January 19, 2023

In-Solutions Global Limited: Ratings upgraded to [ICRA] BBB (Stable)/[ICRA] A3+ from [ICRA] BBB- (Stable)/[ICRA] A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	13.0	13.0	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based Term Loan	6.9	6.9	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short-term – Fund-based	10.0	10.0	[ICRA]A3+; upgraded from [ICRA]A3
Long-term/ Short-term – Unallocated	10.1	10.1	[ICRA]BBB (Stable)/ [ICRA]A3+; upgraded from [ICRA]BBB- (Stable)/ [ICRA]A3
Total	**40.0**	**40.0**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of In-Solution Global Limited (ISG) factors in its healthy revenue growth in FY2022 and the current fiscal and strengthening of its capital structure due to recent fund infusion of ~Rs. 75 crore by JP Morgan Chase Strategic Investment Corporation (JPMC) for a 4.99% stake in ISG. The company is also likely to benefit from future business opportunities emanating from leveraging its services to cater to JPMC's global clientele. ISG reported healthy YoY growth of 30.3%, with revenue of ~Rs. 170 crore in FY2022. While growth was across segments, the top line was primarily driven by its transaction assurance and compliance segment, largely on account of strong growth seen in UPI transactions. The digital payment transactions in India are growing at a healthy pace largely driven by UPI growth. Benefitting from the same, the company has already achieved revenue of ~Rs. 160 crore in 9M FY2023 and is poised to report healthy growth for the entire fiscal as well. These factors have continued to result in a healthy financial risk profile for the company, as marked by a comfortable capital structure and coverage metrics and an adequate liquidity profile. Additionally, the ratings continue to draw comfort from ISG's decade-long experience in payment as a service industry and its established relationships with several major banks in India.

However, the ratings are constrained by the moderate scale of operations of the company as reflected by its revenue of ~Rs. 170 crore in FY2022. However, the company is expected to report healthy scaling up over the medium term. ISG's operating margins moderated to ~26% in FY2022 (29.2% in FY2021) due to write-off of bad debts and partially due to wage cost escalation. The company has been capitalising a part of the employee cost incurred towards software development. The adjusted OPM (adjusted for the capitalised part of employee expense) stood at 11.6% in FY2022 (against 15.1% in FY2021). However, margins are expected to witness some improvement over the medium term driven by increasing economies of scale and increased contribution from relatively newer business segments. The ratings also factor in the vulnerability of ISG's revenues to macroeconomic slowdown leading to decline in volume of financial transactions processed by the company; and its exposure to technology obsolescence risk and regulatory changes imposed by the Reserve bank of India (RBI) or any other regulatory body.

The Stable outlook on the long-term rating reflects ICRA's expectation that ISG would benefit from its established market position, long standing relations with its customer base and steady demand for its services, supporting its credit profile.

Key rating drivers and their description

Credit strengths

Established track record and market position in the industry —Set up in 2004, ISG is involved in providing digital payment solutions, including banking solutions, payment gateways, and e-governance service to banks, fintech companies, merchants, etc. Its service tech platform supports more than 17 billion transactions annually, simplifying the payment collection process for its clients. Operating in this space for almost two decades now, ISG has established a strong track record and market position, especially in the reconciliation space.

Long standing relations with customer base, which includes reputed players — ISG's operations are spread across India, the Middle East Region & Africa with more than 50 banks as its customers. Also operating in this industry for almost two decades now, ISG has established strong relationships with its clients, which includes reputed names like HDFC Bank, Axis Bank, Punjab National Bank, and ICICI Bank, among others. Going forward, ISG is also expected to benefit from business opportunities by leveraging its services to cater to JPMC's global clientele.

Strengthening of the financial risk profile also aided by fund infusion by JPMC – The company's financial risk profile remains healthy with a comfortable capital structure and coverage indicators supported by steady internal accrual generation, recent equity infusion and low debt levels. The coverage indicators remain healthy with interest coverage (calculated on adjusted OPBIDTA) of 5.7 times, TOL/TNW of 1.0 time and Total Debt/Adj. OPBITDA of ~1.0 time in FY2022. ISG's gearing, which stood at 0.2 time as on March 31, 2022, is expected to decline further in FY2023 because of the recent ~Rs. 75-crore fund infusion by JPMC. These funds have been infused equally as equity and compulsory convertible preference shares (CCPS). Going forward as well, the financial risk profile of the company is expected to remain healthy, supported by increased accrual generation and no major increase in debt levels expected.

