"Zaggle Prepaid Ocean Services Limited Q1 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Zaggle Prepaid Ocean Services Limited 1Q-FY24 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on a touchtone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Rohan Mandora from Equirus Securities. Thank you and over to you Mr. Rohan.

Rohan Mandora: Thanks Zico. Good morning everyone and thank you for joining the call. To give a brief update on the 1Q FY24 results and address investor questions, we have with us from the management of Zaggle Prepaid Ocean Services Limited, Mr. Raj Narayanam, Executive Chairman, Mr. Avinash Godkhindi, Managing Director, Mr. Aditya Kumar, CFO. We would request the management to start with the opening comments, post which we can open the floor for Q&A. Thank you and over to you Mr. Narayanam.

Raj Narayanam: Thank you so much Rohan for the introduction. Good morning everyone. This is Raj. I am Founder and Executive Chairman of Zaggle. First of all, a warm welcome to all of you and thanks for joining our first earnings call after the listing. On this call, we are joined by Mr. Avinash Godkhindi, who is the Managing Director of Zaggle, Mr. Aditya Kumar Grandhi, CFO, and SGA are our Investor Relation Advisors. The results and the presentations are uploaded on the stock exchanges and the company website.

I hope everybody had a chance to look at them. You know, we are very thrilled to witness a very strong response to our IPO. We want to express our deep appreciation to all our shareholders for entrusting their confidence in us. We extend our congratulations to everyone associated with the company, our employees, customers, business partners, bankers and shareholders. Since this is our first earnings call, I would like to give some background on our journey and how we got here.

Zaggle was launched in 2011 to build state of art financial solutions workflow and products which would help automate and empower businesses to increase efficiency, accuracy, transparency and productivity. A strong roster of customers, bank partnerships, scalable tech platform gave Zaggle a strong platform to grow into a highly profitable business. Our faith in the business and track record of being profitable for the last four years gave us the confidence to list our 12-year young company on the Indian stock exchanges. I once again thank all of you.

The increased digitization trend and automated workflows are expected to be key drivers for this market. Globally, spend management is growing at a breakneck speed and we as torchbearers of this industry in India are committed to contribute to make India a digital economy. Our uniquely positioned spend management business offers well diversified Fintech products and services. We operate in our segment where we interact and interface with our corporate customers that is businesses and end users who are employees and vendors. And we solve everyday business problems for our customers enabling them to drive growth and unlock value in their business operations.

We provide them with solutions for making their business and employee spends more efficient. Our software platform is integrated with co-branded, prepaid and credit cards. Our solutions meet corporate needs for vendor payments, channel incentives, employee payments, rewards and recognition, and employee reimbursements. Our comprehensive solutions empower corporates to effortlessly monitor and manage their employee expenditures and vendor payments through a singular streamlined platform, making us their preferred partners.

I am proud to share that recently Visa and Zaggle have further strengthened the partnership by jointly issuing Forex Co-Brand cards. Zaggle will capitalize on its existing corporate clientele to distribute Forex cards to employees of these corporate clients, seamlessly integrating this offering with the Zaggle expense management solution. This partnership signifies the trust and trust that Visa has bestowed upon Zaggle. It is a promising opportunity for both companies to extend their reach and provide valuable financial solutions to a broader audience.

We look forward to taking this product live in the next two to three quarters. Zaggle has also partnered with BOB, which is Bank of Baroda Financial Solutions Limited, for implementing commercial card onboarding and value-added services platform called ZatiX. These partnerships would help the company to chart out its next phase of growth. Now let me spend some time in explaining our financial performance for Q1. As earlier told by our MD Avinash Godkhindi that there is a seasonality of the business.

In Q1 FY24 we had a robust growth of approximately 34% in top line Y-o-Y due to our introduction of Zoyer product, the corporate and co-branded credit cards. As explained in our investor presentation, our business has an element of seasonality, so it is useful to look at the financials on a year-on-year basis. Typically, our business does anywhere between 35% to 40% of revenue in the H1, which is Q1 and Q2 together, of the year, and 60% to 65% of the business in H2. Due to the inherent nature of our business, we expect these trends to continue while registering growth on a YOY basis.

Our adjusted EBITDA before ESOP expense has also grown by a healthy 27% on Y-o-Y basis. India is at the vanguard of the Fintech and digital revolution with strong tailwinds driving the digital payments industry. Our holistic position in spend management provides us with a considerable competitive advantage and avenues of growth. We are optimistic for the growth opportunities. Thus, you know, we are very, very happy to project a revenue growth which probably would be around 40% to 50% this fiscal year, with an adjusted EBITDA margin without the ESOP expenditure of 11% to 13%. Now I will hand over to Avinash who will explain the company and key development and strategies. Thank you.

Avinash Godkhindi: Thank you so much Raj. Good morning everyone. Thank you for joining this call. Raj has already given a great overview of our company and business. I'd like to give some flavour around our business and products per se. As many of you are familiar, Zaggle is well placed at the intersection of SaaS and Fintech ecosystem. To make this entire ecosystem function seamlessly, we have collaborations with bank partners like ICICI Bank, IndusInd, Bank of Baroda that we recently signed up, Yes Bank, DBS Bank, NSDL Payments Bank, as well as network partners that we have like Visa, RuPay and MasterCard.

Our innovative product portfolio offerings include Propel, which is a corporate platform for channel rewards and incentives, employee rewards and recognition, allowing corporate customers to increase their engagement with their employees and channel partners through our Propel points platform and prepaid cards.

