

October, 2014	
Recommendation	BUY
CMP (Rs)	125.00
Target (Rs)	180.00
BSE Code	511431
NSE Symbol	Vakrangee
SENSEX	26,108.53
NIFTY	7,779.70
<b>Stock Details</b>	
Industry	Specialty Retail
Equity Capital Pd (Rs Cr)	50.35
Face Value (Rs)	1.00
Industry P/E	19.66
Market Capital(Rs Cr)	6,293.75
52 Week H/L	145.60/63.55
<b>Shareholding Pattern (%)</b>	
Indian Promoters Hold	38.76
Institutional (Incl FIIs) Hold	9.53
Non-Institutional Hold	51.71

**VAKRANGEE LIMITED**
**Company Background**

Vakrangee Limited, incorporated in 1990, has been a leading system integrator in India with over 20 years of experience in execution of various projects under 'National e-Governance Plan ("NeGP")' of India. Vakrangee commenced e-Governance business in 1994 with a mandate to computerize electoral records for the Election Commission of India, initially in Maharashtra and thereafter in other states, including Gujarat, Madhya Pradesh, Uttar Pradesh, Rajasthan and Chhattisgarh. It began executing projects of national importance ("Mission Mode Projects"), including MCA-21 for the Ministry of Corporate Affairs and Rashtriya Swasthya Bima Yojana ("RSBY") for the Ministry of Labour and Employment (a scheme that provides health insurance to people below the poverty line in India). Vakrangee is one of India's leading enrolment agencies for the Unique Identification Development Authority of India ("UIDAI") to provide biometric-enabled unique identification numbers to Indian residents.

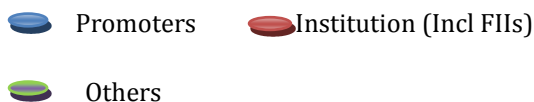
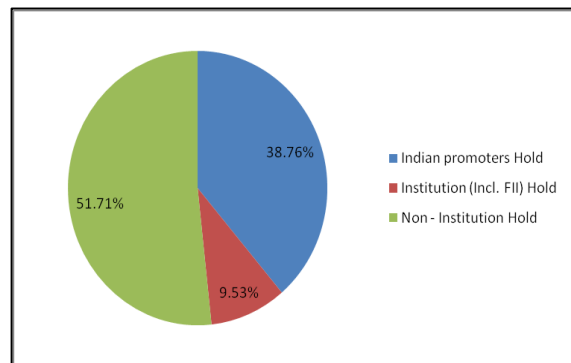
Over the years Vakrangee has moved up the value chain – from being a sub-contracted IT enabler in e-Governance projects into a prime bidder in various e-Governance projects in India and an organised "RURBAN Retail House", first of its kind in India, offering Banking, Insurance, G2C (Government to Citizen) services and B2C (Business to Customer) services at more than 5,000 retail outlets under the brand name "Vakrangee Mart". The company has also recently secured license from RBI to open White Label ATMs across India.

Vakrangee is listed in both NSE and BSE with market capitalisation of more than Rs.6,300 cr. It is categorised as Group "A" stock in BSE. It is part of S&P BSE-200, S&P BSE Mid-Cap, S&P BSE-500, NSE CNX IT, NSE CNX 500 Index and MSCI Global Small Cap Index.

**Market Leader**

Vakrangee Marts are currently focussed on the service side of retail business having partnered with Banks, Insurance companies, Government agencies, Mobile & D2H operators, to offer various services at its outlets spanning from metro cities to gram panchayat levels. This wide range of services has given it a "first-mover advantage" in the urban and rural space transforming it into a "One-Stop RURBAN Multi-Retail House". Its deep understanding on consumer behaviour due to the last 20 years of working at the grass-root level in the e-Governance space enables the Company to maximise customer experience and be the "last mile link" connecting the under-served citizens with India's modern ecosystem.

After establishing itself on the service side of the retail business, Vakrangee Marts will add comprehensive product categories to its retail platform to unleash the full potential of its retail business. In the coming years, the company's objective is to be one of the largest retail companies in India not only in the service category but also in product category with the unique advantage of serving to the rural population who represents 70% of the country.



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	<p><b>Outlook</b></p> <p>Vakrangee has been historically consistent on its growth profile. The EPS has grown from Rs.0.55 (adjusted for bonus and stock split) in FY2010 to Rs.3.48 in FY2014. In FY14 the Total Income stood at Rs.1,958 crores, EBITDA at Rs.541 crores and PAT at Rs.175 crores registering a CAGR of 30.05%, 57.12% and 53.77% respectively over the last three years.</p> <p>Increased focus on high growth and untapped business like RURBAN Retail, Financial Inclusion, Digital India over the next few years with first mover advantage shall put Vakrangee into a new growth trajectory. We expect Vakrangee to witness healthy top-line growth from Rs.1,958.06 crores in FY14 to Rs.6,521.02 crores in FY17E on the back of new initiatives by the GoI and the competitive advantageous position the company is in terms of its retail as well as e-governance initiatives. The PAT is expected to grow from Rs.175.04 crores to Rs.875.93 crores in FY17E. Thus, the Company's P/E of 7.19X of FY17E and P/BV of 1.99X of FY17E looks very attractive at current levels. We recommend Buy rating for the stock for the target price of Rs.180.</p>
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Key Financials Rs in Crs	2013A	2014A	2015E	2016E	2017E
Equity Share Capital	50.25	50.35	50.35	50.35	50.35
FV	1.00	1.00	1.00	1.00	1.00
No. of Share	50.25	50.35	50.35	50.35	50.35
CMP in INR	125	125	125	125	125
Market Cap	6281.25	6293.75	6293.75	6293.75	6293.75
Total Income	1,552.36	1,958.06	2,591.1	4,695.17	6,488.57
PBIDT	386.71	540.76	755.2	1,281.78	1,651.13
Net Profit	104.34	174.98	315.57	662.43	875.92
Market Cap/ Sales (X)	4.04	3.21	2.43	1.34	0.97
EPS	2.08	3.48	6.27	13.16	17.40
P/E	60.20	35.97	19.94	9.50	7.19
Adj. Book Value	10.23	13.45	36.34	47.70	62.71
P/BV	12.22	9.29	3.44	2.62	1.99

### About Company

Vakrangee started as an e-Governance focussed company in India with approximately 20 years of experience in delivering system integration and other services for projects under India's NeGP. It is a technology-enabled company, and has built up an extensive delivery network for offering services across select regions in northern and western India. As of June 30, 2014, the Company has delivered its services through 4,237 delivery points, operating predominantly through a network of franchisee in rural and semi-urban areas. Vakrangee business is broadly divided into the following business segments: (a) e-Governance Business, including system integration projects and print and data management services; and (b) Retail business under the brand name of Vakrangee Mart comprising of Financial Inclusion Business, including G2C and B2C services/products; and White Label ATM Business.

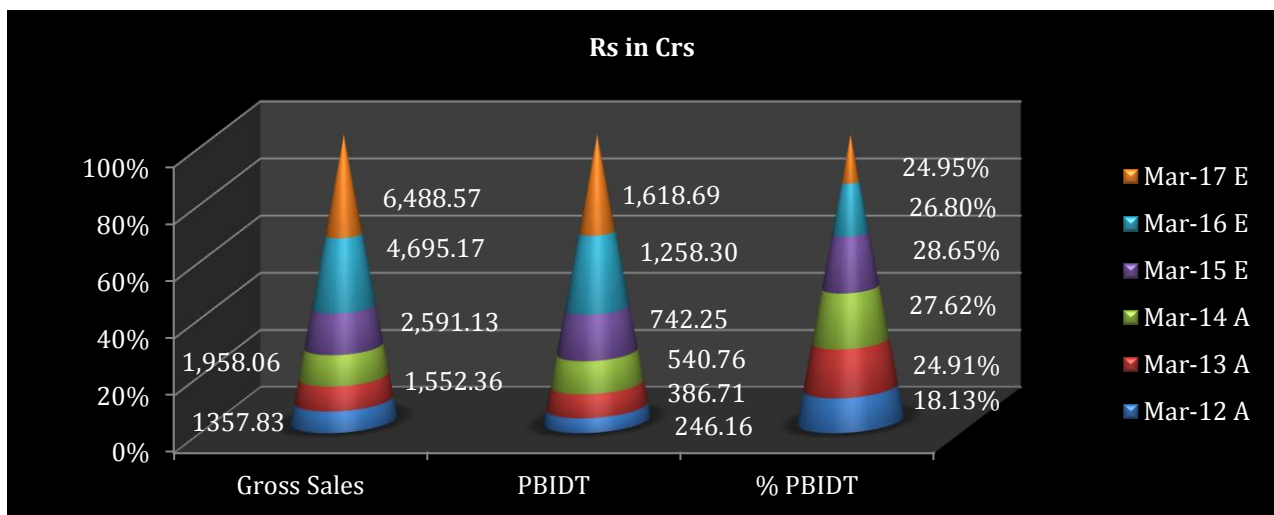
The Company commenced its e-Governance business in 1994 using transliteration and photo-grabbing technological capabilities for initiatives to computerize electoral records for the Election Commission of India, initially in Maharashtra and thereafter in other states, including Gujarat, Madhya Pradesh, Uttar Pradesh, Rajasthan and Chhattisgarh. Thereafter it began executing projects of national importance, including MCA-21 for the Ministry of Corporate Affairs and Rashtriya Swasthya Bima Yojana ("RSBY") for the Ministry of Labour and Employment (a scheme that provides health insurance to persons below the poverty line in India), under [www.magnum.co.in](http://www.magnum.co.in)

