May 29, 2020

HT Media Limited: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,000.0	500.0	[ICRA]A1+; reaffirmed
Total	**1,000.0**	**500.0**	

Rationale

ICRA has taken a consolidated view on HT Media Limited (HTML) along with its subsidiaries while assigning the credit ratings given the common management and significant operational and financial linkages between them.

The rating reaffirmation continues to reflect the strong brand recognition of HTML's key publications – *Hindustan Times (HT) and Hindustan,* their leadership position in the core markets, its diversified presence across media platforms, including radio and digital platforms and its strong capital structure (TD/TNW of 0.45x and TOL/TNW of 0.9x as on Sep 30, 2019) and liquidity profile (net cash of nearly Rs. 1,000 crore as on Dec 31, 2019[1]).

With the objective of diversifying its business profile, the company completed the acquisition of a controlling stake in Next Mediaworks Limited (NMW), at an investment of Rs. 284 crore in YTD FY2020. NMW, having seven stations under the brand *Radio One*, has helped HTML strengthen its presence in the key metro markets of Delhi, Mumbai and Bengaluru. With a common advertisement revenue-driven business model, the diverse operating segments provide strong operational synergies by way of leveraging the HT brand, common infrastructure, marketing teams and customer servicing.

Notwithstanding the above, HTML's operating performance has deteriorated over the past few years owing to a weak macro-economic environment impacting advertisement volumes coupled with the high newsprint cost. Furthermore, despite the consolidation of the NMW business (contributed 3% to company's turnover in 9m FY2020), the company's revenues remained flat during 9m FY2020 on a YoY basis because of the continued weakness in consumer demand and general economic slowdown, which impacted advertiser spends. Among its business segments, while revenues from the Radio segment grew by 24% on YoY basis in 9m FY2020, the company's mainstay – the Print business - witnessed a decline of 6% owing to a combination of 9% and 5% decline in advertisement and circulation revenues, respectively. On the profitability front, while the Print business' profitability recovered due to a sharp correction in newsprint prices, radio, digital and other businesses reported operating losses in 9m FY2020. As result, the company's OPBDIT stood at Rs. 121.6 crore (OPBDIT/OI – 7.4%) during 9m FY2020 compared to Rs. 25.6 crore (OPBDIT/OI – 1.5%) during the same period in the previous year.

Following the Covid-19 pandemic and the cascading impact across sectors, the company's earnings are expected to be adversely impacted in the near term as advertising being a discretionary spend is likely to be curtailed across key sectors. Given the nature of the pandemic, circulation revenues will also be impacted in the near term as consumers refrain consumption of physical copies in favour of digital or e-copies. For English print, which had already been witnessing

[1] *Net cash = Cash less total debt; Source: Company's Earnings Call held in January 2020*

reader migration to digital mediums, Covid-19 may accelerate a permanent shift. Given the high operating leverage of the business, the profitability will also be adversely impacted, although soft newsprint prices are expected to provide some cushion in the near-term. The pace of recovery of operating performance will remain contingent on the severity of the pandemic, continuation of the lockdowns (partial or full) in most affected areas and revival of economy thereafter.

ICRA takes cognisance of HTML's dependence on its Print business (~85% of the overall revenues in 9m FY2020) which has been facing increased competition for readership in the large tier-I and Hindi-speaking markets. This has impacted its ability to raise the cover prices and grow circulation revenues and has necessitated the consistent incremental investments to maintain market share. Furthermore, the company's radio, digital and education businesses remain in nascent stages and are yet to yield meaningful returns (i.e. contributed ~15% to revenues with PBIT losses of over Rs. 125 crore (including unallocated losses) in 9m FY2020). With the expectations of a weak operating environment in the near term, these segments will require funding support. Volatility in newsprint prices and adverse forex movement remain a monitorable.

