

## RATING METHODOLOGY – TV BROADCASTING

January 2024



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### ANALYST CONTACTS

#### Rajeshwar Burla

Senior Vice President & Group Head  
+91 40 4547 4829  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

#### Ashish Modani

Vice President & Co- Group Head  
+91 22 6606 9912  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

#### Chintan Lakhani

Vice President & Sector Head  
+91 22 6169 3345  
[Chintan.lakhani@icraindia.com](mailto:Chintan.lakhani@icraindia.com)

#### Ritik Sundarka

Analyst  
+91 20 6606 9926  
[ritik.sundarka@icraindia.com](mailto:ritik.sundarka@icraindia.com)

This rating methodology describes ICRA's approach to assess the credit quality of entities engaged in the TV broadcasting industry, and supersedes ICRA's earlier methodology document on this subject, published in January 2022. While this revised version incorporates a few modifications, ICRA's overall approach towards rating entities in the sector remains materially similar.

The television broadcasting industry can be divided in terms of language (Hindi, English or regional), genre (general entertainment, general news, business news, sports, children's, music, and movies, among others) and reach (regional, national or international). This methodology aims to help issuers, investors and other market participants understand ICRA's approach to analysing risks that are likely to affect rating outcomes for entities in this sector.

### Overview

The Indian Television Broadcasting Industry revenues can be broadly divided into a) subscription revenues (~55% of industry revenue) and b) advertising revenues (~45% of industry's revenue)<sup>1</sup>. Over the years, the share of subscription revenue is on a declining trend owing to shift towards OTT and consequent impact on the subscriber base. Distribution platform operators (DPOs) are a key part of this value chain. They obtain the TV channels from broadcasters and offer them to consumers either directly through direct-to-home (DTH) or multi-system operators who rely on local cable operators for the last-mile connection. The DPOs collect the subscription revenues from end-consumers on behalf of the broadcaster. In terms of the cost structure, content costs are the largest components followed by advertising and distribution costs.

With effect from February 01, 2019, the Telecom Regulatory Authority of India (TRAI) implemented the Telecommunication (Broadcasting and Cable) Services (Eight) (Addressable Systems) Tariff Order, 2017, also known as NTO 1.0, a new framework for the pricing of television (TV) channels as well as for the interconnection agreements among the various industry participants. The tariff order aimed at improving transparency across the value chain of broadcasters, DPOs and subscribers. Subsequently, NTO 2.0 was announced in January 2020, incorporating certain changes in bouquet prices.

Post consultations on NTO 2.0, the TRAI came out with NTO 3.0 in November 2022. Under this, broadcasters are allowed by the TRAI to hike the price of channels that are part of a bouquet to ₹19 from ₹12 (during NTO 2.0) and subscribers also have the flexibility of picking one channel or a bouquet of channels. This price increase will result in increased subscription revenues for the broadcasters despite the possibility of a decrease in the subscriber base.

<sup>1</sup> Source: "Windows of opportunity" India Media & Entertainment Sector April 2023 report by Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst & Young.

## Rating Methodology

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This rating methodology aims to help entities, investors and other interested market participants understand ICRA's approach in analysing quantitative and qualitative risk characteristics that are likely to affect ratings of entities in the television broadcasting industry. This methodology does not include an exhaustive treatment of all factors that are reflected in the rating process but enables the reader to understand the rating considerations that are usually the most important. ICRA's risk analysis framework for the entities in the broadcasting industry can be broadly divided into the following factors:

### Industry Risk Assessment

- Regulatory risks
- Competitive intensity

### Business Risk Assessment

- Scale and market position
- Diversification
  - Revenue mix, business mix and geographic mix

### Financial Risk-Assessment

- Profitability metrics
- Leverage and coverage indicators
- Cash flows and liquidity profile

### Other Elements of Credit Risk Assessment

- Parentage
- Financial flexibility
- Debt servicing track record
- Contingent liabilities and off-balance sheet exposures
- Event risk
- Foreign currency-related risks
- Tenure mismatches, and risks relating to interest rates

