



The Pakistan Credit Rating Agency Limited

Rating Report

HUM Network Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	A+	A1	Stable	Maintain	-
28-Jun-2018	A+	A1	Positive	Maintain	-
30-Dec-2017	A+	A1	Positive	Maintain	-
23-Jun-2017	A+	A1	Positive	Maintain	-
30-Jun-2016	A+	A1	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect HUM Network's ability to uphold its strong market position in the domestic media industry. With an appreciable presence of HUM TV - the company's flagship channel in entertainment segment, HUM Network has expanded into multiple TV ventures on a timeline basis including Hum Masala, Hum Sitaray and now Hum News since May'18. Sponsors are aimed at exploiting new markets; the company has also marked its footprint in the e-commerce segment by launching its online store named "Hum Mart", a 24 hours delivery online grocery store, currently available in Karachi. Additionally, Hum Network has grown in ancillary domains including publications and holding events. The company has booked a net loss over the last two quarters. This attributes to Industry-wide factors as well as the costs borne by the company on the newly launched news channel. The ratings, however, take into consideration on-balance sheet liquidity to support the overall risk profile of the company. Profit retrieval remains critical.

The ratings are dependent upon recourse to improved financial risk profile. Any prolonged downturn in subdued revenues will have a negative impact on the ratings.

Disclosure

Name of Rated Entity	HUM Network Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Electronic Media(Jun-18)
Rating Analysts	Nadeem Sheikh nadeem.sheikh@pacra.com +92-42-35869504

Profile

Legal Structure Hum Network Limited (“the Company”) was established and listed on the Pakistan Stock Exchange in May 2004. The Company received the license to operate an International Satellite Television from the Pakistan Electronic Media Regulatory Authority (PEMRA) in October 2004.

Background The company was established 14 years ago and has evolved as one of the finest entertainment providers of Pakistan on a timeline basis.

Operations Primary business involves launch of transnational satellite channels which are aimed at providing programmes that cover manifold aspects, including information, entertainment, news, education, health, food, etc.

Ownership

Ownership Structure Foreign companies majorly hold the shares (~51%) followed by the sponsoring family’s shares, which include Mr. Duraid Qureshi (~24%) and his brother Mr. Shunaid Qureshi (~5%).

Stability Ownership structure is considered stable.

Business Acumen Business acumen of the sponsors is reflected in the way the company has expanded its channel base and diversified into new revenue streams. Evolvement of the group as one of the leading media houses is an evidence.

Financial Strength Financial strength of the owners is considered strong.

Governance

Board Structure The board comprises nine members including five from sponsoring family, one independent, two non-executive and one executive director.

Members’ Profile Momina Duraid Qureshi, the daughter in law of Ms. Sultana Siddique, has joined the board as a non-executive director. She has produced and created several acclaimed drama series.

Board Effectiveness The Board has formed two sub-committees, namely (i) Audit Committee & (ii) HR and Remuneration Committee. 4 quarterly audit committee meetings and 2 meetings of HR & Remuneration Committee were held during FY18.

Financial Transparency EY Fort Rhodes Chartered Accountants are the External Auditors of the Company. They expressed an unqualified opinion on the financial statements for FY18.

Management

Organizational Structure The company has a well-defined departmentalized organization structure.

Management Team The management team of the company comprises well-qualified and seasoned professionals of the media industry. The CEO Duraid Qureshi and the Executive Director, Sultana Siddiqui have extensive experience in television production and media marketing.

Effectiveness No formal management committees exist.

MIS The company deploys oracle as ERP and is in the process of continuing enhancements in technology.

Control Environment The company relishes on good management practices. Clear defined lines of responsibilities exist. Strong ERP (oracle) and continuous upgradations in technology would add to the strength of the internal control system.

Business Risk

Industry Dynamics Pakistan’s television media industry is constituted of 21 prime channels, which provide a diversified variety of content to the audience. Recently, the industry has witnessed an overall stretch due to declining advertising rates offered to the media houses accompanied by macro-economic instability in the country.

Relative Position Out of the 21 prime channels that serve the audience, Hum Network’s share ranks one of the highest in terms of viewership share. Hum network has a wide range of ventures that include Hum tv, Hum sitaray, Hum Masala, Hum Films and now Hum News as well.

Revenues The company’s revenue streams are classified as follows; (i) advertisement revenue (ii) production revenue (iii) digital revenue (iv) subscription income & (v) film distribution income. Despite this much diversity, major chunk of the income comes from one source, i.e., advertisement income accounting for ~88% of the total revenue. During FY18, the company’s topline clocked in at PKR~4.6bln (FY17: PKR~4.6bln). Revenue for 1QFY19 was recorded at PKR~1.1bln.

