January 02, 2020

ARG Outlier Media Asianet News Private Limited: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	65.0	[ICRA]BBB- (Stable); assigned
Long-term, Loans	40.0	[ICRA]BBB- (Stable); assigned
Total	**105.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating derives comfort from the experienced management of ARG Outlier Media Asianet News Private Limited (ARG), with promoters and senior management having significant experience in television broadcasting and the strong market position of its English news channel, Republic TV, in a relatively short period in its addressable segment. The rating also factors in the adequate liquidity position of the company, as evinced by its cash surplus position with healthy balance of liquid investments and Rs. 30 crore of unutilised fund-based facilities (as on June 30, 2019).

The profitability of the company has remained constrained (as evinced by operating loss in FY2019) by the initial gestation period of its channels. While the English news channel was able to achieve EBITDA breakeven in its first year of operations, the second channel, R. Bharat (Hindi news channel), launched in February 2019, is yet to achieve EBITDA breakeven because of its relatively lower market share. Nonetheless, ARG's profitability is expected to improve in FY2020 led by increased advertisement revenues as well as the full year of operations of the Hindi news channel. This is a key rating sensitivity. The company has also ramped up the operations of its digital platforms (website: www.republicworld.com; and mobile application: R.) and expects it to breakeven in FY2020.

Being free-to-air (FTA) channels, the revenues of the company are largely dependent on advertisement revenues. The rating thus factors in the risks inherent in the media and entertainment industry in terms of vulnerability of an advertisement revenue-driven business profile to cyclicality in advertisement spends by the corporates and rising competitive intensity with an increase in the total number of channels in the television broadcasting space. ICRA also notes that the company is exposed to key-man risks, with Mr. Arnab Goswami being a major pull factor for driving the overall viewership and, thus, the advertisement revenues of the English news channel. Nonetheless, some comfort can be drawn from ARG's diversified advertisers' profile and the strong market position of Republic TV. Given the nature of the industry, the company remains exposed to risks of litigation / lawsuits alleging defamation / mis-representation of facts. The impact of the same on the credit profile of the company will be assessed on a case-to-case basis.

ICRA expects ARG to continue to maintain its adequate liquidity and cash surplus position, aided by improvement in profitability of the English news channel due to improved advertisement revenue run rate and breakeven of operations of the Hindi news channel.

Key rating drivers

Credit strengths

Experienced management –. The promoter and the senior management of the company have significant prior experience in television broadcasting. The company is owned and managed by Mr. Arnab Goswami, who is also the managing director of the company and its editor-in-chief and has over 20 years of experience in the television broadcasting industry.

Strong market position of its English news channel – As per BARC[1] viewership ratings, Republic TV has been ranking as the highest rated English news channel since its launch in May 2017, with an estimated market share of 33% for CY2019 (till October 4, 2019) (Source: company).

Adequate liquidity position – The liquidity position of the company is adequate, as evinced by its cash surplus position, with healthy balance of liquid investments and Rs. 30 crore of unutilised fund-based facilities (as of on June 30, 2019).

Credit challenges

Constrained profitability, with the Hindi news channel yet to achieve breakeven – ARG reported operating and cash losses in FY2019 owing to an initial gestation period of its channels. While the English news channel achieved EBITDA breakeven in its first year of operations, its Hindi news channel, launched in February 2019, is yet to achieve EBITDA breakeven on account of its relatively lower market share. Furthermore, the company has also incurred losses on its digital platforms. Nonetheless, the profitability of the company is expected to improve in FY2020 led by increased advertisement revenues as well as the full year of operations of the Hindi news channel. The company has also ramped up the operations of its digital platforms and expects it to breakeven in FY2020.

Exposure to key-man risks – The company is exposed to key-man risks, with Mr. Arnab Goswami being a major pull factor driving the overall viewership and, thus, the advertising revenues of the English news channel. The market position of the channel and hence its revenues may fall, in case of any decline in the popularity of Mr. Goswami.

