

Canara Bank Securities Ltd

(A Subsidiary of Canara Bank)



VAKRANGEE LTD – Upgrade

Buy

12/01/2017

CMP: ₹ 282; Target Price: ₹ 384

We have revised the target price for Vakrangee Ltd from ₹ 282 to ₹ 384. Since our initial coverage of this stock in September 2016, the stock has rallied by 25%. On the backdrop of Government's push towards digital economy and the Demonetization exercise we further revise our target upwards based on the following merits:

Digital Economy drive by the Government: The Vakrangee Ltd. Company is well positioned and has penetrated its reach to many parts of Indian hinterland with more than 26,000 Vakrangee Kendra outlets. The demonetization push has enabled the Kendras to render the services in the remote rural areas with the help of their 'National BC' (Business Correspondence) model tied up with 8 banks. The following services have been extensively popular after the Government demonetization decision taken on 8th November 2016.

- Bank Account opening (₹ 20 per Account)
- Cash Deposits and withdrawals (up to 0.48% of transaction value)
- Money Transfers
- Enrollment of UID cards
- Payment of utility bills
- ATM Services (White Label ATM)

Long Term Debt Free Company: The Company has become debt free company as per the press release on January 5, 2017 through early payment of all the outstanding long term credit facilities sanctioned to it. The company is focusing more on expansion through Asset light model by increasing number of franchises. The company is targeting 75k Vakrangee Kendra outlets by 2020. The company has added 6,188 outlets during in the first two quarters of FY17 out of the target 15000 outlets for the entire year. It shows that the company's progress is well on track.

Tie up with HDFC ERGO general insurance company limited: The Vakrangee-HDFC ERGO tie-up is going to be a win-win affair for all stakeholders. While HDFC ERGO will be able to leverage distribution network of more than 26000 outlets of Vakrangee including areas currently not served or underserved, Vakrangee will have added range of quality product to offer through its vast distribution network. Following the tie-up, citizens, especially in un-served and underserved areas, shall be able to access quality General Insurance products and services offered/to be offered by HDFC ERGO General Insurance Company. This should increase the footfall as the addressable customer base will improve. This should also bring in cross-selling revenues.

Fair Valuation of Stock

We have strong conviction on the company results for H2FY17 due to the structural reforms initiated by the Indian Government towards digitalizing financial transactions with long cherished objective of Financial Inclusion. We are anticipating spurt in top and bottom line revenue growth in December 2016 quarter results. Considering the above facts and data available to us, we are expecting the company to post a reasonable growth rate of ~32 % on top line in FY17 and 43% on bottom line. The Company currently trades at ~36 P/E and forward P/E works out to ~26 FY17E, we maintain our outlook to accumulate the stock a price target of ₹ 384 in the next 6-9 months.

Paticulars	₹
EPS (FY 17E)	10.67
Target multiple	36
Target Price	384

Stock Info	
Sector	BFSI/ITES
Market	DOMESTIC
Face Value	1.00
Target	384
Holding Period	6-9 MONTHS

(Rs Crores)

Y/E March	FY15A	FY16A	FY17E
Net Sales	2780.48	3190.70	4211.72
EBITDA	729.13	827.67	975.86
PAT	321.84	394.75	493.44
BV/Share	19.25	30.73	41.48
EPS	6.39	7.46	10.67
P/E	34.90	29.89	26.43
EV/EBITDA	7.62	12.92	17.96
Div Yield (%)	0.24	0.13	0.22
ROE (%)	39.92	41.12	44.51
ROCE (%)	38.98	68.25	75.86

Top Holdings		
Name	Category	Holding (%)
VAKRANGEE HOLDINGS PRIVATE LIMITED	Promoters	23.69
VAKRANGEE CAPITAL PRIVATE LIMITED	Promoters	12.27
LIFE INSURANCE CORPORATION OF INDIA	Non - Promoters	6.11
DINESH NANDWANA	Promoters	5.62
CREDIT SUISSE (SINGAPORE) LIMITED	Non - Promoters	3.70

