Press Release

Kalaignar TV Private Limited

November 23, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	75.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Total	**75.00 (Rupees Seventy-Five Crore Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Kalaignar TV Private Limited (KTPL) continues to draw comfort from its experienced promoters and management, creative contents along with increase in scale of operations and moderate debt protection metrics.

However, the rating strengths are partially offset by elongated collection period, high level of contingent liabilities and pending litigations, 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 Factors

- Substantial & Sustained improvement in revenue & EBITDA margin while maintaining the debt protection metrics.
- Continued improvement in gearing
- Resolution of contingent liabilities

Downward Factors

- Increased stress on working capital cycle due to increase in receivables
- Significant decline in total revenue/ profitability resulting deterioration in debt protection metrics.
- Any negative outcome in the ongoing litigations

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

KTPL was incorporated in 2007 and has a track record spanning 4 years in the television broadcasting segment. The company is promoted by Mr. M K Dayalu, Ms Kanimozhi Karunanidhi & Mr Sharad Kumar renowned politician. Further, the key managerial personnel of the company are also well experienced. The senior management consists of people with long experience in the industry having worked with various other TV broadcasting companies.

Creative contents

Ability of the team to come out with creative contents has enabled Kalaignar TV Private Limited to face healthy competition from existing strong players in the industry. Company management has also incorporated the values of social commitment to the society that can be seen as a part of various contents broadcasted by the company.

Increase in revenue and moderate debt protection metrics

The Total Operating Income (TOI) of Kalaignar TV Private Limited increased Y-o-Y by 30% i.e from Rs. 47.13 Crore in FY21 to Rs. 61.19 Crore in FY22 due to increase in advertisement revenue. The company's EBITDA margin decreased by 164bps i.e. from 28.87% in FY21 to 27.23% in FY22 due to one-time write-off of Bad-Debts amounting to Rs. 2.92 Crore in FY22. However, the company has reported PAT of Rs.4.55 crore in FY22 as against net loss incurred in FY21. The company had reported net loss in FY21 due to higher deferred tax liabilities. Gross Cash Accrual of the company increased from Rs. 5.96 Crore in FY21 to Rs. 8.69 Crore in FY22.

The total debt of the company comprises of outstanding working capital borrowings of Rs 67.80 crore as on March 31, 2022. The Overall Gearing Ratio of the company remained negative as on 31-Mar-22 on account of negative tangible net-worth on account of accumulated losses. TOL/TNW was also negative as on 31-Mar-2022. However, the interest coverage ratio has remained moderate at 1.85x in FY22 (FY21: 1.49x). Total Debt to GCA improved from 11.76 years in FY21 to 7.80 years in FY22 on account of increase in gross cash accruals.

Key Rating Weaknesses

Elongated collection period

The operations of KTPL are working capital intensive on account of stretched receivable days. As on 31st March 2022, overall debtor days stood at 143 days (FY21: 171 days). The outstanding debtors for more than 6 months as on 31-Mar-2022 is Rs. 5.48 Crore which formed ~22% of total outstanding debtors of Rs.25.02 crore. Creditor days for FY22 was 81 days (FY21: 124 days) and overall cash operating cycle elongated to 62 days in FY22 (FY21: 47 days).

High level of contingent liabilities and pending litigations

The company's level of contingent liabilities as on 31-Mar-2022 remained higher at Rs. 191.87 Crore on account of income tax demand imposed by Income Tax authorities for three different Assessment years. As per the company, they have won a case of ~Rs. 99 Crore for Assessment Year 2011-12 in Madras High Court recently. However, litigation for the aggregate balance amount of Rs. 92.87 Crore for two different Assessment years is still pending with the concerned appellate authority. Further, the Central Bureau of Investigation (CBI) Special Court, New Delhi vide its order dated 21st December 2017 had acquitted the Directors, shareholders, the then CFO and the Company from the cases filed by the CBI and Enforcement Directorate (ED). However, the CBI and ED have gone for an appeal before Delhi High Court contesting the order of the CBI Special Court and the same is still pending.

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. The company has a negative net-worth as on March 31, 2022 due to accumulated losses over the last few years due to amortization of films rights done in the past. Films rights value is reflected under the intangible assets under foot notes with gross block amounting to Rs 257.76 crore as on March 31,2022 with net block of Rs.0.30 crore as on the same date.

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. The ability of the company to ably fend off its competition and keep its revenues at a sustained level remains a key rating factor. The company w.e.f. Sep 01^{st}, 2022 has converted its free channels to paid channels as per TRAI regulations which is expected to add to its revenue base.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Company

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning Rating Outlook

Liquidity – Adequate

Liquidity of Kalaignar TV Private Limited is adequate on account of expectation of generation of cash accruals as against nil long-term debt obligations despite a low current ratio of 0.61x as on March 31, 2022. The working capital utilisation on average stood at 72% for the trailing 12 months period ending October 2022. The unencumbered cash and bank balance as on 31-Mar-2022 is Rs. 5.01 Crore.

About the Company

Incorporated in 06.06.2007, Kalaignar TV Private Limited is a television boradcasting company which operates in 6 regional channels primary catering to Tamil speaking population in India. The company has a bouquet of channels for different segments of viewers and entertainment seeker like Kalaignar TV(GEC – General Entertainment Channel), Isai Aruvi & Murasu (Music), Seithgal (News), Sirippoli (Comedy) and Chithiram (Kids).Presently the company is managed by Mr.P.Amirtham who has very rich experience in the entertainment area along with another Director Mr. Srinivasan Elangovan.

The company has its own production and post production centre with total infrastructure for programs of high quality at Chennai. Kalaignar TV Private Limited has 5 studios equipped with the latest digital hardware in video and audio and all facilities of transmission from the studio premises itself.

Financials (Standalone):

(Rs. Crore)

For the year ended*/ As on	2021 Audited	2022 Audited
Total Operating Income	47.13	61.19
EBITDA	13.61	16.66
PAT	-2.73	4.55
Total Debt	70.07	67.80
Tangible Net Worth	-45.27	-39.10
EBITDA Margin (%)	28.27	27.23
PAT Margin (%)	-ve	7.28
Overall Gearing Ratio (x)	-ve	-ve

* Classification as per Infomerics` standards; -ve - negative

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (November 26, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	75.00	IVR BB+/ Stable	IVR BB+/ Stable	--	--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	75.00	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Kalaignar-nov22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.