

## Vakrangee Limited Earning Conference Call February 08, 2016

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**Moderator:** Ladies and gentlemen, good day and welcome to the Vakrangee Limited earning conference call. We have with us on the call today Mr. Dinesh Nandwana – Managing Director and CEO, Mr. Manoj Rathi - General Manager (Finance) and Investor Relations and Mr. Ammeet Sabarwal from Investor Relations. As a remainder, all the participant lines 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 conference call, please signal an operator by pressing \* then 0 on your touchtone phone. I would now like to hand the conference over to Mr. Dinesh Nandwana - Managing Director and CEO. Thank you and over to you sir.

**Dinesh Nandwana:** Good day dear ladies and ladies gentlemen, it is great pleasure to greet all of you once again on behalf of our Board of Directors and senior management. We begin by thanking all of you for having spared time in joining us today to discuss our Q3 and first 9 months' earnings for the FY2015-16.

At the outset I would like to share about our reason to complete around 75,000 Vakrangee Kendra outlets by 2020. Of these 25,000 will be set up in urban and semi urban areas and the remaining 50,000 in rural areas. As of now we have already 18,067 outlets across rural and urban area on behalf of more than 15 banks, this is as compared to 10,568 outlets as on 31<sup>st</sup> March 15, thus opening around 5499 outlets during these initial 9 months of this financial year. I would like to highlight that we exceeded our December quarter targets. We have set to exceed our full year target for financial 2016 and well on track to deliver and exceed on our plant expansion plan. Post the launch of Pradhan Mantri Jan Dhan Yojana by government there has been a strong push from the banks to expand their banking correspondence network not only in rural but also in urban areas, hence there has been a strong ramp up in urban branches from around 1288 branches by March 15 to 2397 branches in December 2015.

Our key growth drive has been the government's massive push towards financial inclusion through the Pradhan Mantri Jan Dhan Yojana. The objective of this is to bring every Indian into banking net by ensuring and place two bank accounts per household. These accounts have been linked with the Aadhaar number of accountholders and will become the single point of contact for receipt of all balance benefit transfers from center and state government and local bodies.

Our company is forefront to leverage this growth opportunity and has become the largest player in the 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 retail touch points to deliver real time banking, insurance, e-governance, ecommerce and ATM services to the unserved rural, semi-urban and urban markets. Our Vakrangee Kendra outlet are our last mile retail outlet that are in close proximity to the population across 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 VAS and host of services and product offerings we would be the choice of citizens for availing the need of household necessities to conducting daily transactions. Through Vakrangee Kendra we offer a rich bouquet of e-governance, banking, insurance, ecommerce and ATM services. In addition to Maharashtra, Rajasthan and Delhi, we are setting up and managing our Vakrangee Kendra outlet in 10 more states across India. Currently our company has been appointed as a national business correspondent by 8 banks including State Bank of India, Bank of Baroda, Bank of India, Punjab National Bank, Union Bank of India, Allahabad Bank, Baroda Gujarat Gramin Bank, Baroda Uttar Pradesh Gramin Bank. We have become the preferred partner of choice of all the major PSU banks. Over the years, we have let the ground work develop strong execution capabilities and nationwide footprint till the grass root level. With deep knowledge of consumer behavior and the challenges that exist in working for underserved part of India we wished to be integral part of India's retail revolution.

Our company has entered into a strategic tie up with Amazon, India in its constant endeavor to connect India's unserved, underserved citizen to modern ecosystem. I would like to highlight that Amazon is now seen to be the biggest online store in India with more than 25 million products for sale. Our company sale provides marketing promotion and pick up services to Amazon through the Vakrangee Kendras. We recently opened an exclusive Amazon retail outlets. It is one of its kind in the country and we have received the overwhelming response from the consumer on the same. We planned to open such exclusive Amazon retail outlet across all district level. We also proposed to incorporate subsidiary to primarily provide logistic services such as last mile delivery to various business partners and business verticals. This mainly targeted to support Amazon's last mile delivery logistics. Other key strategic tie ups and alliances during this quarter have been Ricoh India to provide manners print services on a pay per use model. Mahindra e-market has subsidiary of Mahindra & Mahindra for promoting and booking automobile products and Tata AIG for insurance for non-life insurance products.

Commenting on our financial results for FY2015-16, our revenue for Q3 have increased by 15.6% on year-on-year basis to Rs. 8138 million. Our revenues from Vakrangee Kendra outlet retail segment has increased by almost 36.3% whereas our e-governance segment revenues have lowered by 1.8% as we are purposefully shifting our focus from capital intensive e-

governance segment to assess like Vakrangee Kendra retail outlet segment. Our EBITDA has increased by 8.9% on year-on-year basis to Rs. 2134.8 million. The EBITDA margin for our e-governance segment has improved by 450 bps as we are focusing on higher margin projects and moving out of lower margin e-governance projects. The EBITDA margin for the Vakrangee Kendra outlet retail segment has been at 24%. We expect these margins to stabilize around 17% on long term basis as we have increased the commission sharing RESO with franchises to 80:20. Our PAT has increased by 15.1% on year-on-year basis to Rs. 1028.4 million. There is a positive operating leverage in our Vakrangee Kendra return segment as our responses are mainly through franchise route with no budget capacity. Our return segment now contributes almost 51% of the total revenue. 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 increase in transaction volume over the period of time, will result in further positive operating leverage. Therefore, our incremental ROCE is expected to further improve. From FY2016-17 onwards we have approved to maintain a dividend payout in the range of 15%-20% of profit after tax on consolidated financials. With this I would like to handover the floor for question and answer session. Thank you very much.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Gaurav Gupta an individual investor. Please go ahead.

