

Recommendation	Subscribe	
Price Band	Rs 28-30	
Bidding Date	05th – 07th Nov, 2024	
Book Running Lead Manager	ICIC Sec, IIFL sec, Jefferies Ind Ltd, J.P Morgan	
Registrar	Link Intime India Private Limited	
Sector	IT	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	500	
Minimum Application Money	Rs. 15000	
Discount to retail	0	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY23	FY24
Total Income	4,218	4,754
Adj EBITDA	1045	1171
Adj PAT	456	590
Valuations (FY24)	Lower Band	Upper Band
Market Cap (Rs Cr)	13,108	14,044
Adj EPS	0.97	1.26
PE	29	24
EV/ EBITDA	15	13
Enterprise Value (Rs Cr)	14,697	15633
Post Issue Shareholding Pattern		
Promoters	85.0%	
Public/Other	15.0%	
Offer structure for different categories		
QIB (Including Mutual Fund)	75%	
Non-Institutional	10%	
Retail	15%	
Post Issue Equity (Rs. in cr)	4681.3	
Issue Size (Rs in cr)	2106	
Face Value (Rs)	10	
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BACKGROUND

Sagility is a pure healthcare focused technology driven service provider having client profile of **Payers** which include leading U.S. health insurance companies and **Providers** including hospitals, physicians, and diagnostic and medical devices Company's amongst others. 90% of the company's revenues come from the payers segment where it is involved in the core benefit admin functions deriving predictable revenues. It operates through five global service delivery locations present in India, the Philippines, the U.S., Jamaica and Colombia.

Sagility holds deep domain expertise and leadership position in the focused payer healthcare market offering comprehensive services as against the other traditional IT players. With growing outsourcing outlook of the traditionally conservative Healthcare industry, Sagility holds a better position to gain traction and gain market share. Shares are available at an adjusted P/E of 24x and EV/EBITDA of 13x FY24 earnings which seems reasonable given its highly focused nature of business and thus recommend '**Subscribe**' to the issue.

Details of the Issue:

IPO is a book-building issue worth Rs. 2,106.6 crore comprising only an offer-for-sale (OFS) of 70.22 crore shares.

Objects of the Issue:

To list on the stock exchange.

Investment Rationale:

1. Leader in large US Healthcare Payer and Provide Market.
2. Deep Domain Expertise enabling end to end service offerings.
3. Strategic Advantages with strong Promoter background.
4. Stable and Good Financial Performance with good set of margins.

Financials	FY23	FY24	Q1FY25
Net Revenues	4,218	4,754	1,223
Growth (%)	-	12.7%	9.6%
EBITDA	1,027	1,088	194
EBITDA Margin (%)	24.4%	22.9%	15.9%
Adjusted EBITDA	1044.86	1171.46	315.97
PBT	186	242	71
Adjusted PAT	456	590	145
EPS	0.97	1.26	0.31
ROE	7.3%	9.2%	7.6%
ROCE	4.7%	5.1%	5.1%
EV/Sales	3.7	3.3	3.2
Adj EV/EBITDA	15.0	13.3	12.4
Adj P/E	30.8	23.8	24.3

Company Background

Sagility (earlier part of Hinduja Global Ltd) is a pure healthcare focused technology driven service provider having client profile of **Payers** which include leading U.S. health insurance companies and **Providers** including hospitals, physicians, and diagnostic and medical devices co's amongst others. It provides services to Payers with respect to various aspects of their operations including (i) **core benefits** admin 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. For Providers, Co offers services which include revenue cycle management such as financial clearance, medical coding, billing, and accounts receivable follow-up services. Cooperates through five global service delivery locations in India, the Philippines, the U.S., Jamaica and Colombia.

