Zee Entertainment Enterprises Limited

September 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
(1) Long-term Bank Facilities	-	-	Withdrawn
(2) Long-term Bank Facilities	-	-	Revised from CARE AA+ (Credit watch with negative implications) [Double A Plus (Credit watch with negative implications] to CARE AA (Credit watch with negative implications) [Double A (Credit watch with negative implications] and Withdrawn
(3) Short-term Bank Facilities	-	-	Withdrawn
Total Facilities	**-**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has withdrawn the ratings assigned to the bank facilities [serial nos. (1) and (3) above] of Zee Entertainment Enterprises Limited (ZEEL) with immediate effect, as the company has surrendered the aforementioned bank facilities rated by us and there is no amount outstanding under the facilities as on date.

Further, CARE has reviewed the rating assigned to the bank facilities [serial no. (2) above] of ZEEL from 'CARE AA+ (Credit watch with negative implications)' to 'CARE AA (Credit watch with negative implications)' and has simultaneously withdrawn it, with immediate effect. The rating withdrawal is at the request of ZEEL and 'No Objection Certificate' received from the bank that has extended the facility rated by CARE. The rating revision factors in the weakened financial flexibility at the Essel group level denoted by the 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. As on June 30, 2019, amongst the total promoter holding of 35.79% in ZEEL, 63.98% has been pledged. Although the Essel group has sold 11% stake in ZEEL to Invesco Oppenheimer Developing Markets Fund (Invesco) for Rs.4224 crore and has been in the process of monetizing its infrastructure business, so as to improve the liquidity position of the group, the progress on the same has been slow, especially in light of the fact that the deadline of September 30, 2019 agreed upon with the Group's lenders is fast approaching. The revision in the rating also factors in the decline in the operating cash flows of ZEEL and the rise in investments in the content cost. The rating continues to factor in the volatile nature of the main source of revenue i.e. advertisement revenue which is sensitive to key economic indicators and regulatory changes, corporate guarantees extended to various group companies, and the changing trends and increase in competition prevalent in the media sector.

The ratings, however, continue to derive strength from ZEEL's well-established promoter group (Essel) having a long track record in the media and entertainment industry, wide platform for distribution with a large bouquet of channel offerings covering a wide genre of entertainment, position of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) in terms of television viewership. The rating is further strengthened by ZEEL's comfortable financial risk profile characterized by consistent increase in the scale of operations with healthy profitability over the years, comfortable capital structure and debt coverage indicators, as well as sizeable cash reserves and liquid investments enhancing the liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and experienced management

The promoters of ZEEL have been in the media & entertainment business for more than two decades as the flagship channel (Zee TV) was launched in 1992. Since then, the single channel entity has evolved into a Media and Entertainment conglomerate with more than 240,000 hours of television content offering 41 domestic and 39 international channels (including 13 dedicated non-Indian language channels). The promoters have been closely involved in the overall business strategy. ZEEL is headed by Mr. Punit Goenka, Managing Director & CEO while the international business is being

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

managed by Mr. Amit Goenka. Further, the promoters are supported by well experienced and qualified management team.

Strong recognition of brand ZEE and diversification of business operations across varied segments
ZEE brand has a strong recognition in the media and entertainment industry given its long and successful track record. Further, ZEEL and its affiliate companies have presence across varied media value chains including television broadcasting, cable distribution, direct-to-home satellite service, digital media, and print media amongst others. ZEEL's portfolio is diversified across varied segments including broadcasting in domestic and international markets, production and distribution of films across several languages, launching leading music labels, organizing various live entertainment events and content distribution through digital space namely through its OTT platform i.e. ZEE5, and through its online portals managed by its subsidiary – India Webportal Pvt. Ltd.
ZEE Studios is the film production and distribution arm of ZEEL that released seven movies in two languages (Hindi & Marathi) during FY19. During Q1FY20, it produced a Marathi movie (Rampaat) and distributed two Hindi movies (Article 15 and Tashkent Files). In addition, 5 films across 2 languages were distributed in the international territories during the quarter.
Zee Music Company (ZMC), an established music publishing label enjoys significant advantage in the music business due to the company's presence in music broadcasting and digital.

