

Dated: 25th February, 2020

The General Manager
Department of Corporate Services
BSE Limited
Phiroze Jee jeebhoy Towers
Dalal street,
Mumbai-01

Dear Sir/Madam

Sub: Transcript of the Q3 FY2019-20 Results Conference call held on 5th February,2020-Reg.

Ref: Our letter dated 1st February, 2020 regarding intimation of Earnings call under Regulation 30 of SEBI (LODR) Regulations, 2015.

Please find attached herewith the transcript of Virinchi Limited Q3 FY2019-20 Results Conference Call held on 5th February,2020. The same is going to be displayed at our company's website www.virinchi.com

This is for your information and records.

Thanking You

Yours Truly

FOR VIRINCHI LIMITED



K. RAVINDRANATH TAGORE
COMPANY SECRETARY



“Virinchi Limited Q3 & 9M FY2020 Results Earnings Conference Call”

February 05, 2020



**MANAGEMENT: MR. VISHAL RANJAN – GROUP HEAD - NEW BUSINESS,
VIRINCHI LIMITED
MR. M.V. SRINIVASA RAO – EXECUTIVE DIRECTOR,
VIRINCHI LIMITED**



*Virinchi Limited
February 05, 2020*

Moderator: Ladies and gentlemen, good day. And welcome to Virinchi Limited Q3 & 9M FY2020 Results Earnings Conference Call. 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 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. Vishal Ranjan – Group Head, New Business, Virinchi Limited. Thank you and over to you, sir.

Vishal Ranjan: Hello, friends. Thanks a lot for joining us for our quarterly investor call. While we would spend a reasonable amount of time detailing and analyzing each of the businesses and the performances, I would probably take a moment to set a context to what we have been doing since we spoke last.

Obviously, the entire Virinchi team has worked hard to strengthen the fundamentals, build sustainable revenue momentum in each of the businesses, improve upon our margins across each vertical. In addition, we have taken some very specific initiatives to complete the business restructuring underway for some time. Just to give a bit of context, we know that Virinchi has grown fairly rapidly in the last four or five years on the back of IT products doing very well, the case of business having its own run at the beginning, that helps in diversification, etc.

What we have also tried to do in the period since we haven't spoken is to ensure that all of these businesses stand on their own. I think we have had multiple conversations which were to restructuring the businesses so that we can compare each business with a comparable company in the industry.

IT Products IT ServicesSo, in general, the IT product IT Products business has seen a much stronger pipeline as well as a very high upsell going to the existing clients. You will see that margins and revenues reflect that. The IT Services business has stabilized, we have seen some quarter-on-quarter revenue decline last few quarters, mostly because of the change in the visa regime and we are looking to move the businesses from US to India. And happy to report that we have completed this transition, and the kind of quarterly revenues and margins that we are seeing here are sustained, and looks to be on a steady state. I think we are pretty much on the track and IT Services is not something which should create any further decline at the stage.

More interestingly, the Healthcare business, has seen rapid growth, where not only revenue growth, profitability, etc. are looked at, but the specific financial independence that we are chasing. The intent being that not only EBITDA and EBIT being positive but, should be able to service the interest obligations, but also be able to pay the principal obligations and not use the IT business cash flows.



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So this year, in fact, as we speak on a three quarter basis, at least, we are pretty much on track on those objectives. So, IT Products, IT Services & Healthcare businesses are now at a consolidation stage All of these now look much more healthier and easy to compare models. So over the next few minutes, we will be comparing each of these businesses as we go forward.

One additional piece which we will possibly cover towards the end of the call is the healthy growth that we have seen with vCard launch. We did get the product live on 2nd October last year and we now have a full quarter of product moving in. Essentially there is a very, very strong customer interest where a number of people are looking for product and we are looking forward to serve them and is a very good market to be in.

But unlike in any credit card business solution, the kind of complexity that is there, as of now we are building the business processes as well as stabilizing the product per se before we really put a lot of dollar money to acquire new customers. So the growth part is still some distance away, but at least on the product stability and predictability we are pretty much going there, we are at the correct place where we should be at this stage.

