

Press Release

Adsyndicate Services Private Limited

March 02, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Reason for rating reaffirmed

The rating reaffirmation is on account of recovery witnessed in the business risk profile of the company during the current financial year after the outbreak of covid-19 which severely impacted the advertising business of the company. The rating continues to factor in the experienced management with long track record of operations, reputed clientele, and adequate liquidity position of the company. The ratings are constrained by the working capital intensive nature of operations and operating in a highly competitive & fragmented industry.

About the Company

Karnataka based 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 which provides services including 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

Acuite has considered the standalone business and financial risk profiles of ASPL to arrive at this rating.

Key Rating Drivers

Strengths

Established track record of operations with experienced management

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, Amrita Vishwa Vidyapeetham, 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 is expected to support in improvement of its business risk profile over the medium term.

Recovery in business operations after covid-19 pandemic

The revenue of the company stood at Rs.34.52 Cr. in FY21 registering a decline of ~47 percent YoY compared against Rs.65.28 Cr. in FY20. The decline in revenues was majorly on account of covid-19 pandemic which led to nationwide lockdowns and restricted the movement of goods and people. However, after the gradual resumption of economic activities and with decline in daily covid-19 cases, the business operations of the company witnessed significant recovery reflected by growth in sales to Rs38.76 Cr. in 9MFY2022. On the other hand, the operating profit margin increased marginally but remained low at 1.70 percent in FY21 from 1.41 percent in FY20. The improvement was majorly on account of decline in employee costs and other expenses. The profit after tax (PAT) declined to Rs.0.18 Cr. in FY21 compared against Rs.0.31 Cr. in FY20.

Acuité believes that ASPL's revenue profile is expected to improve over the medium term and the profitability will continue to remain at similar levels.

Moderate financial risk profile

ASPL has a moderate financial risk profile marked by moderate tangible net worth of Rs.13.52 Cr. as on 31 March 2021 as against Rs.13.34 Cr. as on 31 March 2020. The gearing level of the company deteriorated but remained at moderate level of 1.35 times as on 31 March 2021 as against 0.85 times as on 31 March 2020. This is majorly on account of increase in the total debt of the company which comprises of short term borrowings of Rs.15.21 Cr. and WCTL of Rs.3.06 Cr. during the same period. The service coverage ratios stood moderate marked by interest coverage ratio of 2.45 times for FY21 as against 1.81 in FY20 and debt service coverage ratio of 2.23 times for FY21 against 2.05 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) marginally declined and stood at 1.64 times as on March 31, 2021 against 1.52 times as on March 31, 2020. However, the debt to EBITDA of the company remained high at 14.37 times for FY21 compared against 7.78 times for FY20.

Acuité believes that the financial risk profile of the company will continue to remain moderate on account of moderate business operations of the company.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive marked by increase and high GCA days of 230 days for FY21 compared against 122 days for FY20. The high GCA days is majorly on account of improved yet high debtor days of 85 days for FY21 compared against 104 days for FY20. Subsequently, the creditor days of the company remains at similar level of 55 days for FY21 and FY20 respectively. The high GCA days is also on account of increase in cash and bank balances to Rs.11.87 Cr. as on 31 March, 2021. However, despite high GCA days the bank limit utilization of the company remains moderate ~73 percent in last six months ended Nov' 2021.

Acuité believes that the ability of the company to efficiently manage its working capital cycle will remain a key rating sensitivity.

Exposed to cyclical 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.

Rating Sensitivities

Significant improvement in scale of operations and profitability margins
Stretch in the working capital cycle leading to stretched liquidity position

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity position marked by moderate net cash accruals against its maturing debt obligations. The company generated NCA of Rs.0.64 Cr. in FY21 against debt obligation of Rs.1.65 Cr. during the same period. However, the cash accruals of the company are expected to remain around Rs.1.43 – 1.88 Cr. during 2022-24 period while its matured obligations are estimated to remain low of around Rs.0.85 - 0.03 Cr. during the same period. Furthermore, the company maintains bank deposits with banks to the tune of Rs.9.20 Cr. as on 31 March, 2021 which further provides additional liquidity support to the company. The operations of the company are working capital intensive marked by high gross current asset (GCA) days of 230 days for FY21. The working capital requirement is funded through bank lines that have been utilized moderately at around 70 percent in last six months ended Nov' 2021. The current ratio of the company stands moderate at 1.58 times as on March 31, 2021. Acuité believes that the liquidity of the company will continue to remain adequate over the medium term on account of moderate cash accruals with moderate repayments over the medium term.

Outlook: Stable

Acuité believes that ASPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability or efficiently management of its working capital leads to better financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	34.52	65.28
PAT	Rs. Cr.	0.18	0.31
PAT Margin	(%)	0.52	0.47
Total Debt/Tangible Net Worth	Times	1.35	0.85
PBDIT/Interest	Times	2.45	1.81

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Oct 2020	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
05 Mar 2019	Proposed Bank Facility	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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