

**Vakrangee Limited**  
**Vakrangee Limited Conference Call**  
**September 01, 2016**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Vakrangee Limited Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your telephone phone. Please note that this conference is being recorded. I now hand conference over to Mr. Dinesh Nandwana – Managing Director & CEO. Thank you and over to you, sir.

**Dinesh Nandwana:** Good day, dear ladies and gentlemen. It is a great pleasure to greet you all once again on behalf of our Board of Directors and Senior Management. We begin by thanking all of you for having spare time in joining us here today to discuss our first quarter earnings for the financial year 2016 - 2017.

At the outset, I would like to say that MSCI had initiated coverage on our Company with ESG rating of BBB. MSCI ESG has given us the rating of BBB, MSCI has rated us in the highest scoring range on corporate governance analysis for all the companies' assets relative to global peers indicating that our Company's corporate governance practices are well aligned with shareholder interest. Our constant endeavor to improve and implement best practices with enhance our transparency and corporate governance. Also with respect to access to finance analysis they mentioned in their report that there is a good potential for growth through the expansion into underserved market segments and our Company appears well positioned to capitalize on this opportunity. In this context of global industry peers our industry ranks above average. In order to enhance transparency and disclosure we have shared the detailed addresses of all our 21,820 outlets on our Company website. In a step further, we intend to have Big Four auditors on the Board as statutory auditor from 1st April, 2017, onwards.

I would like to share about our vision to complete around 75,000 Vakrangee Kendra's outlay by 2020, of which 25,000 will be setup in urban areas and the remaining 50,000 in rural area. Our key growth driver has been the government's massive push towards financial inclusion through the Pradhan Mantri Jan Dhan Yojna. These Jan Dhan accounts shall be linked with the Aadhar number of the account holder and will become the single point of contact for receipt of all Direct Benefit Transfers from central and state governments and local bodies.

On the regulatory front, I would like to highlight that the scope of DBT has been expanded and it has been universalized to cover all central sectors and centrally sponsored schemes where

case benefits are transferred to individual beneficiaries. Also, DBT mission has been shifted to Cabinet Secretaries and progress and DBT is being monitored as the highest level of the government. As well, latest data available, I would like to share that the number of DBT transaction during financial year 2015 - 2016 till January 2016 has grossed 100 crores, more than Rs. 60,000 crores has already been transferred to about one-fourth of the total population in India.

Our Company is at forefront to leverage this growth opportunity and has become the largest player in implementation of financial inclusion in India. Today, our Company has evolved as a unique technology driven company focused on building India's largest network of last mile little touch points to deliver real-time banking, insurance, e-governance, e-commerce and logistics services to the unserved, underserved and rural and urban markets.

Our Vakrangee Kendra outlets are our last mile retail outlets that are in close proximity to a population of urban India. We have embarked on the journey to be preferred last mile link across the nation for providing all services and products through our Vakrangee Kendra model. With a technologically sound base and host of services, product offerings, we would be the choice of citizen for availing the need of household necessities to conducting daily transactions. Through Vakrangee Kendra we offer a rich bouquet of e-governance, banking, insurance, e-commerce and logistic services. Our business model has evolved as aggregators, aggregator and emerge as one-stop convenience store for various kinds of products and services under one roof.

In addition to Maharashtra, Rajasthan, Delhi, we are setting up and managing our Vakrangee Kendra outlet in 13 more states across India. Our total number of outlets has increased to 21,820. During the quarter our focus has been primarily on the rollout of various services across the outlets and maturing the current outlets rather than increasing the number of outlets. We are well planned and comfortably paced to reach our yearend target of having 35,000 outlets by March 2017.

Our strategic tie-up with Indian Oil Corporation Limited, India's largest commercial enterprise, gives us an opportunity to open Vakrangee Kendra outlets at more than 20,000 IOCL petrol pumps or gas stations. This gives us a clear competitive advantage in the market place. It provides us with a ready platform of more than 20,000 retail distribution outlet on a pan-India basis. This makes our franchisee collection process much more simpler and thus would help us to achieve our 2020 expansion target of 75,000 Vakrangee Kendra outlets.

Commenting on our financial result of quarter one 2016 - 2017, our revenue increased by 30.3% on a year-on-year basis to Rs. 917.5 crores. Our revenue from Vakrangee Chemical business segment stood at Rs. 550.6 crores in quarter one financial year 2016 - 2017, registering a growth of 57.6% on year-on-year basis. Our e-governance segment revenue has been flat at Rs. 361 crores as we are purposefully shifting our focus from capital intensive e-

governance segment to asset light Vakrangee Kendra retail outlets segment. Our Vakrangee Kendra business segments now contribute 60.4% of the overall revenue.

Our EBITDA stood at Rs. 221.5 crores in quarter one, registering a growth of 16.5%. Whereas profit after tax stood at Rs. 121.4 crores in quarter one, registering a growth of 40.0%. The EBITDA margin for the Vakrangee Kendra outlet retail segment have been at 22.1%, we expect these margins to stabilize around 17% to 18% on the long-term basis as we have increased the commission sharing ratio with franchise up to maximum of 80:20 based on milestone revenue targets. Our profit after tax margin are at 13.2% as against 12.3% for the corresponding quarter last year.

