

Vakrangee Limited
Q1-FY24 Earnings Conference Call
July 17, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Vakrangee Limited Q1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants in the conference, please limit your question to one per participant. Should you have a follow up question, we would request you to rejoin the question queue. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone.

I now hand the conference host over to Mr. Dinesh Nandwana – Managing Director & Group CEO. Thank you and over to you, Sir.

Dinesh Nandwana: Thank you. Good day, dear ladies and gentlemen. It is a pleasure to greet you all once again on behalf of 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 first quarter earnings for the financial year 2024. Our current listed entity Vakrangee Limited now consist of existing business of Vakrangee Kendra physical outlet as well as the digital platform of BharatEasy mobile Super app. Vakrangee Kendra business is now a pure retail centric consumer facing an asset-light franchisee-based model. Today, we have emerged as the Go to Market Platform for the rural India for our various business verticals including the new-edge FinTech and digital platform. We are building one of the India's largest last mile distribution platform and emerging as the physical plus digital ecosystem with a Pan India presence.

Today, we have more than 21,003 active transacting and newly onboarded outlet spread across 32 states allocated and 557 districts and 5,383 postal codes. Our 84% outlets are present in deep rural Tier 4 to 6 locations. This kind of presence makes us the partner of choice for any new business partners who wish to make their products services available in rural India. We have a clear focus on market expansion and to extend our first mover advantage we are planning to cover entire 764 districts which is 100% of district coverage across the country through appointing district level Master Franchisee. We have successfully appointed Master Franchisee in 292 districts across 28 states across the country. These Master Franchisee would provide on-ground operational support to our existing franchisee as well as [Inaudible 02:48]

new franchisee acquisition. This would lead to help us scale at a faster pace and expand on a Pan India basis.

We believe this Master Franchise university is a game changer and strengthen our local field presence and operational control at a ground level. We plan to achieve 100% district coverage by the end of this financial year. These new institutes would help us scale at a much faster pace and thereby achieving our long-term targets well ahead of targeted timelines. With the development of a digital economy India is fastly moving towards digital payments mechanism and emerging as a cashless society with the fast pace of digital payment penetration, cash transactions such as ATM and banking cash transactions are expected to witness slowdown.

Therefore, there would be profitability and viability challenge for standalone business model such as only White label ATMs, only banking AePS provider only money transfer providers which are dependent on cash transactions. Vakrangee is future ready with a clear focus on building long term, sustainable and profitable business model which focus on non-cash based banking offerings such as account opening, loan products, insurance services, fixed deposit and NPA recovery. Further, we have no dependency on single line of products or services and have a wide portfolio of products and services such as online shopping, total healthcare services, bill payments, online cable services mobile recharge, CIBIL score services, Pan Card services, online opening of Demat and trading account opening services and many more.

Further we have a strong footfall and brand presence in rural India and our customer trust us with the day-to-day banking needs. During Quarter 1 Financial year 2024, we opened 4,00,000 new bank account 2,00,000 plus insurance schemes plus pension policy and did more than 2 crore banking transaction with a gross transaction value of Rs. 11,734 crore. There is a huge under penetrated rural market with a huge retail and MSME customer base. Further, there is a lack of trust within the central rural customer base. Therefore, physical presence and assistance is the key differentiator.

Going forward, we are well structured to transition into a neo bank as we plan to launch near banking services through our BharatEasy Mobile Super app platform. Through this, we are focused to evolve into a unique or to online to offline platform whereby there would be assistance available through the physical Kendra network along with digital Neo banking services. Further we have strong existing retail customer base in rural India and we are focused on affordable pricing and unique online to offline consumer experience.

Commenting on the quarterly results, our total income stood at Rs. 55.9 crore in Quarter 1 23-24 increased by 14.7% on a year-on-year basis. Our EBITDA is 6.9 crore increased by 55.9% on a year-on-year basis and our PAT stood up at 0.49 crore in Quarter 1 and 23-24 increased by 716.7% on year-on-year basis. Our profitability has started just improving on year-on-year basis as well as there has been improvement in operating margin whereby our EBITDA margins have improved to 12.5% for the current quarter. Our growth in margins and profitability shall

continue as a scale up our network and operating leverage hits in Quarter 1 23-24 our gross transition value closed 14,920.7 crores, total of transition cost 3.3 crores. We have appointed exclusive district level Master Franchisee partners in 292 districts across 28 states across the country. These Master Franchisee shall provide on ground operational support to the existing franchise outlets as well as drive new franchisee acquisition. We plan to achieve 100% district coverage Pan India presence by 2024.

