CRAYONS ADVERTISING LIMITED

Review Report On IPO

TIARE
Enabling Your Path To Success

IPO Details

Opening Date	May 22, 2023
Closing Date	May 25, 2023
Stock Exchange	NSE SME
Lot Size	2000 shares
Issue Price	₹62 to ₹65 per share
Issue Size	64,30,000 Equity Shares
Application Amount	₹ 1,30,000
Amount Raised (Issue Type)	₹41.80 Cr (Fresh Issue)

IPO Objective

1. Funding of working capital requirements of the Company.
2. Capital expenditure on infrastructure and cutting-edge technology for expansion.
3. General Corporate Expenses.

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,79,55,760	99.75%
Public	44,240	0.25%

Promoter of the Company

1	Mr. Kunal Lalani
2	Mrs. Vimi Lalani
3	Vimi Investment & Finance Private Limited

Competitive Strengths

1. Meeting expectation of clients and maintaining Long Term Relationship with clients.
2. Well equipped with advance technology.
3. Experienced Promoters and Technically Sound Operation Team

Company Background

- Company was originally incorporated on July 3, 1986 as a Private Limited Company as "Crayons Advertising and Marketing Private Limited. Company was converted from a Private Limited Company to Public Limited Company and consequently, the name of Company was changed to 'Crayons Advertising Limited' and a Fresh Certificate of Incorporation consequent to Conversion was issued on October 16, 2000 by the Registrar of Companies.
- The company is in the same industry for the past 36 years and is continuously expanding its business horizons with the moving trends across the world, reflecting its growing expertise in the marketing and advertising industry. Company has total employee strength of 188 in various departments.

Financial Summary

(In Lacs)

For the Period Ended	Mar-21	Mar-22	Dec-22
Total Assets	10,664.77	12,725.47	12,993.16
Net Assets	3,562.61	3,723.95	4,991.03
Total Borrowings	1,532.86	960.57	815.62
Total Revenue	10,661.22	19,404.97	20,374.52
Profit After Tax	12.97	161.34	1,267.08

Tentative Timeline

Opening Date	May 22, 2023
Closing Date	May 25, 2023
Basis of Allotment	May 30, 2023
Initiation of Refunds	May 31, 2023
Credit of Shares to Demat	Jun 1, 2023
Listing Date	Jun 2, 2023

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Company Overview

Company was originally incorporated on July 3, 1986 as a Private Limited Company as "Crayons Advertising and Marketing Private Limited. Wide area of scope of work being offered and provided by Crayons to its client. By integrated they mean that offer world class creative, exceptional brand marketing strategy, pragmatic online & offline media planning & buying, cutting-edge digital expertise, on ground & virtual activation capabilities, and design solutions that help clients in brand building and provide high-end ecosystem and end-to-end ad-tech communication solutions platform for advertising media services consisting of Brand Strategy, Events, Digital Media, Print Media, Outdoor (OOH) Media services which covers advertisement modes such as Newspapers, Brochures, Magazines, Television Channels, FM channels and display of Outdoor Hoardings, etc. In all such mediums of advertising "Creative" exists i.e., all the services are given keeping in the necessity of being creative, so that Crayons can deliver most compelling communications to grab attentions of the public at large.

