CARE Ratings
Professional Risk Opinion

CARE/HO/RR/2018-19/2284

Mr. Rajeev Dalmia,
Chief Financial Officer,
Dish TV India Ltd,
FC–9, Film City,
Sector – 16A,
Noida – 201301 (UP)

January 09, 2019

Dear Sir,

Credit rating of Dish TV India Limited for Rs.440 crore

Please refer to our letter dated December 31, 2018 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 14, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Sharmila Jain
Associate Director

Encl.: As above

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Rating Rationale

Dish TV India Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities (Letter of Credit/Bank Guarantee)	190.00	**CARE A1+ [A One Plus]**	**Reaffirmed**
Short-term Bank Facilities (Term Loan)	250.00	**CARE A1+ [A One Plus]**	**Assigned**
Total Facilities	**440.00 (Rs. Four hundred forty crore only)**		

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dish TV India Ltd (DTIL) factor in its strong parentage and leadership position in the Direct-to-Home (DTH) industry with a market share of about 37% (based on net subscribers as on September 30, 2018 as per market estimates), consistent operational performance driven by a rise in its subscriber base wherein the total subscribers increased from 23 million as on March 31, 2018 to 23.5 million as on September 30, 2018 as well as improvement in the profitability margins and coverage indicators on integrating the business operations of Videocon d2h Limited with DTIL. The rating assigned also takes into account further improvement in the operating performance expected post implementing the New Tariff Order, although the same is yet to be seen. The above rating strengths are however tempered by DTIL's (Consolidated) high debt-funded capital investments which are partially expected to be funded through internal accruals in the forthcoming years, currency risk associated with procurement of Consumer Premise Equipment's (CPEs) and the increasing competition faced both from peers and allied technology platforms. Furthermore, the rating also takes into account the substantial provision made by DTIL (Consolidated) towards license fee costs, which upon materialization would necessitate incremental debt funding.

The ability of the company to improve its operating profitability amidst the change in tariff regulations announced by TRAI, its ability to maintain its market position amidst the increasing competition faced both from its peers and allied technology platforms, amicably settle the long ongoing dispute towards license fees and maintain its current debt levels constitute the key rating sensitivities.

Detailed description of the key rating drivers

Strong promoter group & experienced management

DTIL is promoted by Essel group having its presence across media value chain including television broadcasting, cable distribution, direct-to-home satellite service, digital media amongst others, with Zee Entertainment Enterprises Limited (ZEEL) being the flagship company. Further, the promoters are supported by experienced and qualified management team.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Strong brand presence with leadership position in DTH segment and strong distribution network

Post the merger of Vd2h into DTIL, DTIL continues to be a market leader holding around 37% market share amongst the DTH players (based on net subscribers as on September 30, 2018 as per market estimates). The merged company had a net subscriber base of around 23.5 million as on September 30, 2018 (net subscriber addition of 0.5 million during H1FY19).

Particulars	FY16	FY17	FY18
	Mkt. share	Mkt. share	Mkt. share
Dish TV	27%	26%	37%
Videocon D2H	16%	17%	
Airtel Digital	19%	20%	23%
Tata Sky	20%	21%	27%
Sun Direct	12%	11%	11%
Big TV	6%	5%	2%

Source: Dish TV investor presentation

The merged company's subscriber base is a fair mix of urban, semi-urban and rural subscribers that would enable it to benefit from increased discretionary spending across categories. To cater to the needs of varied subscriber categories, DTIL has developed a strong distribution network of ~4000 distributors and around 400,000 dealers that span across 9,450 towns in the country.

The Churn ratio (i.e. percentage of migrated subscribers to closing net customers) quantifies the migration of subscribers over a period of time. An increased churn ratio would lead to higher write offs of Customer Premise Equipment (CPE) and reduction in subscription income which would impact DTIL's (consolidated) performance.*The DTH industry is regarded as a highly competitive industry therefore migration of subscribers remains a key area of concern.*

Growth in subscription revenue, expected to continue on implementation of Tariff Order

During FY18, the subscription revenue earned by DTIL grew at muted levels on a Q-o-Q basis on account of the increasing competition faced both from Doordarshan's Free Dish and its peers wherein skinny packs were offered in the market to gain an increasing market share.

