Zaggle Prepaid Ocean Services (ZAGGLE)

Fintech | NBIE Conference Update

Not Rated

CMP: Rs268 | Target Price (TP): NA | Upside: NA

June 06, 2024

Differentiated business model; growth outlook strong

Key Points

We hosted Mr. Avinash Godkhindi, CEO, Zaggle Prepaid Ocean Services as part of the NBIE Investor Conference.

Key takeaways from the meeting are:

- Zaggle is a leading player in spend management with a differentiated value proposition and a diversified user base (2.7mn+ users as of FY24).
- The company offers an ecosystem-based approach across SaaS and Fintech with low customer acquisition/retention costs in the B2B segment. It is focusing on cross-sell/up-sell efforts to introduce new products & use cases.
- It is looking to double revenue over the next two years (45-55% growth in FY25) by expanding market share and continuing to add new banca patners/ merchants and customers.

Company background: Incorporated in 2011, Zaggle Prepaid Ocean Services **(Not Rated)** provides fintech products & services to manage corporate business expenses through automated and innovative workflows. The company's SaaS platform is designed for: (1) business spend management, including expense management and vendor management (2) rewards and incentives management for employees & channel partners and (3) gift card management for merchants (CEMS). As of FY24, the company had more than 3k customers and ~2.7mn end users with corporate clients such as Tata Steel, Persistent Systems, Inox, Wockhardt, PCBL (RP Sanjiv Goenka Group) and the Hiranandani Group.

Differentiated product offering provides an edge: Zaggle's SaaS offerings (comprising Propel, Save, CEMS and Zoyer) provide a comprehensive platform to digitize business and employee spend management/rewards along with payment instruments such as the Zaggle Payroll Card, Kuber Gift Card (a gift card that works at both online and offline outlets) and Zinger Multi-wallet Card (a reloadable card with multiple wallets that works at both online and offline outlets). Furthermore, API integrations (via cloud) with its banking partners, card networks and merchants provide it with access to their user base. The company has also recently launched its credit card product besides highlighting that the monthly volume of transactions in the product has exceeded that for prepaid cards and it expects the trend to continue.

Business model with low customer acquisition/retention costs: Zaggle has a strong customer retention capacity with a low churn rate (less than 1.5% for FY24). The company also generates revenue by monetizing 'Propel Points', which are reward points that are issued and redeemed on its platform. In addition to the revenue stream from subscription fees, it also earns merchant commissions/commission on Value Added Services (VAS) sales. Its revenue from operations grew by 40% YoY to Rs 77.56bn in FY24 with a Gross Profit Margin of 50.9%. Its EBITDA margin stood at 9.1%/8.7% in FY24/FY23 due to high ESOP costs (11%/ 11.3% pre-ESOP).

Expanding banca partnerships; focus on cross-sell/up-sell: Zaggle has on-boarded multiple banking partners such as SBI Cards, Kotak Mahindra Bank, Axis Bank, BOB Cards, Canara Bank, PNB and will continue to expand partnerships. It has recently launched its Corporate Credit Card business for vendor payments and it is building new IT solutions/partnerships in insurance, tax planning and investments (VAS).

Est Change	-
TP Change	-
Rating Change	-

Company Data and Valuation Summary

Reuters	ZAGG.BO
Bloomberg	ZAGGLE IN Equity
Market Cap (Rsbn / US$mn)	32.8 / 393.7
52 Wk H / L (Rs)	389 / 155
ADTV-3M (mn) (Rs / US$)	500.8 / 6.0
Stock performance (%) 1M/6M/1yr	(12.7) / 10.9 / 0.0
Nifty 50 performance (%) 1M/6M/1yr	0.6 / 1.0 / 15.0

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	44.1	44.1	43.9
DIIs	9.4	7.4	4.6
FIIs	14.8	12.2	11.7
Others	31.8	36.3	39.8
Pro pledge	0.0	0.0	0.0

Key Links- 4QFY24 Presentation

Please refer to the disclaimer towards the end of the document.