Analysis

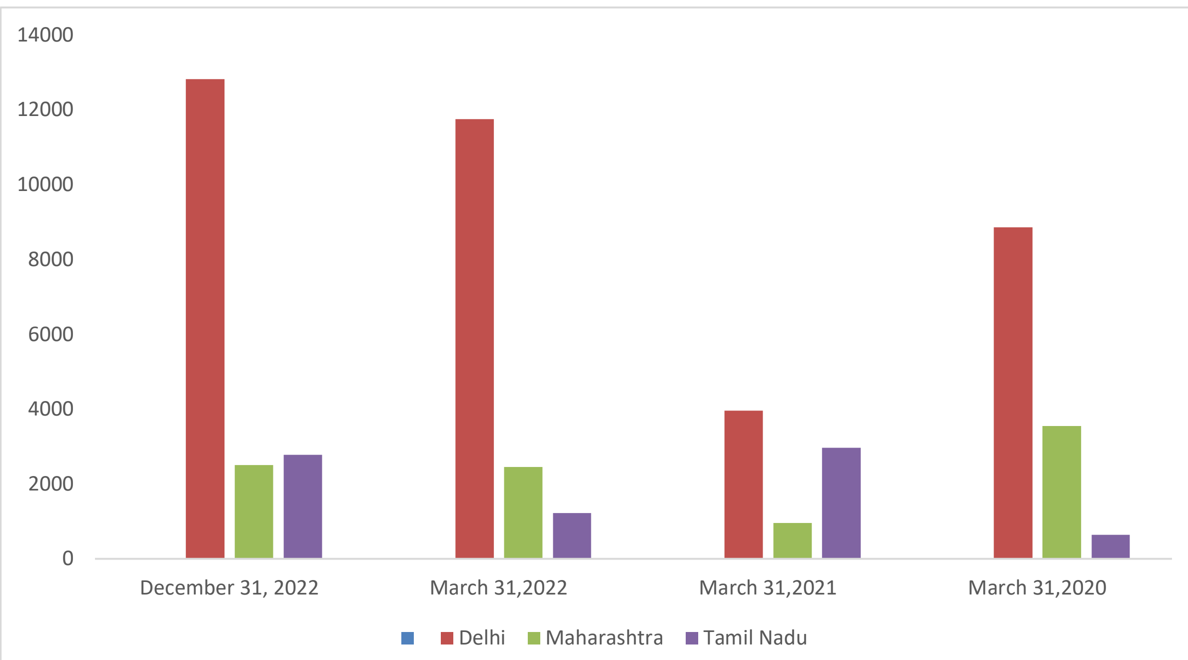
Advertising sector has huge scope in future especially in India advertising boom has just started. Almost 70% of advertising market share is still in the hands of television media and print advertising over a period of time the large percentage might shift to internet advertising and mobile advertising. Crayons is majorly focused on human behaviour so that they can understand the likes and dislikes of people. They incorporated it even in their working culture. India has different cultures in different regions so to understand it clearly, they are hiring local employees of states they have their business setup so that they can understand their own people's culture. Companies like Affle has large market share in India and they use advanced technology like Data & Audience Intelligence Platform to Grow ROI but crayons are planning to get in to advanced technologies like metaverse, hologram technology, augment reality, cutting edge technology and this is also one of the reasons for raising this IPO.

A comparison of its geographical revenue up to 31st Dec 2022 and for FY 22 vis-à-vis FY 21 & 20 is given in the table below –

Geographical Revenue of Top 3 states:

State	December 31, 2022	March 31, 2022	March 31, 2021	March 31, 2020	Total Revenue Statewise	*% of Total*
Delhi	12,819.80	11,750.22	3,960.08	8,857.51	37,387.62	56.86%
Maharashtra	2,506.00	2,454.81	963.41	3,553.00	9,477.22	14.41%
Tamil Nadu	2,774.43	1,219.92	2,961.20	641.16	7,596.71	11.55%

Revenue is not stable, their top revenue 70% is generated from Delhi and Maharashtra. In 2021 their revenue from these two states had decreased and again rose in 2022.

