OCTOBER 27, 2016

CARE REAFFIRMS THE RATING ASSIGNED TO THE BANK FACILITIES OF SITI NETWORKS LIMITED (FORMERLY KNOWN AS SITI CABLE NETWORK LIMITED)

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	150	**CARE A- (Single A Minus)**	**Reaffirmed**
Long-term facilities@	1,349.07	**CARE AA+ (SO) (Double A Plus Structured Obligation)**	**Reaffirmed**
Total Facilities	**1,499.07 (Rupees one thousand four hundred and ninety nine crore and seven lakhs only)**		

@Outstanding as on Sep 30, 2016. Backed by unconditional & irrevocable Corporate Guarantee extended by Zee Entertainment Enterprise Limited (rated CARE AA+/A1+) to the lenders of Siti Cable Network Limited (SCNL), to maintain debt service reserve account (DSRA) for a stipulated size

Rating Rationale

The reaffirmation of ratings assigned to the bank facilities of Siti Networks Limited (SNL) favorably factors in the strong promoter presence (Essel Group) and demonstrated support. Along with SNL, Essel Group, has a very strong presence in the Television (TV) entertainment industry with companies such as Zee Entertainment Enterprise Limited (rated CARE AA+/A1+), Zee Media Limited and Dish TV India Limited (rated CARE A+). Furthermore, the Essel group has been extending continued financial assistance as demonstrated by infusion of funds on a periodic basis to support the business operations of SNL. The positive impact of digitalization had resulted into steady improvement in the operational performance of SNL evidenced by robust growth in digital subscriber base. As on March 31, 2016 SNL's digital subscriber base stood at 7.9 million as opposed to 5.38 million as on March 31, 2015.

The rating strengths are however tempered by capital intensive nature of the industry, subsidization of the STB (Set Top Box) though reduced during FY16 [refers to the period April 01 to March 31] and intense competition among the MSO (Multi Systems Operator) players and DTH (Direct to home) players. During FY16, SNL reported positive PAT (Profit After Tax) of Rs.9 crore against loss of Rs.102 crore in FY15. The past losses had affected the networth and debt coverage indicators of SNL.

The ability of the company to improve the operating cash flows and profitability amidst increasing competition and maintain its capital structure constitute the key rating sensitivities.

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

Rating Rationale of Guarantor (ZEEL)

The reaffirmation of ratings assigned to the bank facilities of ZEE Entertainment Limited (ZEEL) continue to derive strength from the well-established promoter group (Essel) with a long track record in the media and entertainment industry, large bouquet of channel offerings covering a wide genre of entertainment, positioning of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) in terms of Television Viewership and platform for distribution with a wide subscriber base and ample growth opportunity with mandatory digitalization. The ratings are further strengthened by comfortable financial risk profile characterized by consistent increase in the scale of operations with healthy profitability over the years, moderation in the quantum of Debt Service Reserve Account (DSRA)/ Maintenance Reserve Account (MRA)/ support extended to group companies on account of improvement in financial performance of the underlying entities, healthy debt coverage indicators and sizeable cash reserves and liquid investments bolstering liquidity profile.

However, the above rating strengths are tempered by the volatile nature of the main source of revenue, i.e. advertisement revenues, which is sensitive to key economic indicators and regulatory changes. Furthermore, the ratings also factor in changing trends in the media sector and intense competition. Going forward, the ability of ZEEL to retain/ increase its flagship channel position among the top six Hindi GECs, self-sustainability of the group companies to which ZEEL has extended DSRA support, increase in the overall revenue and improve profitability from digitalization amidst increasing competition are the key rating sensitivities.

For a detailed rationale of ZEEL, please refer our website www.careratings.com

Background

Siti Networks Limited (formerly known as Siti Cable Network Limited) is a part of the Essel group and acts as a medium between the Broadcaster and the Local Cable Operators (LCOs) and is involved in the distribution of TV channels/content received from Broadcaster to the LCOs through cable network. As on March 31, 2016, SNL is among the top three Multi System Operator (MSO) in India with over 36 analogue and 18 digital head ends and a network of more than 30,000 kms of optical fibre and coaxial cable, it provides cable services for more than 300 cities in India with subscriber universe of over 12.2 million viewers. SNL has been providing services in analogue and digital mode, with technical capability to provide features like Video on Demand, Pay per View, Electronic programming Guide (EPG) and gaming through a Set Top Box (STB). All products are marketed under SITI brand name. Its product range includes, Analogue Cable Television, Digital Cable Television, Broadband and Local Television Channels. SNL has a strong presence in the eastern and northern region of India and also has significant business operations in south and central region of India.

During FY16 (refers to the period April 01 to March 31), SNL on a consolidated basis posted a total income of Rs.1,213 crore (vis-à-vis Rs. 913 crore in FY15) and PBILDT of Rs.323 crore (vis-à-vis Rs. 145 crore in FY15).

Furthermore, during Q1FY17 (refers to the period April 01 to June 30), SNL posted a total income of Rs.279 crore (vis-à-vis Rs. 228 crore in Q1FY16) and PBILDT of Rs.42 crore (vis-à-vis Rs. 34 crore in Q1FY16)

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

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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