

Siti Networks Limited

February 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	142.00	CARE BBB-; Credit watch with negative implications [Triple B Minus; Credit watch with negative implications]	Rating revised from A- (Negative) and placed on Credit watch with negative implications

Details of facilities in Annexure-1

Other Outstanding Ratings

Facilities [@]	Amount (Rs. crore)	Rating
Long-term Bank Facilities	370.00	CARE AA+(SO); Credit watch with negative implications [Double A Plus (Structured Obligation); Credit watch with negative implications]

@ Backed by unconditional and irrevocable DSRA 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 revision in the ratings assigned to the bank facilities of Siti Networks Limited (SNL) takes into account the substantial decline in the market capitalization of the listed entities belonging to the Essel Group and its resultant impact on the Group's financial flexibility. Also, as on December 31, 2018, amongst the total promoter holding of 72.23% in SNL; 82.48% has been pledged. The group is in the process of monetizing its infrastructure businesses while it is also in the process of selling up to 50% of its stake in its flagship business i.e. Zee Entertainment Enterprises Limited (ZEEL). This is expected to improve the liquidity of the group, however, in view of the recent developments; the ability of the group to successfully monetize its assets/promoter stake in ZEEL at the valuations envisaged or raise fresh borrowings at competitive rates forms a key rating sensitivity. These events are expected to reduce the promoter group's ability to support the business operations of SNL. SNL has also significant debt obligations in the near term for which the company may have to resort to refinancing to meet the repayment obligations. The recent events have however further increased the refinancing risk for SNL. *As a result, CARE Ratings has placed the ratings on Credit Watch with negative implications and will take a view on the ratings once clarity is received on the deleveraging at the Essel group level and on securing a comfort in the liquidity position of the group.*

The ratings assigned continue to derive strength from the Group's strong presence in the media and entertainment industry such as in broadcasting, distribution through DTH; thus indicating extensive experience of the group in managing the media and entertainment business. The rating also takes into account the consistent growth in subscriber base, although the same is expected to subsequently decline with the completion of digitalization process and the improvement in operating performance expected with the implementation of the New Tariff Order.

The rating strengths are however tempered by deterioration in the debt coverage indicators on account of significant debt repayment obligations in the near term, deterioration in the operating cycle wherein the average creditor days (excluding the creditors set off against debtors) have increased sequentially from 118 days for FY16 to 132 days as on September 2018, 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 the increasing competition faced and obtain funding support from its promoters/refinance its existing loans at competitive rates forms 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+; Stable/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

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

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+;Stable/CARE A1+), which indicates extensive experience of the group in managing the media and entertainment business.

Growth in subscription revenue, expected to continue on implementation of Tariff Order

During FY18, the subscription revenue grew significantly by 41% on a y-o-y basis to Rs. 800 crore in FY18 (as compared to Rs. 569 crore in FY17) on the back of increased subscriber base combined with improved monetization growth in Phase III and Phase IV markets. SNL added 3.1 million subscribers during FY18, thus resulting in a net subscriber base of 11.5 million. During H1FY19, the subscription revenue earned grew by 25% on a y-o-y basis to Rs. 470 crore (as compared to Rs. 375 crore earned during H1FY18). SNL had initially offered low rate packs to the subscribers in the Phase III and Phase IV markets, and has been gradually increasing the ARPU earned since then. Although growth in the subscriber base is expected to decline with the completion of the digitization process, growth in the overall subscription revenue earned is expected to continue with the implementation of the New Tariff Order wherein uniform rates will be charged on a Pan India level. However, impact of the implementation of the said order is to be seen. SNL has been facing increasing competition both from its peers as well as from allied technology platforms. *Accordingly, amongst the increasing competition faced, the ability of SNL to maintain its operating margins (EBITDA) without jeopardizing its market share forms a key rating monitorable.*

Key Rating Weakness

Moderate debt coverage indicators and high overall gearing

During FY18, on the back of improvement in the subscription revenue earned and curtailment of operating expenses, the operating profits (EBITDA) grew by 45% on a y-o-y basis to Rs. 324 crore in FY18. Accordingly, interest coverage ratio improved to 2.33x in FY18 (as compared to 1.76x in FY17), while the Total debt/GCA improved to 9.09x in FY18 (as compared to 20.17x in FY17). The company continues to incur net losses on account of high depreciation debited to the books (concerning the Set-Top box's installed at the customer location), thereby eroding the net worth of the company. The overall gearing ratio of the company increased to 10.09x as on March 2018 (as compared to 4.43x as on March 2017). SNL has huge term loan/buyers credit repayment obligations scheduled during the forthcoming years for which it may have to rely on promoter funding/refinancing to meet the obligations. SNLs operating performance is expected to improve in the forthcoming years with the implementation of the New Tariff Order, although the same is to be seen. *Accordingly, ability of the company to monetize its subscriber base and obtain funding support from its promoters/refinance its existing loans forms the key rating sensitivities.*

