

SITI Networks Limited

Instrument	Amount (Rs. Crore)	Rating Action
Long-term loan*	50.0	[ICRA]AA(SO) (Stable) Re-affirmed
Long-term loan	125.0	[ICRA]A- (Stable) Outstanding
Long-Term – Fund Based / Cash Credit	25.0	[ICRA]A- (Stable) Outstanding

* Backed by Zee Entertainment Enterprises Limited's debt service reserve account (DSRA) support

ICRA has re-affirmed the **[ICRA]AA(SO)** [pronounced ICRA double A (structured obligation)] rating assigned to the Rs. 50.00 crore¹, term loan facility of SITI Networks Limited (SNL; the company; erstwhile SITI Cable Network Limited)². 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 on the Rs. 50 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.

ICRA also has a rating of [ICRA]A- (pronounced ICRA A minus) outstanding on the Rs. 125.00 crore term loans and the Rs. 25.00 crore long-term, fund based bank facilities of SNL. The outlook on the rating is 'stable'.

The re-affirmation of the rating takes into account the healthy financial risk profile of ZEEL, as characterised by 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 being part of the Zee Group), with presence in the television and media industry since more than three decades, and an experienced management team.

ICRA notes the strong bouquet of ZEEL's channels across different genres, which has been supporting its above industry advertisement revenue growth. However, the subscription revenue growth has remained muted. Nonetheless, ICRA expects further improvement in subscription revenues on the back of increased subscriber addressability on the back of ongoing mandatory digitization. However, delays in full digitization cannot be ruled out.

The rating is, however, constrained by the continued losses in ZEEL's sports business. ICRA expects these losses to continue in the near term; self-sustainability of the sports business is a key rating sensitivity. Further, ZEEL has significant contingent liabilities on account of support extended to subsidiaries and group companies by way of corporate guarantees and DSRA support. ICRA, however, expects moderation in the quantum of this support extended, on account of improvement in financial performance of the underlying entities. The rating also takes into account the high competitive intensity in the television broadcasting space, due to which improving viewership share remains important for improvement in the credit profile of the company. While ZEEL does not anticipate any major channel launches in the near term, the company has been investing in over-the-top (OTT) digital platforms like Ditto TV and OZee. However, given the bandwidth constraints, high cost of customer acquisition, dependence on advertisement-led revenue model and high cost of data access, the success of these OTT platforms remains to be seen.

About the Company – SITI Networks Limited (erstwhile SITI Cable Network Limited)

SITI Networks Limited (SNL; erstwhile SITI Cable Network Limited) is a part of the Essel Group, which has a presence across various industries including media, entertainment, technology-enabled services, infrastructure development and education. Mr. Subhash Chandra is the promoter of the Group.

SNL came into existence as part of the demerger scheme from Zee Entertainment Enterprises Limited (ZEEL). Following the scheme of arrangement, the cable TV distribution business, which was under ZEEL and SITI

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.



Cable (Zee Telefilms Limited's 100% subsidiary), was transferred to SNL w.e.f. 31 March 2006. SNL is headquartered at Noida in Uttar Pradesh, and became listed on NSE as well as BSE in 2006.

SNL is one of India's largest Multi-System Operators (MSOs) providing digital and analog cable TV services to customers across the country, as well as cable broadband services in eastern and northern parts of India. It has over 40 analogue and 18 digital head ends and a network of more than 22,000 km of optical fiber and coaxial cable. It provides cable services to more than 250 cities in India with a cable universe of 12.2 million gross subscribers as of March 2016, of which 7.9 million are digital cable subscribers. In addition, SNL also has a subscriber base of 132,000 for its broadband services. The company raised Rs. 221 crore in March 2015 via the Qualified Institutional Placement (QIP) route. In addition, Direct Media & Cable Private Limited and various other promoter group companies infused Rs. 458 crore through OFCDs and convertible warrants in February 2016. Following this infusion by promoters, the shareholding of the promoter companies in SNL increased to 73.6% from 66.0%.

About the DSRA Guarantor – Zee Entertainment Enterprises Limited

Zee Entertainment Enterprises Limited (ZEEL) is one of India's leading television, media and entertainment companies. It is among the largest producers and aggregators of Hindi programming in the world, with extensive library housing over 2.1 lakh hours of television content. With rights to more than 3,500 movie titles, ZEEL houses the world's largest³ Hindi film library. Through its strong presence worldwide, ZEEL entertains over 960 million viewers across 169 countries. With a bouquet of 43 channels, ZEEL's presence spans genres ranging from general entertainment (GEC) to movies, music, sports and regional content. ZEEL's well known brands include Zee TV, &TV, Zee Cinema, Zee Action, Zee Classic, &pictures, Zee Anmol, Ten 1⁴, Ten 2, Ten 3, Zee Cafe, Zee Studio, Zee Salaam, Zing, ETC Bollywood, Zee Q and Zindagi. The company also has a strong offering in the regional language domain with channels such as Zee Marathi, Zee Talkies, Zee Bangla, Zee Bangla Cinema, Zee Telugu, Zee Kannada, Zee Tamizh, and the recently acquired Sarthak TV. The company's High Definition (HD) offerings include Zee TV HD, Zee Cinema HD, &TV HD, Zee Studio HD, Zee Café HD, &pictures HD, Ten 1 HD and Ten Golf HD.

Recent Results

As per audited financials for FY2016, SNL (consolidated) reported a net profit of Rs. 8.95 crore on an operating income (OI) of Rs. 1,188.92 crore, as against a net loss of Rs. 100.72 crore on an OI of Rs. 905.93 crore in FY2015.

As per audited financials for FY2016, ZEEL (consolidated) reported a net profit of Rs. 1,028.93 crore on an OI of Rs. 5,851.46 crore, as against a net profit of Rs. 975.50 crore on an OI of Rs. 4,894.60 crore in FY2015.

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³ Source: ZEEL Investor Presentation; June 2016

⁴ Rebranding of Ten Sports channels of ZEEL was done with effect from April 1, 2016 in order to do away with sport-specific channel names - Ten Sports was rebranded as Ten 1, Ten Action as Ten 2, Ten Cricket as Ten 3 and Ten HD as Ten 1 HD. Ten Golf HD, which was earlier a standard-definition (SD) channel, is the only sport-specific channel in the network's portfolio. Ten Golf SD was discontinued to launch the HD version.



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