Dish Infra Services Pvt. Ltd

September 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	1833.53 (enhanced from 1633.53)	**CARE A+(SO)/CARE A1+(SO)* [Single A Plus (Structured Obligation)/A One Plus (Structured Obligation)];Continues on credit watch with developing implications**	**Reaffirmed**

Details of instruments/facilities in Annexure-1
*Backed by unconditional and irrevocable corporate guarantee by Dish TV India Ltd

Detailed Rationale& Key Rating Drivers
The above ratings are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Dish TV India Ltd (DTIL; rated CARE A1+) for the bank facilities issued by Dish Infra Services Private Limited (DISPL).

Rating Rationale of the Guarantor (DTIL)
The rating assigned to the bank facilities of Dish TV India Ltd (DTIL) continue to factor in the consistent operational performance driven by rise in its subscriber base and Average Revenue per User (ARPU).The total subscribers increased from 14.5 million in FY16 to 15.5 million in FY17. During FY17, DTIL Consolidated (comprising DTIL, Dish TV Lanka Private Limited and Dish Infra Services Pvt. Ltd) reported networth of Rs.478.25 crore as on March 31, 2017 (as against anetworth of Rs.373 crore at the end of FY16). The robust operational and financial performance is supported by DTIL's strong parentage and continued leadership position in the Direct-to-Home (DTH) industry with market share of about 26% (based on gross subscribers as on March 31, 2017 as per market estimates).
The above rating strengths are however tempered by DTIL Consolidated high debt-funded capital investments and long gestation period typically associated with the DTH industry necessitating substantial funding support in the initial years, currency risk associated with procurement of Consumer Premise Equipment's (CPEs) and limited ability to increase the subscription package price on account of highly competitive landscape. Furthermore, the rating also takes into account the substantial provision made by DTIL (Consolidated) towards license fee costs, which upon materialization would necessitate incremental debt funding.
The ability of the company to improve the operating profitability amidst increasing competition, amicably settle the long ongoing dispute towards license fees and maintain its current debt levels constitute the key rating sensitivities.

The above ratings continue to be under 'Credit Watch' with developing implications on account of the impending merger of DTIL with Videocon D2H Limited (VD2H).

CARE will take a view on the ratings once the exact implications of the above acquisition on the credit risk profile of DTIL and DISPL are clear.

Detailed description of the key rating drivers
Key Rating Strengths
Strong promoter group & experienced management
DISH TV is promoted by Essel group having its presence across media value chain including television broadcasting, cable distribution, direct-to-home satellite service, digital media, multiplexes, amusement parks and print media amongst others with Zee Entertainment Enterprises Ltd (ZEEL) being the flagship company (rated CARE AA+/A1+). DISH TV is headed by Mr. JawaharLalGoel, Chairman and Managing Director (one of the promoters of Essel Group). Furthermore, the promoters are supported by experienced & qualified management team.

Strong brand presence with leadership position in DTH segment and strong distribution network
DISH TVhas consistently been a market leader holding around 26% market share in a six player market (based on gross subscribers as on March 31, 2017 as per market estimates). Post the merger of Videocon d2h with Dish TV, the merged entity i.e. Dish TV Videocon Limited is expected to earn a commendable position in the DTH segment.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Financial performance deteriorated in FY17, however the same improved in Q1FY18. Also, liquidity position and debt coverage metrics remain strong

The financial performance of the company deteriorated mainly on account of deterioration in various operational parameters during the last two quarters of FY17. The total income for FY17 registered a de-growth of 2.15% to Rs.3051 crore. Accordingly, PDBIT and PAT margins were also lower when compared to FY16 levels. However, the performance rebound during Q1 FY18. The company's operating revenue grew 4.3% QoQ to Rs. 738.8 crore. The fading impact of demonetization drove subscription revenue by 11.5% QoQ to Rs. 692 crore.

DTIL has maintained a strong liquidity position (Cash and Cash Equivalent balance of Rs.292.62 crore as on March 31, 2017 and Rs. 429 crore as on June 30, 2017). Also, interest coverage and total debt to GCA remained comfortable.

Better future industry prospects

The DTH segment is expected to depict a positive future growth due to DAS-IV digitization wherein approx. 35-40 mn of the 80-85 mn households are yet pending digitization. Unlike Phase I/II markets, DTH is likely to lead in phase IV, as cable operators (MSOs) are not willing to expand further owing to weak monetization in existing markets and stretched balance sheets.Though DAS IV offers opportunities to an extent, the competition from Free Dish has upset the DTH operatorssecular growth trajectory. Previously, the DTH industry were levied Service Tax @ 15% and Entertainment Tax @ 6-7% of revenues, however with the introduction of GST regulations, the effective tax rate is lowered to 18%.