Moderate liquidity position

As on September 30, 2018, SNL maintained a cash and cash equivalent balance of Rs. 95 crore. On an average, it utilizes around 83% of its working capital limits (of Rs. 155 crore) for meeting operational requirements. SNL has high debt obligations in the forthcoming years which will be met through internal accruals and if there is a shortfall, SNL may have to rely on promoter infusion/refinancing. *In view of the recent events, ability of SNL to refinance its debt obligations at competitive rates forms a key rating sensitivity.*

Future Prospects

India continues to be one of the fastest growing M&E markets globally. As per a survey conducted by BARC India in 2018, TV homes in India have grown by 7.5% in 2017 on a y-o-y basis while the number of households has grown by 4.20%. As per the BARC India Survey report, 2018, there are currently 298 million homes in India, out of which 197 million have TV sets, thus providing an opportunity for further TV penetration in the remaining 100 million homes. SNL has a major exposure towards the rural market (75%) and since all major broadcasters including Star, ZEE, Sony and Viacom have launched their Free Dish-based channels wherein the content broadcasted is similar to that of the broadcaster's GEC channels (though dated by up to a year or less), SNL is susceptible to increasing threat of loss of viewership to DD Free Dish. In rural India, the internet penetration is critically low and 92% of the TV households still own a CRT TV. Hence, the threat SNL is exposed to from the alternate technology platforms is comparatively low. The implementation of the New Tariff Order is expected to improve the operating performance of SNL since uniform rates will be charged on a Pan India level and the content costs would be a complete pass through to the customers, although the same is to be seen.

Analytical approach: Consolidated

In view of strong operational and financial linkages, the consolidated financials have been considered for analytical purposes. The list of entities whose financials have been consolidated is mentioned in Annexure 3.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Financial ratios – Non-Financial Sector](#)

[Criteria for placing rating on credit watch](#)
About the Company

Siti Networks 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 11.5 million digital 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1216	1424
PBILDT	224	324
PAT	-179	-170
Overall gearing (times)	4.43	10.09
Interest coverage (times)	1.76	2.33

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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****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.

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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	-	-	FY21	142.00	CARE BBB- (Under Credit watch with Negative Implications)

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)Withdrawn (01-Jun-18)	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	50.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO); Stable (01-Jun-18)	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)Withdrawn (01-Jun-18)	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	37.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO); Stable (01-Jun-18)	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)Withdrawn (01-Jun-18)	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)Withdrawn (01-Jun-18)	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)Withdrawn (01-Jun-18)	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)Withdrawn (01-Jun-18)	1)CARE AA+ (SO); Stable (07-Mar-18)	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (13-Jan-16)
9.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO); Stable (01-Jun-18)	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) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO); Stable (01-Jun-18)	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)Withdrawn (01-Jun-18)	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)Withdrawn (01-Jun-18)	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	83.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO); Stable (01-Jun-18)	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	142.00	CARE BBB- (Under Credit watch with Negative Implications)	1)CARE A-; Negative (31-Dec-18) 2)CARE A-; Stable (01-Jun-18)	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)	-

Annexure-3: List of subsidiaries, associates and joint ventures consolidated

Sr. No	Names of the companies	% shareholding of SNL	Nature of interest
1	Indian Cable Net Company Limited*	60.02%	Subsidiary
2	Central Bombay Cable Network Limited	100.00%	
3	Siti Vision Digital Media Private Limited	51.00%	
4	Siti Cable Broadband South Limited	100.00%	
5	Siti Bhatia Network Entertainment Private Limited	51.00%	
6	Siti Jai MaaDurgEE Communications Private Limited	51.00%	
7	SitiJind Digital Media Communications Private Limited [@]	57.50%	
8	SitiJony Digital Cable Network Private Limited	51.00%	
9	Siti Krishna Digital Media Private Limited	51.00%	
10	Siti Faction Digital Private Limited	51.00%	
11	Siti Guntur Digital Network Private Limited	74.00%	
12	Master Channel Community Network Private Limited [@]	66.00%	
13	SitiMaurya Cable Net Private Limited [§]	50.10%	
14	Siti Global Private Limited	51.00%	
15	SiriSiri Digital Network Private Limited	51.00%	
16	SitiKarnal Digital Media Network Private Limited	51.00%	
17	Siti Broadband Services Private Limited	100.00%	
18	Indinet Service Private Limited [§]	100.00%	
19	Siti Prime Uttaranchal Communication Private Limited	51.00%	
20	SitiSagar Digital Cable Network Private Limited	51.00%	
21	SitiSaistar Digital Media Private Limited	51.00%	
22	SitiGodaari Digital Services Private Limited	51.00%	
23	Variety Entertainment Private Limited	100.00%	Associate/Joint venture
24	Axom Communications & Cable Private Limited [§]	50.00%	
25	Siti Chhattisgarh Multimedia Private Limited [#]	41.00%	
26	C&S Medianet Private Limited	48.00%	
27	Voice Snap Services Private Limited [%]	35.26%	
28	Wire and Wireless Tisai Satellite Limited	51.00%	

* includes 0.3% held through Central Bombay Cable Network Limited

[@] subsidiary of Central Bombay Cable Network Limited

[§] subsidiary of Indian Cable Net Company Limited

[#] associate of Siti Bhatia Network Entertainment Private Limited

[%] associate of Variety Entertainment Private Limited

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