



“Vakrangee Limited Q1 FY18  
Earnings Conference Call”

July 31, 2017



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**Moderator:** Ladies and gentlemen good day and welcome to Q1 FY18 Earnings Conference Call of Vakrangee Limited hosted by Maybank Kim Eng. As a reminder all participant lines will be in listen-only mode and 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. Please note this conference is being recorded. I now hand the conference over to Mr. Manish Modi from Maybank Kim Eng. Thank you and over to you Sir!

**Manish Modi:** Thanks Vikram. Good afternoon everyone. Maybank Kim Eng is pleased to host the management team from Vakrangee Limited to discuss Q1 FY2018 results. We have with us Vakrangee management team represented by Mr. Dinesh Nandwana, Managing Director & CEO and Mr. Ammeet Sabarwal, President IR & Corporate Communications. Now I will hand over the call to Mr. Dinesh Nandwana for his opening remarks. Over to you Sir!

**Dinesh Nandwana:** Thank you Manish. Good day dear ladies and gentlemen. It is a great pleasure to greet you all once again on behalf of all our Board of Directors and Senior Management. We begin by thanking all of you for having spared time in joining us here today to discuss our first quarter earning for the FY2017-18.

At the outset, I would like to highlight that our board has approved the proposed feasibility study on 2 key things. Firstly on a new star format Vakrangee Kendra Prime, the thought process behind this study is to focus on urban location along with few key differentiators such as large store side with additional counters, large catchment areas exclusivity of few services, additional store area and a non-customer experience. Secondly due to enhanced interest from the quite a few corporate entities we have approved the proposed feasibility study on the master franchise model with a focus on a faster ramp up of outlet and primarily targeting urban, semi-urban locations.

For the current financial year, our target is to complete 50000 outlets by March 2018. I am pleased to say that as on June 30, 2017 we have completed and made operational overall 37688 outlets across more than 16 states, which include 26737 rural outlets and 10951 urban outlets. For the current quarter, our focus has been on activation of the services overall we are well on track to achieve and exceed our March 2018 target of 50000 outlets.

Our key growth driver has been on the government massive push towards financial inclusion through the Pradhan Mantri Jan Dhan Yojana; this Jan Dhan accounts get linked with the Aadhar number of accounts holders and become the single point of contact for



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receipt of all direct benefit transfers from the central and state governments and local bodies. Till date under PMJDY total 29.09 crores account have been opened so far with the Rs.64922.44 Crores in deposits.

On the regulatory front, I would like to highlight that a scope of DBT has been expanded and it has been universalized to cover all central sector and centrally sponsored scheme whereas cash benefits are transferred to individual beneficiaries. As per the latest data available the total direct benefit transfer continue to stood at Rs.2.13 lakh Crores and for FY2017-18 is stood at Rs.31072 Crores, number of DBT transactions stood at more than Rs.51.43 plus Crores and saving is to Rs.25729 Crores. Our company is at forefront to leverage this growth opportunity and have become the largest player in implementation of financial inclusion in India. Today, our company has evolved as an unique technology driven company focused on building India's largest network of last mile retail touch point to deliver real time banking, ATM and financial services, insurance, e-governance, e-commerce and logistics services to the un-served, underserved rural and urban markets. Our business model has evolved as aggregator and emerge as a one stop convenience store for various kind of products and services under one roof. Recently we have added new tie-up such as IRCTC for railway e-ticketing and booking and DMI Finance Private Limited for leads generation of offering loan products and collection of EMIs.

On the operational front, for the e-commerce vertical Amazon services rollout is well on track. We have been receiving fairly encouraging response from Amazon services. With respect to bus ticket booking services, redBus services are now activated across all our outlets, gold products booking is activated across all outlets. From August 24, 2017, we are starting our new initiative, which is the launch of pre-booking of Reliance Jio form. We intend to target sale of 10 million handsets through our Vakrangee Kendra outlets. In addition, we would also be providing collection point services, sim activation services through eKYC facility and mobile recharge plans.

With respect to insurance services life business, HDFC life, Bajaj Alliance are activated across all our outlets, non-life business Tata AIG and Reliance General Insurance and also Health Insurance, Religare Health are activated across all our outlets. HDFC ERGO, Aditya Birla Health and Cigna TTK are in the integration state also Jan Dhan microinsurance policies are available across all our outlets. With respect to logistic couriers, booking services, services are activated across 16 states and 582 postal codes. Logistic delivery services we started the pilot for delivery and RMS across 19 postal code was successful



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completion, we had extended the same to the now 69 postal codes; however, it is still in pilot phase and yet to be commercialized.

