



“Vakrangee Limited 2Q FY18 Earnings Conference Call”

November 13, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Vakrangee Limited 2Q FY18 Earnings Conference Call hosted by Maybank Kim Eng Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Modi from Maybank Kim Eng Securities. Thank you and over to you.

Manish Modi: Thanks, Sid. Good afternoon, everyone. Maybank Kim Eng is pleased to host the management team from Vakrangee Limited to discuss second quarter FY18 Results. We have with us Vakrangee management team represented by Mr. Dinesh Nandwana – Managing Director and CEO; and Mr. Ammeet Sabarwal – President IR and Corporate Communications.

Now, I will hand over the call to Mr. Dinesh Nandwana for his opening remarks and over to you, sir.

Dinesh Nandwana: Thank you, Manish. Good day, dear ladies and gentlemen. It is 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 spare time in joining us here today to discuss our second quarter earnings for the financial year 2017-2018. At the outset, it give me immense pleasure to share that our Board of Directors have recommended a bonus issue by way of capitalization of reserves in the ratio of 1:1 that is one share for every one share held. I would like to take you all through the key highlights for the quarter. As we are committed towards having Big Four auditors from this year onwards, our Board and shareholders have approved the appointment of M/s PriceWaterhouse Chartered Accountants LLP as our statutory auditors. There have been robust growth in both our top line and bottom line, with quarter two financial year 2018 consolidated revenue growing by more than 61.7% to Rs. 1,550.8 crores and the consolidated profit after tax growing by 50.53% to 189.6 crores. We have witnessed a strong traction in Vakrangee Kendra outlet business, with more than 140% growth on year-on-year basis. And this segment now contributes more than 90% of overall revenues. As promised earlier, we are tapering off the legacy business as we complete the tenure of existing projects, we are not repeating these projects. By 2020, we expect the legacy business to be negligible or almost zero contribution.

For the current quarter, the contribution of the legacy e-Governance business is less than 10%. Despite the legacy business declining to less than 10%, our overall EBITDA has grown up by 28.2% to Rs. 291.3 crores. And profit after tax has grown by 50.3% to Rs. 189.6 crores. We have witnessed a strong growth and strength across key parameters such as return ratio, debt-free balance sheet, and free cash flow generation. For the current financial year, our target is to



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complete 50,000 outlets by March 2018. I'm pleased to say that as on 30th September, 2017, we have overall 40,461 outlets across more than 17 states, which include 29,394 rural outlets and 11,067 urban outlets. Overall, we are well on track to achieve and exceed our March 2018 target of 50,000 outlets.

With respect to industry update, there has been a new set of guidelines proposed by Reserve Bank of India, which is banks need to open at least 25% of their banking outlets in a year to unbanked area. Reserve Bank of India has come up with the guidelines that all business correspondent points providing banking services can be considered as a banking outlet, which are fulfilling the conditions as services of acceptance of deposit, encashment of cheques, cash withdrawals, or lending of money are provided for a minimum of four hours per day for at least five days a week. This gives further inputs to our business model and provide a huge opportunity in the banking space. Today, our company has evolved as a 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 logistic services to the unserved, underserved rural and urban markets. Our business model has evolved as aggregator and emerged as one-stop convenience store for various kinds of products and services under one roof. Recently, we have added a tie-up such as alliance with Vasco Worldwide to provide travel services and visa support services and alliance with IndusInd Banking Limited for Bharat Bill Payment System for various bill payment services. On the operational front, for the e-commerce vertical assisted e-commerce services rollout is well on track. Our March 2018 target was to roll out services across 10,000 Vakrangee Kendra stores. However, it give me immense pleasure to share that we have rolled out to more than 10,000 Kendras in the current quarter itself, which is well before our targeted timelines. We have been receiving fairly encouraging response from assisted e-commerce services. With respect to bus ticket booking services, RedBus services are now activated across all our outlets. Gold products booking is activated across all the outlets.