Payer services

- **Claims Management**
 - They manage the claims settlement process for Payers, which includes reviewing and validating claims from Providers to ensure alignment with the Member's benefits plan and Provider contracts. This process ensures that claims are processed accurately and paid promptly.
- **Payment Integrity**
 - Payers control costs by identifying claim overpayments and ensuring that the correct amounts are paid for claims submitted by healthcare Providers.
- **Clinical Management**
 - Their clinical management services focus on delivering timely, high-quality care for Members, supporting Payers in managing healthcare costs while ensuring that Members receive necessary and appropriate care from Providers.
- **Other Payer services**
 - They also assist Payers with onboarding new Providers to their networks and managing Provider databases. The onboarding process includes verifying credentials and maintaining an accurate Provider directory within a Payer's network, which is a regulatory requirement in the U.S.



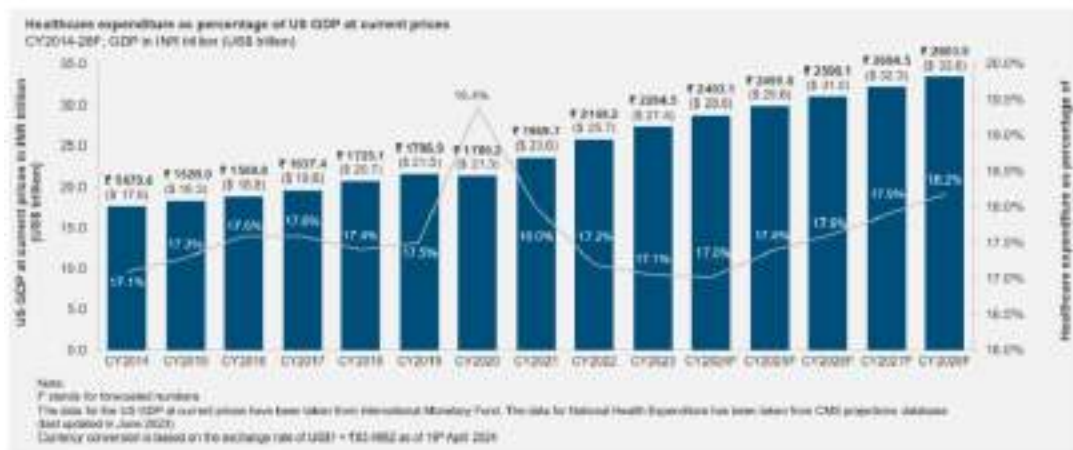
Slide: BMR, Health Medical Equipment - 1, FY'2024
Source: Company, NBRR

Provider Services

- **Revenue Cycle Management (RCM)**
 - They are all-inclusive RCM (Revenue Cycle Management) service provider, offering scheduling and financial clearance services to Providers, including insurance verification, benefits validation, referral management, and prior authorizations. They also support Providers with order entry, charge entry, and medical coding. For revenue cycle services, they provide billing and follow-up focused on collecting and resolving insurance and patient balances.

Industry overview

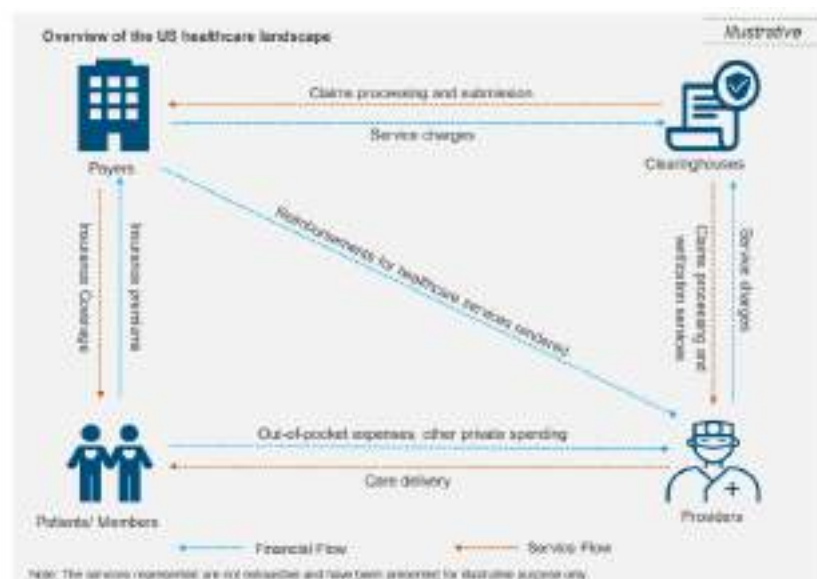
Healthcare is an intricate segment of the US economy accounting for 17.1% of its nominal GDP and amounting to US\$4.7 tn (₹389.6 tn) in 2023 as per the latest projections by Centers for Medicare & Medicaid Services (“CMS”). This expenditure has grown at a CAGR of 5.0% from 2014 to 2023. The healthcare expenditure surged to 19.4% of the nominal GDP in 2020 during COVID-19, totaling US\$ 4.1 tn (₹ 346.0 tn).