**Gaurav Gupta:**

First is that we have envisaged that we will be achieving \$2 billion of revenue by 2020, so is it \$2 billion, we are factoring in 42% growth on year-on-year basis because as of now I think we will be able to achieve only Rs. 3000 crores of revenue by 2016. So 42% growth on year-on-year basis, is it achievable?

**Ammeet Sabarwal:**

Basically if you see currently, we are almost 18,000 outlets and if you see our operational plant and we are also sharing our vision document, we intend to become almost 75,000 outlet by 20:20. So that itself is almost 3.5x of what we are currently. Also the outlet that we have opened now have not matured completely. So every outlet new outlet takes around 6-9 months to become mature. So that is where the start giving out the full amount of revenue that we get. So currently we believe we are all well on track on the expansion plan that we have shared in our vision document.

**Gaurav Gupta:**

Next question related to this only. Since the most of expansion that we are now envisaging that is on basis of franchise model. Okay and as per document available on site, it is mentioned that nearly Rs. 3 lakhs is being charged as a franchise cost. So how that is being accounted in our sales. Is it upfront accounted in sales or on a proportionate basis, year-on-year basis it is accounted something like that?

**Ammeet Sabarwal:** Basically again it is not a compulsory requirement that the franchise has to buy from us. We either give him a specification or he wants to buy the kit from us, he can buy from us.

**Gaurav Gupta:** I think my question is specific to franchise cost, licensing cost, in that cost is mentioned Rs. 3 lakhs is suppose to be...?

**Ammeet Sabarwal:** Franchise fees is applicable only and only when he wants to have a ATM in his outlet. Urban and Semi urban outlet. In rural area, there is no ATM is there. So there is no requirement of any franchise fee as far as rural is concerned. But in urban area, suppose he wants to have an ATM then only he has to pay the Rs. 3 lakhs franchise fee, otherwise not.

**Gaurav Gupta:** Okay, so as of now the number of outlets that we are having how many of them are ATM enabled in which we have...?

**Ammeet Sabarwal:** 220 something.

**Gaurav Gupta:** So the franchise cost or franchise fees that we have taken, so how we have accounted that. Is it in our revenues?

**Ammeet Sabarwal:** It is definitely in the revenue of the current year.

**Gaurav Gupta:** So going forward as and when we are extended one ATM to a franchise owner, so the Rs. 3 lakhs will be accounted in sales as and when or in which quarter it is being extended?

**Ammeet Sabarwal:** You are right.

**Gaurav Gupta:** The last question with respect to this only, it is being observed that on quarter-on-quarter basis our depreciation is nearly about Rs. 40 crores that is being factored in our P&L and as per FY15 nearly fixed cost, fixed asset is Rs. 280 crores. So by end of this year nearly Rs. 160 crores will be total depreciation factored in our P&L. So fixed asset will be near about 150 crores after factoring in all this. So do we envisage a higher capital expansion going forward in coming years?

**Dinesh Nandwana:** Coming years if you see the franchise model, there is no CAPEX in going forward. So what I am saying after March 17, EBITDA margin will, EBITDA profit will be just like profit before tax, there will be no depreciation, because there is no capital expenditure on our Vakrangee Kendra and there is no interest cost because as far as loan is concerned we are already repaying in the time. So March 17 we will be debt free also. There will be no interest cost also. But this question was related to ATM Kendra where ATM is installed over there. So on whose books that ATM will be factored in. These are according to RBI conditions, only ATMs we have to currently much on the ATMs, but if you see the ATMs of 200 ATMs so that amount if negligible if you see the total size of the company. So that will be negligible. For example, for Rs. 2 lakhs buy the ATM, so that will be on the balance sheet of the company, 2

lakhs definitely. But then depreciation will only of Rs. 2 lakhs but that is in totally that is not a big amount.

**Gaurav Gupta:** No, I was just doing some kind of modeling over there. So just to understand that because going forward if our number of Kendra having ATM facility is increasing, so accordingly some kind of investment in purchasing those ATMs will happen over here?

**Dinesh Nandwana:** Sir I should mention that, going forward we have evolved one different model of the ATM center also. We have designed some different machine for the ATM where card swipe model will be there. The pin pad will be there but there will be no full-fledged ATM where main ATM will be there. If you see in the urban areas where you should see the ATM, those are full-fledged ATM machine where cash comes automatically. But what we are designing because my person is there, my franchise is there, so what we are planning to have a ATM with manned ATM, so when manned ATM is there then CAPEX will be hardly Rs. 10,000-15,000 only. So we are planning for that also. So in going forward we do not see a huge capital expenditure especially in the ATM also. We have already tested that is when final stage with the NPCI and Reserve Bank of India, that is in final stage.

**Gaurav Gupta:** So going forward since we are considering that to face out our ecommerce project business and just to focus on e Kendra, Vakrangee Kendra, so how we are going to manage our working capital?

