



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
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	-
23-Jun-2017	A+	A1	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned 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 the entertainment segment, the Company has expanded into multiple TV ventures on a timeline basis including Hum Masala, Hum Sitaray and Hum News. During the year HUM News channel showed improvement and witnessed positive outcomes. 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. With a view to sustainable diversified revenue streams, management is building upon various revenue segments including the growing 'Subscription Income' component as well as the development of Hum News. Furthermore, the Company intends to acquire Tower Sports (Pvt.) Ltd., a company that currently holds the landing rights of Ten Sports and Ten Sports 2. In addition to that, the Company also intends to acquire Sphere Ventures (Pvt.) Ltd, a Company which deals in kid's content. Furthermore, in order to enhance revenue streams, Hum Network FZ LLC 100% owned by HUMNL entered into an agreement with GS Group Inc. as a general partner and is planning to launch a fund named "Pakistan Katalatic Funds (PKF)" with the expected size of USD~ 50mln. These expansionary plans are further expected to strengthen the business and financial prospects of the Company. The strategic change, expanded business horizon & financial gains have bode well for the Company and contributed towards extinguishing of "Rating Watch".

The ratings are dependent upon the sustained business profile of the Company. Improvement in the financial risk profile is vital, significant increase in investment book (TFC's & Mutual Funds) which will strengthen the bottom line and have an impact on the Company's performance 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-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Media(Mar-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@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 PSX under the symbol 'HUMNL'.
Background The Company was established 18 years ago and received the license to operate an International Satellite Television from PEMRA in October 2004. The Company commenced operations in 2005.
Operations HUMNL provides programs that cover diverse aspects, including information, entertainment, news, food, etc. The head office of HUMNL 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.

Ownership

Ownership Structure Major stake in the Company is held by family members. Mr. Duraid Qureshi holds 45.7%, Mr. Shunaid Qureshi holds 5.2%, and Ms. Sultana Siddiqui holds 0.02%. While 49.08% of shares are owned by FIs, Mutual Funds and general public.
Stability The sponsoring family envisages long-term association with the Company. This is further highlighted by the fact that the sponsoring family holds the majority of the company's shareholdings.
Business Acumen The business acumen of the sponsors is reflected in the way the Company has expanded its channel base and diversified into new revenue streams. The involvement of the group as one of the leading media houses in Pakistan with a presence reaching abroad serves as reassuring evidence.
Financial Strength Sponsoring family has a prominent position in the Pakistan media industry, and having vast & vigorous experience in the media sector strengthens the financial muscles of the Company.

Governance

Board Structure The Company has nine members board. The composition of the board consists of five non-executive followed by two independent and two executive members. The Board has formed two sub-committees, namely (i) Audit Committee & (ii) HR and Remuneration Committee.
Members' Profile The Board is chaired by Mr. Mazhar ul Haq Siddiqui. Mr. Siddiqui received a graduate degree from Quaid-i-Azam University and has diversified professional experience. Other members possess adequate experience and have been associated with HUM Network for a considerable period of time. Board members' extensive industry knowledge, assists in providing useful insight across the value chain of business.
Board Effectiveness BoD members meet on a minimum quarterly basis, wherein the agenda for discussion includes approval of financial statements, the future strategy, progress of ongoing projects, as well as any hurdles or issues noted and necessary recommendations and actions to resolve them.
Financial Transparency M/s EY Ford Rhodes, Chartered Accountants are the External Auditors of the Company. They expressed an unqualified opinion on the financial statements of HUMNL for FY22.

Management

Organizational Structure HUMNL has well-defined reporting lines in place 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, HR, sales & marketing, and Administration are consolidated at the network level and report to the CEO.
Management Team The management team of the Company comprises well-qualified and seasoned professionals in 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 advanced management program from Harvard Business School in 2009.
Effectiveness Clear lines of responsibility are defined for each department. However, 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 the production environment. Oracle modules cover HR, Payroll, Purchasing, Inventory, and Financials are live on production at Lahore and Islamabad locations.
Control Environment Control Environment The Company defines clear lines of responsibilities. Strong ERP (Oracle) and continuous upgrades in technology would add to the strength of the internal control system. The Internal Audit function – outsourced to M/s KPMG Taseer Hadi & Co. Chartered Accountants – reports to the Board Audit Committee, in line with the code of Corporate Governance.