We also have Save, which is an expense management, employee reimbursement and benefits solution helping employees and companies save money, increase efficiency, reduce manpower and leakage. This is tightly coupled with our prepaid cards as well as our corporate credit cards to enable T&E expenses and their reimbursements.

Zoyer is our integrated data-driven business spends management platform with embedded automated finance capabilities and is tightly coupled with our corporate credit cards products to facilitate vendor payments. We offer an integrated value proposition through our SaaS platform providing a combination of payment instruments as well as an integrated mobile application that digitizes businesses and employee spends.

API integrations on the platform provide to our customers and offer them enhanced convenience and an efficient user experience through a simplified dashboard. We monetize through transaction income, which is generated from spends that users make on our payment instruments, as well as software fees which is levied to our corporate customers.

Our USP lies in the following. Our ability to provide top-notch service to our existing customers by understanding their requirements and offering an integrated solution. One of the most significant metrics is churn rate, which is currently less than 2% for us today. We are focused on retaining and growing our corporate customer base. The key to achieving this retention ratio lies in our ability to effectively engage with our clients and enhance our market penetration.

Our exceptional retention rates are instrumental in generating valuable referrals for our expanding client base. Our company has successfully served a remarkable 36.7% increase in our customer base year-on-year. Our strong API integrations with bank networks are providing an integrated access to Zaggle products to our customers.

Our offerings have features such as configurable platform for each corporate customer, allowing for partner on-boarding and automated workflows to track spends and reconciliations, thus ensuring a healthy and consistent customer retention rate. Our corporate customers deeply value our commitment to providing a secure platform to their users and we have demonstrated this through various certifications such as GDPR, ISO 27001, PCI DSS, etcetera.

With the ease of usage that these products provide, we have witnessed a healthy year-on-year growth of 22.2% in FY '23 Q1 in the aggregate users on our platform. You would be happy to know that we have also won key awards, accreditations and recognitions which are a testament to our commitment to excellence and innovation in the Fintech industry. It demonstrates our dedication to excellence and innovation.

In 2023, you would be happy to note that we recently received the Global Banking and Finance Award for excellence in innovation in business spend management software, as well as the Business World Festival of Fintech Conclave Awards, where we were awarded the winner of the best payment solution for the year 2023.

Innovation remains at the core of our strategy. We continuously invest in research and development to introduce new products and use cases that meet the ever-changing demand of our customers. Innovation is a driving force behind our competitiveness. To scale and expand our operations, we will focus on increasing our user penetration, our cross-sell, our up-sell within our existing customer base.

Strengthening our relationships with our customers is essential for sustainable growth. In our pursuit for strategic acquisitions and investments, we aim to identify opportunities that align with our strategic objectives. This approach allows us to grow our business intelligently, bringing complementary strengths into our fold.

Additionally, we recognize the importance of forging strategic partnerships with financial institutions and merchants. These collaborations enable us to leverage our combined strengths, expand our reach and enhance the value we provide to our customers. Our recent collaboration with Visa is a step in this direction.

Our strategic roadmap for sustained growth is a dynamic plan that encompasses customer expansion, innovation, scaling and strategic partnerships. Our unwavering commitment lies in not only achieving short-term gains, but also long-term prosperity by ensuring that our business remains at the forefront of our industry.

Now I hand it over to our CFO, Mr. Aditya Kumar to give the financial highlights. Thank you and over to you Aditya.

Aditya Kumar: Thank you Avinash. Good morning everyone. I am Aditya, CFO of Zaggle. Let me walk you through our quarterly financial performance. In this quarter, our business has demonstrated a healthy growth of 33.7% in our top line. This is driven by growth in the corporate credit card business, which was started recently and has vast scope going forward.

The launch of new product as well, that is Zoyer. And acquisition of new customer base through our cross-selling and up-selling activities. As previously indicated by Raj, it is important to note the seasonal nature of our business. Historically, our business has experienced a significant surge in revenue during the third and fourth quarters, accounting for approximately 60% to 65% of our total revenue.

The increase in transaction volumes during the festive sale period in Q3 of each fiscal year is primarily responsible for this phenomenon. This period coincides with significant holidays in India as well as annual sale events such as end of the season sales, etcetera. Additionally, we have observed a consistent surge in transaction volumes during the fourth quarter of every fiscal year as well.

This surge can be attributed to our users who engage in transactions to fully utilize any remaining balance on their cards prior to the conclusion of the financial year. Next is the growth margin. Drop in growth margin was primarily led to by a change in product revenue mix. We have started to grow our business of propelled redemption points as we see huge growth potential in this business.

Due to Ind AS income revenue recognition, the accounting policy for the same is on a gross basis, thus changing the gross margin arbitrage, while the take rates on propel redemption point is higher. Also, the incentive and cashback expense as a percentage of total revenue has been reducing over the quarters and witnessed 7% decline compared to Q1 FY '23.

For this quarter, our employee cost has increased, mainly on account of new recruitment, which is in line with the growth of the company. In the pre-IPO stage, we had granted ESOPs to our employees. We have booked INR58.44 million in Q1 FY '24. Thus, we have shown an adjusted EBITDA figure, which is before ESOP expenses.

Our adjusted EBITDA has grown by 27.4%. We expect to record total ESOP expenses close to 200 million in FY '24. Following this recent successful IPO, the company has repaid a substantial amount of 470 million in borrowings. This prudent action will consequently lead to a reduction in finance costs starting from the second half of this fiscal year.

