INDIAN MEDIA & ENTERTAINMENT INDUSTRY- TV DISTRIBUTION

Ground level challenges delay digitization benefits to MSOs and broadcasters..

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Key Highlights

The digitisation of the TV distribution industry, initiated in 2011, is yet to achieve its target of addressability and transparency in billing systems, which was expected to yield significant benefits to MSOs (multi system operators) and broadcasters. As MSOs struggle with last mile 'addressability' hurdles for its digitized customer base, the industry's ability to deliver customized/ value added content remains restricted. As a result, the expected benefits of higher subscription revenues for MSOs & broadcasters are yet to be achieved. The end consumers are also yet to benefit from targeted subscription packages, which were expected to optimize the user experience.

- **Implementation challenges and slow progress in Phase I and Phase II markets have restricted monetization for MSOs**
    - Addressability continues to remain a concern in Phase I and Phase II markets due to slow progress in Consumer Application Form (CAF) collections – effectively LCOs have retained their control over the subscriber base
    - Disputes in terms of sharing of entertainment tax liability between the LCOs and MSOs have restricted the implementation of gross billing and channel packages for most players in key markets such as Mumbai and Phase II areas
    - Average Revenue per User (ARPU) growth for MSOs remains constrained as collections continue largely on per subscriber basis and not on the basis of channel packages chosen
    - Price hikes, higher penetration of value added services, ability to segment the market by offering channel packages targeting niche requirements and HD channel packages remain key growth drivers for DTH players in Phase I and Phase II markets
- **Significant decline in carriage fee payouts from broadcasters unlikely in the near term**
    - While carriage fee payouts by large broadcasters is expected to remain stable; disbanding of channel aggregators has resulted in higher bargaining power of distributors (MSOs and DTH operators) with smaller broadcasters as well as new channels
    - New channel launches and wider audience measurement metrics (through inclusion of tier II and tier III markets) to keep carriage revenues buoyant for MSOs in the near term
- **Roll out of channel packages by MSOs remains crucial for driving ARPU growth and profitability as content costs increase**
    - Ability of MSOs and DTH players to command pricing power along the distribution value chain is essential for ARPU growth
    - Margins remain under pressure with increase in content costs with change in nature of deals with broadcasters for digital subscriber base while ARPU growth in these areas is moderate
    - Introduction of tiered channel packages (customised targeted pricing) by MSOs would be crucial to pass on higher content costs to subscribers

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- **DTH players and regional MSOs to take the lead in implementation of Phase III and Phase IV**
  - Extension of Deadline for Phase III and Phase IV markets provides adequate time for resolving ground issues as well as coverage for large subscriber base; however lower purchasing power and price sensitive nature of subscribers make investments less attractive
  - DTH players remain well positioned for tapping growth opportunities in Phase III and Phase IV markets due to inherent technology advantage and easier access to cable dark areas
- **Implications on Credit Metrics**
  - Longer than expected timelines in monetization opportunities, higher content costs for digitized areas coupled with ongoing investments for Phase III and IV would keep the return and coverage indicators of MSOs muted in near term
  - While a significant amount of equity funds supported the investments in Phase I and II markets for major MSOs, investments for penetrating Phase III and IV areas, broadband penetration as well as offering value added services (such as Video on Demand) may be largely funded through debt; correspondingly the borrowing levels are expected to remain high over the next two years while the profitability generation from digitized areas stabilize gradually
  - In spite of execution delays, in the longer term, digitization is expected to benefit MSOs/ DTH operators and broadcasters through greater customer wallet resulting in higher subscription revenues

Background

The Indian television industry is the second largest television market of the world, after China, with television penetration in the country exceeding 165 million households in 2014. Of these, more than 80 percent of the households availed paid cable and satellite television services with the balance comprising DD Direct subscribers. In the television distribution segment, DTH players buy content from broadcasters and supply directly to the end users. While, under a digitally addressable cable TV system (DAS), MSOs decrypt signals supplied by broadcasters via satellite and pass them onto LCOs, who act as local retailers offering last mile connectivity through set-top boxes (STBs). However, over the years, limited bandwidth availability and lack of subscriber addressability had resulted in the concentration of bargaining power with the LCOs providing last mile connectivity with the subscribers. The implementation of the DAS mandated by the MIB (Ministry of Information & Broadcasting) over four phases seeks to plug the gaps in the distribution value chain, improve subscriber addressability and improve content monetization for distributors with higher bandwidth availability.

MSOs gained higher market share in Phase I and Phase II markets; nonetheless, monetization remains slow in view of implementation challenges

Table 1: Implementation of Digital Cable Addressable System in India

Phase	Area	Analog Subscriber Base*	Digitized Subscriber Base*	Regulatory Direction for Analog Shutdown	Actual Implementation Date	Status
Phase I	4 metros – Mumbai, Delhi, Kolkata, Chennai	~1 million	~12 million	June 30, 2012	Oct 31, 2012 (Delhi and Mumbai); 15 Feb 2013 (Kolkata)	100% Complete (Except Chennai)
Phase II	38 cities with population > 1mn	~1 million	~22 million	March 31, 2013	Jan 01, 2014	Almost complete except for certain cities in Andhra Pradesh
Phase III	All other urban areas across India with a municipality	~14 -16 million	~16-18 million	Sep 30, 2014	Dec 31, 2015 (Planned)	Voluntary digitization taking place
Phase IV	Rest of India	~54 million	~19 million	Dec 31, 2014	Dec 31, 2016 (Planned)	

Source: ICRA Research **Note: *As on December 2014**

The migration to digital cable was completed in Phase I and Phase II markets (except Chennai) by December 2013 with the rollout of more than 25 million STBs in metros and 38 Indian cities with population exceeding 1 million, since then the number of digital subscribers in these markets has reached nearly 34 million. While analog signals have been discontinued in Mumbai, Delhi and Kolkata; migration to digital cable has remained voluntary in Chennai as Arasu Cable TV Corporation Limited, the largest cable operator in Chennai awaits the DAS (digital addressable system) license. Also, certain markets like Hyderabad and Coimbatore from Phase II are yet to report complete digitization on account of local issues.