Particulars	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Net subscriber base (mn)	14.9	15.1	15.3	15.5	15.7	15.9	16.1	23.0	23.3	23.5
- % growth	-	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	42.9%	1.3%	0.9%
ARPU (Rs / sub)	174	162	152	134	148	149	144	201	214	207
- % growth	-	-6.9%	-6.2%	-11.8%	10.4%	0.7%	-3.4%	39.6%	6.5%	-3%
Subscription Rev. (in crore)	728	729	692	621	692	705	693	1377	1489	1454
- % growth	-	0.1%	-	-	11.4%	1.9%	-	98.7%	8.1%	-

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Particulars	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
			5.1%	10.3%			1.7%			2.3%

The subscription revenue recorded for Q4FY18 and H1FY19 include both DTIL and Vd2h's performance and hence are not comparable with the previous period. Post the merger of Vd2h into DTIL, there is expected to be a higher growth in subscription revenue on account of the mix of the merged company's subscriber base which has a fair mix of urban, semi-urban and rural subscribers [65(rural):35(urban)] as compared to [75(rural):25(urban)] previously. Also, although the growth in the subscriber base is expected to decline with the completion of the digitalization process, growth in the overall subscription revenue earned is expected to continue with the implementation of the New Tariff Order wherein uniform rates will be charged on a Pan India level. However, impact of the implementation of the said order is to be seen.

Also, prior to Q4FY18, DTIL recognized a churn of 120 days past the due date, while in Q4FY18 (during the process of merging Vd2h into DTIL), it harmonized the recognition of subscriber churn in line with industry practice i.e. to recognize churn 60 days past due date. Thus, the growth in the subscriber base and ARPU earned beginning Q4FY18 are not directly comparable with the previous quarters.

DTIL has been facing increasing competition both from its peers as well as from allied technology platforms. *Accordingly, amongst the increasing competition faced, the ability of DTIL to maintain its operating margins (EBITDA) without jeopardizing its market share amongst the DTH players forms a key rating monitorable.*

Improvement in the capital structure and debt coverage indicators

Post the merger of Vd2h into DTIL, the gross debt of the company has increased from Rs.1,297 crore as on March 31, 2017 to Rs. 3,400 crore as on March 31, 2018. The debt taken over from Vd2h has been refinanced at a lower cost by DTIL, thereby resulting in an interest savings of ~Rs. 70 crore. The healthy internal accruals expected to be earned by the merged entity will be utilised to majorly finance the capex investments required, thus resulting in lower requirement of debt funds. Accordingly, the capital structure and debt coverage indicators are expected to improve going forward.

Comfortable liquidity position

As on September 30, 2018, DTIL maintained a cash and cash equivalent balance of Rs. 252 crore. It has an outstanding short term loan facility of Rs. 250 crore, repayable in the month of December 2019. In addition, DISPL has availed a working capital facility of Rs. 190 crore, of which approx. 20% is utilised for meeting operational requirements. Accordingly, the internal accruals generated by the business are quite sufficient to meet the repayment obligations.

Merger of Videocon d2h Limited into Dish TV India Limited thereby creating a leading Cable and Satellite distribution platform

Effective March 22, 2018, Videocon d2h Limited amalgamated with and into Dish TV India Ltd., with October 01, 2017 being the appointed date. As a consideration for the business amalgamated, DTIL issued 857.79 million shares for a total consideration of Rs. 6420 crore, at a premium of Rs. 73 per share.

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Post-merger, the combined entity has the highest market share i.e. 37% with a combined net subscriber base of approx. 23 million. The merger was expected to generate various synergy benefits amounting to a total of Rs. 510 crore on account of reduction in content costs, savings in transponder costs, higher bargaining power in carriage fees and advertisement revenue as well as procurement of set top boxes at lower rates. The high finance cost (12.5%) debt of Vd2h has been completely refinanced at a lower rate of 9.15%, thus resulting in an annual savings of ~Rs. 70 crore. Also, an agreement with a major broadcaster has been renewed at a lower cost, thereby resulting in an annual savings of ~Rs. 200 crore.

