Virinchi Limited
Annual Report 2020-21

virinchi

Persisting during the pandemic

Disclaimer

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions.

The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should kindly bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

Recover. Reboot. Resile.

There are three messages that we wish to send out to all our stakeholders.

1. In FY 2020-21, the most challenging year in our existence when we were threatened by operational discontinuity, we reported a creditable cash profit.

2. Besides, our operating model was validated, each of our businesses becoming more relevant in a post-pandemic world.

3. The company's performance in FY 2020-21 validated its resilience, providing it with a platform to reboot and report a vigorous recovery across the foreseeable future.

CORPORATE SNAPSHOT

Virinchi Limited.

We are three businesses in one company. Each of our businesses has been inter-linked by a deep understanding of machine learning and process automation.

Ethics

Vision: To be the best in what we do through a combination of vision, service, technology and competence.

Mission: To achieve global benchmarks through the adoption of ongoing innovation in the Healthcare, Fin-Tech and Information technology domains.

One, we have built a disruptive fintech business in United States and India that has matured into a robust engine. We are now launching a variant of the same that is poised to address the digital needs of India's mass population.

Two, we have built one of the most attractive healthcare infrastructure platforms in India, providing full-scale healthcare services.

Three, we are engaged in the business of software services around a global delivery model, addressing the needs of large MNC customers.

We believe we are increasingly relevant in a post-pandemic world needing solutions in the areas of IT services, fintech and healthcare.

Goals

Fintech and IT services: 'To build globally inclusive solutions'

- To build a suite of fintech products to reach the unserved
- To develop deep specialised technology solutions for the healthcare and fintech domains
- To develop delivery capabilities and client footprint for next-generation technology services including SMAC domains, particularly machine learning and data analytics

Healthcare vertical: 'To serve a billion patients' in a decade from now

- To secure a robust presence in some medically underserved markets in India
- To deliver personalised medicine through data analytics and combinatorics on a single healthcare mobility platform

Respect

Virinchi was recognised in the recent past through brand enhancing awards (given below).

- The Times Healthcare Award for Telugu-speaking states (2017 and 2018) 'Emerging Hospital of the Year' in the multi-specialty hospital category 'Best Hospital – Radiology' 'Best Hospital – Nephrology' 5 individual doctor recognitions
- Hyderabad Software Enterprises Association (HYSEA). Top IT/ITES Exporter: 2018-19 (Rs. 200 Crore category) by Hyderabad Software Exporters Association 'Best Indian IT SME' for 2015-16 by Hyderabad Software Exporters Association

Pedigree

Virinchi Limited was founded in the early Nineties. In the last three decades, the company has created a reputation for leveraging knowledge derived out of one business to create another. The result is that the Company has grown attractively into three distinctive businesses in the last few years.

Footprint

Virinchi's headquarters are located in Hyderabad. The Company's offshore IT business is located across two offshore development centres in Hyderabad (Banjara Hills and Hakimpet) and the onshore facility is located at Marlboro, New Jersey, USA. The Company's healthcare facilities are located in Hyderabad at Banjara Hills, Barkatpura and Hayathnagar.

Business offerings

Fintech and IT services: The Company's flagship product QFund has established a global respect in providing IT solutions to the retail micro lending industry in North America, supported by strategic alliances and products. The Company is respected for technical, financial and infrastructural support.

Healthcare services: Virinchi owns and manages three multi-specialty hospitals in Hyderabad, leveraging IT and mobility-based systems. The flagship hospital at Banjara Hills (Hyderabad) is driven by the latest medical technologies and advanced in-house IT / mobility-based systems.

Employees

Virinchi is a responsible employer of 510 individuals (Fintech and IT services). Nearly 77.5% employees possessed professional degrees at the close of FY 2020-21. The average age of employees in the IT vertical was 27 towards the end of the year under review.

Listing

The Company is listed on the Bombay Stock Exchange (BSE: 532372).The market capitalisation of the Company was Rs. 133.72 Crore as on March 31, 2021.

Certifications

The Company's consistent capability has been secured through ISO 9001:2000 and CMMI Level 3 certifications.