### Management Quality

### Assessment of Environmental, Social and Corporate Governance Risks

## Industry Risk Assessment

### Regulatory risks

The television broadcasting industry in India remains highly sensitive to Government policies and regulations. The industry comes under the aegis of the Ministry of Information and Broadcasting (MIB) and is regulated by the TRAI on several aspects, which include restrictions on cross-media ownership (for vertical integration), television broadcasting licences, and up-linking and down-linking guidelines, among others. TRAI introduced the Telecommunication (Broadcasting and Cable) Services (Eighth) (Addressable Systems) Tariff Order (new Tariff Order), also known as the NTO 1.0, which was implemented with effect from February 01, 2019. Herein, television broadcasters are required to declare each of the channels in their portfolio as pay or free-to-air (FTA) and disclose the maximum retail price (MRP) of the channels on their website. The New Tariff Order also introduced pricing caps on channels for bouquet pricing, regulated the carriage fees paid by the broadcasters to the DPOs and also laid down norms for revenue-sharing between television broadcasters and the DPOs. The revenue and earnings prospects of the television broadcasters are also influenced by various regulatory interventions, such as imposition of cap on advertisement timeslots per programming hour for general entertainment channels (GECs). In January 2020, the TRAI came out with another modified order, "Telecommunication (Broadcasting and Cable) Services (Eighth) (Addressable Systems) Tariff (second amendment)", or NTO 2.0. The amended order was issued because, as per TRAI, consumer choice could not be effectively addressed through NTO 1.0, which was its primary aim and resulted in higher tariffs for consumers. The broadcasters had challenged the order, because, according to them, it impacted their ability to price channels. In response to the same, the TRAI came out with another modified order under the title 'Telecommunication (Broadcasting and Cable) Services (Eighth) (Addressable Systems) Tariff (Third Amendment)' Order or the NTO 3.0, which allows broadcasters to hike the prices of their linear TV channels by 10-15 %. The NTO 3.0 reinstated the MRP cap of Rs. 19 for TV channel inclusion in a bouquet and also allowed broadcasters to offer a maximum discount of 45% when pricing its bouquet of pay channels over the sum of the MRPs of all pay channels in that bouquet. Frequent changes in regulation can result in short-term disruptions for broadcasters and consumers, impacting the subscription and advertising revenue stream of the industry in the interim.

### Competitive intensity

The television broadcasting industry is intensely competitive with a large number of channels. The total number of private channels registered with the MIB was at 903 as of March 2023, as broadcasters vie for increased viewership and wallet share. This in turn has necessitated regular investments in creating quality content to retain customers. The television broadcasting industry in India also faces competition from digital media, especially from over-the-top (OTT) platforms. Continued increase in penetration of smartphones, affordable data costs, high speed mobile internet and broadband fibre have brought about a change in the viewing habits of consumers, who are increasingly on the lookout for more personalised and engaging multi-channel experiences (e.g., watching only specific genres, advertisement-free content or recording programmes to watch when convenient). Furthermore, the subscription to OTT platforms increased, following the emergence of the Covid-19 pandemic, which led to lower production of fresh entertainment content and lack of sports content on television during the pandemic. Apart from increase in the number of OTT subscriptions, general increase in stickiness to these OTT platforms has been observed. Despite the aforesaid emerging risks, the television is expected to remain the primary screen for most subscribers, with OTT platforms becoming increasingly supplemental to television viewing. Nonetheless, this has necessitated increased investments in OTT platforms by television broadcasters, who are also expected to increasingly undertake combined selling of advertisements across OTT and linear platforms<sup>2</sup> to enable better monetisation of marquee properties, and increased utilisation of digital inventory.

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<sup>2</sup> Linear TV is the traditional way of watching TV, where a viewer watches a programme on the channel at its scheduled broadcasting time.

## Business Risk Assessment

### Scale and market position

For television broadcasters, the scale of operations is linked to the revenue from the broadcasting business supported by the market share in its key geographies and reach in viewership through multiple channels. In India, the television rating points (TRP) data calculated by the Broadcast Audience Research Council (BARC) is an important measure of the market share in terms of the viewership enjoyed by a particular channel during a specific time frame. Furthermore, with a larger and a profitable scale of operations, an entity is better positioned to make incremental investments in new content and deploy the latest technology, and in the process achieve greater format diversification. Additionally, large broadcasters also invest in creating regional content to enhance scale and establish a better network reach. Moreover, a large revenue base also leads to economies of scale in terms of cost efficiencies in the production, distribution, purchasing and administrative functions and can attract a larger number of advertisers.

An entity with a strong market share is better positioned to negotiate favourable advertisement rates with advertisers, acquire the best talent to sustain its leadership position as well as leverage its position with key associates (content providers, DPOs like the multi-system operators and DTH operators, and other infrastructure service providers) on revenue-sharing. With the implementation of the New Tariff Order, while the channel pricing is the same across all DPOs, the DPO receives a 20–35% share of the MRP of the channel as revenues. A broadcaster with a larger scale and market share, is able to negotiate better with DPOs, thereby leading to lower revenue-sharing with the latter.

The broadcasters' ability to invest actively in quality and variety of content is critical for sustaining and improving its competitive position. For a GEC, the need to create content suited to different target segments against the backdrop of a highly fragmented viewership, has resulted in increased focus on a variety of genres such as fiction, non-fiction, mythology, comedy and satellite rights for movies, among others, besides higher investments in fresh programming. On the other hand, for news-genre focussed players, the presentation of content through various formats (debates, summits, conclaves, etc), the quality of journalism as well as opinions voiced through the channels bring in the differentiating factor.