With respect to insurance services, life segment, HDFC Life, Bajaj Allianz are activated across all outlet. In non-life segment, TATA AIG and Reliance General Insurance and also health Insurance, Religare Health, are activated across all our outlets. CIGNA TTK activation in more than 30,000 outlets, whereas HDFC ERGO execution has been successfully completed and currently in pilot phase. HDFC ERGO services would be activated over the next 3 to 4 months in all the outlets. With respect to logistic courier booking services, services are activated across 18 states and 852 postal codes. Logistic delivery services, we had started the pilot for delivery and RMS across 19 postal codes. Post successful completion, we had extended the same to now 69 postal codes. However, it is still in pilot phase and yet to be commercialized.

Commenting on our financial result for finance, quarter two financial year '17-'18, our revenues from operation increased by 61.7% on year-on-year basis to Rs. 1,550.8 crores. Our revenue

from Vakrangee Kendra business segment has stood at Rs. 1,437.7 crores, registering a growth of 140% on year-on-year basis. From e-Governance segment, revenue declined to Rs. 67.5 crores, which is in line with our strategy as we are purposefully shifting our focus from capital-intensive e-Governance segment to assets like Vakrangee Kendra Retail Outlet segment. Our Vakrangee Kendra business segment now contributes more than 90% of overall revenue. Our EBITDA stood at Rs. 291.3 crores in quarter two financial year '17-'18, registering a growth of 28.2%, whereas profit after tax stood at Rs. 189.6 crores, registering a growth of 50.3%. The EBITDA margin for the Vakrangee Kendra outlet retail segment have been at 17.7%. We expect this margin to stabilize around 17% to 18% on a long-term basis. The margin has also been impacted due to change in accounting treatment of few services at our Vakrangee Kendra post GST implementation. There is a positive operating leverage in our Vakrangee Kendra Retail segment as our expansion is mainly through franchise route with no major CAPEX. Economies of scope will further improve as new services are added, leveraging the same technology-driven platform. With low incremental CAPEX and operational cost, additions of more and more services, and increasing targets and volume over a period of time will result in further positive operating leverage. Therefore, our incremental ROCE 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, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from Vetri Raju, Equity Analyst. Please go ahead.

Vetri Raju: I just have a macro-level question. What could be a competition for us, in the sense we now have this Punjab Government doing it with another listed company, doing features and services in a listed company or India post trying to become something like us. So what's the management's view in terms of these competition? Whether they exist or not, I don't know. I want some clarity. And how do we retain our competitive advantage?

Ammeet Sabarwal: Thank you. This is Ammeet this side. So if you see, basically, even today, we have competition in every segment per se. So whether it is services like Aadhaar services, there are around 200 vendors registered who are doing Aadhaar services. If you see with respect to banking business correspondent services, there are companies, specifically companies who are doing business correspondent banking services. So in every segment, we have the competition. But whereas if you see what is unique about the model is that we are having a convenience store model where we have integrated all different verticals of services. So there are very few players. There is almost no single player who is comparable on an apple-to-apple basis where they are doing all five verticals of services across the same bandwidth. If you see, the second thing, as you rightly said, whether it is the post office, now they are also becoming a payment bank. So they would also start banking services or whether it is state government, some who are doing the citizen

service center kind of business model. So those are already there in the ecosystem. But what we foresee at a macro level is that the market itself is very huge. So if you see as per even as per RBI, there are like 160,000 SSA locations and around 100,000 wards in the country, so around 260,000 is the kind of minimal opportunity. Whereas we foresee the opportunity if you even compare it to a fair price store concept. So fair price store in India, there are around 500,000 to 600,000 fair price stores across pan-India basis. So we foresee that as a market. And we see there is enough market for 3 to 4 players to emerge and still capture the market. So even if we grow at the same rate, currently, we are not even in 15% of the market or even 10% of the market of what we envisage as the overall market. With respect to what are the entry barriers or what are the moats around the business for anyone to replicate this is, if you see, basically, there are 4 to 5 key moats around the business. So the first moat around the business what we see is that basically for every service, you need different kind of skill set and licenses and empanelment. So whether you want to do the UID services, whether you want to do business correspondent banking services, whether you need a ATM license from a white label ATM, whether you need to have an empanelment for assisted e-commerce. So those are all the empanelment and licenses we have built over last 20 years of our journey. Second thing, if you see, is the real-time integration with the core banking server of all the banks. We have taken around 1.5 to 2 years in doing this integration with the core banking server of all the major national banks, so the spent on that. Third moat around the business is itself that no single service is profitable on a standalone basis. Our model is primarily profitable because there is a bouquet of services, because we are there at a Gram-Panchayat level location, village-level location. So if you're doing only single line of service, it is very difficult for you to be viable in that kind of denomination of location. The fourth moat around the business what we foresee is that opening the outlet is very easy. You may say, you may spend capital and you may open the outlet, but managing the outlet on a day-to-day basis, you need lot of manpower, you need your people right till the grass-root level. So our hierarchy, which is every state, we have a state head division, we have a divisional head; district, we have a district coordinator; block, we have a block coordinator, almost 1,800 employees on our payroll basically where we are having the field staff right till the grass root level. And if you see historically, we have been doing these kind of on-ground execution projects. So that is the in-built strength of our company basically where we are having those kind of skill set to manage those kind of operations. I think so these are the key entry barrier that we see as a business model.

