

**Vakrangee Limited**  
**Q2 and H1 Financial Year 2016-2017 Earnings Conference Call**  
**November 07, 2016**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Vakrangee Limited Q2 FY 2017 Earnings Conference Call. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call please signal an operator by press “\*” then “0” on our touchtone phone. Please note this conference is recorded.

I now hand the conference over to Mr. Dinesh Nandwana -- Managing Director and CEO. Thank you and over to you, sir!

**Dinesh Nandwana:** Thank you. Good day dear ladies and gentlemen. It is a great pleasure to greet all of you once again on behalf of our Board of Directors and Senior Management. We will begin by thanking all of you for having spare time in joining us here today to discuss our Second Quarter and First-Half Earnings for the Financial Year 2016-2017.

To begin with, I would like to update all about vision to complete around 75,000 Vakrangee Kendra outlets by 2020. Of these 20,000 outlets will be set-up in urban areas margin the remaining 50,000 outlets in rural area. For the current financial year our target is to complete 35,000 outlets by March 2017.

I am pleased to share that as on 30th September, 2016, we have completed and made operational overall 26,188 outlets across more than 16 states which includes 13,339 rural outlets and 6,849 urban outlets. We have good visibility and we are well on track to achieve our March 2017 target of 35,000 outlets.

Our key growth driver has been the government’s massive push towards financial inclusion through the Pradhan Mantri Jan - Dhan Yojana. These Jan - Dhan Yojana accounts are linked to Aadhaar number of accounts holder and will become the single point of contact for receipt of all Life Benefit Transfers from Center Governments and State Governments and the local body.

On the regulatory front, I would like to highlight that the scope of Direct Benefit Transfer has been expanded and it has been universalised to cover all Central Sectors and Centrally Sponsored Schemes whereas cash benefits are transferred to individual beneficiaries. As per latest data available since in inception the total disburse subsidies under PAHAL which is Cooking Gas Subsidy amounted to Rs. 39,682 crores under National Rural Employment

Guarantee Scheme. There were 10.88 crores transactions involving of Rs. 61,275 crores of payment to workers. Our company is at forefront to leverage this growth opportunity and become the largest player in implementation of financial inclusion in India.

Today, our company has evolved as a unique technology driven company focus on building India's largest network of last mile little touch point to deliver real time banking insurance, e-governance, e-commerce, and logistic services to the under served rural and urban markets.

Our business portal has evolved as a irrigator and emerge as a one stop convenience store for various kind of products and services under one roof.

On the operational front, for the e-commerce vertical Amazon services are currently activated across 1,011 outlets. We have been receiving fairly increasing response from Amazon services and the response during the Diwali it was phenomenal. Amazon is currently opening new fulfillment center in the states of Rajasthan and Maharashtra where we have strong presence.

Hence, our intent is to roll out across 20,000 outlets by March 2017. This rollout is primarily targeted for the fourth quarter of the financial year 2017.

With respect to bus ticket booking services Red Bus Services are now activated across all our outlets, in addition, we have initiated the pilot of Reliance Jio Services which is primary sale of handset and providing connections through issue of new sim card through e-KYC. The pilot has just started around 17 outlets in three states which are Maharashtra, Rajasthan, and Uttar Pradesh.

With respect to Insurance services LIC and General Micro Insurance Policies are available across all our outlets. With respect to private partners, we have successfully completed the integration with Tata AIG, Bajaj Allianz and Reliance General Insurance. Our integration with HDFC Standard Life is currently in advance stage of completion and is expected to be completed during the current month only. Tata AIG Services were activated on pilot basis in April 2016 and was available in 1,500 plus outlets.

I am pleased to announce that the Tata AIG Services are now activated during October 2016 across all our outlets. We have started the pilot for Bajaj Allianz and Reliance General Insurance Services.

With respect to logistics services, we had started the pilot for Delhivery and ARAMEX across 19 postal codes and have successfully delivered 68,000 packages are still there. We now plan to roll-out our logistics services across 2,000 plus postal codes by March 2017. In addition to this, we have also successfully built and tested our logistics software application trough we

can integrate multi logistics service player. Thus, the goal to develop a market place where multiple logistics players can plug in and leverage our distribution network.

Our recent strategic tie-up with Indian Oil Corporation Limited, India's largest commercial enterprise gives us the opportunity to open Vakrangee Kendra outlets at more than 20,000 IOCL Petrol Gas Stations. This gives us clear competitive advantage in the market share. Investor Relations provide us ready platform for more than 20,000 retail distribution outlet on pan India basis. This makes our franchises selection process much simpler and thus, would help us to achieve our 2020 expansion target of 75,000 Vakrangee Kendra outlets.

During the quarter we did more than 25 dealer road shows across even 11 states and during the current month, we are doing another 25 dealer road shows.

