

Odisha Television Limited ^{Revised}

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	17.04	17.04	[ICRA]A-; Reaffirmed; Outlook revised to Positive from Stable
Fund Based Limits	14.00	14.00	[ICRA]A-; Reaffirmed; Outlook revised to Positive from Stable
Total	31.04	31.04	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) assigned to the Rs. 17.04-crore¹ term loans and Rs. 14.00-crore fund-based bank limits of Odisha Television Limited (OTL)². The outlook on the long-term rating has been revised to Positive from Stable.

Rationale

The revision in the outlook factors in the expected increase in the scale of OTL's operations, which is limited on an absolute basis at present, on the back of a likely increase in both advertising and subscription revenues. Subscription income, in particular, is expected to be supported by the likely implementation of the TRAI Tariff Order, given the recent favourable judgement of the Madras High Court on the same. With increase in business, operating profitability is also expected to witness some improvement, given economies of scale. Consequently, the debt metrics are also expected to remain healthy.

The reaffirmation of the rating takes into account the extensive experience of OTL's promoters and the established market position of the company in the regional broadcasting industry in Odisha. The company's reach in Odisha is supported to some extent by the ground distribution strength derived from its group company, Ortel Communications Limited (Ortel), a multi-system operator (MSO) in Odisha, notwithstanding the recent liquidity pressure being faced by Ortel. OTL's financial risk profile, which is characterised by healthy profitability, a conservative capital structure and comfortable debt coverage indicators, also has a favourable impact on the rating. However, the rating remains constrained by the extended receivables cycle of the company, and its exposure to risks arising from the economic cyclicity, given its dependence on advertising-based revenues. Moreover, ICRA notes that since the company's operations are concentrated in a single region, the reach of OTL's channels is limited relative to that of national channels. Nonetheless, going forward, ICRA expects OTL's cash flows to remain adequate to meet its debt repayment obligations, which remain low given its conservative capital structure.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Outlook: Positive

ICRA believes that OTL will benefit from the likely implementation of the TRAI tariff order, given the recent favourable judgement of the Madras High Court. As per the order, pay channels that are part of a bouquet are to have a monthly maximum retail price (MRP) of Rs. 19/channel, and the MRP of a pay channel bouquet should not be less 85% of the standalone cost of the channels forming it. OTL's channel bouquet is currently priced at Rs. 13.72/month, and has not witnessed any considerable increase over the past few years. Thus, the enactment of the said order would provide scope for a significant increase in OTL's channel subscription rates. Moreover, with the order seeking to address the non-transparent flow of subscription revenues between LCOs, MSOs and broadcasters, higher collection of subscription revenues, aided by the subscriber management system, is also expected going forward.

The outlook may be revised to Stable in case the expected benefits from the implementation of the TRAI Tariff Order are not realised, or other developments adversely impact the company's operational performance, leading, in turn, to lower-than-expected financial performance.

Key rating drivers

Credit strengths

Extensive experience of promoters - The promoters of OTL have been involved in the media industry since 1995, with the incorporation of Ortel Communications Limited (Ortel), a cable multi-system operator³, having a leading market share in the areas of Odisha where it operates. Ortel had launched OTV, an Odiya language news and current affairs (NCA) channel in 1997, but the same was spun off into OTL on April 1, 2005. In addition to OTV, OTL operates four other Odiya language channels namely Tarang (general entertainment channel - GEC), Tarang Music (music channel), Prarthana (devotional channel) and Alankar (premium movie channel). The company also set up a movie production house named Tarang Cineproductions in FY2015 and a radio channel called Radio Odisha in December, 2017.

Since Ortel carries all OTL's channels, OTL's distribution reach is supported to some extent by its arrangements with Ortel, with around 12-15% of its subscribers being on Ortel's network. ICRA notes that Ortel has been facing liquidity issues in recent quarters. However, the diversified distribution of OTL's channels through all major Direct-to-Home (DTH) providers and other cable operators is likely to cushion OTL's operations against distribution issues in Ortel.

Established market position in the regional broadcasting industry in Odisha, although competitive pressure from both national and regional channels continue to increase – OTL continues to maintain its leadership position as the top player in the Odiya NCA genre and one of the top two players in the Odiya GEC genre, backed by differentiated content both in the fiction and non-fiction category, which, in turn, supports viewership reach. Moreover, Tarang Music, Prarthana and Alankar continue to be the only Odiya channels in the music, devotional and movie categories respectively, and thus face relatively lower competition.

Since most of OTL's channels are market leaders in their respective genres at the regional level and record high Gross Rating Points (GRPs), they command a premium over most other regional Odiya channels in terms of advertising rates. Nonetheless, pricing pressure exists to some extent due to competition from the increasing number of regional and national channels, particularly in the GEC segment. While Tarang used to be the leading Oriya channel in Odisha in terms of viewership, it has been facing increasing competition, especially from Sarthak TV, which was bought over by the Zee Network in FY2016.