Our cash PAT that is net profit plus depreciation and ESOPs ease of expense has grown by 38.7% Y-o-Y basis, which demonstrates higher growth. In the card business, incentives play a crucial role in attracting and retaining customers, driving card usage and promoting loyalty, etcetera.

Previously, we had an incentives and cash back cost, but now as users are also more prone to using our cards, we are seeing a slight dip in this cost. Attempts are being made to further reduce it as well. However, some incentives and cashback costs will have to be incurred to encourage new users for usage.

With this, I conclude the call. If you have any further queries, please contact SGA, our investor relations advisor. Happy to take any questions.

Moderator: Thank you very much. Our first question is from the line of Yogesh Bathia from Mumbai Stockbrokers Private Limited. Please go ahead.

Yogesh Bathia: Hi sir, actually it's a fairly new company so I actually wanted to understand the program fee, which is basically a portion of the interchange fee on transactions done by the prepaid or the card users. Can you throw some more light on this, that how this will grow, and what initiatives we are taking for this to grow, and it is the vendor basically, the merchant who is paying Zaggle, correct?

Avinash Godkhindi: Thank you for your question. This is Avinash here. So essentially if you look at the way interchange or program fees grows, program fees consists of all the income that we generate from all transactions that happen through our cards, both prepaid as well as credit cards. This includes what we earn as interchange, any incentives from the networks, any other fees, etcetera, so that is how we see it.

This post the launch of corporate credit cards, our co-branded corporate credit card with the Yes Bank as well as other banks, we are seeing an opportunity to grow this number healthily in the coming quarters because of the addition of the corporate credit card as a product. And we are seeing already those benefits to kick in in terms of numbers. Essentially, we earn the interchange because we invoice banks and partner networks and we get paid by these entities. They in turn get it from the network itself.

Yogesh Bathia: Okay, so we are getting it from the banks and not from the merchants. Is that correct?

Avinash Godkhindi: No, we don't have any means. We are here for program fees, we are not invoicing the merchant or we are not getting paid by the merchant.

Yogesh Bathia: Okay. So basically, if a Zaggle employee goes and Zaggle cardholder uses the, at any merchant, he doesn't get anything from the merchant. We are getting it from the banks and the other network, the finance network.

Avinash Godkhindi: Yes, we are getting from the banks and other networks. There are certain partnerships with merchants etcetera, but those are you know merchant commissions that we earn separately on other programs.

Yogesh Bathia: Okay. And then my second question was our finance cost last year was INR113 Mn. So, if the CFO can maybe help us with what he thinks will be the number for FY '24 maybe, maybe a ballpark number?

Aditya Kumar: Yes, so Yogesh, Aditya here. So, the finance cost largely increased on account of recent NCD which we raised in November '22 and like other costs which were the working capital limits, right. So, when we have recently the IPO money we have prudently we went up front and we closed 50% of our finance, our debt already.

So, we in this quarter, like, you know, we'll be assuming the cost will be around half of last two quarters.

Yogesh Bathia: Okay. Okay, thank you. I'll get back in the queue if I have any other questions.

Moderator: Thank you. Our next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: Yes, thanks. Thanks for the opportunity. Can you explain your business in a little more detail by giving actual example? Suppose you sell your services to Persistent, what is the service and how do they use it and how do you get paid for it?

Avinash Godkhindi: Thank you for your question., As I mentioned in my speech in the beginning, we have three lines of products. If you look at it, sir, the corporate customers that we serve, we are on the expense side of their P&L. And in that expense side of P&L, there are three categories. One is employee expenses, which is outside payroll. Then there are channel incentives that they give to channel partners and then there are vendor payments.

In the case of Persistent Systems, we run rewards and recognition programs for their employees. Their employees basically get reward points. These reward points are basis performance, those metrics are defined on our platform on which basis employees should earn these reward points, this is fully automated and there is a complete API integration with their HRMS system.

So, it is a single sign-on and any employee that gets added or deleted in the HRMS system automatically gets added or deleted in our platform. These points are then redeemed for vouchers of over 300 brands, brands like Amazon, Shopper Stop, Tata CLiQ etcetera. And we get paid by Persistent Systems for the points that get redeemed.

Tushar Sarda: So just to clarify, this reward is for what? For performance on the job or for spending?

Avinash Godkhindi: So, this, in the case of Persistent Systems, the rewards are for a variety of reasons. This could be a long service award; this could be a pat on the back where somebody is giving an instant reward. This could be performance linked. This could be festive occasions like Diwali, New Year. So, they use the platform for rewarding their employees for a variety of reasons.

When the vouchers are given to the employee, we earn commissions from our merchant partners. So, let's say a Shopper Stop voucher is given to an employee, because he has chosen to redeem for shopper stock vouchers. We have a healthy take rate there of about 10% to 15%.

Tushar Sarda: Okay. And how does your prepaid card work for expense management?

Avinash Godkhindi: Yes, so there are other customers who use our Save platform, which is for our expense management, employee reimbursements, etcetera. And basically, here there is a mobile app. In the mobile app, the employee goes ahead and scans for bills for any expenses that they incur. So, let’s say there is an employee who travels from Hyderabad to Bombay, you know, they incur flights, travel, taxi, food, etcetera.

All those bills are scanned on the mobile app at real time by the employee. These bills are then sent through the platform to the approver. The approver can then go ahead and approve these bills on his or her mobile app. And post that entire cycle, finance then goes ahead and credits the reimbursement onto a Zaggle prepaid card.

