ICRA

November 06, 2017

Zee Media Corporation Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, Fund-based Bank Facilities	3.30 (revised from 95.00)	[ICRA]A re-affirmed; outlook revised to 'Stable' from 'Negative'
Long-term loans	55.20 (revised from 80.00)	[ICRA]A re-affirmed; outlook revised to 'Stable' from 'Negative'
Short-term, Non-fund Based Facilities	0.00 (revised from 8.00)	-
Long-term / Short-term, Unallocated Limits	116.50 (earlier nil)	[ICRA]A (Stable) / [ICRA]A2+ re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A (pronounced ICRA A) assigned to the Rs. 3.30 crore[1] (revised from Rs. 95.00 crore) fund-based facilities and the Rs. 55.20 crore (revised from Rs. 80.00 crore) term loans of Zee Media Corporation Limited ('ZMCL' or 'the company')[2]. ICRA has also reaffirmed the long-term rating of [ICRA]A and short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 116.50 crore unallocated limits of ZMCL. The outlook on the long-term rating has been revised to Stable from Negative.

Rationale

The revision in the outlook on the long-term rating takes into account the successful demerger of the asset heavy and the loss making print business from ZMCL with effect from April 01, 2017. ICRA also notes the finalisation of the funding structure for acquisition of the radio broadcasting business of Reliance Broadcast Network Limited (RBNL) and the improvement in the profitability of the existing television broadcasting business of the company.

Zee News, the flagship channel of ZMCL, was converted to a free to air (FTA) channel with effect from July 2016. Despite 48% de-growth in subscription revenues in FY2017 because of the same, ZMCL witnessed an improvement in operating margin to 22.2% in FY2017 for the television business from 18.0% in FY2016. This was supported by 20% growth in advertisement revenues, despite the impact of demonetisation. ZMCL has entered into a service agreement with ZUL, now a division of Zee Entertainment Enterprises Limited, to act as a canvassing agent for the sale of available advertisement space for the entire bouquet of news channels under ZMCL. ZUL was a strategic business unit incorporated by the Essel Group to integrate Group wide advertisement sales function into a single entity, with offerings across genres and platforms. This arrangement has benefited ZMCL in acquiring new clients and achieving deeper penetration with its existing client base, thereby helping improve the advertisement revenues and thus profits.

During November 2016, ZMCL had announced the acquisition of the radio broadcasting business of RBNL, which comprises 59 radio licenses, under the brand, '92.7 BIG FM'. Subject to the approval of the Ministry of Information and Broadcasting (MIB), RBNL will transfer its radio business to two special purpose vehicles (SPVs)—(i) 45 operational radio licenses to Vrushvik Entertainment Private Limited

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

(Vrushvik) and (ii) 14 new operational radio licenses (acquired during Phase 3, Batch 1 auction) to Azalia Media Services Private Limited (Azalia). The acquisition of 100% stakes in these two SPVs by ZMCL is valued at Rs. 1,592.0 crore. However, ZMCL shall acquire only 49% stake in these two SPVs for a consideration of Rs. 1,580.0 crore, with a call option to acquire the balance 51% stakes in the SPVs at a fixed consideration of Rs. 8.0 crore and Rs. 4.0 crore for Vrushvik and Azalia, respectively. The option can be exercised from April 1, 2018 for Vrushvik and from April 1, 2020 for Azalia, as per MIB license conditions.

The acquisition is proposed to be funded through external debt of Rs. 1,400.0 crore – Rs. 400.0 crore to be raised by ZMCL and Rs. 1,000.0 crore to be raised by the two SPVs. In addition, the promoter company of ZMCL will extend loans of Rs. 400.0 crore to ZMCL, which will be subordinated to other debt being raised by ZMCL and the two SPVs. This total debt would be used to fund the acquisition and repay the existing debt (pertaining to the television broadcasting division) of ZMCL. In addition, ZMCL has been sanctioned additional bank limits of Rs. 100.0 crore to fund its working capital requirements. While this will result in deterioration in the debt metrics of ZMCL over the near term, the firm's liquidity position is, however, expected to remain adequately supported by the proposed long tenor (seven years) of the debt (including the debt raised by the SPVs) to be drawn, with a moratorium period upto 18 months and quarterly / half yearly principal repayments thereafter.