Commenting on financial result for Q1 FY2017-18 our revenues from operation increased by 41.8% on year-on-year basis to Rs.1301.8 Crores, our revenues from Vakrangee Kendra Business business stood at Rs.908.3 Crores registering a growth of 65% on year-on-year basis. Our e-governance business revenue grew marginally by 5% on year on basis to Rs.379.9 Crores, which is in line with our study as we are purposefully shifting our focus from capital incentive e-governance business to assets like Vakrangee Kendra Retail Outlet Business. Our Vakrangee Kendra business now contributes 70.5% of overall revenue, our EBITDA stood at Rs.265.5 Crores in Q1 FY2017-18 registering a growth of 19.2% whereas profit after tax is stood at Rs.168.1 Crores registering a growth of 38.5%. EBITDA margin for the Vakrangee Kendra outlet retail business have been at 20.6%, we expect this margin to stabilize around 17-18% on long-term basis as our commission sharing resolved with franchise changes based on the milestone revenue target. There is a positive operating leverage in our Vakrangee Kendra retail business as our expansion is mainly through franchise route with no major capex. Economist of the scope will further improve as new services are added leveraging the same technology driven platform. With low incremental capex and operational operating cost additions of more and more services and increasing targets and volume over a period of time will result in further positive operating revenue leverage. Therefore our incremental ROC is expected to further improve. With this I would like to hand over the floor for question and answer session. Thank you very much.

**Moderator:** Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Mark Smith from CCAP. Please go ahead.

**Mark Smith:** Thank you very much. First of all I wonder whether I can ask you to speak a little slower because it is somewhat difficult to catch everything you are saying, but specifically my question is about the like-for-like sales of mature stores, can you update as to how the mature stores are performing in the sense of like-for-like sales?

**Ammeet Sabarwal:** This is Ammeet this side. So basically if you see our same-store sales growth if you see on an apple-to-apple comparable services in the government and the banking vertical, we are growing at around 7%-8% and whereas for the other services we are growing at a much higher rate, which is almost around 15%-20% because what is happening is currently we are also activating new services in the same vertical, so now as we are activating Amazon



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services or we are activating insurance services or whether we are activating now Reliance Jio services we are getting activated on August 24, 2017, so on a blended basis, but if you see our same-store sales growth is growing at around 10%-12%, but as new services keep on getting added it is not the comparable figure as such.

**Mark Smith:** To be clear the 7%-8% would be for mature stores, but do not have many of the new services and 15% might be a mature store that has...

**Ammeet Sabarwal:** Where the new services are getting actually all our outlets the services are getting activated because the services are there in the e-commerce vertical in the insurance and in the logistic vertical. All the three verticals are actually getting activated across all the outlets, so we have not yet reached the phase where we can say that okay I have activated all the services across all the outlets and now I can give you an apple-to-apple comparable rate.

**Mark Smith:** Just to continue with that and could you summarize the rollout of the various services whether it would be insurance or Amazon or the National Oil Company what number or what percentage of stores is available and the pace of rollout because I think we have been surprised that couple of services you may be quite sensibly, but moved fairly cautiously in rolling out the services, so just an update on where we are in the rollout of these different additional services?

**Ammeet Sabarwal:** Yes, if I give you a summary basically if you see the government services and banking services are primarily across all the outlets then if you see insurance services now insurance services have been plugged in across all the outlets, but not for all the partners like HDFC Life and Bajaj Alliance are activated across all the outlets whereas HDFC ERGO, which is in the general insurance it is just integrated it is still in pilot phase whereas the TATA AIG as well as Reliance General Insurance are activated across all the outlets I think so, but insurance has services available across all the outlets; however, not all partners are available across all the outlets then if you come on the fourth vertical, which is e-commerce, so in e-commerce if you see mobile recharge, DTH recharge, bus ticket booking, gold product booking, these services are activated across all the outlets. Amazon is activated on a selective basis because here the bottleneck is from the Amazon perspective to deliver at our outlet so as and when they select the location that these are the locations where they have the capability to deliver we activate the outlets accordingly, so with respect to the Reliance Jio Services, which are going to get activated now August onwards the target year is it will get activated across all the outlets. The fifth vertical is again logistics, so in logistics if you see courier booking as a service is now activated in more than around 15% of the outlets around 3000 to 4000 outlets are activated, they are now getting activated at a faster pace



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across all the other outlets whereas the delivery services in the logistic verticals are still in pilot pace, they have not yet commercialized, so I think so it will take another few months before we come out with a final commercialization of that service and get it activated.

