Siti Networks Limited (Revised)

June 01, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities@	378.00 (reduced from Rs. 1349.07 crore)	**CARE AA+ (SO); Stable [Double A Plus (Structured Obligation); Outlook: Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

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

Other Ratings

Facilities	Amount (Rs. crore)	Rating[2]
Long-term Bank Facilities	133.00	**CARE A-; Stable [Single A Minus; Outlook: Stable]**

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating is based on the credit enhancement in the form of unconditional and irrevocable DSRA guarantee extended by Zee Entertainment Enterprises Limited (ZEEL; rated CARE AA+; Stable/CARE A1+) for the bank facilities raised by Siti Networks Ltd. (SNL).

Rating Rationale of the Guarantor (ZEEL)

The credit profile of ZEE Entertainment Limited (ZEEL) continues to derive strength from its well-established promoter group (Essel) having a long track record in the media and entertainment industry, wide platform for distribution with a large bouquet of channel offerings covering a wide genre of entertainment, position of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) in terms of Television Viewership. The credit profile is further strengthened by the 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)/ support extended to the group companies on account of improvement in financial performance of the underlying entities, healthy debt coverage indicators as well as sizeable cash reserves and liquid investments bolstering the liquidity profile. The above strengths are however tempered by the volatile nature of the main source of revenue i.e. advertisement revenue which is sensitive to key economic indicators and regulatory changes.

Furthermore, the ratings also factor in the changing trends and increasing competition faced by the media sector.

Going forward, the ability of ZEEL to retain/ improve its flagship channel position amongst the top four Hindi GECs, self-sustainability of the group companies to which ZEEL has extended DSRA support as well as increase in the overall revenue and profitability amidst the changing trends and increasing competition faced are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and experienced management

The promoters of ZEEL have been in the media & entertainment business for more than two decades as the flagship channel (Zee TV) was launched in 1992. Since then, the single channel entity has evolved into a Media and Entertainment conglomerate with more than 240,000 hours of television content offering 32 domestic and 39 international channels. The promoters have been closely involved in the overall business strategy with expansion of their large bouquet of channels to overseas market and strategically investing in advanced media technology. ZEEL is headed by Mr. Punit Goenka, Managing Director & CEO while the international business is being managed by Mr. Amit Goenka. Further, the promoters are supported by well experienced and qualified management team.

Strong recognition of brand ZEE and diversification of business operations across varied segments

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

ZEE brand has a strong recognition in the media and entertainment industry given its long and successful track record. Further, ZEEL and its affiliate companies have presence across varied media value chains including television broadcasting, cable distribution, direct-to-home satellite service, digital media, multiplexes, amusement parks and print media amongst others. ZEEL's portfolio is diversified across varied segments including broadcasting in domestic and international market, production and distribution of films across several languages, launching leading music labels, organizing various live entertainment events and content distribution through digital space namely through the OTT platform established i.e. ZEE5 and through its 24 online portals managed by its subsidiary – India Webportal Pvt. Ltd.

Large bouquet of channel offerings

Over the past 25 years, ZEEL has built a strong portfolio of 32 domestic and 39 international channels. ZEEL owns 13 dedicated non-Indian language channels that offer content to the audiences in their local languages. During FY17 and FY18, ZEEL undertook various strategic transactions such as the acquisition of the television broadcasting portfolio (i.e. two channels - Big Magic and Big Ganga) of Reliance Broadcast Networks Limited (RBNL). It also added 3 channels i.e. ZEE Yuva (a youth focused Marathi channel), ZEE Anmol Cinema (a FTA channel broadcasting hindi GEC) and ZEE Cinemalu (Telugu movie channel), to its existing portfolio.

Decline in the Corporate Guarantee extended to the group companies

ZEEL has extended various off balance sheet support to its group entities (Zee Learn Limited and Siti Networks Limited). The guarantees are in the nature of performance guarantees extended to meet various contractual obligations (mainly concerning broadcasting rights) and to maintain DSRA (Debt Service Reserve Account) for a stipulated size wherein ZEEL would make good the shortfall within the stipulated time as specified in the agreement. However, these companies have demonstrated their ability to manage their operations on a standalone basis through internal accruals generated/raising additional debt.

Comfortable debt coverage indicators and liquidity profile

ZEEL has a comfortable overall gearing and debt coverage indicators marked by comfortable total debt to GCA (Gross Cash Accruals) and interest coverage as shown in the table mentioned below:

Particulars	FY17	FY18*
Total Debt/GCA (years)	0.83	0.92
Overall Gearing(x)	0.29	0.20
Interest Coverage (x)	15.50	17.31

**Based on Limited Review*

The debt coverage indicators of ZEEL continue to remain strong and with continued growth in total income, stable profitability margin and retention of large portion of profits, the existing leverage is expected to reduce in the near term with redemption of Preference shares and decrease in corporate guarantees extended to group companies.

Key Rating Weaknesses

Industry Outlook

The Phase IV digitalization that is pending to be completed would enable the broadcasters to improve the monetization of subscribers in the newly digitized markets thus increasing the pay television ARPU. However, the advertising revenue that constitutes a major source of revenue gets impacted by macroeconomic factors and rating performance of the channels. Also, the changing trends and increasing competition imposed by alternative platforms such as the OTT platforms, IPTV forms a key rating sensitivity.

Analytical approach: Consolidated

In view of the strong operational and financial linkages, the consolidated financials of ZEEL (guarantor) have been considered for analytical purposes.

Applicable Criteria

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

About Siti Networks Limited
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.

About Zee Entertainment Enterprises Limited (Guarantor)
Zee Entertainment Enterprises Ltd (ZEEL), part of Essel group, is a worldwide media brand offering entertainment content to diverse audiences. With a presence in over 172 countries and a reach of more than a billion people around the globe, ZEEL is amongst the largest global content company across genres, languages and platforms. It is present across broadcasting, movies, music, live entertainment and digital business both within India and overseas. It has more than 240,000 hours of television content offered through 32 domestic and 39 international channels. ZEEL houses the world's largest film library and has rights to more than 4200 movie titles across various languages. It has produced several movies for theatrical releases and is the fastest growing music label in India.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)*
Total operating income	6599	7126
PBILDT	2128	2510
PAT	2112	1478
Overall gearing (times)	0.29	0.20
Interest coverage (times)	15.50	17.31

A: Audited
** Based on Limited Review*

Status of non-cooperation with previous CRA: Not Applicable

Any other information:
Shri. Adesh Kumar Gupta, Independent Director on the board of CARE Ratings Ltd (CARE) is an Independent Director in Zee Entertainment Enterprises Ltd. He is not a part of CARE's rating operations and does not participate in the rating process and the rating notes are not sent to him. To comply with the regulations the Director is required not to participate in the rating process and the rating committee meeting and press disclosure about the same to be made by the CRA."

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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****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.

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	-	-	FY21	264.00	CARE AA+ (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	37.00	CARE AA+ (SO); Stable
Non-fund-based - LT-BG/LC	-	-	-	77.00	CARE AA+ (SO); Stable
Fund-based - LT-Buyers Credit	-	-	-	-	Withdrawn

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+	1)CARE AA+	1)CARE AA+

						(SO); Stable (07-Mar-18)	(SO) (27-Oct-16)	(SO) (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)	-

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CIN - L67190MH1993PLC071691