

Vakrangee Limited
Earnings Conference Call
July 07, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Vakrangee Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Dinesh Nandwana – Managing Director and Group CEO. Thank you and over to you, Sir.

Dinesh Nandwana: Good day dear ladies and gentlemen. It is pleasure to greet you all once again on behalf of board of directors and senior management. We begin by thanking all of you for having spare time in joining us here today to discuss our first quarter earnings for the financial year 2022. Today, we have emerged as the go to market platform for the rural India for our various business verticals including the new age FinTech and digital platform. We are building India’s largest last mile distribution platform and emerging as the physical plus digital ecosystem with a Pan India presence.

Today, we have more than 22,858 outlets it spread across 33 states, 564 districts and 5,627 postal codes. Our 84% outlets are present in deep rural Tier-4 to 6 locations. This kind of presence makes us the partner of choice for any new business partners who wish to make their products or services available in rural India.

We have a clear focus on market expansion and to stay on our first mover advantage there by our plan is to achieve our long-term outlet expansion target of 75,000 next-gen outlet within the next 12 to 18 months, this will mark our presence across 100% districts and postal code of the country and will make us India's largest last mile rural distribution platform with a physical presence.

During the quarter we have successfully added new business partnership with some of the marquee partners who are global leaders in their respective businesses. We have partners with Alliance partners who will provide assisted total health care services across our platform. Aligned partner Vijay, World leader in insurance and assistance services. And they would offer combination of assisted health care services to the unserved and underserved population of India through our platform, we have also partnered with Decathlon Sports India, a world leader in sports equipment, to offer a complete range of sports equipment and product to our customers. This account provides world class products both for beginners as well as passionate professionals at extremely affordable prices, with this collaboration we are strategically added a complete booking of sports equipment product at our Kendra, making them into one stop for all the sports goods requirement of our customers.

During the quarter we have launched new optical pricing for all our camera model including 100% refundable deposit model for ATM services as well as we introduce our master franchisee schemes whereby, we are in process of appointment district to market franchisee across the country. This new initiative would help us scale up again at a much faster space and thereby achieve our long-term target well ahead of targeted timelines. But we also launched an additional franchisee commission incentive scheme. These additional incentives are target tree in nature,

but would lead to a quick project for the franchisee, thereby creating positive word for mouth and strong new franchisee interest. Strong word of mouth and referral incentives along with Pan India marketing have resulted into a higher-level formal for franchisee application. We have received an overwhelming response for more than 60,000 fresh applications in the current quarter. During last quarter we had launched the pilot for total health care services. The same was also launched on our digital platform of Bharat CG Mobile Super app which is currently under beta trial version with limited access.

Now pilot response has been successful and results have been very encouraging registering a 566 plus growth on quarter-on-quarter basis during the current quarter of the total healthcare services. We see huge potential in both of these services and we believe there would be a major contributor going forward and both these services have superior margin profile for the franchise as well as attractive offerings and pricing for the end consumer. We have strong footfall and brand consumption rural India and our customer trust with the day-to-day banking needs. During quarter one 2023 we open the four legged plus bank account and get more than 1.75 crore banking transactions. While currently in recent, the Indian media banking users based is expected to grow fast at 80% plus yearly on the next five years. There is huge under penetrated Union market with huge retail and MSME customer base.

Further, there is a lack of trust within the current customer base therefore physical presence and assistance is key differentiator. Going forward we are well structured to transition into a neo bank as we plan to launch neo banking services through our Bharat East mobile super app platform. Through this we are focused to evolve into a unique online to offline platform thereby there would be assistance available through the

physical Kendra network along with the digital neo banking services. Further, we have strong existing retail customer base in rural India and we are focused on affordable pricing and unique online to offline consumer excellence

With respect to the proposed demerger of the non core business of e governance and ITES as a separate entity we would like to update that we have received approval for demerger from stock exchange and have now filed an application to NCLT for approval. We believe the proposed demerger would almost the potential of the core Vakrangee Kendra business in the current listed entity with existing business of Vakrangee Kendra physical outlet as well as the digital platform of Bharat Easy mobile super app. Vakrangee Kendra business in retail centric consumer facing business it is an asset light high return on capital business and thereby will get the proper representation post the demerger.

We believe this would lead to significant re-rating of the core business and would maximize shareholder strength. Over the last few years, we have undergone a huge transformational journey whereby we have made a transition from nonexclusive store in store format outlet to highly recognizable standardized exclusive branded NextGen format outlet. We believe we are now well poised and have a clear visibility for a strong growth journey in the next few years to come. We have aligned our strategy with one of the existing service partners to expand our presence across the country in every Gram Panchayat level.

