



“Vakrangee Limited Q1 FY 2016  
Earnings Conference Call”

**August 17, 2015**



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**Moderator:** Ladies and gentlemen good day and welcome to Vakrangee Conference Call for Q1 FY16 Earnings, hosted by Macquarie Capital Securities India Private Limited. As a reminder all 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Alankar Garude from Macquarie Capital Securities. Thank you and over to you Sir!

**Alankar Garude:** Thanks Daryl. Good day and a warm welcome to all participants. We at Macquarie Securities are very please to host Vakrangee Q1 FY16 Earnings Conference Call. From the management we have with us Mr. Dinesh Nandwana, Chairman & Managing Director. We thank the management for giving us this opportunity. Now I would like to hand over the call to the management for the opening remarks, post which we will have the question and answer session. Thank you and over to you sir.

**Dinesh Nandwana:** Dinesh Nandwana here, good evening dear ladies and gentlemen. It is a great pleasure to greet you all once again on behalf of our board of directors and senior management. We begin by thanking all of you for having spared time for joining us here today to discuss our first quarter earnings for the financial year 2015-2016.

Our key growth driver 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 the banking net by ensuring at least two bank accounts for households. These accounts shall be linked with the Aadhaar number of account holders and will become a single point of contact for receipt of all direct benefit transfers that is DBT from central and the state government and local bodies.

Our company is at forefront to leverage this growth opportunity and said to become one of the leading players in implementation of financial inclusion in India. Our Vakrangee Kendra Outlet is our last-mile retail outlet that is in close proximity to the population of rural India. We have embarked on a journey to be a preferred last-mile link across the nation for providing all services and products through our Vakrangee Kendra Model, technologically sound and a host of services and products offering, we would be the choice of citizen for availing the needs of household necessities to conducting daily transactions. Through Vakrangee Kendra we offer a rich pocket of e-governance, banking insurance, e-commerce and ATM services. In addition to Maharashtra, Rajasthan and Delhi we are setting up and managing our Vakrangee Kendra outlet in 12 more states across India.



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Currently our company has been appointed as the national business correspondent by seven banks including Bank of India, Punjab National Bank, Union Bank of India, Allahabad Bank, State Bank of India, Baroda Gujarat Gramin Bank, Baroda Uttar Pradesh Gramin Bank et cetera. We have become the preferred partners of choice to all the major PSU banks. We have a vision to complete around 75000 Vakrangee Kendra outlets by 2020. Of these 25000 will be set up in urban and semi-urban areas and the remaining 50,000 in rural area. We have shared our vision document along with our quarterly results a copy of which is also available on our company website.

As of now we are already have 15108 outlets across rural and urban areas, on behalf of more than 15 banks, this is as compared to 12568 outlets as on March 31, 2015, plus opening around 2000 outlets during this quarter. Post the launch of Pradhan Mantri Jan Dhan Yojana by the government there has been a strong push from banks to expand their 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 2015 to 2091 branches in June 2015.

Over the years we have led the ground work, developed strong resolution capabilities and nationwide till the gross root level with deep knowledge of consumer behavior and of challenges that exist in working for under served part of India we used to be an integral part of India's retail revolution. Through our initiatives we aim to contribute to well being of India's rural population. Our company has recently entered into a strategic tie-up with Amazon India in its constant endeavor to connect India's unserved and under served 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 sales provide marketing promotional and pickup services to Amazon through the Vakrangee Kendra.

Connecting to our financial results for Q1 of 2015-2016, our revenues for Q1 have increased by 3.4% on year-on-year basis to Rs.7043 million. Our revenues from Vakrangee Kendra outlets retail segments has increased by almost 26.4% whereas our e-governance segment revenue have lowered by 13.1% as we are purposefully shifting our focus from capital intensive e-governance segment to asset light Vakrangee Kendra Retail Outlet Segment. Our EBITDA has increased by 21% on year-on-year basis to 1898 million, our EBITDA margins have increased by 400 basis points at around 27%. The EBITDA margins for our e-governance segment has improved by 1110 basis points as we are focusing on higher margin projects and moving out of lower e-governance projects. The EBITDA margin for the Vakrangee Kendra outlets retail segment has been at 25.5%. We expect these margins to stabilize around 18% to 20% on a long-term basis as we have

increased the commission ratio with franchisee to 80:20. Our profit after tax has increased by 11.5% on year-on-year basis to Rs.849 million. There is a positive operating leverage in our Vakrangee Kendra retail segment as our expansion is mainly through franchisee route with no major Capex. Our retail segment now contributes almost 50% of the total revenue. Economies of scope will further improve as new services are added leveraging the same technology driven platform. Recently new initiatives have been introduced by government to push financial security and financial insurance with schemes of this Pradhan Mantri Jeevan Suraksha Yojana and Atal Pension Yojana. With no incremental capex and operating cost addition of more and more services and increased targets and volumes over a period of time will result in further positive operating leverage. Therefore our incremental ROC is expected to further improve. With this I would like to hand over the floor for question-and-answer session. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. Our first question is from the line of Manan Shah from Manan Investment. Please go ahead.

