January 06, 2020

Viacom18 Media Private Limited: Short-term rating of [ICRA]A1+ reaffirmed; long-term rating of [ICRA]AAA (Stable) withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	500.0	500.0	[ICRA]A1+ reaffirmed
Long-term / Short-term, Fund-based / Non-fund Based Bank Facilities	1,610.7	1,610.7	Short-term rating of [ICRA]A1+ reaffirmed; long-term rating of [ICRA]AAA (Stable) withdrawn
Total	**2,110.7**	**2,110.7**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to Viacom18 Media Private Limited's (Viacom18's) commercial paper programme of Rs. 500 crore and bank facilities of Rs. 1,610.7 crore. ICRA has withdrawn the long-term rating of [ICRA]AAA (pronounced ICRA triple A) with Stable outlook in accordance with ICRA's policy on withdrawal and suspension based on the no objection certificates provided by the company's bankers and as desired by the company.

The rating reaffirmation factors in the company's strong parentage with Reliance Industries Limited (RIL, rated [ICRA]AAA (Stable) / [ICRA]A1+ and Baa2 Stable by Moody's Investors Service) holding 51% stake in Viacom18 and the balance stake being held by Viacom Inc. (rated Baa2 Stable by Moody's Investors Service). The rating also reflects the strategic importance of the media businesses [under the umbrella of its parent, TV18 Broadcast Limited (TV18, rated [ICRA]A1+) and TV18's holding company, Network18 Media & Investments Limited (Network18, rated [ICRA]A1+)] to RIL. 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 in Network18. Viacom18's financial position is moderate, as characterised by standalone capital structure of 0.8 time as on September 30, 2019, healthy profitability of its existing businesses, and adequate liquidity as reflected in considerable undrawn bank limits (almost 55% of Rs. 975 crore sanctioned limits on an average remained unutilised in the six months ending September 30, 2019). The company has a diversified presence across genres in the television broadcasting industry, and its flagship Hindi general entertainment channel (GEC), Colors, has a strong brand franchise with differentiated content both in the fiction and non-fiction categories. Furthermore, the company's niche positioning in the youth, children's and English entertainment genres through brands such as MTV, Nickelodeon, Comedy Central and Vh1, and its strong market position in the children's genre support its business risk profile. Its increasing presence in the growing regional general entertainment channels (RGECs) space is also a positive. The company holds a strong number two position in the Kannada GEC space and is also ranked number two in the Marathi GEC genre. The company's flagship channel, Colors, continues to be the most important revenue and profitability driver. Nevertheless, ICRA draws comfort from the strong brand franchise of the channel and the company's healthy market share in terms of urban viewership ratings, which has supported its advertisement and subscription revenues. ICRA also takes comfort from the company's efforts at diversification through scaling up rest of the businesses.

The company remains exposed to risks inherent to the media and entertainment industry in terms of vulnerability of advertising revenue driven business profile to cyclicality in advertising spends by corporates and rising competitive intensity with an increase in the total number of channels in the mass content as well as niche segments. Furthermore, ICRA notes the inherently working capital-intensive nature of operations and the inherent volatility in the film production and distribution segment. The company's growth (ex-film segment) and profitability remained constrained in FY2019 and H1 FY2020 partly due to the transitory impact of the implementation of the new tariff order (NTO) during Q4 FY2019, loss of advertising revenues due to conversion of its two free-to-air (FTA) channels to pay channels with effect from March 01, 2019 and overall economic slowdown. The implementation of the NTO resulting in increased transparency on channel pricing and content deals with the distribution platform operators (DPOs) has, however, resulted in healthy subscription revenue growth for the company during H1 FY2020, partly compensating for the decline in advertising revenues. Vaicom18's profitability continues to be constrained due to significant investments in its new business segments such as its over-the-top (OTT) platform, VOOT, and new channels under gestation. The investments in the OTT platform are likely to continue, given the significant potential of the digital platform and the potential synergies with Jio. The company's ability to monetise the platform through a sustainable business model (such as subscription revenues) in the medium term, however, will be crucial as the business remains in gestation. Apart from recovery in macro-economic prospects which is critical from an overall industry perspective to drive advertising revenues, Viacom18's ability to regain leadership position in Colors and improve its market position across other genres, especially the regional entertainment space will remain crucial for its revenue growth and profitability. Additionally, containment of losses in VOOT will be a critical driver for the company's overall profitability.

