

November 30, 2020 ^{Revised}

Odisha Television Limited: Rating reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	19.90	19.90	[ICRA]A-(Stable) Reaffirmed
Fund-based Limits	17.50	17.50	[ICRA]A-(Stable) Reaffirmed
Non-fund Based Limits	2.50	2.50	[ICRA]A-(Stable) Reaffirmed
Total	39.90	39.90	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into consideration the extensive experience of Odisha Television Limited's (OTL's) promoters and the established market position of the company in the regional broadcasting industry in Odisha. In the current year, OTL's scale of operations, which is limited on an absolute basis, would be supported by an expected growth in advertisement and subscription revenues. Subscription income, in particular, is expected to be supported by the New Tariff Order implemented by TRAI. While during the first quarter of FY2021, the revenues of the company were adversely impacted, especially advertisement revenues due to the COVID-19 pandemic, impact on its operating income in full year is likely to be limited. OTL's conservative capital structure, with a gearing of 0.3 times as of end-FY2020 and comfortable debt coverage indicators with an interest cover of 11.8 times and total debt/OPBITDA of 0.8 times in FY2020, also had a favourable impact on the rating. The capital structure and debt protection metrics are expected to remain comfortable, going forward, on the back of a healthy operating profitability. 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, ICRA expects OTL's cash flows to remain adequate to meet its debt repayment obligations, going forward. While the bad debts related to a weaker group company have been completely written off in FY2020, the company continues to support another group company. Any further exposure to weak Group entities and impact of the ongoing / future lawsuits or litigations, which may have an adverse impact on the credit profile of the company, would be a key rating sensitivity.

Outlook: Stable

ICRA believes that OTL will continue to benefit from the strong market position of the company in the regional broadcasting space in Odisha. The outlook may be revised to Positive if a substantial growth in revenue and profitability, and better management of receivables, strengthens the financial risk profile and result in a considerable increase in scale. The outlook may be revised to a Negative if there is any further exposure to weak Group entities and/or a weaker-than-expected operational performance adversely impacts its credit profile.

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 operator¹, having a leading market share in the areas of Odisha where it operates. Ortel had launched Odisha Television (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 has also set up a movie production house named Tarang Cineproductions in FY2015.

Established market position in the regional broadcasting industry in Odisha, although competitive pressure from national and regional channels continues to increase – OTL continues to maintain its leadership position as the top player in the Odiya NCA genre and in the Odiya GEC genre, backed by differentiated content, both in the fiction and the non-fiction categories, 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 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. The company's focus on content and screenplay, and an increase in viewer loyalty and GRP helped in maintaining its leadership position.

Significant growth in subscription fee and increasing ad income in FY2020; apprehension for FY2021 due to Covid-19 pandemic – Despite OTL's market standing and increased turnover in the recent years, the overall scale of the company's operations remains limited on an absolute basis at present. Moreover, ICRA notes that the company's operations are concentrated in a single region, so the reach of OTL's channels is limited relative to that of national channels. Nonetheless, the company has seen significant growth in subscription fee during FY2020 owing to implementation of TRAI's order related to subscriber-based revenue. Advertisement income witnessed a growth of 12% in FY2020 though it was lower than the previous year. During the first quarter of FY2021, the revenues of the company were adversely impacted, especially advertisement revenues due to the pandemic. Going forward, a steady increase in both advertising and subscription revenues is expected to boost the overall scale of the company.

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 more than 70% to the company's operating income in FY2020. Advertising revenue grew by 12% in FY2020 on the back of an 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 more than 25% of the company's operating income in FY2020, continued to be supported by increasing digitisation, recording a 69% growth during the year. The operating profit margin, however, declined to 25.1% in FY2020 on account of bad debts written off towards receivable from OCL, which was referred to NCLT in the previous year. The net profit margin increased to 11.5% in FY2020 from 7.5% in FY2019 on account of a provision for diminution in the company's investment in OCL in FY2019. The overall business return indicators

¹ An entity that receives a broadcasting service from a broadcaster and/or its authorised agencies and re-transmits the same to consumers and/or to one or more cable operators

remained healthy. OTL's gearing remained conservative at 0.3 times as on March 31, 2020, despite a rise in debt levels for funding capital expansion plans, while the debt coverage indicators remained comfortable on the back of a stable profitability.

