



KARVY CAPITAL

# It pays to be connected

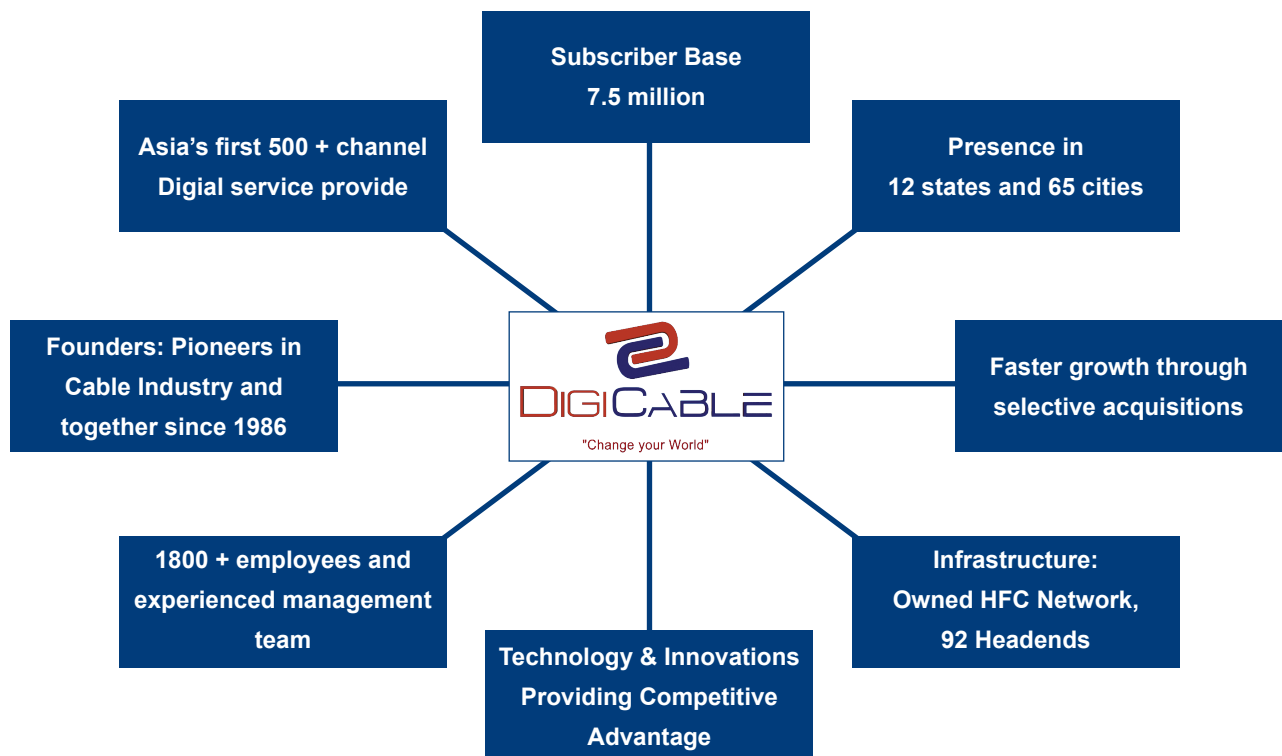
Enjoy 18% per annum with quarterly interest payouts  
by investing in Digicable's Secured NCDs