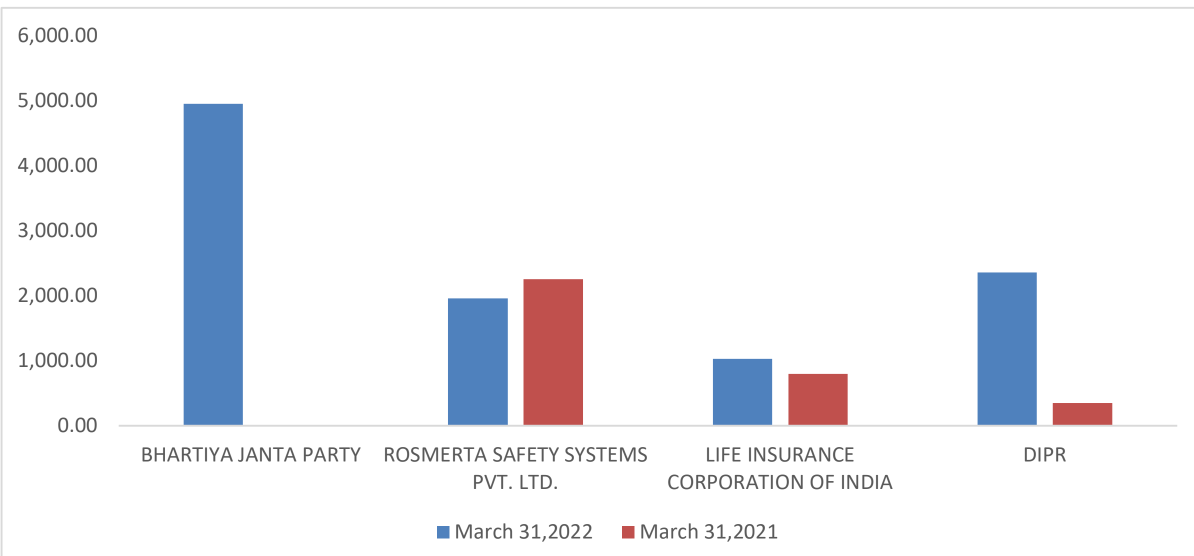


Top 5 clients in terms of revenue generated during the last 3 years are as under

Revenue Distribution:

Particulars	March 31, 2022	March 31, 2021	March 31, 2020	Total	% to total
BHARTIYA JANTA PARTY	4,949.31	-	190.11	5,139.42	18.60%
ROSMERTA SAFETY SYSTEMS PVT. LTD.	1,953.52	2,253.80	485.43	4,692.75	16.98%
LIFE INSURANCE CORPORATION OF INDIA	1,024.39	792.48	1,192.82	3,009.70	10.89%
DIPR	2,355.45	345.16	225.3	2,925.92	10.59%
KAJARIA CERAMICS LTD	859.14	221.99	1,350.23	2,431.37	8.80%

Bhartiya Janta party is the reason for spectacular increase in 2022 revenue.