³ An entity that receives a broadcasting service from a broadcaster and/or its authorized agencies and re-transmits the same to consumers and/or to one or more cable operators

Expected increase in scale of operations, which is limited at present, post implementation of the TRAI Tariff Order –

Despite OTL's market standing and increased turn over in recent years, the overall scale of the company's operations remains limited on an absolute basis at present. Moreover, ICRA notes that since the company's operations are concentrated in a single region, the reach of OTL's channels is limited relative to that of national channels. Going forward, however, a likely increase in both advertising and subscription revenues is expected to boost the overall scale of the company. Subscription income, in particular, is expected to be supported by the likely implementation of the TRAI Tariff Order, given the recent favourable judgement of the Madras High Court on the same.

Healthy business return indicators, conservative capital structure and comfortable debt coverage indicators - Sale of space for advertising continues to be the main driver of OTL's revenues, contributing to approximately 75% of the company's operating income in FY2018. While advertising revenues witnessed muted growth in FY2017 due to demonetisation and the overall slowdown in the Indian economy, double-digit growth was recorded in FY2018, driven by higher inventory utilisation and increased advertising rates. Differentiated content, which resulted in higher viewership and in turn greater advertising demand, was the primary driver for the same.

Subscription revenues, which accounted for around 19% of the company's operating income in FY2018, continued to be supported by increasing digitisation, recording double-digit growth during the year.

With the increase in both advertising rates and subscription revenues, together with the rise in inventory utilisation, the operating profit margin increased by 5% in FY2018. Better control on content costs also had a favourable impact on profitability. The overall business return indicators remained healthy.

OTL's gearing level also improved as on March 31, 2018, primarily on account of increased accretions to reserves. The company's debt coverage indicators also remained healthy. Going forward, ICRA expects OTL's cash flows to remain adequate to meet its debt repayment obligations, which remain low due to its conservative capital structure.

Credit challenges

Extended receivables cycle - OTL has an extended receivables cycle, which is primarily attributable to delay in payments from some local and government clients. However, the company's overall working capital intensity remains moderate as the high debtor days are offset by negligible inventory requirements.

Exposure to risks arising from business cycles, which keep advertisement revenues volatile - Players in the media and entertainment industry, including OTL, remain susceptible to the inherent risks arising from high dependence on advertisement revenues, which are vulnerable to economic cycles, viewership trends and competition. Although ICRA draws comfort from the strong brand franchise and distribution reach of OTL's channels in Odisha, the company's ability to sustain advertising revenue growth rates and maintain profitability at healthy levels, given the increasing competition in the Odiya television space, will remain a challenge going forward.

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

Links to applicable criteria:

[Rating Methodology for Entities in the Media Broadcasting Industry](#)

About the company:

Odisha Television Limited (formerly known as Orissa Television Limited - OTL) is involved in the business of broadcasting services and currently operates five Odiya language channels – OTV, a news and current affairs (NCA) channel launched in 1997; Tarang, a general entertainment channel (GEC) launched in November 2006; Tarang Music, a music channel launched in April 2009; Prarthana, a devotional channel launched in April 2010; and Alankar, a premium movie channel launched in March 2015. The company also operates Desh TV, which is a Chhattisgarh-based Hindi language NCA, launched in January 2013. The company had also set up a movie production house named Tarang Cineproductions in FY2015 and a radio channel called Radio Odisha in December, 2017. While OTV and Desh TV are free-to-air (FTA) channels, Tarang, Tarang Music, Prarthana and Alankar are pay channels. City Plus, a digital channel covering in-city events, originally launched by OTL, has been hived off to a different entity.

Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	86.3	104.3
PAT (Rs. crore)	9.5	15.7
OPBDIT/OI (%)	28.8%	33.9%
RoCE (%)	17.2%	23.2%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	1.1	0.8
Interest coverage (times)	8.8	13.0

**Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No.	Name of Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
			Rated amount (Rs. Crores)	Amount Outstanding (Rs. Crore)	Month-year & Rating in FY2019	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month- year & Rating in FY2016	
								March 2017	March 2016
1	Term Loans	Long Term	17.04	9.42	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Fund Based Limits	Long Term	14.00	13.84	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)

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	Term Loan 1	10-Nov-17	NA	FY2019		[ICRA]A-(Stable)
NA	Term Loan 2	10-Nov-17	NA	FY2022		[ICRA]A-(Stable)
NA	Term Loan 3	10-Nov-17	NA	FY2021	17.04	[ICRA]A-(Stable)
NA	Fund Based Working Capital Limit	10-Nov-17	NA	NA	14.00	[ICRA]A-(Stable)

*Date of last renewal of sanctioned facilities

Source: OTL

Corrigendum:

For the rating rationale dated July 06, 2018, the narrative supporting the financial indicators has been revised in the following sections:

- Credit strengths section on page 3
- Credit challenges section on page 3
- About the company section on page 4

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