

Press Release

Novex Communications Private Limited

September 24, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB-)

* Refer Annexure for details

Rating Rationale

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

The rating revision is on account of improvement in overall financial risk profile of the company and sustainability of revenues in the near to medium term. The revenues have grown to Rs.46.43 crore in FY2019 from Rs.23.87 crore in FY2018. EBITDA margins have improved to 18.78 per cent in FY2019 from 9.44 per cent in FY2018. The interest coverage ratio improved to 7.98 times for FY2019 against 2.68 times for FY2018, while debt service coverage ratio improved to 3.27 times in FY2019 against 0.80 times in FY2018. Going forward, Acuite expects sustainability of improvement in operating performance of the company.

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 of 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, 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 profiles of NCPL for arriving at the rating.

Key Rating Drivers

Strengths

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

NCPL is engaged in licensing music copyrights and public performance rights. It started this line of business in FY2017. Currently, Novex 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 past three decades. Under his management, the company has grown at a CAGR of 90 per cent from revenues of Rs.6.80 crore in FY2016 to Rs.46.43 crore in FY2019.

Acuite believes that NCPL's established presence in the industry, established relations with customers and suppliers, and exclusive music copyrights from film producers will help the company to further improve its operating performance.

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

NCPL's list of customers includes all kinds of 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 but it plans to capture the southern market by purchasing Tollywood music rights. NCPL derives its revenue from all over India

with Mumbai, Delhi, Goa and Karnataka contributing approximately 65-70 per cent of the total revenues.

Acuite believes that with greater geographic reach the company will be able to further improve its operating performance.

Weaknesses

• Moderate financial risk profile

The company has moderate financial risk profile, which is marked by low networth, moderate gearing and healthy debt protection metrics. Improvement in operating performance in FY2019 has led to improvement in networth, gearing and debt protection metrics. Networth increased to Rs.8.33 crore as on March 31, 2019 from Rs.2.73 crore as on March 31, 2018, due to healthy accretion to reserves. Gearing improved to 1.09 times as on March 31, 2019 from 2.95 times as on March 31, 2018. TOL/TNW is moderate at 2.01 times as on March 31, 2019 as against 4.77 times as on March 31, 2018. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) improved significantly to 7.98 times and 3.27 times, respectively, in FY2019 against 2.68 times and 0.80 times in FY2018. Acuite believes that the financial risk profile of the firm is expected to improve further in the absence of major debt funded capital expenditure.

Liquidity Position

Liquidity of NCPL is adequate as evident by net cash accruals of Rs.6.19 crore against repayment obligations of Rs.2.29 crore during FY2019. Liquidity is enhanced due to dropline overdraft facility of Rs.3.00 crore, which is minimally utilized. The firm maintains unencumbered cash and bank balances of Rs.2.38 crore as on March 31, 2019. The current ratio stood moderate at 1.09 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals compared to its maturing debt obligations.

Outlook: Stable

Acuite believes that NCPL's outlook will remain 'Stable' over the medium term from its experienced management and established presence in the industry. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues and profitability along with its overall financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	46.43	23.87	8.70
EBITDA	Rs. Cr.	8.72	2.25	(0.16)
PAT	Rs. Cr.	5.63	0.42	(1.25)
EBITDA Margin	(%)	18.78	9.44	1.86)
PAT Margin	(%)	12.13	1.77	(14.36)
ROCE	(%)	59.48	18.42	(3.13)
Total Debt/Tangible Net Worth	Times	1.09	2.95	3.33
PBDIT/Interest	Times	7.98	2.68	0.22
Total Debt/PBDIT	Times	0.99	3.13	38.93
Gross Current Assets (Days)	Days	53	106	268

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-17.htm>
- Entities in the service 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Jan-2019	Term Loan	Long Term	8.77	ACUITE BB- / Stable (Assigned)
	Dropline Overdraft	Long Term	1.48	ACUITE BB- / Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	9.75	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
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.77	ACUITE BB+/Stable (Upgraded from ACUITE BB-/Stable)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BB+/Stable (Upgraded from ACUITE BB-/Stable)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.75	ACUITE BB+/Stable (Upgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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