

# Canara Bank Securities Ltd

(A Subsidiary of Canara Bank)



## STOCK IDEA- VAKRANGEE LTD.

**Buy**

19/09/16

Stock Price: Rs.227

Stock Info	
Sector	BFSI/ITES
Market	DOMESTIC
Face Value	1.00
Target	260
Holding Period	6-9 MONTHS

Stock data	
52 Week High/Low	229/87
Major Shareholders as on 201606	
Promoter Holding (%)	41.61
FII % DII (%)	5.77 / 11.82
Public and others (%)	40.80

(Rs Crores)

Y/E March	FY15A	FY16A	FY17E
Net Sales	2780.48	3190.70	3860.75
EBITDA	729.13	827.67	968.37
PAT	321.84	394.75	493.44
BV/Share	19.25	30.73	35.65
EPS	6.39	7.46	9.40
P/E	34.90	29.89	23.72
EV/EBITDA	7.62	12.92	16.43
Div Yield (%)	0.24	0.13	0.22
ROE (%)	39.92	41.12	43.56
ROCE (%)	38.98	68.25	73.45

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

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
BLUEPEARL TRADING COMPANY PVT LTD	Non - Promoters	3.14

## Latest Result update

PARTICULARS	Q1FY17 (Rs cr)	Q4FY16 (Rs cr)	Q1FY16( Rs cr)	CHANGE QoQ (%)	CHANGE YoY (%)
<b>TOPLINE</b>	917.54	879.96	704.30	4.27	30.28
<b>BOTTOMLINE</b>	121.49	110.86	86.70	9.59	40.13
<b>EPS (Rs)</b>	2.29	2.10	1.72	9.05	33.14

Despite subdued conditions for the first quarter, which is generally tepid for the economy, the company reported a topline of Rs 917.54 cores for Q1FY17, which is a rise of 4.27% QoQ vs. Rs.879.96 crore for Q4FY16 and gain of 30.28%YoY vs. Rs.704.30 crore for Q1FY16. The net profit was at Rs.121.49 crore for Q1FY17, which is a rise of 9.59% QoQ vs. Rs.110.86 crore for Q4FY16; it is up 40.13% YoY vs. 86.70 crore for Q1FY16. The EPS works out to be Rs 2.29 for Q1FY17, which is gain of 9.05% QoQ vs. Rs. 2.10 in Q4FY 16, it has risen by 33.14% YoY vs. Rs 1.72 in Q1FY16.

## Fundamental Reasons

### About the Company

Vakrangee Softwares Ltd is a pioneer in the e-governance domain and brings together all the hardware, software and on ground activation required for successful launch and management of e-governance initiatives. Moreover, focus on creating India's largest network of last-mile retail point-of-sale to benefit unbanked population from financial inclusion, social inclusion, digital India, Government programmes, and a wider access to basic goods and services.

**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 – June 16
Rural Kendras	15,000	25,000	35,000	45,000	50,000	16,104
Urban Kendras	5,000	10,000	15,000	20,000	25,000	5,716
<b>Total</b>	<b>20,000</b>	<b>35,000</b>	<b>50,000</b>	<b>65,000</b>	<b>75,000</b>	<b>21,820</b>

### **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.

### Company Specific:

**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 Vankrangee 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 Rs 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.

## Fair Valuation of Stock

Considering the past performance, present ground work and projects in pipeline, the management is confident of achieving their targets. We, based on the information and data available to us, expect the company to post a reasonable growth rate of ~21% on top line in FY17. Company has a ROE 41.12% which we expect to increase further going ahead. The Company currently trades at ~30 P/E and forward P/E works out to be ~24 P/E FY17E, we maintain our outlook to accumulate the stock on dips, one may look at an entry around 210-213 levels for a price target of Rs.260 in the next 6-9 months.

Paticulars	Rs
EPS ( FY 17E)	9.63
Target multiple	27
Target as per multiple	260



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