## Section A: Term Sheet

Particulars	Description
Cable & Satellite Industry Overview	The Govt. of India (GoI) through the Cable TV Networks Amendment Bill 2011 cleared the way for mandatory introduction of Digital Addressable Systems via cable networks. Mandatory Digitization raises the prospect of legitimate distribution of ₹ 24,000 cr in subscription revenues in an industry, where last mile revenue collection was a challenge. The regulation to be implemented in 4 phases and will cover about 130 mn clients across the nation. The first 2 phases are under implementation with a coverage of ~25 mn clients.
Product Details	Digicable is a Multiple System Operator (MSO) with nationwide distributions and is competitor to listed firms like Hathway and Den Networks. The structured finance will be raised to fund the digitization aspiration of Digicable which will deploy funds in its capex requirement of buying set-top boxes etc.
Instrument Construct	NCD with a Quarterly Coupon, achieving a client level IRR of ~19.25% pre tax
Amount Raised (INR) and End Use	25 Crores + Discretionary Green Shoe of 75 Crores. End use would be to buy set-top boxes and meet working capital requirements in a ratio of (80:20)
Minimum Investment	Secured NCD with face value of ₹ 10,00,000 and in multiple of ₹ 1,00,000 thereafter
Tenor	24 months
Coupon	Annualized coupon of 18% to be paid Quarterly (End of Every Quarter) – IRR of 19.25%
Principal Repayment	6 Equal Installments after 18 months that is 19th,20th,21st,22nd, 23rd and 24th month
Security	The security cover is at least 2 times of the invested amount a) Majority equity share holding of Digicable Network India Pvt Ltd. (51%) b) Charge on fixed assets and current assets, second to Axis Bank charge. Asset Cover is worth ~ ₹ 500 cr as per the book value and net exposure of Axis Bank is ~ ₹ 80 cr c) Corporate Guarantee of Stellar Interactive Media Pvt Ltd, the ultimate holding company of Digicable Network (India) Pvt. Ltd d) Post Dated Cheque of both Principal and Interest on the raised amount to be submitted to the trustees by the issuer. e) Personal guarantee of the promoter Mr. Jagjit Singh Kohli.
Post Investment Observation	The issuer shall provide the Debenture Holder's Representative/Debenture trustee on a monthly basis the following : a) Bank statement of the issuing company i.e. Digicable Network (India) Pvt Ltd b) Receipt of End Use of Funds, mentioning exact details viz. Location and the Local Cable Operator (LCO) to whom the set-top boxes are being provided
Debenture Holder Representative	Karvy Capital Ltd.
Financial DD & Future Cash-Flow Valuation	Adarsha Consulting (A Chokshi Group Company, a reputed CA firm in Mumbai.)
Debenture Trustee	IL&FS Trust Company Ltd.
Eligible Investors	Following are eligible Investors in the Issue: 1. Mutual Fund 2. Companies/Corporate Treasuries 3. Partnership Firm 4. HUF(Hindu Undivided Family) 5. Individual 6. Private Trust 7. Association of Persons 8. Portfolio Manager Registered with SEBI 9. Societies

## Section B: Company and Promoter Background

- Digicable is a company started by the pioneers of the cable TV industry in India – Mr. Jagjit Singh Kohli and Mr. Yogesh Shah who were responsible for corporatizing the Cable TV industry for the first time by tying up with Hinduja group. Later, they created Hathway Cable in association with Raheja group and revived SITI Cable of Zee group. Meanwhile, satellite channels 'ETC Hindi Music' and 'ETC Punjabi' were launched by them which became genre-leaders. In 2007, Ashmore Investments of UK agreed to fund Digicable's Cable TV / Internet / VOIP / HITS venture across India.
- Digicable has launched its Cable TV services PAN-India and has established a state-of-the-art Analog and Digital networks across India (19 Digital and 73 Analog head-ends). It is recognized as one of India's leading Cable Television service provider catering to about 7.2 million subscribers and spread across 12 states and 65 cities in India, and growing from a zero to ₹ 500 Crores of revenue in just 5 years.
- Digicable has also launched Australia-Asia's first 500 Channel Digital Cable TV Service on its Digital Cable TV Platform, and is the only MSO in Australia-Asia region to be successfully running the 500 channel Digital service for the last 2 years.



# Section C: Cable TV Industry Overview

## The Cable & Satellite Industry of India

From just 400,000 homes in 1992, cable TV network has grown exponentially to more than 95 mn homes by March 2013, making India the second largest global market after China. Cable TV's main competitor in the Indian Pay TV marketplace is Direct-To Home (DTH), which commands an active base of approx 35 mn. Cable TV's main competitive edge over DTH is its ability to offer customers two-way services including broadband, bundled with digital cable, high-definition (HD) channels and video on-demand (VOD). This has helped cable remain the leading platform for pay-TV penetration in key markets such as the USA, Korea and Taiwan. More importantly, in a multilingual country like India, it also has the ability to provide more relevant choices of channels for specific regions, as opposed to the limited choices DTH can offer.

