"Zaggle Prepaid Ocean Services Limited
Q2 FY24 Results Conference Call"
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MODERATOR: **MR. ROHAN MANDORA – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Zaggle Prepaid Ocean Services Limited Q2 FY24 Results Conference Call hosted by Equirus Securities. 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.

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I now hand the conference over to Mr. Rohan Mandora from Equirus Securities Private Limited. Thank you and over to you, sir.

Rohan Mandora: Thanks, Akshay. Good afternoon, everyone and thank you for joining the call. To give a brief update on the Q2 FY24 results and address investor questions, we have with us from the management of Zaggle Prepaid Ocean Services Limited: Mr. Raj Narayanam, Founder and Executive Chairman, Mr. Avinash Godkhindi, Managing Director and 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: Thanks, Rohan. Thank you very much. Good afternoon and Happy Diwali in advance to all of you. Thank you for joining us today for Zaggle's earning call for Q2 FY24. On behalf of the company, I extend a very warm welcome to everyone for joining us today. On this call, we are joined by Mr. Avinash Godkhindi, Managing Director and CEO, Mr. Aditya Kumar, CFO and SGA, our Investor Relations Advisors.

The results and the presentations are uploaded on the stock exchanges and the company website. I hope everybody has had a chance to look at it. I am pleased to share with you that your company has delivered a strong set of numbers in both Q2 and H1 FY24 with revenues growing at a healthy 41% and 38% respectively on a Y-O-Y basis.

Growth in adjusted EBITDA is even stronger at 79% in Q1 FY24 (to be read as Q2 FY24. It was mistakenly spoken as Q1 FY24) and 54% in H1 FY24. We have witnessed significant growth and transformative changes in our industry. The digitization wave has reshaped the way we do business. The reduction in cash usage and increase in cards and digital spends has been a prominent driver in our industry.

Expense management and vendor payments along with stronger compliance requirements have been a big pain point for enterprises. Zaggle through its suite of products is addressing this challenge. We are seeing a very healthy demand for these products and we are very confident that we will be able to service a large part of this demand resulting in higher growth. This would require investments in product as well as technology to be able to meet the customer expectations.

I just want to highlight the spend management solutions which we provide to large corporations brings in a level of transparency and control over expenditure that can mitigate risk, stimulate growth, boost profits and streamline operations across the organization.

The securely centralized data in spend software such as our SaaS offering serves as a singular source of growth enabling companies to conduct real-time spend analysis and gain insights into how the money is allocated company-wide which generally we have seen as a challenge for large corporations. When the right system is in place, it simplifies and expedites decision making for all our stakeholders. This shift in mindset offers a solid growth trajectory for Zaggle.

We have worked very closely and we continue to work very closely with our customers to garner deep user insights. This engagement helps us to continue to diversify, enrich our offerings by exploring various use cases and aligning our strategy with an evolving marketplace. By strategically broadening our solutions, we can effectively cater to a broader spectrum of customer needs and preferences, thereby fortifying our competitive position and capturing new market segments.

As an organization, we have a strong belief in partnerships and collaborations with our Zaggle integration platform which is called ZIG. We intend to have our integrations with relevant ERPs, HRMSs, accounting and various other software packages. We endeavour to build symbiotic business relationships and believe in partnering with various industry players.

One such example is our recent collaboration which you would have all seen in the news as well as on the stock exchange when we filed it, was with Kotak Mahindra Bank that represents a significant milestone for our organization. Through this strategic partnership, we will provide bundled services of Kotak Bank corporate salary accounts plus employee flexi benefits, disbursal on a co-branded prepaid card for employees of corporates.

Talking now I'll talk about some operating matrices. Currently the active users on our platform is at about 2.52 million as on 30th September 2023. One of our current growth strategies is to drive growth in our recently launched product Zoyer which is basically nothing else but an accounts payable and vendor payment product.

Corporates face multiple challenges with vendor payments like manual invoices, they have no visibility at branch level payments, delay in payments, vendor empowerment and the right choice of vendors. Through our Zoyer product, we provide a single centralized system or a platform to manage all the vendor related payments, thus driving efficiency and automation.

At Zaggle, we see incredible potential in the credit card market. Our venture into the credit card industry has unequivocally transformed our trajectory. Month after month, our revenue from our various sources and most of them have been growing at a very healthy pace, but one particular piece which I want to highlight is the credit card which continues to soar, demonstrating the immense appetite for this financial tool in the market.

The revenue potential from credit cards is even higher and we are fully prepared to tap into this vast market. The momentum that we have built in H1 of this year, which is the first half year, will be carried into H2 and we look forward to continuing this stride. We expect the operating leverage which is already kicked in to further strengthen and with lower finance costs as we have repaid the debt, you know, should show stellar performance in the coming H2.

