

Siti Networks Limited (Revised)

February 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities [@]	370.00	CARE AA+ (SO); Credit watch with negative implications [Double A Plus (Structured Obligation); Credit watch with negative implications]	Rating placed on credit watch with negative implications

Details of facilities in Annexure-1

[@] Backed by unconditional and irrevocable DSRA Guarantee extended by Zee Entertainment Enterprises Limited (rated CARE AA+; Credit watch with negative implications/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	142.00	CARE BBB-; Credit watch with negative implications [Triple B Minus; Credit watch with negative implications]

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Siti Networks Limited (SNL) 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+; Credit watch with negative implications/CARE A1+) for the bank facilities raised by SNL.

Rating Rationale of the Guarantor (ZEEL)

The ratings assigned to the bank facilities of Zee Entertainment Enterprises Limited (ZEEL) have been placed on credit watch with negative implications on account of the reduced financial flexibility of Essel Group as an after effect of the recent decline in the market capitalization of the listed entities belonging to the Group. As on December 31, 2018, amongst the total promoter holding of 41.62% in ZEEL; 59.37% has been pledged. The promoters have conveyed their intentions to sell/divest up to 50% of their equity stake to a strategic partner, which is expected to improve the liquidity position of the group. However, in view of the recent developments, the ability of the group to sell its desired stake in ZEEL at the valuations envisaged forms a key rating sensitivity. Also, these recent developments have resulted in a reduction in the promoter's stake in ZEEL from 41.62% (as on December 31, 2018) to 39.08%. As reported by the company to the stock exchanges, the lenders of the Group have provided a formal consent wherein no event of default is expected to be declared till September 30, 2019 on account of sharp decline in the prices of the pledged shares. It has been agreed upon with the lenders that the proceeds realized on stake sale will be first utilized to repay the outstanding debt obligations of the Group. This has thus reduced the financial flexibility at the Group level. Accordingly, 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 with regards to the liquidity position of the group.

The credit profile of ZEEL continue 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 ZEEL's comfortable financial risk profile characterized by consistent increase in the scale of operations with healthy profitability over the years, healthy debt coverage indicators as well as sizeable cash reserves and liquid investments bolstering the liquidity profile.

The credit profile of ZEEL is 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/increase its flagship channel position amongst the top four Hindi GECs, self - sustainability of the group companies to

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

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 250,000 hours of television content offering 38 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

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, 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 38 domestic and 39 international channels. ZEEL owns 13 dedicated non-Indian language channels that offer content to the audiences in their local languages. During FY18 and 9MFY19, ZEEL undertook various strategic transactions such as acquisition of the General Entertainment Broadcasting business of ADAG group which includes two channels - Big Magic and Big Ganga, ownership of the remaining 49% equity stake in India Webportal Private Limited (a company that operates a suite of websites focusing on entertainment, news and sports content). During Q3FY19, ZEEL launched Zee Keralam, a Malayalam channel thus expanding its presence in the South market. Such additions/acquisitions would offer ZEEL multiple synergies with the existing portfolio thus strengthening its overall reach in the market.

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. The overall gearing ratio of ZEEL (post including the guarantees extended) remains comfortable at 0.29x as on March 31, 2018 (as compared to 0.46x as on March 31, 2017).

Comfortable debt coverage indicators and liquidity profile

ZEEL has 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 (Rs. crore)	2203	1526
Tangible net worth (Rs. crore)	6378	6856
Total Debt/GCA (x)	0.85	0.94
Overall Gearing (x)	0.35	0.22
Interest Coverage (x)	13.93	17.07

Furthermore, ZEEL has strong liquidity profile supported by liquid investments of Rs. 458 crore (Rs. 308 crore as on March 31, 2017) and cash and bank balance of Rs. 1609 crore (Rs. 2612 crore as on March 31, 2017) as on March 31, 2018. 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

