

Press Release

Novex Communications Private Limited

January 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 20.00 crore bank facilities of Novex Communications Private Limited (NCPL). The outlook is '**Stable**'.

The Mumbai based, NCPL, was incorporated in 2002 by Mr. Ketan Kanakia and Mrs. Minal Kanankia. NCPL has been associated with the media industry since its inception. It started with selling film rights to cable operators then went on to become an agent for cable operators and since 2017 entered into the business of selling music rights to various public institutions such as hotels, gymkhanas and corporates, to name a few. NCPL is engaged in providing copyrights and public performance rights for various popular movie songs. Currently, NCPL holds a portfolio of 6000-6500 songs.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Novex Communications Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Established presence in the music copyrights industry with an experienced management**

NCPL is engaged in selling music copyrights and public performance rights. The company started in this line of business in FY2017. Currently, NCPL holds licensing rights for reputed production houses such as Yash Raj Films, Shemaroo Entertainment, EROS, Zee Music Company and TIPS. The promoter, Mr. Ketan Kanakia has been associated with the media industry since the past three decades. Under his management, the company has grown from a revenue share of Rs.6.80 crore in FY2016 to Rs.23.86 crore in FY2018. Acuite believes that NCPL's established presence in the market and the promoter's extensive experience will be a key factor in maintaining existing relations with its customers and suppliers along with establishing new relations.

- **Reputed customer profile with good geographic reach**

NCPL's list of customers include hotels, event management companies, retail stores, malls, clubs and gymkhana, health clubs, corporates, amusement parks and resorts, restaurants and casinos. Currently, NCPL caters to reputed names such as ITC Hotels, Taj Hotel, The Lalit, The Leela, Aditya Birla Retail Stores, Globus, Walmart, Inorbit, Phoenix, Club Mahindra, The Club, Fitness First, Gold's Gym, ICICI Bank, Herbal Life, Imagica, Della, Hard Rock Café, Pizza Hut, Deltin Royale-Goa to name a few. Currently, NCPL holds music rights for Bollywood music and it has plans to capture the southern market by purchasing Tollywood music rights.

Weaknesses

- **Weak financial risk profile**

NCPL has a weak financial risk profile marked by a low net worth, weak gearing and moderate debt protection metrics. NCPL's net worth is weak at Rs.2.73 crore as on March 31, 2018 against Rs.2.31 crore as on March 31, 2017. The company has followed an aggressive financial policy in the past with its peak gearing estimated at around 3.33 times as on March 31, 2017. This is on account of higher reliance on long term debt to cater to its working capital needs. The gearing as on March 31, 2018 has

improved to 2.95 times against 3.33 times as on March 31, 2017. TOL/TNW ratio stood high at 4.77 times as on March 31, 2018 against 4.52 times as on March 31, 2017. The interest coverage ratio (ICR) stood at 2.68 times for FY2018 against 0.22 times for FY2017. NCA stood weak at Rs.1.02 crore in FY2018 against debt obligation of Rs.1.52 crore. Acuite believes that improving the financial risk profile will be a key rating sensitivity for NCPL.

• Working capital intensive nature of operations

NCPL's working capital cycle is weak marked by a high Gross Current Asset (GCA) of 106 days in FY2018 against 268 days in FY2017. This is on account of funds blocked in other current assets of Rs.4.30 crore which include TDS recoverables, loans to group companies to the tune of ~Rs.1.60 crore and other recoverables. The debtor levels stood at 17 days in FY2018 against 87 days in FY2017. This improvement is on account of reducing the credit period of debtors to 30 days as against the earlier period of 3 months. Further, the creditor days stood stretched at 123 days in FY2018 against 134 days in FY2017. This is on account of bills raised in the year end.

Outlook: Stable

Acuite believes that the outlook of NCPL will remain 'Stable' over the medium term on account of the promoter's extensive experience and established presence in the industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	23.87	8.70	6.84
EBITDA	Rs. Cr.	2.25	-0.16	1.23
PAT	Rs. Cr.	0.42	-1.25	0.53
EBITDA Margin	(%)	9.44	-1.86	18.03
PAT Margin	(%)	1.77	-14.36	7.69
ROCE	(%)	18.42	-3.13	37.74
Total Debt/Tangible Net Worth	Times	2.95	3.33	1.78
PBDIT/Interest	Times	2.68	0.22	2.44
Total Debt/PBDIT	Times	3.13	38.93	2.72
Gross Current Assets (Days)	Days	106	268	324

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	8.77	ACUITE BB- / Stable
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BB- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.75	ACUITE BB- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Jyotsna Nebhnani Analyst - Rating Operations Tel: 022-49294074 jyotsna.nebhnani@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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