

## Dish TV India Limited

January 07, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities (Letter of Credit/Bank Guarantee)	190.00	<b>CARE A1+</b> <b>[A One Plus]</b>	<b>Reaffirmed</b>
Short-term Bank Facilities (Term Loan)	250.00	<b>CARE A1+</b> <b>[A One Plus]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>440.00</b> <b>(Rs. Four hundred forty crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dish TV India Ltd (DTIL) factor in its strong parentage and leadership position in the Direct-to-Home (DTH) industry with a market share of about 37% (based on net subscribers as on September 30, 2018 as per market estimates), consistent operational performance driven by a rise in its subscriber base wherein the total subscribers increased from 23 million as on March 31, 2018 to 23.5 million as on September 30, 2018 as well as improvement in the profitability margins and coverage indicators on integrating the business operations of Videocon d2h Limited with DTIL. The rating assigned also takes into account further improvement in the operating performance expected post implementing the New Tariff Order, although the same is yet to be seen. The above rating strengths are however tempered by DTIL's (Consolidated) high debt-funded capital investments which are partially expected to be funded through internal accruals in the forthcoming years, currency risk associated with procurement of Consumer Premise Equipment's (CPEs) and the increasing competition faced both from peers and allied technology platforms. 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 its operating profitability amidst the change in tariff regulations announced by TRAI, its ability to maintain its market position amidst the increasing competition faced both from its peers and allied technology platforms, amicably settle the long ongoing dispute towards license fees and maintain its current debt levels constitute the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Strong promoter group & 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, digital media amongst others, with ZEEL being the flagship company. Further, the promoters are supported by experienced and qualified management team.

##### **Strong brand presence with leadership position in DTH segment and strong distribution network**

Post the merger of Vd2h into DTIL, DTIL continues to be a market leader holding around 37% market share amongst the DTH players (based on net subscribers as on September 30, 2018 as per market estimates). The merged company had a net subscriber base of around 23.5 million as on September 30, 2018 (net subscriber addition of 0.5 million during H1FY19). 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.

##### **Growth in subscription revenue, expected to continue on implementation of Tariff Order**

During FY18, the subscription revenue earned by DTIL grew at muted levels on a Q-o-Q basis on account of the increasing competition faced both from Doordarshan's Free Dish and its peers wherein skinny packs were offered in the market to gain an increasing market share. Post the merger of Vd2h into DTIL, DTIL has continued to emerge as a leading market player amongst the DTH players wherein it holds a market share of ~37%. The subscription revenue earned by the merged entity is expected to improve going forward on account of change in the mix of the merged company's subscriber base. Also, although the growth in the subscriber base is expected to decline with the completion of the digitalization process,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

growth in the overall subscription revenue earned is expected to continue with the implementation of the New Tariff Order wherein uniform rates will be charged on a Pan India level. However, impact of the implementation of the said order is to be seen. DTIL has been facing increasing competition both from its peers as well as from allied technology platforms. *Accordingly, amongst the increasing competition faced, the ability of DTIL to maintain its operating margins (EBITDA) without jeopardizing its market share amongst the DTH players forms a key rating monitorable.*

#### ***Improvement in the capital structure and debt coverage indicators***

Post the merger of Vd2h into DTIL, the gross debt of the company has increased from Rs.1297 crore as on March 31, 2017 to Rs. 3400 crore as on March 31, 2018. The debt taken over from Vd2h has been refinanced at a lower cost by DTIL, thereby resulting in an interest savings of ~Rs. 70 crore. The healthy internal accruals expected to be earned by the merged entity will be utilised to majorly finance the capex investments required, thus resulting in lower requirement of debt funds. Accordingly, the capital structure and debt coverage indicators are expected to improve going forward.

#### ***Comfortable liquidity position***

As on September 30, 2018, DTIL maintained a cash and cash equivalent balance of Rs. 252 crore. It has an outstanding short term loan facility of Rs. 250 crore, repayable in the month of December 2019. In addition, DISPL has availed a working capital facility of Rs. 190 crore, of which approx. 20% is utilised for meeting operational requirements. Accordingly, the internal accruals generated by the business are quite sufficient to meet the repayment obligations.

