

RETAIL EQUITY RESEARCH

Zaggle Prepaid Ocean Services Ltd.

Fintech products & Services

SENSEX: 67,467

NIFTY: 20,070

SUBSCRIBE

Price Range Rs.156- Rs.164

A SaaS-based fintech platform

Zaggle Prepaid Ocean Services Ltd. (ZPOSL), founded in 2011, is a prominent player in the business-to-business-to-customer (B2B2C) segment. The company specialises in delivering fintech products, including prepaid cards and software-as-a service (SaaS) solutions, to corporate clients across various sectors. ZPOSL occupies a distinctive position at the convergence of the SaaS and fintech ecosystems. It offers a comprehensive SaaS platform geared towards addressing essential business functions, such as business spend management (covering expense and vendor management), rewards and incentives management for both employees and channel partners, and a robust customer engagement management system (CEMS). Operating through a network of seven offices throughout India, Zaggle Prepaid Ocean Services serves more than 1.7 million end-users and collaborates with over 1,750 corporate clients.

- The spend management software and services market in India is projected to expand from an estimated ₹73 bn in 2021 to ₹131 bn by 2027, demonstrating a CAGR of ~ 25.3%.
- Zaggle's revenue grew ~52% CAGR over FY21-23, while its Adj. PAT grew 38% CAGR during the same period due to an increase of 151% in the user base. For FY23, ZPOSL recorded a consolidated net profit of ₹36.9cr, with revenue reaching ₹553.5cr.
- For the last three fiscals, the company has posted EBITDA margins of 11.5% (FY21), 16% (FY22), and 11% (FY23 adjusted EBITDA), and its Adj. PAT margins were 8.1%, 11.3%, and 6.7% for the corresponding periods, respectively.
- ZPOSL's network of corporate customers includes renowned brands such as TATA Steel, Persistent Systems, Vitech, Inox, Pitney Bowes, Wockhardt, MAZDA, PCBL (RP - Sanjiv Goenka Group), Hiranandani Group, Cotiviti, and Greenply Industries.
- In August 2023, ZPOSL conducted a pre-IPO placement involving 5.975 million equity shares, priced at ₹164 per share, totalling ₹98cr. Notably, prominent investors Ashish Rameshchandra Kacholia and Bengal Finance & Investment emerged as the primary investors in the company, each acquiring a 1.86% stake through private placement.
- Zaggle allocates a significant portion of the IPO proceeds of Rs 300cr, for customer acquisition and retention, highlighting its commitment to its expansion efforts and diversifying its product offerings.
- At the upper price band of ₹164, ZPOSL is available at a Adj. P/E of 54.3x (FY23), which appears to be aggressively priced. However, several factors contribute to its appeal, including a diverse client base spanning various industries, consistent revenue growth over the years, the company's expansion strategies, a diversified revenue model, and the flourishing digital payments sector. Given these considerations, we recommend a "Subscribe" rating for the issue on a short- to medium-term basis.

Purpose of IPO

The IPO consists of a fresh issue of shares up to ₹392cr, and the offer for sale is worth Rs 171.4 cr. The proceeds from the fresh issuance of ₹300cr will be utilised for customer acquisition and retention, technology and product development (₹40cr) from FY24 to FY26, and debt repayment (₹17.1cr). The remaining funds will be allocated for general corporate purposes.

Key Risks

- Since the industry is highly tech-oriented & competitive, the cost of upgrading new technologies can put strain on company performance.
- It can pose challenges, if it is not successfully integrated with client software.

Issue Details	
Date of opening	September 14, 2023
Date of closing	September 18, 2023
Total No. of shares offered (cr.)	3.44
Post Issue No. of shares (cr)	12.3
Price Band	₹156- ₹164
Face Value	₹1
Bid Lot	90 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,760
Maximum application for retail (upper price band for 13 lot)	₹ 1,91,880
Listing	BSE,NSE
Lead Managers	ICICI Securities Ltd, Equirus Capital Pvt. Ltd. IIFL Securities Ltd. JM Financial Ltd

Registrar KFin Technologies Ltd.