The MSOs were able to retain a higher market share (relative to DTH operators) of nearly 75% of the 28 million STBs seeded in Phase I and Phase II markets; with close to 14.5 million STBs being seeded by the top three players- SIti Cable Network Limited (Siti Cable), Hathway Cable and Datacom Limited (Hathway) and Den Networks Limited (Den Networks). MSOs were able to tap on to the inherent advantage of digital transmission i.e. increased channel offering and better picture quality, provided at the existing cable charges, which helped them retain a major portion of their analog subscriber base.

Table 2: Select MSO-wise Subscriber Base

	Phase I		Phase II		Phase III/IV		Analog		Total Subscriber Universe	
In Million	**2013-14**	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**
Hathway	2.5	2.6	4.3	4.5	1.2	1.5	3.5	3.3	11.5	11.9
Den Networks	2.0	2.1	2.7	2.8	1.4	1.9	7.0	6.0	13.0	13.0
Siti Cable	2.2	2.3	1.5	1.6	0.3	1.5	6.0	5.1	10.0	10.5

Source: ICRA's Research

In line with a majority market share retained in Phase I and Phase II markets, MSOs reported healthy growth in activation income, contributing to as much as 27% of the revenues for Siti Cable and 16% for Den Networks in 2012-13. Activation income, however should be noted, by its very nature is lumpy and mirrors the quantum of STBs seeded by the company in a given year. Nonetheless, MSOs anticipated healthy annuity income from subscription revenues to start flowing in from 2014-15 onwards on the back of significant number of STBs seeded in the previous year, which in turn would help to partially mitigate the slow growth in activation income as deadlines for Phase III and Phase IV rollouts were deferred.

Chart 1: Revenue Profile-Select MSOs

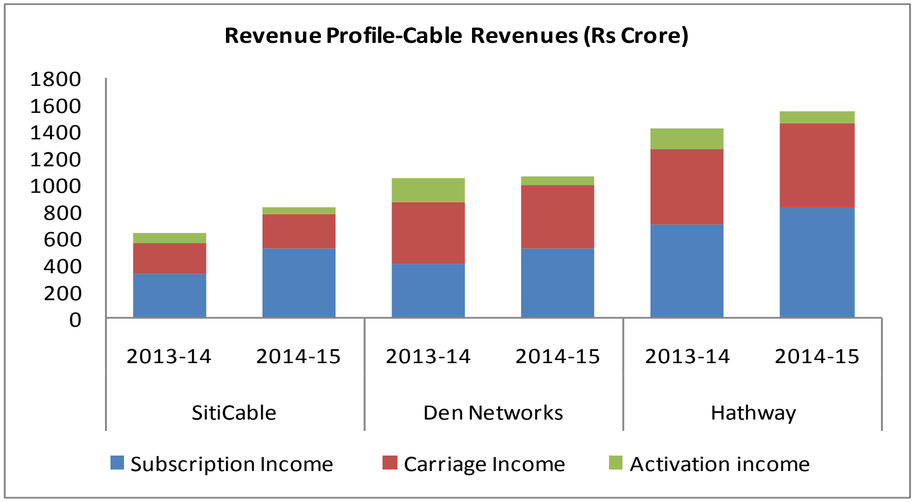
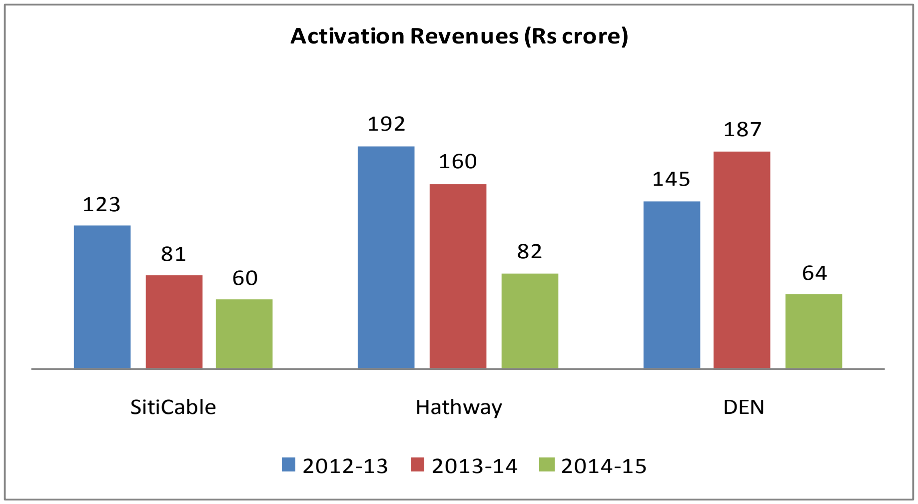


