Den Networks Limited Revised

May 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	519.3	525.6	[ICRA]A (Stable); outstanding
Fund-based Working Capital Facilities	105.0	105.0	[ICRA]A (Stable); outstanding
Non-fund Based Working Capital Facilities	15.0	15.0	[ICRA]A1; outstanding
Unallocated Limits	9.9	3.6	[ICRA]A (Stable)/ A1; outstanding
Total	649.2	649.2	

Rating action

ICRA has a rating outstanding of [ICRA]A (pronounced ICRA A)[1] on the Rs. 525.6-crore[2] term loan (enhanced from Rs. 519.3-crore) facilities of DEN Networks Limited (DEN or the company). ICRA also has rating outstanding of [ICRA]A on the company's Rs. 105.0-crore fund-based bank facilities, [ICRA]A1 (pronounced ICRA A one) on its Rs. 15-crore short-term non-fund based bank facilities and ratings outstanding of [ICRA]A/ [ICRA]A1 on Rs. 3.6-crore (reduced from Rs. 9.9-crore) unallocated facilities. The outlook on the long-term rating is Stable.

Rationale

The rating continues to favourably factor in the improvement in DEN's operating and financial performance over the past seven quarters backed by healthy collection efficiency and monetisation (in terms of average revenue per user i.e. ARPU upswing) of phase-III and IV digital-subscriber base that has supported improvement in profitability and exit from loss incurring non-core businesses. Additionally, as significant part of the investment phase pertaining to digitisation of subscriber base is over, the debt levels of the company have also reduced as monetisation has started. ICRA continues to take cognisance of the extensive experience of the promoter and management team in the cable television distribution industry, DEN's status as one of the largest multi-system operators (MSO) in India in terms of cable subscriber base (13 million) and high growth potential of digital cable in the country, following the completion of cable TV digitisation exercise over the next few quarters.

However, the ratings are constrained by subdued profitability and return indicators, owing to the highly capital-intensive nature of the industry (requiring seeding of set-top boxes i.e. STBs and placing of fibre-cable network). The extension in digitisation deadlines for phase-III and IV delayed the monetisation of these investments, along with intense competition amongst MSOs and alternative technology platforms like direct to home (DTH) and internet-based over-the-top (OTT) services for acquiring subscriber base at the cost of ARPUs posed a challenge for DEN. This coupled with large repayment obligations and incremental funding requirement for the last mile of phase-IV cable digitisation and expanding broadband business, have led to muted debt-protection metrics and constrained the financial flexibility.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA believes that DEN will continue to benefit from its established market position as one of the largest national MSOs. The outlook may be revised to Positive if sustainable growth in revenues and profitability aided by monetisation of its digital subscriber base across markets and reduction in debt, improves its financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if any major debt capital expenditure or stretch in working-capital cycle, weakens liquidity. ICRA continues to monitor the developments surrounding TRAI's interconnect and TV tariff order 2017, which when implemented can have far reaching implications for the cable TV distribution industry.

Key rating drivers

Credit strengths

Established market position in the cable TV industry with a sizeable subscriber base - DEN is amongst the largest MSOs in India with a total subscriber universe of 13 million across 250+ cities and 13 states. The company has an experienced promoter and management team, which has successfully overseen the rollout of digital cable system since FY2013, which has led to a digital subscriber base of 11.2 million as on December 31, 2017, one of the largest amongst MSOs.

Improvement in revenues and operating profits in FY2017 and 9M FY2018 - In FY2017, DEN's consolidated operating revenues grew by 22% YoY to Rs. 1157.3 crore, backed by a 22% growth in cable segment and 105% YoY growth in the broadband segment. The OPBITDA turned positive (under Ind-AS) and reached Rs. 178.8 crore in FY2017 (PY: -Rs. 112 crore) driven by the improved profitability of the core business (cable TV), reduction in losses from the broadband segment (which broke even in Q3 FY2017) and exit from the loss-making business of TV commerce and soccer. The company's performance, as reported in 9M FY2018, also reflects a continued growth trajectory with consolidated revenues of Rs. 970.1 crore (YoY growth of 15%) and OPBITDA of Rs. 225 crores (YoY growth of 81% over restated 9M FY2017 results).

