

## Dish Media Network Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,434.50 (Increased from 1,129.90)	CARE-NP BBB- [Triple B Minus] (Credit watch with negative implications)	Revised from CARE-NP BBB and placed on Credit watch with negative implications
Short Term Bank Facilities	2,550.00 (Decreased from Rs. 2,750.00)	CARE-NP A3 [A Three] (Credit watch with negative implications)	Placed on Credit watch with negative implications
<b>Total Facilities</b>	<b>3,984.50</b> <b>[Three Thousand Nine Hundred Eighty Four And Five Hundred Thousand only]</b>		
Issuer Rating	NA	CARE-NP BBB- (Is) [Triple B Minus (Issuer Rating)] (Credit watch with negative implications)	Revised from CARE-NP BBB (Is) and placed on Credit watch with negative implications

\* The issuer rating is subject to overall gearing ratio of the company not exceeding 2.75x at the end of FY23.

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the issuer rating assigned to Dish Media Network Limited (DMNL) from 'CARE-NP BBB (Is)' to 'CARE-NP BBB- (Is)' and has placed the rating on credit watch with negative implications. 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 revised the rating assigned to long term bank facilities of DMNL from 'CARE-NP BBB' to 'CARE-NP BBB-' and has placed the rating on credit watch with negative implications. Also, CRNL has placed the rating of 'CARE-NP A3' assigned to the short-term bank facilities of DMNL on credit watch with negative implications.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to DMNL has been revised and placed on credit watch with negative implications factoring in the deterioration in the financial profile of DMNL during FY22 (Audited, refers to twelve-month period ended mid-July) marked by suppressed revenue base amid sharp decline in the company's DTH subscriber base coupled with its relatively high-cost structure. Additionally, the company's internet business, despite steep growth on a year-on-year basis, is marked by a considerably high fixed cost pertaining to the lumpy investments in the ISP business which is still in nascent stages. Consequently, the company's profitability margins declined substantially during FY22. Amid declining trend in the DTH business coupled with growing ISP business albeit with below par profitability margins in initial years of operations, the company blended profitability margins for FY23 are likely to remain suppressed considerably lower than the historically maintained healthy levels over FY19-FY21. Furthermore, given the highly capital-intensive nature of the ISP business, the gearing levels and debt coverage indicators of the company are expected to moderate in the near term due to drawl of fresh term debt for the ongoing/planned capital expenditure. The ratings factor in continuing requirement of technology industry for sustained capital expenditures to expand its network and customer base, thus creating pressures in the solvency and liquidity indicators, particularly in initial years of operations as the revenue ramp up is yet to happen as envisaged. The ratings, however, continue to derive strength from DMNL's established track record of operations and diversified streams of service, experienced board and management team with resourceful promoter group, moderate capital structure and debt service coverage indicators and latest technology to increase outreach. Despite the near-term deterioration in capital structure amid the need for high investments, the ratings continue to factor in positively the company's expansion of service coverage with foray into internet service, which is

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

expected to drive the business profile of the company in coming years. The ratings also take cognizance of the sustained increase in subscriber base and market share for internet business, a faster pace vis-à-vis peers. The ratings, however, continue to be 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.

*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 operation and diversified streams of services**

DMNL has been operational since 2010 and is the leading direct-to-home (DTH) service operator in Nepal. The company launched its own Internet Services under the brand name DishHome Fibernet in February 2020. With the acquisitions of TV and Internet business of two companies, Prabhu Digital Limited and SIMTV, the company has further diversified its operations towards digital TV and IPTV. DMNL offers wide range of services including DTH service along with accessories necessary for the service, Internet, IPTV and Digital TV services. The company had around 0.91 Mn active customer base as on mid-January 2023. DMNL currently offers 207 channels with 60 HD and 147 SD channels and is also telecasting 15 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 including 1000 plus Video on Demand (VOD) channels.

#### **Experienced board & management team**

DMNL has six experienced directors on its board led by Mr. Devi Prakash Bhattachan who is chairman of company. He is Chairman of multiple companies under Prabhu Group and former chairman of Prabhu Bank Limited [CARE-NP BBB]. Mr. Dhakal, Director 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 [CARE-NP BB+(Is)]. 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.

#### **Increase in subscriber base of internet business**

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 DishHome Fibernet in February 2020 with the latest and high-end technology equipment. DMNL has constructed Dense wave length-division multiplexing (DWDM) to increase the bandwidth of existing fiber networks in Kathmandu, Hetauda, Dhalkebar, Biratnagar, Butwal etc. As on Mid- April, 2023, DMNL's Point of Distribution (PODs) has increased to 158 from 130 as on Mid-April, 2022. 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. The subscriber base of internet business of DMNL is on increasing trend and has increased from 0.13 Mn at the end of FY22 to 0.20 Mn at the end of H1FY23. DMNL holds market share of 8.21% as on Mid- January, 2023. 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, Digital TV, IPTV and OTT platforms. The main station for DTH is located at Chyassikot, Bhaisepati and backup teleport is located at Dukuchhap, Lalitpur. The satellite has Nepal beam whose footmark covers all over the country i.e., 77 districts of Nepal. To prevent unauthorized viewing, contents are encrypted using conditional access system (CAS). The user community is managed with a SMS (subscriber management system), which interacts with the encryption system via CAS. DMNL is operating 4.5 transponder of 486MHz capacity as on Mid- April, 2023.

