Siti Networks Limited

June 01, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	133.00 (reduced from Rs. 150 crore)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Other Outstanding Ratings

Facilities@	Amount (Rs. crore)	Rating
Long-term Bank Facilities	378.00	**CARE AA+(SO) [Double A Plus (Structured Obligation)]**

@ Backed by unconditional and irrevocable DSRA Guarantee extended by Zee Entertainment Enterprises Limited (ZEEL – rated CARE AA+; Stable/CARE A1+) to the lenders of Siti Networks Limited, to maintain debt service reserve account (DSRA) for a stipulated size throughout the tenure of the facility.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Siti Networks Limited (SNL) favorably factors in the consistent growth in subscriber base backed by ongoing digitalization of Phase IV areas and an improvement in the EBITDA levels achieved during FY18. The rating assigned also takes into consideration the strong promoter presence and support extended by the group company (Essel Group). Along with SNL, Essel Group has a strong presence in the media and entertainment industry such as in broadcasting, distribution through DTH; which indicates extensive experience of the group in managing the media and entertainment business. Furthermore, Essel group has been extending continuous 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 weak debt coverage indicators, capital intensive nature of the industry, subsidization of the CPE (Customer Premise Equipment) as well as intense competition amongst the MSO (Multi Systems Operator) players and from alternate technology platforms like DTH (Direct to home) and IPTV (Internet Protocol Television) players.

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

Detailed description of the key rating drivers

Key Rating Strengths

Growth in subscriber base backed by ongoing digitalization of Phase IV areas is expected to spur the fortunes of the company:

As on March 31, 2018, SNL had 11.50 million digital subscribers (11.32 million digital subscribers as on December 31, 2017), which has resulted in an increase in subscription revenue. Out of 13.2 million subscriber's universe, approx. 1.70 million are still in the analog segment that comes under purview of phase IV digitization. In the near term, these analog subscribers are expected to be converted into digital, which would further spur the subscription revenue on account of transparency in reporting revenues. Moreover, cable subscribers in phase IV are controlled by LCOs/ small MSOs who have limited financial ability to invest in digitization of cable network. The impact of digitization will also have a positive impact on other related revenues like carriage revenue, advertisement income and other value added services like broadband services.

Improvement in the operating margins during FY18 albeit continued net losses incurred

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

SNL negotiates for content with broadcasters on a fixed fee deal basis based on an estimate of subscribers it projects to cater to. Accordingly, with a view that the digitalization process would be completed by March 31, 2017, SNL had incurred a higher content costs in FY17. The delay in digitalization of Phase IV areas further delayed the monetisation of converting the analogue subscribers to digital, thus impacting the operating margins of FY17. However, the performance of the company has revived during FY18 wherein the operating profits (EBITDA) have grown by 41% (Rs. 324 crore earned during FY18 as compared to Rs.229 crore during FY17). Due to the higher depreciation charged on the Set-Top box installed at the customer premises, SNL continues to incur net losses wherein it has incurred a loss of Rs. 170 crore in FY18 (as compared to Rs. 179 crore during FY17).

Strong and established promoter group having diversified experience in the media industry:
SNL is promoted by Essel Group, whose flagship company is Zee Entertainment Enterprise Limited (ZEEL). ZEEL is a well-established company with a long track record in the media and entertainment industry having a large bouquet of channel offerings covering a wide genre of entertainment. ZEEL's financial risk profile is comfortable and is characterized by healthy profitability, comfortable debt coverage indicators and also with significant cash reserves and current investments. Moreover, the group has a presence across the value chain in media and entertainment industry such as in broadcasting (ZEEL), DTH (Dish TV India Limited), which indicates extensive experience of the group in managing the media and entertainment business. The promoter of the group, Dr. Subhash Chandra has an experience that spans over two decades and he has been closely associated with all the group companies. Further, the group is supported by well experienced and qualified management team.

Continued funding support received from the promoter entities:
The promoters of SNL have infused/raised funds on a continuous basis to support the business operations of the company. During FY16, the company had issued 14.2 crore warrants on a preferential basis for a consideration of Rs. 35 per warrant that were converted into equity shares during FY16 and FY17. During FY16, SNL had also raised Optionally Fully Convertible Debentures (OFCDs) on a preferential basis that was converted into equity shares, thereby resulting in an increase in equity share capital by 3.08 crore and 2.06 crore during FY16 and FY17 respectively. The funds raised were utilized to support the business operations of the entity such as acquisition of MSOs and LCOs, to fund the working capital requirement and for allied corporate purposes.

Key Rating Weakness

Future Prospects
The Broadcasting industry during the course of time has witnessed momentous steps being taken by the Industry and the Government to entirely convert the analog infrastructure into digital as per the roadmap laid out under the Digital Addressable Systems (DAS) Regulations of the Government of India. Amongst the phases scheduled, only Phase-IV (that focuses mainly on the unorganized part of the country) is pending to be completed. Conversion of the pending analogue subscribers into digital would benefit the distributors through increase in subscription revenue, achieved by an increase in ARPU. However, SNL continues to face increasing competition from its peers and from alternative technology platforms such as digital cable, IPTV and OTT. Accordingly, ability of SNL to maintain its ARPU amidst the increasing competition faced both from its peers and allied technology platforms forms a key rating sensitivity.

Analytical approach: Consolidated
In view of strong operational and financial linkages, the consolidated financials have been considered for analytical purposes.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

Siti Networks Limited (formerly known as Siti Cable Network Limited) is a part of Essel group, which is one of India's leading business houses with a diverse portfolio of assets in media, packaging, entertainment, technology-enabled services, infrastructure development and education. It has grown to be India's largest Multi-System Operator (MSO) and a leading wired broadband service provider. With 15 digital head ends and a network of more than 33,000 km of optical fibre and coaxial cable, it provides its cable services in India to ~580 locations and adjoining areas, reaching out to over 13.2 million viewers. SNL deploys State-of-the-art technology for delivering multiple TV signals to enhance consumer viewing experience. Its product range includes Digital & Analogue Cable Television, Broadband and Local Television Channels. SNL has been providing services in analogue and digital mode, armed with technical capability to provide features like Video on Demand, Pay per View, Over-The-Top content, Electronic Programming Guide and Gaming through a Set Top Box. All products are marketed under SITI brand name. In view of the changing consumer preferences, SITI has partnered with DITTO TV (an in-house OTT platform), to deliver content via IPTV platform.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)*
Total operating income	1216	1426
PBILDT	224	324
PAT	-179	-170
Overall gearing (times)	3.09	2.75
Interest coverage (times)	1.75	2.31

A: Audited

** Based on Limited Review*

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.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 6754 3638
Email: sharmila.jain@careratings.com

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

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - LT-Term Loan / Buyers Credit	-	-	-	133.00	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 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-Term Loan	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	37.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
4.	Non-fund-based - LT-BG/LC	LT	77.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
6.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
7.	Term Loan-Long Term	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
8.	Term Loan-Long Term	LT	-	-	-	1)CARE AA+ (SO); Stable	1)CARE AA+ (SO)	1)CARE AA+ (SO)

						(07-Mar-18)	(27-Oct-16)	(13-Jan-16)
9.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
10.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
11.	Fund-based - LT-Buyers Credit	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
12.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
13.	Fund-based - LT-Term Loan	LT	64.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
14.	Fund-based - LT-Term Loan	LT	133.00	CARE A-; Stable	-	1)CARE A-; Stable (13-Feb-18) 2)CARE A-; Stable (10-Apr-17)	1)CARE A- (27-Oct-16) 2)CARE A- (22-Aug-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691