**Ammeet Sabarwal:** We are not phasing out the ecommerce business, we are phasing out the e-governance business.

**Gaurav Gupta:** Right e-governance business, which is capital intensive business. So how you are planning to manage our working capital because the cost or the fees that we will be getting from banks that will take certain time wherever we would be required to pay to franchise owner on a monthly basis something like that. So as our business grows to \$2 billion, so they will be significant amount and mismatch of some payment timing that receivable will be coming nearly, what is the receivable days from bank side?

**Ammeet Sabarwal:** If you see the present e-governance debtor's life cycle, it takes nearly about 120-150 days, particularly if you see Vakrangee Kendra life cycle of the debtors is only 75 days. Basically in the e-governance segment if you see which was our historical business, our working capital receivable days' use to be almost 130-150 days where as going forward in the ecommerce or banking as a vertical that is for the Vakrangee Kendra business our receivable days are expected to be somewhere around 60 days.

**Gaurav Gupta:** And what are the payable days to our franchise owners?

**Ammeet Sabarwal:** That is around 30 plus days, 30 to 45 days.

**Gaurav Gupta:** So nearly there will be a difference of 30 days when payment is coming and we are paying to...

**Ammeet Sabarwal:** Yes.

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

**Lee Mayer:** My first question is in regards to your EBITDA margin, I see that your EBITDA margin is coming down and I heard that the margin of the Kendra businesses is falling as you move your commission payouts towards 80:20, can you explain a little bit more about the commission payout structure and why is it coming down and how fast should we expect the EBITDA margin of Vakrangee Kendra business to approach 17%. Finally on that part also if you are phasing out e-governance which is fairly higher margin does that mean that your overall EBITDA margin will eventually approach 17% equal to Kendra margin?

**Ammeet Sabarwal:** Thank you for the question. Basically if you see the EBITDA margins in the Vakrangee Kendra business currently are almost around 23%-24% but because earlier the sharing ratio, the sharing ratio that we have along with the franchise, it was not 80:20 from day #1. That ratio has evolved. Somewhere in the April of last year is where we decided that the sharing ratio would be 80:20. 80% to the franchise and 20% to our company. So because of which we say that our sustainable EBITDA margins in the Vakrangee Kendra business would be somewhere around 17%. Earlier this used to be the sharing ratio, used to be around 65:35 or it was not uniform across all the services. So in some of the services it was 65:35, in some of the services it was 70:30, in some of the services it was 50:50. However it has evolved, this has evolved in the way that even the remotest outlet of our entire network is viable and profitable at this sharing ratio and this is what we have realized and as on date today all our Vakrangee Kendra outlet are fairly viable and fairly profitable in that sense. That is why we believe that our sharing ratio 80:20 is the optimum sharing ratio and our EBITDA margins will somewhere stabilize, somewhere around 17%. This you will see going over the next 1.5 year where it will get stabilized at around 17%.

**Lee Mayer:** And is the reason why it is falling because as you signed on new franchises they have been given the new profit sharing agreements whereas the older existing franchises may have some of the legacy?

**Ammeet Sabarwal:** Even the older franchises are now being migrated to this new sharing ratio.

**Lee Mayer:** Okay and also the e-governance when you say that you are phasing it out, does it mean that it is going to completely disappear or does it mean that you are just going to see a gradual contraction which will eventually stabilize at some time?

**Ammeet Sabarwal:** Basically in the e-governance segment each and every project has a lifecycle. So every project has a lifecycle of 5 year or 7-year period. As and when this projects are getting completed we are not rebidding those projects. So we are saying it is getting tapering off. So we are tapering it off as and when, so for example in the last quarter one of the project that was property registration project that we were doing for the state of Maharashtra. The tenure of the project ended in November last year. We did not renew or we did not rebid for that particular project. We are going to take only those e-governance projects which can be provided as a service from our Vakrangee Kendra outlet. For example, the Aadhaar. UIDAI project is still part of our Vakrangee Kendra because it is provided as a service from the outlet. Whereas all the other projects which are not being part of the Vakrangee Kendra outlet are going to get phased out as and when the project gets completed.

**Lee Mayer:** I see but if the margin is higher than the Kendra business and it is accretive to your earnings, why would you be phasing them out?

**Ammeet Sabarwal:** So there are two reasons for it, one is all of this e-governance projects are basically capital intensive and working capital intensive. So if you see my working capital receivable days basically my receivable days for the e-governance segment are almost 140-150 days. So although the margins are better but if you see my ROCE, it is not as comparable to Vakrangee Kendra ROCE.

**Lee May:** Thank you and one other question is in regards to the new subsidiary that you just set up for the logistics business, can you share with us a little bit of the thinking as to why you decided to spin out this business, is your intention to eventually separately list this business. I understand that the business is to support Amazon it's their intention that Amazon will take its share in this business and does it in anyway imply that relationship with Amazon has changed in anyway?