Vakrangee Digital Ventures Limited is 100% subsidiary company of Vakrangee Limited. The company has launched a mobile super app-based business platform primarily targeting rural India. BharatEasy app India is Super app. We have made live and activated some of the key services like online shopping, online, agriculture products, total healthcare services, online demat account opening, CIBIL credit score rating services as well as online Pan card activation services. A unique differentiator and sustainable competitiveness advantage whereby our digital super app platform would be able to leverage the Vakrangee on ground ecosystem, a vast well diversified Pan India level physical store network of a Vakrangee as a point of physical assistance especially to consumer, to semi urban and rural remote location.

Vakrangee Digital Venture should leverage the Vakrangee ecosystem, strong brand recall, Vakrangee Kendra enjoys good positive NPAs among our users. Our NPAs score is 68% as per RedC Research. Access to existing Vakrangee customer base, access to existing network of 21,000 plus outlet for physical assistance and consumer awareness. This unique proposition of digital along with physical would help the digital channel to scale up fast and would significantly reduce the cost relating to acquiring customers, physical assistance, order fulfilling and retail management of online orders.

Further leveraging physical presence would result into better customer interaction, strong brand recall and better service experience and trust for the customer. We have recently launched our strategy for vision 2030. By 2030, we plan to have 100% Pan India coverage through our physical Vakrangee Kendra outlet network along with BharatEasy digital mobile app. Our target is to reach 3,00,000 plus outlet along with minimum 15,000 plus ATMs. We are currently building a Pan India district level Master Franchisee network which will result in a strong on ground operational management as well as higher stability in future. We plan to achieve 100% district level Master Franchisee coverage by March 24.

With this, our plan is to achieve a revenue target of US \$1 billion by 2030 along with the gross transaction value of more than \$150 billion US. Our company also has been globally ranked number one in the Sustainalytics, ESG risk ranking assessed in the software and service industry segment. Overall, Vakrangee has been recognized by Sustainalytics as an ESG global 50 top rated company Vakrangee Limited has been identified as a top ESG performance out of more than 4000 comprehensive companies that Sustainalytics cover in a global universe. Vakrangee has been recognized by S&P Global and has a score of 78 ESG score S&P global score in the Corporate Sustainability Assessment Survey.

Vakrangee has been accepted as a signatory of United Nations Global Compact and we have mapped our sustainability in the city with the United Nations Sustainable Development Goals. Further, we have appointed Grant Thornton as our Assurance Auditor for our assurance of our integrated annual report. Global recognition reflects companies commitment to further enhance its corporate governance and transparency standards. Company has achieved global recognition across various platforms for its superior ESG performance and long term business sustainability.

Now with our vision 2030, we have a clear road map towards growth expansion and profitability. We are focused on expanding our network to 3,00,000 plus outlet thereby achieving US \$1 billion of revenue and US 150 billion of gross transaction value. I would now like to take this opportunity to thank our shareholders for their support. We can now open the floor for question-and-answer session. Thank you very much.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Thank you. We will take the first question from the line of Mr. Jitesh Kumar, individual Investor. Please go ahead sir.

Jitesh Kumar: I have seen that the company has released the vision 2030, can you please throw some light on the same and as per current number how you plan to achieve the revenue of \$1 billion and the target of 300,000 number of outlets, can you please explain the growth plan of the company?

