

India Midcap Discovery Series - Vakrangee Ltd. -----NOT COVERED*
Last-mile distribution platform for G2C, BFSI and B2C services

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- Transformation into a last-mile distribution platform: Vakrangee commenced operations in 1990 by participating in e-governance projects and is now focused on establishing Vakrangee Kendras.
- Vakrangee Kendra – one-stop shop for G2C, BFSI and B2C: Outlets are franchisee-run and make money through: (1) G2C services such as Aadhaar and NREGA transfers, (2) transactions for banks and insurance companies, and (3) B2C services such as mobile recharge – it now has an alliance with Amazon.
- Large expansion plans: It will have 15k rural and 5k urban/ semi-urban centres by end-FY16 and targets 50k rural and 25k urban centres by FY20. Further, it is adding additional income sources such as a tie-up with Amazon (customers can place orders from the Kendras) and with M&M (for lead generation).
- FCF has been negative; management expects margins to come down: FCF has largely been negative due to high capex or working capital of e-governance projects and management expects improvement, going forward. Higher revenue from Kendras and a 20% share will stabilise margins at 17%.

expects the Vakrangee Kendra business to contribute nearly 100% of revenue by FY20 (from 50% now).

Large expansion plans

The company intends to expand its network to 75k centres by FY20 (50k rural and 25k urban centres) from the expected 20k (15k+5k) centres in FY16. It has recently tied up with IOCL – an exclusive tie-up, under which it can potentially set up centres at 25k+ IOCL outlets (it is initially targeting 1,573 outlets in Rajasthan).

Vakrangee is also constantly exploring incremental sources of income for the Kendras. It has an exclusive five-year tie-up with Amazon (a person can walk into the centres and order on Amazon, and this solves the lack of access for many consumers and some of the last-mile delivery issues for Amazon), and has a tie-up with Mahindra & Mahindra to help in lead generation. It is also exploring a logistics subsidiary along with Amazon; however, it intends to minimise its capital deployment in this business.

Asset light model for Vakrangee and reasonable returns for franchisee partners, according to management

A franchisee typically incurs Rs125-150k in rural and Rs400-700k capex in urban centres and has working capital requirements of Rs50k-100k, Rs250k-850k in such centres. The franchisee takes care of the entire operating expenses and Vakrangee receives around 20% revenue share. The company has been changing its revenue share gradually from the initial 35% to 20% to increase the attractiveness for franchisees. According to management, the franchisee typically recovers most of the capex in the first year through one-time transactions such as Aadhaar enrolments and bank account openings. Currently, the B2C portion accounts for almost 30-35% of recurring franchisee revenue and the company expects B2C revenue contribution to reach ~60% in the next 3-4 years. Currently, G2C contributes 10-15% and BFSI contributes the remainder – the franchisee typically makes 0.3-0.5% commission on banking services and direct benefit transfers and the commissions from Amazon can range from 4% to 15%. As per management, a franchisee takes 6-9 months to reach maturity.

FCF has been negative; management expects margins to come down

The company has largely had negative free cash flow in the past. This has been either due to high capex (capex was Rs3.6 bn in FY12 and Rs2.3 bn in FY14 which the company attributes to e-governance projects such as the ones associated with elections) or due to high working capital requirements (increased from about 75 days in FY11 to about 150 days in FY15). With little focus on e-governance projects, the company expects minimal capex requirement going forward and expects working capital to improve. Overall EBITDA margins were 26% in FY15 despite gross recharge revenue being recognised and some small pass-through revenue from start-up kits sold to franchisees. As e-governance revenue (which has higher margin) contribution comes down and the company's revenue share from the Kendras settle at 20% (versus 35% in the initial period), the management expects EBITDA margins to stabilise at 17%.

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Figure 1: Summary financials

Rs mn	FY11	FY12	FY13	FY14	FY15	9m Growth FY16	9m (%)
Revenue	8,897	13,532	15,472	19,519	27,805	23,108	11.0%
EBITDA	1,388	2,415	3,815	5,346	7,232	6,040	13.8%
EBITDA margin %	15.6%	17.8%	24.7%	27.4%	26.0%	26.1%	65 bps
PBT	675	1,011	1,435	2,820	4,888	4,381	24.3%
PBT margin %	7.6%	7.5%	9.3%	14.4%	17.6%	19.0%	202 bps
PAT	489	691	1,041	1,750	3,213	2,840	15.6%
EPS (Rs)	1.0	1.4	2.1	3.5	6.4	5.5	12.2%
RoE	15%	18%	22%	27%	32%		
RoCE	12%	14%	15%	18%	24%		
Net debt to equity (x)	0.4	1.0	1.0	0.6	0.3		
NWC days	77	90	121	123	149		
P/E (x)	16.8	20.0	32.3	28.7	16.1	31.5*	
EV/E (x)	7.0	7.5	10.2	10.3	7.7	15.4*	

*annualised based on 9M number; Source: Company data, Capitaline, Credit Suisse

Transformation into a last-mile distribution platform

Vakrangee commenced operations in 1990 as a technology partner in e-governance projects, and has worked with the Central Election Commission, Unique Identification Authority of India, and others. However, due to higher capex and working capital requirements, it is focusing more on its Vakrangee Kendra business.