Chart 2: Activation Revenue-Select MSOs



Source: ICRA Research

However, implementation challenges in terms of delays in gross billing and launch of channel packages and inadequate subscriber addressability constrained growth in subscription revenues of MSOs during the last fiscal, even as activation revenues witnessed a steep decline. The implementation of gross billing[1] implies that MSOs would bill subscribers the chosen channel package rate plus entertainment and service taxes, with revenue share being passed to the LCOs. While gross billing commenced in Delhi and Kolkata in January 2014, it has been selectively rolled back by certain MSOs over the last year primarily on account of disputes in terms of sharing of entertainment tax liability between the LCOs and MSOs which has also restricted the implementation of gross billing in Mumbai. Moreover, Phase II markets also continue to operate on the net billing model. Analysts' discussions with industry players indicate that majority of the collections in Phase I markets still continue to be on net billing basis (except in the case of Siti Cable which has rolled out gross billing across Phase I markets). Subscriber addressability for majority of the players, even in digitised areas, also continues to remain disputed as customer data available remains largely unreliable. The fear of losing control over last mile connectivity and customer ownership has resulted in slow progress on CAF collections by LCOs and implementation of the Subscriber Management System by MSOs.

[1] Post collection of the CAF from subscribers, the MSOs and their LCOs have been mandated to provide bills including taxes to subscribers in Phase I cities, excluding Chennai, from December 2013 (for the November bill). As per the direction, the bills should be itemized, giving details of the name and price of channels in the package and also highlight the service and entertainment taxes levied. MSOs were also asked to ensure that a proper receipt is given by it or its LCO for every payment made by the subscriber.

On the other hand, despite garnering a relatively lower share in Phase I and Phase II markets, DTH players have over the last two years focussed on improving their ARPUs in these markets through value added service offerings (such as HD channels, unlimited recording, etc.). Correspondingly, the average DTH package prices have increased by 6-10% over the past 6-12 months paring with that of cable operators in Tier 1 cities.

Carriage income for MSOs expected to remain buoyant in the near term, supported by higher bargaining power of distributors (MSOs/ DTH operators) with the disbanding of channel aggregators with smaller/ new channels

Under the erstwhile analog regime, the LCOs retained a high proportion of subscription revenue (65-70%), with MSOs' share being restricted to 25-30% of the collections - bulk of which was eventually passed on to broadcasters, making MSOs heavily dependent on carriage income to stay profitable. Moreover, low bandwidth availability in analog regime and ability to carry limited number of channels had resulted in a higher bargaining power with MSOs thereby resulting in a carriage income dominated revenue profile. In 2012-13, carriage income accounted for 43%, 41% and 56% of the total revenues for Siti Cable, Hathway Datacom and Den Networks respectively while average contribution from subscription revenues remained below 30% for each of the players. Over the last two years, however, despite implementation challenges, sustained growth in subscription revenues has resulted in a more balanced revenue profile for MSOs driven by improved ARPUs in Phase I & II markets. Subscription revenues accounted for more than 40% of the total revenues of cable operators even though the carriage income has remained buoyant.

In the longer term however, with the complete rollout of digitization across the country, carriage fee payouts per channel from broadcasters are expected to decline with a better balance between the demand and availability of bandwidth. While distributors have witnessed 25-30% decline in carriage income from some of the traditionally high paying channels; overall carriage income for distributors has remained buoyant driven by new channel launches, inclusion of tier II and tier III markets in audience measurement metrics and disbanding of channel aggregators. Higher bandwidth availability has driven broadcasters to launch new channels in a bid to fill gaps in their respective channel bouquets with key focus on the niche channel segment and distributors continue to command a premium on such new channel launches.

The broadcasters share in the advertising revenue pie in the media industry is directly derived from its market position and reach. The change in audience measurement metrics and inclusion of rural households has resulted in higher carriage fee payouts by select broadcasters to ensure that their channels reach the target households.

The disbanding of channel aggregators has further helped sustain carriage revenues for distributors. The content aggregation space was primarily dominated by the presence of three to four large players, distributing 140 of the 239 pay channels offered by broadcasters, i.e. ~59% of the total inventory. By the virtue of a dominant market share, content aggregators have over the years pushed several channels with low standalone market values (from small broadcasters) across distribution platforms, with the consumers given unwanted channels bundled in their subscriptions. While the disbanding of channel aggregators is not expected to have any significant impact on carriage income from well established large scale broadcasters; incremental carriage income from smaller broadcasters (which were earlier being bundled with popular channels) remains a positive for distributors.

Thus, in the near term, a better balance in revenue profile is envisaged for MSOs driven by increase in subscription income which in turn is dependent on the efficient and timely collection of CAFs, implementation of the gross billing system and activation income from Phase III subscribers. Carriage income is likely to remain buoyant driven by new channel launches and change in audience measurement metrics.

