April 05, 2024

In-Solutions Global Limited: Ratings reaffirmed; rated amount enhanced

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	33.00	[ICRA]BBB (Stable); reaffirmed/assigned for enhanced amount
Long-term – Fund-based Term Loan	6.9	9.00	[ICRA]BBB (Stable); reaffirmed/assigned for enhanced amount
Short-term – Fund-based	10.0	-	-
Long-term/ Short-term – Unallocated	10.1	15.65	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed/assigned for enhanced amount
Total	**40.0**	**57.65**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for In-Solutions Global Limited (ISG) factors in its established business position as a leading player in the payment solutions business, extensive experience of its promoters in the industry and the company's well-established relationships with several leading banks in India.

Carrying forward the momentum from the previous fiscal, ISG's top line is estimated to grow by 16% to ~Rs.260 crore in FY2024 (32.2% YoY growth in FY2023) supported by healthy growth in the digital payments space, largely on account of surge in UPI transactions. Moreover, sustenance of the healthy growth in digital payment transactions in India is expected to bode well for the company. JP Morgan Chase Strategic Investment Corporation (JPMC) had acquired 4.99% stake in ISG in FY2023, as a strategic partner and, thus, ISG is expected to benefit from the business opportunities emanating from leveraging its services to cater to JPMC's global clientele.

ISG's operating margins moderated to ~18.4% due to certain one-off expenses and losses on one of its orders. Also, the company has been capitalising a part of its employee expenses incurred towards software development. Thus, adjusted OPM (adjusted for the capitalised part of employee expense) stood at 1.6% in FY2023 (against 8.3% in FY2022). However, its operating margin has improved in 9M FY2024 on account of higher profitability of orders executed, addition of new customers and increased operating leverage. ISG's financial profile remains comfortable as marked by healthy capital structure and coverage metrics and adequate liquidity position.

The ratings, however, are constrained by ISG's moderate scale of operations, resulting in limited economies of scale. Nonetheless, the company's revenues are expected to scale up well over the medium term supported by growth in digital payments in the country and on account of its association with JPMC. 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's credit profile will continue to be supported by its established market position, growth in the digital payments space, enduring relationships with its customers and stable demand for its services.

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 a large volume of 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.

Established relations with customer base, which includes reputed players — ISG's operations are spread across India, West Asia and 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. Moreover, the company is also expected to benefit from business opportunities by leveraging its services to cater to JPMC's global clientele.

Comfortable capital structure and debt protection metrics—ISG's financial profile continues to remain healthy supported by its steady accrual generation and comfortable capital structure and coverage indicators on account of low debt levels. The coverage indicators remain healthy with estimated Total Debt/OPBITDA of ~0.5 times in FY2024 (Total Debt/OPBITDA of ~0.7 times in FY2023). Moreover, the company's capital structure and coverage metrics are likely to remain comfortable supported by increased accrual generation and absence of any debt-funded capex plans.

Credit challenges

Moderate scale of operations; although growing at a steady pace – ISG's scale of operations continue to remain moderate with a top line of Rs. 224.3 crore in FY2023 (Rs. 186.7 crore in 9M FY2024). 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 as well, 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 – Being a payment solutions provider, ISG's performance is primarily dependent on the growth of digital transactions in India. Thus, 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 revenues in recent years), mitigates the risk to an extent.

Exposed to technology obsolescence risk and regulatory changes — Operating in the payment solutions space, 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 is **adequate**, supported by steady internal accruals generation, cash and liquid investments of Rs. 76 crore, as on December 31, 2023, and buffer of ~Rs. 14 crore in the form of undrawn working capital lines as on the same date. Moreover, the company's modest debt repayment liability over FY2024-FY2025 and its lack of any material debt-funded capex plans further support its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade ISG's ratings if the company demonstrates healthy revenue growth and internal accrual generation, while maintaining adequate 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 - IT - Software & Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ISG.

Note (for analyst reference only):

About the company

Established in 2004, ISG is a fin-tech company and a payment solutions provider with operations across India, West Asia and 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. In December 2022, JP Morgan Chase Strategic Investment Corporation invested Rs. 74.4 crore against an equity stake of 4.99%.

