

Press Release

Rachana Television Private Limited

January 13, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.16.00 Cr bank facilities of Rachana Television Private Limited (RTPL). The outlook is '**Stable**'.

Incorporation in 2006, Rachana Television Private Limited (RTPL) is a Hyderabad (Telangana) based company, promoted by T. Narendra Choudary. The company broadcasts 3 television channels; NTV, which is a 24-hour Telugu News Channel; Bhakthi TV, a devotional channel, and Vanitha TV, which is a 24-hour women's entertainment channel. The company has its own studio with an area of 10,000 sqft located in Jubilee Hills Hyderabad. RTPL has 2 studios at Hyderabad, 1 studio in Bangalore and 1 studio at Delhi for Art Production and Post Production facilities.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RTPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of the management team and established market position in Telugu News segment**
RTPL, incorporated in 2006 is promoted by Mr. T. Narendra Choudary, who has nearly 2 decades of experience media broadcast industry. NTV, RTPL's flagship channel, was among the first few 24-hour Telugu news channels to be launched and has been among the top 3 Telugu news channels, in terms of viewership, in Andhra Pradesh and Telangana region over the past 4 years. As on October 2020, NTV continued to be the 2nd most watched channel (as per BARC Ratings) among more than 15 Telugu News channels in the region. Bhakthi TV has remained one of the top devotional channels in South India over the years. Acuité believes the established market position of NTV will continue to support the business risk profile over the medium term.

- Healthy financial risk profile**

RTPL's financial risk profile is healthy, marked by healthy capital structure and debt protection metrics. RTPL has a net worth of Rs.123.96 Cr as on March 31, 2020 (provisional) as against Rs.121.89 Cr as on March 31, 2019. RTPL's capital structure is healthy marked by its gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.14 times and 0.26 times respectively, as on March 31, 2020 vis-à-vis 0.19 times and 0.27 times March 31, 2019. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 3.34 times and 0.40 times, respectively, in FY2020 vis-à-vis 3.10 times and 0.31 times for FY2019. RTPL generated cash accruals of Rs.7.00 to 12.71 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.1.60-1.80 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-10 Cr during 2021-23, while their repayment obligations are estimated to be around Rs.1-2 Cr during the same period. Acuité believes that in the absence of any major debt-funded capital expenditure in the near term; financial risk profile is expected to be healthy over the medium term.

Weaknesses

- Working Capital Cycle marked by high GCA days**

RTPL's working capital is marked by high GCA days about 774 days in FY20 (FY19: 571 days) owing to the high debtors and inventory days. This was largely due to an increase in its receivable days to 359 in FY20 (FY19: 288) and its inventory days to 263 in FY20 (FY19: 157). Debtor days are high owing to delays in payments from local advertising agencies and customers. The inventory comprises of in-house recorded

programmes or content purchased from other providers, especially for Bhakthi TV and Vanitha TV for years together running around 2 lacks videos. Its creditor's days stood at 322 days in FY20 (FY19: 125 days). Its bank lines remained utilised at 98 percent during last 6 months ended with Nov 2020. Acuité expects RTPL's operations to remain working capital intensive over the medium term on account of high debtors and high inventory (typical nature of business).

• Moderate scale of operations; concentrated revenue in terms of geography and channels operated

RTPL reported revenue of Rs. 56.71 Cr in FY20 with a de-growth of about 20 percent as against last year; although revenues remained flat over the last 3 years ending FY19. The impact of Covid-19 on end-user industries and slowdown in the economic growth affected the company's revenues in the recent years on advertising income. RTPL's profit margins are maintained 22-24 percent during last 3 years ended with FY20. RTPL derives a significant proportion of its revenues of about 60 percent from one of its 3 channels – NTV; imposing concentration in its revenue profile from high dependence on single channel for revenue generation. RTPL's television broadcasting business presence is limited to two states - Andhra Pradesh and Telangana; exposing it to the political and economic developments in the region. Nonetheless, comfort is drawn from the 2nd leadership position of NTV news in these states. Nonetheless, comfort is drawn from the healthy market share of NTV Telugu in Andhra Pradesh and Telangana. Acuité believes that RTPL's scale of operation will grow yet remain moderate along with significant geographical and channel-wise concentration risk in its revenue profile.

• Highly fragmented nature of the industry and Exposed to advertising cycles

The Telugu News broadcasting industry consists of more than fifteen players operating in Andhra Pradesh and Telangana owing to low entry barriers and low capital intensity of operations. This has given rise to intense competition limiting the pricing power and margins of the company. The company's high dependence on advertisement sales, with all three channels being free-to-air channels, exposes the company to the advertisement cycles increasing the volatility of the revenues. Economic downturns affect advertising revenues of channels as companies cut back on their ad spends. Any change in the advertiser preferences (which may arise due to the loss of market share, availability of alternative mass communication medium or any other reason) may adversely impact the business and financial condition.

Liquidity Position: Adequate

The Company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations; albeit constrained by highly utilized bank lines. RTPL generated cash accruals of Rs.7 to 12 Cr during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.1.60-1.80 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.7-10 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.1-2 Cr during the same period. RTPL's working capital is elongated reflected by its high GCA days about 774 days in FY20 (FY19: 571 days) owing to the high debtors and inventory days. Its bank lines at 98 percent over six months through Nov 2020. The Company maintained cash and bank balances of Rs. 1.35 Cr as on 31 March 2020. The current ratio stands moderate at 4.01 times as on 31 March 2020. Acuité believes that the liquidity of the RTPL is likely to remain adequate over the medium term on account of healthy cash accruals against its moderate repayment obligations.

Rating Sensitivities

- Higher-than-expected operating income (OI) along with improvement in profitability
- Improvement in receivable cycle

Material covenants

None

Outlook: Stable

Acuité believes that RTPL will maintain a 'Stable' outlook over the medium term on the back of its leadership in television market and experienced management. The outlook may be revised to 'Positive' in case, the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position and improving its receivable cycle. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	56.71	71.19
PAT	Rs. Cr.	2.07	2.03
PAT Margin	(%)	3.65	2.86
Total Debt/Tangible Net Worth	Times	0.14	0.19
PBDIT/Interest	Times	3.34	3.10

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-52.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BB/Stable (Assigned)
Guaranteed Emergency Credit Line (GECL)	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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