So with that as an opening part where we know all the three earlier businesses, IT Products , IT Services and Healthcare business are showing better revenue and operating matrix. We would possibly go further and dig deep into each of the businesses now. I would request Executive Director Mr. MVS Rao to take over the call and drive through the part of the conversation.

M.V. Srinivasa Rao:

Thank you, Vishal. For the quarter ended December 2019, the consolidated revenue is Rs. 96.9 crores with an EBITDA of Rs. 27.93 crores and PAT of Rs. 12.98 crores, translating to EBITDA margin of 28.82% and a net margin of 13.4%. For the nine months ended December 2019, we have consolidated revenue of Rs. 287.48 crores, EBITDA of Rs. 82.07 crores and a PAT of Rs. 35.69 crores, translating to EBITDA margin of 28.55% and net margin of 12.41%, a growth on all parameters compared to the previous quarter.

However, as we have discussed a while ago, compared to Q3 of FY 2019 and nine month FY20 figures are lower as IT product does not have the one-time license income and the IT services revenue has seen a fall due to the tough visa regime. However, we do not expect the IT services income to go down below the current level.

Speaking on the segmental number, we have revenue of Rs. 39.25 crores for IT product segment with an EBIT of Rs. 9.43 crores for Q3 FY20. For the nine months ended December 2020, the revenues stood at Rs. 117.18 crores, with an EBIT of Rs. 26.53 crores. As indicated earlier, the decline in this segment is due to one-time license revenue earned during FY19 not being available in FY20. The ongoing SaaS business has grown at industry growth rates of roughly about 5% to 7% for the year and is expected to sustain the growth going forward. The

EBIT margin of 24.02% in Q3 FY20 is expected to be sustained in the near future, which is close to the EBIT margin of Q3 FY19 as well.

For IT services, we have a revenue of Rs. 14.68 crores and an EBIT of Rs. 1.96 crores for Q3 FY20. For the nine months ended FY 2020, the revenue from IT services is Rs. 43.22 crores and EBIT of Rs. 5.94 crores. The slight decline quarter-on-quarter and year-to-date as compared to last year is due to the drop in offshore revenue on account of a tough visa regime. The EBIT margin has fallen due to the higher visa processing cost and the costs of rejected visas, with the rejection ratio being upwards of 50%. Quarter-on-quarter, given uncertain visa regime wherever possible, existing clients have been transitioned to off-shore delivery model.

On the Healthcare segment front, the revenue is about Rs. 41.97 crores with an EBIT of Rs. 4.61 crores during Q3 FY20. For the nine month period ended December 2020, this segment had revenue of Rs. 123.4 crores and EBIT of Rs. 13.81 crores. The corresponding numbers for Q3 FY19 were Rs. 37.22 crores and Rs. 4.55 crores respectively. And for the nine months ended FY19, the numbers are Rs. 102.14 crores and Rs. 11.89 crores respectively, which is a growth as far as the healthcare business is concerned vis-à-vis the last year as well as quarter-on-quarter.

With the above summary of performance, I would like to close the financial analysis section and leave the floor open for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Himesh Shah, individual investor. Please go ahead.

Himesh Shah: Sir, so there is obviously an issue with the software business, the software services business, which is affecting, you can say, the valuation of the company because the healthcare business keeps on performing and it is like pretty stable right now. So, why is the company not thinking about a demerger, it will unlock tremendous value? Your shares are quoting at a PE ratio 3x to 4x.

M.V. Srinivasa Rao: Mr. Shah, we have had the discussions on this particular aspect. We were actually waiting for the Healthcare business to become stable and which has happened now. Till about last year, the EBITDA was positive but PBT was not positive. This year, that's FY 2019, the PBT was also positive. But then the cash flows were not sufficient to fully service the debt. But with the financial year 2020, we will have a situation where the profits are positive and the cash flows also will be sufficient enough to take care of the total debt obligation. That being the case, we would be then ready for any kind of restructuring..

