

LM Media Services Private Limited

May 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	250.00	250.00	Rating reaffirmed at [ICRA]BB+(Stable)

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus) with Stable outlook to the Rs. 250-crore¹ non-convertible debentures (NCD) of LM Media Services Private Limited (LMMSP)†.

Rationale

The rating takes into consideration LMMSP's strong parentage as it is proposed to be wholly owned by AION Capital Partners Limited (AION)—an India-specific private equity fund. AION on the other hand has Apollo Global Management LLC (Apollo -a leading global alternative investment manager in private equity, credit and real estate) as the ultimate sponsor and ICICI Bank as a strategic partner. The proceeds of the NCD will be used to acquire around 44% equity stake in Planetcast Media Services Limited {PMSL-rated [ICRA]A+(Stable)/[ICRA]A1}, which has a long track record of operations, strong market positioning and steady cash flow generation with the potential to upstream healthy dividends. Business opportunities and revenue generation of PMSL are expected to be boosted by Apollo's extensive experience in the media/telecom/technology industry by virtue of its investments in these segments over the years. The rating also takes into account the expected funding support from AION, in case there is a funding shortfall in meeting debt servicing requirements.

However, the rating is constrained by the uncertainty over LMMSP's cash flow generation to meet the servicing obligations of the proposed NCD, which is expected to carry a contractual interest rate of 13.75% and a bullet repayment commitment of five years. Given that LMMSP does not have any significant operations so far, it is expected to rely on cash up-streaming from PMSL. However, LMMSP's shareholding at 44% would cap the cash flows. Thus, LMMSP would require funding support from AION. Moreover, any change in the business strategy of PMSL or reduction in its business strength would impact the expected dividend payout from PMSL, further limiting the cash flow availability to LMMSP.

Outlook: Stable

ICRA expects that despite the absence of sufficient cash flows from operations, LMMSP will be able to get timely funds infusion from AION to meet its debt servicing obligations. The outlook may be revised to Positive if the company witnesses sizeable dividend income from the proposed investee (PMSL) and/or timely funding support from AION. However, the outlook may be revised to Negative if there is pressure on PMSL's revenue and profitability impacting the dividend income of LMMSP and/or if there is lack of timely support from AION.

¹ 1 crore = 100 lakhs = 10 million

† For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Strong parentage – LMMSPL is proposed to be wholly owned by AION, which is an India-specific fund, with around \$ 825 million as committed capital and investments across various companies in the last few years. AION in turn is owned by Apollo as the ultimate sponsor and ICICI bank as a strategic partner. Apollo being a well established private equity player with strong financial profile provides financial flexibility and assurance of timely funding support as and when needed.

Growth prospects in planned investee company – AION is acquiring a 92% stake in PMSL in two tranches— a 48% stake directly and a 44% stake through LMMSPL, which in turn will raise the requisite funds by issuing NCDs. PMSL has a long track record of operations, strong market positioning and steady cashflow generation, with the potential to upstream healthy dividends.

Sponsor's experience in media industry – AION expects to benefit from the experience of its sponsor – Apollo – to generate greater business opportunities for PMSL, thereby achieving healthy growth in its revenues and profitability going forward. Apollo has investments in several companies in media/telecom/technology segment such as Intelsat S.A., HUGHES Network Systems, Cablecom LLC, Dish TV India Limited, Rackspace Inc., and Spectrasite Communications LLC etc.

Credit challenges

Uncertainty of cash flows for debt servicing – LMMSPL at present does not have any significant operations and hence there are no cash flows to service the proposed debt. The dividend income from PMSL is expected to be the primary source of revenues. The company is also looking to start some operations to generate operational cash flows. However, there are no firm plans. Thus, there remains uncertainty on future cash flows to meet debt servicing requirements.

Dependence on AION – The proposed NCDs are expected to have a tenure of five years with bullet repayment at the end of the tenure and the rate of interest is expected to be 13.75% per annum. The dividend income from PMSL is not expected to be sufficient to meet the interest servicing obligations of the company and requires funding support from AION. Further, the principal repayment at the end of tenure is expected to be met from equity infusion from AION or from monetising the PMSL stake. Thus, the funding support from AION would be crucial for LMMSPL to meet its debt servicing obligations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

LMMSPL was incorporated on March 14, 2017 as an intermediary to acquire partial stake in PMSL. At present, it has been incorporated by the directors of PMSL. Later, however, it is proposed to be acquired by AION Investments Private Limited, Mauritius (AION, Mauritius), subject to regulatory approvals. AION Mauritius is a special purpose vehicle (SPV) owned by AION.

While LMMSPL has been set up with the objective of providing services in the telecom, media and entertainment sector, it does not have any significant operations at present.

Key financial indicators*

	FY2017	FY2018 (Est.)
Operating Income (Rs. crore)	-	0.4
PAT (Rs. crore)	-	0.0
OPBDIT/OI (%)	-	1.8%
RoCE (%)	-	1.1%
Total Debt/TNW (times)	-	0.0
Total Debt/OPBDIT (times)	-	0.0
Interest Coverage (times)	-	NM

Source: LMMSP, ICRA research

* company was incorporated in March 2017 and it does not have any significant operations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating May 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Non-convertible debentures	Long-term	250.00	0.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	NA	NA

*as on March 31, 2018

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
*	Non-convertible Debentures	*	*	*	250.00	[ICRA]BB+(Stable)

Source: LMMSPL

* yet to be issued

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