Business Risk

Industry Dynamics Pakistan's media industry, particularly television and radio, bloomed in the last two decades after the broadcasting sector was opened up to private players in 2002. As of February 2022, the PEMRA has issued a total of 122 Satellite TV licenses and 4,084 Cable TV licenses. In FY21, the size of the media industry in terms of advertisement revenue stood at PKR~75.6bln, an increase of ~29% from the previous year when advertising revenue stood at PKR~58.6bln. PEMRA has also issued 235 FM Radio licenses along with 70 other licenses including Landing Rights Permissions, Mobile TV, Internet Protocol TV (IPTV), and Direct-to-Home (DTH) licenses. In addition, there are over 700 newspapers and periodicals currently being published in the country. Pakistan's media industry is categorized into different segments with television capturing more than 75% of the market share, though TV viewership has declined in recent years due to technological advancement and the rise of social media.
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 business risk profile of Hum Network is also supported by a wide bouquet of channels and a strong presence in the country. The flagship channel, Hum TV, has strong brand equity, which is reflected in revenue earned. During FY22, the Company's performance witnessed a significant improvement, net revenue clocked in at PKR~6.0bln (FY21: PKR~4.3bln). The topline composition remained tilted towards Advertisement with 74% from Advertisement, 22% Subscription, 2% Production, and 2% from Digital sources.
Margins The Company's margins displayed an upward-trending outlook. During FY22, the gross margin improved to 40.9% (FY21: 37.5%), this was on account of better cost controlling. The cost of production comprises a major portion of the cost incurred in lieu of the launch of Hum News, which resulted in the massive decline of gross margin in prior annuals. Net margin of HUMNL shows a healthy trend FY22~ 22.7% (FY21: 23.4%). Previously the spike in Net Margin was partly due to a non-recurring gain on the sale of land.
Sustainability The Company has established a formidable brand name in its related business segments. The Company issued a notice to acquire "Tower Sports" and "Sphere Ventures" which further strengthens the Company's profile, to further diversify revenue streams HUM Network FZ 100% owned subsidiary of HUMNL, entered into an agreement with GS group to launch "Pakistan Catalytic Fund" with the expected size of USD~ 50mln. The management expects swift resolution of the legal proceedings pertaining to the election of directors.

Financial Risk

Working Capital HUMNL's net working capital days showed improvement, as compared to prior years, in FY22 net working capital days reduced to~ 101 days (FY21: 141days, FY20: 143days), and improvement is also witnessed in trade receivable and payable days FY22: 127 days (FY21: 155, FY20: 173days), trade payables days to 34 days (FY21: 26days).
Coverages Debt protection metrics continue to be robust in the decreasing trend of borrowing and healthy FCFO – improved greatly by 70% mainly due to cost controlling and healthy revenues. A very strong coverage ratio (EBITDA/Finance Cost) was reported 24.3x as at end-Jun22 (FY21: 9.9x).
Capitalization During FY22 the Company witnessed a decrease of~58% of its total borrowings, HUMNL recorded total borrowings at PKR~ 461mln (FY21: PKR~728mln, FY20: PKR~1.3bln).



Hum Network Limited Media	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	1,772	1,788	1,948	1,849
2 Investments	1,127	502	242	838
3 Related Party Exposure	288	280	414	440
4 Current Assets	3,618	2,845	2,318	2,566
<i>a Inventories</i>	107	117	122	233
<i>b Trade Receivables</i>	2,240	1,957	1,717	1,777
5 Total Assets	6,804	5,416	4,921	5,693
6 Current Liabilities	1,245	625	516	859
<i>a Trade Payables</i>	865	254	356	656
7 Borrowings	462	728	1,356	1,677
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	5,097	4,063	3,049	3,157
11 Shareholders' Equity	5,097	4,063	3,049	3,157

B INCOME STATEMENT

1 Sales	6,019	4,327	3,679	3,979
<i>a Cost of Good Sold</i>	(3,555)	(2,705)	(2,895)	(3,688)
2 Gross Profit	2,464	1,623	784	291
<i>a Operating Expenses</i>	(933)	(899)	(755)	(813)
3 Operating Profit	1,531	724	29	(522)
<i>a Non Operating Income or (Expense)</i>	57	484	76	211
4 Profit or (Loss) before Interest and Tax	1,588	1,208	105	(311)
<i>a Total Finance Cost</i>	(73)	(100)	(241)	(143)
<i>b Taxation</i>	(151)	(93)	23	(81)
6 Net Income Or (Loss)	1,364	1,014	(113)	(536)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,523	896	244	(249)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,474	817	(0)	(389)
<i>c Changes in Working Capital</i>	346	(200)	(156)	368
1 Net Cash provided by Operating Activities	1,819	617	(156)	(20)
2 Net Cash (Used in) or Available From Investing Activities	(755)	236	598	(515)
3 Net Cash (Used in) or Available From Financing Activities	(587)	(450)	(341)	145
4 Net Cash generated or (Used) during the period	478	403	100	(390)

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	39.1%	17.6%	-7.5%	-13.7%
<i>b Gross Profit Margin</i>	40.9%	37.5%	21.3%	7.3%
<i>c Net Profit Margin</i>	22.7%	23.4%	-3.1%	-13.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	31.0%	16.1%	2.4%	3.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	29.8%	26.2%	-3.4%	-17.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	135	166	193	185
<i>b Net Working Capital (Average Days)</i>	101	141	143	139
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.9	4.6	4.5	3.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	24.3	9.9	1.9	-1.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	4.0	1.9	0.5	-0.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.3	0.9	335.8	-3.6
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	8.3%	15.2%	30.8%	34.7%
<i>b Interest or Markup Payable (Days)</i>	21.8	29.7	4.3	14.4
<i>c Entity Average Borrowing Rate</i>	11.2%	9.5%	15.9%	9.8%

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

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(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 | 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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