This is when the employee has incurred these expenses on a personal credit card or personal payment instrument and the reimbursement is being credited in a Zaggle multi-wallet prepaid card. The other model which we have recently started with the launch of our corporate credit card is where the employee can go ahead and directly spend through a corporate credit card issued by Zaggle and a partner bank. And in such a case, all the bills are scanned on the platform for records and the company goes ahead and clears the credit card bills.

Tushar Sarda: And what is the breakup of revenue from say rewards and points like you explained in case of Persistent and revenue from credit cards, prepaid credit cards?

Avinash Godkhindi: See if you look at our overall revenues from Propel, where you have redemption options, where you can redeem for vouchers of brands as well as you could redeem it for points which could be credited on to a prepaid card. The total income that the Propel platform as of last year was about 65% to 70% and save was about 30 to 35%. This year Zoyer has taken off, so Zoyer is adding to the overall revenues.

Tushar Sarda: And Propel you also have software fees, so this is like subscription?

Avinash Godkhindi: So, we have software fees which is subscription fees. We also earn program fees which is what I explained in the previous question and then we earn income through Propel points.

Tushar Sarda: So, between rewards and credit cards, which business will grow faster, and which business has higher potential?

Avinash Godkhindi: So, it's not either or. We see it as an integrated holistic offering, and we see the Propel platform growing healthily in the coming quarters. As well as our Save platform and Zoyer, we expect all three platforms to grow healthily.

Tushar Sarda: Okay, let me put it in a different way. Over the last three years, which business has grown faster, Propel or Save?

Avinash Godkhindi: Save was newer, so base was smaller, hence the percentage growth was higher in Save.

Tushar Sarda: And your DRHP has something called program fees. So, what are these program fees?

Avinash Godkhindi: The program fees is the income that we earn as I explained in the previous question as well. This is the income that we earn basis the transactions that happen on our prepaid cards or credit cards. This is a combination of income that we earn through partner banks, through networks and any other smaller fees etcetera that we levy.

Moderator: Thank you. Sorry to interrupt Mr. Tushar Sarda. May we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Thank you.

Tushar Sarda: Yes, sure. Thank you.

Moderator: Thank you. Our next question is from the line of Pranav Gupta from Aionios Alpha Investment Management. Please go ahead.

Pranav Gupta: Hi. Good morning, team. And congratulations on a good set of numbers. I have a few questions. If you can talk about Zoyer, which is the latest one that we've launched. And if you can explain whether it essentially only works with cards that we have issued through our banking partners, or is it a software offering where we can integrate with an existing card base of our client as well? That's the first question.

Avinash Godkhindi: Good morning, sir. Thank you for your kind words and your question. Zoyer is a platform that we've launched. It's an integrated platform which enables customers to go ahead and use the card along with the software platform that we have. However, there is no limitation for the corporate to go ahead and only use our co-branded corporate cards. They can go ahead and use any other payment instrument and just use the software. The full value of the product comes out when you go ahead and use both our card as well as the software platform.

Pranav Gupta: So, I mean, given that it's a new product and we might be having a lot of customer interactions, do we see any resistance in the case where you know a card, a corporate is already using an existing bank's card say they have, given that these clients will be large and have multiple employees with multiple cards. Is there a resistance when we would effectively tell them to sort of move to our platform along with our cards or what are the initial discussions that we have for Zoyer, specifically?

Avinash Godkhindi: In our experience so far, sir, because of the type of partner banks that we work with like Yes Bank, ICICI Bank, Bank of Baroda, etcetera, we haven't seen significant resistance from any corporates to go ahead and take an additional corporate credit card so far. Of course there are some companies who still want to understand how they can use their existing cards as well as the cards that we issue, depending on what limits they have from their bank. But so far, we haven't necessarily seen any significant resistance per se. Corporates are open to using a card issued by our partner banks.

Pranav Gupta: Understood. And if you could just explain the revenue model here, how does the revenue model here work?

Avinash Godkhindi: So, again here we earn through software as well as you know that transaction income. In the software we earn a per user per month fee as well as per invoice fee for the platform and on the card, we earn the interchange.

Pranav Gupta: Sure. The next question is on the points redemption and voucher business. Could you just explain how the entire working capital cycle out here works? So, is it a casersoe where Zaggle would have to, sort of procure vouchers in advance, or do these vouchers get purchased when, one of our client's employees sort of redeems their points for particular vouchers? How does that mechanics work?

Avinash Godkhindi: So, we have API integrations with partners, including merchants, and other third-party providers where we get these vouchers in real time, right. So, from a voucher inventory perspective, only for very smaller brands we may have a small amount of inventory. But for the larger brands, we tend to be able to pull the vouchers in real time. Aditya, you may add.

Aditya Kumar: Yes. So, Pranav ji, just to add on the working capital cycle, yes, there will be certain clients where we upfront give them points for redemption purposes. Typically this cycle will be around 30 days to 35 days.

Pranav Gupta: Okay, sure. And just lastly, it will be great if you can give out the transaction value numbers, say for probably FY '23 and for first quarter '24, given that a large part of the income is on to program fees. So, if you can give that out, that would be very helpful.

Aditya Kumar: Noted, Pranav. I will take it up for the next quarter presentation.

Pranav Gupta: Sure, I have more questions, but I'll join back in the queue. Thank you so much for answering.