Source: Everest Report

The US healthcare market comprises of two primary entities with respect to care financing and care delivery – healthcare payers and healthcare providers:

- Healthcare payers:** Healthcare payers are entities that pay for or reimburse healthcare services for insured members through health insurance plans.
- Healthcare providers:** Healthcare providers are individuals or healthcare facilities that are licensed to deliver care services or aid in care delivery such as doctors, clinics, hospitals, labs, durable medical equipment providers, etc.



Source: Everest Report

Investment Rationale

Leader in large US Healthcare Payer and Provide Market.

US Healthcare operations markets was estimated to be \$ 201 bn in 2023 and is expected to reach ~ \$ 259 bn in 2028. Out of this, the total outsourcing penetration rate remains at ~ 21-23% at \$ 45 bn. This market is expected to grow at a CAGR of 8.7% by 2029 as per Everest Report. Sagility has capitalized on this growing market and provides a comprehensive range of services to Payers and Providers which includes core non-discretionary benefits administration functions and clinical services. To Providers, the company provides end – to - end revenue cycle management services which help them manage their billing and payment from Payers and patients. In terms of revenues, Sagility is one of the largest healthcare specialists with coverage across payer and provider markets providing end – to - end portfolio of services in the outsourced operations market. As per Everest Report, Sagility held ~ 1.23% market share in the healthcare outsourced market.