Issue size (upper price)	Rs.cr
Fresh Issue	392.0
OFS	171.4
Total Issue	563.4

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	58	47
Public & others	42	53
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	10	56.3
Non-Institutional	15	84.5
QIB	75	422.5
Employee Reservation	-	-
Total	100	563.4

Y.E March (Rs cr) Consol.	FY21	FY22	FY23
Sales	240	371.3	553.5
Growth (%)	-	54.7	49.1
EBITDA	27.6	59.9	62.1*
Margin(%)	11.5	16.1	11*
PAT Adj.	19.3	42.0	36.9*
Growth (%)	-	117	-12.0
EPS	1.6	3.4	3.0
P/E (x)	103.6	47.7	54.3*
EV/EBITDA	75.1	34.6	34.5*
RoE (%)	-	-	75.7*

* One time adjustment of ESOP

Business Description

Zaggle Prepaid Ocean Services Ltd (ZPOSL), established in 2011, is a prominent player in the B2B2C segment where the company provides fintech and SaaS solutions to corporate clients in banking, finance, technology, healthcare, manufacturing, FMCG, infrastructure, and automobiles. It occupies a unique position at the intersection of the SaaS and fintech ecosystems and offers a comprehensive SaaS platform designed to address business functions like business spend management (covering expense and vendor management), rewards and incentives management for both employees and channel partners and a robust customer engagement management system (CEMS). Zaggle Prepaid Ocean Services operates through a network of seven offices across India with more than 1.7 million end-users and over 1,750 corporate clients. Among their notable clients includes TATA Steel, Persistent Systems, Inox, Pitney Bowes, and numerous others.

Product and service offerings

The products and services span across the SaaS and fintech value chain and are at different stages of growth, market penetration, customer adoption, product development, and monetisation. The key product and service offerings are briefly described below.

- **Propel:** Corporate SaaS platform for channel rewards and incentives, employee rewards and recognition. Propel has contributed 61.04%, 69.61% and 81.63% to the revenue from the Program Fee in Fiscals 2023, 2022 and 2021, respectively.
- **Save:** A SaaS-based platform and mobile application for employee expense management with automated workflows, along with a digitised employee reimbursements solution and employee benefits module. Save has contributed 38.96%, 30.39% and 18.37% to the revenue from operations during Fiscals 2023, 2022 and 2021, respectively.
- **CEMS:** Launched in Fiscal 2022, the customer engagement management system enables merchants to comprehensively manage their customer experiences including rewarding them through gift card and loyalty benefits.
- **Zaggle Payroll Card:** The Zaggle Payroll Card is a prepaid payroll card that allows the Customers to pay contractors, consultants and seasonal and temporary employees as an alternative to direct deposits to bank accounts or cash payments. They launched the 'Zaggle Payroll Card' in Fiscal 2022 and are yet to recognise any revenues under this offering.
- **Zoyer:** Zoyer is an integrated data-driven business spend management platform with embedded finance capabilities. They launched Zoyer in Fiscal 2022 and are yet to recognise any revenues under this offering.
- **Zakey:** Zakey is a contactless payment device in the form of a key fob, which they have launched in Fiscal 2023, in partnership with the Preferred Banking Partners. They are yet to recognise any revenues under this offering.
- **ZatiX:** ZatiX is an analytics platform, which helps businesses to bring in greater cost efficiencies.

STRENGTHS

Differentiated SaaS-based fintech platform, offering a combination of payment instruments, mobile application and API integrations

India's spend management software and services market is expected to reach ₹131 billion by 2027 from an estimated ₹73 billion in 2021, growing at a CAGR of approximately 25.3%. The SaaS offerings (comprising of Propel, Save, CEMS and Zoyer) for businesses includes business and employee spend management, employee benefits management, employee incentives, channel rewards and incentives, employee rewards and recognition and employee tax benefits. They combine the unified SaaS-based platform with a comprehensive product stack that digitises business and employee spend management and rewards for businesses, along with the offering of payment instruments, such as the Zaggle Payroll Card, Kuber Gift Card (a gift card that works at both online and offline outlets where Visa cards are accepted in India) and Zinger Multi-wallet Card (a reloadable card with multiple wallets that works at both online and offline outlets where Visa cards are accepted in India). The ecosystem allows for parties with complementary services to connect, creating a network effect for businesses, employees, channel partners, customers, merchants and banks. One of the key fintech offerings, 'Save', includes a physical as well as virtual prepaid card by way of the mobile application, with an ability to create multiple wallets for a single User that can be used at any online or offline terminal accepting Visa cards across India. One of the other fintech offerings, 'Propel', is a corporate SaaS platform for channel rewards and incentives, employee rewards and recognition.

In-house developed technology and strong network effect

Zaggle is among the few uniquely positioned players offering diversified services with fintech products and services and have advantages of having one of the largest number of issued prepaid cards in partnership with certain of the banking partners and high profitability along with a diversified portfolio of SaaS services (including for tax and payroll) and a wide touchpoint reach (*Source: Frost & Sullivan Report*). They provide a composite SaaS and fintech offering under a single application and payment instrument. They also offer CEMS, customer engagement management system that enables merchants to comprehensively manage their customer experiences including rewarding them through gift card and loyalty benefits. The API integrations with the customers' enterprise resource planning (ERP) and other internal platforms provide the Customers and Users with ease of access and utility under a single application. The APIs are representational state transfer (REST) based which makes them configurable and are designed with the developers in mind for easy consumption and quick integration. Moreover, the deep integration with the Customers' technology stack results in more customised interactions for the Users, thereby enhancing the Customer loyalty and retention. The experience and expertise have helped them develop strong relationships with the Customers over a long period of time. As of March 31, 2023, they had 2,411 Customers in India with varying sizes, User bases, operating histories, sectors and annual turnovers. Some of the well-known Customers include Tata Steel, Wockhardt, Pitney Bowes, AON, Inox and PCBL (RP – Sanjiv Goenka Group).



