

RATING REPORT

Airwaves Media (Private) Limited

REPORT DATE:

April 15, 2020

RATING ANALYSTS:

Narendar Shankar Lal

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| RATING DETAILS | | |
|----------------------|-----------------------|------------|
| Rating Category | Indicative Rating | |
| | Long-term | Short-term |
| Entity | BBB- | A-3 |
| <i>Rating Date</i> | <i>April 15, 2020</i> | |
| Rating Outlook | Stable | |
| <i>Rating Action</i> | <i>Initial</i> | |

COMPANY INFORMATION

| | |
|--|---|
| Incorporated in 2004 | External auditors: EY Ford Rhodes Cahtered Accountants |
| Private Limited Company | Chairman of the Board: Mr. Taher Anwer Khan |
| Key Shareholders (with stake 5% or more): | Chief Executive Officer: Mrs. Seema Taher Khan |
| Mr. Taher Anwer Khan – 95.5% | |
| | |
| | |

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (May 2019)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Airwaves Media (Private) Limited

OVERVIEW OF THE INSTITUTION

Operating since 2004, Airwaves Media (Private) Limited (AMPL) is engaged in the business of launching and operating transnational satellite channels.

Profile of CEO

Mrs. Seema Taher Khan co-founded Interflow Communications with her husband Mr. Taher Khan. Her career spans over two decades. She has to her credit more than 400 commercials that she has directed, and has also been part of several productions in Britain, Spain, Turkey, South Africa and India. In addition to this, her 25 years advertising career includes campaign development, product launches, concept writing as well as directing photography and filmmaking. She also heads the Group's Public Services Division.

RATING RATIONALE

Incorporated in May 2014, Airwaves Media (Pvt.) Limited (AMPL) is engaged in business of producing and broadcasting television, radio and allied media content. The company operates and markets satellite television and radio channels. At present, AMPL operating 1 radio channel and 3 television channels. These include the following:

- **RadioOne:** RadioOne was launched in 2004 with exclusive rights of FM radio stations in Karachi, Lahore, Islamabad and Gwadar. Channel operates 24 hours transmission at FM91 frequency.
- **TVOne:** TVOne was launched in 2005. This channel offers entertainment based programming including dramas, telefilms, news, sitcoms, reality shows, current affairs and lifestyle shows.
- **Waseb:** Waseb was launched in 2007 and is the first dedicated Saraiki language regional channel. Production facilities of this channel are located in Multan.
- **NewsOne:** NewsOne was launched in 2008, a channel with established credibility for providing reliable news, views and information. This channel offers a wide range of programs on news, current & economic affairs and social & political issues.

AMPL is a part of Interflow Group of Companies with entire shareholding vested with Mr. Taher A. Khan and family. The following table depicts the shareholding pattern of the company:

| Shareholders | % shareholding |
|------------------------------------|----------------|
| Mr. Taher Anwer Khan | 95.5% |
| Mrs. Seema Taher Khan (CEO) | 3.5% |
| Mr. Parvez Anwar Khan | 1.0% |

Key Rating Drivers:

High competitive intensity and reduction in media spend by major consumers translate to high business risk

Media industry is characterized by high competitive intensity, with each player competing aggressively with each other for ratings. Higher Television Rating Points (TRPs) lead to greater number of ads from clients and ultimately translate to higher advertisement revenue. In 2017, Government of Pakistan (GoP) was one largest spender on print and electronic media advertisements. However, post 2017, the government spending reduced by more than half, which significantly affected the entire industry. This scenario continues to persist as government media spend remains on the lower side. Furthermore, with rupee devaluation, multinational companies (MNCs), which are a big spender in terms of media advertisements, have also decreased their marketing budgets. Hence, growth in this segment is expected to remain a function of overall macroeconomic situation of the country.

TV channels owned by AMPL occupy mid-tier positions in terms of ratings within their respective domains; hence, competitive threat is considered significant for the company.

Challenging operating environment has contributed to decrease in overall profitability profile during the last years; going forward, slight improvement is projected in margins

As advertisement revenues are the primary source of the income of the company, decrease in government and MNC spending has contributed to sizeable reduction in topline of the company in FY19 (FY19: Rs. 1.44b; FY18: Rs. 1.85b; FY17: Rs. 1.88b). Moreover, gross and net margins have depicted a declining trend due to sizeable proportion of fixed costs, especially salaries and wages. As per management, additional investments in terms of staff hiring and equipment upgrades were made in FY17 in view of growing ad revenue and improvement in TRPs, which resulted in decrease in margins. Higher fixed costs coupled with decreasing topline have contributed to lower bottom line. Going forward, management expects topline to sustain at existing levels in the medium term but margins to improve slightly due to cost rationalization efforts during the ongoing year. In the long run, management plans to explore digital content production as an additional source of income, which will support the topline.