**Manan Shah:** Dinesh Ji, I would like to shed some light on the Amazon tie-up. So what is the rollout of the Amazon distribution and what is the commission sharing on an indicative basis in the revenue model?

**Dinesh Nandwana:** See as a pilot we have started in three outlets of the Bombay namely Bhandup, Govandi and Kalyan, then outlet main humne ismay just recently launch kiya, in these three outlets we have just launched it recently and we are getting good response from there and first pilot hum complete kar rahey hain is month ke andar, first pilot we are completing within this month and then we will prepare the SOP and roll out all India before March 31, 2015. There will be mega launching in Diwali.

**Manan Shah:** So post to the Diwali quarter you will see revenues coming in from Amazon?

**Dinesh Nandwana:** Right.

**Manan Shah:** Send secondly on the debt front when I had spoken to you a quarter back you had said that debt would be reduced to zero by year end so are we on track?

**Dinesh Nandwana:** Yes definitely. Right now if you see before three years the debt was 380 Crores long-term debt, right now that is only 71 Crores. In my opinion this will be cleared up in this current year only, by March 31, 2016 I think we will be long-term debt free.



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**Moderator:** Thank you. Our next question is from the line of Pratik Gandhi from Geecee Investments. Please go ahead.

**Pratik Gandhi:** Can you throw some light in both of the business and how you want to take up both the businesses over next two to three years?

**Dinesh Nandwana:** Both the businesses in which Vakrangee Kendra or e-governance.

**Pratik Gandhi:** Yes sir.

**Dinesh Nandwana:** See as far as Vakrangee Kendra is concerned we are having five business units in Vakrangee Kendra, first is the e-governance vertical, there we provide more than 100 services in Vakrangee Kendra, say for example, Aadhaar Enrollment, Aadhaar updation, Utility Bill Payment, lots of government services where we get fees from the government. As far as customer side is concerned every service is free of cost. Another is banking. We are operating one of the most technologically and advanced banking network where every Vakrangee Kendra has a business correspondent of any nationalized bank where any citizen can open a bank account. There is no requirement of any KYC document. No address proof is required. No address ID proof is required. No photograph is required. Only Aadhaar is required, this is totally e-KYC. We claim we open a bank account in three minutes time only. I do not think anywhere in the globe you can open a bank account in three minutes. Another service in banking service is cash deposit, cash withdrawal and money transfers. Those services are also totally paperless service. You can deposit cash without filling bank slip. You can withdraw the money without any cheque book and signature. This is our second unit. There is a bigger banking unit. Third one is the insurance and pension unit where for insurance we are the corporate agent of Life Insurance Corporation of India and non-life part we are the corporate agent of New India Insurance and we are also doing the three insurance products from government of India that is Pradhan Mantri Jeevan Suraksha Yojana and Atal Pension Yojana. Fourth business unit is the e-commerce unit. In e-commerce side we are doing two things in services part and another in the product part. In services part we are doing all mobile recharge, DTH services and in the product side we have recently tied up with Amazon. Next vertical is the ATM vertical. We got the license from the Reserve Bank of India set up 15,000 White Label ATMs in Vakrangee Kendra so these are the five business units. As far as e-governance vertical is concerned we are having the Aadhaar for the election project Swasthya Bima Yojana et cetera.

**Pratik Gandhi:** Sir will you be able to split that in terms of Vakrangee Kendra's 350 Crore topline how that will be split across the segments.



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- Dinesh Nandwana:** It is about 50-50.
- Pratik Gandhi:** So you said that e-governance is basically around 350.
- Dinesh Nandwana:** Do you want to split the Vakrangee Kendra revenue?
- Pratik Gandhi:** Yes sir.
- Dinesh Nandwana:** See these are not published documents, I cannot say right now, but in later on we will start that.
- Pratik Gandhi:** Any color you can give in terms of which segment among the Vakrangee Kendra would be high up in terms of proportion of revenue, is it more banking, e-KYC will be slightly bigger compared to the cash deposit and withdrawal and insurance or probably ATM is higher.
- Dinesh Nandwana:** See it depends on month-on-month basis. In certain months insurance push is very high from the government side then there is good revenue from the insurance side. Right now Aadhaar is doing fantastic, if you want to do Aadhaar enrollment in my Vakrangee Kendra outlet you get the time after 30 to 60 days, there is a queue in waiting period for every outlets so that is the thing in the e-governance side and banking side is also going fantastic but as far I think there may be very great scope in product side in e-commerce.
- Pratik Gandhi:** Sir can you throw some light in terms of your tie-up with Amazon?
- Dinesh Nandwana:** There is an exclusive tie-up with Vakrangee whereby you can do the order of any 25 million products in Vakrangee Kendra. You can make the payment by any mode of payment in Vakrangee Kendra. ATM is there. You can withdraw money from the ATM. You have a bank account there. You can transfer the money. You can give cash. One is ordering and second thing is making the payment and third thing is the pickup point so there are three things ordering of the goods, payment for the goods, and pickup of the goods. These services are there.
- Pratik Gandhi:** And just to understand this better is it that you will be setting up some kiosk at your Vakrangee Kendra wherein a customer want to come and they want to browse through?
- Dinesh Nandwana:** Yes, in every Vakrangee Kendra there will be Amazon center.
- Pratik Gandhi:** And the fulfillment will be taken care of by Amazon and not by you.



