0	0
Trade payables	2131	1166	307	322	338
Total Liabilities	8299	5091	2147	750	748
Shareholders Equity	503	529	529	529	529
Reserves & Surplus	11570	15302	20008	26979	35420
Total Networth	12073	15831	20538	27509	35949
Total Networth & Liabilities	20372	20923	22684	28259	36698

Source: Company, Karvy Research

Exhibit 9: Cash Flow Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
PBT	4893	6076	8278	12073	14631
Depreciation	1649	1640	734	419	434
Interest	677	544	501	55	0
Tax Paid	(1422)	(2927)	(2945)	(4250)	(5155)
Inc/dec in Net WC	(5770)	(2603)	74	(1786)	(939)
Others	(38)	(57)	46	0	0
Cash flow from operating activities	(11)	2673	6687	6511	8971
Inc/dec in capital expenditure	(44)	(134)	(112)	(350)	(400)
Inc/dec in investments	16	2	0	0	0
Others	25	22	648	0	0
Cash flow from investing activities	(2)	(109)	537	(350)	(400)
Inc/dec in borrowings	(549)	(577)	(122)	(1440)	0
Issuance of equity	1478	7	1	0	0
Dividend paid	(151)	(159)	(796)	(852)	(1035)
Interest paid	(677)	(544)	(501)	(55)	0
Cash flow from financing activities	102	(1273)	(1419)	(2347)	(1035)
Net change in cash	89	1291	5806	3814	7536

Source: Company, Karvy Research

Exhibit 10: Key Ratios

YE Mar	FY15	FY16	FY17P	FY18E	FY19E
EBITDA Margin (%)	26.0	25.8	23.6	21.5	18.4
EBIT Margin (%)	20.3	20.8	21.9	20.9	18.0
Net Profit Margin (%)	11.6	12.4	13.3	13.5	11.7
Dividend Payout Ratio (%)	3.9	3.3	19.9	16.9	16.8
Net Debt/Equity (x)	0.4	0.2	(0.1)	(0.3)	(0.4)
RoE (%)	39.4	31.1	29.2	32.6	29.9
RoCE (%)	45.0	40.9	42.9	49.0	46.1

Source: Company, Karvy Research

Exhibit 11: Valuation Parameters

YE Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (Rs.)	6.4	7.6	10.0	14.8	17.9
DPS (Rs.)	0.3	0.3	2.0	2.5	3.0
BVPS (Rs.)	19.0	29.9	38.8	52.0	67.9
PE (x)	27.3	36.0	41.7	30.1	24.9
P/BV (x)	9.2	9.1	10.8	8.6	6.6
EV/EBITDA (x)	12.6	17.9	23.5	18.8	15.3
EV/Sales (x)	3.3	4.6	5.6	4.0	2.8

Source: Company, Karvy Research; *Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

Connect & Discuss More at

 1800 419 8283 (Toll Free)

 research@karvy.com

 Live Chat



Disclaimer

- **Analyst certification:** The following analyst(s), **Prasanth Victor**, who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.
- **Disclaimer:** Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.
- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Prasanth Victor**, Research Analyst did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India
Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

For More updates & Stock Research, visit www.karvyonline.com