Chart 3: Quarterly Trend in Revenue Profile-Siti Cable

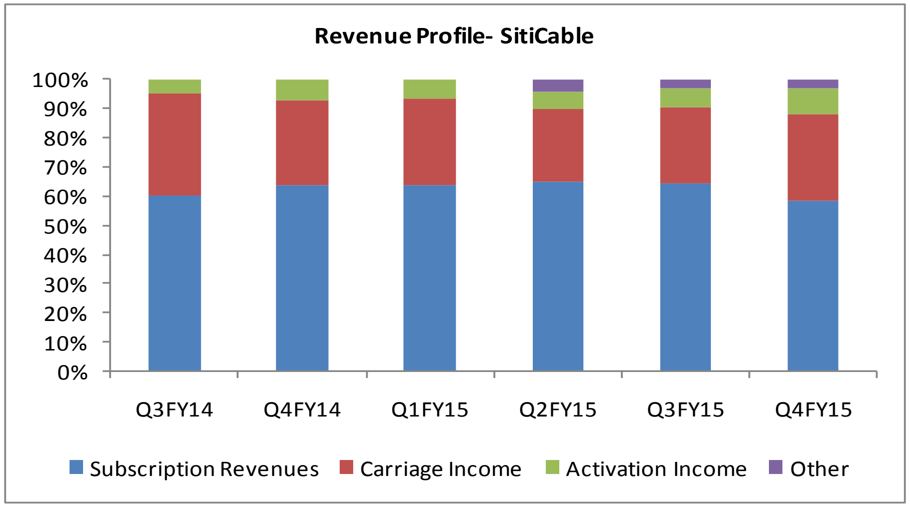


Chart 4: Quarterly Trend in Revenue Profile-Hathway

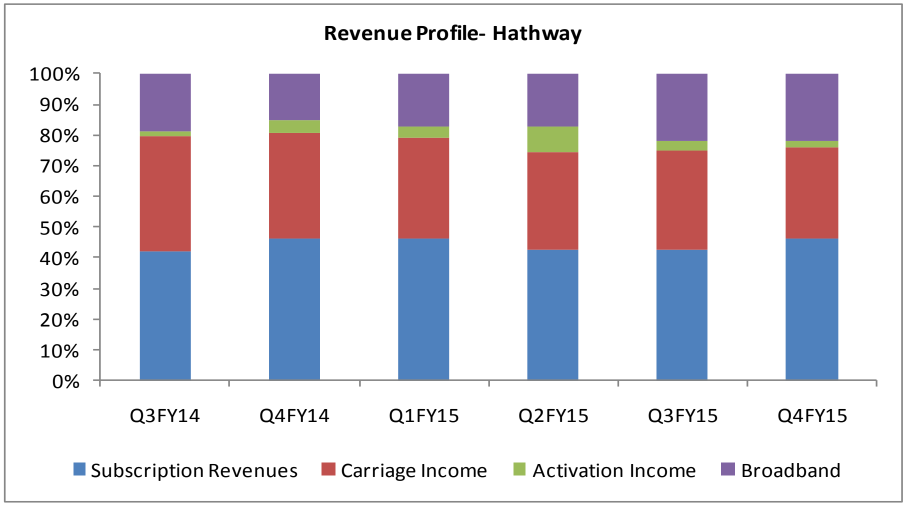


Chart 5: Quarterly Trend in Revenue Profile- Den Networks

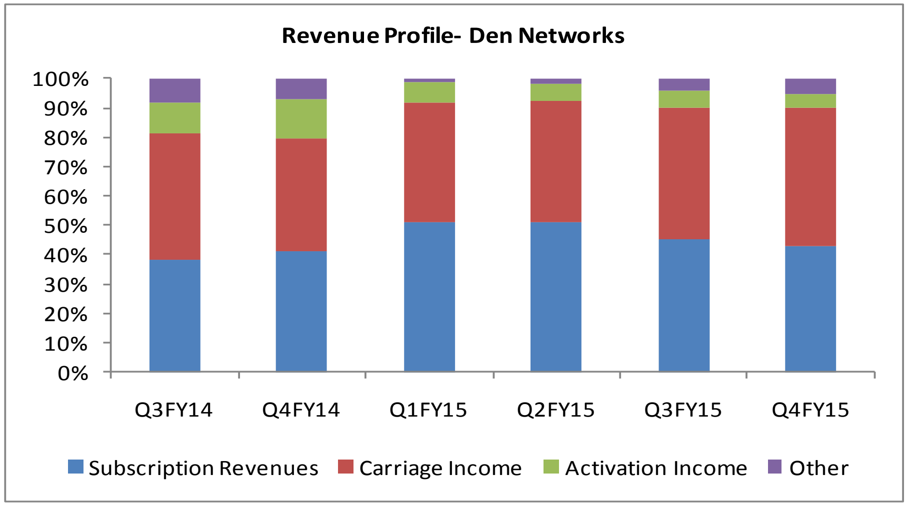
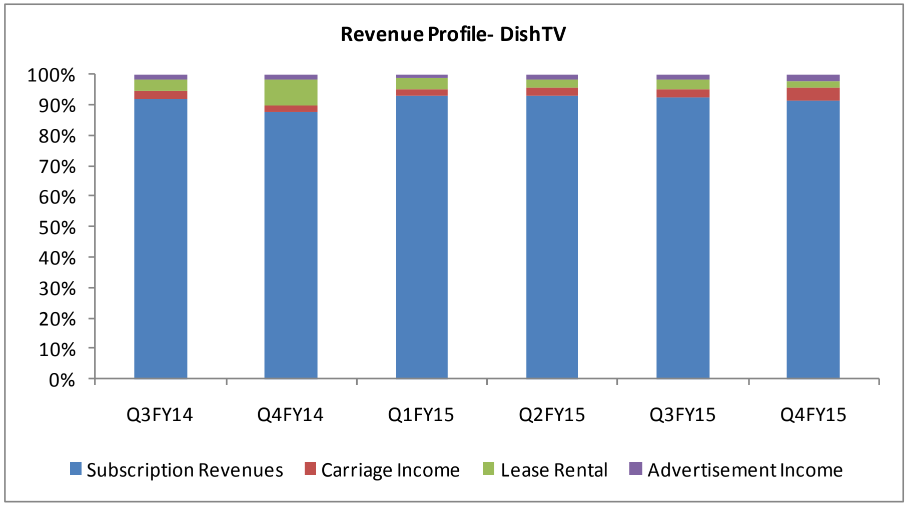