Ammeet Sabarwal: So, basically, if you see, we have officially released our vision 2030 as a detailed document in place which is also available on our website, but I would like to take you through this. So, if you see basically what we are saying is that our first target is to have a complete presence through our Master Franchisee network. So, we intend to cover an entire 764 districts in this financial year itself. So, before March 24, we wish to have a exclusive district level Master Franchisee partner in place. So, already we have completed 292 districts so which is almost you can say 40% of the country has been covered through this, but we intend to have the complete 100% district coverage in this financial year and then what we are saying is currently we are having a network of outlets which is around 21,000 active transacting outside we wish to take this to around 300,000 outlets. Now this 300,000 outlet is again derived scientifically basically where we are saying that every gram Panchayat can have one Vakrangee Kendra outlet providing these multiple lines of products and services and every urban world basically. So, in the urban world also wherever there is a lot of urbanization done we have removed those. So, wherever which are semi urban in nature or rural in nature or there is a kind of lot of slum area population in there. Accordingly, there is 50,000 wards which are eligible where we can have a Vakrangee Kendra outlet. So, overall, the target is around 300,000 stores where we are planning to have this and this will be easily achievable once we have this franchise network in place because at 764 exclusive district level Master Franchisee partner then every district level Master

Franchisee is given a target and where they are looking at their own particular district and their interests are completely aligned with our interest because they get a percentage of the fee from the franchising income. So, their interests are completely aligned whereby they ensure that operationally all the existing franchisees are given the proper service and support at the same time they are interests are completely aligned and setting up the new franchisees because they get a commission fee for each of these activities so that is where this comes into play.

On the ATM side, we are targeting a minimum of 15,000 ATMs because we feel that not every area would be eligible for an ATM. But on a very conservative side, we are seeing out of these 300,000 stores, at least 15,000 will be having an ATM in place and if you see from a broader perspective if we are able to set up these 300,000 stores and we have also given the mature store outlet economics where we are seeing on the maturity basis, if my outlet is able to do with all services in place is able to do around Rs. 40,000 to Rs. 50,000, which is again from a fairly conservative side then again we are able to achieve the numbers which we are seeing. So, around \$1 billion of revenue with a stable margin profile of around 15% to 16% kind of EBITDA margin and around 8% to 10% kind of PAT level margin. So, that is where we are targeting through our vision 2030 documents. And also, if you see the overall GTV gross transaction value at the current run rate which we are doing. We will easily be able to reach around \$150 billion of throughput. So, that is that is again something which is very much in place from our existing number. So, it is not something which is very ambitious, it is something which is achievable as we achieve the year wise execution target. So, again in this vision 2030 document what we have done is we have also given year wise target. So, our year-wise targets are available in terms of our number of Master Franchisees, number of ATMs and number of active transacting outlets. So, if you are able to track us on these numbers then the financials are the outcome of these operational numbers. So, we are we are very confident right now with the kind of response that we are getting in terms of from Master Franchisee as well as at the ground level from our franchise network. We are fairly confident that we are on strong footing right now. We have done a lot of hard work in the last four to five years where we have transformed the business to an exclusive branded format. So, post COVID we have transformed to a Master Franchisee network where the Master Franchisee is a local level entrepreneur at a district level who is able to do provide local support as well as do local level marketing in addition to our centralized level marketing. So, I think so we are now in the right framework where we are able to achieve these numbers and I would request you all to also go through the vision 2030 document where we have given a fairly detailed information and the layout of our strategy going forward. Thank you.

Moderator:

Thank you, Sir. We take the next question from the line of Ms. Ankita Sharma an Individual Investor. Please go ahead.

Ankita Sharma:

My question is that you have started the concept of Master Franchisees and you have appointed Master franchise in more than 290 districts. How do you see that these Master

Franchise are helping in day-to-day business and how it is helping and increasing the revenue as well as profitability, also the operating margin are seen improving, but where do you see long-term operating and profit margins stable? Can you please elaborate?

Ammeet Sabarwal:

So, I will just give you a little bit brief on the Master Franchisee. So, typically a Master Franchisee is an exclusive business partner to us at the district level location. So, for every one district there is one Master Franchisee whom we select. This Master Franchisee is typically with the background or with the profile of where he has been running a business similar to a distribution business, so he might be a distributor of a telecom or a money transfer or insurance or any of these kind of services. So, he already has an experience of running a network as well as managing operations.

