

Press Release

NXTDigital Limited (Erstwhile Hinduja Ventures Limited)

September 27, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.320.0 Cr.
Long Term Rating	ACUITE A+/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A+** (read as **ACUITE A plus**)' on the Rs.320.00 Cr. bank facilities of NXTDigital Limited (NXT). The outlook is '**Stable**'.

Rationale for reaffirmation

The reaffirmation of rating continues to factor the experienced promoters and association with Hinduja Group leading to strong financial flexibility. The reaffirmation factors the improving financial performance during FY21 marked by improving profitability levels and efficient working capital management leading to adequate liquidity. The rating also factors in repositioning of company as an entity purely in media & entertainment segment by discontinuation of the treasury segment, merger of Indusind Media Communication Limited (IMCL)'s Media & Entertainment business into NXT digital and inclusion of OTT Intertainment Limited (OIL) as step down subsidiary for carrying out broadband services. The rating however continues to remain constrained on account of continued losses. Acuite takes a note of reduction in the extent of losses over the last three years through FY 21.

About the rated entity

NXT was incorporated in 1985 as 'Mitesh Mercantile & Financing Limited' in the state of Maharashtra. The company was initially engaged in financing activity and after going through various transitions over the years, is currently involved in media and communication business. The company is currently promoted by Hinduja Group and is involved in distributing TV signals through a dual delivery platform consisting of traditional terrestrial fiber route and 'Headend in the Sky' (HITS) satellite platform. The company operates under the brand name 'INDigital and NXTDigital' respectively.

In addition to television services, the company also provides broadband and internet services through its subsidiary; ONEOTT Intertainment Limited (OIL), under brand name 'ONE Broadband'. The geographical presence of internet services is spread across 40 cities.

About Hinduja Group

Hinduja Group was founded in 1914 by late Shri Parmanand Deepchand Hinduja and is currently managed by Mr. Ashok P Hinduja (holding 50%), one of the four Hinduja brothers and Mrs. Harsha Hinduja (holding 50%). The group has global presence across 30 countries and is one of the largest diversified groups having presence in Automotive, Oil & Gas, Banking & Finance, IT & BPO, Power, Media, Real Estate and Healthcare amongst others. The companies of the Hinduja group have demonstrated an ability to mobilize funds and refinance their existing debt from various banks and large non-banking finance companies at competitive rates. Acuité believes that NXT's credit profile will continue to be supported by strong financial flexibility of Hinduja Group of companies.

Analytical Approach

Acuite has considered the consolidated financials of NXTDigital Limited and its subsidiaries for arriving at this rating. The consolidation is in view of the common management, strong operational & financial linkages between the group entities. Acuite has also considered the support from the parent, Hinduja Group to arrive at the rating.

Extent of consolidation: Full

Key Rating Drivers

Strengths

Strong financial flexibility of Hinduja Group

NXT is a part of Hinduja Group, which was established in 1918. The promoters of Hinduja family are one of the largest business groups in the country with interests in businesses like automotive segment, oil & speciality chemicals, banking and finance, power etc. The companies in Hinduja group in the past have demonstrated an ability to refinance their existing debt from various banks and large non-banking financial companies at competitive rates.

The media assets of the Hinduja Group are mainly held through NXT and its subsidiaries. The promoters are resourceful and have a long track record providing financial support to NXT and its subsidiaries whenever the need arises. The group has been supporting the business operations through equity holding and intercorporate deposits. The company has ICD from Hinduja Group to the tune of Rs.451.26 Cr as on March 31, 2021. The repayment of the same is to be done as per availability of cash accruals with the company, thereby providing financial flexibility. Acuite believes, the parental support is essential in maintaining the credit profile of the company. Acuite believes that NXT's financial risk profile will continue to derive benefit from the strong financial flexibility of Hinduja Group.

Strategic focus of Hinduja Group on media and broadband segment

The group underwent a corporate restructuring wherein the media and communications businesses which were previously under IMCL were transferred to NXT. As a part of this process the cable TV and HITS business was transferred to NXT and OIL was repositioned as subsidiary of NXT. The company obtained necessary approvals and completed the corporate restructuring on 21 August 2020. Further, as a part of the aforementioned corporate restructuring exercise, the treasury segment was moved out of the books of NXT which is now focused on media business. Acuite believes, repositioning of the media business under a single management will benefit the company with operational synergies and focused management resulting in streamlined operations over medium term.

Stable operating performance

The group reported total operating income of Rs.976.45 Cr during FY21 against Rs.1001.78 Cr during FY20, registering marginal y-o-y de-growth of 2.53 per cent. A large part of the decline in revenue can be attributed to the COVID Pandemic which impacted content creation resulting in lower subscription revenue from that segment. This was partially offset by the improvement in broadband segment which saw huge increase in new connections resulting in more than 100 per cent improvement in segment income from Rs 66.50 Cr in FY20 to Rs 143.98 Cr in FY21. Further, the operating margins improved from 20.17 per cent in FY20 to 21.65 per cent in FY21 primarily due to decline in expense pertaining to purchase of network equipment. Acuite believes, the company will be able to capitalize on its increase in number of broadband customers resulting in an improvement in revenue over medium term.