## The Digitization Story of Cable & Satellite Industry of India

In November 2011, the Government of India, with requisite approvals from the Indian Parliament, introduced the Cable TV Networks (Regulation) Amendment Bill 2011. This cleared the way for the mandatory introduction of digital addressable systems (DAS) via cable networks. Mandatory digitalization raises the prospect of a legitimate distribution of ₹ 24,000 cr in subscription revenues. This will benefit all industry stakeholders by:

- 1) Bringing in accountability for all the revenue that is generated in the business
- 2) Creating a significant shift in the control of the last mile from Local Cable Operator to the MSO
- 3) Increasing subscription revenue for the MSOs significantly and driving profitability
- 4) Facilitating introduction of Broadband and VAS thus increasing the ARPU and total revenue
- 5) Creating an opportunity for establishing a full-service-network (Video (Television, both linear and non-linear), Voice (VoIP and fixed-line Telephony), Data (Internet and Broadband Services))

# Section D: Project Details

## The Digitization Plan of Digicable

Digicable aims to deploy an additional 1 million Set-Top-Boxes in Phase -1 and 2 in 2013-14

- For Phase-1, the expansion will be inorganic through acquisition of subscribers since Phase-1 is on the verge of getting stabilized and is still open for a churn, especially from DTH
- The Phase-2 markets still offer both organic as well as inorganic scope of expansion since these markets are primarily served by local independent MSO who have limited wherewithal in terms of implementation of advanced technology and lack economies of scale. Also, many of the Phase-2 markets are deemed metros where local cable operators seek to associate with a service provider who can offer Quality and Niche content at competitive price points.

# Section E: Forecasted Project Cash Flows

(Vetted by External Reputed Firm)

## Set-Top Box Details (Number of Set-Top Boxes)

PARTICULARS	APR - JUN	JUL - SEP	OCT - DEC	JAN - MAR	TOTAL
Opening STBs	635676	754345	971545	1131545	635676
To be deployed during the month	118669	217200	160000	75000	570869
Total STBs at the end of the month	754345	971545	1131545	1206545	1206545
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₹ In Million

Operating Cash Flow	OCT - DEC	JAN - MAR	FY14	APR - JUN	JUL - SEP	OCT - DEC	JAN - MAR	FY15	APR - JUN	JUL - SEP	OCT - DEC	JAN - MAR	FY16
Installation charges			650					600					500
EBITDA without inst income	20	58	(172)	47.7	78.7	111.6	146.5	385	158.57	166.5	174.82	178.32	678.21
Installation income	83	39	297	-	-	-	-	-	-	-	-	-	-
Current Interest	9	9	36	8.5	7.5	7.5	7.5	31	-	-	-	-	-
Buyers Credit Payment Due	-	27	27	37.12	0.73	2.66	18.125	59	18.125	18.125	18.125	18.125	72.50
Deal Interest	-	22.5	23	22.5	22.5	22.5	22.5	90	22.5	-	-	-	22.50
Tax	-	-	-	-	-	-	-	-	158	250	92	-	500.00
Principal Repayment-I	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal Repayment-II	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex funding	400	-	400	-	-	-	-	-	-	-	-	-	-
20% Of funds used for working capital	100	-	100	-	-	-	-	-	-	-	-	-	-
Fund recvied from deal	500	-	500	-	-	-	-	-	-	-	-	-	-
<b>Free Cash after compulsory payments</b>	<b>93.84</b>	<b>39.31</b>	<b>39.74</b>	<b>(20.43)</b>	<b>47.97</b>	<b>78.96</b>	<b>98.42</b>	<b>204.92</b>	<b>(40.39)</b>	<b>(101.63)</b>	<b>65.03</b>	<b>160.20</b>	<b>83.21</b>
Cumulative Free Cash	0.42	39.74	39.74	19.30	67.27	146.23	244.65	244.65	204.26	102.64	167.67	327.86	327.86

