Ratings

CRISIL
An S&P Global Company

Rating Rationale

June 06, 2019 | Mumbai

Music Broadcast Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.35 Crore**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.200 Crore Non Convertible Debentures	**CRISIL AA/Stable (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities and non-convertible debentures (NCD) of Music Broadcast Limited (MBL).

CRISIL has withdrawn its rating on the non-convertible debentures of Rs 150 crore (Details of Rating Withdrawn) on independent confirmation as it is fully redeemed. This is in line with CRISIL's withdrawal policy.

The reaffirmation factors in MBL's recent announcement of intent to acquire Reliance Broadcast Network Ltd (RBNL) for an enterprise value of Rs 1,050 crore. Initially, MBL would acquire a 24% stake in RBNL by way of preferential allotment of shares for a consideration of Rs 202 crore. MBL had cash and liquid investments in excess of Rs 250 crore as of March 2019 which will be utilized to fund this acquisition of 24% stake. Upon receipt of the necessary regulatory approvals, MBL would pay Rs 348 crore to the shareholders of RBNL to acquire remaining stake in RBNL. Furthermore, RBNL's existing debt of around Rs 1300 crore will be reduced to Rs 500 crore through conversion of promoter loans of around Rs 600 crore into equity as well as from the proceeds of the first leg of the transaction. Therefore, the remaining Rs 500 crore of debt will be subsumed by MBL as part of the transaction.

RBNL currently operates 58 radio stations under the Big FM brand. Post-acquisition, RBNL will surrender 18 stations due to regulatory restriction around holding multiple frequencies. MBL's market position will strengthen with 79 operational radio stations; having presence across 69 cities along with dual frequencies in 10 cities including major and large cities. The 40 stations proposed to be acquired as part of the transaction had a revenue of Rs 256 crore and an operating profit of Rs 85 crore during fiscal 2019. Accruals are expected to benefit further from revenue and cost synergies.

The transaction is, however, expected to weaken MBL's financial risk profile due to significant increase in debt as around Rs 500 crore debt will be subsumed by MBL as part of the transaction. CRISIL has factored in financial support from MBL's parent, Jagran Prakashan Ltd (JPL; rated 'CRISIL AA+/Stable/CRISIL A1+'), which should help sustain the credit risk profile.

The ratings continue to reflect MBL's established managerial, operational, and financial linkages with the parent and strong market position in the radio industry. These strengths are partially offset by susceptibility to intense competition and economic activity in the FM radio broadcasting industry.

Analytical Approach

For arriving at the ratings, CRISIL has applied its parent notch-up framework to factor in strong operational, financial, and managerial support available to MBL from JPL.

Key Rating Drivers & Detailed Description

Strengths:

*** Established linkages with JPL**

MBL is strategically important to JPL as it diversifies its presence into the radio broadcasting segment. The company complements JPL's print business and enables it to offer a strong and differentiated product to advertisers. It further enhances the parent's geographical reach by adding cities where JPL has limited presence in print. Furthermore, MBL's radio stations acquired during the phase III auctions are in areas of JPL's footprint, thereby providing synergies to the former.

JPL facilitated the issuance of NCDs by providing a corporate guarantee, which was later replaced by a letter of comfort. JPL also provided liquidity support by a debt service reserve account to the extent of six months of debt obligation. CRISIL believes that JPL may utilize its strong liquidity of above Rs 340 crore at March 2019 to extend financial support to MBL for the acquisition of RBNL. JPL management's extensive experience in the media and entertainment business will continue to strengthen the business risk profile over the medium term.

*** Strong market position in the radio business**

MBL has a healthy portfolio of 39 radio stations, built through organic and inorganic expansion over fiscal 2016 ' 2017.

Leveraging the established brand of *Radio City,* company has seen healthy revenue growth of 9% in fiscal 2019 despite industry headwinds. The 11 stations acquired during the phase III auctions have started contributing modest operating profits.

Furthermore, with the proposed acquisition of RBNL's 40 stations operated under the Big FM brand, MBL will be able to significantly improve upon its market position. MBL will get access to 10 dual frequencies across metros and large cities viz. Delhi, Mumbai, Chennai, Bengaluru, Hyderabad, Pune, Nagpur, Surat, Lucknow and Kanpur. The deal will take MBL's presence to 69 cities which account for around 82% of the FM population in India.

