ICRA

December 07, 2017

# Siti Networks Limited

**Summary of rated instruments**

| Instrument* | Amount Rated (in Rs. crore) | Rating Action |
|---|---|---|
| Long-term, Non-fund Based Facility | 75.0 | [ICRA]A- (Stable) / Assigned |
| Long-term Loan | 125.0 | [ICRA]A- (Stable) / Outstanding |
| Long-term, Fund-based Facility | 25.0 | [ICRA]A- (Stable) / Outstanding |
| Long-term Loan | 50.0 | [ICRA]AA(SO) (Stable) / Outstanding |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus)[1] to the Rs. 75.0 crore[2] long-term, non-fund based bank facility of Siti Networks Limited (SNL). ICRA also has an [ICRA]A- rating outstanding on the Rs. 125.0 crore long-term loan and the Rs. 25.0 crore long-term, fund-based bank facility of SNL. The outlook on the long-term rating is Stable.

ICRA also has an [ICRA]AA(SO) [pronounced ICRA double A (structured obligation)] rating outstanding on the Rs. 50.0 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. 50.0 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 takes into account the regular equity infusion from the promoter (Essel) Group, which has supported the company's credit profile despite its weak operating performance in FY2017 and H1 FY2018. 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 (~13.2 million as of September 2017) 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 has remained muted in FY2017 and H1 FY2018. However, aided by the expected pick up in the pace of digitisation, ARPU is expected to improve.

---

[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*

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 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 –** Despite ongoing losses, the credit profile of the company has been supported 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, which was primarily used for debt reduction by the company.
- **Among the leading MSOs in India in terms of subscriber base and revenues –** SNL is the third largest MSO in India, providing digital and analog cable TV services to customers across India, as well as cable broadband services in eastern and northern parts of India. It has 15 digital head ends and a network of more than 32,500 kilometers of optical fibre and coaxial cable. It provides cable services to more than 580 cities in India with a cable universe of 13.2 million gross subscribers as on September 30, 2017, of which 11.1 million were digital cable subscribers. In addition, SNL also has a subscriber base of 238,000 for its broadband services.
- **Digitisation of cable TV systems in India augurs well for revenue growth –** The Ministry of Information and Broadcasting (MIB) had laid down several deadlines for complete digitisation of cable TV systems in India, which have witnessed several deferments. The sunset date for digitisation of Phase 3 areas was extended to January 31, 2017, and for the Phase 4 areas to March 31, 2017. However, despite these sunset dates, there has been no switching off of the analog signals in several of these areas. Of the total subscriber base of ~52 million in Phase 3 areas, there continues to remain around 6-million analog subscribers. Similarly, the total analog subscriber base in Phase 4 remains at around 40 million at present. While the digitisation in these areas is progressing slowly, there is a huge opportunity for subscriber addition and thus revenue growth. Nonetheless, the same will depend on the competition and ARPU movement.

**Credit weaknesses**

- **Weak operating performance in FY2017 and H1 FY2018 due to slow pace of digitisation which further restricted ARPU growth** – The ARPU for SNL has witnessed a muted growth in FY2017 and H1 FY2018, with the Phase 1 ARPU at Rs. 105 for the last three quarters and a marginal improvement in the ARPU for the other three phases. This can be attributed to introduction of lower value packs by various industry players and slower movement to high definition (HD). The ARPU in FY2017 was additionally impacted by demonetisation and the slow pace of digitisation. 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, which has resulted in weakened operating performance in FY2017 and H1 FY2018. The company expects a shift in the customer preference from standard definition (SD) to HD gradually in a few years, which would facilitate ARPU improvement.
- **Large debt repayments over the next three years –** The company is exposed to significant debt repayments over the medium term (Rs. 312.8 crore in FY2018, Rs. 523.2 crore in FY2019 and Rs. 263.7 crore in FY2020), though improved pace of digitisation and resultant improved ARPU will also lead to improved accruals. This remains a key rating sensitivity. ICRA, however, draws comfort from the financial flexibility enjoyed by SNL by virtue of being part of the Essel Group, which has also supported the company through equity infusion over the last five years.
- **High degree of competition from other digital cable players and from players providing services on alternative technology platforms like DTH, IPTV and television viewing on smart phones and tablets –** SNL faces high competition from other MSOs as well as from alternate technology platforms like DTH and IPTV, which can impact SNL's subscriber acquisition plans and ARPU improvement.

**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 15 digital head ends and a network of more than 32,500 kilometers of optical fibre and coaxial cable. It provides cable services to more than 580 cities in India with a cable universe of 13.2 million gross subscribers as of September 30, 2017, of which 11.1 million were digital cable subscribers. In addition, SNL also has a subscriber base of 238,000 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 months that ended March 31, 2017, SNL reported a net loss of Rs. 179.2 crore on an operating income (OI) of Rs. 1,200.1 crore, as against a net loss of Rs. 41.2 crore on an OI of Rs. 1,152.2 crore for the 12 months that ended March 31, 2016.

For the six months that ended September 30, 2017 (unaudited), SNL reported a net loss of Rs. 66.8 crore on an OI of Rs. 717.3 crore.

**Key financial indicators (Audited)**

| **Consolidated** | **FY2016** | **FY2017** |
|---|---|---|
| Operating Income (Rs. crore) | 1,152.2 | 1,200.1 |
| PAT (Rs. crore) | -41.3 | -179.2 |
| OPBDIT/ OI (%) | 21.9% | 17.3% |
| RoCE (%) | 7.3% | -2.2% |
| | | |
| Total Debt/ TNW (times) | 1.9 | 2.3 |
| Total Debt/ OPBDIT (times) | 5.0 | 6.9 |
| Interest Coverage (times) | 1.8 | 1.6 |
| NWC/ OI (%) | 2% | 0% |

*OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital*

**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) | Date & Rating | | Date & Rating in FY2017 | | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | December 2017 | May 2017 | August 2016 | April 2016 | - | March 2015 |
| 1 | Non-fund Based Facility | Long -term | 75.0 | [ICRA]A- (Stable) | - | - | - | - | - |
| 2 | Term Loan | Long -term | 125.0 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | [ICRA]BBB+ (Stable) |
| 3 | Cash Credit | Long -term | 25.0 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | [ICRA]BBB+ (Stable) |
| 4 | Term Loan | Long -term | 50.0 | [ICRA]AA(SO) (Stable) | [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**

| ISIN No. | Instrument | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| - | Non-fund Based Facility 1 | - | - | - | 75.0 | [ICRA]A- (Stable) |
| - | Term Loan 1 | December 26, 2014 | 12.00% | December 31, 2019 | 125.0 | [ICRA]A- (Stable) |
| - | Cash Credit | - | - | - | 25.0 | [ICRA]A- (Stable) |
| - | Term Loan 2 | December 17, 2014 | 9.95% | September 30, 2020 | 50.0 | [ICRA]AA(SO) (Stable) |

Source: Siti Networks Limited

## Contact Details

### Analyst Contacts

**Subrata Ray**
+91 22 6114 3408
subrata@icraindia.com

**Kinjal Shah**
+91 22 6114 3442
kinjal.shah@icraindia.com

### Relationship Contact
**L. Shivakumar**
+91 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**

**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- 6606 9999; 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