



INDIA

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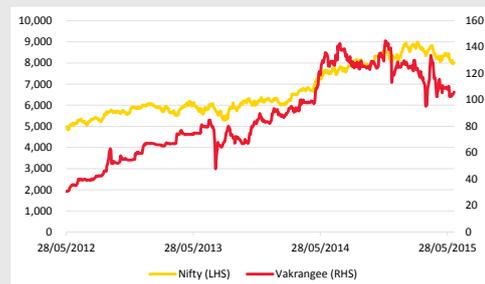
Stock price as of 16/06/2015	Rs m	105
GICS sector	Information Technology	
Market cap	Rs b	52.4
Avg Value Traded (3m)	Rs m	0.2
12m high/low	Rs	149/86
PER FY15	x	17.5
P/BV FY 15	x	4.3

Historical financials

YE Mar (Rs m)	FY13	FY14	FY15
Revenue	15,742	19,519	27,805
% growth	14.3	26.2	42.4
EBITDA	3,815	5,346	7,232
% growth	58.0	40.1	35.3
EPS	2.1	3.5	6.1
% growth	-26.5	67.3	74.1
EBIT Margin	14.5	18.1	20.1

Source: Company data, FactSet, June 2015

Stock performance vs Nifty



Source: FactSet, June 2015

MacVisit: Vakrangee

Play on Digital India?

We met Mr. Dinesh Nandwana, chairman & managing director, and Mr. Santosh Dash, CEO of Vakrangee. After its foray into the e-governance space in the 90s, Vakrangee ventured into the financial inclusion space through Vakrangee Kendras in 2012. We also understand from mgmt that they could look at leveraging their distribution network to tie-up with e-commerce companies.

Company to go slow in capex-heavy e-governance business...

Vakrangee has more than 20 years experience in the e-governance space. Starting out as a sub-contractor and IT enabler for e-governance projects, it now takes projects on its own. Vakrangee's first project was implementation of Election Card when TN Seshan took over as the Chief Election Commissioner of India. It now offers fully integrated BFSI, G2C (government to consumer) and B2C (Business to Consumer) services. In spite of its high margins, RoCE in the e-governance business is lower due to the capital-intensive nature of the business model. Also, since the e-governance business is project-dependent, it tends to bring volatility in margins. Hence, Vakrangee plans to reduce the contribution of e-governance business from ~58% to 20% by FY17.

...and increase focus on the financial inclusion business

As a part of the Indian government's financial inclusion plan, Vakrangee has been appointed as National Business Correspondent by 7 Indian banks. The company has seen strong traction from banks to expand their Business Correspondent (BC) branches due to the government's emphasis on financial inclusion. Vakrangee has been awarded the contract to set up and manage 50,000 BC bank branches across 16 states by FY17, under agreements with various public sector banks. Currently, Vakrangee has set up 12,568 branches, out of which ~90% are rural branches and the rest are urban branches. The number of urban branches catapulted from 15 in FY14 to 1,288 in FY15 due to the emphasis of the NDA government on urban financial inclusion as well. By FY17, as per the management, 30% of the branches will be in urban areas. Vakrangee offers 33 services from these branches – selling insurance (they are the biggest rural agent for LIC), offering mobile services, offering loans etc.

Revenue model includes both one-time and transaction-based fees

Vakrangee collects a one-time fee of Rs.70-75 per customer for bank account openings and facilitating the Aadhar card. 50% of this one-time fee is shared with the franchisee. Once the account is opened, for every transaction, Vakrangee gets 0.5% of the transaction amount. To now, 70% of the transaction fee used to be shared with the franchisee, which will now be increased to 80%.

Management expects strong EBITDA growth despite margin contraction

Due to the low capex model (capex is borne by franchisees) and high operating leverage, the company expects RoCE to improve from the current ~30% level. EBITDA margin of e-governance business is higher than the Vakrangee Kendra (retail) business. Due to the rising contribution of the retail business to the overall revenue mix, management expects long-term EBITDA margins to stabilise in the 17-20% range vis-à-vis FY15 EBITDA margins of 26.2%. As per the company, the addition of 50,000 branches will bring scale to the business and hence the absolute EBITDA level should witness strong growth.