- Himesh Shah:** Okay. And one more question. What are the expansion plans right now in the healthcare space? Are there any expansion plans in the near-term? And when do you think the software services and software product business will stabilize?
- M.V.Srinivasa Rao:** In terms of the healthcare expansion, we are looking at setting up the oncology division in future. As of now, we have still not fixed the date as to when we would start work on the oncology block. We have just done the initial ground work and designs however.
- And the second question that you had was on IT services. IT services we expect the revenues to stabilize at the current level, that's around Rs. 56 to Rs. 58 crores for the year.
- Himesh Shah:** Okay. And are we going to see growth come in the future or will it take some time for the growth to come back?
- M.V. Srinivasa Rao:** We will probably have to wait for a year, and we will definitely see an improvement in all the business segments.
- Himesh Shah:** Okay. And the stock price being at around Rs. 40 right now, Rs. 35, Rs. 40, Rs. 45, is there an intent of the promoters to buy more stake in the company?
- M.V. Srinivasa Rao:** The promoters do have an intent of buying it back and we would have actually done that even now. But for the fact that the promoters have already reached the 5% limit for the year and the new window would be open only from April 1, 2020.
- Himesh Shah:** Okay. So post April is when the promoters will most probably look to buy more?
- M.V. Srinivasa Rao:** Yes.
- Moderator:** Thank you. We have next question from the line of Anudeep, an individual investor. Please go ahead.
- Anudeep:** So, I have a couple of questions and they will be like, so I think currently we have 350 beds operational at the Hyderabad Banjara Hills facility. So, how many beds this oncology block will add? And what is the CAPEX for this new block?
- M.V. Srinivasa Rao:** Anudeep, oncology would have about 100 beds and the CAPEX required for the oncology block would be about Rs. 40 crores.
- Anudeep:** Okay. So that will make the total bed capacity to 450 at Banjara Hills facility?
- M.V. Srinivasa Rao:** Yes, that's right. In fact, just to give you some additional information, the main block in Banjara Hills is being done in a three blocks. The main block is already operational with 350 beds. And immediately behind that we have a smaller block where we wanted to accommodate

the economy patients, which is a 50 bed facility. And one more building behind that which can house about 100 beds. And then the oncology about 100 beds. So totally we will have about 600 beds in the Banjara Hills campus when it is fully completed. Right now 350 beds in the main block are operational and about a couple of months back we have also inaugurated the first section of the economy block of 50 beds. So right now we have 400 operating beds in the Banjara Hills facility.

- Anudeep:** Okay. Right now we have 400 beds operational.
- M.V. Srinivasa Rao:** Yes.
- Anudeep:** And what is the percentage of occupancy levels right now?
- M.V. Srinivasa Rao:** Right now we are around 30% utilization levels.
- Anudeep:** Okay. And the average revenue per bed per day would be?
- M.V. Srinivasa Rao:** It's around Rs. 28,000.
- Anudeep:** Okay. So just want to ask, so last time you said the healthcare segment as we have segmented into a separate segment, you said we will be looking to raise some funds from private equity players. So, is there any interest on that side?
- M.V. Srinivasa Rao:** As a precursor to that, what we have done is, last year we had the 200 beds in the books of Virinchi. Effective April 1, 2018, we have transferred those 200 beds from Virinchi into the 100% subsidiary Virinchi Healthcare Private Limited through a slump sale. Right now, all the operating beds are in Virinchi Healthcare Private Limited, that's the first step for us to consolidate, the point that Vishal has mentioned in his conversation. So we are doing some amount of restructuring in the business. And with this step, we are now ready to actually hit the market and meet the investors and present our case to them.
- Anudeep:** Okay. So, also just want to ask, so according to investor presentation, what we are targeting is 5,000 beds in five years, right? So, Hyderabad would accommodate on the total capacity of, say, 800. So what is the next step? Like, where are we targeting the next hospital? Or what is the growth plan for the healthcare?
- M.V. Srinivasa Rao:** As of now, among the locations that we have considered, Chennai is the one that we are interested in. But we still have not firmed up on the date as to when we would want to move in into another geography, as we were waiting for the flagship hospital to fully take care of itself. And now that we are going to achieve it this year, we would be ready. It's a question of whether we would want to wait for another year before we move in into another geography. But when we move in to another geography, it will, in all probability be South India, and Chennai would be one of the locations that we would be interested in. Since we are in this

business, we keep getting inquiries, both for greenfield ventures as well as for acquisition of existing units.