Vetri Raju:

Okay. Sounds good. And in terms of these new services, which you have, like Vasco and maybe I think Amazon was maybe 6, 9, 12 months earlier. And I recently read that you have some tie-up with Mahindra for some vehicle booking and so on. Now, incrementally what's your view in terms of these services contributing to the top line and bottom line? And is there any other service you think you can actually tie up because of the vast network moat which you have, which could provide value add and possibly provide some kicker in operating leverage?

Ammeet Sabarwal: See, how we see the business model is that we have built basically a last-mile distribution platform. So it is a convenience store format to the citizens. So whatever services which are value add to our citizens, to our customers, we'll keep on adding those kind of services. So the tie-up with, One Vasco or even the recent tie-up with IndusInd Bank for the BBPS, which is Bharat Bill Payment System, so providing all kinds of bill payments services. We are also in talks even for lead generation for loan products. So those are the services that will get added to the platform over the period of time. See, any tie-up that we do today, it takes easily 6 months to 9 months for anyway for us to get the on-ground execution to be started for that particular level of service. So I think so that will be a continuous innovation or continuous evolution of the model because as we keep on increasing the bouquet of services, our dependency on any single line of service keeps on coming down, so that itself becomes the strength of the model.

Moderator: Thank you, sir. The next question is from the line of Swati Madha from East Capital. Please, go ahead.

Swati Madha: My question is, can you maybe explain this alliance with Vasco International a little bit more? And if you can give us some color on the commission structure and what exactly is the service that you are providing here?

Ammeet Sabarwal: So basically, if you see, One Vasco belongs to the group of the VFS, basically VFS Global, where they are into the visa consulate services. And One Vasco is primarily Visa application support services. So the services that would get added would be basically all kind of visa support services, so right from payment of visa fees to scheduling a visa appointment to the booking of any travel bookings, travel insurance, international sim connections. So all kind of visa application support services would get provided through our outlets. So this is the tie-up, which we have just done a month back. And currently, we are in the technology integration state. So I think so as we complete the technology integration, then we shall do the pilot. And once we complete the pilot, we will start rolling out the services. So it is like another 4 to 6 months away from where we start the services. With respect to any guidance, I think so once we do the pilot, then we are in a better position to share what kind of contribution we can see from these kind of services. We are in very early stage to suggest anything. With respect to the commercial, every different service in that has a different rate card. However, I'm not allowed to share this data. It is not in public domain.

Swati Madha: Okay. On Amazon Kendras, so is there a new target with respect to number of Kendras where you have Amazon Services by end of FY18, because I think you've already reached your target?

Ammeet Sabarwal: So 10,000 was our target actually for March '18. And if you see basically, we reached that 10,400 plus outlets plus in last month itself. So I think so we will wait. We are yet to get an updated list

from Amazon. So I think so once we get then we shall give a guidance again on with respect to our number of outlet.

Swati Madha: Okay. And lastly, if I may, how many Kendras would have rolled out like in the month of October and maybe the first week of November? If you have any data points on that?

Ammeet Sabarwal: No, I think so that is again not in public domain. So the data what we have shared is basically from last quarter of 37,688. We are now 40,461 outlets.

