



Press Release
Novex Communications Private Limited
May 29, 2023
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	-	-

Rating Rationale

Acuite has reaffirmed its 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 operating income of the company in FY2023. The operating income of the company stood at Rs. 105.34 crore in FY23 (Est.) as against Rs. 43.58 crore in FY22 and Rs.51.39 crore in FY21. The rating also draws comfort from the company's healthy financial risk profile and adequate liquidity position marked by improving net cash accruals and minimal utilisation of its bank limits. However, the above mentioned strengths are partly offset by moderate working capital operations and continual acquisition of music rights.

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, Lemon Tree, J W Marriot, Radisson Blue Group, 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. Such long standing relationship with the production houses and customers has lead to a strong growth in the operating performance of the company reflected by its growth in its operating income at Rs.105.34 crore in FY23 (Prov.) as against Rs.43.58 crore in FY22.

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.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by a healthy network, low gearing and above average debt protection metrics. The tangible network of the company stood at Rs. 22.88 crore as on March 31, 2022 as against Rs.18.51 crore as on March 31, 2021. The improvement in network is on account of increase in accretion of profits to reserves. The total debt of the company stood at Rs. 7.98 crore as on March 31, 2022 as against 7.86 crore as on March 31, 2021. The debt profile of the company comprises of loan against property and vehicle loans. The management follows a conservative financial policy marked by peak gearing at 0.46 times as on March 31, 2020. The gearing of the company improved at 0.42 times as on March 31, 2021 and 0.35 times as on March 31, 2022. The gearing is expected to improve in the near to medium term on account of repayment of existing debt obligations and no major debt funded capital expenditure. TOL/TNW of the company stood at 0.93 times as on March 31, 2022 as against 0.97 times as on March 31, 2021. The debt protection metrics of the company remained above average with debt service coverage ratio of 2.71 times in FY22 and 3.60 times in FY21. The interest coverage ratio of the company stood at 10.85 times for FY22 as against 10.56 times in FY21.

Acuité believes that the financial risk profile of the company is expected to remain healthy with regular accretions to reserves and no major debt funded capital expenditure planned in near term.

Weaknesses

Moderate working capital operations

The working capital operations of the company are moderate marked by GCA days of 169 days in FY22 as against 70 days in FY21 and 63 days in FY20. The GCA days are majorly driven by debtor collection period and cash balance maintained by the company. The company collects payments from its customers on advance payment basis. For yearly contracts of the billing is done on a quarterly basis. The debtor collection period of the company elongated at 63 days in FY22 as against 12 days in FY21. The elongated debtor collection period in FY22 is on account of year end billing. The company has maintained a cash balance of 8.62 crore as on March 31, 2022 and Rs. 3.81 crore as on March 31, 2021.

The company's ability to manage its working capital operations efficiently will remain a key rating sensitivity.

Risks incidental to the industry

The choice of acquisition of music rights plays a crucial role in the industry. Once the rights are acquired it remains with the company for a period of 3 years from the date of acquisition. Thus, the company would have to continuously acquire the right content to continue to grow in the long run and that stands crucial from credit perspective.

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

Liquidity of the company remained adequate marked by sufficient net cash accruals as against debt service obligations. The net cash accruals of the company stood at Rs. 6.18 crore in FY22 as against repayment obligation of Rs. 1.79 crore. The net cash accruals of the company are expected to remain adequate to meet its debt service obligations in near to medium term. Further, the company's reliance on bank limits is minimal with limit utilisation of 11.78 percent for 6 months ended March 2023. The company maintains cash balance of Rs. 8.62 crore as on March 31, 2022.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	43.58	51.39
PAT	Rs. Cr.	4.36	3.66
PAT Margin	(%)	10.01	7.13
Total Debt/Tangible Net Worth	Times	0.35	0.42
PBDIT/Interest	Times	10.85	10.56

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-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, Acuite 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
14 Mar 2022	Term Loan	Long Term	8.77	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.42	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.20	ACUITE BB+ Stable (Reaffirmed)
	Dropline Overdraft	Long Term	1.60	ACUITE BB+ Stable (Reaffirmed)
	Dropline Overdraft	Long Term	3.50	ACUITE BB+ Stable (Reaffirmed)
	Dropline Overdraft	Long Term	1.51	ACUITE BB+ Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.28	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BB+ Stable Reaffirmed
Deutsche Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.51	ACUITE BB+ Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BB+ Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.67	ACUITE BB+ Stable Reaffirmed
Deutsche Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.04	ACUITE BB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Deepti Bhandarkar Lead Analyst-Rating Operations Tel: 022-49294065 deepti.bhandarkar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.