November 06, 2017

Diligent Media Corporation Limited

Summary of rated instruments

Instrument*	Amount Rated (in Rs. crore)	Rating Action
Non-Convertible Debenture programme	250.0	[ICRA]A(SO) / Re-affirmed; outlook revised to 'Stable' from 'Negative'
Short-term, non-fund based	20.0	[ICRA]A2+(SO) / Re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A(SO) (pronounced ICRA A Structured Obligation)[1] assigned to the Rs. 250.0 crore[2] non-convertible debenture (NCD) programme of Diligent Media Corporation Limited (DMCL). ICRA has also re-affirmed the short-term rating of [ICRA]A2+(SO) (pronounced ICRA A two plus Structured Obligation) assigned to the Rs. 20.0 crore non-fund based facilities of DMCL. The outlook on the long-term rating has been revised to Stable from Negative.

The letter SO in parenthesis suffixed to the rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The ratings factor in the unconditional, irrevocable and continuing guarantee from Zee Media Corporation Limited (ZMCL, rated [ICRA]A (stable) / [ICRA]A2+; revised from [ICRA]A (negative) / [ICRA]A2+). The rating for the NCD also factors the payment mechanism designed to ensure timely payment on the rated NCD as per the terms of the transaction.

The rating for the non-fund based facility addresses the servicing of the facility to take place as per the terms of the underlying non-fund based facility and the guarantee arrangements. In addition, the rating assumes that the guarantee will be duly invoked in case there is a default in payment by the borrower. The rated non-fund based facility does not involve a structured payment mechanism.

Key rating drivers

Credit strengths

- **Strong promoters' (part of the Essel Group) backing with experienced management team; support from ZMCL in the form of redeemable preference shares and corporate guarantees –** As on March 31, 2017, ZMCL's investments in redeemable preference shares of DMCL amounted to Rs. 436 crore. Furthermore, ZMCL has issued corporate guarantees for both the NCD programme and the non-fund based bank facilities of DMCL, along with accrued interest on the same.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[2] *100 lakh = 1 crore = 10 million*

Credit weaknesses

- **High competitive intensity in news publishing business resulting in weak circulation of DNA, and hence high newsprint loss –** The circulation of DNA, an English daily newspaper, has been continuously declining. Furthermore, with cover prices remaining constant and newsprint prices increasing, the newsprint loss for the company has also increased over the years.
- **Lack of presence of DNA at national level, resulting in weak advertising revenues –** The advertising revenues for DMCL continue to remain weak; it reported a YoY de-growth of 18% in FY2017, resulting in further losses for the company

Analytical approach: For arriving at the ratings, ICRA has taken into account the unconditional, irrevocable and continuing guarantee from ZMCL that would cover all the repayment obligations to the NCD holders and bank as per the terms of the transaction.

Links to applicable criteria:
Approach for Rating Debt Instruments Backed by Third-Party Explicit Support

About the issuer:
Diligent Media Corporation Limited is engaged in publishing *DNA*, an English daily newspaper launched in July 2005 that is currently circulated in Mumbai and Delhi. Until FY2014, DNA was also circulated in Pune and Bengaluru. The company launched a Delhi edition in H2 FY2017. DMCL has also taken over two editions—Jaipur and Ahmedabad—during June 2017 from DB Corp; these were earlier operated under the franchisee model with DB Corp.

DMCL was also engaged in ancillary business activities like printing, third-party job work (toll printing for other publication houses and printing work like annual reports and text books on outsourcing basis for external parties) and media (event management) business till March 2013. On March 01, 2013, DMCL entered into a Business Transfer Agreement for slump sale of its printing division to Pri Media Services Private Limited (Pri Media, then a fellow subsidiary company). As per the agreement, all assets and liabilities pertaining to the printing division of all three locations—Mahape (Mumbai), Pune (Maharashtra) and Bengaluru—were transferred to Pri Media for a lump sum consideration of Rs. 356.06 crore under the Slump Sale Agreement. Furthermore, in FY2014, DMCL transferred its media business to Zee Entertainment Enterprises Limited (ZEEL) at book value for a small consideration.

