

Dish Media Network Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Issuer Rating	NA	CARE-NP BBB (Is)* [Triple B (Issuer)]	Reaffirmed
Long term Bank Facilities	1,129.90 (Decreased from Rs. 1,253.00)	CARE-NP BBB [Triple B]	Reaffirmed
Short term Bank Facilities	2,750.00 (Increased from Rs. 850.00)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	3,879.90		

* The issuer rating is subject to overall gearing ratio of the company not exceeding 1.60x at the end of FY22.
Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed issuer rating of 'CARE-NP BBB (Is)' assigned to Dish Media Network Limited (DMNL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry moderate credit risk.

CRNL has also 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 DMNL continue to derive strength from its established 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, average financial risk profile with moderate profitability margins & debt service coverage indicators and capital structure, and latest technology to increase outreach. The ratings also factor in expansion of service coverage with foray into internet service.

The ratings, however, are constrained by working capital intensive nature of operations, high capital and technology intensive industry, exposure to foreign exchange fluctuation risk, and competitive nature of industry. The ratings also factor in decline in subscription revenue during FY21 (Audited, refers to the twelve-month period ended mid-July 2021), albeit with increase in Average Revenue Per Unit (ARPU) backed by ongoing digitalization. The ratings also take cognizance of the increase in capital expenditure, particularly related to the internet business, coupled with the associated project implementation and stabilization risk.

Going forward, the ability of the company to manage the growth in revenues with increase in customer base while improving its profitability margins, managing the technological upgradation and capital expenditure without having material negative impact on its capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Track record of operations and strong brand presence in DTH service

DMNL has been operational since 2010 and is the leading direct-to-home (DTH) service operator in Nepal. The company had around 0.97 Mn active customer base as on mid-April 2022. DMNL has also continuously increased number of channels with more High Definition (HD) content, where the number of channels offered has reached to 207 with 61 HD and 146 SD channels. DMNL has also started developing its own content and is currently telecasting 21 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 100 premium linear channels in live network.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Experienced board & management team

DMNL has six experienced directors on its board led 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. 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, who 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 have provided financial assistance for the growth of DMNL through various debt facilities during the initial year of operations. SMIHL has also infused equity over the years for the growth of the company.

Average financial risk profile with adequate debt coverage indicators

The financial risk profile of the company stood moderate in FY21 marked by decrease in total operating income in FY21, moderate profitability margins, capital structure and debt service coverage indicators. The company reported decline in Total Operating Income (TOI) by 4.14% to Rs 4,920 Mn during FY21 as compared to Rs 5,133 Mn in FY20 majorly due to decrease in the active customer base of DTH service, which has been impacted due to increasing customer preference for internet streaming and related digital TV platforms that are generally sold in a bundle by Internet Service Providers (ISPs). DMNL has launched its own ISP service in February 2020 and Income from the ISP business has been on a growing trend. Despite some moderation in income, PBILDT margin has remained generally stable at around 40% during the last 3 financial years (FY19-FY21). Similarly, PAT margin of the company remained stable and stood at around 9.30% in FY20 & FY21.

The debt equity ratio of the company stood moderate at 0.46x at the end of FY21 (FY20:0.41x). The slight moderation in debt equity ratio was on account of increase in term loan for the ongoing capex for ISP business. Going forward also, the gearing ratio is expected to be deteriorate due to capex plan of the company. Further, the company reported the overall gearing ratio of 0.96x during FY21 (FY20:0.91x). DMNL's debt service coverage ratios stood comfortable marked by Total Debt to Gross Cash Accruals (GCA) and interest coverage ratio at 2.29 times and 17.56 times for FY21

