

## Press Release

### Novex Communications Private Limited

December 21, 2020



#### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.20.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

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

The rating reaffirmation draws comfort on account of a long track record of operations, extensive experience of the promoters, comfortable financial risk profile and adequate liquidity. The rating, however, continues to remain constrained at the same level on account of the impact on operations in FY2021 due to global outbreak of COVID-19.

#### About the Company

Mumbai-based, NCPL was incorporated in 2002. The company is engaged in providing music copyrights and public performance rights for various popular movie songs to various public institutions such as hotels, gymkhana, corporates, etc. The company is promoted by Mr. Ketan Kanakia and Mrs. Minal Kanakia. Currently, NCPL holds a portfolio of 6000-6500 songs.

#### Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of NCPL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management and established presence in the music copyrights industry**

The promoters, Mr. Ketan Kanakia and Mrs. Minal Kanakia have over three decades of experience in the media industry. Currently, Novex holds licensing rights for reputed production houses such as Yash Raj Films, Shemaroo Entertainment, EROS, Zee Music Company and TIPS. The extensive experience, coupled with long track record of operations, has enabled the company to forge healthy relationships with customers.

Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry, established relations with customers, exclusive music copyrights from film producers and the directors' demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

- **Reputed customers profile**

NCPL caters to reputed customers 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. These customers are from all India, i.e. Mumbai, Delhi, Goa, Karnataka, etc.

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

- **Comfortable financial risk profile**

NCPL's financial risk profile is comfortable marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing stood moderate at 0.46 times as on 31 March 2020 against 1.09 times as on 31 March 2019. TOL/TNW stood at 1.59 times as on 31 March 2020 against 2.01 times as on 31 March 2019. Tangible net worth of the company stood modest at Rs.14.83 Cr as on 31 March 2020 against Rs.8.33 Cr as on 31 March 2019. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood healthy at 12.49 times and 1.13 times respectively in FY2020. DSCR stood moderate at 2.71 times in FY2020. The company reported cash accruals

Rs.7.68 Cr for FY2020 against moderate repayment obligations of Rs.0.87 Cr. Further, annual cash accruals are expected to be in the range of about Rs.4.77 Cr-Rs.6.35 Cr in the medium term against moderate repayment obligations in the range of Rs.0.85 Cr-Rs.1.01Cr.

Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of modest net worth backed by adequate net cash accruals vis- à-vis moderate debt repayment obligations and comfortable debt protection metrics.

### **Weaknesses**

- **Moderation of operating performance in FY2021**

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, casinos, etc. These industries are highly impacted due to the global outbreak of COVID-19 and subsequent lockdown.

Acuité believes that the operations of NCPL are expected to be impacted in FY2021 due to the current market scenario in the medium term.

### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.

### **Material Covenants**

None

### **Liquidity: Adequate**

NCPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals of Rs.1.02 Cr-Rs.7.68 Cr during the last three years through 2018-20 against moderate repayment obligations of Rs.0.87 Cr-Rs.2.29 Cr. It is expected to generate cash accruals in the range of Rs.4.77 Cr-Rs.6.35 Cr over the medium term, against moderate repayment obligations in the range of Rs.0.85 Cr-Rs.1.01 Cr. Unencumbered cash and bank balances stood at Rs.4.91 Cr as on 31 March 2020 with a current ratio of 1.31 times in the same period. Liquid investments stood at Rs.12.46 Cr as on 31 March 2020. The working capital limits remain utilized at ~90 percent for the last eight months ended November, 2020.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

### **Outlook: Stable**

Acuité believes that NCPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long standing presence in the industry. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile and liquidity.

### **About the Rated Entity - Key Financials**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	56.86	46.43
PAT	Rs. Cr.	6.61	5.63
PAT Margin	(%)	11.62	12.13
Total Debt/Tangible Net Worth	Times	0.46	1.09
PBDIT/Interest	Times	12.49	7.98

### **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>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Sep-2019	Term Loan	Long Term	8.77	ACUITE BB+/ Stable (Upgraded)
	Dropline Overdraft	Long Term	1.48	ACUITE BB+/ Stable (Upgraded)
	Proposed Bank Facility	Long Term	9.75	ACUITE BB+/ Stable (Upgraded)
09-Jan-2019	Term Loan	Long Term	8.77	ACUITE BB-/ Stable (Assigned)
	Dropline Overdraft	Long Term	1.48	ACUITE BB-/ Stable (Assigned)
	Proposed 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	1:May-2014 2:Aug-2017 3:Sep-2017 4:Jun-2018	1:12.25 % 2:9.00 % 3:9.00% 4:9.25%	1:May-2024 2:Aug-2026 3:Mar-2026 4:Dec-2029	8.77	ACUITE BB+/ Stable (Reaffirmed)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	1.48	ACUITE BB+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.75	ACUITE BB+/ Stable (Reaffirmed)

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