With this, I would want to thank all of you and I will ask my, you know, MD to come in and give you a deeper dive into our operations and future prospects. Thank you so much. Over to Avinash Godkhindi.

Avinash Godkhindi: Thank you so much, Raj. Appreciate it. Happy Diwali to everyone. This has been a very encouraging quarter for us, both in terms of performance of revenue and EBITDA. A notable portion of our growth in the quarter was driven by increase in spends on credit card business, along with the growth in Propel Point Redemptions.

Growth in Adjusted EBITDA is around 78.7%, this is before ESOP expenses, outpaced the growth in the top line which is 41.4%. This is the result of strong operating leverage that exists in our business and that has started to kick in every quarter. Our H1 FY24 top line growth was 38% and is in line with our full year guidance of about 40% to 50 % revenue growth.

Since this is our second earnings call and ours is a very uniquely positioned business, so I'm going to take a step back at this moment and spend some time to share more insights into our products and offerings and the overall business model. Zaggle solutions cater to the expense side of the corporate customer's P&L statement, encompassing three major categories.

These categories include employee expenses, reimbursements and employee tax benefits, channel incentives provided to channel partners and employee rewards and recognition, as well as accounts payable platform which is Zoyer. All these products are deeply embedded with our credit card and prepaid card payment instruments. With the help of our embedded finance platform, our customers witness improvement in their operations, in their cash flow and their overall financial performance.

Our customers who use our Save platform, which is basically our employee expenses, employee reimbursement, employee benefits platform, designed for where we offer convenient mobile app and dashboard. Through this app, employees can instantly scan their bills and submit their expense receipts using our optical character recognition capabilities, which is OCR capabilities.

Effectively, corporates can digitize their employee expenses and expense tax benefits, as well as their reimbursements on a single payment instrument that can replace food coupons, food cards, fuel cards, travel vouchers, gift cards and any other payment instrument that a corporate gives for employees to incur these expenses.

Coming to Zoyer, Zoyer is a SaaS-based accounts payable platform which helps in digitizing all payouts for corporates through deep integrations with ERPs and our credit card offerings. It helps corporates improve their working capital and payment efficiencies, increase visibility via analytics and define hierarchies and authorization matrices. The platform is coupled with our credit cards, both corporate credit cards and purchase cards, which provides corporates with a holistic accounts payable solution.

Coming to Propel, Zaggle Propel serves as a comprehensive solution for employee rewards and channel partner incentives. Through our automated rewards and recognition platform, we enhance engagement amongst both channel partners as well as employees of companies, ultimately fuelling accelerated business growth. With Zaggle Propel, corporations have the power to revamp their channel partner incentives and establish channel loyalty programs that foster loyalty, drive channel revenues and bolster their profits.

I will now talk about the performance of our various products along with revenue contributions in the last quarter. Program fees amounted to about INR965 million, which is about 32% of our top line. This figure encompasses various revenue streams including interchange income and incentives from networks like Visa and Rupay. Platform fee, the SaaS fee, stood at about INR147 million, contributing to about 5% of our top line.

This refers to all the fee income that we receive from our corporate customers, including fixed monthly subscription fees paid by customers on a per-user basis. The Propel Points revenue stood at INR1,915 million, constituting 63% of our total revenue. This is received from customers for issuing reward points, which we call as Propel Points, to their employees and their channel partners like dealers, distributors, agents, retailers, etcetera.

We anticipate robust growth across all our revenue streams moving forward and look forward to increasing our share of program fees and SaaS fees in the coming quarters. We will continue to implement our growth strategies and we remain confident in our ability to effectively leverage our inherent strengths, ensuring growth and margin expansion.

I will now hand it over to our CFO, Aditya, for financial highlights. Thank you so much.

Aditya Kumar: Thank you, Avinash. Good afternoon all and happy Diwali in advance. Let me walk you through our quarterly financial performance. In the past quarter, we registered an impressive 41% Y-O-Y growth and 55% sequential growth in our top line. Our gross margins reduced by 2.7% on quarter-on-quarter basis due to increase in Propel Points redemption business, which is being recognized on gross basis.

Having said that, our cost structures across product categories are being monitored effectively so that we are able to maintain overall EBITDA margins. Our adjusted EBITDA has grown by over 79% on Y-o-Y basis and 58% sequentially to INR218 million. During this quarter, there is increase in our employee cost, raising from INR81 million in Q1 FY24 to INR112 million in Q2 FY24. This upstick can be attributed to the annual salary hikes and bonuses.