Large bouquet of channel offerings
Over the past 25 years, ZEEL has built a strong portfolio of 41 domestic and 39 international channels. The domestic broadcasting business can be divided across five broad clusters comprising Hindi General Entertainment Channels (GECs) (4 SD and 2 HD channels), Regional General Entertainment (8 SD and 2HD channels), Hindi Movie Cluster (5 SD & 2 HD channels), Regional Movies (3 SD and 4HD channels) and Niche Channels (4 SD & 3 HD channels). Amongst the international channels broadcasted, it has 13 channels in 9 non-Indian languages that offer content to the audiences in their local languages. The content broadcasted spans across varied segments such as GECs, Movie, Music, Religion and Lifestyle. The large bouquet of channels provide a choice to the advertisers in terms of the tradeoff between reach and frequency. Further, a large bouquet hedges ZEEL against the changing preferences of the viewers.
Currently there are three free-to-air (FTA) channels 'Big Magic' (focused on kids), Big Ganga (Bhojpuri GEC) and Zing (Music) in ZEEL's portfolio. ZEEL has converted two leading FTA channels 'Zee Anmol' and 'Zee Anmol Cinema' into pay channels from March 01, 2019. As a result these two channels are not available on DD Freedish, which has impacted the reach & viewership of these channels.
ZEEL has maintained its leadership position in regional markets namely Marathi and Bangla. In addition it has established leadership in Kannada market for the first time in FY19. ZEEL's 29% the portfolio (12 of 41 channels) features in top five rankings for week 24 as per BARC ratings.
ZEEL has been focusing to expand its presence in digital business (domestic & international markets) with the launch of ZEE5. Currently there are more than 60 shows and original movies across six languages on ZEE5. Further, to enable access to wider consumer base, every original content is dubbed in six languages along with English subtitles. During Q1FY20, it launched 18 original shows & movies, of which 7 were in regional languages. ZEE5 entered into partnership with Hathway and ACT Fibernet to offer bundled package to consumers in Q1FY20. Further ZEE5 announced strategic partnership with Optimove to improve the performance of the platform in Q1FY20.

Growth in total revenue
During FY19, the company posted 15% growth in total operating income which is driven by growth in the domestic broadcast, digital and movie business. The major contributor towards ZEEL's revenue is advertisement income (62% of total income in FY19 and 56% in Q1FY20), wherein 20% growth in income was witnessed in FY19 and 4% in Q1FY20. The same is attributed to strengthening of domestic broadcast business and monetization of ZEE5's fast growing user base (June 2019 saw 76.4 MAU). Subscription revenue which formed 29% of total income in FY19 and 33.56% in Q1FY20, witnessed growth of 14% in FY19 and 37% in Q1FY20 on account of growth in the domestic subscription revenue led by monetization of phase-III subscribers. The growth in revenue from other sales & services was on account of two movie releases [Manikarnika (Hindi) and Anandi Gopal (Marathi)] and distribution of two movies in India [Kesari (Hindi) and Kala Shah Kala (Punjabi)] and eight movies in the international territories in FY19.

Healthy profitability margins
ZEEL continues to have consistent operating profitability margin with PBILDT margin at 34.04% in FY19 and 39.37% in Q1FY20 (vis-à-vis 34.93% in FY18). Amongst the total expenditure, programming cost for FY19 has increased by 21.7%.

The increase was on account of content cost for ZEE5 which was not present in FY18, increase in the programming cost for domestic broadcast business, increase in original programming hours in regional markets and elevated costs for the movie production & distribution business. Further the marketing and promotion costs have increased on account of launch of ZEE5, new channel launches (Zee Keralam, Zee Keralam HD and Zee Kannada HD) and brand refresh campaign. During Q1FY20, programming cost has increased to 16.7% in comparison to previous quarter mainly on account of content cost for ZEE5. Further higher marketing & promotion costs for ZEE5, both in India and international markets, led to increase in advertising and promotion expenses to 39.5% from the previous quarter.

Comfortable capital structure and debt coverage indicators

ZEEL's capital structure stands comfortable with strong net-worth base which stood at Rs.8274.70 crore as against debt position of Rs.1129.80 crore as on March 31, 2019, thus overall gearing stood at 0.14x as on March 31, 2019. ZEEL's debt coverage indicators continue to remain strong with total debt to GCA at 0.62x and interest coverage stood at 21.16x in FY19. The existing leverage is expected to reduce in the near term with redemption of preference shares and decrease in corporate guarantees extended to group companies.

