

**Vakrangee Ltd**  
 November 08, 2017

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	196.00 (reduced from 400.00)	<b>CARE A; Stable</b> [Single A; Outlook stable]	<b>Revised from CARE BBB</b> [Triple B]
Short-term Bank Facilities	10.00 (reduced from 100.90)	<b>CARE A1</b> [A One]	<b>Revised from CARE A3+</b> [A Three plus]
<b>Total Facilities</b>	<b>206.00</b> <b>(Rs. Two hundred and six crore only)</b>		

**Detailed Rationale & Key Rating Drivers****Rating Rationale**

The revision in the ratings assigned to the bank facilities of Vakrangee Limited (Vakrangee) factor in the strong financial profile marked by a comfortable capital structure, healthy debt coverage indicators backed by steady cash accruals and strong liquidity position of the company. The ratings also take into account experienced promoter supported by strong management team and the company's established track record of executing large orders of e-governance projects coupled with increasing diversification towards e-retail business.

However, the rating strengths are constrained by the company's dependence on government projects, growing stage of e-retail business with dependency on franchisee model, and long working capital cycle.

Going forward, company's ability to increase its scale of operation by adding new outlets at rural and urban level while sustaining its profitability levels, and adding up new business partners /services along with improvement in its working capital cycle are the key rating sensitivities.

**Outlook: Stable****Detailed description of the key rating drivers****Key Rating Strengths*****Experienced promoter supported by strong management team***

Vakrangee is promoted by Mr. Dinesh Nandwana, who has been associated with the company from last 27 years. Mr. Nandwana is the MD and CEO of the company and has vast experience in field of finance and technology. He is supported by strong management team consisting of Mr. Sumit Jain, Mr. Rahul Dev Pal, Mr. Nitin Sharma, Rajeev Ranjan, and Dr. Nishikant Hayatnagarkar. The senior management team has long experience in the field of operations, banking, complex project execution and technology.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## Shifting focus from legacy e-governance business to VakrangeeKendra business to drive revenue growth

The company is increasing its focus towards e-retail distribution platform through Vakrangee Kendra where the consumers can avail BSFI, ATM, e-governance, e-commerce, Logistics service from a single store/Kendra. Under the Vakrangee Kendra, each of the Kendra would act as platform for providing product & services to the customers. Some of the services which are provided at Vakrangee Kendra include:

- **E-governance services:** At present the Kendra offers UID enrolment, updation & smart card services of UID, CSC, IRCTC ticket booking, among many others services. Going forward the company plans to add new e-governance projects which can be delivered only from Vakrangee Kendra outlets
- **Banking Services:**
  - **Banking:** The Company has tie-up with 31 banks and the Kendra's act as banking correspondent of the banks and customers can do financial transactions including opening new accounts, direct benefit transfer, pension transaction, cash deposits and withdrawals from the Kendra counter
  - **White Label ATMs:** Vakrangee has been permitted to set up 15,000 white label ATMs. RBI has permitted non-bank entities to set up, own and operate ATMs in India. They will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks
- **Insurance:** The company has tie-ups with top most life, general and health insurance companies in India like LIC, Bajaj Allianz, HDFC life and Ergo, Reliance General, TATA AIG, Religare, Aditya Birla, Signa TTK to offers their policies through their kendras
- **E Commerce:** The Company has entered into the agreement with Amazon on exclusive basis in India for product sales and last mile delivery. It has also tied up with Mahindra and Mahindra e-market Ltd for booking automobile products, with Red bus for bus ticketing services, and Augmont Enterprises for their jewellery sale. The company also provides mobile and DTH recharge services through these kendras
- **Logistics:** The company has alliances with FedEx, Aramex, First Flight & Delhivery for courier booking
- Recently the Company has started VISA services through Vasco worldwide and has tie-up with DMI Finance for lead generation for loan products

All these services are fee based income to the company as for all the transactions or purchases, either the company/bankers/customers have to pay service charges. As these Kendra's are operated under the Franchisee model for which the revenue sharing model is 80:20 and it varies depending on location and milestones. The model results in substantial free cash flows for the company with an asset light model resulting in strong liquidity.

***Strong revenue growth with healthy operating margins***

The total operating income of the company has grown at 25% in FY17 as compared to FY16 to Rs.4003 crore, mainly due to increase in contribution from the Vakrangee Kendras (VKs), whose contribution has increased from 49% to 64% in FY17, due to addition of new outlets and increasing number of services to the current portfolio. The significant growth in contribution from Vakrangee Kendra business has impacted the operating profit margin which stood at 23.60% in FY17 as against 25.82% in FY16 generally the margin associated to Vakrangee Kendra segment is lower than the E-governance segmental margin. However, the overall margins continue to remain healthy.