**Dinesh Nandwana:** In India there are 19,130 something postal codes are here but as far as Amazon is concerned, Amazon is right now it is delivering services only 3000 pincodes something and we are planning to have a Vakrangee Kendra across India and the whole pincode by 2020. So if you see my Vakrangee Kendra outlet in 15 states, in urban the area outlet Amazon is doing the delivery of all goods to my Vakrangee Kendra but there are certain states also, like for example UP, Uttar Pradesh that is the biggest state of India where Amazon is not doing the delivery on the Vakrangee Kendra because they are not doing the business in that state. But as a strategy point of view my Vakrangee Kendra I want to be a good delivery there. So what Amazon is telling to us if we handle the logistic part of that, that fulfillment center to Vakrangee, so then they will be able to deliver the goods. So that is why by understanding with the Amazon and us we are planning to have a logistic company. So that is the main reason for that. Otherwise we will not be able to rollout the Amazon business in certain parts of the country. So that is the reason. That is the full-fledged, clear cut synergy for that, for

increasing the business of the Amazon were to roll out the Amazon business in across the India in all outlet. This is required.

**Lee Mayer:** So two quick questions and then I will get back into queue. One is Amazon trying to take a stake in that new logistics company and two, if you are doing distribution to all of the Vakrangee Stores why are you also opening up independent Amazon zone and to you own those stores stores and has Amazon sanctioned those?

**Ammeet Sabarwal:** There are certain pockets especially in every city where there is no stores, other stores are there or where our Vakrangee Kendra is not so big who can enter the big queue of Amazon. Say for example one part of Mumbai there is a 200 sq.ft Vakrangee Kendra is there, that is in Goregaon but a lot of orders is coming there. There is a long queue is there for the ordering the Amazon. So my franchise, he himself want to, he himself opened a big outlet of 550 sq.ft especially for the Amazon because big queue is there. Huge customer base is there. So that is why which is also targeted mainly at the district level where the density is very much higher where we need exclusive Amazon because we are getting that kind of orders. Suppose one outlet is getting 200 orders per day. So in my outlet in going on typically normal 200 sq.ft Vakrangee Kendra outlet they are not capable to handle the 200 orders of Amazon in a single day because there is also a lot of other functions also there.

**Lee Mayer:** We did not really address the issue of Amazon taking a stake in the logistic stuff, is that something that you do not want to comment on?

**Dinesh Nandwana:** They are coming to us on 11<sup>th</sup>. Right now I cannot comment, but they are coming to us on 11<sup>th</sup> of this month.

**Management:** We are meeting us on the 11<sup>th</sup> of this month basically. There team is coming.

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

**Abhilasha Satale:** Sir basically I just wanted to know how is our revenue breakup for our Vakrangee Kendra specifically for the initial services what we offer for opening savings account and UID card and all. So in banking services and rest all B2C services what is the current breakup as such?

**Ammeet Sabarwal:** So basically if you see currently our overall e-governance segment in the Vakrangee Kendra business is contributed almost 1392 million. Then overall banking and insurance contributed 3226 million and then ecommerce where it was a sale of products and other government product distribution was almost around 3000 million and we had another sale of other services such as mobile recharge, DTH recharge and other e-tops such products such as Red Bus, bus ticket booking and other things, that was another 3900 million.

**Abhilasha Satale:** Sir as of now banking is contributing almost like around 10%-15% of our core banking right?

**Ammeet Sabarwal:** 15%, yes.

**Abhilasha Satale:** So I just want to know like it being the bank branch how will we take it forward, how will we increase revenues from this segment or will this contribution will remain like this?

**Ammeet Sabarwal:** See we always believe that B2C business to consumer as a vertical will always be having the biggest share for almost around 40%-50% will always be coming from the B2C segment and if you see banking insurance and e-governance will make up for the other 40%-50%. So this will remain as our bigger contribution.

**Abhilasha Satale:** Secondly sir on a regulation point of view this being a bank branch like RBI guidelines, do they permit for all the B2C services what we are incurring right from this.....

**Ammeet Sabarwal:** So we have won this license another business correspondence banking license. We are allowed to do all other kind of services which do not break the law of the land in order to make the outlet viable. That is the clause.

**Abhilasha Satale:** Sir coming to your other tie ups like Tata AIG and M&M and all, if you could throw some light on to it like how many this branches were having outlets you have covered through this and what is your target and also on the Amazon tie ups like how much it is currently and how is your way ahead?

**Ammeet Sabarwal:** So Amazon currently we have almost rolled out to 411 outlets and we expect over the next 2-3 months it will get roll out to almost (+1000) outlets. For example, in Mumbai, entire Mumbai is covered. So 61 outlets in Mumbai Amazon is already rolled out. In Rajasthan another 350 outlets Amazon has already been rolled out and another 600-700 Amazon outlets are currently been rolled out. The other services for example Mahindra and Mahindra and Tata AIG they are just recently we have signed over the last one month basically. So currently the integration is going on and the testing. It is undergoing the testing or the pilot phase. Once the pilot and the testing is successful that is where we start rolling out across all outlets.

**Abhilasha Satale:** Sir if you could again rephrase your terms with Amazon and also M&M and Tata AIG like...?

**Ammeet Sabarwal:** No, also for example for Mahindra and Mahindra we have not shared any commercials anywhere. So we are not sharing those in the public domain. But in Mahindra and Mahindra we are basically getting a lead generation commission, so for every lead that gets converted we have a commission in it. For Tata AIG again as a percentage of the premium that we get as a commission and in Amazon again as a percentage of the gross merchandize value as a commission we get and depending up on the product category.