Key rating drivers and their description

Credit strengths

Healthy brand recognition of key publications and leadership position in NCR and Hindi-speaking states - HTML's key publication, *Hindustan Times*, is ranked among India's leading publications, positioned third in the English daily newspaper segment with a daily circulation of 0.94 million copies in Jan-June period 2019[2]. The company also publishes a financial daily, *Mint,* which is among the top publications in the business news segment in key tier-I markets of Delhi and Mumbai. In addition, HTML's subsidiary, HMVL, publishes the leading Hindi daily, *Hindustan* (circulation of 1.94 million copies per day and ranked fourth in the Hindi daily segment), which is among the top newspapers in key Hindi-speaking markets of Bihar, Jharkhand and Uttar Pradesh. HTML's strong linkages with HMVL, both having print media as their core business, augments the company's operational profile through synergies from a common management, raw material sourcing, printing infrastructure and distribution network.

Healthy capital structure and cash surplus position - Despite weak operating performance over the past two years with lower earnings and margin pressures because of high newsprint prices, HTML's capital structure remains healthy, characterised by a strong equity base (TNW of Rs. 2,284 crore as at Sep 30, 2019) leading to low gearing of 0.45x and TOL/TNW of 0.9x (as at Sep 30, 2019) and a significant cash and investment balances (~Rs. 2,300 crore as at Sep 30, 2019) resulting in net debt negative position.

Diversified presence across media platforms – HTML has a diversified presence across media platforms. This includes Hindi and English print, radio (22 frequencies in 15 cities under brands – Fever, Nasha and Radio One), digital (*shine.com* and *HT Campus)* and mobile platforms. This provides operational synergies through leveraging a common brand with access to advanced technology and infrastructure (all investments towards same core business), common marketing teams, among several others.

[2] *As per data reported by the Audit Bureau of Circulation (ABC) for the Jan–Jun 2019 period. The ranking is amongst the member publications only and includes variant copies.*

Credit challenges

Operating performance expected to remain weak due to extensive impact of Covid-19 – With widespread and extensive impact of the pandemic across the sectors, ad-spends, which is a discretionary expense for businesses, are expected contract significantly in the near term. With an advertisement revenue-driven business model, HTML's operating performance will likely be adversely impacted, with recovery contingent upon the pace of macro-economic revival.

Structural shift towards alternative media platforms resulting in decline in print subscriptions; competitive pressures constrain margin expansion – Print contributes nearly 80% to the revenues of HTML. With the advent of digital media, the print industry has been witnessing a shift in consumer preferences. The switch to digital platforms is happening rapidly in tier-I cities, led by the English-speaking higher socio-economic class. This has been impacting the growth of English dailies. While *Hindustan* provides diversity to HTML, the intense competition is likely to prevent a significant cover price hike or margin expansion. Furthermore, with the Covid-19 pandemic, distribution constraints and consumer psyche towards the physical copy may result in lower subscriptions and higher digital consumption in the medium term. While a diversified presence across media platforms moderates the risk for HTML to an extent, the company's ability to withstand competition and drive profit growth remains a key monitorable.

Susceptibility of operating profit margins to global newsprint prices and foreign exchange fluctuations - While HTML's bulk procurement capabilities and long-standing relationship with the suppliers partially mitigate the risk, the inflationary trend in the international prices, like those witnessed in FY2019, can significantly impact margins. Furthermore, since the company imports nearly 55-60% of newsprint, it is susceptible to adverse fluctuations in the rupee–dollar exchange rate; although the risk is mitigated to an extent by the efficient use of hedging transactions.

Digital and Education businesses yet to scale up; would continue to require funding support – While presence across media platforms provides revenue diversity and avenues for future growth to HTML, these new businesses - digital and education - are either in losses or are yet to meaningfully start contributing to profits, impacting the overall return on capital employed (ROCE). Both these segments are capital intensive and would require funding support for ramp-up and consolidation of market position in the medium term.

Liquidity position: Strong

HTML liquidity remains strong. The company had a net cash of nearly Rs. 1,000 crore as on Dec 31, 2019 on a consolidated basis**.** It also had a sanctioned (and largely undrawn) line of credit of approximately Rs. 1,200 crore (across HTML and HMVL). Despite expectations of a weak operating performance, due to the pandemic in the medium term, the liquidity is expected to be sufficient to cater to working capital, debt servicing and capex requirements (if any).

