Netcore Cloud Private Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	175.00	CARE A; Stable / CARE A1	Reaffirmed
Short-term bank facilities	25.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings considers the comfortable operating and financial performance of Netcore Cloud Private Limited (NCPL) in FY24 and CARE Ratings Limited's (CARE Ratings) expectations of sustained performance over the coming years while maintaining a healthy capital structure and liquidity position on the back of NCPL's established market position and diversified customer profile. The company reported a consolidated revenue from operations of ~₹786 crore in FY24, down ~4% YoY, largely due to reduced global marketing spends by clients considering slowdown in major international markets. Its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin declined by 515 bps YoY to 7.22% in FY24 from 12.37% in FY23, considering duplication of marketing and technological cost in Unbxd Software Private Limited (Unbxd) and NCPL and allocation of resources for exploring new markets in Southeast Asia and Latin America. NCPL's credit metrics remain comfortable with overall gearing and total outside liability to total net worth (TOL/TNW) of 0.03x and 0.28x, respectively, as on March 31, 2024. Going forward, CARE Ratings expects the company's revenue to grow by 10-15% p.a. over the next two years with improvement in PBILDT margins driven by synergies following the planned merger of Unbxd with NCPL and increase in revenue contribution from new geographies.

Ratings derive comfort from the company's established market position in the domestic market with ~81% of revenue driven from India, reputed client base with a history of repeat orders, and promoters' extensive experience. Ratings also factor in the company's healthy liquidity position and comfortable capital structure. These strengths are partially offset by the vulnerability of its operating margin to risk associated with expansion in the US and European markets, dynamic technological environment with evolving customer needs, and product development cost required to establish strong market presence in developed markets.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantially increasing revenue with increasing revenue share from export markets and sustained improvement in the earnings before interest, taxation, depreciation, and amortisation (EBITDA) resulting in return on capital employed (ROCE) above 20%.

Negative factors

- Weakening in the liquidity position and decrease in liquid cash balances to below ₹50 crore.
- Fall in EBITDA margin leading to debt/EBITDA above 1.5x.

Analytical approach: Consolidated

CARE Ratings, in its analysis, has considered the consolidated business and financial risk profiles of NCPL and its subsidiaries, as the entities are linked through a parent-subsidiary relationship. The list of entities consolidated with NCPL according to its audited results for FY23 has been placed in Annexure-6.

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectations that the entity will continue to maintain a comfortable capital structure and debt coverage metrics while benefitting from its established presence in India, continuous innovation in the digital platforms segment and expansion in new markets.

Detailed description of key rating drivers:

Key strengths

Established domestic presence boosted by inorganic growth

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

The company has been operating in the domestic market for over two decades and has a strong market position in mobile and email marketing, with around 81% of its revenue generated in the domestic market in FY24. NCPL has a healthy market share in other emerging markets such as Indonesia, Thailand, Malaysia, and Africa, and a growing presence in the US and European markets assisted by allied acquisitions. NCPL has acquired allied software companies including Unbxd Inc., Boxx.ai, Hansel.io over the years to expand its product portfolio, and gain footing in emerging and developed markets, which contributed ₹80-100 crore to consolidated revenue in FY24.

Reputed client base with history of repeat business

The company has a large customer base of more than 3,000 brands across segments such as banking, financial institutions, e-commerce, OTT platforms, tourism and travel, among others, including reputed brands such as Flipkart, Myntra, Big Basket, SBI Bank, Standard Chartered Bank, Pizza Hut, and Air Aisa. NCPL continues to benefit from its long-standing customer relationships with the existing clients, indicated by a history of repeat business from its key customers, providing revenue visibility. The company's foray into new geographical markets of Southeast Asia, Latin America, and the US is expected to further support its medium term revenue growth through addition of new customers.

Comfortable financial risk profile with strong credit metrics

NCPL's financial risk profile remains comfortable characterised by a sizeable net worth base of ₹768 crore and negligible external borrowings, except lease liabilities worth ₹25 crore, translating into an overall gearing of 0.03x as on March 31, 2024. Its TOL/TNW also remained healthy at 0.28x as on March 31, 2024 reflecting limited reliance on external sources of funds. While the company has pursued sizeable inorganic growth opportunities in the past, including the acquisition of Unbxd Inc. for ~₹450 crore in FY22, such acquisitions have been funded through internal accruals and cash reserves. CARE Ratings understands that the company is open to debt-funded inorganic growth opportunities in the future and such developments will continue to be monitored.

