Press Release

EG Communications Private Limited (ECPL)

May 31, 2019

Rating Update

Total Bank Facilities Rated*	Rs. 23.00 Cr. (Enhanced from Rs. 16.50 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 23.00 crore bank facilities of EG Communications Private Limited (ECPL). The outlook is **'Stable'**.

New Delhi based, EG Communications Private Limited (ECPL) was incorporated in 2002 (earlier established as a proprietorship firm in 1998) by Mr. Praveen Kumar Gupta. It is an advertising agency accredited by Indian Newspaper Society (INS). Being the pioneers for Delhi Metro advertising, the rights for advertising on the panels inside the metro trains (Line II-III, Line V-VI & Line VIII) are with ECPL since its inception. The company has sole advertising rights for train wraps in Delhi Metro trains on Line II-III, Line V-VI & Line VIII. In a recent development, ECPL has entered into the Metro Station advertising across 16 stations on Line II (Rajiv Chowk to Samaypur Badli).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the ECPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**
  ECPL was incorporated in 2002 (earlier established as a proprietorship firm in 1998) by Mr. Praveen Kumar Gupta. The promoters & directors has over 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.

- **Moderate financial risk profile**
  The financial risk profile of the company remained moderate marked by moderate net worth, debt protection metrics and coverage indicators. The net worth of ECPL stood at Rs. 21.24 crore as on 31 March 2018 as against Rs. 14.44 crore as on 31 March 2017. The gearing (debt-equity) stood at 0.70 times as on 31 March 2018 as against 0.78 times as on 31 March 2017. The total debt of Rs. 14.90 crore as on 31 March 2018 mainly comprises Rs. 3.65 crore of working capital borrowings and Rs. 11.25 crore of unsecured loans. The coverage indicators are above average marked by Interest

Coverage Ratio (ICR) which stood at 7.45 times for FY2018 as against 7.38 times for FY2017. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.46 times in FY2018 and 0.62 times in FY2017. Debt to EBITDA stood at 1.35 times in FY2018 as against 0.90 times in FY2017. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Working capital intensive operations**
  The entity has intense working capital requirements, as reflected in high gross current assets (GCA) of 173 days as on March 31, 2018 compared to 133 days as on March 31, 2017 due to high debtors and advances given to Delhi Metro Rail Corporation (DMRC). Debtor days in FY2018 increased to 105 compared to 86 in FY2017. 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.36.26 crore in FY2018 (Rs.38.36 crore in FY2017). The operating income for the FY2019 (Provisional) is Rs.59.41. 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. ACUITE further believes that ECPL is exposed to substantial business cycle risk. The overall occupancy levels shall remain vulnerable to change in business environment.

Liquidity position

The company has comfortable liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 6.83 crore for FY2018 while no major debt obligations maturing during the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 5.25 crore to Rs. 5.85 crore during 2019-21 against no major repayment obligation. The company's working capital operations are intensive marked by gross current asset (GCA) days of 173 days for FY2018. The company maintains unencumbered cash and bank balances of Rs. 2.55 crore as on 31 March 2018. The current ratio stands at 5.64 times as on 31 March 2018. Acuite believes that the liquidity of the company is likely to remain comfortable over the medium term on account of comfortable cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that ECPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management, established market position and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than- expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.36	62.15	45.42
EBITDA	Rs. Cr.	10.92	12.46	3.80
PAT	Rs. Cr.	6.80	6.92	1.55
EBITDA Margin	(%)	18.71	20.05	8.37
PAT Margin	(%)	11.65	11.14	3.42
ROCE	(%)	35.63	55.18	22.53
Total Debt/Tangible Net Worth	Times	0.70	0.78	1.61

PBDIT/Interest	Times	7.45	7.38	2.55
Total Debt/PBDIT	Times	1.35	0.90	3.12
Gross Current Assets (Days)	Days	173	133	153

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

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Service Entities - https://www.acuite.in/view-rating-criteria-8.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
12 March, 2018	Cash Credit	Long-Term	3.00	ACUITE BBB/ Stable (Updraded)
	Proposed Cash Credit	Long-Term	0.50	ACUITE BBB/ Stable (Updraded)
	Bank Guarantee	Short-Term	13.00	ACUITE A3+ (Updraded)
19 December, 2016	Cash Credit	Long-Term	3.00	ACUITE BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short-Term	11.50	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long-Term	2.00	ACUITE BBB-/ Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB/ Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:
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