Unique content is a source of competitiveness for a broadcaster; however, the means of obtaining such content is a strategic decision. While in-house content creation/ purchase of Intellectual Property Right (IPR) results in the broadcaster assuming the risks of the content, successful programming can be distributed through a number of platforms, including international channels and digital options, thereby spreading costs over a larger audience base. In contrast, purchase of content without the purchase of the IPR allows for reduced risk and greater flexibility in terms of keeping up the content with consumer preferences but may lead to dependence on (and competition from) content producers. Brand strength and significant investment requirement, thus, act as strong barriers to entry in the highly competitive broadcasting industry, and the ability of the entity to capitalise on these is a credit positive.

A sustained healthy market position also presents an entry barrier for new players, necessitating them to undertake significant investments in content and programming to garner a share of the market. The impact of healthy market share and position is also reflected in the improving scale of operations and stability in operating profit margins of the entity.

### Diversification

ICRA evaluates the television broadcasting entities by their diversity in terms of revenue mix (advertisement vs subscription), business mix (GECs, news, movies and other genres) and geographies (regional, national or overseas streaming). While analysing the revenue profile of television broadcasting entities, ICRA analyses the sustainability as well as the diversity in these revenue streams. Diversity enables an entity to mitigate the cash flow volatility risks associated with business segment and region-specific seasonality in advertisement revenues as well as cyclicity.

**a) Revenue mix: advertisement v/s subscription revenues**

The main sources of revenue for a television broadcaster are advertisement and subscription income, with marginal contribution from sale of content, equipment rentals, among others. While understanding the revenues profile of television broadcasters, ICRA evaluates the contribution of revenues coming from recurring and relatively stable sources, such as subscription revenues as compared to cyclical segments like advertisement. Revenue streams are also analysed to understand the dependence of the entity on key channels, exposure to different genres and bouquet of FTA versus pay channels, which further help in understanding a broadcaster's susceptibility to revenue volatility. Subscription revenues for a broadcaster consist of subscription charges collected from consumers via a DPO. The subscription revenues are a function of the bouquet of channels offered by the broadcaster in terms of FTA channels vis-à-vis paid channels as well as the quality of the programming content, which in turn drives viewership.

The advertisement rates are a function of the broadcaster's channel's market share in terms of viewership. The wider the viewership and the ability to maintain or improve market share, the higher the attractiveness and the pricing power of the broadcaster for the advertisers. Nonetheless, it should be noted that advertisement revenues are also susceptible to change in advertiser preferences, which can be impacted by a decline in the channel's market share, availability of alternative media, an economic downcycle or other reasons. This may adversely affect the business and financial profile of the entity. ICRA tries to evaluate the advertisement revenues of an entity, diversity across industries / sectors wherever possible. An advertisement-revenue driven business model with a fairly diversified clientele across industries helps mitigate the inherent cyclicity to an extent. While a favourable socio-political and economic environment encourages advertisement spending, the ability of an entity to sustain revenues during weak economic period remains crucial. It is also essential to factor in the inherent seasonality in the Indian media industry, which witnesses subdued performance in the first two quarters of a fiscal year and subsequent pick-up in demand over the second half of the fiscal, following the onset of the festive season in the third quarter.

**b) Business mix**

A television broadcaster's business diversity is reflected in terms of its presence across genres like GECs (Hindi, English, regional), news (Hindi, English, regional), movies, infotainment, music, among others. Broadcasters with a presence across genres, which provide it access to a larger target viewership, are better equipped to mitigate risks associated with changing advertiser preferences. While broadcasters with a well-diversified channel bouquet and the ability to invest in new / niche channels cater to the advertisers' needs more effectively, the entity's ability to garner and sustain healthy viewership across varied channel offerings remains crucial from the business risk perspective.

With increasing competition from alternative media, a television broadcaster actively investing in developing digital and OTT platforms and having access to well-diversified content, would be able to improve its viewership, thereby catering to advertisers' needs more effectively. Current trends already indicate that presence in these alternative segments allows the broadcasters to consolidate their presence and stimulate new revenue streams. Nonetheless, these platforms have also opened-up the industry to competition from independent content developers and consequently, returns from incremental investments may be realised after a considerable time lag. Thus, the entity's ability to absorb such incremental costs and maintain healthy operating profit margins are important from a credit perspective.

**c) Geographic mix**

The geographic diversity of a television broadcasting entity is reflected in the number of markets / regions it caters to, which in turn is a function of its channel bouquet. Expansion into regional and overseas markets and increasing penetration of OTT platforms have broadened the revenue streams for television broadcasting entities. Over time, television broadcasters have also devised strategies to localise the high value content created for their mainstream channel offering for regional and international markets. Nonetheless, geographical diversification entails higher costs in terms of production / sourcing of local content / modifying content to suit regional needs and investments in acquisition of regional movies (for regional GEC channels) to expand viewership.