Experienced promoter in IT and marketing technology segment

The company is promoted by Rajesh Jain, who has three decades of industry experience, benefitting the company's overall strategy and client offering. He is supported by a team of professionals in top managerial roles with experience in marketing technology businesses. The management, via its acquisitions of artificial intelligence-driven businesses, has developed new technical capabilities with the integration of human assets in NCPL. CARE Ratings believes that with promoters' business acumen, the company can establish a strong market position in the US and European markets and foray into new geographies.

Key weaknesses

Operates in dynamic industry segment with evolving customer needs and risk of technological obsolescence

The company is exposed to intense competition with established players and new players entering the digital marketing automation industry. Moreover, advancements in technology and evolving customer needs create entail continuous innovation and research & development investments by the company. To maintain its competitive edge in such a scenario, the company will need to anticipate future trends and ensuring its offerings deliver with both price and product innovation in this changing technological environment. However, the company has been a leader in innovating email and automation products such as interactive email, ROI-based marketing spend evaluation tool, and others, and is well positioned to track changing trends in digital marketing space and adapt itself, retaining its market leadership. This is likely to mitigate the above risk to some extent.

Risk associated with expansion in USA and European markets

For NCPL to establish a strong market position in the US and European markets, the company will be required to adapt its products and services according to the client needs. The established players in these markets provide stiff competition to NCPL, for which the company could be required to incur heavy marketing and promotion costs. CARE Ratings believes that NCPL's ability to overcome the above is a critical sensitivity to future profitability margins.

Near-term macroeconomic headwinds impact revenue and profitability

NCPL's consolidated revenue declined by ~4% YoY to ₹785.64 crore in FY24 from ₹820.8 crore in FY23 as the company encountered industry-wide headwinds from reduced global marketing spends by clients in the light of slowdown in major international markets. The PBILDT margin was lower by 515 bps YoY primarily due to duplication of selling and technological expenses in Unbxd and NCPL and investments towards expansion of services to new geographies. The uncertainty over recovery of marketing spending by key clients and the projected lag in realisation of synergy benefits from the recent acquisitions could impact NCPL's revenue and profitability over the near-to-medium term.

Liquidity: Strong

The company's liquidity is strong with projected gross cash accrual (GCA) of ₹70-80 crore p.a. over the next 2-3 years against debt repayment obligations of ₹10-20 crore p.a. for lease liabilities and maintenance capex requirements of ₹20-25 crore p.a. As on March 31, 2024, NCPL had free cash and liquid investments of ~₹100 crore including unencumbered bank deposits of ₹67 crore. The average monthly maximum utilisation of fund-based working capital limits remained negligible for the last 12 months ended May 31, 2024, providing adequate buffer.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Information technology	Information technology	IT - Services	IT-enabled services

NCPL, incorporated by Rajesh Jain, is a software-as-a-service (SaaS) company providing marketing technology (MarTech) services to B2C brands. Headquartered in Mumbai, NCPL provides services across 18 countries. It provides services that aid in customer acquisition, engagement, and retention for its clients. The company's services/products portfolio includes Mobility SMS Solutions, Email Marketing, and Marketing Automation Platforms.

Consolidated - NCPL

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	Q1 FY25 (P)
Total operating income	820.80	785.64	205
PBILDT	101.54	56.70	23
PAT	50.34	19.16	18
Overall gearing (times)	0.02	0.03	NA
Interest coverage (times)	37.19	47.30	NA

A: Audited; UA: Unaudited; P: Provisional; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-LT/ST		-	-	-	165.00	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	10.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Bank guarantee		-	-	-	25.00	CARE A1

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-LT/ST	LT/ST	165.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (11-Sep-23)	-	-
2	Non-fund-based - ST-Bank guarantee	ST	25.00	CARE A1	-	1)CARE A1 (11-Sep-23)	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (11-Sep-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-LT/ST	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ravience Digital Pvt Ltd	Full Consolidation	100% ownership by NCPL and similar line of business
2	Netcore Solutions Sdn. Bhd.		
3	Netcore Solutions Inc		
4	Netcore Solutions UK Ltd		
5	Netcore Cloud Pte. Ltd.		
6	Netcore Cloud GmbH		
7	Netcore Solutions and Technologies Nigeria Ltd		
8	Netcore Cloud Canada Limited		
9	Vesuvius Technology Private Limited		
10	Netcore Skill Development Foundation		
11	Veroma Technology Private Limited		
12	Synergus Technology Private Limited		
13	MyToday Technology Private Limited		
14	Unbxd Software Private Limited		

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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