Swati Madha: Okay. Sure. I think last question from my end. On this e-Governance projects, I understand that it will decline going forward. But the margin is like significantly down for this first half. So what is happening there? And also, there is inventory on the balance sheet of around, like, I think 400 crores. Can you just maybe give some more detail on what this inventory is?

Ammeet Sabarwal: If you see the revised inventory, as on this current quarterly result, basically the inventory is already out from the system. So if you see, the inventory is hardly about Rs. 14 crores to Rs. 15 crores. So if you see the numbers, I am talking about them.

Swati Madha: But what was it earlier? What was it earlier because...?

Ammeet Sabarwal: It was primarily related to the e-Governance business. So if you see, in our first quarter of the last quarter basically, we recognized almost more than 370 crores of the legacy business. So that was related primarily for that.

Swati Madha: Okay. Understand. I will allow for other questions and get back in queue.

Ammeet Sabarwal: That you have was of the 31st March ending quarter.

Moderator: Thank you. The next question is from the line of Balthazar F from Sloane Robins. Please, go ahead.

Balthazar F: I just wanted to follow up on Amazon in a bit more detail as well. In your Annual Report, you talked about moving the relationship from Amazon from simply a B2C to a B2B business. I know it's sort of very early stages. But could you share your thoughts with us on that, the sort of timeline, so that might take place over in an ideal world where that business could be in, say, 5 years' time?

Ammeet Sabarwal: So, Balthazar, I would refrain from giving any particular guidance with respect to B2B. But what I can say is that in the next 3 to 6 months, we should have more clarity with respect to the B2B business. As I would like to say, the B2B opportunity is much more bigger in terms of volumes. So volume, definitely, it is going to be much bigger than what the B2C opportunity is there. But

once we do any particular tie-up because we have not done any particular fixed tie-up as on date today. So once we have a proper partner in place for B2B and once we do some pilot, I think so that will be the right time period for us to give any particular guidance on that.

Balthazar F: Thank you. And also in new developments, how is the loan originations business developing? Have you got any news you can give us, whether that is looking like to success or not?

Ammeet Sabarwal: No, so if you see loan lead generation, we just did the tie-up over in last two months. So currently, we are completing the technology integration. So once we complete the technology integration, we will start with the pilot phase. So once we do the pilot that is when we roll out. So that is what even I answered in last question also that any tie-ups that we do, it takes around 6 months to 9 months for me to integrate, do the pilot, and roll it out. So I think so once we do the pilot, then we can share some observations that were there during the pilot and what is the expectations that we have from that.

Balthazar F: Thank you very much, And your existing banking relationships are mainly with the public sector banks, have these announcements of loan originations led to any different attitude from the private sector banks to what you're offering?

Ammeet Sabarwal: So actually, with the new RBI regulation coming in or suggestion coming in basically, with respect to the banking outlet where they have suggested that the BC outlet which are doing permanent brick and mortar branches operational for five hours in a day and at least working for five days in a week, I think so that is what has now started attracting also lot of private banks. So we are in discussion with quite a few private banks also. But I think so once we have a proper agreement in place or a proper approval in place, that is where we would like to share some kind of data points on that.

Moderator: Thank you. The next question is from the line of Tom Wille from Martin Currie. Please, go ahead.

Tom Wille: Just a couple of quick questions from me. And firstly, looking specifically at the Kendra revenue number, the sales per outlet has increased really significantly in this quarter on the previous quarter. So I was just wondering if you have any particular comments on whether there's been any single parts of the business, for example, with the GST registration or something like that, that has been one of the primary drivers of that shift?

