Malayalam Communications Limited

April 17, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Term Loan	32.06 (enhanced from INR22.46 crore)	IVR BBB / Credit Watch with Developing Implications (IVR Triple B Credit Watch with Developing Implications)	**Rating Re-affirmed and moved to Credit Watch with Developing Implications**
2.	Long Term Bank Facility – Fund Based – Cash Credit	46.60	IVR BBB / Credit Watch with Developing Implications (IVR Triple B Credit Watch with Developing Implications)	**Rating Re-affirmed and moved to Credit Watch with Developing Implications**
	Total	**78.66**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating re-affirmation to the bank facilities of the entity derives comfort from the company's continued healthy financial risk profile, experienced promoters and management and channels across genres and established presence in the regional segment. However, range bound operating revenues, continually 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 are the rating constraints.

The outlook has been revised to Credit Watch with Developing Implications due to subdued financial performance in FY20 and 11MFY20 affected by the COVID-19 pandemic.

Key Rating Sensitivities

Upward factors:

- Sustained improvement in profitability as projected
- Continued improvement in gearing

Downward factors:

- Increased stress on working capital cycle due to increase in receivables
- Significant deterioration in debt protection metrics

Key Rating Drivers with detailed description

Key Rating Strengths

Continued healthy financial risk profile

The total debt of the company has declined from INR85.98 crore in FY19 to INR73.28 crore in FY20, which has led to an improvement in the gearing ratio to 0.68x at the end of FY20 with the TOL/TNW standing at 0.86x. The interest coverage ratio has remained comfortable at 3.38x. Going forward the company does not expect any major debt funded capital expenditure.

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 is 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 and established presence in the regional segment

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. 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).

Key Rating Weaknesses

Decline in profitability

The company posted decline in revenue from INR62.10 crore in FY19 to INR58.96 crore in FY20 due to decline in branding arrangements and advertisement sales. EBITDA margins of the company has been healthy over the last three years in the range of 48-59%. The EBITDA margin of the company has reduced in FY20 due to increased overhead costs. Furthermore the y-o-y profitability has declined from INR45.57 crore in 11MFY20 to INR40.89 crore in

11MFY21 due to cancellation of events that were scheduled to be held and slowdown in advertisement sales due to the COVID-19 pandemic.

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 206 days and 52 days respectively in FY20. The working capital cycle is elongated (154 days in FY20) on account of high debtor days. Additionally, the company had an average utilisation of ~89% in the last 12 months ended February 2021. The operating cycle of the company has been stretched largely due to a high amount of debtors; 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.

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: Standalone

Applicable Criteria

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Liquidity is adequate despite a low current ratio of 0.62x in FY20, the GCA remains comfortable at INR19.68 crore as opposed to short term debt obligations of INR9.24 crore (CPLTD + interest). The cash and bank balances stand at INR3.84 crore at the end of FY20.

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. 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)*:

(INR crore)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Operating Income	61.69	62.10	59.11
EBITDA	36.27	35.12	28.69
PAT	0.58	1.27	1.71
Total Debt	84.54	85.98	73.28
Tangible Net-worth	93.45	105.26	107.98
Ratios			
EBITDA Margin (%)	58.79	56.55	48.54
PAT Margin (%)	0.94	2.05	2.89
Overall Gearing Ratio (x)	0.90	0.82	0.68

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings have moved the rating of Malayalam Communications Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure as per the Press Release dated July 20, 2020.

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 2 years	
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (PR dated March 06, 2020)
1.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	32.06 (enhanced from INR22.46 crore)	IVR BBB Credit Watch with Developing Implications	--	IVR BBB/ Stable Outlook
2.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	46.60	IVR BBB Credit Watch with Developing Implications	--	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.

Name and Contact Details of the Rating Team:

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

Name: Prakash Kabra
Tel: (022) 62396023
Email: prakash.kabra@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 (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2023	32.06 (enhanced from INR22.46 crore)	IVR BBB/ Credit Watch with Developing Implications
Long Term Bank Facility – Fund Based – Cash Credit	NA	NA	Revolving	46.60	IVR BBB/ Credit Watch with Developing Implications

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Lender-Malayalam-Communications-Ltd-17-apr-21-.pdf