**Mark Smith:** On the Amazon rollout could you give us action number of stores that the Amazon has chosen to be accessed in?

**Ammeet Sabarwal:** What I can say in this financial year we might be able to do it across 10000 locations.

**Mark Smith:** At the end of the financial year?

**Ammeet Sabarwal:** Yes.

**Mark Smith:** The National Oil Company?

**Ammeet Sabarwal:** So IOCL is not a vertical, but basically outlet is at the IOCL gas stations and more than 200 outlets are already operational and we do keep on doing the dealer road show and as and when they get on board we open the outlets accordingly.

**Mark Smith:** Thank you.

**Moderator:** Thank you Sir! We have the next question from Shalin Kumar from UBS. Please go ahead.

**Shalin Kumar:** Thanks for the opportunity. I have one question regarding your cash management thing. I can see that rollout is happening pretty as we have planned on a good pace. Considering that we are now more than 37,000, how you are managing your cash from area to bank or what are you doing about it?

**Ammeet Sabarwal:** Shalin basically the cash handling is done by the respective franchise, it is a prepaid valet based system so we do not have any role to play there so basically when the franchise opens the outlet we have to open a settlement account with the respective link bank and he has to deposit his own working capital there, for example suppose I am the franchise as soon as I will open my outlet I will open a settlement account in the link bank and I will deposit say Rs.100,000 as a working capital. Now when you as a customer walking to my outlet say to deposit Rs.10000 so you will give me Rs.10000 over the counter you will do the biometric authentication, on a real-time basis your account gets credited, my settlement account, which is the franchise's valet account gets debited by Rs.10000. So the franchise has to



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keep on refilling his wallet account, which is in the linked bank, so there our company does not play any role it is link bank settlement account and the franchise.

**Shalin Kumar:** Ammeet, but tell me one thing that are not you provide like multiple banking – your one Vakrangee Kendra...

**Ammeet Sabarwal:** So interoperable banking is again interbank settlement that takes place within the bank, it is like your ATM technology, so your ATM card can be used across any of the machine.

**Shalin Kumar:** But that guy has to have a bank account at multiple, the franchise?

**Ammeet Sabarwal:** He had to have only with his linked bank, his link bank will do the interbank settlement with the respective bank.

**Shalin Kumar:** So whatever the cash he collects he has to go back and then back deposit..

**Ammeet Sabarwal:** Yes in his settlement account.

**Shalin Kumar:** So the cash liability will be that person?

**Ammeet Sabarwal:** Of the franchise yes.

**Shalin Kumar:** How frequent he has to visit the bank account?

**Ammeet Sabarwal:** Daily basis once a day at least.

**Shalin Kumar:** Once a day. Like your franchise how many bank services are available?

**Ammeet Sabarwal:** So basically we are doing four types of transactions, which are available, which is account opening, cash deposit, cash withdrawal and fund transfer.

**Shalin Kumar:** How many banks are?

**Ammeet Sabarwal:** Whichever banks who have allowed to do the UID, Aadhar Enabled Payment System(AEPS), so I think so more than 26 banks have already tied up for that.