The ratings additionally derive comfort from the maintenance of debt service reserve account (DSRA) by ZMCL equivalent to three months of ensuing debt obligations comprising both interest and principal payments on a continuous basis and at all times during the tenure of the facilities. ICRA also takes comfort from the Group's endeavour to support ZMCL's business operations and extend financial support, if required, to bridge any temporary shortfall in the DSRA, to be maintained by the company.

The ratings continue to factor in ZMCL's position as the largest news network in the country, strong recognition of the Zee brand and its ability to leverage the Group's network strength, and the strong promoter and management profile of the Essel Group.

The ratings are, however, constrained by the ongoing gestation period of the newly launched channels—World Is One News (WION), an English news channel, reported loss in FY2017 as well as the high competitive intensity in the news and radio broadcasting space. Furthermore, 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. ICRA would continue to monitor the additional investments required for funding the operating expenditure (opex) of the loss-making e-commerce business. The ratings further factor in the continuation of the corporate guarantees provided by ZMCL for the debt of Diligent Media Corporation Limited (DMCL), amounting to Rs. 270.0 crore as on March 31, 2017.

Key rating drivers

Credit strengths

- **Strong promoters' (part of the Essel Group) backing with an experienced management team –** ZMCL enjoys a strong financial flexibility arising from being part of the Essel Group. ICRA also notes the strong recognition of the Zee brand and the experienced management profile with an expertise in the television broadcasting business.
- **One of the largest news networks in the country; established Zee brand, with a formidable bouquet for advertisers; leveraging this network strength results in competitive advantages for ZMCL –** The company's network consists of 13 news channels, comprising a global news channel, three national news channels and nine regional news channels. ZMCL channels reached more than 373.9 million viewers (source: ZMCL Q2 FY2018 release, BARC, NCCS 2+, All India, ZMCL channels, 24 hours, Weeks 27-39 2017 coverage), making it one of the largest news networks in India.
- **Enhanced bouquet of services post acquisition of radio business, enabling better bargaining power and advertisement rates for the company –** The acquisition of the radio broadcasting business of RBNL is aimed at enhancing the business diversity of ZMCL by providing access to a large radio network, increasing its audience reach, leading to regional base expansion and enabling synergies on advertisement sales.
- **Demerger of the debt-laden and loss making printing division of the company –** Effective April 1, 2017, ZMCL demerged its printing business (under Mediavest India Private Limited, DMCL and Pri-Media Services Private Limited) and housed it under DMCL. DMCL will be listed on the stock exchanges, with a mirror shareholding as that of ZMCL. This demerger has helped improve the overall profitability and debt metrics of the company.

Credit weaknesses

- **Debt-funded acquisition of radio broadcasting business to result in deterioration in the debt metrics of ZMCL –** The acquisition of the radio broadcasting business, at an enterprise value of Rs. 1,592 crore is being funded through external debt and loan from promoters, resulting in deterioration in the debt metrics of ZMCL over the near term. However, the liquidity profile of ZMCL is expected to remain adequately supported by the long tenor (seven years) of the debt. Furthermore, ICRA takes comfort from the maintenance of DSRA equivalent to three months of ensuing debt obligations, comprising both interest and principal payments on a continuous basis and at all times during the tenure of debt. ICRA also takes comfort from the Group's endeavour to support ZMCL's business operations and extend financial support, if required, to bridge any temporary shortfall in the DSRA, to be maintained by the company.
- **Significant losses from WION launched in FY2017 –** ZMCL launched WION, an English news channel, in August 2016. The break-even of this loss-making channel remains critical for improvement in the overall profit margins of the company.
- **Investments in loss-making e-commerce business –** As on March 31, 2017, ZMCL invested Rs. 44.38 crore for the acquisition of 49% stake in the loss making e-commerce business of TMPL and TRNPL. Any further investments in the above mentioned entities and e-commerce business will be a key rating monitorable.
- **High competitive intensity in news and radio broadcasting; however, ZMCL's management is optimistic on growth prospects**

Analytical approach: ICRA has taken a consolidated view of ZMCL and the two SPVs of RBNL—Vrushvik and Azalia. ZMCL has acquired only 49% stake in the two entities, because of MIB regulations restricting change in shareholding of the largest Indian shareholder until three years from the date of operations of the radio channels. Thus, ZMCL will be unable to increase its stake to 100% before the expiry of this lock-in period.

