Zee Media Corporation Limited

July 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long-term Bank Facilities – Term Loan	102.00 (Reduced from 113.20)	CARE C; Negative [Single C; Outlook: Negative]	Revised from CARE B; Negative [Single B; Outlook: Negative]
Long-term Bank Facilities – Cash Credit	50.00 (Reduced from 100.00	CARE C; Negative [Single C; Outlook: Negative]	Revised from CARE B; Negative [Single B; Outlook: Negative]
Short-term Bank Facilities – Bank Guarantee	-	-	Withdrawn
Total	**152.00 (Rs. One Hundred Fifty Two crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to long term bank facilities of Zee Media Corporation Limited (ZMCL) takes into account the default on Non-Convertible Debentures (NCDs) issued by Diligent Media Corporation Limited (DMCL) on June 30, 2020, and the subsequent invocation of the corporate guarantee issued by ZMCL, to guarantee the debt obligations of these NCDs, by the Investors. ZMCL would not be able to meet its payment obligation under the corporate guarantee from its current cash balances, and operational cash flows, and hence the rating is revised to C with negative outlook.

DMCL's financial profile stands weak with negative net-worth and debt size of Rs.817.96 crore as on March 31, 2019. In addition DMCL has ceased operations of its print business. ZMCL had an investment of Rs436.27 crore in DMCL which has been fully impaired during Q4FY19 &FY20. The rating also factors in high level of pledging of the promoter holding. As on March 31, 2020, total promoter holding in ZMCL stood at 44.86%, of which, 99.80% is pledged. The ratings assigned to the bank facilities of ZMCL continue to factor in the intense competition 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.

Rating Sensitivities

Positive Factors:

Positive Factors:

ZMCL making payment within two working days from notice of demand.

Negative Factors:

ZMCL unable to make payment within two working days from notice of demand.

Outlook: Negative

The negative outlook factors in the inability to meet the Rs 438.90 crore NCDs obligations within the time frame allowed under the corporate guarantee.

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

Detailed Rationale & Key Rating Drivers
Key Rating Weaknesses
Invocation of Corporate Guarantee extended for the NCD raised by DMCL
ZMCL has extended corporate guarantee to the NCD raised by DMCL amounting to Rs.438.90crore, due to be paid on June 30, 2020. Further, corporate guarantee has been invoked as confirmed by Debenture Trustee to CARE via e-mail dated July 01, 2020.

Deterioration in capital structure characterized by impairment of investment in DMCL
ZMCL has accounted for impairment of investment in DMCL which has been charged to profit & loss account for Q4FY19 and FY20. The same resulted in net loss and in turn reduction in the net-worth base of the company. Reduction of networth due to impairment of investment in DMCL and also factoring in the contingent liability in the form of corporate guarantee extended to DMCL for its NCD issue, the overall gearing of ZMCL on a consolidated basis deteriorated to 1.48x as on March 31, 2020 (as compared to 1.05x as on March 31, 2019).

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.

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 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.

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 in eight different languages and reaching more than 422 million users through digital channels. In addition, ZMCL manages its multi-lingual digital news platform i.e. Zeenews.com.

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.

Moderate financial performance of the company in FY20 amidst Covid-19
ZMCL's Total Operating Income (TOI) on a consolidated basis reported a decline of 8% on a YoY basis to Rs. 640.81crore in FY20, led by lower advertisement revenue which accounted for around 90%-92% of the total revenue. Despite lower TOI, PBILDT margin of ZMCL on consolidated basis improved by 372 bps to 29.89% in FY20, led by lower marketing, distribution and business promotion expense. Further, ZMCL had an investment of Rs436.27 crore in DMCL which has been fully impaired during Q4FY19 &FY20.Resulting which the ZMCL reported a net loss of Rs. 271 crore in FY20 as against a reported loss of Rs.6.32 crore in FY19. However, the company continued to report a healthy PBT of Rs.80 crore in FY20 as compared to Rs.108 crore in FY19; albeit some decline on a YoY basis.

Liquidity: Poor

ZMCL's cash position as on March 31, 2010 was at Rs.53.23crore (vis-à-vis Rs.24.30crore as on March 31, 2019). However, given the significant debt obligation arising from the aforesaid invocation of corporate guarantee the liquidity position of the company remain significantly stretched.

Analytical approach:

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' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating methodology: Service Sector Companies

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 with portfolio of fourteen news channels in eight different languages in the linear TV platform while it reaches out to more than 422 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 PriMedia 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (Abridged#)
Total operating income	581.32	693.84	640.81
PBILDT	107.72	181.57	191.56
PAT	27.84	-6.32	-271.12
Overall gearing (times)	0.19	0.32	0.27
Adjusted overall gearing (times)*	0.74	0.98	1.48
Interest coverage (times)	6.12	10.08	7.98

*A: Audited; *considering corporate guarantee extended by ZMCL to the NCD issued by DMCL*
#As per the exchange disclosure of the company

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 Instruments/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	102.00	CARE C; Negative
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE C; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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.	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	102.00	CARE C; Negative	1)CARE B; Negative (29-Jun-20)	1)CARE BB; Negative (08-Nov-19) 2)CARE BBB; Stable (05-Jul-19)	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	50.00	CARE C; Negative	1)CARE B; Negative (29-Jun-20)	1)CARE BB; Negative (08-Nov-19) 2)CARE BBB; Stable (05-Jul-19)	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	-	-	1)CARE A4 (29-Jun-20)	1)CARE A4 (08-Nov-19) 2)CARE A3+ (05-Jul-19)	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 clarifications.*

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