Commenting on our financial results for quarter two financial year 2016-2017, our revenue increased by 21.8% on year-on-year basis to Rs. 959 crores. Our revenue from Vakrangee Kendra business segment stood at Rs. 595.07 crores in quarter two financial year 2016-2017, registering a growth of 53.04% on year-on-year basis. Our e-governance segment has revenue reduced by 12.01% on year-on-year basis to Rs. 347.07 crores which is inline with our strategy as we are purposefully shifting our focus from capital intensive, e-governance segment to Asset light Vakrangee Kendra retail outlet segments.

Our Vakrangee Kendra business segment now contributes 63.01% of our overall revenue. Our EBITDA stood at Rs. 227.03 crores in quarter two financial year 2016-2017, registering a growth of 10.09% where as PAT stood at Rs. 126.02 crores in quarter two registering a growth of 31.03%.

The EBITDA margin for the Vakrangee Kendra outlet retail segment have been at 21.03%, we expect these margins to stabilize around 17% to 18% on long-term basis as our commission sharing ratio with franchisee range from 65% to 80% based on the millstone revenue targets.

Our profit after-tax margins are at 13.02% as against 12.02% 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. Economics of scope will further improve as new services are at added leveraging the technology driven platform. With low incremental CAPEX and operating cost, addition of more and more services and increasing transactions volume over a period of time, would result in further positive operating leverage. Therefore, our incremental ROCE is expected to be to further improve.

For financial year 2016-2017 onwards we have approved to maintain a dividend pay out in the range of 15% to 25% of profit after tax as consolidate financials.

With this, I would like to hand over the floor for Question-and-Answer Session. Thank you very much.

**Moderator:** Sure, thank you very much. We will now begin with Question-and-Answer Session. We have the first question from the line of Mr. Umesh Gupta from Reliance Wealth. Please go ahead.

**Umesh Gupta:** This is regarding some numbers on our balance sheet which I understand have some perception issues so, I thought that it will be great to clarify with you. So, on your fixed assets, you have shown two kinds of computers and printers, one is Rs. 325 crores and the other is 600 odd crores in the gross block, right. That is about Rs. 1,000 crores or Rs. 900 crores of computers and printers, which on an average of let us say 25,000 - 30,000 turns out to be 3 lakh or 4 lakh computers or printers. So, could you explain what kind of business model it is, which requires this many computers and printers or do you have this 4 lakh computers and printers?

**Ammeet Sabarwal:** Okay, thank you Umesh for the question. This is Ammeet Sabarwal this side, see basically these are the hardware equipments and software for all E-Governance projects but if we see their category as per Company's act then it is given as computers and hardware; so, just to give you an example, for example we are the biggest player on the UID Aadhaar Project. So, we are number one enrollment agency for the UID enrollment. Now every UID kit costs you Rs. 3 lakh so, we had bought overall 13,000 kits over the last six years to seven years basically we got the mandate in 2009-2010 and we have got it over the period of 2011 to 2014. So, if you see 13,000 kits into Rs. 3 lakh that itself is Rs. 390 crores of CAPEX. But the category under which it comes is basically computers and hardware. So, typical UID kit will include a laptop, it will include you the Iris scanner which is the eye scanner, biometric basically which takes your finger prints, there is a printer, and there is a webcam. So, basically all those things become part of one single kit. As you must yourself would have gone your Aadhaar Card enrollment that entire kit is called one as a UID kit. It has to be bought from the approved vendors by the government so, we do not buy from anyone else but except by the approved vendors by the government. So, that 13,000 kits itself is basically into Rs. 3 lakhs, we will do it Rs. 390 crores.

**Umesh Gupta:** No, one year it is Rs. 3 lakhs or Rs. 6 lakhs?

**Ammeet Sabarwal:** Rs. 3 lakhs, 13,000 kits, Rs. 390 crores.

**Umesh Gupta:** The Rs. 3 lakh also looks quite higher for one laptop, one eye scanner and one printer, is not it?

**Ammeet Sabarwal:** It is the eye scanner and there is finger print scanner which is basically finger print biometric which is a high DPI model and which has been approved by the government authority by the UIDAI authority.

**Umesh Gupta:** So, could you tell from which vendor do you buy this?

**Ammeet Sabarwal:** So, basically there are three vendors to four vendors which are approved by the UIDAI authority, Vendor Companies such as Evolute, Cogent and Morpho.

**Umesh Gupta:** Fine, so, that explains about Rs. 390 crores of computers and printer, but the overall is about Rs. 950 crores.

