

SITI Networks Limited

February 04, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	125.00	125.00	[ICRA]BBB- (Negative), revised from [ICRA]A- (Negative)
Long-term Loan	75.00	0.00	[ICRA]BBB- (Negative) revised from [ICRA]A-(Negative) and withdrawn
Long-term, Non-fund Based Limits	75.00	75.00	[ICRA]BBB- (Negative), revised from [ICRA]A- (Negative)
Long-term, Fund-based Limits	25.00	0.00	[ICRA]BBB- (Negative) revised from [ICRA]A-(Negative) and withdrawn
Long-term Loan	50.00	0.00	[ICRA]AA(SO)(Stable); Withdrawn
Total	350.00	200.00	

*Instrument details are provided in Annexure-1

Material Event

The share price of some Essel Group entities, primarily Zee Entertainment Enterprises Limited (ZEEL) and Dish TV India Limited (DTIL) witnessed a sharp correction on January 25, 2019 following a media article alleging its association with an entity being probed by the Serious Frauds Investigation Office (SFIO). The management has, however, categorically denied any association of the promoters or of the operating companies in the Group with the said entity.

Rating action

ICRA has revised the long-term rating assigned to the Rs. 125.0-crore term loans and the Rs. 75.0-crore non-fund based limits of SITI Networks Limited (SNL) to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]A- (pronounced ICRA A minus). The outlook on the rating is Negative.

ICRA has also revised the rating assigned to the Rs. 25.0-crore fund-based facilities and the Rs. 75.0-crore term loan facilities of SNL to [ICRA]BBB- (Negative) from [ICRA]A- (Negative) and withdrawn the rating at the request of the company and upon receipt of no dues / no objection certificate from the bankers, in accordance with ICRA's policy on withdrawal and suspension of credit rating.

ICRA has also withdrawn the [ICRA]AA (SO) (pronounced ICRA double A Structured Obligation) rating with a Stable outlook assigned to the Rs. 50.0-crore term loan of SNL at the request of the company and upon receipt of no dues / no objection certificate from the bankers, in accordance with ICRA's policy on withdrawal and suspension of credit rating. 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 was based on the strength of the unconditional and irrevocable debt service reserve account (DSRA) guarantee extended by 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 rating revision factors in the reduced financial flexibility of the Essel Group promoters, following the recent decline in the share price of some of the key Group entities and continued high level of pledged shareholding—~60% of the promoters' shareholding across the listed entities¹ of the Essel Group was pledged as on December 31, 2018². This is expected to reduce promoter's group ability to support the operating entities. Improvement in the financial flexibility of the Group is a key rating sensitivity.

This reduced financial flexibility at the promoter level has further increased the refinancing risk for SNL, especially considering its weaker-than-expected financial performance in H1 FY2019 and significant repayment obligations and capital expenditure related payables over the near to medium term. Lower-than-estimated net subscriber additions in H1 FY2019 resulted in weakened cash accruals. 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), this led to lower-than-estimated cash accruals. SNL's cash accruals in H1 FY2019 were also lower than that in H1 FY2018, which further increases the refinancing requirements. ICRA notes the 19% YoY improvement in the average revenue per user (ARPU) for the company in H1 FY2019, which 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.

The ratings continue 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 television (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.

ICRA also notes the proposed new Telecom Regulatory Authority of India's (TRAI) Tariff Order for the broadcasting and cable distribution industry, which is being implemented from February 1, 2019. ICRA will continue to monitor the impact of the same on the credit profile of SNL.

¹ Includes, ZEEL, DTIL, SNL, Zee Media Corporation Limited (ZMCL), Essel Propack Limited and Zee Learn Limited

² The Essel Group promoters have entered into an agreement with the lenders, wherein the latter agreed to not revoke pledges due to the event of default that occurred owing to the sharp decline in the share price of ZEEL and DTIL. As per the agreement, the lenders have drawn comfort from a speedy resolution through the strategic sale of upto 50% of the promoters' shareholding in ZEEL, in a time-bound manner. Furthermore, it has been agreed that the equity proceeds of the strategic sale will be first utilised towards the repayment of dues to the lenders. The Group, through Essel Infraprojects Limited (EIL), is also in the process of raising additional funds by way of stake sale in its solar, transmission and certain road projects (with the company having finalised transactions for transmission projects).

Outlook: Negative

The Negative outlook factors in SNL's increased refinancing risks amid reduced financial flexibility of the Group and its weaker-than-expected performance in H1 FY2019, along with significant debt repayments over the medium term. Improvement in financial flexibility of the Group and deployment of these inflows towards meeting SNL's funding requirements would be critical determinants of the company's liquidity position and would be the key rating sensitivities.

This apart, 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.

