



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
29-Nov-2021	A+	A1	Stable	Maintain	Yes
24-Dec-2020	A+	A1	Developing	Maintain	Yes
27-Dec-2019	A+	A1	Stable	Maintain	-
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	-
30-Jun-2016	A+	A1	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings incorporate HUM Network's ability to uphold its relative market position within the media industry. With an appreciable presence of HUM TV – the Company's flagship channel in entertainment segment, the Company has expanded into multiple TV ventures on a timeline basis including Hum Masala, Hum Sitaray and Hum News. The Company was affected due to curtailed media spending by corporates and government. However, the Company took measurable steps to manage its costs. This coupled with the cash outflows pertaining to the launch of Hum News channel and impairment losses related to investments in new business venture, led to deteriorated bottom-line performance in last few years however; as the economic activity picked up, media industry has reflected improvement in its performance. The ratings take into account the improved margins and profitability of the Company, as well as on-balance sheet liquidity to continue supporting the overall risk profile of the Company. The decreased outstanding debt amount is also beneficial moving forward, supporting the financial matrix of the entity. With a view to sustainable diversified revenue streams, management is building upon various revenue segments including the growing 'Subscription Income' component as well as development of Hum News. In lieu of aforementioned factors improving, the 'Developing' Outlook has been modified to 'Stable' Outlook.

The Rating Watch captures the instability on the board structure as the Company was unable to hold its Annual General Meeting due to legal proceedings pertaining to the election of directors. Upon clarification from SECP, which permitted the current board to carry out their duties that turned out into holding of AGM, followed by dissemination of financial statements, however the proceedings are at this moment ongoing. In furtherance to the abovementioned, there is change in the horizon pertaining to shareholding as recent letter of intent expressed by the CEO and sponsoring family member – Mr. Duraid Qureshi, to increase stake within the Company. PACRA will closely monitor the situation going forward and consider the ratings accordingly.

The ratings are dependent upon sustained business profile of the Company. Improvement in financial risk profile is vital. Recurring downturn in the bottom line would have an adverse impact on the credit rating of the Company in the future.

Disclosure

Name of Rated Entity	HUM Network Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Media(Jun-21)
Rating Analysts	Sami Kamran Chaudhry sami.kamran@pacra.com +92-42-35869504

Profile

Legal Structure HUM Network Limited (“the Company”) was established in 2004 as a public limited company and is listed on the Pakistan Stock Exchange under the symbol ‘HUMNL’.

Background The Company was established 17 years ago and has evolved to one of the finest entertainment providers of Pakistan. The Company received the license to operate an International Satellite Television from the Pakistan Electronic Media Regulatory Authority (PEMRA) in October 2004. The Company commenced operations with its flagship channel Hum TV in 2005.

Operations Primary business involves launch of transnational satellite channels which are aimed at providing programs that cover diverse 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 Network also owns the magazine Masala TV Food Mag which is based in Karachi.

Ownership

Ownership Structure As at June 30, 2021, ownership share of the sponsoring family equated to 29.70%. Comprising this total share is Mr. Duraid Qureshi (CEO of HUM Network Limited) holding 24.30%, Mr. Shunaid Qureshi (Non-executive director) holding 5.38%, and lastly Ms. Sultana Siddiqui (Executive director) holding 0.02%.

Stability The sponsoring family envisages long-term association with the Company. This is further highlighted via PSX announcement dated October 25, 2021 whereby the Company informed public as to Public Announcement of Intention by Mr. Duraid Qureshi to further acquire 35.15% of outstanding shares of 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. Evolution of the group as one of the leading media houses in Pakistan with presence reaching abroad serves as reassuring evidence.

Financial Strength Financial strength of the owners is considered adequate.

Governance

Board Structure The Board consisted of eight members whose term expired on August 22, 2020. Election for new directors is pending as per Court’s decision. As the matter is currently sub judice, the Company sought clarification from the Securities and Exchange Commission of Pakistan (SECP) upon which permission to the existing Board was granted to continue carrying out the performance of functions pertaining to holding of Annual General Meetings and laying of financial statements before the shareholders and public.

Members’ Profile All members possess adequate experience and have been associated with HUM Network for a considerable period of time. The composition of the Board has good mix of Independent and Non-executive members, as well as presence of female directors.

Board Effectiveness The Board has formed two sub-committees, namely (i) Audit Committee & (ii) Human Resource and Remuneration Committee. One (1) quarterly audit committee meeting was held during FY21. Both committees are chaired by Independent director - Mr. Sohail Ansar.

Financial Transparency EY Ford Rhodes, Chartered Accountants are the Independent External Auditors of the Company. They expressed an unqualified opinion on the annual audit of financial statements for FY21.

Management

Organizational Structure HUM Network Limited has well-defined reporting lines in place and segregation of specific 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, HR, and Administration are consolidated at network level and report to the CEO.

Management Team The management team of the Company comprises well-qualified and seasoned professionals of the media industry. Ms. Sultana Siddiqui started her career as a producer for PTV, Karachi Studios in 1974 and founded HUM Network in 2005. Mr. Qureshi completed his MBA from LUMS, Lahore in 1997 and also completed an advance management program from Harvard Business School in 2009. He was the CEO of Moomal Productions Pvt Limited and also founder executive of Eye Entertainment.

