Management discussion and analysis

Global economic review and outlook

The global economy grew 3.6% in 2018 compared with 3.8% in 2017, largely on account of the failure of Brexit negotiations, tightened financial conditions, geopolitical tensions and higher crude oil costs. Global growth is estimated at 3.3% in 2019. (Source: World Economic Outlook).

Global economic growth over six years

Year	2015	2016	2017(E)	2018(E)	2019 (P)
Real GDP growth (%)	3.2	3.1	3.8	3.6	3.3

[Source: World Economic Outlook, January 2019] E: Estimated; P: Projected

Indian economic overview

India emerged as the sixth largest economy in the world and retained its position as the fastest-growing trillion-dollar economy for a major part of the year under review. However, after growing 7.2% in 2017-18, the Indian economy grew at 6.8% in 2018-19 as per the provisional second advanced estimates of the Central Statistics Office.

In 2018, India attracted foreign inflow of ~USD 38 billion and witnessed a 23-notch jump to a record 77th position in the World Bank's latest report on the ease of doing business that captured the performance of 190 countries. The commencement of the US-China trade war opened new opportunities for India, particularly in the agro sector. Inflation (including food and energy prices) was pegged at 2.6% on an annual basis, one of the lowest in years and well below the Reserve Bank of India's medium-term target of 4%. The rupee rebounded to Rs.69.44 on March 31, 2019 after having touched a low of Rs.74.45 in the year under review. During the fiscal under review, the Indian Government continued to invest deeper in digitalisation, renewable energy capacity generation and infrastructure building.

Outlook

India's markets are expected to remain in a state of slowdown through 2019-20 even as the medium-term outlook appears better and the long-term outlook favourable.

Global IT sector overview

Rapid technological advancements emerged as a growth driver of the global IT industry. The US represents the largest technology market, accounting for 31% of the total global market estimated at ~ USD 1.17 trillion for 2019.

The Asia Pacific accounted for ~33% of the global IT spending. The corporate and governmental bodies account for the largest share of technology spending, while a smaller portion is derived from household spending. The major categories the industry can be broken down into comprise software, hardware and services sector, accounting for ~53% of the total industry share.

The IT sector's growth is being driven by investments in infrastructure, connected devices and widening bandwidth. One can expect that in the near future technological solutions in the areas of cloud computing, EDGE, 5G and other infrastructural developments would emerge as the next wave.

(Source: Gartner, IDC)

Regional share of IT expenditure

Region	Share (%)
North America	33
Asia Pacific	33
Europe	22
South America	7
Africa	5

Outlook

Global IT spending is projected at USD 3.79 trillion in 2019, an increase of 1.1% from ~USD 3.747 trillion in 2018. Enterprise software and IT services could exhibit sustained growth with communication services accounting for much of the spending. Software spending is projected to grow at 9.3% in 2019 to USD 427 billion. The global public cloud service market is expected to grow from USD 182.4 billion in 2018 to USD 331.2 billion in 2022, at a compound annual growth rate (CAGR) of 12.6%. The global IoT market is projected to reach USD 318 billion by 2023 from USD 130 billion in 2018 at a CAGR of 20%.

(Source: Gartner, Forbes, Globaldata, Technology Intelligence Centre)

Short Term Retail Lending and Consumer Lending in the USA

US retail lending had USD 14,346.9 billion in total balance outstanding in 2018, registering a compound annual growth rate (CAGR) of 3% between 2014 and 2018. The mortgage credit segment had a total balance outstanding of USD 10,346.5 billion, an equivalent of 72.1% of the market's overall value. The most important factor driving the demand for credit in the US was the attractively low interest rate.

Payday loans: U.S. consumers borrow almost USD 90 billion a year in short-term, small dollar loans that typically range from USD 300 to USD 5,000. However, despite a Consumer Financial

Protection Bureau (CFPB) proposal and a friendly U.S. administration, some online lenders are avoiding payday loans. Most lenders are moving towards installment loans, which are paid back over time rather than in a single payment.