Key rating drivers and their description

Credit strengths

Strong parentage of Viacom18 – With acquisition of additional 1% stake from Viacom Inc. during FY2018, Viacom18 became a subsidiary of TV18, holding 51% stake in Viacom18 and gaining operational control over the joint venture (JV). ICRA derives strong comfort from the parentage of Viacom18, with TV18 being a 51.17% subsidiary of Network18. RIL is the sole beneficiary of IMT, which holds a majority stake in Network18. The balance 49% stake is held by Viacom Inc., which is a global entertainment major. RIL is India's largest private sector enterprise with presence across the energy value chain apart from presence in retail, oil marketing and telecom segments.

Flagship Hindi GEC, Colors, remains its mainstay – Colors, the flagship channel for Viacom18, remains its mainstay with differentiated content both in the fiction and non-fiction category. The company's ability to regain the leadership position of Colors will be critical to maintain overall profitability.

Niche positioning in children's, youth and English entertainment space – The company has iconic brands in its portfolio such as MTV, Comedy Central, VH1 and Nick, which has helped it carve a strong and niche positioning in their respective segments. Furthermore, the children's genre has continued to demonstrate healthy financial performance (as indicated by the management) on the strength of its owned intellectual property rights (IPRs) and maintained its dominant position in the genre.

Regional channels helped diversify revenue base – The addition of five regional GECs with effect from April 01, 2015, post-merger of Prism TV Private Limited has helped diversify the company's revenues and provided it access to significant growth potential in the RGEC space. The company, as a bouquet, ranks number two in the Kannada GEC and as one of the leaders in the Marathi GEC. Furthermore, the company has launched a Tamil GEC during FY2018, a market with high potential, and regional movie channels (Kannada, Gujarati and Bangla) during FY2019 and H1 FY2020 to expand its regional presence. Improving market share of the regional channels and consequent scaling up of revenues of the portfolio will be important for overall improvement in revenues and profitability of the company.

Moderate financial position – The company has a moderate capital structure (0.8 time) as on September 30, 2019 on a standalone basis, providing it flexibility to take on additional debt to support its investments. Furthermore, the profitability of the company's existing business segments (more than one year old) remains strong, which has helped it fund the investments in the OTT space and the new channel launches without significant incremental capital infusion or stretching the balance sheet.

Credit challenges

Significant investments in OTT platform, new channel launches and RGEC portfolio have constrained performance – During Q4 FY2018, the company launched Colors Tamil and subsequently, Colors Kannada Cinema during Q2 FY2019, which remain in gestation, resulting in subdued profitability, as reflected in return on capital employed (RoCE) of 7.3% during FY2019. During H1 FY2020, the company launched Colors Gujarati Cinema and invested in VOOT expansions (VOOT Kids and International). Along with pressure on revenue growth due to the ongoing economic slowdown and loss of advertising revenue due to conversion of its two FTA channels to pay channels, this has constrained its profitability; though the company has undertaken cost control to improve profitability, as observed during H1 FY2020.

Colors remains a significant driver for the company; nevertheless, comfort derived from the strong brand franchise of the channel – Despite diversification provided by expansion of the RGEC portfolio, Colors remains the most important revenue and profitability driver for the company. ICRA, nevertheless, derives comfort from the strong brand franchise of the channel and the company's efforts at diversification through scaling up the rest of the businesses.

Vulnerability of advertising revenues to economic slowdown, viewership trends and competition – The media and entertainment industry remains vulnerable to cyclicality in advertising spends by corporates and the rising competitive intensity with an increase in the total number of channels in the mass content and niche segment. The above factors challenge the company's ability to retain market share and by implication, its advertising revenue share. In the current fiscal, the implementation of the NTO resulting in increased transparency on channel pricing and content deals with the DPOs has resulted in healthy subscription revenue growth for Viacom18 during H1 FY2020, partly compensating for the decline in advertising revenues. Nevertheless, the pace of recovery in macro-economic prospects will be critical to drive overall industry as well as Viacom18's advertising revenue growth. Furthermore, any dramatic shift towards the digital medium away from the television medium is a key overhang for the sector, especially if its own OTT platform, VOOT, is not able to garner higher market share.

Liquidity position: Adequate

The profitability of Viacom18's broadcasting business remains comfortable; however, investment in new initiatives and its OTT platform in gestation has moderated its overall profitability. With moderate internal accruals, the company's fund flow from operations turned negative during FY2019, with significantly higher inventory levels which was only partly offset by better management of supplier credit and controlled debtor levels. This resulted in an increase in incremental external borrowings for working capital. The company has unutilised bank lines (almost 55% of its Rs. 975 crore sanctioned limits on an average remained unutilised in the six months ending September 30, 2019), which provides adequate cushion. ICRA, moreover, derives significant comfort from the company's strong parentage, which can help it meet any short-term funding mismatch and provides considerable refinancing flexibility.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Change in rating of the ultimate parent company, RIL, or reduction in majority stake by RIL in Network18 or any of its key subsidiaries or indication of reduced support to Viacom18 and/or deterioration in Viacom18's consolidated financial risk profile might result in 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 Company:** TV18 (51.17% subsidiary of Network18). IMT, of which RIL is the sole beneficiary, holds a majority stake in Network18. ICRA expects Viacom18's ultimate parent, RIL (rated [ICRA]AAA(Stable)/[ICRA]A1+), to be willing to extend it financial support, should there be a need, given the high strategic importance that it holds for the RIL Group.
Consolidation / Standalone	The rating is based on the consolidated financial profile of the company. As on March 31, 2019, the company had three subsidiaries and one JV that are enlisted in Annexure-2.