#### ***Merger of Videocon d2h Limited into Dish TV India Limited thereby creating a leading Cable and Satellite distribution platform***

Effective March 22, 2018, Videocon d2h Limited amalgamated with and into Dish TV India Ltd., with October 01, 2017 being the appointed date. The merger was expected to generate various synergy benefits amounting to a total of Rs. 510 crore on account of reduction in content costs, savings in transponder costs, higher bargaining power in carriage fees and advertisement revenue as well as procurement of set top boxes at lower rates. The high finance cost debt of Vd2h has been completely refinanced at a lower rate while agreement with a major broadcaster has been renewed at a lower cost, thereby resulting in a cumulative annual savings of ~Rs. 290crore. The remaining benefits to accrue through reduction in capex (purchase of Set-top box) and fixed overhead expenses are expected to be completely achieved over a due course of period.

#### ***Key Rating Weaknesses***

##### ***Variability in currency rate may affect the financial profile of Dish Infra Services Private Limited (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. DISPL generally follows a hedging policy to hedge 25% upfront at the time of taking the forex loan (buyer'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 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, 2018, DTIL has created a provision of Rs. 2,785 crore amongst which Rs.1,144 crore pertains to liability transferred from Vd2h. In the event the demand materializes, the company may have to raise additional debt.

#### ***Future Prospects***

India continues to be one of the fastest growing M&E markets globally. As per a survey conducted by BARC India in 2018, TV homes in India have grown by 7.5% in 2017 on a y-o-y basis while the number of households has grown by 4.20%. As per the BARC India Survey report, 2018, there are currently 298 million homes in India, out of which 197 million have TV sets, thus providing an opportunity for further TV penetration in the remaining 100 million homes.

DTIL has a major exposure towards the rural market (65%) and since all major broadcasters including Star, ZEE, Sony and Viacom have launched their Free Dish-based channels wherein the content broadcasted is similar to that of the broadcaster's GEC channels (though dated by up to a year or less), DTIL is susceptible to increasing threat of loss of viewership to DD Free Dish.

In rural India, the internet penetration is critically low and 92% of the TV households still own a CRT TV. Hence, the threat DTIL is exposed to from the alternate technology platforms is comparatively low. Also, in order to cater to this segment, DTIL has launched a hybrid set-top box (pay TV+ pay OTT) while it also plans to launch its own OTT platform, wherein it will be targeting households with existing internet connections to build up on the existing infrastructure. The implementation of the New Tariff Order is expected to improve the operating performance of DTIL since uniform rates will be charged on a Pan India level and the content costs would be a complete pass through to the customers, although the same is to be seen.

**Analytical approach:** Consolidated

The consolidated financials include financials of DTIL (post-merger of Vd2h), subsidiaries i.e. Dish TV Lanka Private Limited and DISPL (post - merger of Vd2h's infra support business) and joint venture – C&S Medianet Private Limited.

**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 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 23.5 million with a market share of 37% in the DTH segment. The merged entity is expected to provide better synergies and growth opportunities through deeper after-sales service, through company managed centers, distribution and technology capabilities and by becoming an effective partner for TV content providers in India.

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.

Brief Financials (Rs. crore)	FY17(A)	FY18 (A)*
Total operating income	3064	4680
PBILDT	1035	1377
PAT	82	-85
Overall gearing (times)	2.86	0.51
Interest coverage (times)	4.51	3.47

A: Audited; \*includes twelve months performance of DTIL and six months performance of Vd2h

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of 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	-	-	-	190.00	CARE A1+
Fund-based - ST-Term loan	-	-	December 2019	250.00	CARE A1+

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE A (10-Jul-15) 3)CARE A (05-Jun-15)
2.	Non-fund-based - LT-Letter of credit	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE AA (SO) (10-Jul-15)
3.	Non-fund-based - ST-BG/LC	ST	190.00	CARE A1+	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (Under Credit Watch) (10-May-18)	1)CARE A1+ (Under Credit Watch) (07-Dec-17)	1)CARE A1+ (Under Credit Watch) (25-Nov-16) 2)CARE A1+ (21-Oct-16) 3)CARE A1+ (18-Jul-16)	1)CARE A1 (10-Jul-15) 2)CARE A (05-Jun-15)
4.	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (10-Jul-15) 2)CARE A (05-Jun-15)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE AA (SO) (10-Jul-15)
6.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE A (05-Jun-15)
7.	Fund-based - ST-Term loan	ST	250.00	CARE A1+	-	-	-	-

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