Chart 6: Quarterly Trend in Revenue Profile-DishTV

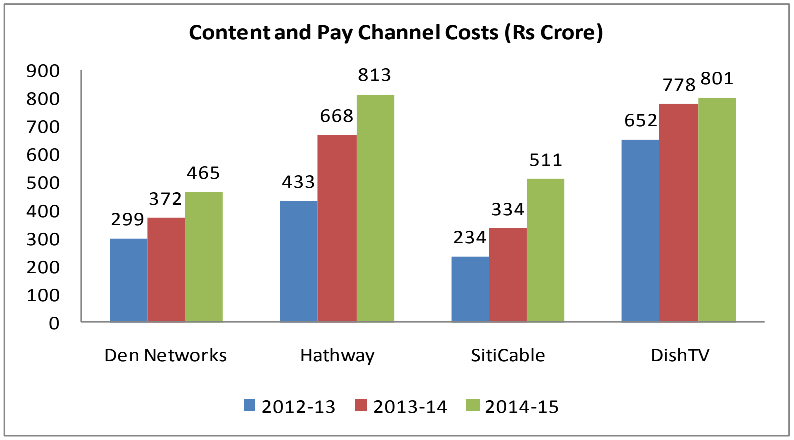


Source: ICRA Research

Roll out of channel packages by MSOs remains crucial for driving ARPU growth and profitability as content costs increase

The television distribution business is essentially fixed cost intensive, whereby MSOs and DTH operators incur lump sum expenditure for content costs pertaining to channel distribution in a particular territory. While traditionally, industry players have been entering into block deals with broadcasters for acquired content, the nature of agreements have varied from gross fee payouts to net (of carriage income) fee payouts. The lack of subscriber addressability under the analog cable regime necessitated such block deals to protect the interests of broadcasters. Moreover, as collections by MSOs were also on a lumpsum basis, fixed payouts to broadcasters provided adequate earnings visibility for MSOs. However, it should be noted that such deals were negotiated strictly on the basis of bargaining power enjoyed by the MSO vis-a-vis broadcasters and had no linkages with the content costs. However, with the effective rollout of digital cable and improved subscriber addressability, the cost structures of cable operators are expected to change going forward as broadcasters start billing operators for content cost per subscriber.

Chart 7: Trend in Content and Pay Channel Cost for Select Players



Source: ICRA Research

In this direction, the introduction of Reference Interconnection Offer (RIO)[2] and Cost Per Subscriber (CPS) by some of the larger networks for Phase I and Phase II markets, which replaced the bilateral deals between the broadcasters and the MSO platforms on fixed fee basis over 2014-15 coupled with annual price hikes resulted in an average increase of nearly 33% in content cost payouts by MSOs (refer Table 3). Although there is significant difference in the per sub content cost as well as per sub carriage income for various MSOs, this is a function of the markets they operate in and the size of digital subscriber base.

Thus, while most of the content and placement costs payable to larger networks are now being borne by the operator linked to subscriber base; the collections, however, continue on a lumpsum basis, thereby constraining margins of distributors. In this context, the introduction and effective implementation of channel packages by MSOs across the markets becomes crucial to ensure net ARPU growth going forward and thus, their ability to improve margins.

Table 3: Per Subscriber Revenue and Cost Metrics (Consolidated) for Select Players

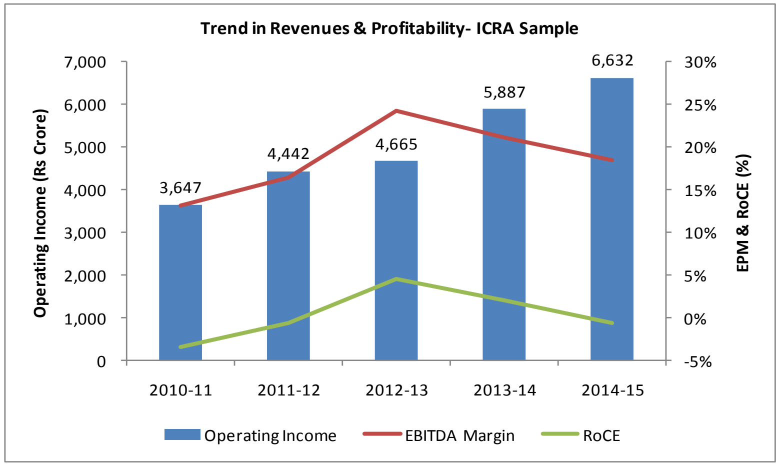
	Hathway		Den Networks		SitiCable	
	2013-14	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**
No. of Subscribers (Mn)	11.5	11.8	13.0	13.0	10.0	10.5
Content Costs (Rs Crore)	668.0	813.1	371.7	464.5	213.3	332.7
Content Cost/Subs (Rs)	580.8	689.1	285.9	357.3	213.3	316.9
Content Cost/Subs/Mth (Rs)	48	57	24	30	18	26
Carriage Income (Rs Crore)	570.0	626.9	465.2	474.0	227.1	249.0
Carriage Income/Subs (Rs)	495.7	531.3	357.8	364.6	227.1	237.1
Carriage Income/Subs/Mth (Rs)	41	44	30	30	19	20
Net Income/(Cost)	**(7)**	**(13)**	**6**	**1**	**1**	**(7)**

