

Company Overview

Sagility India is a technology-enabled pure-play healthcare-focused solutions and services provider to Payers (US health insurance companies that finance and reimburse the cost of health services) and Providers (primarily hospitals, physicians, and diagnostic and medical devices companies). The company was incorporated in July 2021, and it acquired the healthcare services business of the predecessor company - Hinduja Global Solutions, in January 2022 for a consideration of \$ 449 million. The company's services to Payers cater to various aspects of their operations, including (i) core benefits administration functions such as claims management, enrolment, benefits plan building, premium billing, credentialing, and provider data management and (ii) clinical functions such as utilization management, care management, and population health management. The company's services to Providers include, revenue cycle management functions such as financial clearance, medical coding, billing, and accounts receivable follow-up services. Further, the company also provides some of the services offered to Payers to pharmacy benefit managers (PBMs) that manage prescription drugs for Members (i.e., insured persons) under health insurance plans.

Objects of the issue

The company proposes to utilize net proceeds towards funding the following objects:

- ⇒ Achieve the benefits of listing the Equity Shares on the Stock Exchanges ;
- ⇒ Carry out the Offer for Sale of up to 70,21,99,262 Equity Shares of the face value of Rs. 10 each by the Promoter selling shareholder.

Investment Rationale

Leader in the large and resilient US Payer and Provider solutions market.

The HealthCare operations expenditure (i.e. front & back-office functions to support Payers & Providers) was valued at US\$201.1 bn in 2023 and is expected to reach ~ US\$258.9 billion in 2028. Growth in the US healthcare market is expected to be driven by several factors, including a rise in the ageing population and increasing prevalence of chronic diseases. While the healthcare market is expected to benefit from these tailwinds, challenges are expected to drive outsourcing growth. In 2023, the aggregate outsourcing penetration rate in the US healthcare operations market stood at 21.5-23.5%, resulting in a total outsourced operations spend of US\$45.0 billion. While the overall healthcare outsourced operations market is expected to grow at a CAGR of 8.7%, the Payer outsourced market is forecasted to grow at a CAGR of 7.0% from 2023 to 2028. On the other hand, the Provider operations outsourced market is expected to grow at a CAGR of 12.5%. The company have become one of the largest tech-enabled healthcare specialists (by revenue) with coverage across payer and provider marks by building out an end-to-end portfolio of services in the outsourced operations market for both Payers and Providers. The company has been recognised for the quality and scale of our services by industry experts. The company were ranked as a Leader by Avasant in their Clinical Services Business Process Transformation RadarView report 2023 and as a Leader in Everest's Healthcare Payer Operations PEAK Matrix Assessment 2023.

Domain expertise in healthcare operations, with end-to-end service offerings to Payers and Providers.

The company provides Technology-enabled services to Payer and Provider clients. This pure-play nature of the company's business, with 24+ years of Business experience and the effective use of technology, has helped the company build domain expertise in its operations. Sagility provides end-to-end, comprehensive service offerings to Payer clients. The company's teams have extensive healthcare expertise and experience, with 1,920 employees having nursing, medical coding, physical therapy, dentistry, pharmacy, occupational therapy, microbiology or laboratory science degrees as of June 30, 2024. Further, the company's domain expertise also helps it to contextualize the use of technology, from RPAs to Gen AI, among other things, to optimize the pre-authorization process, assess and manage claims, respond to questions from Members, and handle grievances for Payers. The non-discretionary nature and the domain specificity of services (as opposed to shared service services such as finance, accounting, and procurement) lead to higher client stickiness.

Issue Details

Offer Period	05th Nov, 2024 - 07th Nov, 2024
Price Band	Rs. 28 to Rs. 30
Bid Lot	500
Listing	BSE & NSE
Issue Size (no. of shares in mn)	702.20
Issue Size (Rs. in bn)	21.06
Face Value (Rs.)	10

Issue Structure

QIB	75%
NIB	15%
Retail	10%

BRLM	ICICI Securities Ltd., IIFL Securities Ltd., Jefferies India Pvt. Ltd., J P Morgan India Pvt. Ltd.
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Registrar	Link Intime India Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100.0%	85.0%
Public	0.0%	15.0%
Total	100.0%	100.0%

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Valuation

The company was incorporated in July 2021, and it acquired the healthcare services business of the predecessor company -Hinduja Global Solutions, in January 2022. The predecessor company commenced providing services to Payer clients in 2000 and gradually increased the scope of services offered to Payers and Providers. Sagility India is a technology-enabled, pure-play healthcare-focused solutions and services provider to Payers - US health insurance companies, which finance and reimburse the cost of health services; and Providers -primarily hospitals, physicians, and diagnostic and medical devices companies. The company has become one of the largest tech-enabled healthcare specialists (by revenue) with coverage across payer and provider markets. Within the healthcare operations outsourced market, the company had a 1.2% and 1.2% share in 2022 and 2023, respectively. As of June 30, 2024, its five largest client groups had an average tenure of 17 years with the Business. As of January 2024, the company served 5 of the top 10 Payers by enrolment in the US Financially, the company's revenue from operations grew by 9.6% to Rs.1,223 crores for the quarter ended June 30, 2024, from Rs. 1,116 crores for the quarter that ended June 30, 2023, and by 12.69% to Rs. 4,753 crores in FY24 from Rs. 4,218.4 crores in FY23. The company reported 23.5% and 17.8% EBITDA margins for FY24 and the quarter ending June 30, 2024, respectively. **The issue is valued at a P/E of 56.6x on the upper price band based on FY24 earnings, which is deemed fair. Therefore, we recommend a "SUBSCRIBE" rating for the issue.**