Anudeep: Alright. Just a last couple of questions. So what is the existing debt right now on the books? And also, a quick comment on the IT services industry, because it looks like we are losing a lot of business there because of the visa regime. So, yes, those two questions.

M.V. Srinivasa Rao: So, answering your first question. We have about Rs. 143 crores of debt at a consolidated level right now. If you look at it, we have retired close to Rs. 20 crores of debt compared to last year. And we are focused on reducing the debt as we go forward.

Anudeep: So as of September the debt was Rs. 143 crores, right?

M.V. Srinivasa Rao: Yes.

Anudeep: So, in this quarter how much did we repaid, any idea?

M.V. Srinivasa Rao: On an average we are looking at reusing roughly about Rs. 30 crores for the year.

Anudeep: Okay. Because we have already repaid Rs. 20 crores in 1H, so H2 we are not reaping any more debt?

M.V. Srinivasa Rao: No, H2 also we would be repaying some amount, but it could be of the order of another say Rs. 10 crores for the two quarters of 2020. So, totally we may end up repaying about Rs. 30 crores for the year.

Anudeep: And also, just want to add a quick point. So, right now the company is performing exceptionally well and from my point of view, as an individual investor I have full confidence in the company. But as the feedback would be, yes, some kind of restructuring would like really unlock the value of the company, because the company is valued very, very less. So, yes, that would be a quick comment, I would request anything which would do well from promoter side or the management side.

Vishal Ranjan: Thank you for your comment. Like we discussed a while ago, we are looking at restructuring the business with the objective of growing the businesses, which should consequently over a period of time help in the movement of the price upwards. So we are working on those things. So it's both at business level in terms of ensuring that each of the business that we are into does well and we are also looking at from the structuring point of view as well, trying to house the businesses in different legal entities so that there is clarity and transparency from the investors' perspective.

Moderator: Thank you. We have next question from the line of Vivek Bhargav from Wealth Bridge Capital. Please go ahead.



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- Vivek Bhargav:** I have a few questions about both the businesses, products as well as the Healthcare services. The revenues of product are lower in the current year, but that's you said partly because there was a one-time revenue last year. Now, how much was the one-time revenue last year? And net of that, what is the growth rate in the current year?
- M.V. Srinivasa Rao:** Last year the one-time revenue that we had was roughly about Rs. 28 to Rs. 29 crores, which was on account of the license sale. Net of that, we have a growth of roughly about 5% to 6% for the year.
- Vivek Bhargav:** And what should one expect going forward from this business, next two, three years, if you take a clear view, let's say?
- M.V. Srinivasa Rao:** It will be around 5% to 6%. And we would want to maintain it at 5% to 6% when we talk in general. But otherwise, the efforts are on to acquire large clients as well. If one of the deals that we are talking were to happen, then the growth could be much higher. But otherwise, presuming that we do not acquire any new client, we would continue to grow around say, 5% to 6% on an average.
- Vivek Bhargav:** How many more such clients are you able to target currently in this business?
- M.V. Srinivasa Rao:** Right now we are in serious discussions with one large client, who would be probably as big as some of our existing large clients. So, if we were to close that, that would be a large deal. But in addition to that, we are also in touch with smaller customers with say something like a 30 store to 50 store customers, even those kinds of discussions are on. We are not necessarily waiting only for the large customers. And when we say large customers, these are people with more than 200 to 300 stores.
- Vivek Bhargav:** So what portion of the market is still untapped from your perspective?
- M.V. Srinivasa Rao:** I mean, from an organized player's perspective, we have 10-15% of the market share. And that's the segment that we are competing for. But grabbing a share of the remaining is going to take a while. In the meantime we have started moving into the unorganized sector, so that is where we were talking about adding those 20 store, 30 store kind of players as well. It could be as big as the market that we already are in.
- Vivek Bhargav:** So, unorganized is 50%, is it, of the total market?
- M.V. Srinivasa Rao:** Yes, of the total market.
- Vivek Bhargav:** And what is the growth rate for the industry there?
- M.V. Srinivasa Rao:** Industry growth on an average is around 5-7%.