*Disclaimer by the Issuer: The above projected cashflows are based on certain assumptions about input costs and selling prices which may change in future. Also the cashflows are subject to various external factors not in control of the Issuer. The actual cashflows may vary from above projected cashflows.*

## Section F

Minimum Capital Commitment (in Lacs)	10.00
Interest	18.00%
IRR before tax to the Investor	19.25%

### Redemption Schedule

Indicative schedule of principal and interest payments for amount invested in the NCD issue.

(₹ In Lakhs)

Cash Flow Schedule				
Month	Capital Outflow	O/s Capital	Interest Inflow	Net Cash Flow
0	(10.00)	10.00	-	(10.00)
1		10.00	-	-
2		10.00	-	-
3		10.00	0.45	0.45
4		10.00	-	-
5		10.00	-	-
6		10.00	0.45	0.45
7		10.00	-	-
8		10.00	-	-
9		10.00	0.45	0.45
10		10.00	-	-
11		10.00	-	-
12		10.00	0.45	0.45
13		10.00	-	-
14		10.00	-	-
15		10.00	0.45	0.45
16		10.00	-	-
17		10.00	-	-
18		10.00	0.45	0.45
19	1.67	8.33	-	1.67
20	1.67	6.67	-	1.67
21	1.67	5.00	0.38	2.04
22	1.67	3.33	-	1.67
23	1.67	1.67	-	1.67
24	1.67	-	0.15	1.82
Pre-Tax IRR				19.25%

Please note that actual quarter-on-quarter interest payments may differ slightly on account of (actual days)/365 day calculation instead of the 30/360 day calculation used herein.

## Section G: Key Risks and Mitigants

### 1. Change in regulation of mandatory digitization regime in the Indian Cable TV Industry.

- According to the Government, Digitization of cable television is to be made mandatory in India, starting with the top metros on or before June 30, 2012 and pan-India by 2014. The Cable Television Networks (Regulation) Amendment Bill, 2011 mandates that all cable TV operators will have to transmit TV signals in an encrypted format through a digital addressable system. This will be done through the installation of a set top box in every cable TV home.
- The Bill will prevent Local Cable Operators (LCOs) from bypassing the digital set-top box, and deciding the mix and price of channels according to locality and customer base. The bill will also shift the balance of power away from LCOs to cable service providers and TV broadcasters who will now be able to monitor their subscriber base and control the flow of revenues. Digitization will increase the broadband penetration in India, and will do so at a much lower cost. Analysts suggest a 10 per cent increase in broadband penetration will increase the GDP by 1.5 per cent.
- Broadcasters will not be paying huge sums as carriage fee. Subscription revenue will increase for the broadcaster. Niche and specialist channels will now be able to launch and grow since the artificial shortage of bandwidth created by cable operators will no longer hold true. Transparency in the entire system will ensure accurate reporting of subscriber numbers and revenue, thus creating higher value for the exchequer and preventing the fueling of the black economy. Currently, broadcasters claim cable operators and distributors gain disproportionate revenues through under-declaration of subscribers

### 2. Delay/Default in payment of Interest or Principal

- The interest servicing would happen from the existing business which is now moving towards EBITDA positive and should reach the same by the end of the calendar year. This has been substantiated by Adarsha Consulting (Choksi Group Company) based on various management assumptions, approved by the auditor.
- At any point of time, Debenture Trustee will have at least two times of security cover via ( 51% Pledge of shares & charge on Fixed and Current Assets)

### 3. Delay in procuring Set-Top Boxes

- Digicable has a longstanding relationship with vendors and has already had a principal agreement of sourcing more than 5 Lakh boxes from them during the financial year 2013-14. The company also is in the process of doing strategic deals in the market for sourcing Set-Top Boxes

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