**Abhilasha Satale:** In this quarter how much Amazon sale has contributed of this 3000 million?

**Ammeet Sabarwal:** Amazon would be very small portion of that because it has just been rolled out post October-November, during Diwali time is where we started rolling out across all outlets. If you see basically till October it was purely in the pilot phase during Diwali October-November is where we started rolling out across all outlets. So currently it is comparatively very small number in the overall picture.

**Abhilasha Satale:** But it is increasing at a fast pace?

**Ammeet Sabarwal:** Yes it is kind of response we are getting is very encouraging. So currently we are getting almost 20 orders per day, 20-25 orders per day across all India whatever outlet we have rolled out across all average. In some of the outlet we are getting more than 100-200 orders also as Dineshji was also saying where we have opened the exclusive Amazon outlet. Amazon was expecting only 5 orders per day from our outlet. So you can imagine the kind of encouraging response that we are getting.

**Abhilasha Satale:** One more thing sir about this ATM business here we are going little slow than our target. So how much we are targeting by year end and by next year if you could give a revised target?

**Ammeet Sabarwal:** In this calendar year we are targeting another around 5000 is to be rolled out.

**Abhilasha Satale:** So 5000 by December 2016 we are targeting?

**Ammeet Sabarwal:** Yes and as we have said that we have come out with a new concept which is a **manned** ATM. So if that gets a green signal from the RBI in the NPCI then the roll out will be much more faster.

**Moderator:** Thank you. The next question is from the line of Mahinder Singh from FinQuest Securities. Please go ahead.

**Mahinder Singh:** Just repeat the breakup of the industry once again, ecommerce, e-governance, mobile DTH recharge and all?

**Ammeet Sabarwal:** So on the e-governance is it almost 1392 million, for the overall banking and insurance it is 3226 million. 7099 million for the overall B2C vertical.

**Mahinder Singh:** That includes even ecommerce and also mobile to DTH everything?

**Ammeet Sabarwal:** Yes it includes all business to consumer services. So whether it is mobile recharge, whether it is DTH recharge, whether it is sale of Amazon product, whether it is Red Bus, bus ticket booking, whether it is distribution of some subsidies product under the government schemes, all those things.

**Mahinder Singh:** Sir this was what period?

**Ammeet Sabarwal:** This is for the 9 months' period.

**Mahinder Singh:** And going out like in the e-governance segment you are planning to go slow?

**Ammeet Sabarwal:** In which segment?

**Mahinder Singh:** E-governance.

**Ammeet Sabarwal:** E-governance what we have always said is that we are phasing out our legacy business. So whatever services which can be provided through the Vakrangee Kendra outlets those services will be continued. Any service which is moving outside the Vakrangee Kendra outlet will be rebid over a period of time as the contract ends.

**Mahinder Singh:** And coming to the banking services sir like what are the targeting going ahead, I mean growth rate and also the percentage of contribution to the total revenue?

**Ammeet Sabarwal:** If you see, if we take Rs. 100 as an overall pie of the total revenue then we expect almost Rs. 20-25 coming from the banking.

**Mahinder Singh:** Currently or going ahead?

**Ammeet Sabarwal:** On a sustainable basis is what I would say. Initially it is higher because when we open the bank account and when we do the seeding with the Aadhaar cards those are one time activities, so initially as the outlet opens the banking is the highest. Then when the outlet matures that is when it stabilizes somewhere around 20%.

**Mahinder Singh:** But in the banking plan to provide insurance and what all services sir?

**Ammeet Sabarwal:** So banking and insurance we take out so in banking basically we do account opening. We do seeding with the Aadhaar. We do all kind of transactions. So it is withdrawal, deposit, fund transfer, remittance. We will also do loan facilitation. So we are not allowed to do lending. But we can facilitate those.

**Mahinder Singh:** Since you are tied with the banks, BOB, SBI and all you will tie up and get the paper work done or something?

**Ammeet Sabarwal:** Yes, so basically someone wants to have a tractor loan or something. We will prepare their case but final decision is with the main branch.

**Mahinder Singh:** How will you get the share there in terms of loan facilities?

**Ammeet Sabarwal:** It is the percentage of the loan as a commission. And in the insurance currently we are doing lot of micro insurance policies under the Jan Dhan Yojana, Jan Suraksha Yojana, Atal Pension Yojana those kind of policies where you have to pay Rs. 12 as a premium or Rs. 330 as a premium.

**Mahinder Singh:** But there is a huge scope on that right sir? As penetration increases more and more people will be getting added?

**Ammeet Sabarwal:** Yes.

**Mahinder Singh:** And as you also enter into more remote areas this micro insurance and Jan Dhan Yojana will be continuous ongoing stream.

**Ammeet Sabarwal:** Not only this also the direct benefit transfers, so if you see these are increasing, for example currently the LPG has started, the NREGA has started coming directly to the bank account.

**Mahinder Singh:** So you will just map it right, once you will map it, but later on it will go to the bank account right, only the mapping part you will do?

**Ammeet Sabarwal:** No, whenever it goes to the bank account, whenever the consumer comes and withdraws it so we get a commission as a percentage of the transaction value.