There is positive operating leverage in our Vakrangee Kendra retail segment as our expansion is mainly through franchisee route with no major CAPEX. Economies of scale will further improve as new services are added leveraging the same technology driven platform with low incremental CAPEX and operating cost, addition of more and more services and increasing transaction volume over a period of time will result in further positive operating leverage. Therefore, our incremental ROC is expected to further improve. From financial year 2016 - 2017 onwards we have approved to maintain dividend payout in the range of 15% to 25% of profit after tax on consolidated financials.

With this, I would like to hand over the floor for the question-and-answer session. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Abhilasha Satale from First Global. Please go ahead.

**Abhilasha Satale:** Sir, just from the industry perspective I would like to know our competitive strength. Like, now the competition is strengthening in this segment basically with more NBFCs and small banking finance companies, all are having very aggressive plans to cater to this BOP segment. So, how are we positioned towards them, and basically in the banking services segment? And will that impact our growth in that segment, like contribution from that segment, strengthening competition.

**Dinesh Nandwana:** If you see Abhilasha, as far as competition is concerned, if you see these payment banks and the small finance banks, actually they are approaching us to connect the last mile. So, basically we are the only company featuring in the last every deepest last mile. So, they are approaching us to connect to citizens. So, we are not basically competing, we are just basically supplementing them only, so there is no competition as far as small banks because they are not having anything there, they do not have any network there, they do not have any branch there. So, they want to use our platform for their services.

**Management:** Abhilasha, basically just to add to Dinesh, if you see, basically where we are present, so when we are present in a village where the village level population is just 5,000 to 10,000 people, standalone banking is fairly unviable. Therefore, all these small payment banks or small finance banks are approaching us because there we can become a business correspondent also to them in that way. So, it is actually expanding the market rather than competing with them.

**Abhilasha Satale:** Okay. Sir, I asked specifically from the perspective that if they are getting, like we are not allowed to lend so they are not allowed to borrow from us. So, what is the incentive for any small farmer or anybody to have a banking account with us and deposit money with us where he is not able to borrow on that money which he is depositing?

**Dinesh Nandwana:** So Abhilasha, just to correct you, basically at our branch we do not have the decision making power, however the account belongs to a Bank of Baroda or a Union Bank or a State Bank of India. If anyone wants a loan, he can facilitate that, so his file will go to the main branch and the main branch will approve them loan if and when required. So, our major focus is to do transactional banking. See, currently the issue is when the DBT is happening, the Direct Benefit Transfer is happening, what are the avenues for the beneficiary where he should go and collect it. So, currently he has the option either to travel 15 kilometers and go to a block level outlet of the branch or he has to go to a postal office to collect that Direct Benefit Transfer. Here basically he is getting access as a touch point where he can get access to and get the withdrawals done or remittance or transfers done. In case he requires a loan, we can also facilitate that, although the decision making power is not with us.

**Abhilasha Satale:** Sir, just on this DBT, how big that revenue is for us as of now and how do we see it going forward increasing?

**Dinesh Nandwana:** So, we do not bifurcate in that way because for us every transaction is a transaction. Finally, DBT comes to the bank account and he comes and withdraws, so it is a withdrawal transaction basically at our branch. And as per the norms we are not allowed to keep any data, so we have a dump server, so basically any transaction that happens we cannot track the customer or the transaction. But yes, in case what I can say is basically what is the average daily transaction that is happening in a rural outlet as well as in a urban outlet. So, in a rural outlet currently the average daily transaction that is happening is more than Rs. 1 lakhs whereas in the urban outlet the average daily transaction that happens is around Rs. 3 lakhs, that is the minimum average transaction that is happening.

**Abhilasha Satale:** Sir, this growth in the Vakrangee Kendra we have seen around 50% or so year-on-year. How much it is on a like-to-like basis can we have any number like per outlet revenue growth?

**Dinesh Nandwana:** See basically, if you ask me same store sales growth for like-to-like service, it would be around 8% to 9% but we cannot see the same store sales growth right now because more and more services are getting added to the same outlet. So, for example for a outlet which was last year

operational, now Amazon has got added suppose six months back, so their revenues have seen a 15% or 20% jump because there is a addition of new services. So, right now we are in a phase where actually the same store sales growth is not the right parameter to compare because once all the major services are rolled out that is when we can start measuring the same store sales like-to-like growth.

**Abhilasha Satale:** But otherwise sir, of this 50% how much is because of addition of the stores and how much is because of increase in revenue?

**Dinesh Nandwana:** So Abhilasha, as I said the same store sales growth for the same services, it is around 8% to 9%.

**Moderator:** Thank you. We have the next question from the line of Paras Rehan as an individual investor. Please go ahead.