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16 June 2015

Macquarie Capital Securities India (Pvt) Ltd

Ownership

- Total outstanding shares: 503.5m
- Insider/stake ownership: 38.8%
- Free float: 61%
- Foreign investor holdings: 3.3%

Balance sheet data and refinancing (FY15)

- Debt to equity ratio has reduced significantly from 1.1x in FY13 to 0.3x in FY15.
- In FY15, Vakrangee's cash conversion days increased from 120 to 150 days. The company expects cash conversion days to reduce in FY16.
- No major capex will be incurred in the retail business due to the franchisee model.

Latest results highlights (4Q FY15)

- Revenues increased by 7.8% YoY to Rs7bn. As per the management, weak revenue growth in 4Q was due to a shift in focus towards the addition of more branches. The company opened more than 3,000 Vakrangee Kendra outlets in 4Q FY15.
- While Vakrangee Kendra reported 23.8% YoY growth, e-Governance revenues declined by 2.2% YoY in 4Q FY15.
- EBITDA margin expanded by 180bps YoY to 27.6%.
- PAT margin increased by 280bps YoY to 10.9% due to lower interest (reducing debt level) and depreciation expense (no major capex for expansion of business).

History and corporate governance

- Vakrangee was incorporated in 1990 as a sub-contractor and IT enabler for e-Governance projects. Current projects in which Vakrangee is assisting the government are Unique Identification Project (UID), Sarva Sikshan Abhiyan (SSA), Public Distribution System (PDS), Rashtriya Swasthya Bima Yojana (RSBY), Inspector General of Registration & Stamps (IGRS) and electoral data.
- The company now offers fully integrated BFSI, G2C and B2C services.
- ~94% of its Vakrangee Kendra branches are in 3 states – Maharashtra, Rajasthan and Uttar Pradesh. In addition to these 3 states, the company has branches in 13 more states.
- Vakrangee's board consists of 7 directors, out of which 5 are independent directors.

Management and Directors background

- **Dinesh Nandwana – Chairman & Managing Director:** A Chartered Accountant by profession, Mr. Nandwana is the promoter of the company.
- **Santosh Dash – CEO, Retail & BFSI (Global):** Mr. Dash is an IT veteran with more than 18 years of experience in PWC, IBM and ICICI.
- **Dr. Nishikant Hayatnagarkar – Director – R&D:** Dr. Hayatnagarkar is a PhD in Computer Science from IIT Mumbai, with 24 years of experience in the field of software and chip designing.

Latest results highlights (FY15)

- Revenues increased by 42.4% YoY to Rs27.8b.
- 8715 Vakrangee Kendras were opened across rural and urban areas in FY15.
- Vakrangee Kendra reported strong 56% YoY growth in FY15. E-Governance revenues increased by 31.8% YoY.
- EBITDA margin declined by 150bps YoY to 26.2%.
- PAT margin increased by 260bps YoY to 11.6%.

Fig 1 Statewise list of rural and urban branches

States	Rural Branches	Urban Branches	Total
Maharashtra	3,020	406	3,426
Rajasthan	5,730	540	6,270
Delhi	0	11	11
Uttar Pradesh	1,888	275	2,163
Gujarat	187	0	187
Goa	11	2	13
Haryana	74	7	81
Punjab	38	34	72
Madhya Pradesh	231	10	241
Chattisgarh	16	3	19
Himachal Pradesh	25	0	25
Bihar	60	0	60
Total	11,280	1,288	12,568

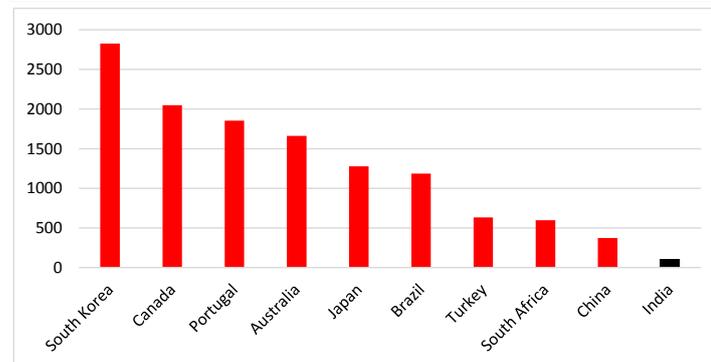
Source: Company data, June 2015

Fig 2 Bankwise list of rural and urban branches

Bank Tie-Ups	Rural branches	Urban branches	Total
Bank of Baroda	1,052	468	1,520
Bank of India	651	303	954
Bank of Maharashtra	1,014	9	1,023
Baroda Raj. Kshetriya Gramin Bank	1,819	7	1,826
Central Bank of India	550	56	606
Maharashtra Gramin Bank	594	3	597
Rajasthan Marudhara Gramin Bank	1,327	116	1,443
Punjab National Bank	571	141	712
Union Bank of India	903	42	945
Vidarbha Kshetriya Gramin Bank	58	0	58
Allahabad Bank	155	0	155
Baroda UP Gramin Bank	1,008	113	1,121
Kashi Gomti Samyut Gramin Bank	471	14	485
State Bank of Bikaner & Jaipur	927	16	943
Baroda Gujarat Gramin Bank	180	0	180
Total	11,280	1,288	12,568