Revenues dependent on volatile advertisement revenues – With channel portfolio comprising FTA channels, the revenue profile of ARG is dominated by advertisement revenues, which accounted for 77% of its FY2019 revenues. The rating, thus, factors in the risks inherent to the media and entertainment industry in terms of vulnerability of an advertisement revenue-driven business profile to cyclicality in advertisement spends by the corporates and rising competitive intensity with an increase in the total number of channels in the television broadcasting space. Nonetheless, some comfort can be drawn from ARG's diversified advertiser profile and the strong market position of Republic TV in its addressable segment.

Liquidity Position: Adequate

The liquidity position of the company is **adequate**, underpinned by healthy balance of liquid investments and Rs. 30 crore unutilised fund-based facilities (as on June 30, 2019). The cash accruals of the company are also expected to improve in FY2020 led by improvement in profitability of the English news channel due to the improved advertisement revenue run rate and breakeven of operations of the Hindi news channel. As against this, the annual debt-repayments over the next two years are to the tune of Rs. 9-10 crore, with limited capital expenditure plans.

---

[1] *Broadcast Audience Research Council India*

Rating sensitivities

Positive triggers: ARG's rating may be upgraded if the company is able to profitably ramp up its operations, while maintaining a comfortable credit profile. Improvement in operating profit margin (OPM) above 18%, on a sustained basis, would be a positive factor.

Negative triggers: ARG's rating may be downgraded if the company is unable to ramp up its operations as envisaged. Weakening of the market position of its channels or any large investments undertaken for the digital platform, which may exert pressure on the profitability such that the OPM fails to improve above 12% 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 also be 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 rating methodology Rating Methodology for Television Broadcasting Entities
Parent / Group Support	Not Applicable
Consolidation / Standalone	For arriving at the rating, ICRA has considered the consolidated financials of ARG. As on September 30, 2019, the company had a subsidiary, which is enlisted in Annexure-2.

About the company

Incorporated in August 2016, ARG currently operates two FTA news channels—Republic TV and R. Bharat. While the former is an English news channel, operational since May 6, 2017, the latter is a Hindi news channel launched on February 3, 2019. Republic TV is currently ranked as the top viewed English news channel (as per BARC ratings), with R. Bharat being ranked among the top six Hindi news channels. The company has a wholly-owned subsidiary, SARG Global Digital Private Limited, which operates the website, www.republicworld.com, and the mobile application, R.

The company is owned and managed by Mr. Arnab Goswami, who is also the managing director of the company and the editor-in-chief. The investor profile of the holding company is strong, including prominent investors and renowned professionals.

Key financial indicators (audited, consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	154.9	198.9
PAT (Rs. crore)	-2.3	-16.5
OPBDIT/ OI (%)	3.9%	-2.4%
RoCE (%)	0.3%	-9.9%
Total Outside Liabilities/ TNW (times)	0.7	1.2
Total Debt/ OPBDIT (times)	2.2	Not meaningful
Interest Coverage (times)	2.3	Not meaningful
DSCR	3.2	Not meaningful

Source-Company data, ICRA research

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; TOL: Total Outside Liabilities; DSCR: Debt Service Coverage Ratio

Note: In line with the ICRA policy on hybrid instruments, 90% equity credit has been given to compulsorily convertible non-cumulative participatory preference shares and 75% equity credit to compulsorily convertible cumulative participatory preference shares.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2019
					02-Jan-20	-	-	-
1	Fund-based Limits	Long-term	65.0	-	[ICRA]BBB- (Stable)	-	-	-
2	Term Loans	Long-term	40.0	21.5*	[ICRA]BBB- (Stable)	-	-	-

**Outstanding as on September 30, 2019*

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
-	Fund-based Limits-1	NA	NA	NA	35.0	[ICRA]BBB- (Stable)
-	Fund-based Limits-2	NA	NA	NA	30.0	[ICRA]BBB- (Stable)
-	Term Loans-1	06-Dec-2018	12.5%	FY2023	30.0	[ICRA]BBB- (Stable)
-	Term Loans-2	07-Jan-2019	13.0%	FY2021	10.0	[ICRA]BBB- (Stable)

Source: ARG Outlier Media Asianet News Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SARG Global Digital Private Limited	100.0%	Full Consolidation

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@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