Expansion of the service coverage with internet service

Dish media is the only DTH service provider in Nepal with as established brand presence in the country for over a decade. DMNL has diversified into the ISP business by launching internet services under the Brand name Dish Home Fibernet in February 2020 with the latest and high-end technology equipment. DMNL has constructed 20 Mn Dense wave length-division multiplexing (DWDM) to increase the bandwidth of existing fiber networks in Kathmandu, Hetauda, Dhalkebar and 10 Mn DWDM in other major cities like Biratnagar, Butwal etc. DMNL has already constructed 130 PODs (Point of Distribution). For Transmission of Bandwidth, the company has leased NEA OPGW (Optical Ground Wire) core and Intranet (L-2 Links) from different ISPs. Further, the company is buying IP bandwidth internationally from AIRTEL and locally from different service providers majorly from Ncell. Foraying into ISP business, with a strong brand presence, is likely to help DMNL convert existing DTH customer base into ISP customer base, providing it an opportunity to rack up a substantial customer base in a short period of time, which augurs well for its business prospects over the medium term.

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 2022.

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 up to 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 FY21, DMNL had inventory holding period of 50 days (FY20:50 days). Average collection period increased to 43 days in FY21 from 24 days in FY20, mainly on account of increase in receivables from dealers, particularly due to increased sales towards the year end. Average creditor days was 51 days in FY21 (FY20: 31 days). The overall operating cycle during FY21 & FY20 was 42 days. Accordingly, DMNL's average utilization of working capital limit was moderate at around 60% of sanctioned limits during the last-month period ended mid-July 2022.

Decline in subscription revenue during FY21 however increase in ARPU backed by ongoing digitalization

During FY21, DMNL's active subscriber base has declined marginally by 1.02% amid increasing completion from ISPs, resulting in decrease in subscription revenue by 3% to Rs. 4,324 Mn. Sales of Customer Premises Equipment (CPE) by 30% to Rs. 431 Mn. However, the company reported Rs. 80 Mn revenue from its ISP business during FY21, which is likely to be on a sharp growth trajectory backed by a quickly increasing customer base. With DTH customer base on a declining trend, the company's current focus is on customer retention. Going forward, its financial performance will hinge on its ability to quickly grow its ISP customer base coupled with retention of the DTH business at a reasonable level. However, ARPU in DTH service increased to Rs. 450.07 during FY21 from Rs. 415.81 in FY20 amid increased offerings. 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.

Increased Capital expenditure with associated project implementation and stabilization risk

DMNL is in the midst of making huge capital expenditures to ramp up its ISP business, which is expected to be partly financed through debt and remaining through internal accruals. Furthermore, the ISP business is highly competitive with 57 licensed ISPs operating in Nepal with total subscriber base of 2.04 Mn as on Mid-March 2022. With the huge capex and the highly competitive market, the stabilization of the ISP business remains key to the company's growth going forward. Despite the expected high capex requirement, the company's credit metrics is likely to remain fairly steady with peak gearing levels of less than 1.6x. The ability of the company to withstand the increasingly competitive business environment in internet business and maintain low leverage profile despite higher capex plans remains critical from credit perspective.

Exposed to foreign exchange fluctuation risk and incurred losses in recent past

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 FY21, DMNL foreign exchange loss reported was Rs. 27.77 Mn. The total loan outstanding as on May 31, 2022 to be paid to the SMT is USD 7.02 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 IPTV services has further added to the competition. Various other competitors with different platforms 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 of Dish Media Network Limited (DMNL) during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	4,253	5,133	4,920
PBILD margin	40.34	39.99	39.60
Interest Coverage (times)	12.65	12.36	17.56
Overall Gearing (times)	1.47	0.91	0.96
Current Ratio (times)	0.31	0.45	0.41
Total Debt to GCA (times)	2.58	1.93	2.29

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,129.90	CARE-NP BBB
Short Term Bank Facilities	Overdraft/Demand loan	2,000.00	CARE-NP A3
Short Term Bank Facilities	Letter of credit	750.00	CARE-NP A3
Total		3,879.90	

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About CARE Ratings Nepal Limited:

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