

BONANZA WEALTH MANAGEMENT RESEARCH



31st December 2024

Zaggle Prepaid – BUY

CMP : Rs.520.0

Target Price : Rs.626.0

Upside : 20.3%

Stop Loss : Rs.437.0 (Closing basis)

Investment Thesis

- Zaggle Prepaid Ocean Services Ltd. (Zaggle) is a prominent fintech company, specialized in providing digital solutions for Prepaid Cards, spend management, employee reimbursements and corporate gifting. More than +50 million prepaid cards issued by Zaggle in partnership with various banking partners and serving +3.0 million users. Zaggle collaborated with over 3,200 corporations across sectors like healthcare, manufacturing, and FMCG, which helps in diversifying its revenue sources and client base. Recently, Zaggle launched its Corporate Credit Card for vendor payments and it is building new IT solutions/partnerships in insurance, tax planning and investments. Services offered by Zaggle are:
 - Prepaid Cards: Zaggle issued various types of prepaid cards tailored for corporate use, such as payroll cards for contractors and temporary employees, which provide an alternative to cash payments.
 - Spend Management Solutions: It provides tools that help businesses manage their expenses efficiently. This includes the 'Zaggle Save' platform for expense tracking and reporting, as well as the 'Zaggle Propel' platform, which automates employee reimbursements.
 - Loyalty and Rewards Programs: Zaggle has developed platforms like 'Zaggle Infinity' and 'Zaggle Edge', which facilitate the creation and management of customer loyalty programs and employee incentive schemes.
 - Gift Card Management: Zaggle also manages gift card solutions for businesses, allowing them to engage customers effectively through both physical and digital gift cards.
- Currently, Zaggle serves to 3,200+ corporates which represents a growth opportunity through potential access to their employees, partners and their customers. By offering its products and services to different departments within an existing Customer, Zaggle continues to grow its user base by increasing penetration within existing Customers. As annual spending per employee increases as well as more corporates offer its cards and solutions to an increased number of their employees and channel partners, the funds disbursed through its platform or wallets is anticipated to increase.

Financials

- Zaggle's revenue and PAT grew by CAGR of 83.6% and 85.5%, respectively during FY20-24 led by growth in corporates customers and users.

Consol. (Rs.Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	3,713	5,535	7,756	11,246	14,058
EBITDA	599	465	707	1,074	1,375
EBITDA Margin (%)	16.1%	8.4%	9.1%	9.5%	9.8%
PAT	419	229	440	748	958
EPS (Rs.)	3.4	1.9	3.6	6.1	7.8
P/E (x)	152.0	278.2	144.7	85.1	66.5
RoE (%)		61.3%	7.9%	12.2%	14.2%

Stock Data

Market Cap (Rs. Mn)	63,870
Market Cap (\$ Mn)	746.0
Shares O/S (in Mn)	122.5
Avg. Volume (3 month)	2,30,000
52-Week Range (Rs.)	591.90 / 207.35

Shareholding Pattern

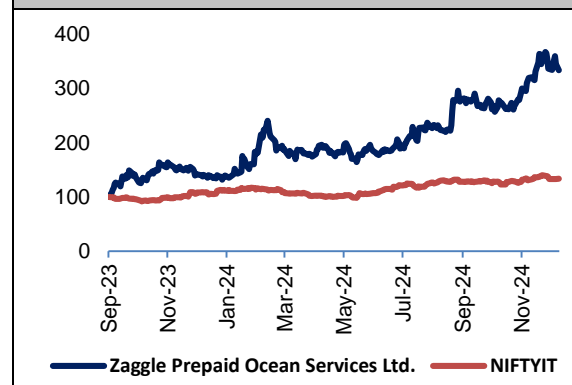
Promoters	43.88%
FIIIs	6.14%
Institutions	10.69%
Others (incl. body corporate)	39.29%

Key Ratios

Div Yield	0.0%
TTM PE	91.4x
ROE	11.9%
TTM EPS (Rs.)	5.69/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.5%	79.0%	136.9%
NIFTY IT	1.9%	19.3%	23.8%



- Zaggle has reported revenue at Rs.3,026mn, up 64.2% YoY mainly led by increase in the volume of prepaid cards and credit cards as well as the propel platform revenue on the back of higher redemption as well as client addition with large user base.
- Zaggle has reported 159.5% YoY growth in program fees to Rs.1,261mn whereas propel platform revenue grew by 31.2% YoY to Rs.1,679mn and software fees grew by 11.9% YoY to Rs.86mn in Q2FY25.
- Reported EBITDA grew by 77.7% YoY (19.0% QoQ) to Rs.267.1mn whereas adjusted EBITDA (after removing ESOP cost) grew by 35.8% YoY (15.4% QoQ). As a result, reported EBITDA margin improved by 60bps YoY to 8.8%.

Key Business Highlights

- Zaggle is a leading spends management space player with a diversified offering of fintech products and services, having one of the largest number of issued prepaid cards in India in partnership with certain banking partners, a diversified portfolio of SaaS, including tax and payroll software and a wide touchpoint reach.
- Zaggle is placed at the intersection of the SaaS and fintech ecosystems. It's SaaS platform is designed for business spend management (including expense management and vendor management), rewards and incentives management for employees and channel partners and gift card management for merchants.
- Zaggle had over 3,200 corporate accounts and issued over 50 million prepaid cards in association with banking partners and serving over 3.0 million active users across India.