- Vivek Bhargav:** So, with your existing clients, you are assured of 6% growth. As and when you get new clients, that will provide you the additional kickers on the product side?
- M.V. Srinivasa Rao:** Yes.
- Vivek Bhargav:** Okay. Now on healthcare side, the growth rate and the revenue was lower in Q3, I am looking at Y-o-Y, earlier you were growing at 19% to 20%, but in this quarter it was barely 12% or so. So, any particular reason why it was lower this quarter compared to last year?
- M.V. Srinivasa Rao:** In the previous quarter we had lot of dengue cases and things like that coming in, on account of which the revenue was much higher. And for third quarter we had the regular admissions in cardiology, ortho and neuro departments.
- Vivek Bhargav:** Okay. Now, you mentioned that your occupancy rate is 30%. So, what would be the optimum occupancy rate at peak level?
- M.V. Srinivasa Rao:** At peak level, we are looking at around 60% utilization which we should be reaching in few years' time frame.
- Vivek Bhargav:** So, you are currently at 30%, and you were saying 60% in two years, which means you are talking about doubling of healthcare revenues in few years, which is not counting the oncology, which will not even be ready yet. So what is it that you would need to do to achieve this growth?
- M.V. Srinivasa Rao:** Right now we can increase the utilization levels by focusing on certain segments like the government and corporate cases. We have consciously not pushed very hard at that segment, and the other one is, we just need to bring in a few more doctors in certain of the areas like surgical gastroenterology and gastroenterology and a couple of other therapeutic areas which would push up the revenue.
- Vivek Bhargav:** Okay. What percentage of the revenues are coming from cash or insurance?
- M.V. Srinivasa Rao:** Cash plus insurance would roughly constitute about 85% to 88% of the current turnover.
- Vivek Bhargav:** Okay. And how long does it take to get the money from the insurance companies?
- M.V. Srinivasa Rao:** Insurance is between 30 to 45 days.
- Vivek Bhargav:** So receivables are fairly in control now?
- M.V. Srinivasa Rao:** Yes, they are pretty much in control now.
- Vivek Bhargav:** And what's the percentage of business from Aarogyasri, if at all there is any?

- M.V. Srinivasa Rao:** It is very minimal.
- Vivek Bhargav:** How long does it take to collect money from the government against Aarogyasri treatments?
- M.V. Srinivasa Rao:** Even today it takes about six to seven months.
- Vivek Bhargav:** So this economy block which you have added, 50 bed, what is this for? Is it for Aarogyasri patients or is it at a lower tariff or lower cost you are doing these things?
- M.V. Srinivasa Rao:** We are doing it at a lower tariff, they are not necessarily the Aarogyasri patients, since the facility is slightly different compared to the main block, we can have a differential tariff out there.
- Vivek Bhargav:** So, this also is mainly cash, is it?
- M.V. Srinivasa Rao:** Yes. Most of it is cash and insurance.
- Vivek Bhargav:** So, it's not for Aarogyasri patients, that additional block of 50 is not for Aarogyasri?
- M.V. Srinivasa Rao:** Initially when we conceived it, it was to a large extent for Aarogyasri. But right now, given the fact that Aarogyasri Trust takes a long time to clear the dues, we have kept away from that and we are looking at the regular economy patients.
- Vivek Bhargav:** Okay. What are your receivables as on 31st December, consolidated and standalone level both?
- M.V. Srinivasa Rao:**
- Vivek Bhargav:** there is a fairly large item of loans and advances, short-term loans and advances in the balance sheet as on 30th September of Rs. 44 crores. What is it for? And then what is the number now, as on 31st December?
- M.V. Srinivasa Rao:** The number right now has come down a bit by about Rs. 2 crores, we are around Rs. 42 crores. And these are general advances which have been given to suppliers and things like that.
- Moderator:** Thank you. We have next question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.
- Riddhesh Gandhi:** Just a couple of quick questions. On existing run rate of net profit of about Rs. 5 crores that we have achieved this quarter, do we see this as actually bottoming out, as in like this is as low as we expect to go or we could see some potential incremental headwinds with regards to the IT business or slowdown in healthcare or whatever maybe?