Industry Charts

Exhibit 1: Total media and entertainment market

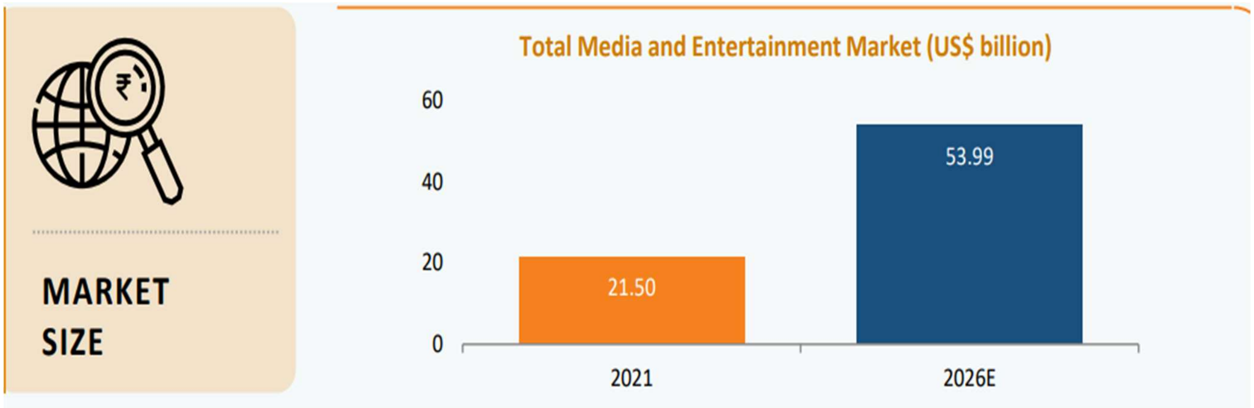


Exhibit 2: Share of major industry segments

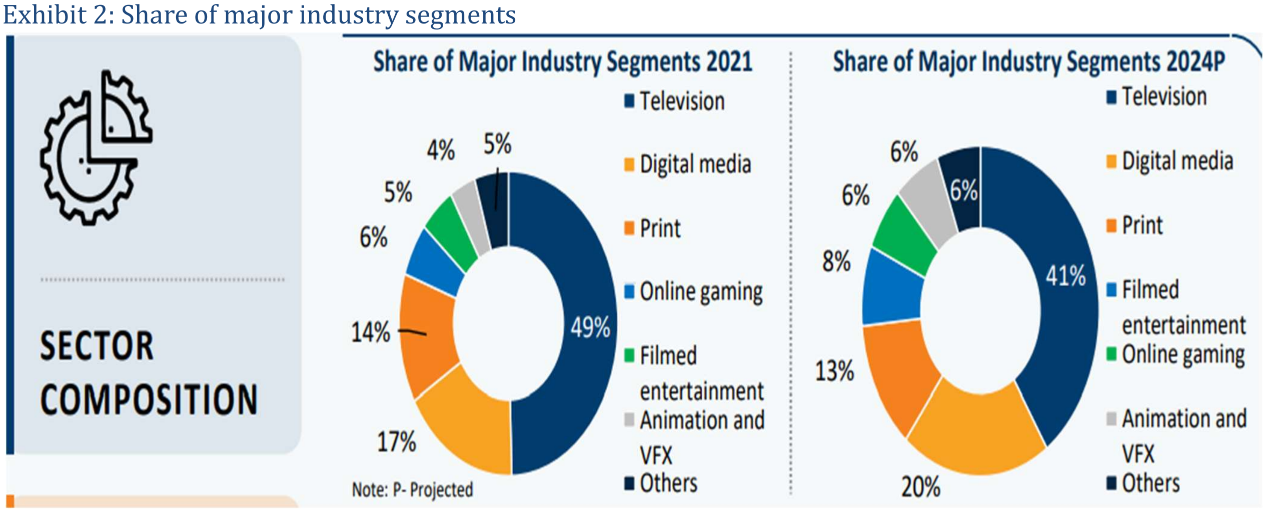
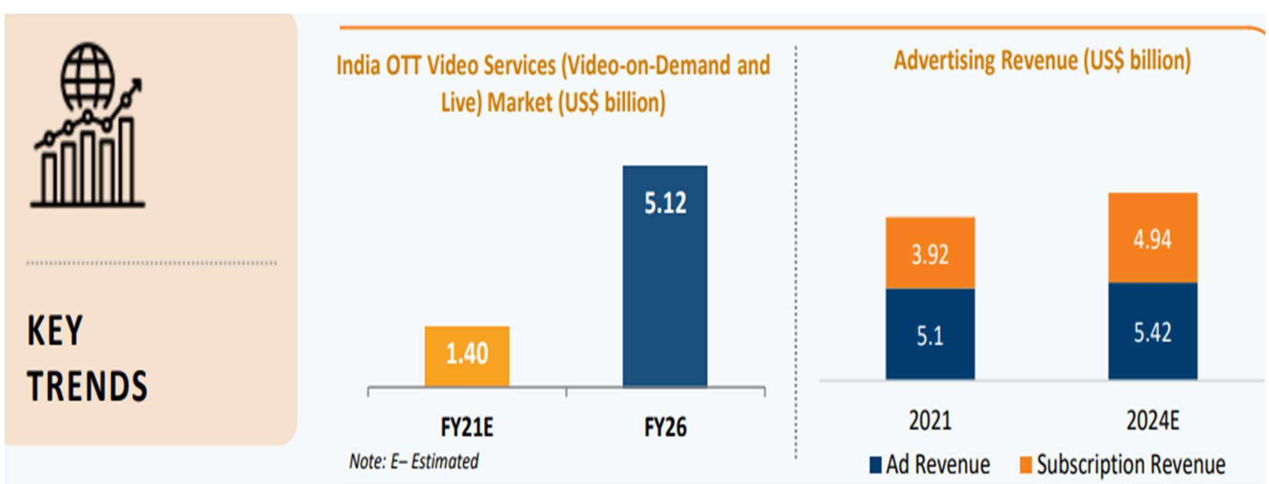


Exhibit 3: India OTT video services and advertising revenue.



(Source: ibef.org)

Investment Overview

The Indian Media and Entertainment (M&E) industry is a sunrise sector for the economy and is making significant strides. The increasing availability of fast and cheap internet, rising incomes, and increasing purchases of consumer durables have significantly aided the industry. India's media and entertainment industry are unique as compared to other markets. The industry is well known for its extremely high volumes and rising Average Revenue Per User (ARPU).This significantly aided the country's industry and made India leading in terms of digital adoption and provided companies with uninterrupted rich data to understand their customers better. India has also experienced growing opportunities in the VFX sector as the focus shifted globally to India as a preferred content creator.Proving its resilience to the world, Indian M&E industry is on the cusp of a strong phase of growth, backed by rising consumer demand and improving advertising revenue. According to a FICCI-EY report, the advertising to GDP ratio is expected to reach 0.4% by 2025 from 0.38% in 2019.