the Government of India's National e-Governance Action Plan of 2003. It is one of the India's leading enrolment agencies for the Unique Identification Development Authority of India ("UIDAI") to provide biometric-enabled unique identification numbers to Indian residents. As of June 30, 2014, it had enrolled directly more than 42 million applicants for the UIDAI project for whom unique identity numbers have been generated. Vakrangee is also executing various other national e-governance programs including, the Sarva Shiksha Abhiyan (SSA), which is a program to achieve universal access to elementary education in India, where company distributes books and computer aided learning systems under the program.

It also offers various data management and print management services to government agencies and private corporate. Key projects include work for the Election Commission ("EC") in India to convert to digital format various documents and data, printing voter identification cards and compiling electoral records of voters in the state of Uttar Pradesh, Maharashtra & Rajasthan in India. Company has also done a project in the Philippines to convert approximately 15 million land title deeds into digital format.

The Company has leveraged its technology platform, track record on the national e-Governance plan and strong delivery network to enter new businesses in the area of financial inclusion. In 2012, the Ministry of Finance, Government of India and the Reserve Bank of India through their policy intervention in last mile banking allowed non-banking companies to set up and operate "Ultra Small Branches" or "Fixed Business Correspondent Outlets" of public sector banks at the Gram Panchayat level. Gram Panchayats are local self-governments for groups of three to five villages. This was done to bridge the financial inclusion gap in India where rural India does not have access to the commercial banking system enjoyed by urban India. In 2012, the Company was awarded a five-year contract to establish and manage up to 18,265 ultra-small branches of public sector banks as common business correspondents in the states of Maharashtra, Rajasthan and Delhi. Subsequently some of these banks have been permitting Vakrangee to set up more BC outlets in other states. Vakrangee now intends to complete around 50,000 Vakrangee Marts in 15 states by March 2017, out of which 15,000 will be in urban and semi-urban areas and the remaining 35,000 in rural areas. As of 30<sup>th</sup> June 2014, Vakrangee had established 4,237 branches under this contract. In January 2014, Vakrangee was granted a license from the Reserve Bank of India to establish a minimum of 15,000 white label automated teller machines ("ATMs") across India in next three years.

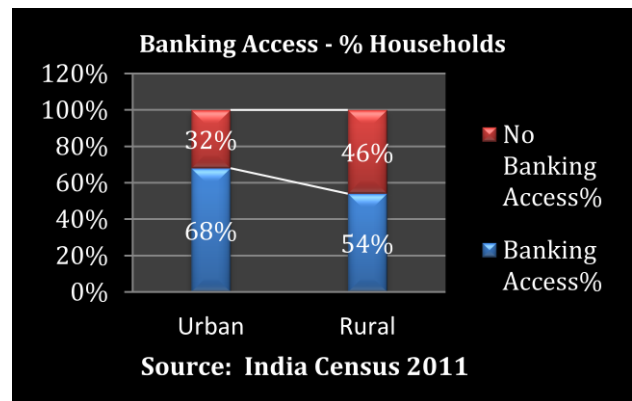
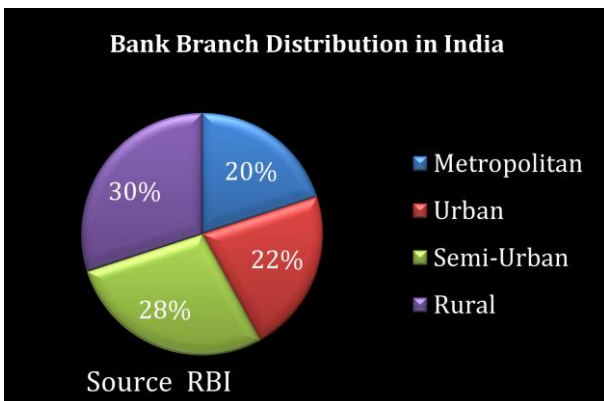
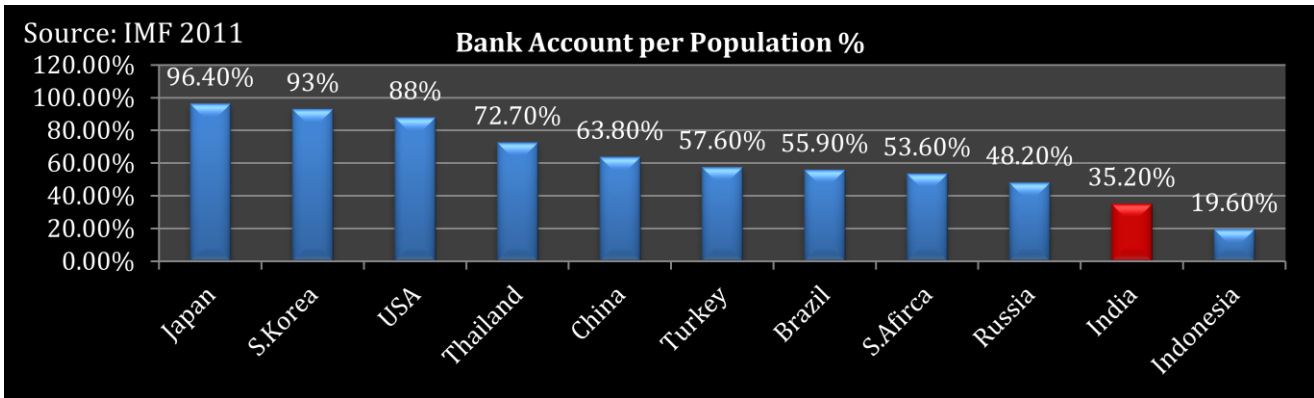
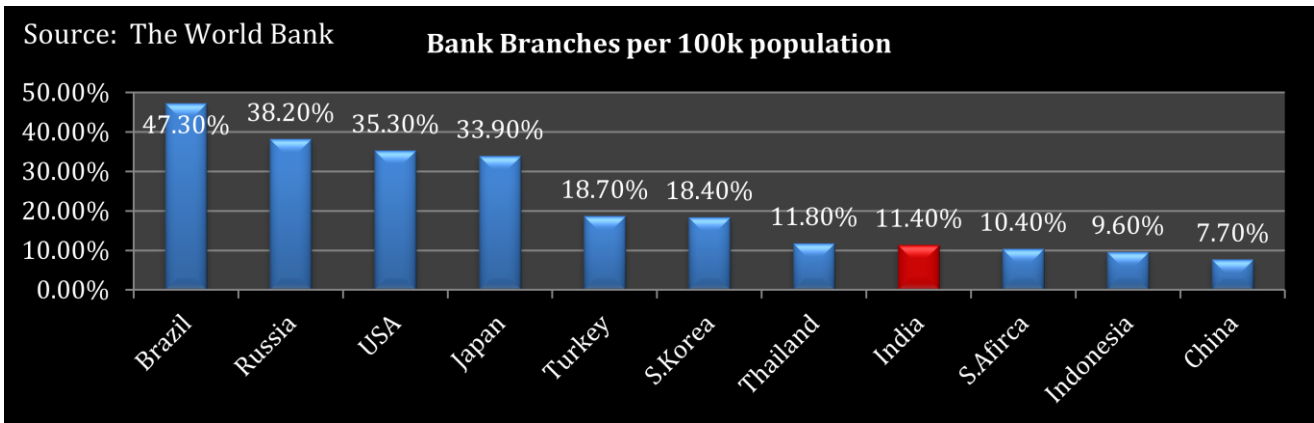
***Illustration of Percentage PBIDT to GROSS SALES (Actual & Estimated):***