Coming to the quarterly results performance we have witnessed strong operational growth on year on year as well as quarter on quarter basis due to increase in number of outlet as well as our services return to normalcy on the business front post pandemic. Our revenue from

operation stood at 226.03 crore year-on-year growth of 46.75% and quarter on quarter growth of 8.25%. Our quarterly gross transaction value cross rupees 13,437 crores year on year growth is 25.58% quarter on quarter growth of 6.16%. Where by our quarterly number of transaction cross 3.48 crore year growth of 28.96% and quarter on quarter growth of 5.78%. Our new term profitability has been impacted and we are reinvesting our operational cash flows for announcing franchisee incentive, our gross margin for the quarter one for financial year 2022 have been at 9.5% and compared to 22.1% in last quarter. Our gross margin has been impacted primarily with the launch of additional franchisee incentive scheme.

These additional incentives are transitory in nature but would lead to cook paper for the franchisees. There was driving this strongly franchisee interest. The maximum impact on gross margin between this additional incentive has been in the current quarter and would keep on reducing over the next couple of quarter, whereby gross margin and profitability will keep on improving henceforth in the subsequent quarter. Strong word of mouth and raffle incentive along with Pan India marketing has resulted into Channel 4 franchisee acquisition. We received our element response with more than 60,000 plus application in the current quarter. Further, we have introduced new attractive pricing for all our camera models as well as introduce Bhaskar franchising scheme which would help us scale as much faster pace and thereby achieving our long-term target where I drop targeted timeline. We are confident that these strategic initiatives will lead to significant growth in profitability in the long run.

Vakrangee digital welfare ltd is a 100% subsidiary company of Vakrangee Ltd. The company has launched their mobile super app best business

platform, primarily in tag line Bharat CG app India's super app currently beta trial was had been launch. It is currently at beta trial version and we intend to go fully operational live in the next 8 to 12 months. We have made live and activated some of the key services like online shopping, total health care services, online DEMAT account opening, civil credit score, rating services as well as online payment card application services. A unique differentiator and sustainable competitive advantages whereby our digital super app platform would be able to liberate the Vakrangee on ground ecosystem a vast well that Pan India level physical store network over Vakrangee as point of physical assistance especially to consumer to semi urban and rural remote location.

Vakrangee Digital also sale in the Vakrangee ecosystem with strong and positive UPS of the strong leaders. Our NPS score is 68% as per unique redshift research. Access to existing Vakrangee background in customer base at 25 million active customers. Access to existing network of 22,800 plus outlet for physical assistance and consumer awareness. The unique proposition of digital, along with physical fitness, physical would help the digital channel to scale up fast and would significantly reduce the cost of electing to acquiring customers physical assistance, order fulfilling and return management of online orders. Further, leveraging physical presence would result into better customer interaction, strong brand recall and better service experience and touch for the customer.

Vakrangee Limited has also been honored to be included in this year's Sustainability Yearbook 2022, published by S&P Global. Vakrangee has earned "S&P Global Bronze Class" spot in the yearbook in the Corporate Sustainability Assessment (CSA) survey. The Sustainability Yearbook 2022, published by S&P Global is one of the world's most comprehensive publications providing in-depth analysis on corporate responsibility. This

annual ranking showcases the sustainability performance of the world's largest companies in each industry as determined by their score in the annual Corporate Sustainability Assessment (CSA). In 2022 S&P Global has assessed over 7,500 companies across 61 industries this year.

Vakrangee has been accepted as a signatory of the United Nations Global Compact and we have mapped our sustainability initiatives with the United Nation Sustainability Development Goals. Further, we have appointed Grant Thornton as our assurance auditor for our assurance of our integrated annual report. Global recognition we played complete commitment to further enhance its corporate governance and transparency standards. Company has achieved global recognition across various platforms holds a peer ESG performance and the long-term business sustainability. Lastly, I would like to again recreate that our profit margin has bottomed out and we are all set for sustainable, improved growth going forward. The maximum impact of the strategic initiatives on print margins has already been perfected in and thereby profiting, will keep on improving. Henceforth, in the subsequent quarters, we are confident that these initiatives will lead to significant growth in profitability in the long run. I would now like to take this opportunity to thank our shareholders for their support. We can now open the floor for question answer session thank you very much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ankur Mehra from CKB capital. Please go ahead.

Ankur Mehra: I have observed that revenue numbers of transactions and GDP is growing at a healthy pace and there has been good growth in the revenue in the current quarter. However, the gross profit and profitability has been impacted in the current result compared to last quarter. Do we

see more impact on the profitability going forward or will it keep on getting better from current quarter? So can you please brief and provide your guidance on profitability growth for current financial year.

