Diligent Media Corporation Limited

December 10, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Program	250.0	250.0	[ICRA]A(SO)(Stable); Reaffirmed
Short-term Non-fund Based Facility	20.0	20.0	[ICRA]A2+(SO); Reaffirmed
Total	**270.0**	**270.0**	

**Instrument details are provided in Annexure-1*
The letters SO in parenthesis suffixed to the rating symbol stand for Structured Obligation. An (SO) rating is specific to the rated facility, its terms, and its structure. An SO rating does not represent ICRA's opinion on the general credit quality of the entity concerned.

Rationale

The ratings are based on an unconditional and irrevocable guarantee provided by Zee Media Corporation Limited (ZMCL, rated [ICRA]A(Stable)/[ICRA]A2+) for the Rs. 250.0-crore non-convertible debenture (NCD) program and the Rs. 20.0-crore non-fund based bank facilities of Diligent Media Corporation Limited (DMCL). The rating for the NCD factors in the payment mechanism designed to ensure its timely payment as per the terms of the transaction. The rating for the non-fund based bank facility is based on an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The ratings reaffirmation notes ZMCL's moderate financial risk profile characterised by strong advertisement revenue growth in FY2018 and H1 FY2019, healthy operating profit margins (OPMs) and comfortable debt coverage indicators. ICRA also notes that the company has technically called off the proposed acquisition of the radio broadcasting business of Reliance Broadcast Network Limited (RBNL) as there were delays in approval receipt from the Ministry of Information and Broadcasting (MIB). Further, the ratings factor in the sale of the loss-making wholly-owned subsidiary, Ez-Mall Online Limited, involved in web-based e-commerce business, to Altilis Technologies Private Limited (a promoter Group entity) in June 2018. The business had reported a loss before tax of Rs. 28.4 crore in FY2018. The ratings continue to factor in ZMCL's position as one the largest news network in the country, strong recognition of the Zee brand, its ability to leverage the Group's network strength, and the Essel Group's strong promoter and management profile.

The ratings are, however, constrained by the ongoing gestation period of the newly launched channels - World Is One News (WION), an English news channel, and two regional channels (Zee 24 Kalak and Zee Uttar Pradesh Uttarakhand). Further, the company faces intense competition in the news broadcasting space.

Outlook: Stable

ICRA expects ZMCL to continue to benefit from the synergies arising from being a part of the Essel Group and the upcoming general elections in India, which will support its advertisement revenue growth in the near term. The OPMs are expected to remain healthy as the recent channel launches gain traction, further supported by the sale of the loss-making subsidiary, Ez-Mall Online Limited. The outlook may be revised to Positive if ZMCL posts better-than-expected operating metrics, thereby resulting in an improved financial risk profile. The outlook may be revised to a Negative in case of a decline in its profit margins or an increase in the working capital requirements, resulting in a deterioration in its credit metrics. Any further support to its Group companies will also be a credit negative.

Key rating drivers

Credit Strengths

Support to DMCL with redeemable preference shares and corporate guarantees - As on March 31, 2018, ZMCL invested Rs. 436.3 crore in DMCL's redeemable preference shares. Further, ZMCL has issued corporate guarantees for DMCL's Rs. 250.0-crore NCD programme and Rs. 20.0-crore non-fund based bank facilities, along with accrued interest on the same.

Strong promoter backing; experienced management team - ZMCL and DMCL enjoy strong financial flexibility as they are parts 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 with established Zee brand and formidable advertisers; network strength results in competitive advantages - The company's network consists of 14 news channels, comprising a global news channel, three national news channels and ten regional news channels. ZMCL's channels reached more than 377 million viewers[1], making it one of the largest news networks in India.

Reliance on national channels reduced; gradual increase in revenue and profitability of regional channels - The percentage contribution of the national channels to ZMCL's total revenues gradually reduced to 60% in H1 FY2019 from 70% in FY2015. During the same period, the revenue contribution from the regional channels increased to 40% from 30% of the total revenues, supported by an increase in advertisement revenues. Further, the regional channels which reported operating losses till FY2016, have reported sustained improvement since, with an OPM of 25.4% in H1 FY2019.

Exit from loss-making e-commerce business - ZMCL sold its loss-making wholly-owned subsidiary, Ez-Mall Online Limited, involved in web-based e-commerce business, to Altilis Technologies Private Limited (a promoter Group entity) in June 2018. The business had reported the loss before tax of Rs. 28.4 crore in FY2018. The exit from this business will thus improve ZMCL's profit margins.

