

Zee Media Corporation Limited

December 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Term Loan	113.20	CARE A; Stable [Single A; Outlook: Stable]	Assigned
Long-term Bank Facilities – Cash Credit	100.00	CARE A; Stable [Single A; Outlook: Stable]	Assigned
Short-term Bank Facilities – Bank Guarantee	38.00	CARE A1 [A One]	Assigned
Long - term Bank Facilities – Term Loan	-	-	Withdrawn
Long - term Bank Facilities – Fund Based	-	-	Withdrawn
Total Facilities	251.20 (Rs. Two hundred fifty-one crore and twenty lakh only)		

Details of facilities in Annexure-1

The rating assigned to the bank facilities of Rs. 500 crore has been withdrawn. These facilities were a part of the transaction deal in which Zee Media Corporation Limited through its Special Purpose Vehicles - Vrushvik Entertainment Pvt. Ltd. and Azalia Media Services Pvt. Ltd. was to acquire the Radio Broadcasting business (92.7 BIG FM channel) of Reliance Broadcast Network Limited. The rating assigned was provisional and was to be made final on the completion of business transfer. However, the deal has eventually being called off and accordingly, the previous term loan limits sanctioned from banks stand cancelled.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Zee Media Corporation Limited (ZMCL) 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, improvement in the operating performance on demerging the asset heavy and loss making print segment from ZMCL effective April 01, 2017 and on transfer of the loss-making home shopping channel effective June 2019. The ratings further take into consideration the healthy financial risk profile characterized by comfortable gearing levels and debt coverage indicators.

The above rating strengths are however tempered by the weakened debt coverage metrics post factoring the Corporate Guarantee extended to Diligent Media Corporation Limited (DMCL) and the high competitive intensity in the news broadcasting space.

Accordingly, ability of the company to sustain its growth amidst the increasing competition faced in the market as well as successfully refinance the debt repayments that would be due of DMCL form a key rating sensitivity.

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 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. Further, the promoters are 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 comprising one international channel, three national channels and ten regional channels. Amongst the channels launched, three regional channels were launched during FY18. In addition to the above, during Q2FY18, ZMCL launched a home shopping channel i.e. Ez-Mall Online to engage in e-commerce business. However, since the venture was incurring continued operating losses, during Q1FY19, ZMCL sold off the entire stake to a related party. At the domestic level, all national channels and regional channels are EBITDA positive with the exception of the two new channels launched in FY18. However, the international news channel

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

i.e. WION has not yet achieved its break-even. In addition to the above, ZMCL manages its multi-lingual digital news platform i.e. Zeenews.com, wherein news is broadcasted in nine languages.

Demerger of asset heavy and loss making print segment from ZMCL

Effective April 2014, the print media business was merged with ZMCL. The business was housed under three direct and indirect subsidiaries. However, the business was incurring losses thereby impacting ZMCL's overall profitability. The entire newspaper printing business has been merged with Diligent Media Corporation Limited (DMCL) which has then become an independent entity w.e.f. April 2017. This demerger has improved the overall profitability of ZMCL.

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, during FY17-18, ZUL charged a commission of 5% on the base advertisement revenue and additional incentive commission of 2.5% on any incremental revenue generated by ZMCL.

Healthy financial risk profile characterized by comfortable gearing levels and debt coverage indicators

On a consolidated basis, the overall gearing levels have marginally improved to 0.19x as on March 2018 (as compared to 0.22x as on March 2017). This has been achieved despite the increase in total borrowings by Rs. 16 crore on account of increased accretion of profits to general reserve. However, due to higher operational costs incurred during FY18, the interest coverage ratio deteriorated to 6.12x as on March 2018 (as compared to 7.36x as on March 2017). With the expected improvement in the performance of the newly launched channels in FY19 and loss making shopping channel business being demerged, the financial risk profile is further expected to improve in the years going forward.

Comfortable liquidity position

As on September 30, 2018, ZMCL maintained a cash and cash equivalent balance of Rs. 17 crore. On an average, it utilizes around 60% of its working capital limits (of Rs. 100 crore) for meeting operational requirements. It has an outstanding term loan facility of Rs. 113.20 crore to be repayable in twelve structured half yearly installments by FY25. Accordingly, the internal accruals generated by the business are quite sufficient to meet the repayment obligations.

Key Rating Weaknesses

Corporate Guarantee extended for the debt raised by DMCL

Even post the demerger of the print media business, the corporate guarantee extended to Pri-Media Services Private Limited (now merged with DMCL) still continues. The debentures have a call/put option to the extent of Rs. 118 crore which can be exercised on June 30, 2019. Assuming the options are not exercised on the said date, the entire debenture amounting to Rs. 438 crore will be repayable on June 30, 2020. Considering the large repayment obligation that would accrue when compared to ZMCL's cash accruals, the company expects to refinance the same. Zee group has considerable financial flexibility on account of its strong business and financial risk profile. However, timely refinancing the same will be critical from the credit perspective.

Industry Outlook

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: Consolidated

The consolidated financials of ZMCL have been considered 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	FY17	FY18
(A) Direct subsidiaries		
Ez-Mall Online Limited [@]	-	100%
Zee Akaash News Private Limited [§]	60%	60%
Mediavest India Private Limited [^]	100%	-
Pri-Media Services Private Limited [^]	100%	-
Maurya TV Private Limited [*]	100%	-
(B) Indirect subsidiaries		
Diligent Media Corporation Ltd [^]	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

[^] Demerged w.e.f. April 01, 2017

^{*} Merged with ZMCL w.e.f. April 01, 2017

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

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

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

[Policy on Withdrawal of 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 wherein it reaches out to more than 327 million viewers through fourteen news channels (one international channel, three national channels and ten regional channels) in eight different languages in the linear TV platform while it reaches out to more than 421 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 Diligent Media Corporation Limited (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.

During Q2FY18, the company formed a wholly owned subsidiary i.e. Ez-Mall Online Limited, a home-shopping channel to engage in E-commerce business. However, due to the venture incurring operating losses, during Q1FY19, ZMCL sold off its entire equity stake to a related party.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	460	581
PBILDT	110	108
PAT	48	28
Overall gearing (times)	0.22	0.19
Interest coverage (times)	7.36	6.12

A: Audited

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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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	-	-	-	-	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	Withdrawn
Fund-based - LT-Term Loan	-	-	FY25	113.20	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	38.00	CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Provisional CARE A; Stable (14-Sep-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Provisional CARE A; Stable (14-Sep-17)	-	-
3.	Fund-based - LT-Term Loan	LT	113.20	CARE A; Stable	-	-	-	-
4.	Fund-based - LT-Cash Credit	LT	100.00	CARE A; Stable	-	-	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	38.00	CARE A1	-	-	-	-

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