Installment loans: Installment loans are used by almost 10 million Americans annually. They spend more than USD 10 billion on fees and interest to borrow amounts ranging from USD 100 to more than USD 10,000. These loans are issued at roughly 14,000 stores in 44 States by consumer finance companies. These companies are different from lenders that issue payday and auto title loans, and attract much lower costs than those products. The loans are usually repaid in four to 60 monthly installments that are usually affordable for borrowers.

Auto equity loans: In 2017, the average amount borrowed for a new car in the USA was USD 31,099, averaging USD 515 monthly payments, while USD 21,375 was borrowed for a used car, with corresponding installments of USD 398 a month. Americans had accumulated USD 568.6 billion in auto loans by the end of 2017. More than 100 million Americans had auto loans and the total active loan amount across all U.S. lenders in 2017 was USD 1.129 trillion.

Virinchi's service offering

The Company aims to leverage and expand its product portfolio to offer digital solutions across the entire lending value chain for the sub-prime customers in the US and focus on near-prime and mainstream consumer lending industry in India.

Virinchi's QFund segment

QFund, the flagship product of Virinchi, is a technology leader in the short-term mortgage industry, managing around 5000+ points of sale and online installations, transacting around USD 20 billion annually in the US QFund provides short-term loan-related solutions like Payday Loan, Title Loan, Installment Loan, and Check Cashing for loan companies operating from North America and UK. It manages the entire loan system from loan processing, banking integrations, loan underwriting, loan lead integration, CRM, settlements and collections. With 12 million borrowers, 20,000 lender stores and monthly 4,50,000 loans processed, Virinchi has emerged as a leader in lending management solutions for the retail micro-credit industry.

(Source: Marketresearchreports, Bloomberg, 2018 report from the Office of the Comptroller of the Currency (OCC), Pewtrusts, Forbes)

Indian healthcare industry

India's healthcare industry has grown exponentially, catalysed by increased investment from public and private investors. Global players investing through FDI have played a major role in the growth of the healthcare sector. The hospital industry in India reached Rs.4 trillion (USD 61.79 billion) in 2016-17 and is projected to reach Rs.8.6 trillion (USD 132.84 billion) by 2021-22.

[Source: IBEF]

Growth drivers of the healthcare sector

Economic growth: The GDP and economic reform programs of the Central Government indicate recovery. Consumer price inflation is expected to remain subdued, interest rates could steady and global crude oil prices could stay stable. Besides, factors like bank recapitalisation, rural consumption revival and the Insolvency and Bankruptcy Code reform could strengthen the economy.

(Source: Economic Times)

Rising income: India's per capita GDP increased from Rs.1,11,782 in 2017-18 to an estimated Rs.1,26,406 in 2018-19. The increased disposable income catalysed spending on healthcare.

Urbanisation: India is arguably the fastest urbanising country. In 2017-18, 34% of India's population was urbanised (3% increase since the 2011 Census) and anticipated to reach 36% by 2020 compared with a 51.3% urban population in China in 2011.

(Source: Census of India 2011, MoSPI, Technopak Analysis, The Economic Times)

Working population: India's urban middle-class workforce (over USD 11,000 annual income) was at 27 million or 2% of its total population with a large headroom for growth for the healthcare sector to serve this population.

(Source: Goldman Sachs)

Growing middle-class: India's wealth has grown at 9.2% per annum, faster than the global average of 6% from the year 2000, even after accounting for an annual population growth of 2.2%. This robust increase in national wealth can justifiably be expected to increase spending on healthcare.

(Source: Credit Suisse Global Wealth Report)

Emergence of technology: Owing to the increased penetration of technology, telemedicine, electronic health records, predictive analysis etc., there has been an increasing demand from consumers in terms of ease and options in healthcare services that have contributed to the growth of the healthcare industry.

Increased government support: To encourage private investment in the Indian healthcare sector, the Government of India aims to increase healthcare spending to three percent of Gross Domestic Product (GDP) by 2022.

Growing elderly population: The growing elderly population has also catalysed the growth of spending on healthcare by the Government and private investors.

