

Rating Rationale
Dish Media Network Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	1,253.00	CARE-NP BBB [Triple B]	Reaffirmed
Short Term Bank Facilities	850.00	CARE-NP A3 [A Three]	Reaffirmed
Issuer Rating	NA	CARE-NP BBB (Is)* [Triple B (Issuer)]	Reaffirmed
Total Facilities	2,103.00		

*The issuer rating is subject to the company maintaining overall gearing not exceeding 1.60x at the end of FY21.

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed ‘CARE-NP BBB (Is)’ rating assigned to Dish Media Network Limited (DMNL) and also has reaffirmed rating of ‘CARE-NP BBB’ assigned to the long-term bank facilities and ‘CARE-NP A3’ assigned to the short-term bank facilities of DMNL.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dish Media Network Limited (DMNL) derives strength from its track record of operations and strong brand presence in direct-to-home (DTH) service, experienced board and management team, financial and technical supports from promoters, moderate financial risk profile marked by growing scale of operations, comfortable profitability margins & debt service coverage indicators and moderate capital structure, expansion of service coverage with internet service and latest technology to increase outreach. The ratings, however, are constrained by exposure to foreign exchange fluctuation risk, competition in Industry, high capital and technology intensive industry, working capital intensive nature of operations and competitive nature of industry.

Ability of the company to manage the growth while increasing its customer base while maintaining its profitability margins, managing the technological upgradation without having negative impact on capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strength

Track record of operation and strong brand presence in DTH service

DMNL is operating since last 11 years and is the leading direct-to-home (DTH) service operator in Nepal. The company presently has around 1.03 Mn active customer base as on mid-January 2021. DMNL is also continuously increasing number of channels with more High Definition (HD) content, where the number of channels offered as on January 2021 has reached to 207 channels with channels with 58HD and 149SD.

DMNL also started developing its own content and is currently telecasting 16 own channels which are not available on other networks. Also, DMNL has launched Over-The- Top (OTT) services with an App called "DishHome Go" with 70 premium linear channels in live network.

Experienced board & management team

DMNL has five experienced directors on its board lead by Mr. Hem Raj Dhakal who is chairman of company. Mr. Dhakal is Managing Director of IME Group of Companies, chairman of IME General Insurance Ltd., Hathway Investment Nepal Ltd. and director of Chandragiri Hills Pvt. Ltd. The day to day operations of the company is headed by Mr. Sudeep Acharya, managing director of the company and is also the chairman of Kamana Sewa Bikas Bank Ltd. He is assisted by an experienced team across various functions.

Financial and technical supports from promoter and promoter's group companies

Sandmartin International Holdings Limited, Hong Kong (SMIHL, major shareholder of DMNL) has been supporting the company in terms of technological know-how, developing systems & processes and financially. SMIHL along with its group companies keep funding for the growth of DMNL through various debt facilities during the initial year of operations. SMIHL also infused equity over the years for the growth of the company.

Growth in Subscription revenue with increase in ARPU leading to increase in revenue

During FY20, DMNL's active subscriber base has grown by around 4.40% resulting in increase in subscription revenue by 24.49% to Rs. 4,452 Mn. Also, other income increased by 12.77% to Rs. 21 Mn (FY19: 18 Mn). Growth in revenue was also supported by increase in Average Revenue per Unit (ARPU) which increased by around 0.76% and stood at Rs. 415.81 for FY20. The ability of the company to retain the acquired customers, thereby reducing churn through competitive pricing and content offering while maintaining its profitability would be key to its future prospects.

Moderate financial risk profile and debt coverage indicators

The financial risk profile of the company stood moderate in FY20 marked by growing scale of operations, moderate profitability margins, capital structure and debt service coverage indicators. Company achieved the total revenue of Rs 5,133 Mn (20.68% Y-o-Y growth) during FY20 due to increase in the active customer base. Despite the growth in total operating income, PBILDT margin moderated from 40.34% in FY19 to 39.99% in FY20. The company faces stiff competition from established Internet Service Provider and hence the company's strategize to increase the market share, the company did not increase its prices in tandem with the increase in cost of sales. Moderation in PBIDLT margin also had impact in PAT Margin which also shows negative trend. Though, profitability margin was moderated it continued to remain at moderate levels.

The total debt of the company declined from Rs 2,923 Mn in FY19 to Rs2,245 Mn in FY20 due to scheduled repayment of its loan term liabilities and lower utilization of working capital borrowings. The

overall gearing for the company stood at 0.98x at the end of FY20 as compared with 1.53x over previous balance sheet date. Apart from reduction in debt levels, accretion of profit in the net worth also led to improvement in overall gearing.