In India, for most of the consumers, watching content on television has generally been the primary source of entertainment while the digital platform is now becoming relevant. Consumers' changing preference towards the digital platform requires huge content costs to be incurred, thus impacting the profitability margins of the company in the near to medium term. Ability of the company to maintain its profitability margins amidst the changing trends and increasing competition imposed by alternative platforms such as OTT, IPTV forms a key rating sensitivity. Also, the advertisement income that constitutes a major source of revenue gets impacted by macroeconomic factors and rating performance of the channels. It forms a key rating monitorable as any decline in the same would have a direct impact on the revenue earned, thereby impacting its profitability. The TRAI Order that comes into effect on February 01, 2019 offers customers the privilege to choose the desired channels on an ala carte basis. This is expected to put an end to the bundling of channels carried out by the broadcasters, thus benefiting the broadcasters who own quality content.

Analytical approach: Guarantor's assessment

The consolidated financials of ZEEL (guarantor) have been considered for analytical purposes. The details of the subsidiaries consolidated have been 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 Siti Networks Limited

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.

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 170+ 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. ZEEL's portfolio consists of 38 domestic channels in 9 languages while it has 39 international channels with 13 channels in 9 non-Indian languages. ZEEL houses the world's largest film library and has rights to more than 4200 movie titles across various languages.

ZEEL published a press release on November 13, 2018, wherein the promoters (own 41.62% equity stake of the company as on December 31, 2018) have conveyed their intention to sell/divest up to 50% of their equity stake to a strategic partner with a view to pursue disruptive technological development and transform the business into a tech-media company. The outcome of the review is expected to be concluded by March/April 2019.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income*	6622	7078
PBILDT	1911	2472
PAT	2220	1478
Overall gearing (times)	0.35	0.22
Interest coverage (times)	13.93	17.07

A: Audited; *includes re-measurement income of Rs.161 crore in FY18, also adjusted for fair value loss of Rs.7 crore in FY18 (Rs. 221 crore in FY17)

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.

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-Cash Credit	-	-	-	50.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)
Non-fund-based - LT-BG/LC	-	-	-	37.00	CARE AA+ (SO) (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	FY21	283.00	CARE AA+ (SO) (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

Sr. No.	Name of the companies	% shareholding of ZEEL	Nature of interest
1	ATL Media Limited	100%	Direct Subsidiaries
2	Essel Vision Productions Limited	100%	
3	Zee Unimedia Limited	100%	
4	Zee Digital Convergence Limited	100%	
5	Zee Turner Limited	74%	
6	Zee Multimedia Worldwide (Mauritius) Limited	100%	
7	India Webportal Private Limited*	100%	
8	Fly By Wire International Private Limited ^s	100%	
9	Margo Networks Private Limited	80%	
10	Asia TV Limited	100%	Indirect Subsidiaries
11	Expand Fast Holdings (Singapore) Pte Limited	100%	
12	OOO Zee CIS Holding LLC	100%	
13	OOO Zee CIS LLC	100%	
14	Taj TV Limited	100%	
15	Asia Today Singapore Pte Limited	100%	
16	Asia TV USA Limited, Wyoming	100%	
17	Asia Today Limited	100%	
18	Zee Technologies (Guangzhou) Limited	100%	
19	Zee Entertainment Middle East FZ-LLC	100%	
20	ATL Media FZ-LLC	100%	
21	Zee TV South Africa (Proprietary) Limited	100%	
22	Zee TV USA Inc.	100%	
23	Asia Multimedia Distribution Inc.	100%	
24	Idea Shop Web and Media Private Limited	51.04%	
25	Eevee Multimedia Inc.	100%	
26	Asia TV GmbH	100%	
27	Pantheon Productions Limited	100%	
28	Z5X Global FZ-LLC	100%	
29	Zee Studios International Limited	100%	
30	Aplab Limited	26.42%	Associates
31	Asia Today Thailand Limited	25%	
32	Media Pro Enterprise India Private Limited	50%	Jointly controlled entities

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