SITI Networks Limited

March 23, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	50.0	50.0	[ICRA]AA(SO)(Stable) Re-affirmed
Long-term, Non-fund Based Facility	75.0	75.0	[ICRA]A-(Stable) / Outstanding
Long-term Loan	125.0	125.0	[ICRA]A-(Stable) / Outstanding
Long-term, Fund-based Facility	25.0	25.0	[ICRA]A-(Stable) / Outstanding
Total	**275.0**	**275.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA(SO) (pronounced ICRA double A Structured Obligation)[1] assigned to the Rs. 50.0-crore[2] term loan facility of SITI Networks Limited (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. An SO rating does not represent ICRA's opinion on the general credit quality of the issuers concerned.

ICRA also has a rating of [ICRA]A- (pronounced ICRA A minus) with a Stable outlook outstanding on the Rs. 75.0-crore long-term, non-fund based facility, the Rs. 125.0-crore term loans and the Rs. 25.0-crore long-term, fund-based facility of SNL.

Rationale

The rating 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.

Th rating reaffirmation on the Rs. 50.0-crore term loan facility takes into account the healthy financial risk profile of ZEEL, as characterised by its strong profitability, healthy coverage indicators and sizeable cash and liquid investments, supporting its liquidity. The rating continues to factor in the financial flexibility derived from ZEEL being a part of the Zee Group, with long established presence in the television and media industry and an experienced management team. ICRA notes the strong bouquet of ZEEL's channels across different genres, which has supported its advertisement revenue growth in the past. However, the subscription revenue growth has remained muted in FY2017 and 9M FY2018 due to delays in full digitisation and contract renewals with distributors post the new Telecom Regulatory Authority of India (TRAI) regulation in March 2017, with respect to content agreement between broadcasters and distributors.

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[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*

Nonetheless, ICRA expects an improvement in the subscription revenues as digitisation progresses. The rating also takes into consideration the improvement in the operating profitability of ZEEL post sale of its loss-making sports business in FY2017.

The rating is, however, constrained by the high contingent liabilities on account of the support extended to its subsidiaries and Group companies by way of corporate guarantees and DSRA support. ICRA, however, notes that the quantum of this support extended has moderated over the years because of an improvement in the financial performance of the underlying entities. The rating also factors in the significant investments made by the company in the newly-launched over-the-top (OTT) digital platform 'Zee5'. Given the intense competition in the OTT digital space and dependence on advertisement and subscription-led revenue models, the success of OTT platforms remains to be seen.

Outlook: Stable

The outlook may be revised depending on the developments in the credit profile of the guarantor (ZEEL) and/or any change in the terms and conditions of the DSRA guarantee provided to the lender of the rated term loan facility.

Key rating drivers

DSRA guarantee provided by ZEEL: ZEEL has extended an unconditional and irrevocable DSRA guarantee to the lender of the rated term loan 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.

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

Links to applicable criteria:
Corporate Credit Rating Methodology
Approach for Rating Debt Instruments Backed by Third-Party Explicit Support

About the company:

SNL (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 television (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 multi-system operators (MSOs) providing digital and analogue 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 kilometre of optical fibre and coaxial cable. It provides cable services to more than 580 cities in India with a cable universe of over 13.2 million gross subscribers as on December 31, 2017, of which 11.6 million were digital cable subscribers. In addition, SNL also has a subscriber base of 247,000 for its broadband services as on December 31, 2017. 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 that ended on March 31, 2017, SNL reported a net loss of Rs. 179.2 crore on an operating income (OI) of Rs. 1200.1 crore, as against net loss of Rs. 41.3 crore on an OI of Rs. 1152.2 crore for the 12-month period that ended on March 31, 2016. For the nine-month period that ended on December 31, 2017 (unaudited), SNL reported a net loss of Rs. 99.7 crore on an OI of Rs. 1,074.7 crore.

Key financial indicators of SNL (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%

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

About the guarantor:

ZEEL is one of India's leading television, media and entertainment companies. It is amongst the largest producers and aggregators of Hindi programming in the world, with an extensive library, housing over 2.5-lakh plus hours of television content. With rights to more than 4,200 movie titles, ZEEL houses the world's largest[3] Hindi film library. Through its strong presence worldwide, ZEEL entertains over 1.3 billion viewers across 172 countries. ZEEL's well-known brands include Zee TV, &TV, Zee Anmol, Big Magic, Zee Cinema, &pictures, Zee Action, Zee Classic, Zee Anmol Cinema, Zee Cafe, Zee Studio, Zing, ETC Bollywood. The company also has a strong offering in the regional language domain with channels such as Zee Marathi, Zee Talkies, Zee Yuva, Zee Bangla, Zee Bangla Cinema, Zee Telugu, Zee Cinemalu, Zee Kannada, Zee Tamil, Zee Sarthak and Big Ganga. The company's HD offerings include Zee TV HD, &TV HD, Zee Cinema HD, &pictures HD, Zee Marathi HD, Zee Talkies HD, Zee Bangla HD, Zee Tamil HD, Zee Telugu HD, Zee Cinemalu HD, Zee Studio HD, Zee Café HD and &privé HD.

For the 12-month period that ended on March 31, 2017, ZEEL reported a profit after tax (PAT) of Rs. 2221.0 crore on an OI of Rs. 6463.0 crore, as against a PAT of Rs. 821.8 crore on an OI of Rs. 5817.0 crore for the 12-month period that ended on March 31, 2016. For the nine-month period that ended on December 31, 2017 (unaudited), ZEEL reported a PAT of Rs. 1,164.0 crore on an OI of Rs. 4,960.4 crore.

[3]ZEEL investor presentation

Key financial indicators of ZEEL (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	5817.0	6463.0
PAT (Rs. crore)	821.8	2221.0
OPBDIT/ OI (%)	25.9%	30.8%
RoCE (%)	25.9%	41.2%
Total Debt/ TNW (times)	0.4	0.3
Total Debt/ OPBDIT (times)	1.1	1.0
Interest Coverage (times)	9.4	14.5
NWC/ OI (%)	51%	54%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)						Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2018	December 2017	May 2017	Date & Rating in FY2017 August 2016	April 2016	Date & Rating in FY2016 -	Date & Rating in FY2015 March 2015
1	Term Loan-2	Long-term	50.0	31.0	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	-	[ICRA]AA (SO) (Stable)
2	Non-Fund Based Facility	Long-term	75.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-		-	-
3	Term Loan-1	Long-term	125.0	83.0*	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A - (Stable)	-	[ICRA]BBB+ (Stable)
4	Cash Credit	Long-term	25.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A - (Stable)	-	[ICRA]BBB+ (Stable)

*as on February 28, 2018

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-2	December 17, 2014	9.95%	September 30, 2020	50.0	[ICRA]AA(SO) (Stable)
NA	Non-Fund Based Facility	-	-	-	75.0	[ICRA]A-(Stable)
NA	Term Loan-1	December 26, 2014	12.00%	December 31, 2019	125.0	[ICRA]A-(Stable)
NA	Cash Credit	-	-	-	25.0	[ICRA]A-(Stable)

Source: SITI Networks Limited

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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.

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

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