Although there are entities who focus on regional markets, the performance of such entities may remain vulnerable to the variability in demand on account of socio-economic factors or disruptions on account of adverse discrete events. Many of the large television broadcasters have presence in the key genres, i.e., GECs in mainstream English and Hindi languages, but have invested organically or inorganically in regional channels to benefit from growth opportunities in these regional markets. Additionally, while earlier audience measurement systems covered a larger share of the urban population, a change in the measurement mechanisms since 2015, with higher rural coverage, brought to light the huge FTA market being catered to by DD Freedish<sup>3</sup>, resulting in the launch of new regional and FTA channels by the broadcasters as well as addition of content more suited to such markets. Offering a wider channel bouquet for large broadcasters with common content, allows better monetisation opportunities if the broadcaster is able to garner meaningful market share.

## Financial Risk Assessment

Since the prime objective of the rating exercise is to assess the adequacy of the entity's debt-servicing capability, ICRA draws up projections on the likely financial position of the entity under various scenarios. Besides, ICRA takes into account the commitments of the entity towards other Group entities, new ventures, and its investments in subsidiaries. Accordingly, future cash flows are projected after taking into account the entity's advertisement and subscription revenues, content costs, carriage costs, capital expenditure programme, debt repayment schedule, its funding requirements, and the funding options available to it. These cash flows are then used to determine the entity's future debt-servicing capability under various scenarios.

The various financial metrics assessed by ICRA can be divided into four categories—profitability, leverage, coverage and liquidity. This document provides a summary of why ICRA considers these ratios to be important. For a more detailed description, readers may refer to the note titled, "Approach for Financial Ratio Analysis", published on ICRA's website.

In case of Groups consisting of entities with strong financial and operational linkages, various parameters such as capital structure, debt coverage indicators, and future funding requirements are assessed at the consolidated / Group level.

### Profitability metrics

The volatility in revenues of a television broadcaster directly reflects in its operating profit margins as television broadcasting is a high fixed cost business. Inherently high operating overheads in terms of content and production costs, carriage costs and employee costs, among others, have constrained the profit margins of many mid-sized broadcasters. To assess the impact of such overheads on the cost profile of broadcasters, it is important to consider the maturity of the channels and the trend in new channel launches / acquisitions by the broadcasters, which typically involve three to five years of gestation period. Thus, the broadcaster's ability to continue to invest in the initial phases for new channels and continue to fund the losses either through own funds or access to long-term funds is also factored in the ratings. Moreover, in view of the increasing viewership through alternate digital modes, regular investments to customise content for such platforms also entails significant costs.

The amortisation policy on intangibles or inventory with respect to content produced or procured from third parties can differ significantly across entities in the industry, and thus the profit margins. However, lack of granular data often limits ICRA's ability to make quantitative adjustments for better comparability. Key profitability metrics that ICRA considers include the OPBITDA<sup>4</sup> margin, the PAT<sup>5</sup> margin, and the RoCE<sup>6</sup>.

<sup>3</sup> A subscription free DTH service owned by the public service broadcaster, Prasar Bharati.

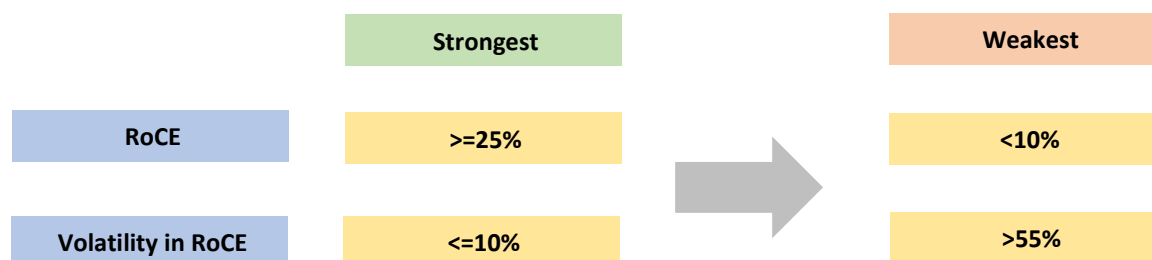
<sup>4</sup> Operating profit before interest, tax, depreciation & amortisation

<sup>5</sup> Profit after tax

<sup>6</sup> Return on capital employed

### Validation of Business Risk through Profitability Metrics

[Indicative Metrics<sup>7</sup>]

