April 14, 2020

Network18 Media & Investments Limited: Update

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,500.0	1,500.0	[ICRA]A1+; outstanding
Short-term, Fund-based / Non-fund Based Bank Facilities	500.0	500.0	[ICRA]A1+; outstanding
Total	**2,000.0**	**2,000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ongoing lockdown due to the coronavirus outbreak is likely to have an adverse impact on the advertisement revenues of the broadcasters in Q1 FY2021, as the corporates look to prune advertisement spends. Thus, ICRA has a Negative outlook on the industry. With advertisement comprising around 60-65% of the overall revenues of Network18 Media & Investments Limited (Network18), there is likely to be an adverse impact on its consolidated revenues and profitability during Q1 FY2021. There could also be marginal impact on the company's consolidated Q4 FY2020 operating performance, as the lockdown was declared at the end of the quarter. Nevertheless, as per the Network18 management, subscription revenues are likely to remain stable supporting the operating performance. However, at a standalone level, the company has limited operations with large debt on its books making it dependent on cash flow support from its subsidiary, TV18 Broadcast Limited (TV18, rated [ICRA]A1+) for funding its losses and on its parentage for refinancing its existing debt. ICRA expects the company to avail additional debt or refinance its existing debt based on its strong parentage, which provides significant refinancing ability and can help to meet any short-term funding mismatch. ICRA will continue to monitor the developments in case of a prolonged lockdown and analyse the impact on its credit profile, if any.

ICRA notes that the media businesses under Network18 and its subsidiary, TV18, remain strategically important to Reliance Industries Limited's (RIL) ecosystem approach to digital outreach. Independent Media Trust (IMT), of which RIL (rated [ICRA]AAA (Stable) / [ICRA]A1+ and Baa2 Stable by Moody's Investors Service) is the sole beneficiary, holds a majority stake (73.15%) in Network18. In FY2018, TV18 raised its stake in Viacom18, its joint venture (JV) with Viacom Inc., to 51% from 50%, thereby gaining operational control of the JV, further reiterating the Group's commitment to the media business. The strategic importance of the business to the RIL Group, can be gauged given that this is the largest investment of the Group in the media and entertainment segment. The Network18 Group has diversified presence across media segments and genres including television, films, publishing and internet and is the largest investment of the RIL Group in the media and entertainment segment. The rating draws comfort from the healthy and stable subscription revenue stream attributable to the implementation of the new tariff order (NTO) in FY2019. The subscription revenues are expected to remain unaffected pending implementation of the amendment to the NTO.

Network18's profitability remained weak due to gestation losses from the new channel launches (Colors Tamil, Colors Kannada Cinema and Colors Gujarati Cinema) in the broadcasting business during FY2019 and 9M FY2020 and losses incurred for expansion of its various digital initiatives (VOOT Select / VOOT Kids, News18.com and firstpost.com). Apart from the above investments, which remain in gestation, recurring funding commitments to support investment requirements of its key associate companies (bookmyshow.com, in which they have a ~39% stake; and Homeshop18, which it exited in Q1 FY2020) and working capital requirements for the broadcasting business has strained the company's financial profile. ICRA expects the cash burn, on a consolidated level, to continue over the medium term till the operations of the new channels and the digital businesses scale up further. Moreover, with the broadcasting business driving the bulk (around 97%) of the revenues for Network18 (consolidated), the revenue growth is linked to inherent seasonality and cyclicality in advertisement revenues. ICRA, however, takes comfort from Network18's strong parentage, which lends significant financial flexibility and lends support to the financial profile.

ICRA notes the recent scheme of amalgamation and arrangement amongst Network18, TV18, DEN Networks Limited (DEN) and Hathway Cable & Datacom Limited (Hathway). ICRA will continue to monitor the developments until the conclusion of the transaction, which is estimated by Q2 FY2021.

Key rating drivers and their description

Credit strengths

Strong parentage of Network18 – ICRA derives strong comfort from the parentage of Network18. IMT, of which RIL is the sole beneficiary, holds a majority stake in Network18. RIL is India's largest private sector enterprise with presence across the energy value chain, apart from its presence in retail, oil marketing and telecom segments. ICRA expects the RIL Group to continue providing support, whenever required, to Network18, as it is a key player in the media value chain that RIL is focussing on.

