

**Zee Media Corporation Limited**  
September 29, 2020

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities –Term Loan	102.00	<b>CARE C; Negative (Single C; Outlook: Negative)</b>	<b>Reaffirmed</b>
Long-term Bank Facilities – Cash Credit	50.00	<b>CARE C; Negative (Single C; Outlook: Negative)</b>	<b>Reaffirmed</b>
Total	<b>152.00 (Rs. One Hundred Fifty Two crore only)</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the 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.

The rating is further constrained by deterioration in capital structure characterized by impairment of investment of Rs.436.27crore in DMCL. The rating also factors in high level of pledging of the promoter holding. As on June 30, 2020, total promoter holding in ZMCL stood at 36.75%, of which, 99.75% is pledged. The ratings assigned to the bank facilities of ZMCL continue to factor in the intense competition in the news broadcasting space, highly regulated industry segment and impact of covid-19 on Media & entertainment industry. 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, Integration of advertisement sales function resulting in reduced cost, Moderate financial performance of the company in FY20 amidst Covid-19.

**Rating Sensitivities****Positive Factors:**

- Able to restructure the non-convertible debentures issued by DMCL for which ZMCL has given corporate guarantee
- Improvement in the PAT margin to 15% on a sustained basis.

**Negative Factors:**

- ZMCL unable to restructure the non-convertible debenture issued by DMCL for which ZMCL has given corporate guarantee
- Increase in overall gearing to more than 1.5x on a sustained basis.

**Outlook: Negative**

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

**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(including interest), due to be paid on June 30, 2020. DMCL failed to repay the amount on due date and subsequently the corporate guarantee was invoked. As per the discussion with the management, the said NCD is going to be restructured. However, the same is yet to be finalized.

**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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

network 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 1.62x as on March 31, 2020 (as compared to 1.05x as on March 31, 2019).

The total debt to GCA was negative in FY20 as compared to 3.91x in FY19. Although the PBILDT level improved in FY20, however due to increase in interest cost the interest coverage metrics deteriorated to 8.09x in FY20 as compared to 10.08x in FY19.

#### ***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.

#### **Industry Outlook amidst Covid-19**

The global economy is likely to see a sharp decline, possibly sliding into recession. The impact on India's economic growth will be a result of both global trends and the extent of proliferation of the virus. Ad-spend pressures to linger on the back of weak economy and lower domestic consumption. Overall TV viewing has increased but there is absence of fresh content. News channels are popular as viewers follow Covid-19 updates in real time. Monetization has dropped substantially with advertisers scaling back on spends. The media and entertainment sector is expected to witness 16% decline in revenue in FY21, due to fall in the advertisement and subscription income in the wake of coronavirus-induced lockdown. The industry would take a hit of around 18 per cent in revenue from advertisement that accounts for nearly 45 per cent of total income, while the subscription earning that contributes 55 per cent will be relatively resilient with a likely decline of 14 per cent.

#### **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 60 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**

The industry saw hold back of spends by advertisers specifically in the last quarter of FY20 due to the impact of Covid-19. TOI of the company declined by around 7% to Rs.643.42crore in FY20 (as compared to Rs.693.84crore in FY19) mostly due to lower advertisement revenue. Advertisement revenue (which contribute 92% to the total revenue) declined by 5% on a y-o-y basis to Rs.583.5crore in FY20. Despite lower TOI, PBILDT margin of ZMCL on consolidated basis improved by 401 bps to 30.18% in FY20, led by lower marketing, distribution and business promotion expense. Further, ZMCL had an investment of Rs436.27crore in DMCL which has been fully impaired during Q4FY19 & FY20. Resulting which the ZMCL reported a net loss of Rs.271crore in FY20 as against a reported loss of Rs.6.32 crore in FY19. However, the company reported 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). ZMCL's bank limits are utilized to the extent of 45%. 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, its subsidiary and its associates. The consolidated financials include financials of the following subsidiaries

Name of the company	As on March 31, 2020
<b>Subsidiary</b>	
Zee Akash News Private Limited <sup>§</sup>	100%
<b>Associates</b>	
Today Retail Network Private Limited	49%
Today Merchandise Private Limited	49%

<sup>§</sup> 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](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

[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 220 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	643.42
PBILDT	107.72	181.57	194.17
PAT	27.84	-6.32	-271.12
Overall gearing (times)	0.19	0.32	0.34
Adjusted overall gearing (times)*	0.74	0.98	1.62
Interest coverage (times)	6.12	10.08	8.09

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

## 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 C; Negative (06-Jul-20) 2)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 C; Negative (06-Jul-20) 2)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)Withdrawn (06-Jul-20) 2)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)	-

## Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### 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.

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