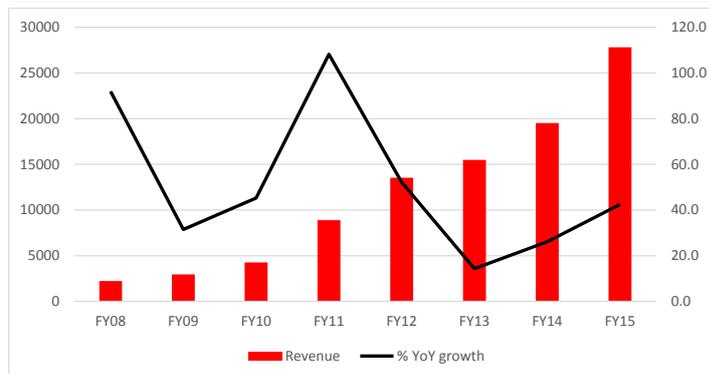
Source: Company data, June 2015

Fig 3 ATMs per million – Low penetration in India



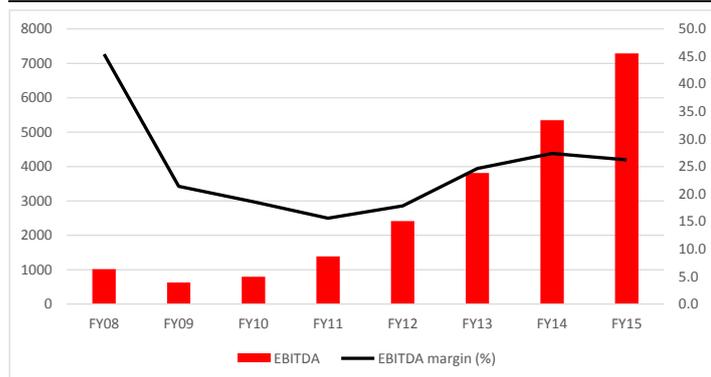
Source: Company data, June 2015

Fig 4 Revenue growth has been inching up in last 3 yrs



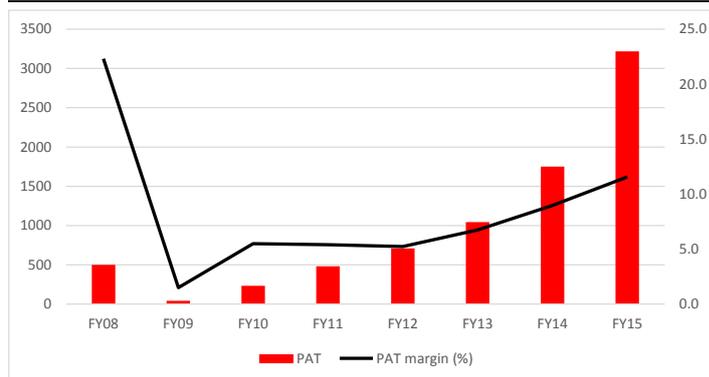
Source: Company data, June 2015

Fig 5 EBITDA margin

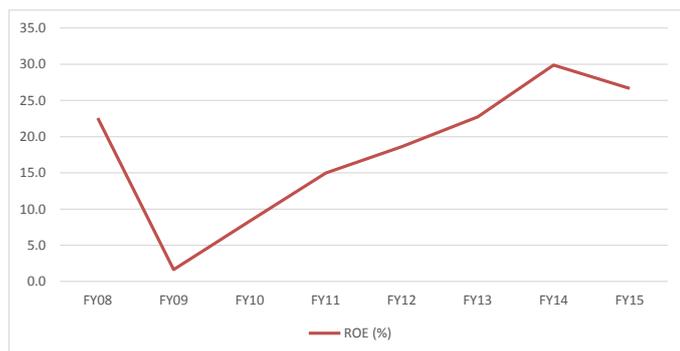


Source: Company data, June 2015

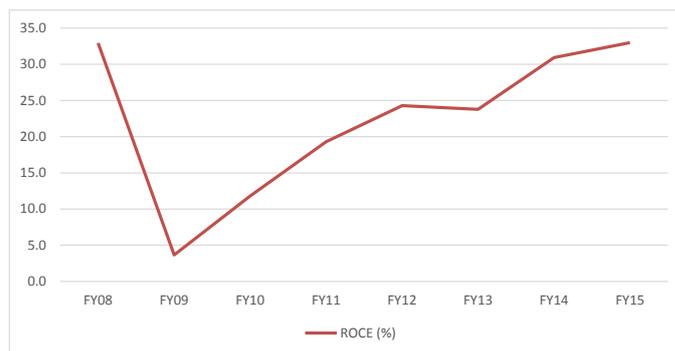
Fig 6 PAT margin



Source: Company data, June 2015

Fig 7 ROE profile

Source: Company data, June 2015

Fig 8 RoCE profile

Source: Company data, June 2015

The growth proposition

- Given the emphasis of the Central government on financial inclusion, management is upbeat about the potential of the revenues from its Vakrangee Kendra revenue stream.
- The company aims to complete around 50,000 Vakrangee Kendra outlets (currently 12,568 branches) across 16 states.

The business model

- Vakrangee does not set up the Kendras itself, instead it outsources it to someone using a franchise model. Since these Kendras are actually an extension of the bank, the selected franchise needs to get approval of the bank manager.