**Shalin Kumar:** Can you tell me about like we were talking about earlier micro ATM?



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- Ammeet Sabarwal:** In rural areas where the full fledged ATM is not viable there you use the micro ATM machine, which is basically a small card pass machine where you can swipe your card and the franchise who is the physical guy at the counter will count and give you the note.
- Shalin Kumar:** So it is approved by RBI and everything?
- Dinesh Nandwana:** Definitely this is approved by the RBI.
- Shalin Kumar:** How many kendras do we have, all the rural kendras?
- Dinesh Nandwana:** 100% rural kendras.
- Shalin Kumar:** So 26000 rural kendras have micro ATM.
- Dinesh Nandwana:** You are right.
- Shalin Kumar:** What about the other White Label ATM rollout that we supposed to do and we had a contract of 15000 ATMs, are we on that?
- Ammeet Sabarwal:** Basically right now if you see we are at around 450 to 500 ATMs where we have already they have a full fledged ATM machine. The idea is wherever we are opening the urban outlet it is allowed with an ATM machine.
- Shalin Kumar:** Then why not in rest of the 10,000, are there some bottleneck issues over there?
- Ammeet Sabarwal:** No basically when we open a franchise, franchise has a choice, franchise has an option, either he had to take the full-fledged ATM machine or is okay with micro ATM thing.
- Shalin Kumar:** Is the micro ATM also present in the urban kendras?
- Dinesh Nandwana:** Yes, wherever full-fledged ATM is not there..
- Ammeet Sabarwal:** Micro ATM is there.
- Dinesh Nandwana:** So basically micro ATM and full-fledged ATM as far as customer is concerned it does not make any difference for the customer, by swiping the card he is getting the cash.
- Shalin Kumar:** The payment like in lieu of, is the micro ATM payments are the same as your White Label ATM for the franchise?



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**Dinesh Nandwana:** Yes. We are in the full-fledged ATM, for example at the IOCL gas station. Now at the IOCL gas station that is the right location for the footfalls to use the ATM machine, so there the franchise is very happy to have the ATM machine because he gets 150 hits, 200 hits without any manpower, without any dedicated person sitting there or anything, so it make a lot of sense for them.

**Shalin Kumar:** Just last question from my side Ammeet. That oil corporation outlets were supposed to contribute meaningfully in our 20:20 target of 75000, so I think we were thinking like may be 20000 coming from them, given that they are going on slow pace, so do you think that will impact your urban, at least urban outlet opening?

**Ammeet Sabarwal:** Basically there is no major impact as such because anyway our run rate is opening 15000 outlets a year. It is just that it makes my job much more easier if the IOCL comes on board, but anyway without IOCL also we have been doing continuously 15000 outlets per year, but at the same time IOCL a lot of road shows are currently in process, so we do not still foresee that there would be a major slowdown or anything, we see a good ramp up coming up over the next few quarters.

**Shalin Kumar:** Sure and on the Reliance Jio thing if I can squeeze in one more question over here, so what are your plans in terms of this new phone are you going to sell the product, you are going to have inventory, how are you going to act over here, are you a distributor over here?

**Ammeet Sabarwal:** Basically we are first doing the pre-booking, so starting on August 24, 2017 we are doing the pre-bookings, when delivery will be taking place to our outlet customer will be coming there and picking it up from the outlet, so it is a delivery and collection pickup kendra and at the same time sim activation services would be available, which is again to the eKYC and the port with all the recharge plan would be available.

**Shalin Kumar:** But once the product is available you would act as a retailer or distributor for that?

**Ammeet Sabarwal:** Basically on the basis of booking it gets delivered at my outlet, I would be taking the booking.

**Shalin Kumar:** Everything will be in advance cash?

**Ammeet Sabarwal:** Yes whatever process they have the entire SOP, they are already having in place will be following that.



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**Dinesh Nandwana:** This will be same for all the citizens whatever rate, whatever advance, whatever booking rate is applicable to others at Vakrangee will be applicable to the Vakrangee Kendra also.

**Shalin Kumar:** I just want to understand like what rule will Vakrangee play here, so you will be sourcing those products, keeping it with you and then distributing it to?

**Dinesh Nandwana:** Basically for example Reliance is planning to sell the 20 crores handsets, so we have taken the target of the 1 crore handsets, so 1 crores handsets will be sold through Vakrangee Kendra only, so we will book the handset, we will receive the booking amount then after booking the amount Reliance will deliver that handset to the Vakrangee outlet, so after coming to the Vakrangee Kendra citizen will collect it, that is it. We are not keeping any inventory, it is about inventory model.

**Shalin Kumar:** So whose responsibility will be to deliver that, it is Reliance responsibility completely we will not interfere on that?

**Dinesh Nandwana:** Yes, Reliance will deliver at our outlet and then our franchisee will deliver to customers.

**Shalin Kumar:** What kind of potential revenue Vakrangee as a company can make out of it or?

**Dinesh Nandwana:** It is not in public domain I would not be able to comment on that.

**Shalin Kumar:** But still we are talking about 10 crores handsets, what kind of arrangement are we, is that a meaningful material, some guidance on that?

