

March 28, 2022

ARG Outlier Media Asianet News Private Limited: Long-term rating upgraded to [ICRA]BBB (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	50.00	45.50	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Long-term Loans	16.08	12.08	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Long-term, Non-fund Based Limits	36.00	18.84	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Long-term Unallocated Facilities	2.92	-	-
Total	105.0	76.42	

*Instrument details are provided in Annexure-1

Rationale

ARG Outlier Media Asianet News Private Limited's (ARG) rating upgrade favourably factors in the expansion in scale and operating leverage in the news business. These led to improved operating profitability in 9M FY2022, which is expected to sustain going forward. Additionally, with reduction in certain one-time expenses, the operating margin improved to around 18% in 9M FY2022 (earlier 3.4% for FY2021). The rating continues to positively note the strong position of its news channels as per the recent viewership ratings released by Broadcast Audience Research Council (BARC) on March 17, 2022, wherein Republic TV, has been ranked as the highest rated English news channel and the Hindi news channel, i.e., R. Bharat, has been ranked at third position. Sustainability of the recent viewership ratings will be a key revenue driver. The rating takes comfort from the company's comfortable credit profile and the adequate liquidity position, evinced by healthy cash and bank balances, bank fixed deposits and Rs. 8.1 crore unutilised fund-based working capital limits as on December 31, 2021. The rating takes note of the experienced promoters and management in the television (TV) broadcasting space, which has helped ARG to command a strong market position of both its news channels in their respective addressable segments.

The rating strengths are offset by ARG's elongated receivable cycle, high dependence on advertising revenue, which are susceptible to cyclical downturn in economy, subdued performance of the English channel and losses in the Bangla news channel (R. Bangla). Going forward, ramp-up in the Hindi and English channels and achieving breakeven for R. Bangla will remain the key to improve its profitability from the current level. Being free-to-air (FTA) channels, the company's revenues are primarily dependent on advertisement income. The rating, thus, factors in the risks inherent in the media and entertainment industry in terms of vulnerability to cyclical changes in advertisement spends by the corporates and the rising competition with an increase in the total number of channels in the TV broadcasting space. The receivables cycle remained stretched as on December 31, 2021, primarily due to delay in realising payment from the Government clients. ICRA notes that the company is exposed to key man risks, with Mr. Arnab Goswami being a major pull factor for driving the overall viewership and, thus, the advertisement revenues of the English news channel (Republic TV). Nonetheless, some comfort can be drawn from ARG's diversified advertisers' profile and the strong market position of its channels. ICRA notes the ongoing litigations against ARG and Mr. Goswami. Given the nature of the industry, the company remains exposed to lawsuits alleging defamation / misrepresentation of facts. The impact of the same on its credit profile will be assessed on a case-to-case basis.

The Stable outlook reflects ICRA's opinion that ARG will continue to maintain its adequate liquidity and cash surplus position, aided by improvement in overall advertisement revenue run rate for its news channels and the digital platform.

Key rating drivers and their description

Credit strengths

Strong market position of news channels – As per the latest viewership ratings released on March 17, 2022 by BARC, Republic TV has been ranked as the highest rated English news channel since its launch in May 2017 with a market share of 35.3%. The Hindi news channel (R. Bharat) has been ranked third with a market share of 13.7%, against the last published ratings of BARC in October 2020, wherein R. Bharat stood first with a market share of 19.9%. (Source: BARC data NCCS M 15+ | HSM | 5th Sep to 2nd Oct'20). There has been a steady ramp-up in revenue from the Hindi news channel, reflected by 30% YoY revenue growth in FY2021. It is estimated to report a revenue growth of 20% in FY2022.

Comfortable credit profile and adequate liquidity position – The company's credit profile has remained comfortable as evinced by a gearing of 0.3 times, Total Debt/OPBITDA of 0.6 times and interest coverage of 16.2 times as on December 31, 2021. As on December 31, 2021, ARG had a total debt of Rs. 39.9 crore. Its liquidity position is adequate, underpinned by unencumbered cash and bank balances as well as liquid investments of Rs. 57.0 crore (at consolidated level) as on December 31, 2021 and unutilised fund-based facilities worth Rs. 13.9 crore as of November 2021. The Company also launched the Bangla Channel with all the set-up costs getting funded with internal accruals.

Experienced management – ARG's promoter and the senior management have significant prior experience in TV broadcasting. The company is promoted and managed by Mr. Arnab Goswami, its Managing Director and Editor-in-Chief, with over two decades of experience in the television news broadcasting industry.

Credit challenges

High receivable cycle – Receivable cycle is elongated with estimated debtor days at 154 days as on December 31, 2021; of these around 29% of the total receivables (including barter receivables) are pending for more than six months. Delay in realising payment from the Government clients leads to an overall stretch in realising payments from debtors.

