Press Release

OneOTT Intertainment Limited (OIL)

June 25, 2020

Rating

Instrument / Facility	Amount (INR Crore)	Rating	Rating Action
Long Term Fund Based Facility - Cash Credit	2.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)	Assigned
Proposed Long Term Fund Based Facility	12.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)	Assigned
Long Term / Short Term Non-Fund Based Facility – Capex Letter of Credit	8.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook) IVR A1+ (IVR A One Plus)	Assigned
Total	**22.00**		

Details of Facilities are in Annexure I

Detailed Rationale

The rating derives strength from Strong promoter Group and demonstrated support by the group, Long Track Record and experienced and professional management, Substantial value of shareholding in Group Companies and Investment in Land, Latest Technology and Sustainable Business Model resulting in an increasing and stable subscriber base, Favourable impact of COVID – 19 pandemic on the business of Hinduja Media Group, Bright Future Prospects – Deleveraging, Streamlining Businesses and the New Tariff Order improve operational and financial aspects of the business. However, these strengths are, partially offset by Weak and Volatile Operating Performance, Leveraged Capital Structure and weak to moderate debt protection metrics, and Susceptibility to strong competition and changing technology.

Key Rating Sensitivities

Upward rating factor(s) – Sustained & Significant improvement in revenue & profitability margins leading to improvement in the debt protection parameters along with constant strong support from the group could call for a positive rating action

Downward rating factor(s) – Any major debt funded capex and/or decline in profitability margins resulting in deterioration of overall gearing and debt coverage indicators, and the company's ability not to withstand competition and change, along with lack of required support from the group would call for a negative rating action.

Key Rating Drivers with detailed description

Key Rating Strengths

Strong promoter Group and demonstrated support by the group

NXT Digital Limited (NDL) and OneOTT Intertainment Limited (OIL) are a part of the Hinduja Group which came into being in 1918. It is one of the diversified groups having presence in around 30 countries, in sectors encompassing automotive (Ashok Leyland Ltd), oil &gas (Gulf Oil Lubricants Ltd), banking & finance (Indusind Bank Ltd), IT and BPO (Hinduja Global Solutions),media (NXT Digital Limited) and healthcare.

The Hinduja group has provided timely and adequate financial support to NDL and its subsidiaries for debt servicing and other obligations, as and when required. During FY17, the group as a whole raised around INR 757.25 crore through a rights issue which was majorly subscribed internally by the group companies themselves. The issue proceeds were used for redeeming the preference shares, payment of inter-corporate deposits and deployment of working capital for operations of IndusInd Media and Communications Limited (IMCL, a subsidiary of NDL and the holding company of OIL).

Long Track Record and experienced and professional management

NDL was originally incorporated in 1985 and has a track record spanning more than three decades in the media and communications segment. The company has evolved with time in line with the arrival of newer technologies for transmission and distribution. The experience of the management team in running various businesses is a key strength for NDL and OIL. The overall vision and mission of the entities are guided by Mr. Ashok P Hinduja, the Executive Chairman of Hinduja Ventures Limited and also the Chairman of the Hinduja Group of Companies. Further, he also oversees the philanthropic activities of the Hinduja Foundation, whose primary focus is on education and healthcare. He is also a foundermember of the National Health and Education Society, which runs the PD Hinduja National Hospital & Medical Research Centre in Mumbai and is Managing Trustee of the KPB Hinduja College of Commerce, Mumbai. The team of directors and promoters are from a rich educational background and have strong experience in their fields.

Security from Letter of Comfort

NXT Digital Limited has, by way of letter of comfort, assured a sum of INR 11.00 crore (the same amount of current existing sanctioned facilities) in favour of OneOTT Intertainment Limited. This letter is deemed to lapse on Final Settlement date or on repayment by borrower of outstanding against the said bank facilities.

Substantial value of shareholding in Group Companies and Investment in Land

NDL has equity shares in various group entities like Indusind Bank, Gulf Oil Corporation and Hinduja Leyland Finance Limited whose aggregate market value was around INR 1075.63 crore as on March 31, 2019. Further, the company also holds a substantial portion of land of around 47 acres for future commercial development purposes.