The Company's knowledge capital, March 31, 2021			
Total employees		Revenue per employee (Rs. Lakh)*	Average age of employees (years)*
Fintech and IT services	Healthcare		
510	1265	37.29	27

*For the Fintech and IT services business

Consolidated Highlights, FY 2020-21
Profit & Loss account / Balance Sheet

Consolidated revenue decreased 4.7% to Rs. 365.19 Crore

EBITDA decreased 4.9% to Rs. 106.70 Crore

Consolidated PAT decreased 94.3% to Rs. 2.67 Crore

EPS declined 94.9% to Rs. 0.72

Consolidated EBITDA margin decreased to 29.2% from 29.3%; PAT margin declined to 0.7% from 12.1%

Receivables increased from 71 days of turnover to 79 days

Fintech business

• IT products revenue decreased 10.4% to Rs. 135.44 Crore compared to Rs. 151.22 Crore in the previous year

IT Services

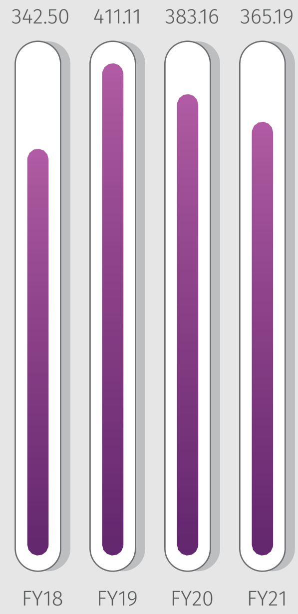
• IT services revenue decreased 13.5% to Rs. 54.77 Crore compared to Rs. 63.27 Crore in the previous year

Healthcare

• YoY revenue decreased 0.8% to Rs. 160.85 Crore with an EBIT of Rs. 29.06 Crore

• YoY healthcare EBITDA improved 41.2% to Rs. 49.73 Crore with an overall EBITDA margin of 30.9%

Revenues (Rs. Crore)



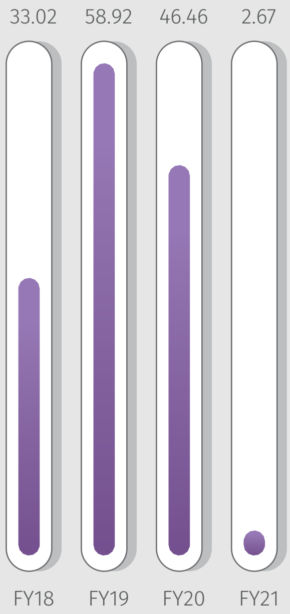
Definition
Revenue is the income generated by a business from the sale of goods or services before the deduction of costs and expenses, taxes and promotions.

Why is this measured?
This showcases a Company's ability to grow the business through prudent marketing, pricing and awareness building, which can be compared with the Company's retrospective growth average or with sectoral peers.

Virinchi's performance
Revenues declined 4.7% to Rs. 365.19 Crore in FY 2020-21, a fall of Rs. 17.97 Crore Though total operating revenues declined by Rs. 27.45 Crore, other income increased by Rs. 9.48 Crore due to loan forgiveness (waiver) of amounts sanctioned by US Banks under the US Federal SBA Paycheck Protection Program and impact of foreign exchange fluctuations. The decline in operating revenues was on account of a decline of Rs. 15.78 Crore in IT products income and decline of Rs. 8.51 Crore in IT services income due to the impact of lockdowns in the US in April and May 2020.

How Virinchi performed in the last few years

Net profit (Rs. Crore)

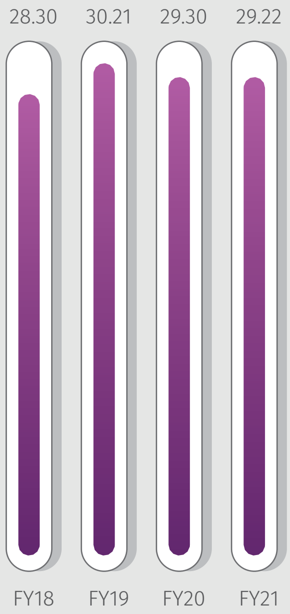


Definition
Profit earned during the year after deducting all expenses and provisions.

Why is this measured?
It highlights the strength in the business model in terms of generating value for its shareholders.

