Zee Media Corporation Limited

February 08, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities – Term Loan	113.20	**CARE A; Credit watch with negative implications [Single A; Credit watch with negative implications]**	Rating placed on credit watch with negative implications
Long-term Bank Facilities – Cash Credit	100.00	**CARE A; Credit watch with negative implications [Single A; Credit watch with negative implications]**	Rating placed on credit watch with negative implications
Short-term Bank Facilities – Bank Guarantee	38.00	**CARE A1; Credit watch with negative implications [A One; Credit watch with negative implications]**	Rating placed on credit watch with negative implications
Total Facilities	**251.20 (Rs. Two hundred fifty-one crore and twenty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of Zee Media Corporation Limited (ZMCL) have been placed on credit watch with negative implications on account of the reduced financial flexibility of Essel Group as an after effect of the recent decline in the market capitalization of the listed entities belonging to the Group. As on December 31, 2018, amongst the total promoter holding of 67.02% in ZMCL; 73.38% has been pledged. The group is in the process of monetizing its infrastructure businesses while it is also in the process of selling up to 50% of its stake in its flagship business i.e. Zee Entertainment Enterprises Limited (ZEEL). This is expected to improve the liquidity of the group. However, in view of the recent developments, the ability of the group to successfully monetize its assets/promoter stake in ZEEL at the valuations envisaged or raise additional borrowings at competitive rates forms a key rating sensitivity. Also, these recent developments have resulted in a reduction in the promoter's stake in ZMCL from 67.02% (as on December 31, 2018) to 61.55%. As reported by ZEEL to the stock exchanges, the lenders of the Group have provided a formal consent wherein no event of default is expected to be declared till September 30, 2019 on account of sharp decline in the prices of the pledged shares. It has been agreed upon with the lenders that the proceeds realized on stake sale will be first utilized to repay the outstanding debt obligations of the Group. This has thus reduced the financial flexibility at the Group level. Accordingly, CARE Ratings has placed the ratings on Credit Watch with negative implications and will take a view on the ratings once clarity is received on the deleveraging at the Essel group level and on securing comfort with regards to the liquidity position of the group.

The ratings assigned continue to derive strength from the established track record of the promoter group in the media and entertainment industry, availability of a wide platform for distribution with a bouquet of national and international channels, improvement in the operating performance on demerging the asset heavy and loss making print segment from ZMCL effective April 01, 2017 and on transfer of the loss-making home shopping channel effective June 2019. The ratings further take into consideration the healthy financial risk profile characterized by comfortable gearing levels and debt coverage indicators.

The above rating strengths are however tempered by the weakened debt coverage metrics post factoring the Corporate Guarantee extended to Diligent Media Corporation Limited (DMCL) and the high competitive intensity in the news broadcasting space.

Accordingly, ability of the company to sustain its growth amidst the increasing competition faced in the market as well as successfully refinance the debt repayments that would be due of DMCL form the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of promoter group in media and entertainment industry

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

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

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. Further, the promoters are supported by experienced and qualified management team.

Wide platform for distribution with a bouquet of national and international channels

Over the past 19 years, ZMCL has built a strong portfolio of 14 news channels comprising one international channel, three national channels and ten regional channels. Amongst the channels launched, three regional channels were launched during FY18. In addition to the above, during Q2FY18, ZMCL launched a home shopping channel i.e. Ez-Mall Online to engage in e-commerce business. However, since the venture was incurring continued operating losses, during Q1FY19, ZMCL sold off the entire stake to a related party.At the domestic level, all national channels and regional channels are EBITDA positive with the exception of the two new channels launched in FY18. However, the international news channel i.e. WION has not yet achieved its break-even. In addition to the above, ZMCL manages its multi-lingual digital news platform i.e. Zeenews.com, wherein news is broadcasted in nine languages.

Demerger of asset heavy and loss making print segment from ZMCL

Effective April 2014, the print media business was merged with ZMCL. The business was housed under three direct and indirect subsidiaries. However, the business was incurring losses thereby impacting ZMCL's overall profitability. The entire newspaper printing business has been merged with Diligent Media Corporation Limited (DMCL) which has then become an independent entity w.e.f. April 2017. This demerger has improved the overall profitability of ZMCL.

Integration of advertisement sales function resulting in reduced cost

The Zee Group's advertisement sales function has been integrated into a separate company i.e. ZEE Unimedia Limited. ZUL has entered into an agreement with the media entities of the Essel Group to act as a canvassing agent for sale of available advertisement space. The approach of collective advertisement sales not only benefits the Group in maximizing advertising revenues for its entities but also helps the advertisers/agencies in single Ad solution and wider reach across multiple platforms i.e. Television, Print, Digital, Radio etc. In consideration for the services provided, during FY17-18, ZUL charged a commission of 5% on the base advertisement revenue and additional incentive commission of 2.5% on any incremental revenue generated by ZMCL.

