

Zee Learn Limited

March 07, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Non-Convertible Debenture (NCD) issue [@]	65.00	CARE AA+ (SO); Stable [Double A Plus (Structured Obligation)]; Outlook: Stable]	Reaffirmed

Details of instrument in Annexure-1

@ Backed by unconditional and irrevocable Corporate Guarantee extended by Zee Entertainment Enterprises Limited (rated CARE AA+; Stable/CARE 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.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Zee Entertainment Enterprises Limited (ZEEL; rated CARE AA+; Stable/CARE A1+) for the instrument raised by Zee Learn Ltd. (ZLL).

Rating Rationale of the Guarantor (ZEEL)

The credit profile of ZEE Entertainment Limited (ZEEL) continues to derive strength from its well-established promoter group (Essel) having a long track record in the media and entertainment industry, wide platform for distribution with a large bouquet of channel offerings covering a wide genre of entertainment, position of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) in terms of Television Viewership. The credit profile is further strengthened by the improvement in operating performance achievable through sale of its low monetizing sports business and the strategic takeovers undertaken during the past 12 months, 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)/ support extended to the group companies on account of improvement in financial performance of the underlying entities, healthy debt coverage indicators as well as sizeable cash reserves and liquid investments bolstering the liquidity profile.

The above strengths are however tempered by the volatile nature of the main source of revenue i.e. advertisement revenue which is sensitive to key economic indicators and regulatory changes. Furthermore, the ratings also factor in the changing trends and increasing competition faced by the media sector.

Going forward, the ability of ZEEL to retain/ increase its flagship channel position amongst the top four Hindi GECs, self-sustainability of the group companies to which ZEEL has extended DSRA support as well as increase in the overall revenue and profitability amidst the changing trends and increasing competition faced are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and experienced management

The promoters of ZEEL have been in the media & entertainment business for more than two decades as the flagship channel (Zee TV) was launched in 1992. Since then, the single channel entity has evolved into a Media and Entertainment conglomerate with more than 240,000 hours of television content offering 32 domestic and 39 international channels. The promoters have been closely involved in the overall business strategy with expansion of their large bouquet of channels to overseas market and strategically investing in advanced media technology. ZEEL is headed by Mr. Punit Goenka, Managing Director & CEO while the international business is being managed by Mr. Amit Goenka. Further, the promoters are supported by well experienced and qualified management team.

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

Strong recognition of brand ZEE and diversification of business operations across varied segments

ZEE brand has a strong recognition in the media and entertainment industry given its long and successful track record. Further, ZEEL and its affiliate companies have presence across varied media value chains including television broadcasting, cable distribution, direct-to-home satellite service, digital media, multiplexes, amusement parks and print media amongst others. ZEEL's portfolio is diversified across varied segments including broadcasting in domestic and international market, production and distribution of films across several languages, launching leading music labels, organizing various live entertainment events and content distribution through digital space namely through the OTT platform established i.e. ZEE5 and through its 24 online portals managed by its subsidiary – India Webportal Pvt. Ltd.

Large bouquet of channel offerings

Over the past 25 years, ZEEL has built a strong portfolio of 32 domestic and 39 international channels. ZEEL owns 13 dedicated non-Indian language channels that offer content to the audiences in their local languages. During FY17 and 9MFY18, ZEEL undertook various strategic transactions such as acquisition of the television broadcasting portfolio (i.e. two channels - Big Magic and Big Ganga) of Reliance Broadcast Networks Limited (RBNL) and acquired a bouquet of six music channels of 9X Media Pvt. Ltd. It also added 3 channels i.e. ZEE Yuva (a youth focused Marathi channel), ZEE Anmol Cinema (a FTA channel broadcasting hindi GEC) and ZEE Cinemalu (Telugu movie channel), to its existing portfolio. Such additions/acquisitions would offer ZEEL multiple synergies with the existing portfolio thus strengthening its overall reach in the market.

Decline in the Corporate Guarantee extended to the group companies

ZEEL has extended various off balance sheet support to its group entities (Zee Learn Limited and Siti Networks Limited). The guarantees are in the nature of performance guarantees extended to meet various contractual obligations (mainly concerning broadcasting rights) and to maintain DSRA (Debt Service Reserve Account) for a stipulated size wherein ZEEL would make good the shortfall within the stipulated time as specified in the agreement. However, these companies have demonstrated their ability to manage their operations on a standalone basis through internal accruals generated/raising additional debt. The overall gearing ratio of ZEEL (post including the guarantees extended) remains comfortable at 0.40x as on March 31, 2017 (as compared to 0.52x as on March 31, 2016).