Vakrangee Kendra – one-stop shop for G2C, BFSI and B2C

This is an outlet operated by franchisees that is a one-stop shop for many government-to-consumer (G2C), BFSI (banking, financial services, insurance) and B2C services. The Kendras provide over 300 G2C services such as UID cards, NREGA job cards, and election cards. Under BFSI services, they open accounts, offer transactional services, disburse money under direct benefit transfer, disburse pension, offer government & private insurance schemes, and have white label ATM services. However, in some areas of financial services, the company's current distribution scale is small as compared to fintech companies such as Oxigen (unlisted), and Suvidhaa (unlisted). They also provide B2C services such as DTH & mobile recharge and have alliances with companies such as Amazon and Redbus (unlisted). The company

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Companies Mentioned (Price as of 08-Mar-2016)

Amazon com Inc. (AMZN.OQ, \$562.8)
Indian Oil Corp Limited (IOC.BO, Rs397.4)
Mahindra & Mahindra (MAHM.BO, Rs1216.85)
Vakrangee (VAKR.NS, Rs225.4)

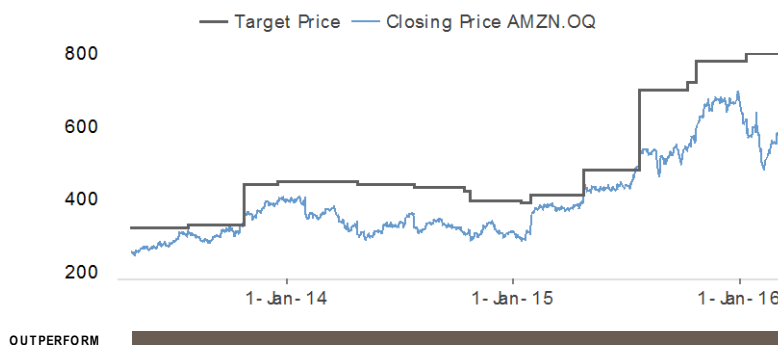
Disclosure Appendix

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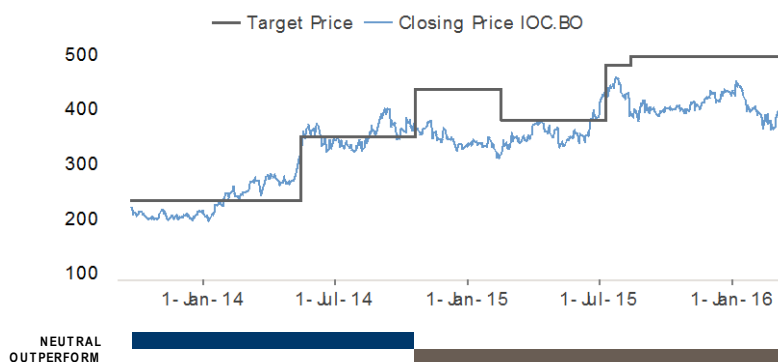
AMZN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
26-Apr-13	254.81	320.00	O
26-Jul-13	312.01	330.00	
25-Oct-13	363.39	439.00	
17-Dec-13	387.65	449.00	
25-Apr-14	303.83	439.00	
25-Jul-14	324.01	431.00	
14-Oct-14	308.31	422.00	
24-Oct-14	287.06	395.00	
14-Jan-15	293.27	389.00	
30-Jan-15	354.53	410.00	
14-Apr-15	385.11	412.00	
24-Apr-15	445.10	480.00	
24-Jul-15	529.42	700.00	
09-Oct-15	539.80	720.00	
23-Oct-15	599.03	777.00	
12-Jan-16	617.89	800.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for Indian Oil Corp Limited (IOC.BO)

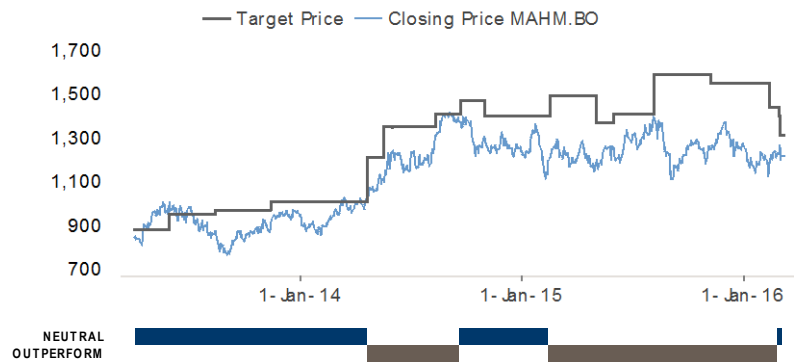
IOC.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
24-Sep-13	219.35	233.00	N
15-May-14	307.60	350.00	
20-Oct-14	379.60	435.00	O
16-Feb-15	317.80	380.00	
19-Jun-15	381.10		*
10-Jul-15	420.20	480.00	O
14-Aug-15	389.10	495.00	



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3-Year Price and Rating History for Mahindra & Mahindra (MAHM.BO)

MAHM.BO	Closing Price	Target Price	
Date	(Rs)	(Rs)	Rating
03-Apr-13	844.20	881.64	N
30-May-13	1004.19	949.61	
14-Aug-13	873.04	969.60	
13-Nov-13	894.93	1009.59	
22-Apr-14	1023.88	1209.50	O
19-May-14	1098.25	1349.45	
02-Jun-14	1239.94	1350.00	
11-Aug-14	1308.40	1410.00	
22-Sep-14	1371.45	1470.00	N
31-Oct-14	1303.40	1400.00	
16-Feb-15	1207.80	1490.00	O
04-May-15	1199.25	1370.00	
01-Jun-15	1255.50	1410.00	
07-Aug-15	1387.65	1590.00	
08-Nov-15	1248.15	1550.00	
12-Feb-16	1168.40	1440.00	
29-Feb-16	1226.80	1400.00	
01-Mar-16	1266.25	1310.00	N



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Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

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