

COVER STORY:

VAKRANGEE

"WE AIM
TO TAKE
BANKING TO
THE MASSES"

*An interview with
Santosh Dash,
Chief Executive Officer,
Vakrangee Limited*

Page 04

IR SPEAK:
FIVE REASONS
WHY YOU SHOULD
HAVE AN INVESTOR
RELATIONS MICROSITE

Page 10

IR STRATEGY:
THE DEBATE
OVER CORPORATE
SHARE BUYBACK

Page 14

ir INVESTOR RELATIONS
CONNECT

February 2014

REALTY UPDATE 18
PROZONE CSC
Unlocking Land Potential

REGULATORY TALK 22
HBS Realtors
Creating Vibrant Neighbourhoods

CASE STUDY 26
ICICI Bank
Talking to the World

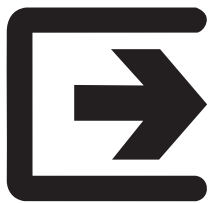
02 ISSUE



COVER STORY

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BUSINESS STRATEGY **TAKING BANKING TO THE MASSES**

With Mumbai-based Vakrangee Limited having received a final authorisation from the Reserve Bank of India (RBI) to roll out 15,000 White Label ATMs (WLA) in India's hinterland regions, we will soon be witness to next-gen ATMs in the neighbourhood. With this move, the Company is on its way to empower millions with the convenience of accessing funds with ease, understanding their need to take banking to rural and under-penetrated cities in India. The move marks a major milestone for India's banking sector as it ushers in a new era of ATM accessibility for the masses. As per a mandate received from RBI, Vakrangee is in the process of setting up and managing 50,000 ultra-small bank branches in the states of Maharashtra, Rajasthan and Delhi. Besides banking, these branches will also offer Government-to-Customer and Business-to-Customer services to customers.

"We are poised to bring about a paradigm shift in the Indian banking sector by setting up next-gen ATMs in your neighbourhood, addressing the latent potential in the under-penetrated semi-urban and rural ATM market and participating in the difficult task of promoting household savings and wealth creation."



Santosh Dash, Chief Executive Officer, Vakrangee Limited

With this, the Company endeavours to carry forward its objective of participating in building India's retail financial services infrastructure and wealth-building potential. This, along with an array of other such strategic projects, Vakrangee strives to fully leverage technology and provide basic financial services to India's unbanked and under-banked areas.

In a *tete-a-tete* with **IR Connect**, its Chief Executive Officer **Mr. Santosh Dash** explained the strategy behind the WLA business model better

and how the Company aims to participate in the difficult task of promoting household savings and wealth creation. Excerpts from the conversation:

1. What are White Label ATMs (WLAs) and why are they being set up in India?

Dash: WLAs are ATMs which are owned and operated by non-banking companies and hence do not display any Bank's branding. These ATMs will aid customers, irrespective of the Bank in which they hold an account, to access ATMs and undertake various financial/ non-financial transactions. They are intended to serve as an important medium of banking for consumers and a useful addition to the existing banking network, thus addressing the under-penetrated semi-urban and rural market.

Even though our banks have deployed almost 87,000 ATMs across India and this is growing at 27% year-on-year, India is still a highly under-penetrated ATM market compared with developed nations. Against 80 ATMs per million of population in India, there are 1,390 in US,

“WLAs will be an effective channel in inculcating the habit of banking among the rural populace and give “financial inclusion” a shot in the arm. The channel will also provide last-mile connectivity to the masses in these locations when the direct money/ benefit transfer comes into play.”

700 in UK and 224 in China. India has been adding an average of 16,000 ATMs every year in the last five years, but the growth is largely concentrated only in the urban markets. The RBI's mandate will ensure banking services are made available in areas where it's unviable for banks to operate ATMs.

2. How will WLAs benefit India's rural populace?

Dash: In rural areas, the development of the ATM market is a distant dream due to reasons such as poverty, illiteracy and lack of regular income. Banks hesitate in setting up ATMs in rural areas due to high transactions costs. Hence, there is huge scope to set up more ATMs in non-urban and non-metro cities. As the ATM network expands, more and more people will have easy access to cash as customers with an ATM card can access WLAs. With the expansion of the WLA network, customers will gain access to basic banking facilities located closer to their home or place of work.

3. Describe how the model will be executed by non-banking entities?

Dash: Non-banking entities are allowed to set up ATMs in their own brand name, once they pass the stringent qualification and due diligence process undertaken by RBI. These next-gen ATMs will not be proprietary to any particular bank. They will not carry a specific bank's logo, but will be launched under the brand name of the non-banking entity. Like in our case, these will be branded as Vakrangee Mart or V-Mart.



Customers from any bank in India will be allowed to use the machine and withdraw cash from WLAs. In short, they can gain quick and easy access to cash, without having to travel long distances to access their own Bank's ATM. WLAs will have all the functionalities like that of a bank-managed cash dispenser and will offer a host of cash and non-cash services such as cash withdrawals, balance enquiries, mini statements and PIN change. It will be an effective channel in inculcating the habit of banking among the rural populace and give "financial inclusion" a shot in the arm. The channel will also provide last-mile connectivity to the masses in these locations when the direct money/benefit transfer comes into play.

4. What is your strategy to make the project more viable and economically competitive? How are we placed in terms of implementation?

Dash: We are currently firming up plans to make the venture viable, negotiating with banks for sponsorship, selecting locations and analysing competition. The move of setting up WLAs is a perfect strategic fit for our current business of rural bank branch management. Under this model, we will set up "brick and mortar" branches (Common Business Correspondents) and run them on behalf of public sector banks. Real-time bank transactions happen at these out-sourced PSU banks through seamless integration with core banking solutions of the respective banks.

