

February 15, 2021

Yaap Digital Private Limited: [ICRA]BB- (Stable)/[ICRA]A4 assigned

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Yaap Digital Private Limited (YDPL), which includes its subsidiaries, while assigning the credit ratings, given the significant operational and financial linkages between them.

The assigned ratings favourably factor in the extensive experience of its key management personnel in the digital advertising space and the Group's established clientele of several prominent domestic and international companies.

The ratings, however, are constrained by its modest scale of operations and steady decline in its operating profitability in the past few years, owing to sizable losses incurred in its subsidiaries. The Group has incurred operating loss in H1 FY2021, mainly due to under absorption of its fixed overhead expenses. Thus, its ability to ramp up the sales, going forward, will remain critical for a satisfactory profitability metrics and, hence, will remain monitorable. The ratings are also constrained by the Group's small net worth base, which has been impacted by sizable losses in the past. Nevertheless, its limited dependence on bank borrowings and presence of unsecured loan from directors in the business is a source of comfort. Further, ICRA notes the vulnerability of revenues and margins to any downsizing of advertising spending by its clients, particularly during economic downturns, and the intensely competitive nature of the digital advertising industry with large players in the field, which limit the margin flexibility of the Group.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the Group 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 - Atul Hegde, one of the key promoters, is part of the Group's management team. He has an experience of more than two decades in the digital advertising segment, having worked with several well-known brands. His work has been well recognized in the industry. His established experience in the industry would be instrumental in the growth of the Group.

Clientele of several prominent domestic and international companies - Though limited operational history, the customer profile of the Group includes several well-known entities, namely Department of Tourism & Commerce Marketing (Dubai), ITC Hotels, Department of Tourism (Assam), Rupay, Paper Boat, Maruti Suzuki, Niti Aayog, Lufthansa Group, Coca Cola, Hero Cycles, and many more. Owing to experienced promoters and strong technical capabilities, the Group has been able to achieve contracts for key Government initiative, namely Startup India, Digital India, Niti Aayog and National Payment Council.

Credit challenges

Modest scale of operations - During its limited operational history, the operating income of the Group has remained fluctuating in the range of Rs. 30.00–45.00 crore (on a consolidated level) during the last three years ended FY2020, indicating a modest scale of operations. The Group has achieved a revenue of Rs. 12.25 crore (consolidated) during H1 FY2021 against a revenue of Rs. 10.26 crore achieved during H1 FY2020. The second half of the financial year usually contributes higher revenues than the first half, due to higher spending by entities to capture high market share during the wedding and festive seasons,

and increase in income tax planning activities, etc, during year ending. Owing to the same, the Group will continue to witness a modest scale of operations in the near term.

Pressure on profitability owing to sizable losses in subsidiaries in the past and small net worth base - The profitability of the Group, as represented by OPM, remained weak and witnessed a consistent decline to 0.97% in FY2020 from 6.74% in FY2019 and 15.58% during FY2018. Gradual decline in operating profitability led to net loss of Rs. 1.24 crore during FY2020 against net profit of Rs. 0.80 crore and Rs. 3.12 crore during FY2019 and FY2018, respectively. This has been primarily due to modest and fluctuating scale of operations, which has led to variations in cover on fixed cost as well as operational losses in the subsidiaries, i.e., Brand Planet Consultants India Private Limited, FFC Information Solutions Private Limited and Intnt Asia Pacific Pte. Ltd., during the last two years. Further, the Group has witnessed an operating loss of Rs. 1.41 crore during H1 FY2021 owing to lower scale of operations during the first half of the financial year, which led to lower cover on fixed cost. Further, net worth of the Group remained lower and declined to Rs. 4.96 crore as on September 30, 2020 from Rs. 7.06 crore as on March 31, 2020.

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.

Intensely competitive 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 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: Stretched

The Group had an outstanding term loan of Rs. 1.02 crore as on March 31, 2020. Further, it availed an ECLGC loan of Rs. 0.52 crore during H1 FY2021. The expected annual repayment is ~Rs. 0.19 crore during FY2021, ~Rs. 0.31 crore during FY2022 and ~Rs. 0.39 crore during FY2023. Coverage ratios are expected to remain lower due to weak profitability. On a consolidated basis, the Group had free cash of ~Rs. 1.70 crore as on February 03, 2021. The utilisation of the fund-based limits was limited since March 2020 and was recently enhanced to Rs. 4.50 crore (from Rs. 3.00 crore), which is a source of comfort. Nevertheless, modest scale and weak profitability have led to negative free cash flow of Rs. 4.41 crore as on September 30, 2020, indicating a stretched liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate healthy growth in revenues, improving its profitability margins on a sustained basis, along with a notable improvement in its net worth level.

Negative factors – Negative pressure on YDPL’s ratings may arise if it witnesses a significant decline in revenues or margins, 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, Yaap Digital Private Limited is primarily engaged in providing brand strategy and identity services, creating videos and digital films, designing websites, marketing collateral and packaging designs, and distributing content, as per the product and customer requirements. Along with its in-house technical team, it also works with product specific specialised influencers to make its digital content visible to the target audience via various online and social media platforms.