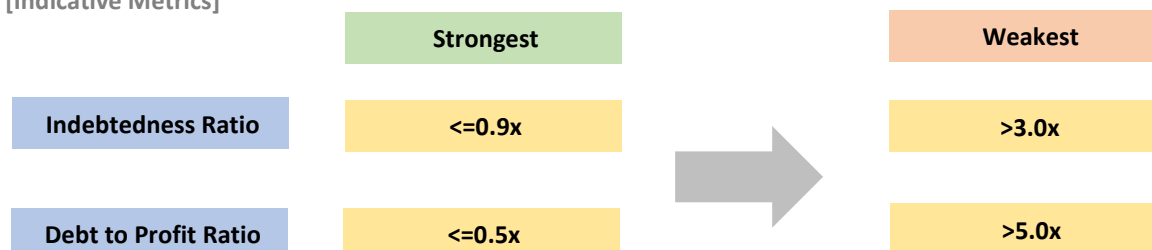


### Leverage and debt coverage

Leverage ratios measure the indebtedness of an entity. Besides funding the working capital requirements, debt is required by television broadcasters mainly for content development and acquisition of intellectual property rights (IPRs) from third parties/ content producers. Entities that pursue an aggressive financial policy, including heavy reliance on debt financing, are likely to be more vulnerable to cyclical downturns than entities who employ conservative financial leverage in their business. Low leverage ratios reflect low reliance on debt funding and imparts greater financial flexibility to raise incremental external capital (debt or equity) for re-investment in business or to tide over temporary funding shortfalls. ICRA also notes that the extent to which an entity leverages its balance sheet is, in addition to business requirements, also a function of the philosophy of the management towards growth and funding mix.

### Assessment of Leverage

[Indicative Metrics]



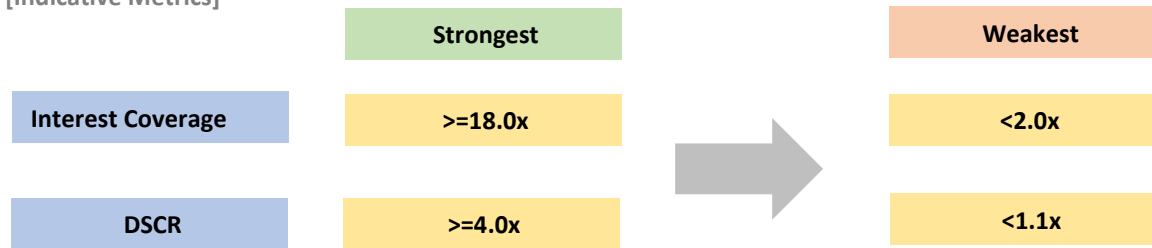
Apart from the leverage ratios, ICRA also pays attention to coverage indicators, including interest coverage, debt service coverage, while evaluating the financial health of a television broadcasting entity. ICRA is particularly concerned with an entity's capability to honour its contractual obligations under stress conditions. The more robust an entity's performance is likely to be under stress scenarios, the better it is from a credit evaluation perspective.

<sup>7</sup> The indicative financial metrics mentioned here and elsewhere in the document are intended to provide a broad overview to the readers regarding what ICRA generally considers as 'relatively strong' or 'relatively weak' metrics. It is, however, possible that an entity has relatively weaker metrics on one or more financial parameters, but its credit risk is assessed to be low because of other mitigating factors, including (but not limited to) stronger metrics on other financial parameters, a healthy business risk profile, strong financial flexibility or a strong promoter group that is willing to extend distress support to it.



## Assessment of Coverage

[Indicative Metrics]

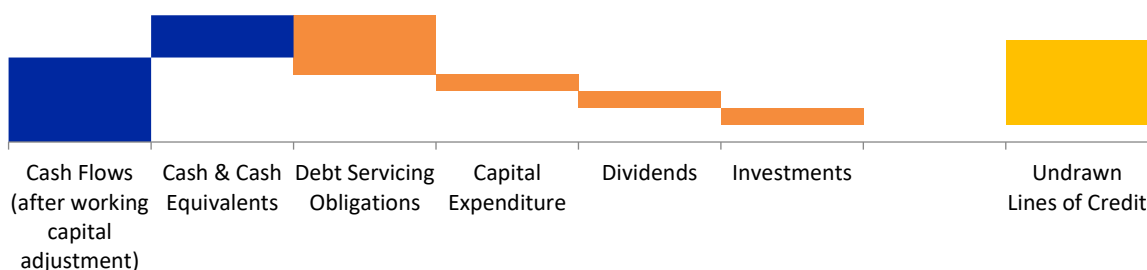


## Cash flows and liquidity profile

The rating exercise is primarily focused on assessing the future debt servicing capabilities of a company. With the necessity for cash to service the debt obligations, it is imperative that a cash flow analysis is undertaken to evaluate the external funding requirements and likely financial position of the company, going forward. A cash flow statement represents the sources from which cash is generated, as well as its deployment. Analysed here are the trends in an entity's funds flow from operations, cash consumed to fund the working capital, the retained cash flows after paying out dividends or carrying out share buybacks, and the free cash flows after meeting debt repayment obligations and capital expenditure needs.

