Dish TV India Limited

November 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities (Letter of Credit/Bank Guarantee)	150.00	CARE A4+ [A Four Plus]	Rating revised from CARE A3+ (A Three Plus)
Short-term Bank Facilities (Term Loan)	250.00	CARE A4+ [A Four Plus]	Rating revised from CARE A3+ (A Three Plus)
Short-term Bank Facilities (Overdraft)	450.00	CARE A4+ [A Four Plus]	Rating revised from CARE A3+ (A Three Plus)
Total Facilities	**850.00 (Rs. Eight hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Dish TV India Limited (DTIL) factors in the weakening credit profile of the company at consolidated level. The financial profile stands weak on account of stretched liquidity position due to sizeable debt repayments in the near term and the company would continue to remain in the investment mode. In addition, impairment on goodwill as on March 31, 2019 has resulted in decline in reported net-worth. The rating factors the declining operational metric derived from meagre gross addition to the subscriber base and average revenue per user (ARPU) during Q2FY20.

The rating also factors in further significant decline in the market capitalization of the company and high level of pledging of the promoter holding. As on September 30, 2019, amongst the total promoter holding of 55.27% in DTIL, 94.60% has been pledged.

The ratings assigned to bank facilities of DTIL continue to take into account substantial provision made by DTIL (consolidated) towards license fee costs, which upon materialization would necessitate incremental debt funding, under the current scenario of reduced financial flexibility of Zee group. Furthermore, the ratings also takes into account currency risk associated with procurement of Consumer Premise Equipment's (CPE) and the increasing competition faced both from peers and allied technology platforms.

The ratings, however, continue to derive strength from experienced management and DTIL's leadership position in the Direct-to-Home (DTH) industry with net subscriber base of 23.94 million as on September 30, 2019 translating to market share of about 35%.

<u>Rating Sensitivities</u>

Positive Factors:

- Release of pledge on the shares of DTIL
- Improvement in the liquidity profile of the company with reduction in debt levels and trade payables
- Improvement in the operational metric with sustainable growth in subscriber base and ARPU

Negative Factors:

- Adverse ruling by supreme court resulting in immediate payment amounting to at-least Rs.3256.48 crore
- Any further impairment of goodwill

<u>Outlook: Negative</u>

The negative outlook factors in sizeable debt repayments of the company at the consolidated level in the short term and the potential liability that could materialize on account of any adverse ruling by the respective authority.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weakened credit profile

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

DTIL's overall credit profile has deteriorated on account of large repayments towards bank obligations and fund requirements for purchase of CPE's. The consolidated debt stood around Rs.2558.65 crore as on September 30, 2019 (Rs.2808.61 crore as on March 31, 2019). For H2FY20, the company has to service debt of Rs.650 crore and is likely to spend around Rs.250-300 crore towards purchase of CPE's. Further the company has considerable trade payables, of which obligation towards Zee Entertainment Enterprises Limited stood around Rs.250 crore to be repaid before March 2020. The obligations would be met through the cash accruals from the business operations. Thus the expected cash outflow is close to envisaged cash inflows.

Further the actual business performance post-merger has been lower than estimated thus the goodwill of Rs.6275.42 crore has been impaired by Rs.1543 crore to Rs.4732.49 crore as on March 31, 2019 by the company in its audited financials for FY19. This has resulted in decline in reported net-worth base which stood around Rs.5447.15 crore as on March 31, 2019 vis-à-vis Rs.6736.05 crore as on March 31, 2018.

Net losses posted in FY19 & H1FY20

DTIL has accounted for impairment of goodwill (created on account of its merger with Vd2h) and other recoverable amounting to Rs.1562.54 crore, which has been charged to profit & loss account, resulting in loss for FY19. Further tax outgo remained higher in H1FY20 owing to a lower MAT credit entitlement, which in turn led to a net loss of Rs.131.79 (vis-à-vis PAT of Rs.45.21 in H1FY19).