Ammeet Sabarwal: So, Tom, basically, if you see, with respect to, this is actually the first year when our number of mature outlets are increasing in a big way. At the same time, the number of new addition as compared to existing number of outlet is a lower number. See, earlier, we were on a base of 12,000, we were adding 8,000. Then on a base of 20,000 we were adding 15,000. This is the year when on a base of 35,000, I'm adding 15,000. At the same time, the outlets which we opened

during the March quarter, almost 6,000-plus outlets were open only in the Q4 of last year. So the maturity of those outlets is also coming up now as those stores mature. So if you see, basically, this is the year, that is what we were also discussing in the last 3 to 4 quarters. So when people use to ask us that we are not able to match the number with respect to as they divide the end number of revenue with end number of outlets. That is what we said that this is going to be the year when actually the change happens. Because as the number of mature outlet increases as compared to the number of new addition of the outlets. And that is what we are witnessing right now. So if you see basically the outlet, which opened during the Jan to March quarter, they have now started to mature, as well as our mature number of outlets have increased to now 26,000, whereas the new outlets are now are just 11,000 to 12,000 outlets. Because this quarter outlets, I think so there would be hardly any contribution from these outlets. But that is the curve that we are going to see going forward in this particular year. Then once this becomes the phase, then we again enter into a proper growth on a Y-o-Y comparison.

Tom Wille: Thank you, Ammeet. That's very clear. And then just a second question is on the working capital side. I can see that you've made a real improvement. And you've talked about on the inventory side already since the year-end results. I was just wondering if on the receivables side, you could just give us an indication as to roughly when you expect part of the balance to be collected? Thank you.

Ammeet Sabarwal: On the receivables side, we see the sustainable receivable number of days should be settling at around 60 days. I think so 50 to 60 days is basically the right way to look at it from the Kendra business. So I think we would settle at around 60 days on a longer-term basis.

Moderator: Thank you. The next question is from the line of Manish Singhal from American Century Investments. Please go ahead.

Manish Singhal: I had a couple of quick questions. The first is on the auditor. So I thought this half year results would be certified by PwC. Do you have an update on that?

Ammeet Sabarwal: So if you see, basically, PwC is now already on board. So they are now the statutory auditor. So the six monthly results are always basically the limited review result. So those are there. They have already been reviewed by the PwC. So this year, PwC is onboard. So I think so they are now the official statutory auditor for the Company.

Manish Singhal: Okay. They will then certify the full-year results?

Ammeet Sabarwal: Yes. So they have also certified this as a limited review portion. So even if you see the results of this particular quarter, which are updated on the stock exchange, those are reviewed and signed off by the PwC partner. So the full-year result would be completely audited and signed off by the PwC partner.

Manish Singhal: Okay. That makes sense. And then the second thing is around this bonus issue. Can you just explain to me what that is exactly?

Ammeet Sabarwal: So bonus issue is basically where for every one share, we are issuing another share to all the existing shareholders. So that is basically as a effect, basically, it enhances the retail investors' interest, as well as it gives you more liquidity with respect to the price. So price from whatever is on the recorded date, it becomes half, and the number of shares increases to double the quantity.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec Capital. Please go ahead.

Sri Karthik: I have one question on our branch expansion or Kendra expansion strategy. And as I can see from the disclosures that you have given, it's fairly concentrated in the top three states. And then there's a steep decline after Maharashtra, I guess.

Ammeet Sabarwal: Correct.

Sri Karthik: Almost one-tenth. So the next fourth state has about 1,000 Kendras. What would explain such a sharp jump decline after the top three states?

Ammeet Sabarwal: Yes. So, Karthik, if you remember that basically when once we got the initial mandate in 2012, we had got the mandate only for two states, which was Rajasthan and Maharashtra. So from 2012 till 2014 calendar year-end, we were only in the two states. Therefore, you'll see the largest concentration coming in those two states. In 2014 end is where when we got the National BC mandate, National Business Correspondent mandate from the eight national banks. And that is where we started expanding into other states. So from 2015, we have expanded into other states. So if you see my Rajasthan and Maharashtra outlets are more or less stable, whereas addition is happening only in all the other states. In that one particular state which we have targeted is primarily Uttar Pradesh, UP, because we see UP is the biggest state of the country. Only four countries are larger than the state of UP. And I think UP is the biggest receiver of remittance as well as the biggest receiver of subsidy. So from a business strategy perspective also, that fits into our radar. So that is where we went aggressive with respect to the UP. But at the same time, we are expanding into the other states. So currently, in the current year, we are expanding also into Karnataka. So we entered into Karnataka. We have opened few outlets in Bangalore. We are entering into Madhya Pradesh. We continue in UP. We are also entering into Ahmedabad, Gujarat basically. So those are the four states where we are focusing right now.