Efficient working capital management

The GCA of the group improved to 137 days during FY21 against 197 days during FY20 primarily due to disposal of shares of Indusind Bank Limited and Hinduja Leyland Finance Limited in FY20. These assets were classified as current assets held for sale. The total assets held for sale from Rs.98.19 Cr as on March 31, 2020 to Rs.5.43 Cr as on March 31, 2021. The debtors' days remained at similar level at 27 days during FY21 (FY20-28 days) as cable TV and broadband services operates on prepaid base up to 99.5%. The inventory days remained at similar level at 22 days during FY21. The inventory level also includes land parcel in Hyderabad and Bangalore which is a part of the real estate segment. The group receives credit period of 2 months from its broadcasters.

Weaknesses

Exposure to risk emanating from changing customer preferences and competition from large players resulting in continued losses

The media segment is getting increasingly competitive due to aggressive marketing efforts by cable TV distribution players like Hathway Cable and Datacom Limited, Siti Networks Limited, Den Networks Limited and also from Direct-To-Home (DTH) operators like Videocon D2H, Tata Sky among others. Moreover, the entry of Over The Top (OTT) players like Netflix, Amazon among others who are offering high value content to the viewers at affordable pricing pose a risk to the cable TV industry. The intense competition from existing player and new entrants also results in inability of the company to increase the price. Nevertheless, the broadband segment of the company is expected to grow significantly with increase in internet user base.

Further, albeit OTT platforms offer high value of content at affordable price, the consumption of the content is much faster as compared to that offered by TV channels. In addition to this, OTT platforms are yet to fully penetrate tier 2 & tier 3 cities unlike TV channels.

The group continues to generate net loss y-o-y, albeit the same has declined in FY21. The ability of the group to report net profit would be key factor. The group has already discontinued treasury segment and losses from the same had been charged in FY20, which increased the net loss.

Acuite believes that with shift in focus to broadband and media segment, the ability of the company to offer bundled and customized packages to its customers would be key differentiating factor for the group.

Rating Sensitivities

- Continued improvement in the operational performance of the group.
- Further decline in operating revenue and profitability of the group

Material Covenants

None

Liquidity Position: Adequate

The liquidity profile of the group is adequate with Net Cash Accruals of Rs.190.08 Cr against term debt repayment of Rs.67.61 Cr. The group had also availed moratorium, both (Phase 1 and Phase2) providing sufficient liquidity cushion for the group. The group has also projected the repayment of ICDs during FY22-24, which has resulted in lower DSCR and current ratio. However, as the major portion of ICDs are availed from Hinduja Group, the company has flexibility in repayment of the same. Further, the group is expected to generate cash accruals in the range of Rs.250.0-380.0 Cr during FY22-24 as against debt repayment of Rs.180.0 Cr- Rs.360.0 Cr during the same period. The group had unencumbered cash and bank balance of Rs.97.68 Cr as on March 31, 2021. The company has planned for a rights issue to the tune of Rs 298.0 Cr in current fiscal and plans to utilize the same to pay off the ICDs to the extent of funds raised.

The utilization of WCDL for past 12 months was 100 per cent. The company has closed its cash credit account which had a limit of Rs 5.0 Cr as on September 2021 (as per interaction with banker). However, the utilization of cash Credit account for 12 months ending August 2021 remained at 38%.

Acuite believes, the company will maintain its liquidity position, considering stable operations, proposed fund raising in form of rights issue and support from Hinduja Group.

Outlook: Acuite believes that NXT will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience and support, and realignment of media segments. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and liquidity or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion and working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	976.45	1001.78
PAT	Rs. Cr.	(13.90)	(134.09)
PAT Margin	(%)	(1.42)	(13.39)
Total Debt/Tangible Net Worth	Times	(3.48)	(4.03)
PBDIT/Interest	Times	1.62	0.16

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-Feb-2020	Buyers Credit	Long term	100.00	ACUITE A+/Stable (Reaffirmed)
	Term Loan	Long Term	220.00	ACUITE A+/Stable (Reaffirmed)
12-Nov-18	Buyers Credit	Long term	100.00	ACUITE A+/Stable (Reaffirmed)
	Term Loan	Long Term	220.00	ACUITE A+/Stable (Assigned)
27-Mar-18	Buyers Credit	Long term	100.00	ACUITE A+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Yes Bank	Term Loan	April 2020	10.75%	April 2023	101.14	ACUITE A+/Stable (Reaffirmed)
Yes Bank	Term Loan	April 2018	8.45%	July 2025	78.99	ACUITE A+/Stable (Reaffirmed)
Yes Bank	Term Loan	April 2018	8.45%	July 2025	48.00	ACUITE A+/Stable (Reaffirmed)
Yes Bank	Term Loan	April 2018	8.45%	July 2025	51.00	ACUITE A+/Stable (Reaffirmed)
Yes Bank	Working Capital Demand Loan	-	-	-	20.00	ACUITE A+/Stable (Reaffirmed)
Axis Bank	Cash Credit	-	-	-	5.00	ACUITE A+/Stable (Reaffirmed)
Proposed Bank Facility		-	-	-	15.87	ACUITE A+/Stable (Reaffirmed)