**Mahinder Singh:** Means you will map the banking account with the debt benefit schemes. So whenever he gets the amount you will get a small cut?

**Ammeet Sabarwal:** Yes. So we get 0.48% of the transaction value as a commission.

**Mahinder Singh:** And sir coming to ecommerce what are the terms of the agreement for JV with Amazon?

**Ammeet Sabarwal:** We have not set any commercials, so it is a percentage of the gross merchandize value as a commission and it depends on the product categories, product-to-product categories.

**Mahinder Singh:** I mean, you have just facilitated the transaction at the rural end or anyone is buying a product on the online front, he will just order online, how are you fitting in their?

**Ammeet Sabarwal:** So basically if you see even in city like Mumbai, we are having 61 outlets operational. So for example what we do is typically at our outlet there is an Amazon portal, so consumer can come to the outlet and he can browse through all the 25 million product of the Amazon. He can place an order. So it acts as an ordering point. All kind of payments can be done, so you can either pay by cash and do a fund transfer since banking is there or you can take the money from the ATM, if the ATM is there second point, and third it is the pickup and delivery point. So if you have ordered from the outlet the goods will get delivered at the outlet.

**Mahinder Singh:** So if I come to the outlet, I will get the product delivered at the same outlet also?

**Ammeet Sabarwal:** Yes, the same outlet and without any delivery charge. So typically if you order from your smart phone if the goods value is less than Rs. 500 typically Rs. 60 is the delivery charge. For example, if you order a T shirt of Rs. 400 then Rs. 60 which is almost 15% is the delivery charge whether it is for guys coming to our outlet and placing an order he is getting it without any delivery charge.

**Mahinder Singh:** But you will have to bear the logistics costs, right?

**Ammeet Sabarwal:** Amazon has to deliver it there, so it is Amazon's responsibility.

**Mahinder Singh:** Sir broadly what will be the range of the percentage, how the percentage of the gross margin...?

**Ammeet Sabarwal:** We are not allowed to...

**Mahinder Singh:** Broadly, I mean 10%-15%-20% or say 15%-20%?

**Ammeet Sabarwal:** No, I would advise we do not take this.

**Mahinder Singh:** And this will be the fastest growing segment for you going ahead?

**Ammeet Sabarwal:** Yes, overall B2C as a vertical itself is growing very fast for us. So we are as you would be seeing a lot of tie ups we have kept on doing. So whether it is online bus ticket booking, whether it is Mahindra and Mahindra lead generation for them. Yes, but Amazon is the one who is gaining lot of traction among the consumers also.

**Mahinder Singh:** But you can also tie up with other ecommerce players also, right? Or you cannot?

**Ammeet Sabarwal:** It is an exclusive tie up for both the parties. We cannot do a tie up with the Flipkart or Snapdeal or anywhere, wherever Amazon is present.

**Mahinder Singh:** But you can do it?

**Ammeet Sabarwal:** If Amazon says that he is not going to go into that particular state or in that particular area.

**Mahinder Singh:** No, for example in Mumbai you have opened Amazon center in one area, in Goregaon for example, you can open a Flipkart center in Andheri, or not?

**Ammeet Sabarwal:** No, wherever Amazon is agreed to provide the goods, we are exclusively tied up with Amazon and the same thing also applies to Amazon.

**Mahinder Singh:** I cannot tie up with any other guys to provide its goods there.

**Ammeet Sabarwal:** Right.

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

**Alok:** This is Alok from Edelweiss. I was just looking at your branch roll out plan. Now as at Q2, you had about 2390 rural branches in UP whereas when we see as a December it has jumped to 3283 branches. So we just wanted to understand whether you have a particular strategy of ramping up your branches in a particular state and then moving to another state or you plan to have a holistic pan India roll out plan. So how is it?

**Ammeet Sabarwal:** It definitely depend on state to state definitely. Say for example in Rajasthan we are already in the final full mature time. In Maharashtra also we are also in the matured time and especially in UP and Bihar will be the focus area going forward for us because UP is the bigger state.

**Alok:** So from here on also they are going to be more branches which will open in UP, Jharkhand, Bihar and all those pockets?

**Ammeet Sabarwal:** Yes.

**Alok:** So I understand that your roll out plan which is about 5000 more urban and semi urban Kendras that you have to bill you are at about 2800, so in the next 3 months how confident we are to achieve the 5000 semi urban and urban Kendras?

**Ammeet Sabarwal:** We are already on track. So those outlets are already identified and currently it is under the testing phase under the go-live phase what we say basically. So we gave the figures even 18,067 those were as of 31<sup>st</sup> December. So we are well on track to achieve that.

**Alok:** So if we were to say today then we would have almost reached some 3500-3800 in rural and semi urban?

**Ammeet Sabarwal:** Sorry?

**Alok:** Semi urban and urban we would have almost reached 3500 by...?

**Ammeet Sabarwal:** I do not have the exact numbers off hand right now with me, if you see the target for March 16, there is a target for 15,000 rural franchise and 5000 for the urban area. We will complete definitely that figure.

**Alok:** Sir one thing we just wanted to know that of course the numbers are not available for the debt and debtors but we just want to know from a trend basis how is it that you are seeing the debt levels and debtor levels?