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PARTICULARS	Q2FY17 (₹ cr)	Q1FY17 (₹ cr)	Q2FY16(₹ cr)	CHANGE QoQ (%)	CHANGE YoY (%)
TOPLINE	959.07	917.54	787.62	4.53	21.77
BOTTOMLINE	126.19	121.49	96.10	3.87	31.30
EPS (Rs)	2.38	2.29	1.86	3.93	27.95

Despite of unfavorable conditions for the second quarter, The Company reported a topline of ₹ 959.07 cores for Q2FY17, which is a rise of 4.53% QoQ vs. ₹917.54 crore for Q1FY17 and gain of 21.77%YoY vs. Rs.787.62 crore for Q2FY16. The net profit was at ₹126.19 crore for Q2FY17, which is a rise of 3.87% QoQ vs. ₹121.49 crore for Q1FY17; it is up 31.30% YoY vs. 96.10 crore for Q2FY16. The EPS works out to be ₹ 2.38 for Q2FY17, which is gain of 3.93% QoQ vs. ₹ 2.29 in Q1FY 17, it has risen by 27.95% YoY vs. ₹ 1.86 in Q2FY16.

Stock data			
52 Week High/Low	288/155		
Major Shareholders as on 201612			
Promoter Holding (%)	41.60		
FII % / DII (%)	12.65 / 11.15		
Public and others (%)	34.60		
Peer Comparison			
Company Name	VAKRANGEE	FIRST SOURCE SOLUTION	ECLERX SERVICES
Year End	201603	201603	201603
Net sales	3190.70	3230.29	1314.32
Operating Profit	827.67	422.62	528.22
PAT	394.75	265.41	363.25
PBIDTM%	25.94	13.08	40.19
PATM%	12.37	8.22	27.64
ROCE%	68.25	11.06	52.92
ROE%	41.12	11.77	40.36
Latest EPS(Rs)	7.46	4.18	88.87
Latest CEPS(Rs)	10.56	5.15	101.35
Price/TTM CEPS(x)	18.46	8.53	15.42
TTM PE (x)	26.13	10.51	17.59
Price/BV(x)	10.74	1.19	5.88
EV/TTM EBIDTA(x)	12.92	8.62	11.47
EV/TTM Sales(x)	3.35	1.15	4.61
Dividend Yield%	0.13	0.00	0.06
MCap/TTM Sales(x)	3.23	0.90	4.86
Latest Book Value (Rs)	31.11	26.80	255.53

About the Company

Incorporated in 1990, Vakrangee is the 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 logistics services to the unserved rural, semi-urban and urban markets. These retail touch points are called as "Vakrangee Kendra" which act as the "One-stop shop" for availing various services and products. Vakrangee is currently operating more than 26,100 "Vakrangee Kendra" outlets across India.

Vakrangee Vision 2020: The Company is envisaging the big plans of leveraging their vast network of retail access points to deliver real-time banking services, Insurance services, E-Governance Services (G2C), e-Commerce Services (B2C) & ATM Services to the underserved rural, semi-urban, and urban markets. Targeting 75000 branches across India with a customer base of 20 crore to garner the revenue of \$2Bn by 2020. The Company proposing 50,000 Vakrangee Kendras in Rural India and remaining 25,000 Vakrangee Kendras in Urban out of total 75000 proposed Vakrangee Kendras.

	FY2016	FY2017	FY2018	FY2019	FY2020	Executed Till Date – September 16
Rural Kendras	15,000	25,000	35,000	45,000	50,000	19,339
Urban Kendras	5,000	10,000	15,000	20,000	25,000	6,849
Total	20,000	35,000	50,000	65,000	75,000	26,188

Products Offered:

E-Governance: The Company is having more than 20 years of experience and evolved as an Independent Bidder from Sub-Contractor stage. The Company offers various Government-to-Citizen services from Vakrangee Kendra.