Strategically important business of the RIL Group as its largest investment in the media and entertainment sector, and a key content provider for telecom operators – The RIL management considers the media businesses as a key element for the Group's telecom thrust and the digital businesses. The latter is likely to benefit from the synergies with the telecom venture and the overall increasing 4G and broadband penetration. The RIL Group's commitment to the media business was reiterated by the increase in stake during Q4 FY2018 in TV18's key JV, Viacom18, to 51% from 50%, thereby providing operational control to TV18.

Holding company of Network18 Group, with diversified media platforms including TV, films, publishing and digital – Network18 is the operating and holding company of the Network18 Group. Network18's key direct and indirect investments include TV18 (listed subsidiary), Viacom18 (a 51-49 JV between TV18 and Viacom Inc.), moneycontrol.com and key associate BookMyShow, involved in the business of digital commerce. Amongst these investments, TV18 (including Viacom18), with a strong portfolio of channels across genres, is the most significant driver of the Group's revenues (~97%) and is also the primary contributor to its operating profits. The standalone business profile of Network18 comprises revenues from the digital content, publishing and allied business segments. At present, the Group publishes four magazines—Forbes, Overdrive, Better Interiors and Better Photography.

Credit challenges

Weak standalone financial profile of the company; dependence on refinancing largely mitigated by financial support from TV18 and refinancing ability due to strong parentage – Network18 is primarily a holding company with modest standalone operations. In the past few years, the company's debt levels have increased considerably in view of the losses at the standalone level and the recurring funding requirements to support the expansion/losses of its subsidiaries and associates, chiefly, Homeshop18 (now exited) and bookymshow.com. It exited Homeshop18 completely in Q1 FY2020 (after writing off nearly Rs. 579 crore) and had made a large investment in bookmyshow.com in Q1 FY2019. Thus no major investment is expected in the near-term. Though Network18 has a valuable asset (bookmyshow.com) on its balance sheet, in the absence of any material cash flows through divestment or stake sale proceeds of its associates, the company's debt levels are unlikely to reduce in the medium term. With a limited cash generation ability of its own, the standalone entity has significant refinancing requirement, apart from financial dependence on its subsidiary, TV18, which has a better cash generation ability. ICRA derives strong comfort from the company's parentage, which lends support to its financial profile and provides significant refinancing ability.

Gestation losses of new channels, continued investments in various digital businesses affect profitability and debt protection metrics – The Group had launched three news channels, three regional entertainment channels (including two high definition or HD feeds) and one infotainment channel in FY2017. Furthermore, it launched a Tamil general entertainment channel in Q4 FY2018 and a Kannada movie channel in Q2 FY2019 and VOOT international, a digital initiative, in Q4 FY2019. It launched another movie channel in Gujarati during Q1 FY2020. Subscription offering VOOT Kids was soft launched in Q1 FY2020 with commercial launch during Q3 FY2020, while VOOT Select and VOOT International have been recently launched. The gestation phase of these channels and digital initiatives continues to weigh on the profitability of the entertainment portfolio. Though cost optimisation, high subscription revenue growth post the NTO and monetisation of content through partnerships has supported profitability during 9M FY2020, it remained partly offset by pullback in advertisement revenues due to the economic slowdown and conversion of its free-to-air (FTA) channels to pay channels. Additionally, the company's regional news portfolio remains in scale-up mode. With pressure on the banking, financial services and insurance (BFSI) segment and weak government spending, the revenues and profitability of the news portfolio remained subdued during 9M FY2020.

Network18's investment in digital properties, News18.com, Firstpost, and its over-the-top (OTT) application, VOOT (under Viacom18) and other digital initiatives resulted in losses for the Group and are likely to remain in investment mode (primarily in the nature of operating expenditure), given the significant potential and advertising revenue shift towards the digital platforms. Its ability to monetise the above through a sustainable business model in the medium term will be crucial, as the digital advertisement market is expected to be significant. ICRA will monitor the performance of the digital businesses as it remains the key to reduce the cash burn and improve the Group's overall profitability. The profitability pressure and increase in debt levels resulted in a strain on the company's debt protection metrics during the past two fiscals, which is likely to continue in the near to medium term.

Rising competition in both mass and niche content channels restricts market share and advertisement revenue share – The media and entertainment industry remains linked to the cyclicality in advertisement spends by corporates. In addition, with increasing competition across genres and the emergence of alternative content delivery platforms such as digital media resulting in fragmentation of viewership, the company's ability to maintain its leadership position and the resultant share in advertisement revenue pie will remain crucial.