**Dinesh Nandwana:** Definitely meaningful, but right now not disclose anything.

**Shalin Kumar:** Okay, thank you.

**Moderator:** Thank you Sir! We have the next question from the line of Sri Karthik from Investec. Please go ahead.

**Sri Karthik:** Good evening everyone. Thanks for the opportunity. My first question is there has been some recent regulatory changes around the branch, around what constitutes the branch especially from a business correspondent perspective, so if you could speak a little bit on how it would impact you from a competitive perspective and from your own classification of Vakrangee Kendra branches, so these two things?



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- Ammeet Sabarwal:** So as you know basically RBI came up with the proposed regulation and they came up and they said that every bank needs to have around 25% of their outlets in the un-served and underserved areas and they allows the banks to recognize the BC branches, which are Brick and Mortar in nature doing real-time banking at least four hours in a day and operational for at least five days in a week, so those branches can get recognized as the formal branch of the respective bank. Now what does it takes is that all our outlets are permanent Brick and Mortar branches and we are doing real-time banking, so we are doing Aadhar enabled banking and we are open more than four hours and more than five days in a week, so we suffice all the conditions, which are required and therefore we are accordingly recognized as the formal branch of the respective banks, so that make the banks' job much more easier because they are able to achieve their target, so for example if they had to open say 1000 branches, for 100 branches example then they had to open 25 in un-served and underserved area, which is basically rural, semi-urban kind of locations, so we are able to help them to achieve their targets, so we have seen a good amount of traction from the banks also where banks are approaching us and they are asking us if we can also open more outlets for them in order to also achieve their target from their perspective. For us the business is as usual because we were already sufficing all the conditions, all the things, there was always a bank board at out outlet, there was always the franchisee or the guy who is sitting across the banking counter he has to be a IIBA certified, which is basically Indian institute of Banking Association exam certified, so we were always doing real-time banking and having complete authorization BC code generator and all those things are already in place.
- Sri Karthik:** Does the regulation also say that let us say someone like in Airtel Payments Bank can now become a business correspondent to another bank?
- Ammeet Sabarwal:** I do not think so because then whose board it is going to carry and whose account it is going to open.
- Sri Karthik:** Understood.
- Ammeet Sabarwal:** Airtel Payments Bank is going to open the store then whether it is going to open the account of the bank to which he uses the BC or his own bank account?
- Sri Karthik:** The second question is around your kendra EBITDA margin they seem to have come down a bit both sequentially and YoY anything in particular or that we need to read into?
- Ammeet Sabarwal:** No, that is completely in line with what we have been always been saying basically it is completely depends upon the sharing ratio with my franchise because we recognize the



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gross revenue and then whatever we share with the franchise is part of my COGS, so basically as my outlets keep on maturing, as the aging of the store increases my sharing will keep on increasing, so we have always maintained that our sustainable EBITDA margins on a longer term basis is going to be at around 17% to 18%, so if you see on a blended basis as on date today my average sharing is somewhere around 77:23 to 78:22, so another 1%, 1.5% is my overall other cost, which is the employee cost and the technology cost, so I end up making around 20.5 to 20.6 kind of EBITDA level margin. My maximum sharing is 80:20, so the day I do the 80:20 sharing then 20 becomes my gross profit and then another 1.5% to 2% if I take the employee cost and technology cost then 18% is kind of margins I will be having.

**Sri Karthik:** Got it and finally in terms of state wise geographic understanding of how the growth is panning out in this case to say that the like-to-like sales growth and let us say Uttar Pradesh is far higher than other states, matured states like Rajasthan and Maharashtra?

**Ammeet Sabarwal:** No, actually Karthik that is not the case actually what the same-store sales growth is also being driven by the kind of DBT for example in banking as the DBT has started flowing in that is bringing also the growth in on the same.

**Sri Karthik:** Could you give us a sense as to how is the DBT flow per kendra in a state like UP versus Maharashtra just for the benefits?

