

Press Release

UCN Cable Network Private Limited

February 26, 2020

Rating Reaffirmed



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.15.00 crore |
| Long Term Rating | ACUITE BBB/ Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.15.00 crore bank facilities of UCN CABLE NETWORK PRIVATE LIMITED (UCNPL). The outlook is '**Stable**'.

Incorporated in the year 2006, UCNPL- a multi system operator is a Nagpur-based company. The company is promoted by Mr. Ashutosh Kane, Mr. Ajay Khamankar and Mr. Jagdish Paliya. The Company is engaged in retransmitting of satellite broadcasting signals to the cable operators via cables. The company is also engaged in providing broadband services. The company also generates revenue from advertisements through in-house channels in multiple languages.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of UCNPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

UCNPL is promoted by Mr. Ashutosh Kane, Mr. Ajay Khamankar and Mr. Jagdish Paliya. The promoters of the company have been engaged in the business line for around three decades. The experience of the promoters has helped in establishing healthy relationships with its customers and has enabled the company to fetch average revenue per subscriber (ARPS) for digital cable to Rs.150.82 in FY2019 from Rs.56.00 in FY2018. The average revenue per user (ARPU) for the broadband service stands at Rs.648.00 for FY2019. The company has already made its presence in and around Nagpur and has expanded to new geographical locations like- Bhopal, Jabalpur, Indore districts of Madhya Pradesh. The revenue of the company stands at Rs.110.60 crore in FY2019 as against Rs.99.29 crore in FY2018. Further, the company has registered an operating income of Rs.90.56 crore (provisional) for FY2020 (8M).

Acuité believes that the company will benefit from the experience of the management and new MRP regime of channels in the aforementioned industry.

- **Healthy Financial Risk Profile**

UCNPL's financial risk profile is healthy, marked by moderate net worth, low gearing and healthy debt protection metrics. UCNPL's net worth is moderate estimated at around Rs.34.92 crore as on March 31, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves during the same period. The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.77 times and 3.38 times as on March 31, 2017. The leverage levels continue to remain low to around 0.64 times as on March 31, 2019. The company incurred capex of Rs.5.60 crore over the last three years to expand its scale of operation, while its incremental

working capital requirement over the same period to support the increase in scale of operations has been around Rs.4.37crore. The company on the other hand generated cash accruals in the range of Rs.15.94 crore over the same period. UCNPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.20.50 crore. The gearing however is expected to be low at around 0.17 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

The revenues of the company increased by around 11.40 percent to Rs.110.60 crore during 2018-19, while its operating margins were moderate still high in the range of 17-18 percent. The profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 0.72 times and 9.91 times, respectively.

- **Moderate working capital management**

UCNPL's working capital is moderately managed as is reflected by its gross current asset (GCA) days of around 119 days estimated as on March 31, 2019. The company maintains inventory of just 1 day. UCNPL extends a credit period of around 87 days to its customer and is expecting to reduce to around 30 days in the near future as the company can have better control over its subscribers after the implementation of digitalization and can stop and start a particular set top box from back end. On the other hand, the company gets 109 days credit from its suppliers. As a result, the reliance on working capital limit is moderate, leading to low utilization of its bank line at an average of ~21.68 percent over the last 11 months through January 2020. While its peak utilization was high at around 95.20 percent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of limited credit period extended to its customer.

Weaknesses

- **Modest scale of operation**

The company has been operating since last fourteen years but still has existing subscriber base of approximately 600,000 users in digital cable segment and around 6,900 users in the broadband segment. The revenue of the company stands at Rs.110.60 crore in FY2019 as against Rs.99.29 crore in FY2018. Further, the company has registered an operating income of Rs.90.56 crore (provisional) for FY2020 (8M).

Acuite believes the company's ability to scale up its operations will remain a key rating sensitivity factor.

Rating Sensitivities

- Improvement in operating income and profitability thereby improving the overall financial risk profile.
- Stretch in working capital cycle leading to deterioration in liquidity

Material Covenants

None

Liquidity position: Healthy

The company has healthy liquidity marked by healthy net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.15.94 crore in FY2019 as against no maturing debt obligations during the same period. The cash accruals of the company is estimated to remain around Rs.18.41 crore to Rs.22.58 crore during 2020-22 against no repayment obligations during the same period. The company's working capital operations are moderately intense marked by the gross current asset (GCA) days of 119 days for FY2019. The average bank limit utilization stood at 21.68 per cent for seven eleven months ended January, 2020. The company maintains unencumbered cash and bank balances of Rs.2.62 crore as on 31 March 2019. The current ratio stands at 0.83 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals to no debt repayments over the medium term.

Outlook: Stable

Acuite believes that UCNPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 110.60 | 99.29 |
| PAT | Rs. Cr. | 3.36 | 2.14 |
| PAT Margin | (%) | 3.03 | 2.16 |
| Total Debt/Tangible Net Worth | Times | 0.64 | 0.48 |
| PBDIT/Interest | Times | 9.91 | 7.02 |

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of the Instrument/Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|------------------|-----------------------------------|-----------|------------------|-------------------------------|
| January 07, 2019 | Cash Credit | Long Term | 15.00 | ACUITE BBB/ Stable (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BBB/ Stable (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB/ Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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