

May 22, 2019

Dish Infra Services Private Limited: Ratings downgraded to [ICRA]A(Negative)/[ICRA]A2+; removed from Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	400.0	400.0	[ICRA]A(Negative); downgraded from [ICRA]A+@
Long-term/Short-term Fund-based/Non-fund Based Limits^	(400.0)	(400.0)	[ICRA]A(Negative)/[ICRA]A2+; downgraded from [ICRA]A+@[ICRA]A1@
Total	400.0	400.0	

*Instrument details are provided in Annexure-1

^Sublimit of long-term loans; @On rating Watch with Negative Implications

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Dish Infra Services Private Limited (DISPL), along with its parent, Dish TV India Limited (DTIL, or Dish TV), post amalgamation of Videocon d2h Limited (Vd2h) into DTIL.

The ratings downgrade reflects the continued stress at the Essel Group level amid slow progress on monetisation, and the significant increase in the pledged shareholding of the promoters across the Group's listed entities¹ since February 2019. This has further reduced the promoter Group's ability to support the operating entities.

The ratings continue to derive strength from DTIL's leadership position in the direct-to-home (DTH) industry in India, which has been further strengthened post the merger of Vd2h with itself, effective from March 22, 2018². The merged entity had a combined net (active) subscriber base of 23.6 million as on December 31, 2018. The average revenue per user (ARPU) of the merged entity moderated to Rs. 200 per month in Q3 FY2019 vis-à-vis Rs. 214 per month in Q1 FY2019, despite the festive season. This was due to delays in recharges by the subscribers owing to the then impending implementation of the Telecom Regulatory Authority of India's (TRAI's) new Tariff Order. The ARPU also remains lower relative to other major players, given the higher percentage of DTIL's subscriber base in the non-metro areas, which are typically low ARPU generating regions. The total (net) subscriber additions stood at 0.6 million in 9M FY2019.

The company's financial performance in 9M FY2019 was in line with ICRA's expectations, with DTIL achieving revenues of Rs. 4,767.4 crore. The synergy benefits arising from the merger of Vd2h into DTIL have also started flowing in, as evinced in the improved operating profit margin (OPM) of 34.1% in 9M FY2019. With quarterly cash accruals of ~Rs. 380 crore and annual debt repayment of Rs. 1,190.5 crore in FY2020, the company's liquidity position is comfortable. The company also had a cash and bank balance of Rs. 400.0 crore as on September 30, 2018. ICRA, however, notes the high potential liability of unpaid license fees of ~Rs. 2,785.2 crore (as on March 31, 2018). This disputed liability is at present sub judice.

¹ Includes Zee Entertainment Enterprises Limited (ZEEL), Dish TV India Limited (DTIL), SITI Networks Limited (SNL), Zee Media Corporation Limited (ZMCL), and Zee Learn Limited

² The appointed date of the amalgamation was October 1, 2017

In the event of an adverse verdict, cash outflows could be sizeable, resulting in weakening of the company's financial profile. ICRA would continue to monitor the developments in this regard.

ICRA notes that DTH is a capital and technology-intensive industry, and DTIL is expected to remain in the investment mode over the near term. The ratings are constrained by the intense competition in the industry from other DTH players, especially DD Freedish, as well as from alternative technology platforms like over-the-top (OTT) media services, digital cable and internet protocol television (IPTV), which can impact DTIL's subscriber acquisition plans and ARPU improvement.

The Tariff Order for the broadcasting and cable distribution industry was implemented on February 1, 2019. ICRA will continue to monitor the impact of the same on DTIL's credit profile.

Outlook: Negative

The Negative outlook factors in the Group's reduced financial flexibility, which is constrained by borrowings through pledging of promoter shareholding. The ratings may be downgraded in case of a lack of meaningful progress towards addressing the issue of pledged promoter holdings. This apart, the ratings may be downgraded if DTIL's credit profile weakens due to higher-than-estimated debt-funded capital expenditure (capex) or lower-than-estimated accruals. The unpaid and currently disputed license fee also remains a potential negative.

Key rating drivers

Credit strengths

Market leadership position - As on December 31, 2018, the combined net (active) subscriber base of DTIL and Vd2h stood at 23.6 million and ranked the highest in the domestic DTH industry.