- Franchisees have to invest ~Rs130k as capex to get a VSAT connection, Genset, laptop etc in rural areas. In urban areas, franchisees have to invest Rs1.2m. Apart from the capex, franchisees need to maintain a settlement account of Rs200k for rural areas and Rs500k for urban areas.
- Vakrangee's per customer capex is Rs20,000 for rural branches and Rs40,000 for urban branches. In addition, Vakrangee will have to incur Rs400k capex per white label ATM, which it will recover from the franchisee.

Strengths

- Unique business model with fast-paced growth.
- Largest agency empanelled with the Unique Identification Authority of India.

Opportunities

- High focus of government on financial inclusion.

The value proposition

- Vakrangee trades at 17.5x FY15 EPS and 4.3x FY15 BV respectively.

The main risks

- Inability to bid successively for contracts will reduce competitive advantage for Vakrangee.
- Inability of sub-franchisees to bear entire capex cost.
- Not obtaining payment bank license

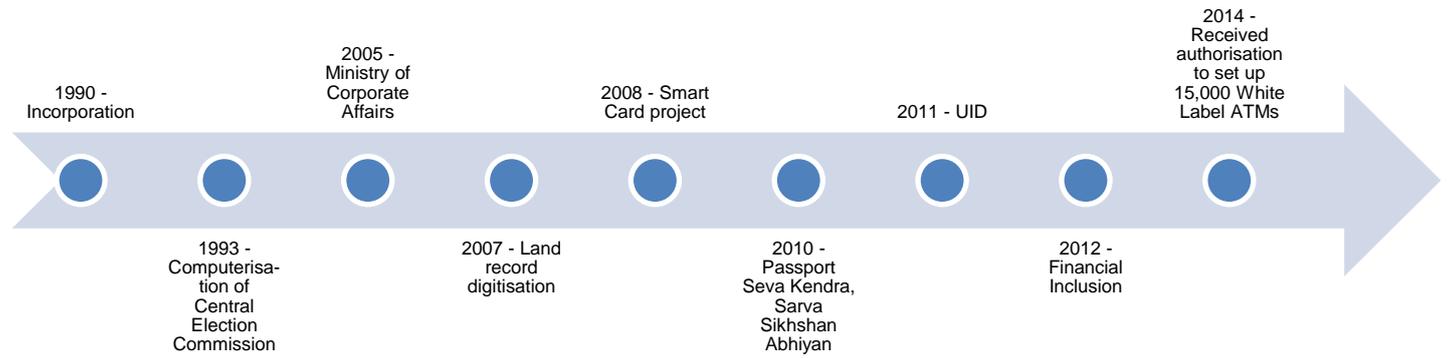
Weaknesses

- High dependency on various sub-franchisees.
- Volatility in margins.