Key Risks:

- ⇒ The healthcare services industry is intensely competitive, and failure to compete effectively may negatively impact the company's business, financial condition, and operational results. Increased competition could result in pricing pressures and potentially unfavourable contract terms, affecting overall operating outcomes. Additionally, competitors may secure exclusive agreements with current or prospective clients, hindering the company's growth opportunities and revenue generation.
- ⇒ The business could be adversely affected if the company cannot keep pace with technological changes, sufficiently invest and successfully yield the intended results from investments in technology. There is a risk that the company may not adequately invest in technology at sufficient speed and scale or evolve our business with suitable technological investments to adapt to changes in our market.
- ⇒ High voluntary attrition rates, recorded at 27.34% in Q1 FY24, also present challenges, resulting in greater recruitment and training expenses. Recruitment costs alone were Rs. 63.86 million in Q1FY24, a notable increase from Rs. 43.03 million in Q1FY23.

Income Statement (Rs. in millions)

Particulars	FY22 *	FY23	FY24	Q1FY25
Revenue				
Revenue from Operations	9,234	42,184	47,536	12,233
Total Revenue	9,234	42,184	47,536	12,233
Expenses				
Employee benefit expenses	5,057	24,942	29,376	8,504
Other expenses	2,281	6,970	7,278	1,790
Total Operating Expenses	7,338	31,912	36,655	10,294
EBITDA	1,896	10,272	10,881	1,939
Depreciation and Amortization expenses	1,472	6,443	6,892	1,100
Other income	210	177	279	244
EBIT	634	4,005	4,268	1,084
Finance costs	652	2,148	1,851	374
PBT	-19	1,857	2,417	710
Current tax	104	1,243	1,115	418
Deferred Tax charge/ (credit)	-76	-822	-981	69
Total tax	28	421	134	487
PAT	-47	1,436	2,283	223
Diluted EPS	(0.1)	0.3	0.5	0.1

Source: RHP, BP Equities Research

*(FY22 figures are for the period from July 2021-March 22)

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	Q1FY25
Cash Flow from operating activities	(319)	8,568	9,733	3,698
Cash flow from/(used in) investing activities	(77,140)	(1,291)	(4,691)	(3,985)
Net cash flows (used in) / from financing activities	81,164	(5,446)	(7,513)	627
Net increase/(decrease) in cash and cash equivalents	3,705	1,831	(2,471)	340
Cash and cash equivalents at the beginning of the period	33	4,022	5,913	3,421
Cash and cash equivalents at the end of the period	3,738	5,853	3,441	3,761

Source: RHP, BP Equities Research

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24	Q1FY25
Assets				
Non-Current Assets				
Property, plant and equipment	2,653	2,955	3,832	3,875
Capital Work-in-Progress	54	3	57	0
Right-of-use assets	5,525	5,295	5,665	5,280
Good will	52,183	54,598	57,096	56,793
Other Intangible Assets	25,848	23,221	20,078	19,670
Financial Assets				
Other financial assets	356	373	476	484
Deferred tax assets (net)	113	614	1,354	1,275
Other tax assets (net)	87	571	741	610
Other non-current assets	81	341	145	98
Current Assets				
Financial Assets				
(i) Trade Receivables	9,262	10,686	11,813	10,041
(ii) Cash and cash equivalents	3,738	5,853	3,441	3,761
(iii) Other financial assets	415	269	352	589
Other current assets	649	1,127	1,593	1,302
Current tax assets (net)	-	-	-	102
Total Assets	1,00,963	1,05,905	1,06,642	1,03,880
Equity and Liabilities				
Equity Share Capital	19,187	19,187	42,853	46,793
Other Equity	21,079	42,880	21,578	29,289
Total Equity	40,266	62,067	64,431	76,082
Non-Current Liabilities				
Financial Liabilities				
Borrowings	41,842	23,237	16,647	6,775
Lease Liabilities	4,593	4,346	4,714	4,392
Other Financial liabilities	-	56	142	37
Provisions	5,412	5,635	6,187	6,076
Current Liabilities				
Financial Liabilities				
(i) Short Term Borrowings	550	242	2,688	2,664
(ii) Lease Liabilities	892	1,133	1,268	1,311
(iii) Trade Payable	1,149	2,135	2,593	2,531
(iv) Other financial liabilities	5,158	5,687	6,445	2,297
Provisions	627	727	673	769
Contract Liabilities	110	106	236	182
Current Tax Liability (Net)	102	139	155	401
Other current liabilities	262	394	463	363
Total liabilities	60,697	43,838	42,211	27,799
Total Equity and Liabilities	1,00,963	1,05,905	1,06,642	1,03,880

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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