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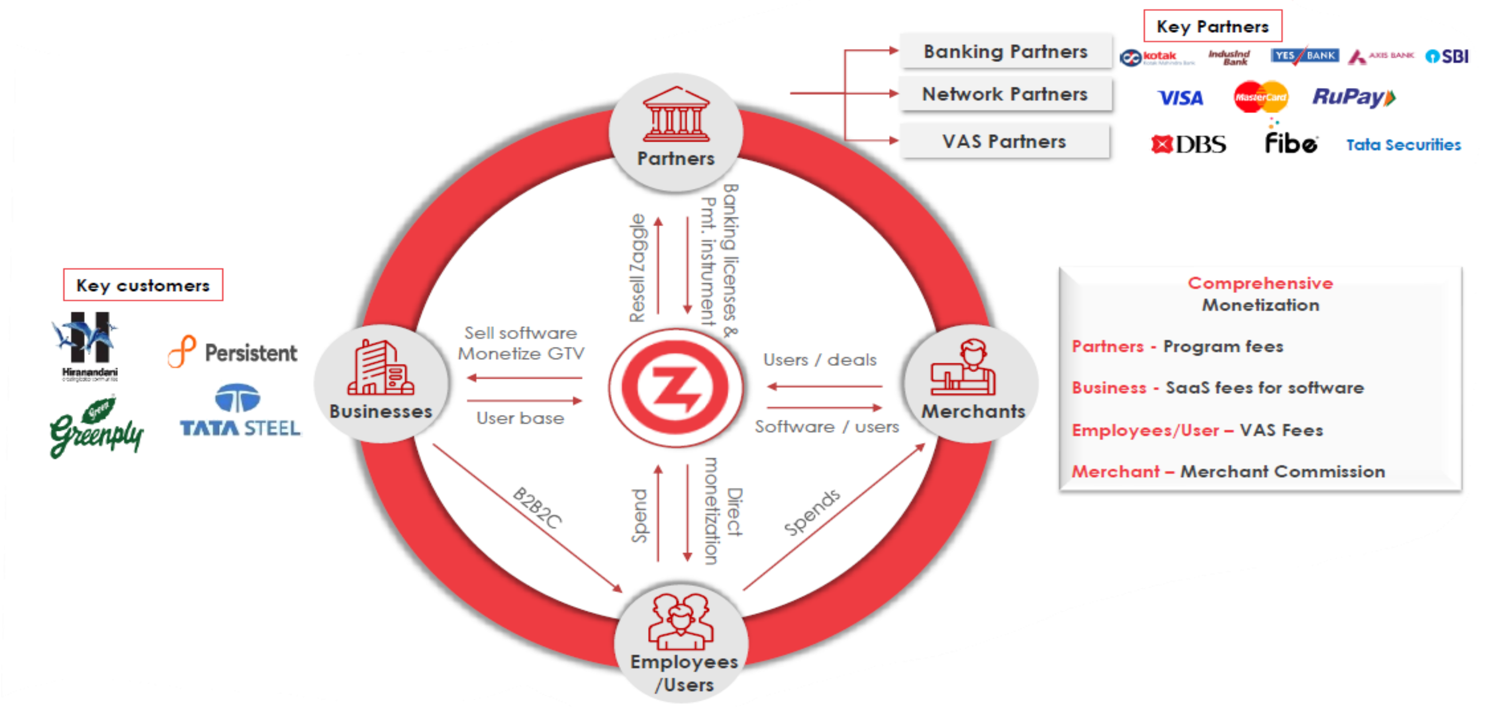
Competitive landscape: Zaggle has created a market niche by offering a combined solution for spend management through prepaid cards and employee management solutions. While there are no listed Indian companies of comparable size, the management identified Happay, Sodexo Cards, SAP Concur and Qwikcilver as competitors.

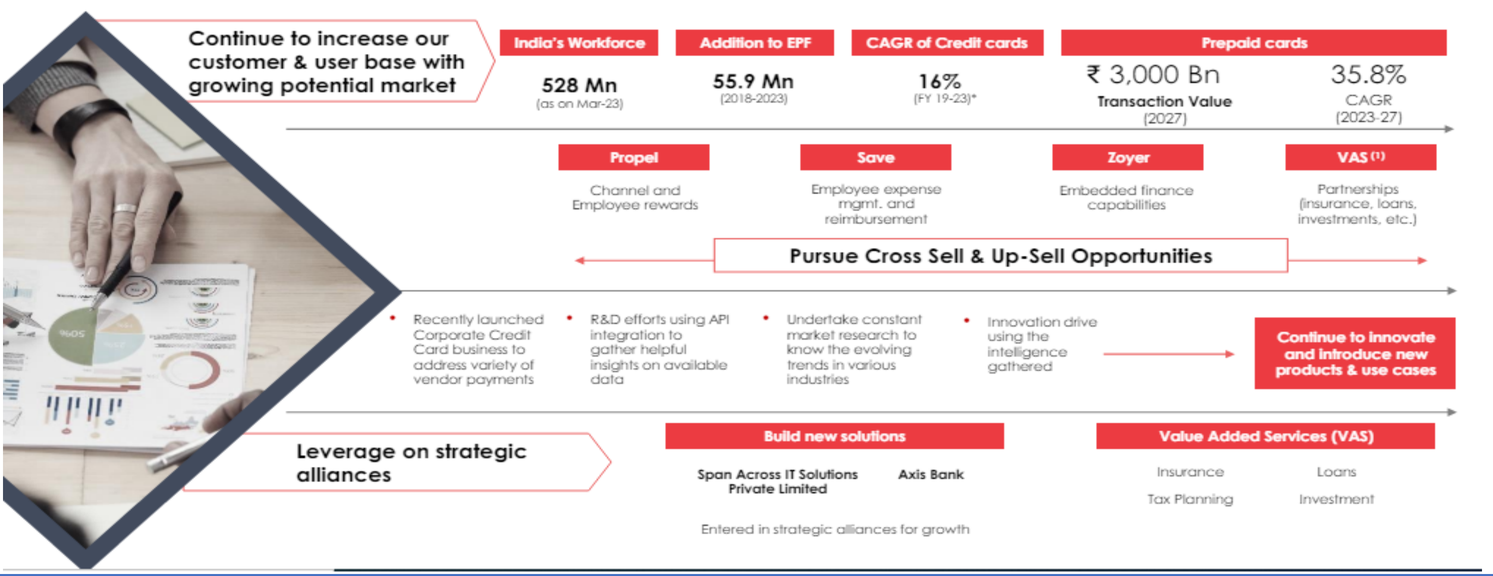
Growth outlook: Zaggle has doubled its revenue over the past three years and it is targeting 45-55% organic growth in FY25. It is focused on expanding market share by making significant investments in technology and building deeper AI capabilities. Moreover, it is evaluating inorganic growth opportunities (M&A) and plans to expand geographically in the US market as part of its growth strategy.