**Rehan:** Just wanted to get an idea about what are the activities that are generating most revenues in Vakrangee?

**Dinesh Nandwana:** So sir, basically at our outlet if you see we are having major vertical which is first is e-government services, so in e-government services basically the services available at our outlets are UID enrolment, utility bill payments, domicile certificates, government job registrations, these are the kind of services. Then is basically banking, so in banking it is primarily transaction lead banking, so it is account opening, withdrawal, deposit, fund transfer, remittance. The third is, insurance has just started primarily, we have tie-up with LIC Life Insurance Corporation, HDFC Life and Bajaj Allianz on the life side, on the non-life side it is Tata AIG and Reliance General Insurance and on the healthcare side it is Religare and Signa TTK. But insurance is still a small portion. The fourth vertical which is e-commerce, so e-commerce includes mobile recharge, DTH recharge, Amazon services at our outlet through assisted e-commerce model, sale of auto products through Mahindra & Mahindra tie-up as well as sale of subsidized products under the various government schemes such as LED distribution or sale of text books and stationary under Sarva Sikshan Abhiyan, such things. And the next vertical is primarily the logistic services which is primarily delivery of courier packets as well as delivery of courier packets right till the customer's doorstep. Currently if you see, it is primarily the e-governance, banking and the e-commerce vertical which are the major contributors of the overall revenue. Insurance and logistics are still at a very small scale.

**Paras Rehan:** And which are the fastest growing out of these?

**Dinesh Nandwana:** So, e-commerce is the fastest growing right now.

**Paras Rehan:** So, what is the growth rate that you have seen in the last quarter?

**Dinesh Nandwana:** So, sir we do not give a segment wise growth rate but overall we have grown at around 57%.

**Moderator:** Thank you. We have the next question from the line of Rob from Oberoi Capital. Please go ahead.

**Rob:** I have two questions. One, a follow-up really on the banking side. Just could you comment on the actual transaction fee that you are getting at the moment and if there is any pressure on that to change or any new agreements being signed at any different fees? And also, how long those fee arrangements run for? Thank you.

**Dinesh Nandwana:** See, basically if you see currently our contract with all the banks are primarily, we are getting a fixed fee of Rs. 20 per account opening which is a onetime transaction. For all the transactions which are basically withdraw, deposit or money transfer remittance, primarily we get 48 bps of the transaction value as a commission, so 0.48% of the transaction value as a commission. Now, as such there is no pressure on this, actually it is increasing, so couple of banks have also offered us 0.5% which is 50 basis points of the transaction value as a commission, because everyone wants to get the access to the CASA because we are there in the rural areas, we are there in the semi-urban areas, Tier-IV to Tier-VI cities. So, it is a win-win situation for banks because if you see from banks perspective the per transaction cost at the banking branch ranges anywhere between Rs. 60 to Rs. 90, that is the per transaction cost to a banking branch. As soon as they do a transaction at our outlet, at Vakrangee outlet and if I take a average ticket size of Rs. 1,000, then the bank is paying us only 0.48%, 48 bps which is just Rs. 4.8 to Rs. 5. So, his cost is almost one-tenth of the cost if the transaction is happening at his branch. So, the banks are fairly happy because there is no fixed cost attached to them, it is a pure variable cost, if the transaction happens they pay to us.

Second thing, we are getting access to CASA, so they are getting access to all the deposits because now lot of Direct Benefit Transfer money is coming directly to the bank accounts and many of the ladies or the old age people they are not withdrawing the entire amount so that amount is there in the bank account so that is the CASA that gets generated for all these banks. So, they are getting two-pronged benefit.

Third benefit is also for the Direct Benefit Transfer, government gives all the banks a admin cost, so there is around 1% to 2% as a admin cost. Now, here it is a pure pass through because we are ones who are delivering the Direct Benefit Transfer to the customers, government is the one who is putting the Direct Benefit Transfer amount to the bank account. Just between the customer's bank account is in the name of the bank that it belongs to, the bank is getting access to that admin cost, so they are paying just 48 bps out of that to us as a fee. So it is a win-win from everyone's perspective customer is getting the service at its own vicinity, the bank is getting access to CASA as well at the low cost he is able to do the transactions, and even the government is happy because all the pilferages, leakages go out of the system since the money is directly coming to the bank account of the beneficiary. And also, the entire admin or the logistics cost goes away for the government which used to be almost 7% to 9% earlier.

**Paras Rehan:** And another question is relating to the logistics vertical which seems to be a new area for you, and just if you could also describe how that fits in with your Amazon tie-up and whether it allows you to distribute products for the other e-commerce players.

**Dinesh Nandwana:** So, if you see basically, just to explain you the logistic landscape, if you see in India there are multiple logistics companies, however they are mainly primarily into the space where they are doing the delivery from the fulfillment center which is prima facie based in the metro till the district level areas, till the district level location, no one is trying to go till the last mile logistics, it is either postal offices which are there or there is very few private players who have actually gone into that. Where we fit into it is basically we are helping these logistics companies, so we are doing a tie-up with Aramax and Delhivery where they are doing the delivery from the fulfillment center to a district level outlet of ours and from there it is our role which starts, so we are doing the delivery from the district level till our outlet at the postal code level and from the postal code level directly to the customers' doorstep. So, that is where we are trying to play a role because that space is fairly vacant, there are not many players in that space and we feel we have a pretty good presence because currently with a 21,820 outlet we are having presence in almost 4,500 plus postal codes. So, it is a good network that gets accessed to players like Aramax and Delhivery.

Second thing with respect to Amazon tie-up with us, so for Amazon our tie-up is for doing end-to-end things, so we do right from ordering to payment collection to the delivery or as a pickup point or as a delivery center for the goods. So there is no restriction on us where we are doing a plane courier delivery of packet from a logistic company.