About the company

Incorporated in 1995, Viacom18 Media Private Limited is a 51:49 JV between TV18 Broadcast Limited and Viacom Inc. On February 28 2018, TV18 increased its stake in Viacom18 to 51% from 50%, thereby making it a subsidiary of the company. Viacom18 is present in the television broadcasting space with a presence across the Hindi GEC space and niche genres such as youth, kids and English GEC. In the Hindi GEC space, it operates channels such as 'Colors', 'Colors HD' and 'Rishtey India', while it is present in the English GEC segment through 'Comedy Central', Vh1 and 'Colors Infinity'. In the youth genre, it has channels such as 'MTV' and 'MTV Beats; while in the children's genre, its portfolio is represented by channels such as 'Sonic', 'Nickelodeon' and 'Nick Jr.' The company also launched a Hindi movie channel 'Rishtey Cineplex' in May 2016 and an OTT platform 'VOOT' in March 2016.

During September 2016, Viacom18 concluded the merger of Prism TV (a JV between Nickelodeon Asia Holdings Pte Ltd, a Viacom Inc. company, and TV18) with itself, effective from April 01, 2015. This added five RGECs – Colors Kannada, Colors Marathi, Colors Bangla, Colors Gujarati and Colors Oriya to Viacom18's portfolio. Furthermore, the company launched a second Kannada GEC, 'Colors Super' during July 2016. The company also launched its Tamil regional GEC, 'Colors Tamil' and its high definition (HD) feed during February 2018. The company introduced a second movie channel and its first regional movie channel, Colors Kannada Cinema in September 2018. The company launched two more regional movie channels, Colors Gujarati Cinema in February 2019 and Colors Bangla Cinema in June 2019 to strengthen its regional presence.

Viacom18 also has a presence in the film production and distribution business under a division, Viacom 18 Motion Pictures. In addition to domestic film production and distribution, the company is also the sole distributor of all Paramount films in Indian subcontinent. IndiaCast Media Distribution Pvt Ltd (IndiaCast), a JV between Viacom18 and TV18, is a content asset monetisation company, which manages the distribution and monetisation of the company's international business.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3,685.4	3,664.9
**PAT (Rs. crore)	87.3	80.5
OPBDIT/OI (%)	5.8%	5.5%
RoCE (%)	9.0%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.8
Total Debt/OPBDIT (times)	2.7	3.7
Interest Coverage (times)	4.2	4.2
DSCR	0.5	0.5

***Does not include share of profits from JVs / associates*

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				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 06-Jan 2020	Date & Rating in FY2019 07-Dec 2018	Date & Rating in FY2018 16-Mar 2018	09-Feb 2018	10-Nov 2017	Date & Rating in FY2017 27-Oct 2016
1	Commercial Paper Programme	Short-term	500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based Limits	Short-term	0.0	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
3	Fund-based / Non-fund Based Limits	Long-term / Short-term	0.0	-	[ICRA]AAA (Stable) Withdrawn/ [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AA% / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+
4	Fund-based / Non-fund Based Limits	Short-term	975.0	-	[ICRA]A1+	-	-	-	-	-
5	Unallocated Limits	Long-term / Short-term	0.0	-	[ICRA]AAA (Stable) Withdrawn/ [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AA% / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	-
6	Unallocated Limits	Short-term	635.7	-	[ICRA]A1+	-	-	-	-	-

Source: Viacom18

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	Cash Credit / Overdraft / Working Capital Demand Loan / Letter of Credit / Bank Guarantee	NA	NA	NA	975.00	[ICRA]A1+
NA	Short-term Unallocated Limits	NA	NA	NA	635.7	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-364 days	500.0	[ICRA]A1+

Source: Viacom18

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

Company Name	Relationship	Consolidation Approach
Viacom18 Media (US) Limited	Subsidiary	Full Consolidation
Viacom18 US Inc.	Subsidiary	Full Consolidation
Roptonal Limited, Cyprus	Subsidiary	Full Consolidation
IndiaCast Media Distribution Private Limited	Joint Venture	Equity method

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