November 25, 2024

Yaap Digital Private Limited: Long-term rating upgraded to [ICRA]BB+ (Stable) and short-term rating reaffirmed at [ICRA]A4+; rated amount enhanced

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	0.00	-
Long-term – Fund-based – Working capital	4.50	15.90	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable) and assigned for enhanced amount
Short-term – Non-fund based – Bank guarantees	2.50	3.00	[ICRA]A4+; reaffirmed and assigned for enhanced amount
Long-term/short-term – Unallocated	0.00	1.10	[ICRA]BB+(Stable)/[ICRA]A4+; assigned
Total	**7.52**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade for Yaap Digital Private Limited (YDPL) factors in the healthy growth in revenue and improvement in profitability in FY2024 resulting in strengthening of the net worth base and expected sustenance of the same in the near term, driven by repeat orders and growing digitisation drive by its customers. The ratings note 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. Mr. Subodh Menon and Mr. Sudhir Menon, the promoters of Dorf-Ketal Chemicals India Private Limited (DKCIPL), hold ~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 evidenced by its healthy free cash and cash equivalents of ~Rs. 32 crore as on September 30, 2024.

The ratings, however, are constrained by the vulnerability of its revenues and margins to advertising spends by its clients, particularly during economic downturns, and the intense competition in the digital advertising industry from large players, which limits the pricing flexibility. Despite an improvement in the top line and its net worth base, its net worth remains modest at an absolute level. Nevertheless, ICRA takes comfort from the unsecured loans in the business from the promoters leading to limited dependence on bank borrowings. While interest has been accruing on these unpaid loans, the company has flexibility on repayment of these along with interest. With generation of proper surpluses in business, it plans to start paying interest as well pay-off the director's loan in the near to medium term. ICRA, however, will monitor any material increase in external borrowings, post the payoff of unsecured loans, and will remain a key rating monitorable. Further, the ratings factor in the high client concentration risk with National Payment Corporation of India (NPCI), YDPL's largest customer, accounting for ~72% of the revenue in FY2024 (FY2023: 60%).

YDPL's subsidiary - Crayons Global FZ LLC (Dubai), acquired in July 2022, continued to make losses in FY2024. The management is confident of scaling up and achieving breakeven in this business in FY2025. YDPL's ability to turnaround remains 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 benefit from the established track record of the promoters and customer relationships, coupled with growing digitisation needs of the clients.

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 an experience of more than two decades in the digital advertising segment. 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 NPCI, 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 such as Startup India, Digital India and Niti Aayog.

Mr. Subodh Menon and Mr. Sudhir Menon, the promoters of DKCIPL, hold ~47% stake in YDPL and are also on the company's board. The ratings factor in the financial flexibility enjoyed by YDPL, by being part of the strong promoter group.

Favourable long-term outlook for domestic digital media industry – As per industry sources, the media and entertainment industry is estimated to grow over the medium term and the share of digital media is also expected to increase. The shift, which has been prevalent over the past decade, is driven 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 over traditional media.

Improving scale of operations – YDPL's revenue witnessed a healthy YoY growth of ~45% to Rs. 112.6 crore in FY2024 and the operating and PAT margins improved to 5.5% (-2.1% in FY2023) and 2.4% (-3.2% in FY2023) respectively. This resulted in an improvement in debt protection metrics. ICRA expects YDPL's revenue to grow by over 20% and operating margin to expand by 150-200 bps in the near term, which will result in strengthening of the net worth base. The total debt/OPBDITA and Net TOL/TNW[1] improved to 3.7 times (FY2023: 12.1 times) and 1.6 times (FY2023: 2.8 times) in FY2024, respectively. The company plans to repay the interest-bearing directors' loan in the near to medium term. Any material increase in bank borrowings for the said reduction in aforementioned loans could be a credit negative.

Credit challenges

Revenues and margins vulnerable to downsizing of ad spending; customer concentration risk – High dependence on advertising and related activity exposes the company to economic cycles, increasing the volatility in revenues and profitability. Despite an improvement in top line and its net worth base in FY2024, its net worth continues to be modest, at an absolute level. YDPL is also exposed to customer concentration risk, with the top customer (NPCI) contributing to ~72% of the revenues in FY2024 (FY2023: 60%) and top five customers accounting for ~80% of the total revenues in FY2024 (FY2023: 79%). 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.

Intense competition in digital advertising space and limited ability to compete with large players – The digital marketing industry is 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, which limits the pricing flexibility. A few international entities in the same business sector are the WPP Group, Dentsu Aegis Network, Havas Media, etc.

[1] *Net TOL/TNW = (Total Outside liabilities – Free cash & cash equivalents)/ Tangible Net worth*

Liquidity position: Adequate

YDPL's liquidity is adequate with cash and bank balance of ~Rs. 32 crore as on September 30, 2024. With timely collection from its customers and advances from vendors, the average utilisation for the sanctioned fund-based limits remained at ~50% for the 12 months that ended in August 2024. YDPL does not have any major capex and investment plans in FY2025 and FY2026. The company does not have any external long-term debt. It has only unsecured loans from directors, wherein it has flexibility in terms of interest and principal payments.

Rating sensitivities

Positive factors – ICRA could upgrade YDPL's ratings if there is a significant improvement in the scale and sustained improvement in operating margins, while maintaining healthy debt protection metrics and adequate liquidity position. Notable strengthening of the net worth will also be critical for a rating upgrade.

Negative factors – Negative pressure on YDPL's ratings may arise if there is a sustained pressure on earnings or 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 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, its promoter and director, has over 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 DKCIPL. He has over 30 years of experience in the industrial and speciality chemicals industry. Subodh Menon is the Founder and Director (Operations) of DKCIPL. Mr. Sudhir Menon and Mr. Subodh Menon have invested in YDPL and have provided personal guarantees towards the bank facilities.

Key Financial Indicators (audited)

YDPL - Consolidated	FY2023	FY2024
Operating income (Rs. crore)	77.4	112.6
PAT (Rs. crore)	(2.5)	2.6
OPBDIT/OI (%)	-2.1%	5.5%
PAT/OI (%)	-3.2%	2.4%
Total outside liabilities/Tangible net worth (times)	5.6	7.4
Total debt/OPBDIT (times)	(12.1)	3.7
Interest coverage (times)	(1.2)	4.0

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 (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Nov 25,2024	Date	Rating	Date	Rating	Date	Rating
Long-term - Cash credit - Fund-based	Long Term	15.90	[ICRA]BB+ (Stable)	21-AUG-2023	[ICRA]BB (Stable)	31-MAY-2022	[ICRA]BB (Stable)	-	-
Long-term - Term loan - Fund-based	Long Term	0.00	-	21-AUG-2023	[ICRA]BB (Stable)	31-MAY-2022	[ICRA]BB (Stable)	-	-
Short-term-Others - Non-fund based	Short Term	3.00	[ICRA]A4+	21-AUG-2023	[ICRA]A4+	31-MAY-2022	[ICRA]A4+	-	-
Long-term/ Short-term - Unallocated	Long Term/ Short Term	1.10	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Working capital	Simple
Short-term – Non-fund based – Bank guarantees	Very Simple
Long-term / short-term – Unallocated	Not applicable

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 – Working capital	NA	NA	NA	15.90	[ICRA]BB+ (Stable)
NA	Short-term – Non-fund based – Bank guarantees	NA	NA	NA	3.00	[ICRA]A4+
NA	Long-term/ short-term – Unallocated	NA	NA	NA	1.10	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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