MARCH 24, 2015

CARE ASSIGNS 'IN-PRINCIPLE CARE AA (SO)' RATINGS TO THE PROPOSED NCD ISSUE OF ZEE LEARN LIMITED

Ratings

Instrument/Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Non-Convertible Debenture (NCD) issue	65	In-principle CARE AA (SO) [Double A (Structured Obligation)]*	Assigned
Total	65		

**The facility is proposed to be backed by undertaking(unconditional and irrevocable) from Zee Entertainment Enterprises Ltd (ZEEL rated CARE AA/ A1+) for securing funding of Debt Service Reserve Account (DSRA) to cover any shortfall in servicing outstanding obligations of the said debentures 7 days prior to the due date as per the NCD repayment schedule.*

Rating Rationale

The ratings of ZEEL 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 and 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. The ratings are further strengthened by the comfortable financial risk profile characterized by healthy debt coverage indicators and significant cash reserves and liquid investments.

However, the above rating strengths are tempered by the volatile nature of the main source of revenue I e advertisement revenues, which is sensitive to key economic indicators and regulatory changes. Furthermore, the ratings also factor in changing trends in the media sector, intense competition, continued losses in the sports business and continued extensive support majorly extended to one of the associate Siti Cable Network Ltd (SCNL). 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 associate companies to which ZEEL has extended DSRA guarantee, increase in the overall revenue and improve profitability from digitalization amidst increasing competition are the key rating sensitivities.

Background

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" (MLZS), 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, 2014, 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.

During FY14 (refers to the period April 1 to March 31), ZLL posted on a standalone basis a total income of Rs.122.36 crore and net loss of Rs.1.33 crore as against total income of Rs.100.70 crore and net loss of Rs.21.22 crore in FY13. Furthermore, in 9MFY15, ZLL posted total income of Rs.82.80 crore and PAT of Rs.5.80 crore.

About the Guarantor (ZEEL)

Zee Entertainment Enterprises Limited (ZEEL), a part of the Essel group is one of India's leading television media and entertainment companies in India with a wide viewer base of over 730 million across 169 countries. ZEEL operates a wide bouquet of 33 domestic channels and 35 international channels covering all genres of entertainment as on March 31, 2014. ZEEL's activities include content aggregation, TV broadcasting and domestic & international pay-TV platform. ZEEL is one of the largest aggregators of Hindi programming in the world, with an extensive library housing over 120,000 hours of television content and with rights of over 3,500 movie titles. As on March 31, 2014 ZEEL has 19 subsidiaries (including step down) in India and overseas.

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

On a consolidated basis, ZEEL posted a total income of Rs.4,589.50 crore in FY14 vis-a-vis Rs.3,819.90 crore in FY13 and PAT of Rs.890.20 crore vis-à-vis Rs.717.20 crore in FY13. During 9MFY15, ZEEL posted a total operating income of Rs.3707.94 crore (vis-à-vis Rs.3428.01 crore in 9MFY14) on a consolidated basis and PAT of Rs.743.56 crore (vis-à-vis Rs.673.80 crore in 9MFY14).

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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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