End of phase-IV digitisation provides subscription revenue visibility - Of DEN's total digital subscriber base of 11.2 million, more than 50% was in phase-III (and IV) markets. While analogue signals have been switched off in most of phase-III markets, these are expected to be turned off in phase-IV markets by end of the current fiscal. The company has been able to significantly monetise ARPUs of phase-III/ IV markets in the past seven quarters – from Rs. 36/Rs. 12 in Q1 FY2017[3] to Rs.64/56 by end of Q3 FY2018, respectively. At the same time, strong collection efficiency has enabled further monetisation of phase-I and II as evidenced by growth in ARPUs of these markets – from Rs.101/73 in Q1 FY2017 to Rs. 120/96 by end of Q3 FY2018. A strong uptick in subscription revenues, backed by healthy ARPU growth across markets and collection efficiency will drive the revenue growth over the medium term.

Completion of digitisation-linked investment cycle allows for reduction in debt levels - With the digitisation cycle coming to an end, incremental capex requirements would be smaller and limited to broadband business expansion/penetration over the medium term. At the same time, improving cable subscription revenues and repayment of debt will lead to an improved debt profile. DEN's net-debt position has already been improving on a QoQ basis since Q3 FY2017, when it had received a preferential equity infusion of Rs. 142 crore from Goldman Sachs. The net debt of the company as on December 31, 2017 was Rs. 141 crore[4] as against Rs. 335 crore as on September 30, 2016.

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[3] As per DENs investor presentations. ARPU for FY2018 are under Ind-AS while those of Q1FY2017 are as per I-GAAP. Both are excluding taxes.

[4] The net debt is arrived at by reducing the available cash and cash equivalents, including encumbered cash held as margin money or security against borrowings, from the gross debt.

Exit from unrelated businesses delinks profitability from loss-making ventures - The company had ventured into the soccer and TV commerce businesses during the past few years, however, the losses incurred (cumulative loss of Rs. 59 crore in FY2016 under IGAAP) had brought down the consolidated profitability, while the core businesses were facing digitisation delay-related regulatory headwinds and intense competition. In the past two years, the company had exited from both the TV commerce business and soccer businesses, to focus on its core segments.

Diversification into the broadband segment offers healthy business synergies - Presence in the broadband segment provides an opportunity of offering bundled solutions (cable + broadband) to consumers. DEN launched its own OTT app – DEN TV+ during FY2018 to improve consumer experience and create presence on upcoming internet-backed media platform. Increasing data usage by subscribers and penetration of OTT services augurs well for the segment and will drive the revenue in the forthcoming years.

Credit challenges

Subdued profitability metrics and return indicators, albeit in line with industry peers - The company continues to incur losses at the net level (net margin of -16.4% and -0.6% as on March 31, 2017 and December 31, 2017 respectively and ROCE of -5.7% as on March 31, 2017) due to high content cost (vis-à-vis billable subscriber addition) and interest outgo on account of significant debt-funded capex undertaken for seeding STBs (increasing market share) and expansion of broadband business. At the same time, the monetisation of investments has remained slow due to several regulatory and competitive reasons, adversely impacting the financial profile of the players in the industry. Nonetheless, with the phase-IV digitisation nearing completion, the cable segment capex cycle has primarily come to a close and industry-wide traction has been witnessed in the ARPUs over the past six to eight quarters. DEN's cash accruals turned positive by the end of FY2017 and improved to ~Rs. 180 crore as on December 31, 2017, which provide comfort.

Muted debt-coverage metrics with significant debt repayments over next two to three years - The company has cumulative debt repayments of nearly Rs. 250 crore over the next two years (FY2019-FY2020). Though its DSCR as on March 31, 2017 stood at 0.5 times, witnessing an improvement over FY2016 levels backed by improvement in operating profitability during the year, the same continues to remain subdued. Nonetheless, improving cash accruals (Rs. 226.4 crore in 9M FY2018 as against Rs. 131.1 crores in 9M FY2017) and ear-marked deposits, in the form of margin and DSRA, (approximately Rs. 131 crores as on Dec 31, 2017) against part repayment obligations provide comfort.

Intense competition in the fragmented cable-distribution industry - In addition to the presence of large MSOs and alternative distribution technologies like DTH, the industry now faces competition from internet-based alternative media platforms like the OTT services. Given the technology advantage, DTH players and state-owned DD Free Dish are likely to offer stiff competition in Phase-III and IV markets, which may limit DEN's ability to monetise these areas wherein lies more than 50% of its subscriber base. Possible entry of Reliance Jio into the cable TV industry may also disrupt the MSO segment.

