



Company Name	: Alankit Ltd.
BSE Code	: 531082
Time Duration	: 2 year
CMP	: ₹32.15 (as on 05 October, 2017)
Target Price	: ₹51

Our Upstream Pick for the month of October is Alankit Ltd. The company, a part of the Alankit Group, is in the business of e-governance and e-governance products. It provides services like UID, enrolment, PVC Aadhaar card, scanning and digitisation of medical reports, smart card data management services, national insurance repository, online pharmacy, business correspondent and distribution agency. Alankit Group is a conglomerate of 10 group companies with diversified activities in e-governance, financial services, insurance and healthcare verticals.

We see this company as our Upstream Pick as the company has shown a major turnaround in its revenue and profitability since FY16. The government has increased many compliances and it is making it mandatory for the citizens and enterprises to abide by them and Alankit is one such company which is a mediator in providing such services to the people. It has already acquired 40% market share in direct tax compliance and is progressing towards indirect tax compliance market.

As of June 2017, the promoters' stake in the company was 24.34%. Post acquisition of some equity shares from the public, the promoters' stake has risen to 37.78%. With this, promoters have triggered the open offer to acquire further 26% stake in the company. This has created confidence among investors about the company as the total promoters' stake would be above 60% after this open offer is exercised.

## Foray into profitable segment - GST Suvidha Provider (GSPs)

Out of 34 entities which offer value added services to GST taxpayers, Alankit is one of the companies among GSPs. It is roping in multiple ASPs, who are developing their IT systems to cater to the needs of various business segments such as small & medium enterprises (SMEs), large corporates, traders etc. Due to government's thrust on digital payments, ceiling on cash payments and receipts and cap on cash expenditure to be incurred for claiming under Income Tax and implementation of GST, all the unorganised businesses will come under formal structure. The present number of registered dealers are approximately 80 lakh, which are expected to grow in due course. We believe this would benefit the GSPs and widen the scope for this company.

## Revenue-driven segment - Aadhaar and PVC Aadhaar card

Aadhaar, the unique identification number issued by Unique Identification Authority of India (UIDAI) is linked to the demographic and biometric information of individuals, which acts as a universal proof of identity, allowing residents to establish their credentials anywhere in India. Alankit's three group companies are empanelled agencies with UIDAI for enrolling Indian citizens in the states and Union Territories. Alankit has enrolled more than two crore citizens under the scheme. At present, 114 crore people in India have received Aadhaar and yet we see scope in the business as the population in India increases by 1.5-2 crore every year. The company had conducted more than 1250 camps in FY17 and plans to conduct ~3000 camps to enrol more citizens under the scheme. In FY18, the company is planning to establish 700 PECs/AKS targeting 25 lakh enrolments, including 18.50 lakh fresh enrolments and 6.5 lakh updations, i.e. 50% increase from previous year.

The PVC or plastic Aadhaar card is a printed form of Aadhaar details on a plastic sheet which is strong, durable and can remain intact over a long period of time. It is machine readable and bar code friendly. Over 114 crore Aadhaar have been issued till date, of which less than 1% have been converted into PVC card form. In FY16, Alankit had printed 4 lakh cards which increased by 150% to 10 lakh cards in FY17. Over 2076 outdoor camps were conducted for this and for FY18 the management is planning to conduct 5000 such camps. We see company has a huge scope and will serve maximum citizens in this process.

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## Other growing segments

Alankit has been appointed as a distribution agency for EESL (under UJALA programme) to distribute fans, tubelights and LED bulbs. In FY17, it had expanded to 8 states and in FY18 it will expand to more than 20 states. Till now, it has distributed 2.4 lakh fans across India, which is about 39.3% of the total fans distributed. The demand for PAN registration is increasing as the government has made it mandatory to quote PAN in financial transactions above a certain limit. Alankit has registered growth of 125% in FY17 by accepting 1.15 crore PAN applications as against 51 lakh in FY16. This segment will also provide huge scope to the company in generating revenue.

The company has set a target to generate additional Rs 15-20 crore of revenue in the next two years by diversifying into other segments like BPO, call centres, banking and energy sector.

## Financial Performance

A turnaround in the performance was seen since FY16. Revenue, which was in range of Rs 1-10 crore in years before FY16, reached the level of Rs 30.27 crore in FY16 and Rs 86.65 crore in FY17. Thus, in FY17, revenue grew by 186.3% YoY. Till FY13, the company was incurring operating losses and started generating profits in FY14. Its EBITDA margin improved from 11.45% in FY14 to 25.26% in FY17. The net profit in FY16 and FY17 was Rs 3.53 crore and Rs 13.26 crore, respectively. Net profit margin in FY17 stood at 15.3%.

Receivable days in FY14 were 74.3 days, which improved tremendously to 39.2 days in FY17. Payable days also came down to 19.8 days in FY17 from 45.09 days in FY14. This shows that the company is managing its working capital cycle quite well. The company's debt-equity ratio stood at 0.11x and interest coverage ratio at 127.67x in FY17.

## Valuation

The company's stock is trading at TTM P/E of 27.92x with TTM EPS of Rs 1.11. It has delivered ROE and ROCE of 32.89% and 47.75%, respectively, for FY17. Its ROA has also been at 20.64% in FY17. We expect these returns to improve going forward as the profitability increases. All these e-governance services provided by the company have a good scope going forward and the nature of such services is continuous and never-ending. We see that with diversification into various segments across different segments, company has a good growth potential. We expect an upside of 59% from the current level with a target price of Rs 51 over a period of two years.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	84.95	29.14	3.77	1.66	11.86
Total Income	86.65	30.27	3.98	1.66	12.22
Total Expenditure	64.76	21.75	2.89	1.47	13.10
PBIDT	21.90	8.51	1.09	0.20	-0.88
PAT	13.26	3.53	0.37	0.14	0.50
Dividend %	20.00	20.00	10.00		
Adj. EPS(Rs)	0.93	0.25	0.03	0.01	0.05

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	28.02	34.35	-18.44	13.13	113.32
Total Expenditure	21.49	25.73	-16.51	10.29	108.77
PBIDT (Excl OI)	6.53	8.62	-24.21	2.84	129.79
PAT	4.54	6.11	-25.78	1.89	139.67
PBIDTM% (Excl OI)	23.32	25.09	-7.05	21.65	7.71
PBIDTM%	26.22	30.04	-12.72	21.66	21.05
PATM%	16.19	17.79	-8.99	14.41	12.35
Adj. EPS(Rs)	0.32	0.43	-25.58	0.13	146.15

