

SITI Networks Limited

April 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	125.00	200.00	[ICRA]A-(Stable); Assigned/ Outstanding
Long-term, Non-fund Based Limits	75.00	75.00	[ICRA]A- (Stable); Outstanding
Long-term, Fund based Limits	25.00	25.00	[ICRA]A- (Stable); Outstanding
Long-term Loan	50.00	50.00	[ICRA]AA(SO) (Stable); Outstanding
Total	275.00	350.00	

*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. 200.00-crore² (enhanced from Rs. 125.00 crore) term loans of SITI Networks Limited (SNL). ICRA also has an [ICRA]A- rating outstanding on the Rs. 75.00 crore non-fund based limits and the Rs 25.00 crore fund-based limits of 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. 50.0 crore long-term loan of SNL. The outlook on the rating is Stable. The letters SO in parenthesis suffixed to a rating symbol stands 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 derives strength from 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 December 31, 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 television (TV) systems in India by March 31, 2017. ICRA notes the improvement in the operating profitability of the company in 9M FY2018 (vis-à-vis 9M FY2017) aided by an increase in subscriber base, an improvement in average revenue per user (ARPU) and effective cost controls, though SNL continues to incur losses at net level. SNL's credit profile has been supported by the regular equity infusion from the promoter (Essel) Group in the past. While the transitioning of the cable 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.

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

²100 lakh = 1 crore = 10 million

ICRA also notes that SNL has been making significant investments in consumer premise equipments (CPEs) towards conversion of analog subscribers to digital, and is expected to remain in the investment mode over the near term. The same have been funded by way of letters of credit (LC) and buyer's credit through issue of letters of undertaking (LOUs). ICRA takes note of SNL's large payments of LOUs falling due in the near term, following discontinuation of issuance and roll-over of LOUs by the Reserve Bank of India (RBI) on March 13, 2018. These LOUs were being used by the company for availing as well as rolling over of existing buyer's credit facility for the import of CPEs. SNL proposes to repay its LOUs through fresh term loans (as it did in March 2018 for part-repayment of LOUs, with the balance repayment funded through internal accruals and utilisation of fund-based working capital limits) and sanction of additional overdraft limits. This is a key rating monitorable.

The delays in complete digitisation of cable TV system in India have resulted in the company facing challenges in monetising its investments. The ARPU for SNL, though improved in 9M FY2018, remains lower than that of its peers. However, 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 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.

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

Outlook: Stable

ICRA believes that SNL will continue to benefit from its established market position as one of the largest national MSOs. The outlook may be revised to Positive if SNL's financial risk profile improves through sustainable growth in revenues and profitability aided by digitisation of digital subscriber base and reduction in debt. The outlook may be revised to Negative if SNL's credit profile weakens due to higher than estimated debt-funded capital expenditure or lower than estimated accruals. Any materially adverse impact of the terms of conversion of LOUs to term loans as well as that of sanction of additional limits on the overall interest cost of the company would also be a negative.

Key rating drivers

Credit strengths

Strength arising from being an Essel Group (Zee Group) entity; regular equity infusion has supported the 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 provides cable services to more than 580 cities in India with a cable universe of 13.2 million subscribers as on December 31, 2017, of which 11.32 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.
- **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 challenges

- **Weak, though improving, operating performance due to the limited growth in ARPU**—The ARPU for SNL has witnessed a muted growth in FY2017. 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. The operating profitability of the company witnessed some improvement in 9M FY2018 (vis-à-vis 9M FY2017) as the company rationalised its employee base, added new subscribers and witnessed some improvement in ARPUs in phase 3 and phase 4 markets, though it continues to remain lower than peers. The company expects a shift in the customer preference from standard definition (SD) to high definition (HD) gradually in a few years, which would facilitate ARPU improvement.
- **Large debt repayments over the next three years** – SNL is exposed to significant debt repayments over the medium term (Rs. 408.0 crore in FY2019, Rs. 329.9 crore in FY2020 and Rs. 228.3 crore in FY2021), 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 alternative technology platforms like DTH and IPTV, which can impact SNL's subscriber acquisition plans and ARPU improvement.
- **Large amount of LOUs falling due for payment in Q1 FY2019:** SNL has significant (~Rs 101 crore) LOUs falling due for payment in Q1 FY2019, following discontinuance of issuance and roll-over of LOUs by the RBI on March 13, 2018. These LOUs were being used by the company for availing as well as rolling over of existing buyer's credit facility for the import of CPEs. SNL proposes to repay its LOUs through conversion to term loans and sanction of additional overdraft limits. This is a key rating monitorable.

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

Links to applicable criteria:

[Corporate Credit Rating 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 SNL 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 subscribers as of December 31, 2017, of which 11.32 million were digital cable subscribers. In addition, SNL also has a subscriber base of 247,000 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 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 ended March 31, 2016. For the nine months ended 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 (audited, consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	1,152.15	1,200.14
PAT (Rs. crore)	-41.29	-179.23
OPBDIT/ OI (%)	21.88%	17.33%
RoCE (%)	7.27%	-2.16%
Total Debt/ TNW (times)	1.94	2.27
Total Debt/ OPBDIT (times)	5.00	6.87
Interest Coverage (times)	1.80	1.63
NWC/ OI (%)	2%	0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2018	Date & Rating in FY2018				Date & Rating in FY2017		Date & Rating in FY2016
					March 2018	December 2017	May 2017	August 2016	April 2016	-	
1	Non-fund Based Limits	75.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-
2	Term Loan-1	125.00	83.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
3	Term Loan-2	75.00	71.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-
4	Cash Credit	25.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
5	Term Loan-3	50.00	31.00	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	-	-

*Outstanding as of 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	Non-fund Based Limits	-	-	-	75.00	[ICRA]A- (Stable)
NA	Term Loan 1	December 26, 2014	12.00%	December 31, 2019	125.00	[ICRA]A- (Stable)
NA	Term loan-2	July 30, 2016	11.90%	July 2019	75.00	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	25.00	[ICRA]A- (Stable)
NA	Term Loan 3	December 17, 2014	9.95%	September 30, 2020	50.00	[ICRA]AA(SO) (Stable)

Source: SITI Networks Limited

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About ICRA Limited:

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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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