Source: ICRA Research

[2] RIO refers to the broad technical and commercial terms and conditions in line with the Telecommunication (Broadcasting and Cable Services) Interconnection (Digital Addressable Cable Television Systems) Regulations Act 2012 and approved by the Regulator, which an MSO needs to sign and follow in order to avail signals from the particular broadcaster. While RIO deals are structured channel-wise or bouquet of channels; under CPS, the content costs are payable on a per subscriber basis for a channel/ network subscribed.

In spite of execution delays, in the longer term, digitization is expected to benefit MSOs/ DTH operators and broadcasters through greater customer access; nonetheless, credit profiles unlikely to improve significantly on account of debt funded capex plans

Chart 8: Trend in Revenue & Profitability- ICRA Sample



Source: ICRA Research

As evident from Chart 8, the growth rate in operating income of ICRA sample increased sharply during 2013-14 largely on account of activation revenues. The revenue growth rate for ICRA sample for 2012-13 appears muted despite higher activation revenues in that year on account of changes in accounting policy of Den Networks. The consolidation of Media Pro (erstwhile Star-Den financials) with Den Networks was on gross basis till 2011-12, which were consolidated on net basis in 2012-13. The EBITDA margin of the sample improved during 2011-12 benefitting from higher activation revenues, but moderated in following years on account of rising content costs (especially in 2014-15) that could not be passed on to customers.

Going forward, industry players are expected to witness sustained growth in subscription revenues and increased penetration of value added services (such as High Definition (HD) channels and Video on Demand) in a digitized markets. As the industry progresses into the last two phases of digitization, an uptick in activation revenues is also expected during next eighteen months. This, coupled with the scale up in the broadband business segment as operators continue to make incremental investments towards higher penetration in digitized markets augurs well for the revenue growth going forward.

Also, over the medium term, monetization of investments from Phase I and Phase II markets is expected to pick up pace as MSOs look at achieving full addressability and implementation of gross billing in these markets. Additionally, the content costs for MSOs are also expected to increase as broadcasters migrate to per subscriber billing from the erstwhile block deals. The effective rollout of channel packages across markets and subscription revenue collection based on such packages is imperative to support the operating margins of distributors. Moreover, the ability of cable operators as well as DTH players to introduce innovative channel packages in Phase III and Phase IV markets with greater focus on regional content at competitive rates will remain crucial for supporting the margins of players in these markets. Nonetheless, longer gestation period for investments made in Phase III and Phase IV markets, due to the price sensitive subscriber base and low ARPU growth potential, is expected to keep the return indicators under pressure over the near term.

The television distribution industry is highly technology intensive with players exposed to risks of obsolescence and foreign currency fluctuations on imported equipments. The successful migration from the analog to the digital cable regime necessitated heavy investments in STBs by cable and DTH operators as well as an efficient supply chain to ensure timely procurement and seeding of STBs. The domestic supply of STBs has been unable to meet the sudden surge in demand from distributors. As a result, dependence on imported STBs increased during 2012-14 thereby making players vulnerable to foreign currency movements. Nevertheless, delay in deadline for Phase III and IV implementation (announced in August 2014) provides opportunity for sourcing indigenous STBs.

Over the last three years, Den Networks has invested nearly Rs 1,181.7 crore while Siti Cable has invested nearly Rs 607.5 crore towards installation of STBs. On an average, an STB has costed the MSO Rs 1000- 1,800 of which Rs 600-800 was recovered from the subscriber, resulting in a net capex of Rs 800-1,000 per STB funded by the MSO. Although there has been a reduction in STB prices gradually, the addressable market for activation remains price sensitive with higher subsidy levels for MSOs expected to continue. For DTH players, however, the investment per STB remains high in line with higher cost of equipment (including the dish) installed at customer premises.

Table 4: Capex per STB for Select Players

	Den Networks			Siti Cable			Dish TV		
	2012-13	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**
STB Capex (Rs Cr)	487.4	532.7	161.5	262.3	168.9	176.3	607.7	507.5	702.7
No. of STB seeded	3.1	2.9	1.0	2.4	1.6	1.4	2.0	2.0	2.1
Capex/STB	1,572	1,837	1,615	1,093	1,056	1,259	3,039	2,538	3,346

Source: ICRA Research

Table 5: Capital Expenditure and Funds Raised by Select Players

	Siti Cable			Hathway			Den Networks			DishTV		
Amount in Rs Crore	**2012-13**	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**	**2012-13**	**2013-14**	**2014-15**
Capex	379.7	485.3	294.7	468.0	837.2	440.8	531.2	584.0	316.8	698.3	298.9	706.4
Fresh Equity	81.0	243.0	218.9	3.7	247.7	446.6	6.8	934.3	0.3	4.3	0.3	3.5
Fresh Long Term Borrowings	572.0	460.9	289.4	387.0	669.8	230.6	279.6	417.5	166.7	507.1	431.7	770.4
Net Proceeds from LT Borrowings	567.9	324.4	133.4	326.8	420.3	(28.9)	277.9	260.7	(30.6)	354.6	(434.5)	55.7