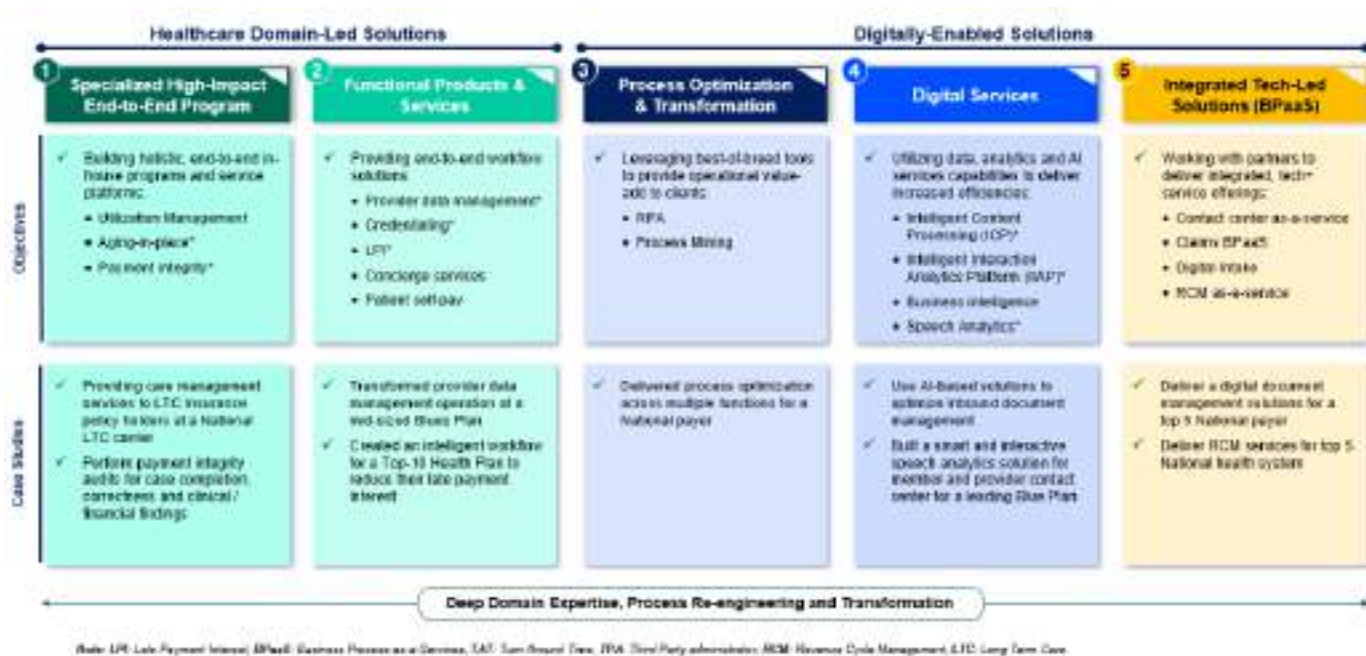
Source: Everest Report

Company’s understanding of the complete Payer and Provider value chain helps it offer solutions that target the core administrative workflows of Payers and the revenue cycle management workflow of the Provider. Over the years, the company has developed a suite of proprietary tools and platforms that enable its services. These proprietary tools and platforms assist in serving the entire spectrum of their Payer client’s operations and also healthcare Provider client’s revenue cycle management functions.

Deep Domain Expertise enabling End to End Service Offerings

The U.S. healthcare industry is characterized by complex services, stringent compliance requirements, elaborate performance measures, and multifaceted payment workflows. These challenges necessitate the involvement of specialized service providers who possess the expertise to navigate and manage these complexities effectively.

Sagility has the domain expertise to improve the efficiency of core operations, clinical outcomes, optimize cost of care as well as modernize and digitize various functions of Payers and Providers businesses. As a specialist healthcare company, Sagility is able to assess whether treatments are “medically necessary”, predict healthcare risks based on relevant data sets, and reduce unnecessary rework in claims that result in provider abrasion and high interest payments. 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. Company successfully leverages various technologies including RPA, analytics and AI and offers end to end service offerings to its clients.



Source: Everest Report

Strategic Advantages with strong Promoter background

The primary promoter of Sagility is Baring Private Equity Asia (BPEA) EQT, which acquired the healthcare business of Hinduja Global Solutions in 2021 for ~ \$1.2bn. BPEA provides Sagility with substantial financial backing enabling it to make targeted acquisitions and expand its offerings in healthcare services. This support allows the company to invest in advanced technology and acquire firms with specialized healthcare capabilities, as seen in its recent acquisition of Devlin Consulting and BirchAI.

With BPEA’s support, Sagility has scaled its operations to over 38,000 employees across five countries. This international footprint enables Sagility to tap into global healthcare markets and aid its revenue goal of reaching \$1 bn by 2026 which seems ambitious yet feasible with BPEA’s guidance. BPEA’s expertise in scaling businesses helps Sagility target large-scale clients while expanding in mid-market spaces. In summary, BPEA’s involvement offers Sagility the capital, expertise, and operational scale necessary to strengthen its position in the healthcare BPM market and meet evolving demands in healthcare management.

Stable Financial Performance with good set of margins on the backdrop of marquee clientele

Company has served five out of ten Top Payers in the US. Client retention and stickiness is also high for the company. For instance, relationship with its 3rd largest client (a national top 10 Payer) spans over 10 years. Over the years, revenues from this client have grown at a CAGR of 20.6%, consistently increase wallet share from the client.

