

CMP Rs. 356

Fair Value Rs. 590

Market Cap: Rs. 188 bn [\$2.9 bn]

RESULT UPDATE – On Track Performance

Company is emerging as biggest last mile touch point distributor & enabler of providing services and consumer goods across all India and try to reach as close to consumer as a govt “Rashion Shop”.

Total Number of Vakrangee Kendra Outlets increased to 35,206 outlets. Well on Track to deliver and achieve on the Planned Expansion Plan.

Key Financial Highlights (Consolidated)

- Net Sales stood at Rs. 11449.9 mln in Q4FY2016-17 as against –Rs. 8799.6 mln for the corresponding quarter last year, registering a growth of 30.12%
- EBIDTA stood at Rs. 2693.0 mln in Q4FY2016-17 as against Rs 2166.7 mln for the corresponding quarter last year, registering a growth of 24.29%
- PAT stood at Rs. 1515.2 mln in Q4FY2016-17 as against Rs. 1088.9 mln for the corresponding quarter last year, registering a growth of 39.15%. PAT margin is 13.23% as against 12.37% for the corresponding quarter last year

- Net Sales stood at Rs. 40004.6 mln in FY2016-17 as against Rs. 31907.4 mln for the corresponding year last year, registering a growth of 25.38%
- EBIDTA stood at Rs. 9512.9 mln in FY2016-17 as against Rs. 8263.9 mln for the corresponding year last year, registering a growth of 15.11%
- PAT stood at Rs. 5306.3 mln in FY2016-17 as against Rs. 3944.8 mln for the corresponding year last year, registering a growth of 34.51%.

Key Snapshot (Rs. mln)	Q4, 17	Q4,16	% Var	FY 17	FY 16	% Var
Sales	11449.9	8799.6	30.1	40004.6	31907.4	25.3
EBIDTA	2693.0	2166.7	24.3	9512.9	8263.9	15.1
Margins%	23.52	24.62	(110 bps)	23.78	25.89	(211 bps)
PAT	1515.2	1088.9	39.2	5306.3	3944.8	34.5
Margins %	13.23	12.37	86 bps	13.26	12.36	90 bps
EPS (Basic)	2.9	2.1	38	10.03	7.62	32

Highlights of Q4 and FY'17

Update on Expansion Plan –

- Currently 35,206 outlets are completed & operational across 16+ states as against 35,000 originally planned.

Update on Tie-Ups & Alliances –

- **Insurance Vertical** – New Tie ups announced in Life, Non Life & Health Segments