Market Size

As per the latest report by the PwC, India's Media and entertainment Industry is expected to reach Rs. 4,30,401 crores (US$ 53.99 billion) by 2026. Advertising revenue in India is projected to reach Rs. 394 billion (US$ 5.42 billion) by 2024.Television would account for 40% of the Indian media market in 2024, followed by print media (13%), digital advertising (12%), cinema (9%), and the OTT and gaming industries (8%).Within the M&E sector, Animation, Visual Effects, Gaming and Comic (AVGC) sector is growing at a rate of ~29%, while the audio-visual sector and services is rising at the rate ~25%; is recognised as of one of the champion sectors by the Government of India. The AVGC sector is estimated to grow at ~9% to reach ~Rs. 3 lakh crore (US$ 43.93 billion) by 2024, stated Union Minister of Commerce & Industry, Consumer Affairs & Food & Public Distribution and Textiles, Mr. Piyush Goyal.In 2022 (January-July 2022), PE/VC investments In the media and entertainment industry was at US$ 3,389 million. FDI inflows in the information and broadcasting sector (including print media) stood at US$ 9.85 billion between April 2000-September 2022.

Road Ahead

The Indian M&E industry is on an impressive growth path. The industry is expected to grow at a much faster rate than the global average rate. This can be majorly credited to rising incomes, increasing internet penetration and a growing push toward digital adoption.In the long run, growth is the M&E industry is expected in retail advertisement on the back of several players entering the food and beverages segment, E-commerce gaining more popularity in the country, and domestic companies testing out the waters. India's rural regions are expected to be the next regions for growth. India has also gotten on board with 5G and is already planning for 6G well ahead of the future. This push towards digital adoption especially in the rural regions will provide advertisers and publishers with an immense opportunity to capture untapped markets and help grow India's media and entertainment industry forward

(Source: ibef.org)

Addressable market for crayons Advertising Limited

Indian advertising system is slowly moving from Newspapers and Television to internet and mobile advertising. Television still holds 40% of the overall advertising revenue and it might reduce to 15% in the next ten years and it will be captured by internet and mobile advertising concentrated companies. It was estimated that by 2040, 96% population in India will have mobile phones there is huge space for advertising companies to perform. As we all know future is all about digital marketing companies like crayons will prosper.

Competition

India is the most populated country in the world and percentage of people using TV's and mobile phones is increasing every year and advertising company's has huge advantage in India. As of now there are very few big competitors like affle, vertoz advertising, Rediffusion Dentsu Young & Rubicam companies and crayons still have lot of scope in India. They have to keep updated with the technology to stay or compete with the peers. Peer Analysis

Peer Analysis

As per the prospectus, the company has 3 listed peers viz., Affle India Ltd,Vertoz Advertising Ltd and Pressman Advertising Ltd. An analysis of the same has been given in the table below

Particulars	Crayons Advertising Limited			Affle India Ltd.			Vertoz Advertising Ltd.			Pressman Advertising Ltd		
	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20
Net Profit Margin	0.84%	0.12%	1%	20%	26%	20%	14%	14%	10%	32%	33%	16%
EBITDA Margin	1.47%	0.99%	2%	20%	25%	26%	26%	21%	15%	22%	25%	17%
Return on Capital Employed	4%	0%	3%	13%	20%	27%	12%	13%	8%	7%	10%	14%
Return on Equity	4%	0%	3%	18%	38%	29%	9%	14%	8%	10%	13%	13%
EPS (INR)	0.90	0.07	0.65	16.05	10.57	5.14	5.10	6.83	3.38	1.92	2.41	2.27

Based on the above analysis all the margins, RoCE, ROE along with the EPS of the company when compared to its peers are very low in previous years. NP margin, EBITDA margin, RoCE, and ROE have increased from March-21 to March-22 for the company, whereas both the margins and returns have decreased for the peer companies.

Leading PE Post IPO for crayon advertising limited– 8.82

EPS is on Post IPO Basis – 6.92

(Source of data: screener and prospectus)

Promoters' Profile and Management Analysis

Mr. Kunal Lalani	
	• Mr. Kunal Lalani, aged 62 years, is the Promoter, and Chairman & Managing Director of the Company • He has an experience of around 36 years in Industry. • He is responsible for managing and supervising operations, expansion of business, sourcing new projects, and overall management of the business of the Company.
Mrs. Vimi Lalani	
	• Mrs. Vimi Lalani, aged 56 years, is the Non-Executive Director of our Company. • She holds a diploma in Commercial Arts and has further done an Advance Multimedia Course from APTECH • She has over 28 years of experience in the industry. She plays an instrumental role in providing creative direction and quality checks on all the creative works of the agency.
Vimi Investment & Finance Private Limited	• VIFL was incorporated on February 17, 1992, as a private limited and Corporate Promoter for the company Crayons Advertising Limited. • VIFL is a Non-Banking Financial Company categorized as a Core Investment Company.