Comfortable liquidity supported by free cash and bank balance, and liquid investments - At the consolidated level, DTIL had an estimated cash and bank balance of Rs. 400 crore as on September 30, 2018. The synergy benefits arising from the merger of Vd2h into DTIL have also started flowing in, as evinced in the improved OPM of 34.1% in 9M FY2019. With quarterly cash accruals of ~Rs. 380 crore and annual debt repayment of Rs. 1,190.5 crore in FY2020, the company's liquidity position is comfortable.

Digitisation of cable TV systems in India augurs well for revenue growth - The Ministry of Information and Broadcasting (MIB), Government of India, 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 to March 31, 2017 for Phase 4 areas. However, despite these sunset dates, the analog signals have not yet been switched off in several of these areas. Of the total subscriber base of ~52 million in Phase 3 areas, there remains ~6 million analog subscribers. Similarly, the total analog subscriber base in Phase 4 remains at ~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 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 DTIL. The financial flexibility of the Essel Group's promoters and entities has reduced significantly with the high level of pledged shareholding across the Group's listed entities. Improvement in the Group's financial flexibility is a key rating sensitivity.

Relatively lower ARPU than peers - The ARPU of the merged entity stood at Rs. 200 per month in Q3 FY2019. The ARPU for DTIL remains lower relative to other major players, given the higher percentage of its subscriber base in the non-metro areas, which are typically low ARPU generating regions.

High potential liability on account of unpaid licence fees; adverse ruling could weaken financial profile - DTIL has a high potential liability of unpaid licence fees of ~Rs. 2,785.2 crore as on March 31, 2018, for which the matter is at present sub judice. Any adverse ruling for the same could result in moderation in the financial profile. However, the company has unencumbered cash and bank balance, along with liquid investments of ~Rs. 400 crore (as on September 30, 2018), which can be used to meet any contingencies.

Capital and technology-intensive DTH industry requires constant investments - DTH is a capital and technology-intensive industry, and DTIL is expected to remain in the investment mode over the near term. The company had planned a capex of ~Rs. 850 crore (reduced from the earlier estimate of ~Rs. 1,400 crore) in FY2019, mainly towards the purchase of consumer premise equipment (CPEs). The other infrastructure required by the company in terms of transponders and satellite network is already laid down and has enough capacity to cater satisfactorily to additional subscribers for the next few years.

Intense competition from other DTH players and alternative technology platforms - The company faces intense competition from other DTH players, especially DD Freedish, as well as from alternative technology platforms like OTT media services, digital cable and IPTV, which can impact DTIL's subscriber acquisition plans and ARPU improvement.

Liquidity position

The company, at the consolidated level, had estimated cash and bank balance of Rs. 400 crore as on September 30, 2018. The OPM improved in 9M FY2019 led by the synergy benefits arising from the merger of Vd2h into DTIL. With quarterly cash accruals of ~Rs. 380 crore and debt repayment of Rs. 1,190.5 crore in FY2020, the company's liquidity position is comfortable. The financial flexibility of the Essel Group's promoters and entities has, however, reduced significantly with the high level of pledged shareholding across the Group's listed entities. Improvement in the Group's financial flexibility is a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The ratings assigned to DISPL factors in the high likelihood of its promoter Group, the Essel Group, extending financial support to it out of the need to protect the reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	ICRA has taken a consolidated view of DISPL, along with its parent, DTIL, post amalgamation of Vd2h into DTIL. The list of entities considered for consolidation is given in Annexure 2.

About the company

Dish Infra Services Private Limited is a wholly-owned subsidiary of Dish TV India Limited, which is a part of the Essel Group of companies. Dish TV (combination of DTIL and DISPL) is India's first DTH company to launch its service in May 2005. With effect from March 22, 2018, Vd2h was merged into and with DTIL, with October 1, 2017 being the appointed date of the amalgamation. As on December 31, 2018, DTIL (merged entity) had a net (active) subscriber base of 23.6 million, providing more than 709 channels and services including 31 audio channels and 70 high definition (HD) channels and services. Dish TV leverages multiple satellite platforms including NSS-6, SES-8, GSAT-15 and ST-2, which makes its total bandwidth capacity equal to 1,350 MHz, among the largest held by any DTH player in the country. The company has

a vast distribution network of over 4,000 distributors and around 4,00,000 dealers that span across 9,415 towns in the country (as on December 31, 2018).

