Press Release

ONEOTT Intertainment Limited

December 27, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	52.00 (Increased from Rs.11.00 crore)	IVR A+/ Stable (IVR A Plus with Stable Outlook)	Rating reaffirmed with stable outlook and removed from rating watch with developing implications	Simple
Short Term Bank Facilities	19.00	IVR A1+ (IVR A One Plus)	Rating reaffirmed and removed from rating watch with developing implications	Simple
Total	**71.00 (Rupees Seventy One Crore Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has revised the analytical approach from consolidated to standalone rating factoring in the parent linkages approach post scheme of demerger.

On November 11, 2022 Hinduja Global Solutions Limited received NCLT approval to acquire the Media and Communications Undertaking including investment in subsidiaries of NXT digital Limited. Pursuant to the Scheme of Arrangement between NXT Digital Limited and HGSL, with effect from the Appointed Date (i.e. 01 February, 2022), HGSL is the Holding Company of ONEOTT Intertainment Limited. HGSL holds 71.65% shares of OIL. As per the lenders of OIL, HGSL has given letter of comfort in favour of OIL for its existing bank facilities and also Hinduja Group shall continue to hold minimum equity shareholding of 51% in OIL

and also management control to reside with Hinduja Group. OIL provides internet services PAN India to over 1.2 million subscribers including to those subscribers who are HGSL customers. As on date OIL provides internet services to 20% of HGSL's Mumbai customers. Mr. Vynsley Fernandes, MD & CEO of OIL is also a whole-time director in HGSL. Mr. Munesh Khanna, Independent Director of OIL is also an Independent Director in HGSL. Mr. Srinivas Palakodeti, Non Executive Director of OIL is also Global CFO of HGSL.
For arriving at the rating, Infomerics has considered the support received by OIL from its parent HGSL by way of holding of 71.65% shareholding in the company. The rating is done based on strong business, strategic and legal linkages with its parent company i.e. HGSL.

The reaffirmation of the ratings assigned to the bank loan facilities of OIL derive strength from strategic, legal and operating linkages with its parent company Hinduja Global Solution Limited (HGSL), sustained improvement in operating performance and comfortable debt protection metrics. The ratings however constrained by risk associated with working capital-intensive nature of business operations, highly competitive industry and capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the company's revenue and/or profitability while maintaining the debt protection parameters.
- Improvement in capital structure and improvement in debt protection metrics.
- Improvement in working capital cycle leading to improvement in cash flow from operations.

Downward Factors

- Any decline in scale of operations and/or profitability and/or any deterioration in working capital cycle leading to sustained deterioration of liquidity and/or debt protection parameters.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall credit profile.
- Any weakening of linkages with HGSL.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Strong linkages with the parent company:**

  Post scheme of arrangement, OIL became a subsidiary of HGSL which holds 71.65% in the OIL. HGSL also given letter of comfort to OIL lenders as well as HGSL will continue to hold at least 51% of the shareholding in OIL till the bank facilities of OIL gets repaid in full. Also, OIL act as forward integration for HGSL where OIL provides internet services to HGSL cable customers. As on September 2023, OIL provides such services to 20% of the HGSL Mumbai customers. Also, there are common directors between the two companies.

- **Sustained improvement in operating performance**

  Revenue has increased by 34% during FY23 to Rs.323.09 crore as against Rs.255.21 crore led by increase in subscriber base and increase in ARPU. EBITDA margins have improved to 28.17% in FY23 as compared to 17.41% in FY22, due to increase in average revenue per user (ARPU) in FY23 against FY22 and also due to lower operating cost i.e. laying of fibre optic cables and other related expenses which was majorly done in FY22 as compared to FY23. However, PAT margin has declined to 1.61% in FY23 against 17.42% in FY22, due to deferred tax adjustments during FY22.

- **Marginally deterioration in capital structure, however the company is having comfortable debt protection metrics**

  OIL's credit profile marked by overall gearing and TOL/TNW (on Net Adjusted Tangible Net Worth) marginally deteriorated and stood at 0.46x and 2.80x respectively at the end of FY23 as compared to 0.07x and 2.58x respectively at the end of FY22, due to increase in short term bank borrowings which increased to Rs.32.77 crore in FY23 against Rs.4.79 crore in FY22. The net adjusted tangible networth increased to Rs.71.84 crore in FY23 against Rs.64.56 crore in FY22. The interest coverage ratio has remained stable to 3.20x in FY23 against 3.32x in FY22. Total debt to GCA improved and stood at 2.77x in FY23 as against 3.44x in FY22, due to increase in gross cash accruals which increased to Rs.91.20 crore in FY23 against Rs.38.75 crore in FY22.

