

Siti Networks Limited

December 31, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	142.00 (enhanced from 133.00)	CARE A-; Negative [Single A Minus; Outlook: Negative]	Rating reaffirmed; Outlook revised from Stable to Negative

Details of 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+/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 in the ratings assigned to the bank facilities of Siti Networks Limited (SNL) continues to derive strength from 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, in the past, Essel group has extended financial assistance to support the business operations of SNL. The rating assigned 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, 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 form the key rating sensitivities.

Outlook: Negative

The revision in the outlook from 'Stable' to 'Negative' takes into account the significant debt repayment obligations in the near term for which the company may have to resort to refinancing to meet the repayment obligations. There has also been 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. The rating may be further revised in the event there is further moderation in the liquidity position as well as if the working capital cycle gets further stretched. The implementation of the New Tariff Order is expected to improve the operating performance of the company 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. If the implementation of the said order results in significant improvement in the operating performance of SNL, the outlook may be conversely revised to 'Stable'.

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 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.

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

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.*

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 (total of Rs. 497 crore) 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.

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 largely be met through internal accruals and if there is a shortfall, SNL may have to rely on promoter infusion/refinancing. However, SNL enjoys strong financial flexibility as it belongs to a strong promoter group i.e. Essel Group.

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. SNL's 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.*

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.

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](#)
[Rating Methodology - Service Sector Companies](#)
[Financial ratios – Non-Financial Sector](#)

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**

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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	-	-	FY21	142.00	CARE A-; Negative

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	37.00	CARE AA+ (SO); Stable	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	77.00	CARE AA+ (SO); Stable	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); Stable	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); Stable	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	LT	-	-	1)Withdrawn	1)CARE AA+	1)CARE AA+	1)CARE AA+

	Credit				(01-Jun-18)	(SO); Stable (07-Mar-18)	(SO) (27-Oct-16)	(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	64.00	CARE AA+ (SO); Stable	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 A-; Negative	1)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 MaaDurgjee 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%	
24	Axom Communications & Cable Private Limited ^{\$}	50.00%	Associate/Joint venture
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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