November 27, 2020

Planetcast Media Services Limited: [ICRA]A+(Stable)/[ICRA]A1; reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loans	40.00	40.00	[ICRA]A+(Stable); reaffirmed
Fund-based - Working Capital Facilities	10.00	10.00	[ICRA]A+(Stable); reaffirmed
Non-fund Based - Working Capital Facilities (Short Term)	30.00	30.00	[ICRA]A1; reaffirmed
Total	**80.00**	**80.00**	

** Instrument details as per Annexure-1*

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Planetcast Media Services Limited (PMSL) and its subsidiaries—Planetcast Technologies Limited (PTL; rated [ICRA]A+(Stable)/[ICRA]A1), Cloudcast Digital Limited (CDL), Planetcast Broadcasting Services Limited (PBSL) and Adore Technologies Pte. Limited (Adore), given their common management and financial interlinkages. The entities together are referred to as the Group.

The rating action takes into consideration the Group's established position in the satellite broadcasting (teleport and playout services) and the digital satellite news gathering (DSNG) industries, along with its experienced management. Over the years, the Group has developed a wide customer base consisting of major broadcasting groups that avail its services, resulting in its healthy scale of operations with consolidated operating income (OI) of Rs. 355 crore in FY2020 and strong profitability metrics. Further, the liquidity position of the Group remains healthy as evident by sizeable free cash and liquid investments available of above Rs. 250 crore as on September 30, 2020.

The ratings also draw comfort from the healthy cash accrual generation over the years along with low working capital intensity of operations, which has limited the Group's reliance on external debt. Moreover, the conversion of compulsorily convertible preference shares (CCPS) into equity in FY2020 has led to healthy leverage profile and robust debt protection metrics, notwithstanding the addition of non-convertible debentures (NCDs) of Rs. 250 crore in PMSL post the merger of LM Media Services Private Limited[1] (LM Media) with it in FY2021. While the company continues to evolve its business by developing new revenue streams and looking for opportunities to expand inorganically, the impact of the same remains to be seen.

The above favourable drivers notwithstanding, the ratings continue to be constrained by the Group's moderate client-concentration risk with its top five customers accounting for around 45–50% of the revenues, with the Star Group being the highest revenue contributor. Nonetheless, the Group's strong market position in the industry and long-standing relations with the clients mitigate the risk of churning of the customers to competition. However, the revenue

[1] Pre-merger, LM Media held a 42.4% stake in PMSL, which was funded through the issue of NCDs of Rs. 250 crore with a contractual coupon rate of 12.5% per annum and bullet repayment in June 2022. Post-merger, these NCDs have moved into the books of PMSL. Moreover, the NCDs carry a call option to redeem on coupon payment date after expiry of 15 months from the date of allotment.

generation remains susceptible to customers moving to their captive bandwidth, especially owing to the consolidations in media industry as evidenced by the recent reduction in business from the Star Group post the merger of Star and Disney.

ICRA notes that AION Investments Private Limited, Mauritius (AION Mauritius), which is ultimately owned by Apollo Global Management LLC (Apollo; a leading global alternative investment manager in private equity, credit and real estate, listed on NYSE), had acquired a 90.2% stake in PMSL in June 2019 from its existing promoters and PE fund—Kubera Cross Border Fund (Mauritius) Ltd (Kubera). Of this, a 42.4% stake was acquired through LM Media (recently merged with PMSL); post the merger, the AION's stake in PMSL stands at 84.4%.

In addition, ICRA notes that the Group has received demand from Department of Telecommunications (DoT) of over Rs. 200 crore in respect of Very Small Aperture Terminal (VSAT) license during FY2009–FY2018 by including revenues under license issued by Ministry of Information and Broadcasting (MIB) pursuant to a recent Supreme Court ruling that mandates telecom operators to pay additional dues pertaining to inclusion of non-core revenues in adjusted gross revenues (AGR). The management has made representation to DoT in this respect, however, a reply is awaited and hence, the same has been reported as contingent liability as on March 31, 2020. The crystallisation of this liability remains an event risk and the impact of any payout on this front would be evaluated upon receiving clarity regarding the outcome of the representation made to the DoT.

Further, while the management has been adding new service lines to its business mix, it also continues to evaluate inorganic growth opportunities that may be largely funded from the available liquidity. Any major investment outlay that may adversely impact the Group's liquidity and/or increase the leverage remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA belief that the Group will be able to generate healthy cash flows from the business as well as maintain a healthy liquidity position.

Key rating drivers

Credit strengths

Established market position – The Group has established itself as a leading teleport and DSNG services provider over the last two decades, having commenced its operations in March 1998. Over time, the Group has garnered sizeable market share in the industry with leading broadcasting groups in its client base.

Healthy scale of operations – The Group has positioned itself as the leading third-party teleport service provider in the country and has established a strong clientele over the years. Many major broadcasting groups are using its teleport services and gradually expanding the scope of operations, which has resulted in a healthy scale of operations for the Group with consolidated OI of Rs. 355 crore in FY2020, although the revenues declined over the last two years. Further, ICRA expects revenues to moderate further in FY2021.

Robust profitability and coverage metrics – Given the established market position, the Group commands premium pricing for its services as evident from its strong profitability metrics with RoCE of more than 18% for the last decade. Further, healthy cash accruals, which have limited the Group's reliance on outside debt coupled the conversion of CCPS into equity in FY2020 has resulted in a healthy leverage profile. Further, the coverage ratios and capital structure are expected to remain healthy over medium term even after considering LM Media's NCDs that would be serviced by the Group, post merger.

