

Press Release

Living Entertainment Enterprises Private Limited

June 21, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 639.00 Cr. (Enhanced from Rs. 229.00 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.229.00 crore bank facilities of Living Entertainment Enterprises Private Limited.

Further, Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.410.00 crore bank facilities of Living Entertainment Enterprises Private Limited. The outlook is '**Stable**'.

Living Entertainment Enterprises Private Limited (LEEPL; formerly Global Multi Trading Private Limited) was incorporated in 2014 and is engaged in television broadcasting & content development. LEEPL is currently operating 'Living Foodz' channel in India which is part of the Zee network.

Analytical Approach

To arrive at its rating, Acuité has considered the standalone financials to evaluate the credit quality of LEEPL and subsequently factored financial support from the Essel Group of companies.

Key Rating Drivers

Strengths

Benefits derived from strong linkage and support from Essel Group:

LEEPL is a part of the Essel group and is engaged in the television broadcasting business in India. The Essel group is led by Mr. Subhash Chandra and is one of the largest diversified groups having presence in media, entertainment, packaging, technology, infrastructure, financial services and education among others. The Essel group companies have a demonstrated ability to mobilise funds and refinance their existing debt from various banks and large non-banking finance companies at competitive rates.

LEEPL has an arrangement with Zee Entertainment Enterprises Limited (ZEEL) for its advertisement and subscription revenue collections. The advantage of this arrangement is that LEEPL is able to leverage the established marketing set up of ZEEL in the Indian market and maintain a lean cost structure as the entire marketing effort is handled by ZEEL for a pre-agreed fee linked to the revenues. Mr. Himanshu Mody and Mr. Hitesh Vakil are the current directors of LEEPL.

Essel group companies hold majority shareholding of LEEPL. Apart from equity capital, the promoters and other group/related companies have supported the borrowings of LEEPL. The backing of the Essel group has significantly enhanced the resource raising ability of LEEPL and is a strong credit enhancement factor.

Acuité believes that LEEPL will continue to receive strong support from the Essel Group given the strategic importance of the company to the group. Also, the group will take all necessary steps to ensure that the rated entity meets all its obligations under the available bank facilities. The cash flows of LEEPL are likely to remain inadequate, and hence, Acuité believes that timely support from Essel Group will be critical to maintain the debt service commitments of LEEPL.

Weaknesses

Susceptibility of operating performances to the ability to maintain a robust growth in strong subscriber base:

LEEPL's main streams for revenues are subscription revenues and advertisement revenues. For FY2016-17 LEEPL registered revenue of Rs.33.41 crore as compared to Rs.8.74 crore in FY2015-16. For FY2018, the company registered revenue of ~Rs.71.94 crore (Provisional). While LEEPL's scale of operations is small currently as it is dependent on revenues from only one channel currently, it will increase gradually with the addition of three more channels over the next few years.

Ability of LEEPL to strengthen its subscriber base will depend on its ability to maintain strong content pipeline consistent with the viewer's evolving preferences. Any slower than expected growth in subscriber base will impact future revenues of LEEPL. It, therefore, becomes critical that the company develops content for a broad base of subscribers. The flow of advertisement revenues is also linked to the advertisement budget of the potential advertisers. Any cutbacks in the advertisement budget by potential advertisers will have implications on the revenues of LEEPL.

Acuité believes the operating performance of LEEPL will be susceptible to the company's ability to maintain a strong subscriber base.

Average financial risk profile:

The company's financial risk profile is marked by moderate net worth, high gearing and weak debt protection measures.

The company has average financial risk profile marked by tangible net worth of Rs.65.54 crore as on 31 March, 2017 as compared to Rs.100.74 crore as on 31 March, 2016. The company registered losses in FY2017 of Rs.33.24 crore majorly on account of significant one time write off of 'Gorb App'. The company's profitability is expected to improve only gradually over the medium term.

The gearing stood at 6.69 times as on 31 March, 2017 as against 2.96 times as on 31 March, 2016. The outstanding debt of Rs.438.51 crore as on 31 March, 2017 comprised Rs.140.00 crore of bank term loan and Rs.298.51 crore in the form of optionally convertible debenture by Group Company to be invested in an overseas company (Veria International Private Limited). The term loan is for content production for the channel and the repayments commenced June 2018.

Acuité believes that LEEPL's financial risk profile is likely to remain constrained on account of the continued leveraged capital structure and low accretions to net worth over the medium term.

Outlook: Stable

Acuité believes that LEEPL will maintain a 'Stable' outlook over the medium term on account of its strong linkages with, and support from, the Essel Group. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while curtailing exposure to other entities and managing its working capital requirement efficiently. Conversely, the outlook may be revised to 'Negative' in case of any dilution of support from the Essel Group, thereby impacting its debt servicing ability or in case of any deterioration in the financial risk profile and liquidity position of the company.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.41	8.74
EBITDA	Rs. Cr.	(31.77)	(4.15)
PAT	Rs. Cr.	(33.24)	(4.72)
EBITDA Margin	(%)	(95.08)	(47.47)
PAT Margin	(%)	(99.49)	(53.99)
ROCE	(%)	(7.33)	(2.22)
Total Debt/Tangible Net Worth	Times	6.69	2.96
PBDIT/Interest	Times	NA*	NA
Total Debt/PBDIT	Times	NA	NA
Gross Current Assets (Days)	Days	1,622	383

*NA as the company has reported losses at PBDIT level

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21-Feb-18	Term loan I	Long term	225.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loan I	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE BBB/Stable (Reaffirmed)
Term loan II	Not Applicable	Not Applicable	Not Applicable	410.00	ACUITE BBB/Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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