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 increased 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.

Exposure to weak entities, though reduced significantly during FY2020 – In FY2020, OTL wrote off bad debts towards receivable from OCL, which has been referred to the NCLT. While there are not further receivables or liabilities related to OCL, ICRA notes that OTL and OCL have a common promoter, against which a suit has been filed by OCL's banker. ICRA also takes note of various complaints filed against the promoters and group companies by the authorities.

Liquidity position: Adequate

The liquidity position of the company is supported by an unencumbered cash and bank balance of ~Rs. 26-crore as on March 31, 2020 and an adequate headroom in working capital limits. ICRA expects OTL's cash flow from operations to remain comfortable relative to its debt service obligations, going forward. ICRA believes that exiting liquidity position of the company is adequate to cover the repayment obligations in FY2021 and FY2022.

Rating Sensitivities

Positive trigger: OTL's rating may be upgraded if the company is able to maintain a steady increase in its revenues while maintaining its operating profit margin (OPM) above 20%, on a sustained basis. Improvement in ROCE above 15% would be a positive factor.

Negative trigger: OTL's rating may be downgraded if the company is unable to compete with rival channels and its operating income witness a decline of more than 20%. Decline in its OPM below 10% over the medium term would also be a negative factor. Any large debt-funded expansion or deterioration in the working capital cycle, which may adversely impact the credit profile of the company would be a negative. Any adverse impact of the ongoing / future lawsuits or litigations on the credit profile of the company would also be a key rating sensitivity.

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 entity

About the company

Odisha Television Limited (OTL) broadcasts its 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. It had also set up a movie production house named Tarang Cineproductions in FY2015. 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.

In FY2020, the company reported a net profit of Rs. 16.87 crore on an operating income of Rs. 147.24 crore compared to a net profit of Rs. 9.16 crore on an operating income of Rs. 122.74 crore in FY2019.

Key financial indicators (audited)

	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	104.3	122.7	147.2
PAT (Rs. crore)	8.3	9.2	16.9
OPBDIT/OI (%)	31.6%	31.7%	25.1%
RoCE (%)	15.8%	16.8%	18.7%
Total Debt/TNW (times)	0.3	0.3	0.3
Total Debt/OPBDIT (times)	0.9	0.9	0.8
Interest Coverage (times)	11.8	13.4	11.8

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)	Date & Rating	Date & Rating in		
						FY2020	FY2019	FY2018
					Nov 30, 2020	Aug 26, 2019	Jul 06, 2018	-
1	Term Loans	Long Term	19.90	19.90	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Positive)	-
2	Fund-Based Limits	Long Term	17.50	17.50	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Positive)	-
3	Non-Fund Based Limits	Long Term	2.50	2.50	[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 [click here](https://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 Loans	Aug-18-2020	NA	FY2021	1.00	[ICRA]A-(Stable)
NA	Term Loan II	Aug-18-2020	NA	FY2023	2.35	[ICRA]A-(Stable)
NA	Term Loan III	Aug-18-2020	NA	FY2022	5.60	[ICRA]A-(Stable)
NA	Term Loan IV	Aug-18-2020	NA	FY2022	3.95	[ICRA]A-(Stable)
NA	Term Loan V	Aug-18-2020	NA	FY2022	1.75	[ICRA]A-(Stable)
NA	Term Loan VI	Aug-18-2020	NA	FY2023	5.25	[ICRA]A-(Stable)
NA	Fund Based Working Capital Limit	Aug-18-2020	NA	NA	17.50	[ICRA]A-(Stable)
NA	Non-fund based limits	Aug-18-2020	NA	NA	2.50	[ICRA]A-(Stable)

*Date of last renewal of sanctioned facilities

Source: OTL

Corrigendum

The 'Rationale' section has been updated with some changes.

- First paragraph has been deleted except for the last line, which has been added to following paragraph.
- Year mentioned as FY2019 has been changed to FY2020

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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.

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