Rising Foreign Direct Investment: Rising Foreign Direct Investment alongside private sector investments are contributing to the growth of the Indian healthcare industry. From April 2000 to March 2019, FDI inflow into the drugs and pharmaceuticals sector stood at USD 15.98 billion, while inflows into sectors such as hospitals, diagnostic centres and medical appliances stood at USD 6.09 billion and USD 1.82 billion respectively.

Medical tourism: Medical tourism is one of the driving factors behind the growth of the healthcare industry in India. The market for medical tourism in India is estimated to reach USD 6.0 billion in 2018 from USD 3.0 billion in 2017. The number of Foreign Tourist Arrivals (FTAs) in India on a medical visa grew 15.9% year-on-year to an estimated 4,95,056 in 2017 from 4,27,014 in 2016.

Outlook

The Indian healthcare industry is one of the fastest growing sectors. It is anticipated that the industry could reach a size of USD 372 billion by 2022. India has also become one of the leading destinations for high-end diagnostic services with high capital investment for advanced diagnostic facilities.

(Source: IBEF, July 2019)

0.9
Beds per 1,000 people in India

3.5
Beds per 1,000 people recommended by WHO

0.78
Doctor per 1,000 people in India

1
Doctor per 1,000 people recommended by WHO

(Source: IBEF, KPMG, CIA)

Company overview

Founded in 1990, Virinchi Limited is a fintech, IT and healthcare company. The Company has an IT clientele spread across North America, Europe, Middle East and Asia Pacific. With a high expertise in analytics, IT services and healthcare delivery, Virinchi offers an array of products and solutions.

Financial analysis

Profit and loss account analysis

Gross revenues: Gross revenues increased by 20.33% to Rs.411.12 crore in 2018-19, compared to Rs.342.50 crore in 2017-18 on the strength of the IT Products revenue increasing to Rs.178.43 crore in 2018-19 compared to Rs.129.10 crore in 2017-18 and the healthcare revenue increasing to Rs.141.43 crore in 2018-19 compared to Rs.101.05 crore in 2017-18.

Operating profit (EBITDA): Operating profit increased by 28.12% to Rs.124.18 crore during 2018-19 from Rs.96.92 crore during 2017-18, largely due to an improvement in operational efficiencies. The operating margin for 2018-19 was 30.21% compared to 28.30% during 2017-18.

Depreciation & amortisation: Depreciation & amortisation stood at Rs.35.97 crore in 2018-19, compared to Rs.33.38 crore in the previous year, up by 7.75% on a y-o-y basis, primarily on account of an addition of assets in the healthcare business and amortisation of goodwill on account of the merger of Bristlecone Hospitals with Virinchi Limited.

Finance costs: Finance costs increased by Rs.4.06 crore from Rs.18.01 crore to Rs.22.07 crore in 2018-19 because of an increase in borrowings in the healthcare business. The interest coverage ratio for 2018-19 was 4.00, indicating that the Company was comfortable in addressing interest payment obligations.

Tax expenses: Tax expenses stood at Rs.7.22 crore in 2018-19, which included current tax expenses worth Rs.14.01 crore and deferred tax charges worth Rs.6.76 crore.

Net profit: Net profit stood at Rs.58.92 crore in 2018-19, a 78.43% increase over the previous year. The net margin for 2018-19 was 14.33% compared to 9.64% during 2017-18, due to a fall in employee costs as a percentage of depreciation & amortization and interest as a percentage of revenue respectively.

Balance Sheet analysis

Net worth: The Company's net worth stood at Rs.317.27 crore as on March 31, 2019, an increase of 24.48% compared to Rs.254.89 crore as on March 31, 2018. The net worth comprised paid-up equity share capital amounting to Rs.31.17 crore comprising 3,11,70,734 equity shares of Rs.10 each (fully-paid up) and minority interest of Rs.-0.50 crore, reserves and share premium of Rs.280.50 crore and money received against share warrants of Rs.6.10 crore.

Return on net worth: The return on Net worth improved from 14.31% in 2017-18 to 20.60% in 2018-19 due to a higher rate of growth in net profit (78.43%) vis-à-vis the growth rate in net worth (24.48%).