Business model with diverse sources of revenue and low customer acquisition and retention costs

They charge the Customers a platform fee, SaaS fee and service fee for implementing the product offerings. they earn fees from periodic subscriptions from the Customers for the usage of the software that has represented 4.38%, 4.48% and 5.39% of the revenue from operations in Fiscals 2023, 2022 and 2021, respectively. they also generate revenue by monetizing 'Propel Points' which are reward points that are calculated, issued and redeemed on the platform. Program Fees is one of the largest components of the total revenue from operations, which in turn primarily consists of the portion of interchange fees which are spend-based fees that the banking partners earn for the transactions carried out by the Users of prepaid cards at offline and/or online merchant points of sale and which they receive from the banking partners. In addition to the revenue stream from subscription fees (including add-on charges, if any), they have also begun to earn merchant commissions and commission on VAS sales.

They work with lending and wealth management partners such as DBS Bank, Fibe (formerly, EarlySalary) and Tata Securities to offer their loan and wealth management products to the Users. Under the terms of the contracts, they earn a referral fee for each successful loan or financial product availed but take no credit risks on the balance sheet which is borne by the partner who also conducts the KYC and underwriting processes.

Diversified customer relationships across sectors along with preferred banking and merchant partnerships

We have a diversified Customer base covering leading brands across multiple industry verticals. they have been successful in developing relationships with some of the well-known names. they have been serving some of these Customers since 2013. As of March 31, 2023, they had more than 2.27 million Active Users with 579 SMB accounts and 1,832 corporate accounts. the Customer base as of March 31, 2023 was 151.37% higher than the Customer base of 904,713 Active Customers as of March 31, 2021. they have a strong customer retention capability with the churn rate for Customers terminating their contracts with us being consistently low at 1.54%, 0.37%, 1.17% in Fiscals 2023, 2022 and 2021, respectively. With the integrated offerings, they have been successful in reducing the negative impact of low switching costs associated with a SaaS business. the ability to offer Customers subscription-based services helps provide a recurring revenue stream.

Business Strategies:

- ◆ Continue to increase the Customer base of corporate accounts, SMB accounts, start-ups and merchants
- ◆ Continue to scale and expand by increasing user penetration and cross selling within the existing Customer base
- ◆ Continue to innovate to introduce new products and use cases
- ◆ Leverage strategic partnerships with financial institutions and merchants
- ◆ Pursue selective strategic acquisitions and investments to grow the business

Industry outlook

India's fintech ecosystem has grown rapidly and its market revenue is estimated to reach approximately ₹8,341.0 billion in Fiscal 2027 as a result of supporting government policies which have fostered a cashless society and rising investments. India had the highest fintech adoption rate of 87.0% in Fiscal 2023, compared to other countries. India has the fastest-growing digital payments industry in the world, with a five-fold increase in contactless payments from 2016 to 2021 and the number of businesses accepting contactless payments grew six-fold from 2018 to 2021. In Fiscal 2022, UPI was expected to account for 86.0% of all consumer payments and digital payments from consumers to merchants were expected to reach 1,575.0% growth in Fiscal 2022. India's digital payments industry is expected to grow at a CAGR of approximately 22.0% from 2023 to 2027. The overall market for spend management software and services (in-house and outsourced; including procurement management, expense management, and payroll management) was estimated to surpass ₹200 billion by Fiscal 2027, with the share of outsourced spend management estimated to be around 60.0% during that period (*Source: Frost & Sullivan Report*).

Promoter and promoter group

The Promoters of the company are Raj P Narayanam and Avinash Ramesh Godkhindi.

