Dish TV India Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Short Term Bank Facilities	600.00	CARE A4 (Under Credit watch with Negative Implications) (A Four) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
Total Bank Facilities	**600.00 (Rs. Six Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of bank facilities of Dish TV India Limited (DTIL) on 'Credit watch with negative implications' based on disclosure by the company regarding demand letter from Ministry of Information and Broadcasting for the disputed license fee including interest accrued thereon amounting to Rs.4164.05crore, which is to be remitted within 15 days.

In light of the above events, CARE is engaging with management to understand its implications on overall financial risk profile of the company and its subsidiary. As per the initial discussion with the management, CARE understands that the matter regarding disputed license fees is subjudice and pending before the Hon'ble High Court of Jammu and Kashmir and the Hon'ble Supreme Court of India.

As per the management the Hon'ble High Court of Jammu and Kashmir had allowed the company to continue making payment of the License Fee as per the order dated 28.05.2010 passed by the TDSAT. Further, according to the management there would be no impact of the said letter till the matter is finally decided by the respective courts. However, CARE will continue to monitor the developments with regard to the said order and will resolve the watch once the exact implications of the above on the business and overall credit risk profile of the company are clear.

The reaffirmation of ratings assigned to the bank facilities of DTIL continue to factor in the reduced financial flexibility consequent to high pledge of the promoter holding in its listed group companies, the increasing competition faced both from peers and allied technology platforms and highly regulated DTH industry. Furthermore, the ratings also take into account the substantial provision made by DTIL (consolidated) towards license fee, which upon materialization would necessitate incremental debt funding. The ratings also consider the decline in the subscriber base and the quarter-on-quarter (q-o-q) decline in the average revenue per user (ARPU) in FY20 and in H1FY21.

The ratings, however, continue to derive strength from DTIL's leadership position in the Direct-to-Home (DTH) industry with net subscriber base of 23.65 million translating to market share of about 31% as on March 31, 2020.

Rating Sensitivities

Positive Factors

- Favorable Supreme Court order on license dispute
- Release of pledge on the shares of DTIL
- Improvement in the operational performance of DTIL by way of improved net subscriber additions
- Consolidated DSCR to be greater than 1.5x on sustained basis

Negative Factors

- Adverse ruling by Supreme court resulting in immediate payment amounting to at-least Rs.3570crore
- Increase in total debt levels resulting in TOL/TNW greater than 5x

Detailed Description of the key rating drivers

Key Rating Weaknesses

Decline in subscription revenue with muted growth in subscriber base

Subscription revenue has remained on a declining trend in the recent past due to lower spend on acquisition of new clients and increased competition. Activation charges and subscription charges are the two main components of subscription revenue. Due to the liquidity issue faced by the group in the previous year, the company had to reduce capex and operating expenses. Hence the subscriber base of the company declined in FY20 on account of lower capex which aids in the acquisition of subscribers. The growth has also been tempered by the increasing competition faced both from Doordarshan's Free Dish and its peers wherein competitive packs are offered in the market to gain market share.

Accordingly, amongst the increasing competition faced, the ability of DTIL to maintain its operating margins (PBILDT) without jeopardizing its market share amongst the DTH players forms a key rating monitorable.

Forex fluctuation risk
The CPEs rented/leased to the subscribers are majorly imported from Korea due to marginal presence of CPE manufacturers in India. In FY20, DISPL has been importing CPE on cash basis on presentation of bills by the seller or with usance of 60 days. After the adoption of Ind AS, DISPL does not capitalize the forex gain/ loss as a fixed asset cost. Further, due to repayment of buyer's credit facilities in FY20, forex loan has reduced, thus reducing the impact of forex fluctuation. DISPL generally follows a hedging policy to hedge 25% upfront at the time of taking the forex loan (supplier's credit) and 25% within six months due for loan repayment.