With effect from April 1, 2015, DTIL's infrastructure and support business was transferred to DISPL. The scheme has enabled the management to streamline operations, wherein DTIL focuses on branding and distribution, and DISPL focuses on DTH-related infrastructure and service-related aspects. DTIL's other subsidiary is Dish TV Lanka (Private) Limited in Sri Lanka, wherein it holds 70% of the share capital and the balance 30% is held by Satnet. This company had commenced its operations in July 2015. DTIL also has a joint venture with Siti Networks Limited (with the share of each being 48%) in the name of C&S Medianet Private Limited. C&S acts as a negotiating agency for content/ advertisement sales/ carriage for the television channel distribution industry (DTH and cable). This company commenced operations in FY2019 and shall undertake joint negotiations for Dish TV, Vd2h and SITI with the television broadcasters.

As on March 31, 2018, DTIL (consolidated and merged with Vd2h w.e.f. October 1, 2017) reported a net loss of Rs. 84.9 crore on an operating income (OI) of Rs. 4,634.2 crore, against a net profit of Rs. 82.1 crore on an OI of Rs. 3,014.4 crore as on March 31, 2017. For the nine-month period ended December 31, 2018 (unaudited), DTIL (consolidated, including Vd2h) reported a net profit of Rs. 197.9 crore on an OI of Rs. 4,767.4 crore.

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	014.4	4,634.2
PAT (Rs. crore)	2.1	-84.9
OPBDIT/ OI (%)	32.7%	28.7%
RoCE (%)	37.3%	5.8%
Total Debt/ TNW (times)	2.9	0.5
Total Debt/ OPBDIT (times)	1.2	2.6
Interest Coverage (times)	4.3	3.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)^	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
					May 2019	February 2019	May 2018	November 2017	May 2017	November 2016
1 Term Loan 1	Long-term	200.0	89.0	[ICRA]A (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	
2 Term Loan 2	Long-term	100.0	35.66	[ICRA]A (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	
3 Term Loan 3	Long-term	100.0	99.67	[ICRA]A (Negative)	[ICRA]A+@	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	
4 Fund-based / Non-fund Based Limits*	Long-term / Short-term	(200.0)	NA	[ICRA]A (Negative) / [ICRA]A2+	[ICRA]A+ / [ICRA]A1@	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ / [ICRA]A1&	[ICRA]A+ / [ICRA]A1&	
5 Fund-based / Non-fund Based Limits*	Long-term / Short-term	(100.0)	NA	[ICRA]A (Negative) / [ICRA]A2+	[ICRA]A+ / [ICRA]A1 @	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ / [ICRA]A1&	[ICRA]A+ / [ICRA]A1&	
6 Fund-based / Non-fund Based Limits*	Long-term / Short-term	(100.0)	NA	[ICRA]A (Negative) / [ICRA]A2+	[ICRA]A+ / [ICRA]A1@	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ / [ICRA]A1&	[ICRA]A+ / [ICRA]A1&	

*Sublimit of long-term loans

^Outstanding as on March 31, 2018

@:On rating Watch with Negative Implications

&:On rating Watch with Developing Implications

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	Term Loan 1	September 23, 2015	Base Rate + 2.50%	FY2020	200.0	[ICRA]A(Negative)
NA	Term Loan 2	August 07, 2015	Base Rate + 1.25%	FY2021	100.0	[ICRA]A(Negative)
NA	Term Loan 3	September 24, 2015	Base Rate + 1.75%	FY2021	100.0	[ICRA]A(Negative)
NA	Buyers Credit/ Letter Of Credit 1*	-	-	-	(200.0)	[ICRA]A(Negative)/ [ICRA]A2+
NA	Buyers Credit/ Letter Of Credit 2*	-	-	-	(100.0)	[ICRA]A(Negative)/ [ICRA]A2+
NA	Buyers Credit/ Letter Of Credit 3*	-	-	-	(100.0)	[ICRA]A(Negative)/ [ICRA]A2+

*Sublimit of long-term loans

Source: Dish Infra Services Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dish TV India Limited	Parent of the rated entity	Full Consolidation
Dish Infra Services Private Limited	Rated entity	Full Consolidation
Dish TV Lanka (Private) Limited	Fellow subsidiary	Full Consolidation
Joint Venture		
C&S Medianet Private Limited	JV of the parent of rated entity	Equity Method

Source: DTIL's annual report

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