**Ammeet Sabarwal:** Yes. So, basically, if we see any of the e-government project that you typically do, any of the e-government project is typically like a BOT project build operate and transfer. For example, we were doing a project called Maharashtra Property Registration. So, if you buy any property basically in Maharashtra you go to the government registration office that entire project was managed by us. So, basically that entire infrastructure is set up by us the entire server work is taken by, the entire execution is done by us. So, for any e-government project that we are doing whether it is Election Commission Project, whether it is IGRS, whether it is RSDY, whether it is SSA Sarva Shiksha Abhiyan or RSBY, Rastriya Beema Swasthya Bima Yojana. So, all these projects of e-government typically, the one who wins the mandate has to do the entire CAPEX and they have to execute it over a period of a tenure so, whether tenure is of five years, seven years of nine years and government pays you on the per output of it. So, every property registered we get Rs. 295. Every UID enrollment we get Rs. 35. So, typically for any of these e-government project, the project nature is such that is a like BOT model.

**Umesh Gupta:** So, all these assets are they....

**Ammeet Sabarwal:** All these assets typically get, if you see these are coming under the IT category so, it gets depreciated over four years.

**Umesh Gupta:** All these assets are with you or they have been given back to the authorities like those laptops, scanner and finger print...

**Ammeet Sabarwal:** That is a property of the Vakrangee.

**Umesh Gupta:** That is a property of the Vakrangee.

**Ammeet Sabarwal:** And it gets depreciated over a four years - five year period.

**Umesh Gupta:** So, you have spent almost Rs. 900 crores - Rs. 1,000 crores on these so, how much money would you have made on this electronic...

**Ammeet Sabarwal:** So if you see basically prior to 2010 all our revenues use to be 100% only from the e-governance vertical. So, if you see right from 2010 till whatever profits we have made till date, it has primarily come from e-governance project. Even today 40% of our revenue, 37% to be precise is coming from the e-governance vertical where 28% is our EBITDA margins.

Right now we are not moving into e-governance projects. Therefore, if you see our CAPEX is not there over the last two years as we are moving the focus from asset heavy business of e-governance to a asset light model of Vakrangee Kendra outlet.

**Umesh Gupta:**

What is the break-up right now in the last six months - last one year?

**Ammeet Sabarwal:**

So, if you have gone through the presentation, basically we have given the bifurcation. So, currently 63% is coming from the Vakrangee Kendra business, 37% is coming from the e-governance business. If you see basically for March 2016 numbers, full year numbers almost it was 55% to 60% was coming from the e-governance business basically out of Rs. 3,200 crores of revenue around Rs. 1,680 crores was coming from the Vakrangee Kendra business whereas around Rs. 1,450 crores was coming from the e-governance business. e-governance had a EBITDA margin of 28% whereas the Vakrangee Kendra business had a margin of 22%. So, you can do the calculation actually for the last ten years and you can see what is the kind of return on capital we have made on those.

**Umesh Gupta:**

Okay. So, one question on the current assets which is as of 30th September, there are inventories of about Rs. 500 crores and receivables of about Rs. 850 crores, could you explain those two items?

**Ammeet Sabarwal:**

Yes, so, if you see basically receivables again you have to see it from the two parts. One is basically the Vakrangee Kendra business and one is basically the e-governance business. So, the e-governance typically the working capital cycle, receivable day cycle is anywhere between 120 days to 150 days and whereas for the Vakrangee Kendra business the working capital cycle is currently around 60 days. So, if see from that perspective, we have also given the break-up in our presentation, if you see we have also given the cash flows and the receivable day sales outstanding. So, total day sales outstanding has been reducing, so, it was around 100 days which has now reduced to 87 days. In that also almost Rs. 200 crores is actually retention money for the project which have got completed. So, as the project tenure gets completed the retention money gets issued over the next 12 months to 18 months. So, out of the Rs. 800 crores of receivables almost Rs. 200 crores is the retention money for the e-government project, whereas the rest of the receivables can be attributed to both the Vakrangee Kendra business and the e-governance business. With respect to the inventory, so, inventory is primarily for the one particular project which is the Election Commission Project. So, basically since we are doing one of the biggest projects of Election Commission the inventory primarily includes all the raw material which is required for the completion of these projects so, whether it is the paper, whether it is the ink and all those things so, that is part of it. As the project will get completed, this typically gets converted into the sales.

**Management:**

This is basically work in process, this is not in actual terms is a inventory when we delivery it to the government. Suppose we will get certificate after one year or one month or one and half month then only we convert it into self.

**Umesh Gupta:** Okay. So, this e-kendra side, why should there be so much of receivables.

**Management:** Okay, to explain you the business model is basically here at our outlet everything is free to the consumer. So, when you as a consumer walk into our Vakrangee Kendra outlet, you can the Aadhaar enrollment free of charge, you can buy Amazon products without paying any delivery charges, so, for any service there is no charge to the consumer. We get paid by the OEM or the service provider. So, for example, when you an UID enrollment, the UID authority pays us Rs. 35. If you are doing banking at our outlet, the bank pays us 0.48% of the transaction value as a commission. If you buy a product from Amazon, Amazon pays us anywhere between as a percentage of the commission. So, basically if you see, we raise the bill to the OEMs and the service providers and they pay us. So, for example, in the case of banking or anything, it will be a 30 day, we raised the bill at the end of the month, we get paid in 15 days so, there is a 45 days cycle for our banking. For Amazon typically the billing is bi-monthly because in Amazon there is a 30 day return allowed. So, if you are selling anything on the 30th day I have to raise the bill on the 60th day, they pay in 15 days so, there is a 75 days cycle for this. So, for every respective service there is a proper billing cycle ad the period. So, right now on an average it is around 60 days.