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- Dinesh Nandwana:** Right.
- Pratik Gandhi:** So you will be just paid the commission for the each transaction done.
- Dinesh Nandwana:** Right.
- Pratik Gandhi:** And I guess in terms of your exclusivity the business correspondence is around five years right sir.
- Dinesh Nandwana:** Actually we are having a non-disclosure thing on that so I cannot comment on that.
- Pratik Gandhi:** No I guess not with respect to Amazon but I guess in terms of as a business...
- Dinesh Nandwana:** For example banking we are having the five plus two years.
- Pratik Gandhi:** So assuming once that is done, I think post that, that is open for all other players as well who want to participate in this place.
- Dinesh Nandwana:** Right now if you see there are 160,000 sub service areas in India. We are only having 15000 accesses, balance is vacant now, any person can come there but there is no other player right now.
- Pratik Gandhi:** How do you see this post office basically competing with you guys I think they in terms of the reach?
- Dinesh Nandwana:** You can open a post office account there. You can withdraw the money. In spite of that there is unbanked population is there.
- Pratik Gandhi:** When are you guys going to seek license for the payment bank?
- Dinesh Nandwana:** I think that will depend on the board and RBI.
- Pratik Gandhi:** Any timeline you want to share.
- Dinesh Nandwana:** I cannot. Reserve Bank of India governor has commented that in this month only they are going to release the license but I cannot comment, it is up to Reserve Bank of India.
- Pratik Gandhi:** How are debtor days in the e-governance business?



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**Dinesh Nandwana:** That is going down now because see there are certain projects which have less EBITDA margin we are removing from that.

**Amit Desai:** Pratik this is Amit Desai, basically on the working capital cycle if you see there are two parts to it, one is the e-governance segment and the working capital cycle is high even on the Vakrangee Kendra the working capital is fairly low, this is only 30 to 60 days only. So as the segmental revenue Vakrangee Kendra keeps on improving every quarter-on-quarter working capital keeps on going down and you are seeing even during this quarter our revenue from the e-governance segment we are actually lowered it purposefully because we are ourselves shifting from e-governance to Vakrangee Kendra model, so that we are also focusing more on the asset light model and low Capex model.

**Dinesh Nandwana:** In the longer run as far as e-governance is concerned we are only executing Digital India's part where we can deliver services from the Vakrangee Kendra only.

**Pratik Gandhi:** But as you mentioned there are around 30 to 60 days would be the debtor days in Vakrangee Kendra similarly what kind of number would be there for e-governance business?

**Dinesh Nandwana:** That is 90 to 100 days.

**Pratik Gandhi:** That is it; I thought it was upward of 150 days.

**Dinesh Nandwana:** It was 120 days or something, right now going down.

**Moderator:** Thank you. Our next question is from the line of Pratik Gandhi from Geecee Investments. Please go ahead.

**Pratik Gandhi:** Sir I think you had a aspiration I think in terms of growing your top-line to somewhere close to around 6000 Crores by around FY 2017 so are we on track to achieve the same number?

**Dinesh Nandwana:** No we are definitely on track. If you see the vision document from our website as per our vision 2020 my top line will be increased to \$2 billion by 2020.

