# Network18 Media & Investments Limited

October 01, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating1 | Rating Action |
|---|---|---|---|
| Long term/Short term Bank Facilities | 750.00 (enhanced from 500.00) | CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/A One Plus) | Reaffirmed |
| Total Facilities | 750.00 (Rs. Seven hundred and fifty crore only) | | |
| Commercial Paper Issue | 1,500.00 (Rs. One thousand and five hundred crore only) | CARE A1+ (A One Plus) | Reaffirmed |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale& Key Rating Drivers**

The ratings assigned to the bank facilities and instruments of Network18 Media & Investments Ltd (Network18) continue to factor in the strong parentage of the company with Independent Media Trust [whose sole beneficiary is Reliance Industries Ltd (RIL; rated CARE AAA; Stable/A1+)] holding majority stake in the company. The ratings derive strength from its importance to the RIL group since it represents the group's major investment in media and broadcasting segments as well as its strong operational synergies with the digital services business of RIL (i.e. Jio Platforms Limited).

The ratings also take into consideration the strong portfolio of the Network18 Group (includes Network18 and its subsidiaries, including TV18 Broadcast Ltd and Viacom18 Media Private Limited). The well-diversified portfolio of properties and leadership positions in various segments of broadcast and digital media are complemented by a comfortable capital structure. The group has made sustained investments into new TV channels and ramped-up its offerings in digital content. The earnings profile of the company still remains weak as a result of losses from the above.

Further, the ratings are also sensitive to the operating performance of the broadcasting business constituting a major part of the consolidated total income in FY20. The main source of revenue in this business is advertisement, which depends on various factors like market competition, the quality and popularity of content being broadcast, trends in the media sector, regulatory changes and the level of economic activity in general, which has been adversely affected due to the Coronavirus pandemic in Q1FY21.

The recent announcement of consolidation of the entire group's media and distribution business into Networ18 would be a credit positive for the company and the ratings would remain unchanged. The new simplified structure would reduce the number of listed entities as well as various overheads which will result into cost synergies and create a large media & distribution company having strong market position in bothTV broadcasting and cable distribution segments. The merger scheme is expected to improve the financial as well as credit risk profile of the company. The scheme is subject to various regulatory approvals.

<u>Rating Sensitivities</u>

*Negative Factors*

- Deterioration in overall gearing beyond 1.5x on a consolidated basis
- Reduction in strategic importance of the Network18 group to the ultimate parent i.e. RIL

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Resourceful and financially strong promoters:*** Network18 is controlled by Independent Media Trust, the sole beneficiary of which is RIL. RIL, the flagship company of Reliance (Mukesh D. Ambani) group, is India's largest private sector enterprise with businesses across the energy and materials value chain, along with a significant and growing presence in retail and telecom sectors. It is the first Indian private sector company to feature in Fortune Global 500 list of 'World's Largest Corporations' and has been consistently featuring in it for the last ten consecutive years.

***Strategic importance of Network18 in RIL group's strategy of increased focus on its telecom/ digital business:*** The telecom sector is increasingly moving from voice and text content to data and video content; and content consumption has already moved beyond television to mobile phones and handheld devices. The media and entertainment business is a key element to RIL group's approach to expand their growth in the field of telecom and digital outreach. Network18 comprises leading television channels, digital and mobile properties and publications in key media genres. It is one of the leaders in the Indian

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Media & Entertainment industry with top five ranking in most of the segments it operates in. Network18 represents the RIL group's major investment in digital/broadcasting content, which reiterates the importance of the company amidst a growing focus on telecom/digital businesses. Moreover, the Network18 group has strong operational linkages with the digital services business of RIL (i.e. Reliance Jio Infocomm Limited) which is established by the fact that TV18's (subsidiary of Network18) various channels and its key digital properties come bundled with RIL's digital services offerings which facilitates customer engagement as well as retention and helps in delivering content focused services. Moreover, the day-to-day operations and key functions of the company are looked over by the RIL management and amongst the board of directors, two of the members are also present on the board of RIL. This further reiterates the importance of the Network18 group in the overall strategy of RIL.

