The Pakistan Credit Rating Agency Limited

Rating Report

HUM Network Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Nov-2023	A+	A1	Stable	Maintain	-
24-Nov-2022	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Pakistan’s media industry, particularly television and radio, has posted considerable growth in the last two decades as the broadcasting segment was opened for the private sector. Lately, the Pakistan Electronic Media Regulatory Authority (PEMRA) has issued licenses for FM Radio - 265, Cable TV - 4,152, and Satellite TV - 123. Moreover, PEMRA has issued 9 Satellite, 47 new Cable TV, and 3 licenses for Direct-to-Home (DTH) has been issued. Advertisement remains the main revenue generating segment for the media industry, posting growth of ~17%, during FY22. Going forward, media industry is becoming more digital and youth-oriented. This has led to a shift from traditional TV and print media to digital platforms. Moreover, the average daily viewership per person falls by ~14% due to consistent increase in the number of internet and social media users. The industry overall outlook is expected to remain stable.
HUM Network Limited ('HUM') is among the leading media and entertainment platforms in Pakistan, with a viewership that spans across the globe. Over time, HUM has strategically expanded from HUM TV to Hum Masala, Hum Sitaray, Hum News, Hum Mart and lately, Tower Sports – that holds transmission rights of Ten Sports in Pakistan. This diversification has enhanced the network's presence and its ability to cater to diverse audience preferences and uphold HUMs market position. This along with Sponsor acumen provides comfort to the ratings. HUM generates revenue from advertisements (~71%) mainly, followed by subscriptions (~ 25%) and production (~3%). Digital and distribution revenue share remains minimal. During FY23, revenues showed ~17% growth; While, margins and in turn profitability remains intact. On the financial risk front, HUM manages the working capital cycle through internal cash generation and holds considerable borrowing cushion on its balance sheet. Coverages remain stable. Going forward, HUM plans to acquire Sphere Ventures (Pvt.) Ltd. that broadcasts kid’s content. Previously, HUM entered into an agreement with GS Group Inc. through Hum Network FZ LLC, a wholly owned subsidiary of HUM, to launch a fund named "Pakistan Katalatic Funds (PKF)" with an expected size of USD~ 50mln. However. the launch of fund remains susceptible due to current economic situation.

The ratings are dependent on the management's ability to sustain the market position amidst considerable competition and changing business environment. Substantial support from the investment book (TFC's & Mutual Funds) may strengthen the bottom-line, going forward. Moreover, improvement in the financial risk profile remains vital. The management has represented that there is high level of diversity in its revenue base, emanating from segments independent of each other in terms of risk. This needs to be assessed in view of the future strategy and business plan 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 Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Media(Mar-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure HUM Network Limited ('HUM') was established in 2004 as a public limited company and is listed on the PSX under the symbol 'HUMNL'.

Background The Company received the license to operate as an International Satellite Television from PEMRA in Oct-04. A year later, HUM became commercially operational. In Jun-05, the Company went into an IPO and raised PKR 150mln (i.e. ~30% of the share capital).

Operations HUM provides programs that cover diverse aspects, including information, entertainment, news, food, etc. The head office of HUM is situated in Karachi while Hum News is based in Islamabad. The Company has four channels, Hum Entertainment, Hum Sitaray, Hum Masala and Hum News. HUM Network also owns the magazine Masala TV Food Mag. fix this plx

Ownership

Ownership Structure The Sponsoring family hold major stake of ~51.8%, through Mr. Duraid Qureshi ~ 45.7%, Mr. Shunaid Qureshi ~5.4%, and Ms. Sultana Siddiqui ~0.7%. Banks, financial institutes and mutual funds hold ~17.9% stake in HUM. While, HUM has a free float of ~30%.

Stability The sponsoring family envisages long-term association with HUM. Ownership is considered to remain stable, going forward.

Business Acumen Ms. Sultana Siddiqui, the key person that established HUM, holds decades of experience in the entertainment industry. She started her career from PTV as a producer in 1974. In 2004, she founded Eye Television Network, now known as HUM. Today, HUM is a diversified venture catering to a diverse set of audience.

Financial Strength The Sponsoring family holds considerable financial muscles to support HUM, if needs be. As of FY23, HUM has a consolidated equity of ~PKR 7.3bln with an asset base of ~PKR 8.9bln. HUM posted a consolidated revenue of ~ PKR 7.7bln and a PAT of ~ PKR 1.9bln, during FY23

Governance

Board Structure HUM's BoD comprises nine-member, out of which 5 are Non-Executive, 2 are Independent and 2 are Executive Directors on the BoD. The Sponsoring family dominates the BoD through 4 members, comprising 2 Non-Executive and 2 Executive Directors.