Moderator: Thank you. Our next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: Hi, good morning team. So, I wanted to understand the benefit of using your card versus any other card with your software. So, what benefit does the corporate enjoy when they use your co-branded cards versus the other cards?

Avinash Godkhindi: Good morning, sir. Thank you for your question. See, if you think of it from a corporate perspective, what they are able, looking to do is to be able to get the card, which is a system of transactions, to tightly couple with our system, which is a system of engagement with their system of records which is their ERP.

Today we have ERP integrations with most major ERP providers like, SAP and using this integration they are -- a corporate is able to actually say, for example, for a particular corporate, they can go ahead and say that for this particular project, I want to limit my overall travel cost to say, INR5 crores. Irrespective of whether the individual cards that have been given to employees, the total limit may be INR30 crores on those cards, across say a 1,000 cards or 3,000 cards, but the travel cost should be limited to INR5 crores. I'm just making this up and giving you an example. Don't take this as a fix.

Now this we are able to ensure and enable through our spend analytics platform, because we are able to, on each card spent, link it to the limits and controls that we have set on our platform. A standalone card platform would not be able to understand what the project code is itself, because the standalone card platform doesn't have an API integration with the ERP. Because my system, Zaggle's platform, sits in the middle of the card management system, which is the system of transactions, and the system of records, which is the ERP.

We sit as a system of engagement. We are able to then, provide these limits. In addition, you are able to see through pie charts, etcetera, bar graphs, a breakup of where the spends are happening across different spend categories, like saying where is the money being spent for T&E, client entertainment, how does it break up for different geographies, how do employees in Jaipur spend, how do employees in Bombay spend. So, there is a lot of analysis and a lot of insight that gets provided through the platform.

Again, a card company and a card company system would never know who are the employees sitting out of Jaipur, who are the employees sitting out of Mumbai, who are the employees sitting out of Hyderabad, right? So, they won't be able to give you that sort of an insight.

Saurabh Sadhwani: So, you can do this with any other card also, or is it required that it should be a Zaggle or a co-branded card?

Avinash Godkhindi: So basically, this is through API integrations that we have, either with the bank or the network or both. Network as in Visa, RuPay, MasterCard. As long as those integrations and we have those feeds, we are able to provide this insight and we need the other integration is with the ERP of the corporate. We are able to provide these insights.

Saurabh Sadhwani: Okay. And the second thing I wanted to understand was in the presentation course that you have issued 50 million-plus cards and the active users are 2.2 million. So how are these numbers related? How should we read them?

Avinash Godkhindi: Sir, 50 million is over the course of the last 12-odd years. Right? And a lot of these cards initially that were issued were also gift cards. So, each beneficiary could have received multiple cards over the years as gift cards. So that is how we would explain this to you.

Saurabh Sadhwani: Okay. So, the 2.2 million users that you're saying are the employees of these corporates, mostly?

Aditya Kumar: Yes.

Avinash Godkhindi: Employees and partners, these are actual users who are active on the platform today. 50 million is the total number of cards that have been issued over the course of 12-odd years.

Saurabh Sadhwani: Okay, thank you, sir. Thank you so much.

Moderator: Thank you. Our next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, thanks for the opportunity to ask me a question. Sir I want some more clarity and just try to understand the nature of the business. In the IPO, we are raising almost INR300 crores for the retention of clients. So, this amount is basically we are using to offer the more points to the customers. And in other way, can I say, this is a kind of a discount that we are offering to the customers in order to increase our sales.

So similarly, if the business is generating cash flow and the same cash flow is using for the same purpose. So just try to understand, can you throw some more light on the nature of this business, it's the nature of the business, because we are burning our cash for the points in order to increase our sales.

Avinash Godkhindi: Thank you for your question. So, this is not to be confused sir with Propel points. This is a discretionary incentive that we give to users so that they spend. If you look at the nature of Indian consumer and the nature of how certain segments of customers behave, users behave, they tend to -- there tends to be a certain set of users who expect some sort of an incentive or a deal that is given to them before they actually use the money that is on the card. I am talking of prepaid cards here.

So basically, what happens is that a prepaid card there has a limit of INR2 lakhs that is set by RBI. So, the balance cannot exceed INR2 lakhs. Now, what happens is that whenever reimbursement is processed and if the previous reimbursement has not been used by the user, on the app the user is able to see that the reimbursement has been approved, but the money cannot be credited on to his or her card because of the RBI regulations. We see this happen time and again and the user does not typically understand that this is because of RBI regulations.

They tend to blame, that the product is not, the experience is not world class. To avoid such scenarios, we pre-empt this and we try to understand, who are the users who are likely -- this is an engine that runs in the back end, this is a high tech engine that runs in the back end, which tries to predict, who are the users, who are likely to come to this scenario.

And we encourage them and nudge them to go ahead and spend the money that is there on the card, so that these scenarios are avoided. If you look at how the incentives have moved, the incentives have moved from INR140 crores to INR118 crores to INR100 crores in the last three years and further this quarter, we have seen a reduction in the incentives.

Ankush Mahajan: But it's a huge amount, it's INR100 crores, INR120 crores. And in case, it is impacting our cash flow, this if I compare it with the overseas companies, they also have a similar kind of a business, the same nature of the business?