Particulars (Rs. crore)	**Q3FY18**	**Q4FY18**	**Q1FY19**	**Q2FY19**
Programming Cost	580	568	566	508
Subscription Revenues	1443	1377	1489	1453
Programming Cost %	**40.18%**	**41.25%**	**38.01%**	**35.00%**

The remaining benefits to accrue through reduction in capex (purchase of set-top boxes) and fixed overhead expenses are expected to be completely achieved over a due course of period.

Key Rating Weaknesses

Variability in currency rate may affect the financial profile of DISPL albeit corrective measures initiated by the management

The CPEs installed at the subscribers premise are majorly imported from Korea due to marginal presence of CPE manufacturers in India. The procurement of CPEs which is positively co-related with the growth in subscriber base has led to larger outflow of forex. DISPL has marginal earnings in foreign currency which provide limited natural hedge especially with depreciating INR against USD. Therefore, DISPL funds these imports majorly by availing debt (medium term buyers' credit facility in USD). This strategy postpones the forex loss related to debt in proportion to its term repayments. The foreign exchange fluctuation loss incurred is capitalized to the cost of fixed asset. This strategy results in limited impact of forex loss on profitability as company recognizes such loss in proportion to the amortization term of fixed assets. As rupee depreciates against dollar, it increases the liability on account of forex debt which further affects the financial profile of DISPL, especially its net worth. DISPL generally follows a hedging policy to hedge 25% upfront at the time of taking the forex loan (buyers' credit) and 25% within six months due for loan repayment.

High provisioning towards disputed regulatory dues

DTIL had filed a Petition [205(C) of 2014] before the Hon'ble Telecom Disputes Settlement & Appellate Tribunal (TDSAT) against Union of India challenging the propriety and legality of the demand of Rs.624 crore including interest of Rs.160 crore raised by the Ministry of Information and Broadcasting by way of a demand letter dated 19 March 2014 towards alleged short payment of license fee for the period 2003-2004 to 2012-2013. The matter is pending before the TDSAT since then. Further, pursuant to the scheme of merger, DTIL has also assumed the deemed liability of Rs. 131 crore including interest of Rs. 27 crore which was raised by MIB by way of demand letter for short payment of license fees during the period 2009-10 to 2012-13. In view of this ongoing dispute, DTIL continues to create a provision on a conservative basis considering the terms and conditions of the License given by the Regulatory

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Authority. As on March 31, 2018, DTIL has created a license fees provision of Rs. 2,785 crore, out of which Rs. 1144 crore pertains to liability transferred from Vd2h. In the event the demand materializes, the company would have to fund the same through raising additional debt.

Future Prospects

India continues to be one of the fastest growing M&E markets globally. As per a survey conducted by BARC India in 2018, TV homes in India have grown by 7.5% in 2017 on a y-o-y basis while the number of households has grown by 4.20%. As per the BARC India Survey report, 2018, there are currently 298 million homes in India, out of which 197 million have TV sets, thus providing an opportunity for further TV penetration in the remaining 100 million homes.

DTIL has a major exposure towards the rural market (65%) and since all major broadcasters including Star, ZEE, Sony and Viacom have launched their Free Dish-based channels wherein the content broadcasted is similar to that of the broadcaster's GEC channels (though dated by up to a year or less), DTIL is susceptible to increasing threat of loss of viewership to DD Free Dish.

In rural India, the internet penetration is critically low and 92% of the TV households still own a CRT TV. Hence, the threat DTIL is exposed to from the alternate technology platforms is comparatively low. Also, in order to cater to this segment, DTIL has launched a hybrid set-top box (pay TV+ pay OTT) while it also plans to launch its own OTT platform, wherein it will be targeting households with existing internet connections to build up on the existing infrastructure.

The implementation of the New Tariff Order is expected to improve the operating performance of DTIL since uniform rates will be charged on a Pan India level and the content costs would be a complete pass through to the customers, although the same is to be seen.