***Improved financial and operating performance in FY20; however weakened in Q1FY21 due to Covid-19:*** The company's consolidated total income increased by around 6% to Rs. 5,308 crore in FY20. The advertising revenue was muted during the year due to weak macro-environment. However, the weakness in ad-revenue was offset by growth of around 43% in subscription revenue and gain in momentum in digital syndication. The PBILDT margin improved substantially from around 2% in FY19 to around 11% in FY20 primarily due to broad-based cost optimization, improvement in ratings of flagship channels and increase in non-ad revenues. On a standalone basis, the losses in the digital segment reduced by around 26% in FY20.

During Q1FY21, the revenue as well as profitability decreased substantially due to sharp reduction in advertising revenue as the companies clamped down their ad-spends led by strict lockdown being implemented due to the spread of Covid-19.The decline in profitability margins was limited due to continued cost optimization. Easing of lockdown in the current quarter has resulted in some advertisers returning to the market as well as the content production for both national and regional GECs has resumed and is expected to ramp-up in phases.

***Comfortable capital structure:*** Network18's consolidated overall gearing increased yet stood comfortable at 1.01x as on March 31, 2020 as compared to 0.94x as on March 31, 2019. The increase in debt was primarily due to increase in working capital borrowings in the entertainment business (Viacom18) which was used to fund the investments in content as well as updation of the movie library.

***Consolidation of media and distribution businesses into Network18 to improve financial risk profile:*** On February 17, 2020, the boards of Network18, its subsidiary TV18and cable companies Hathway Cable and Datacom Limited and DEN Networks Limited approved a Scheme of Arrangement for consolidation into Network18. As per the Scheme, TV18, Den and Hathway would be merged into Network18. The said Scheme is subject to receipt of various necessary approvals.
The merger of media and distribution businesses into a single entity is expected to improve the business as well as financial risk profile of the company. Aggregation of a content powerhouse across news and entertainment segments and the country's largest cable distribution network under the same umbrella shall boost efficiency and exploit synergies, creating economies of scale as well as value for all stakeholders. The merged entity is also expected to have around ~50% subscription revenue which would reduce volatility in the revenue as well as profitability. The group structure will be much more simplified as the number of listed entities will reduce and removal of overheads would result into cost synergies, further boosting the margins. The capital structure of the merged entity is expected to improve with reduction in net debt levels as well as healthy accretion of profits to the networth.

**Key Rating Weaknesses**
***High dependence on broadcasting business:*** The company derives a major portion of its total income from broadcasting business under subsidiary TV18 which is sensitive to ad rates, which in turn are influenced by broader economic cycle. During FY20, TV18 consolidated revenue grew by 5%led by subdued ad-industry environment. Due to inherent risk in media and entertainment sector, this business will remain vulnerable to factors like market competition, television viewership for the channels, the quality and popularity of content being broadcast, trends in the media sector, regulatory changes and the level of economic activity in general. However, the implementation of new TRAI tariff order has resulted in subscription income for the broadcast portfolio rising by 43% YoY in FY20; which is a major positive given its more annuity-style nature.

***Liquidity: Strong***
The company had cash and cash equivalents of around Rs.164 crore as on March 31, 2020. The losses are being funded through debt and since the company belongs to RIL group, it enjoys superior financial flexibility and can easily access capital markets. The company is able to issue as well as successfully roll over its CPs at competitive rates. Further, the parent group would extend financial support to the company, if required.
On a standalone basis, the company has no scheduled repayment as well as it has low utilization of its bank limits, which provides an adequate liquidity cushion. The company has not availed moratorium.

**Analytical approach: Consolidated**

Based on similar line of business and the structure of the group, CARE has taken a consolidated analytical approach and has included TV18 Broadcast Limited (51.17% subsidiary of Network18), Viacom18 Media Private Limited (51% subsidiary of TV18), IndiaCast Media Distribution Private Limited and AETN18 Media Private Limited (51% subsidiary). Further, the strategic importance of the company for the RIL group's media business as well as expected financial support from the parent group, if required, has been taken into consideration.