Exhibit 1: Leveraging the partner ecosystem



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Strategic roadmap for growth



Source: Company, Nirmal Bang Institutional Equities Research Note: Note: EPF: Employees' Provident Fund scheme; (1) Value Added Services and *Goldman Sachs Report : The rise of 'Affluent India'; Source: Frost & Sullivan Report

Financials

Exhibit 3: Income statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24
Revenue from operations	2,400	3,713	5,535	7,756
Total Expenses	**2,123**	**3,114**	**5,054**	**7,050**
Cost of point redemption / gift cards	312	1,453	3,206	3,809
Employee benefits expense	125	154	436	513
Other expenses	1,687	1,507	1,412	2,728
EBITDA	**276**	**599**	**481**	**706**
Other income	3	4	11	113
Depre and amortisation expense	20	21	62	84
EBIT	**259**	**582**	**430**	**735**
Finance costs	77	70	114	137
PBT	**182**	**512**	**316**	**598**
Tax	(11)	93	87	158
PAT	**193**	**419**	**229**	**440**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24
Share capital	2	2	92	122
Reserves & surplus	(457)	(37)	395	5,631
Shareholders' funds	**(456)**	**(36)**	**488**	**5,754**
Long Term Borrowings	377	483	513	155
Other Long Term Liabilities	32	51	159	88
Long Term Provisions	6	7	11	16
Total Non-current Liabilities	**414**	**542**	**683**	**259**
Short Term Borrowings	314	161	697	581
Lease liabilities	8	7	44	43
Trade payables	191	107	92	20
Short Term Provisions	0	0	0	1
Other current liabilities	149	144	295	303
Current tax liabilities (net)	-	-	48	1
Total Current Liabilities	**662**	**421**	**1,177**	**949**
Total liabilities	**1,076**	**962**	**1,860**	**1,208**
Total equity and liabilities	**621**	**927**	**2,348**	**6,961**
Property, plant and equipment	10	20	23	25
Right-of-use assets	37	55	197	119
Intangible assets	27	44	69	82
Intangible asset under development	-	15	109	499
Financial assets	4	7	20	306
Other non-current assets	-	21	30	27
Income tax assets, net	75	124	119	11
Deferred tax assets (net)	107	25	23	28
Total non-current assets	**259**	**311**	**589**	**1,096**
Inventories	3	1	1	4
Financial assets	260	466	1,266	4,575
Other current assets	99	149	491	1,287
Total current assets	362	615	1,758	5,865
Total assets	**621**	**927**	**2,348**	**6,961**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash Flow Statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24
PBT	**182**	**512**	**316**	**598**
Op. profit before WC changes	283	615	614	862
Operating Cash Flow	**34**	**201**	**(156)**	**(827)**
Net purchase of investments	(10)	(76)	(162)	(459)
Investing Cash Flow	**(10)**	**(99)**	**(243)**	**(3,319)**
Proceeds from issue of share capital	-	-	150	4,873
Interest paid	(39)	(31)	(103)	(124)
Financing Cash Flow	**(57)**	**(123)**	**526**	**4,030**
Net inc/(dec) in cash/equivalents	(33)	(21)	189	(116)
Opening cash/equivalents	61	28	7	196
Closing cash/equivalents	**28**	**7**	**196**	**79**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

Y/E March	FY21	FY22	FY23	FY24
Margins (%)				
EBITDA	11.5	16.1	8.7	9.1
EBIT	10.8	15.7	7.8	9.5
PBT	7.6	13.8	5.7	7.7
PAT	8.1	11.3	4.1	5.7
Cash PAT (PAT + DA + ESOP)	8.9	11.9	7.9	8.7
Profitability (%)				
ROA	31.1	45.2	9.8	6.3
ROE	NA	NA	47.0	7.7
Other Ratios (%)				
Debt to Equity	(1.5)	(18.1)	2.5	0.1
Interest Coverage Ratio	3.4	8.3	3.8	5.4
Current Ratio	0.6	1.5	1.5	6.2
Per Share (Rs)				
Basic EPS	2.1	4.6	2.5	4.1
Diluted EPS	2.1	4.6	2.5	4.0

Source: Company, Nirmal Bang Institutional Equities Research

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ACCUMULATE -5% to15%

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