**Pratik Gandhi:** With what kind of margin sir, EBTIDA margin will be the similar, I think that should improve right.

**Dinesh Nandwana:** 10 plus definitely.



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- Pratik Gandhi:** Our current EBITDA margin.
- Dinesh Nandwana:** EBITDA will be 18% to 20% something and PAT margin will be near about 10% plus.
- Pratik Gandhi:** EBITDA margin will be 18% to 20% from current around 27%.
- Dinesh Nandwana:** Because in Vakrangee Kendra sharing will be 80:20.
- Pratik Gandhi:** If you can explain me that.
- Dinesh Nandwana:** Basically earlier with franchisees we were sharing the margins at around 70:30 and 75:25, however going forward we have increased that to 80% to 20% so 80% of the commission goes to the franchise and 20% goes to us that is our company, there is a lot of motivation for the franchisees to work upon it. So overall on a long-term basis we are seeing and there are lot of items which are initial one-time event for example account opening now account opening is one and when you start the outlets it is not a recurring item, but on a long-term sustainable basis we see the margins to stabilize at around 18% to 20% on an overall basis.
- Pratik Gandhi:** And I think you said that I think by this yearend you will be a debt free company.
- Dinesh Nandwana:** Long-term debt free company.
- Pratik Gandhi:** And sorry for my ignorance but what kind of payout do we have in terms of dividend.
- Dinesh Nandwana:** Right now 25% we have declared.
- Pratik Gandhi:** Any plan to increase it further?
- Dinesh Nandwana:** In this year we will release the dividend policy; that will be at par with top companies.
- Pratik Gandhi:** So is it fair to assume that it would be up for around 30% to 35%.
- Dinesh Nandwana:** After debt free it will be good. We will release the dividend policy.
- Amit Desai:** We will have a proper dividend payout policy coming out shortly.
- Pratik Gandhi:** And what kind of capex management envisages for the current year?
- Amit Desai:** There is no major capex. Actually in our Vakrangee Kendra business is there is no capex in that segment and we are currently focusing on expansion of that segment.



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- Pratik Gandhi:** Of the overall Vakrangee Kendra of around 350 Crores is it entirely led by the franchise business.
- Amit Desai:** Yes all the outlets are on franchise business.
- Pratik Gandhi:** So there is no Capex over there from whatever Capex will be there that is larger towards the e-governance only which you are basically releasing.
- Amit Desai:** Yes right.
- Pratik Gandhi:** Got it, but what is the maintenance Capex?
- Dinesh Nandwana:** Not a big amount because we are quitting lots of projects on that; which are capex heavy we are quitting that.
- Moderator:** Thank you. We have a question in the line of Shalin Kumar from UBS. Please go ahead.
- Shalin Kumar:** Sir some very basic question, as I am relatively new to your company. What kind of proportion are you looking for FY 16 for Kendra vis-à-vis e-governance in terms of the revenue and profitability?
- Dinesh Nandwana:** We have got 60 from the Vakrangee Kendra side 40 from the e-governance side. Right now we are having near about 50:50 then by 2020 we will have the e-governance vertical zero and everything will be Vakrangee Kendra.
- Shalin Kumar:** Sir but when I am seeing your presentation EBITDA margin for your Kendra for the quarter has come down if we compare year-on-year?
- Dinesh Nandwana:** Yes.
- Shalin Kumar:** And what is the reason for that and if is it an ongoing thing or is it a one-off thing?
- Dinesh Nandwana:** In the longer run EBITDA margin will be 18% to 20% but in absolute terms EBITDA will be increased but as far as percentage terms EBITDA margin will be 18% to 20% in the longer-term.
- Amit Desai:** See Shalin basically there are two parts to it. There are few transactions which are the one time transaction, just to give an example basically making your Aadhaar Card, making your account opening and then linking your account opening to the Aadhaar Card for example

these are the kind of event which are one time, so when you open a branch whatever people come they do that once so basically we get a fixed kind of commission on each of these kind of transactions which we use to share 50:50 with the franchise and 50% to us and overall on the ongoing transaction basis our sharing used to be 70:30, so 70% of the franchisee and 30% to us, however what we have made from this year onwards is basically we have done the sharing ratio 80:20 for all kind of transactions, so basically 80% to the franchisee and 20% to us. So therefore we are saying that once all the outlets stabilize our overall EBITDA margin will be in the range of 18% to 20%.

- Shalin Kumar:** Are you giving any kind of revenue guidance for FY 2016?
- Dinesh Nandwana:** We have shared the vision document for 2020 that is all.
- Shalin Kumar:** Just one thing I think the question has already been asked but I am just reiterating, in terms of your receivables as you said the receivable days have come down somewhere from 120 to 90 is there a possibility of any kind bad debt in that?
- Dinesh Nandwana:** If you see the history of Vakrangee over last 25 years bad debts is zero in over 25 years.
- Shalin Kumar:** As I said I am relatively new sir so...
- Dinesh Nandwana:** These are all the mission mode project by the government so there is no bad debt.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor back to the management for closing comments. Over to you sir!
- Amit Desai:** Thank you everyone for taking out time for attending the Q1 FY 2016 conference call for our company Vakrangee Limited. In case of any further queries feel free to contact us. Our details are there at the website as well as along with the presentation. Thank you.
- Moderator:** Thank you very much members of the management. On behalf of Macquarie Capital Securities Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.