Life – *Life Insurance Corporation (LIC), Bajaj Allianz, HDFC Life,*

Non Life – *Tata AIG, Reliance General, HDFC ERGO General*

Health – *Aditya Birla Health, Religare, CIGNA TTK*

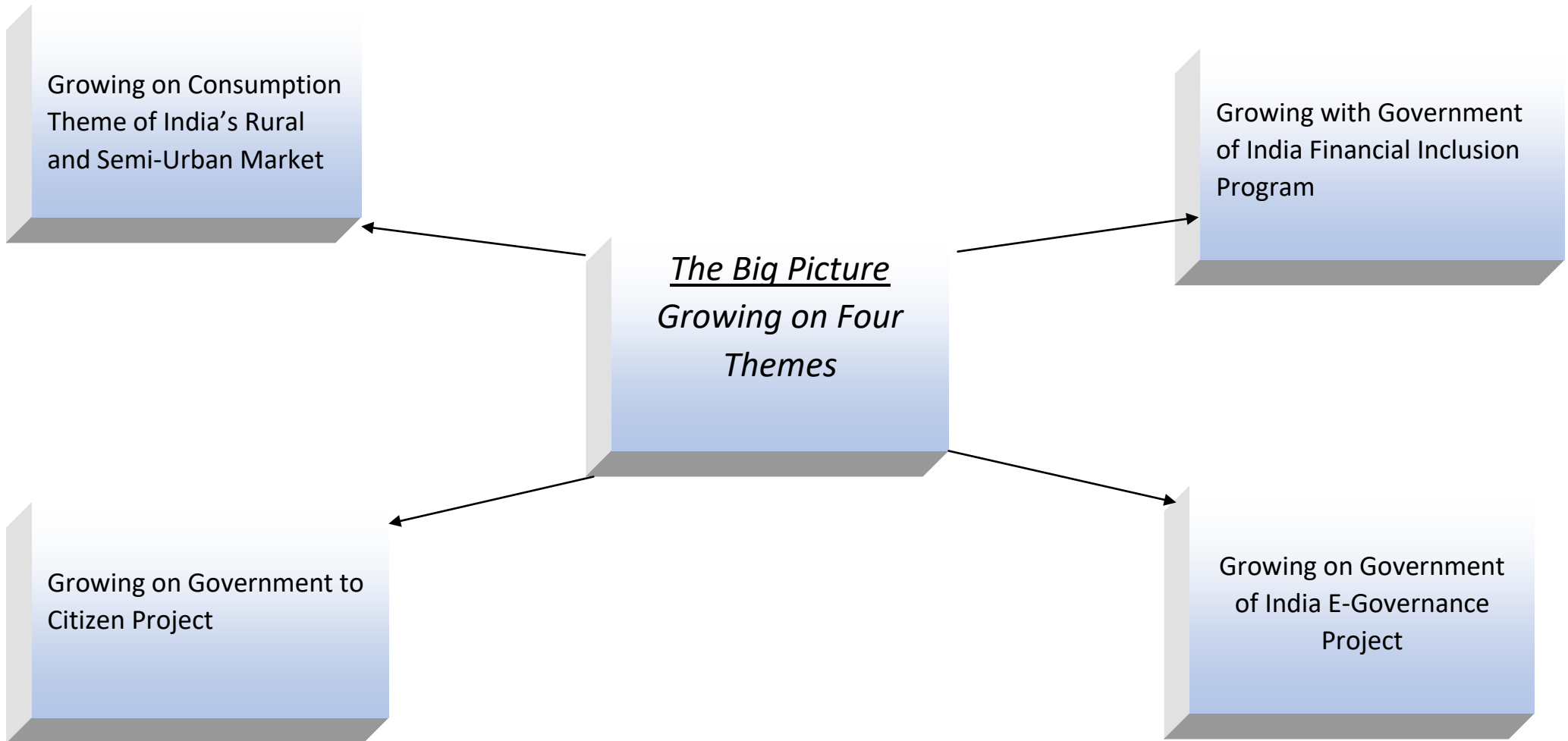
- **Logistics Vertical** – *FedEx Express, Aramex India, Delhivery and First Flight for Courier & logistics services*

- **E-Governance Vertical** - *Alliance with IRCTC for railway E-ticket bookings*

Update on Outlets at Indian Oil Corporate Limited (IOC) Filling/Gas Station –

- 135+ outlets operational and 75+ outlets currently under Go Live stage in the state of - Maharashtra, Rajasthan, Uttar Pradesh, Gujarat, Madhya Pradesh, Orissa, Jharkhand, Chhattisgarh and Delhi NCR.

Update on Tie-ups on assisted E-commerce Vertical – Assisted e-commerce services offering strong *platform for buying / collecting / delivering large variety of products. Gold product booking is activated across all outlets*



Growing with Financial Inclusion Program

Access to banking services is yet to reach vast segments of the Indian society, although, some progress has been made with the successful implementation of PMJDY scheme. Off late, banks have also intensified their efforts to reach out to the unbanked population base, given the immense opportunity offered by financial inclusion—estimated at USD 24.4 Bn by a recent Accenture-CARE report.

As per the different reputed agencies report, more than 30 per cent of the Indian population did not have access to banking facilities.

The miniscule numbers across the statistical sources suggest an urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream formal financial system. An inward look into the supporting infrastructure highlights the lack of the same. The present banking network of the country comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 38.2% and 23,334 ATMs 14.58% are in rural areas. This indicates that banking in India is under-penetrated in comparison to other emerging markets with 70 per cent of the

country's population, predominantly rural, being serviced by 38 per cent of branches and 15 per cent of ATMs.

Since, formal Banking channel is not able to open a Branches at every places because of economic feasibility so this task may be outsourced to Banking Correspondence as per RBI guidelines.