**Paras Rehan:** And just the logistics, will that be profitable from the start?

**Dinesh Nandwana:** Yes, so again here basically our thought process is very clear. So, we have kept it asset light, it is again a pure franchisee model, so the franchisee has to do the CAPEX that is getting couple of bikes and one employee who would be the delivery guy who would be delivering it to the customer's doorstep. And we are getting a good amount of commission in doing the delivery of each and every packet. So, we have done a cost plus basis kind of a model, so it is a fairly profitable from that perspective. And from our perspective, there is no CAPEX to it, so it is an asset light model to us, it is a incremental service at our outlet.

**Moderator:** Thank you. We have the next question from the line of Sebastian Taylor from Pioneer Investment. Please go ahead.

**Sebastian Taylor:** Could you give us a little bit more detail on the evolution of the Amazon ecommerce business this quarter compared to last year?

**Dinesh Nandwana:** So, basically if you see e-commerce we did the tie-up in July 2015, so initially we started with five outlets as a pilot study, from there we moved on to almost 360 outlets in October-

November-December, from there we moved to almost 465 outlets by March-April and post that by 1st of July we initiated another 500 outlets, so we have moved now almost to 1,000 plus outlets, to be precise 100,7 outlets as on date today. So, what we have observed here is basically the outlet which are more than one-year-old now, so the outlet which started in the July 4th, July 15 tie-ups, the five outlets which were more than one-year-old have are currently around 80 orders per day on an average with an average ticket size of around Rs. 700. The outlets which are more than now three months older, they are currently at around 15 to 20 orders per day with average ticket size of now almost Rs. 500 to Rs. 600. The outlets which have recently started, they are currently at around five orders to 10 orders per day with an average ticket size of around Rs. 300 to Rs. 400. So, what we have experienced here is that basically when the outlet starts people start ordering with small ticket size items, so they start with groceries, they start with books, they start with standardized small ticket items, so they start with some basic apparel or pen drive, these kind of things. Then they move into apparels, they move into shoes, they move into those kind of things and finally they move into mobile, laptops and those kind of ticket items.

**Sebastian Taylor:** So, I think you mentioned in the past that you intended to have the Amazon to roll that across all of your centers by the end of the year which is 20,000 plus or so. You currently have about 1,000 as you just said. Are you still intending to do that or you...?

**Dinesh Nandwana:** Yes, so our endeavor is to state we are still with that commitment that we intend to have across all 20,000 outlets by March 2017. Basically, we are ready even as on date today, so if Amazon gives us a go ahead we can switch on the Amazon services across all our 20,000 outlets in a week's time. So, from our end there is no problem because we are already now integrated with them, everything is there, it is basically just the franchisee, I had to connect to the portal and the service can get started. It is primarily Amazon which is focusing on resolving the logistic value chain, so they have given us a visibility that over the next five to six months they intend to resolve most of the fulfillment centers and other logistic issues and we should be able to switch it on across most of our outlets by March 2017. So, we still stand by with our commitment that we intend to cover across all 20,000 outlets by March 2017.

**Sebastian Taylor:** So, in 95% of your centers Amazon kind of fulfilled?

**Dinesh Nandwana:** So, Amazon is if you see basically recently what we have announced the seven fulfillment centers, so out of seven almost three to four fulfillment centers are in the locations where we are present so it is primary present, primarily Rajasthan and Maharashtra. So, once they have setup the fulfillment centers, Rajasthan itself we are having almost 9,500 outlets. So, once the Rajasthan fulfillment center is fully operational, I believe we can start delivering to almost 9,500 outlets at one go in a week's time.

**Sebastian Taylor:** Just, also you mentioned during the call that the reason why you had not opened a quarter of the total number of tenders you plan to open this year in the first quarter is because you are



working on, I think I did not understand exactly what the reason was, you said you are working on something, I mean some kind of...?

**Dinesh Nandwana:** So, our focus was primarily in last three months was to do more of training, get all the certification in place so that more the services where we have already done the tie-up, for example, insurance services, example Amazon services or Mahindra & Mahindra services, so our focus was on the rollout of the services. So for example, in insurance the franchisee has to clear the IRDA certification, so the focus was more and more than get the training done, get them the certification so that the insurance services can be rolled out across most of these outlets. So, Tata AIG has been doing the training now for last three months, Bajaj Allianz I currently doing the training for many of our franchisees. So, our focus was on rollout of services. We feel we are comfortably placed because almost another 5,000 to 6,000 outlets are already in go live state, so where the franchisee selection is already done, locations are already finalized, it is basically in their final stages of go live. So, once we switch on we can have another 5,000 to 6,000 outlets operational.

**Management:** And especially in the case of Indian Oil Corporation, we have done seven road shows for the franchisee to the dealers.

**Sebastian Taylor:** And just finally on the logistics, this new business that you are talking about. Can you give us some sense of what fees you are going to receive, I mean, more accurately what fees your franchisees are going to receive from the logistics companies versus selling these orders?

**Dinesh Nandwana:** So, for the logistic side we have not shared any details in public domain yet...

**Management:** Basically, these are on the pilot phase only, so we are just analyzing the things. So, these are pilot projects only.