Weakness:
* **Susceptibility to intense competition and economic activity:** With the allotment of new frequencies in the first and second batches of the Phase III auctions, competition has intensified in the metro markets in India's radio broadcasting industry. Metros contribute more than 75% to the industry's revenue and therefore have high importance. With new frequencies being added to existing metro cities, the players have to calibrate advertisement rates to maintain inventory utilisation. Limited ability of players to differentiate offerings further intensifies price-led competition for the available advertising revenue. MBL has, however, reported a healthy 9% year-on-year growth in revenue in fiscal 2019.

Operating margin of radio operators remain vulnerable to economic downturns as advertisement revenue is linked to economic conditions.

Liquidity
Current liquidity is strong with cash and liquid investments of Rs 253 crore as on March 31, 2019. Total debt was Rs 74 crore. Net cash accrual-expected at Rs 85-95 crore in fiscal 2020 should be sufficient to cover debt repayment obligation of Rs 50 crore. Capex is expected to remain moderate. The payment of Rs 202 crore towards acquisition of 24% stake in RBNL can be met through the available liquidity while for the final payment of Rs 348 crore MBL will have to rely upon external funds or financial support from JPL.

Outlook: Stable
CRISIL believes MBL will continue to benefit over the medium term from *Radio City's* established market position and strong support from JPL group. The ratings will remain sensitive to any change in CRISIL's rating on JPL.

Upside scenario
* Change in JPL's credit rating

Downside scenario
* Change in JPL's stated stance of support
* Large, debt-funded capital expenditure or acquisition, leading to weak capital structure

About the Company
MBL is the first private FM radio broadcaster in India that operates FM radio channels under the *Radio City* brand. During fiscal 2016, the company acquired 11 new stations in the batch-I of FM phase III auctions. Also, eight radio stations under the *Radio Mantra* brand operated by JPL's promoters under Shri Puran Multimedia Ltd were merged with the company and rebranded as *Radio City* during fiscal 2016. The company now has presence in 39 cities across India. The company also operates 18 web based stations.

With the proposed acquisition of 40 stations from RBNL, MBL will have presence in 69 cities in India with dual frequency in 10 cities including all major metros.

Key Financial Indicators (Music Broadcast Ltd)

Particulars	Unit	2019	2018
Operating revenue	Rs crore	325	299
Profit after tax (PAT)	Rs crore	62	52
PAT margin	%	19.0	17.3
Adjusted debt / adjusted networth	Times	0.12	0.08
Interest coverage	Times	21.42	7.44

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
INE919I07039	Debentures	4-Mar-15	9.70 %	4-Mar-20	50	CRISIL AA/Stable
NA	Bank Guarantee	NA	NA	NA	26.25	CRISIL A1+
NA	Proposed Bank Guarantee	NA	NA	NA	8.75	CRISIL A1+

Annexure - Details of Rating Withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate	Maturity Date	Issue Size

			(%)		(Rs Cr)
INE919I07013	Debentures	4-Mar-15	9.70 %	4-Mar-17	50
INE919I07021	Debentures	4-Mar-15	9.70 %	5-Mar-18	100

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	50.00 06-06-19	CRISIL AA/Stable			29-06-18	CRISIL AA/Stable	28-07-17	CRISIL AA/Stable	22-12-16	CRISIL AA/Stable	CRISIL AA/Stable
								14-07-17	CRISIL AA/Stable			
Non Fund-based Bank Facilities	LT/ST	35.00	CRISIL A1+			29-06-18	CRISIL A1+	28-07-17	CRISIL A1+		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Bank Guarantee	**26.25**	**CRISIL A1+**	**Bank Guarantee**	**33.45**	**CRISIL A1+**
Proposed Bank Guarantee	**8.75**	**CRISIL A1+**	**Proposed Bank Guarantee**	**1.55**	**CRISIL A1+**
Total	**35**	**--**	**Total**	**35**	**--**

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support]

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