Further, Co has also been able to add on newer clients. In 2023, 2024 the company has added 13 and 7 new clients respectively. Consequently, revenues/ adjusted EBIDTA margins/adjusted PAT of the company grew 12.7% / 12% / 29.4% respectively.



Source: Company, NBRR

Adjusted EBIDTA represents adjustments in relation for earn outs payable under the acquisition amounting to Rs.55.42 crore and Rs.28.23 crore respectively in FY24 and Q1FY24 and Rs. 12.4 crore in Q1FY25. Share based payment for Q1FY25 was Rs.85.2 crore. Thus, adjusted EBIDTA margins stood at 25.8% in Q1FY25.

Similarly, Adjusted PAT stands at 11.8% in Q1FY25 after making adjustments for acquisition earnouts, amortization and share based payment awards. Co would be making Rs.135 crore non cash amortization in P&L till 2037.

Profitability metrics for Sagility

Adjusted EBIDTA					Adjusted PAT				
(INR M)	FY2023	FY2024	Q1FY2024	Q1FY2025	(INR M)	FY2023	FY2024	Q1FY2024	Q1FY2025
Revenue from operations	42,184.00	47,335.57	11,188.03	12,233.28	Revenue from operations	42,184.00	47,335.57	11,188.03	12,233.28
EBIDTA	15,448.44	11,188.03	2,751.44	2,183.74	PAT	1,455.12	2,282.88	424.88	222.84
Adjustments:					Adjustments:				
Earnouts under acquisition agreements	-	884.24	280.24	100.75	Earnouts under acquisition agreements (net of tax impact)	-	407.48	207.38	88.77
Share based payment awards	-	-	-	832.18	Amortization of other intangible assets acquired pursuant to business combinations (net of tax impact)	3,128.21	3,205.44	791.78	281.00
Share based payment awards (net of tax impact)	-	-	-	832.18	Share based payment awards (net of tax impact)	-	-	-	292.11
Adjusted EBIDTA¹	15,448.44	11,114.61	3,633.75	3,158.05	Adjusted PAT²	4,505.80	5,995.58	1,424.11	1,446.92
% revenue from operations	24.77%	24.84%	27.10%	25.82%	% revenue from operations	10.80%	12.60%	12.76%	11.82%
% growth	-	12.12%	4.11%	1.82%	% growth	-	29.40%	1.82%	1.82%

Source: Company and NBRR

Risks and concerns

1. Company derives 100% of its revenues from US markets. Any downturn/slowdown in the US economy will adversely affect Co's financial performance.
2. Any volatility in the currencies can widely affect Company revenue and margins.

Valuation and Recommendation

Sagility holds deep domain expertise and leadership position in the focused payer healthcare market offering comprehensive services as against the other traditional IT players. With growing outsourcing outlook of the traditionally conservative Healthcare industry, Sagility holds a better position to gain traction and gain market share. Shares are available at an adjusted P/E of 24x and EV/EBITDA of 13.3x FY24 earnings which seems reasonable given its highly focused nature of business and thus recommend '**Subscribe**' to the issue.

<i>FY24 Figures</i>	Mastek Ltd	Infosys Ltd	Wipro Ltd	Coforge Ltd	Average	Sagility Limited
Revenue	3,055	1,53,670	89,760	9,179	63,916	4,754
CAGR (FY22-24)	18.3%	22%	6.5%	19.5%	16.46%	13.4%
EBITDA Margin	16.6%	23.8%	7.1%	15.6%	16%	22.9%
Asset Turns (x)	0.8	1.1	0.7	0.8	0.8	0.4
CC Cycle	67	72	47	72	38	56
ROCE (%)	15.5%	37.5%	17.0%	24.4%	23.6%	5.1%
Adj ROE (%)	14.3%	29.7%	14.8%	21.7%	20.1%	9.2%
Debt/Equity	0.3	0.1	0.3	0.3	0.2	0.3
Adj EV/EBITDA	18.0	19.5	46.2	34.7	29.6	13.3
Adj P/E	24.1	27.0	24.4	60.0	33.9	23.8

Financials

Sagility Ltd.

