August 21, 2023

Yaap Digital Private Limited: Ratings reaffirmed

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); Reaffirmed
Long-term Fund-based – Working capital	4.50	4.50	[ICRA]BB (Stable); Reaffirmed
Short-term Non-fund based – Bank guarantees	2.50	2.50	[ICRA]A4+; Reaffirmed
Total	**7.52**	**7.52**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Yaap Digital Private Limited (YDPL) factors in the extensive experience of the key management personnel in the digital advertising space and its established clientele comprising several prominent domestic and international companies, including Government and quasi-government entities, which reduces the counterparty credit risk to an extent. ICRA notes that Mr. Subodh Menon and Mr. Sudhir Menon, the promoter of Dorf-Ketal Chemicals India Private Limited, holds ~47% stake in YDPL and are on the company's board. The ratings note the financial flexibility enjoyed by YDPL, by being part of a strong promoter group. The ratings consider its comfortable liquidity position, as evinced by its healthy balance of liquid investments and negligible utilisation of fund-based facilities (as on March 31, 2023).

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, limited dependence on bank borrowings and infusion of unsecured loan from directors in the business provides comfort. The company's scale of operations remains moderate. 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.

ICRA notes that the flat revenue in FY2023 (provisional) mainly owing to softened advertising demands, coupled with increased overheads, led to a reduction in profitability. YDPL has acquired Dubai-based Crayons Global FZ LLC in July 2022. Decline in operating margins at the standalone level as well as losses in the recently acquired entity has dragged the consolidated profitability in FY2023. At the consolidated level, the operating and PAT margins decreased to -2.5% (13.0% in FY2022) and -3.0% (8.60% in FY2022) respectively. Going forward, YDPL's ability to turnaround its newly acquired business and scale up the revenue and profitability remain crucial from the credit perspective. Moreover, judicious working capital management remains vital for the company to sustain its liquidity position and remains a key monitorable.

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

Established track record of promoters in digital advertising industry; reputed clientele – 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 as well as international companies. Despite its limited operational history, YDPL's customer profile includes reputed entities, namely National Payments Corporation of India, National Internet Exchange of India, JCB India

Limited, Flipkart, Amex. 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 and Niti Aayog.

ICRA also notes that Mr. Subodh Menon and Mr. Sudhir Menon, the promoter of Dorf-Ketal Chemicals India Private Limited, holds ~47% stake in YDPL and are also on the board of the company. The rating factors in the financial flexibility enjoyed by YDPL, by being part of the strong promoter group.

Favourable long-term outlook for the domestic digital media industry – The M&E industry is estimated to reach Rs. 2,832 billion by CY2025 and the share of digital media in total M&E industry is expected to increase to 30% from 27% in CY2022[1]. The shift, which has been prevalent over the past decade, is led by growing internet users in India led by low data costs, healthy teledensity penetration and increasing time spent online. Digital media has the inherent advantage of readily available analytics insights such as user demographics, interest, time spent, etc, over traditional media.

Credit challenges

Modest scale, exposed to customer concentration risk – The company's scale of operations remains moderate. YDPL is exposed to customer concentration risk, with the top customer contributing to ~60% of the revenues in FY2023 (FY2022: 65%) and top five customers contributing to ~79% of the total revenues in FY2023 (FY2022: 87%). Loss of any major client can have a significant impact on its operating income and profitability. However, the counterparty credit risk remains low, as the clientele consists of reputed private entities as well as Government and quasi-government entities.

Weak coverage metrics owing to operating losses; revenues and margins vulnerable to downsizing of ad spending – High dependence on advertisement and related activity exposes the company to economic cycles, increasing the volatility in revenues. In FY2023, muted revenue growth along with increased costs led to a reduction in margins. The operating and PAT margins declined to -2.5% (13.0% in FY2022) and -3.0% (8.6% in FY2022) respectively. Further, it led to weakening of coverage metrics, i.e, DSCR reduced to -0.5 times (6.1 times in FY2022) and total debt/OPBDITA decreased to -9.9 times (1.5 times in FY2022) in FY2023. However, presence of adequate liquidity along with no actual cash payout on interest on promoter debt reduces the risk to certain extent.

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

YDPL's liquidity is adequate, supported by primarily unutilised sanctioned bank limits and cash and bank balance of Rs. 23.6 crore as on March 31, 2023. With timely collection from customers and advances from vendors, the company's sanctioned bank limits worth Rs. 4.50 crore remained primarily unutilised in FY2023. It does not have any major capex and investment plans, with scheduled debt repayment of ~Rs. 0.4 crore in FY2024.

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 there is sustained pressure on earnings or weakening of its liquidity position.

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[1] *EY FICCI M&E Report, April 2023*

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 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, Intnt Asia Pacific Pte. Ltd and Brand Planet Consultants India Private Limited, converting them into its wholly-owned subsidiaries.

Atul Hegde, promoter and director, has 25 years of experience in the advertising industry and has worked for reputed clients like Philips, Sony TV, Maruti Suzuki, Tata Group, Aditya Birla Group, HDFC Bank, ITC Hotels and many more.

Sudhir Menon is the Chairman and Managing Director of Dorf-Ketal. He has 30 years of experience in the industrial and speciality chemicals industry. Subodh Menon is the Founder and Director (Operations) of Dorf-Ketal. Mr. Sudhir Menon and Mr. Subodh Menon have their personal investment in Yaap Digital Private Limited and have provided personal guarantees towards the bank facilities.

Key financial indicators

Consolidated	FY2021	FY2022	FY2023*
Operating income	36.6	72.3	77.4
PAT	-2.5	6.2	-2.3
OPBDIT/OI	-3.8%	13.0%	-2.5%
PAT/OI	-6.8%	8.6%	-3.0%
Total outside liabilities/Tangible net worth (times)	11.5	4.8	5.1
Total debt/OPBDIT (times)	-9.6	1.5	-9.9
Interest coverage (times)	-1.0	6.8	-1.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 21, 2023	May 31, 2022	-	Feb 15, 2021
1	Term loans	Long term	0.52	0.72	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	[ICRA]BB- (Stable)
2	Working capital	Long term	4.50	4.30	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	[ICRA]BB- (Stable)
3	Bank guarantees	Short term	2.50	0.24	[ICRA]A4+	[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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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 II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Yaap Digital Private Limited	100.00% (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.	100%	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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About ICRA Limited:

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