

Press Release

Zaggle Prepaid Ocean Services Private Limited

November 03, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	100.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE BBB' (read as ACUITE Triple B)** on the Rs. 100.00 Cr. proposed non convertible debentures of Zaggle Prepaid Ocean Services Private Limited. The outlook is **'Stable'**.

The rating derives comfort from the extensive experience of the promoters having over two decades of experience in various fields including Fintech, Digital payments and Consulting space. The rating further takes into consideration the innovative product/service offerings by Zaggle in the form of 'Propel' - a corporate SaaS platform for channel rewards and incentives, employee rewards and recognition and 'Save' - a SaaS-based platform and mobile application expense management solution for business spend management allowing digitized employee reimbursements and tax benefits.

The rating also factors in the significant growth in business volumes reflected through increase in revenue from Rs. 50.23 Cr. in FY2020 to Rs. 371.26 Cr. in FY2022. The Annual Recurring Revenue (calculated as annualization of Q4 for respective years) has witnessed growth from \$10 million in FY2020 to \$61 million in FY2022. Zaggle also has been able to expand its active customer base from 477 as on FY2020 to 1,753 as on FY2022. The profitability of the company stood at Rs. 41.92 Cr. for FY2022 as compared to Rs. 19.33 Cr. for FY2021.

However, the rating remains constrained by the negative networth reflected in the financials till FY22. However, owing to the significant traction in the business volumes, it is expected that the company would report positive networth for FY23. The rating also takes into consideration the evolving landscape of the fintech and digital space which requires continuous focus and investment towards product development to sustain the competition. Accordingly, Zaggle is susceptible to competition from domestic as well as international IT service companies which can have bearing on the growth trajectory and earning profile in coming years.

About the Company

Zaggle is a spend management company with a unique value proposition and a diverse user base. Incorporated in 2011, the company operates in the business-to-business-to-customer ("B2B2C") segment with a diverse offering of financial technology ("fintech") products and services, along with prepaid cards and has built a portfolio of software as a service ("SaaS"),

including tax and payroll software, and a broad touchpoint reach.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Zagggle Prepaid Ocean Services Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management

Incorporated in 2011, Zagggle Prepaid Ocean Services Private Limited is promoted by Mr. Raj P. Narayanam, Founder and Executive Chairman having over two decades of experience in various fields including Financial Services, Prepaid Internet Retail, Loyalty, Merchandising, Reward and Recognition, Open Banking, and Expense Management, Mr. Avinash Godkhindi, Managing Director and CEO having over two decades of experience overseas and in India in Digital Payments, FinTech and Cash Management businesses. The operations of the group is managed by a qualified and well experienced senior management team. This experience has enabled the company to introduce and develop its diverse set of interlinked product offerings.

Acuité believes that the management's experience is expected to support the group in improving its business risk profile over the medium term.

Innovative product offering with reputed client base

Zagggle's major product offerings can be categorized under 'Propel' - a corporate SaaS platform for channel rewards and incentives, employee rewards and recognition; 'Save' - a SaaS-based platform and mobile application expense management solution for business spend management allowing digitized employee reimbursements and tax benefits and 'Zoyer' - an integrated data driven business spend management platform with embedded automated finance capabilities in core invoice to pay workflows which is expected to be launched in the current fiscal year. These product offerings cater the business-to-business-to-customer ("B2B2C") segment and the "B2B" segment. The company benefits from an ecosystem-based approach across SaaS and fintech which enables them to cross-sell products and services in partnership with other players in the operating ecosystems. This integrated product offering along with the experience of the management has helped the company to onboard reputed clientele engaged in sectors such as banking and finance, technology, healthcare, manufacturing, FMCG, infrastructure and automobile industries among others. Some of the reputed clients include names such as Tata Steel, Microsoft India, Infosys, Kohler India, AT&T Communications India, United Spirits, Greenply Industries.

Financial risk profile

The company reported a healthy financial risk profile with a growth in revenue from Rs. 239.97 Cr. in FY2021 to Rs. 371.26 Cr. in FY2022. Growth seen in the revenue is on account of increased demand for IT services and solutions globally on account of reopening of businesses. The company was successful in expanding its client base from 477 corporates as on FY2020 to 1,753 corporates as on FY2022. The profitability of the company stood at Rs. 41.92 Cr. for FY2022 as compared to Rs. 19.33 Cr. for FY2021.

Acuité believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and diversified product mix over the near to medium term.

Weaknesses

Modest capital structure

The company has reported negative networth since last 3-4 years. This is in spite of being profitable for last 3 years ending FY22. The networth as on March 31, 2022 stood at Rs. -3.56 Cr. as against Rs. -45.55 Cr. as on March 31, 2021. However, owing to the significant traction in the business volumes, it is expected that the company would report positive networth for FY23.

Highly competitive nature of the IT industry

The global IT services industry is dominated by several large players and small niche

technology players. Zuggle is susceptible to competition from domestic as well as international IT service companies which can have margin pressure. The industry is highly technology oriented which keeps on changing time to time. Thus, the company has to keep upgrading the services it offers according to the needs of the clients and changes in the industry. However, the established relationship with clients and vendors, diversified sectorial presence and experienced management mitigates the risk to some extent. Further, the ability of the company to manage industry specific risks such as wage inflation and employee attrition levels determine the companies ability to sustain its business risk profile and will remain a key rating sensitivity.

Rating Sensitivities

- Sustained scale-up in business volumes
- Movement in earning profile
- Movement in capital levels

Material covenants

None

Liquidity Position

Adequate

Liquidity of the company is adequate with sufficient net cash accruals to meet its debt service obligation. Net cash accruals of the company stood at Rs. 44.02 Cr. The bank limit utilization for the months of Aug-22 and Sep-22 stood at 43 percent and 72 percent respectively. The company maintained unencumbered cash and bank balances of Rs. 3.61 Cr. as on March 31, 2022.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its diverse product offering and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	371.26	239.97
PAT	Rs. Cr.	41.92	19.33
PAT Margin	(%)	11.29	8.06
Total Debt/Tangible Net Worth	Times	(19.76)	(1.60)
PBDIT/Interest	Times	8.53	3.62

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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