Credit challenges

Reduced financial flexibility of the Group – The ratings factor in the high likelihood of the promoter Group, the Essel Group, extending financial support to SNL. The financial flexibility of the Essel Group entities has however, reduced following the recent sharp decline in the share price of some entities of the Essel Group and the high level of pledged shareholding across the listed entities of the Group. This is expected to reduce promoter's group ability to support the operating entities. Improvement in the financial flexibility of the Group is a key rating sensitivity.

Weaker-than-expected financial performance in H1 FY2019 – SNL reported weaker-than-expected financial performance in H1 FY2019. Furthermore, 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.

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.

Liquidity position

The liquidity position of the company is tight, owing to weaker than estimated cash accruals in H1 FY2019 and significant debt repayments and capital expenditure related payables over the short to the medium term. 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent / Group Support	The rating assigned to SNL factors in the high likelihood of its promoter Group, the Essel Group, extending financial support to it out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the Essel Group having extended timely financial support to SNL in the past, whenever a need has arisen. The rating on the Rs. 50.0-crore term loan facility is based on the strength of the unconditional and irrevocable DSRA guarantee extended by ZEEL.
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SNL. As on March 31, 2018, the company had 25 subsidiaries, two associates and two joint ventures (JVs), that are enlisted in Annexure-2.

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 on September 30, 2018. In addition, SNL also has a subscriber base of 163,000 (as on 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 (consolidated) 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 (unaudited), 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)

SNL	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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years						
				Date & Rating				Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016	
				February 2019	November 2018	June 2018	April 2018	March 2018	December 2017	May 2017	August 2016	April 2016	-	
1	Non-fund Based Limits	75.00	NA	[ICRA]BBB-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
2	Term Loan 1	125.00	72.45	[ICRA]BBB-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[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	75.00	71.25	[ICRA]BBB-(Negative); withdrawn	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
4	Cash Credit Facility	25.00	NA	[ICRA]BBB-(Negative); withdrawn	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[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	50.00	31.00	[ICRA]AA(SO); Stable); Withdrawn	[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)	[ICRA]AA(SO); Stable)	-

*As on 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]BBB- (Negative)
NA	Term Loan 1	December 26, 2014	12.00%	December 31, 2019	125.00	[ICRA]BBB- (Negative)
NA	Term Loan2	July 30, 2016	11.90%	July 2019	75.00	[ICRA]BBB- (Negative); withdrawn
NA	Cash Credit Facility	-	-	-	25.00	[ICRA]BBB- (Negative); withdrawn
NA	Term Loan 3	December 17, 2014	9.95%	September 30, 2020	50.00	[ICRA]AA(SO) (Stable); withdrawn

Source: SITI Networks Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2018	Consolidation Approach
Name of the subsidiaries		
Indian Cable Net Company Limited	60.02%	Full Consolidation
Central Bombay Cable Network Limited	100.00%	Full Consolidation
Siticable Broadband South Limited	100.00%	Full Consolidation
Master Channel Community Network Private Limited	66.00%	Full Consolidation
Siti Vision Digital Media Private Limited	51.00%	Full Consolidation
Siti Jind Digital Media Communications Private Limited	57.50%	Full Consolidation
Siti Jai Maa Durgee Communications Private Limited	51.00%	Full Consolidation
Siti Bhatia Network Entertainment Private Limited	51.00%	Full Consolidation
Siti Jony Digital Cable Network Private Limited	51.00%	Full Consolidation
Siti Krishna Digital Media Private Limited	51.00%	Full Consolidation
Siti Faction Digital Private Limited	51.00%	Full Consolidation
Siti Guntur Digital Network Private Limited	74.00%	Full Consolidation
Siti Maurya Cable Net Private Limited	50.10%	Full Consolidation
Siti Karnal Digital Media Network Private Limited	51.00%	Full Consolidation
Siti Global Private Limited	51.00%	Full Consolidation
Siti Siri Digital Network Private Limited	51.00%	Full Consolidation
Siti Broadband Services Private Limited	100.00%	Full Consolidation
Siti Prime Uttaranchal Communication Private Limited	51.00%	Full Consolidation
Siti Sagar Digital Cable Network Private Limited	51.00%	Full Consolidation
Siti Saistar Digital Media Private Limited	51.00%	Full Consolidation
Siti Godaari Digital Services Private Limited	51.00%	Full Consolidation
Variety Entertainment Private Limited	100.00%	Full Consolidation
Indinet Service Private Limited	100.00%	Full Consolidation
Axom Communications & Cable Private Limited	50.00%	Full Consolidation
Wire and Wireless Tisai Satellite Limited	51.00%	Full Consolidation
Name of the Associates		

Company Name	Ownership as on March 31, 2018	Consolidation Approach
Siti Chhattisgarh Multimedia Private Limited	41.00%	Equity Method
Voice Snap Services Private Limited	35.26%	Equity Method
Name of the Joint venture		
C&S Medianet Private Limited	48.00%	Equity Method

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