High dependence on volatile advertisement revenues – With FTA channels in its bouquet, ARG's revenue profile is dominated by advertisement revenues, which accounted for 91% and 88% of its FY2021 and 9M FY2022 revenues, respectively. It faces inherent risks in the TV broadcasting industry in terms of vulnerability to cyclicality in advertisement spends by the corporates and rising competition, with an increase in the total number of channels in the TV broadcasting space. Nonetheless, some comfort can be drawn from ARG's diversified advertiser profile and the strong market position of its news channels in their respective addressable segments. Given the shifting consumer preference towards digital platform, company's ability to sustain its leadership position in the news genre remains to be seen.

Subdued performance of Republic TV and nascent stage of operations of R. Bangla – Revenues for the flagship English news channel declined by 30% in FY2021 from FY2020 levels. However, Republic TV has reversed its growth trajectory and is estimated to register a 10% YoY growth in FY2022. The revenues declined in FY2021 as the English news market witnessed contraction with impact on advertisers and co-sponsor advertisements significantly reducing compared to the past. Timely ramp-up in Republic TV's revenues will be a key monitorable. While ARG's operating margin has improved in the current fiscal, it still remains lower than other major players in the industry. ARG's regional channel, R. Bangla, is in the nascent stages of operation, its ability to improve the viewership base and advertising revenues remains to be seen.

Exposed to key man risks – The company is exposed to key man risks, with Mr. Arnab Goswami being a major pull factor driving the overall viewership and, thus, the advertisement revenues. The market position of the channel and hence its revenues may fall, in case of any decline in the popularity of Mr. Goswami.

Liquidity position: Adequate

The company's liquidity position is adequate, underpinned by unencumbered cash and bank balances and liquid investments of Rs. 57.0 crore (at consolidated level) as on December 31, 2021 and unutilised fund-based facilities of Rs. 13.9 crore as of November 2021. As against this, it has annual scheduled long-term debt repayments over FY2022 and FY2023 worth Rs. 2.9 crore. It estimates to incur a capex of Rs. 15.0 crore in FY2023 and Rs. 21.0 crore in FY2024, primarily towards replacement of equipment and consideration towards anticipated costs towards acquisition and construction of a new consolidated studio in Noida, to be funded via internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to demonstrate a steady expansion in its scale of operations, along with increase in profitability on a sustained basis, while maintaining a comfortable credit profile.

Negative factors – ARG's rating may be downgraded if there is any weakening in the company's liquidity position and credit profile due to deterioration of operating performance because of decline in market share and/or due to, deterioration in working capital cycle or any large debt-funded capex/ investments. Any adverse impact of any lawsuits/litigations on the company's credit profile will also be a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Media Broadcasting Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of ARG. As on December 31, 2021, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

Incorporated in August 2016, at present, ARG operates three FTA news channels—Republic TV (English), R. Bharat (Hindi) and R. Bangla (Bengali). Republic TV, operational since May 6, 2017, is currently ranked as the top viewed English news channel (as per viewership ratings). R. Bharat, launched on February 3, 2019, is ranked among the top three Hindi news channels as on March 17, 2022. Further, the company launched a new channel called R. Bangla on March 07, 2021, which is an FTA Indian Bengali language news channel and has been ranked at second position as on March 17, 2022. ARG has a wholly-owned subsidiary, SARG Global Digital Private Limited, which operates the website, www.republicworld.com, and the mobile application, R. The company is owned and managed by Mr. Arnab Goswami, who is also the Managing Director and the Editor-in-Chief. The investor profile of the holding company is strong, including prominent investors and renowned professionals.

Key financial indicators (audited)

ARG Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	289.5	290.5
PAT (Rs. crore)	2.9	-9.5
OPBDIT/OI (%)	3.9%	3.4%
PAT/OI (%)	1.0%	-3.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.3
Total Debt/OPBDIT (times)	3.8	3.4
Interest Coverage (times)	2.4	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: In line with the ICRA policy on hybrid instruments, 100% equity credit has been given to compulsorily convertible non-cumulative participatory preference shares.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 ears			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 28, 2022	Feb 01, 2021	Jan 02, 2020	-
1	Fund-based Limits	Long-term	45.50	31.5	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loans	Long-term	12.08	2.9	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
3	Non-fund Based Limits	Long-term	18.84	7.5	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
4	Unallocated	Long-term	-	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits	Simple
Long-term – Term Loan	Simple
Long-term – Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits-1	NA	NA	NA	5.55	[ICRA]BBB (Stable)
NA	Fund-based Limits-2	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	Fund-based Limits-3	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	Term Loan-1	Dec 2018	NA	FY2023	12.08	[ICRA]BBB (Stable)
NA	Non-fund Based Limits -1	NA	NA	NA	7.84	[ICRA]BBB (Stable)
NA	Non-fund Based Limits -2	NA	NA	NA	11.00	[ICRA]BBB (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ARG Ownership	Consolidation Approach
SARG Global Digital Private Limited	100.00%	Full Consolidation

Source: ARG and SARG Global Digital Private Limited's annual report FY2021 and ICRA Research

Note: ICRA has taken a consolidated view of the parent (ARG) and its subsidiary while assigning the ratings

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