Other coverage indicators of the company including total debt to GCA and Interest coverage ratios stood satisfactory at 1.38x and 12.36x for FY20 respectively (PY: 2.11x and 12.65x respectively).

Expansion of the service coverage with internet service

Dish media is the only DTH service provider in Nepal. Dish Home is planning to expand its coverage by providing internet service in Nepal via satellite and fiber in future. DMNL also has received the ISP (Internet Service Provider) license on February 25, 2020. The company will provide the internet service in remote places through VSAT Technology whereas in city and suburban areas the internet will be propagated by optical cables.

Latest technology and capacities to increase outreach

DMNL has its own broadcast and technical operations team for acquisition, compression, encryption and delivery of national & international HD and SD Channels from different satellites to the customer through DTH technology. DMNL was operating with 3 transponder of 108 MHz each in 2014, and after the addition over the years, the company has been operating with 4.5 transponder of 486MHz capacity as on March 2021.

Key Rating Weakness

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The company has to invest huge amounts on customer premises equipment (CPE) and other accessories. The company imports antenna and CPEs mainly from China which is backed by Letter of credit having usance period upto 360 days However, the full recovery of the same from the customers takes around two years. All this resultant into high reliance on working capital. During FY20, DMNL had inventory holding period of 50 days and average collection period of 24 days. The overall operating cycle during FY20 stood at 42 days which reduced from 61 days in FY19 on account of increase in average payable period to 31 days in FY20 (21 days for FY19). Accordingly, its average utilization of working capital limit was moderate at around 60% during the last 12 months ended on Mid July 2020.

Exposed to foreign exchange fluctuation risk and incurred losses during FY19

The customer Premises Equipment (CPEs) installed at the subscribers' premise are majorly imported from China The procurement of CPEs which is positively co-related with the growth in subscriber base has led to large outflow of forex. With initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in

exchange rates. The company is not hedging its foreign currency payables which still exposes the company to any sharp depreciation in the value of Nepalese rupee. During FY20, DMNL incurred foreign exchange loss of Rs. 158.42 Mn. The total loan amount in foreign currency as on July 15 2020 is Rs. 1203.77 Mn.

Competition in Industry

DMNL is the leading DTH Services company operating in Nepal but with increase in digitalization, number of digital media has grown significantly. Similarly, established Internet Service Providers launching the IPTV services has further added the competition for DMNL. Various other competitors with different platform are providing the same services through Multi System Operator (MSO), IPTV and Digital Video Broadcasting (DVB –T2). Going forward, the proliferation of Over-The-Top (OTT) platforms due to availability of internet access at cheaper rates and growing penetration of smartphone and Smart TVs segment is also expected to add competitive pressure in the industry.

High capital and technology intensive industry

It is an inherent nature of DTH industry which requires high capital investments and long gestation period necessitating substantial funding support. Owing to capital intensive nature of industry, there is huge requirements of funds for upgradation of existing infrastructure by way of procurement of latest technology assets to increase the scope of services. Moreover, these services also require large investments to support the growth in scale of operations. Furthermore, as the needs of the market evolve, it is important that DTH operators are agile enough to update the same.

About the Company

Dish Media Network Limited (DMNL) is Nepal’s leading Direct-to-Home (DTH) service provider incorporated in 2010 after merger of two DTH provider namely Satellite Channel Pvt. Ltd. and Dish Media Network Pvt. Ltd.; and later converted to public limited on July 2, 2017. DMNL has presence all over Nepal with 85 number of dealers, more than 3500 number of sub dealer and 1300 plus service franchises. Sandmartin International Holding Limited, is the major shareholder of the company which holds 47% in DMNL.

Brief Financial Performance during last 3 years:

(Rs. In Million)

Particulars	FY18 (A)	FY19 (A)	FY20(A)
Income from Operations	3,950	4,253	5,133
PBILD margin	47.53	40.34	39.99
Interest Coverage (times)	15.88	12.65	12.36
Overall Gearing (times)	2.00	1.53	0.98
Current Ratio (times)	0.39	0.43	0.62

Total Debt to GCA (times)	2.28	2.11	1.38
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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of Facility	Amount (Rs. Million)	Rating Assigned
Long Term Bank Facilities	Term Loan	1,253.00	CARE-NP BBB
Short Term Bank Facilities	Letter of Credit	700	CARE-NP A3
Short Term Bank Facilities	Overdraft	150.00	CARE-NP A3
Total		2,103.00	