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 for which license fees are paid. In the meanwhile, the company continues to create a provision on a conservative basis. As on March 31, 2019, DTIL has created a provision of Rs.3256.48 crore (vis-a-vis Rs.2,785 crore as on March 31, 2018). In the event the demand materializes, the company may have to raise additional debt. On considering the same as debt, the overall gearing stands at 1.11x as on March 31, 2019.

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 (supplier's credit) and 25% within six months due for loan repayment.

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 recent Interconnection Regulations & Tariff Order issued by the Telecom Regulatory Authority of India (TRAI) wherein broadcasters declared the monthly MRP of each channel and the bouquets, with the condition that no pay channel, which is part of a bouquet, is priced above INR 19. Free-to-air (FTA) and pay channels would be segregated into different bouquets. DishTV 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

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 merger of Vd2h into DTIL, DTIL continues to be a market leader with net subscriber base of 23.94 million as on September 30, 2019 translating to 35% market share amongst the DTH players. The merged company has been continuously adding to its subscriber base, however Q2FY20 saw meagre 42000 addition in net subscriber base. Further stiff competition prevailing in the industry especially in South India has impacted average revenue per user (ARPU) which stood around Rs.110-115 in Q2FY20 & Rs.116 in Q1FY20.

Meagre growth in subscription revenue and high PBILDT margins
DTIL witnessed growth of 13% in the subscription revenue from DTH subscribers (Rs.3688.96 crore in FY19 from Rs.3254.89 crore in FY18). Post-merger, DTIL's subscriber base has a fair mix of urban, semi-urban and rural subscribers [65 (rural): 35 (urban)] as compared to [75 (rural): 25 (urban)] previously. FY19 being the first full year of operations of the merged entity, the company has posted growth in overall total operating income of 32% and improvement in the profitability margins to 33.67% in FY19 (vis-a-vis 29.42% in FY18). With implementation of New Tariff Order by TRAI on March 01, 2019 wherein Content/programming cost for the distributors is now pass-through leading to lower operating costs has resulted in improvement in PBILDT margins which stood at 58.26% in H1FY20.

Liquidity: Stretched
Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and low cash balance. On consolidated level, the company generated cash accruals of Rs.863.58 crore as on September 30, 2019 & Rs.1654.71 crore as on March 31, 2019. For H2FY20, the company has to service debt of Rs.650 crore and is likely to spend around Rs.250-300 crore towards purchase of CPE's. DTIL's bank limits stood around 73% for the past seven months ending September 2019 and DISPL has been fully utilizing the limits. Further the cash & bank balance on consolidated level stood around Rs.136.77 crore as on September 30, 2019 as against Rs.170.68 crore as on March 31, 2019.
In addition there is high potential liability of unpaid license fees of Rs.3256.48 crore as on March 31, 2019, for which the matter is pending in Supreme Court. Any adverse ruling for the same could further weaken the credit profile of the company.

Analytical approach:
CARE has considered the consolidated financials of DTIL for analytical purposes owing to financial and operational linkages between the company and its subsidiaries. The consolidated financials include the financials of DTIL (post-its merger with Vd2h), its subsidiaries i.e. Dish TV Lanka Private Limited (70% stake) and DISPL (post - merger of Vd2h's infra support business; 100% stake) and joint venture – C&S Medianet Private Limited (51% stake).

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Short Term Instruments]
[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 23.94 million as on September 30, 2019 with a market share of 35% in the DTH segment. 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4679.81	6198.78
PBILDT	1377.02	2087.16
PAT	-84.90	-1163.41
Overall gearing (times)	0.51	0.52
Interest coverage (times)*	5.32	5.17

*A: Audited *excluding provision for interest*

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 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	-	-	November 2019	250.00	CARE A4+
Fund-based - ST-Cash Credit	-	-	-	450.00	CARE A4+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	150.00	CARE A4+	1)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)	1)CARE A1+ (Under Credit Watch) (25-Nov-16) 2)CARE A1+ (21-Oct-16) 3)CARE A1+ (18-Jul-16)
2.	Fund-based - ST-Term loan	ST	250.00	CARE A4+	1)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+	1)CARE A3+ (08-Jul-19)	-	-	-

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 clarification.*

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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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