**Industry Overview:**

**Financial Inclusion in India**

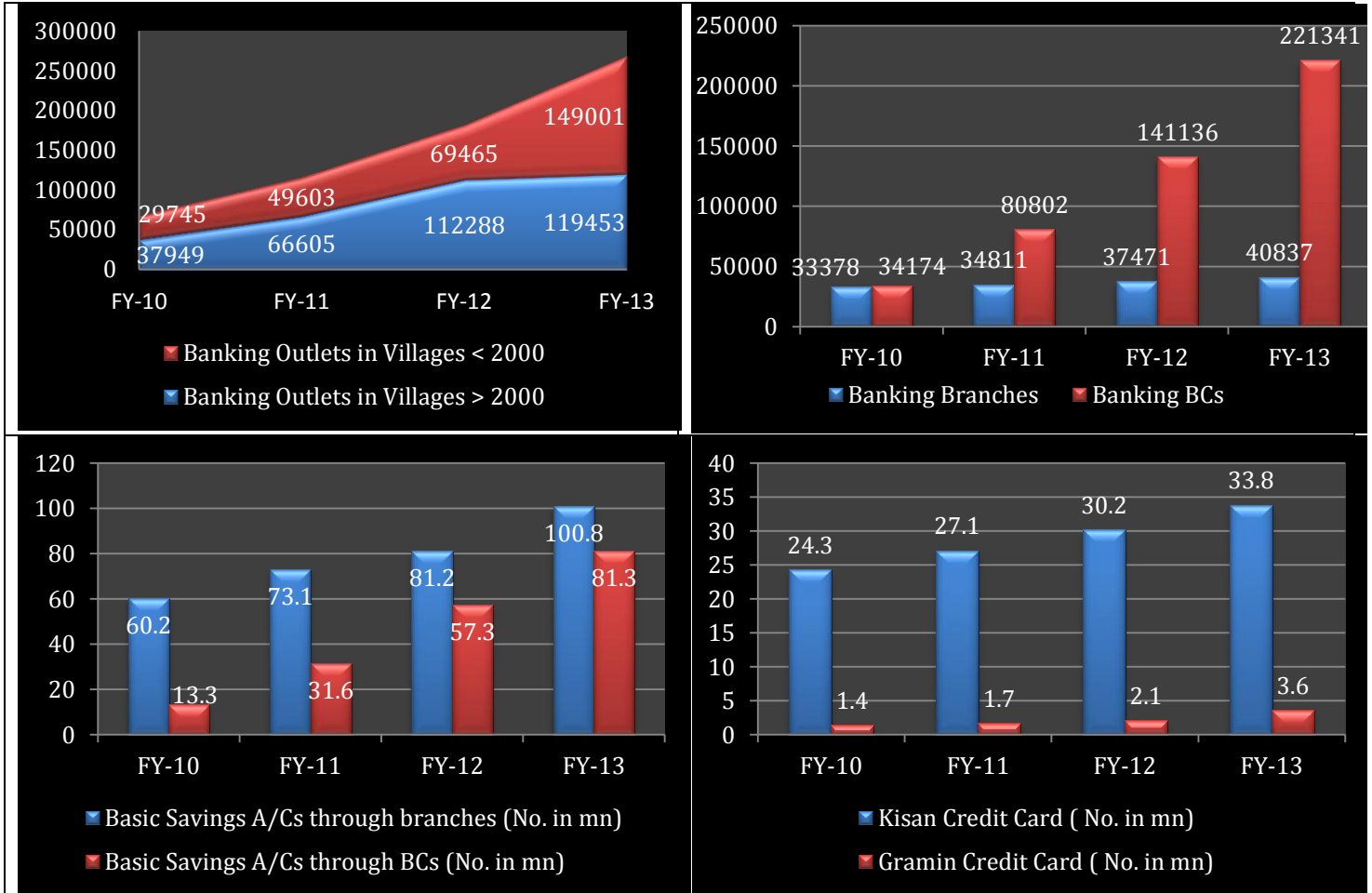
The Indian financial system still largely continues to remain underpenetrated at the rural level. As per census 2011, only 58.7% of households (54% in rural and 67.8% in urban) are availing banking services in India. The World Bank Findex Survey (2012) showed that only 35.2 percent of Indian adults had access to a formal bank account, only 2 percent of adults used a bank account to receive money from a family member living in another area and only 4% used a bank account to receive payment from the Government. Further, the National Sample Survey Organisation (NSSO) 59th Round Survey results revealed that 73 percent of farmer households have no access to formal sources of credit. Furthermore, as per RBI estimates, only 10 percent people in India have life insurance cover, only 13 percent have debit cards, and only 2 percent have credit cards.



### Financial Inclusion Plan 2010-2013

Banks were encouraged by RBI to adopt a structured and planned approach to financial inclusion through preparation of Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010-2013. The progress made by banks under the FIP 2010-2013 is summarised in the below chart and table. For the second phase of FIP from 2014-2016, the remaining 4,90,000 unbanked villages have been identified and allocated to banks, for opening of banking outlets by March 2016.

#### FIP 2010-13: On-Ground Progress (Source: RBI Trends & Progress 2013)



### Evolved Business Correspondent Model by RBI:

The earlier BC model which was introduced by RBI in 2006, was found inadequate to meet the financial inclusion plans set by RBI. There were various reasons as mentioned below behind the ineffectiveness of the earlier BC model.

- **Fragmented Geography:** The banks on their own were offering the business correspondent services without any large geographical exclusivity to the BCs. Therefore, there was over-lapping of BC services by many banks in same geography with little business left for each of them. Therefore low economic viability for all the BCs.
- **Inadequate support from banks:** Lack of necessary hand-holding and training from banks for effective supervision of BC operations, introduction of new products and services, cash management, and customer grievances., as it requires huge management bandwidth which the Banks themselves cannot afford to give for the FI purpose.
- **Shadow Banking and mobile banking-** Banking is premised on trust but in the earlier model the Mobile BCAs do not command the necessary trust required for banking. Therefore, cash

withdrawal was happening but no cash deposit. As saving formation was not happening, it was not remunerative for banks.

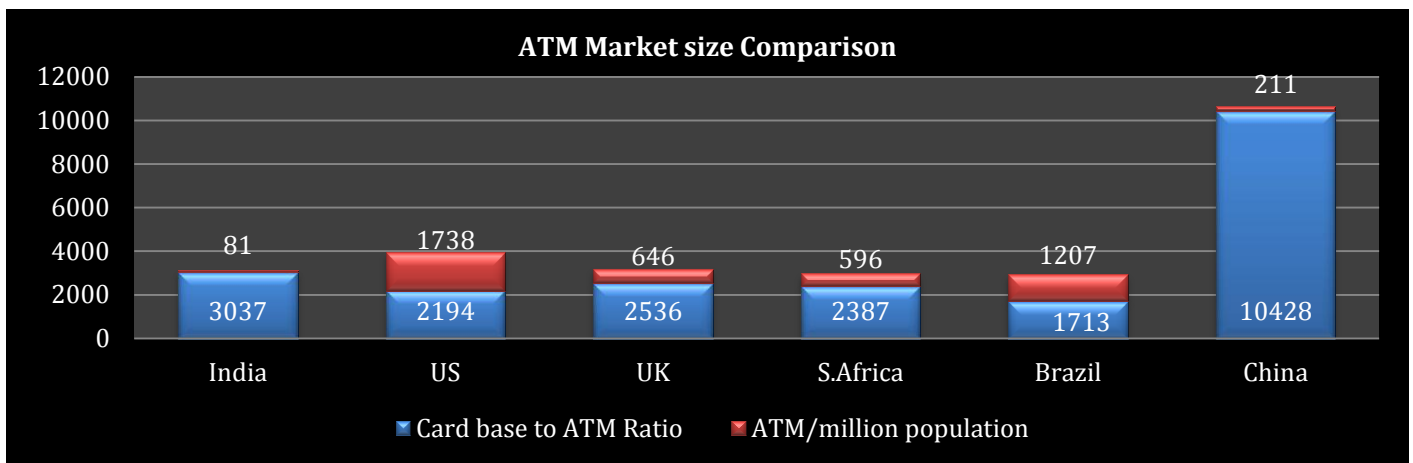
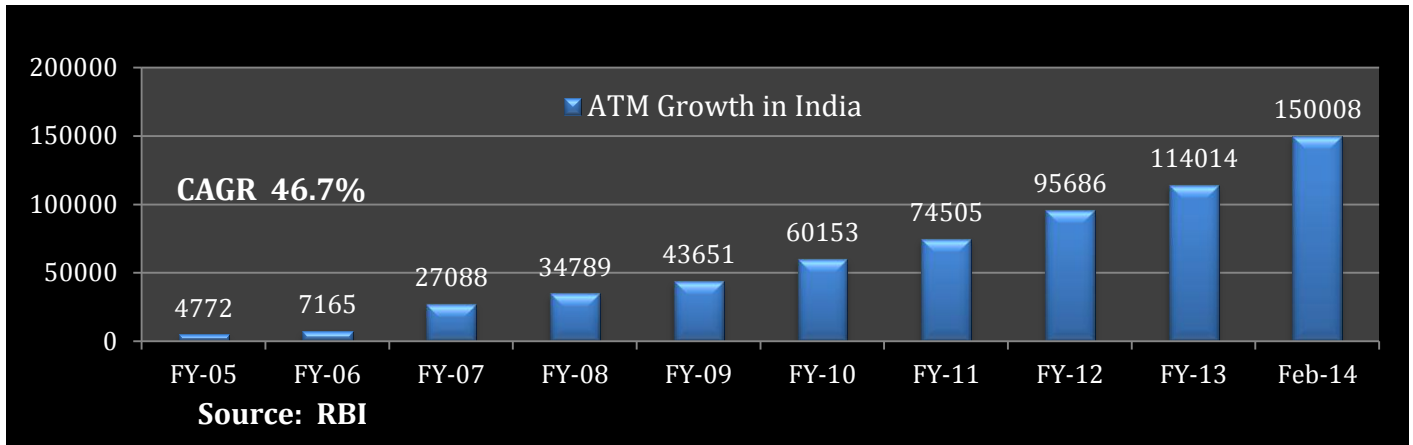
- **Off-Line Banking:** The BC platform was not seamlessly integrated with the CBS of the respective banks and therefore the banking services were not happening on real time basis resulting in inconvenience to the customers as well as BCs.

