



Press Release

January 05, 2024

**ZAGGLE PREPAID OCEAN SERVICES LIMITED (ERSTWHILE ZAGGLE PREPAID OCEAN SERVICES PRIVATE LIMITED)
Rating Reaffirmed**

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

Rating Rationale

Acuite has reaffirmed its long term rating of ‘**ACUITE BBB**’ (read as **ACUITE Triple B**) on the Rs. 100.00 Cr. Non Convertible Debentures of Zagggle Prepaid Ocean Services Limited (previously known as Zagggle Prepaid Ocean Services Pvt Ltd). The outlook is ‘**Stable**’.

Rationale for the rating

The rating takes comfort from the healthy capitalisation levels post the company’s IPO in Sept 23 with a total issue size of Rs. 563.38 Cr. Accordingly, the net worth increased to Rs. 531.1 Cr. as on Sept 30, 2023 from Rs. 30.99 crores as on March 31, 2023. The rating continues to derive strength 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 Zagggle 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.

However, the rating remains constrained due to decline in the company’s profitability margins in FY23 primarily due to ESOP expenses and the expenses towards new product launch (Zoyer) which is expected to breakeven in FY25. Further, Zagggle 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

Zagggle 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. The company, with its recent alliance with Yes Bank has launched Corporate credit cards to expand its product portfolio.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management

Incorporated in 2011, Zagggle Prepaid Ocean Services 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

Zaggle'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.

Improving business risk profile

Zaggle Ocean Services' has witnessed robust growth in its business operations, revenue scale and its product based clientele. Zaggle posted a revenue of Rs. 553 Cr. in FY23 as against Rs. 371.2 Cr. for FY22. Zaggle also expanded its corporate customers client base to more than 2700 corporate customers and over 5 crore cardholders for its prepaid card with a 16% market share in transaction value. The company's revenue stood at Rs. 302.7 Cr. in H1FY24. 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.

Improved capital base

The company went public in the month of Sept 2023, where the shares were listed on BSE and NSE for the first time. The IPO consisted of a fresh issue of Equity shares worth Rs. 392.00 Cr. and OFS of Rs. 171.38 Cr. aggregating to a total issue size of Rs. 563.38 Cr. This fresh infusion of equity has bolstered the company's overall capital position. Acuité believes that the increase in capital is expected to help the company expand its business and its overall volumes.

Weaknesses

Moderation in margins and decline in profitability

Zaggle reported a declined PAT in FY23 and moderation in margins. The PAT reduced to Rs. 22.90 Cr. in FY23 from Rs. 41.92 Cr. in FY22. The EBITDA margin declined to 8.70 percent in FY23 from 16.14 percent in FY22. The same was due to ESOP expenses and expenses borne towards launch of new products which are expected to achieve breakeven in FY25. Acuité expects the margins to be relatively lower than FY22 due to costs pertaining to the new product.

Highly competitive nature of the IT industry

The global IT services industry is dominated by several large players and small niche technology players. Zaggle 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 company's 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
- Business operations post listing

Liquidity Position

Adequate

Zaggle's liquidity had a shortfall in the net cash accruals to meet its debt service obligation for FY23 where net cash accruals of the company stood at Rs. 29.1 Cr. as against its debt repayment obligations of Rs.38.73 crores. However, the company also maintains cash & Bank balance of Rs.21.7 crores as on March 31, 2023.

Although the net cash accruals witnessed a decline in FY23 as against FY22; the liquidity of the company is expected to improve backed by fresh issue of equity shares in Sept. 2023 when the company got public.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	553.46	371.26
PAT	Rs. Cr.	22.90	41.92
PAT Margin	(%)	4.14	11.29
Total Debt/Tangible Net Worth	Times	4.42	(19.76)
PBDIT/Interest	Times	4.31	8.53

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Nov 2023	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE BBB (Issuer not co-operating*)
	Non Convertible Debentures	Long Term	50.00	ACUITE BBB (Issuer not co-operating*)
03 Nov 2022	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE07K307013	Non-Convertible Debentures (NCD)	30 Nov 2022	13.50	31 Mar 2026	50.00	Simple	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	50.00	Simple	ACUITE BBB Stable Reaffirmed

Contacts

Mohit Jain Senior Vice President - Rating Operations	Contact details exclusively for investors and lenders
Soham Vaidya Analyst - Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.