Liquidity profile depicts room for improvement

In line with lower profitability, Funds flow from Operations (FFO) decreased to Rs. -206.1m (FY18: Rs. -94.5m; FY17: Rs. 192.4m) in FY19. As a result, FFO in relation to total debt were reported lower at -91.7% (FY18: -28.0%; FY17: 74.0%). Stock in trade and trade debts represented around 586% of outstanding short-term borrowings while current ratio of AMPL was reported at 1.29(x) at end-FY19. The company's working capital cycle necessitates utilization of short term debt with extended time to collect receivables. A portion of total short term borrowings has been acquired from the sponsor; this amount is interest free and repayable on demand by the sponsor. Improvement in liquidity profile is considered important from ratings perspective.

Capitalization profile is considered adequate

At end-FY19, total equity of the company was reported at Rs. 2.1b (FY18: Rs. 2.0b; FY19: Rs. 1.8b). Debt profile primarily comprises of short term debt, which amounted to Rs. 124.1m (FY18: Rs. 215.6m; FY17: Rs. 258.6m) at end-FY19. Out of total short term debt, Rs. 44.2m (FY18: Rs. 101.8m; FY17: Rs. 122.0m) have been acquired from the sponsors. Long term debt amounted to Rs. 100.7m (FY18: Rs. 121.6m; FY17: Rs. 1.3m) at end-FY19. With decrease in quantum of total debt, gearing and leverage witnessed decrease to 0.11x (FY18: 0.17x; FY17: 0.15x) and 0.49x (FY18: 0.46x; FY17: 0.41x) at end-FY19. Going forward, leverage indicators are expected to remain at similar level as the company does not have any major capital expenditure plans, going forward.

| FINANCIAL SUMMARY | | (amounts in PKR millions) | | |
|--|--|----------------------------------|--------------|--------------|
| BALANCE SHEET | | FY17 | FY18 | FY19 |
| Property, plant and Equipment | | 273 | 404 | 369 |
| Television Program Costs | | 920 | 1,209 | 1,478 |
| Total Non-Current Assets | | 1,228 | 1,642 | 1,876 |
| Trade Debts | | 864 | 725 | 727 |
| Current Portion of television Program Costs | | 207 | 302 | 369 |
| Cash & Bank Balances | | 21 | 2 | 0.3 |
| Total Current Assets | | 1,274 | 1,338 | 1,275 |
| Total Assets | | 2,502 | 2,980 | 3,150 |
| Trade and Other Payables | | 487 | 595 | 815 |
| Short Term Borrowings | | 235 | 216 | 124 |
| Adjusted Short Term Borrowings | | 259 | 216 | 124 |
| Long term borrowing (including current maturity) | | 1 | 122 | 101 |
| Total Debt | | 236 | 337 | 225 |
| Total Liabilities | | 723 | 933 | 1,040 |
| Issued, Subscribed and paid up capital | | 1,000 | 1,000 | 1,000 |
| Accumulated profit | | 779 | 1,044 | 1,111 |
| Total Equity | | 1,779 | 2,044 | 2,111 |
| INCOME STATEMENT | | FY17 | FY18 | FY19 |
| Net Sales | | 1,878 | 1,853 | 1,441 |
| Cost of Sales | | 740 | 800 | 672 |
| Gross Profit | | 1,138 | 1,053 | 769 |
| Administrative Expenses | | 578 | 727 | 648 |
| Finance Cost | | 25 | 31 | 32 |
| Profit before Tax | | 525 | 289 | 89 |
| Taxation | | 7 | 24 | 22 |
| Profit after Tax | | 519 | 265 | 67 |
| RATIO ANALYSIS | | FY17 | FY18 | FY19 |
| Gross Margin (%) | | 60.6% | 56.8% | 53.4% |
| PBT Margin (%) | | 28.0% | 15.6% | 6.2% |
| Net Margin (%) | | 27.6% | 14.3% | 4.7% |
| Current Ratio (x) | | 1.76 | 1.55 | 1.29 |
| Stock in Trade + Trade Debt/ST Borrowings (%) | | 367.9% | 336.2% | 585.9% |
| Gearing (x) | | 0.15 | 0.17 | 0.11 |
| Leverage (x) | | 0.41 | 0.46 | 0.49 |
| FFO | | 192.4 | (94.5) | (206.1) |
| FFO to Total Debt (%) | | 74.0% | -28.0% | -91.7% |
| ROAA (%) | | 23.1% | 9.7% | 2.2% |
| ROAE (%) | | 33.9% | 13.9% | 3.2% |

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criterion_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

| REGULATORY DISCLOSURES | | | | | Appendix III |
|---|--|----------------------------|--------------------|-----------------------|----------------------|
| Name of Rated Entity | Airwaves Media (Private) Limited | | | | |
| Sector | Media | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | <u>RATING TYPE: ENTITY</u> | | | | |
| | 15/4/2020 | BBB- | A-3 | Stable | Initial |
| Instrument Structure | N/A | | | | |
| Statement by the Rating Team | VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. | | | | |
| Probability of Default | VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. | | | | |
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| Due Diligence Meetings Conducted | S.No | Name | Designation | Date | |
| | 1. | Mr. Usman Shaikh | CFO | March 9, 2020 | |