Source: ICRA Research

With nearly 84 million cable and satellite television households having migrated to digital cable system, another 70 million are expected to follow suit over the next two years. While the rollout of digital cable in the first two phases has necessitated significant investments in infrastructure and STBs over the last three years, the monetization of the same has in effect remained slow due to on ground implementation challenges. Consequently, the credit profiles of industry players have not shown significant improvements over the last two years on account of weaker OPBITDA/ cash generation and significant debt funded capex undertaken in these markets. This said, select players have also raised substantial equity funding exceeding Rs 2,000 crore over the last three years, reiterating the confidence of investors in the digital cable TV business.

While a significant amount of equity funds supported the investments in Phase I and II markets for major MSOs, investments for penetrating Phase III and IV areas, broadband services as well as offering value added services are likely to be funded through debt; correspondingly the borrowing levels are expected to remain high over the next two years while the profitability generation from digitized areas stabilize.

The receivables cycle for distributors has over the last two years remained relatively stretched over four to five months period on account of delayed subscription revenue collections from local cable operators as well as extended credit period to broadcasters for carriage income. The rising working capital requirements have been funded through bank borrowings as well as supplier credit primarily from broadcasters towards content costs. While the players reported certain write-offs with respect to irrecoverable debts during the last fiscal, the industry is moving towards stricter credit norms. During Q1, 2015-16 certain players have taken disciplinary action selectively against defaulting cable operators by switching off signals and sending out notices. This, coupled with changing nature of deals between broadcasters and distributors is expected to result in faster collections, thereby supporting the operating liquidity of players going forward.

Sizeable subscriber penetration opportunity persists in Phase III and Phase IV markets; while DTH players enjoy an inherent technology advantage in cable dark areas, strategic JVs and inorganic growth to support MSO penetration in select markets

The Ministry of Information & Broadcasting (MIB) had extended the deadline for DAS rollout from December 2014 to December 2015 for Phase III markets and December 2016 for Phase IV markets. With nearly 70 million subscribers to cater to in these markets, the extension in deadline allows adequate time for operators to procure STBs and establish the required infrastructure like laying new cables and setting up digital headends to ensure a smooth rollout in these markets. Moreover, domestic supply of STBs is expected to increase with the Government providing tax incentives on STB manufacturing making indigenous STBs more price competitive with imported ones.

DTH is expected to gain in the rural markets (Phase III and Phase IV) primarily on the back of easier reach in the cable-dark areas. Moreover, incremental investments towards the establishment of infrastructure in the rural markets and relatively high operating costs render it commercially unviable for national MSOs to enter such markets. Nonetheless, in view of the large growth opportunity that exists in these markets, MSOs have opted for inorganic growth strategies. While several regional/local operators have been acquired by the national MSOs, some have also entered into strategic JVs to ensure healthy presence in Phase III and Phase IV markets. Going forward, further consolidation of fragmented local markets and cable operators is anticipated as digitization progresses.

The rural markets continue to remain cost sensitive; hence, MSOs and DTH players are also looking at introducing plain vanilla STBs specifically for these markets to encourage subscribers to migrate. In this direction, DIshTV launched a lower priced STB under the brand name of Zing, the base pack of which is typically 20% lower than a regular DishTV STB. Amongst other measures, distributors are also evaluating channel packages with focus on regional content. The media consumption in Phase III and Phase IV markets are driven by regional content and hence such packages are expected to help distributors further expand their subscriber universe in these markets.

Conclusion

The distribution segment, comprising MSOs and DTH providers, remains oligopolistic in nature marked by intense competition within the 7-8 national players such that no single player commands a majority share. Albeit MSOs retained a nearly 70% market share in Phase I and Phase II markets, as the industry progresses towards the Phase III and Phase IV deadlines, the market share dynamics between MSOs and DTH players are expected to change with an uptick in run rate for DTH operators (~20-25% market share in Phase I/II) as the industry progresses towards the Phase III and Phase IV deadlines which primarily comprise cable dark areas. The distributors (MSOs and DTH operators) have incurred significant capex over the last few years to support digitization initiatives, in spite of low cash accruals. At the industry aggregate levels, the coverage indicators have been contained, due to significant equity funding during Phase I and II of digitization. Going forward however, improved profitability would be critical to sustain the balance sheet structure of the distributors.

In the near term, the ability of MSOs to improve realizations in Phase I and Phase II markets is expected to be driven by improved subscriber accessibility and rollout of channel packages in these markets. Additionally, the revenue growth would also be supported by activation revenues from Phase III and IV markets, if the current deadlines are adhered to. Although content costs are expected to increase further, distributors who are able to align their revenues with the changing cost structures would be able to report improving profitability metrics. During this transition phase, the cash accruals of MSOs are expected to improve gradually while the investment requirements remain large. In addition to the investment requirements for Phase III and Phase IV markets, the capex outlay of players over the medium term will also be driven towards achieving higher broadband penetration in identified markets with bundling of services as well as improving penetration of value added services such as HD channels and

Video on Demand in digitized markets. Given the sizeable investment requirement and muted growth in cash accruals, the credit profile of MSOs may not improve significantly unless the challenges on ground reach a resolution in conjunction with adherence to deadlines for digitization.