This led RBI to introduce an Evolved BC model in 2012. Under the new model, RBI divided India into 20 clusters (with similar market size & opportunity), with each cluster to be exclusively operated by one Corporate Entity as Business Correspondent for a period of 5 years with 2 years of mutual extension. Further, RBI also permitted all BCs to offer Insurance, G2C and B2C services at their BC branches to improve their overall economic viability. The new model required all BCs to set up a brick and mortar Ultra Small Bank branch operating at the gram panchayat level with an institutional mechanism in place to allocate one bank to one panchayat. The government's direct benefit transfer scheme is one of the strong drivers for opening the BC branches at the rural level.

	Existing BC Model	Evolved BC Model
<b>Mode of Operation</b>	<ul style="list-style-type: none"> <li>• Mobile BC Agents</li> </ul>	<ul style="list-style-type: none"> <li>• Brick &amp; Mortar</li> </ul>
<b>BC Exclusivity</b>	<ul style="list-style-type: none"> <li>• No stipulated limits</li> </ul>	<ul style="list-style-type: none"> <li>• Country divided into 20 clusters</li> <li>• One exclusive BC per cluster</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>• No stipulation</li> </ul>	<ul style="list-style-type: none"> <li>• Till gram panchayat level</li> </ul>
<b>Interoperability</b>	<ul style="list-style-type: none"> <li>• No Interoperability</li> </ul>	<ul style="list-style-type: none"> <li>• Interoperable with CBS of various banks</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Offline</li> <li>• Smart card-based</li> </ul>	<ul style="list-style-type: none"> <li>• Real-time connectivity with Core Banking Solution (CBS)</li> <li>• Biometric Authentication, no other paperwork required</li> </ul>
<b>Trust</b>	<ul style="list-style-type: none"> <li>• Lack of trust on mobile BCs</li> </ul>	<ul style="list-style-type: none"> <li>• High trust due to Brick &amp; Mortar branch with respective parent bank signage run by local people</li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>• High operating costs involved in smart-card delivery and BC mobility</li> </ul>	<ul style="list-style-type: none"> <li>• Low cost operations through biometric authentication</li> </ul>
<b>Operational Efficiency</b>	<ul style="list-style-type: none"> <li>• Offline transactions leading to reconciliation errors</li> <li>• Significant cash misappropriation</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction time of only 10-15 seconds</li> <li>• No reconciliation errors as everything is settled on real time basis with the respective CBS</li> </ul>
<b>Eligibility Criteria</b>	<ul style="list-style-type: none"> <li>• Varying across banks</li> </ul>	<ul style="list-style-type: none"> <li>• Rs 5 crore of revenues in any of last 3 years</li> </ul>
<b>Service standards</b>	<ul style="list-style-type: none"> <li>• Varying across banks</li> </ul>	<ul style="list-style-type: none"> <li>• Standard across banks</li> </ul>

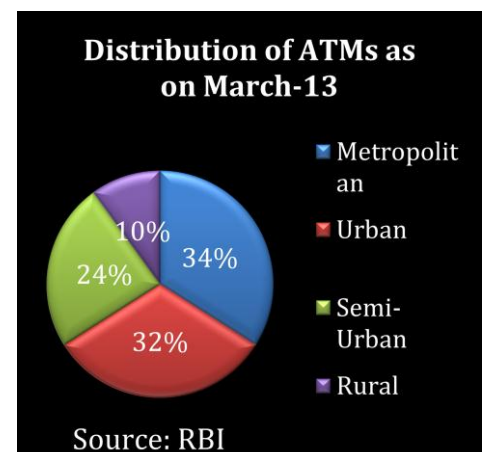
### ***Growth of ATMs in India:***

The Indian ATM industry witnessed a rapid growth over past decade, growing at CAGR of 46.7% from 2005 to reach around 1,50,008 ATMs in Feb-2014. Despite the strong growth, the ATM penetration in India still continues to be very low with only 81 ATMs per million population, compared to 1,738 ATMs per million in USA, 1,207 ATMs per million in Brazil, 646 ATMs per million in UK and 211 ATMs per million in China. Hence, there is a huge opportunity for further growth in ATMs in India which are expected to reach 3,50,000 ATMs by 2017.



The ATM growth in India has primarily been driven by the economic development, rising income levels and improving access to banking facilities across the country. ATMs have emerged as one of the prominent delivery channels for banking transactions in India. While the major utility of ATMs in India has been for cash withdrawal and balance enquiry, ATMs are increasingly getting used for performing various transactions like funds transfer from card to account, application for various loans, bill payments, ticket bookings, mobile recharges etc.

Banks have been deploying ATMs at a quick pace over past decade in order to increase their reach across the country. However, most of the banks have deployed their ATMs at locations where they have a large customer base or where they expect considerable use. This has resulted in ATM growth getting largely concentrated in metro and urban regions. The rural areas in the country have remained majorly underserved accounting for only 10% of the total number of ATMs deployed in the country in FY13. The major reasons behind low rural presence are high cost of setting up bank branches, low transaction volumes and inability of conventional ATMs to serve rural people. However with an increasing thrust on financial inclusion, RBI has been devising various policies and measures to increase the penetration of ATMs in the rural areas. One of the major policy decisions of RBI has been the introduction of "White Label ATM" concept in India in 2012.



### **White Label ATMs**

On 20<sup>th</sup> June 2012, RBI reviewed its extant policy on ATMs. It decided to permit non-bank entities incorporated in India under the Companies Act 1956, to set up, own and operate ATMs in India. Non-bank entities that intend setting up, owning and operating ATMs, would be called as "White Label ATM Operators" (WLAO) and such ATMs would be called "White Label ATMs" (WLAs). WLAOs will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks.

### **RBI permitted WLA Schemes:**

RBI introduced three WLA schemes under which the WLAO applicants will be awarded the license. The non-banking entities applying for the license are required to maintain a minimum Networth of Rs 100 crore in order to be eligible for this project. As decided by RBI for the interchange fee, each WLAO will earn Rs 15 per financial transaction and Rs 5 per non-financial transaction. Further, each WLAO will need to have a sponsor bank for cash settlement of transactions, adequate cash supply at WLA and redress of failed transactions.