Key Rating Weaknesses

Reduced financial flexibility of Essel group with significant pledge of ZEEL's shares

The market capitalization of the listed companies of the Essel group has declined significantly in the last one year. In particular, ZEEL's (flagship company of the group) market capitalization has declined from Rs.53,541 crore as on May 31, 2018 to Rs.33,131 crore as on September 16, 2019. Further, the promoter owned Essel group has borrowed from various lenders/mutual fund houses against pledge on shares of Zee group. Around 63.98% of the total promoter holding of 35.79% in ZEEL has been pledged as on June 30, 2019. Further the promoters have divested 11% stake in ZEEL to US based financial investor Invesco Oppenheimer Developing Markets Fund (Invesco) for Rs.4224 crore, thereby the promoter holding stood around 24.79% as on July 31, 2019. The first tranche of this transaction with Invesco (8.7% stake sale of 11%) was completed on September 10, 2019. To discharge the balance debt, the group is in the process of monetizing it's infrastructure assets and sell further stake in ZEEL. However, with the deadline of September 30, 2019 agreed upon with the Group's lenders approaching, uncertainty remains on the same.

Corporate Guarantee extended to the group companies

ZEEL has extended Debt Service Reserve Account (DSRA) guarantee to the bank facilities of Siti Networks Ltd. (SNL) and NCD issue of Zee Learn Ltd. (ZLL) for a stipulated size wherein ZEEL would make good the shortfall within the stipulated time. On account of scheduled repayments in these companies, the financial obligation of ZEEL has reduced. On considering the DSRA obligation, overall gearing has improved to 0.21x as on March 31, 2019 from 0.40x as on March 31, 2018. These companies have demonstrated their ability to manage their operations in the past through internal accruals generated/raising additional debt. While ZLL's cash accruals remain sufficient to meet its obligations despite an increase in the borrowings, SNL's financial profile has weakened. SNL has been reporting losses for the last few years, which have mounted over the years, leading to significant reduction in its networth during the period FY17-FY19. Thus, the self - sustainability of the group companies to which ZEEL has extended DSRA support stands as key rating sensitivity.

Volatile nature of the main source of revenue i.e. advertisement revenue

Advertisement sales constituted around 62% of the total income in FY19. The advertisement revenue remains vulnerable to factors like market competition, television viewership for the channels, the quality and popularity of content being broadcast, trends in the media sector, regulatory changes and to the level of economic activity in general.

As witnessed in Q1FY20, growth in the domestic advertising revenue was slower due to the impact of two leading channels being converted from free-to-air to pay channels. Also the uncertainty during the implementation of tariff order resulted in some of the brands moving their advertising spends temporarily to sports channels airing cricket events which had certainty with regards to the reach. Thus, the company's operational performance remains exposed to the trend in overall industry-wide ad-rate movements and is a key rating monitorable.

Working capital intensive operations with increasing inventory levels

The entertainment industry with a view to offer more choices to consumers, focus on content production which forms the major portion of inventory amongst the players in the industry. Being part of the industry, ZEEL's operation is working capital intensive mainly on account of higher inventory holding in the form of content development and rights. In addition the growing internet users and online video viewers have led to major digital platforms offering TV content for free. There has been a need for original content for digital audience. Thus, ZEE5 was the initiative from ZEEL to create its presence in the OTT platform and to be competitive in the industry. Since the launch of ZEE5, the platform has 18 original shows & movies. This has majorly contributed towards the high inventory levels in the form of media content, over the last two years. Inventory level increased significantly from Rs.2627.8 crore as on March 31, 2018 to Rs.3850.5 crore as on March 31, 2019. Investment in content has also resulted in significant reduction in the cash flow from operations from Rs.805.70 crore in FY18 to Rs.77.80 crore in FY19. ZEEL is expected to continue investing in content, especially for ZEE5.

Presence in a highly regulated industry

The industry is highly regulated which could possibly affect the business model. In the recent past, the industry witnessed some reforms like transition to the GST regime and New Tariff Order. The recent Interconnection Regulations & Tariff Order issued by the TRAI wherein broadcasters declared the monthly MRP of each channel and the bouquets, with the condition that no pay channel, which is part of a bouquet, is priced above Rs.19. FTA and pay channels would be segregated into different bouquets.

Liquidity profile

Liquidity is marked by generation of strong cash accruals amounting to Rs.1818.80 crore in FY19 as against meagre repayment obligation of Rs.371.60 crore in FY20. Even after considering the obligation for SNL and ZLL's debt where ZEEL has provided DSRA guarantee, its liquidity position remains strong. On consolidated levels, company has cash & bank balance of Rs.1218.20 crore on March 31, 2019 as against Rs.1609.40 crore as on March 31, 2018. Further, ZEEL has not utilized its sanctioned working capital limits of Rs.80 crore in the last 12 months ended August 2019 and the same is adequate to meet its incremental working capital needs.