**Moderator:** Thank you. We have the next question from the line of Ankit Kolhi from Pure Research. Please go ahead.

**Ankit Kolhi:** My first question really is trying to understand the political and regulatory risks that the Company might face right now or in the future. So, if for example, there was to be a change in guard in the central government in a few years' time from now, do you still feel that you will be able to, kind of, achieve your growth targets and maintain good business momentum despite if the current Modi Government does not remain in place? That is part one the question. And the second part is, now you are slowly expanding into multiple states within India, are you facing any regulatory pressures from various state governments or overall as investors should we be concerned about any political or regulatory risks over the next three to five years, assuming there is a change in government and you have multiple state elections and so on and so forth.

**Dinesh Nandwana:**

Ankit, basically just to give you two things, so we are having two different verticals, so we are having the business of legacy e-governance business, a standalone system integration business and the Vakrangee Kendra business. So, the standalone legacy business is what we have been doing for the last 25 years, So, we have been working with across various governments but we have been working on major mission mode projects, so these are the projects which are monitored and audited by the Big Four consultants and they run irrespective of any change in the bureaucracy or any change in the government. So, whether the project is Election Commission, whether the project is the UIDAI Aadhar, so we are doing these kind of projects.

Second thing, anyways we are tapering off the legacy business, so our legacy business which used to e-governance business which used to be 100% of our business five years back, currently it contributes only 39%. And every year-on-year it is reducing. So, our dependency on the e-governance vertical is going down.

Now, coming to the second core part of the business which is the Vakrangee Kendra business, which is almost 61% of the business as on date today, in that e-governance vertical contributes only 10% to 15%, so again we are not very much dependent on by e-government services from there. With respect to the banking, so the banking project was always under the Reserve Bank of India and the SLBC which is the State Level Banking Committee. So the project was always under those two entities. There was a government push from the financial inclusion initiative which is the Pradhan Mantri Jan Dhan Yojna, which made it possible where the accounts have to get opened. Now, once the accounts now you just imagine basically 23 crores bank accounts have been opened in last one and a half to two years. So, those people are now already in the system. So, the accounts have already been opened, now they require a nearby banking branch, now whether that banking branch belongs to each of the respective banks so it is not to one particular single bank, each area is pre-mapped to one particular bank by the authorities such as SLBC and Reserve Bank of India. So, it is pre-defined and mapped that in this area this branch belongs to State Bank of India, in this area this branch belongs to Bank of Baroda, so it is bifurcated across all the banks. And now once the accounts are opened, it is basically the transactions that is happening, so it is the evolution of the banking habit that is happening and that is where the transactions are increasing.

If you see all our other verticals which is basically e-commerce, logistics and insurance, they are irrespective of any dependency on the government, so whether it is our tie-up of Amazon, whether our tie-up with Mahindra & Mahindra, RedBus, logistic with Aramax and Delhivery, they are irrespective of any dependency on the government. So, we do not foresee any major risk from that perspective.

**Ankit Kolhi:**

So, just if I understand this right, you currently feel that the government has done enough to kind of push forward your growth plans for the next five years or so and a change in policy stance is not critical risk to the business, is that the right way to understand what you are saying?

**Dinesh Nandwana:** Yes.

**Ankit Kolhi:** My follow-up question, I mean, my second question is, you mentioned that, of course your presentation also highlights you are moving into multiple types of businesses, right, so insurance and logistics and e-commerce and the financial inclusion bit. My question is, how do you, given that you are moving towards a franchisee lead model, how are you, A) ensuring quality and is there a way or methodology to kind of judge that quality, so are there matrices where you are seeking feedback on the services both from let's say banks and Amazon and also from customers who are kind of availing these services. So, what is the quality control mechanism and what is the quality measuring mechanism that you have?

**Dinesh Nandwana:** So, there are two drivers to this. So, the first thing is that our entire platform is technology based, everything is real-time basis and everything is on a prepaid wallet basis as well as authenticated everything through biometrics. So, whenever franchisee is doing any banking transaction, when the customer comes, when he puts his biometric even the guy who is sitting at the counter has to put his own biometric. So, it is done by a authorized ID, he is the one who has cleared the Banking Association Exam, his biometric is there for each and every banking transaction. It is real time banking, it is prepaid wallet based banking. So, whatever credit or debit happens the counter credit and debit happen in a settlement account, so the bank is not at risk at any point of time neither are we. So, for our all other services which are e-commerce services such as Amazon, RedBus, Mahindra & Mahindra, yet the franchisee has to maintain a wallet with us. So again here basically there is no risk from that perspective.

With respect to maintaining the quality, what we do is we give them the target service wise, so we know whether the outlet is providing all the services at the outlet or not and whether what kind of targets are they achieving. So, we have those kind of MISs which are prepared, so we have actually Grant Thornton as the Project Management Auditor who prepare all the MISs for us as well as they do lot of operational audits on our behalf.

**Ankit Kolhi:** So, for example, if you are delivering something on behalf of Amazon, so is there any feedback that you get from the end customer or from Amazon on the quality of that process or the non-banking or non-financial processes that we have, is there any feedback collection mechanism? And here I am talking not on internal mechanism which can be altered, I am talking more a customer facing mechanism.

