



Press Release
Adsyndicate Services Private Limited
July 09, 2024
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 reflects the extensive experience of the management along with their established track record of operations of over 2 decades in media strategy, consulting, and advertising. Further, the rating considers improvement in scale of operations and moderate financial risk profile of the company. The operating income of the company grew to Rs.83.60 Cr. in FY2023 from Rs.51.36 Cr. in FY2022, marking a considerable y-o-y growth of ~63%. The growth in operating income is on account of higher project executions during the year. Further, the company has recorded revenue of Rs,79.45 Cr. in FY2024(Prov). The operating profit margins of the company has gradually improved in FY2024(Prov) to 2.31% from 1.56% in FY2023 and 0.76% in FY2022. The improvement in operating profit margin is due to higher renewal projects being executed, which ensured lower creative costs. Going ahead, margins are expected to improve further as the company is increasing its focus on digital advertising which entails higher margins.

However, the rating remains constrained by thin profitability margins working capital intensive nature of operations and exposure to a highly competitive & fragmented industry.

About the Company

Incorporated in 1997, Adsyndicate Services Private Limited (ASPL) is a corporation situated in Udupi, Karnataka. It is involved in media strategy, consulting, and advertising. Mr. Krishnaraj Rao, the promoter, has over two decades of experience in the same field. It is an advertising agency that works with clients to build and promote their brands. Market research, brand strategy, communication strategy, creative strategy and execution, designing, conceptualizing, and visualizing everything creative, as well as media purchasing and planning, are among the services it offers its clients. It also manages the planning, organizing, and execution of national exhibitions. The company's clients include Manipal University, Sandisk International, Amritha Vishwa Vidyepeetham, KLE Education Institutions, Nissan Motors India Pvt Ltd, Canara Bank, and Tata Motors Limited. The current directors of the firm are Mr. U B Krishna Rao and Mr. S. Prabhakar Pai.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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

After being incorporated in 1997, ASPL has been involved in media planning, consulting, and advertising. The promoters, Mr. Prabhakar Sastana Pai and Mr. Krishnaraj Rao, have around 20 years of experience, which has been backed by consistent revenue growth over time. Renowned clients served by ASPL include Canara Bank, Nissan Motors India Pvt Ltd, Manipal University, ABB, Western Digital Corporation, RBI, Tata Motors Limited, Amrita Vishwa Vidyapeetham, KLE Education Institutions, and others. Additionally, the promoters' wealth of knowledge has assisted the business in attracting new clients, which has improved the scale of operations even more.

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 improved though remained moderate in FY2024(Prov) marked by moderate net worth, low gearing level and average debt protection metrics. The improvement in financial risk profile is primarily due to lower debt levels. The tangible net worth of the company stood at Rs. 13.87 Cr. as on March 31, 2024 (Prov.) as compared to Rs. 13.43 Cr. as on March 31, 2023 and Rs. 13.21 Cr. as on March 31, 2022. The total debt of the company stood at Rs. 7.56 Cr. as compared to Rs. 15.62 Cr. as on March 31, 2023 and Rs. 25.78 Cr. on March 31, 2022. The debt profile of the firm comprises of Rs. 0.99 Cr. of secured term loans, and the Rs.6.57 Cr. of short-term borrowings as on March 31, 2024 (Pov.). The capital structure of the entity remains comfortable with the gearing of 0.55 times in FY24(Prov.) as against 1.16 times in FY23 (and 1.95 times in FY22). The TOL/TNW stood at 1.38 times as on March 2024 (Prov.) compared to 1.90 times as on March 2023 and 2.26 times as on March 2022. The debt protection metrics stood average as reflected by debt service coverage ratio of by 1.12 times in FY2024 (Prov.) as compared to 1.27 times in FY2023 and 0.59 times in FY2022 and interest service coverage ratio of 1.91 times in FY2024 (Prov.) compared to 1.86 times in FY2023 and 2.06 times in FY 2022. Further, the Debt/EBITDA levels improved to 2.29 times in FY2024(Prov.) against 6.90 times in FY2023 and 17.41 times in FY2022.

Going ahead, the financial risk profile of the company is expected to improve on account of estimated growth in accruals.

Weaknesses

Moderate working capital cycle

The working capital operations of the company improved marked by GCA days of 57 days in FY24 (Prov.) as against 62 days and 115 during FY23 and FY22 respectively. The decline in GCA days is primarily due to lower other current assets. The debtor days stood at 57 days in FY24 (Prov.) as compared 53 days in FY23 and FY22. The average credit period allowed to the customers is around 45-60 days. The company also has good clientele base with clients like Union bank of India, Tata Motors, Canara Bank etc. However, the reliance on working capital limits stood high as reflected by average utilisation of bank limits at ~86% for the last 6 months ending May 2024.

Going ahead, working capital operations are expected to remain in similar range over the medium term.

Exposure to a highly competitive and cyclical industry

Due to the company's high reliance on advertising activity, it is subject to economic cycles, which increases revenue volatility. In addition, the advertising industry is highly competitive due to the presence of both organized and unorganized players. Finally, the advertising industry is susceptible to external events such as government policy changes, advertiser preferences, and company cuts brought on by a slowdown in the economy.

Rating Sensitivities

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

Liquidity Position Adequate

The liquidity position of the company is adequate marked by sufficient cash accruals generations against its maturing repayment obligations. The firm generated net cash accruals of Rs. 1.27 Cr. in FY 24 (Prov.) against 0.96 Cr. of debt repayment obligation. The company had a cash balance of Rs. 0.01 Cr. as on March 31, 2024 (Prov.). The current ratio stood moderate at 1.40 times in FY24 (prov.) as against 1.45 times in FY23 and 1.15 times in FY22. Further, the reliance on working capital limits stood high, marked by ~86% average utilisation during the last 6 months ended May 2024. The company also has free deposits of Rs. 12.02 Cr. as of March 31, 2024(Prov.).

Going ahead , the liquidity position is expected to remain adequate on account of expected growth in accruals generation 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 higher-than-expected revenue and profitability or further improvement in working capital cycle leading to improvement in 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	79.45	83.60
PAT	Rs. Cr.	0.88	0.57
PAT Margin	(%)	1.11	0.68
Total Debt/Tangible Net Worth	Times	0.55	1.16
PBDIT/Interest	Times	1.91	1.86

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

Not Applicable

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, Acuité 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
11 Apr 2023	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
02 Mar 2022	Cash Credit	Long Term	20.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Long Term 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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BB+ Stable Reaffirmed

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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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