**Ammeet Sabarwal:** Even from a village to village even in Maharashtra, so for example like..

**Sri Karthik:** If you were to look at it on an average aggregate basis?

**Ammeet Sabarwal:** Every area has their own characteristics like UP I would say is the biggest receiver of remittance, in UP there are a lot of transactions that also happens on the basically people sending money to their hometown. In a state like Maharashtra I would say basically a lot of DBT happen specially NREGA, Pradhan Mantri Awas Yojana these are the kind of subsidies. In Rajasthan I would say even the government services or the government subsidies of that State Government are also very high, so those kind of services are also very active, like in Rajasthan there is a scheme called Bhamashah, so in Bhamashah basically the lady of that house gets all the benefits, so all those things are completely in electronic mode, so it happens through our outlet.

**Sri Karthik:** Just last question from my end, what would be the attrition rate of our franchise?



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**Ammeet Sabarwal:** Attrition rate basically the churning rate if you see is around 3%, I would say 3% is our current annual churning rate.

**Sri Karthik:** So about 1000 franchises would be closing down every year and you would have to replace that?

**Ammeet Sabarwal:** Yes.

**Sri Karthik:** Got it. Thank you so much.

**Moderator:** Thank you Sir! We have the next question from Swati Madha from East Capital. Please go ahead.

**Swati Madha:** Good evening. Thank you for taking my question. My first question is regarding the Amazon question, the gentleman had already asked this question before, but I would like you to give a number I know that you have a year end target of 10000 and as of FY17 you had 2000 stores, so just wanted to check like because it would help us to understand the progress you are making with this aspect if you could give a number I am sure you have it, it would be great if you can share it?

**Ammeet Sabarwal:** Swati basically for disclosing any such number we need to have our partners acknowledgement and approvals in place, but also what I can say to you is that specifically in the case of Amazon it is not that every week or every month the outlet keep on getting activated it happens in a step mode, so basically from 1X you will directly see basically kind of 2X to 3X kind of thing because it goes live at one go at one particular city or one particular state.

**Swati Madha:** So let me put this differently are there pin codes?

**Ammeet Sabarwal:** Let to give you an example on the historical data, if you see basically till December we were just like 1000 outlets and suddenly in February if you had met me I would have still said 1000 outlets, but in March it was directly 2000 outlets.

**Swati Madha:** Understood on that, but do you have any analysis of how many pin codes to which Amazon already delivers, but your kendras are there, which cannot take the delivery as of now because the program has not activated there, I am just looking at what is the...



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**Ammeet Sabarwal:** If they are able to deliver and if our outlets are there then definitely our outlets have to be activated because my outlets do not have to do anything, it is basically waiting for Amazon to get the capability to deliver.

**Swati Madha:** So the bottleneck is entirely on Amazon?

**Ammeet Sabarwal:** If that area is already capable where Amazon is able to deliver then my outlet has to be activated.

**Swati Madha:** Understood and on the store opening front I understand that I should not ask on a quarter-on-quarter basis, but somehow it is close than expected if you just divide this 15000?

**Ammeet Sabarwal:** That is what the way to look at it, if you even see my last two years quarterly the number of outlets opening if you see always second quarter and fourth quarter you will see a higher number and first quarter and third quarter you will see a lower number, it is by design because every alternate quarter we focus on, one quarter we focus on activation of services, one quarter we focus on activation of outlets. If you just put my 8 quarters or 12 quarters of data you will be able to see a pattern.

**Swati Madha:** Understood and apart from the core thing, which was government services and then you did eKYC, etc., but insurance is new, e-commerce is new, so are you targeting any other verticals like do you have plans to I mean..

**Ammeet Sabarwal:** Basically more services within the same vertical like we just did a tie-up with DMI basically, which is a lead generator for loan products. So again it comes under the BFSI domain basically it comes under the banking services only like railway ticket booking IRCTC, so again this would be part of our government services under the e-governance vertical. So definitely more number of services we are already in discussion with another 8 to 10 more services, but these is within the same verticals.

**Swati Madha:** I understand, but that awareness should be there at the customer end?

**Ammeet Sabarwal:** Always there because there are boards within the outlets if you have visited our outlets there is also a board on the rate card. Third thing if you see basically that for all the services the kind of economy of scale that we have the kind of negotiation that we do as an individual that franchise is never able to get. So whether it is insurance, whether it is e-commerce like Amazon, he is not able to going to get even insurance for example he can be a standalone insurance agent and he can say I will sell the policy, but what he get by selling the policy as



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an individual agent and what commissions we give him as a corporate agent it is still higher than what he gets as individual.

**Swati Madha:**

Understood. Thank you. That is all from my end.