**Umesh Gupta:** So, where do you come in because the customer would pay directly and you will get cash on delivery so, is not it becomes a negative working capital?

**Ammeet Sabarwal:** No, I am not charging the consumer anything. Consumer is coming to our outlet, he has three options, we are doing three things for Amazon, so, there is a dual screen portal at our outlet so, the customer can walk into our outlet, he can browse through all the products of Amazon 60 million products of Amazon, he can place an order. So, it is an ordering point. All kind of payments can be done, you can either pay by cash which is cash on delivery or you can do a fund transfer because banking is there at the outlet and the third is basically it is a delivery and pick-up. So, if you have order from the outlet the goods get delivered at the outlet you have to pick-up from there. And if you are suppose ordering directly from your Smartphone and if you are not at your place for next three days to four days, you can select the nearest Vakrangee outlet as a pick-up point and later on go there and pick-up from there. For this, Amazon is paying us a percentage of the **GMV** as a commission.

**Moderator:** Thank you. The next question is from the line of Abhilasha Satale from First Global Securities. Please go ahead.

**Abhilasha Satale:** I just have couple of questions, can you give us break-up in terms of how much revenue contributed from rural outlets and how much is from urban like approximately also if you could give us this 19,300 outlets how much is that much revenue and from urban 6,800, how much has contributed from that?

**Ammeet Sabarwal:** Abhilasha, this figures we have not shared anywhere till date. We will start sharing basically sometime from next year onwards. But what I can give you, we continuously do one analysis which is basically the outlets which are more than one year old so, basically the outlet which are mature. Currently there the rural outlet is doing a revenue run generate of around Rs. 70,000-75,000 per month per outlet whereas, the urban outlet is currently doing on an average Rs. 140,000-150,000 per month per outlet of gross revenues.

**Abhilasha Satale:** Okay, yeah, sir. Sir, that is constant I think even I mean last year what we were doing it was in the same range, I think urban it was in the range of 1.1% - 1.2% however rural was in the range of 75,000 that much.

**Ammeet Sabarwal:** But the quality of the services has improved basically for example, earlier there use to be large amount of mobile recharge and DTH recharge that has got little bit replaced by some other services. For example, Aadhaar use to be a very big phenomena three years back, now most of the Aadhaar cards are done so, it has been replaced by some other services.

**Abhilasha Satale:** Yeah, okay. And sir, what kind of margin like in urban and rural are we seeing margins differing in urban, I am sure, like we must be having better margins as compared to rural outlet.

**Ammeet Sabarwal:** No, actually margins in percentage terms remain more or less same. It is only the absolute amount will change because the rural typically absolute amount as I am saying is around Rs. 75,000 whereas the absolute amount of revenues in the urban outlet is Rs. 150,000. However, the sharing with the franchisee is similar to what we are doing in urban or whether it is a rural.

**Abhilasha Satale:** Okay. And services what like, services break-up what we offer to urban customer as compared to rural customers because here in urban areas Amazon and other services must be having better demand as compared to rural areas is not it that...

**Ammeet Sabarwal:** Even in rural people have all the aspirations and they are getting genuine products at the competitive pricing. We have just launched few outlets in rural. So, I think so next quarter is where we can give you some flavor or how the response has been there on Amazon services in the rural locations.

**Abhilasha Satale:** Okay, fine. And sir, in the opening remarks sir, mentioned the selection process are simplified so, could you just elaborate I mean what has changed and what has led to this selection process simplifying and will that improve our run rate going forward.

**Ammeet Sabarwal:** See, what happens is when we select a franchisee typically there is a full due diligence process in place, so, we have to check its financial capability, the bank does a lot of background verification so, the bank will do the police verification, they will do the CIBIL

check which is your credit verification, they will do a reference check. So, all those KYC checks and the background checks are done and it takes anywhere between one month to one and half month to complete that process. In case of IOCL Gas Station basically he has the franchisee of the IOCL which is the dealer, they become the franchise also to Vakrangee so, what happens is all their KYC documents are already in place these are actually tax paying individual so, they already have a financial capability, they already have credit score, they are already having a police verification done because they are government pre-approved running the IOCL Gas Station so, all that entire process becomes easier for us so that one months - one and half months goes out of the system for us and our cycle reduces from that perspective.