Consolidated Nos

P&L (Rs. Cr)	FY23	FY24	Q1FY25
Net Revenue	4,218.4	4,753.6	1,223.3
% Growth	-	13%	10%
Employee Cost	2,494.2	2,937.6	850.4
% of Revenues	59.1%	61.8%	69.5%
Other expenses	697.0	727.8	179.0
% of Revenues	16.5%	15.3%	14.6%
EBITDA	1,027.2	1,088.1	193.9
EBITDA Margin	24.4%	22.9%	15.9%
Adj EBITDA	1044.86	1171.46	315.97
margin %	24.8%	24.6%	25.8%
Depreciation	644.3	689.2	110.0
Other Income	17.7	27.9	24.4
Interest	214.8	185.1	37.4
Exceptional item	0.0	0.0	0.0
PBT	185.7	241.7	71.0
Tax	42.1	13.4	48.7
Tax rate	23%	6%	69%
PAT	143.6	228.3	22.3
Adj. PAT	455.6	589.6	144.7
margin %	10.8%	12.4%	11.8%
EPS (Post Issue)	1.0	1.3	0.31

Ratios & Others	FY23	FY24	Q1FY25
Debt / Equity	0.4	0.3	0.1
EBITDA Margin (%)	24.4%	22.9%	15.9%
PAT Margin (%)	10.8%	12.4%	11.8%
ROE (%)	7.3%	9.2%	7.6%
ROCE (%)	4.7%	5.1%	5.1%

Turnover Ratios	FY23	FY24	Q1FY25
Debtors Days	92	91	75
Inventory Days	0.0	0.0	0.0
Creditor Days	18	20	19
Asset Turnover (x)	0.4	0.4	0.5

Valuation Ratios	FY23	FY24	Q1FY25
Price/Earnings (x)	30.8	23.8	24.3
EV/EBITDA (x)	15.0	13.3	12.4
EV/Sales (x)	3.7	3.3	3.2
Price/BV (x)	2.3	2.2	1.8

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY23	FY24	Q1FY25
Share Capital	1,919	4,285	4,679
Other Equity	4,288	2,158	2,929
Minority Interest	0	0	0
Networth	6,207	6,443	7,608
Total Loans	2,348	1,934	944
Other non-curr liab.	1,004	1,104	1,051
Trade payable	213	259	253
Other Current Liab	819	924	532
Total Equity & Liab.	10,590	10,664	10,388
Property, Plant and Equipment	295	383	388
CWIP/goodwill	5,460	5,715	5,679
Other Intangible / Right of use	2,852	2,574	2,495
Non Currrent Financial assets	37	48	48
Other non Curr. assets	153	224	198
Inventories	0	0	0
cash and cash equivalents	585	344	376
Investments+loans	0	0	0
Trade receivables(debtor)	1,069	1,181	1,004
Other Current assets	140	194	199
Total Assets	10,590	10,664	10,388

Cash Flow (Rs. Cr)	FY23	FY24	Q1FY25
Profit Before Tax	186	242	71
Provisions & Others	911	869	216
Op. profit before WC	1,097	1,111	287
Change in WC	-70	-11	97
Less: Tax	-170	-126	-14
CF from operations	857	973	370
Purchase/Sale of fixed assets	-144	-183	-27
Sale/Purchase of Investments	2	-301	-374
Interest, dividend and other inc	-16	2	2
Bank deposits (having original ma	29	12	0
Loan (given) / repaid - related part	0	0	0
CF from Investing	-129	-469	-399
Repayment towards Lease Liab	-196	-148	-36
Proceeds from/(repayments of) Lo	-141	-428	342
Proceeds from/(repayments of) Sh	0	-168	-243
interest & div paid	(207)	(7)	(1)
CF from Financing	-545	-751	63
Net Change in cash	183	(247)	34
Cash & Bank at beginning	402	591	342
Cash & Bank at end	585	344	376

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