Ammeet Sabarwal: As we have already highlighted in our presentation as well as in the Navy, is highlighted in the speech. Also, that primarily our gross profit margins have been impacted because of the additional incentives that we have given to our franchisee. If you see basically what was our plan in last quarter also which we discussed in our last quarterly concall also that we want to expand at a faster pace, so we want to achieve our target of 75,000 outlets well within the next 18 months. For that we want huge number of new applications we want huge number of franchisee interests. And that is where we have been focusing on how we can create that kind of a franchisee quick payback period where they can actually see this and there is a strong referral and strong word out mouth as well as people are able to see that those kind of case studies in place where franchisees are doing very high earnings. So that is what, what we have done is we have increased the franchisee incentive sharing ratios and we have added some additional incentives due to which if you see my gross profit margin in last quarter was around 22% which has currently a drop to around 9.5%, but this is the bottom so it is only going to improve because these incentives are temporary in nature. These incentives are additional incentive. Which are transitory and it will go away over the next couple of quarters. So basically, every quarter on quarter you are going to see an improvement coming into my profitability and my margin getting back on track. So, what we have done is because of this, if you see we have been able to have a good revenue growth even on the quarter-on-quarter basis. Because our revenue growth has increased by almost 8% on Q-on-Q basis at the same time on a y o y basis it is almost 46%. At

the same time, there is a huge amount of new lead generations and the new applications that I'm able to get. So, there is a very strong word of mouth, very strong positive awareness about the Vakrangee Kendra as a sustainable business model at the rural location. Due to this, as I said, we have mentioned in our presentation. Also, that we have received almost more than 60,000 plus fresh applications in the last three to four months, so there definitely it is having a good impact and we make sure that this is where we are able to leverage all this and achieve our long-term target of 75,000 outlets at the earliest. Because once we have those 75,000 outlets on boarded, then even when we reach even at our normal normalized growth, profit margins of around 20%-25% then the jump in my party is very significant, so we are expecting that on a longer-term basis our profitability growth will be significant because there is going to be an absolute growth in terms of our number of outlets. But at the same time, specifically to your question, yes, the impact has been. 15 But this is the most conservative margins which we have achieved, our margins are only going to improve from henceforth basis. So, every quarter on quarter you are going to see our margins are getting back towards our normalized margin level. So in the next subsequent quarters. You should see our margins getting back on track. Thank you.

Moderator: The next question is from the line of Tejas Shah, a retail investor. Please go ahead.

Tejas Shah: You have told about a lot of initiatives with the company has taken to achieve the long term targets of the company. My question is currently 22,800 plus outlets are operational and long-term target is around 75,000 outlets. What impact do we see from these initiatives and how confident are you to achieve the set target ahead of time lines? Could you provide some insight on the same?

Ammeet Sabarwal: If you see basically right now, as we said that we are currently at 22,858, so the target is to reach 75,000 stores. So here basically our strategy has been on the three different fronts, so what we have done is, one thing which we have done is we have introduced these additional incentives so that my existing franchisees base has a very quick payback period. And then there is a strong reference because in rural locations the referral and the word-of-mouth publicity is the best kind of marketing that can be generated. So, we are focused on that and due to which we are also receiving a very overwhelming response. Definitely 1 angle. The second thing which we have done is we have also launched our new pricing, so if you see our new pricing for the models it is very attractive pricing where we have introduced this 100% refundable model also specifically for the ATM services, so for ATM services we have launched a kind of model where it's 100% refundable amount so after the tenure of the agreement is where we do this complete 100% refund, so it's actually zero investment firm offer entirely perspective we feel is genuine and he wants to set up a ATM remains locality. So, at the same time, the 3rd way or 3rd angle to it is basically where we are launching the master franchisee initiatives. So former master franchisee again we want to scale up at the parcel. Space, so we have divided the entire country into district miles, so there are almost 750 plus districts in the country. So, we are after district level master franchisees. So, in this way the master franchise E again here the kind of we are not giving the master center is just a onetime kind of income. We are giving them a percentage. Operator is income on a perpetual basis till the franchises are active under them, so that make sure that their role is end to end that they are also going to do the monitoring of the store whether they are active on a continuous basis at the same time they are monitoring from a compliance and regulatory perspective also. So, our strategy 3-4 strategy, basically one is how I can