Considering the business synergies in print and electronic media, ZMCL amalgamated the Group’s print business—Essel Publishers Private Limited (EPPL), engaged in the printing and publication of *DNA*, through its step-down, wholly-owned subsidiary, DMCL (wholly-owned subsidiary of Mediavest India Private Limited)—with itself. The scheme of amalgamation for merger of EPPL with ZMCL was approved by the Hon’ble Bombay High Court vide an order passed on May 02, 2014 with the Appointed Date being April 01, 2014. The scheme was made effective on May 27, 2014, and hence given effect to in ZMCL’s financials starting Q1 FY2015.

As per the recent Scheme of Arrangement and Amalgamation between ZMCL, DMCL, Mediavest and Pri Media, the print media undertaking of ZMCL has been demerged into DMCL, and Mediavest and Pri Media have been merged with DMCL with effect from April 01, 2017. Furthermore, DMCL is expected to be listed on the stock exchanges, with a mirror shareholding as that of ZMCL.

For the 12 months ended March 31, 2017, DMCL reported a net loss of Rs. 25.5 crore on an operating income (OI) of Rs. 85.3 crore, as against a net loss of Rs. 8.6 crore on an OI of Rs. 100.7 crore for the 12 months ended March 31, 2016.

About the guarantor:
ZMCL operates 13 24x7 news and entertainment channels.

In May 2014, the scheme of amalgamation for merger of EPPL with ZMCL was approved by the Hon'ble Bombay High Court. Consequent to the amalgamation of EPPL with ZMCL, the company expanded into print news segment through its subsidiaries—DMCL, which publishes *DNA* in Mumbai and Delhi (earlier in Pune and Bengaluru as well) and Pri Media, which is engaged in the printing of *DNA* along with other printing job work.

As per the recent scheme of arrangement and amalgamation between ZMCL, DMCL, Mediavest and Pri Media, the print media undertaking of ZMCL has been demerged with DMCL, and Maurya TV Private Limited (wholly-owned subsidiary of ZMCL) has been amalgamated into ZMCL with effect from April 01, 2017.

In October 2016, ZMCL also acquired 49% stake in the loss making e-commerce business of Today Merchandise Private Limited (TMPL) and Today Retail Network Private Limited (TRNPL), although the company is likely to go slow on further investments towards the above-mentioned entities.

ZMCL, in its Board Meeting, held on November 23, 2016, approved its in-principle, acquisition of equity stake in the Radio Broadcasting business of Reliance Broadcast Network Limited (RBNL), to be transferred by RBNL to special purpose vehicles (SPVs)—Vrushvik Entertainment Pvt. Ltd. (Vrushvik) and Azalia Media Services Pvt. Ltd. (Azalia). The company has recently acquired 49% equity stake in Vrushvik and Azalia, with a call option to acquire balance 51% stake in the SPVs at a fixed consideration, in compliance with the Ministry of Information and Broadcasting (MIB) regulations. The option can be exercised from April 1, 2018 and April 1, 2020, respectively, for Vrushvik and Azalia as per MIB license conditions. The total enterprise value of the acquisition is Rs. 1,592 crore.

Key financial indicators (Audited)

DMCL	FY2016	FY2017
Operating Income (Rs. crore)	100.7	85.3
PAT (Rs. crore)	-8.6	-25.5
OPBDIT/ OI (%)	-21.0%	-51.6%
RoCE (%)	-12.1%	-12.1%
Total Debt/ TNW (times)	0.0	5.1
Total Debt/ OPBDIT (times)	0.0	-9.9
Interest Coverage (times)	-17.8	-108.7
NWC/ OI (%)	9%	-33%

OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
				November 2017	October 2017	September 2016	April 2016	February 2016
1	Non-Convertible Debenture programme	Long-term	250.0	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Negative)	-	-	-
2	Non-fund based facility	Short-term	20.0	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)/ Provisional [ICRA]A2+(SO)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No.	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE082T07017	NCD	June 30, 2015	11.9%	June 30, 2020	50.0	[ICRA]A(SO) (Stable)
INE082T07025	NCD	June 30, 2015	11.9%	June 30, 2020	75.0	[ICRA]A(SO) (Stable)
INE082T07033	NCD	June 30, 2015	11.9%	June 30, 2020	125.0	[ICRA]A(SO) (Stable)
-	Non-fund based facility	-	-	-	20.0	[ICRA]A2+(SO)

Source: Diligent Media Corporation Limited

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