Analysis on the Company's Promoter and Board of Directors

Mr. Kunal Lalani, aged 62 years, is the Promoter, and Chairman & Managing Director of the Company. He was originally appointed to the Board on August 01, 1986, as the Managing Director of the Company. He has an experience of around 36 years in our Industry. The company was started in 1986 by Mr. Lalani with a vision to provide 360 Degree communication solutions & to build long-lasting relationships with brands. He is responsible for managing and supervising operations, expansion of business, sourcing new projects, and overall management of the business of the Company.

Mrs. Vimi Lalani, aged 56 years, is the Non-Executive Director of our Company. She holds a diploma in Commercial Arts and has further done an Advance Multimedia Course from APTECH. She has over 28 years of experience in the industry. She plays an instrumental role in providing creative direction and quality checks on all the creative works of the agency.

Vimi Investment & Finance Private Limited, is also a Corporate Promoter for the company Crayons Advertising Limited. VIFL is a Non-Banking Financial Company categorized as a Core Investment Company. VIFL was incorporated on February 17, 1992, as a private limited. As of the date of this Red Herring Prospectus, the authorized share capital of VIFL is Rs 5,70,00,000/-

To conclude the company has three promoters, where in Mr. Kunal Lalani promoter, chairman, and managing director has vast experience in the business the company belongs to. The Non–Executive Director / Promoter Mrs Vimi Lalani of the company is also the wife of Mr Kunal Lalani and have decent experience.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 31st, Dec 2022
Profit and Loss			
Revenue from operations	10,496.62	19,252.59	19,901.18
Other income	164.60	152.38	473.34
Total Revenue	10,661.22	19,404.97	20,374.52
Expenses	10,392.53	18,968.90	18,495.85
Depreciation and Amortisation Cost	114.15	92.89	78.06
Finance Cost	125.00	107.86	44.03
Total Expenses	10,631.68	19,169.65	18,617.94
PBT	29.54	235.32	1,756.58
PBT Margin	0.28%	1.22%	8.83%
EBITDA	104.09	283.69	1,405.33
EBITDA Margin	0.99%	1.47%	7.06%
Net Profit	12.97	161.33	1,267.08
Net Profit Margin	0.12%	0.84%	6.37%
Balance Sheet			
Total Borrowings	1,532.86	960.57	815.62
Net Worth	3,562.61	3,723.95	4,991.03
Fixed Assets	660.53	589.95	357.85
Net Working Capital	1,192.81	1,232.16	2,929.74
Financial Measures (Annualised)			
Inventory Turnover Ratio	-	-	-
Receivables Turnover Ratio	1.75	3.26	5.87
Payables Turnover Ratio	1.99	2.92	7.91
Fixed Assets Turnover Ratio	15.89	32.63	104.56
Return on Capital Employed	-0.21%	4.50%	19.34%
Return on Equity	0.36%	4.33%	17.61%
Debt-Equity Ratio	0.43	0.26	0.02

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has increased from Rs. 104.09 lacs in 2021 to Rs. 283.69 lacs in 2022 and on 31st Dec 2022 it was Rs. 1405.33 lacs and if we annualize the same it would be around Rs. 1873.77 lacs. The EBITDA on an annualized basis has grown at a CAGR of 324.28%. The EBITDA margin in 2021 was 0.99%, 1.47% in 2022, and 7.06% up to Dec 2022. The EBITDA Margin has increased due to a substantial increase in revenue from operations with a percentage of increase of 3.4% as on 31st Dec 2022 along with the decrease in the percentage contribution of Advertising costs towards EBITDA.

Net Profit

The net profit of the company has grown from Rs. 12.97 lacs in 2021 to Rs. 161.33lacs in 2022 and as on 31st Dec 2022 it was Rs. 1,267 lacs and if we annualize the same it would be around Rs. 1,689.44 lacs growing at CAGR of 1,041.30% which raises concerns about the abnormal growth of net profit. The net profit margin in 2021 was 0.12%, 0.84% in 2022, and 6.37% up to 31st Dec 2022. The growth in net profit is unsustainable because the increase in net profit is due to the sale of property, plant, & equipment.

