

May 31, 2022

Yaap Digital Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	0.52	0.52	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Long-term Fund-based - Working Capital	4.50	4.50	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Short-term Non-fund Based- Bank Guarantees	2.50	2.50	[ICRA]A4+; upgraded from [ICRA]A4
Total	7.52	7.52	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in Yaap Digital Private Limited's (YDPL) scale of operations and profitability in FY2022, which is likely to sustain going forward. Its operating income (OI) grew by 96% to Rs. 71.7 crore (consolidated) in FY2022 from Rs. 36.6 crore in FY2021 as the company acquired more contracts from its existing key client. The accelerated consumption of digital media post the Covid-19 pandemic has supported its growth and augurs well for its future prospects. YDPL's profitability also improved, supported by better operating leverage. The operating margins increased to 13.2% in FY2022 as per provisional financials from an operating loss (OPBIDTA of -3.8%) in FY2021. The ratings continue to take comfort from the extensive experience of the key management personnel in the digital advertising space and the company's established clientele comprising several prominent domestic and international companies, including Government and quasi-government entities, which reduces the counterparty credit risk to an extent.

The ratings, however, are constrained by its modest net worth base, which has been impacted by the limited track record of operations and losses in the past. Nevertheless, its limited dependence on bank borrowings and presence of unsecured loan from directors in the business provides comfort. The company's scale of operations remains moderate, owing to the limited operational history and concentrated customer base. Further, ICRA notes the vulnerability of its revenues and margins to any downsizing of advertising spending by its clients, particularly during economic downturns, and the intense competition in the digital advertising industry from large players, which limits the pricing flexibility.

The Stable outlook reflects ICRA's opinion that YDPL will continue to benefit from the established track record of the promoters and customer relationships.

Key rating drivers and their description

Credit strengths

Reputed clientele; established track record of promoters in digital advertising industry – Atul Hegde, one of the key promoters, has experience of more than two decades in the digital advertising segment, and he has worked with several prominent domestic and international companies. Despite its limited operational history, YDPL's customer profile includes reputed entities, namely Department of Tourism and Commerce Marketing (Dubai), ITC Limited, Department of Tourism (Assam), National Payments Corporation of India, Hector Beverages Private Limited, Maruti Suzuki India Limited, Niti Aayog, Lufthansa Group, Coca Cola, Hero Cycles Limited, and many more. Owing to experienced promoters and strong technical capabilities, the Group has been able to bag contracts for some Government initiatives as well, namely Startup India, Digital India, Niti Aayog and National Payment Council.

Improvement in revenues and profitability – The company's revenues declined by 18.6% in FY2021 on account of the Covid-19 pandemic. However, the same witnessed a recovery of 96% to Rs. 71.7 crore in FY2022 albeit on a low base. The accelerated consumption of digital media post the Covid-19 pandemic augurs well for YDPL's growth. Supported by better operating leverage, its profitability also improved, with operating margins increasing to 13.2% in FY2022 as per provisional financials from an operating loss (OPBIDTA of -3.8%) in FY2021. ICRA expects the company to maintain operating margins in excess of 12% going forward.

Credit challenges

Revenues and margins vulnerable to downsizing of ad spending by clients, particularly in economic downturns – The high dependence on advertisement and related activity exposes the Group to economic cycles, increasing the volatility of revenues. Economic downturns result in companies cutting down on advertising spends. Any change in the advertiser preferences (which may arise due to the loss of market share, availability of alternative mass communication media or any other reasons) may adversely affect the business and its financial condition. In case of a sharp decline in revenues, the profitability may also decline due to operating leverage impact as witnessed in FY2021.

Modest scale, exposed to customer concentration risk; low counterparty credit risk – The company's scale of operations remains moderate, owing to the limited operational history and customer base. YDPL is exposed to customer concentration risk, with the top customer contributing to ~72% of the revenues and top five customers contributing to ~87% of the total revenues in FY2022 (as per provisional numbers). Given the company's clientele consists of reputed private entities as well as government and quasi-government entities, the counterparty credit risk remains low.

Intense competition in digital advertising space and limited ability to compete with large players – The digital marketing industry is primarily dominated by Google and Facebook. Further, the Group faces stiff competition from both international as well as domestic markets with several organised and unorganised players in the field. A few international entities in the same business sector include the WPP Group, Dentsu Aegis Network, Havas Media, etc. Stiff competition limits the pricing flexibility of the Group.

Liquidity position: Adequate

The liquidity of YDPL is adequate, supported by primarily unutilised sanctioned bank limits, liquid investments to the tune of Rs. 5 crore and free cash flow from operations. With timely collection from customers and advances from vendors, the company's sanctioned bank limits worth Rs. 4.50 crore remained primarily unutilised in FY2022. At the consolidated level, it reported a free cash of Rs. 1.67 crore as on March 31, 2022. It does not have any major capex and investment plans, and its liquidity position is expected to remain comfortable.

Rating sensitivities

Positive factors – ICRA could upgrade YDPL's ratings if there is a significant improvement in the scale and operating margins of the company resulting in meaningful strengthening of net worth.

Negative factors – Negative pressure on YDPL's ratings may arise if it witnesses a significant decline in revenues or margins resulting in weakening of its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of YDPL.

About the company

Incorporated in March 2016, YDPL primarily designs websites, banners, videos, digital films and packaging designs. The company works with influencers to enable the digital content to be visible to the target audience. It is also involved in distribution of content through media. Over the years, YDPL has acquired FFC Information Solutions Private Limited, Oplifi Digital Private Limited, Yaap Digital FZE, and Brand Planet Consultants India Private Limited, converting them into its wholly-owned subsidiaries. It also acquired 90% shareholding in Intnt Asia Pacific Pte. Ltd. as on March 31, 2022.

Key financial indicators

YDPL	FY2021	FY2022 (Prov)
Operating Income (Rs. crore)	36.6	71.7
PAT (Rs. crore)	-2.5	8.3
OPBDIT/OI (%)	-3.8%	13.2%
PAT/OI (%)	-6.8%	11.6%
Total Outside Liabilities/Tangible Net Worth (times)	11.5	3.3
Total Debt/OPBDIT (times)	-9.6	1.5
Interest Coverage (times)	-1.0	6.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in May 31, 2022	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Long-term Fund-based – Term Loan	Long-term	0.52	0.52	[ICRA]BB (Stable)	-	[ICRA]BB- (Stable)	-
2	Long-term Fund-based -Working Capital	Long-term	4.50	-	[ICRA]BB (Stable)	-	[ICRA]BB- (Stable)	-
3	Short-term Non-fund Based- Bank Guarantees	Short-term	2.50	-	[ICRA]A4+	-	[ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based -Working Capital	Simple
Short-term Non-fund Based- Bank Guarantees	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund Based – Term Loan	July 11, 2020	NA	August 2024	0.52	[ICRA]BB (Stable)
NA	Long-term Fund-based -Working Capital	NA	NA	NA	4.50	[ICRA]BB (Stable)
NA	Short-term Non-fund Based- Bank Guarantees	NA	NA	NA	2.50	[ICRA]A4+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Yaap Digital Private Limited	100% (rated entity)	Full Consolidation
FFC Information Solutions Pvt Ltd	100%	Full Consolidation
Brand Planet Consultants India Private Limited	100%	Full Consolidation
Intnt Asia Pacific Pte. Ltd.	90%	Full Consolidation
Oplifi Digital Pvt Ltd	100%	Full Consolidation
Yaap Digital FZE	100%	Full Consolidation

Source: Company; **Note:** ICRA has taken a consolidated view of the parent (YDPL) and its subsidiaries while assigning the ratings.

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