High provisioning towards disputed regulatory dues
DTIL had filed a petition before the Honorable Telecom Disputes Settlement & Appellate Tribunal (TDSAT) regarding a demand letter received from Ministry of Information & Broadcasting (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 on a conservative basis. As on March 31, 2020, DTIL has created a provision of Rs.3578crore (as on March 31, 2020) (vis-a-vis Rs.3256.48 crore as on March 31, 2019). Further, Ministry of Information and Broadcasting (MIB), vide its letter dated December 24 2020, intimated DTIL that basis the accounts of the company and payment made by the company towards license fee from date of issuance of DTH License till Financial Year 2018-19, an amount of Rs.4164.05crore (including the License Fee payable and accrued interest) is payable by the company and has directed the company to remit the same within a period of 15 days. However, the MIB has mentioned that the amount is further subject to verification and audit and the outcome of various court cases pending before the TDSAT, the High Court of Jammu and Kashmir and the Supreme Court of India, in the matter of DTH License fee.
As per the management the Hon'ble High Court of Jammu and Kashmir had allowed the company to continue making payment of the License Fee as per order dated 28.05.2010 passed by the TDSAT. Further, according to the management there would be no impact of the said letter till the matter is finally decided by the respective courts. In the event the demand materializes, the company may have to raise additional debt.

Highly regulated industry
The industry is highly regulated which could possibly affect the business model. In the recent past, the industry witnessed some reforms like transition to the GST regime and new tariff order. The National Tariff Order 2.0 issued by the Telecom Regulatory Authority of India (TRAI) mandates the service providers to provide 200 FTA channels at the base price of Rs.153 (inclusive of taxes). DTH and cable TV distribution providers have been mandated not to charge more than Rs.160 per month for providing all channels available on their platform. Cap on pay channels has now been kept at Rs.12 against Rs.19 in the past. Further the sum of a-la-carte channels forming bouquet should not exceed one and a half times of the bouquet's overall price. Dish TV was the first in the industry to partially, and voluntarily, roll out the provisions of the TRAI tariff order by offering cost-effective channels to its subscribers.

Key Rating Strengths
Experienced management
DTIL is promoted by Essel group having its presence across media value chain including television broadcasting, cable distribution, direct-to-home satellite service and digital media amongst others, with ZEEL being the flagship company. The chairman & managing director of the company Mr. Jawahar Lal Goel has overall five decade of diversified experience which includes entertainment industry as well. He has been the key personnel in establishing the cable distribution network of various TV channels and technological infrastructure for the implementation of DTH services. He is well supported by experienced and qualified management team.

Strong brand presence with leadership position in DTH segment and strong distribution network
DTIL has developed a strong distribution network of ~4,000 distributors and over 400,000 dealers that span across 9,450 towns in the country. Post the amalgamation of Vd2h into DTIL, DTIL continues to be a market leader along with Tata Sky Limited holding 31% market share, each, amongst the DTH players as on March 31, 2020. The merged company had a net subscriber base of around 23.65 million as on March 31, 2020.

Moderate capital structure
The actual business performance post-merger of DTIL and Videocon D2h has been lower than estimated. Thus goodwill appearing in the books of DTIL has been impaired by Rs.1563 crore as on March 31, 2019 and by Rs.1916 crore as on March 31, 2020 by the company. Despite erosion of net worth due to impairment of goodwill, the overall gearing improved to

0.49x as on March 31, 2020 as against 0.51x as on March 31, 2019, due to reduction in total debt to Rs.1868crore as on March 31, 2020 as a result of large scheduled repayments in the past (PY:Rs.2809crore).

Improved debt coverage indicators

Due to repayment of term loans and lower utilization of limits, the overall debt of DTIL on consolidated basis has reduced from Rs.2809crore as on March 31, 2019 to Rs.1868crore as on March 31, 2020. Reduced debt levels and higher gross cash accruals led to improvement in total debt to GCA from 1.70x in FY19 to 1.03x in FY20. Excluding provision created for interest on license fee, the interest coverage has actually improved from 5.17x in FY19 to 7.07x in FY20.

