

Rating Rationale
Dish Media Network Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	448.42	CARE-NP BBB [Triple B]	Assigned
Short Term Bank Facilities	1,780.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	2,228.42		

Details of Facilities in Annexure 1

CRNL has assigned Rating of ‘CARE-NP BBB’ to the long term bank facilities and ‘CARE-NP A3’ to the short term bank facilities of Dish Media Network Limited (DMNL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dish Media Network Limited (DMNL) derives strength from track record of operations and strong brand presence in direct-to-home (DTH) service, experienced board and management team, financial and technical supports from promoter and promoter's group companies, growth in subscription revenue with increase in average revenue per unit (ARPU) during FY18 (refers to 12 month period ended mid-July 2018), comfortable financial risk profile and debt service coverage indicators 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, and working capital intensive nature of operations.

Ability of the company to manage the growth and maintain profitability margins without deterioration in its financial risk profile 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 from last 8 years and is the leading direct-to-home (DTH) service operator in Nepal. The company presently has around 1 Mn active customer base as on mid-October 2018. DMNL also continuously increasing number of channels with more High Definition (HD) content, where the number of channels offered has reached to 175 channels with 40HD and 135SD (Standard Definition). DMNL has also started developing its own content and is currently telecasting 12 exclusive channels which are not available in other networks.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

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.

Growth in Subscription revenue with increase in ARPU

DMNL has grown to be Nepal's largest digitalization service provided through DTH service. During FY18, DMNL's active subscriber base has grown by 60% resulting in increase in subscription revenue by 27% and increase in sales of customer premises equipment (CPE) by 113%. DMNL also achieved growth in Average Revenue Per Unit (ARPU) which was Rs.407.60 as on October 17, 2018, up from Rs.397.25 as on July 16, 2018. DMNL has managed to maintain its market share in Nepal and also increase its subscription revenues in the past. 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.

Comfortable financial risk profile and debt coverage indicators

The financial risk profile of the company is comfortable with increase in scale of operations and cash accruals during FY18. Total revenue of the company increased to Rs.3950 Mn during FY18 (46% growth Y-o-Y) on back of increase in the customer base. The PBILDT of the company has increased by 42% in FY18 followed by increase in total revenue as compared to FY17. Higher PBILDT leads to healthy interest coverage ratio of 15.88x during FY18. The total debt to GCA was comfortable at 2.28x at the end of FY18. With the continuous improvement in the PAT of the company and infusion of equity, tangible networth of DMNL becomes positive at the end of FY18 from earlier being negative. The overall gearing ratio of the company was moderate at 2.02x as on July 16, 2018.

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

Sandmartin International Holdings Limited, Bermuda (SMIHL, major shareholder of DMNL) have 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 to for the growth of the company.

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 have two RF teleports for transmission of signal to satellite (AMOS-4). The satellite has Nepal beam whose footmark covers all over the country i.e. 77 districts of Nepal. Till October 2014, DMNL was operating with 3 transponders of 108 MHz each and during 2016 and 2018, the company added half transponder (i.e. 54 MHz) and one transponder respectively. Currently it has 4.5 transponder of 486MHz capacity.

Key Rating Weakness

Exposed to foreign exchange fluctuation risk and incurred losses during FY18

The CPEs installed at the subscribers' premise are majorly imported from China. The procurement of CPEs which is co-related with the growth in subscriber base of the company has led to large outflow of forex. DMNL doesn't not have any earnings in foreign currency and the company also not hedges its foreign exchange exposure which led to foreign exchange loss of Rs.127 Mn during FY18.

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. 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. This coupled with longer payback period, intense competition, funding pattern of the CPEs and high overheads resulted in significant losses in initial few years leading to negative reserve and surplus, though operating

since last 8 years. DMNL still have negative reserve & surplus of Rs.167 Mn during FY18. However, the same has been improving over the period with the improved financial performance and PAT of the company. Till the end of FY17, the tangible networth of DMNL was negative. With the reduction in the negative reserve & surplus on back of accretion of the profits and infusion of share capital of Rs.1160 Mn by the promoters during FY18, the tangible networth of the company was Rs.1696 Mn at the end of FY18.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The company has to invest huge amounts in customer premises equipment (CPE) and other accessories. Generally DMNL imports CPEs and the payments have to be made in three months to one year of the purchase. However, the full recovery of the same from the customers took more than one year based on the past trends due to which reliance on working capital limits including liabilities against the letter of Credit remains high. During FY18, DMNL has inventory turnover of 68 days and debtors turnover of 21 days. The average month end working capital utilization of the company for last 12 months ending Dec 2018 was around 58%.

About the Company

Dish Media Network Limited (DMNL) is Nepal's leading Direct-to-Home (DTH) service provider with active customer base of around 1 Million as of Mid-October 2018. DMNL was 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 72 number of dealers, more than 2500 number of sub dealer and 1200 plus service franchises. Sandmartin International Holdings Limited, Bermuda, is the major shareholder of the company which holds 47% in DMNL.

Brief Financial Performance during last 3 years:

(Rs. In Million)

Particulars	FY16 (A)	FY17 (A)	FY18 (A)
Income from Operations	1,807	2,704	3,950
PBILDT	808	1,320	1,877
PAT	261	471	609
Overall Gearing (times)	NM*	NM	2.02
Interest coverage (times)	10.12	11.10	15.88

* Not Meaningful

Analyst Contact

Mr. Giri Raj Kandel

giriraj.kandel@careratingsnepal.com

Tel No.: +977-01-4232610

Relationship Contact

Mr. Sajan Goyal

sajan.goyal@careratingsnepal.com

Tel No.: 9818832909/+977-01-4233436

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	448.42	CARE-NP BBB
Short Term Bank Facilities	Letter of Credit	1280.00	CARE-NP A3
Short Term Bank Facilities	Bank Guarantee	20.00	CARE-NP A3
Short Term Bank Facilities	Overdraft	155.00	CARE-NP A3
Short Term Bank Facilities	Term Loan	325.00	CARE-NP A3
Total		2,228.42	