

Press Release

EG Communications Private Limited (ECPL)

12 March, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs.16.50 Cr.
Long Term Rating	SMERA BBB/Outlook: Stable (Upgraded)
Short Term Rating	SMERA A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA BBB' (read as SMERA triple B)** from '**SMERA BBB-' (read as SMERA triple B minus)** and the short term rating to '**SMERA A3+' (read as SMERA A three plus)** from '**SMERA A3' (read as SMERA A three)** on the Rs.16.50 crore bank facilities EG Communications Private Limited. The outlook is '**Stable**'.

EG Communications Private Limited (ECPL), established in 2002 by Mr. Praveen, is a New Delhi based Indian Newspaper Society (INS) accredited advertising agency. The company has sole advertising rights for train wraps in Delhi Metro Trains on Line II to VI and for inside panels on Line I to VI.

The rating upgrade reflects consistent growth in revenue profile and operating profitability supported by addition of lines V and VI and increase in occupancy levels, improvement in financial risk profile and burgeoning advertising services sector.

Key rating drivers

Strengths

Experienced management and long track record of operations: ECPL was incorporated in 2002 by Mr. Praveen Kumar Gupta. The promoter has almost two decades of experience in the advertising industry.

Established market position: ECPL has a dominant position over both inside advertising and outside wrapping on most of Delhi Metro Lines. The company has a very reputed clientele consisting of both government entities and well established private players. Delhi Metro is a prime advertising space and thus, ECPL is able to attract and retain its marquee customers. Further, there exists no competition in the metro advertising space as ECPL has contracts for the next 10 years.

Increase in operating income and profitability: The operating income of the company increased to Rs.62.15 crore in FY2017 from Rs.45.42 crore in FY2016 due to addition of Lines V and VI in its portfolio. Operating profitability increased to 20.05 per cent in FY2017 from 8.37 per cent in FY2016 due to absorption of fixed costs payable to Delhi Metro supported by increase in occupancy levels. The company as on February 2018 has an order book amounting to Rs.61.93 crore providing revenue visibility over the medium term.

Average financial risk profile: The average financial risk profile is marked by moderate net worth and gearing levels and comfortable debt protection measures. The net worth levels of the entity stood at Rs.14.44 crore as on 31 March, 2017 as compared to Rs.7.52 crore in the previous year. The gearing levels decreased to 0.78 times in FY2017 as compared to 1.61 times in FY2016 due to increase in net worth supported by internal accruals. The interest coverage levels increased to 7.38 times in FY2017 from 2.55 times in FY2016 due to increase in the profitability levels. The net cash accruals to total debt (NCA/TD) stood at 0.62 times in FY2017.

Weaknesses

Working capital intensive operations: The entity has intense working capital requirements, as reflected in high gross current assets (GCA) of 142 days as on March 31, 2017 compared to 153 days as on March 31, 2016 due to high debtors and advances given to Delhi Metro Rail Corporation (DMRC). Debtor days in FY2017 decreased to 86 compared to 110 in FY2016 and the entity gives credit of up to 90 days to marquee customers. The entity also pays one quarter fixed payments to DMRC in advance.

High degree of operating leverage: The rating is however constrained by the high fixed cost obligations-lease rental of Rs.38.36 crore in FY2017 (Rs.34.47 crore in FY2016). Any decline in occupancy levels can have an adverse impact on the operating profit margin and debt protection metrics of the company. The risks are further exacerbated by the concentration of the company's revenues from DMRC. SMERA further believes that ECPL is exposed to substantial business cycle risk. The overall occupancy levels shall remain vulnerable to change in business environment.

Analytical approach:

SMERA has considered standalone business and financial risk profiles of ECPL.

Outlook: Stable

SMERA believes that ECPL will continue to benefit over the medium term from its promoters' industry experience and its established market presence. The outlook may be revised to 'Positive' if the company reports increased operating revenues, sustains its cash accruals thus leading to steady improvement in its liquidity and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or deterioration in the capital structure.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	62.15	45.42	23.51
EBITDA	Rs. Cr.	12.46	3.80	1.72
PAT	Rs. Cr.	6.92	1.55	0.66
EBITDA Margin	(%)	20.05	8.37	7.32
PAT Margin	(%)	11.14	3.42	2.82
ROCE	(%)	55.18	22.53	24.16
Total Debt/Tangible Net Worth	Times	0.78	1.61	1.43
PBDIT/Interest	Times	7.38	2.55	2.31
Total Debt/PBDIT	Times	0.90	3.12	4.75
Gross Current Assets (Days)	Days	142	153	205

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Services Entities - <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
19-Dec-2016	Cash Credit	Long Term	3.00	SMERA BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	11.50	SMERA A3 (Reaffirmed)

	Proposed Cash Credit	Long Term	2.00	SMERA BBB-/Stable (Reaffirmed)
12-Aug-2015	Cash Credit	Long Term	3.00	SMERA BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	11.50	SMERA A3 (Assigned)
	Proposed Working Capital Demand Loan	Long Term	2.00	SMERA BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB/Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BBB/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A3+ (Upgraded)

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ABOUT SMERA

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