Banking: Offering robust Technology for real time paper less banking

ATM: RBI license to setup and manage 15000 WLA (White Label ATMs)

Insurance: Corporate agent to LIC, TATA AIG General insurance Company, Bajaj Allianz Life Insurance Company, HDFC Standard Life insurance Company, Reliance General insurance Company, CIGNA TTK Health Insurance Company, Religare Health Insurance Company and also provide Insurance under Atal Pension Yojana, Jeevan Jyoti Bima Yojana, Pradhana mantri Suraksha Bima Yojana.

E-Commerce: The Company offers various Business-to-Customer services like mobile and DTH recharges and education. Recently had alliance with Amazon India to facilitate sale of various products; Redbus for offering bus ticketing services; Mahindra for promoting and booking automobile products.

Logistics: Aramex India Private Limited and Delhivery Pvt. Ltd. for courier & logistics services using the last-mile distribution network of Vakrangee Kendra outlets.

Investment Case

Huge growth potential with Light Asset model: The Company's entire execution through the asset light model, which requires minimal Capex and working capital. It is expansive and consistent considering the economies of scale and increasing number of franchises, though the margin ratio is limited to 20% from each franchise.

The company has recently entered agreement with IOC to leverage opening outlets in the IOC Filling/Gas stations. Opened 4 vakrangee Kendra outlets in Mumbai and 2 more in Rajasthan, and finding the feasibility in around 20,000 outlets out of total 26,000 stations.

The Company is focusing more on Asset Light model Vakrangee Kendras from Capital intensive E-Governance vertical. Hence, the Capex and working capital requirement of the company are going to be reduced. Therefore the company is proposing 15-25% (of PAT) dividend pay-out policy on consolidated financials from financial year 2016-17.

Government focus on Financial Inclusion: The Lok Sabha recently passed the Aadhaar (Targeted Delivery of Financial and other subsidies, benefits and services) Bill, 2016 is a big move towards flagship program of Financial-Inclusion. Thus the scope of DBT (Direct benefit Transfer) has been expanded and it is universalized to cover all Central sponsored schemes both plan and Non-Plan, where cash benefits are transferred to individual beneficiaries. As on 30th April, 2016, the number of DBT transactions in the financial year 2015-16 (upto January, 2016) has crossed 100 crore. More than ₹ 60,000 crore has been transferred to about one fourth of the total population of the country. Hence, we can expect huge transaction volumes through BC (Bank Correspondents), White Label ATMs, proposed Micro ATMs (awaiting RBI approval).

Aggressive E-Commerce outlook: The Company recently tied up with Amazon to sell entire 60 mn product range of Amazon in its outlets. There is a huge potential for the outlets to scale up due to the increasing number of customers through E-Commerce route for wide range of genuine product availability at reasonable prices. Expansion in Tier 1 & Tier 2 cities to cater incremental needs of growing urban population is going to create digital consumer revolution.

Risks:

Swift in Government Policies: The Company business is very much dependent on Government policy towards financial inclusion stand and the speed of implementation. Thus, any change in the policy framework and restrictions on the transaction may affect the profitability of business.

Rapid changes in Technology: Financial sector is undergoing rapid technological changes. Hence, the new technologies may change all the existing business models. The company margins may hit due to new cost effective disruptive innovations.

Heavy reliance on Franchise model: Though franchise model enables aggressive expansion, the risks associated with franchise model still persist. Any reputation loss in single franchise may suffer the brand name. Moreover, the margins on franchises are less and legal issues may disrupt the smooth operations.

