

## Press Release

### Novex Communications Private Limited

March 14, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

\* Refer Annexure for details

## Rating Rationale

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

### Rationale for reaffirmation:

The rating reaffirmation reflects the improvement in the revenues in FY2022 & the expected improvement in revenues going forward and the moderate financial risk profile. However, the above mentioned rating strengths are partly offset by moderate working capital operations and moderation in operation performance.

### 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, gymkhanas, corporates, etc. The company is promoted by Mr. Ketan Kanakia, Mr. Miket Kanakia and Mrs. Minal Kanakia.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

#### >Experienced management & established presence in the music copyrights industry and reputed customers profile

The promoters, Mr. Ketan Kanakia, Mr. Miket 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. 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, Herbalife, 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. With greater geographic reach, the company will be able to further improve its operating performance. 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.

### **>Moderate financial risk profile**

Financial risk profile of NCPL is moderate marked by moderate gearing (debt to equity ratio) & moderate total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 0.42 times as on March 31, 2021 against 0.46 times as on March 31, 2020. TOL/TNW stood at 0.97 times as on March 31, 2021 against 1.59 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.18.51 crore as on March 31, 2021 against Rs.14.83 crore as on March 31, 2020. Of the total debt of Rs.7.86 crore as on March 31, 2021, long-term debt stood at Rs.6.07 crore and CPLTD stood at Rs.1.79 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 10.56 times and 0.62 times respectively in FY2021; while DSCR stood at 3.60 times in FY2021.

Acuité believes that the financial risk profile is expected to improve over the medium term.

### **Weaknesses**

#### **>Moderation of operating performance in FY2021 & FY2022**

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 FY2022 & FY2023 due to the current market scenario in the medium term.

### **>Moderate working capital operations**

NCPL's working capital operations are moderate marked by Gross Current Asset days (GCA) of 70 days in FY2021 against 63 days in FY2020. The debtors' days stood at 12 days in FY2021 against 3 days in FY2020. All debtors are ageing below 30 days. The creditors' days improved and stood at 31 days in FY2021 against 112 days in FY2020. However, working capital limits remains utilized at 30-40 percent for last 6 months ended January, 2022.

Acuité believes that the working capital operations are expected to remain moderate over the medium term.

### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### **Material covenants**

None

### **Liquidity Position: Adequate**

NCPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.4.84 crore – Rs.7.68 crore during the last three years through FY2019-21 against moderate repayment obligations of Rs.0.87 crore – Rs.2.29 crore during the same period. It is expected to generate cash accruals in the range of Rs.3.23 crore – Rs.6.59 crore over the medium term, against moderate repayment obligations of Rs.2.04 crore. Unencumbered cash and bank balances stood at Rs.3.81 crore as on March 31, 2021 with a current ratio of 1.75 times in the same period. The working capital limits remained utilized at ~30-40 percent for last trailing 6

months ended January, 2022.

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 track record of operations. 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 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 its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	51.39	56.86
PAT	Rs. Cr.	3.66	6.61
PAT Margin	(%)	7.13	11.62
Total Debt/Tangible Net Worth	Times	0.42	0.46
PBDIT/Interest	Times	10.56	12.49

### 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

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Dec 2020	Dropline Overdraft	Long Term	1.48	ACUITE BB+   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	9.75	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	8.77	ACUITE BB+   Stable (Reaffirmed)
24 Sep 2019	Proposed Bank Facility	Long Term	9.75	ACUITE BB+   Stable (Upgraded from ACUITE BB-   Stable)
	Term Loan	Long Term	8.77	ACUITE BB+   Stable (Upgraded from ACUITE BB-   Stable)
	Dropline Overdraft	Long Term	1.48	ACUITE BB+   Stable (Upgraded from ACUITE BB-   Stable)
09 Jan 2019	Proposed Bank Facility	Long Term	9.75	ACUITE BB-   Stable (Assigned)
	Dropline Overdraft	Long Term	1.48	ACUITE BB-   Stable (Assigned)
	Term Loan	Long Term	8.77	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+   Stable   Reaffirmed
Deutsche Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.51	ACUITE BB+   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE BB+   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.42	ACUITE BB+   Stable   Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	30-06-2018	9.25	01-12-2029	8.77	ACUITE BB+   Stable   Reaffirmed
Deutsche Bank	Not Applicable	Term Loan	12-01-2021	7.90	31-01-2029	2.20	ACUITE BB+   Stable   Reaffirmed

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### About Acuité Ratings & Research

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