Latest Technology and Sustainable Business Model resulting in an increasing and stable subscriber base

NXT Digital Limited (step up holding company of OIL) is the only company to have dual services of traditional cable operations and Head End in The Sky (HITS) operational services under a single platform. HVL was the pioneer in the DAS platform and an early mover in the HITS platform. The company provides services both as a “Full Service Offering” and a “Managed Service Offering” – these are offerings of the company to smaller MSOs to share the company’s infrastructure to enhance speed and quality of the small MSOs’ offerings. The profit earned from Managed Services goes straight to the bottom-line with negligible amount of operating costs.

The Integrated broadband platform of OIL delivers high-speed internet and services across multiple cities in India. OIL has over 4700 kilometres of ‘live’ OFC network providing broadband and high-speed internet to over 15 cities in India. Recently, OIL introduced

Gigabit Passive optical networking (GPON) technology in Mumbai and Delhi. This structure helps reduce network and energy costs.

These factors have resulted in an increase in the subscriber base of NDL (Consolidated) to ~40.71 lakhs in FY19 from ~24.66 lakhs in FY17. Further, OIL has been successful in establishing over 3,30,000 subscribers as on 31st March, 2020 and over 4,700 kilometres of Underground & Overhead Optical fiber networks.

Favourable impact of COVID – 19 pandemic on the business of Hinduja Media Group

The Hinduja Media Group's Media and Entertainment services were not having any adverse impact due to lockdown caused by Covid-19 and relying on the fact that Media and Entertainment have been considered as essential services. As home-bound Individuals sat glued to their TV sets craving for news and entertainment during the lockdown, TV consumption spiked to touch highest ever numbers in the history of Indian television, as per a joint report by TV viewership monitoring agency BARC India and Nielsen.

Bright Future Prospects – Deleveraging, Streamlining Businesses and the New Tariff Order to improve operational and financial aspects of the business

Going forward, NDL plans to sell its investments in HLFL (Hinduja Leyland Finance Limited) shares and Land owned in Hyderabad, which will further strengthen the liquidity.

The Hinduja Media Group (HMG) plans to streamline the business to bring it under one roof. Hence, IndisInd Media and Communications Limited (IMCL) is on the verge of merging its media operations with that of NXT Digital Limited by virtue of which NDL will become the operating company for the media business and the direct holding company of OneOTT Intertainment Limited. This is expected to bring about a turnaround of operational and financial activities in the business. Furthermore, 9MFY20 have seen a major improvement as compared to the 9MFY19. For NDL, the TOI, EBITDA Margin for 9MFY20 were INR 788.45 crore and 31.19% respectively, as compared to that of 9MFY19 of INR 489.43 crore and -29.44% respectively. The Interest Coverage Ratio improved from -1.24x as on 9MFY19 to 2.16x as on 9MFY20. For OIL, the TOI, EBITDA Margin for 9MFY20 were INR 97.35 crore and 23.42% respectively, as compared to that of 9MFY19 of INR 74.65 crore and 4.17% respectively. The Interest Coverage Ratio changed from 4.47x as on 9MFY19 to 2.62x as on 9MFY20.

The new tariff order which came on February, 2019 changed the business to MRP based model. This enabled MSOs like NXT Digital Limited to keep a substantial margin on the broadcaster's charge for various channels, which were almost negligible earlier. Furthermore, the profits earned from the customers are distributed between the MSO and the cable operator in the ratio pre-decided by the MSOs and cable operators, on contrary to what was earlier where there was lesser transparency.

Infomerics believes that the performance of the companies is expected to improve further in FY21.

Key Rating Weaknesses

Weak and Volatile Operating Performance

NDL has posted a revenue of INR 690.48 crore in FY19 as opposed to INR 839.84 crore in FY18 and INR 784.91 crore during FY17 on a consolidated basis. The fall in revenue from FY18 to FY19 has mainly been due to IND AS adjustments of Mark to Market. Subsequently, for the same reason the company's EBITDA and PAT margins have been decreasing through the period.

OIL has posted a revenue of INR 104.29 crore in FY19 as opposed to INR 33.91 crore in FY18 and INR 16.95 crore during FY17. The company's EBITDA Margin reduced to 0.39% in FY19 from 5.08% in FY18. The PAT margins have been volatile over the period – 0.99% in FY19, 6.09% in FY18 and -43.83% in FY17.