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- M.V. Srinivasa Rao:** The numbers going forward would be better than this. We are putting in efforts to ensure that we have more revenues in the IT product segment. Healthcare also we would definitely be seeing better performance compared to this quarter.
- Riddhesh Gandhi:** Got it. And so if we just look at it on the product side, so I understand the slowdown because of the visa issues is both on the product and the services side, or it's only on the services side?
- M.V. Srinivasa Rao:** It's primarily only on the services side.
- Riddhesh Gandhi:** Got it. But product side revenue has seen a slight dip compared to the last year. That you are saying is because of one-time in-licensing deals?
- M.V. Srinivasa Rao:** That's right.
- Riddhesh Gandhi:** Got it. And on the product side, are there any new logos or any of those aspects that we are expecting to hit on?
- M.V. Srinivasa Rao:** On the product side, we are in touch with one large customer, but we cannot for sure say as to when we will be in a position to close the deal. But along with the large customer, we are also in touch with the smaller customers. So that process is on. So that's the reason we were saying that the last quarter results could be a little better than this quarter, because we have been adding small clients.
- Riddhesh Gandhi:** Got it. And just to understand on the healthcare side of the things, is the plan to continue actually get a capital expenditure to build new beds or for like now to put CAPEX cycle on hold until we stabilize?
- M.V. Srinivasa Rao:** On the general bed expansion side, CAPEX is on hold for the time being. But we would want to do the oncology block as early as possible. We are just waiting for the things to stabilize and probably in about three or four months, if we are in a position to raise some money, we would want to go ahead with the oncology block.
- Riddhesh Gandhi:** So, this would only be in the event that you raise incremental capital?
- M.V. Srinivasa Rao:** That's right.
- Riddhesh Gandhi:** Got it. And so, how much do you expect the overall CAPEX to be for FY20?
- M.V. Srinivasa Rao:** For FY20 the CAPEX has been primarily on the IT product side. In the case of healthcare, when new specialists join the hospital they would make some suggestions on the new equipment to be added.

- Riddhesh Gandhi:** Got it. And if we just look at your operating free cash flow for the nine months, what would that be roughly?
- M.V. Srinivasa Rao:** The operating cash flows are of the order of about Rs. 28 crores and for the nine months ended it's about Rs. 82 crores.
- Riddhesh Gandhi:** Rs. 82 crores of operating free cash flow?
- M.V. Srinivasa Rao:** No. Not free cash flows. Just Operating margin.
- Riddhesh Gandhi:** Yes. So, just to broadly understand, if we are doing let's say about Rs. 100 crores of operating cash flow let's say in FY20, and the CAPEX is about Rs. 25 crores, we would expect to then pay down the remaining Rs. 55 crores or whatever it may be, Rs. 65 crores would be used for debt repayment or how should we be thinking about that?
- M.V. Srinivasa Rao:** So, we will be using a major portion of the cash flows for servicing principal and interest obligations on the loans. Some part of the cash flows will be used for various projects already underway be it in Health care or IT products, business expansion that we would want to do, say, for example, in September of 2019 we have launched vCard, our downloadable credit card..
- Riddhesh Gandhi:** Got it. And how much is that going to be?
- M.V. Srinivasa Rao:** Vishal, would you want to answer that?
- Vishal Ranjan:** So, as of now, I think whatever the investments that we are talking about on vCard are largely on the salaries and building on the product in some part on third party licenses. So they are not the kind of expenses that you see in a digital B2C kind of a world. So the thought process right now what we are seeing is to get the product in some shape and getting some amount of stability and scale. And possibly bring fresh outside capital to fund the growth is what we are talking about.
- Riddhesh Gandhi:** And you are primarily expensing all of this or you are kind of capitalize on a CAPEX or how do you look at that?
- Vishal Ranjan:** So there would be some capitalization for this product development that we are doing. What we will eventually be doing is, depending on the kind of growth capital we are able to mobilize we will see what kind of structure works going forward. But one thing which might be of interest to all of us is that, at no point we are looking to use these operating free cash flows to drive customer acquisition. That is not the intent, because I think that risk capital is completely different.

