

Zee Learn Limited (Revised)

July 07, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Actions
Non-Convertible Debenture issue	65.00 (Rupees Sixty Five crore only)	CARE B ;Negative [Single B; Outlook: Negative]	Revised from CARE AA (CE@) [Double A (Credit Enhancement)] (Credit watch with negative implications)

Details of instruments in Annexure-1

@Backed by unconditional and irrevocable Letter of Undertaking (LOU) by Zee Entertainment Enterprises 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, atleast seven days prior to the due date.

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debentures (NCD) of Zee Learn Limited (ZLL) was based on unconditional and irrevocable Letter of Undertaking (LOU) by Zee Entertainment Enterprises Limited (ZEEL). The current outstanding on the NCDs stands at Rs.44crores, which is due on July 08, 2020. As per structure, ZLL was to deposit the NCD obligations into the DSRA account atleast 30 days prior to the due date, and in case of shortfall, ZEEL would pay the balance amount into the DSRA account, atleast 7 days prior to the due date i.e. July 2, 2020. However, owing to severe constraints in the operational cashflows, ZLL has not funded the DSRA account till date. As on July 2, 2020, ZEEL also has not funded the DSRA account and the account is still in the process of being created by the Debenture Trustee. Given the non-adherence to the structure, and non-funding of shortfall in NCD obligations by ZEEL, the benefit of Credit Enhancement can no longer be given to the NCDs. Further, the rating revision factors in high likelihood of default in NCDs on July 08, 2020 owing to the severe constrains in the operational cashflows faced by ZLL.

Key Rating Drivers of Zee Learn Limited (ZLL)

The rating assigned to the NCDs take into account severe operational cashflow constraints faced by ZLL as a result of government regulation not allowing the company, to collect school fee during the lockdown period. The ratings also factors in the inherent regulatory risk in the education sector, intense competition from well-entrenched players in education Sector and reduced financial flexibility with significant pledge of ZLL's promoters' holding.

However, the ratings favourably factor in the long standing experience of promoters, strong brand recognition of the Pre-schools, K-12 schools and vocational schools, presence in pan-India, and improvement in PBILDT margins during 9MFY20. The ratings also favourably factors improvement in net gearing and coverage indicators as on December 31, 2019.

CARE also takes cognizance of the company applying for moratorium on term loan repayment and working capital facilities with its Banks as a COVID relief measure (as permitted by the Reserve Bank of India).

Outlook: Negative

The negative outlook factors in inability of the company to repay the NCDs due on July 8th, 2020, due to severe constrains in operational cashflows.

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

Rating Sensitivities

Positive factor

ZLL is able to service the NCD obligations falling due on July 08 2020

Negative factor

ZLL is unable to service the NCD obligations falling due on July 08, 2020

Detailed description of the key rating drivers

Key Rating Weaknesses

Reduced financial flexibility with significant pledge of ZLL's shares

As on March 31, 2020, the promoters held 57.17% of the total shareholding, of which 81.48% is pledged. This reduces the financial flexibility available to promoters to raise additional funds.

Highly regulated Education sector

The revenue of ZLL is dependent on the fees collected from the students enrolled in the school. Hence, the company is indirectly impacted by the regulatory changes in the education sector. Education falls in the Concurrent List of the Constitution of India i.e. both the centre and the states have the authority to legislate on it. Primary and secondary education in India is subject to regulatory control, and educational institutions need to comply with central as well as state-specific regulations (unless expressly excluded). Under Indian laws, predominantly, an educational institution school can only be set up in the form of a non-profit entity i.e. either as a charitable trust or a society or a Section 8 Company (a non-profit company under the Companies Act, 2013), which are of a not-for-profit character. Further, legislations regulating fee have been enacted in a few states, and have a direct bearing on the fee that can be changed by schools, specifically private unaided schools, which receive no grant or aid from the government.

Impact of Covid-19

ZLL provides education services to schools, and depends on school fees for revenues. During the Covid-19 lockdown, the Maharashtra Education department did not allow the schools to collect fee, which led to severe decline in the operational income of ZLL. Even though the operational income reduced, the fixed expenses – employee costs, utility expenses, rentals on school buildings etc remained more or less constant, which has created severe liquidity issues for the company.

Key Rating Strengths***Strong promoter group and experienced management***

ZLL is an Essel Group Company listed on National Stock Exchange, Bombay Stock Exchange and on Luxemburg Stock Exchange. Essel Group has been in the media and entertainment business for more than two decades, as the flagship channel (Zee TV) was launched in 1992. ZEE brand has a strong recognition in the media and entertainment industry given its long and successful track record. Further, Essel Group has a presence across allied media value chains including television broadcasting, cable distribution, direct-to-home satellite service and digital media amongst others. The group is headed by Mr. Subhash Chandra while the media business is headed by his son Mr. Punit Goenka. The promoters are well supported by experienced and qualified management team.