**Abhilasha Satale:** Okay. So this is specifically for the outlets which we are putting at IOC Gas....

**Ammeet Sabarwal:** IOCL, yes.

**Abhilasha Satale:** Okay, sure. And what is run rate on that front sir, like how many we have completed as of now?

**Ammeet Sabarwal:** Currently around 15 outlets are operational which is on pilot basis and we are currently doing the road show. So, in the commentary in the opening remarks Dinesh Ji mentioned that currently we completed almost 25 dealer road shows, and we are currently doing another 24 road shows in this month. So, we expect the pace to pick up somewhere from December onwards, January onwards for the IOCL outlet.

**Abhilasha Satale:** Okay, fine, sir. Sure sir. Sir, one more thing this you mentioned that election like the inventory has been piled for Election Commission Project so, how much revenue have we booked on that front because I mean it is Rs. 500 crores of inventory we piled may be our general inventory is in the range of Rs. 170 crores to Rs. 180 crores so, what kind of revenues we have booked in H1 and what is likely to be for the rest of the year?

**Ammeet Sabarwal:** Yeah, Abhilasha, we are not giving project wise any revenue break-up, it is not there in public domain. So, it will not be right on our part to share it.

**Abhilasha Satale:** Okay, sure. Sir, update on ATMs?

**Ammeet Sabarwal:** So, basically if you see the ATMs the IOCL Gas Stations would be the right locations for the ATMs. What we are also getting the response is many of the IOCL Gas Station outlets are planning to opt for the ATM so, I think ATM will pick-up the pace along with the IOCL outlets because these are the right location having the right footfalls for the usage of the ATM.

**Abhilasha Satale:** Okay. But then like how much like as of now we have are having and...

**Ammeet Sabarwal:** 309 ATMs as on date.

**Abhilasha Satale:** Okay. And these are WL or it is like the...

**Ammeet Sabarwal:** It is WL, White Label ATMs.

**Abhilasha Satale:** Okay. So, we have incur what kind of CAPEX for these ATMs?

**Ammeet Sabarwal:** We do not incur any CAPEX, it is basically the franchise who has to incur the CAPEX. So, we charge the non-refundable franchisee fee from them of around Rs. 300,000.

**Abhilasha Satale:** Okay, fine. And at the end of the year what is our target of ATMs?

**Ammeet Sabarwal:** No, so the tariff what I said, so, once I get the clarity on the IOCL outlet by December that is where we can share you how many number of ATMs would be rolled out along with the IOCL number of outlets.

**Moderator:** Thank you. We have the next question from the line of **Sanjay Kolar** from **Infopile India Private Limited**. Please go ahead.

**Sanjay Kolar:** And sir, I have a couple of queries. One is sir, we have aim of \$ 2 billion revenue by 2020 and Vakrangee Kendra is having you are saying for long-term we can have about 17% to 18% EBITDA margin. So, can we safely assume that the most of the 90% of the revenue will be now from Vakrangee Kendra by 2020, right sir?

**Dinesh Nandwana:** By 2020 100% revenue will be there.

**Sanjay Kolar:** 100% revenue and net margins, would you like to give any statics on that?

**Dinesh Nandwana:** 17% to 18% something EBITDA margin and then profit after-tax margins will be 10% to 12%.

**Sanjay Kolar:** 10% so, we can have safely about Rs. 1,400 - Rs. 1,500 net profit can be there potentially, we have the potential to achieve that profit and that is quite possible under your leadership. And other things are currently we do about Rs. 200 crores plus EBITDA, Rs. 225 crores in quarter one, quarter two we did of that 60% is from Vakrangee Kendra. So, would you like to give any break-up of services wherein which are the key contributors to the EBITDA of Vakrangee Kendra?

**Ammeet Sabarwal:** Sir, this is Ammeet this side, sir, currently we are not sharing the segment wise break-up we are sharing basically precise break-up of how much is e-government business and how much is the Vakrangee Kendra business because we are plugging in more and more new services therefore, the right way to look at it at a service level would be somewhere once we have rolled out all the major services across all our outlets so, I think so somewhere next year onwards we will start sharing those details.

**Moderator:** Thank you. Next question is from the line of Darshan Deora from Birla Sun Life. Please go ahead.

**Darshan Deora:** I had a question regarding the outlook on the margins. You said that in the long-term we expect EBITDA margins to come down to 17% to 18% from I think current the average margin is about 24%. So, can you just explain that a bit that why do you expect the margins to stabilize at 17% to 18% in the long-term?