Sri Karthik: So beyond the top three, I think Karnataka and Gujarat would be the others?

Ammeet Sabarwal: MP, Gujarat, and Karnataka.

- Sri Karthik:** Okay. Just because what got my attention is, if I add all the other beyond the top three, it is just about 3,500 odd Kendras. I mean, the progress has been substantially slower compared to what you've done in the top three states.
- Ammeet Sabarwal:** Yes. So basically, Maharashtra and Rajasthan was because I was having only the license in those states till 2014. So anyways I had to expand only in those two states. So if you see, from 2015, there has been limited addition in Rajasthan and Maharashtra, whereas addition has primarily been in all the other states.
- Sri Karthik:** Sure. And just the other point which you've mentioned that the profitability is a function of the fact that you have an entire bouquet of products compared to what others are, probably a standalone business model. To that extent, do you have license to offer all the products in all the states?
- Ammeet Sabarwal:** So if you see, basically, all my tie-ups primarily are with the private players, except for banking and government services. So as I told you, for banking, we are having a National BC agreement, which is a national mandate to open the banking services. Even if you see with respect to all the other services, whether it is Amazon, whether it is RedBus, whether it is insurance, these are all pan-India basis empanelment. So there is no limitation with respect to the state or the city where we are opening.
- Sri Karthik:** Got it. And just the last question. Staying on to the states, would there be a marked difference in terms of the profitability per Kendra between the top three states?
- Ammeet Sabarwal:** So basically, if you see, more or less 80% to 90% of the services are similar. Only the government services changes from state-to-state. So that is the only thing that might change little bit of the profitability.
- Sri Karthik:** No, just because some of them are in a slightly more mature category in the sense that Rajasthan, I would assume, have more vintage in terms of the number of Kendras.
- Ammeet Sabarwal:** Yes. So Rajasthan, basically, if you see, as the more and more states are digitized, more and more services are available through online route, which can be provided through the outlet. But once that also once we plug in, we are plugging in the BBPS, Bharat Bill Payment System. So once we plug in the BBPS, I think so even that will get standardized across all the outlets.
- Moderator:** Thank you. The next question is from MSS. Murthy who is an individual investor. Please, go ahead.
- MSS. Murthy:** The retail investors, they have been immensely benefited by investing in your company for the past 3-4 years. My question is, question is a small one, that is, in your last year's Annual Report,

there was about some 1,000 crores worth of computers and peripherals that have been reflected. But in the latest report, it has come down to 20 crores, a substantial reduction. I was a little perplexed to see that. May I know the reason, sir?

Ammeet Sabarwal: Sir, thank you for the question. If you see 1,000 crores was primarily the gross block. So if you see the net block, basically it has already been depreciated. So, the legacy business that we were doing for the government, I think those projects are primarily like a BOT project, build-operate-transfer. So you have to incur the CAPEX first, build the system, do the hardware-software integration completely, you operate it for a fixed tenure and then you transfer it back to the government. So that was our asset-heavy part of the business. It was a CAPEX-heavy business model. As over the last four years, basically, as we have shifted to the Vakrangee Kendra business, which is a franchisee-based model, it's an asset-light model. So as the CAPEX that we had done in 2013, 2014, all this IT infrastructure gets depreciated over a four-year period or a five-year period. So that has already been depreciated. And what we are seeing right now is the net block, which is after depreciation. So already those assets are already depreciated.

MSS. Murthy: Yes. I got it. And the second question is, sir, you have mentioned you'll categorize your outlets into mature outlets and upcoming outlets. In the case of these mature outlets, what sort of business growth in the individual outlet you pursue? Just a general question.

Ammeet Sabarwal: No sir, basically we consider outlets which are more than one year old, we consider them as a mature outlet. So basically, there the more services are already activated. And this outlet is mature in the sense, the awareness is already there in that area, and people already have the comfort and the awareness to go and do the transaction at the outlet. Whereas any new outlet that we open, we have to first create a lot of awareness. So initial 3 to 6 months goes on creating the kind of awareness, post which the consumer get accustomed to using this outlet. So I think so with respect to, we don't give any breakup with respect to mature outlet revenue versus un-mature outlet revenue. But overall, what we have given is our 2020 guidance that is off around 75,000 outlets with a \$2 billion of revenue.