Key Rating Weaknesses

- **Working capital intensive nature of business operations**

  Working capital cycle of the company remain moderated reflected by its average collection days of 19 days in FY23 as against 26 days in FY22. Average inventory period stood at 6 days in FY23 from 6 days in FY22. Average creditor period stood at 33 days in FY23 from 30 days in FY22. The current ratio stood at 1.55x as on March 31, 2023, as against 1.18x as on March 31, 2022.

- **Highly competitive industry**

  The industry is highly fragmented, with the presence of several regional players. Apart from existing wired broadband providers, OIL continues to face competition from TSPs providing similar services at aggressive prices with bundled offerings. Furthermore, predatory pricing by any new entrant or existing service provider in the broadband segment may adversely impact the company's market share and ARPU levels.

- **Capital intensive nature of operations**

  Rolling out a fixed broadband network requires significant capital investments over time. This involves designing a network wherein last mile connectivity is to be established. Fixed broadband providers are investing in technologies that offer faster broadband services. As a result, the service provider has to incur ongoing operational/ capital expenditure, which, as clearly articulated by the management, would be majorly funded through internal accruals.

Analytical Approach: Standalone rating factoring in the parent linkages.

Infomerics has revised the analytical approach from consolidated to standalone rating factoring in the parent linkages approach post scheme of demerger.
For arriving at the rating, Infomerics has considered the support received by OIL from its parent HGSL by way of holding of 71.65% shareholding in the company. The rating is done based on strong business, strategic and legal linkages with its parent company i.e. HGSL.

Applicable Criteria:

Policy on Default Recognition

Criteria of assigning Rating outlook

Parent & Group Support

Rating Methodology for service sector entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

OIL's liquidity is expected to remain adequate given the expected cash accruals in the range of Rs. 104.29 crore to Rs. 154.83 crore through FY24 to FY26 as against only Rs.6crs repayment in FY26 (FY24 and FY2: Nil repayment). The free cash and cash equivalents balance stood at Rs.21.05 crore as on March 31, 2023, while average fund based utilisation for the 12 months ended September 2023 stood at ~24% The current ratio stood at 1.55x at the end of FY23 (FY22:1,18x).

About the Company

Incorporated in 2000, OIL provides broadband/internet services to retail customers, enterprise customers and Optical Fiber leasing services to network operators. OIL has a strong presence in Broadband and Internet services in 40+ cities. The company is a part of the "Hinduja Group". In August 2019, NDL had acquired 71.65% stake in OIL. However, later On November 11, 2022 Hinduja Global Solutions Limited received NCLT approval to acquire the Media and Communications Undertaking including investment in subsidiaries of NXT Digital Limited. Pursuant to the Scheme of Arrangement between NDL and HGSL, with effect from the Appointed Date (i.e. 01 February, 2022), HGSL is the Holding Company of ONEOTT Intertainment Limited. HGSL holds 71.65% shares of OIL.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	255.21	323.09
EBITDA	44.43	91.00

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
PAT	46.05	5.68
Total Debt	4.79	32.77
Adjusted Tangible Net worth	64.56	71.84
EBITDA Margin (%)	17.41	28.17
PAT Margin (%)	17.42	1.61
Overall Gearing Ratio (times) on Net Adjusted TNW	0.07	0.46

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					November 28, 2022	August 30, 2021	June 25, 2020
1.	Cash Credit	Long Term	22.00	IVR A+/ Stable	IVR A+/ RWDI	IVR A+/ Stable	IVR A+/ Stable
2.	Term Loan	Long Term	30.00	IVR A+/ Stable	IVR A+/ RWDI	IVR A+/ Stable	IVR A+/ Stable
3.	Capex LC	Short Term	18.00	IVR A1+	IVR A1+/ RWDI	IVR A1+	IVR A1+
4.	LER	Short Term	1.00	IVR A1+	IVR A1+/ RWDI	IVR A1+	IVR A1+

RWDI: Rating watch with developing implications

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	–	–	–	22.00	IVR A+/ Stable
Term Loan	–	–	2027	30.00	IVR A+/ Stable
Capex LC	–	–	–	18.00	IVR A1+
LER	–	–	–	1.00	IVR A1+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-ONEOTT-dec23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.