# Dish TV India Limited

August 25, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Short Term Bank Facilities (i) | 600.00 | **CARE A4 (A Four)** | Revised from CARE D (Single D) |
| Short Term Bank Facilities(ii) | 0.00 | - | Withdrawn |
| Total Facilities | **600.00 (Rs. Six Hundred Crore Only)** | | |

*Details of facilities in Annexure-1*

***Detailed Rationale & Key Rating Drivers***

CARE has withdrawn the outstanding rating of 'CARE D [Single D]' assigned to the Short term Bank Facility (ii) of Dish TV India Limited (DTIL) with immediate effect as there is no outstanding against the said facility. The above action has been taken on receipt of no due certificate from banker indicating that said facility is repaid and redeemed in full in February 2020.

The revision in the ratings assigned to the bank facility (i) of DTIL takes into account the default free track record for more than five months from February 2020 onwards. The ratings also 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 costs, 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.

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***

Subscriber revenue has remained on 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 spend on capex and operating expense. 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 to about 12% of the total loan in DISPL, thus reducing the impact of

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

forex fluctuation to that extent. 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 has filed a petition before the Honorable Telecom Disputes Settlement & Appellate Tribunal (TDSAT) regarding a demand letter received by 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). 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 voluntarily roll out the provisions of the TRAI tariff order by offering cost-effective channels to its subscribers.

**Key Rating Strengths**

***Default free track record of the company***

Despite improving and stable cash flows in the past few years, the company had faced liquidity constraint primarily on account of bunching of large repayments as a result of merger of Videocon d2h Limited with DTIL w.e.f. March 22, 2018.The situation was further aggravated owing to discontinuation of buyer's credit by RBI in February 2018 coupled with large capital expenditure done to maintain market share in the past. Thus, significant pressure on the cash flow eventually led to default on short term loans of Yes Bank in November 2019 by DTIL. As per the No dues shared by the company, DTIL had fully repaid the aforesaid short term loan in the month of February 2020. Further as per the banker due diligence there are no delays.

***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 0.47x as on March 31, 2020 as against 0.51x as on March 31, 2019, due to reduction in total debt to Rs.1793crore 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.1793crore 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 0.98x in FY20. Excluding provision created for interest on license fee, the interest coverage has actually improved from 5.17x in FY19 to 7.23x 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 (Abridged#) |
|---|---|---|
| Total operating income | 6198.78 | 3569.95 |
| PBILDT | 2087.16 | 2119.58 |
| PAT | -1163.41 | -1654.84 |
| Overall gearing (times) | 0.51 | 0.47 |
| Interest coverage (times) | 3.32 | 3.75 |

*A: Audited; #as per the exchange disclosure of the company*

**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 |
| Fund-based - ST-Term loan | - | - | - | 0.00 | Withdrawn |
| Fund-based - ST-Cash Credit | - | - | - | 450.00 | CARE A4 |

*Yet to be disbursed

**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 | - | 1)CARE D (06-Dec-19)<br>2)CARE A4+ (25-Nov-19)<br>3)CARE A3+ (08-Jul-19) | 1)CARE A1 (Under Credit watch with Negative Implications) (08-Feb-19)<br>2)CARE A1+ (07-Jan-19)<br>3)CARE A1+ (05-Oct-18)<br>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)CARE D (06-Dec-19)<br>2)CARE A4+ (25-Nov-19)<br>3)CARE A3+ (08-Jul-19) | 1)CARE A1 (Under Credit watch with Negative Implications) (08-Feb-19)<br>2)CARE A1+ (07-Jan-19) | - |
| 3. | Fund-based - ST-Cash Credit | ST | 450.00 | CARE A4 | - | 1)CARE D (06-Dec-19)<br>2)CARE A4+ (25-Nov-19)<br>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. | Fund-based - ST-Term loan | Simple |
| 3. | 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:**
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.



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