evolve my existing franchisees based. So how I am giving them more incentive so that they do more business since they do more business, they earn more due to which they generate a very positive word of mouth and positive referral impact. Second is basically new pricing where we have introduced this innovative kind of pricing where we are saying it's 100% refundable amount and you start the business you do the business and from the earning itself you are able to recover your end spending and the third is the master franchisee concept where we are appointing a district level master franchisees where my franchisee the master franchisee at the district level is going to appoint franchisees under them and they are going to get an earning of the revenue sharing from the franchise income. So, these are the three ways where we are targeting in order to reach this number. Currently, where we stand, we have received a very good response on the on the first two factors master franchisees we have just recently launched. So, I think so over the next couple of months we will have more clarity on that, but from that perspective, if you see we have received more than 60,000 plus fresh applications. So, I think so that gives us very encouraging risk and we feel that we are very much confident that we will be achieving our 75,000-store target over the next 12 to 18 months. So, I think so we have done our homework well, we have done all the three initiatives very well. And I think so. It's now more about prime and in the subsequent quarters you will see the numbers coming in in terms of number of stores and that will stick in the operating leverage which will, as my margins go back to the normalized. Level you will see a significant improvement in the profitability going forward. So yes, that is the update in terms of our outlook for the number of stores and what has been our strategy. Thank you.

Moderator: The next question is from the line of Viraj Joshi from MKR & Associates. Please go ahead.

Viraj Joshi: I've seen that Vakrangee is doing good initiatives in ESG, VAKRANGEE has been ranked globally and achieve healthy ratings from top ESG players across the globe. So, can you please explain the ESG rating assessment process in detail and what are our long-term goals for the same?

Ammeet Sabarwal: So, if you see basically. Our entire Vakrangee Kendra business model is of creating the impact. It basically we are driving the financial inclusion, social inclusion and digital inclusion to the unserved and underserved parts of the country. So, if you see basically, we are providing access to banking services our entire banking services are also environment friendly because we are providing biometric enabled, paperless banking, interoperable banking services, due to which the people in rural India, in the unsub communities who are maybe literate or illiterate then may not be knowing, reading, or writing. They can still come and open a bank account, biting in their biometric. So, it's Aadhaar enabled payment system. So just by putting your Social Security number, which is your Aadhaar number and putting your biometrics people are able to open a bank account, so we are providing that kind of access. But at the same time, we are giving access to the services which are available to the normal urban citizens like an Amazon or a decathlon, or medicines like alliance or V health. We are providing the same services to the rural, unserved, underserved communities, so we are also promoting social inclusion and digital inclusion so the entire business model of accuracy is of creating an impact, whether through financial inclusion, whether through social inclusion or whether through digital inclusion. Now, in order to access this impact, there, there are exercises which we have done so for example, our annual reports are integrated annual reports

where we have appointed grand content. So grand content does an assurance audit where they do an audit on all the non-financial parameters, which is my number of transactions, my number of outlets, my number of ATM. How many paperless transactions we have done so how much of carbon emissions we have; how much distance people need to not travel? Because our outlets are there in the same village level location so they don't need to travel large distances. So, there is a huge amount of saving in terms of carbon emissions. So, all these things we have been able to quantify. And 4th, this is basically where the rating agencies or the ESG assessment agencies come in. So, players like Sustainalytics, S&P, Global, MSI or CDP. All these are globally well recognized assessment agencies and they have access to all kind of ESG parameters in terms of our disclosure. In terms of our quantification of this impact, so all these things have played a role and this has been a journey. So, because our business model was always creating an impact. So, we believe our philosophy or is of having a being the social equalizer. So, no matter where you are, we are able to provide you the same products, the same service at a much better affordable pricing, to the unserved and underserved parts of the country. That team and that philosophy we have been able to quantify it. So how many numbers of stores are there where we are providing these kinds of services How many villages, we are able to touch base how many numbers of cities and we are able to serve and how many paperless transactions are happening. So how much amount of questions have been saved. So, we have been able to quantify it. We have got an external assurance to audit the same and give a report on it and finally the risk assessment agencies like such analytics or mercy or. Happy they do their own risk assessment based on our disclosure and they do an independent report on that, and that is where our efforts have been recognized over the last one year

where we have been globally recognized as number one company in the software and services segment, we have been recognized as the top 50 global ESG rated companies by sustainability. We have been ranked globally number 13 in terms of overall ranking by S&P Global under the robe. Cool Sam ESC Risk assessment survey. So that kind of a validation has come up because our entire business model we have aligned our entire business model to the sustainability and United Nations sustainable development. Also, we are also a signatory member of UNGC, which is United Nations Global Compact. So all these efforts have played a role in order to get this kind of validation from global risk assessment agencies. I think so. This is a journey. It is not something which has happened in one or two months. This we have been doing over the last for four to five years and our assurance. This is the third year of our assurance in the current year, this year annual report will be the third year of external restaurant being done by Grant County. So, it's an exercise which we took up almost three years back, and this is where now we are getting this kind of validation and it feels great that we are in the right direction. Thank you.