**Ammeet Sabarwal:** Basically as we have always guided that by March of this year we will be long term debt free. We are on track to achieve that. Second thing is basically on the receivable cycles basically that has also if you see, if you even compare with the March number with the September number, in March we were somewhere around 1250 crores and in March we were having September we were somewhere around 970 crores. So even that has undergoing a same similar trend will continue.

**Alok:** And same is the thing with the receivables.

**Ammeet Sabarwal:** Yes.

**Alok:** And the revenue split between the rural and urban would be about, so if you have to say per Kendra, the revenue...?

**Ammeet Sabarwal:** See we are not selling those specific numbers, but as a thumb rule you can see our current average rural is doing somewhere around Rs. 75,000-85,000 per month per outlet and our urban outlet is doing somewhere around Rs. 150,000 to 200,000 per month per outlet.

**Moderator:** Thank you. The next question is a follow up from the line of Gaurav Gupta an individual investor. Please go ahead.

**Gaurav Gupta:** My question is with respect to unified payment interface that is being going to be rolled out by NPCI, so do we envisage any kind of impact that will create on transaction being executed by Vakrangee Kendras?

**Ammeet Sabarwal:** Basically if you see currently that thing is going on right now but finally you need a delivery point that it what we have always believed and that is where our conviction is there, so that at the end of the day you still need a delivery point at the last mile network. So basically whether if you want to buy any goods, if you want to have any goods any e-governance services also or digital India services finally there has to be a delivery point to deliver those kind of services.

**Gaurav Gupta:** So second question is that how we are projected against change in percentage of fees or commission that we will be getting from various line of businesses be it government banks, insurance companies, telecom companies or ecommerce companies?

**Ammeet Sabarwal:** So each and every contract has a proper tenure for example our ecommerce we have with Amazon we have at least 5-year contract and then from banking we have a 7-year contract

from the date of the operation of the outlet. So from the date the outlet starts operation and within that also there are clauses for increasing it by a certain percentage.

**Gaurav Gupta:** So there is no as such provision of decrease in commission or fees, we can say.

**Ammeet Sabarwal:** We are not envisaging any such thing right now, not to our knowledge.

**Gaurav Gupta:** My last question is that with respect to my earlier question that I asked with respect to payable days that you said that it will be 30 days and receivable days that will be 60 days. So considering the huge growth that we are envisaging and the kind of sales that we will be generating, so have we done some kind of working capital management into this because what I am getting as per my modeling is that, receivables are going to be quite high as compared to my payables even after following a dividend payout policy of 10% to 20%, there will be a significant deficit into that which we will be requiring. So that will increase our I think short term loan?

**Ammeet Sabarwal:** Basically if you see I am talking about even if I take our FY2020 number somewhere around 12,000 crores, \$2 billion what we are talking about, we have 12,000 crores if you see my one month of working capital required because I am seeing 60 days of receivables and 30 days of payables. So that is somewhere around 1000-1200 crores?

**Gaurav Gupta:** 1186, yes.

**Ammeet Sabarwal:** But if you see the kind of profit that we would be making what we are envisaging somewhere around 10%-12% of our PAT margin and our EBITDA to cash flow conversion would be very healthy....

**Gaurav Gupta:** But out of that we will be paying something in dividend as well, right?

**Ammeet Sabarwal:** We will paying, that is what I was saying, so even if you take out entire 25% out and if you still do the maths, we will be in a very comfortable position.

**Moderator:** Thank you. We have follow up question from the line of Lee Mayer. Please go ahead.

**Lee Mayer:** I was hoping you could help us understand a little bit better the financial structure of the new subsidiary, the new logistic subsidiary just in the sense of understanding the P&L of that new business. The revenue from my understanding you made it clear that your take of percentage commission will be gross merchandise, how will the revenue be split between the Vakrangee Kendras and subsidiary also from a cost point of view, what cost needs to be borne by that subsidiary? Does that subsidiary need to take inventory, commit working capital to own the good while it is being delivered, what other clause can we expect to be at that subsidiary and how do that impact that subsidiaries is possibility?

**Ammeet Sabarwal:**

As far as Vakrangee Logistics Private Limited Company which will be the subsidiary of the Vakrangee Limited only and as far as financial model is concerned we have not yet finalized the financial model, we have not calculated or we cannot give the planning for that. Recently, just yesterday only we got the permission from the Board of Directors. But then Amazon team is coming here, the team is here from 10-11 this month. So after discussing we will find out what will be the scope of that. How we will do that job? How they will expect from us, as far as capital expenditure is concerned we will prefer CAPEX light model, we will not do any CAPEX and in the initial period when we are doing the logistics for only Amazon, so we will use the Amazon technology which already they are having, so there will be no expenditure in the technology front also in the initial time because their technology is always tested ones and they have already offered us to use their technology for logistics especially if you do the logistics only for the Amazon. So there will be no technology expenditure initially there will be no capital expenditure initially. As far as revenue model is concerned as far as sell site is concerned there sell site Amazon customer is already there, Amazon is already there so there will be no need of any to do business development side. So sale is fixed we will sit on 10/11 and we will do the financials and we will come as soon as we completed everything. So right now if it is in totality there is not capital expenditure, no big technology expenditure. So there will be small revenues from OPEX side, nothing much more.