Second thing, what we do is whenever we select the Master Franchisee, the Master Franchisee has to set up a team in place. So, the minimum requirement is for smaller district it is 1 plus 2 that is apart from Master Franchisee at least two more employees and in a bigger district it is minimum 1 plus 5 then again based on the density of that particular district we increase the size. And what we do is provide them a complete induction and training from centralized level as well as at the state level. So, we also have the state heads and the state team in place and also at the centralized level we all our business teams as well as the training teams are in place where we make them undergo a complete training across all our services and so that the Master Franchisee is well equipped in order to resolve the day-to-day operational issues. At the same time he is well equipped in terms of managing the relationships at the local bank level or at the local partnership level.

Second thing, we also hand hold them in terms of the marketing strategies in setting up the new franchise outlets basically because their targets are too prone. One is basically they have to expand the existing network so they have to set up new franchisee stores. And the second thing is to support the existing stores or to support the existing operations. So, at the operational level what is happening is my existing franchisees are now getting a better service because they are already getting a service from the centralized operation. But at the same time, they have a local district level person in place whom they can connect, and if there is any physical visit required, if there is any physical handholding required or any local level knowledge required then the Master Franchisee person and his team is already in place.

So, what we are experiencing is through this it's an asset like model for us because it's a variable cost model. The Master Franchisee is earning a percentage of commission from the franchisee income. So, the interests are aligned for everyone. Franchisees is able to get a better service because Master Franchisee his interest is in that the franchise is running properly and earning better because he is going to get a commissions that the franchise earn. So, he is there to support the franchisee. We are also getting benefited because there is no fixed cost model to us. So, there is no local field level huge cost to us. Earlier we used to have a field level team and there was the monitoring was a very difficult phase specifically during COVID. Now because of

this Master Franchisee network in place it is a variable cost model to us because as the franchisees will earn better, the Master Franchisee will earn a particular income on the incremental business that they generate from the existing stores and even for the new setup of outlet they get a Commission. So, in that manner it's a asset light model for us which help us better scalability. The second thing, a better knowledge base and better operational support is there as there is a local level team in place. So, many a times all this for the banking BC business many times you need to physically go and visit the zonal offices, regional offices in order to take the feedback on the BC Code. So, that is where the Master Franchisee is available at the district level location and he can go and do the licensing from our behalf.

And third thing is basically since now both these things work in tandem the operating leverage kicks in because without any additional major expenses I'm able to leverage this master franchise network and expand my franchise network and also improve the financials of my existing stores. So, if you see therefore you are seeing the betterment in terms of my operating margin. So, my operating margins, which were ranging between 7% to 10% over the last three-to-four quarters, now we are seeing that improvement and we have reached around 12.5% kind of operating margins in place. So, as we scale more and more the sustainable margins which we have also shared in our vision 2030 document is that's in the range of around 15% to 16% because 15% to 16% is where we feel that our EBITDA margins can remain stable and in absolute amount we are going to see a significant growth going forward as we scale the network and as we get all these 100% district covered under the Master Franchise network. I hope this answers the query.

Moderator: Thank you. We take the next question from the line of Mr. Jay Tripathi. Please go ahead, Sir.

Jay Tripathi: So, my question is why the number of outlets and ATM are not increasing and it is stable. You are appointing Master Franchises and it is their responsibilities for new acquisition. So, can you please explain the same? Also, how you are planning to achieve the year-wise target of outlets, how do we see the growth in terms of the new outlet expansion plan?

Ammeet Sabarwal: So, if you see basically as I said our first focus over the last six months has been on building this Master Franchisee network because we feel that the next lag of growth has to be led by the Master Franchise network because once we have the Master Franchise network in place then the scalability can be at a multiple facets rather than going in a linear fashion. So, we felt to achieve the growth target which we are targeting, we need to have a local level presence in place and that is where the master franchisee focus came in. And if you see in the last six months lot of energy has gone into lot of bandwidth has gone into setting up this Master Franchisee network and we have already achieved by setting up 292 districts where we have got the Master Franchise office in place now and in this financial year itself we will be finishing the entire country which is 764 districts where we will have a Master Franchisee in place.