Valuation

Zaggle relies on its banking partners to issue co-branded cards which are issued to its customers. It has banking partnerships with ICICI Bank, SBI Cards, Bank of Baroda, Kotak bank, IDFC First Bank, IndusInd Bank, Yes Bank, DBS Bank as well as NSDL Payments Bank. It works with network partners like Visa, RuPay, and MasterCard.

Zaggle plans to continue scaling its offerings through effective cross-sell and up-sell opportunities to offer new products to its existing Customers. Its Customer base and partnerships with its Preferred Banking Partners, financial institutions and merchants, provides it with the ability to cross-sell and up-sell its products and services to a large User base.

Zaggle intends to actively pursue strategic investments and acquisitions that are complementary to its business and in the fintech space that it operates in. These acquisitions could include companies providing access to software for payroll management, vendor payments, corporate credit cards, gift and loyalty cards, other products and services that may be seen as a VAS for its users to enhance their experience and increase user retention and loyalty, other SaaS companies and companies that provide it access to newer target demographics and markets within India and in international geographies that are positioned to support its business model and products.

With specialized in providing digital solutions for Prepaid Cards, spend management, employee reimbursements and corporate gifting, serves to 3,200+ corporates, grow its user base by increasing penetration within existing Customers and pursue strategic investments and acquisitions that are complementary to its business, we are assigning **BUY** rating to Zaggle Prepaid Ocean Services Ltd. (Zaggle) and value at 80.0x FY26E EPS of Rs.7.80 to arrive at target price of Rs.626.00, an upside of over 20.0%.

Risk & Concern

- Zaggle's revenues are largely dependent upon Banks sharing of interchange on the co-branded cards, any change in the agreement / regulatory environment may adversely impact the interchange revenues.
- Many start-ups as well as global players are offering spends management solutions, any increase in competitive intensity may impact future growth for Zaggle.
- A portion of revenues of Zaggle come from tax benefits linked payouts to employees, any change in old scheme of taxation for individuals may adversely impact its revenue.

Graphs & Charts

Figure 1: Net Sales Trend

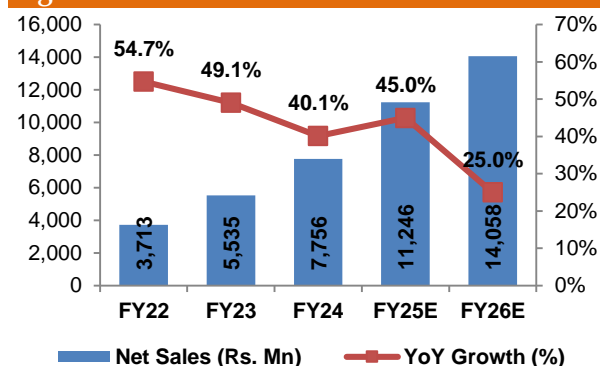


Figure 2: EBITDA & EBITDA Margin Trend

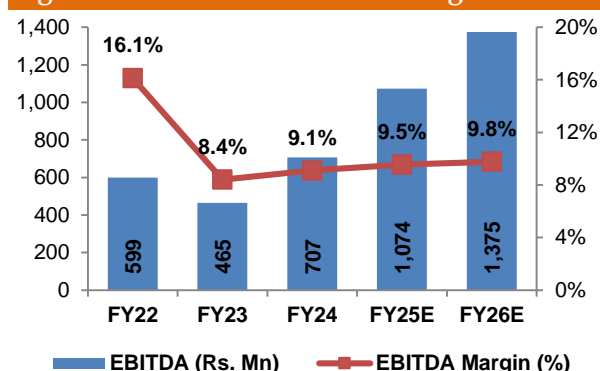


Figure 3: PAT Trend

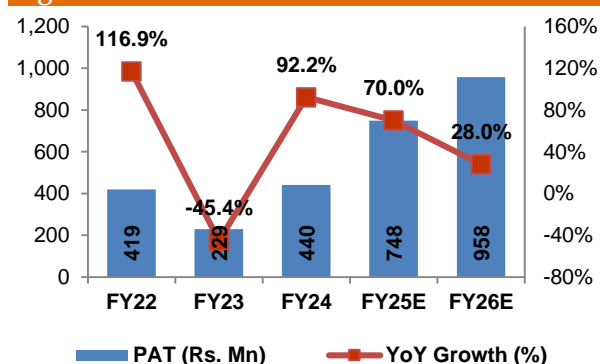
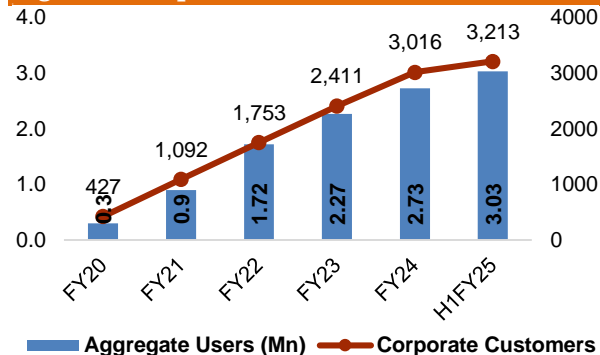


Figure 4: Corporates Customers and Users



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