Zee Media Corporation Limited (Revised)
July 05, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities – Term Loan	113.20	CARE BBB; Stable [Triple B; Outlook: Stable]	Removed from Credit watch with negative implications; Rating revised from CARE A (Single A)
Long-term Bank Facilities – Cash Credit	100.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Removed from Credit watch with negative implications; Rating revised from CARE A (Single A)
Short-term Bank Facilities – Bank Guarantee	38.00	CARE A3+ [A Three Plus]	Removed from Credit watch with negative implications; Rating revised from CARE A1 (A One)
Total Facilities	**251.20 (Rs. Two hundred fifty-one crore and twenty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Zee Media Corporation Limited (ZMCL) and removal of the credit watch factor in removal of support of Essel group built into the ratings due to the weakened financial flexibility at the Essel group level. Stress in the infrastructure segment and the elevated leverage with the promoter and holding companies constrains the Essel group's ability to support the group entities when required. Significant decline in the market capitalization of the listed entities of the Essel group over the last one year and the high level of pledging of the promoter holding in these companies has further reduced the financial flexibility of the group. As on March 31, 2019, amongst the total promoter holding of 57.74% in ZMCL, 93.84% has been pledged. Although the Essel group has been in the process of monetizing its infrastructure business, as also selling up stake in the flagship business i.e. Zee Entertainment Enterprises Limited (ZEEL) so as to improve the liquidity position of the group, the progress on the same has been slow. Further, the revision in the rating of ZMCL also factors in the weakening of the capital structure and liquidity position of the company at the consolidated level, especially after factoring the corporate guarantee extended to Diligent Media Corporation Limited (DMCL).
The ratings assigned to the bank facilities of ZMCL continue to factor in the high competitive intensity in the news broadcasting space, and highly regulated industry segment.
The ratings, however, 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. The ratings further take into consideration growth in income and profitability.
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 in DMCL in FY21 form a 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

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

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. ZMCL's managing director, Mr. Ashok Venkatramani is a B. Tech from Bombay University and has done his management education from Indian Institute of Management, Ahmedabad and Harvard Business School. He is 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. In addition, ZMCL manages its multi-lingual digital news platform i.e. Zeenews.com, wherein news is broadcasted in nine languages. The home shopping channel launched by ZMCL namely Ez-Mall Online (engage in e-commerce business) during FY18, was sold off in FY19 on account of continued operating losses.

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 DMCL which then became 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, ZUL charges commission of 5% on the base advertisement revenue and additional incentive commission of 2.5% on any incremental revenue generated by ZMCL.

Growth in revenue and operating profitability in FY19
During FY19, ZMCL posted growth of 20% in total income (consolidated level) which is mainly attributed to revenue growth from the advertising. Further with stabilization of newly launched channels in FY18, the PBILDT margins have improved in FY19 to 26.53% vis-à-vis 18.53% in FY18. Consequently, the total debt to GCA and interest coverage ratios have improved from 2.17x and 6.12x respectively in FY18 to 1.63x and 10.29x respectively in FY19.

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 carried call/put option which was not exercised at the given dates and the final repayment amounting to Rs.438 crore is due 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. Given the reduced financial flexibility of the Essel group, refinancing the same remains to be seen and would be critical from credit perspective.

Deterioration in capital structure
ZMCL has accounted for impairment of goodwill which has been charged to profit & loss account for FY19. The same resulted in net loss to the company in FY19 and in turn reduction in the networth base of the company. Thus the debt to equity and overall gearing ratios have marginally deteriorated to 0.16x and 0.28x respectively as on March 31, 2019 as compared to 0.10x and 0.19x respectively as on March 31, 2018. On considering the corporate guarantee extended to DMCL, the overall gearing stood at 0.85x as on March 31, 2019.

Moderate liquidity position
The overall liquidity of the company remains moderate characterized by low cash accruals vis-à-vis repayment obligations (excluding DMCL's obligation) and cash balance of Rs.24.39 crore as on March 31, 2019 (vis-à-vis Rs.10.02 crore as on March 31, 2018). Its capex requirements are modular which would be funded through internal cash accruals. ZMCL's bank limits are utilized to the extent of around 60% in the twelve months ended May 2019.

Considering the large repayment obligation that possibly would accrue to ZMCL on account of weak financial position of the guaranteed company (i.e. DMCL) in FY21, the liquidity position of ZMCL stands stressed. Given the reduced financial flexibility of the Essel group, refinancing the same remains to be seen and would be critical from credit perspective.

Operates in highly competitive and regulated industry segment
The competition is ever increasing with large number of players entering the News Broadcasting industry. Moreover, technological changes have laid new distribution platforms inviting competition from newer players. To maintain its competitive edge in such a scenario, the company will need to anticipate viewer preferences to create, acquire, commission, and produce compelling content across platforms favoured by the consumers.

Liquidity: The overall liquidity of the company remains moderate characterized by low cash accruals vis-à-vis repayment obligations (excluding DMCL's obligation) and cash balance of Rs.24.39 crore as on March 31, 2019 (vis-à-vis Rs.10.02 crore as on March 31, 2018). ZMCL's bank limits are utilized to the extent of around 60% in the twelve months ended May 2019. Considering the large repayment obligation that possibly would accrue to ZMCL on account of weak financial position of the guaranteed company (i.e. DMCL) in FY21, the liquidity position of ZMCL stands stressed.

Prospects
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:
CARE has removed the notch-up support of Essel group built into the ratings due to the weakened financial flexibility at the Essel group level. Stress in the infrastructure segment and the elevated leverage with the promoter and holding companies constrains the Essel group's ability to support the group entities when required. Significant decline in the market capitalization of the listed entities of the Essel group over the last one year and the high level of pledging of the promoter holding in these companies has further reduced the financial flexibility of the group. Although the Essel group has been in the process of monetizing its infrastructure business, as also selling up to 50% stake in the flagship business i.e. Zee Entertainment Enterprises Limited (ZEEL) so as to improve the liquidity position of the group, the progress on the same has been slow.
Further, CARE has considered the consolidated financials of ZMCL 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	FY18	FY19
(A) Direct subsidiaries		
Ez-Mall Online Limited[@]	100%	-
Zee Akaash News Private Limited[$]	60%	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

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

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 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. The home shopping channel launched by ZMCL namely Ez-Mall Online (engage in e-commerce business) during FY18, was sold off in FY19 on account of continued operating losses.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Abridged#)
Total operating income	581.32	698.58
PBILDT	107.72	185.30
PAT	27.84	-6.32
Overall gearing (times)	0.19	0.28
Adjusted overall gearing (times)*	0.74	0.85
Interest coverage (times)	6.12	10.29

*A: Audited; #as per the exchange disclosure of the company; *considering corporate guarantee extended to DMCL as debt*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	38.00	CARE A3+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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	LT	-	-	-	1)Withdrawn	1)Provisional	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
	Credit					(21-Dec-18)	CARE A; Stable (14-Sep-17)	
3.	Fund-based - LT-Term Loan	LT	113.20	CARE BBB; Stable	-	1)CARE A (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A; Stable (21-Dec-18)	-	-
4.	Fund-based - LT-Cash Credit	LT	100.00	CARE BBB; Stable	-	1)CARE A (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A; Stable (21-Dec-18)	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	38.00	CARE A3+	-	1)CARE A1 (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A1 (21-Dec-18)	-	-

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 clarification.*

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About CARE Ratings:

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