Strong liquidity position aided by availability of cash balances – The Group's liquidity position remained strong owing to heathy internal cash accruals, low working capital-intensive operations and limited capex plans as evident from sizeable free cash and cash equivalent of around Rs. 250 crore as on September 30, 2020 along with some cushion in working capital limits.

Credit challenges

Moderate client concentration – PMSL has moderate client concentration with the top five customers contributing around 45–50% of revenues, primarily because of the single largest customer, which contributes around 22–28% of its revenues. However, given PMSL's strong market position and ability to offer value-added service, the risk of customers moving out to competition is mitigated to an extent. However, the risk of customers moving to their captive bandwidth continues, especially owing to consolidations in media industry, as witnessed recently following, which the Group lost some business with its largest customer in FY2020.

Intense competition – As a teleport and playout services provider, the Group faces competition, largely from broadcasters with captive operations, along with some competition from independent players. However, the company's experienced management, technically qualified team of professionals and established relationships with customers help it to manage competition effectively. In the DSNG services segment as well as system integrator services, there are many players that pose competition to the Group. However, its strong technical capabilities provide it with a competitive advantage.

Operations remain sensitive to changes in Government regulations and policies – The Group operates in VSAT industry and media industry, both of which are sensitive to changes in Government regulations and policies. Further, the Group requires to obtain several licenses for its activities. Additionally, its operations are supervised by DoT, Telecom Regulatory Authority of India (TRAI), MIB and several other Government departments.

Sizeable contingent liability – Recently, the Group has received a demand of over Rs. 200 crore from DoT in respect of VSAT license during FY2009–FY2018 by including revenues under MIB license pursuant to the recent Supreme Court ruling, which mandates the telecom operators to pay additional dues pertaining to inclusion of non-core revenues in AGR. However, as per management, the same is not tenable and hence, has been classified as contingent liability in the books. The Group has filed its representation with DoT in this respect, though reply from DoT is awaited.

Liquidity position: Strong

The Group's liquidity position remained **strong** with presence of sizeable free cash and cash equivalent of around Rs. 250 crore as on September 30, 2020 along with cushion in working capital limits. Further, liquidity is supported by heathy internal cash accruals, low working capital intensity of operations and limited capex plans However, post the merger of LM Media with PMSL, the NCDs of around Rs. 250 crore (repayment due in FY2023) as well as interest thereon would be serviced by PMSL. Moreover, the liquidity is expected to be adversely impacted if the AGR liability crystallises and the Group is needed to make a bullet payment.

Rating Sensitivities

Positive triggers – Significant improvement in OI with healthy profitability levels indicated by ROCE over 20% on a sustained basis, while maintaining strong credit profile and liquidity position.

Negative triggers – Sharp decline in operating income and/or weakening of business position, resulting in deterioration of profitability on a sustained basis could adversely impact ratings. Additionally, any significant upstreaming to private equity players or crystallisation of the AGR liability, thereby impacting the liquidity can lead to rating downgrade.

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 consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among these

About the company

PMSL, incorporated in 1996, is a leading media technology service provider under license from MIB, Government of India (GoI). The Group is also providing VSAT and internet service provider (ISP) services under license from the Ministry of Communication and Information Technology, GoI. Further, the Group has recently obtained license for in-flight and Maritime Communications from GoI to provide connectivity while flying over Indian skies and sailing in Indian waters.

In June 2019, AION Mauritius, which is ultimately owned by Apollo Global (a leading global alternative investment manager in private equity, credit and real estate, listed on NYSE), has acquired a 90.2% stake in PMSL from its existing promoters—out of which a 42.4% stake was acquired through LM Media. However, post the merger of LM Media with PMSL, AION held a 84.4% stake in the latter as on November 20, 2020.

Key financial indicators (Audited) – Group (Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	390.7	354.7
PAT (Rs. crore)	124.0	63.9
OPBDITA/OI (%)	35.85%	45.59%
RoCE (%)	39.86%	18.53%
Total Outside Liabilities/Tangible Net Worth (times)	0.83	0.33
Total Debt/OPBDITA (times)	1.27	0.56
Interest Coverage (times)	18.11	15.98

Source: Group and Company Financials, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Rating	FY2020	FY2018	FY2017
					Nov 27, 2020	Jun 28, 2019	Mar 19, 2018	Dec 15, 2016
1	Fund-based - Term Loans	Long-term	40.0	4.2	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Fund-based - Working Capital Facilities	Long-term	10.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund Based - Working Capital Facilities	Short-term	30.0	-	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1

**as on August 31, 2020*

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	Fund-based - Term Loans	January 2017	-	April 2022	40.0	[ICRA]A+(Stable)
NA	Fund-based - Working Capital Facilities	-	-	-	10.0	[ICRA]A+ (Stable)
NA	Non-fund Based - Working Capital Facilities (Short Term)	-	-	-	30.0	[ICRA]A1

Source: PMSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Planetcast Technologies Limited	100%	Full Consolidation
Adore Technologies Pte. Limited	100%	Full Consolidation
Cloudcast Digital Limited	100%	Full Consolidation
Planetcast Broadcasting Services Limited	100%	Full Consolidation

Source: PMSL

ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Suksham Arora
+91 124 4545 300
suksham.arora@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999