Moreover, there are more than 1.4 lakh Business Correspondents (BCs) of Public Sector Banks and Regional Rural Banks in the rural areas. BCs are representatives of bank to provide basic banking services i.e. opening of basic Bank accounts, cash deposits, cash withdrawals, transfer of funds, balance enquiries, mini statements etc.

Accordingly, VL has been appointed as National Business Correspondent by 8 Indian Banks to fulfil the task of financial inclusion objective of these Banks'. The company has seen strong traction from Banks to expand their Business Correspondent (BC) branches due to the government's emphasis on financial inclusion. VL has been awarded the contract to set up and manage 75,000 BC (over 35,000 presently) by FY 20.

Growing on Consumption Theme of India's Rural and Semi-Urban Market

India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025 as per market research firm Nielsen. Another report by McKinsey Global Institute forecasts the annual real income per household in rural India to rise to 3.6 per cent 2025, from 2.8 per cent in the last 20 years.

The majority of Indian population lives in the rural areas, the true potential of India's online shopping will only be unlocked if Indian retailers can figure out ways in which to reach out to the often underserved rural market that is a fast gaining currency is a viable online market to be reckoned with.

It is not all a lost cause as far as rural Indian eCommerce penetration is concerned, however. There are certain large Indian e-retailers that are slowly making some inroads into the Indian rural market. These include the big players such as Amazon, FlipKart and Snapdeal.

To penetrate in rural market, *Amazon India has entered into arrangement with VL whereby Amazon is using the VL's franchisee (V-Kendra) network which is win-win for both the party. The marketing fee for franchisee is between 4-15% of Gross Merchandise value.* Currently, Amazon is running this arrangement with only 1000 franchisees, once this will be operational on all the franchisee, there could be exponential growth may be expected going forward.

Further, *VL has tied up with well-reputed Brands such as LIC, HDFC Standard Life, Bajaj Allianz, Tata AIG, Aditya Birla sun life for life and general insurance business.* Company also provide DTH, telecom prepaid and post-paid services where company has tied up with the various service provider.

Further, It has recently *tied up with IOCL – an exclusive tie-up, under which it can potentially set up Vakrangee Kendra at 20,000+ IOCL outlets* which will be utilised to provide all services under its roof.

Growing on Government of India E-Governance Project

Vakrangee offers system integration services, and provides services such as collection of bills, printing of voter ID cards, recruitment services, health initiatives etc. The projects it is currently working on include UID (Unique Identification Project), SSA (Sarve Shiksha Abhiyan), PDS (Public Distribution System), RSBY (Rashtriya Swasthya Bima Yojana) amongst others.

These projects are annuity based business model since project period is pre-decided and offers assured predictable revenue and margins. These projects are asset heavy business. Under these projects company has to set up the infrastructure facilities which require huge capex. These infrastructure involve computer system, printing devise, other connection and customised devised which may be helpful to implement the projects. These projects are working capital incentive as well as these are government linked projects hence payment process is very slow and debtor days are generally 120-150 days. Post tax ROCe of these projects are generally 12-13%.

Growing on Government to Citizen Process

DBT transfer, Enrolments-UID Card, NREGA Job Card, Election Card, Land Record, Digitisation, Electoral Rolls, Payment of Utility Bills, Taxes, Levies, Railway tickets, Certificates, Hall Tickets, Exam Fee Payments, Online Form Filling, Partnered with MMPL, for rendering bill payment collection solution etc., work which is part of G2C is performed by VL for Citizen.

These are typical tender based project where revenue is assured but low margins project. So, ***now company has adopted the new Asset Light – Franchise based distribution model, offering technology and connectivity with all service providers to its franchise;*** enabling them to cater to population in their area.

This is ***leading to exponential growth in distribution reach of all products and services through its franchise network,*** without capital allocation.

