Hungama Digital Media Entertainment Private Limited

January 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	45.00	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Total Bank Facilities	**45.00 (Rs. Forty-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Hungama Digital Media Entertainment Private Limited (Hungama) factors in the established track record in Mobile Value Added Services (MVAS) and Digital media services industry, strong shareholders support, and robust capital structure; albeit some deterioration in FY20. The ratings takes into the consideration of company's continued efforts to expand its international presence along with acquisition of new clients to support its revenue growth going forward. The ratings also positively factors in the long standing relations with large music label/production houses in domestic and international market; albeit exposed to customer concentration risk. The rating also takes into consideration the positive outlook of Over-The-Top (OTT) market. The above rating strengths are, however tempered by loss making operations and continued stress in the Telecom industry which accounted for 45% of gross revenues in FY20. High operating leverage on account minimum guarantee based operating model of the company. Further, entry of Hungama into the content creation business, having a long gestation period for monetisation, may negatively impact the cash flows of the company.

Rating Sensitivities

Positive factors

- Positive PAT margin going ahead a on sustained basis
- Positive cash flow from operations going ahead on a sustained basis

Negatives

- working capital cycle of more than 75 days on a sustained basis
- Networth less than Rs.120 crore would be the key negatives
- Deterioration in the financial health of the telecom companies which are key customers for Hungama.
- Any large debt funded capex for content creation/ in organic expansion/ extension of support to its subsidiaries in the form of loan/investment, thereby resulting in overall gearing over 0.7x.

Outlook: Negative

The outlook is 'Negative' on account of business losses in the company amidst liquidity stress in the telecom industry. The outlook may be revised to 'Stable' if there is an improvement in the profitability margins and cash flow from operations of the company on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team

Mr Neeraj Roy is the Managing Director of Hungama, and has 19 years of experience in the mobile and digital entertainment industry. Hungama's Board is chaired by its promoter founder, Mr Rakesh Jhunjhunwala (non-executive Chairman). The company is well supported by the management team with relevant experience.

Strong shareholder support

Hungama is supported by strong shareholders like Rakesh Jhunjhunwala, and Mr. Ashish Kacholia who provides strategic expertise to the company. Hungama is further supported by other strategic shareholders like XIAOMI Singapore Private Limited and Intel Capital Corporation, and strong investors like Bessemer Venture Partners Trusts. XIAOMI has the 23% share in the smart phone market in India, and embeds Hungama application at the kernel level. This provides Hungama ready access to a large customer base. The shareholders continue to provide support by way of loans/equity/CCPS as and when required, with most recent capital infusion during FY2019, so that the capital structure remains strong.

Leading content aggregator and developer
Hungama is one of the leading players, as a content aggregator for Indian music in India and South-Asia on digital platforms viz. online entertainment portals, Smart Phones, Smart TV's. Hungama has licensed worldwide exclusive digital rights for over 4 million music and video titles which are monetized over various digital media platform like mobile, internet, IPTV services, etc. Hungama has long-term arrangement with key content suppliers; however, the commercial terms between content owners and Hungama are negotiated annually.
Loss making operations albeit robust Capital Structure
Total operating income decreased by around 3% to Rs.249.32 crore in FY20, led by decline in B2B business and B2C business, which was partially offset by an increase in Ad revenues. Hungama reported a net loss of Rs.51.25crore in FY20 on account of the increased content acquisition cost (increase cost of own content creation to Rs.23.68 crore in FY20 vs Rs.5.00 crore in FY19), additional investment on video content for entertainment through fibre/broadband network coupled with provision of Rs.3.5crore for write off investment in JV (Aalap Digital Music Private Limited). The losses continue to be funded by infusion by the shareholders, resulting which despite losses, the overall gearing continued to remain comfortable at 0.22x as on March 31, 2020;albeit some deterioration compared to 0.15x as on March 31, 2019.
The negative sensitivities for interest coverage of less than unity and networth less than Rs.140crore, covered by CARE in the PR dated March 11, 2020 were breached during FY20. The same was on account of outbreak of pandemic covid-19 and was temporary in nature. As a result of the deferral of some of the contracts, though the costs for the same were accounted in FY20, however, the revenue could not be monetized for the same.
Expansion in its international presence and acquisition of new clients to support growth going forward
The company had expanded to new market of Europe even during the lockdown like Poland, Switzerland etc. Apart from this the company has entered in to deal with other OTT players where Hungama Music will be integrated into their OTT platform. Technical integration for the services is in process and is expected to be completed by FY21. All these initiatives are expected to have positive impact on the revenue and profitability going forward.
Positive Industry Outlook of OTT service provider albeit difficult monetisation models with inherent challenges
The "Over The Top" (OTT) video consumption in India has rapidly evolved over the last 2 years, given the advancements in digital infrastructure and efforts by platforms create compelling content for consumers at price points which provide value. In India content is increasingly being consumed on handheld devices on OTT platforms and the outlook for the same remain strong.