**Ammeet Sabarwal:** Yes. See, basically if you see currently around 63% of our revenues is coming from the Vakrangee Kendra which is the retail outlet business and around 37% is coming from the e-governance business which is the legacy business. Now this 37% of legacy business has always been CAPEX heavy working capital intensive but having a better operating margins around 28% however, the PAT level margins have always been very low just around 6% to 7% because there is a huge amount of depreciation and a huge amount of interest cost because of the working capital loan. So, the entire thought process is basically we are moving from a asset heavy business to a asset light business so, we are reducing our stake from the e-governance legacy business. So, the e-governance legacy business which use to be almost 100% five years back today has reduced to around 37% and over the next three years to four years it will become negligible. So, basically therefore our operational EBITDA although it is coming down our PAT level margins are continuously improving. So, if you see over the last three years our operational EBITDA has actually reduced from 26% - 27% to 23% - 24% but our PAT level margins have actually improved from around 10% to 13% which is mainly because we are not doing any major CAPEX, we are not taking any new e-governance projects and we are expanding more and more on the Vakrangee Kendra business. Now if you see the Vakrangee Kendra business it is asset like business, it is a franchisee base business model. So, out of the 26,188 outlets we own only three outlets, so it is pure franchisee based model, so the entire CAPEX and the OPEX has to be borne by the franchisee. The only CAPEX to us basically Rs. 20,000 per outlet which is primarily for the biometric authentication machine which has to be in our name. So, therefore, although here I do a sharing with the franchisee ranging from 65% up to 80% depending upon the milestone revenue target. So, suppose we report a Rs. 100 of gross revenue, we share currently for example, 75% so, 25% it might gross margins 2% to 3% is our overheads which is basically employee cost corporate overheads and technology cost, so we make currently an EBITDA of around 22% to 23% and we expect this to come down to 17% to 18% primarily because we expect all our outlets at some point of time in the future to start getting the highest revenues which is 80%. So, if I am going to do 80% revenue share with the franchisee then I make 20% as my gross but I make a 17% to 18% as my operational EBITDA. But this EBITDA is as good as a PBT because there is negligible depreciation because there is no CAPEX in this model and there would not be any interest cost because we intend to be debt free by March 2017. So, there would not be any interest cost, so, our PAT level margins are going to be much better, in the range of around 12% to 13%. So, this is precisely what we have continuously communicating not now but last two

years we are continuously communicating the same thing that our EBITDA margins might keep on coming down because we are moving from a asset heavy business to asset like business but our return on capital our cash flows and our PAT level margins are seeing a significant improvement.

**Moderator:** Thank you. The next question is from the line of **Rob Bruce** from **Aubrey Capital**. Please go ahead.

**Rob Bruce:** With regards to the Amazon roll out, you mentioned earlier that I think **we are in** a thousand outlets let us say at this moment and still targeting to have the full network roll out by at the end of the financial year which will be less than six months away. Could you clarify if that is still achievable, how that is going to done? And also the second really is do you have any more recent updates on the actual numbers coming out of the existing Amazon outlets? Thank you.

**Ammeet Sabarwal:** Yeah, thank you Rob for the question. So, if you see currently Amazon has been activated around 1,011 outlets. The key thing here is basically Amazon is setting up the new fulfillment centers primarily in the two states where we are having the major presence which is Rajasthan and which is Maharashtra. So, in Rajasthan we are having almost 13,000 whereas in the state of Maharashtra we are having almost 5,000 outlets. So, that cumulatively increases to almost 18,000 outlets. So, the key issue has been the logistic issue because Amazon has to deliver the orders till our outlet. So, basically once they set-up this fulfillment centers probably in place and they are able to provide the logistics services from the fulfillment center to our outlet, we can make it activated in just a week's time. So, even if you tell us basically to get it activated across all our outlets, we can activate it right away because we are already integrated with their portal. So, technology integration is already done. Our franchise has to just put in a dual screen portal and has to have a one single operator sitting there. It is basically Amazon who has come and deliver till our outlets and what Amazon has given us the kind of assurance or visibility is that since, they are investing and setting up this fulfillment centers in the Maharashtra and Rajasthan and one also in Uttar Pradesh actually three states where we are having a very strong presence. So, if you see our number of outlets in these three states itself is almost 13,000 plus 5,000 plus another 4,000 that itself is 20,000 plus outlets. So, what on the basis of that visibility we are seeing that it would be back ended, it would be towards the fourth quarter of the year, but it would get operational around 20,000 outlets should get activated as per the current visibility.

**Rob Bruce:** Okay, thank you, yeah. And just in terms of the existing let us say how they are operating.

**Ammeet Sabarwal:** Yeah, with respect to the Amazon we cannot share a lot of data because even they have not shared any Diwali number or any Diwali recent data with us. But our previous data whatever we had before September which is also there in our Annual Reports is basically currently where we are getting around 15 orders to 20 orders per day on the outlet which are more

than three months, so, outlet which has been operated and activated more than three months old they are getting around 30 orders day with the average ticket size of around Rs. 450 to Rs. 500 but as per the recent latest data I would not be able to share because we have not been allowed to share any data in the public domain.

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

**Participant:** A quick question regarding the Amazon distribution centers the status where are we, where are they currently, in terms of completion those centers?

**Ammeet Sabarwal:** So, basically they are in advance stage of completion, they expect it to be operational somewhere by the month of December.