**Moderator:**

Thank you. We have the next question from Ankit Kohli from Pure Research. Please go ahead.

**Ankit Kohli:**

Good evening everyone. Congratulations on a good set of results and thank you for taking my call. My first question is on the cost structure there has been a spike in the employee benefit expense and other expenses, if you could just help to explain this?

**Ammeet Sabarwal:**

Basically this is in line with our revenue growth basically there has not been any substantial increase.

**Ankit Kohli:**

My question is what are the other expenses, what is the constitution of these other expenses?

**Ammeet Sabarwal:**

It is basically all the corporate expenses, so right from the travelling to the corporate overheads to the corporate office expenses to all the state offices that we manage, so like 16 states we have the 16 state offices, all that cost is part of the other expenses.

**Ankit Kohli:**

All right. Do you have any updates on the B2B e-commerce business that you are discussing about last quarter and your talks with Amazon on that and other partners?

**Ammeet Sabarwal:**

It is still under discussion, we have not get finalized the partner, we are evaluating two to three partners from that perspective. We do not intend to do it exclusively, but it is therefore we are still in the negotiating sale.

**Ankit Kohli:**

All right. Also regarding these new initiatives where you are looking at urban areas, kendra prime and master franchise model, so can you just share the basic thought process and logic behind this and the opportunity that you see or do you see any maturity in the rural space and that is why you are going to move here, just trying to understand the management thought process for this?

**Ammeet Sabarwal:**

Vakrangee Kendra Prime is primarily the thought that we have got from the survey that we do with all our franchise, so basically if you see every month we do a proper survey with all our franchise try to see what are people asking for, so what are the new services people are



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asking for, what are the new things people are asking for and then what is their thought process, what are the improvement that we can do, so in specifically rural areas there is no major need because in rural areas the population density is limited, so there is only 5000, 7000 or 10,000 kind of people, but in case of urban location the population density is very high, so it can range anywhere between 25000, 50000 people right up to 500000 people. So accordingly many of the franchises came up that the footfalls have increased substantially, therefore we should have a larger size kind of store also available and as more and more services are getting added I think so we will need more counter. So right now we are having three counters in a typical urban outlet, but the kind of services that we are planning to add over the next six to eight months we envisage that there would be around four to six counters of requirement and the kind of order booking that we are receiving in case of Amazon, in case of Reliance there would also be requirement of little bit more of the storage area. So specifically for the high density urban location we are doing the study where we can have a larger format store called as Vakrangee Kendra Prime, so our typical urban outlet is anywhere between 150 to 200 square feet store whereas this could be anywhere between 400 to 600 square feet store. It is still yet to be the study had to be done, but will have more counters, will have better customer experience and will have some better exclusive services, which are there in addition to the existing Vakrangee Kendra services. This is the thought that where we started this and we have got the board approval in place and now we will have a formal study and formal pilot in case we have to go ahead with this that would be doing. Whereas for the master franchise model if you see because of the enhanced interest and the kind of success that our outlets are seeing some of the entities actually corporate also came up to us and they said can we take a master franchise for the entire state or for entire district, those kind of things came up, so urban areas are free market concept, in rural areas it had to be only for the link bank and the franchise has to be a local head of that particular area, but whereas the urban market are free market concept and that is where we thought that if in case we want to explore a master franchise model it had to be looked only from a urban location perspective, still it is very initial stage we have just got the approval in place, but that is the thought process because that is the kind of interest what we are seeing from people who have approached us to have this kind of thing in place.

**Ankit Kohli:**

So one followup, on the prime I am assuming it is right to believe that the big driver is going to be scale here that we are looking at larger stores are the post many different kind of stores and also do we have any geographies, which we are mapping out, are we going to start, are we thinking about this from a cluster perspective based on feedback that we have received?