Finance Cost.

The company's financial cost is only due to Interest on bank loans, bill discounting, and cash credits.

Financial Measures/Ratios

RoCE of the company up to 31st Dec 2022 is 24.84% vs 4.50% in 2022 and -0.21% in 2021. If we annualize the RoCE of FY 2022-2023, the RoCE is expected to be around 19.34%. The increase in RoCE from 4.50% to 24.84% is due to a decrease in the long-term borrowing of the company in FY 22 With the increase in the equity base of the company through IPO, the RoCE on annualized basis is expected to fall. ROE of the company in 2021 was 0.36%, 4.33% in 2022, and 25.39% up to Dec 2022, if annualized ROE would be around 17.61%. The ROE likewise RoCE has seen an increase. With an increase in equity base, The ROE is expected to come further down on annualized basis resulting in an estimated CAGR of 595.50%.

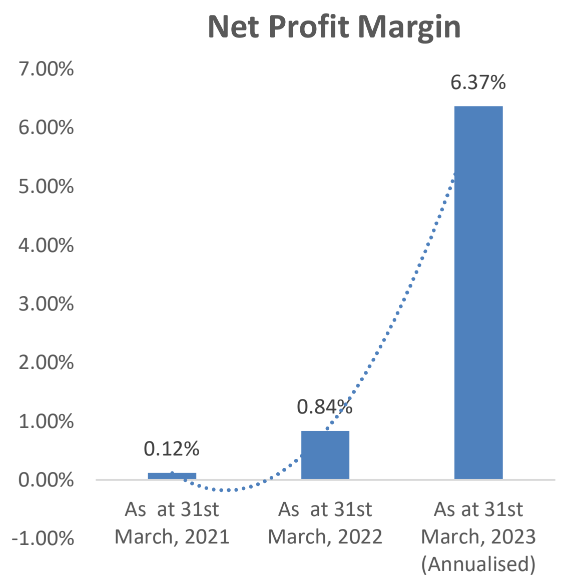
Receivables Turnover Ratio has increased from 3.26 times to 4.40 times in 2022. The company converted its receivables to cash 4.40 times and is expected to increase to 5.87 times on an annualized basis.

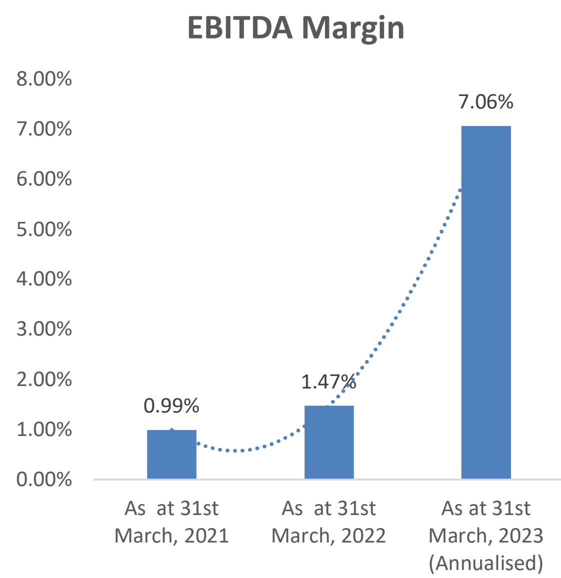
Payables Turnover Ratio has increased from 2.92 times to 5.93 times in 2022. The company paid back its creditors in cash 5.93 times and is expected to increase to 7.91 times on an annualized basis.

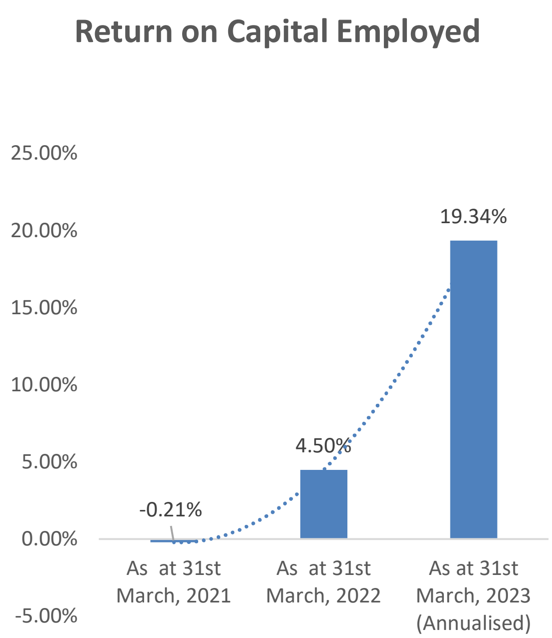
Fixed Asset Turnover Ratio has increased from 32.63 to 55.61 in 2022 and on an annualized basis it is expected to increase to 104.56 which implies that management is using its fixed assets more effectively.

