Press Release

Malayalam Communications Limited

February 21, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits	37.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
2.	Long Term Debt - Term Loan	20.76	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
3.	Working Capital Demand Loan	9.60	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
	Total	**67.36**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the experienced promoters and management, established presence in the regional segment, channels across genre and capital infusion in the recent past and improvement in debt coverage parameters. The rating however is constrained by range bound operating revenue, elongated operating cycle, capital intensive nature of business and high competition in the television broadcasting segment. Profitability post changes in TRAI regulations and ability to innovate content to withstand competition are the key rating sensitivities.

Detailed Description of Key Rating Drivers

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 film star in the Malayalam film industry. Mr. John Brittas, a renowned journalist with rich experience in television industry, is the Managing Director of the company.

Channels across genre

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 (catering to the Malayali population in the GCC countries) 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 malayali speaking population like Kerala, GCC countries, etc. The average viewership of the company's channels has been firm over the last three years.

Capital infusion in the recent past and improvement in debt coverage parameters

The company has got infused capital in the form of Compulsorily Convertible Debentures aggregating Rs.27.50 crore during FY16-H1FY19 (of which Rs.10 crore came in H1FY19). This coupled with repayment of debt helped the company to improve its overall gearing ratio. The long term debt to equity ratio was comfortable at 0.41x as on March 31, 2018. The interest coverage ratio stood at 3.20x in FY18. Total debt to GCA was comfortable at 3.68x in FY18.

Key Rating Weakness

Range bound operating revenue

EBITDA margin of the company has been healthy over the last three years in the range of 50-60%. However, the EBITDA margin is not an appropriate reflector of the operating profitability of the company as content creation and procurement of licenses (primary cost of the company) is capitalized. The PAT margin has generally been on the lower side (in the range of 1-2% for the last three years) due to high depreciation and amortisation costs.

Elongated operating cycle

Operations of the company are working capital intensive in nature. The average receivable collection days and average creditor days stood at 488 days and 225 days respectively in FY18. The working capital cycle is elongated (263 days in FY18) on account of high debtor days.

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

In the regional segment, the company faces high competition from prominent television broadcasting players like Sun TV, Asianet etc. Sustaining viewership level, revenue growth and profitability in such a competitive space is a key challenge faced by the company.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Service companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

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. 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. All these factors indicate a moderate 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 in the 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 (Standalone basis) **(Rs. crores)**

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	60.87	61.69
EBITDA	33.94	32.57
PAT	0.73	0.58
Total Debt	108.24	91.18
Tangible Networth	84.29	93.45
EBITDA Margin (%)	55.76	58.56
PAT Margin (%)	1.20	0.94
Overall Gearing Ratio (x)	1.28	0.98

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund Based Facilities	Long Term	37.00	IVR BBB/Stable Outlook	--	--	--
2.	Term Loan	Long Term	20.76	IVR BBB/Stable Outlook	--	--	--
3.	Working Capital Demand Loan	Long Term	9.60	IVR BBB/Stable Outlook			

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.

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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 Limits	--	--	--	37.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
Long Term Debt-Term Loan	--	--	November 2023	20.76	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
Working Capital Demand Loan	--	--	Eligible for roll over post maturity (Oct 2019)	9.60	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)