Moderator: Thank you. The next question is a follow-up from the line of Vetri Raju from Equity Analyst. Please go ahead.

Vetri Raju: The last few months, we read in the stock exchange declaration that we did some road shows in the US, in Japan, and so on. And we found real marquee investors participating. I also see from the shareholding pattern that we already have some 20%-22%--23% holding from the foreign institutional investors. So what's the strategy behind this? Is there a big demand? Or we want more institutional ownership and so on?

Ammeet Sabarwal: So sir, basically if you see, as a good practice with respect to the shareholder value creation basically we have to create awareness about the business model, about the company in terms of

the investor community. So as an exercise, what we do is a religious activity with respect to keeping all our investors update. So we have a proper plan for doing all the kind of road shows, which are pre-planned 6 months to 8 months in advance. So I think that as a corporate governance practice, we have to be transparent and we have to be more near to the investor and give them all the key updates. So regular conference call after every quarterly results, preparing all the quarterly presentations, attending investor conferences, and doing investor road shows. I think so that is a process that we follow.

Vetri Raju: Okay. There's nothing specific. It's just a routine process?

Ammeet Sabarwal: Yes.

Vetri Raju: Okay. If you see, I as an investor, just like the previous speaker said, I'm quite happy with what's happening with the business and what's happening in the stock market in terms of price. What you think are the key internally? Because externally it looks like the demand is robust and so on. What can go wrong internally? Or what are the key things you have to really look at it, top two or three things to execute? For example, as a common man, I see running from 75,000 Kendras and managing all those people who work for your franchisees and so on as something very big. Like, can you just throw some light, what can go wrong and what are you focusing on?

Ammeet Sabarwal: So, sir, basically, if you see, with respect to what we foresee, the challenge is always the maintaining the franchisee quality and trainings of all my franchise. Because as you see, any new services that I have to activate, I have to train 40,000 franchisees. And it is getting more and more increase. So next year, it might be 50,000 franchisees.

Vetri Raju: Exactly.

Ammeet Sabarwal: So that is the entire focus for us is always on training the franchisees, where we are also talking to all our partners to give us a dedicated team only for Vakrangee as a channel so that our employees also undergo the training, as well as the franchisee undergoes the training, as well as franchisees' employees undergo the training. So our trainings are continuously happening 365 days with respect to different services, different partners, in different parts of the country. So I think so from the execution perspective, the only challenge that we foresee is always that maintaining the franchisee quality and the franchisee training.

Vetri Raju: Right. That's precisely my question. Like, how do you retain the people? 75,000 and to say five people per franchisee?

Ammeet Sabarwal: See, basically franchisee is also an entrepreneur. It's a franchisee-based models. So whatever commissions or revenues he is generating, he is getting a better part of it. So he is motivated to do more business. So from that perspective, we don't interfere at the franchisees' employee level,

because franchisee himself is managing the day-to-day operations of that particular outlet. If his employee leaves and his services are inactivated, his revenue goes down. But at the same time, it is in his interest to make sure that he has a backup employee in place or he has to undergo, himself undergo training so that he acts as a backup or he generally makes sure that his employees are there. Our focus is to make sure that the franchisee at his outlet all the services are getting activated at the earliest, he gets a good training so that he can provide more and more services, and his viability is enhanced.