Scheme A	Scheme B	Scheme C
<ul style="list-style-type: none"> <li>Year 1 - minimum of 1,000 WLAs</li> <li>Year 2 - minimum of 2x WLAs installed in Year 1</li> <li>Year 3 - minimum of 3x WLAs installed in Year 2</li> <li>Split – 3:1 (Teri III-VI : Tier I-II), minimum 10% of Tier III-VI in Tier V &amp; VI</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 5,000 WLAs every year for three years</li> <li>Split – 2:1 (Teri III-VI : Tier I-II), minimum 10% of Tier III-VI in Tier V &amp; VI</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 25,000 WLAs in the first year and at least another 25,000 in the next two years</li> <li>Split – 1:1 (Teri III-VI : Tier I-II), minimum 10% of Tier III-VI in Tier V &amp; VI</li> </ul>

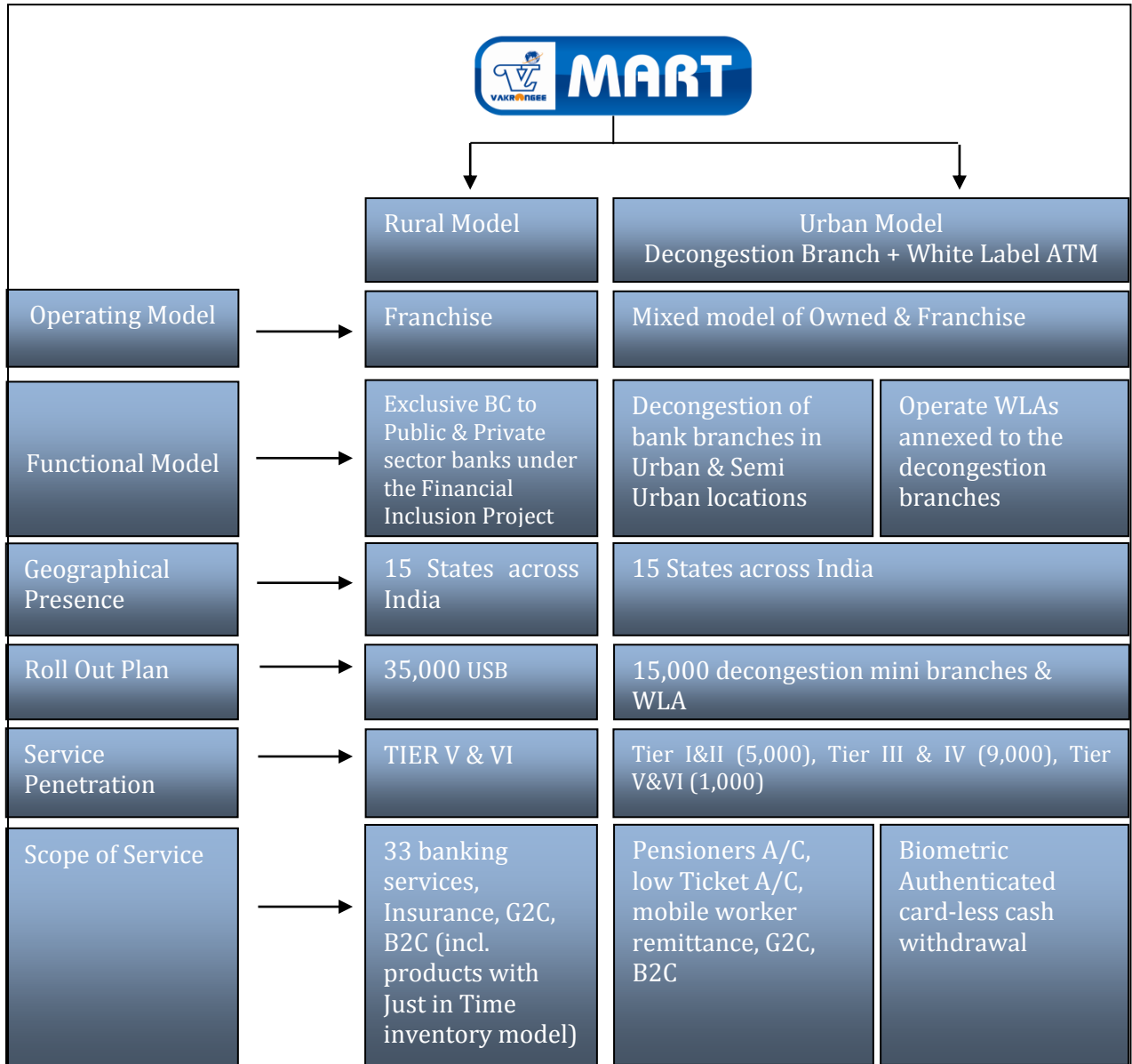
WLAs will be an effective channel in significantly improving the banking accessibility in Tier III to Tier VI areas, thus driving the "financial inclusion" initiative of RBI and MoF. With the expansion of the WLA network, customers will have access to basic banking facilities located closer to their home or place of work. Further, expanded ATM network at rural level will provide the last-mile connectivity to the masses across the country when the direct benefit transfer (DBT) gains momentum through the more recent Jan-Dhan scheme of the new central government wherein every account holder is also being provided a Rupay card with the objective of giving the choice to the account holder of going to the nearby ATM to withdraw the DBT money.



**Business Overview:**

**Vakrangee Mart – Transformed Business Model focussed on Retail**

Going forward, Vakrangee will focus on these new opportunities to generate stable cash flows and achieve sustainable long term growth. Vakrangee will operate the retail outlets under the brand name “Vakrangee Mart” to offer various banking, insurance, ATM, G2C, and B2C services at rural and urban locations across India. The Vakrangee Marts will function under two operating models – rural and urban model, as mentioned below.

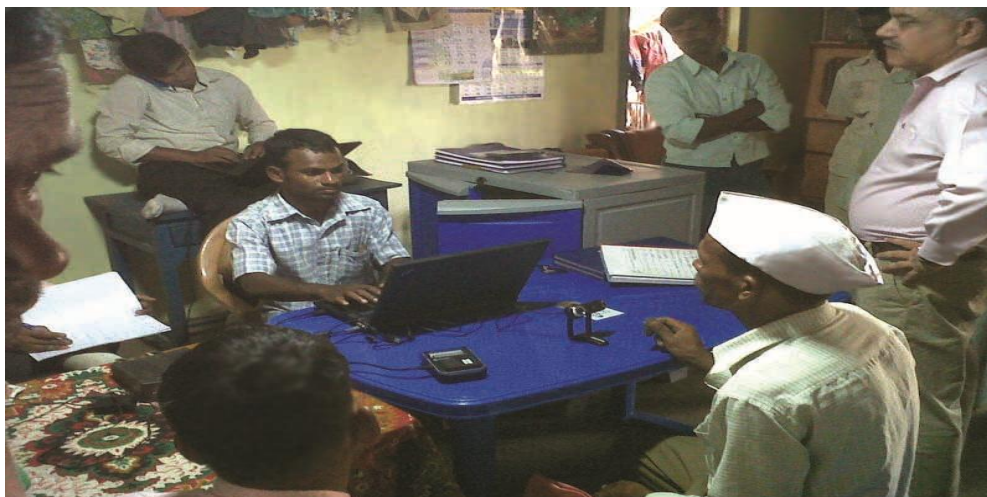


### Vakrangee Mart – Rural Model

India's First Organised Technology Intensive Rural Retail Mart – One Stop Shop		
B2C	BFSI – BCA	G2C
Mobile recharge & bills	Bank A/C opening- Savings, Current, Recurring	Enrolments-UID cards, NREGA job card, Election cards
DTH recharge & bills	Transactions- Deposits, Withdrawals, Remittances	Land record Digitisation, Electoral Rolls, E-stamping
Education books, Stationary	Balance Enquiry, Statement of Accounts	Payments of Utility Bills, Taxes, Levies
Automobiles and auto ancillary	Direct Benefit Transfer (DBT)	Railway Tickets, Certificates, Hall Tickets
Healthcare	Pension Disbursement	Exam Fee Payments, Online form Filling
Market Research and Rural Activation	Insurance- Life & Non-Life, Premium payments	NRHM, Bharat Nirman
Agriculture Inputs, Tractor and other agri implements	Retail loans, ODs, FDs	PDS
FMCG Products	Recovery of Loans	
White Goods and other products	BSE/NSE trading Bolts	

### Rural Model – Competitive Advantages

- **Exclusivity:** Exclusive BCA at gram panchayat level under the Financial Inclusion Project. Government empanelled agency to offer an exclusive portfolio of G2C services. Strong back-end to offer various B2C services through key business partner alliances.
- **Infrastructure and human resources till grass root level:** Vakrangee with its two decades of execution of e-governance projects for various government agencies has developed its own office infrastructure and human chain till the block level which gives it unique competitive advantage to execute the projects till gram panchayat level.
- **Scalability (Lower Capex & Opex for setup):** Entire execution through the franchise model requiring minimal capex & working capital.
- **Economies of Scale & Scope:** Existing platform can be used to roll out more and more products and services.
- **Positive Operating Leverage:** Incremental services to drive higher transaction volumes. No major incremental capex & operating costs