Virinchi's performance
The Company reported a 94.2% decrease in net profit to Rs. 2.67 Crore in FY 2020-21. The decline in Total Income by Rs. 17.97 Crore and increase in administrative expenses of Rs. 1.38 Crore was off-set by a decline in material cost by 0.68 Crore and employee expenses by Rs. 13.08 Crore, resulting in a fall of Rs. 5.58 Crore in EBITDA. Depreciation and amortisation increased by Rs. 3.71 Crore and Finance costs increased by 9.89 Crore due to a five month moratorium availed by group companies during the financial year; increase in prior period items of Rs. 4.85 Crore brought down the PBT by Rs. 24.02 Crore from Rs. 45.59 Crore in FY 2019-20 to Rs. 21.56 in FY 2020-21. Total taxes of Rs. 18.89 Crore during FY 2020-21 (inclusive of Deferred Taxes of Rs. 12.55 Crore) brought down the net profit to Rs. 2.67 during FY 2020-21.

EBITDA margin (%)



Definition
EBITDA margin is a profitability ratio distilled from revenue growth, value-addition and cost management.

Why is this measured?
The EBITDA margin indicates how much a Company earns (before accounting for interest and taxes) on each rupee of sales.

Virinchi's performance
Despite a reduction in revenues, EBITDA margin declined only marginally by 8 bps to 29.22%. The margins decline was moderated on account of superior margins in the IT business, increased bed occupancy in the health care business and cost moderation.

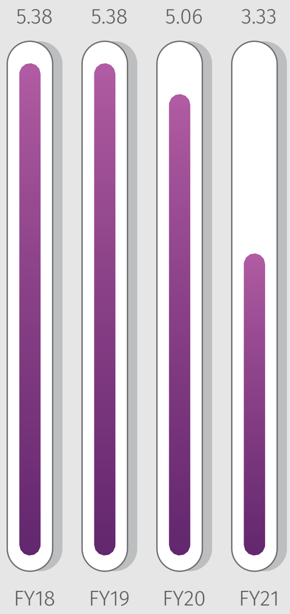
Debt-equity ratio (x)

Definition
This is calculated by dividing the total debt by the net worth (less revaluation reserves)

Why this is measured?
This is an indicator of a Company's financial solvency, indicating the Company's ability to remunerate shareholders over debt providers.

Virinchi's performance
The Company's gearing improved 2 bps to 0.43 in FY 2020-21 following increased net worth and debt reduction.

Interest cover (x)



Definition
This is derived through the division of EBITDA by interest outflow.

Why is this measured?
Interest cover indicates comfort in servicing interest, the higher the better.

Virinchi's performance
The Company's interest cover, though comfortable, weakened from 5.06 during FY 2019-20 to 3.33 during FY 2020-21 following the decrease in EBITDA by Rs. 5.58 Crore from Rs. 112.28 Crore in FY 2019-20 to Rs. 106.70 Crore in FY 2020-21, while interest outflow increased by Rs. 9.89 Crore to Rs. 32.09 Crore.

Recover. Reboot. Resile.

How Virinchi addressed the most challenging year in its existence

Overview

I am pleased to present our performance during the year under review.

Even as we reported a 4.7% decline in revenue, the company reported a cash profit of Rs. 50.88 Crore in FY 2020-21.

The fact that we could report a sizable cash profit for the year and a cash profit in every quarter even at lower revenues represent a validation of the robustness of our business model.

When we were building our businesses in the last few years, one of our priorities was to create a company that would be growth-ready on the one hand and resistant to sharp cyclical declines on the other. At that time, a secular

pandemic like the one that we are currently witnessing was nowhere on the horizon; the company could not have been configured with a global health emergency in mind that was likely to affect every single sector.

I am pleased to communicate that despite a year of revenue decline, your company remained liquid and profitable. This validates that even as our business may at first glance appear diversified, there is an underlying synergy – supporting 'must run' businesses - that provides the business with effective shock absorbers in the face of economic slowdowns.

Economy outlook

The year under review was one of the most challenging experienced by people and businesses the world over.

The COVID-19 pandemic surprised the world for its suddenness and speed; there was a sharp decline in consumer confidence and revenues reported by most business during the early part of 2020. The global economy reversed its growth from 2.9% in 2019 to a contraction of 3.3% in 2020. The profit decline was sharper for a number of companies as they were unable to amortise their fixed costs effectively across a smaller turnover.