Leveraged Capital Structure and weak to moderate debt protection metrics

NDL has a leveraged capital structure marked by long-term debt to equity and overall gearing ratio of 1.96x and 2.01x respectively. Further, the interest coverage ratio deteriorated to -0.80x during FY19 from 0.31x in FY18. Going forward, the company plans to monetize its investments in group companies and real estate for servicing its finance cost and principal repayments. Also it sees a huge scope of business and cash accruals, eventually to pay of its debt obligations. On the other hand, OIL's long-term debt to equity and overall gearing ratio stands at 0.00x. The interest coverage ratio deteriorated to 0.52x during FY19 from 3.19x in FY18.

Susceptibility to strong competition and changing technology

NDL and OIL operates in the highly competitive media transmission and distribution segment. The growth of alternative transmission medium like direct-to-home (D2H) and Internet Protocol Television (IPTV) has been on the rise during the past few years. Further, competitors like Reliance Jio Infocomm pose as strong market players.

Changing Technology may be the other major threat to the company, considering the level of disruption during fast changing times. However, the company is constantly updated and upgraded on all technological aspects.

Analytical Approach: Consolidated from FY20

For arriving at the rating, Infomerics has combined the business and financial risk profiles of 2 companies , NXT Digital Limited (NDL) on a consolidated basis and One OTT Intertainment Limited (OIL) together refer as Hinduja Media Group (HMG) as they are in the same lines of business (media products and services), under a common management (falling under the umbrella of the Hinduja Group), having financial linkages (OIL is a subsidiary of Indusind Media and Communications Limited since August 2019 (IMCL), which is a subsidiary of NDL, thus OIL is a step down subsidiary of NDL) and sustainable support by way of letter of comfort. Furthermore, under a re-organization approved by the Boards of both the companies, all media operations of IMCL would be transferred to NDL, however the court order is expected by August 2020.

(NDL has given a letter of comfort of INR 11.00 crore in favour of OIL for its existing bank facilities)

Applicable Criteria

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The group has been earning a comfortable level of gross cash accruals (GCA) for the last few years and the same is expected to increase further with increase in scale of operation. Being part of the Hinduja Group, OneOTT Intertainment Limited (OIL), and NXT Digital Limited (NDL) enjoys significant financial flexibility in terms of mobilizing funds from various sources at competitive rates. Also, it has the support from the group to avoid a liquidity crunch. The overall liquidity position of the companies on a consolidated basis is expected to remain **Adequate.**

About the Group

NXT Digital Limited (NDL) and OneOTT Intertainment Limited (OIL) are a part of Hinduja family which has a global presence across 30 countries. It is one of the large diversified groups having presence in Automotive, Oil and Gas, Banking and Finance, IT and BPO, Power, Media, Real Estate and Healthcare. Being part of the Hinduja group, NDL enjoys significant financial flexibility in terms of mobilizing funds from various sources at competitive rates. The group has Technological Partnerships with Global Leaders like Nokia, Siemens, Alcatel-Lucent, Huawei, HP, Nagra, Skyworth, Chang Wong, ThaiCom, amongst many others.

About the Company

Incorporated in 2000, ONEOTT Intertainment Limited (OIL) formerly known as Planet E shop Holdings Private Limited provides broadband/internet services to retail customers, enterprise customers and Optical Fiber leasing services to IndusInd Media Communications Limited (IMCL – the holding company of OIL) and other network operators. In the retail segment, OIL has around 25,000 direct subscribers as on 31st March, 2020 (predominantly catering to Mumbai region) to which the company provides end to end services. Further, the company also has franchise partners to which it provides bandwidth services. These Franchise partners invest the money and provide all the services to their 3,05,000 subscribers. In the segment of Enterprise Leased Lines (ELL), OIL caters to Video, Voice & data communication between geographically distant locations of an enterprise. OIL has over 4700 kilometres of 'live' OFC network providing broadband and high-speed internet to over 15 cities in India. The Integrated broadband platform delivers high-speed internet and services across multiple cities in India. The company has been successful in establishing over 3,30,000 customers and over 4,700 kilometres of Underground & Overhead Optical fiber networks.