**Lee Mayer:**

Thank you. That is very clear. Just one other question and just it relates to ATMs and the roll out, I know that you mention that you are targeting 5000 ATMs to be rolled out by the end of calendar year of 2016. I am not sure if I heard correctly, but did you say, that currently you only have 220 somehow ATMs outstanding.

**Ammeet Sabarwal:**

If you see every outlet, right now I am 18,067 outlets. So every outlet is having the ATM. Some certain 220 or something the outlets are having the manned complete ATM. Other outlets are also having the micro ATM. Micro ATM is the manned ATM basically small devices is there. So what we are doing right now, basically micro ATM was having only biometric functions previously so what we are adding is the card swiping thing and pin pad thing. So after pin pad and card swiping and integration with National Payment Corporation of India which is company of the Reserve bank of India, the Central Bank of India, we are doing the integration for that. So after doing the integration every outlet will have the ATM function as far as this utility is concerned. What is the difference between micro ATM and man ATM. Main ATM is a full-fledged ATM where a citizen can get the money automatically. But in micro ATM everything is same. He can swipe the rupee card, he can swipe the debit card, credit card, master card, visa card, he can get the money. But money is physically counted given by the franchise physically counted and given to the franchise. So we have **(Inaudible) 55.30** to the Reserve Bank of India, NPCI. So company is thinking this will be treated as an ATM thing, so my every outlet will have that, you just imagine what we are doing, what we are in a Rs. 10,000. I will reduce the total cost of the ATM. Right now the ATM cost is more than Rs. 300,000. After if I suppose if I do this integration and my ATM cost will be drastically reduced

to Rs. 10,000 only and as far as citizen is concerned, citizen is happy to swipe the card and get the money, that is it and what Reserve Bank of India wants every citizen must get the access of the ATM, he must get the money so that purpose is full filling with my Vakrangee Kendra or this micro ATM.

**Lee Mayer:** Okay just to clarify right now there are something like 220 ATMs, you that have the swipe and the pin pad. But that swipe and pin pad ATM will go from the current 220 to something like 5000 in the next few years?

**Ammeet Sabarwal:** Yes. That will be rolling out now along with our all major urban outlet. Will be rolling out the full-fledged ATM.

**Moderator:** Thank you. We have follow up question from the line of Gaurav Gupta an individual investor. Please go ahead.

**Gaurav Gupta:** My this question came just one last caller was asking, with respect to that are we saying that once we have rolled out the new set of ATMs it will reduce the cost, so do we do-away the kind of franchise cost, 3 lakhs that you were telling that is applicable only for ATM franchisee?

**Ammeet Sabarwal:** You see basically we are having the full-fledged ATM primarily or the urban and semi urban outlet and for all the rural outlet we will be doing the micro ATMs. So what the target what we are giving, the 5000 full-fledged ATM will be primarily along with the urban and semi urban where the densities and population are much higher. Therefore, the usage and the viability of a full-fledged ATM is very comparable.

**Gaurav Gupta:** So you are saying that there will be two set of ATMs, one in which there is a huge cost involved and the one that is not requiring that much of cost. So in which there is a huge cost involved then at that point of time 3 lakhs of rupees will be charged as a franchise cost to the franchisee owner and in the second case there will be not such cost involved.

**Ammeet Sabarwal:** Yes.

**Gaurav Gupta:** And if you can just give a break up that at the end of FY2017 and calendar year 2016, how much will be the net ATMs and out of which what will be the percentage of higher cost ATM and what will be the percentage of lower cost ATMs?

**Ammeet Sabarwal:** So therefore I am thinking for this calendar year our target is to have a 5000 full-fledged ATM.

**Gaurav Gupta:** So that means Rs. 150 crores of revenue in franchise fees?

**Ammeet Sabarwal:** Yes.

**Gaurav Gupta:** And what will be that low cost ATMs, how much will be they?

**Ammeet Sabarwal:** That is only Rs. 10,000.

**Gaurav Gupta:** No, what will be the number of such ATMs, low cost ATMs?

**Ammeet Sabarwal:** That is what it is undergoing at pilot test with the NPCI and the RBI. So I do not have a proper timeline, once they approve it, it will be rolled out across all our rural outlets.

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

**Abhilasha Satale:** This is related to ATM only. About this full-fledged ATM our terms are fixed like they are charging around Rs. 10 per transaction or so. So how will it be for that micro ATMs, will that also have the same transaction charges?

**Ammeet Sabarwal:** Yes, so it is for financial transaction, it is Rs. 15 and for non-financial it is Rs.5. RBI do not know there is a micro ATM or manned ATM, this is simple financial transaction and non-financial transactions, that is it.

**Abhilasha Satale:** Sir this will not change, whether it is micro ATM or this manned ATM?

**Ammeet Sabarwal:** Yes.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor to Mr. Ammeet Sabarwal for his closing comments. Over to you sir.

**Ammeet Sabarwal:** Thank you everyone for taking time out and coming and attending our conference call. Feel free to contact us in case of any further queries. Our coordinates are there on the company website and you can contact us and we will get back to you.

**Moderator:** Thank you very much sir. Ladies and gentlemen with this we conclude this conference call. Thank you for joining us and you may now disconnect your lines.