H1 FY24 is a better reflection of our employee cost profile. Following the recent IPO, the company has successfully repaid INR470 million in borrowings, which is expected to result in reduced finance costs starting from H2. In the future, we will realize significant interest cost savings, resulting in a meaningful shift towards the profitability.

Our cash PAT, which includes net profit along with depreciation and ease of expenses, has surged by 94% on Y-o-Y basis. During FY24, we expect to record total ESOP expenses close to INR180 million to INR200 million.

Speaking on H1 FY'24 numbers, our revenues have soared by 38% on Y-o-Y basis to INR302.7 crore. Our adjusted EBITDA has experienced a substantial growth of 55% to INR355 million. Notably, our cash PAT has surged by an impressive 69%. Going forward, the prospects in H2 are also looking promising due to inherent seasonability of our business, which we have spoken about in the past.

Over the years, our revenue has consistently demonstrated a substantial surge during the third and fourth quarters, accounting for a substantial 60% to 65% of our total revenue due to surge in transaction volumes during the festive sale and increased spends driven by users seeking to maximize their card balances before end of the financial year. On that note, I will request Moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Girishma Shah from Envision Capital. Please go ahead.

Girishma Shah: Good afternoon. Happy Diwali and thanks for taking my question. I want to understand the alliance with VISA and Kotak Bank better. How will this $20 million and INR76 crores accrue to us over a period of time? If you could explain that that should be helpful? That question one.

Avinash Godkhindi: I will take the Kotak partnership first. Basically, when a corporate today signs up with Zaggle, we offer them the SAVE platform which is our employee expense management, reimbursements and reward and employee benefits platform. And obviously, they would have a corporate salary account from a different bank. By bundling the two, what we are basically making is that there is a common interface, a common app, a common dashboard that the corporate and the employee get.

In addition, in this relationship, the way it is structured is that the bank will bear the cost of the software fees for the expense management and employee benefits and to the corporate effectively, if the employees are taking a Kotak Mahindra Bank best-in-class salary account, the software platform would come free of cost.

And that is a very powerful proposition in our view because it allows for rapid expansion in terms of uptake and to a corporate, they just need to agree to take best-in-class salary account. Coming to the VISA incentive, the VISA incentive is for forex cards. We are in the coming quarters going to launch our forex prepaid cards.

This dovetails beautifully with our expense management platform because when employees travel abroad, they incur expenses on the behalf of the corporate and they need to submit those bills. Now by offering that in conjunction with a forex card, it is going to be very easy for employees to submit their expenses through our app which has OCR as I mentioned and for the corporate to be able to reconcile and settle the dues if any because the forex card also is tightly coupled with our offering. Hope that answers the question.

Girishma Shah: Yes, so how will you get this $20 million? Is it equal in five years? Is it going to be milestone based? How do you arrive at this number?

Avinash Godkhindi: Yes, so this is an estimate linked on spends, the amount of spends that get generated on the forex card. This is an incentive that is a basis to spends.

Girishma Shah: It's like the propel points that we have?

Avinash Godkhindi: This is nothing to do with propel. This is basically that if there are so many million dollars of spends that get generated on the forex cards, we get X million dollars of incentive from VISA for driving spends to visa ahead of other card networks.

Girishma Shah: Okay, so this will accrue in the program fees then?

Avinash Godkhindi: Yes, yes.

Girishma Shah: Okay, and for Kotak Bank, it would depend on the number of employees getting on to our platform?

Avinash Godkhindi: Number of corporates and number of employees who will sign up for this specific program. We will invoice the bank for the SaaS fees, the software fees and all the card transaction income also would come as usual which we get for our prepaid cards.

Girishma Shah: And this fees and all the arrangement is no different if we had to approach the corporate by ourselves or it is different for Kotak Bank?

Avinash Godkhindi: This is a bundled offering. So obviously because it's a bundled offering, so there are different specifics there. But of course, for us the benefit is that here we are invoicing to a single trusted entity like the Kotak Bank. And secondly, we anticipate that the uptake would be fairly significant given the value proposition to the corporators that you get the software free.

Raj Narayanam: One more point I just want to add there ma'am is that in all our relationship with banks, we as Zaggle were the sellers of these products along with our brand partners. In this particular arrangement, the difference is that Kotak will also sell our software to their corporates.

Cards would be Kotak's co-branded with Zaggle, but they would be the sellers, software would be ours. So, this is a two-way income generating program by which we should be able to at least see that the base of Kotak is very, very large and I think we would significantly benefit from this relationship.

Girishma Shah: And it would be taken to the existing Kotak customers as well?