- Riddhesh Gandhi:** Got it. And with regards to the leverage, I mean, I think a few quarters ago you guys had disclosed that there was some delay in payment on some of your debt or whatever, if you will. Is that all through standard accounts now, how should we look at that?
- M.V. Srinivasa Rao:** Yes, the last couple of months all the payments are on time. So, we have set aside cash to take care of that.
- Riddhesh Gandhi:** But I mean, just to understand, just at a high level in terms of operating cash flow in FY19 you generated about Rs. 80 crores and you spent about Rs. 80 crores CAPEX. So, now this year onwards primarily you would use your free cash flow to pay down debt besides the Rs. 25 crores of CAPEX? So I am sorry, if we were to take a look at it at the end of FY20, how much of net debt would we be having?
- M.V. Srinivasa Rao:** We probably would end the year at around Rs. 125 to Rs. 130 crores.
- Riddhesh Gandhi:** But just to understand, in terms of if we look at EBITDA per se, right, our EBITDA in FY19 was close to Rs. 120 crores, this year we are trailing at about Rs. 110 crores. So, Rs. 140 crores of debt is not particularly large, given how large your EBITDA is. So, it was just a cash flow mismatch because of the CAPEX, is it?
- M.V. Srinivasa Rao:** Yes, it is primarily because of the capital expenditure that we have done.
- Riddhesh Gandhi:** Got it. So then just on the hospital side the CAPEX which we will put together with that oncology wing which you are saying would be about Rs. 20 crores to Rs. 25 crores. But accepting for that and maybe some small CAPEX in vCard, we can assume that until we raise external capital the CAPEX cycle is actually behind us?
- M.V. Srinivasa Rao:** That mostly would be the case.
- Riddhesh Gandhi:** Got it. And for this other hospital expansion which you were looking at the hospitals, which you had mentioned and all of that. All that will be under the assumption that you all are able to raise private equity?
- M.V. Srinivasa Rao:** As of now all options are open.
- Riddhesh Gandhi:** Got it. So, greenfield you will just stabilize what your existing assets are?
- M.V. Srinivasa Rao:** Yes.
- Riddhesh Gandhi:** Got it. And just on the product side of things, has there been any slowdown actually in clientele or is it all actually driven only because of the visa issues?



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M.V. Srinivasa Rao: On the product side there is no slow down. We have slowdown on the IT services side. If you look at the way the product is delivered, we have a large offshore development center here. So quite a large team sits out of India and they are involved in the development work and the change request that the client makes, are handled from here. We have a small team at the site, which is at the client place handling the issues there. So we don't have so much of a visa issue on the product side. But we have visa issue with the IT services because we have relatively larger team in the US on H1B visa for IT services.

Moderator: Thank you. We have the next question from the line of Ankur Chadda, private investor. Please go ahead.

Ankur Chadda: I actually joined the call a bit late, so do you mind just quickly updating us on the growth trajectory of vCards? And what is the current conversion rate between the app download and the actual credit card issuance?

M.V. Srinivasa Rao: Vishal, would you want to take the call, please?

Vishal Ranjan: Sir, so right now the way we are seeing it, we have already seen a fair amount of volume growth in terms of number of people applying for it. But I don't know if you would have possibly seen the app on the website, we have tried to keep our credit conditioning or credit discipline criteria fairly strict, depending on the kind of lending partner relationships that we have. So in which case right now we are not extending it to self-employed or people with new to credit etc. And as there is a fair amount of drop off there. But two good things are additionally going there, despite those drops, because of a low cost of customer acquisition and those pieces are fairly in control, our revenue model with RBL Bank is such that it pays off for that fund. Even if there are 10 people who are applying and even one of them gets in their hand, he can pay for those nine applications. So far it is a digitally managed part.

So, all of these numbers are improving on a week on week basis. But as of now where we are, I think this is yet to come to a place where we can put a multiplier and scale it up rapidly. This is because, the second part which will become fairly relevant possibly this quarter sometime, is when we add a NBFC line to it. So the NBFC context will ensure that the people who are not getting a full-fledged credit card from RBL Bank because of their credit score and criteria, they would be given kind of a smaller limit, but you still have a mobile app and the UPI and all of that. So, with that model what happens is that the funnel ratio improves drastically.