Stiff competition in broadband segment from telecom players; expansion plans require funding over medium term- DEN's presence in the broadband space has primarily remained concentrated to Delhi. Though the company launched its services in 20 small towns in FY2018 and announced plans to expand to 100 cities (across 11 states) over next 12 months, returns from the new markets are expected to start accruing after 9-12 months. In the meanwhile, the segment would continue to require funding support for expansion, deeper penetration in existing markets and technological up-gradations. Increase in external borrowings for the same could moderate the financial flexibility of the company over the medium term. Furthermore, the broadband ARPUs have seen QoQ de-growth since Q2 FY2017, due to stiff completion from other telecom players, as the low end-users shift to wireless service providers due to competitive pricing.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Outlook and Rating Watch
Approach for Financial Ratio Analysis

About the company

DEN is one of the largest national MSOs in India involved in the distribution of analogue and digital cable-television services. Having commenced operations in FY2007-FY2008, DEN reached the landmark of 13 million subscribers in FY2014. The company reached 11.2-million digital-cable subscribers by December 31, 2017, i.e. 86% of its total subscriber base. DEN's geographical footprint spans 250+ cities across 13 key states across India including Delhi, Uttar Pradesh, Karnataka, Maharashtra, Gujarat, Rajasthan, Haryana, Kerala, West Bengal, Jharkhand and Bihar. The company has significant presence in the strategic and economically important Hindi-speaking markets (HSM) belt. Besides cable-television services, DEN has an all-India Internet Service Provider (ISP) licence for broadband internet services. By the end of 9M FY2018, the company had achieved 0.9-million homes pass and a base of 0.21-million subscribers.

In 9M FY2018, the company reported a net loss of Rs. 6.6 crore on an operating income of Rs. 970.1 crore, as compared to a net loss of Rs. 127.4 crore on an operating income of Rs. 840.2 crore in 9M FY2017.

Key financial indicators (Audited)

DEN Consolidated	FY 2016	FY 2017	9M FY2018*
Operating Income (Rs. crore)	947.5	1157.3	970.1
PAT (Rs. crore)	-431.3	-189.6	-6.6
OPBDIT/ OI (%)	-11.8%	15.5%	22.8%
RoCE (%)	-16.3%	-5.7%	-
Total Debt/ TNW (times)	0.8	0.5	0.6
Total Debt/ OPBDIT (times)	-7.6	2.8	2.2
Interest Coverage (times)	-1.4	2.7	4.7
NWC/ OI (%)	-20%	-17%	-

* Source: Company Q3 FY2018 interim results and investor presentation
OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress); NWC: Net Working Capital (excludes cash and liquid investments)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2018	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Jan 2017/ Sep 2016	Date & Rating in FY2016 Feb 2016
1	Term Loans	Long Term	525.62	494.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	Cash Credit	Long Term	105.00	NA	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
3	Letter of Credit & Bank Guarantee	Short Term	15.00	NA	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
4	Unallocated Limits	Long Term/ Short Term	3.58	NA	**[ICRA]A (Stable)/A1**	**[ICRA]A (Stable)/A1**	**[ICRA]A- (Stable)/A2+**	**[ICRA]A- (Stable)/A2+**

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	Dec-2017	NA	Dec-2021	146.25	[ICRA]A(Stable)
NA	Term Loan 2	Mar-2018	NA	Mar-2022	100.00	[ICRA]A(Stable)
NA	Term Loan 3	Mar-2018	NA	Mar- 2023	151.25	[ICRA]A (Stable)
NA	Term Loan 4	Jun-2017	NA	Sep- 2018	21.92	[ICRA]A (Stable)
NA	Term Loan 5	Jun-2017	NA	Jul-2020	106.2	[ICRA]A (Stable)
NA	Cash Credit	NA	NA	-	105.00	[ICRA]A (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	-	15.00	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	3.58	[ICRA]A(Stable)/A1

Source: DEN Networks Limited

Corrigendum

Document dated May 9, 2018 has been corrected with revisions as detailed below:

a) Changes made on page number 3 under the sub-heading – "Muted debt-coverage metrics with significant debt repayments over next two to three years". The revision entails change in the wordings of the paragraph relating to rationale for improvement in DSCR, along with incremental financial data relating to cash accruals and ear-marked amounts available at the end of 9M FY2018.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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