Threats

- Competition from payment banks

Fig 9 Vakrangee: A timeline



Source: Company data, June 2015

Fig 10 Urban Vakrangee Kendra outlet



Source: Company, Macquarie Research, June 2015

Fig 11 Rural Vakrangee Kendra outlet



Source: Company, Macquarie Research, June 2015

Fig 12 Income Statement

Year End (Rs m)	FY10	FY11	FY12	FY13	FY14	FY15
Operating Income	4275	8897	13532	15472	19519	27,805
Stock Adjustments	-134	-35	-51	-292	137	-46
Raw Materials Consumed	3137	6943	10255	10453	12911	20,226
Power & Fuel Cost	9	7	4	108	4	0
Employee Cost	287	265	125	285	314	196
Cost of Software developments	0	17	12	10	7	0
Operating Expenses	72	33	220	516	253	196
General and admin Expenses	92	261	539	553	498	0
Selling and Marketing Expenses	10	16	8	17	42	0
Miscellaneous Expenses	7	0	6	5	7	0
Total Expenditure	3479	7509	11117	11657	14173	20,573
EBITDA	796	1388	2415	3815	5346	7,232
Other Income	5	6	46	52	62	59
Interest	66	176	558	860	779	749
Depreciation	420	550	874	1571	1809	1,649
Profit Before Tax	316	668	1029	1437	2820	4,893
Provision for Tax	80	187	320	394	1070	1,675
PAT	235	481	709	1043	1750	3,218
Dividend(%)	15	20	20	20	25	25
EPS	10.5	20.3	2.8	2.1	3.5	6.1
EBITDA margin (%)	18.6%	15.6%	17.8%	24.7%	27.4%	26.0%
PAT margin (%)	5.5%	5.4%	5.2%	6.7%	9.0%	11.6%

Source: Factset, June 2015

Fig 13 Balance Sheet

Year End (Rs m)	FY10	FY11	FY12	FY13	FY14	FY15
Share Capital	225	237	250	503	503	503
Share Warrants & outstandings	41	89	15	108	1117	0
Share Warrants	41	85	0	0	1022	2,500
Total Reserve	2736	3231	3904	4528	6174	9,070
Shareholder's Funds	3002	3557	4169	5138	7795	12,073
Minority Interest	0	0	29	29	0	0
Secured Loans	515	0	1560	1457	862	3,156
Unsecured Loans	45	5	70	78	33	374
Total Debts	560	5	1630	1535	895	3,530
Total Liabilities	3563	3562	5827	6702	8690	15,603
APPLICATION OF FUNDS :						
Net fixed assets	2873	2724	5373	4204	4364	2,829
Capital Work in Progress	0	0	144	168	481	0
Investments	21	353	407	372	730	16
Current Assets, Loans & Advances						
Inventories	209	177	244	538	1625	1,694
Sundry Debtors (Debtors)	1697	2745	4455	6527	7683	11,993
Cash and Bank	49	176	284	319	293	382
Other Current Assets	0	77	82	524	105	3,251
Loans and Advances	192	641	173	1175	1965	207
Total Current Assets	2146	3817	5238	9082	11670	17,527
Less : Current Liabilities and Provisions						
Current Liabilities	1004	2677	4389	5888	6767	2,977
Provisions	95	137	215	407	1077	1,367
Total Current Liabilities	1099	2815	4603	6295	7844	4,344
Net Current Assets	1047	1003	635	2787	3826	13,183
Miscellaneous Expenses not written off	0	0	0	0	0	0
Deferred Tax Assets / Liabilities	-378	-517	-732	-829	-712	-425
Total Assets	3563	3562	5827	6702	8690	15,603

Source: FactSet, June 2015

Fig 14 Cash flow statement

Particulars (Rs m)	FY10	FY11	FY12	FY13	FY14
Profit Before Tax	316	668	1029	1437	2820
Adjustment	482	723	1339	2365	2528
Changes In working Capital	-647	-1735	-5	-2802	-2099
Cash Flow after changes in Working Capital	151	-343	2364	1001	3249
Cash From Operating Activities	142	-452	2164	736	2275
Cash Flow from Investing Activities	-630	-409	-3617	-398	-2261
Cash from Financing Activities	492	988	1561	-303	-39
Net Cash Inflow / Outflow	4	127	108	35	-25
Opening Cash & Cash Equivalents	45	49	176	284	319
Closing Cash & Cash Equivalent	49	176	284	319	293