So these are the kinds of questions on the business model level, on the go-to-market messaging, product construct partnerships, which we are stabilizing, including from the customer experience perspective. And as you might imagine, its complex not just because of the UPI side or because of regulatory component. So this is an interesting construct right now. But I think all of these numbers would be a bit more stable or much more easy to analyse somewhere in the next quarter. Once we have both the lenders available, then we will have a

proper number to understand which source what customers are coming at what cost, and what is their conversion ratios. And once they are converted, what is the kind of revenue we can get out of it in future. So I think let's give it at least a couple of quarters before we know where the numbers are going.

Ankur Chadda: Thank you so much, Vishal, for giving that update. But can you at least let us know how many credit cards has been issued up till now?

Vishal Ranjan: As of now, except for the pilot period in which we are giving to some people that we know and trusted, of the people that we don't know, around 500 cards are in circulation.

Ankur Chadda: Okay. And have you like got in touch with any of these private equity players, venture capitalists, have you talked to them, any interest that has come your way?

Vishal Ranjan: So, it is not a private equity play, it will mostly be a VC play. And obviously, the same network that we operate in, fintech in general has a fair bit of traction already. So, we are in conversations, and I would say it is not a formal conversation right now, it's more about them knowing us and we knowing them, there is no formal term sheet or something that will come for disclosure right now. But what we are doing right now is to ensure that the product and the scalability is such that it creates a sufficient amount of float in the business, and that is something which any VC will look at. And that float comes from the partnership and from the product. And then you put a multiplier in terms of the customers.

So what we are doing, in fact, in many ways, the product that we have built together has taken the time it takes, but that is something which is unique, being the first UPI credit card and all is something glamorous to talk about. But the effort it takes, for the second guy possibly it is easier. So we need to make sure that this product gets that amount of strength such that it can scale up without a major competition set.

Ankur Chadda: Okay. So two questions. Who all are your partners right now? I know RBL Bank is one, who are the others?

Vishal Ranjan: So, there is another NBFC which should be going live sometime this quarter. Right now, since it is not like the name is not in public domain, but it's a fairly large NBFC which is doing a lot of work with these kind of fintech partners.

Ankur Chadda: So one bank and one NBFC?

Vishal Ranjan: Yes. So that is what I think will complete the product construct.

Ankur Chadda: I am sorry, just to get it across, would you be interested in adding more banks and more NBFCs or that would be unfair to your existing partner? So I want to understand your model, is it going to be a part...



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- Vishal Ranjan:** Just to answer quickly, the business model in the credit card will not entail a marketplace kind of a case where we have all the banks and NBFCs becoming a Paisabazaar, that's not we intend to be. But we would possibly have two, maximum three banks on that side, and maybe five to six NBFCs partners. Intent being that any fellow who is coming into our funnel should get at least some part of a limit available so that they can enjoy the credit card kind of an experience.
- Ankur Chadda:** Okay. And how many cities you are in currently?
- Vishal Ranjan:** We are now live in 48 cities, we started with 12 cities, now we can originate customers from 48 cities.
- Ankur Chadda:** And what is your gut feeling now, do you think it is going to make it, like when you add the NBFCs do you think it will hit the jackpot do you think?
- Vishal Ranjan:** Yes, the word jackpot and unicorns are possible more in the VC meetings. But as of now, I would say, we have got something which is not easily available in the market. And we are in a good place.
- Ankur Chadda:** And it looks like that and I know it's a bit, everything you start off in life it's difficult in the initial phases, and a lot of roadblocks come your way. But then that is life, one of those things just become a success. And if this becomes a success, it could be a really big one. So all the best to you guys.
- Vishal Ranjan:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now had the conference back to the management for closing comments. Sir, over to you.
- M.V.Srinivasa Rao:** As we have discussed, we are working towards improving the performance in the IT product, IT Services and the healthcare segments. We would like to thank you all for joining the call today. Thank you.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Virinchi Limited, that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.