Balance Sheet (Rs. Mln)	FY 15	FY 16	FY 17	FY 18e	FY 19e	FY 20e	Profit & Loss Accounts (Rs Mln)	FY 15	FY 16	FY 17	FY 18e	FY 19e	FY 20e
Net worth	12073	15211	20538	25451	30891	39251	Net Sales	27851	31964	40004	56004	87058	119248
Total Debt	4160	3202	1440	1155	-	-	Operating Expenditure	20423	23489	30105	43180	70731	97641
Other Liabilities	16	22	22	10	22	22	Employee Cost	196	254	440	444.3	741	1192
DTL	427	131	-	130.6	127	127	EBIDTA	7232	8221	9459	12379	15586	20415
Total Liabilities	16677	18565	22000	26758	31040	39400	Depreciation	1649	1640	734	900	1194	1058
Net Block	2829	1322	288	992.3	2980	3521	EBIT	5584	6580	8725	11479	14392	19357
Investment	16	15	19	15	27	27	Interest Expenses	750	560	501	150.2	50	50
Current Assets (excl cash)	16961	17700	16277	23268	31946	41375	EBT	4834	6020	8224	11329	14690	19784
Current Liabilities	3698	2538	2114	4446	9836	14797	Other income	59	56	53	220.4	348	477
Net Working Capital	13264	15162	14163	18821	22110	26578	EBT	4893	6076	8277	11550	15039	20261
Cash	382	1673	6031	6540	5923	9274	Tax	1675	2128	2970	4042	5140	6922
DTA	2	2	41	2	-	-	PAT	3218	3948	5308	7507	9550	12861
Other Assets	184	390	1458	390.3	-	-							
Total Assets	16677	18565	22000	26761	31040	39400							

Ratios	FY 15	FY 16	FY 17	FY 18e	FY 19e	FY 20e
EV/EBIDTA	25.01	22.00	19.45	14.61	11.60	8.86
EV/EBIT	32.38	27.48	21.08	15.75	12.57	9.34
PE	56.74	46.25	35.50	24.32	19.12	14.20
P/BV	15.12	12.00	9.18	7.17	5.91	4.65

Valuation: Company aspire to open 75,000 V-Kendras by FY 20, we believe stock is good proxy for India's consumption growth.

The franchisee based asset light model will generate strong margins, Robust return ratios and sustained growth for the company. From the projected 75k strong Vakrangee Kendras (outlets), in next 3-4 years, company would be able to show spectacular results [as shown above], **we valued the company based on 25x EV/EBIDTA (similar to other FMCG and consumption related business) and fair value is Rs. 590 on FY18 numbers which is around 66% upside from current price of Rs. 356.**

LEFT BLANK FOR NOTES

Disclaimer

This information has been distributed by Risk Capital Advisors [Risk Capital Advisory Services Pvt. Ltd.] ('rca' or 'the Company'). Related financial products or services are available only to select corporate, eligible private Clients/investors who have sufficient financial experience and understanding to participate in financial markets and are aware of the risks and rewards of any potential investments related to such products.

This document has been prepared by rca solely for information & academic purposes and is not a solicitation, or an offer to buy or sell any security. The information on which the document is based and/or the document itself has been obtained from sources that we believe to be reliable, and in good faith, but we have not independently verified such information and no representation or warranty, express or implied, are made as to their accuracy. Past performance is not necessarily a guide to future returns. Investors should note that the value of securities or income may rise or fall and they may receive back less than they may expect to receive. The transaction may also be subjected to currency fluctuations. rca and/or any other members/associates of the rca accept no liability and/or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents. rca and/or any person connected with it may act upon or make use of the material referred to herein and/or any of the information upon which it is based, prior to publication of this presentation.

Though we would recommend that you view your investment as a medium to long term one. The expression of opinion and estimates, if any, contained in this report / presentation (including the mention of specific stocks)

constitute the Issuer's judgment and view as of the date of the presentation and are subject to change.

without notice. The information contained is published for the assistance of recipients, but is not to be relied upon as authoritative or taken in substitution for the exercise of Judgment by the recipient.

This document should not be printed, reproduced, distributed, published or advertised in any manner without expressed prior approval of rca. In addition, the information is not intended for distribution to or for use by individuals or legal entities that are citizens of a country, or have their domicile or registered offices in a country where the distribution, publication, provision or use of this information would violate applicable laws or regulations, or in a country in which rca would have to comply with registration or approval requirements.

This Disclaimer is in addition and not in lieu of any other disclaimers, warranties that the Issuer of the securities/manufacturers of the products/Distributors may have for this product/information.

rca research

rca does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should not consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1

Indian Equities

Contact: D D SHARMA at ddrsharma@gmail.com or

Linked  in.linkedin.com/in/ddrsharma.