

September 05, 2019

Rachana Television Pvt. Limited: Rating revised to [ICRA]BB(Stable) from [ICRA]BB+(Stable)

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Unallocated limits	11.50	11.50	[ICRA]BB (Stable); Downgraded from [ICRA]BB+(Stable)
Total	11.50	11.50	

Rationale

The rating downgrade factors in the company's stretched liquidity position with high working-capital intensity of 127% in FY2019 owing to high debtor and inventory levels. The same is also reflected by high average utilisation of ~98% of working capital limits during the last twelve months. The rating considers intense competition faced by the company from digital media and other television channels which resulted in ~13% revenue de-growth in FY2018 and marginal growth in FY2019. The rating is also constrained by the highly fragmented nature of the Telugu news-broadcasting industry which limits the pricing power of the company. Also, RTPL's dependence on advertising revenues, with all the channels being free-to-air channels, exposes the company to advertisement cycles.

The rating, however, positively factors in the established market position of NTV, flagship channel of RTPL, in the Andhra Pradesh and Telangana market with the channel ranking among the top-three Telugu news channels consistently in the past five years. The rating also takes into account the company's comfortable financial profile of the company as reflected by healthy profitability with operating margin of 25.98% in FY2019, gearing of 0.17 times as on March 31, 2019 and comfortable coverage indicators. ICRA also notes the low customer-concentration risk with top-five customers accounting for 17% of total sales in FY2019.

The Stable outlook on [ICRA]BB rating reflects ICRA's opinion that RTPL will continue to benefit from the established market position of its flagship channel, NTV, and its established customer relationships.

Key rating drivers

Credit strengths

Established market position – NTV, RTPL's flagship channel, was among the first few 24-hour Telugu news channels to be launched and has been among the top-three Telugu news channels, in terms of viewership, in Andhra Pradesh and Telangana region over the past four years. As on August 2019, NTV continued to be the second most watched channel among more than 15 Telugu News channels in the region. Also, Bhakthi TV has remained one of the top devotional channels in South India over the years. However, intense competition in the Telugu News segment, new entrants in the devotional segment, and increased competition from digital media has impacted the revenues to an extent.

Comfortable financial profile – Despite decrease in OBITDA levels and increase in debt levels in the last two years, the company’s financial profile is characterized by low gearing of 0.17 times as on March 2019 and comfortable coverage indicators and debt protection metrics as reflected by interest coverage of 4.41 times, Total Debt/OPBITDA of 1.21 times and NCA/Total Debt of 54% in FY2019. Also, the operating margin of the company continues to be healthy at 25.98% in FY2019.

Low customer concentration - RTPL has a low customer concentration risk with top 5 customers accounting for 17% of the total revenues in FY2019. National advertising agencies and customers account for ~40% of the revenues with the remaining contributed by local ad agencies and customers.

Credit challenges

Stretched liquidity owing to high working capital intensity - The working capital intensity worsened in FY2019 increasing significantly to 127% from 96% in FY2018 and 76% in FY2017 owing to substantial increase in debtor and high inventory days. Debtor days increased to 335 days in FY2019 from 262 days in FY2018 and 207 days in FY2017 owing to delays in payments from local advertising agencies and government clients. Further, 18% of total receivables are pending for more than 180 days as on March 31, 2019, thereby increasing the risk of bad debts. The inventory comprises of in-house recorded programmes or content purchased from other providers, especially for Bhakthi TV and Vanitha TV. The stretched liquidity position is also reflected in high average utilization of ~98% of working capital limits during the last twelve months.

Intense competition in the industry - The company faces intense competition from digital media and other television channels in the news and devotional segments which resulted in only a marginal revenue growth of ~5% in FY2019, after the revenues declined to Rs. 67.64 crore in FY2018 from Rs. 77.75 crore in FY2017. The digital and social media platforms have been capturing a sizeable wallet-share of advertisers in the recent past. The Telugu News broadcasting industry consists of more than fifteen players operating in Andhra Pradesh and Telangana owing to low entry barriers and low capital intensity of operations. This has given rise to intense competition limiting the pricing power and margins of the company.

Exposed to advertising cycles - The company’s high dependence on advertisement sales, with all three channels being free-to-air channels, exposes the company to the advertisement cycles increasing the volatility of the revenues. Economic downturns affect advertising revenues of channels as companies cut back on their ad spends. Any change in the advertiser preferences (which may arise due to the loss of market share, availability of alternative mass communication medium or any other reason) may adversely impact the business and financial condition.

Liquidity Position: Stretched

The company’s liquidity profile is stretched as reflected by high average working capital limit utilization of 98% during the last twelve months. This is owing to high working capital intensity driven by high debtor and inventory levels.

Rating sensitivities

Positive triggers – ICRA could upgrade RTPL’s rating if the company demonstrates a sustained improvement in working capital cycle and liquidity position. Specific credit metrics that could lead to an upgrade of RTPL’s rating include (1) NWC/OI below 80% on a sustained basis; and (2) Working capital limit utilization of less than 85% on a sustained basis

Negative triggers – Negative pressure on RTPL’s rating could arise if working capital intensity and working capital limit utilization continue to remain high.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Media Broadcasting Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Rachana Television Private Limited (RTPL) was incorporated in 2006 by Mr. T. Narendra Choudary. The company operates three channels, NTV which is a 24-hour Telugu News Channel and is the flagship channel of the company, Bhakthi TV, a devotional channel, and Vanitha TV which is a 24-hour women’s entertainment channel. The company has its own studio with an area of 30,000 sqft located in Jubilee Hills Hyderabad.

Key financial indicators

	FY 2018	FY2019
Operating Income (Rs. Crore)	67.64	70.94
PAT (Rs. Crore)	7.87	8.24
OPBDIT/ OI (%)	25.78%	25.98%
RoCE (%)	12.50%	11.22%
Total Debt/ TNW (times)	0.27	0.17
Total Debt/ OPBDIT (times)	1.83	1.21
Interest coverage (times)	4.17	4.41

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 September 5, 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					April 4, 2018	-	November 22, 2016
1 Unallocated Limits	Long Term	11.50	NA	[ICRA]BB (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (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	Unallocated Limits	NA	NA	NA	11.50	[ICRA]BB (Stable)

Source: Rachana Television Pvt. Limited

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