SITI Networks Limited

November 13, 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- outstanding; outlook revised to Negative from Stable
Long-term, Non-fund Based Limits	75.00	75.00	[ICRA]A- outstanding; outlook revised to Negative from Stable
Long-term, Fund-based Limits	25.00	25.00	[ICRA]A- outstanding; outlook revised to Negative from Stable
Long-term Loan	50.00	50.00	[ICRA]AA(SO) (Stable); outstanding
Total	**350.00**	**350.00**	

*Instrument details are provided in Annexure-1

Material Event

SITI Networks Limited (SNL) has announced its Q2 FY2019 results on October31, 2018. The company reported an operating income (OI) of Rs. 386.7 crore with an operating profit before depreciation, interest and tax (OPBDITA) of Rs. 80.2 crore and a net loss of Rs. 47.9 crore in Q2 FY2019, as against an OI of Rs. 352.3 crore, an OPBDITA of Rs. 67.2 crore and a net loss of Rs. 52.4crore in Q2 FY2018.

Rating action

ICRA has a long-term rating of [ICRA]A- (pronounced ICRA A minus)[1] outstanding on 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 SNL. The outlook on the rating has been revised to Negative from 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. An SO rating does 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 shortfall in the DSRA amount to be maintained as per the terms of transaction, throughout the tenure of the facility.

Rationale

The revision in the rating outlook reflects the weaker-than-expected financial performance of SNL in H1 FY2019. Lower-than-estimated net subscriber additions in H1 FY2019 resulted in weakened cash accruals. This, coupled with increased interest expense (on account of foreign exchange losses due to rupee depreciation as well as a rise in interest rate due to conversion of buyer's credit exposure to rupee term loans), led to lower-than-estimated cash accruals. SNL's cash accruals in H1 FY2019 are also lower than that in H1 FY2018, which further increases the refinancing requirements,

[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*

especially considering its significant repayment obligations over the near to medium term. It also has large payables related to capital expenditure, which are required to be paid over the next one to two years. ICRA notes the 19% YoY improvement in the average revenue per user (ARPU) for the company in H1 FY2019, which has led to a 24% increase in the subscription revenues. The management has indicated various measures, including a further improvement in ARPU, in the coming quarters, as well as ramp up in the broadband business to improve the profitability in H2 FY2019, which remains a key rating sensitivity. 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 television (TV) distribution industry.

The rating continues to derive strength from SNL's status as one of the largest multi-system operators (MSOs) in India in terms of cable subscriber base (~11.75 million active digital subscriber base as on September 30, 2018) and revenues. Moreover, 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 works in favour of the company. 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 analogue 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 is, however, constrained by the intense 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 it does not hedge its payments. ICRA also takes note of the stiff competition from wired telecom players in the broadband business, necessitating high funding requirements for expansion.

Outlook: Negative

The Negative outlook factors in the weaker-than-expected performance of SNL in H1 FY2019. The rating may be downgraded, if the company is not able to achieve meaningful improvement in cash accruals, which may require further improvement in its ARPU and new subscriber additions. The outlook may be revised to Stable if there is a sustainable growth in its revenues and profitability aided by growth in digital subscriber base and ARPU and reduction in debt, leading to an improvement in its financial risk profile.

Key rating drivers

Credit strengths

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 analogue 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 11.55 million as on September 30, 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 analogue signals in several areas. Of the total subscriber base of ~52 million in Phase-3 areas, there continues to remain around six-million analogue subscribers. Similarly, the total analogue 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 the ongoing net losses, the company's credit profile 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

Weaker-than-expected financial performance in H1 FY2019 – SNL reported weaker-than-expected financial performance in H1 FY2019. Further, the subscriber additions remained lower in H1 FY2019 (0.65 million gross additions in H1 FY2019 vis-a-vis 2.30 million gross additions in H1 FY2018 and 1.8 million gross additions estimated for FY2019) leading to weakened activation revenues and thus cash accruals. Increased interest expense (on account of foreign exchange losses due to rupee depreciation as well as a rise in interest rate due to conversion of buyer's credit exposure to rupee term loans) resulted in lower than estimated cash accruals. The cash accruals in H1 FY2019 are also lower than that in H1 FY2018. This is despite the 19% YoY improvement in ARPU in H1 FY2019, which has led to a 24% increase in the subscription revenues.

Large debt repayments over the next three years – SNL has significant debt repayments over the medium term (Rs. 422.0 crore in FY2019, Rs. 345.0 crore in FY2020 and Rs. 216.0 crore in FY2021). The company also has large outstanding capital expenditure-related payables, which are required to be paid over the next one to two years. ICRA, however, takes comfort from the financial flexibility enjoyed by it by virtue of being a 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 SNL does not hedge its payments.

Stiff competition from digital cable players and from players providing services on alternative technology platforms – SNL faces intense competition from other MSOs as well as from alternative technology platforms like OTT, 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 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 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 an active digital subscriber base of 11.75 million as of September 30, 2018. In addition, SNL also has a subscriber base of 163,000 (as of September 30, 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 that ended on 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. 179.4 crore on an OI of Rs. 1,194.9 crore for the 12 months that ended on March 31, 2017. For the six months that ended on September 30, 2018, SNL reported a net loss of Rs. 104.9 crore on an OI of Rs.736.8 crore, as against a net loss of Rs.67.6 crore on an OI of Rs. 717.3 crore for the six months that ended on September 30, 2017

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1,194.9	1,410.4
PAT (Rs. crore)	-179.4	-169.3
OPBDIT/ OI (%)	17.4%	22.5%
RoCE (%)	-2.2%	-0.9%
Total Debt/ TNW (times)	2.3	3.2
Total Debt/ OPBDIT (times)	6.9	4.6
Interest Coverage (times)	1.6	2.2

Source: SITI Networks Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)					Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date &Rating			Date &Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
					November 2018	June 2018	April 2018	March 2018	December 2017	May 2017	August 2016	April 2016	-
1	Non-fund Based Limits	Long-term	75.00	NA	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A - (Stable)	[ICRA]A - (Stable)	-	-	-
2	Term Loan1	Long-term	125.00	72.45	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A - (Stable)	[ICRA]A - (Stable)	[ICRA]A - (Stable)	[ICRA]A- (Stable)	-
3	Term Loan2	Long-term	75.00	71.25	[ICRA]A- (Negative)	[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- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A - (Stable)	[ICRA]A - (Stable)	[ICRA]A - (Stable)	[ICRA]A- (Stable)	-
5	Term Loan3	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)	[ICRA]AA (SO) (Stable)	-

*Outstanding as of March31, 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- (Negative)
NA	Term Loan 1	December 26, 2014	12.00%	December 31, 2019	125.00	[ICRA]A- (Negative)
NA	Term loan2	July 30, 2016	11.90%	July 2019	75.00	[ICRA]A- (Negative)
NA	Cash Credit	-	-	-	25.00	[ICRA]A- (Negative)
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:

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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