Brief Biographies of directors

- **Raj P Narayanam** is the Executive Chairman of the Company. He has been on the Board of the Company since April 30, 2012. He completed post graduate diploma in business management with specialisation in finance from the FORE School of Management, New Delhi.
- **Avinash Ramesh Godkhindi** is the Managing Director and Chief Executive officer of the Company. He has been on the Board of the Company since May 7, 2012. He holds a bachelors' degree in engineering from Bangalore University, Bengaluru and a masters' degree in business administration from the University of Chicago, Chicago.
- **Arun Vijaykumar Gupta** is a Non-Executive Director of the Company. He has been on the Board of the Company since September 26, 2022. Currently, he is a director at Route Mobile Limited.
- **Aravamudan Krishna Kumar** is an Independent Director of the Company. He has been on the Board of the Company since September 26, 2022. He is a certified associate of the Indian Institute of Bankers and has experience in the banking industry. Prior to this, he worked at the State Bank of India.
- **Abhay Deshpande Raosaheb** is an Independent Director of the Company. He has been on the Board of the Company since August 22, 2022. He has experience in the IT industry and is currently a director at Payswiff Technologies Private Limited.
- **Prerna Tandon** is an Independent Director of the Company. She has been on the Board of the Company since September 26, 2022. Prior to this, she has worked as the vice president – operations at Infosys BPO Limited and vice president – productivity and digitization leader at Genpact India.



CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY21	FY22	FY23
Sales	240	371.3	553.5
% change	-	54.7	49.1
EBITDA	27.6	59.9	48.1
% change	-	117	-20
Depreciation	2.0	2.1	6.2
EBIT	25.6	57.8	41.9
Interest	7.7	7.0	11.4
Other Income	0.3	0.4	1.1
Exceptional items	-	-	-
PBT	18.2	51.2	31.6
% change	-	181	-38.2
Tax	-1.1	9.3	8.7
Tax Rate (%)	-6	18	28
Reported PAT	19.3	42.0	22.9
Adj	-	-	-
Adj. PAT	19.3	42.0	22.9
% change	-	117	-45.4
Post issue No. of shares (cr)	12.2	12.2	12.2
Adj EPS (Rs)	1.6	3.4	1.9
% change	-	117	-45.4

BALANCE SHEET

Y.E March (Rs cr)	FY21	FY22	FY23
Cash	3.3	3.6	22.6
Accounts Receivable	22.7	43.0	102.7
Inventories	0.3	0.1	0.1
Other Cur. Assets	9.9	14.9	49.1
Investments	0.4	0.7	3.3
Deff. Tax Assets	18.2	14.8	14.2
Net Fixed Assets	4.6	7.5	22.0
CWIP	0.0	0.0	0.0
Intangible Assets	2.7	5.9	17.8
Other Assets	-	2.1	3.0
Total Assets	62.0	93.0	235.0
Current Liabilities	34.0	25.2	38.7
Provisions	0.6	0.7	1.2
Debt Funds	73.1	70.3	141.3
Other Fin. Liabilities	-	-	-
Deferred Tax liability	-	-	4.8
Equity Capital	0.2	0.2	9.2
Reserves & Surplus	-45.7	-3.7	39.5
Shareholder's Fund	-45.6	-3.6	48.8
Total Liabilities	62.0	93.0	235.0
BVPS (Rs)			

CASH FLOW

Y.E March (Rs cr)	FY21	FY22	FY23
PBT Adj.	18.2	51.2	31.6
Non-operating & non cash adj.	10.1	10.3	29.7
Changes in W.C	-24.9	-41.4	-77
C.F. Operating	3.4	20.1	-15.6
Capital expenditure	-1.0	-7.6	-16.2
Change in investment	-0.3	-2.4	-0.1
Sale of investment	-	-	-2.2
Other invest.CF	0.3	0.1	-5.8
C.F - investing	-1.0	-9.9	-24.3
Issue of equity	-	-	15.0
Issue/repay debt	-5.7	-12.3	43.8
Dividends paid	-	-	-
Other finance.CF	-	-	-
C.F - Financing	-5.7	-12.3	58.8
Change. in cash	-3.3	-2.1	18.9
Closing cash	2.8	0.7	19.6

RATIOS

Y.E March	FY21	FY22	FY23
Profitab. & Return			
EBITDA margin (%)	11.5	16.1	8.7
EBIT margin (%)	10.7	15.6	7.6
Net profit mgn.(%)	8.1	11.3	4.1
ROE (%)	-42.4	-	47
ROCE (%)	200.1	101.2	24.7
W.C & Liquidity			
Receivables (days)	34	32	48
Inventory (days)	3	0	0
Payables (days)	29	11	6
Current ratio (x)	1.1	2.4	4.5
Quick ratio (x)	0.8	1.9	3.2
Turnover & Levq.			
Net asset T.O (x)	51.9	61.3	37.5
Total asset T.O (x)	3.9	4.8	3.4
Int. covge. ratio (x)	3.3	8.3	3.7
Adj. debt/equity (x)	-1.6	-19.8	2.9
Valuation ratios			
EV/Sales (x)	8.6	5.6	3.9
EV/EBITDA (x)	75.1	34.6	44.6
P/E (x)	103.6	47.7	87.4
P/BV (x)	-44	-562.8	41.1

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We, Rajeev T and Mithun T Joseph , author (s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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