***Comfortable capital structure***

Overall gearing has improved to 0.07x as on March 31, 2017 from 0.21x as on March 31, 2016 due to reduction in the total debt and improvement in the operating profitability. The company's debt profile comprises primarily of bank borrowings. In FY17, company had average utilization of 66% out of total sanctioned limit of Rs. 400 crore, while as on 1<sup>st</sup> June 2017, the company had zero debt outstanding with no utilization of any sanctioned limit. The interest coverage ratio has increased to 18.86x in FY17 from 14.74x in FY16, backed by the improvement in the operating profits and reduction in overall financial cost as a result of lower total debt.

***Improvement in the liquidity position in FY17***

Historically the working capital cycle was stretched for the company as a result of its exposure to e-governance projects of the government. The receivable days of the company were stretched and varied between 100-120 days. With the change in business model, the debtor days have reduced to 76 days from 117 days, which has contributed to the improvement in the liquidity position of the company. Furthermore, the company holds cash and cash equivalent Rs. 584 crore while the total debt stood at Rs. 144.02 crore as on 31<sup>st</sup> March 2017 as against cash and equivalent of Rs. 140.58 crore and total debt Rs. 320 crore as on 31<sup>st</sup> March, 2016. The company has repaid all its short term debt on May 30, 2017. In FY17 the company has repaid its entire long term bank debt resulting in strengthening of its liquidity position as well as capital structure.

***Key Rating weaknesses******Increased focus on e-retail business resulting in higher dependency on franchisee model***

The company is expanding the e-retail distribution platform based on franchisee model. Vakrangee ventured into this segment in FY13 and has expanded its presence through more than 35, 000 outlets as on March 31, 2017. However, sustained performance of these Kendras over longer period of time is yet to be established. The other key challenges of operating through franchise model include retention of franchisees, maintaining quality of services with increasing scale of operations and maintaining brand reputation. With the increasing focus on the Vakrangee Kendra model, the risks pertaining to the franchise model would get accentuated.

### **Continued Legacy e- government projects with limited revenue visibility**

Although, the company is diversifying towards e-retail distribution platform based business, e-governance project of the government continues to contribute 36% of the total revenues in FY17.

As these projects involve tender based and competitive bidding led by project based approach, the revenue visibility in this segment is limited. Moreover, the company is also tapering off its legacy e-Governance business. Moreover, the Company is going to bid only those e-Governance projects which can be delivered from Vakrangee Kendra outlets.

### **Analytical approach:Consolidated**

#### **Applicable Criteria**

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology: FactoringLinkagesinRatings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

#### **About the Company**

Incorporated in 1990, Vakrangeeprovides real-time banking, insurance, e-governance, e-commerce and logistics services across rural, semi-urban and urban markets. These retail outlets are called as Vakrangee Kendra which act as the single point for providing various services and products. Vakrangee is currently operating more than 37,600 Vakrangee Kendra outlets across India. The company has plans to setup and manage a total of 75,000 Vakrangee Kendra outlets across India by 2020. Vakrangee has signed "Common BC" and "National BC" agreements with various banks for offering real-time banking. The Kendras provide new age technology driven banking services like APS, e-KYC, inter-operability and real-time transactions.

In addition to banking,Vakrangee Kendra outlets also provide insurance products, e-governance services and e-commerce products. The company also offers assisted e-commerce services offering a common platform for buying/collecting/delivering large variety of products and services through its outlets and has tied up with multiple corporates for the same.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income	3194.86	4002.5
PBILD	824.87	944.49
PAT	394.48	530.63
Overall gearing (times)	0.2	0.07
Interest coverage (times)	14.65	18.86

A: Audited

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**Rating History for last three years: Please refer Annexure-2**

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund base – CC limit				196.00	CARE A/Stable [Single A; outlook stable]
Non-Fund base – BG/LC limit				10.00	CARE A1 [A One]

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	400.00	CARE BBB	-	1)CARE BBB (10-Nov-16)	1)CARE BBB (14-Sep-15)	-
2.	Non-fund-based - ST-BG/LC	ST	110.90	CARE A3+	-	1)CARE A3+ (10-Nov-16)	1)CARE A3+ (14-Sep-15)	-

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