

Kantipur Television Network Limited

Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	692.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	225.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	917.00 (Nine Hundred Seventeen Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term bank facilities of Kantipur Television Network Limited (KTNL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KTNL are constrained by its highly elongated operating cycle and working capital intensive nature of operations, small scale of operations and revenue concentration risk, cyclical and volatile advertisement revenue amid highly competitive broadcasting space, and exposure to volatile interest rates. The ratings, however, derive strength from strong parentage with experienced and resourceful promoters, established track record of the company in the television broadcasting and media industry along with strong brand recognition, and comfortable capitalization levels with low gearing levels.

Going forward, the ability of company to scale up its operations while maintaining the profitability margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly elongated operating cycle amid working capital intensive nature of operations

The operations of the company are highly working capital intensive primarily marked by elongated debtor collection period, more so in recent years. Average collection period in the last two financial years remained high at above eight months. The company needs to offer high credit period to its customers who are primarily advertisement agencies, amid increasing competitive pressure. The company's reliance on debtors to support operations was high, reflected by trade receivables of Rs. 241 Mn at the end of FY22 (FY refers to the twelve-month period ending mid-July), which was 63.93% of total operating income of Rs. 377 Mn during FY22. Working capital requirements were met largely through bank borrowings which resulted in almost full utilization of its sanctioned working capital limits for last 12 months period ended mid-April, 2023.

Small scale of operations and revenue concentration risk

KTNL's scale of operations was small, marked by a total operating income and gross cash accruals of Rs. 377 Mn (FY21: 324 Mn) and Rs. 36 Mn respectively during FY22 with PBILDT margin of 35.68% (FY21: 24.90%). In FY20 and FY21, the company's advertisement revenue as well as PBILDT margin were affected by lower corporate spending amid waves of covid-19. Over FY19-FY22, KTNL's total operating income has remained almost stagnant. During 9MFY22 (9M refers to nine-month period ending mid-April), total income has lowered to Rs. 211 Mn, with PBILDT margin of 26.72%. In addition, the company's revenue is primarily concentrated in two channels - Kantipur Television primarily in the news segment, and Kantipur Cineplex

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

in movies broadcasting segment. Small scale with low degree of segment wise diversification limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Cyclical and volatile advertisement revenue amid highly competitive broadcasting space

KTNL's primary source of revenue is through advertisements and contributes to almost all of the company's total income. Being an essential component of the television industry, advertisement revenue remains vulnerable to factors like market competition, television viewership for the channels, the quality and popularity of content being broadcasted, industry wide ad-rate movements, regulatory changes and the level of economic activity in general. Furthermore, Nepalese broadcasting space is reflected by high degree of competitive intensity with large number of channels competing for both viewership as well as limited corporate advertisement budget. Competition for exclusive coverage of events, news collection from remote corners of the country and retention of journalistic talent remains a challenge. With launch of multiple new channels in all the segments there is a significant competition for viewership as well.

Exposure to volatile interest rates

Given its highly elongated operating cycle, KTNL's requirement for borrowings to meet working capital is elevated. The company pays interest on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Strong parentage along with experienced and resourceful promoters

KTNL is a part of Kantipur Media Group, a group of three companies which are major players in Nepalese media industry. The group was started with establishment of Kantipur Publications in 1993, Nepal's first private-owned newspaper and magazine publisher. Radio Kantipur, established in 1995, was Nepal's first private radio station. KTNL is managed under the guidance of four-member board of directors led by Mr. Kailash Prasad Sirohiya, Chairman/MD, who has over three decades of experience in Nepal's media industry. Dr. Upendra Mahato, Director, is also a Chairman in Machhapuchchhre Bank Limited [CARE-NP A- (Is)], an 'A' class commercial bank and Medicity Hospital, one of the largest private hospitals in Nepal. Mr. Jiba Lamichhane, Director, was Chairman of Non-Residential Nepalese Association (NRNA) from 2013 to 2015, and is also the current Chairman of NRN Infrastructure Limited. The board is aptly supported by strong management team along with media professionals with long experience in television broadcasting.

Established track record of operations with strong brand equity

Being one of the first privately owned TV channel networks, the company has an established track record of over two decades in Nepalese TV broadcasting industry. The company's flagship channel Kantipur Television (KTV), launched in 2003, has a strong brand equity among Nepalese viewers, and is known for its history of uninterrupted and live coverages of special events, aftermath of disasters and major political changes. This augurs well for the network's viewership numbers which in turn adds value to the channel's advertisement space.

Comfortable capitalization levels with low gearing levels

KTNL's equity share capital at the end of FY22 stood at Rs. 310 Mn and an additional Rs. 310 Mn in reserve supported by accretion of profits over the years. The capitalization base is strong, considering its relatively small, yet steady, scale of operations. Overall gearing ratio of the company stood comfortable at 1.10 times at the end of FY22, staying relatively stable compared to 1.15 times at the end of FY21. With a sizable asset sell-off in pipeline along with IPO plans in FY24, the capitalization is further expected to improve going forward.

About the Company

Kantipur Television Network Limited (KTNL), is a television broadcasting company established in November 02, 2000 with registered office as well as broadcast station located at Tinkune, Kathmandu, Nepal. Currently, the company broadcasts two television channels – Kantipur Television HD and Kantipur Cineplex HD.

Brief financials of the company for the past three financial years are shown as follows:

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)	FY22 (Audited)
Income from Operations	311	324	377
PBILDT Margin (%)	28.23	24.90	35.68
Overall Gearing (times)	0.25	1.39	1.32
Interest Coverage (times)	4.69	5.58	1.50
Current Ratio (times)	2.42	1.17	1.00
Total Debt/Gross Cash Accruals (times)	2.67	14.21	23.87

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	692.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	175.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	50.00	CARE-NP A4
Total		917.00	

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About CARE Ratings:

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