Established Presence of ZLL in to growing education segment along with diverse presence:

ZLL has a diverse presence in to education segment starting from Preschools to K-12 Schools to Higher education as well as vocational schools. Under its preschools segment, the company runs Kidzee which is one of Asia's largest preschool network. Under K-12, ZLL runs Mount Litera Zee School is the fastest growing chain of K-12 schools with c.139 schools in its network across over 110 cities. Apart from this company also runs 'Zee Institute of Media Arts' (ZIMA), a TV and Film training institute, offers Certificate courses in direction, acting, sound, editing, production and cinematography. ZLL also runs 'Zee Institute of Creative Art' (ZICA), which provides training in classical and digital animation.

Key Business Indicator

	AY 2017-18	December 2018 end	AY 2018-19	December 2019 end
Pre K Schools	1831	1849	1939	1916
K-12 Schools	124	128	130	139
Pre K Students	127,889	137,863	137,792	137,981
K-12 Students	55,628	56,836	63,328	77,705

AY=Academic Year

Healthy profitability margins

During 9MFY20, Total Operating Income (TOI) grew on y-o-y 18.16% to Rs 441.01crore, while the PBILDT margins improved by 735 basis points (bps) to 41.40%. Consequent to improved operating margins the gross cash accruals during 9MFY20 also witnessed a significant improvement to Rs.117.35 crore. ZLL has a diversified portfolio with presence in both core, and supplementary education, as well as strong brand name, which has helped the company to report healthy PBIDLT margins on sustained basis.

Comfortable capital structure and debt coverage indicators

ZLL has a comfortable capital structure marked by net gearing at 1.03x as at December 31, 2019 and healthy debt coverage indicators. As a result of acquisition of MT Educare, a dominant player in supplementary education during FY19 and consequent recognition of goodwill the tangible networth of ZLL on a consolidated basis had deteriorated to Rs.220.37 crore as at March 31, 2019 as against Rs.331.85 crore as on March 31, 2018. The acquisition also resulted in debt increasing to Rs.436crore as on March 31, 2019 (including addition of Rs.104crore of term loan of MT Educare). As a result of the acquisition of MT Educare, net gearing had deteriorated from 0.71x as on March 31, 2018 to net gearing of 1.88x as on March 31, 2019. However, owing to accretion of profits to networth consequent to improvement in profitability margins coupled with scheduled repayment, the net gearing of ZLL on a consolidated basis improved to 1.03x as on December 31, 2019 as against 1.88x as on March 31, 2019. Further, Net Debt to Gross Cash Accruals improved to 2.53x as on December 31, 2019 as against 3.57x as on March 31, 2019. The interest coverage improved from 3.75x during 9MFY19 to 3.97x during 9MFY20 despite higher interest cost.

Liquidity profile: Poor

The liquidity profile is poor as there has been a sharp drop in the operational income of the company due to covid-19 lockdown. Further the working capital limits of company are fully utilized, and it has availed moratorium from banks, available under the RBI circular dated March 26, 2020.

Analytical Approach: Consolidated

CARE has considered consolidated financials of ZLL, while arriving at the ratings owing to operational linkages and financial linkage. The consolidated financials of ZLL include financials of its various subsidiaries and step down subsidiaries, list of subsidiaries and step down subsidiaries of ZLL is attached as Annexure-3.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating methodology: Service Sector Companies](#)

[CARE's Policy: Credit Enhanced Debt](#)

[CARE's policy: Liquidity Analysis of Non-Financial Sector Entities.](#)

About the Company

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 name "Kidzee", and vocational academy "ZICA" and "ZIMA". 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. ZLL had acquired MT Educare Limited (MTL) on May 25, 2018. The group had purchased 100% holding of Labh Ventures India Private Limited (w.e.f September 01, 2018) for consideration of Rs.16.28 crore, thereby becoming the wholly owned subsidiary of MTL.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20(UA)
Total operating income	272.54	549.03	441.01
PBILDT	106.21	189.94	182.59

PAT	49.28	83.39	67.33
Overall gearing (times)	0.78	1.98	NA
Interest coverage (times)	5.56	4.01	3.97

A: Audited UA: Unaudited, NA=Not Available

Status of non-cooperation with previous CRA: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE565L07018	April 01, 2015	10.40%	July 08, 2020	65.00	CARE B; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	65.00	CARE B; Negative	-	1)CARE AA (CE) (Under Credit watch with Negative Implications) (26-Sep-19)	1)CARE AA+ (SO) (Under Credit watch with Negative Implications) (08-Feb-19)	1)CARE AA+ (SO); Stable (07-Mar-18)

Annexure 3: List of Subsidiaries and step-down subsidiaries

Name of the subsidiary	% of holding as on March 31, 2019
Digital Ventures Private Limited	100%
Academia Edificio Private Limited	100%
Liberium Global Resources Private Limited	100%
MT Educare Limited	59.12%
Step down subsidiaries	% of holding as on March 31, 2019 by MT Educare Limited
Lakshya Forum for Competitions Private Limited (formerly known as Lakshya Educare Private Limited)	100%
MT Education Services Private Limited	100%
Chitale's Personalised Learning Private Limited	100%
Sri Gayatri Educational Services Private Limited	75%
Robomate Edutech Private Limited	100%
Letspaper Technologies Private Limited #	100%
Labh Ventures India Private Limited	100%

#Yet to commence commercial business operations as on 31 March 2019

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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