

February 3, 2025

Muted Q3; But Growth & Margin set to trend higher

About the stock: Protean eGov Technologies Ltd. (Protean) is a play on digital public infrastructure (DPI) and e-governance initiatives taken by various governmental bodies in India.

- The company has 3 core verticals including i) Tax services, ii) social security & welfare and iii) identity authentication. Further, it has ventured in new age businesses including Open Digital Ecosystem (ODE), Cloud & Infosec.

Q3FY25 performance: Protean reported muted set of result with broadly flattish top line and bottom-line growth at ₹202 cr and ₹23 cr resp. Segmentally, Tax services was up 3% YoY at ₹99 cr. Total no. of PAN cards issued in Q3FY25 stood at 1.05 crore with market share improving from 52.1% to 59.2% on YoY basis. Pension service was up 12% YoY at ₹72 cr while Identity services de-grew 17% YoY on high base as last year was driven by events like Aadhaar-PAN linkage deadline and introduction of certain broad based government schemes.

Investment Rationale

- Growth expected to pick pace:** In Tax services i.e. PAN card business, Protean is steadily gaining market share. PAN 2.0 tender bidding expected during this month wherein Protean has high probability of winning the same. In social security, Pension services segment continue to deepen further aided by new schemes like NPS Vatsalya. In Identity space, benefits of upgraded products like eSign pro and RISE with Protean shall be seen in forthcoming quarters. Besides, Protean has recently secured a prestigious ₹161 crore mandate from CERSAI to develop CKYCRR 2.0—the upgraded Central KYC Records Registry.
- Operating leverage expected as major investment expense behind:** Margins are expected to improve as revenue growth picks pace and operating leverage is reflected. Besides, the increasing proportion of online PAN issuance which currently stands at 52% shall aid in margin improvement. In offline mode, the company has to pay commissions / service charge to franchise / facilitation centre. Overall, we expect EBITDA margin to improve from 11.3% in FY25 to 17.2% in FY27E.

Rating and Target Price

- Legacy core businesses shall provide stability alongwith modest growth while the new age businesses are expected to contribute ~25% of revenue mix in next 3 years from current ~5%.
- The company has strong balance sheet with net cash of ₹750 cr+. Asset light unique business model shall enable Protean to attract rich valuations. However, considering muted Q3 result and volatile market scenario, we cut our target multiple and earning estimate. We factor revenue/EBITDA/PAT CAGR of 9.4%/30.5%/22.8% resp. over FY24-27E. We maintain BUY rating on the stock with a revised target price of ₹ 2000 (valued at 45x P/E on FY27E).

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Revenue	603	691	742	882	13.5	868	997	1,154	9.4
EBITDA	85	124	118	89	1.8	98	145	199	30.5
EBITDA Margin (%)	14.1	17.9	15.9	10.1		11.3	14.5	17.2	
Net Profit	92	144	107	97	1.8	102	137	180	22.8
Diluted EPS (Rs)	22.8	35.5	26.4	24.0		25.1	33.7	44.4	
P/E (x)	60.7	38.9	52.3	57.5		55.1	41.0	31.1	
EV/EBITDA (x)	64.1	43.1	45.7	60.1		54.7	36.9	26.8	
RoCE (%)	16.8	22.8	16.1	13.4		13.2	16.2	19.1	
RoE (%)	13.8	18.2	12.5	10.5		10.3	12.7	15.0	



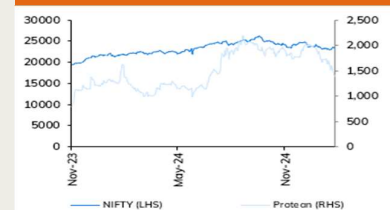
Particulars

Market Capitalization	5,596.0
FY24 Debt (Rs Crore)	20.8
EV (Rs Crore)	5,377.7
52 week H/L	2225 / 930
Equity capital	40.5
Face value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Promoter	-	-	-	-	-
FII	10.6	9.7	8.6	6.7	9.9
DII	51.0	41.0	30.1	28.9	30.1
Others	38.3	49.3	61.3	64.4	60.0

Price Chart



Key risks

- Dependency on projects awarded by government entities and agencies
- Technology break-down / Cyber security risk

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Concall highlights and outlook

- **Tax Services** - Tax services revenue grew by 3% YoY despite industry de-growth 22%+ as it gained market share from 52.1% in to 59.2% on YoY basis. Total no. of PAN cards issued by Protean in Q3FY25 stood at 1.05 cr. Market offers steady growth with penetration of less than 35%. PAN 2.0 tender bidding date deadline is during this month.
- **Pension services** - In pension services, the company has 7.9cr+ subscribers with 3.05 mn new subscribers on-boarded in Q3FY25 across 600+ corporates. Besides, NPS Vatsalya has got off to a good start with 25,000+ accounts opened with Protean in Q2FY25 and 32,000+ accounts opened in Q3FY25.
- **Identity services** - Identity services de-grew 17% YoY on high base as last year was driven by events like Aadhaar-PAN linkage deadline and introduction of certain broad based government schemes. eSign Pro offers legally valid document signing and stamping. It is a workflow tool and as corporates integrate the same in their system, business traction is expected to improve. Company is looking for ways to improve the client onboarding and integration time taken.
- **New Aged Businesses** – This segment should contribute ~25% to total revenue mix in next 3 years from current ~5%. These are mostly SaaS or annuity-based business wherein margins are expected to improve as revenue gets build up.
 - a) The company has secured a prestigious ₹161 crore mandate from CERSAI to develop CKYCRR 2.0—the upgraded Central KYC Records Registry. The project is to be executed over 69 months and ~50% of revenue is expected to be accounted in initial 2-3 years.
 - b) Pick-up expected in Data stack products like RISE with Protean among others.
 - c) In international business, company is in advance stage to close deals in couple of quarters. Currently, it is engaged with 19 countries and have been short listed in 4-5 bids.
 - d) W.r.t. ONDC; company is yet to reach an inflection point in terms of transactional revenues. Meaningful revenue contribution is still few quarters away. Meanwhile, there is good growth seen in number of transactions which stood at 438 lakhs in Q3FY25, more than doubling YoY.