Comfortable debt coverage indicators and liquidity profile

ZEEL has a comfortable overall gearing and debt coverage indicators marked by comfortable total debt to GCA (Gross Cash Accruals) and interest coverage as shown in the table mentioned below:

Particulars	FY16	FY17
Total Debt/GCA (years)	1.92	0.83
Overall Gearing(x)	0.36	0.29
Overall Gearing(x)*	0.52	0.40
Interest Coverage (x)	10.50	15.50

**includes corporate guarantees given to group companies*

Furthermore, ZEEL has strong liquidity profile supported by liquid investments of Rs.1033 crore (Rs.759 crore as on March 31, 2016) and cash and bank balance of Rs.2612 crore (Rs. 962 crore as on March 31, 2016) as on March 31, 2017. The debt coverage indicators of ZEEL continue to remain strong and with continued growth in total income, stable profitability margin and retention of large portion of profits, the existing leverage is expected to reduce in the near term with redemption of Preference shares and decrease in corporate guarantees extended to group companies.

Improvement in operating performance and liquidity profile on sale of sports business

Due to low monetization realized from Sports business, ZEEL sold the broadcasting rights to Sony Pictures Network for a total consideration of USD 385 million. The sale would enable ZEEL to improve its operating performance going forward which can be reflected in the decline in the content cost incurred as a % of revenue i.e. 37% during 9MFY18 as compared to 43% during 9MFY17. The sale proceeds received are to be utilized to redeem the outstanding preference shares of Rs. 2015 crore.

Key Rating Weaknesses

Industry Outlook

The Phase IV digitalization that is pending to be completed would enable the broadcasters to improve the monetization of subscribers in the newly digitized markets thus increasing the pay television ARPU. However, the advertising revenue that constitutes a major source of revenue gets impacted by macroeconomic factors and rating performance of the channels. Also, the changing trends and increasing competition imposed by alternative platforms such as the OTT platforms, IPTV forms a key rating sensitivity.

Analytical approach: Consolidated

In view of the strong operational and financial linkages, the consolidated financials of ZEEL (guarantor) have been considered for analytical purposes.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Rating Methodology - Service Sector Companies](#)
[Financial ratios – Non-Financial Sector](#)

About Zee Learn Limited

Zee Learn Limited (ZLL) is a part of 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 the 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, 2017, ZLL has three subsidiaries - Digital Ventures Private Limited (DVPL), Academia Edificio Private Limited (AEPL) and Liberium Global Resources Private Limited (LGRPL). DVPL is an EPC (Engineering Procurement and Construction) company engaged in owning, developing and leasing the school infrastructure and ancillary assets required in educational business. LGRPL, incorporated on March 27, 2017, is yet to commence its operations.

As on March 31, 2017, Mount Litera Zee School was the second largest amongst the chain of schools in the private-unaided category with over 115 schools in 105 cities. Zee Learn also runs one of the leading chain of pre-schools, Kidzee with more than 1705 pre-schools in 650 + cities. Kidzee is a pioneer in organized and standardized pre-schooling in the country.

About Zee Entertainment Enterprises Limited (Guarantor)

Zee Entertainment Enterprises Ltd (ZEEL), part of Essel group, is a worldwide media brand offering entertainment content to diverse audiences. With a presence in over 172 countries and a reach of more than a billion people around the globe, ZEEL is amongst the largest global content company across genres, languages and platforms. It is present across broadcasting, movies, music, live entertainment and digital business both within India and overseas. It has more than 240,000 hours of television content offered through 32 domestic and 39 international channels. ZEEL houses the world's largest film library and has rights to more than 4200 movie titles across various languages. It has produced several movies for theatrical releases and is the fastest growing music label in India.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	5988	6599
PBILDT	1677	2128
PAT	892	2112
Overall gearing (times)	0.36	0.29
Interest coverage (times)	10.50	15.50

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: 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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Annexure-1: Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	FY15	10.40%	FY20	65.00	CARE AA+ (SO); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (25-Feb-15) 2)CARE AA (SO) (11-Sep-14)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (15-Jan-16)	1)CARE AA (SO) (11-Sep-14)
3.	Debentures-Non Convertible Debentures	LT	65.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO) (27-Oct-16)	1)CARE AA+ (SO) (15-Jan-16) 2)CARE AA (SO) (12-May-15)	1)CARE AA (SO) (In Principle) (24-Mar-15)

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