Liquidity is the measure of an entity's ability to meet its short-term cash obligations from various internal or external resources. Internal resources include cash flows from operations, unencumbered cash and cash equivalents on balance sheet and cash inflows expected from the monetisation of physical and financial assets. External resources include undrawn lines of credit or equity capital. The short-term obligations include both the committed as well as the contingent claims on an entity's cash, including the debt servicing obligations, working capital requirements, capital expenditure and other investment outlays, dividend and share buyback-related outflows, besides the sudden demand arising from crystallisation of discrete events such as unfavourable outcome of an ongoing litigation. The higher the cushion available between the resources available (especially internal resources) and the obligations, the better the liquidity profile of an entity. Liquidity is generally assessed in conjunction with the vulnerability of an entity to timely refinancing / renewal of short-term sources of funding. Depending upon the circumstances, an entity that has a relatively modest liquidity profile, but a strong refinancing ability may not be viewed too unfavourably. ICRA also notes that the liquidity available with an entity may be for a temporary period and hence an entity's overall policy towards maintaining adequate liquidity (given the trade-off between returns and liquidity) is accorded due importance in the analytical approach<sup>8</sup>.

## Liquidity snapshot over any defined period



<sup>8</sup> For more details on how ICRA assesses liquidity, readers may refer to the document titled, "Liquidity Analysis of Entities in the Non-Financial Sector" published on ICRA's website



In view of the highly competitive nature of the television broadcasting space, the bargaining power of the broadcasters with the advertisers is restricted, resulting in high receivable days. Also, though subscription revenues involve a longer receivable cycle, they are partly offset by revenue share payable to the DPOs and any carriage/placement fees payable. While the nature of the industry is inherently working capital intensive due to longer receivables, the entity's ability to manage the same, either through external sources or interim support from promoters, remains a credit monitorable.

## Other Elements of Credit Risk Assessment

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### Parentage

Apart from standalone credit considerations, the likelihood of extraordinary support coming in from the parent/ Group to an entity, or the support that it is likely to extend to the other Group companies, is factored in while assessing the entity's credit profile. This process involves an assessment of the ability and willingness of the parent/ Group to extend support to the entity (and vice-versa), the strategic importance of the entity to the Group to which it belongs, along with the financial strength of Group entities, among others<sup>9</sup>.

### Financial flexibility

An entity's financial flexibility (or the lack thereof) is reflected in its ability to access capital or money markets at short notice and enjoy the confidence of banks, financial institutions, and intermediaries. A strong financial flexibility allows it to raise fresh borrowings or refinance existing ones in quick time, whenever required. Financial flexibility could arise from factors such as an entity's large scale of operations with strong financials, large, unencumbered cash flows, unencumbered assets and the flexibility to borrow against such assets, or strong parentage or linkages with a strong group.

In contrast, among the various measures of an entity's depleting financial flexibility, one relates to a high share of pledged promoter shareholding. A sign such as this may imply that the entity might be persuaded to distribute high dividends or support the promoter group through other means to the detriment of its own credit profile. If the promoters fail to repay their loans (availed by pledging of shares) or top up collateral when required, the lenders could sell the pledged shares. In some cases, this could trigger a change-of-control clause in the rated entity's bond indentures or loan documents and require it to redeem its debt ahead of schedule, creating a liquidity squeeze, besides affecting fresh capital-raising ability. Financial flexibility could also be impacted in cases of adverse industry developments, weakening business profile, or management & governance concerns, which could translate into sharp decline in market capitalisation or spike in bond yields and consequently constrain an entity's ability to raise fresh capital or materially increase its cost of capital.

### Debt-servicing track record

The debt servicing track record of the company forms an important rating consideration. Any history of past delays or defaults in meeting interest and principal repayment obligations reduces the comfort level with respect to the company's future debt-servicing capability and willingness. Nevertheless, the reason behind past defaults is also analysed, which could also be due to adverse demand situations in the underlying industry. The company's ability to honour its debt obligations during the period of cyclical stress is also factored in.

### Contingent liabilities and off-balance sheet exposures

ICRA reviews the contingent liabilities and off-balance sheet exposures as disclosed by the entity in its Annual Report and evaluates the likelihood of their devolvement and the financial implications of the same.

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<sup>9</sup> For more details on this, readers may refer to the document titled, "Rating Approach – Implicit Parent or Group Support", available on ICRA's website.

### Event risk

ICRA recognises the possibility of events, such as unrelated diversification, mergers and acquisitions, business restructuring, asset sales and spin-offs, capital restructuring and litigations, which could have a material impact on the credit profile of a company. Incorporating the impact of such discrete events in the credit rating, from the beginning, is often difficult. Depending on whether and when such events occur, the rating opinion could be substantially different. To take rating decisions in such cases, ICRA applies its analytical judgment based on the rated entity's track record, the credibility of the management and the experience of having seen similar situations play out in other entities. However, given the nature of such events, it is possible that the rating may undergo a material change later, upon the occurrence of the event.