Avinash Godkhindi: Sir, I won't be able to comment specifically on overseas companies and their businesses, but if you look at the nature of payment industry per se, there is a certain pattern that emerges, whether it is a credit card business or any other business, that there is a certain amount of expectation that certain users have that, they will receive some sort of an incentive, a gratification to go ahead and spend the money that is there on the card. This is well understood with credit card businesses as well. So, this is a pattern that we see in this industry. However, we are working to optimize this cost and bring it down as much as is possible.

Ankush Mahajan: So, sir, what kind of a cash flow we are looking after deducting this cost?

Aditya Kumar: Ankush, Aditya here. So, first of all, this INR300 crores, right, it is being spent over the next three years, It's not going to spend immediately now. So, just to state the fact, in the last three years also, every year's we have spent these costs. In FY '21, we spent close to INR140 crores, In FY '22, we spent INR117 crores, FY '23, we spent INR100 crores and that kind of numbers. Even without this money also, we are able to spend some money to the users and generate the businesses.

So, and also, it's a worthwhile for you to understand, we have launched the new product as well, right? Like, you know, which is Zoyer and we are venturing into the credit card business as well. So, for this kind of business and the users to get onto the platform and use it, so we have to match them and make sure that they continue to use the platform together.

That will be the next three years we are talking about. And at this point of time, right, like I said, like you only have mentioned, with this revenue getting generated, one thing we want to hear is, whatever expense is happening in the form of this incentives, , definitely the revenue will get generated.

So don't think other than that, like it's a burn and we don't get any revenue, but revenue will be there. It's all about, it will be spread across the next three years and if you are not able to spend next year, the money will be spent whatever we have given the customer acquisition-retention completely in that angle only and we'll get the suitable revenues for this as well.

Ankush Mahajan: Sir, I'm just trying to understand that after spending this much of money after next three years, either we need to dilute the equity once again or internal cash flow is sufficient to fund this expenses in near future?

Raj Narayanam: Ankush, Raj this side, I will quickly explain to you, see this money is spent out of the money what we generate, so if my revenue is let's say 1.8% of a transaction, let's say, there is a one lakh transaction which happens, I earn INR1,800. So out of INR1,800, I might choose depending on who the user is to give him, let's say INR700, INR500, INR800 like that. So, there is never a question of that, we going out of pocket expenditure on this. So, this is going to be 100% out of our retained earnings is what this money will go.

Moderator: Sorry to interrupt. Mr. Ankush Mahajan, may we request that you return to the question queue for follow up questions as there are several participants waiting for their turn. Thank you.

Ankush Mahajan: Thanks.

Moderator: Our next question is from the line of Jaiprakash Toshnival from LIC Mutual Funds. Please go ahead.

Jaiprakash Toshnival: Thank you. Sir, just one question on Propel, when we say channel reward and employee reward, does it have a different margin profile for us?

Avinash Godkhindi: Sir, thank you for your question. The margin profile remains largely same. The only thing, the nature of redemptions at times on the employee side, there is more on Propel points versus channel incentive, it could be on the redemption could happen on the card. In such a case, the margin profile changes accordingly.

Jaiprakash Toshnival: Okay, and do we, how should we see this revenue of Propel in terms of employee reward versus channel reward and the growth predominantly would be both the channels or you are focusing more of channel or employee at this point of time?

Avinash Godkhindi: Sir, the growth would be across both, because our strategy is holistic. When we go to a corporate, we are talking to them about what we can do on the employee expenses side, what we can do on the employee reward side. If they are a company who has a channel to sell their products. In such a case, we pitch to them, our channel rewards and incentives platform. So of course, today the contribution of the channel incentives is significantly higher than the employee reward side.

Jaiprakash Toshnival: Okay. And sir, the point of INR2 lakh, which you mentioned is predominantly on the prepaid card, not on the credit card. Is that correct?

Avinash Godkhindi: Absolutely, sir.

Jaiprakash Toshnival: Okay. That's it from my side, sir. Thank you.

Moderator: Thank you. Our next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead, sir.

Ritesh Poladia: Hi sir, thanks for the opportunity. Sir, you have about 275 employees. Could you bifurcate in, how many are in the technology side and how many would be in the business development side and where do you see this number in the next two years- three years?

Avinash Godkhindi: Sir, about 125-130 employees are on the tech and about 110 odd are in the business side and the others are management and other support teams. And while I would not want to comment on specifics as to where this would grow, but obviously as the business is going to grow, we will add more people across both the technology side as well as the sales and business side.

Ritesh Poladia: Okay, just to dwell more into this, would the headcount increase would be in a proportion to the revenue increase or it could be less than that?

Avinash Godkhindi: So obviously, we are a business where operating leverage kicks in, so the headcount growth while I wouldn't want to go into specifics, but as a Fintech, as a tech business, the whole idea is that the revenues would grow at a faster pace.

Ritesh Poladia: Great. And one last thing on this, in your P&L, there is this cost of point redemption and gift cards of INR56 crores. So, this is what you explained that, when you take the, say, Shopper Stop vouchers, say for, you procure for INR90 and you charge a client to the INR100 or so, this INR90 represent this cost of point redemption and gift cards?

Avinash Godkhindi: Yes sir.

Ritesh Poladia: And incentive and cash back of INR25 crores, sir, could you bifurcate how much this would be the -- for the cost of acquisition of new clients and cost of maintenance of existing clients?

Avinash Godkhindi: So, the cost of acquisition in our business is very different. It is largely to be able to drive usage and this is discretionary in nature. The reason why we bucketed is because there are certain first-time users also, who are not familiar with our platform and our interface and to encourage them to use, there is a certain amount of this that gets used. But this is not going ahead and an incentive which is given to, as it happens in some B2C businesses, where an incentive is given to the user to come onto the platform. This is not related to that.

