IPO Analysis for Sagility India by InvestorZone Team

A) Business Overview

Focus: Sagility India Limited is a leading technology-enabled business solutions and services provider, primarily catering to the U.S. healthcare market. Their services span across the Payer (health insurance providers) and Provider (healthcare delivery organizations) segments, offering comprehensive support across the healthcare ecosystem.

Core Services:

The company's service portfolio includes:
- Claims Management
- Payment Integrity Solutions
- Member and Provider Engagement
- Clinical Management Services
- Revenue Cycle Management

Technology Enablement:

Sagility leverages proprietary technological tools such as robotic process automation (RPA), data analytics, machine learning (ML), speech processing, and interaction analytics to enhance service delivery.

B) Revenue and Profitability

Metric	FY23 (₹ million)	FY24 (₹ million)
Revenue from Operations	42,184.08	47,535.57
EBITDA	10,448.64	11,160.37
PAT	1,435.72	2,282.66

How they Earn revenue?

(i) Earning from Payers

1. Payer Services: Sagility provides a range of specialized services to Payers, which include:

- Claims Management
- Payment Integrity Solutions

- Clinical Management
- Provider Network Operations
- Front-office Support Services

2. Revenue Generation Models: Sagility structures its fees for Payer services using one of the following revenue models:

- **Time-based Fees:** Charges are calculated based on the time Sagility's employees spend providing services, often measured in hours or monthly engagements.

- **Transaction-based Fees:** Revenue is generated based on the number of transactions processed, such as the volume of claims managed.

- **Outcome-based Fees:** Fees are tied to the achievement of specific results, such as the amount of cash collected on outstanding receivables or the successful recovery of overpaid claims. This model aligns Sagility's earnings with performance metrics.

(ii) Earning from Providers

1. Provider Services: Sagility's primary service for Providers is **Revenue Cycle Management (RCM)**, which encompasses the end-to-end process of billing and collecting payments from Payers and patients. This service helps healthcare providers optimize their revenue cycles and improve cash flow.

2. Revenue Generation Models: Similar to the Payer segment, Sagility earns from Providers through various fee structures:

- **Time-based Fees:** Billed based on the time and resources spent on providing RCM services.

- **Transaction-based Fees:** Charges are linked to the volume of transactions, such as the number of patient accounts processed or invoices managed.

- **Outcome-based Fees:** Fees are based on specific performance achievements, such as improving collections rates or reducing accounts receivable days.

C) Industry Analysis

(i) Growing Market Potential:

The U.S. healthcare expenditure stood at US$4.7 trillion in 2023 and is projected to grow at a CAGR of 5.5% through 2028, offering a robust and expanding market for Sagility's services.

(ii) Outsourcing Trends:

The adoption of technology and the drive for cost efficiency are propelling outsourcing within the U.S. healthcare sector. Sagility's specialised service offerings position it favorably to benefit from these industry trends.

(iii) Competitive Landscape:

The market is highly competitive, with players ranging from large IT and business services firms such as Accenture and Cognizant, to smaller niche service providers. This intense competition could exert pricing pressures, potentially impacting margins.

D) Management and Governance

Experienced Leadership:

Sagility's management team brings an average of 23 years of industry experience, contributing to their deep understanding of healthcare operations, technology, and business outsourcing.

Board Expertise:

The Board of Directors consists of professionals with significant expertise in healthcare, underscoring the company's strong governance framework.

E) Key Risk Factors

- **Client Concentration Risk:** Dependence on a limited number of large clients for revenue poses a significant risk if client relationships are disrupted.

- **Intense Competition:** The competitive landscape could lead to price compression and impact profitability.

- **Dependence on U.S. Healthcare:** Sagility's singular focus on the U.S. healthcare market exposes it to risks related to market-specific changes and regulations.

- **Regulatory Challenges:** Shifts in U.S. healthcare regulations could necessitate operational changes, affecting the business model.

- Cybersecurity Concerns: As a tech-enabled firm, Sagility faces potential threats to data security, which could harm their reputation and client trust.

- Exchange Rate Volatility: Their international operations expose them to currency risks, which could influence financial outcomes.

F) Valuation

The upcoming IPO is a complete Offer for Sale (OFS). The total outstanding shares as of the filing date are 4,681,328,413, with an IPO price of ₹30 per share, giving the company an approximate market capitalization of ₹14,000 crore. For FY24, the company reported a Profit After Tax (PAT) of ₹228 crore, translating to a price-to-earnings (P/E) ratio of 61x, suggesting that the IPO is significantly overpriced.

From FY23 to FY24, the company achieved a 12% increase in revenue and a 59% growth in net profit. However, a comparison of Q1FY25 to Q1FY24 shows minimal growth in both revenue and profit.

That said, the business has proven to be an excellent generator of cash flow. In FY23, it generated approximately ₹856 crore from operations, which increased to ₹973 crore in FY24.