# Siti Networks Limited

February 13, 2018

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 150.00 | 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 | 1349.07 | CARE AA+(SO) [Double A Plus (Structured Obligation)] |

@ Backed by unconditional and irrevocable Corporate Guarantee extended by Zee Entertainment Enterprises Limited (ZEEL – rated CARE AA+/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 rating assigned to the bank facilities of Siti Networks Limited (SNL) favorably factors in 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 assigned also takes into account the consistent growth in subscriber base backed by ongoing digitalization of Phase IV areas. 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) 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**

***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) [rated CARE AA+/A1+]. 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 – rated CARE A+/CARE A1+), 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

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

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.

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

As on December 31, 2017, SNL had 11.32 million digital subscribers (7.70 million digital subscribers as on March 31, 2017), which has resulted in an increase in subscription revenue. Out of 13.2 million subscriber's universe, approx. 1.88 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.

**Key Rating Weakness**

***Lower profitability despite increase in scale of operations:***

SNL negotiates for content with broadcasters on a fixed fee deal basis based on an estimate of subscribers it projects to cater to. The digitalisation of Phase IV areas which was expected to be completed by March 31, 2017 was further delayed, thereby delaying the monetisation of converting the analogue subscribers to digital. However, the costs pertaining to digitalization such as seeding of required STBs, negotiations concerning obtaining content rights (since SNL negotiates for content on a fixed fee deal basis) were incurred throughout the year, thus affecting the operating margins of FY17. The performance of the company has revived during 9MFY18 achieving a revenue growth of 23.55% (Rs. 1092 crore earned during 9MFY18 as compared to Rs.884 crore during 9MFY17).

***Variability in currency rate may affect the financial profile of SNL albeit corrective measures initiated by the management***

The CPEs installed at the subscribers premise 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. SNL 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 SNL, especially its net worth.

***Weak debt coverage indicators albeit improving beginning FY18***

The delay in digitalization of Phase IV areas delayed the monetisation of converting the analogue subscribers to digital, thus affecting the profitability margins for FY17 since the costs pertaining to digitalisation were already incurred. Also during FY17, additional debt amounting to Rs.168 crore was borrowed for purchasing content and to fund the capex requirements i.e. seeding of CPEs. Thus, the profitability and solvency ratios of the company were affected during FY17 which can be indicated by the increase in the overall gearing to 3.09x (2.41x in FY16), increase in Total debt/GCA to 20.17x (10.43x in FY16) and decrease in interest coverage ratio to 1.75x (1.86x in FY17). However, due to the ongoing digitalization, the company has been able to revive its operations in FY18 which can be reflected in the performance depicted during 9MFY18 wherein the interest coverage ratio has improved to 2.52x as compared to 1.70x during 9MFY17.

***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. The rapid growth of Doordarshan's subscription-free direct-to-home (DTH) platform Freedish and the proliferation of over-the-top (OTT) platforms due to availability of internet access at cheaper rates and growing penetration of smartphone and Smart TVs segment are a matter of concern for distribution platform operators in India. However, the tariff order of TRAI which is currently stayed is expected to benefit the distributors by way of reduction in content costs, since the distributors would be able to negotiate for the content cost on an ala carte basis unlike on a bouquet payment basis as was prevailing before.

**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 32,500 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. Similarly, it is in the process of having a VNO tie-up with BSNL to provide Broadband services.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---:|---:|
| Total operating income | 1161 | 1216 |
| PBILDT | 260 | 224 |
| PAT | -41 | -179 |
| Overall gearing (times) | 2.41 | 3.09 |
| Interest coverage (times) | 1.86 | 1.75 |

*A: Audited*

**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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**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 | - | - | FY20 | 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-; Stable (10-Apr-17) | 1)CARE A- (27-Oct-16) 2)CARE A- (22-Aug-16) | - | - |

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