ICRA

January 18, 2017

DEN Networks Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	535.00	***[ICRA]A- (Stable) reaffirmed***
Long Term: Fund Based Limits	60.00	[ICRA]A- (Stable) reaffirmed
Short Term: Non Fund Based Limits	15.00	***[ICRA]A2+ reaffirmed***
Long Term/Short Term: Unallocated Limits	39.20	***[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed***
Total	**649.20**	

**Instrument Details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus) [1] and the short term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 649.20 crore bank facilities of DEN Networks Limited (DEN). The outlook on the long term rating is 'Stable'.

Detailed Rationale

The reaffirmation of the ratings continues to factor in DEN's established market position as one of the largest MSOs in India with a total subscriber universe of 13 million across 300 cities and 13 states; strong promoter background in the Indian television industry supported by an experienced management team driving the rollout of digital cable system and diversification into the broadband segment which offers business synergies with opportunities of offering bundled solutions to consumers as well as foray into TV Commerce to improve brand recognition and brand recall amongst its subscribers.

The ratings, however, remain constrained by the challenging regulatory environment and industry concerns regarding delay in monetization of investments in Phase III markets in view of the stay orders granted with respect to discontinuation of analogue signals in these markets. Although most of the stay orders granted were vacated by the Delhi High Court in November 2016, the deadline for digitisation in Phase III areas has been extended to January 31, 2017 in view of the ongoing court proceedings for the remaining stay orders. Moreover, activation revenues of the company (from the residual analogue subscriber base of 2.9 million as on September 30, 2016) remain susceptible to any further extensions granted by the Ministry of Information and Broadcasting (MIB) for implementation of digitisation in Phase IV markets (extended to March 31, 2017 from the previously scheduled deadline of December 31, 2016) and relatively staggered revenue recognition (given the change in revenue recognition policy). In such a scenario, when monetization of investments in Phase I and Phase II markets continues to remain challenging, DEN's ability to successfully scale up ARPUs and resultant subscription revenues from Phase III markets remains crucial for sustaining the revenue growth and profitability metrics, given that nearly 5.1 million subscribers of its total digital subscriber base of 10.1 million are located in these markets.

Although the digital subscriber base of the company continued to expand during DAS Phase III, DEN reported a write-off of nearly Rs 107 crore in the cable business with respect to receivables from Phase I and Phase II markets during Q4 FY2016, attributable to the initial phase of digitisation. This resulted in a net loss of nearly Rs 157 crore from the cable business during FY2016. ICRA, however, takes note that despite such a significant write-off, the receivable days of DEN (Consolidated) remained stretched at nearly 116 days as on March 31, 2016. While DEN's collection efficiency in Q2 FY2017 averaged at nearly 95%, no significant write-offs are expected by management on outstanding receivables going forward.

ICRA takes note of the high competitive intensity in the cable distribution segment with the presence of a large number of MSOs and players providing services on alternate technology platforms such at DTH and IPTV,

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

however, the established market position of DEN as one of the largest MSOs in India with a total subscriber universe of nearly 13 million subscribers provides comfort. Moreover, over the last two years, DEN has diversified into the broadband services segment which offers business synergies with the cable business and opportunities of offering bundled solutions to consumers.

The lower profitability over FY2015-FY2016 weakened the debt protection metrics of the company, even as the company continued to maintain liquidity, received funds through preferential allotment and has undrawn sanction facilities that are likely to support its repayment obligations. However, having deployed available cash balances towards funding of cable and broadband business capex and given the near term debt repayment obligations, DEN's financial flexibility is expected to moderate in the near term. Also, the company's return indicators are expected to remain moderate as it continues to invest in cable digitisation and broadband business.

However, as the broadband and TV Commerce segments achieved OPBITDA breakeven in Q2 FY2017, if the same continue to sustain, the profitability metrics and thereby coverage indicators of the company are expected to improve going forward. Also, as the cable business witnessed improved profit margins in H1 FY2017 supported by higher ARPUs owing to increased collection efficiency, the ability of the company to sustain such margins remains critical in improving its financial risk profile.

In the near to medium term, although ICRA anticipates lower incremental investments by DEN given that significant capex towards the cable business has already been incurred, DEN's ratings will continue to remain sensitive to higher than anticipated debt funded capital expenditure for cable and broadband business. Additionally, the ability of DEN to turnaround its cable business in terms of scale up of subscription revenues and improvement in profitability metrics and receivables position shall be monitored by ICRA.

