

Press Release

Adsyndicate Services Private Limited

October 29, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 25.00 crore bank facilities of Adsyndicate Services Private Limited (ASPL). The outlook is '**Stable**'.

The ratings reaffirmation draws comfort from the extensive experience of ASPL promoters and its established relationship with a reputed clientele, efficient working capital management with the moderate financial risk profile. The ratings, however, remain constrained by ASPL's moderate and stagnant scale of operations, coupled with declined profitability and exposed to advertising cycles and highly competitive industry.

Adsyndicate Services Private Limited (ASPL) was incorporated in the year 1997 and promoted by Mr. Krishnaraj Rao and Mr. Prabhakar Sastana Pai. It is an advertising agency. Its services include brand promotion, consulting, media planning, event management, market research; brand strategy; communication strategy; creative strategy and execution; designing, conceptualization and visualization of all creative and media planning and buying for its clients. It also handles design, content and implementation of exhibitions within the country.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of ASPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

ASPL was incorporated in 1997, engaged in advertising, consulting, media planning among others. The promoters, Mr. Krishnaraj Rao and Mr. Prabhakar Sastana Pai, have about two decades of experience supported in stable revenue growth over the years. ASPL caters to reputed clients such as RBI, Tata Motors Limited, Sandisk International, Amritha Vishwa Vidypeetham, KLE Education Institutions, Canara Bank, Nissan Motors India Pvt Ltd, Manipal University, ABB, Western Digital Corporation, and Karnataka Bank among others. Acuité believes that the promoter's experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- **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 protection metrics though partly constrained by modest networth. Gearing is comfortable at 0.85 times as on 31 March, 2020 (provisional) as against 0.64 times as on 31 March, 2019. TOL/TNW is moderate at 1.43 times as on 31 March, 2020 (provisional) as against 1.13 times as on 31 March, 2019. Net worth is modest at Rs.13.13 crore as on 31 March, 2020 (provisional) as against Rs.13.02 crore as on 31 March, 2019. The company has no long term obligations. The total debt comprises of short term borrowings. ASPL has been generating modest net cash accruals in the range of Rs.0.09-1.74 Cr against nil debt obligations during the last 3 years ending FY2020. ASPL's cash accruals are expected to be Rs. 0.40-0.1.00 Cr during FY2021- FY2023, against nil debt repayment obligations during the same period. Current ratio is modest at 1.59 times on March 31, 2020 (provisional) as against 1.67 times on March 31, 2019.

Acuité liquidity is further supported by free cash and bank balance and fixed deposits of ~Rs. 6.45

crore as on March 3, 2020. Acuité 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**

ASPL's working capital operations are efficiently managed with gross current assets (GCA) of 71 -146 days during FY2018-FY2020 (Provisional). GCA mainly comprise of debtors with the ageing of about 61 -103 days during FY2018-FY2020 (Provisional). The bank limit utilisation is moderate at about 22 per cent for nine months through September 2020; it's partly owing to taking the support of its creditors. Acuité believes that with the size of the revenues, and efficient receivables collection, operations continue to be working capital efficient.

Weaknesses

- **Modest revenues and decline in profitability**

Revenues of the company are modest and in the range of Rs.62.81 to 65.28 crores during FY2018-20 (Provisional); owing to intense competition and pricing. With the widespread and extensive impact of the pandemic across the sectors, ad-spends, which is a discretionary expense for businesses, is expected to contract further in the near term. With an advertisement revenue-driven business model, ASPL's operating performance will be adversely impacted, with recovery contingent upon the pace of macro-economic revival. Furthermore, the prolonged impact of the ongoing pandemic may lead to significant revenue reduction in FY2021 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 3.76 to 1.41 per cent during FY2018-20 (Provisional); volatile profitability is attributed to an increase in the cost of advertising expenses, inability to pass on the same to the clientele amid competition. Acuité 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.

- **Exposed to advertising cycles and highly competitive industry**

The high dependence on advertisement activity exposes the company to the economic cycles increasing the volatility of the revenues. Further, advertisement industry is highly competitive with the presence of both organized and unorganized players. Further, advertising industry remains susceptible to a slowdown in economy results in companies cutting back on advertising sponsor, changes in government policies, any change in the advertiser preferences, and exogenous events like the novel coronavirus (Covid-19) pandemic.

Liquidity Profile: Adequate

ASPL has adequate liquidity marked by moderate net cash accruals and low utilisation of fund-based working capital limits. ASPL has been generating modest net cash accruals in the range of Rs.0.09-1.74 Cr against nil debt obligations during the last 3 years ending FY2020. ASPL's cash accruals are expected to be Rs. 0.40-0.1.00 Cr during FY2021- FY2023, against nil debt repayment obligations during the same period. ASPL's liquidity is further supported by free cash and bank balance and fixed deposits of ~Rs. 6.45 crore as on March 31, 2020. ASPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 71-1146 days historically ended with FY2020 (provisional). This led to efficient utilisation of its bank limit at about 22 per cent for nine months through September 2020; it's partly owing to taking the support of its creditors. Current ratio is modest at 1.59 times on March 31, 2020 (provisional) as against 1.67 times on March 31, 2019. Acuité believes that the liquidity is expected to be at similar levels in the absence of any significant capex plans over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.
- Stretch in the working capital cycle

Material covenants

None

Outlook: Stable

Acuité believes that ASPL will maintain a 'Stable' outlook in the medium term backed by its promoter's

extensive experience and established relations with customers. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while improving the profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' if there is any steep decline in the company's revenue or profitability or any significant debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	65.28	62.81
PAT	Rs. Cr.	0.09	1.24
PAT Margin	(%)	0.14	1.97
Total Debt/Tangible Net Worth	Times	0.85	0.64
PBDIT/Interest	Times	1.81	4.20

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Services Sector Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-March-2019	Cash Credit	Long Term	20.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Proposed	Long Term	5.00	ACUITE BB+/Stable (Assigned)
18-Dec-2017	Cash Credit	Long Term	25.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
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 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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