Raj Narayanam: Yes, yes, yes. That's the key point ma'am. That it will be taken to all the users and customer corporate relationships which Kotak has. They will take this offering to them which is a bundled offering with Zaggle and you know software is Zaggle, card is a co-branded card and together it will make a very, very good combination for any corporate to have.

Girishma Shah: And again, the INR76 crores is an estimate. It may vary from one year to the other depending on how many customers are getting on board?

Avinash Godkhindi: Contract is for three years ma'am and INR76 crores is a combined estimate across the years. For one single prepaid card program which is what we have discussed. However, the contract has the flexibility or the openness for us at a future date, basis mutual agreement with the bank to launch other forex – other prepaid programs as well.

Raj Narayanam: And also, the other possibility is that looking at this program, there could be other banks who will approach us to enter into something very similar. So, what we see is that at least couple of more banks in next couple of quarters should also sign up for a program like this because it's a win-win. They are able to offer something extra to their customer.

For us it's a beautiful thing. Customer is also able to get all these services from their known corporate banker. And for us it is that our software is going into so many corporates which also gives us an opportunity to sell something extra to those corporates.

Girishma Shah: Okay. That's on the alliance. The second question is I'm assuming that compared to last year quarter two, to this year the Propel percentage of revenues has increased and therefore the gross margins have been a little lower. Is that understanding right?

Aditya Kumar: Yes. Aditya here ma'am. Yes ma'am. Because what happens in the Propel platform revenue right, the gross margins are lower but the take rates are always higher.

Girishma Shah: Okay. And the borrowing cost, will it come down by INR2, INR3 crores in the second half compared to last year or would it be higher?

Aditya Kumar: It will be lower ma'am because we closed couple of borrowings. So obviously it will be lower compared to H2 of last year.

Girishma Shah: So, it will come down by INR2, INR3 crores or it would -- the quantum will be more. I mean we had around INR120 crores of debt as of FY'23 of which you closed INR47 crores.

Aditya Kumar: Quantum will be lower by INR2 to INR3 crores ma'am. Yes.

Girishma Shah: Okay. Fine. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much sir for the opportunity. So first I just wanted to understand in terms of ESOP expense. I mean this year we expect about INR18 to around INR20 crores right in terms of ESOP expense and then out of which I think INR13, INR14 crores we have already incurred in the first half. The second half only I mean INR5, INR6 crores is what we are expecting in terms of ESOP cost?

Aditya Kumar: Yes. Correct Deepak. Your understanding is right. Around INR6 crores we will have to expense out for the next two quarters.

Deepak Poddar: INR5 to INR6 crores.

Aditya Kumar: Yes.

Deepak Poddar: And then how do we see that FY'25 in terms of ESOP cost?

Aditya Kumar: FY'25 will be much, much lower because we do ESOP accounting as per IND AS requirements etcetera. Initial two years it will be on the higher side. For the FY'25 and FY'26 both years put together it will be around INR10 crores.

Deepak Poddar: INR10 crores total or each?

Aditya Kumar: Total. Total INR10 crores and around INR7 crores in year one and INR2.5 crores in year two.

Deepak Poddar: So, FY'25 is INR7 crores and INR3 crores is FY'26.

Aditya Kumar: Yes.

Deepak Poddar: So, what I am trying also to understand now because now your ESOP cost will also reduce or your adjusted margins in terms of EBITDA will now converge to your reported EBITDA margin. Because of this ESOP cost being minimal from let's say next FY'25. So, I mean in terms of margins what do we aspire because as we scale up we will get some leverage advantage as well given the high growth business we are into. So, what would be our steady state or aspirational margins that we look in our business I mean from next two to three-year perspective?

Raj Narayanam: Yes. So, you know ideally we should reach about 15%, 16% overall. But for this year the guidance is 12% to 13% and we will maintain that for this year. But of course, there is lot of operating leverage which is available to us to expand our margin.

Deepak Poddar: So, 15% to 16% margin is what we are looking at in two to three years' time frame?

Raj Narayanam: Yes.

Deepak Poddar: And this 12% to 13% is on adjusted basis right? We are not including the ESOP cost?

Raj Narayanam: Yes.

Deepak Poddar: Understood. And I mean we currently I think we have I think what 2600 kind of corporate clients. Would that be right number?

Raj Narayanam: Yes. Roughly about 2700.

Deepak Poddar: So how do we see the traction in that? I think some colour in terms of the traction in your clients and how we are trying to expand our wings in this corporate sector.