Key rating drivers

Credit Strengths

- Amongst the largest Multi-System Operators (MSOs) in India with a total subscriber universe of 13 million across 200 cities and 13 states
- Strong promoter background in the Indian television industry supported by an experienced management team driving the rollout of digital cable system
- Healthy revenue visibility with an existing digital subscriber base of nearly 10.1 million and analogue subscriber base of 2.9 million subscribers which are yet to migrate to digital cable
- Diversification into the broadband segment offers business synergies with opportunities of offering bundled solutions to consumers; foray into TV Commerce to improve brand recognition and brand recall amongst subscribers
- Improvement in operating performance in H1 FY2017 marked by healthy revenue growth coupled with improvement in profit margin of cable business; Broadband as well as TV Commerce business achieve OPBITDA breakeven in Q2 FY2017

Credit Weakness

- Susceptibility of activation revenues to any further extensions in timelines for Phase IV digitisation (deadline for which is March 31, 2017); delay in monetization of Phase III investments (beyond January 31, 2017) could restrict improvement in revenues and profitability metrics in near term
- Weakness in cable business through FY2016 marked by weaker than expected operating margins owing to higher content costs coupled with decline in placement revenues which remain vulnerable to nature of content deals; sustained improvement in profit margins as witnessed in H1 FY2017 remains critical
- Deterioration in debt protection metrics over FY2015-FY2016 as the investments towards Phase III as well as other business segments were largely debt funded while the profit contribution from these businesses has been delayed
- Return indicators to remain moderate as the company continues to invest to digitize its analogue customer base; High capital intensity of business
- Competitive intensity in the cable distribution segment remains high with presence of large MSOs and players providing services on alternate technology platforms such as Direct-to-Home (DTH) and Internet Protocol Television (IPTV)

Detailed description of key rating drivers highlighted above:

The reaffirmation of the ratings takes into account DEN's status as one of the largest MSOs in India in terms of revenues and subscriber base (~13 million as on September 30, 2016), backed by strong promoter background and experienced management in the Indian television industry. With most of the stay orders pertaining to discontinuation of analogue signals vacated by the Delhi High Court in November 2016, the deadline of January 31, 2017 in Phase III areas and March 31, 2017 in Phase IV areas provides healthy revenue visibility, given the company's analogue subscriber base of nearly 2.9 million users in these markets. Further, the diversification of the company into broadband services offers business synergies with opportunities of offering bundled solutions to consumers. ICRA also takes note of the improvement in operating performance of the company in H1 FY2017 marked by healthy revenue growth coupled with improvement in profit margin of cable business. Also, broadband as well as TV Commerce businesses achieved OPBITDA breakeven in Q2 FY2017. The divestment in soccer business is likely to keep the segment losses minimal.

The ratings, however, remain constrained by the sustained weakness in DEN's cable business through FY2016 (contributing nearly 94% to the consolidated revenues in FY2016) marked by weaker than expected operating margins and the impact of one-time extraordinary write-off on the overall profitability during the year despite healthy revenue growth. Sustained improvement in the cable business profitability as witnessed in H1 FY2017 remains critical. The weakening of the profit margins over FY2015-FY2016 in turn impacted the debt protection metrics of the company as investments towards Phase III and broadband were largely debt funded while the profit contribution from these segments has been delayed. However, the improvement in the profitability in H1 FY2017 is likely to improve the financial risk profile of the company going forward. The company's return indicators are likely to remain moderate owing to the high capital intensity of the business. ICRA also takes note of the high competitive intensity in the cable distribution segment with the presence of a large number of MSOs and players providing services on alternate technology platforms such at DTH and IPTV.

Analytical approach:

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology

About the Company:
DEN Networks Limited ('DEN') was incorporated originally as DEN Digital Entertainment Networks Private Limited in July 2007. The company's name was changed to DEN Digital Entertainment Networks Limited in April 2008 and later it was renamed as DEN in June 2008. Currently, DEN is one of the largest cable television companies in India engaged in the distribution of analogue and digital cable television services in the National Capital Region (NCR), Uttar Pradesh, West Bengal, Rajasthan, Maharashtra, Gujarat, Karnataka, Haryana, Madhya Pradesh, Bihar, Jharkhand, Uttarakhand and Kerala. Besides cable television services, DEN has an all-India Internet Service Provider (ISP) license for offering broadband Internet services and also holds a 20% stake in DEN Sports & Entertainment Private Limited (DEN Sports), which owns the Delhi Dynamos FC.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No	Name of Instrument	Current Rating (2017)				Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Month-year & Rating		Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				January 2017	September 2016	February 2016	December 2014	November 2013
1	Term Loans	Long Term	535.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund Based Limits	Long Term	60.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non Fund Based Limits	Short Term	15.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long Term/ Short Term	39.20	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan 1	FY2016	-	FY2024	50.0	[ICRA]A- (Stable)
Term Loan 2	FY2012, FY2013 & FY2017	-	FY2017 & FY2020	122.0	[ICRA]A- (Stable)
Term Loan 3	FY2017	-	FY2019	163.0	[ICRA]A- (Stable)
Term Loan 4	FY2014	-	FY2019	100.0	[ICRA]A- (Stable)
Term Loan 5	FY2016	-	FY2024	100.0	[ICRA]A- (Stable)
Cash Credit Facilities	-	-	-	60.00	[ICRA]A- (Stable)
Letter of Credit/Bank Guarantee	-	-	-	15.00	[ICRA]A2+
Unallocated Limits	-	-	-	39.20	[ICRA]A- (Stable)/[ICRA]A2+

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
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