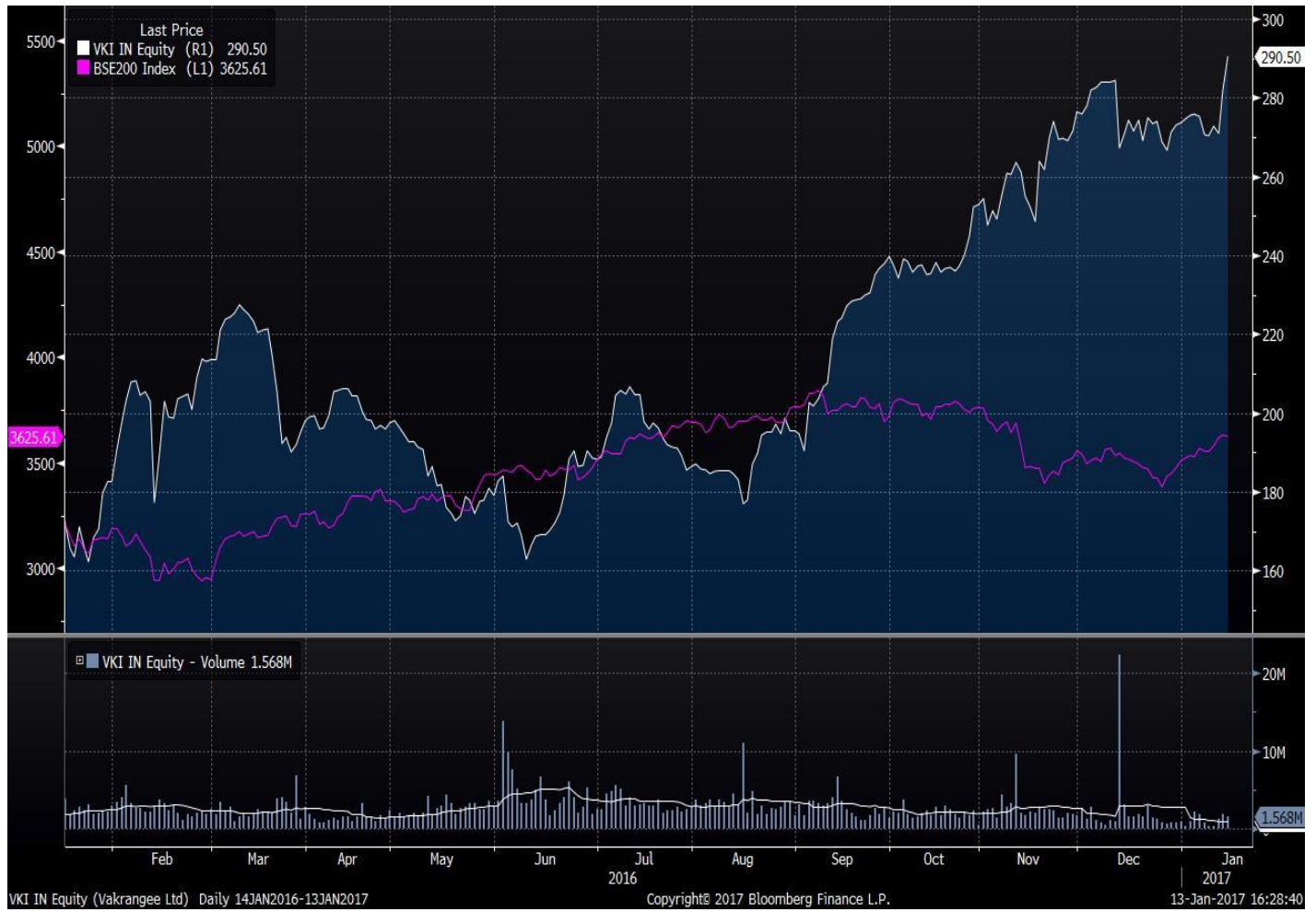
Recommendation History



Date	Recommendation	Target
19 Sep 2016	Buy	260
25 Oct 2016	Buy	280

Security	3 months Return	1-Year Return
Vakrangee	22.40%	57.80 %
BSE 200	-2.10%	14.67 %

Stock performance vs. BSE 200 Index





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