Members' Profile The BoD is chaired by Mr. Mazhar ul Haq Siddiqui, who is associated with HUM since 2012 and carries diverse experience. Other members possess adequate experience and have been associated with HUM for a considerable period of time.

Board Effectiveness The BoD members meet on quarterly basis to resolve concerns and take necessary actions for future growth. The BoD is assisted by two sub-committees, namely (i) Audit Committee (meets on quarterly basis) & (ii) HR and Remuneration Committee (meets on semi-annual basis). Minutes of the BoD and Committee meetings are adequately documented.

Financial Transparency M/s EY Ford Rhodes are the External Auditors of the Company. The firm is QCR rated and in category 'A' of SBP Panel. The firm has expressed an unqualified opinion on the financial statements of HUM as of FY23.

Management

Organizational Structure The Company institutes a horizontal structure. The channels' Programming Heads and Network Creative Head administratively report to the CEO and the Executive Director (ED) – Ms. Sultana Siddiqui, respectively. Other functions including Finance, International Operations, Commercial, Strategy, Creative Division, HR, sales & marketing, and Administration are consolidated at the network level and report to the CEO.

Management Team The management team comprises seasoned professionals of the media industry. The CEO, Mr. Duraid Qureshi has been associated with HUM since inception. He holds diverse experience of over two decades. Other senior management personnel has previously worked for various private television channels, production houses, marketing and advertising agencies, as well as radio.

Effectiveness All HoDs meets on a daily basis to discuss daily affairs of Company. Also, formal management committees exist. The minutes of the meetings are formally documented.

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 the production environment. Oracle modules cover HR, Payroll, Purchasing, Inventory, and Financials are live on production at Lahore and Islamabad locations.

Control Environment HUM's internal audit function is outsourced to M/s KPMG Taseer Hadi & Co. Chartered Accountants. The internal audits finding reports are functionally reported to the Board's Audit Committee as per the corporate governance norm.

Business Risk

Industry Dynamics Pakistan's media industry, particularly television and radio, has posted considerable growth in the last two decades as the broadcasting segment was opened for the private sector. Lately, the Pakistan Electronic Media Regulatory Authority (PEMRA) has issued licenses for FM Radio - 265, Cable TV - 4,152, and Satellite TV - 123. Advertisement has always been the main revenue generating segment for the media industry. During FY22, the ad segment has posted growth of ~17%, in terms of revenue. Going forward, media industry is becoming more digital and youth-oriented leading to a shift from traditional TV and print media to digital platforms. Moreover, the average daily viewership per person falls by ~14% due to consistent increase in the number of internet and social media users. The industry overall outlook is expected to remain stable, going forward.

Relative Position HUM Network is a prominent leader in the entertainment industry, with a market share of ~10.6%, during FY22.

Revenues HUM has a wide range of ventures that include Hum TV, Hum Sitaray, Hum Masala, Hum Films, and now Hum News as well. HUM's topline comprises revenue generated from advertisements (~ 71%) mainly, followed by subscription (~25%), production (~3%), digital medium (~1%) and film distribution (~0.03%). During FY23, the revenue stood at ~ PKR 7bln (FY22: ~ PKR 6bln), registering growth of ~17%. The growth was backed by increased viewership and Television Rating Points (TRPs) leading to higher advertisement income among all other segments.

Margins Margins displayed an upward trend. Gross profit margin rose to ~46%, during FY23 (FY22: ~41%), due to increase in per minute pricing along with increased ad campaigns being aired. The effect trickles down to operating profit margin and net profit margin. During FY23, the Company reported an operating margin ~27.3% (FY22: ~25.4%) owing to controlled production cost and expenses. Similarly, net profit margin improved to ~ ...% (FY22:~ ...%

Sustainability Going forward, the Company aims to diversify its revenue stream. For this, the Company has lately acquired broadcasting rights of Ten Sports and further plans to acquire Sphere Ventures, to make a mark in broadcasting kids content.

Financial Risk

Working Capital The Company's net working capital cycle remains stable and stood at 105 days as at FY23 (FY22: 100 days), supported by reduced payable days (FY23: 33 days, FY22: 34 days). Whereas, receivable days of the Company increased to 132 days as at FY23 (FY22: 127 days). Receivable days are elongated due to higher amount of receivable from related parties amounting to PKR 1,659mln as at FY23 (FY22: PKR 98mln).