Raj Narayanam: So, this is very good question and that is one of the things which the company is continuously focusing on. The cross-sell opportunity we have multiple products and today we see that our cross-sell percentage is roughly about 14.5%, 15%. Now we want to take this 14.5%, 15% to about you know 25% by next year. When I say next year it is like, by September of FY'24 is what I am saying. And by then we should be able to take this to increase it by another 10%. And we are constantly trying to see that how much more can we accrue from the same customer. Because already our CAC is given in and we have already cracked into the account. Now what more can we sell to them is the idea. So, the current traction is just absolutely phenomenal right now. And what we expect is in at least for next two, three years whatever visibility and the demand projections we are seeing it looks very, very healthy.

Deepak Poddar: Okay, so in terms of cross-sell, so can you elaborate more on the cross-sell? So, what exactly we are trying to cross-sell? Is it the Forex card we are talking about here or what else?

Raj Narayanam: Could be, could be like for example I will just take a hypothetical example of HCL. Okay.

Deepak Poddar: Yes.

Raj Narayanam: Okay, so in HCL we are providing them expense management and till today we were not giving them any Forex you know card solution. Or we were not giving them the you know accounts payable vendor automation system which is Zoyer.

Okay, now we would look forward to seeing that you know now that you are, they are already buying our expense management. How can we bundle the Forex card as well as the vendor payment or accounts payable platform into HCL so that we can streamline their payables.

Deepak Poddar: Understood, so I understood this point. This is one avenue of growth in terms of you increasing your depth in a particular client right. But I was also trying to understand how will you, how are you trying to increase the I mean the number of clients, the width of the client that we have?

Raj Narayanam: If you look at our revenue growth drivers, what are the revenue growth drivers? One is the more number of corporates I add, okay that is how you know my revenue will grow. Second is if the users within that corporate gets added that is when my revenue goes up, okay.

Third is that if there are more number of solutions I can sell to a corporate is when my revenue goes up. Fourth is the amount of spend which the users do on the cards is when my revenue goes up. These are four levers for us and we work on all of these four levers to continuously see that how do we grow our business.

Now to your question that how would we grow, you know add more corporates. See for us adding a corporate is much much easier, okay. It is not a very difficult task for us to add corporates but to be able to you know generate more income per corporate is what we are looking at.

You know which typically is called you know ARPE which is average revenue per enterprise. How do we go and increase the average revenue from an enterprise? So that is what we focus, that is what is the core focus because we already have 2700, 2800 clients and you know even if we take it to 3200, 3500 that is you know that is not at all a tough task for us.

Deepak Poddar: Understood, that is a nice explanation. And my one more query I was trying to look in terms of regulatory risk. I mean how do you see that I mean tomorrow if some adverse RBI rule comes or something on those lines? So how do we see regulatory risk in our business?

Raj Narayanam: So, like if you see RBI regulation on what will it come? You know they see in my opinion they cannot ask us to stop selling software, okay. The biggest risk and the only risk which is there is that in terms of the interchange risk on the prepaid card.

Now because we have already launched our credit card the risk is significantly mitigated and at any given point of time we can actually you know completely move everything in our business from prepaid to credit card you know given like about 3 weeks now. Earlier time was about 6 to 8 weeks but now we are so ready you know ourselves that any point of time something like that were to come we would easily be able to manage it.

Deepak Poddar: Okay and so what you are trying to say is that majorly our risk could be in the prepaid card, right. So that is where the RBI could intervene or some adverse regulation might come in. But since now we have launched credit card we can shift this entire business of prepaid card to credit card and our risk is kind of a mitigated, right. So, is my understanding correct?

Raj Narayanam: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Rahul Bangadia from Lucky Investment Manager. Please go ahead.

Rahul Bhangadia: Thank you for taking my question sir. Congratulations on a very good set of numbers. Just one question. If you could help me with the throughput that you had for your debit card, credit card, prepaid card put together?

Avinash Godkhindi: Hi Rahul. Congratulations to you too as well. Didn't understand the question. Can you please repeat?

Rahul Bhangadia: The throughput, the value throughput that happened through your debit, credit and prepaid cards for the quarter. So how much money would have been spent using your cards?

Avinash Godkhindi: So that's a fairly significant number Rahul but wouldn't want to necessarily go into the specific details. But you see the program fees and you know the take rates there. The last year take rate was 1.85%.

Rahul Bhangadia: So, we will work that way backwards. That take rate hasn't increased.

Avinash Godkhindi: Take rate has remained in the same range.

Moderator: Thank you. The next question is from the line of Karthi from Suyash Advisor. Please go ahead.