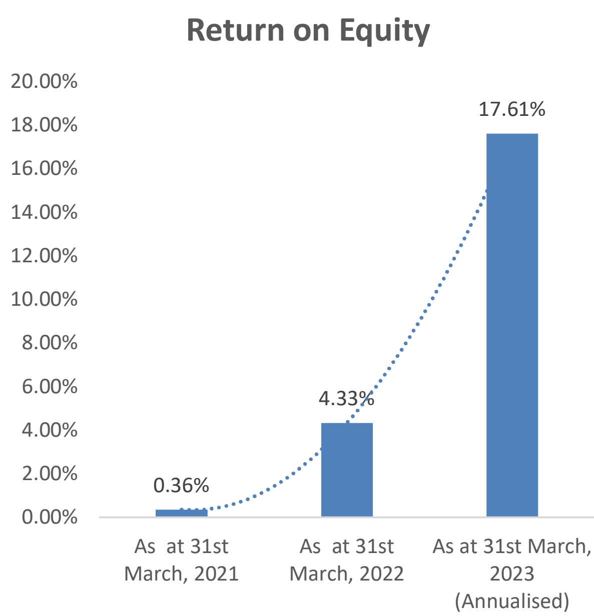
The company has a debt-equity ratio of 0.16 as of 31st Dec 2022 which shows the company is highly leveraged. The debt-equity ratio is going to go down to around 0.02 times post-IPO.

Financial Charts









Key Risk Factors

1. There may be potential conflict of interests between Company and few of its Group Companies and other venture or enterprises promoted by promoter or directors.
2. Company has given unsecured loan payable on demand to the group companies.
3. Company had negative cash flows in the past years, sustained negative cash flow could impact growth and business.
4. Majority of statewise revenues from operations for the last 3 years and up to the December 2022 is dependent majorly on Delhi. Any loss of business from may adversely affect revenues and profitability.
5. If they are unable to attract new clients or existing clients do not renew their contract, the growth of our business and cash flows will be adversely affected.

Track Record of Lead Manager

The lead manager to the issue is Corporate Capital ventures Pvt Ltd. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Corporate Capital ventures Pvt Limited

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP# (INR)
1	Droneacharya Aerial Innovations Limited	33.97	54	Dec 23, 2022	143
2	BCPL Railway Infrastructure Limited	17.01	35.00	October 29, 2018	43.10
3	Phantom Digital Effects Limited	29.1	95	Oct 21, 2022	260.15
4	Swastik Pipe Limited	62.52	100	Oct 12, 2022	78.65
5	Annapurna Swadisht Limited	30.25	70	Sep 27, 2019	259.8
6	Uma Exports Limited	60	68	April 7, 2022	42.95
7	Nupur Recyclers Limited	34.2	60	Dec 23,2021	118.55
8	Rajnandini Metal Limited	4.27	26	Oct 8, 2018	9.2
9	Rudrabhishek Enterprises Limited	18.73	41	July 13,2018	184.95
10	Narmada Agrobase Limited	7.48	32	April 19,2018	20.25

#CMP is taken as on 17th May 2023

This is the 14th mandate from Corporate Capital ventures Pvt Ltd in the last six fiscals (including the ongoing one). Out of the last 13 listings, 11 listed in profits and 2 in losses.

Recommendation

Online and mobile advertising is gaining more market share very fast. in advertising field Tv and newspaper markets is still holding major market share gradually it might shift to online and mobile advertising.

Reason for sudden increase in profits is they received good orders from Bharath janatha party, since we have elections coming up, they might get more orders from political parties for their promotions.

The management of the company has good experience and the company's leading PE is estimated to be around 8 times.

Even though they have good competitors, India has huge scope for advertising companies in future and also to sustain in this field they have to be innovative and use advanced technology.

To conclude, **Risk Averse Investors should wait and Risk Seekers should apply.**

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.