**Dinesh Nandwana:** So, basically what happens is basically if you see, I was coming to that second point. So, the second driver is that we have our own local presence right till the block level, so you know we have our own state level head, division level head, district level head and a block level head, under one block there are basically around 30 to 35 outlets. So, basically one block level officer monitors of caters to those 30 to 35 outlets. So, his exercise is basically to keep on visiting this outlet on a weekly basis so he has to visit the outlet at least twice in a week, that is what he manages. His numbers are there at the outlet, so if anyone has any compliant of any misdoing

or wrong doing at the outlet they can have a complaint lodge with respect to the block level officer. So, those kind of monitoring is there from our perspective.

**Ankit Kolhi:**

And my final question is regarding the profitability, I understand the migration from the e-governance model to the Kendra model has resulted in dilution of EBITDA margins, but yet the profit margins, I am assuming, you feel are going to go up. Can you elaborate why that will happen? And the second part of the question is, to kind of compensate for the fall in EBITDA margins, are there any internal efficiency initiatives, be it related to technology or anything else which have been taken to partly compensate for the EBITDA margin deficit and they could be slightly more long-term in nature.

**Dinesh Nandwana:**

See, basically if you see we are just seeing one part of the thing which is the P&L, but we are not seeing from the other part which is primarily the balance sheet and the cash flows. So, if you see basically our legacy business, although where the EBITDA margins used to be higher in the range of 25% to 30%, but at the same time the legacy business used to be CAPEX heavy and working capital intensive. So, for any project the e-governance system integration project that we take there is a huge CAPEX that we have spend upfront, plus there is a working capital cycle of almost 120 to 150 days. So, although my EBITDA margin used to be 25% to 30% but my PAT margin used to be only 5% to 7%. Whereas if you see from a Vakrangee Kendra segment purpose, there is no CAPEX from our side, it is a pure franchisee model. So, out of 21,800-odd outlets we own only just three outlets. So, it is primarily a asset light model, so there is no CAPEX from our side. The only CAPEX from our side is Rs. 20,000 per outlet which is primarily for the biometric pause machines. So, there is a huge saving on the CAPEX side resulting to a lower appreciation, therefore if you see our depreciation is already coming down from the last one year to one and a half year onwards.

Another thing is the working capital cycle, so the working capital cycle which used to be 120 to 150 days in the legacy business, here the working capital cycle is only 60 days to 75 days. So, if you see our debt has also started coming down over the last three years, so our long-term debt four years back used to be almost Rs. 390 crores, currently it is just Rs. 20 crores - Rs. 25 odd crores. Our working capital debt which used to be at a peak of almost Rs. 700 crores, today it is just around Rs. 278 crores. So, we are using our internal cash flows to repay all the debt, so we expect that by March 2017 we will be fully debt free, so long-term as well as short-term. So, if you see there would not be any major interest cost, the depreciation will be negligible, so whatever EBITDA that we generate would be as good as like a PBT. So, my PAT margins are going to be much better, my return on capital is going to be much better, my cash flows are going to be much better. So, therefore if you see basically that is when we also release our dividend payout policy from that perspective because we will be generating good amount of free cash flow so we can have a dividend policy in place.

**Ankit Kolhi:**

And I am assuming there are no current debt raising plans for now.

**Dinesh Nandwana:** No, we are saying we are going to repay all the debt, there is no debt raising plan.

**Moderator:** Thank you. We have the next question from the line of Jigar Walia from OHM Group. Please go ahead.

**Jigar Walia:** I have one question, basically I wanted to understand more on the remittance business. Is it important for both the ends to have bank account or one can deposit cash and collect cash at the other end or one of the two? And other is that 0.48% transaction charge is at one end or at both ends? And if at both ends, is it from the same banker or there is tie-up with both the side of the banker?

**Dinesh Nandwana:** Just take an example, A person is sending money to UP to a B person. A person is suppose not having the account he can open the bank account in the same place at Vakrangee Kendra.

**Jigar Walia:** But that is compulsory?

**Dinesh Nandwana:** Compulsory, you have to have the bank account, if you are using the banking channel. There is another channel also, there is a IMPS system is also there where you can use that system also if you are not having the account. But, the whole IMPS using that system there is a certain charge. If you use the banking channel then there is no charges. So, you can open a bank account in Mumbai, then you will deposit the cash, then at the time of deposit of the cash we will get 48 bps in Mumbai. Suppose another B person withdraws the money from UP, when he will withdraw the money then again we will get 48 bps from there.

**Jigar Walia:** But provided he also has a bank account with whom you have a tie-up?

**Dinesh Nandwana:** No, it does not matter be it any bank account, since we are having a Vakrangee Kendra there then he will withdraw from the Vakrangee Kendra. Because my bank is a interoperable system, from any bank account he can withdraw money from my Vakrangee Kendra. Basically, his bank account has to be just linked to his UID number and then it is a interoperable banking.

**Jigar Walia:** So, if somebody opens a bank account with a State Bank Vakrangee Kendra BC point in Bombay and somebody withdraws from an Allahabad bank BC point in UP, then there will be a 0.48% available here and 0.48% for the other at the time of withdrawl?