Karthi: Yes, good afternoon. I hope you wouldn't mind if I ask a couple of very basic questions. One, just trying to understand in terms of exclusivity of arrangements with corporates. Could there be a competing solution offered to the same corporate? How exactly does the arrangement work with your corporate clients?

Avinash Godkhindi: Karthi, so thank you for your question. What happens sir is our value proposition to a corporate is a unified card, app and dashboard. See because we integrate in many cases with their ERP, we get project codes, cost codes, location codes. And we are able to give a very holistic view to the corporate as to for that particular location for example, what are the kind of spends that are happening.

Or for that particular project or that particular department, what are the kind of spends that are happening across whether it's employee expenses, whether it's any vendor payments that they are making or any other rewards etc. So, the whole thesis is that it's a unified platform, single sign on, very easy to use mobile app.

And hence we anticipate in the coming years more and more corporates would take the full suite of our offerings. We don't try to enforce any exclusivity per se with our corporate customers because we do genuinely believe that our platform is best in class and we compete on merit against our competitors.

Karthi: Right, right, right. Interesting. So, if you have to give me a ballpark estimate of what would be the current penetration of such solutions in India?

Avinash Godkhindi: Very difficult to estimate, right, Karthik? Today a lot of companies are still on Excel and email, right? And that's what we are trying to solve for. I'll give you an example. Let's say there's an expense that was approved three years ago. There's a query that comes in from any of the authorities saying what's this expense, why was this approved?

I know of a lot of companies who end up having to restore mailboxes because the employee could have quit, right? And trying to figure out who approved, why was he approving it the way he was, etcetera, etcetera. All that inefficiency, all that challenges that companies face, we make it seamless.

We make it at the click of a button. You click at the expense. Not only do you get to know who approved, you also get to know all the communication that happened between this person and anyone else who was involved.

Let's say the employee has made the submission, any other finance team, as to what was the discussion that happened around why this approval was given, right? So, everything is at the click of a button sitting on the cloud for years and years and years so that it's seamless for the corporate to be able to respond to any of these queries.

Karthi: Sure, sure. So, one question on ROE evolution. I understand scale plus profitability will drive ROE. So, at what stage would you reach mid to late teens kind of an ROE number or is that too aspirational? The second part to it is, do you make a distinction between the variable part of your revenues, which is to say spent linked, versus the fixed fee part of your business and how should one think about these two components?

Avinash Godkhindi: So, Karthi, I'll take the second one first. If you look at our view of our revenues, it's a bundled holistic platform. And as I gave the example of the Kotak partnership, there we are now bundling effectively the income that you generate by selling a Kotak Mahindra Bank salary account as well, right?

So, it's a third-party product in some ways. And not only are co-branded prepaid card and the software fees, we are also earning a commission from the bank for selling the salary account, right? So, we take a holistic view on the nature of the revenues because the corporate also looks at it that way, right? They are saying, okay, if this is the kind of volumes that are getting generated, then we will potentially look at how much fixed fees we need to incur as a cost.

Karthi: But doesn't it vary across? One is of course, say for example, an employee account is a one-time fee income. Credit card spends, for example, would be transaction linked, right? And of course, you know, the SaaS services is a more recurring kind of setting. So therefore, I was trying to understand how you break it down in your mind from an ROE perspective?

Avinash Godkhindi: Yes, sir. So, the SaaS fee, of course, has a large recurring angle to it. The program fees also is recurring because people keep spending on their cards. And you know, every time they spend, we earn. Similarly, on the Propel points, every time somebody makes a redemption of that point for vouchers of various brands, we again earn our commissions there. So, there is a recurring angle to each one of these. And that's the way we have sort of tried to design the business model.

Karthi: Quickly, when do you think a high-teens ROE is possible?

Avinash Godkhindi: At least I would not want to venture into a speculatory response, sir. We are working towards it.

Karthi: Right. And one last quick question. Would this cover temp staff also or does it largely cover only employees on the payrolls?

Avinash Godkhindi: So, our costs, you're talking of our employee costs or?

Karthi: No, I'm talking about the customer side. Customer side. A construction company, for example, which employs a lot of?

Avinash Godkhindi: Anybody who submits an expense to the company, right? It could be bench staff, third-party payroll. It could be delivery boys. We have some of the largest food delivery companies in the country. The biggest ones are now our customers. We've signed them up recently, right? And a lot of them are the delivery boys. So, this is not just your white-collared, sophisticated employees on the company base, but it could be a blue-collared worker as well, a third-party payroll.

Moderator: Thank you. The next question is from a line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yes, good afternoon, sir, and happy Diwali in advance. So just I have a couple of questions. Firstly, so like you mentioned on the Kotak partnership, so just wanted to understand like how will the profitability differ, vary with the customers which we source through this Kotak Bank partnership as compared to the customers which we source directly?