Key Rating Weaknesses
Minimum Guarantee based operating model
Hungama has Minimum Guarantee (MG) plus revenue-sharing agreement with content owners for acquiring content. This fixed committed MG, which is negotiated annually, forms a major part of total operating cost for the company. Besides, the revenue is shared with content owner on achieving revenue over and above the threshold volume during the licensed period. Although Hungama has got similar minimum guarantee (MG) plus revenue sharing arrangements with its clients, the profitability to a significant extent is dependent on achieving higher sales volume.

Limited number of major content suppliers:
The music content suppliers in India are limited, and they hold patents on large music libraries for 60 years from the date of production. Hungama is dependent on few key suppliers for majority of its content, and any disruption in this relationship could have negative impact on the scale of operations. Single supplier continues to contribute majority of its content supplies to Hungama, thus leading to client concentration risk. To mitigate this, Hungama has ventured into creating its own content as well as diversifying the sourcing of content. It created 8 new web series in various genres under the brand name of "Hungama Studios" spread over FY18, FY19 and FY20. Further, the company had produce 8 new web series in various genres till December 2020. However, entry of Hungama into the content creation business, having a long gestation period for monetisation, may negatively impact the cash flows of the company, thus remains a key monitorable from credit perspective.
Considerable dependence of revenue on the telecom industry; albeit; reduced in FY20
Hungama derives 48% of its revenue from Telecom Companies (compared to 65% in FY19). The recent SC order on pending License Fee and Spectrum Usage Charges has created large immediate liabilities on Telecom players. These liquidity pressures on Telecom players could create subsequent stress on their various vendor ecosystem which includes players like Hungama.

Liquidity Analysis: Adequate
The liquidity position of the company continued to remain comfortable with average unutilised working capital utilization level at 50% for the period Dec 19- Nov 20, with no scheduled repayment obligation.
The company continued to report cash losses in FY20 and H1FY21, however, the cash flow from operations during FY20 was Rs.29crore. The company's cash & cash equivalent was Rs.0.34 crore as on March 31, 2020.The current ratio remains moderate at 1.52 times as on March 31, 2020 so that Hungama has sufficient current assets book to repay the current liabilities. Further, the liquidity comfort is also dawn from the fact that shareholders continue to support the business operations through regular infusion in the form of equity/loan/CCPL.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Financial ratios – Non-Financial Sector
Rating methodology: Service Sector Companies
Liquidity analysis of non-financial sector entities

About the Company
Hungama started in 1999, under the umbrella brand of Hungama Digital Media Entertainment Private Limited (Hungama) is a full service digital agency, with capabilities in digital ideation, production, and social media. Hungama offers creative and promo marketing services, viral marketing campaigns, social media marketing and mobile marketing, applications, managing websites and video services. It is a known Indian player in the media and entertainment industry as an aggregator, developer, publisher and distributor of entertainment content in India as well as international markets. Hungama offers content primarily for value added services (VAS) viz. ringtones, music, videos and wallpapers and wireless application protocol services (WAP). Besides, it also has an established presence in digital services and media business wherein it operates entertainment portals /and offers services for digital advertising, website designing, promo marketing, etc. The company serves content to over 64 million consumers in 70 countries across mobile, internet and IPTV services on a Managed Services Platform via download and streaming. Hungama has over two and half million pieces of digital content rights tie up across genres and languages, in the form of music tracks, music videos & dialogues; mobile content such as ringtones & wallpapers with majority of content licensor/ producer in India and also has digital content rights tie-up for over 5000 Bollywood, Hollywood, Regional Indian Movies and Television Series.

(Rs. crore)

Brief Financials	FY19 (A)	FY20 (A)
Total operating income	256.81	249.32
PBILDT	2.77	-42.92
PAT	-12.86	-51.25
Overall gearing (times)	0.15	0.22
Interest coverage (times)	0.47	NM

A: Audited NM: Not Meaningful

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BBB+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (11-Mar-20)	1)CARE BBB+; Stable (29-Jan-19) 2)CARE BBB+; Stable (17-Oct-18) 3)CARE BBB+ (Under Credit watch with Developing Implications) (07-Apr-18)	1)CARE BBB+; Stable (10-May-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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