

Press Release

Adsyndicate Services Private Limited

April 11, 2023

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	-	-

Rating Rationale

Acuite has reaffirmed its 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 reaffirmation

The rating reaffirmation takes into account the established track record of operations of the company with experienced management. The rating also factors in the improvement in scale of operations and moderate financial risk profile of the company. The revenues of the company improved to Rs.51.36 crore in FY2022 compared against Rs.34.52 crore in FY2021. The growth in the revenues is majorly driven by the addition of new customers by the company for their services. Further, the company has recorded a revenue of Rs. 62.78 crore in 9MFY2023. However, the rating is constrained by thin profitability margins working capital intensive nature of operations and exposure to 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. Furthermore, the extensive experience of the promoters has helped the company to add new customers which further led to improvement in scale of operations.

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.

Moderate financial risk profile

The financial risk profile of the company remained moderate marked by moderate tangible networth, moderate gearing levels and below average debt protection indicators. The tangible net worth of the company stood at Rs.13.21 crore as on 31 March 2022 as against Rs.13.52 crore as on 31 March 2021. The networth has declined in FY2022 due to the interim dividend paid to the shareholders. The company follows a moderately aggressive financial policy. The gearing level of the company stood at 1.95 times as on 31 March 2022 as against 1.35 times as on 31 March 2021. The total debt of the company stood at Rs.25.78 crore as on 31 March 2022. It comprised of long-term debt of Rs.2.02 crore and short-term debt of Rs.23.31 crore as on 31 March 2022. The company has taken a loan against deposits of Rs. 7.40 crore in FY2022 along with a GECL loan in FY2022 of Rs.1.40 crore for the working capital purposes. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 2.06 times for FY2022 against 2.45 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 0.59 times for FY2022 against 2.23 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.26 times for FY2022 as against 1.64 times in FY2021.

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

Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 115 days as on March 31, 2022, as against 230 days as on March 31, 2021. The inventory levels stood at nil days for FY2022 compared against 1 day for FY2021. The inventory of FY2021 consisted of a small amount of merchandising inventory. The debtor days stood at 53 days for FY2022 against 85 days for FY2021. The average credit period allowed to the customers is around 45-60 days. The debtors days have improved as the company has started doing regular follow ups with the customers for the payment. The creditor days of the company stood at 30 days for FY2022 as against 55 days for FY2021. The average credit period received from the suppliers is around 60 days. The average utilization of the CC limits of the company remains high at ~50 percent in last six months ended February'2023. Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

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.

Rating Sensitivities

- Significant improvement in scale of operations and profitability margins
- Any addition in the debt leading to the change in financial risk profile
- Stretch in the working capital cycle leading to stretched liquidity position

Material covenants

None

Liquidity position: Stretched

The company has stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company generated NCA of Rs.0.68 crore in FY2022 against debt obligation of Rs.1.65 crore during the same period. However, the cash accruals of the company are expected to remain around Rs.0.74-1.09 crore during 2023-25 period while its matured obligations are estimated to remain around Rs.0.21-0.96 crore during the same period. The company has maintained cash and bank balance to the tune of Rs.6.95 crore as on 31 March, 2022. The working capital requirement is funded through bank lines that have been utilized moderate of around 50 percent in last six months ended February' 2023. The current ratio of the company stands moderate at 1.15 times as on March 31, 2022. Acuite believes that the liquidity of the company will continue to remain stretched over the medium term on account of low net cash accruals against matured debt .

Outlook: Stable

Acuite 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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	51.36	34.52
PAT	Rs. Cr.	0.29	0.18
PAT Margin	(%)	0.57	0.52
Total Debt/Tangible Net Worth	Times	1.95	1.35
PBDIT/Interest	Times	2.06	2.45

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>
- 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2022	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
29 Oct 2020	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)

Annexure - Details of instruments rated

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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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