Liquidity position: Adequate

At the standalone level, Network18's liquidity is constrained by its modest level of operations, funding requirements of its subsidiary/associate companies and losses due to investments in digital. The company is mainly dependent on refinancing and raising additional debt for its incremental funding requirements. It, nevertheless, gets financial support from its subsidiary, TV18, which has been extending loans and advances (Rs. 665.2 crore as on March 31, 2020) to support its operations. Apart from this, the company has access to unutilised standalone fund-based bank lines (Rs. 30.0 crore as on March31, 2020). ICRA, however, derives significant comfort from the company's strong parentage, which can help it meet any short-term funding mismatch and provides considerable financing flexibility.

Rating sensitivities

Positive triggers – Not applicable.

Negative triggers – Change in the rating of the ultimate parent company, RIL, or a reduction in the majority stake by RIL in Network18 or any of its key subsidiaries or reduced support from RIL might result in downward pressure on the ratings. Moreover, a prolonged lockdown due to the coronavirus outbreak impacting the earnings profile of the company, leading to material deterioration in Network18's consolidated financial risk profile and liquidity may lead to downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Media Broadcasting Industry] [Impact of Parent or Group Support on an Issuer's Credit Rating]
Parent/Group Support	**Parent/Group Company:** IMT, of which RIL is the sole beneficiary, holds a majority stake in Network18. ICRA expects RIL Group to continue providing support, whenever required, to Network18 as it is a key player in the media value-chain that RIL is focussing on.
Consolidation/Standalone	Rating is based on the consolidated financial profile of the company. As on March 31, 2019, the company had 15 subsidiaries, four associates, two JVs and 14 subsidiaries of associates that are enlisted in Annexure-2.

About the company

Network18 Media and Investments Limited is a media and entertainment company with interests in television broadcasting, internet, filmed entertainment, digital commerce, magazines, and allied businesses. It manages various internet businesses, including portals such as moneycontrol.com, news18.com, firstpost.com and in.com. It has investments in e-commerce properties such as bookmyshow.com and yatra.com. Homeshop18, which operated on the digital commerce platform, ceased to be an associate with effect from June 06, 2019 and the company subsequently exited the venture by selling off its residual stake subsequently in Q1 FY2020. In addition, Network18 is also present in the publishing segment and publishes Forbes India, Overdrive, Better Interiors and Better Photography magazines. Moreover, it has allied investments in Colosceum, Toppers, Ubona and other companies.

Through its 51.17% subsidiary, TV18 Broadcast Limited, the Group operates news channels such as CNBC TV18, CNBC Awaaz, CNBC Bajar, CNBC TV18 Prime HD, CNN News18, News18 India, News18 Lokmat (a Marathi regional news channel in partnership with the Lokmat Group) and 13 regional news channels under the News18 umbrella.

TV18 operates a 51:49 JV with Viacom Inc., called Viacom18 Media Private Limited. Viacom18 houses a portfolio of entertainment channels such as Colors, Rishtey, MTV India, MTV Beats, Comedy Central, Colors Infinity, Vh1, Nick, Sonic, and Nick Jr and regional entertainment channels in six geographies under the brand Colors, including various HD feeds of entertainment channels. It houses the Group's filmed entertainment business under Viacom18 Motion Pictures. In May 2016, Viacom18 launched VOOT, an exclusive digital video application in the OTT space. Subsequently the company launched expansions - VOOT International, VOOT kids and VOOT Select in Q4 FY2019, Q1 FY2020 and Q4 FY2020 respectively. Furthermore, in February 2018, Viacom18 launched Colors Tamil, the Group's foray into the Tamil regional entertainment market and a second movie channel and its first regional movie channel, Colors Kannada Cinema, in September 2018, taking the number of RGECs to eight. The company recently launched another movie channel, Colors Gujarati Cinema, to further strengthen its presence in the Gujarati regional space.

AETN18, a 51:49 JV between TV18 and A&E Television Networks, operates two channel brands–History TV18 (an infotainment channel), and FYI TV18 (a lifestyle channel).

Network18 is also the largest shareholder (~39%) in entertainment ticketing platform, BookMyShow.