Coverages Coverages is a function of free cash flows and finance cost. Free Cash Flows from Operations (FCFO) posted substantial uptick (FY23: PKR 1,912mln, FY22: PKR 1,523mln) due to increased profits. The finance cost saw a significant decrease as a result of reduced borrowing levels and reported at PKR 46mln (FY22: PKR 73mln).

Capitalization As at FY23, the leverage ratio improved (FY23: ~2.2.%, FY22: ~8.3%) as the total borrowings reduced by ~64% (FY23: PKR 165mln, FY22: PKR 462mln). The reduction was helmed mainly in the short term borrowings. Moreover, an increase in the shareholders' equity - backed by improved profits and an increase in the core equity - supported the leveraging ratio (FY23: PKR 7,246mln, FY22: PKR 5,097mln).

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Financial Summary
PKR mln

Hum Network Limited Media	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	1,964	1,772	1,788	1,948
2 Investments	589	1,127	502	242
3 Related Party Exposure	1,999	288	280	414
4 Current Assets	3,707	3,618	2,845	2,318
a Inventories	*103*	*107*	*117*	*122*
b Trade Receivables	*2,688*	*2,240*	*1,957*	*1,717*
5 Total Assets	8,259	6,804	5,416	4,921
6 Current Liabilities	848	1,245	625	516
a Trade Payables	*363*	*865*	*254*	*356*
7 Borrowings	165	462	728	1,356
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	7,246	5,097	4,063	3,049
11 Shareholders' Equity	7,246	5,097	4,063	3,049
B INCOME STATEMENT				
1 Sales	6,826	6,019	4,327	3,679
a Cost of Good Sold	*(3,667)*	*(3,555)*	*(2,705)*	*(2,895)*
2 Gross Profit	3,159	2,464	1,623	784
a Operating Expenses	(1,295)	(933)	(899)	(755)
3 Operating Profit	1,864	1,531	724	29
a Non Operating Income or (Expense)	*622*	*57*	*484*	*76*
4 Profit or (Loss) before Interest and Tax	2,486	1,588	1,208	105
a Total Finance Cost	*(46)*	*(73)*	*(100)*	*(241)*
b Taxation	*(291)*	*(151)*	*(93)*	*23*
6 Net Income Or (Loss)	2,149	1,364	1,014	(113)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,912*	*1,523*	*896*	*244*
b Net Cash from Operating Activities before Working Capital Changes	*1,929*	*1,474*	*817*	*(0)*
c Changes in Working Capital	*(2,168)*	*346*	*(200)*	*(156)*
1 Net Cash provided by Operating Activities	(239)	1,819	617	(156)
2 Net Cash (Used in) or Available From Investing Activities	158	(755)	236	598
3 Net Cash (Used in) or Available From Financing Activities	(304)	(587)	(639)	(152)
4 Net Cash generated or (Used) during the period	(386)	478	214	289
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.4%	39.1%	17.6%	-7.5%
b Gross Profit Margin	46.3%	40.9%	37.5%	21.3%
c Net Profit Margin	31.5%	22.7%	23.4%	-3.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-3.8%	31.0%	16.1%	2.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	34.8%	29.8%	28.5%	-3.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	137	134	165	191
b Net Working Capital (Average Days)	105	100	139	141
c Current Ratio (Current Assets / Current Liabilities)	4.4	2.9	4.6	4.5
3 Coverages				
a EBITDA / Finance Cost	47.6	24.3	9.9	1.9
b FCFO / Finance Cost+CMLTB+Excess STB	15.4	4.0	1.9	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.3	0.9	335.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	2.2%	8.3%	15.2%	30.8%
b Interest or Markup Payable (Days)	1.8	21.8	29.7	4.3
c Entity Average Borrowing Rate	16.8%	11.2%	9.5%	15.9%

Credit Rating

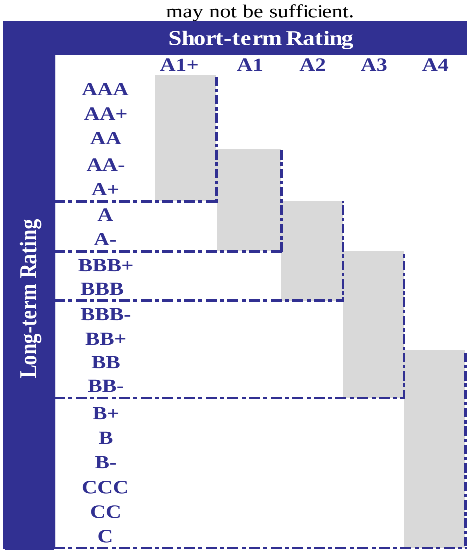
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information