In the longer term, digitization is expected to result in rationalization of revenue streams across the value chain which would augur well for MSOs/DTH operators and broadcasters. Moreover, subscribers are also expected to benefit with access to more diverse and higher quality content as broadcasters leverage on higher bandwidth availability to fill gaps in their channel bouquets.

Annexure: Key Financial Indicators- Aggregate[3]

Profit & Loss (Rs. Crore)	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Net sales	1,298.4	1,805.1	2,112.8	2,693.5	3,172.9
Other related income	2,348.8	2,637.3	2,552.7	3,194.0	3,459.0
Total revenue	3,647.2	4,442.4	4,665.5	5,887.5	6,631.9
OI Growth (%)	21.5%	21.8%	5.0%	26.2%	12.6%
EBITDA	477.5	731.9	1,134.4	1,246.6	1,224.1
Depreciation	593.0	751.0	938.9	1,128.1	1,262.1
EBIT	(115.5)	(19.0)	195.5	118.5	(38.0)
Interest expenses	275.7	333.9	323.5	478.6	537.6
Other income/expense	198.8	164.2	117.6	114.2	212.5
PBT (before extraordinary income)	(192.4)	(188.8)	(10.4)	(246.0)	(363.1)
Extraordinary Gain/Loss	(16.6)	(34.5)	51.0	0.0	50.7
PAT	(240.1)	(251.6)	(11.4)	(306.5)	(394.9)
Minority interest (MI)	(10.3)	(10.9)	(43.7)	(38.7)	(43.1)
PAT (concern share)	(250.4)	(262.5)	(55.0)	(345.2)	(438.1)

Key Financial Ratios	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Growth indicators					
Sales Growth	21.5%	21.8%	5.0%	26.2%	12.6%
EBITDA Growth	113.7%	53.3%	55.0%	9.9%	-1.8%
Profitability indicators					
EBITDA Margin	13.1%	16.5%	24.3%	21.2%	18.5%
EBIT Margin	-3.2%	-0.4%	4.2%	2.0%	-0.6%
PAT Margin	-6.6%	-5.7%	-0.2%	-5.2%	-6.0%
RoE	-12.4%	-14.1%	-0.7%	-12.8%	-12.6%
RoCE	-3.4%	-0.6%	4.6%	2.0%	-0.5%
Raw Material Cost	0.1%	0.4%	0.7%	0.6%	0.1%
Power & Fuel Cost	0.7%	0.7%	0.8%	0.8%	0.8%
Employee Cost	7.0%	6.5%	6.6%	6.0%	6.3%
Other Manufacturing Cost	58.1%	55.7%	46.7%	48.1%	50.6%
Selling Cost	12.8%	12.8%	11.7%	10.9%	11.7%
General & Administration Cost	8.3%	7.5%	9.2%	12.5%	12.1%

[3] Includes Consolidated Financials of Siti Cable Network Limited, Den Networks Limited, Hathway Cable & Datacom Limited and Dish TV India Limited

Liabilities (Rs. Crore)	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Net worth	1,680.9	1,431.5	1,481.8	2,616.0	2,789.4
Minority interest	198.3	251.8	315.4	384.6	475.1
Total Debt	1,960.3	2,518.6	4,280.6	4,844.5	4,932.8
Non-Operating Non Current Liability	33.1	16.2	9.0	14.1	13.1
Deferred Tax Liability	(4.5)	(9.6)	(6.4)	(20.5)	(1.9)
Trade Creditors	714.9	689.1	946.3	936.6	1,013.8
Other Current Liabilities and Prov.	944.4	930.3	1,216.4	1,785.0	2,185.0
Total Liabilities	6,381.9	6,473.8	9,222.1	11,522.1	12,534.7

Assets (Rs. Crore)	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Net Fixed Assets	3,225.3	3,360.1	4,640.8	5,712.6	6,091.4
Capital Work in Progress	544.1	576.7	1,002.1	944.5	916.3
Total Net Fixed Assets	3,769.3	3,936.8	5,642.9	6,657.1	7,007.6
Total Long-Term Investments	215.6	156.0	9.2	159.6	215.7
Cash and Bank Balances	735.6	937.6	884.8	1,602.5	1,788.5
Receivables (incl. bills discounted)	656.2	629.7	800.1	1,149.4	1,356.8
Inventories	49.3	28.5	44.0	20.6	31.8
Loans & Advances	241.5	209.0	465.1	326.9	370.0
Other Current Assets	565.0	598.5	992.0	1,154.4	1,413.3
Total Current Assets	2,178.4	2,060.0	2,829.9	4,147.9	4,496.0
Total Assets	6,381.9	6,473.8	9,222.1	11,522.1	12,534.7

Key Financial Ratios	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Liquidity ratios					
Debtor (days)	184	127	138	156	156
Inventory (days)	7	4	6	2	3
Creditor (days)	108	89	135	105	96
Capitalization Ratios					
Total Debt/ Equity + MI	1.0	1.5	2.4	1.6	1.5
Interest Coverage	1.7	2.2	3.5	2.6	2.3
Total Debt/EBITDA	4.1	3.4	3.8	3.9	4.0

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