

## Press Release

### Adsyndicate Services Private Limited

March 05, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 25.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE BB+**' (read as **ACUITE BB plus**) from **ACUITE BBB- /Stable** on the Rs. 20.00 crore bank facilities of Adsyndicate Services Private Limited. The outlook is '**Stable**'.

Acuite has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE BB plus**) on the Rs. 5.00 crore bank facilities of ADSYNDICATE SERVICES PRIVATE LIMITED. The outlook is '**Stable**'.

The rating downgrade factors in sharp decline in profitability and less-than-expected revenues. Operating profit margins have declined to 2.22 per cent in FY2018 against 5.85 per cent in FY2017. Also, its revenues were so volatile and declined from Rs.78.3 crores in FY2016 to Rs.64.4 crores in FY2018 an increase from Rs.53.5 crores in FY2017. Volatile revenues and profitability margins have led to sharp decline in accruals to Rs.1.1 crore in FY2018 against Rs.2.4 crores in FY2017. However, the rating factors in experienced management, long track record of operations and reputed clientele. The ratings are constrained by volatile revenues, highly competitive and fragmented industry.

Adsyndicate Services Private Limited (ASPL), Udipi based company incorporated in 1997 is an advertising agency. The company is INS Accredited Advertising Agency in India. It is engaged in advertising, consulting and media planning. The promoter, Mr Krishnaraj Rao has two decades of experience in the same industry.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Adsyndicate Services Private Limited to arrive at this rating.

## Key Rating Drivers

### Strengths

- **Experienced Management with long track operation record**

Adsyndicate Services Private Limited; a Udipi (Karnataka) based company incorporated in 1997 is an advertising agency. The company is engaged in advertising, consulting and media planning. The promoter, Mr Krishnaraj Rao has two decades of experience in the same industry

- **Reputed clientele and geographically diversified**

ASPL caters to reputed clients such as State Bank of India (SBI), Union Bank of India, Manipal University, Dena Bank, Himachal Tourism, Quikr, TATA Motors, ABB Ltd, Roche India Ltd and Rohto Pharma among others. ASPL has established relationship with its customers and suppliers for more than two decades lead to moderate revenues, though volatile. Further, the operations are geographically diversified across the regions of Bangalore, Coimbatore, Chennai, Kolkata, Jaipur among others, and they also does overseas, though modest.

- **Moderate Financial risk profile**

ASPL's financial risk profile is moderate marked by comfortable gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by modest network. Gearing is comfortable at 0.88 times as on 31 March, 2018 as against 0.51 times as on 31 March, 2017. TOL/TNW is moderate at 1.39 times as on 31 March, 2018 as against 1.00 times as

on 31 March, 2017. Net worth is modest at Rs.12.38 crore as on 31 March, 2018 as against Rs.12.37 crore as on 31 March, 2017. The company has no long term obligations. The total debt comprises of short term borrowings. ASPL has reported cash accruals of Rs.1.10 crore in FY2018 against Rs.2.37 crores in FY2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.68 times and 0.10 times respectively in FY2018. Acuite believes that with moderate accruals, no repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

**• Efficient working capital management**

Working capital operations are efficiently managed with gross current assets (GCA) of 71 days in FY2018 as against 69 days in FY2017. GCA mainly comprise of debtors with ageing of about 61 in FY2018, as against 58 days in FY2017. The bank limit utilisation is moderate at about 70 per cent for six months through January 2019; its partly owing to taking support of its creditors. Acuite believes that with the size of the revenues, and efficient receivables collection, operations continue be working capital efficient.

**Weaknesses**

**• Modest revenues and decline in profitability**

Revenues of the company are modest and fluctuating in the range of Rs.78.6 - 64.4 crores during FY2016-18; owing to intense competition and pricing. ASPL reported revenues of about Rs.49 crores for 9MFY2019 and the revenues are expected to improve to the earlier levels of Rs.65 -70 crores over the medium term. Further, operating margins of the company are volatile in the range of 5.85 to 2.22 per cent during FY2016-18; volatile profitability is attributed to increase in cost of advertising expenses, inability to pass on the same to the clientele amid competition. Acuite believes that ASPL's revenue profile is expected to be at similar levels with profitability oscillates at around 4 per cent over the medium term.

**• Highly competitive and fragmented industry & modest scale of operations**

ASPL is exposed to competition from several organized and non-organized advertisement players operating in advertising industry due to limited entry barriers and less capital intensive nature of the industry.

**Liquidity**

Liquidity of ASPL is moderate marked by modest cash accruals and moderate bank limit utilisation. It has reported cash accruals of Rs.1.10 crore in FY2018 and is expected to be in the range of Rs.2.0 -2.5 crore over the medium term. Efficient working capital management lead to moderate utilisation of its bank lines at about 70 per cent. The company has encumbered fixed deposits of Rs.9 crore and unencumbered fixed deposits of Rs.2.71 crore as of March 31, 2018. Acuite believes that the liquidity profile continues to be moderate supported by moderate accruals and absence of major debt funded capital expenditure.

**Outlook: Stable**

ACUITE believes that ASPL will maintain stable outlook and benefit from its experienced management over the medium term. The outlook may be revised to 'Positive' in case of sustained increase in scale of operations and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in profitability or revenues leading to deterioration of its financial risk profile and liquidity.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	64.36	53.47	78.60
EBITDA	Rs. Cr.	1.43	3.13	3.39
PAT	Rs. Cr.	0.73	2.14	2.12
EBITDA Margin	(%)	2.22	5.85	4.31
PAT Margin	(%)	1.14	3.99	2.70
ROCE	(%)	9.84	16.37	30.35
Total Debt/Tangible Net Worth	Times	0.88	0.51	1.90
PBDIT/Interest	Times	2.68	5.20	3.55

Total Debt/PBDIT	Times	4.52	1.49	4.14
Gross Current Assets (Days)	Days	71	69	102

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/criteria-complexity-levels.htm>

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Dec-2017	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Upgraded)
18-Oct-2016	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB+ / Stable (Downgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable (Assigned)

**Contacts**

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 <a href="mailto:srihari.adari@acuite.in">srihari.adari@acuite.in</a></p> <p>Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 <a href="mailto:naveen.papisetty@acuite.in">naveen.papisetty@acuite.in</a></p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

**About Acuite Ratings & Research:**

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 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. Acuité ratings 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. Acuité ratings 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.*