Loan funds: Loan funds stood at Rs.162.21 crore. While long-term borrowings stood at Rs.106.31 crore, short-term borrowings amounted to Rs.55.90 crore.

Debt-Equity ratio: The debt-equity ratio for 2018-19 was 0.51 compared to 0.58 for 2017-18. Even as total debt increased by Rs.14.21 crore from Rs.148.01 crore in 2017-18 to Rs.162.20 crore in 2018-19, the debt equity ratio decreased to 0.51 due to a higher increase in net worth (Rs.59.83 crore in reserves and Rs.2.95 crore increase in paid-up capital)

Total assets: Total assets increased to 534.80 crore in 2018-19 from Rs.493.50 crore in 2017-18, an increase of 8.37%.

Non-current investments: Non-current investments decreased to Rs.0.29 crore from Rs.1.23 crore in the previous year.

Inventories: Inventories decreased by 17.52% to Rs.8.48 crore from Rs.10.29 crore in the previous year.

Sundry debts: Sundry debts of the Company stood at Rs.76.65 crore, amounting to 68 days of receivables, compared to 84 days of receivables the previous year.

Loans and advances: Total loans and advances amounted to Rs.56.74 crore, comprising 10.61% of the Company's total assets. Short-term loans and advances for the year stood at Rs.47.17 crore (a decrease of 5.24% over the previous year), which were primarily advances made to the newly set-up healthcare subsidiary.

Cash and cash equivalents: Cash and cash equivalents amounted to Rs.9.03 crore as on March 31, 2019 compared to Rs.9.86 crore as on March 31, 2018.

Current liabilities: Current liabilities stood at Rs.103.66 crore, comprising short- term borrowings worth Rs.55.9 crore, trade payables worth Rs.19.81 crore and short-term provisions worth Rs.27.94 crore.

Risk mitigation

Regulatory risk: In the case of IT Products, changes in government's policies could affect the Company's business. Virinchi keeps an ongoing vigil on regulatory interventions resulting in a pre-emptive protective approach wherever possible.

Technology disruption risk: Virinchi works closely with customers to comprehend their prevailing realities with the objective of transforming their responsiveness to market realities and protect/enhance their competitiveness.

Currency appreciation risk: Virinchi recognises that this reality is perpetual and not under their control. The Company continues to moderate costs and responds with proactive hedging to protect/capitalise on the prevailing reality.

Competition risk: In the case of healthcare, increase in the number of players in the industry might lead to an increase in competition for the Company. The Company has built highly developed facilities, which have the ability to service patients at an affordable cost.

Internal control systems and their adequacy

The Company's robust and intricate internal control systems ensure there is efficient use and protection of resources and compliance with policies, procedures and statutory requirements. We have developed well-documented guidelines, procedures for authorisation and approvals at the time of carrying out various activities/incurring expenditure and processes such as audits to verify that the systems are adhered to. Integral to the overall governance, we have a well-established internal audit framework which extensively covers all aspects of financial and operational controls, in all units, functions and departments. The Company also has an efficient financial reporting system in place. Our internal audit team consists of senior members across various functional departments some of whom are also key managerial personnel of the Company. They actively engage in the evaluation and improvement of various functions and activities of the Company including restaurant operations and other support functions and departments. The Company also has an Internal Audit cell, which supports the Audit Committee besides performing independent review of internal controls, operating systems and procedures by external auditors.

Human resources

The Company had employed 2060 officers and workmen in its employment as on March 31, 2019. Increase in the value of human capital through the development of individual and collective competencies has helped the Company stay in step with market developments and requirements. The Company implemented programs and projects related to skill development and up-gradation of employee competence. Programmes of knowledge sharing were conducted and a number of innovative ideas received from employees were implemented, enhancing quality, optimising cost and increased productivity.

Cautionary statement

The statements in the 'management discussion and analysis' section describing the Company's objectives, projections, estimates and prediction may be considered as forward looking statements. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market positioning, expenditures and financial results are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performances or achievements may thus differ materially from those projected in such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent developments, information or events.

To avoid duplication and repetition, certain heads of information required to be disclosed in the Management Discussion and Analysis have been included in the Board's Report.