Healthy financial risk profile characterized by comfortable gearing levels and debt coverage indicators

On a consolidated basis, the overall gearing levels have marginally improved to 0.19x as on March 2018 (as compared to 0.22x as on March 2017). This has been achieved despite the increase in total borrowings by Rs. 16 crore on account of increased accretion of profits to general reserve. However, due to higher operational costs incurred during FY18, the interest coverage ratio deteriorated to 6.12x as on March 2018 (as compared to 7.36x as on March 2017). With the expected improvement in the performance of the newly launched channels in FY19 and loss making shopping channel business being demerged, the financial risk profile is further expected to improve in the years going forward.

Comfortable liquidity position

As on September 30, 2018, ZMCL maintained a cash and cash equivalent balance of Rs. 17 crore. On an average, it utilizes around 60% of its working capital limits (of Rs. 100 crore) for meeting operational requirements. It has an outstanding term loan facility of Rs. 113.20 crore to be repayable in twelve structured half yearly installments by FY25. Accordingly, the internal accruals generated by the business are quite sufficient to meet the repayment obligations.

Key Rating Weaknesses

Corporate Guarantee extended for the debt raised by DMCL

Even post the demerger of the print media business, the corporate guarantee extended to Pri-Media Services Private Limited (now merged with DMCL) still continues. The debentures have a call/put option to the extent of Rs. 118 crore which can be exercised on June 30, 2019. Assuming the options are not exercised on the said date, the entire debenture amounting to Rs. 438 crore will be repayable on June 30, 2020.Considering the large repayment obligation that would accrue when compared to ZMCL's cash accruals, the company expects to refinance the same. Zee group has considerable financial flexibility on account of its strong business and financial risk profile. However, timely refinancing the same will be critical from the credit perspective.

Industry Outlook

The media and entertainment industry is expected to witness a healthy growth with a CAGR of 11.6% over 2016-2020, with the television media industry expected to grow at 9.8% and digital media at 24.9% over the same period. The news genre is also seeing benefits from switch of channels from Pay to Free-to-Air platform leading to expansion in viewership and consequent growth in advertising revenues.

Healthy competition is prevalent in the business and general news space both in the national and regional market. Ability of the company to maintain its operating margins without jeopardizing its market share forms a key rating sensitivity.

Analytical approach: Consolidated
The consolidated financials of ZMCL have been considered for analytical purposes owing to financial and operational linkages between the company and its subsidiaries.
The consolidated financials include financials of the following subsidiaries:

Subsidiaries	FY17	FY18
(A) Direct subsidiaries		
Ez-Mall Online Limited[@]	-	100%
Zee Akaash News Private Limited[$]	60%	60%
Mediavest India Private Limited[^]	100%	-
Pri-Media Services Private Limited[^]	100%	-
Maurya TV Private Limited[*]	100%	-
(B) Indirect subsidiaries		
Diligent Media Corporation Ltd[^]	100%	-

[@]Became wholly owned subsidiary w.e.f. June 21, 2017 and ceased to be a subsidiary w.e.f. June 30, 2018
[$] Acquired the remaining 40% stake during Q1FY19
[^] Demerged w.e.f. April 01, 2017
[*] Merged with ZMCL w.e.f. April 01, 2017

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
Criteria for placing rating on credit watch

About the Company
ZEE Media Corporation Limited (ZMCL) incorporated on August 27, 1999 is a part of Essel group. It is one of the largest news networks in the country wherein it reaches out to more than 327 million viewers through fourteen news channels (one international channel, three national channels and ten regional channels) in eight different languages in the linear TV platform while it reaches out to more than 421 million users through the digital platform. It has a strong national presence and has strengthened its position as a regional player in North, West, East and Central India.
With effect from April 2017, the newspaper printing business carried out through Mediavest India Private Limited and Pri-Media Services Private Limited has been demerged from ZMCL and subsequently merged with Diligent Media Corporation Limited (DMCL). DMCL which was a wholly-owned subsidiary of ZMCL has become an independent entity w.e.f. April 2017 and accordingly, the printing business has been completely hived off from ZMCL.
During Q2FY18, the company formed a wholly owned subsidiary i.e. Ez-Mall Online Limited, a home-shopping channel to engage in E-commerce business. However, due to the venture incurring operating losses, during Q1FY19, ZMCL sold off its entire equity stake to a related party.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	460	581
PBILDT	110	108
PAT	48	28
Overall gearing (times)	0.22	0.19
Interest coverage (times)	7.36	6.12

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.*

Analyst Contact:
Name: Sharmila Jain
Tel: 022 6754 3638
Email:sharmila.jain@careratings.com

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

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer
CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	FY25	113.20	CARE A (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE A (Under Credit watch with Negative Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	38.00	CARE A1 (Under Credit watch with Negative Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (21-Dec-18)	1)Provisional CARE A; Stable (14-Sep-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (21-Dec-18)	1)Provisional CARE A; Stable (14-Sep-17)	-	-
3.	Fund-based - LT-Term Loan	LT	113.20	CARE A (Under Credit watch with Negative Implications)	1)CARE A; Stable (21-Dec-18)	-	-	-
4.	Fund-based - LT-Cash Credit	LT	100.00	CARE A (Under Credit watch with Negative Implications)	1)CARE A; Stable (21-Dec-18)	-	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	38.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1 (21-Dec-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691