### Foreign currency-related risks

The foreign currency risks for the television broadcaster primarily arise on account of content sourcing from international players and subscription revenues (for channels with international reach). The foreign currency risk can also arise from unhedged liabilities, especially for entities with liabilities denominated in a foreign currency. ICRA analysis also focuses on the hedging policy of the entity concerned in the context of the tenure and nature of its contracts with counterparties (short-term / long-term, fixed price / variable price). Analysis of net foreign exposure and the extent of the timing difference in expected receipts vis-à-vis scheduled outflows are also considered.

### Tenure mismatches and risks relating to interest rates and refinancing

Large dependence on short-term borrowings to fund long-term investments can expose an entity to significant re-financing risks, especially during periods of tight liquidity. Existence of adequate buffers of liquid assets / bank lines to meet short-term obligations is viewed positively. Similarly, the extent to which an entity could be impacted by movements in interest rates is also evaluated.

## Management Quality

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In addition to the industry, business and financial risk analysis, all credit ratings incorporate an assessment of the quality of the rated entity's management and its financial policies. As a part of its process, ICRA undertakes discussions with the rated entity's management to understand its views on past performance as well as its future plans and strategies, besides the outlook on the industry.

Some of the points assessed are:

- Experience of the promoter/ management in the industry
- Commitment of the promoter/ management to the concerned line of business
- Management's past success in introducing new projects and managing changes in the external environment
- Risk appetite of the promoter/ management and risk mitigation plans
- The rated entity's plans regarding new projects, acquisitions, and investment in non-core business segments
- The rated entity's policies on leveraging, interest risk and currency risks

Periodic interactions with the management also help to estimate the possibility of the management's tendency to deviate from its core philosophy in times of stress.

## Assessment of Environmental, Social and Governance Risks

The assessment of the Environmental, Social and Governance (ESG) risks by ICRA involves a broad range of considerations that pertain to the sustainability of an entity, with focus on aspects that can have a material impact on its credit quality. While the environmental (E) and social (S) risks tend to be both sector-related as well as entity-specific and could be driven by external factors such as regulations or demographic changes, the governance (G) risks are largely entity-driven. The impact of the E&S risks on an entity's credit profile tends to be asymmetric. If the ESG risks are material but unmitigated, these generally translate into pulling down the rating, but generally the ratings are not pushed up even when the ESG context is favourable.

### Environmental and social risks

While undertaking credit assessment of entities, ICRA seeks to incorporate relevant credit considerations into its rating decisions while taking a forward-looking view on the risks and mitigants. The relevant credit considerations include (sometimes overtly, sometimes covertly) the E&S factors that could affect the rated entity/ transaction.

While ICRA's analytical approach does not explicitly disaggregate these risks to assess their impact on the rating, these risks are often assessed broadly. Further, it is not always feasible to fully or precisely disaggregate the sub-components of E&S risks in credit analysis since these considerations often tend to overlap. That said, the materiality of the E&S risks and the time horizon over which they are expected to crystallise differ widely across sectors and entities. In some cases, while the E&S risks could be material, their effect on the credit profile may be muted because of other fundamental strengths of the entity. In other cases, the adverse impact of the E&S risks is expected to play out in the distant future and hence these considerations do not necessarily weigh on the rating today with the expectation that by then the entity would possibly adapt itself by realigning its business model.

While evaluating the E&S risks, ICRA's objective is only to assess the direct and indirect risks that an entity faces and how it already is or is intending to mitigate the impact of such risks on its credit profile. The direct exposure to environmental risks arising from environmental regulations or policy changes is not material for the TV broadcasting segment. Social risks for the industry can include a data breach event, where intellectual property and other sensitive records could be subject to legal or reputational issues. Hence, monitoring of social risks including data protection, and workforce resource planning is important for the industry. The broadcasting segment's exposure to social risks also stems from technological evolution and demographic change that could alter consumer viewing habits. These trends have and will continue to influence viewership. The industry is also exposed to the risk of social backlash on account of objectionable or sensitive content that may feature on OTT arms of the broadcasters as the OTT platforms are currently unregulated.

### Governance risks

A sound corporate governance structure attempts to make clear the distinction of power and responsibilities between the Board of Directors and the management. The constitution of an entity's Board, besides the entity's adherence to legal and statutory compliance requirements, are factored in during credit assessments. ICRA seeks to gain a qualitative understanding of an entity's commitment to following transparent and credible practices depending on the way its financial statements are reported, the level of disclosures, consistency in communication and the openness about sharing information during the credit rating exercise. Besides, the corporate group structure (whether simple or complex), the rated entity's related party transactions and instances of supporting group entities at the expense debt holders are also assessed.

## Summing Up

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ICRA's credit ratings are a symbolic representation of its opinion on the relative credit risk associated with the instrument being rated. This opinion is arrived at following a detailed evaluation of the entity's business and financial risks, likely cash flows over the life of the instrument being rated, and the adequacy of such cash flows vis-à-vis the entity's debt servicing obligations. ICRA's approach to rating television broadcasting entities incorporates the evaluation of various business risk parameters, such as the entity's scale and market position, trend in advertisement and subscription revenues, business and geographic diversification and the management's overall approach towards investment and growth.

