May 03, 2017

Siti Networks Limited (Revised)

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term loan	125.00	[ICRA]A- (stable); re-affirmed
Long-term, fund-based bank facilities	25.00	[ICRA]A- (stable); re-affirmed
Long-term loan	50.00	[ICRA]AA(SO) (stable) outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)[1] assigned to the Rs. 125.00 crore[2] long-term loans and the Rs. 25.00 crore long-term, fund-based bank facilities of Siti Networks Limited (SNL). The outlook on the rating is 'stable'.

ICRA also has an [ICRA]AA(SO) [pronounced ICRA double A (structured obligation)] rating outstanding on the Rs. 50.00 crore, long-term loan of SNL. The outlook on the rating is 'stable'. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating outstanding on the Rs. 50.00 crore term loan facility is based on the strength of the unconditional and irrevocable debt service reserve account (DSRA) guarantee extended by Zee Entertainment Enterprises Limited (ZEEL; guarantor) to the lender of this facility. As per the terms of this guarantee, the guarantor has to provide rolling DSRA support (to the extent of debt obligations falling due over the next quarter) throughout the tenure of the facility.

Rationale

The rating re-affirmation takes into account the regular equity infusion from the promoter (Essel) Group, which has helped the company maintain its credit profile despite its weak operating performance in 9M FY2017. While the transitioning of the cable television (TV) system in India from analog to digital is underway, ICRA believes SNL's execution risks are somewhat mitigated by the extensive experience of its management team in various areas of the television and media industry. The rating also factors in SNL's status as one of the largest multi-system operators (MSOs) in India in terms of cable subscriber base (~12.2 million as of December 2016) and revenues and the high growth potential of digital cable services in India, following the enactment of the regulatory framework for digitisation of cable TV systems in India by March 31, 2017.

ICRA notes that SNL has been making significant investments in consumer premise equipment towards conversion of analog subscribers to digital, and is expected to remain in the investment mode over the near term. Furthermore, delays in complete digitisation of cable TV system in India have resulted in the company facing challenges in monetising its investments. The average revenue per user (ARPU) for SNL in 9M FY2017 has remained flat. However, starting April 2017, analog signals in several areas are being switched off. Aided by the expected pick up in the pace of digitisation, ARPU is expected to improve.
The rating is also constrained by the high competition in the industry from other MSOs as well as from alternate technology platforms like direct-to-home (DTH) and internet protocol television (IPTV), which

---

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

[2] 100 lakh = 1 crore = 10 million

can impact SNL's subscriber acquisition plans and ARPU improvement. ICRA also notes SNL's large debt repayments over the next three years. However, ICRA continues to draw comfort from the regular equity infusion and expected improvement in cash accruals of the company. These shall also help the company in limiting its borrowings.

Achieving envisaged profitability and credit metrics on the back of growth in digital subscriber base and corresponding ARPU shall be the key rating sensitivity.

Key rating drivers

Credit strengths
- Strength arising from being an Essel Group (Zee Group) entity; regular equity infusion supports net-worth
- Among the leading MSOs in India in terms of subscriber base and revenues
- Digitisation of cable TV systems in India with sunset date of March 31, 2017 for complete transition from analog to digital systems augurs well for revenue and profit growth of the company

Credit weaknesses
- Weak operating performance in 9M FY2017 due to slow pace of digitisation which further restricted ARPU growth
- Large debt repayments over next three years
- High degree of competition from other MSOs and from players providing services on alternative technology platforms like DTH and IPTV

Description of key rating drivers:
SNL is the third largest MSO in India, with a digital subscriber base of 9.2 million as of December 31, 2016. In addition, SNL also has a subscriber base of 213,000 for its broadband services. With March 31, 2017 being the sunset date for complete digitisation of cable TV systems in India, SNL's content costs increased during FY2017 on the back of expectations of increase in subscriber base and ARPU. However, the slow pace of digitisation restricted the ARPU growth for the company, leading to weakened operating performance in 9M FY2017. Nonetheless, the credit profile of the company has been maintained through regular equity infusion by the promoter Group. After Rs. 221 crore was infused in March 2015 via the qualified institutional placement (QIP) route, various promoter Group companies infused Rs. 530 crore in February 2016 in the form of equity, optionally fully convertible debentures (OFCDs) and convertible warrants. This formed the first tranche of Rs. 680 crore funding announced by SNL in January 2016. In February 2017, the second tranche of Rs. 150 crore was infused as equity. The recent equity infusion will be primarily used for debt reduction by the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:
Corporate Credit Rating – A Note on Methodology

About the company:
Siti Networks Limited (formerly known as Siti Cable Network Limited, SCNL) is a part of the Essel Group, which is present across various industries like media, entertainment, technology-enabled services, infrastructure development and education. Mr. Subhash Chandra is the promoter of the Group.

SNL came into existence as a part of the demerger scheme from ZEEL. Following the scheme of arrangement, the cable TV distribution business, which was under ZEEL and SCNL (then a 100% subsidiary of Zee Telefilms Limited), was transferred to SCNL with effect from March 31, 2006.

SNL is one of India's largest MSOs providing digital and analog cable TV services to customers across India, as well as cable broadband services in eastern and northern India. It has over 40 analog and 18 digital head ends and a network of more than 31,000 kilometers of optical fibre and coaxial cable. It provides cable services to more than 420 cities in India with a cable universe of 12.2 million gross subscribers as of December 2016, of which 9.2 million were digital cable subscribers. In addition, SNL also enjoys a subscriber base of 213,000 for its broadband services.

SNL is headquartered at Noida (Uttar Pradesh), and was listed on the National Stock Exchange and the Bombay Stock Exchange in 2006.

For the 12-month period ended March 31, 2016, SNL reported a profit after tax (PAT) of Rs. 9.1 crore on an operating income (OI) of Rs. 1,195.9 crore, as against a net loss of Rs. 100.7 crore on an OI of Rs. 922.8 crore for the 12-month period ended March 31, 2015.

For the nine months ended December 31, 2016 (unaudited), SNL reported a net loss of Rs. 114.6 crore on an OI of Rs. 870.8 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
					May 2017	August 2016	April 2016	-	March 2015
1	Term Loan	Long-term	125.00	114.09	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	-	[ICRA]BBB+ (stable)
2	Cash Credit	Long-term	25.00	4.39	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	-	[ICRA]BBB+ (stable)
3	Term Loan	Long-term	50.00	43.75	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA(SO) (stable)	-	[ICRA]AA(SO) (stable)

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
Instrument Details

Instrument	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
Term Loan 1	December 26, 2014	12.00%	December 31, 2019	125.00	[ICRA]A- (stable)
Cash Credit	-	-	-	25.00	[ICRA]A- (stable)
Term Loan 2	December 17, 2014	9.95%	September 30, 2020	50.00	[ICRA]AA(SO) (stable)

Source: Siti Networks Limited

Contact Details

Analyst Contacts

Subrata Ray
+22 6114 3408
subrata@icraindia.com

Sakshi Suneja
+22 6114 3422
sakshi.suneja@icraindia.com

Kinjal Shah
+22 6114 3442
kinjal.shah@icraindia.com

Relationship Contact
L. Shivakumar
+22 6114 3406
shivakumar@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	