Credit Challenges

Losses from newly launched channels - ZMCL launched WION, an English news channel, in December 2016 and two regional channels (Zee 24 Kalak and Zee Uttar Pradesh Uttarakhand) in 2017. The break-even of these loss-making channels remains critical for the improvement in the company's overall profit margins.

Intense competition in news broadcasting business - ZMCL continues to face competition from national as well as regional players. However, the management is optimistic on the growth prospects.

Liquidity position

ZMCL's (guarantor's) funds flow from operations remained positive from FY2016 to FY2018, supported by healthy OPMs and moderate working capital intensity of operations. ZMCL's working capital limits remained moderately utilised over the last 12 months and it had cash and cash equivalents of Rs. 16.9 crore as on September 30, 2018 (as per consolidated financials). Overall, ZMCL's liquidity profile is expected to remain comfortable supported by healthy cash accruals. Further, as a part of the Essel Group, the company continues to enjoy strong financial flexibility.

[1] Source: ZMCL Q2 FY2019 release, BARC, NCCS 2+, All India, ZMCL channels, 24 hours, Q2 FY2019 coverage

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Media Broadcasting Industry Approach for Rating Debt Instruments Backed by Third-Party Explicit Support
Parent/Group Support	Not applicable.
Consolidation/Standalone	Not applicable, since the ratings are based on the unconditional and irrevocable corporate guarantee from ZMCL.

About the company

DMCL publishes DNA, an English daily newspaper, which is currently circulated in four cities - Mumbai, Delhi, Ahmedabad and Jaipur. The Mumbai edition has been in circulation since July 2015, the Delhi edition since October 2016 and the Ahmedabad and Jaipur editions since June 2017. In December 2017, the company launched Zee Marathi Disha, a Marathi weekly newspaper. Apart from publishing newspapers, DMCL also prints job work at its Mahape, Navi Mumbai manufacturing facility.

As per a scheme of arrangement and amalgamation among ZMCL, DMCL, Mediavest India Private Limited and Pri-Media Services Private Limited, demerged print media undertaking of ZMCL vested with DMCL, while Mediavest India Private Limited and Pri-Media Services Private Limited have been amalgamated with DMCL with effect from April 01, 2017. Further, DMCL got listed on the stock exchange in December 2017, with a mirror shareholding of ZMCL. As on September 30, 2018, the promoters held a 69.1% stake in DMCL.

About the guarantor

ZMCL operates 14 news channels. These include a global news channel (WION), three national news channels (Zee News, Zee Business and Zee Hindustan) and 10 regional news channels (Zee 24 Taas, Zee Madhya Pradesh Chattisgarh, Zee Punjab Haryana Himachal, Zee Rajasthan, Zee Uttar Pradesh Uttarakhand, Zee Kalinga News, Zee Bihar Jharkhand, Zee 24 Kalak, Zee Salaam and Zee 24 Ghanta- under ZMCL's 100% subsidiary, Zee Akaash News Private Limited). As on September 30, 2018, the promoters held a 67.0% stake in the company.

Key financial indicators (audited)

	DMCL		ZMCL (Consolidated)	
Rs. crore	**FY2017**	**FY2018**	**FY2017**	**FY2018**
Operating Income (Rs. crore)	85.3	124.0	449.8	578.0
PAT (Rs. crore)	-25.5	-98.2	-13.1	32.4
OPBDIT/ OI	-51.5%	-9.4%	22.3%	18.1%
RoCE	-	-	3.3%	10.4%
Total Debt/ TNW(times)	5.1	-1.9	0.2	0.2
Total Debt/ OPBDIT (times)	-	-	1.1	1.2
Interest Coverage (times)	-	-	6.7	5.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating December 2018	Chronology of Rating History for the Past 3 years: Date & Rating in FY2018 November 2017	October 2017	Date & Rating in FY2017 September 2016	April 2016	Date & Rating in FY2016 February 2016
1	NCD Program	Long-term	250.0	250.0	[ICRA]A (SO) (Stable)	[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)	[ICRA]A2+ (SO)/ Provisional [ICRA]A2+ (SO)

**As on September 30, 2018*

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 Name	Date of Issuance / Sanction	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

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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