Key Rating Weaknesses

High provisioning towards disputed regulatory dues

Dish TV has filed a petition before the Honorable Telecom Disputes Settlement & Appellate Tribunal (TDSAT) regarding a demand letter received by MIB alleging a short payment in license fees paid. This has occurred due to interpretational differences of the term 'Gross Revenue', basis which license fees are paid. In the meanwhile, the company continues to create a provision for the same (Rs. 1397.4 crore as on March 31, 2017). In the event the demand materializes, the company may have to raise additional debt.

Variability in currency rate may affect the financial profile of DISPL albeit corrective measures initiated by the management

The CPEs rented/leased to the subscribers are majorly imported from Korea due to marginal presence of CPE manufacturers in India. This has led to larger outflow of forex and an increased exposure of depreciating INR against USD. DISPL funds these imports majorly by availing debt (medium term buyers' credit facility in USD). This strategy postpones the forex loss related to debt in proportion to its term repayments. The foreign exchange fluctuations gain/loss is capitalized as a fixed asset cost. This strategy results in limited impact of forex loss on profitability as company recognizes such loss in proportion to the amortization term of fixed assets. As Rupee depreciates against Dollar, it increases the liability on account of forex debt which further affects the financial profile of DISPL, especially its net worth.

Analytical approach: Guarantor's assessment

The consolidated financials of Dish TV India Limited (DTIL) has been considered for analysis purpose. The consolidated financials includes financials of DTIL, Dish TV Lanka Private Limited and Dish Infra Services Pvt. Ltd.(DISPL).

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

Dish Infra Services Private Limited (DISPL) is wholly owned subsidiary of Dish TV India Limited (DTIL). From April 1, 2015 (as per scheme of demerger), Infrastructure & Support Business was transferred from DTIL to its wholly owned subsidiary DISPL. The Scheme will enable the management to streamline operations wherein DTIL shall focus on branding and distribution while DISPL shall focus on DTH related infrastructure and service related aspects. For all the financial obligations raised by DISPL, an unconditional and irrevocable corporate guarantee has been provided by DTIL.

Brief Financials- Consolidated (Rs. crore)	FY16 (A)	FY17 (UA)
Total operating income	3,117.85	3,050.90
PBILDT	1,112.94	1,026.21

PAT	692.42	109.28
Overall gearing (times)	3.30	2.39
Interest coverage (times)	5.33	4.58

A: Audited; UA:Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 6754 3638
Email: sharmila.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	808.50	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	847.67	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	97.99	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	79.37	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	808.50	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)	-	1)CARE A+ (SO) / CARE A1+ (SO) (Under Credit Watch) (25-Nov-16) 2)CARE A+ (SO) / CARE A1+ (SO) (21-Oct-16) 3)CARE A+ (SO) / CARE A1+ (SO) (18-Jul-16)	1)CARE A (SO) (27-Oct-15)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	847.67	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)	-	1)CARE A+ (SO) / CARE A1+ (SO) (Under Credit Watch) (25-Nov-16) 2)CARE A+ (SO) / CARE A1+ (SO) (21-Oct-16) 3)CARE A+ (SO) / CARE A1+ (SO) (18-Jul-16)	1)CARE A (SO) / CARE A1 (SO) (27-Oct-15)	-
3.	Fund-based/Non-	LT/ST	97.99	CARE A+ (SO) /	-	1)CARE A+	1)CARE A (SO) /	-

	fund-based-LT/ST			CARE A1+ (SO) (Under Credit watch with Developing Implications)		(SO) / CARE A1+ (SO) (Under Credit Watch) (25-Nov-16) 2)CARE A+ (SO) / CARE A1+ (SO) (21-Oct-16) 3)CARE A+ (SO) / CARE A1+ (SO) (18-Jul-16)	CARE A1 (SO) (27-Oct-15)	
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	79.37	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)	-	1)CARE A+ (SO) / CARE A1+ (SO) (Under Credit Watch) (25-Nov-16) 2)CARE A+ (SO) / CARE A1+ (SO) (21-Oct-16) 3)CARE A+ (SO) / CARE A1+ (SO) (18-Jul-16)	1)CARE A (SO) / CARE A1 (SO) (27-Oct-15)	-

CONTACT

Head Office Mumbai

Ms. MeenalSikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. AnkurSachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.RashmiNarvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. AnandJha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, NearCollectorateCircle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. PritiAgarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691