The pandemic affected virtually every single company in the world with varying intensity. The larger companies were able to utilise their organisational momentum, access to formal funding lines, strength of their brands and overall knowledge pool to weather the decline on the one hand and ride the recovery faster than the others.

At Virinchi, we are a small-cap company and encountered the various challenges related to our scale. A number of challenges were unprecedented, putting a premium on our capacity to resist and recover. It is a credit to our organisational passion and engagement that we performed creditably quarter-on-quarter and remained profitable. We could see the year under review through with no Balance Sheet impairment; we addressed all our bank obligations; our business model remained relevant and robust, which is the biggest message that we wish to send out to our stakeholders.

Relevance of each business

At Virinchi, we believe that the relevance of each of our business has only deepened during the last financial year.

Our health care business came under the spotlight during the last financial year following a sharp increase in the number of pandemic-affected cases. We believe that this business rides a positive momentum catalysed by increased insurance penetration in India, need for the most competent health care intervention, preference for data-based health care facilities and a gravitation towards futuristic facilities.

Our fintech business is increasingly relevant on account of extensive disintermediation by the smartphone, the need for fintech companies to provide real-time solutions and fin-tech companies being driven more by technology than ever.

Our information technology company has found a second wind following the digitalisation wave that was unleashed during the last financial year. The year under review is being considered by most experts as a watershed for digitalisation; a number of cutting-edge technologies are converging to create unforeseen possibilities. The result is that machine learning is empowering users to derive insights from large data volumes, throwing up opportunities and empowering companies to design better products and services. Besides, robotic process automation is empowering software to perform routine tasks, making it possible to reduce human engagement on the one hand and reduce human errors over routine functions on the other. Our IT service addresses micro-lending, which is an integral part of the US economy where financial stress during the last financial year made this business relevant.

In view of this, I must assure our stakeholders that our business model continues to be relevant, which explains why the company reported creditable results (given the circumstances) during the last financial year.

How we responded

Our health care business reported Rs. 160.85 Crore in revenues during the financial year compared to Rs. 162.09 Crore in the previous year. Our showpiece facility at Banjara Hills, Hyderabad reported an average occupancy of 30% during the course of the year which compared with the previous year.

Our health care infrastructure business generated a number of precious learnings on how to navigate through the pandemic; this enriched the company's knowledge in terms of emergency preparedness, infrastructure optimisation and operational flexibility.

We strengthened our business during the last financial year following the creation of Virinchi Capital. The latter subsidiary (wholly-owned) towards the end of March 2021 was in the process of mobilising USD 2 Million in the form of convertible debentures and to invested in taking our mobile-driven credit card business ahead from the current financial year onwards.

We continued to address the IT side of our business during the last financial year. We reported Rs. 190.20 Crore in revenues from this business during the last financial year compared with Rs. 214.49 Crore in 2019-20; the contribution of this business to the overall revenues was 52.1% in FY 2020-21 compared with 55.9% in the previous year.

Outlook

At Virinchi, we are attractively placed to capitalise on the widening prospects.

We believe that the worst is over as far as the pandemic is concerned; we foresee a rebound in the global economy, backed by a liquid monetary policy. This is likely to accelerate the growth of various sectors; we see a number of players (large to medium to small) reinvesting in their IT systems; we foresee an attractive trickle-down to our micro-financing space in the US as well.

We feel that the time has come to take our mobile-based credit card business ahead through increased investment that can facilitate a wider and quicker rollout. We believe that the smartphone connection with corresponding KYC verification plays the role of an effective first-line credit filter; the smartphone population in the country is effectively our market and we believe that with a sharp growth in online commerce, the time has come for online credit as well. This market is extensively under-penetrated in India when compared with the global benchmarks and the time has come – aspirationally and economically – for this segment of the market to grow disproportionately faster.

We believe that this broadbasing – IT services and fintech in USA coupled with health care infrastructure and fintech in India – will not only de-risk our company; it will empower us to address some of the most exciting spaces in either the largest or among the fastest growing opportunities in the world.

M V Srinivasa Rao
Whole Time Director & CFO

When we were building our businesses in the last few years, one of our priorities was to create a company that would be growth-ready on the one hand and resistant to sharp cyclical declines on the other.