

OCTOBER 27, 2016

CARE REAFFIRMS THE RATING ASSIGNED TO THE NCD ISSUE OF ZEE LEARN LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Non-Convertible Debenture (NCD) issue@	65	CARE AA+ (SO) (Double A Plus Structured Obligation)	Reaffirmed
Total Facilities	65 (Rupees Sixty Five crore only)		

@ backed by unconditional & irrevocable Corporate Guarantee extended by Zee Entertainment Enterprise Limited (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.

Rating Rationale

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.

Rating Rationale of Guarantor (ZEEL)

The reaffirmation of ratings assigned to the bank facilities of ZEE Entertainment Limited (ZEEL) continue to derive strength from the well-established promoter group (Essel) 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 comfortable financial risk profile characterized by consistent increase in the scale of operations with healthy profitability over the years, moderation in the quantum of Debt Service Reserve Account (DSRA)/ Maintenance Reserve Account (MRA)/ support extended to group companies on account of improvement in financial performance of the underlying entities, healthy debt coverage indicators and sizeable cash reserves and liquid investments bolstering liquidity profile.

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 and intense competition. Going forward, the ability of ZEEL to retain/ increase its flagship channel position among the top six Hindi GECs, self-sustainability

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

of the 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

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, 2016, ZLL has two subsidiaries. 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. The other subsidiary is Academia Edificio Private Limited, a newly formed wholly-owned subsidiary, incorporated on January 14, 2016, is yet to commence its operations.

As on March 31, 2016, Mount Litera Zee School one of the largest chain of schools in the private-unaided category had 103 schools in 98 cities. Zee Learn also runs Asia's No. 1 chain of pre-schools, Kidzee with more than 1,550 pre-schools in 550 + cities. Kidzee is a pioneer in organised and standardised pre-schooling in the country.

On consolidated basis, during FY16 (refers to the period April 1 to March 31), ZLL posted a total income of Rs.153.31 crore and net profit of Rs.15.08 crore compared with total income of Rs.131.60 crore and net profit of Rs.9.89 crore in FY15. Furthermore, in Q1FY17, ZLL posted a total income of Rs.42.06 crore and PAT of Rs.8.02 crore compared with total income of Rs.35.79 crore and PAT of Rs.3.96 crore in Q1FY16.

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

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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