SITI Networks Limited

June 29, 2018

Summary of rated instruments

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

*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] to the Rs. 200.00-crore[2] term loans, the Rs. 75.00-crore non-fund based limits and the Rs 25.00-crore fund-based limits of SITI Networks Limited (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 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 is obligated to provide for any short-fall in DSRA amount to be maintained as per the terms of transaction, 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 (~11.5 million active digital subscriber base as of March 31, 2018) 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. The operating profitability of the company has improved in FY2018 (vis-à-vis 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 due to its capex requirements leading to high depreciation and amortisation. 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.

[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*

SNL has been making significant investments in consumer premise equipment (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). In addition, the company also enjoys extended credit period from the suppliers of CPEs. ICRA takes note of the significant repayment obligations of the company falling due in the near term; additional repayment of LOUs have also arisen following discontinuation of issuance and roll-over of LOUs by the Reserve Bank of India (RBI) on March 13, 2018. The company also has significant outstanding capital expenditure related payables, which are required to be paid over the next one-two years. ICRA however takes comfort from the refinancing arrangements (for rollover of LOUs into term loan) available to the company as well as the financial flexibility enjoyed by it by virtue of being part of the Essel Group.

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 FY2018, remains relatively lower than most of its peers, owing to the skewness of its subscriber base towards Phase-3 and Phase-4 markets. However, aided by the expected pick up in the pace of digitisation, ARPU is expected to improve as the company starts commanding higher share from local cable operators (LCOs). The rating is constrained by the high competition in the industry from other MSOs as well as from alternate technology platforms like over-the-top (OTT), direct-to-home (DTH) and internet protocol television (IPTV), which can impact SNL's subscriber acquisition plans and ARPU improvement. The company is also exposed to foreign exchange risk for its outstanding capital expenditure related payables, especially since the company does not hedge its payments. ICRA also takes note of the high competitive intensity from wired telecom players in the broadband business, necessitating high funding requirements for expansion.

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 growth in digital subscriber base and ARPU 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 on the overall interest cost of the company would also be a negative. ICRA also continues to monitor the developments surrounding the Telecom Regulatory Authority of India (TRAI's) Interconnect and TV Tariff Order and its implications on the cable TV distribution industry.

Key rating drivers

Credit strengths

Improvement in operating performance in FY2018 – The operating profitability of the company weakened in FY2017 owing to the slow pace of digitisation, which led to limited growth in ARPU. 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. The operating profitability of the company, however, witnessed an improvement in FY2018 as the company rationalised its employee base, added new subscribers and witnessed some improvement in ARPU in Phase 3 and Phase 4 markets.

Among the leading MSOs in India in terms of subscriber base and revenues – SNL is one of the largest MSOs 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 the highest active digital subscriber base of 11.5 million as on March 31, 2018, with the company having added industry leading 2.5 million gross digital subscribers in FY2018. In addition, SNL also has a subscriber base of 250,000 for its broadband services as on March 31, 2018.

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.

Strong financial flexibility arising from being part of the Essel Group (Zee Group); regular equity infusion has supported the net-worth – Despite ongoing net 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.

Credit challenges

Limited growth in ARPU – The ARPU for SNL for Phase 3 and Phase 4 markets, though witnessed an improvement in FY2018, remains relatively lower than most of its peers , owing to the skewness of its subscriber base towards Phase-3 and Phase-4 markets. The company also continues to witness flat ARPU for Phase 1 and Phase 2 markets owing to competitive pressures. The company, however, expects an improvement in ARPU in the near to medium term as it starts commanding higher share from the LCOs.

Large debt repayments over the next three years – SNL is exposed to significant debt repayments over the medium term; additional repayment of LOUs have also arisen following discontinuation of issuance and roll-over of LOUs by the RBI on March 13, 2018. The company also has significant outstanding capital expenditure related payables, which are required to be paid over the next one-two years. ICRA, however, takes comfort from the refinancing arrangements (for rollover of LOUs into term loan) available to the company as well as the financial flexibility enjoyed by it by virtue of being part of the Essel Group

Exposure to foreign exchange risk – The company is exposed to foreign exchange risk for its outstanding capital expenditure related payables, especially since the company does not hedge its payments.

High degree of competition from other digital cable players and from players providing services on alternative technology platforms – SNL faces high competition from other MSOs as well as from alternative technology platforms like OTT media platforms, 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 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 an active digital subscriber base of 11.5 million as of March 31, 2018. In addition, SNL also has a subscriber base of 250,000 (as of March 31, 2018) 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, 2018, SNL reported a net loss of Rs. 169.3 crore on an operating income (OI) of Rs. 1,410.4 crore, as against a net loss of Rs. 179.2 crore on an OI of Rs. 1,200.1 crore for the 12 months ended March 31, 2017.

Key financial indicators (audited, consolidated)

	FY2017	FY2018*
Operating Income (Rs. crore)	1,200.14	1,410.40
PAT (Rs. crore)	-179.23	-169.31
OPBDIT/ OI (%)	17.33%	21.88%
RoCE (%)	-2.16%	-1.06%
Total Debt/ TNW (times)	2.27	3.13
Total Debt/ OPBDIT (times)	6.87	4.66
Interest Coverage (times)	1.63	2.21

**Limited; Notes to account not available*

Source: SITI Networks Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs crore)	Amount Outstanding (Rs Crore) *	Date & Rating June 2018	April 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 March 2018	December 2017	May 2017	Date & Rating in FY2017 August 2016	April 2016	Date & Rating in FY2016 -
1	Non-fund Based Limits	Long-term	75.00	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
2	Term Loan 1	Long-term	125.00	72.45	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Term Loan 2	Long-term	75.00	71.25	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
4	Cash Credit	Long-term	25.00	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
5	Term Loan 3	Long-term	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)	[ICRA]AA (SO) (Stable)	-

*Outstanding as of March 31, 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

ANALYST CONTACTS

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

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

Sakshi Suneja
+91 22 6114 3400
sakshi.suneja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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 Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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