Over the years, YDPL has acquired 'FFC Information Solutions Private Limited', 'Oplifi Digital Private Limited', and 'Yaap Digital FZE', converting them into its wholly owned subsidiaries. It also acquired 80% shareholding in 'Brand Planet Consultants India Private Limited' and 70% shareholding in 'Intnt Asia Pacific Pte. Ltd.' as on March 31, 2020.

Key financial indicators (Provisional)

YDPL Consolidated	FY2019	FY2020	H1FY2021
Operating Income (Rs. crore)	32.29	44.91	12.25
PAT (Rs. crore)	0.80	-1.24	-2.27
OPBDIT/OI (%)	6.74%	0.97%	-11.53%
RoCE (%)	12.00%	1.27%	-16.32%
Total Outside Liabilities/Tangible Net Worth (times)	1.95	4.80	3.90
Total Debt/OPBDIT (times)	4.61	27.61	-4.60
Interest Coverage (times)	1.75	0.30	-1.94
DSCR (times)	1.65	0.30	-1.77

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sept 30, 2020 (Rs. crore)	Date & Rating in	FY2020	FY2019	FY2018
					Feb 15, 2021	-	-	-
1	Term Loans	Long-term	0.52	0.52	[ICRA]BB- (Stable)	-	-	-
2	Cash credit	Long-term	4.50	--	[ICRA]BB- (Stable)	-	-	-
3	Bank Guarantee	Short term	2.50	-	[ICRA]A4			

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	July 11, 2020	-	August, 2024	0.52	[ICRA]BB- (Stable)
NA	Cash Credit	-	-	-	4.50	[ICRA]BB- (Stable)
NA	Bank Guarantee	-	-	-	2.50	[ICRA]A4

Source: Yaap Digital Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL 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	80%	Full Consolidation
Intnt Asia Pacific Pte. Ltd.	70%	Full Consolidation
Oplifi Digital Pvt Ltd	100.00%	Full Consolidation
Yaap Digital FZE	100.00%	Full Consolidation

Source: Company data

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

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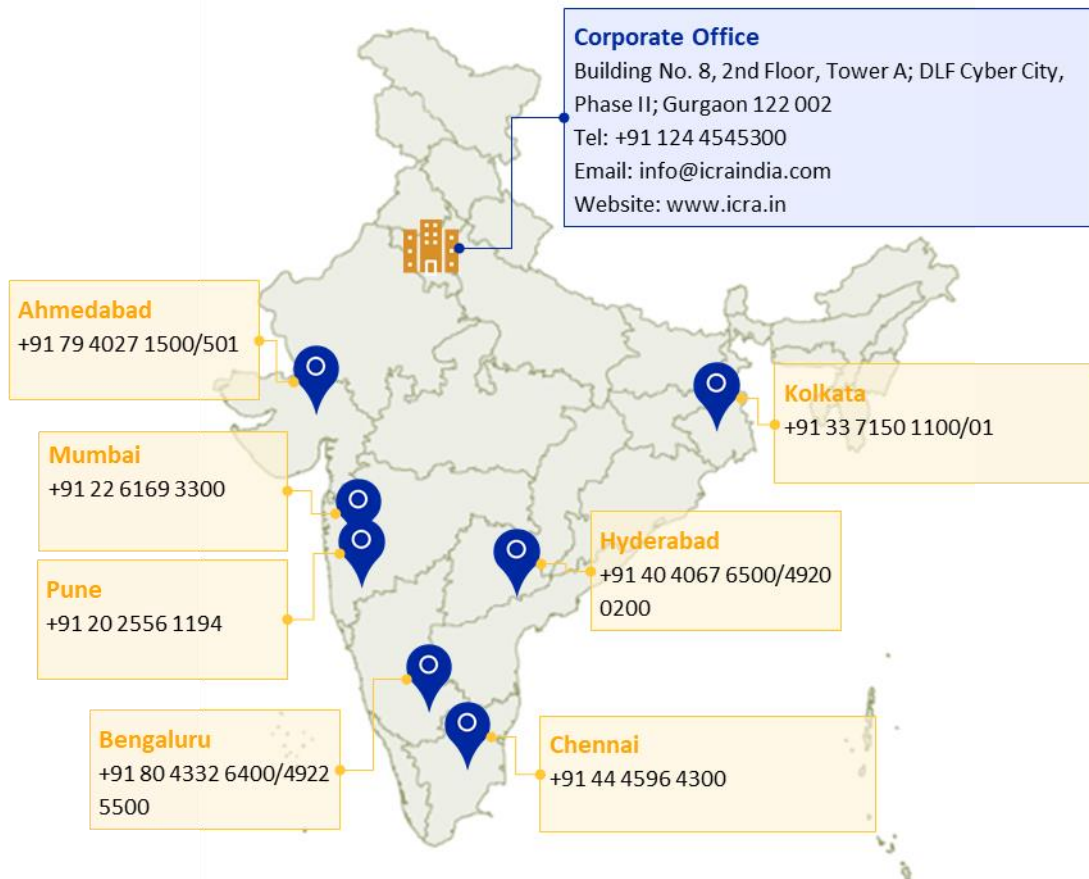
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