Ritesh Poladia: Okay, so this would be more to induce the spend of the existing clients rather than the acquisition of new clients. Is that my understanding, right?

Avinash Godkhindi: Right, sir.

Ritesh Poladia: And one this last question on the finance cost of INR4.5 crores of this quarter or say about INR11 crores for the FY '23. So, this NCDs, what you issued was it to procure this inventories like, your gift cards and points and all or was it to the means, what do you mean by working capital financing?

Aditya Kumar: Ritesh, Aditya here, the first question, raising this NCDs is typically for the products, the new product launch, etcetera, right? Like, we raised somewhere in the last November. So, this is largely towards the new products building and basic general working capital corporate purposes, right, so, but that is the one thing, why we raised this money.

Secondly, working capital for us will have in two to three categories..From the SaaS fee, if you see, what we charge to corporate and that will be generally received in 50-60 days, we get it in like a -- [inaudible] the second line of revenue, whatever you see the program fee, which we largely charge towards the banks, which we receive that money, that will have a working capital cycle of 50 days to 60 days.

And the last one, the propel point redemption, where we talked about, where large corporates comes to us when they redeem the points, etcetera, right? Sometimes we have to give them redemption upfront . So, this will be around 32 days, 35 days kind of a cycle.

Moderator: Mr. Ritesh, we are unable to hear you. Could you please unmute your line?

Ritesh Poladia: Sure. I'm sorry. It was muted from my side. So, this NCD was not to finance the buying of the gift cards and other points, but to finance the normal working capital cycle where the receivables are in the range of 30 days to 60 days?

Aditya Kumar: Yes, it is not to finance this one. It is largely towards the building of the, like I mentioned, building of the new products etcetera and managing the regular business activities.

Ritesh Poladia: Okay.

Moderator: Sorry to interrupt Mr. Ritesh. May we request you to…

Ritesh Poladia: Yes, I am done with it.

Moderator: Okay, thank you. Our next question is from the line of Jagvir Singh from Shade Capital, please go ahead.

Jagvir Singh: Yes, so thanks for the opportunity, sir. Sir, my first question is related to the EBITDA margin. So, in FY '22, we did around 16% EBITDA margin. So, in the next year, in the '23, there is some ESOP cost. This year also is there ESOP cost. So, when, adjusting the ESOP cost, when we will reach again to the 16% kind of margins?

Aditya Kumar: So, Jagvir, Aditya here. On a steady state basis, right now, we should reach in next three years to four years.

Jagvir Singh: Okay. Next question is related to ESOP cost. So, I have heard some interview in the CNBC of the MD in the -- after the IPO. So, he said, there will be no ESOP cost for this year as well for the FY '24. So, what is this confusion, sir?

Raj Narayanam: I am not sure, if you heard it correctly. The MD spoke about it and Jagvir, what he said is that, in FY '24, it is going to be roughly about INR19 crores and the going forward, which is '25 and '26, it will be minuscule about INR4 crores or so is, what is our guidance.

Jagvir Singh: Okay and thanks for the clarification, sir and sir, next question is related to the interest cost. So, because we raise money in the IPO, so in the next year, I am not talking about this year, so in the next year, in FY '25, so what kind of interest cost will be there?

Raj Narayanam: I think negligible. We already reduced it by half, already in this quarter and in the coming quarters, it may further go down and probably next year, there may or may not be any interest cost. Even if it is there, it will be minuscule.

Jagvir Singh: Okay, next question is related to…

Moderator: Sorry to interrupt Mr…

Jagvir Singh: Just last question, Can I ask?

Raj Narayanam: Yes, go ahead, Jagvir.

Jagvir Singh: Sir, so we have raised INR300 crores in the IPO. So, because given, we are the platform business, what kind of size we will not require outside money in the form of debt or equity after how many years, we will be in this position?

Raj Narayanam: So, sir, we have raised about INR490 crores from the IPO and it is sufficient for our next three years to four years of growth. It would -- if unless and until we go ahead and do an inorganic acquisition, where we might require some external funding. We do not see any signs of needing money in the next two to three to maybe let's say three to four years.

Moderator: Thank you. Our next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Yes. I have a couple of questions. I'll just list out all the questions first. I just wanted to understand the opportunity in the propel gift cards. Today we are doing about INR360 crores of revenue over there and it's probably taking 10% to 11% gross margins on that product. So, when do you see it becoming like a INR2,000, INR3,000 crores revenue line item? Or is it possible for the next two or three years to go over there?

And if you can just comment about the cost, what are the kind of fixed costs as we have on the P&L. The third question will be around what is the nature of the receivables that we have on our books about INR103 crores in receivables. And the discount and the fourth question is around the discount incentive, which we have as other expense. Is it to drive the propel line of revenue item, or is it to drive the program fees revenue line item? If you can work on that, if you can comment about that. And the fifth question will be around, does the Save product have any taxes from the regulatory perspective or so? Because they're doing a lot of taxes in there. Do you have any regulatory risk coming from there?

