Zee Media Corporation Limited

November 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Term Loan	113.20	CARE BB; Negative [Double B; Outlook: Negative]	Rating revised from CARE BBB (Triple B) and outlook revised from Stable
Long-term Bank Facilities – Cash Credit	100.00	CARE BB; Negative [Double B; Outlook: Negative]	Rating revised from CARE BBB (Triple B) and outlook revised from Stable
Short-term Bank Facilities – Bank Guarantee	38.00	CARE A4 [A Four]	Rating revised from CARE A3+ (A Three Plus)
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) factors in the weakening of the capital structure and liquidity position of the company at the consolidated level, after factoring the corporate guarantee extended to Diligent Media Corporation Limited (DMCL) for its non-convertible debentures amounting to Rs.438.90 crore. 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. In Q2FY20, ZMCL has further accounted for significant impairment on DMCL investment.

The rating also factors in further significant decline in the market capitalization of the company and high level of pledging of the promoter holding. As on September 30, 2019, amongst the total promoter holding of 51.29% in ZMCL, 99.82% has been pledged.

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.

Rating Sensitivities

Positive Factors:

- ZMCL or DMCL or both are able to service the NCD liabilities of DMCL amounting to Rs.438.90 crore falling due on 30 June 2020

Negative Factors:

- ZMCL is unable to service the NCD obligation in case of Invocation of corporate guarantee by the investors in NCD

Outlook: Negative

The negative outlook factors in the refinancing risk associated with servicing the debt obligation of DMCL guaranteed by ZMCL. Further the lack of financial flexibility in view of shares being pledged to the extent of 99.82% is a constraint.

Detailed description of the key rating drivers

Key Rating Weaknesses

Corporate Guarantee extended for the NCD raised by DMCL

ZMCL has extended corporate guarantee to the NCD raised by DMCL amounting to Rs.438.90 crore, due to be paid on June 30, 2020. Considering the large repayment obligation that would accrue when compared to ZMCL's cash accruals,

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

the company expects to refinance the same. Given the further 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 investment in DMCL which has been charged to profit & loss account for FY19 and H1FY20. The same resulted in net loss and in turn reduction in the net-worth base of the company. Thus the debt to equity and overall gearing ratios have deteriorated to 0.19x and 0.32x 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 0.98x as on March 31, 2019.

Weak liquidity position
The overall liquidity of the company remains adequate 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) and Rs.41 crore as on September 30, 2019. Its capex requirements are moderate which would be funded through internal cash accruals. ZMCL's bank limits are utilized to the extent of around 74% in the twelve months ended September 2019. However considering the large repayment obligation that is contingent on ZMCL as guarantor to the NCDs raised by DMCL which has negative net-worth and debt size of Rs.817.96 crore as on March 31, 2019, the liquidity position of ZMCL is expected to weaken going forward. Given the further 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.

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. 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.

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.

Growth in revenue and operating profitability in FY19
During FY19, ZMCL posted growth of 20% in total income and 5% in H1FY20 (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.

Liquidity: The overall liquidity of the company remains adequate 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) and Rs.41 crore as on September 30, 2019. Its capex requirements are moderate which would be funded through internal cash accruals. ZMCL's bank limits are utilized to the extent of around 74% in the twelve months ended September 2019. However considering the large repayment obligation that is contingent on ZMCL as guarantor to the NCDs raised by DMCL which has negative net-worth and debt size of Rs.817.96 crore as on March 31, 2019, the liquidity position of ZMCL is expected to weaken going forward. Given the further reduced financial flexibility of the Essel group, refinancing the same remains to be seen and would be critical from credit perspective.

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 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
Definition of Default
Short Term Instruments
Rating Outlook and Credit Watch
Financial Ratios – Non financial Sector
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 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 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 (A)**
Total operating income	576.78	693.84
PBILDT	136.54	181.57
PAT	27.84	-6.32
Overall gearing (times)	0.19	0.32
Adjusted overall gearing (times)*	0.74	0.98
Interest coverage (times)	7.77	10.08

*A: Audited; *considering contingent debt on account of corporate guarantee extended by ZMCL to the NCDs issued by DMCL*

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	-	-	-	113.20	CARE BB; Negative
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE BB; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	38.00	CARE A4

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 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 BB; Negative	1)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	100.00	CARE BB; Negative	1)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	38.00	CARE A4	1)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 clarification.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sumit Sharma
Contact no. : +91-22-6754 3679
Email ID: sumit.sharma@careratings.com

Business Development Contact
Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

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