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 live and integrated with AP on production environment. Oracle modules core HR, Payroll, Purchasing, Inventory and Financials are live on production at Lahore and Islamabad locations.

Control Environment The Company relishes on good management practices. Clear defined lines of responsibilities exist. Strong ERP (Oracle) and continuous upgrades 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 Advertising industry is closely linked up with country’s economy. According to a post-Covid-19 forecast from a leading media agency, advertisers in Pakistan are expected to spend \$440 million – a drop of almost \$55 million – access all advertising mediums during the 2021 fiscal year. Media spending is currently split across TV, digital, print, out of home (OOH), brand activations, and radio, with a share of 39%, 26%, 14%, 11%, 6.3%, and 2.1%, respectively. Without Covid-19 and the lockdown, the expenditure was \$495 million with a similar spread. The consumer preferences and trends change rapidly in the industry which makes media advertising business much innovating and creative in nature to cater the need.

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. HUM Network is a prominent leader in the ‘Entertainment’ segment as well as making gains in the ‘News’ segment.

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 the diversity, majority of the income originates from Advertisement Income which accounted for 81.1% of the total net revenue for the period FY21. During FY21, the Company’s net revenue was reported as PKR 4,327mln (FY20: PKR 3,679mln) posting an increase of 17.6%. The increase was mainly attributable to Subscription Income, which YoY grew by 45.7%, as media businesses move to a direct-to-consumer model post-COVID.

Margins The Company’s gross profit margin rose to 37.5% for FY21 as against 21.3% for FY20. The net profit margin rebounded for FY21 23.4% as against -3.1% in the corresponding period. The improvement was due to higher gross profits, decreased finance cost and a gain from sale of land.

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 2018 and has also stepped into e-commerce business, by launching an online shopping store, at present only available to Karachi customers. The management expects swift resolution of the legal proceedings pertaining to the election of directors.

Financial Risk

Working Capital The Company’s trade receivable days improved to 155, owing to increased sales during FY21 (FY20: 173). Trade payable days also improved to 26 on the back of lower outstanding trade payables as at FY21 (FY20: 50). The current ratio remained stable at end FY21 amounting to 4.6x (FY20: 4.5x).

Coverages EBITDA of the Company recorded growth to PKR 912mln for FY21 (FY20: PKR 244mln), on account of higher PAT posted by HUM Network. The higher earnings combined with lower outstanding debt amount improved the debt coverage for FY21 to 10.1x (FY20: 1.9x).

Capitalization During FY21, the Company’s balance sheet still showed the borrowing obtained in prior years for the launch of Hum News, however with lowered outstanding amount. The Company’s borrowings to equity+borrowings ratio stood at 15.2% at end FY21 (FY20: 30.8%), while total equity grew to PKR 4,063mln.



HUM Network Limited Media	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	1,788	1,948	1,849
2 Investments	502	242	838
3 Related Party Exposure	280	414	440
4 Current Assets	2,845	2,318	2,566
a Inventories	117	122	233
b Trade Receivables	1,957	1,717	1,777
5 Total Assets	5,416	4,921	5,693
6 Current Liabilities	625	516	859
a Trade Payables	254	356	656
7 Borrowings	728	1,356	1,677
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	4,063	3,049	3,157
11 Shareholders' Equity	4,063	3,049	3,157

B INCOME STATEMENT

1 Sales	4,327	3,679	3,979
a Cost of Good Sold	(2,705)	(2,895)	(3,688)
2 Gross Profit	1,623	784	291
a Operating Expenses	(899)	(755)	(813)
3 Operating Profit	724	29	(522)
a Non Operating Income or (Expense)	484	76	211
4 Profit or (Loss) before Interest and Tax	1,208	105	(311)
a Total Finance Cost	(100)	(241)	(143)
b Taxation	(93)	23	(81)
6 Net Income Or (Loss)	1,014	(113)	(536)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	912	244	(249)
b Net Cash from Operating Activities before Working Capital Changes	817	(0)	(389)
c Changes in Working Capital	(200)	(156)	368
1 Net Cash provided by Operating Activities	617	(156)	(20)
2 Net Cash (Used in) or Available From Investing Activities	236	598	(515)
3 Net Cash (Used in) or Available From Financing Activities	(450)	(341)	240
4 Net Cash generated or (Used) during the period	403	100	(296)

D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	17.6%	-7.5%	-13.7%
b Gross Profit Margin	37.5%	21.3%	7.3%
c Net Profit Margin	23.4%	-3.1%	-13.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.4%	2.4%	3.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	28.5%	-3.6%	-15.6%
2 Working Capital Management			
a Gross Working Capital (Average Days)	165	191	183
b Net Working Capital (Average Days)	139	141	137
c Current Ratio (Current Assets / Current Liabilities)	4.6	4.5	3.0
3 Coverages			
a EBITDA / Finance Cost	10.1	1.9	-1.2
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	0.5	-0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.9	335.8	-3.6
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	15.2%	30.8%	34.7%
b Interest or Markup Payable (Days)	29.7	4.3	14.4
c Entity Average Borrowing Rate	9.5%	16.3%	9.9%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

Independence & Conflict of interest

- (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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