Zee Media Corporation Limited

September 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities - Term Loan	400.00	**Provisional CARE A; Stable [Provisional Single A; Outlook: Stable]**	Assigned
Long-term Bank Facilities – Fund Based	100.00	**Provisional CARE A; Stable [Provisional Single A; Outlook: Stable]**	Assigned
Total Facilities	**500.00 (Rs. Five hundred crore only)**		

Details of instruments/facilities in Annexure-1

The above ratings are provisional and will be made final when the business transfer from Reliance Broadcast Network Limited (RBNL) to Vrushvik Entertainment Private Limited (VEPL) and Azalia Media Services Pvt. Ltd. (AMSPL) is completed.

Detailed Rationale& Key Rating Drivers

The ratings assigned to the long term bank facilities of Zee Media Corporation Limited (ZMCL) derives strength from the established track record of the promoter (Essel Group) in the media and entertainment industry, the impact of demerger of the asset heavy and loss making print segment from ZMCL with effect from April 01, 2017, availability of a wide platform for distribution with a bouquet of national and international channels, synergies with respect to content cost (music rights) on acquisition of the radio business and maintenance of debt service reserve account (DSRA) equivalent to three months of ensuing debt obligations comprising both interest and principal on a continuous basis. The rating further takes into consideration fund infusion by the promoters amounting to Rs. 400 crore.

The above rating strengths are however tempered by the decline in subscription revenue post conversion of Zee News into a free-to-air channel with effect from June 2016, increased debt levels on account of debt funded acquisition of Radio Channels of Reliance Broadcast Network Limited as well as high competitive intensity in the news broadcasting space.

The ability of the company to successfully turnaround the operations of the newly acquired radio segment and improve the profitability and the capital structure of ZMCL (radio and media operations) in an environment of intense competition amongst the existing radio channels and news channels are the key rating sensitivities. Also, the timely receipt of the regulatory approvals is crucial from the credit rating perspective.

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 business of media & entertainment for more than two decades, as the flagship channel (Zee TV) was launched in 1992. Further, Essel Group has presence across media value chain including television broadcasting, cable distribution, direct-to- home satellite service, digital media, multiplexes, amusement parks and print media amongst others.

Demerger of asset heavy and loss making print segment from ZMCL

Effective April 2017, the company has demerged its loss making printing business and housed it under its subsidiary Diligent Media Corporation Limited (DMCL). Going forward, this shall improve the profitability of ZMCL.

Maintenance of debt service reserve account (DSRA) equivalent to three months of ensuing debt obligations

ZMCL will be maintaining a debt service reserve account (DSCR) equivalent to three months of ensuing debt obligations comprising both interest and principal payments on a continuous basis and all at all times during the tenor of the facility.

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

Key Rating Weaknesses

Moderate financial risk profile

During FY17, the income from operations grew by only 5% on account of lower subscription income. The decline in subscription income was mainly on account of one of its channels ZEE News becoming a Free to Air channel effective June 2016.

ZMCL has acquired the radio business of RBNL through its Special Purpose Vehicles (SPVs) – Vrushvik Entertainment Private Limited (VEPL) and Azalia Media Services Pvt. Ltd. (AMSPL). The acquisition has been financed by raising a term loan of Rs. 400 crore by ZMCL and a Non – Convertible Debenture of Rs. 1000 crore by VEPL. On a combined level, this has resulted in a high overall gearing and total debt/PBILDT. The turnaround of the radio business will be crucial from the credit risk perspective.

Analytical approach: ZMCL along with VEPL and AMSPL have been combined for analytical purposes.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

ZEE Media Corporation Limited (ZMCL) incorporated on August 27, 1999 and a part of the Essel group, is one of India's leading media companies. ZMCL operates eleven 24x7 news channels, which include Zee News (Hindi news and current affairs channel), Zee Punjab Haryana Himachal (Punjabi language current affairs channel), Zee Business (Hindi language business news channel), 24 Ghanta(Bengali language news channel), Zee 24 Taas (Marathi language news channel), Zee Sangam (news channel for Uttar Pradesh and Uttarakhand), Zee Madhya Pradesh Chhattisgarh (news channel for Madhya Pradesh and Chhattisgarh), Zee Marudhara (news and entertainment channel for Rajasthan), Maurya TV (news and entertainment channel for Bihar and Jhakhand), Zee Kalinga (Odiya language news and entertainment channel) and the recently launched World Is One News (WION; global English news channel). With effect from April 2017, the company demerged its printing business and housed it under its subsidiary Diligent Media Corporation Limited (DMCL).

During November 2016, ZMCL has acquired the Radio Broadcasting business (92.7 BIG FM channel) of Reliance Broadcast Network Limited (RBNL) through its Special Purpose Vehicles (SPVs) – Vrushvik Entertainment Private Limited (VEPL- with 45 licenses) and Azalia Media Services Pvt. Ltd. (AMSPL with 14 new Phase III licenses). ZMCL at present shall acquire 49% equity stake in VEPL and AMSPL, with a call option to acquire balance 51% stake in VEPL and AMSPL at fixed consideration, in compliance with MIB (Ministry of Information & Broadcasting) regulations. The option can be exercised from April 1, 2018 and June 30, 2020 (proposed) respectively for VEPL and AMSPL as per MIB license conditions. The total enterprise value of the acquisition is Rs. 1592 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (P)
Total operating income	560.28	467.89
PBILDT	96.93	111.89
PAT	(3.03)	47.34
Overall gearing (times)	0.97	1.22
Interest coverage (times)	2.20	7.41

A: Audited; P: Provisional

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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**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.

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	-	-	At the end of 7 years from the date of first assignment	400.00	Provisional CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	100.00	Provisional CARE A; 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.	Fund-based - LT-Term Loan	LT	400.00	Provisional CARE A; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	100.00	Provisional CARE A; Stable	-	-	-	-

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