Credit challenges

Moderate scale of operations; although growing at a healthy pace – Despite a strong top-line growth of 30.3% in FY2022, ISG's scale of operations continue to remain moderate at ~Rs. 170 crore. Nonetheless, the company has posted consistent revenue growth in the past few years, except in FY2021, when its operations were impacted by the pandemic. Going forward too, ISG is expected to grow at a healthy pace, supported by an established and growing customer base and strong growth in the digital payment space.

Revenues susceptible to shocks or slowdown in macroeconomic conditions – The performance of the company is primarily dependent on the growth of digital transactions in India. Any macroeconomic shocks or slowdown impacting the digital payment industry will have a direct bearing on ISG, as was witnessed in FY2021. Nonetheless, ISG's long experience in the industry and its well-established client relationships along with the recurring nature of its revenues (around 85-90% of revenue in recent years) mitigates the risk to an extent.

Exposed to technology obsolescence risk and regulatory changes — Being a payment solutions provider, the company is exposed to the risks and regulations that are inherent to the fin-tech industry. ISG remains susceptible to risks related to technological changes, competition from substitutes and shifts in customer demand apart from data management and cybersecurity risks. This necessitates continued investments in technology upgradation and diversification efforts to support mitigation of the technological obsolescence risk. Further, the payment as a service industry is exposed to regulatory changes, wherein any intervention by RBI or any other regulatory body might lead to increase in compliance cost, impacting revenue and profitability.

Liquidity position: Adequate

ISG's liquidity position remains **adequate**, supported by healthy internal accruals generation, modest debt repayment obligations and sufficient buffer in the form of undrawn working capital lines (average utilisation of 62% in the 12-month period ended September 2022). Moreover, sizeable recent fund infusion of ~Rs. 75 crore by JPMC has strengthened ISG's liquidity profile further. However, ICRA notes that a sizeable part of the same will be utilised towards reduction of debt and funding inorganic growth initiatives of the company over the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade ISG's ratings if the company demonstrates healthy revenue growth, while sustaining its margins and liquidity position on a sustained basis.

Negative factors – Negative pressure on ISG's ratings could arise if there is considerable decline in internal accrual generation and/or a stretched receivable cycle exerts pressure on the company's liquidity position. Specific credit metrics that could lead to a downgrade of ISG's ratings include interest coverage calculated on adjusted OPBIDTA below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ISG.

About the company

Established in 2004, ISG is a fin-tech company and a payment solutions provider with operations across India, the Middle East Region & Africa, with more than 50 banks as its customers. ISG partners with acquirers, issuers and card scheme networks (like VISA, Mastercard, NPCI, etc) for processing, reconciling and settling payment transactions annually, including, providing audit assurance and dispute resolution in a transaction lifecycle with the help of its more than 25 indigenously developed Intellectual Property Rights (IPRs) for software.

Key financial indicators (audited)

ISG (Standalone)	FY2021	FY2022
Operating income	130.3	169.7
PAT	11.2	14.1
OPBDIT/OI	29.2%	26.0%
Adj. OPBDIT/OI (%) *	15.1%	11.6%
PAT/OI	8.6%	8.3%
RoCE (%)	13.3%	21.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	0.6	0.5
Total Debt/Adj. OPBDIT (times)	1.2	1.0
Adj. Interest Coverage (times)	4.9	5.7
DSCR (times)	2.8	5.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*Adj. OPBDIT is calculated by taking the total employee expense including the capitalised part; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year) Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 19, 2023	Oct 07, 2021	-	-
1	**Cash Credit**	Long term	13.0		**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	-
2	**Term loans**	Long term	6.9	6.9	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	-
3	**Short Term - Fund Based**	Short term	10.0		**[ICRA]A3+**	[ICRA]A3	-	-
4	**Long-term/Short Term - Unallocated**	Long-term/Short Term	10.1		**[ICRA]BBB (Stable)/ [ICRA]A3+**	[ICRA] BBB- (Stable)/ [ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Very Simple
Short Term - Fund Based	Simple
Long-term/Short Term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	-	13.0	[ICRA]BBB (Stable)
NA	**Term Loans**	FY2019	8.7%	FY2024	6.9	[ICRA]BBB (Stable)
NA	**Short Term - Fund Based**	NA	NA	-	10.0	[ICRA]A3+
NA	**Long-term/Short Term - Unallocated**	NA	NA	-	10.1	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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