



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
27-Jun-2019	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect HUM Network's ability to uphold its relative 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 Hum News since May'18.

The company has booked a net loss over the last three quarters on account of Industry-wide factors as well as the cash outflow in the amidst of the launch of News Channel.

The ratings, however, take into consideration on-balance sheet liquidity to support the overall risk profile of the company though the revival from losses is essential. The management is also eyeing new revenue streams; also they are looking at increased revenue from the News Channel, which is expected to reach break even over the medium horizon. The times are challenging. The company is resolved to cruise through the tough period with the help of available cushions available on its balance sheet. The company currently has no short term debt.

The ratings are dependent upon recourse to improved financial risk profile. Prolonged downturn in the bottom line would have an adverse impact on the credit rating of the company.

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 Media(Jun-19)
Rating Analysts	Rohail Amjad rohail.amjad@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.

Background The company was established 14 years ago and has evolved as one of the finest entertainment providers of Pakistan on a timeline basis. The Company received the license to operate an International Satellite Television from the Pakistan Electronic Media Regulatory Authority (PEMRA) in October 2004.

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. The company has offices Head Quartered in Islamabad and Karachi. Hum News is based in Islamabad whereas the rest of the channels are entirely Karachi based. The company has four channels i) Hum Entertainment ii) Hum Sitaray iii) Hum Masala and iv) Hum News. In addition to the channels, Hum Networks also owns three magazines i) Glam Magazine, ii) Masala TV Food Mag and iii) Newslite. All magazines are Karachi based.

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%). Out of 51% foreign shareholding, Kingsway Fund-Frontier Consumer Franchises holds 16% share in the company. Kingsway Fund a Luxemburg based Private Equity Fund, formed in 1969,.

Stability Ownership structure is considered stable. The sponsoring family holds 29% stake in the company.

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 eight 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 FY19

Financial Transparency EY Fort Rhodes Chartered Accountants are the External Auditors of the Company. They expressed an unqualified opinion on the audit of financial statements for FY18 and for the half year review 6MFY19.

Management

Organizational Structure Hum Networks Limited has well-defined reporting lines and segregation of duties. The channels’ Programming Heads and Network Creative Head directly and functionally report to the CEO and the Executive Director (ED) – Ms. Sultana Siddiqui, respectively. Other functions including Finance, International Operations, Commercial, Strategy, Creative division, Human Resource (HR), and Administration are consolidated at network level and reports to the CEO.

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 ERP and is in the process of continuous technological enhancement Oracle supply chain (purchasing and inventory) modules are up and live integrated with AP on production environment. Oracle modules core HR, Payroll, Purchasing, inventory and financials are now up and live on production at our Lahore and Islamabad Locations

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. The Internal Audit function – outsourced to KPMG Taseer Hadi & Co. Chartered Accountants – reports to the Board Audit Committee, in line with the code of Corporate Governance guidelines.

Business Risk

Industry Dynamics Pakistan’s television media industry is constituted of 24 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 among the higher 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 ~85% of the total revenue. During FY18, the company’s topline clocked in at PKR~4.6bln (FY17: PKR~4.6bln). Revenue for 9MFY19 was recorded at PKR~2.9bln (9MFY18 PKR :3.5bln.). The decrease in the topline is amidst reduced production income at end 9MFY19 PKR~74mln (9MFY18: PKR 130mln)

Margins The company’s margins displayed a volatile outlook. During 9MFY19, margins dropped to 8% (9MFY18: 38%), this was on account of cost incurred in lieu of Hum News. The cost of production comprises a major portion of cost incurred in lieu of the launch of Hum News, which resulted in the massive decline of gross margin.

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, at present, available to Karachi customers only.

Financial Risk

Working Capital The company’s net cash cycle remained high owing to the increased receivable days ~ 125 days in 9MFY19. The increase in the cash cycle is because of the delay in the payments from the debtors. The current ratio remains healthy at end 9MFY19 ~ 3.2x (FY18: 4.1x, FY17: 5.3x)

Coverages FCFO – a function of EBITDA recorded at a deficit of PKR~117mln in 9MFY19, on account of the loss posted by Hum Networks. This also worsened the debt servicing, reducing it to a deficit of 4.8 days

Capitalization During 9MFY19, the company’s balance sheet still showed the borrowing obtained in FY18 for the launch of Hum News. The company’s debt to equity ratio stood at 29% at end 9MFY18, while the equity reduced to PKR 3.3bln due to the loss made by the company..



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Hum Network Limited Media	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	1,816	1,941	655	864
2 Investments	337	289	229	217
3 Related Party Exposure	659	649	60	31
4 Current Assets	2,765	2,614	2,655	2,160
<i>a Inventories</i>	237	238	222	488
<i>b Trade Receivables</i>	1,701	1,738	1,746	1,482
5 Total Assets	5,578	5,492	3,599	3,272
6 Current Liabilities	877	644	499	705
<i>a Trade Payables</i>	867	340	186	599
7 Borrowings	1,392	1,155	41	524
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,309	3,693	3,058	2,043
11 Shareholders' Equity	3,309	3,693	3,058	2,043

B INCOME STATEMENT

1 Sales	2,969	4,609	4,644	3,943
<i>a Cost of Good Sold</i>	(2,711)	(3,031)	(2,710)	(2,400)
2 Gross Profit	258	1,578	1,934	1,543
<i>a Operating Expenses</i>	(628)	(870)	(899)	(840)
3 Operating Profit	(370)	709	1,035	703
<i>a Non Operating Income</i>	140	137	85	110
4 Profit or (Loss) before Interest and Tax	(230)	845	1,119	813
<i>a Total Finance Cost</i>	(99)	(33)	(21)	(40)
<i>b Taxation</i>	(54)	(83)	(80)	(236)
6 Net Income Or (Loss)	(384)	729	1,018	537

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	(117)	801	984	568
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(215)	770	955	530
<i>c Changes in Working Capital</i>	332	83	(14)	(358)
1 Net Cash provided by Operating Activities	117	853	940	172
2 Net Cash (Used in) or Available From Investing Activities	(197)	(2,081)	(92)	(175)
3 Net Cash (Used in) or Available From Financing Activities	254	1,002	(9)	1
4 Net Cash generated or (Used) during the period	173	(226)	839	(2)

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-14.1%	-0.7%	17.8%	--
<i>b Gross Profit Margin</i>	8.7%	34.2%	41.6%	39.1%
<i>c Net Profit Margin</i>	-12.9%	15.8%	21.9%	13.6%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	-4.0%	19.4%	26.2%	22.8%
<i>e Return on Equity (ROE)</i>	-14.6%	21.6%	39.9%	26.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	180	156	155	137
<i>b Net Working Capital (Average Days)</i>	125	135	124	82
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	3.2	4.1	5.3	3.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-1.2	30.2	63.8	23.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-0.4	13.3	20.4	9.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-4.8	1.5	0.0	0.1
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	29.6%	23.8%	1.3%	20.4%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.9
<i>c Average Borrowing Rate</i>	10.4%	5.0%	6.8%	7.3%

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

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- (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)
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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)

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- (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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