- Vetri Raju:** Right. And what is the attrition of franchisee in the last quarter or the last 12 months?
- Ammeet Sabarwal:** So if you see, basically, our churn rate is at around 2% to 3% normally, our average churn rate.
- Vetri Raju:** Okay. And is there any benefit we get because of GST in terms of customers' payments and so on? Do they get any input credit? And is there any benefit or any general comment on GST?
- Ammeet Sabarwal:** No, so as such, GST doesn't impact any business because we are just a platform. We are just providing the services.
- Moderator:** Thank you. The next question is from the line of Swati Madha from East Capital. Please go ahead.
- Swati Madha:** I think from my previous question, the EBITDA margin for the e-Governance project, I think that question remains unanswered, as in what is the EBITDA margin that we can expect going forward, even though I agree that the contribution incrementally is coming down?
- Ammeet Sabarwal:** So, if you see, basically it is, Swati, already it is now less than 10% of the revenues. And I think so the trend is going down. So it might get over, over the next couple of years basically. But what we are saying is, as we are entering the last phase of completion of this existing tender project, the margins might remain little volatile. Because we are completing those projects and somewhere we get gains and somewhere it's average margin. So anywhere between, I think, those are current range over the last 3 to 4 quarters, that would be in that range only.
- Swati Madha:** Okay. Understood. And in an earlier question, there was a mention of Amazon business shifting from B2C to B2B. Can you define it for me a little bit more properly. What exactly is meant by B2B?
- Ammeet Sabarwal:** Yes. So Amazon, it is not on B2B, it is yet to be decided. We have not entered into any formal contract with any of the players. We are still in the finalizing stage. However, B2B opportunities that currently, if you see my B2C offering, I'm not allowed to do a bulk purchase, basically, with respect to the Amazon portal. So if you want to order say 10 iPhones, I cannot order 10 iPhones at the same time. There is a limitation. I can order maximum two pieces. So anyone, say, there

is a local perfume seller who wants to buy 25 pieces of perfumes or somewhere who is shoe seller, he wants to buy 50 pairs of shoes from the portal, he cannot buy currently. However, in the B2B offering, that is what the customer base is going to be. So it's going to be targeted towards SMEs and MSMEs who can do a bulk purchase or a wholesale purchase through the portal.

Swati Madha: Okay. So that is what you meant. Understood. But you are talking to Amazon about it?

Ammeet Sabarwal: I would refrain from taking any names. But we are in talking terms with two to three players.

Swati Madha: Okay. Understood. And if I mean I understand that the market is huge, the penetration of smartphone is very low, etc. But does this Reliance 4G phone, does this worry you in anyway?

Ammeet Sabarwal: So even Reliance Jio is our partner where we are doing the sale of their handset.

Swati Madha: I understand that. I know that. I was just thinking on whether you think that digital literacy will pick up very exponentially. Is that a worry? Or it does not so for the foreseeable future?

Ammeet Sabarwal: See, basically, even if you see the advance market or even if I take the example of, say, China basically, so China is well ahead in terms of mobile penetration, data penetration, the mobile digital literacy. More than that actual literacy level, education levels are much better than what we have in India. In India, so almost more than 30% of the population, 25% to 30% of the population is still illiterate. They cannot read, they cannot write. Whereas even if you see, take the example of China, Alibaba has their own brick and mortar branches called as Taobao rural service centers. So they are currently having 20,000 such permanent brick and mortar branches. And they are targeting to open 100,000 outlets in the next two years in China. So if you see, even they are offering assisted e-commerce services, they are doing money transfer using Alipay, they are doing all kind of travel ticket bookings through that particular brick and mortar branch. So it's a similar model what they are also doing. And they are already having 20,000 such stores, going to 100,000 stores. And even if you take the example of US as a country or whether Japan as a country, still digital transactions are 45% to 50%. So what we are saying is, definitely, the market is going to evolve, more and more digital players were also coming into the picture. But at the same time, the opportunity is so huge that there is enough pie. The pie is so huge that it can accommodate 4 to 5 different channels.

Swati Madha: Understood. And on the Amazon Kendras, which is like the 10.5 roughly, the Kendras, they're operational, right. Because you have this operational and something, which is, I mean, you put out the franchisee but it has not ramped up?

Ammeet Sabarwal: See, where Amazon services are available. So if Amazon Services are available, it means the outlet is operational.



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- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Manish Modi for closing comments. Over to you.
- Manish Modi:** Thanks, ladies and gentlemen. Thank you very much for taking time out for this call. And a special thanks to the management team for giving us this opportunity. Thank you very much. And have a good day.
- Dinesh Nandwana:** Thank you very much.
- Ammeet Sabarwal:** Thank you, everyone.
- Moderator:** Thank you very much, members of management. Ladies and gentlemen, on behalf of Maybank Kim Eng Securities, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.