Now in the secondly if you see in terms of the number of outlets, again one more thing what has happened is we have also the disclosures that we have done is much more transparent in the sense that we are now sharing the active transacting outlet. So, we have changed the definition a little bit. So, all the outlets which are completely operational fully operational and are active we are disclosing that number. So, the 21,003 number that you are seeing is basically the active transacting stores which are transacting during the year and second thing is they basically if you see as the Master Franchisee is come into place and they are given the operational target, the number of outlets will increase substantially over the next 18 to 24 months because what is happening is for the current year also if you see even in our vision 2030 document. Our target number of outlet is 27,000. So, it is not something which we are going to double our network from 21,000 to say 30,000, 40,000 it is to 27,000, which is where by design or by strategy what we are doing is we are focusing on building the Master Franchisee network first. So, this year target is to have 764 Master Franchisees in place.

Second is to focus on their induction, their training to make that cycle very smooth and then they are given the target because just imagine 764 district where Master Franchisees are there if they are given a target of even just setting 10 outlet per quarter and it is more than 7,000 outlets per quarter, so that is automatically it reaches 28,000 outlets in a year. So, that is how the model becomes scalable. So, our focus is right now to set up the Master Franchisee framework, get all the Master Franchisees on board, complete their hand holding training induction properly and then we start to be monetizing it and that is where the big numbers will start following up in terms of number of outlets and number of ATMs.

For the current year, we have already rolled out our strategy. Our target is 27,000 stores and around (+7000) ATMs which is on track and which you will see every quarter-on-quarter we will be sharing the update on the same and that is that is where we stand today. Thank you.

Moderator: Thank you. We take the last question from the line of Mr. Rajeev Kulkarni, an individual investor. Please go ahead, Sir.

Rajeev Kulkarni: My question is now the digital payment is increasing day by day and how it is impacting our business, do we see any decrease in the term of number of transition also post demerger we see any new line of services to be added in the business as e-Governance business has been transferred to another entity? Is there any new partnership or services and pipeline, can you please explain?

Ammeet Sabarwal: So, as we also highlighted in our introduction speech also that yes India is moving towards the cashless society and lot of digital transactions, market share of the UPI and everything what we are reading today is a reality where the number of digital transactions are increasing. And that is where it challenges the standalone business model. So, a standalone, it's the white label ATM operator or a standalone say DMT money transfer agent or a standalone BC, AePS enabled agent who is just doing cash deposit withdraw transaction then it's a threat to all those

standalone businesses, but what makes us unique or what just makes Vakrangee stand out is that we are having a multiple line of products and services which is a mix of cash and non-cash transactions. So, that is where we are actually able to leverage this digital payment also and we are able to monetize it across other services. So, we are offering the e-commerce services which is online shopping, online travel services at the same time we are offering services like account opening, FD, RD and the insurance Services, NPA recovery is also another service specifically for the PSU Bank what we are doing.

So, we are also increasing our focus toward non cash transactions and asking our franchisee to focus on these new products and new services because on a longer-term perspective definitely there is going to be reduction in the number of cash transaction, but at the same time, the consumption is increasing and that is where the non-cash transaction comes into play and that is where our focus is also. So, even in terms of new products and new services, we are talking to lot of OEM's where we are able to tie-up directly with the mobile manufacturing companies, brands where we are able to launch their product directly onto our Vakrangee E-Mart portal which is our own proprietary e-commerce portal. At the same time what we are also contemplating is how to leverage this ONDC network where we are also planning to have a buyer app as well as the seller app targeting vice versa of selling of products and services. So, that is where again our technology team and strategy team is working on and I think so over the next couple of quarters you will see some developments coming in on the ONDC side also because we feel that as a growth opportunity from a Vakrangee perspective.

So, yes definitely as I told you even our focus is moving towards non-cash transactions. We are definitely increasing our focus towards the non-cash transactions. We are already having a good amount of funnel in terms of new products and services in place as well as we are looking how to leverage this ONDC and have our own buyer and seller app to leverage this opportunity. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Ammeet Sabarwal from Vakrangee Limited for closing comments. Thank you and over to you, sir.

Ammeet Sabarwal: Thank you everyone for taking time out and attending our first quarter FY24 concall in case of any further queries or any doubt, please feel free to reach out to us, my e-mail ID is Ammeets@vakrangee.in and also our vision document as well as our corporate presentation is available on the website. So, anyone who would like to have to look at it can please download from our website. Thank you.

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