As per 9M FY2020 results, Network18 (consolidated) reported net sales of Rs. 3,892.6 crore and a profit after tax (excluding share of profit / loss from associates/JVs and non-controlling interest) of Rs. 9.4 crore, which included exceptional item of Rs. 50.0 crore on account of impairment related to Homeshop18.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,839.0	5,116.2
**PAT (Rs. crore)	-175.9	-123.3
OPBDIT/OI (%)	-2.0%	4.2%
RoCE (%)	-0.4%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.6
Total Debt/OPBDIT (times)	-59.5	14.3
Interest Coverage (times)	-0.4	1.1
DSCR	-0.1	0.2

**FY2019 financials are not comparable to FY2018 since FY2018 includes consolidation of Viacom18 and Indiacast with effect from March 01, 2018. Also, Homeshop18 ceased to be a subsidiary and became an associate of Network18 with effect from February 15, 2018.*

***Does not include share of profits from JVs / associates and non-controlling interest.*

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							
					Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	14-April 2020	28-February 2020	01-October 2019	25-January 2019	03-August 2018	14-February 2017	01-August-2017	26-May 2017
1	Commercial Paper Programme	Short-term	1,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Borrowing Programme (Bank Loan / NCD)	Long-term	-	-	-	-	[ICRA]AA+ (Negative) Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Fund-based Limits	Short-term	30.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-
4	Unallocated Limits	Short-term	470.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Commercial Paper Programme	NA	NA	7-364 days	1,500.0	[ICRA]A1+
NA	Overdraft / Working Capital Demand Loan	NA	NA	NA	30.0	[ICRA]A1+
NA	Short-term Unallocated Limits	NA	NA	NA	470.0	[ICRA]A1+

Source: Network18

Annexure-2: List of entities considered for consolidated analysis (As on March 31, 2019)

Company Name	Relationship	Consolidation Approach
Network18 Media Trust	Subsidiary	Full Consolidation
TV18 Broadcast Limited	Subsidiary	Full Consolidation
Infomedia Press Limited	Subsidiary	Full Consolidation
AETN18 Media Private Limited	Subsidiary	Full Consolidation
e-Eighteen.com Limited	Subsidiary	Full Consolidation
Moneycontrol Dot Com India Limited	Subsidiary	Full Consolidation
NW18 HSN Holdings Plc	Associate	Equity Method
TV18 Home Shopping Network Limited	Associate	Equity Method
Shop CJ Network Private Limited	Subsidiary of Associate	Equity Method
Colosceum Media Private Limited	Subsidiary	Full Consolidation
Greycells18 Media Limited	Subsidiary	Full Consolidation
IBN Lokmat News Private Limited	Joint Venture	Equity Method
Viacom18 Media Private Limited (Viacom18)	Subsidiary	Full Consolidation
Viacom18 Media (UK) Limited	Subsidiary	Full Consolidation
Viacom18 US Inc	Subsidiary	Full Consolidation
Roptonal Limited	Subsidiary	Full Consolidation
Indiacast Media Distribution Private Limited (Indiacast)	Subsidiary	Full Consolidation
Indiacast UK Ltd	Subsidiary	Full Consolidation
Indiacast US Ltd	Subsidiary	Full Consolidation
Ubona Technologies Private Limited	Joint Venture	Equity Method
Eenadu Television Private Limited	Associate	Equity Method
Big Tree Entertainment Private Limited	Associate	Equity Method
Spacebound Web labs Private Limited	Subsidiary of Associate	Equity Method
Big Tree Entertainment Singapore Pte Ltd.	Subsidiary of Associate	Equity Method
Fantain Sports Private Limited	Subsidiary of Associate	Equity Method
PT Big Tree Entertainment Indonesia	Subsidiary of Associate	Equity Method
Big Tree Entertainment Lanka (Pvt) Limited	Subsidiary of Associate	Equity Method
Dyulok Technologies Private Limited	Subsidiary of	Equity Method

	Associate	
Foodfesta Wellcare Private Limited	Subsidiary of Associate	Equity Method
Big Tree Entertainment DMCC	Subsidiary of Associate	Equity Method
Townscript USA, Inc.	Subsidiary of Associate	Equity Method
Nomobo Entertainment Private Limited	Subsidiary of Associate	Equity Method
Big Tree Sport & Recreational Events Tickets Selling L.L.C	Subsidiary of Associate	Equity Method
Go2Space Event Management Private Limited	Subsidiary of Associate	Equity Method
BookMyShow SDN. BHD	Subsidiary of Associate	Equity Method

Source: Network18

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