Analytical Approach

The consolidated financials of Dish TV India Limited (DTIL) have been considered for analytical purposes owing to financial and operational linkages between the company and its subsidiaries. The consolidated financials include financials of DTIL (post amalgamation of Vd2h), subsidiaries i.e. Dish T V Lanka (Private) Limited and Dish Infra Services Private Limited (post amalgamation of Vd2h's infra support business) and joint venture - C&S Medianet Private Limited.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

Dish TV India Limited (DTIL), a part of Essel group of companies, is India's first direct to home (DTH) company to launch its service in 2003. Effective March 22, 2018, Videocon d2h Limited (which launched its service in 2009) has been amalgamated with and into Dish TV India, with October 01, 2017 being the

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appointed date. The combined entity has a subscriber base of 23.5 million with a market share of 37% in the DTH segment. The merged entity is expected to provide better synergies and growth opportunities through deeper after-sales service, through company managed centers, distribution and technology capabilities and by becoming an effective partner for TV content providers in India.

The merged entity has a bandwidth capacity of 1422 MHz, with an ability to deliver more than 655 channels & services including 40 audio channels and over 70 HD channels & services. The company has a vast distribution network of over 4000 distributors and around 400,000 dealers that span across 9,450 towns in the country.

Financial Performance

(Rs. crore)

For the period ended / as at Mar.31,	*2016*	*2017*	*2018**
	(12m, A)	*(12m, A)*	*(12m, A)*
Working Results			
Net Sales	3000	2918	4554
Total Operating income	3118	3051	4580
PBILDT	1113	1032	1377
Interest	209	224	396
Depreciation	591	663	1072
PBT	290	139	-98
PAT (after deferred tax)	692	109	-85
Gross Cash Accruals	847	698	972
Financial Position			
Equity Capital	107	107	184
Networth	373	478	6736
Total capital employed	1176	1123	9535
Key Ratios			
Growth			
Growth in Total income (%)	9.77	-2.15	52.71
Growth in PAT (after D.Tax) (%)	very high	-84.22	NM
Profitability			
PBILDT/Total Op. income (%)	35.70	33.82	29.42
PAT (after deferred tax)/ Total income (%)	22.21	3.58	-ve
ROCE (%)	42.09	31.58	5.72
Average cost of borrowing (%)	15.26	18.86	17.47
Solvency			
Long Term Debt Equity ratio (times)	3.30	2.39	0.40
Overall gearing ratio(times)	3.30	2.39	0.51
Interest coverage(times)	5.33	4.61	3.47
Term debt/Gross cash accruals(years)	1.45	1.64	2.78
Liquidity			
Current ratio(times)	0.33	0.23	0.19
Quick ratio(times)	0.33	0.22	0.19
Turnover			

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For the period ended / as at Mar.31,	2016	2017	2018*
	(12m, A)	(12m, A)	(12m, A)
Average collection period (days)	8	10	9
Average creditors (days)	32	36	47
Average inventory (days)	2	3	3
Operating cycle (days)	-21	-23	-34

A:Audited; NM:Not Meaningful

**includes twelve months performance of DTIL and six months performance of Vd2h*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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This follows our brief rationale for entity published on January 07, 2019

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	190.00	CARE A1+
Fund-based - ST-Term loan	-	-	December 2019	250.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE A (10-Jul-15) 3)CARE A (05-Jun-15)
2.	Non-fund-based - LT-Letter of credit	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE AA (SO) (10-Jul-15)
3.	Non-fund-based - ST-BG/LC	ST	190.00	CARE A1+	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (Under Credit Watch) (10-May-18)	1)CARE A1+ (Under Credit Watch) (07-Dec-17)	1)CARE A1+ (Under Credit Watch) (25-Nov-16) 2)CARE A1+ (21-Oct-16) 3)CARE A1+ (18-Jul-16)	1)CARE A1 (10-Jul-15) 2)CARE A (05-Jun-15)
4.	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (10-Jul-15) 2)CARE A (05-Jun-15)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (11-Feb-16) 2)CARE AA (SO)

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								(10-Jul-15)
6.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE A (05-Jun-15)
7.	Fund-based - ST-Term loan	ST	250.00	CARE A1+	-	-	-	-

Annexure-3: Details of Rated Facilities

1. **Short-term Bank Facilities**

Banker	Type of facility	Amount (Rs. Crore)	Remarks
Kotak Mahindra Bank	Bank Guarantee	40	-
Yes Bank		50	-
IndusInd Bank		100	-
Yes Bank	Short-term loan	250	Repayable at the end of twelfth month from the date of disbursement i.e. in December 2019.
Total		**440**	

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