Avinash Godkhindi: So, I'll take the first question, and probably I'll ask you to repeat the second or the third question. One is on the propel points, growth. Yes, there is growth. And you mentioned, would we be able to reach INR2,000 crores? Yes, there's a lot of opportunity in this space Arpit, because if you look at the number of companies who need to incentivize their employees and channel partners, etcetera, and to do it in a digital manner, in a seamless, rapid manner, it's fairly obvious. Nobody wants to wait for their reward to get shipped after 10 days, 15 days. They would rather get a voucher from a Tata Clique or an Amazon or a Shopper's Stop and then go ahead and make that purchase themselves. So, the opportunity to grow this side of the business is fairly significant. The second question was around fixed cost, but I couldn't hear it completely.

Arpit Shah: What would be the kind of fixed cost that we have on the P&L currently like What kind of operating leverage you can see hide in the business?

Aditya Kumar: The direct fixed cost is cost of propel point that is one. So, post that, with this itself, we'll have like 10%, 11% kind of a take rates. And post that, there will be some maintenance of the propel platform, etcetera, along with employee cost.

Arpit Shah: Propel will be variable cost, right? It will be variable.

Aditya Kumar: Yes, most of these costs are variable because they're linked to generation of revenues. So, the business per se, the fixed costs would be just your office rentals and to some extent, employee costs, right. But other than that, a lot of the business costs here as -- variable just by nature.

Arpit Shah: So, what would be that number, let's say, on a fixed basis and growing at an inflation of 10%, 12%? Would that be it?

Avinash Godkhindi: Sorry, I didn't get that question.

Arpit Shah: What would be that number, let's say for on an annual basis? And I'm unexpecting that number to grow at an inflation of, let's say, 10% to 15%. So, what would be that number?

Aditya Kumar: So Arpit like, basically, what happens is -- after as large a chunk of it is a direct attributable expense right like the fixed cost will remain. And as we grow with a 10% kind of an inflation number, like -- we will see an increase of 1%, 2% in the EBITDA margins for the specific propel product.

Arpit Shah: Okay. And I had a question on discount which we have on other expenses. So, is that expense linked to drive the propel line item or is it linked to drive the program fees or other revenue line item? Or is it more hybrid?

Avinash Godkhindi: So, if you're talking about the incentives, the incentives are given for users to spend on their network cards, network cards as in RuPay, Visa, Mastercard cards. So, while you can't directly attribute it to even program fees because this is given to a small set of users and it's discretionary in nature, but this has nothing to do with Propel Points per se.

Arpit Shah: Program fees, where we all interchange the revenues from network records. Hello? And does Save and any kind of tax from the regulatory environment? Like, because you are providing tax incentives to them, does it face any risk from the regulatory front?

Avinash Godkhindi: See, the Save value proposition is very simple and clear. It is going to a corporate and saying, your employees incur expenses on behalf of the company, whether it's travel, entertainment, any other expense that they may incur. And all of that can come onto this platform. All the bills are scanned. They are on the app and the cloud. And so, there is any need to look at those bills five years down the line, seven years down the line. Those pieces of information stay very clear, along with all the reasons why an approval was given, who gave the approval, what was the basis, was it -- basis the rules that are set up.

Along with that, we also offer employee benefits which takes advantage of some of the tax benefits that employees can avail. So, and that part is fairly small compared to the overall value proposition where we are talking of employee reimbursements and employee expenses. That is how we view it and that is how we position it to corporates. Employee benefits also has a tax angle and a non-tax angle. A lot of companies are providing benefits to employees for their mental health, for their physical health and those benefits also come onto the platform.

Moderator: Thank you. We move to the next question. Our next question is from the line of Miten Lathia, from Fractal Capital Investments. Please go ahead.

Miten Lathia: Yes, good afternoon, sir. When the corporate buys points from us to give to the employees, how do we build a corporate for the points?

Avinash Godkhindi: So, basically there are different ways in which this works, sir. The simplest way is the corporate buys the points and we build the points and the corporate pays us and then we allow the corporate to go ahead and issue the points. There are also other models and other cases where a large corporate may want to work on a redemption model where the points are issued first by Zaggle and the redemptions happen through the month. At the beginning of the next month, we go ahead and share the MIS, and then there's an invoicing that is done, and then the corporate clears that invoice. But largely it's the first model for most corporates.

Miten Lathia: Are points an item which attract GST or no? Points do not attract GST, right?

Aditya Kumar: Yes, sir. It doesn't attract GST.

Miten Lathia: Doesn't, okay. And the second one is similarly on the employee side so when the corporate is gifting points to or giving a reward to their employee in the form of points the employee also doesn't pay any perquisite tax or anything of that sort, right?

Avinash Godkhindi: So, a lot of the taxation angle is covered from the reward dispersal itself. So, if there is a tax liability that arises from this -- let's say originally the employee was supposed to get 100 and the tax liability generated is say 10%, the corporate goes ahead and issues only INR90 worth of points.

Miten Lathia: Okay, so the corporate has to decide whether they want to deduct perquisite tax or not?

Avinash Godkhindi: Yes, because they are aware of what the income structure, the salary structure of the employees so the corporate in any case just like does a TDS for any of their payouts, the corporate takes a call for this payout whether it is for employee or channel, what is the applicable TDS.

Miten Lathia: Great sir, thank you very much.

Avinash Godkhindi: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Raj Narayanam: I would really want to thank all of you for spending time with us. With this, I'll conclude the call. If you have any other further queries, please contact SGA, our Investor Relations Advisor. And once again, thank you very much for joining us today in this earnings call. This was our first earnings call and we are very happy with the kind of questions asked. We hope that we were able to answer all your queries. Thank you so much.

Moderator: Thank you. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.