Press Release

Malayalam Communications Ltd

March 06, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Fund Based – Cash Credit	Rs. 46.60 (Enhanced from Rs.37.00 crore)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Re-affirmed
2	Long Term Bank Facility – Term Loan	Rs. 22.46 (Enhanced from 20.76 crore)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Re-affirmed
4	Working Capital Demand Loan	Rs. 9.60	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Withdrawn*

**The limits have been withdrawn as the debt had been paid in full.*

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating affirmation to the bank facilities of Malayalam Communications Ltd (MCL) continue to derives comfort from its experienced promoters and management, channels across genres, established presence in the regional segment and healthy financial risk profile. However, the rating strengths are partially offset by range bound operating revenues, elongated operating cycle and slow recovery of trade receivables, capital intensive nature of business, and high competition in the television broadcasting segment along with the rapid advancement in smartphone technology

Key Rating Sensitivities

Upward revision factors:

- Sustained increase in profitability along with improvement in leverage
- Significant improvement in gearing

Downward revision factors:

- De-growth in revenues due to regulatory restrictions or pricing pressures
- Increased stress on working capital cycle due to increase in receivables.
- Significant deterioration in debt protection parameters

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and management

MCL was incorporated in 2000 and has a track record spanning more than 18 years in the television broadcasting segment. The company was promoted by Mr. P. I. Mohammed Kutty (alias Mammootty), a renowned actor in the Malayalam film industry. Mr. John Brittas, a renowned journalist with rich experience in television industry, is the Managing Director of the company. Further, the key managerial personnel of the company are also well experienced.

Channels across genres

The first channel of the company, Kairali TV, was aired in 2000. The company gradually entered other genres by offering a bouquet of channels. Kairali People (24*7 news channel), Kairali WE (youth channel) and Kairali Arabia (GEC catering to the Malayali population in the Middle East) were started in 2005, 2007 and 2015 respectively.

Established presence in the regional segment

The channels of the company have strong presence in geographies having substantial Malayalam speaking population like Kerala, GCC countries, etc. The average viewership of the company's channels has been flat over the last three years. All channels of MCL are included in the "south package" offered by all major cable providers (including leading DTH providers).

Healthy financial risk profile

The capital structure of the company has remained comfortable with a gearing ratio reducing to 0.82x as on March 31, 2019 due to decline in borrowings. Going forward, the company are not anticipating any debt-funded capex, along with an expected steady increase in accruals, the capitalisation and coverage indicators are expected to improve gradually over the projected period. The company has infused capital in the form of Compulsorily Convertible Debentures aggregating Rs.27.50 crore during FY17-FY19 (of which Rs.10 crore came in FY19).

Key Rating Weaknesses

Range bound operating revenue

The company posted marginal increase in revenue from Rs.61.69 crore in FY18 to Rs. 62.10 crore in FY19. EBITDA margins of the company has been healthy over the last three years in the range of 56-58%. The EBITDA margin of the company has reduced marginally during FY19 due to increased overhead costs. The company has also seen a decrease in their gross cash accruals due to an increase in taxes paid in the current year.

Continually elongated operating cycle and slow recovery of trade receivables

Operations of the company are working capital intensive in nature. The average receivable collection days and average creditor days stood at 253 days and 75 days respectively in FY19. The working capital cycle is elongated (177 days in FY19) on account of high debtor days. Additionally, the company had an average utilisation of 93.98% in the last 12 months ended January, 2020. The operating cycle of the company has been stretched largely due to a high amount of creditors; amounting to Rs. 78.89 crore in FY19, increased from Rs. 74.35 crore in FY18; the management has stated that the debtors largely include advances given to the gulf channel and collections from the Kerala State Government, the recoveries from whom has been slow. Additionally, the company has written off bad debts amounting to Rs. 3.55 crore in FY18 and Rs. 1.67 crore in FY19.

Capital intensive nature of business

The segment in which the company operates is highly capital intensive due to the need for procurement of various network rights & licenses along with requirement of infrastructure and equipment. Further, the company also invests significantly in content creation (producing television soaps etc.) in order to attract more viewership.

High competition in the television broadcasting segment along with the rapid advancement in smartphone technology

The media and entertainment industry remains related to the cyclicality in advertising 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 ability of the company to maintain its leadership position and the resultant share in advertisement revenue will remain crucial. On a regional level the company faces competition from multiple broadcasters including Asianet (a southern media heavyweight). The ability of the company to ably fend off its competition and keep its revenues at a sustained level remains a key rating factor.

Analytical Approach &Applicable Criteria:

Standalone

Rating Methodology for Service companies

Financial Ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company is earning a moderate level of GCA and the same is expected to increase gradually with increase in scale of operation and level of margin, while the long term debt is likely to reduce indicating lower debt servicing obligations and the company utilising its internal accruals to fund any capital expenditure requirements. Promoters have financially supported the operation of the business as and when required and the same is expected to be so going forward and a part of which is reflected in increase in net worth by virtue of equity infusion in the form of CCD. All these factors indicate an Adequate degree of liquidity support to the company in meeting its near-term debt obligations.

About the Company

Malayalam Communications Limited (MCL) is an unlisted public limited company incorporated in 2000. MCL is a television broadcasting company which operates four regional channels primarily catering to the Malayali speaking population both in India and abroad. The first channel of the company, Kairali TV, was aired in the year 2000 and since then the company has gradually entered other genres by offering a bouquet of channels. MCL was promoted by Mr. P. I. Mohammed Kutty (alias Mammootty), a renowned actor inthe

Malayalam film industry. The company has a unique shareholding pattern with around 99.5% of the shares held by over seventy thousand individual shareholders, which was raised by the company through private placement. Mr. John Brittas is the Managing Director of the company. He is a renowned journalist with rich experience in television and broadcasting industry. The average viewership over the last three years has been over two million.

Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	61.69	62.10
EBITDA	36.27	35.12
PAT	0.58	1.27
Total Debt	84.54	86.30
Tangible Net-worth	93.45	105.26
EBITDA Margin (%)	58.79	56.55
PAT Margin (%)	0.94	2.05
Overall Gearing Ratio (x)	0.90	0.82

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Limit / outstanding (Rs. cr.)	Rating	Date(s) & Rating(s) assigned in 18-19	Date(s) & Rating(s) assigned in 17-18	Date(s) & Rating(s) assigned in 16-17
1.	Long Term Fund Based – Cash Credit	Long Term	46.60 (Enhanced from Rs. 37.00 crore)	IVR BBB/Stable Outlook	IVR BBB/Stable Outlook (dated 21.02.19)	--	--
2.	Long Term Bank Facility – Term Loan	Long Term	22.46 (Enhanced from Rs 20.76 crore)	IVR BBB/Stable Outlook	IVR BBB/Stable Outlook (dated 21.02.19)	--	--
3.	Working Capital Demand Loan	Long Term	Rs. 9.60	Withdrawn	IVR BBB/Stable Outlook (dated 21.02.19)	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Team:

Name: Rajath Rajpal
Tel: (022) 62396023
Email: rrajpal@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based – Cash Credit	NA	NA	NA	46.60	IVR BBB/ Stable Outlook
Long Term Bank Facility – Term Loan	NA	NA	2023	22.46	IVR BBB/Stable Outlook