Avinash Godkhindi: So, in this case, it's the bundled solution is taken by the corporate and we are making the sale. We earn the fees for selling the salary account. We earn the software fees for the Save platform and we earn the interchange, which is part of the program fees, right?

So, you have multiple revenue streams. The newer stream that is popping up here is the commission that we get for selling the salary account. In the case when the bank, let us say the bank goes ahead and sells, in that case, of course, we don't get the fees for the salary account sale. But of course, the beauty of that model is a bank has thousands and thousands of, tens of thousands of employees who can sell our solution to their prospects.

Lalit Deo: So just wanted to understand, so in a way like this partnership is much more profitable than the one where we source customers directly. Is it right to say that?

Avinash Godkhindi: Earlier we used to earn in two ways, program fees and software fees. Now you have a third leg which is kicking in which is the fees that we get from the bank for sourcing the salary account.

Raj Narayanam: It is a highly, highly profitable deal because no effort from our side when a bank sells, okay, and they are the ones who will sell the software as well as the card. So, we get extra income just because of the relationship and usage of our software. So that's a highly, highly accretive deal for us.

Lalit Deo: Sure, sir. And so, second question is like, so like we have mentioned that like 60% to 65% of our revenue comes in the second half of the year. Now this year, like the entire festive season has been on the, is in the third quarter. So how has been the initial business trends in this quarter and what kind of traction are we seeing right now?

Avinash Godkhindi: So, I will not go into specifics, sir, but the trend continues as we have seen in all these past years. The trend continues and we are getting good traction, very good traction.

Raj Narayanam: And see, we have already given the guidance of 40% to 50% growth on the top line and 11% to 13% EBITDA side. So, I think we will be able to maintain it.

Lalit Deo: Sure.

Moderator: Thank you. The next question is from the line of Mitesh Kamdaar from Aditya Equity Investment. Please go ahead.

Mitesh Kamdaar: Hello. I had one question. As the cash flow from our operations is negative, when can we expect that we, our dependence on the external capital to generate revenues to go away?

Aditya: So, this is largely an account of large quarter end requirements, etcetera. What we do on the trade receiveable, right? Maybe we are working on it. Possibly in the next one year, we'll be able to maintain that level of positive working capital.

Mitesh Kamdaar: Okay. But will the further growth require any external requirement from capital from the outside sources because our own cash generation is going to be negative?

Aditya: As of now, no. We leverage the existing whatever capital is available and we'll make sure that operational fixed leverage kick-in is already started. So that will help us to make our operational working capital positive.

Mitesh Kamdaar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Agham Shah, an individual investor. Please go ahead.

Agham Shah: Hi, sir. Quick question. You explained the Kotak deal. Just wanted to know, INR76 crores is a number. So, this number will keep on increasing, right?

Avinash Godkhindi: So, end of the day, the INR76 crores is the number that we have estimated from the income that we'll generate as program fees for the three years. This is the revenue projection for one program. We have not, because the contract that we submitted was only the co-brand contract.

We have not included in that the income that we get from the software fees and the income that we would get from the sale of the Kotak salary accounts. And yes, as the multiple programs get launched through this contract, those get added. And as the program expands, we hope that while the initial signing duration is three years, we would hope that would get extended and we would have more uptake in the coming years.

Agham Shah: So typically, let's say in a given year, you don't acquire more corporate customers, so still we can maintain the growth of 40% or this will drop to 20% or how to look at that way?

Avinash Godkhindi: See, our cross-sell opportunity is very, very significant. As Raj previously mentioned, we are at about 14% odd right now. In the next year, we are looking to get to 25%. Our opportunity to be able to bundle these sort of solutions and then sell, that is also available for us. So typically, it is a corporate that we sign up today takes about three years to five years to mature in terms of the overall revenue output that can be generated..

So, it's not that the growth is a concern for this year, but you need that decent pipeline of corporates getting signed up year-on-year for the coming years, so that we continue to grow not only this year at about 40% to 50%, but in the future also we have robust growth.

Agham Shah: Just a ballpark if I was to take, if I don't sign any corporate customer, so the current business can still grow at least 20% to 25%, right? With the current corporate clients…

Avinash Godkhindi: There is tremendous opportunity, sir. As I said, the cross-sell is only 15%, right? And if we just focus on that, there is tremendous opportunity for growth. Yes, you're right.

Agham Shah: Okay. That's it from my side. I will join the queue.

Moderator: Thank you. The next question is from the line of Sriram, an individual investor. Please go ahead.