Rating Sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on rating could arise for reasons including sustained pressure on earnings owing to subdued advertising revenues, material investments or funding support in non-core businesses impacting the ROCE and liquidity position and/or debt-funded organic or inorganic initiatives impacting capital structure, among others.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Print Media Industry Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HTML. This includes its subsidiaries and JV, as listed under Annexure-2.

About the company

HT Media Limited (HTML) is one of the largest media conglomerates in India with presence across print media (English and Hindi), radio space, internet portals. The company's key publications are under iconic brands *Hindustan Times* and *Hindustan*, which are amongst the highest circulated English and Hindi dailies in India. Other publications include the *Mint* – a business daily, *Kadambini* – a Hindi Magazine and *Nandan* – a children's magazine. The company has 22 FM radio stations across 15 cities and operates under the brands Fever 104 FM, Radio Nasha and Radio One. Its internet portals are shine.com (job search) and htcampus.com. It also has an education segment which operates Studymate tutorial centres and the Bridge School of Management.

HTML is based out of New Delhi and is a 69.5% subsidiary of Hindustan Times Limited (HTL), a KK Birla Group Company. The day-to-day operations of HTML are managed by Ms. Shobhana Bhartia, backed by a professional management.

Key financial indicators - Consolidated (Audited)

	FY 2018	FY 2019	9m FY2020*
OI (Rs. crore)	2,299.4	2,193.9	1,637.9
PAT (Rs. crore)	352.1	-26.9	-154.8
OPBDITA/ OI (%)	17.0%	4.2%	7.4%
RoCE (%)	13.8%	2.0%	-
Total Outside Liabilities/Tangible Net Worth+ Minority Interest	0.7	0.7	-
Total Debt/ OPBDIT (times)	3.0	11.9	-
Interest Coverage (times)	4.8	0.8	1.6
DSCR (times)	5.7	2.0	-

Source: Company results; ICRA research; The above ratios reflect analytical adjustments made by ICRA
**Limited quarterly results; OI: Operating Income; 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)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 29-May-20	Date & Rating in FY2020 2-Apr-19	Date & Rating in FY2019 18-Oct-18 20-Jul-18	Date & Rating in FY2018 4-Dec-17 29-Sep-17
1	Commercial Paper Programme	Short Term	**500.0**	**Nil**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

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 www.icra.in

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	Commercial paper Programme (not issued)	NA	--	--	500.0	[ICRA]A1+

Source: HTML

Annexure-2: List of entities considered for consolidated analysis

Name	HTML Ownership* (%)	Consolidation Approach
HT Media Ltd	Parent Company	Full Consolidation
Hindustan Media Ventures Limited	74.40	Full Consolidation
HT Music & Entertainment Company Limited	100.00	Full Consolidation
HT Digital Media Holdings Limited	100.00	Full Consolidation
Firefly e-Ventures Limited	99.99	Full Consolidation
HT Mobile Solutions Limited	99.16	Full Consolidation
HT Overseas Pte Ltd	100.00	Full Consolidation
HT Education Limited	100.00	Full Consolidation
HT Learning Centers Limited	100.00	Full Consolidation
HT Global Education Private Limited (Formerly HT Global Education)	100.00	Full Consolidation
Topmovies Entertainment Limited	100.00	Full Consolidation
India Education Services Private Limited	99.00	Full Consolidation
Next Mediaworks Limited (from FY2020)	51.00	Full Consolidation
Next Radio Limited (from FY2020)	74.81	Full Consolidation
Syngience Broadcast Ahmedabad Limited (from FY2020)	74.81	Full Consolidation
Shine HR Tech Limited (from FY2020)	100.00	Full Consolidation
Sports Asia Pte. Ltd.	50.50*	Equity Method
HT Content Studio LLP (from FY2020)	74.39*	Equity Method

**Equity interest percentage as at Dec 31, 2019;*

Source: Company

Note - ICRA has taken a consolidated view of HTML (the parent) and its subsidiaries and Joint Ventures.

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About ICRA Limited:

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