**Participant:** Okay, so, next month.

**Ammeet Sabarwal:** Yes. Primarily for Rajasthan which is in Jaipur and one in Maharashtra.

**Participant:** Could you also tell us a little bit more about the logistics business that you recently taken up in ARAMEX, etc. what is the business model there? And how many of you Kendras have already got this service up and running? And may be you could share a little bit about precise revenue numbers, etc., on a per store basis that you are saying?

**Ammeet Sabarwal:** Yes. So, if you see the logistic vertical, logistic was the latest vertical that we added and it is currently in pilot phase itself so, we started with 19 postal codes, so, we did a tie-up with Delhivery and ARAMEX, so, we started with the pilot phase in 19 postal codes and currently we have delivered around 68,000 packets under the pilot phase till date. So, over the last three months to be fair so, but what has happened is basically what value addition we bring on the table for them is if we see there are so many logistic companies in India in the private segment the biggest player is the Blue Dart. So, Blue Dart also is currently present in around 7,000-7,500 postal codes as per the publicly available information that I have so, if you see in our country India there are overall 19,135 postal codes to be precise and the biggest private sector player is present in around 7,000 - 7,500 postal codes. So, even the biggest player is present in only one-third of the market. So, there is a lot of competition in location which is primarily metro level city or the fulfillment center in a metro level city till the district level location, so there is a lot players offering service in those areas but there is hardly any competition, hardly any service available from a district level location till a village level location. So where we add value to them is that we are tying up with Delhivery, ARAMEX these kind of players, they have a good network from the fulfillment centers which is typically in a metro level location till the district level location. So, they get it delivered our district level location and from there it is our franchisee who does that delivery till the village level locations. So, that is where we are adding value to them. So, we increase their distribution network from that perspective. So, there we did the pilot in 19 postal code; so, we started

with three postal codes, we have moved to 19 postal codes. Now the idea is that once the pilot is fairly successful running properly the idea is to roll out across 2,000 postal codes over the next six months so, that is the typical plan. With respect to the revenue and economics we have not shared anything in public. We have worked on it, it is a cost plus basis model, but we have not shared any numbers yet. So, I think so, once we roll out across at least 1,000 plus postal code is where we can start sharing some numbers on it. But right now it is and the pilot phase and the idea is basically that we plug in multiple services since it becomes like a market place where people can actually leverage our distribution network for the last mile delivery which is typically from the district level location till the village level location.

**Participant:** I am confused about the last thing that you said, what exactly is the idea, you said an auction.

**Ammeet Sabarwal:** No, so, I am saying basically we are like ARAMEX like Delhivery there can be multiple logistic players who can plug in our network, who can use our network to do the last mile delivery. Like for example, FedEx, so FedEx might use it basically for the last mile delivery. So, they do the delivery from the fulfillment center or from the end user till the district level location from there it is the our franchisee who does the delivery till the end user or the village level location.

**Moderator:** Thank you. The next question is from the line of from Capital. Please go ahead.

**Participant:** I just have question and the revenue sharing. For the Indian Oil outlets today have a similar revenue sharing structure from the franchisees or is it different proportion?

**Ammeet Sabarwal:** So, for the IOCL also the sharing happens in 80% : 20% ratio basically 80% to the franchisee 20% to us but the 80% of franchisee is subdivided into 75% to the dealer and 5% to IOC.

**Participant:** Okay, thank you. And for the logistics business is that service already rolled out for Amazon. So, that has been started only in 19 postal codes on pilot basis right now.

**Moderator:** Thank you. Next question is from the line of Darshan Deora from Birla Sun Life. Please go ahead.

**Darshan Deora:** I had a question regarding the return on capital or return on investment for the franchisees so, in your experience what is the return on capital that they are able to earn? And when you approach franchisees say you approach the IOC franchisee or any franchisee in the market who are you going against as in what other alternatives do the franchisees have in terms of competitors for you?

**Dinesh Nandwana:** Okay. So, first thing is in case of IOCL we are the exclusive partner to them so, they cannot approach to anyone else and we cannot approach to the other competitor of IOC basically BPCL or HPCL primarily IOCL is the biggest player, they are having almost 24,000 gas station.