Financials (Standalone): **(INR Crore)**

For the year ended* / As on	31-03-2018	31-03-2019
Total Operating Income	33.91	104.29
EBITDA	1.72	0.41
Interest	0.54	0.79
PAT	2.23	1.07
Total Debt	4.69	0.25
Tangible Net worth	-16.21	-15.75
EBIDTA Margin (%)	5.08	0.39
PAT Margin (%)	6.09	0.99
Interest Coverage (times)	3.19	0.52
Long Term Debt / EBIDTA (times)	0.02	0.00
Current Ratio	1.44	0.82
Quick Ratio	1.44	0.78

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facility - Cash Credit	Long Term	2.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)	--	--	--

2.	Proposed Long Term Fund Based Facility	Long Term	12.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)	--	--	--
3.	Long Term / Short Term Non-Fund Based Facility – Capex Letter of Credit	Long Term/ Short Term	8.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook) IVR A1+ (IVR A One Plus)	--	--	--

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: Mr. Miraj Bhagat	Name: Mr. Amit Bhuwania
Tel: (022) 62396023	Tel: (022) 62396023
Email: mbhagat@infomerics.com	Email: abhuwania@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 I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility - Cash Credit	--	3 months MCLR + 2.50% p.a. payable at monthly intervals (presently 10.15% p.a.)	Revolving	2.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)
Proposed Long Term Fund Based Facility	--	--	--	12.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook)
Long Term / Short Term Non-Fund Based Facility – Capex Letter of Credit	--	--	Upto 3 years for capital goods from the date of shipment	8.00	IVR A+/ Stable outlook (IVR Single A Plus with stable outlook) IVR A1+ (IVR A One Plus)

Annexure II: List of Subsidiaries & Associates considered for consolidation

The direct and indirect subsidiaries (all incorporated in India) considered in the consolidated financial statements with the Company's share in voting power in these companies as on 31st March, 2019 are as follows:

Sr. No.	Name of Company	Relation#	Company's shares in voting power (%)*	Company's Effective stake (%)*
1	Indusind Media & Communications Limited	Direct Subsidiary	76.98	76.98
2	U S N Networks Private Limited	Indirect Subsidiary	100.00	76.98
3	United Mysore Network	Indirect Subsidiary	99.45	76.56

Sr. No.	Name of Company	Relation#	Company's shares in voting power (%)*	Company's Effective stake (%)*
	Private Limited			
4	Bhima Riddhi Infotainment Private Limited	Indirect Subsidiary	51.00	39.26
5	Gold Star Noida Network Private Limited	Indirect Subsidiary	100.00	76.98
6	Apna Incable Broadband Services Private	Indirect Subsidiary	100.00	76.98
7	Sangli Media Services Private Limited	Indirect Subsidiary	51.00	39.26
8	Sainath In Entertainment Private Limite	Indirect Subsidiary	51.00	39.26
9	Sunny Infotainment Private Limited	Indirect Subsidiary	51.00	39.26
10	Goldstar Infotainment Private Limited	Indirect Subsidiary	98.92	76.15
11	Ajanta Sky Darshan Private Limited	Indirect Subsidiary	51.00	39.26
12	Darpita Trading Company Private Limited	Indirect Subsidiary	51.00	39.26
13	RBL Digital Cable Network Private Limited	Indirect Subsidiary	51.00	39.26
14	Vistaar Telecommunication and Infrastructure Private Limited	Indirect Subsidiary	51.00	39.26
15	Advance Multisystem Broadband Communications Limited (upto March 29, 2019)	Indirect Subsidiary	-	-
16	Amaravara Indigital Media Services Private Limited (upto March 29, 2019)	Indirect Subsidiary	-	-

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Sr. No.	Name of Company	Relation#	Company's shares in voting power (%)*	Company's Effective stake (%)*
17	Vinsat Digital Private Limited	Indirect Subsidiary	61.00	46.96

**Representing aggregate % of shares held by the Company and / or its subsidiaries*

#The Direct Subsidiaries are that of NXT Digital Limited, and the Indirect Subsidiaries are that of IndusInd Media and Communications Limited (IMCL)