Source: FactSet, June 2015

Fig 15 Financial ratios

Year End	FY10	FY11	FY12	FY13	FY14
Operational & Financial Ratios					
Earnings Per Share (Rs)	10.5	20.3	2.8	2.1	3.5
Adjusted EPS (Rs.)	0.5	1.0	0.1	2.1	3.5
DPS(Rs)	1.5	2.0	0.2	0.2	0.3
Adjusted DPS(Rs)	0.2	0.2	0.2	0.2	0.3
Adjusted Book Value (Rs)	6.6	7.3	0.8	10.0	13.3
Tax Rate(%)	25.5	27.9	31.1	27.4	38.0
Dividend Pay Out Ratio(%)	14.4	9.9	7.1	9.6	7.2
Margin Ratios					
Core EBITDA Margin(%)	18.6	15.6	17.9	24.7	27.4
EBIT Margin(%)	8.9	9.5	11.7	14.8	18.4
Pre Tax Margin(%)	7.4	7.5	7.6	9.3	14.5
PAT Margin (%)	5.5	5.4	5.2	6.7	9.0
Cash Profit Margin (%)	15.3	11.6	11.7	16.9	18.2
Performance Ratios					
ROA (%)	5.6	8.1	7.9	8.4	11.3
ROE (%)	8.3	15.0	18.6	22.7	29.9
ROCE (%)	11.8	19.3	24.3	23.8	30.9
Asset Turnover(x)	1.0	1.5	1.5	1.2	1.3
Inventory Turnover(x)	24.5	46.1	64.2	39.6	18.1
Debtors Turnover(x)	4.0	4.0	3.8	2.8	2.8
Sales/Fixed Asset(x)	1.2	2.3	2.3	2.0	2.2
Working Capital/Sales(x)	4.1	8.9	21.3	5.6	5.1
Efficiency Ratios					
Fixed Capital/Sales(x)	0.8	0.4	0.4	0.5	0.5
Receivable days	90.6	91.1	97.1	129.5	132.9
Inventory Days	14.9	7.9	5.7	9.2	20.2
Payable days	26.3	31.3	33.3	42.7	50.4
Growth Ratios					
Net Sales Growth(%)	45.3	108.1	52.1	14.3	26.2
Core EBITDA Growth(%)	26.3	74.0	76.6	57.1	39.8
EBIT Growth(%)	271.1	121.3	88.0	44.7	56.7
PAT Growth(%)	434.2	104.7	47.2	47.2	67.7
EPS Growth(%)	408.1	94.2	-86.1	-26.7	67.5
Financial Stability Ratios					
Total Debt/Equity(x)	0.2	0.5	0.9	1.1	0.7
Current Ratio(x)	2.0	1.4	1.1	1.4	1.5
Quick Ratio(x)	1.8	1.3	1.1	1.4	1.3
Interest Cover(x)	5.8	4.8	2.8	2.7	4.6

Source: FactSet, June 2015

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions																																
<p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell)– return >5% below Russell 3000 index return</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																																
<p>Recommendation proportions – For quarter ending 31 March 2015</p> <table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> <th>EUR</th> <th></th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>48.99%</td> <td>59.51%</td> <td>49.30%</td> <td>43.79%</td> <td>59.59%</td> <td>52.20%</td> <td>(for US coverage by MCUSA, 7.42% of stocks followed are investment banking clients)</td> </tr> <tr> <td>Neutral</td> <td>34.12%</td> <td>26.62%</td> <td>35.21%</td> <td>50.29%</td> <td>34.93%</td> <td>31.32%</td> <td>(for US coverage by MCUSA, 5.68% of stocks followed are investment banking clients)</td> </tr> <tr> <td>Underperform</td> <td>16.89%</td> <td>13.87%</td> <td>15.49%</td> <td>5.93%</td> <td>5.48%</td> <td>16.48%</td> <td>(for US coverage by MCUSA, 0.87% of stocks followed are investment banking clients)</td> </tr> </tbody> </table>				AU/NZ	Asia	RSA	USA	CA	EUR		Outperform	48.99%	59.51%	49.30%	43.79%	59.59%	52.20%	(for US coverage by MCUSA, 7.42% of stocks followed are investment banking clients)	Neutral	34.12%	26.62%	35.21%	50.29%	34.93%	31.32%	(for US coverage by MCUSA, 5.68% of stocks followed are investment banking clients)	Underperform	16.89%	13.87%	15.49%	5.93%	5.48%	16.48%	(for US coverage by MCUSA, 0.87% of stocks followed are investment banking clients)
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