Analytical approach: Consolidated

In view of strong operational and financial linkages between the company and its subsidiaries, the consolidated financials of ZEEL have been considered for analytical purposes. The details of the subsidiaries consolidated have been mentioned in **Annexure 3**. Further the exposure to SNL and ZLL have also been factored in the analysis.

Applicable Criteria

Policy on Withdrawal of ratings
Rating outlook and credit watch
Criteria for Short Term Instruments
CARE's default recognition policy
Financial ratios - Non Financial Sector
Service sector Companies
Factoring Linkages in Ratings

About the Company

Zee Entertainment Enterprises Ltd (ZEEL), part of Essel group, is a worldwide media & entertainment company with presence across more than 170 countries entertaining over 1.3 billion diverse viewers. ZEEL is amongst the largest global content company across genres, languages and platforms. It is present across broadcasting, movies, music, live entertainment and digital business both within India and overseas. ZEEL's portfolio consists of 41 channels in 9 languages (diversified across 5 categories - Hindi General Entertainment, Hindi Movies, Regional General Entertainment, Regional Movies and Niche Channels). ZEEL has extensive library covering over 250,000 hours of television content. It has rights to more than 4200 movie titles. It has produced several movies for theatrical releases and is the fastest growing music label in India.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	7077.50	8104.60
PBILDT	2472.40	2758.90
PAT	1477.60	1570.70
Overall gearing (times)	0.22	0.14
Interest coverage (times)	17.07	21.16

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Mr. Adesh Kumar Gupta, who is an Independent Director on the board of ZEEL is an Independent Director on the board of CARE. Independent Directors of CARE are not part of CARE's rating committee and do not participate in the rating process.

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-Cash Credit	-	-	-	-	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	Revised to CARE AA (Credit watch with Negative Implications) and 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 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-Cash Credit	LT	-	-	-	1)CARE AA+ (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE AA+ (Under Credit watch with Developing Implications) (30-Jan-19)	1)CARE AA+; Stable (07-Mar-18)	1)CARE AA+ (27-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (Under Credit watch with Negative Implications) (08-Feb-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (30-Jan-19)	1)CARE A1+ (07-Mar-18)	1)CARE A1+ (27-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE AA+ (Under Credit	1)CARE AA+; Stable	1)CARE AA+ (27-Oct-16)

						watch with Negative Implications) (08-Feb-19) 2)CARE AA+ (Under Credit watch with Developing Implications) (30-Jan-19)	(07-Mar-18)	

Annexure-3: List of subsidiaries, associates and joint ventures

Sr. No	Names of the companies	% shareholding of ZEEL	Nature of interest
1	ATL Media Limited	100%	Direct Subsidiaries
2	Essel Vision Productions Limited	100%	
3	Zee Unimedia Limited	100%	
4	Zee Digital Convergence Limited	100%	
5	Zee Turner Limited	74%	
6	Zee Multimedia Worldwide (Mauritius) Limited	100%	
7	India Webportal Private Limited	100%	
8	Fly By Wire International Private Limited	100%	
9	Margo Networks Private Limited	80%	
10	Asia TV Limited	100%	Indirect Subsidiaries
11	Expand Fast Holdings (Singapore) Pte Limited	100%	
12	OOO Zee CIS Holding LLC	100%	
13	OOO Zee CIS LLC	100%	
14	Taj TV Limited	100%	
15	Asia Today Singapore Pte Limited	100%	
16	Asia TV USA Limited, Wyoming	100%	
17	Asia Today Limited	100%	
18	Zee Technologies (Guangzhou) Limited	100%	
19	Zee Entertainment Middle East FZ-LLC	100%	
20	ATL Media FZ-LLC	100%	
21	Zee TV South Africa (Proprietary) Limited	100%	
22	Zee TV USA Inc.	100%	
23	Asia Multimedia Distribution Inc.	100%	
24	Idea Shop Web and Media Private Limited	51.04%	
25	Eevee Multimedia Inc.	100%	
26	Asia TV GmbH	100%	
27	Pantheon Productions Limited	100%	
28	Z5X Global FZ-LLC	100%	
29	Zee Studios International Limited	100%	
30	Aplab Limited*	9.50%	Associates
31	Asia Today Thailand Limited	25%	
32	Media Pro Enterprise India Private Limited#	50%	Jointly controlled entities

**Upto January 15, 2019; the holding declined from 26.42%*
#Through subsidiary Zee Turned Limited

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:
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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