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- Dinesh Nandwana:** To start within the metros.
- Ammeet Sabarwal:** Metro location.
- Ankit Kohli:** I mean any part of the country like you receive the feedback more from Maharashtra or more from UP or something like that or?
- Ammeet Sabarwal:** We would like to start the pilot in the state where we are already present, because where we already know, where we already have done a lot of work, where we already have a team in place. Definitely Maharashtra, Rajasthan, UP, these are the kind of things where we would like to see, but definitely metro level locations like Mumbai or Delhi or those kind of location is where we would like to first explore this model.
- Ankit Kohli:** Thank you. My last question is not specific to Vakrangee, but in general you are very close to the rural customer, so where do you see the rural spending pattern is going, do you think they are increasing to commensurate to like 6%, 7% growing economy or not just your feeling on way of spending pattern in the rural part of India, how they are shaping up?
- Ammeet Sabarwal:** Definitely now they are getting more money in their hand because DBT has also played a major role in that.
- Dinesh Nandwana:** After demonetisation though they are having full money in their major account.
- Ammeet Sabarwal:** The habit of banking has started evolving because demonetisation was the first event where actually people have to come and deposit their savings. Earlier people were using the outlet more like for transaction basis primarily to receive remittance or do receive the DBT, but demonetisation was the first event where they actually went and started depositing their household savings wherein that is how the habit of banking evolve and also because of the DBT since there are no middlemen they are getting the entire amount of money, so definitely they are getting more money than what they used to get earlier from that perspective and aspirations are always there, if they are getting genuine products at a genuine price, at a competitive price, so they are ready to spend, they like where we have started Amazon in some semi-urban and couple of rural locations, people have started coming and asking from where it is, when it is starting, what are the other products that I am able to see, so therefore there is a lot of excitement and aspirations are there, so if you are able to deliver them good products, good pricing, good quality then I think so people are ready to consume.



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- Ankit Kohli:** All right. Thank you so much. That is it from my side.
- Moderator:** Thank you Sir! We have the next question from Nirav Dalal from Maybank. Please go ahead.
- Nirav Dalal:** Thank you Sir! Actually all the questions have been answered, just when do you see this the launch of prime or when do you see the study getting over?
- Ammeet Sabarwal:** I just say you will have to give us some time, we have just got the board approval to go full fledged and study this and do the pilot if necessary, so I think over the next couple of months we will give you the updates how the progress has been.
- Nirav Dalal:** In terms of the e-governance margins that have come down to 20%, do you believe that this would be the range, it would be or?
- Ammeet Sabarwal:** Yes, this will be the sustainable kind of margin 20% to 25% is the sustainable margin.
- Nirav Dalal:** Thank you.
- Moderator:** Thank you. We have the next question from Mark Smith from CCAP. Please go ahead.
- Mark Smith:** Thank you. Just continuing the last question. Why did the e-governance margins come down 700 basis points year-on-year?
- Ammeet Sabarwal:** Basically if you see Sir some of the projects have moved out from the vertical because as we are not re-bidding the projects and few of the projects, which are there in process right now where we also do some part time or subcontracting later on, so automatically the margins are relatively lower, basically the projects, which are going to continue are a little bit relatively lower margin than the project, which got completed basically.
- Mark Smith:** This 20% level is sustainable now?
- Ammeet Sabarwal:** 20% to 25% is what you can see is a sustainable.
- Mark Smith:** Just looking at the consolidated financial statement, the big delta in the improvement in PAT was the sharp fall in depreciation and finance cost, could you give us a bit of colour on that and also the sustainability of this lower level of depreciation and finance expenses?



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**Ammeet Sabarwal:** If you see the finance expenses we are now fully debt free, so we became fully debt free on May 28, 2017 onwards basically, so on May 30, 2017 when we came up with the full year results we have declared that we are fully debt free, so as on date today there is no debt on the book neither short-term nor long-term, so the finance cost is almost not going to be there from next quarter onwards primarily. With respect to the depreciation, if you see as we are not doing any asset heavy business there is no capex in the Vakrangee Kendra business, it is a franchise model, so my per store capex is only Rs.5000 to Rs.20000 outlet, so with respect to that my depreciation has continuously fallen because there is no incremental major capex and all the historical assets are already depreciated, so this trend will continue, you will see negligible contribution from finance and depreciation.

**Mark Smith:** Thank you.

**Moderator:** Thank you Sir! As there are no further questions I would now like to hand the conference over Mr. Manish Modi for closing comments. Over to you Sir!

**Manish Modi:** Thank you Vikram and thanks everyone for taking time out and many thanks to the management team for giving us this opportunity. I will take a leave from here. Thank you and have a good day.

**Moderator:** Thank you Sir! Ladies and gentlemen on behalf of Maybank Kim Eng that concludes this conference. Thanks for joining us. You may now disconnect your lines. Thank you.