### Vakrangee Mart – Urban Model

India's First Decongestion Bank Branch co-located with WHITE Label ATMs		
B2C	BFSI – BCA	White Label ATMs
Mobile recharge & bills	Bank A/C opening- Savings	Authentication thru' either Biometric or ATM card
DTH recharge & bills	Pensioner's A/C	24*7 cash withdrawals
G2C	Mobile Worker Remittances	OOH Advertisements
Enrolments-UID cards, NREGA job card, Election cards	Transactions - Deposits, Withdrawals	Balance Enquiry, Statements of Accounts
Land record Digitisation, Electoral Rolls, E-stamping	Pension Disbursement	Value Added Services
Payments of Utility Bills, Taxes, Levies	Insurance- Life & Non Life, Premium payments	
	Balance Enquiry, Statements of Accounts	

### Urban Model – Competitive Advantages

- **Strong brand Pull:** The bank signage gives advantage to Vakrangee WLAs as customers perceive it as the Banks's ATM.
- **Revenue & Cost Synergies:** Co-location of decongestion branch and WLA helps in sharing of the operating costs. The ATM users shall also use the various value added services in terms of G2C/B2C services being offered at the adjoining Banking outlet resulting in more avenue for business transaction.
- **Creation of ATM Card Base:** The key for a viable ATM is to have an established card base. Co-located decongestion branch can create the account base for successful WLA operations.
- **Effective Cash Management:** The decongestion branch generates a sizable amount of cash at any given point in time. This cash can be effectively deployed at the adjacent WLA, thus efficiently managing the cash replenishment in ATM machines, and reducing the logistics issues and risks.
- **UID enabled ATM transaction:** All WLAs set up by Vakrangee will be AEPS-enabled (Aadhaar-enabled payment system), further adding the market size of the ATM industry from the number of ATM cards to number of UID thereby covering the entire population of the country once the UID programmes is completed.
- **Significant Cost Savings and security enhancement:** The AEPS-enabled ATMs of VL will not require ATM card, and people can perform various financial/non-financial transactions only with the biometric authentication. This will significantly reduce the card-issuance costs as well as cloning like security issues can be obviated. The AEPS-enabled WLAs will be a global first in the history of WLA industry.

### Advantage Vakrangee – A Preferred Banking Partner for Banks

- **Mobilisation of CASA Deposits from Rural India:** The Ultra Small Bank branches ,once set up, brings in the idle cash lying in the rural homes to these bank branches resulting in good CASA deposit base for the respective bank.
- **Cost Effective Last Mile Delivery of Direct Benefit Transfer Scheme:** For every cash transfer of Rs. 100 from government, banks earn ~ Rs. 2.26 while their cost of delivery is as high as ~ Rs. 3.19 as per the Micro save Research Estimates. However, with Vakrangee as BC, banks are required to pay Vakrangee a compensation of only Rs 0.48 (as per the mandate) for every cash transfer of Rs 100, without bearing any additional costs. Rather, the new government shall pay 2% to the bank which the bank shall pass on to the BCs to enhance upside for the BCs.
- **Strong Potential to Grow Business in Rural India:** Vakrangee can service not only rural poor, but also offer various services and products to rural rich. There is a strong potential to offer farms loans, car loans, cross selling of bundled services like insurance and medical policies in rural regions.

- **Decongestion of Banking Operations in Urban and Semi-Urban locations:** Banks can leverage Vakrangee's BC platform by outsourcing certain operations like monthly pension disbursements, migrant worker remittances, and low ticket accounts to Vakrangee as mentioned before.

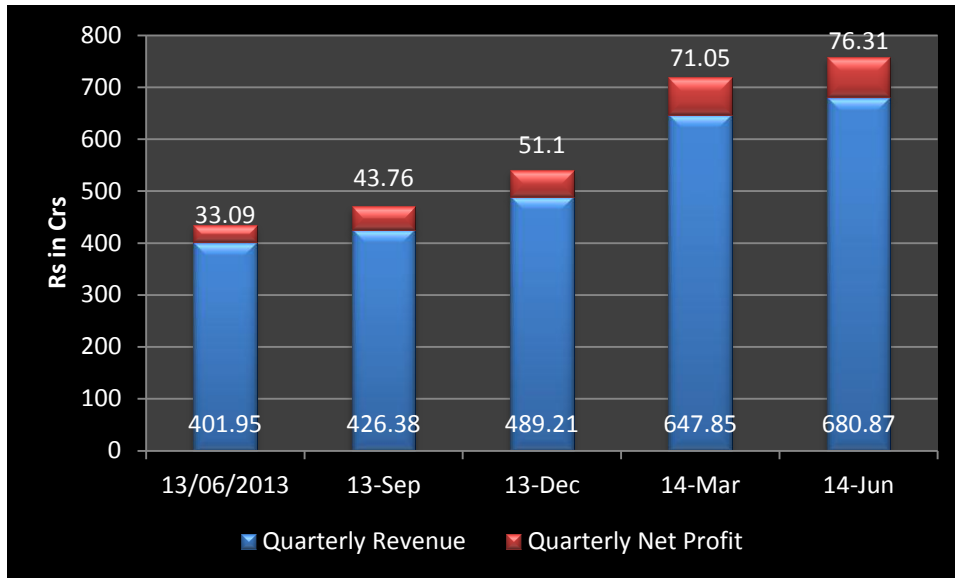


### Quarterly results Consolidated

Rs in Crs	Jun-14	Jun-13	Variance Y-o-Y
Total Income	681.23	394.88	72.52
Interest	20.48	21.60	-5.18
PBDT	136.44	91.19	49.62
PBT	95.72	49.72	92.52
Net Profit	76.19	31.01	145.69
EPS	1.51	0.62	143.55
Adj. EPS (unit.Cur.)	6.05	2.47	144.94
PBIDTM% (Excl OI)	22.94	27.28	-15.91
PBIDTM%	23.03	28.56	-19.36
PBDTM%	20.03	23.09	-13.25
PBTM%	14.05	12.59	11.60
PATM%	11.18	7.85	42.42

Quarterly net profits margins y-o-y has increased to 11.18% in June 2014 from 7.85% in June 2013. The Net profit stood at Rs 76.19 cr in June 2014 viz Rs 31.01 cr in June 2013. The total income has registered a growth of 72.52% on y-o-y basis at Rs 681.23 cr in June 2014 from Rs 394.88 June 2013. The Profit before depreciation & tax stood at Rs 136.44 cr in June 2014 from Rs 91.19 cr in June 2013, the variance of 49.62% on y-o-y basis. However, the PBIDTM% decreased 23.03% in June 2014 from 28.56% in June 2013.

### Illustration of Quarterly Standalone Revenue & Net profit Actual:



### Business Strategy

#### India's largest e-Governance player now an organized "Rurban" retail house

#### *Grow Financial Inclusion business by increasing the number of ultra-small branches of public sector as well as reputed private banks in large part of the country*

On the strength of strong track record of establishing ultra-small branches of public sector banks in Maharashtra, Rajasthan and Delhi, Subsequently these banks have been permitting Vakrangee to set up more BC outlets in other states. Vakrangee now intends to complete around 50,000 Vakrangee Marts in 15 states by March 2017, out of which 15,000 will be in urban and semi-urban areas and the remaining 35,000 - in rural areas.

In rural India, the Company's strategy is to enter into franchisee arrangements with locals in local rural areas. In semi-urban and urban areas, The Company intend to go in for a mix model i.e. to establish its own ultra-small branches in addition to the Franchisee Model. The recent launch of the Jan Dhan Scheme of the new government wherein the entire subsidies in equivalent cash of all schemes of the central government, state governments and local governments shall be directly transferred to the designated bank account of each of the beneficiaries shall not only enhance the economic sustainability of these ultra small branches but also increase the CASA base of the Banks. It shall also enhance the consumption potential of rural India helping the company's retail business to attain its full potential.