### ANNEXURE

Summary of rating factors and an example to illustrate the key building blocks of a credit rating

		Strong			Comfortable			Adequate			Moderate			Weak		
Industry Risk	Industry Position															
	Scale and Market Share															
Business Risk	Pricing Position															
	Product Diversification															
	Customer Diversification															
	Geographic Diversification															
	Profitability and Earnings Stability															
Financial Risk	Leverage															
	Coverage															
		Enhance					Support/ Neutral					Hinder				
	Diversification															
Do these factors enhance or hinder the credit profile?	Refinancing Dependence, Liquidity and Financial Flexibility															
	Currency Risk															
	Financial Policy															
	Management, Governance & Reporting															
		Very High				High				Moderate				Low		
Parent Support	Likelihood of Parent Support															
	Rating of Parent	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B/ C category	
	Final Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B/ C category	

The above graphic is only for illustration purpose and does not represent a rating output from a formulaic model. The ratings assigned by ICRA are determined by Rating Committees based on both quantitative and qualitative considerations.

Contact us for any feedback or comments at: [methodologies@icraindia.com](mailto:methodologies@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

+91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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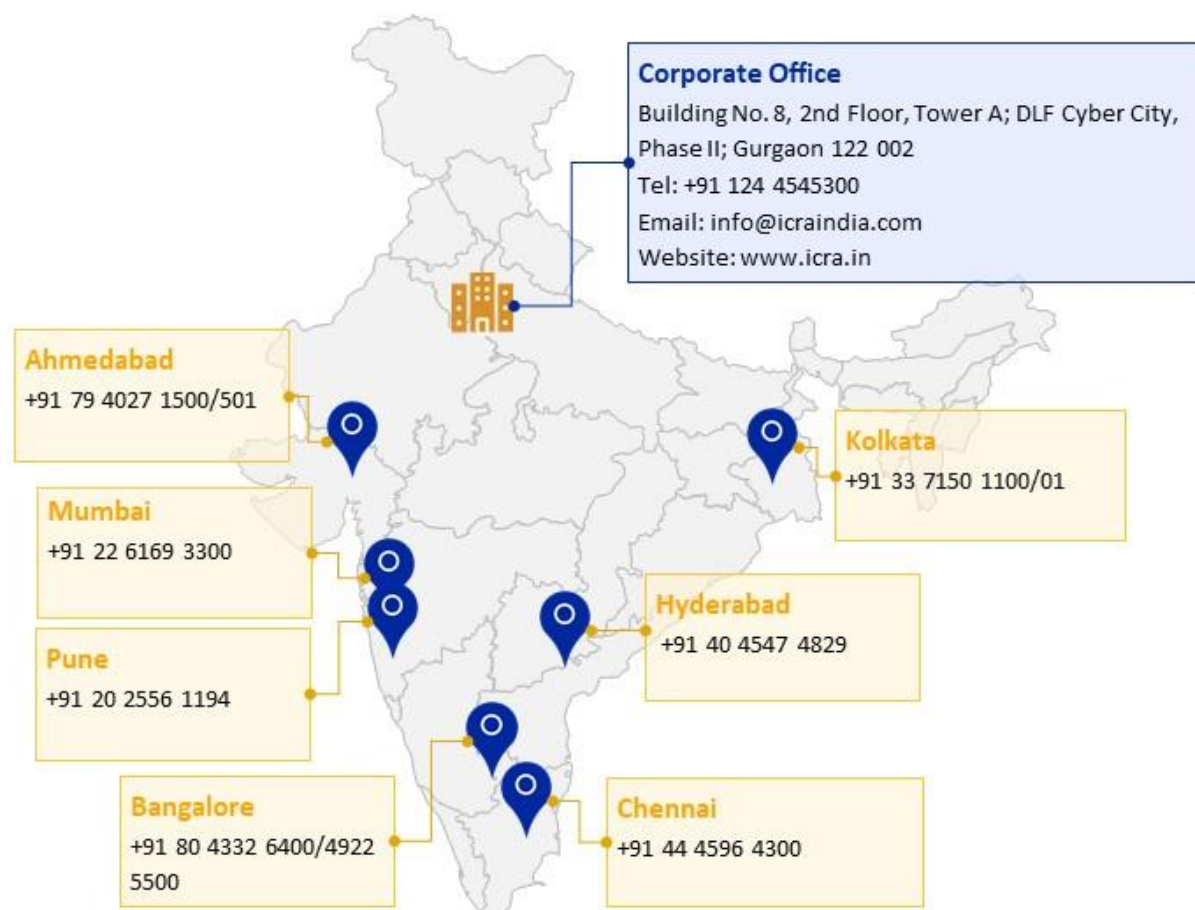
### Registered Office

B-710, Statesman House 148, Barakhamba Road New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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