Liquidity: Moderate

The overall liquidity of the company is moderate due to moderate cash accruals vis-à-vis repayment obligations and low cash balance of Rs.146crore as on March 31, 2020 (vis-à-vis Rs.171 crore as on March 31, 2019). Its capex requirements are modular which would be funded through internal cash accruals. Average utilization of DTIL's bank limits were at 20% for the 12 months ended June 2020. Further in FY21, the company will have to make debt repayment of Rs.1015crore and fund capex of Rs.600-650 crore, which the company should be able to manage from internal accrual of Rs.2,000 crore. Availability of additional bank limit will further support liquidity over this period. Further, DISPL and DTIL had opted for moratorium; however, the same has been fully repaid in July 2020.

Analytical approach: The consolidated financials of DTIL have been considered for analytical purposes owing to financial linkages in the form of explicit corporate guarantee and operational linkages between the company and its subsidiaries. List of companies that are consolidated to arrive at the ratings are given below.

Name of the Company	% of holding as on March 31, 2020
Dish Infra Services Private Limited	100%
C&S Medianet Private Limited	51% (C&S Medianet became the subsidiary of the Company with effect from November 1, 2018.)
Dish T V Lanka (Private) Limited	70%

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Curing period
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Service Sector Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company

Dish TV India Limited (DTIL), a part of Essel group of companies, is India's first direct to home (DTH) company to launch its service in 2003. Effective March 22, 2018, Videocon d2h Limited (which launched its service in 2009) has been amalgamated with and into Dish TV India, with October 01, 2017 being the appointed date. The combined entity has a subscriber base of 23.7 million with a market share of 37% in the DTH segment as on March 31, 2019. The merged entity has a bandwidth capacity of 1422 MHz, with an ability to deliver more than 655 channels & services including 40 audio channels and over 70 HD channels & services. The company has a vast distribution network of over 4000 distributors and around 400,000 dealers that span across 9,450 towns in the country. During FY19, the company has launched in-house OTT app namely 'Watcho' which has mix of original content, linear channels and catch-up content.

Consolidated Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21(UA)
Total operating income	6198.78	3563.28	1701.24
PBILDT	2087.16	2125.67	1096.00
PAT	-1163.41	-1654.84	139.05
Overall gearing (times)	0.51	0.49	0.19
Interest coverage (times)	5.17	7.07	4.80

A: Audited; UA: Un- Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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
Non-fund-based - ST-BG/LC	-	-	-	150.00	CARE A4 (Under Credit watch with Negative Implications)
Fund-based - ST-Cash Credit	-	-	-	450.00	CARE A4 (Under Credit watch with Negative 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	150.00	CARE A4 (Under Credit watch with Negative Implications)	1)CARE A4 (25-Aug-20)	1)CARE D (06-Dec-19) 2)CARE A4+ (25-Nov-19) 3)CARE A3+ (08-Jul-19)	1)CARE A1 (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A1+ (07-Jan-19) 3)CARE A1+ (05-Oct-18) 4)CARE A1+ (Under Credit Watch) (10-May-18)	1)CARE A1+ (Under Credit Watch) (07-Dec-17)
2.	Fund-based - ST-Term loan	ST	-	-	1)Withdrawn (25-Aug-20)	1)CARE D (06-Dec-19) 2)CARE A4+ (25-Nov-19) 3)CARE A3+ (08-Jul-19)	1)CARE A1 (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A1+ (07-Jan-19)	-
3.	Fund-based - ST-Cash Credit	ST	450.00	CARE A4 (Under Credit watch with Negative Implications)	1)CARE A4 (25-Aug-20)	1)CARE D (06-Dec-19) 2)CARE A4+ (25-Nov-19) 3)CARE A3+ (08-Jul-19)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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.*

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About CARE Ratings:
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