#### *Grow retail business by increasing the number of services and products offered through network of ultra-small branches.*

The Company intend to grow its revenues and business by cross-selling and up-selling other products and services through its network of Vakrangee Marts. By operating these delivery points, wherein customers can benefit from various G2C and B2C transactional services. The existing G2C services through Vakrangee Marts include enrolment for the UIDAI project, National Rural Employment Guarantee Act ("NREGA") services and electoral services, land record digitalization, payment of utilities bills, railway tickets, certificates and hall tickets for examinations and examination fee payments, among others. The additional B2C services through Vakrangee Marts include prepaid mobile telephone recharge services & direct-to-home television recharge services. The B2C products shall be added to this platform relevant to the customer segment who is going to use the Vakrangee Marts particularly Mobile Phones & its accessories, Automotive & Auto-Ancillaries;

electronic appliances, FMCG, Agri Inputs etc. All these products shall be sold on Just in Time (JIT) basis by seam less integration of retail platform with the ERP of the respective product OEMs. As the strategy is to play the role of provider of service and product rather than seller of any service and product, the company intends to make alliance with all the reputed brands in every relevant product category with zero-inventory model and to utilise its unique supply chain to the fullest to give services to its customer segment in the most cost – efficient manner. Similarly skill development, Survey & rural activation, warehousing services, telemedicine, e-learning shall be some of the large service businesses which shall be added in the coming years.

### ***Enter into the white label ATM business in India***

The RBI has licensed Vakrangee to set up and manage a minimum of 15,000 white label ATMs across India within three years. The Company intend on establishing white label ATMs near or in its Vakrangee Marts to increase revenues and increase cost synergies of a Bank plus ATM model vis-à-vis standalone ATM model. It also intend to have ATMs biometric-enabled that will allow people to access and conduct ATM transactions using their fingerprints in addition to bank cards. There is a growing market for ATM services in India given the extent of completed enrolments in the UIDAI project across India, which will result in more people having access to biometric-enabled ATMs than was previously possible using ATM cards. Literally the entire population of the country can be market size of for the biometric enabled ATMs of the company while currently only the number of active card is the market size of ATM business.



### **Key E-Governance projects of Vakrangee**

Vakrangee has been only executing the projects under national e-governance plan which are monitored by Big-4 as project management consultants and which have highest standard of transparency. These projects are treated as Mission mode projects for the country and have to be executed irrespective of change in government or change in bureaucracy.

#### ***UIDAI Enrolment***

The Government of India through the UIDAI introduced a policy in 2009 to issue a unique identity number to all Indian residents, in a phased manner, which can be used for delivery of all government benefit schemes. Vakrangee is empanelled at the highest technical and financial qualification level with UIDAI allowing it to undertake demographic and biometric data collection for UID enrolment across India. As of June 30, 2014, the Company had enrolled more than 42 million applicants directly for the UIDAI project for whom unique identity numbers have been generated.

#### ***Sarva Shiksha Abhiyan***

Sarva Shiksha Abhiyan ("SSA") is an initiative by the Government of India to provide universal access to elementary education for children between the ages of six and 14. SSA seeks to improve access to education across the county, bridge gender gaps in education, and to provide equal education access to all children. SSA is being implemented in partnership with State Governments and addresses the needs of more than 190 million children in approximately 1 million habitations. The Company participate in the project by printing and / or supplying books for children and setting up computer aided learning systems in schools.

#### ***Public Distribution System***

The Company is in the process of executing a biometric smart card based public distribution system ("PDS") in the State of Haryana in Haryana under a project to computerize the PDS scheme. Offerings include procurement, commissioning and maintenance of IT and smart card infrastructure, installation and operation of approximately 9,300 smart card points of sale terminals, setting up networks and connectivity across sites, developing software for points of sale, data digitization, smart card personalization and printing and setting up a call center for technical support. The Company has already completed the pilot works for this project.

#### ***Rashtriya Swasthya Bima Yojana***

The Rashtriya Swasthya Bima Yojana ("RSBY") is a Ministry of Labour and Employment project that seeks to provide health insurance for families that are below the poverty line in India. These families are entitled to more than 700 in-patient medical procedures with a cost of up to Rs. 30,000 per annum for a nominal registration fee of Rs. 30. Pre-existing medical conditions are also covered and there is no age limit. The scheme is entirely cashless and coverage extends to the head of the household, spouse and up to three dependents. 479 districts in India have been selected for the implementation of this scheme & approximately 37 million families have been enrolled as of June 30, 2014. The Company's core management services for the RSBY scheme include collecting biometric data from different villages, wherein it provide operators, laptops, card readers, biometric scanners, generators and data cards. It also performs other services such as system integration, issue and renewal of smart cards and printing of RSBY information booklets.

#### ***Inspector General of Registration & Stamps***

The company is executing a project to computerize the process of registering documents and recovering stamp duty in accordance with the Indian Stamp Act. Services include computerized registration of properties, marriages, societies, firms and non-trading companies among others.

#### ***Print and Data Management Services***

The company offer print management services and data management services principally to government agencies and to private companies in India. Some of its major projects in this area include work for the Election Commission for voter identification and aggregation of electoral data. The Company have been executing this work since 1994, and have completed collecting electoral roll data of people residing in

38,450 gram panchayats (village self-governments) in the State of Uttar Pradesh in the Hindi and Urdu languages.

### **Vakrangee Mart “Organizing rural retail in India”- A lower capex Franchise model**

*The company would operate its asset light business model and incur only Rs 20,000 per franchisee for Micro-ATM while the Franchisee owner (VLE) are expected to incur Rs 125,000 as a capex.*

#### ***The Retail Business Model***

The scheme initially started off with placing one Citizen Service Centre between 6 villages which cut down the villager’s travelling time to the distant government offices in the city center and was immediately accepted. As the idea evolved into forming retail outlets to provide a wider range of products and services, the company decided to introduce a Franchisee based model to the rural population. Vakrangee provides the training, technical support to enable the educated village youth to start own business. As the entrepreneur is a local well versed with the rural market structure and consumer behavior, it gives Vakrangee a cutting edge while operating in an environment which has a relatively different market trend than the urban areas. The business model cuts down marketing costs significantly, at the same time the capex is almost negligible.

#### ***Financial Inclusion***

In 2012, Vakrangee had been awarded five-year contract to establish and manage up to 18,265 ultra-small branches of public sector banks as common business correspondents in the states of Maharashtra, Rajasthan and Delhi. Subsequently some of these banks have been permitting Vakrangee to set up more BC outlets in other states. Vakrangee now intends to complete around 50,000 Vakrangee Marts in 15 states by March 2017, out of which 15,000 will be in urban and semi-urban areas and the remaining 35,000 in rural areas. As of June 30, 2014, Vakrangee had established 4,237 branches under this contract. These ultra-small branches are integrated with the core banking solution (CBS) of public sector banks so that customers of any public sector bank can, on a real time basis, conduct various banking transactions such as account opening, cash deposit, cash withdrawal, fund transfer and direct benefit transfers.

In each of the ultra-small branches of banks that Vakrangee manage, either on own or through franchisees, it act as business correspondents and provide the following services on behalf of public sector banks: savings and current bank account opening, recurring transactions such as deposits, withdrawals, remittances, balance enquiries, statement of accounts, direct benefit transfers, including for pension disbursement, insurance premium payments, retail loans disbursement, overdrafts, fixed deposit facilities and loan recovery services. It has entered into contracts with 31 banks in Rajasthan, Maharashtra and Delhi.

In urban and semi-urban areas, we have commenced rolling out and intend to open "decongestion" branches of public sector banks located in close proximity to existing bank branches to ease the customer load on existing branches of public sector banks by offering services such as pension disbursements, domestic remittance and low ticket size transactions.

#### ***White Label ATMs***

According to the World Bank, in 2012 India had an under penetrated ATM market with only 11.2 ATMs per 100,000 adults compared to 283, 182 and 119 in Korea, Russia and Brazil, respectively In January 2014, we were granted a license from the Reserve Bank of India to establish a minimum of 15,000 white label ATMs across India within the next three years. Vakrangee shall be paid inter change fees for each financial and non-financial transaction as decided by RBI from time to time. In addition, Vakrangee is free to enhance its revenue by adding further Value-added services as well as income from advertising revenue.



## Key Investment Highlights

- **Financial Inclusion:**

Even after 67 years of independence, in our country not even 67% of the households have bank account. Banking penetration is low in India with 54.4% of Rural and 67.8% of the Urban dwellers having access to banking services. Over all, only 58.7% of the population can access services in Indian Banks. According to RBI estimates, only 27% of farmers have access to formal credit with informal money lenders controlling up to 75% of the market and charging interest rates as high as 90% per annum. The new government at the centre has launched comprehensive financial inclusion scheme so that every house hold should have at least two account by March, 2016 (one of the two accounts should be that of the lady of the house). This scheme also incentivises people to be part of the banking net by 26<sup>th</sup> January,2015 by offering free rupay card having 100,000 rupees accidental cover, 30,000 rupees life insurance cover and 5,000 rupees over draft facility over a period of time. The government wants to transfer the equivalent cash of all the scheme benefits to the respective beneficiary through this dedicated account created for this purpose. As per the CLSA Report, April, 2013, around US \$50 bn is going to be amenable to direct benefit transfer only from the central government point of view. It may be noted that the citizen can get the direct benefit transfer from the respective state governments as well as local governments in addition to the central government as mentioned above. Central government is also contemplating to give 2% of the total direct transfer amount to banks for the cash distribution service. Vakrangee being a leading player with more than 6,000 Ultra small bank branches up and running can benefit significantly from this move.