### **Average financial risk profile, albeit with some moderation during FY22**

The financial risk profile of the company stood moderate in FY22 marked by decrease in total operating income in FY22, declining profitability margins, moderate capital structure and debt service coverage indicators. Company reported decline in Total Operating Income (TOI) by 1.66% to Rs 4,839 Mn during FY22 (FY21: Rs 4,920 Mn) 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). However, the company has diversified its operation towards digital TV, IP TV and ISP business and the subscriber base for internet business is on growing trend resulting into increase of income from ISP business to Rs. 773 Mn during FY22 from Rs. 80 Mn during FY21. PBILDT margin of the company has decreased to around 17% in FY22 which was around 40% during the past 3 financial years (FY19-FY21). With the decrease in subscriber base of DTH service, although the charges related to satellite and content remains fixed coupled with higher bandwidth cost burden per internet subscriber led to lower margins during FY22. Lower margins coupled with high depreciation charges which increased to Rs. 1,714 Mn during FY22 (FY21: Rs. 1,226 Mn) has resulted into net loss of Rs. 842 Mn during FY22. However, the company has reported positive gross cash accruals of Rs. 831 Mn during FY22.

The overall gearing ratio of the company stood moderate at 1.48x at the end of FY22 (FY21:0.96x). The increase in overall gearing ratio was on account of increase in credit financing through LC payables for the ongoing capex related to expansion of ISP business. Going forward also, the gearing ratio is expected to be deteriorate due to capex plan of the company. DMNL's debt service coverage ratio, Total Debt to Gross Cash Accruals (GCA) and interest coverage ratio stood at 7.17 times and 29.91 times in FY22. However, the improvement in interest coverage ratio was mainly on account of capitalization of interest related to ongoing capital expenditure.

### **Key Rating Weakness**

#### **Substantial decline in subscriber base for DTH service**

During FY22, DMNL's active subscriber base for DTH service has declined marginally by 29% amid increasing competition from ISPs, resulting in decrease in subscription revenue from DTH service by 15% to Rs. 3,691 Mn (FY21: Rs. 4,324 Mn). Subscription revenue from DTH service decreased from 88% of total revenue of DMNL during FY21 to 76% of total revenue during FY21. However, the company's revenue from its ISP business increased to Rs. 773 during FY22 (FY21: Rs. 80 Mn), which accounted for 16% of total revenue during FY22 as compared to 2% during previous years. It is likely to be on a sharp growth trajectory backed by a quickly increasing customer base of ISP business. With DTH customer base on a declining trend, the company's current focus is on customer retention for DTH service. 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. 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.

**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 FY22, DMNL had inventory holding period of 45 days (FY21:50 days). Average collection period has decreased to 55 days in FY22 from 43 days in FY21, which is still high as compared to average of 20 days during the past 3 years (FY18-FY20) mainly on account of increase in receivables from dealers, particularly due to increased sales towards the year end. Average creditor days increased to 96 days in FY22 (FY21: 51 days) on account of increase in payables related to internet business. The overall operating cycle during FY20 & FY21 was 42 days, which was low at 4 days during FY22 but it was mainly due to increase in payables. Accordingly, DMNL's average utilization of working capital limit was around 80% of sanctioned limits during the last twelve months.

**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. DMNL has increased its gross block of assets by Rs. 5,651 Mn in FY22, partially through own capital expenditure for expansion of its network for internet business which was around Rs. 2,610 Mn and partially through the acquisition of assets of Prabhu Digital Limited and SIMTV. The same is likely to be continued going forward to ramp up its ISP business which is expected to be financed through the bank loan, and remaining through the credit financing, fresh equity infusion and internal accruals. 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 the key rating sensitivity.

**Exposed to foreign exchange fluctuation risk**

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 FY22, DMNL foreign exchange loss reported was Rs. 59 Mn. The total loan outstanding as on December 31, 2022 to be paid to the SMT is USD 4.55 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. Similarly, ISPs have been increasing significantly in the country with the surging demand for internet services. As on mid- January 2023, there were 62 licensed ISPs operating in Nepal with total internet subscriber base of around 2.53 million. The competitors for internet and related network service providers also include existing telecommunications companies planning to foray or increase their presence in this segment. Predatory pricing of any new entrant in this segment may also adversely impact market share and APRU levels thereby affecting the profitability margins of company.

## 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 75 number of dealers, more than 4,500 sub dealers, 14 service centers, 1,500 plus service franchises and 10,000 point of sales, 22 Local Cable Operators (LCOs) and 50 Local Cable Operators- Franchises across the country. Sandmartin International Holding Limited, is the major shareholder of the company which holds 33% in DMNL as on Mid- April, 2023.

Brief financial performance of Dish Media Network Limited (DMNL) during last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	5,133	4,920	4,839
PBILD margin	39.99	39.60	17.78
Interest Coverage (times)	12.36	17.56	29.91
Overall Gearing (times)	0.91	0.96	1.48
Current Ratio (times)	0.45	0.41	0.47
Total Debt to GCA (times)	1.93	2.29	7.17

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	1,434.50	CARE-NP BBB- and placed on credit watch with negative implications
Short Term Bank Facilities	Overdraft/Demand loan	50.00	CARE-NP A3 and placed on credit watch with negative implications
Short Term Bank Facilities	Letter of credit	2,500.00	CARE-NP A3 and placed on credit watch with negative implications
<b>Total</b>		<b>3,984.50</b>	

## Contact us

### Analyst Contact

Ms. Monika Rawal

Contact No.: +977-01-4012629

Email: [monika.rawal@careratingsnepal.com](mailto:monika.rawal@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

### Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

## About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited 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).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.