**Applicable Criteria**

*CARE's policy on assigning 'outlook' and 'credit watch' to Credit Ratings*
*CARE's policy on default recognition*
*Criteria for Short Term Instruments*
*Financial ratios – Non-financial sector*
*Liquidity analysis of Non-financial sector entities*
*Rating Methodology: Consolidation and Factoring Linkages in Ratings*

**About the Company**

Network18 Media & Investments Limited (Network18) was founded in 1996. Independent Media Trust (whose sole beneficiary is Reliance Industries Ltd (RIL; rated CARE AAA; Stable/A1+) acquired 73.16% stake (directly and indirectly) in July 2014. Network18 is a media and entertainment conglomerate with interests in television, internet, filmed entertainment, digital business, magazines, mobile content and allied businesses.Network18 manages various digital businesses including portals such as moneycontrol.com, News18.com and firstpost.com. It is the largest shareholder in entertainment ticketing and live event platform bookmyshow.com, with ~39% stake. Further, Network18 has allied investments in Colosceum, Toppers, Yatra, Ubona and other companies. Through its subsidiary, TV18 Broadcast Limited (TV18: 51.17% holding), the group operates news channels. TV18 through its 51% subsidiary (Viacom18 Media Pvt Ltd)offers various Hindi/Regional/English General Entertainment Channels and Kids/Music/Youth channels as well. TV18 also has a 51% subsidiary (AETN18 with the joint venture partner A+E Networks) for factual entertainment channel - History TV18. In addition, Network18 also has presence in the publishing segment through specialized magazines Forbes India, Overdrive, Better Interiors and Better Photography.

| Brief Financials (Rs. crore) | FY20 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 5307.79 | 4992.34 |
| PBILDT | 569.81 | 87.96 |
| PAT | 56.14 | -177.60 |
| Overall gearing (times) | 1.01 | 0.94 |
| Interest coverage (times) | 2.42 | 0.44 |

*A: Audited; Classified as per CARE Standards*

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**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/Non-fund-based-LT/ST | - | - | - | 750.00 | CARE AAA; Stable / CARE A1+ |
| Commercial Paper-Commercial Paper (Standalone) | - | - | 7-364 days | 1500.00 | CARE A1+ |

**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/Non-fund-based-LT/ST | LT/ST | 750.00 | CARE AAA; Stable / CARE A1+ | - | 1)CARE AAA; Stable / CARE A1+ (09-Oct-19) | 1)CARE AAA; Stable / CARE A1+ (30-Jan-19) | 1)CARE AAA; Stable / CARE A1+ (30-Jan-18) |
| 2. | Commercial Paper-Commercial Paper (Standalone) | ST | 1500.00 | CARE A1+ | - | 1)CARE A1+ (09-Oct-19) | 1)CARE A1+ (30-Jan-19) | 1)CARE A1+ (30-Jan-18) |
| 3. | Fund-based/Non-fund-based-LT/ST | LT/ST | - | - | - | 1)Withdrawn (09-Oct-19) | 1)CARE AAA; Stable / CARE A1+ (30-Jan-19) | 1)CARE AAA; Stable / CARE A1+ (30-Jan-18) |
| 4. | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (09-Oct-19) | 1)CARE AAA; Stable (30-Jan-19) | - |

**Annexure-3:List of subsidiaries, associates and joint ventures of Network18 getting consolidated (as on March 31, 2020)**

| Sr.No. | Name of companies/ Entities | % of holding |
|---|---|---|
| 1 | AETN18 Media Private Limited | 26.10% |
| 2 | Colosceum Media Private Limited | 100% |
| 3 | e-Eighteen.com Limited | 91.95% |
| 4 | Greycells18 Media Limited | 89.69% |
| 5 | Digital18 Media Limited | 100% |
| 6 | Media18 Distribution Services Limited | 100% |
| 7 | Web18 Digital Services Limited | 100% |
| 8 | IBN Lokmat News Private Limited | 25.58% |
| 9 | IndiaCast Media Distribution Private Limited | 38.63% |
| 10 | IndiaCast UK Limited | 38.63% |
| 11 | IndiaCast US Limited | 38.63% |
| 12 | Infomedia Press Limited | 50.69% |
| 13 | Moneycontrol.Dot Com India Limited | 91.95% |
| 14 | Roptonal Limited | 26.10% |
| 15 | TV18 Broadcast Limited | 51.17% |
| 16 | Viacom 18 Media (UK) Limited | 26.10% |
| 17 | Viacom 18 Media Private Limited | 26.10% |
| 18 | Viacom 18 US Inc. | 26.10% |

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Commercial Paper-Commercial Paper (Standalone) | Simple |
| 2. | Fund-based/Non-fund-based-LT/ST | Simple |

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

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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