- **Unique Retail Business model of Vakrangee:**

Vakrangee mart outlets starts with delivering high trust worthy banking , insurance and government services to the rural dwellers of the country thereby taking away huge mindshare of the people. Once the people have access to organized banking system, they become more economically & sustainable, this is proven fact across the globe. Thus resulting in more disposable income & more services would be required by this people and own products like their urban counterpart. That's why the retail platform can be a great success in proving the further services and product demand which is going to increase over a period of time from the rural population which is actually more than 70% of the total population in this country. The rural retail market could increase significantly looking at the macro economic factors affecting the last mile banking initiative of this country. Vakrangee being the only player at the grass root level with all readiness to cater to this market shall gain significantly from this huge opportunity.

- **Digital India:**

Digital India is a new comprehensive e-Governance programme to transform India into a digitally empowered society and knowledge economy. It is an 'Umbrella Mission' for various citizen centric ministries and departments to offer services on demand to rural citizens at the click of the mouse setting up digital infrastructure at each corner of Rural India. Vakrangee is one of the leading e-governance players functioning as a systems integrator and an end- to-end service provider. It has been a part of various mission-mode projects for over the past two decades. With footprint in most parts of the country Vakrangee will have the "first mover advantage" to leverage this huge opportunity from the Rs. 1.1 trillion "Digital India" mission of the Central Government.

- **UIDAI Enrolment:**

Vakrangee is empanelled in the highest category of T3F4 permitting pan-India enrolment activity. Further UIDAI has increased budget of more than Rs. 2,000 cr as highlighted in the current year's Union Budget of FY2014-15. This will boost up the business for the Company.

### Concerns:

- Changes in policies of the Government of India (GoI) could adversely impact the Company:**  
 The Company's financial inclusion business and e-governance business is dependent heavily on the GoI's policy of implementing a biometric-enabled universal identification system. In the event that GoI policies change in a manner that moves away from the present universal identification system the Company's business and prospects, particularly its financial inclusion and white label ATM business, will be materially adversely affected.
- High dependency on franchisees:**  
 Vakrangee may face several risks associated with its franchise business model for rural Vakrangee Marts, including whether its franchisees have the experience and financial resources to be effective operators and remain aligned with the Company on its future growth strategy. The potential impact on it if they experience other operational problems or project a brand image inconsistent with the Company's values, particularly if its contractual and other rights and remedies are limited, costly to exercise or subject to litigation.
- Winning New Tender:**  
 Increase in revenue from e-Governance business depends on increase in the existing projects transactions and/or winning of a new tender. The Company derive significant revenue in e-Governance business segment. The loss of project or a loss of a client or significant reduction in the scope of the project may adversely affect the Company's performance.

### Valuation

We expect Vakrangee to witness healthy top-line growth from Rs.1,958.06 crores in FY14 to Rs.6,521.02 crores in FY17E on the back of new initiatives by the GoI and the competitive advantageous position the company is in terms of its retail as well as e-governance initiatives. The PAT is expected to grow from Rs.175.04 crores to Rs.875.93 crores in FY17E. Thus, the Company's P/E of 7.19X of FY17E and P/BV of 1.99X of FY17E looks very attractive at current levels. We recommend Buy rating for the stock for the target price of Rs.180.

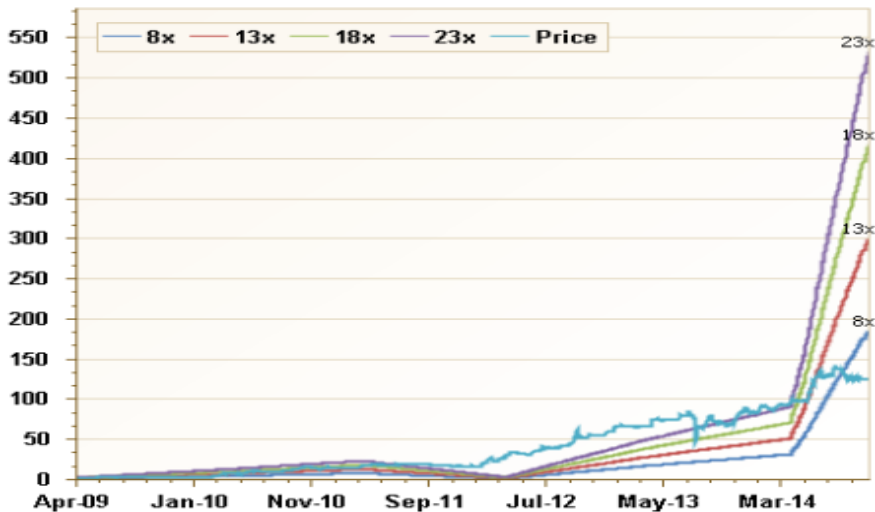
### Consolidated Balance Sheet (as on 31.03.2014)

Sources of Funds (Rs in Crs.)	FY14
Equity	779.50
Long Term Borrowings	86.21
Other Non Current Liabilities	74.48
<b>Total Sources of Funds</b>	<b>940.19</b>
Net Block	484.53
Investments	2.55
Other non-current assets	64.30
<b>Current Assets, Loans &amp; Advances</b>	
Sundry Debtors	768.30
Inventory	162.49
Cash & Bank Balances	29.34
Loans & Advances	14.90
Other Current Assets	192.01
<b>Current Assets</b>	<b>1167.04</b>
<b>Current Liabilities &amp; Provisions</b>	<b>784.43</b>
<b>Net Current Assets</b>	<b>382.61</b>
Foreign Currency translation Reserve	6.20
<b>Total Application of Funds</b>	<b>940.19</b>

## Operational & Financial Ratios

	Mar-14	Mar-13	Mar-12
Earnings Per Share (Rs)	3.48	2.08	1.42
Adjusted EPS (Rs.)	3.48	2.08	1.42
CEPS (Rs)	7.07	5.20	3.17
DPS (Rs)	0.25	0.20	0.20
Adj DPS (Rs)	0.25	0.20	0.20
Book Value (Rs)	13.45	10.23	16.66
Adjusted Book Value (Rs)	13.26	10.01	8.33
Tax Rate (%)	37.95	27.39	31.14
Dividend Pay Out Ratio (%)	7.19	9.63	7.06
<b>Margin Ratios</b>			
PBIDTM (%)	27.70	25.00	18.19
EBITM (%)	18.44	14.84	11.73
Pre Tax Margin (%)	14.45	9.29	7.61
PATM (%)	8.96	6.74	5.24
CPM (%)	18.23	16.89	11.70
<b>Performance Ratios</b>			
ROA (%)	11.26	8.35	7.85
ROE (%)	29.89	22.72	18.60
ROCE (%)	30.93	23.78	22.75
Asset Turnover(x)	1.26	1.24	1.50
Inventory Turnover(x)	18.05	39.57	64.16
Debtors Turnover(x)	2.75	2.82	3.76
Fixed Asset Turnover (x)	2.17	1.98	2.30
Sales/Working Capital (x)	5.10	5.55	21.30
<b>Efficiency Ratios</b>			
Fixed Capital/Sales(x)	0.46	0.51	0.43
Receivable days	132.86	129.54	97.10
Inventory Days	20.22	9.22	5.69
Payable days	50.42	42.67	33.26
<b>Growth Ratio</b>			
Net Sales Growth (%)	26.16	14.33	52.10
Core EBITDA Growth (%)	39.84	57.10	76.56
EBIT Growth (%)	56.71	44.69	88.01
PAT Growth (%)	67.72	47.21	47.22
<b>Financial Stability Ratios</b>			
Total Debt/Equity(x)	0.74	1.08	1.10
Current Ratio(x)	1.49	1.44	1.14
Quick Ratio(x)	1.28	1.36	1.08
Interest Cover(x)	4.62	2.67	2.84
Total Debt/Mcap(x)	0.10	0.16	0.66

## PE Band - Vakrangee Limited



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