Key financial indicators (audited)

ISG (Consolidated)	FY2022	FY2023
Operating income	169.7	224.3
PAT	13.9	9.0
OPBDIT/OI	26.0%	18.4%
Adj. OPBDIT/OI (%) *	8.3%	1.6%
PAT/OI	8.2%	4.0%
RoCE (%)	53.5%	15.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	0.4	0.7
Total Debt/Adj. OPBDIT (times)	1.3	8.0
Adj. Interest Coverage (times)	4.1	0.8
DSCR (times)	11.1	4.8

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Adj. OPBDIT is calculated by taking the total employee expense including the capitalised part; 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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 05, 2024	-	Jan 19, 2023	Oct 07, 2021
1	**Cash Credit**	Long term	33.0	-	**[ICRA]BBB (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	**Term loans**	Long term	9.00	9.00	**[ICRA]BBB (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	**Short Term - Fund Based**	Short term	-	-	-	-	[ICRA]A3+	[ICRA]A3
4	**Long-term/Short Term - Unallocated**	Long-term/Short Term	15.65	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-	[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
Long-term/Short Term – Unallocated	NA

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	-	33.00	[ICRA]BBB (Stable)
NA	**Term Loans**	FY2019	8.5-9.0%	FY2027	9.00	[ICRA]BBB (Stable)
NA	**Long-term/Short Term - Unallocated**	NA	NA	-	15.65	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ISG's Ownership	Consolidation Approach
In-Solutions Global Limited	100.00%	Full Consolidation
Credit Card Consultants Private Limited	100.00%	Full Consolidation

Source: ISG annual report FY2023

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About ICRA Limited:

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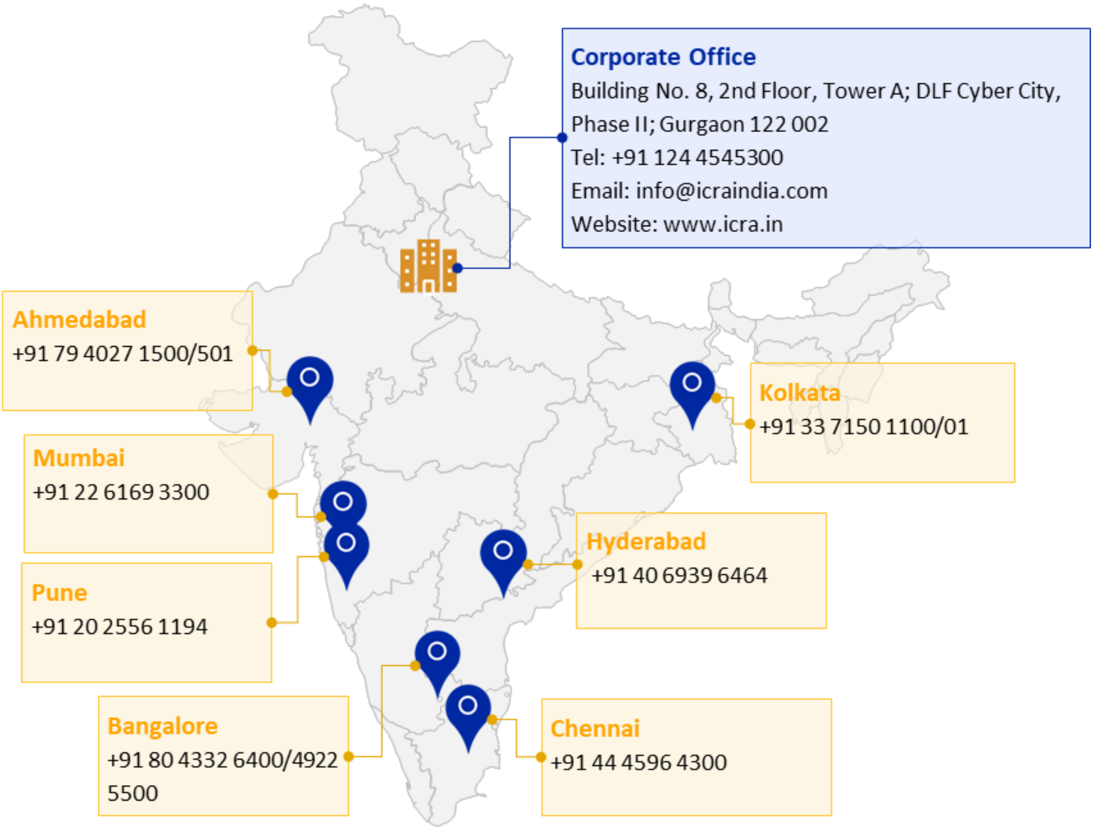

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