Sriram R: Thank you for the opportunity. I have a couple of questions. One is, how much is the interchange fee for the first half? And also, if you can throw some light on what is the other component of the program fee? I mean, you have mentioned that you receive some kind of fees from the banking partners. So, what is the arrangement there? And if you can help me with the nature of income, that would be helpful.

My second question is on the propel side of business. Now, earlier, you used to report on an IND AS basis, which has now changed. So, let's say FY '21, you had reported INR30 crores. Now, what is this number for '22 and '23?

Avinash Godkhindi: Sir, on the propel points, we are reporting on the basis of Ind AS. That is what we are doing right now. And so, I don't understand, where the confusion is?

Sriram R: No. What is the pre-Ind AS number?

Raj Narayanam: The pre-Ind AS number was insignificant, sir.

Sriram R: Sorry. So, let's take 154 and 360 is your '22 and '23 revenue. So, what is the number?

Avinash Godkhindi: Both these numbers – previous and the current reporting is also on Ind AS for these numbers.

Sriram R: No. I'm saying, can you give the comparable figure?

Aditya: Maybe I'll take this question, sir. So, we migrated from IGAAP to Ind AS from FY '20 onwards. Whatever numbers you see in the financials are disclosed under Ind AS. So just to answer straight to your question, so FY '21 propel platform revenue is INR32 crores. As against the cost of propel point, you will see the direct expenses line item on the face of the P&L. You just need to reduce that. So that gives you around INR2 crores. For FY '22, it is around INR10 crores. For FY '23, it is around INR45 crores.

Sriram R: Yes. Exactly. So that is where I'm coming from. So, this INR2 crores to INR40 crores, how should we look at this? I mean, there's a large jump. So, and then for the H1, again, we are at INR20 crores. So maybe we are meeting the similar run rate. So how should we look at this in the future?

Aditya: That's by design, sir. We are focusing on increasing the propel platform revenue, etcetera. So, what we are doing is whenever we get the contract from the corporates, right, rather than going for network cards, we are making sure that they use the platform and redeem the catalogue of the vouchers by the user. It's increasing on user propel adaptability.

Sriram R: Okay. So, answer on my first question on the interchange fee, the value for the first half?

Aditya: So generally, the program fee largely consists of interchange fee only, sir. Around 90% to 93% will be the interchange fee and rest all other line items like incentives, etcetera will comprise the other portion.

Avinash Godkhindi: So, we also won't be able to go into too much of specifics because these are very specific, contracts or arrangements that we have with our partner banks, etcetera. And this is a little bit proprietary in nature.

Sriram R: Okay. So actually, the last year, the number was 72%. Actually, that's what you have reported. I mean, the component of interchange fee to program fee, if I do that maths, 72. So again, now it is reverted back to old levels, we're saying 90%?

Aditya:: Yes.

Sriram R: Right?

Aditya: Yes.

Sriram R: Okay. And what is the other fee that you get, sir? What is the nature of that income? Can you explain that?

Avinash Godkhindi: I think as Aditya mentioned, the fees include a combination of incentives that we get from networks, any support that we get from our partner banks to drive spend, and any other, fees that you would have like on the card, you may have certain fees like, fuel surcharge, etcetera. or ATM fee, etcetera. So those are the kind of fees that are included there.

Sriram R: Okay. And so, on the interchange part, again, let's say, I don't want any numbers. So, let's take INR100 is the interchange fee. Okay, so how much is basically shared with the banks? I just want to know the pie, like, how much do the banks take and how much does Zaggle take? An overall number only.

Avinash Godkhindi: Here is everything that we take. Right. So, what we are including here is only our part. We don't gross it up with the total interchange. We don't do that. So, what we are reporting is the net interchange that comes or net payout that comes to us. Already we are factoring it in. Different banks, different arrangements, sir. That's how that whole thing goes. For example, the arrangement that we have with Kotak Mahindra Bank, there where the VISA fees, the RuPay fees are taken by the bank, the switch costs are taken by the bank. There it's 80%-20% sharing. Right.

Sriram R: So, 80% Zaggle, 20% banks, right?

Avinash Godkhindi: Yes, sir.

Sriram R: Okay. This is helpful, sir. Thank you.

Avinash Godkhindi: Thank you.

Moderator: Thank you. Ladies and gentlemen, which was the last question for today. I would now like to hand over the conference over to management for closing comments.

Raj Narayanam: With this, I conclude the call. If you have any further queries, please contact SGA, our Investor Relations Advisor. Thank you everyone for joining us today on this earnings call. Happy Deepavali and Season's Greetings to all of you. Thank you so much.

Avinash Godkhindi: Thank you.

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