Moderator: The next question is from the line of Kunal Verma from Keyur investment. Please go ahead.

Kunal Verma: My question is that which are the new services you have add recently or you are planning to add in the future and which services you see that there is a huge potential for the future growth. Also, can you brief on the long-term growth plan and the number of outlets we are expecting in futures?

Ammeet Sabarwal: Basically, our business is basically we have built a last mile distribution platform. So, when we say that we are the global market platform is

where that we have built a distribution network of more than 2800 plus outlets. Now any new brand or any global brand or any product or services which needs to be. Reaching to this target audience, we can just, uh, get on boarded onto our platform or the Vakrangee Kendra networks and they get access to our entire customer base and our entire infrastructure in place. So, if you see even in the current quarter, we have added very unique global market partner. So, we have on boarded alliance partners. So, alliance is 1 of the globally largest insurance company. And with them, we are initiated the pilot where we are offering this complete total health care packages for further the rural India basically so in this it is tele video consultation services with expert doctor in English and Hindi languages plus you get pharmacy voucher so delivery of medicines is covered plus you get home blood test facility where you get a full body checkup voucher for you and your family member. And also, you get a health insurance covered or Hospice care covered up to a certain amount and the pricing starts as low as ₹310. So, the package starts from as low as ₹310 and goes up ₹2000 so very affordable. A very standardized kind of service and rural India where they do not have access to hospitals. They do not have access to expert doctor. Here we are able to offer them it's a complete Tele video consultation with expert doctors across different fields in your local language also that is possible. So, this is one of the services which we have launched recently in this current quarter one more tie up which we have done recently in the last quarter is Decathlon so Decathlon is again one of worst largest sport product company so where we are now bringing affordable sport equipment accessible to the rural India. So again, this tie-up has happened in last quarter. We are yet to begin the pilot, so we will begin the pilot in the current quarter, but the idea is finally to roll out the service across the entire network, and they have this entire customer in

rural India have access to the best quality product at the most affordable pricing so they have complete range of products ranging right from ₹199 to ₹999 where they have a complete bouquet of four goods products which is very affordable and the quality everyone knows Decathlon is the largest sports good company, so no need to give any introduction to that. So, these kinds of partners are coming to us and we are joining hand and it's a win-win situation for everyone because we are also getting these marquee partners on board and our partners are also getting access to this unique customer base and this unique reach to the rural Tier 4 to tier six kind of locations. So, there will always be more and more partnerships coming on board, but yes, definitely right now what we are seeing as I saw in health care in health care, we are achieving really good overwhelming response. We are growing almost 500% we grew. In just last quarter. So, there has been a very great response to our health care. Services and at the same time. If you see basically from our perspective of a Decathlon, this is again a very promising service. We feel that the demand for such kind of services is there in rural India. There are aspirations where people want to buy the quality products at affordable prices and that is what we strive to deliver so. I think so there would be many more such partnerships coming in near future. So, our target is basically that our philosophy is very simple. We have built a last mile rural based distribution platform which we are also building a layer on it with a digital mobile app. So, the idea is the more and more brand and the reputed brands and the known things that we get on board. It's a vicious circle where our cycle becomes bigger, our customer base becomes bigger than the bigger brand comes to us, so that is how our business model is sustainable in nature. Thank you.

Moderator: Please note this will be the last question for today, which is from the line of Vikas Nahar an Retail Investor. Please go ahead.

Vikas Nahar: Good evening everyone. Thank you for this opportunity. I would like to thank Mr. Dinesh Nandwana for taking Vakrangee to the number one company in this business model and I now look forward to you and your team to take Vakrangee to be the number one in the world. Thank you, Sir. My questions have already been answered by Mr. Ammeet in the previous. Questions, thank you

Moderator: Thank you. This was the last question for today. I now hand the conference over to Mr. Ammeet Sabarwal from Vakrangee Limited for closing comments.

Ammeet Sabarwal: Thank you everyone for taking time out and attending our quarterly earnings call. Please feel free to reach out to us in case of any further queries or any further details, you can write an e-mail to ammeets@vakrangee.in and we will surely get back to you. Many thanks for attending this and taking time out. Thank you.

Moderator: Thank you on behalf of Vakrangee Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.