

DEN Networks Limited

Instrument	Amount	Rating
Term Loans	Rs 535.0 Crore (enhanced from Rs 513.0 Crore)	[ICRA]A- (Stable) reaffirmed
Long Term Fund Based Limits	Rs 60.0 Crore (enhanced from Rs 50.0 Crore)	[ICRA]A- (Stable) reaffirmed
Short Term Non-Fund Based Limits	Rs 15.0 Crore	[ICRA]A2+ reaffirmed
Long Term/Short Term Unallocated Limits	Rs 39.2 Crore (reduced from Rs 71.2 Crore)	[ICRA]A- (Stable)/[ICRA]A2+ reaffirmed
Total Limits	Rs 649.2 Crore	

The ratings assigned to the Rs 649.2 crore¹ bank facilities of DEN Networks Limited ('DEN' or 'the company') have been reaffirmed at [ICRA]A-/[ICRA]A2+ (pronounced ICRA A minus/ICRA A two plus)². The outlook on the long term rating is "Stable".

The rating reaffirmation continues to factor in DEN's established market position as one of the largest MSOs in India with a total subscriber universe of 13 million across 200 cities and 13 states; strong promoter background in the Indian television industry supported by an experienced management team driving the rollout of digital cable system and diversification into the broadband segment offers healthy business synergies with opportunities of offering bundled solutions to consumers as well as foray into TV Commerce to improve brand recognition and brand recall amongst subscribers.

The ratings, however, continue to be constrained by the challenging regulatory environment and industry concerns regarding expected delay in monetization of investments in Phase III markets (as against earlier expectations of Q1FY2017) in view of the ambiguity with respect to the discontinuation of analog signals in these markets amongst stay orders granted by various High Courts. Moreover, activation revenues for the company (from the residual analog subscriber base of 3.2 million as on June 30, 2016) are expected to remain susceptible to any extension granted by Ministry of Information and Broadcasting (MIB) for implementation of Phase IV (scheduled deadline for which is December 31, 2016) and relatively staggered (given the change in revenue recognition policy). In such a scenario, when monetization of investments in Phase I and Phase II markets continues to remain challenging, DEN's ability to successfully scale up ARPU and resultant subscription revenues from Phase III markets remains crucial for sustaining the revenue growth and profitability metrics given nearly 4.8 million of its total digital subscribers of 9.8 million are located in these markets.

Although the digital subscriber base of the company continued to expand during DAS Phase III, DEN reported a nearly Rs 107 crore write-off in the cable business with respect to receivables from Phase I and Phase II markets during Q4FY2016 as collections in these markets failed to catch up with billing done, resulting in a net loss of nearly Rs 157 crore from the cable business during FY2016. ICRA, however, takes note that despite such a significant write-off, the receivable days of DEN (Consolidated) remained stretched at nearly 116 days as on March 31, 2016, in line with industry peers. While DEN's collection efficiency in Q1FY2017 averaged at nearly 94%, no significant write-offs expected by management on outstanding receivables going forward.

ICRA takes note of the high competitive intensity in the cable distribution segment with the presence of a large number of MSOs and players providing services on alternate technology platforms such as DTH and IPTV, however, the established market position of DEN as one of the largest MSOs in India with a total subscriber universe of nearly 13 million subscribers and promoter background in the Indian television industry supported by an experienced management team driving the rollout of digital cable provides comfort. Moreover, over the last two years, DEN has diversified into the broadband services segment which offers healthy business synergies with the cable business and opportunities of offering bundled solutions to consumers.

¹ Rs 1 Crore = Rs 100 Lakh = Rs 10 Million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The decline in profitability over the last two years has weakened the debt protection metrics of the company, even as the company continues to maintain liquidity and has undrawn sanction facilities that would support its repayment obligations. Nonetheless, having deployed available cash balances towards funding of cable and broadband business capex and given the near term debt repayment obligations, DEN's financial flexibility is expected to moderate in the near term. Nonetheless, the expected equity infusion of nearly Rs 142.4 crore from Goldman Sachs Group provides comfort.

In line with ICRA's expectations, DEN offloaded majority stake in Den Sports Private Limited at breakeven while profitably exiting its investments in Star DEN Media Services Private Limited in Q4FY2016 which has partially offset the impact of one-time extraordinary write-offs during FY2016.

In the near to medium term, while lower incremental investment requirements of DEN are anticipated, given significant capex has already been incurred towards the cable business; DEN's ratings will continue to remain sensitive to higher than anticipated debt funded capital expenditure for cable and broadband business and the inability of the company to reduce losses in e-commerce and soccer forays. Additionally, the ability of DEN to turnaround its cable business in terms of scale up of subscription revenues and improvement in profitability metrics and receivables position will remain a positive rating driver.

About the Company

DEN was incorporated initially as DEN Digital Entertainment Networks Private Limited in July 2007. The company's name was changed to DEN Digital Entertainment Networks Limited in April 2008 and again to DEN Networks Limited (the present name) in June 2008. Currently, DEN is one of the largest cable television companies in India engaged in the distribution of analog and digital cable television services in the National Capital Region (NCR), Uttar Pradesh, West Bengal, Rajasthan, Maharashtra, Gujarat, Karnataka, Haryana, Madhya Pradesh, Bihar, Jharkhand, Uttarakhand and Kerala. Besides cable television services, DEN also has an all-India Internet Service Provider (ISP) licence for offering broadband Internet services and holds a minority stake in Den Sports Private Limited which owns the Delhi Dynamos FC.

Recent Results

As per audited results, DEN (Consolidated) reported a net loss of Rs 260.9 crore on an Operating Income (OI) of Rs 1,245.4 crore in FY2016. DEN (Consolidated) had earlier reported a net loss of Rs 144.0 crore on an OI of Rs 1,112.3 crore in FY2015.

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