We will essentially be market creators as we shall create our own ATM card base – a critical success factor for the WLA project. Through our model of setting up ultra-small bank branches, we already have a sufficient card base. Once we open an ultra-small bank branch in a particular location, we automatically gain access to all the beneficiaries in that catchment area by virtue of providing them with a bank account. Furthermore, these account-holders enter the “Aadhaar-enabled payment system” enabled (AEPS-enabled) transactions at our WLAs by getting their bank accounts seeded with their Aadhaar number.

5. Please share your region-wise execution plan on WLAs?

Dash: As per RBI’s guidelines for WLAs, we are mandated to set up a minimum of 15,000 WLAs in three years. Our region-wise execution plan for WLAs will comply with RBI’s requirement to maintain a rural-to-urban ratio of 2:1, i.e. for every 2 WLAs set up in Tier 3-6 towns, one WLA will be set up in Tier 1-2 towns. Further, out of the WLAs setup in Tier 3-6 towns, a minimum of 10 % will be set up in Tier 5-6 towns. So in all, we will have 5,000 WLAs in Tier 1-2 towns, 9,000 in Tier 3-4 towns and 1,000 WLAs in Tier 5-6 towns. This will ensure we can successfully widen the reach of financial services in rural areas and hinterlands.

“Vakrangee is essentially a market creator as it creates the ATM card base on its own – a critical success factor for this project. By virtue of its model of setting up ultra-small bank branches across India, it already has a sufficient card base”.

6. What makes you so uniquely positioned to face the inherent challenges in project execution of WLAs?

Dash: We are uniquely positioned to address several challenges in setting up WLAs and running them in sub-Tier 3 towns. Let’s see how:

- a. **ATM Card Base:** Being a common Business Correspondent for multiple PSU banks, we can set up bank branches at the desired locations and create an account base in the catchment area to be able to run our WLA business successfully.

- b. **Cash Management:** Cash management and replenishing the ATM machines in hinterland regions is a huge challenge due to security issues and high logistics cost. Since we are already operating “brick and mortar” ultra-small bank branches in these areas, at any given point in time we will maintain a sufficient cash float at these branches. This will help us efficiently manage the cash replenishment in ATM machines, thus reducing the logistics issues and risks.

- c. **Financial Inclusion through UID Enrolment:** All WLAs set up by us will be AEPS-enabled, further adding to the number of UID enrolment in India.

- d. **Saving on Costs:** Given that all the WLAs set up will be AEPS-enabled, the people accessing our WLAs will not require an ATM card for financial/non-financial transactions. By getting their bank accounts seeded with Aadhaar number, these account holders can use the WLAs through biometric evaluation, thus reducing the card-issuance costs. The AEPS-enabled card-less transactions at our WLAs will be a global first in the history of WLA industry.

7. What role will Sponsor Banks play in the overall project?

Dash: Sponsor Banks are essentially “Settlement Banks” to settle service transactions. They will be responsible for functions such as cash operations and management, dispute resolution management and reporting to

regulators. Since cash is sourced from the Sponsor Bank, it ensures quality and genuineness of notes dispensed. These Sponsor Banks also benefit from the move as they can provide 24/7 service to their account holders, driving the agenda of financial inclusion. The account holders of Sponsor Banks will also get the added advantage of value-added services (insurance, recharge, coupons) provided at the ultra-small bank branches.

8. With setting up of WLAs, what change do we foresee in India's BFSI sector?

Dash: Being in a uniquely advantageous position, we are fully geared to gain the "first mover" advantage in India's grossly under-served sub-Tier 3 ATM market. We provide a bouquet of other value-added services in banking, direct benefit transfer, insurance,

pension, G2C and B2C at each ultra-small bank branch and WLA location. This ensures we are able to maximise customer experience under a single roof. Our target is to add ₹ 2,600 crore in the next four years from the WLA business alone. Setting up of these will result in a paradigm shift in India's BFSI sector. For instance, our Vakrangee Marts will be a "one-stop shop" enabling customers to conduct their banking & financial needs. With India's ATM population expected to touch 400,000 by 2017, our initiative is to usher the country into a new era of ATM accessibility.

What are Sponsor Banks charged?	
Bank Transactions	0.5%
Cash Transactions	₹ 15 per transaction
Other Transactions	₹ 5 per transaction.

- IR Connect Editorial Team



A LEGACY CALLED VAKRANGEE

Vakrangee Limited aims to be the last-mile link that connects rural citizens with India's modern ecosystem. It endeavours to bridge the financial inclusion gap between the developed urban India and the under-developed rural India by serving a 700+ million people market through our Retail Marts in rural India.

The Company has received an exclusive mandate to set up and manage 50,000 ultra-small bank branches in the states of Maharashtra, Rajasthan and Delhi. With these bank branches also offering Government-to-Customer and Business-to-Customer services, the outlets will transform into exclusive CSC outlets offering banking, G2C and B2C services.

Vakrangee has been the largest single systems integrator for all the key Government projects upholding the largest democracy. It aspires to enable the Central and State Governments to administer and deliver G2C services to each citizen – more affordably, reliably & efficiently than ever before. The company's objective is to bring a plethora of relevant products and services that are still out of reach in rural and semi-urban India.

Listed on the National Stock Exchange and Bombay Stock Exchange (VAKRANGEE), Vakrangee's total market capitalisation stands at ₹ 4,420.57 crore as on February 10, 2014.