Margins The company’s margins displayed a volatile outlook. During FY18, margins declined to ~34% (FY17: 42%). This was followed by a sharp dip in 1QFY19 (~6%) majorly reflecting the impact of uncontrolled costs at the gross level. Net margins recorded for FY18 were ~16% wherein the company incurred a loss at the bottomline level in 1QFY19 (-14%)

Sustainability The company has established a formidable brand name in the related segments of its business. In recent times, overall external factors created a challenging environment for the Industry as a whole. The company has launched its news channel “Hum News” since May’18 and has also stepped into e-commerce business, by launching an online shopping store, available to Karachi customers only, at present. As a backward integration, the company is also set to acquire its associated concern - MD Productions (Pvt) Limited - approval of which is pending with the court.

Financial Risk

Working Capital The company’s net cash cycle remained high owing to the increased receivable days ~ 135 days in FY18.

Coverages FCFO – a function of EBITDA recorded at PKR~801mln in FY18, which kept the company’s debt servicing capacity intact. The situation, however, turned upside down in 1QFY19 as the company hit a net loss of PKR~157mln that resulted in no availability of free cash flows. Debt servicing capacity, hence, turned to be highly stressed.

Capitalization During FY18, the company made considerable borrowings to fund the project of Hum News launch. This uplifted the overall capital structure to ~24% (FY17: ~2%). Leveraging of the company as at End-Sep’18 was recorded at ~28%, though still in the comfortable zone.



The Pakistan Credit Rating Agency Limited

Hum Network Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3M	Annual	Annual	Annual
Non-Current Assets	1,967	1,966	691	895
Investments (Others)	918	889	229	217
Current Assets	2,771	2,637	2,679	2,146
Inventory (Finished Goods)	234	238	222	488
Trade Receivables	1,743	1,738	1,746	1,482
Other Current Assets	453	496	336	163
Cash & Bank Balances	341	166	374	12
Total Assets	5,656	5,492	3,599	3,258
Debt	1,389	1,155	41	524
Short-term	-	18	-	474
Long-term (Incl. Current Maturity of long-term debt)	1,389	1,138	41	50
Trade Payables	377	340	186	599
Due to Associates	-	-	-	-
Provision for Taxation	-	-	-	92
Other Liabilities	354	304	313	15
Shareholder's Equity	3,536	3,693	3,058	2,043
Total Liabilities & Equity	5,656	5,492	3,598	3,272

INCOME STATEMENT

Turnover	1,095	4,609	4,644	3,943
Gross Profit	70	1,578	1,934	1,543
Operating Profit	(143)	709	1,035	706
Other Income	-	-	85	108
Financial Charges	(26)	(33)	(21)	(40)
Taxation	(21)	(83)	(80)	(236)
Net Income	(157)	729	1,018	537

CASH FLOW STATEMENT

Free Cashflow from Operations (FCFO)	-108	801	981	568
Net Cash changes in Working Capital	-127	770	951	530
Net Cash from Operating Activities	7	853	937	172
Net Cash from Investing Activities	(65)	(2,081)	(92)	(175)
Net Cash from Financing Activities	251	1,002	(9)	1
Net Cash generated during the period	193	-226	836	(2)
Closing Balance of Cash & Equivalents	341	148	374	(462)

RATIO ANALYSIS

Performance

Turnover Growth	-11%	-1%	18%	39.0%
Gross Margin	6%	34%	42%	39.1%
Net Margin	-14%	16%	22%	22.8%
ROE	-18%	24%	35%	28.3%

Coverages

Debt Service Coverage

1. (FCFO/Gross Interest+CMLTD) (X)	0.0	12.6	19.6	9.0
2. (FCFO/Gross Interest+CMLTD+Uncovered STB) (X)	0.0	12.6	19.6	9.0

Interest Coverage

1. (FCFO/Gross Interest) (X)	0.0	12.6	19.6	14.2
2. (EBITDA/Gross Interest) (X)	0.0	27.0	58.0	22.4

Liquidity and Cashflows

Current ratio (X)	3.8	4.0	5.4	1.8
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	136.5	135.3	123.9	119.4

Capital Structure (Total Debt/Total Debt+Equity)	28.2%	23.8%	1.9%	20.4%
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Hum Network Limited

Dec'18

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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