January 15, 2016

CARE REVISES THE RATING ASSIGNED TO THE NCD ISSUE AND WITHDRAWS RATING ASSIGNED TO BANK FACILITY OF ZEE LEARN LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Non-Convertible Debenture (NCD) issue@	**65 (Rupees Sixty Five crore only)**	**CARE AA+ (SO) (Double A Plus Structured Obligation)**	Revised from CARE AA(SO) (Double A (Structured Obligation)
Long-term Bank Facility	0.00	**-**	Withdrawn

@ backed by unconditional & irrevocable Corporate Guarantee extended by Zee Entertainment Enterprise Limited for maintaining Debt Service Reserve Account (DSRA) to top up the reserve account to meet any shortfall in servicing outstanding obligations of the said debentures, seven days prior to the due date.

Rating Rationale

The revision in ratings assigned to NCD issue of Zee Learn Limited (ZLL) factors in the revision in the credit rating of the Guarantor – Zee Entertainment Enterprise Limited (ZEEL), rated CARE AA+/ A1+.

The above ratings are based on the credit enhancement in the form of corporate guarantee of Zee Entertainment Enterprises Ltd (ZEEL rated CARE AA/A1+) for maintaining Debt Service Reserve Account (DSRA) to top up the reserve account to meet any shortfall in servicing outstanding obligations of the said debentures, seven days prior to the due date.

CARE has withdrawn the rating assigned to the bank facility of Zee Learn Limited amounting Rs.45 crore with immediate effect, due to extinguishment of the said facility as the company has fully repaid the amounts under the said issue and there is no amount outstanding under the facility as on date.

Rating Rationale of Guarantor (ZEEL)

The revision in the ratings assigned to the bank facilities of ZEE Entertainment Limited (ZEEL) factors in the consistent increase in the scale of operations with healthy profitability over the years and moderation in the quantum of Debt Service Reserve Account (DSRA) support extended to group companies on account of improvement in financial performance of the underlying entities.

The ratings continue to derive strength from the well-established promoter group with a long track record in the media and entertainment industry, large bouquet of channel offerings covering a wide genre of entertainment, positioning of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) in terms of Television Viewership and platform for distribution with a wide subscriber base and ample growth opportunity with mandatory digitalization. The ratings are further strengthened by its comfortable financial risk profile characterized by healthy debt coverage indicators and sizeable cash reserves and liquid investments.

However, the above rating strengths are tempered by the volatile nature of the main source of revenue, ie, advertisement revenues, which is sensitive to key economic indicators and regulatory changes. Furthermore, the ratings

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

also factor in changing trends in the media sector, intense competition and losses in the sports business. Going forward, the ability of ZEEL to retain/ increase its flagship channel position among the top six Hindi GECs, self-sustainability of the sports business and group companies to which ZEEL has extended DSRA support, increase in the overall revenue and improve profitability from digitalization amidst increasing competition are the key rating sensitivities.

Background

Zee Learn Limited (ZLL) is a part of the Essel group and was incorporated in the year 2010. It is a child development and education company which operates K-12 schools under the brand name “Mount Litera Zee Schools”, pre-schools under name “Kidzee”, and vocational academy “ZICA” and “ZIMA”. Additionally, it provides learning kits under “Brain CAFÉ” brand. ZLL also acts as a consultant to local entrepreneurs who wish to setup K-12 schools, Kidzee pre-school and provides end to end education management and advisory services.

As on March 31, 2015, Mount Litera Zee School one of the largest chain of schools in the private-unaided category with over 89 schools in more than 75 cities. ZLL also runs Asia's No. 1 chain of pre-schools, Kidzee with more than 1350+ pre-schools in 550 + cities. Kidzee is a pioneer in organized and standardized pre-schooling in the country. Kidzee has catered to more than 400,000 children since its inception in 2003.

ZLL has one subsidiary Digital Ventures Private Limited (DVPL), which is an EPC (Engineering Procurement and Construction) company engaged in owning, developing and leasing the school infrastructure and ancillary assets required in educational business.

On consolidated basis, during FY15 (refers to the period April 1 to March 31), ZLL posted a total income of Rs.131.60 crore and net profit of Rs.9.89 crore compared to total income of Rs. 122.36 crore and net loss of Rs.1.33 crore in FY14. Furthermore, in H1FY16, ZLL posted a total income of Rs.66.49 crore and PAT of Rs.5.03 crore compared to total income of Rs.60.06 crore and PAT of Rs.4.70 crore in H1FY16.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CIN - L67190MH1993PLC071691