Siti Networks Limited (Formerly known as Siti Cable Network Limited)

April 10, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	150	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**150 (Rupees One hundred and fifty crore only)**		

***Details of instruments/facilities in Annexure-1*

Other Outstanding Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings
Long-term Bank Facilities @	1,349.07	**CARE AA+ (SO) (Double A Plus [Structured Obligation])**

@ Outstanding as on September 30, 2016. Backed by unconditional & irrevocable Corporate Guarantee extended by Zee Entertainment Enterprises Limited (rated CARE AA+/A1+) to the lenders of Siti Networks Limited (SNL), to maintain debt service reserve account (DSRA) for a stipulated size throughout the tenure of the facility.

Rating Rationale

The reaffirmation of rating assigned to the bank facilities of Siti Networks Limited (SNL) favorably factors in the strong promoter presence (Essel Group) and support. Along with SNL, Essel Group, has a very strong presence in the TV entertainment industry with companies such as Zee Entertainment Enterprises Limited, Zee Media Limited and Dish TV India Limited (rated CARE A1+; Placed under Credit Watch post announcement of merger with Videocon D2H Limited). 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 rating strengths are however tempered by lower profitability despite increase in scale of operations, weak debt coverage indicators, capital intensive nature of the industry, subsidization of the CPE (Customer Premise Equipment), extension of digitalization deadlines for Phase III and Phase IV leading to deferment of the revenues for the MSO players, intense competition among the MSO (Multi Systems Operator) players and alternate technology platforms like DTH (Direct to home) and IPTV (Internet Protocol Television) players.

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

Detailed description of the key rating drivers

Key Rating Strengths

Strong and established promoter group in the media industry: SNL is promoted by Essel Group which has presence across the value chain in media and entertainment industry (Broadcasting, DTH and MSOs), like Dish TV India Limited which indicates extensive experience of the group in managing media and entertainment business. The promoter of the group Dr. Subhash Chandra has experience spanning over two decades in the media and entertainment industry and he has been closely associated with all group companies.

Continued funding support received from the promoter: The promoters of SNL have infused/raised funds on a continuous basis to support the business operations of the company. Details of funds infused by the promoters

(Rs. Crore)

Particulars	FY13	FY14	FY15	FY16	FY17
Share warrants/OFCD/QIP	**81**	**243**	**221**	**530**	**150**

Consistent need based infusion of the funds is seen favourably from a credit perspective.

Large subscriber base and digitization impact is expected to spur the fortunes of the company: As on December 31, 2016; SNL had 9.2 million digital subscribers (6.80 million subscribers as on December 31, 2015), which has resulted in

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

substantial increase in subscription revenues. In the near term, the analog subscribers will be converted into digital subscribers which would further spur the subscription revenues on account of transparency in reporting revenues. Moreover, cable subscribers in phase III and IV are controlled by LCO/ small MSO, who have limited financial ability to invest in digitization of cable network.

Subsidization of CPE's (Customer Premise Equipment) and extension of Phase III and Phase IV digitalization deadlines: The MSO industry is capital intensive and characterized by intense competition amongst the operators which had led to subsidization of CPE thereby impacting the activation income and profitability of SNL. The extension of Phase III and Phase IV deadlines to January 31, 2017 and March 31, 2017 respectively had deferred the revenues and profitability of the industry.

Key Rating Weakness

Lower profitability despite increase in scale of operations: SNL enters into contract with broadcasters based on an assumption of the number of subscribers which led to increase in its content cost; however, SNL was not able to increase its subscriber base proportionately due to extension of deadlines for Phase III and Phase IV digitalization which impacted the profitability of SNL in 9MFY17. However, the profitability is expected to improve considering January 31, 2017 deadline for Phase III digitalization and March 31, 2017 deadline for Phase IV digitalization. Nevertheless, ability of SNL to bring the unorganized LCOs under its gamut is a key rating moniterable.

Past losses largely due to underreporting of subscribers by LCOs which has affected the net worth: The MSOs in the industry earlier had limited bargaining power and had to accept, the subscribers base reported by LCOs. This had forced organized MSOs to report loss (over the years) as it was difficult to cover their operating expenses. These industry factors have also affected SNL in the past, resulting in losses, and in turn has also affected the net worth of the company. But with initiation of digitization, which involves huge capex towards CPEs and transparency benefits associated with it, has gradually led to Cable & Distribution business being an organized industry.

Weak debt coverage indicators albeit improving: The debt coverage indicators are weak because of large accumulated losses which had deteriorated the credit profile and moderated the networth of SNL. However, with improvement in PBILDT margins owing to transparency in digitization and infusion of funds by the promoters, the debt coverage indicators had improved over the past three years.

Competition form alternate technology platforms: The MSO industry faces competition from alternate technology platforms like DTH (Direct to home) and IPTV (Internet Protocol Television) players. The IPTV though at a nascent stage may give stiff competition to the MSO industry considering the increase in the internet usage among the subscribers.

Analytical approach: Considering the strong operational and financial linkage with the LCO's/MSO's, the consolidated financials of SNL are considered for analysis purpose.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria on factoring linkages in ratings

About the Company

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 December 31, 2016, SNL had over 17 digital head ends and a network of more than 32,500 kms of optical fibre and coaxial cable, it provides cable services to about 450 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 Customer Premise Equipment (CPE). 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 regions of India and also has business operations in south and central regions of India.

During FY16 (refers to the period April 01 to March 31), SNL on a consolidated basis posted a total income of Rs.1,204 crore (vis-à-vis Rs.913 crore in FY15) and PBILDT of Rs.314 crore (vis-à-vis Rs.145 crore in FY15). Furthermore, during 9MFY17 (refers to the period April 01 to December 31), SNL posted a total income of Rs.879 crore (vis-à-vis Rs.823 crore in 9MFY16) and PBILDT of Rs.155 crore (vis-à-vis Rs.180 crore in 9MFY16).

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. 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.

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
Fund-based - LT-Term Loan	-	-	-	150.00	CARE A-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	37.50	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
3.	Fund-based - LT-Term Loan	LT	19.69	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
4.	Non-fund-based - LT-BG/LC	LT	100.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
5.	Fund-based - LT-Term Loan	LT	40.46	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	-
6.	Fund-based - LT-Term Loan	LT	111.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
7.	Term Loan-Long Term	LT	66.63	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
8.	Term Loan-Long Term	LT	58.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
9.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
10.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
11.	Fund-based - LT-Buyers Credit	LT	465.79	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
12.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
13.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO)	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)	1)CARE AA (SO) (16-Sep-14)
14.	Fund-based - LT-Term Loan	LT	150.00	CARE A-; Stable	-	1)CARE A- (27-Oct-16) 2)CARE A- (22-Aug-16)	-	-

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