Exhibit 1: Variance Analysis

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
Revenue from operation	202.3	203.9	(0.8)	220.0	(8.0)	Identity service segment dragged revenue growth, Tax services grew 3% YoY while Pension services growth was steady at 12% YoY.
Processing charges	86.8	79.4	9.3	91.7	(5.4)	
Employee Benefit expense	50.1	44.8	11.9	46.9	6.8	Staff cost expected to increase at a stable pace.
Other operating expense	49.7	82.7	(40.0)	50.0	(0.7)	Lower other expenses on account of high base of ECL provision written off in earlier year
EBITDA	15.8	(3.0)	NM	31.4	(49.7)	
EBITDA margin (%)	7.8	(1.5)	NM	14.3	-646bps	
Depreciation	5.8	6.2	(6.3)	7.1	(18.6)	Depreciation remained in line with expectation
Other income	18.8	29.1	(35.4)	13.6	38.3	
PBIT	28.8	19.9	44.6	37.8	(23.9)	
Finance Cost	0.3	0.5	(48.0)	0.5	(48.0)	
PBT	28.5	19.4	47.0	37.3	(23.6)	
Tax	5.6	4.1	36.3	9.5	(41.2)	
PAT	22.9	15.3	49.9	27.8	(17.6)	Adjusted PAT growth was modest at 4% YoY to ₹ 23 cr.

Financial Summary

Exhibit 2: Profit and loss statement		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Revenue	882.0	868.0	996.7	1,154.2	
% Growth	18.8	(1.6)	14.8	15.8	
Other income	67.6	68.2	71.7	80.3	
Total Revenue	949.6	936.2	1,068.4	1,234.4	
Employee Expenses	175.1	194.3	217.6	243.7	
Other expenses	195.9	215.5	262.9	318.2	
Total Operating Expenditure	792.6	770.1	851.7	955.2	
Operating Profit (EBITDA)	89.4	97.9	145.0	199.0	
% Growth	(24.2)	9.4	48.2	37.2	
Interest	1.7	2.0	2.0	2.0	
PBDT	155.3	164.1	214.7	277.2	
Depreciation	27.5	30.4	34.9	40.4	
PBT before Exceptional Items	127.9	133.7	179.8	236.8	
Total Tax	30.6	32.1	43.2	56.8	
PAT before MI	97.3	101.6	136.6	180.0	
PAT	97.3	101.6	136.6	180.0	
% Growth	(9.1)	4.5	34.4	31.7	
EPS	24.0	25.1	33.7	44.4	

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios					
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Per Share Data					
EPS	24.0	25.1	33.7	44.4	
Cash per Share	59.6	64.5	65.0	69.6	
BV	228.4	243.5	265.2	295.3	
Dividend per share	10.0	10.0	12.0	14.4	
Dvidend payout ratio	42%	40%	36%	32%	
Operating Ratios					
EBITDA Margin	10.1	11.3	14.5	17.2	
PAT Margin	11.0	11.7	13.7	15.6	
Return Ratios					
RoE	10.5	10.3	12.7	15.0	
RoCE	13.4	13.2	16.2	19.1	
Valuation Ratios					
EV / EBITDA	60.1	54.7	36.9	26.8	
P/E	57.5	55.1	41.0	31.1	
EV / Net Sales	5.7	5.7	5.0	4.3	
Sales / Equity	1.0	0.9	1.0	1.0	
Market Cap / Sales	5.9	6.0	5.2	4.5	
Price to Book Value	6.0	5.7	5.2	4.7	
Working Capital Management Ratios					
Inventory Days	-	-	-	-	
Debtors Days	73	80	80	80	
Creditors Days	46	50	50	50	
Asset turnover	3.3	2.8	2.7	2.6	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.3	1.1	1.1	1.2	
Quick Ratio	1.3	1.1	1.1	1.2	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Equity Capital	40.5	40.5	40.5	40.5	
Reserve and Surplus	885.5	946.7	1,034.8	1,156.5	
Total Shareholders funds	926.0	987.2	1,075.3	1,197.0	
Total Debt	20.8	20.7	20.7	20.7	
Total Liabilities	970	1,031	1,122	1,248	
Gross Block	287.4	339.5	398.5	468.5	
Acc: Depreciation	221.8	252.2	287.1	327.5	
Net Block	65.6	87.3	111.4	141.0	
Capital WIP	13.1	14.0	15.0	15.0	
Total Fixed Assets	78.7	101.3	126.4	156.0	
Non Current Assets	42.5	40.4	40.4	40.4	
Inventory	-	-	-	-	
Debtors	189.3	205.2	234.2	270.6	
Other Current Assets	45.8	51.0	58.2	67.3	
Cash	150.7	166.2	153.5	155.9	
Total Current Assets	436.8	465.0	497.1	555.2	
Current Liabilities	119.9	128.2	146.4	169.1	
Net Current Assets (Ex Cash)	70.9	40.0	48.5	63.8	
Total Assets	970	1,031	1,122	1,248	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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