The second largest is almost half of their size or one-third of their size. With respect to the return on capital perspective or a breakeven analysis for a franchisee outlet the typical CAPEX breakeven happens during 12 months to 18 months that is one year to one and a half year. Just to give you an example, for example if I take the most conservative case say of a village where the village level population is around 5,000 people on a conservative side that is the minimum population that is defined for a location SSA -- Sub Service Area. So, if I take a 5,000 level population the typical CAPEX of a rural outlet is around Rs. 125,000 to Rs. 150,000, in this basically he will buy a laptop a VSAT for internet connectivity, power backup generator, a printer, a **safe box** and some basic furniture. We do the CAPEX of Rs. 20,000 per outlet so for the biometric authentication machine. Plus the franchisee has to invest in the working capital which in a rural outlet ranges anywhere between Rs. 50,000 to Rs. 100,000. Now suppose if I take the case of 5,000 people as soon as we open the outlet the main branch manager of the bank will go to that village and create awareness that all the subsidies are going to come into the bank account directly. Please come and open your bank account, get your UID enrollment done and link the two. We also create our own awareness campaigns accordingly. So, suppose of 5,000 people only 3,000 people come and do the enrollment for every account opening we get around Rs. 20, for every UID enrollment we get around Rs. 35, linking the two we get Rs. 5, and there is a mandatory service for which we get Rs. 5. So, if you see this Rs. 20 plus Rs. 35 plus Rs. 5 plus Rs. 5 around Rs. 65 per enrollment so, even if we do 3,000 enrollments in a village it is around Rs. 180,000 or more or less the similar amount. On the one-time incomes, we do a sharing with the franchisee with 80% - 20%. So 80% of Rs. 180,000 is somewhere around Rs. 150,000 so, typically the franchisee breaks even on the CAPEX size, we also breakeven on our CAPEX size. Post that on a sustainable basis the rural outlet which are more than one year old the analysis that we had done and share basically that currently they are doing Rs. 70,000 to Rs. 75,000 per month of gross revenues. In that basically they end up making a net income of Rs. 20,000 to Rs. 25,000. So, they make a pretty good return on capital from that perspective. So, Rs. 20,000 in a rural area is I believe a pretty decent income taking in account a daily wage of around Rs. 178 for 20 days a month; so, from that perspective that as a benchmark they make a pretty good income from that perspective. For the urban typically the CAPEX is a little bit higher, the CAPEX is Rs. 5 lakhs to Rs. 7 lakhs because they have to do the proper they have to buy two kits to three kits because there are three counters in urban, semi-urban locations and there is a proper interior of the shop and some of them also have the ATM machine. So, their CAPEX ranges from Rs. 5 lakhs to Rs. 7 lakhs. They take around 18 months to breakeven basically from that perspective and they end up making per month net income of around Rs. 50,000 to Rs. 70,000 a month.

**Darshan Deora:**

Got it. Just also you can throw light on, so, would you compete with when you are not talking to IOC, you are talking to a general franchisee, who would you compete with?

**Management:**

So, if we see basically there is no apple-to-apple comparable player right now because we are into five different verticals so, we offer e-governance services, we offer banking services, we

offer e-commerce services, logistics services and insurance services. So, there is no single player who is offering the entire bouquet of services. So, for example, in banking we might be competing either with an alternate channel say money transfer player such as Paytm, Oxigen Wallet , Western Union, these kinds of players or suppose offline BC player like a FINO or like a Sahaj. If you see from e-governance perspective we might in the UID project, there are 200 vendors who had got the license even Wipro and HCL had the license to do the UID enrollment so, we compete with those kinds of players. If we see from the e-commerce side we are exclusive part to Amazon so, might be competing with the Flipkart or a SnapDeal those kind of players. So, every vertical we may be having a competition but there is no signal comparable apple-to-apple player as such. So, basically the model has been evolved over the year so, it is more like a convenient store concept where have plugged in five different vertical of services, so we are offering almost 65 million products and almost 1,000 plus services under roof of a 200 square foot area.

**Darshan Deora:** All right. And just in terms of the CAPEX, you mentioned for the village is about Rs. 120,000 to Rs. 150,000. Earlier on the call, you were saying that the UID kit cost about Rs. 3 lakhs.

**Management:** Yes, so, this was the UID kit was when it was introduced in 2009-2010, it used to cost Rs. 3 lakh.

**Darshan Deora:** Okay. Now the cost?

**Management:** But now the cost is around Rs. 1 lakh.

**Darshan Deora:** Okay. So, that is included in this Rs. 120,000 - Rs. 150,000?

**Management:** So, many times what will happen not everyone will have the UID kit so, for example, not all outlet will have the UID kit they will take it for **camp** so they might take it only for three months suppose and that churning will happen. We are already having 13,000 kits in place. so, we give them for three months to six months where they can use it, they can get the UID enrollment of that location, of that area and then they return it back.

**Darshan Deora:** Got, it. But you would **not** charge them anything for that service?

**Management:** Yes, we charge nothing.

**Moderator:** Thank you very much. That was the last question, as there are no further questions, I would like to hand the conference back to the management for any closing comments.

**Dinesh Nandwana:** Thank you, everyone for taking time out and attending our conference call. In case of any further queries, please feel free to contact us. Our contact details are there on our corporate website as well as all the presentation and details are there on the exchanges as well as on the website. Thank you, thank you, everyone. Have a good evening.

**Moderator:**

Thank you very much, on behalf of Vakrangee Limited that concludes this conference call.  
Thank you for joining us and you may now disconnect your lines.