**Dinesh Nandwana:** At the time of deposit also and at the time of withdrawal also.

**Jigar Walia:** The other person may chose to withdraw or may not withdraw, but whenever they withdraw that time...?

**Dinesh Nandwana:** Yes, you are right.

**Jigar Walia:** So, withdrawal may or may not happen at the same time given that everybody is opening then they may...

**Dinesh Nandwana:** Well, we are getting only after withdrawal.

**Jigar Walia:** Sir, one more question is, with this UPI thing, how does that change the dynamics for the remittance business?

**Dinesh Nandwana:** We think if you see up to March 2020, for the next coming four years, five years there may be affect and evolution there would be some impact on the certain percentage but lots of new persons are adding to the banking channel also.

**Management:** So Jigar, basically just last two years as I earlier said, so almost 23 crores new bank accounts have been opened, so 23 crores people have been added to the banking system. So, even if you see the most advanced economies whether it is a US or whether it is Japan basically, still 50% of the transactions are electronically which is through all such kind of channels where 48% is still like a brick and motor traditional banking.

**Dinesh Nandwana:** You see, if you see in the US and UK, ATM is also there, they are also using that thing today. Also, what is happening is in the UPI right now where they are starting with a boot strapping model where they are just charging Rs. 3 for a transaction, but actually if you see the report they expect that the charge would increase to around Rs. 3 to Rs. 25 depending upon the transaction size.. So, at that point of time we will have to see whether what is the motivation for the customer at that point of time. Because if you see, all the banking transactions have evolved, so the first thing is the branch banking, so for a branch banking the cost is Rs. 60 to Rs. 90. Then came the ATM, so the ATM cost for a bank is around Rs. 18 to Rs. 20, because they around Rs. 12 to Rs. 15 as a transaction cost, another Rs. 5 to Rs. 8 is the overhead cost of the electricity, internet, all those costs. So, it reduced from Rs. 60 to Rs. 90 to almost Rs. 18 to Rs. 20. From there the BC model, which is our model, reduces it to just 48 bps which is less than 0.5% for the banking branch with respect to the transaction value.

**Jigar Walia:** Exactly, so then somebody who is more penetrated at the other end of the remittance, actually still tends to add value?

**Dinesh Nandwana:** yes.

**Moderator:** Thank you. We have the next question from the line of Rajendra Mishra from IDFC. Please go ahead.

**Rajendra Mishra:** Basically, so if I understood correctly you said 75,000 outlets is the ultimate target, right?

**Dinesh Nandwana:** Not ultimate, up to 2020.

**Rajendra Mishra:**

So, can you throw some light how the scale up will happen in terms of whether it will be all franchisee, what business segment this will all cater to and how you expect which part of the business to really scale up when this happens? So, if you can just throw some more light, assuming from 21,000 to 75,000 how the nature of business, how financial metrics and business metrics will change or evolve?

**Dinesh Nandwana:**

So, if you see basically it is purely franchisee model, as I said out of 21,800 outlets we own only three outlets. So, the focus is primarily to make it a franchisee lead model, so the entire CAPEX and OPEX has to be borne by the franchisee. And whatever commissions we get across categories, there is a sharing ratio between the franchisee and us depending upon the milestone revenues that they achieve ranging from right from 65% - 35% up to a maximum of 80% - 20%. So, it starts from 65:35, it moves up to 80:20, that is the maximum that we share with the franchisees. Now, from 21,800 if you see recently we have just done a tie-up with Indian Oil Corporation, so that is a strategic tie-up, that is an exclusive tie-up. So, Indian Oil Corporation being the biggest franchisee of the country have 26,000 gas stations or petrol pumps on a franchisee model. So, they have done a tie-up with us where every IOCL outlet can have a Vakrangee outlet, so that makes us available almost 25,000 captive franchisees who have the financial capability, who have all the background verification, police verification, credit verification, KYC norms already met. So, it is more about how we rollout these kind of outlets. So, if you see even if you are able to roll out almost 18,000 to 20,000 of these IOCL outlets, that increases our total number of outlets to almost 40,000 - 42,000 outlets. Plus, we are already doing our organic expansion which is where are going to different states and identifying the areas. So, basically we have the National BC Agreement, National Business Correspondent Agreement with eight of the top most banks of the country, so we are a national BC partner to State Bank of India, Bank of Baroda, Bank of India, Allahabad Bank, Union Bank. So, wherever the areas which are allocated to them, so if you see just to give you some background, the entire country was divided into 260,000 sub-service area, SSA, this was mapped and pre-defined by the RBI and the SLBC, State Level Banking Committee and the Reserve Bank of India where each SSA is mapped to one particular bank. So, when we are national BC partner with these eight banks, so all the outlets which are allocated to these banks are open to us where we can go and open an outlet on their behalf as a BC point to that bank. So, that will provide us the platform to do the expansion.

With respect to the services and our outlet, so as I said currently these are the five vertical of services available at our outlet which is banking, e-governance, insurance, e-commerce and logistics. Our focus is that we intend to be a one stop shop or as a convenience store concept to the customer where we are bringing more than thousand plus services and 60 million products under one roof. So, that is an overall business model, so we intend to be an aggregators aggregator. So, if you see, basically just to give you an analogy, if you see Facebook is the biggest content creator without making any content, or if you see Uber is the biggest car rental company without owning any car. So, if you see our business model is similarly that that we

are a technology enabled platform, so we might be doing the highest number of banking transactions without being a banking company, we could be doing a highest number of e-commerce transactions or a GMV but without owning any inventory or owning any goods. So, that is how the business model has been thought of.