Links to applicable criteria
[Corporate Credit Rating Methodology]
[Rating Methodology for Entities in the Media Broadcasting Industry]

About the company
Zee Media Corporation Limited operates 13, 24x7 news and entertainment channels. These include Zee News (Hindi news and current affairs channel), Zee Punjab Haryana Himachal (Punjabi language current affairs channel), Zee Business (Hindi language business news channel), 24 Ghanta (Bengali language news channel), Zee 24 Taas (Marathi language news channel), Zee Hindustan (earlier India 24*7, national news channel), Zee Madhya Pradesh Chhattisgarh (news channel for Madhya Pradesh and Chhattisgarh), Zee Rajasthan News (news and entertainment channel for Rajasthan), Zee Bihar Jharkhand (news and entertainment channel for Bihar and Jharkhand), Zee Kalinga (Odiya language news and entertainment channel), World Is One News (global English news channel) and the recently launched Zee 24 Kalak (Gujarati language news channel) and Zee Salaam (Urdu Channel). The 24 Ghanta channel is operated by a 60% subsidiary—Zee Aakash News Private Limited—with 40% held by Sky B (Bangla) Private Limited.

In its Board Meeting, held on November 23, 2016, ZMCL approved its in-principle, acquisition of equity stake in the radio broadcasting business (comprising 59 channels) of RBNL, to be transferred by RBNL to the recently incorporated SPVs—Vrushvik and Azalia. The company has, at present, shall acquire 49% equity stake in Vrushvik and Azalia, with a call option to acquire the balance 51% stake in the SPVs at a fixed consideration, in compliance with the MIB regulations. The option can be exercised from April 1, 2018 and April 1, 2020 for Vrushvik and Azalia, respectively, as per MIB license conditions. The total enterprise value of the acquisition is Rs 1,592 crore. In addition to the consideration payable for acquisition of 49% equity stake, ZMCL will be required to fund all future business requirements of these two entities. The proposed transaction, including the business transfer from RBNL to Vrushvik and Azalia as well as acquisition of 49% equity stake by ZMCL in the two SPVs, is subject to regulatory approvals, including approval from the MIB. The proposed acquisition is expected to be completed in the near term.

For the 12 months ended March 31, 2017, ZMCL (consolidated) reported a net loss of Rs. 13.1 crore on an operating income (OI) of Rs. 552.8 crore, as against a net loss of Rs. 4.5 crore on an OI of Rs. 543.2 crore for the 12 months ended March 31, 2016.

For the six months ended September 30, 2017, ZMCL reported a profit after tax (PAT)* of Rs. 15.1 crore on an OI of Rs. 239.1 crore.

Key financial indicators (Audited)

Consolidated	**FY2016**	**FY2017**
Operating Income (Rs. crore)	543.2	552.8
PAT (Rs. crore)*	-4.5	-13.1
OPBDIT/ OI (%)	14.9%	12.9%
RoCE (%)	5.2%	3.3%
Total Debt/ (TNW + Minority Interest) (times)	0.7	0.8
Total Debt/ OPBDIT (times)	4.8	5.8
Interest coverage (times)	1.7	1.5
NWC/ OI (%)	14%	6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital
**before share of profit / (loss) of associates*

Status of non-cooperation with previous CRA: Not applicable

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 FY2017		Date & Rating in FY2016	Date & Rating in FY2015	
				November 2017	November 2016	September 2016	June 2015	December 2014	April 2014
1	Fund-based facilities	Long-term	3.30	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+; on rating watch with negative implications
2	Term loans	Long-term	55.20	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	ICRA]A+; on rating watch with negative implications
3	Non fund-based facilities	Short-term	0.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-
4	Unallocated limits	Long-term / Short-term	116.50	[ICRA]A (Stable) / [ICRA]A2+	-	-	-	-	-

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

Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term, fund-based facility	-	-	-	3.30	[ICRA]A (Stable)
Term loan	-	-	FY2021	55.20	[ICRA]A (Stable)
Long-term / short-term, unallocated limits	-	-	-	116.50	[ICRA]A (Stable) / [ICRA]A2+

Source: Zee Media Corporation Limited

ICRA

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rachit Mehta
+91 22 6114 3423
rachit.mehta@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

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ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	