**Rajendra Mishra:** And just a couple of things, when you said franchisee you said 65:35, you mean 65 to the franchisee and 35 to you?

**Dinesh Nandwana:** 35% to us.

**Rajendra Mishra:** And so from here, so if you said we could 60 million products and thousand plus services and as we scale up to do you think that further the cost, there is a scope for cost to come down or you think cost would...?

**Dinesh Nandwana:** So, we report gross revenue, so suppose I report Rs. 100 of revenue and suppose I am doing a sharing of 80:20 or 65:35, so 80% is my COGS, cost of goods sold, so I am left with 20%. And the overhead for us on this large scale is just around 2%, so overall we make a 17% to 18% of minimal, that is the bare minimum EBITDA margin that we make. So, right now our EBITDA is around 22% because our sharing is around 76 to 24 kind of perspective.

**Rajendra Mishra:** And couple of more questions, your technology platform that you said is your internally developed or are you in tie-up with someone?

**Dinesh Nandwana:** It is completely developed in-house.

**Rajendra Mishra:** And last thing on this competition, so how is the competitive scenario in general in your market and broadly?

**Dinesh Nandwana:** See, the major fear is that where we are present in that area in one SSA there can be only one outlet, one branch basically, that is predefined by the RBI. So, if you see overall if there are 260,000 SSAs, even our FY2020 target is to open 75,000 outlets, so we would not be more than 30% of the market. So, I feel the market is big enough to serve everyone.

**Rajendra Mishra:** But, I mean who would be your nearest...?

**Dinesh Nandwana:** So, there is no apple-to-apple comparable because there is no single player who is present across all the multiple services, basically from a BC perspective there was a player like, for example FINO, now FINO again has got a payment bank license, so again they would be re-strategizing and changing their business model. Then there is a player like Sahej. So, there are few players who are there in the Business Correspondence but no one is having the same bouquet of services where you can compare us apple-to-apple.



**Moderator:** Thank you. We have the next question from the line of Abhilasha Satale from First Global. Please go ahead.

**Abhilasha Satale:** Sir, this question is regarding ATMs. Sir, we are seeking permission from RBI for micro-ATMs, so what is the status on that and what is outlook on that business?

**Dinesh Nandwana:** So basically if you will see, from a micro-ATM perspective we have already rolled out across all our outlets, so all our outlets now have a micro-ATM in place where you can access your Visa, RuPay or MasterCard basically to withdraw money. So, from that perspective we have already done the entire implementation, all our new outlets wherever we are rolling out it is along with the micro-ATM from that perspective.

**Management:** Abhilasha see, when we are putting Vakrangee Kendra in the Indian Oil Corporation outlets, so every outlet dealers are asking the main ATM. So, we are again hopeful also that by doing the rollout in the IOCL then we will pass the 15,000 main ATMs target also.

**Abhilasha Satale:** So as of now how many ATMs we are operating?

**Dinesh Nandwana:** 300 are the main ATMs and the micro-ATMs are in every outlet, all 21,000 outlets.

**Abhilasha Satale:** And for micro-ATM there is very minimum CAPEX which is required, right?

**Dinesh Nandwana:** Only Rs. 20,000 is required and the function is same, you can use any debit card, you can withdraw the money. The difference is only the machine and man, man is giving the money and in the main ATM you are getting money from the merchant, that is the only difference. But as far as customer is concerned, Reserve Bank of India is concerned, they are okay, they are satisfied, because every citizen can use your debit card anywhere in India.

**Abhilasha Satale:** So still you will go ahead with main ATM?

**Dinesh Nandwana:** Why not we will not, wherever dealer or franchisee is comfortable, we are also comfortable.

**Abhilasha Satale:** So, what kind of revenues we have done, I mean, even on annual basis like how much like we are targeting?

**Dinesh Nandwana:** So, with respect to ATMs you are asking?

**Abhilasha Satale:** Yes.

**Dinesh Nandwana:** So, ATM we expect currently we get wherever ATMs are, we get around 80 to 100 transactions per day on an average. So, per financial transaction we get Rs. 15 and for a non-financial transaction we get around Rs. 5.

**Abhilasha Satale:** So this is at micro-ATM also we are getting 80 to 100 transactions per day?

**Dinesh Nandwana:** So, micro-ATM would not be that much because see major ATMs if you see the ATM machines are primarily in the urban and semi-urban areas whereas if you see from a micro-ATM perspective it is there across all the rural outlets. So, there that volume density will not be as comparable to what a urban outlet would be getting.

**Abhilasha Satale:** And there also we are getting Rs. 15 per transaction for micro-ATM also?

**Dinesh Nandwana:** No, that we will be getting with respect to the banking commercials.

**Abhilasha Satale:** that means like how much it is?

**Dinesh Nandwana:** That is comparable to like 48 bps of any withdrawal that happens.

**Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Amit Sabarwal from Vakrangee for closing comments. Thank you and over to you.

**Amit Sabarwal:** Thank you everyone for really taking time out and attending our Q1 FY2016 - 2017 conference call. Please feel free to contact us in case of any further queries or anything, our details, our coordinates are mentioned on the company website.