Diligent Media Corporation Limited

February 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	250.0	250.0	[ICRA]A(SO)@; placed on rating watch with negative implications
Short-term, Non-fund Based Facility	20.0	20.0	[ICRA]A2+(SO)@; placed on rating watch with negative implications
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.

Material Event

The share price of some Essel Group entities, primarily Zee Entertainment Enterprises Limited (ZEEL) and Dish TV India Limited (DTIL) witnessed a sharp correction on January 25, 2019 following a media article alleging its association with an entity being probed by the Serious Frauds Investigation Office (SFIO). The management has, however, categorically denied any association of the promoters or of the operating companies in the Group with the said entity.

Impact of the Material Event

ICRA has placed the long-term rating of [ICRA]A(SO) (pronounced ICRA A Structured Obligation)[1] outstanding on the Rs. 250.0 crore non-convertible debenture (NCD) programme and the short-term rating of [ICRA]A2+(SO) (pronounced ICRA A two plus Structured Obligation) outstanding on the Rs. 20.0-crore[2] bank facilities of Diligent Media Corporation Limited (DMCL) on 'rating watch with negative implications'.

The ratings are based on an unconditional and irrevocable guarantee provided by Zee Media Corporation Limited (ZMCL) for the Rs. 250.0-crore NCD programme and the Rs. 20.0-crore non-fund based bank facilities of 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.

Rationale

The ratings have been placed on watch with negative implications on account of the reduced financial flexibility of the Essel Group promoters, following the recent decline in the share price of some of the key Group entities and continued high level of pledged shareholding—~60% of the promoters' shareholding across the listed entities[3] of the Essel Group

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[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*

[3] *Includes, ZEEL, DTIL, SITI Networks Limited (SNL), Zee Media Corporation Limited (ZMCL), Essel Propack Limited and Zee Learn Limited*

was pledged as on December 31, 2018[4]. This is expected to reduce promoter's group ability to support the operating entities. Improvement in the financial flexibility of the Group is a key rating sensitivity.

This reduced financial flexibility at the promoter level has increased the refinancing risk for DMCL. DMCL has significant repayments going forward. NCD of Rs. 75 crore (ISIN No: INE082T07025) has a call / put option, which if exercised on June 30, 2019 (as per scheduled date) will lead to repayment liability of Rs. 117.6 crore (including redemption premium). In case the call / put option is not exercised, the total repayment due for all the NCDs will be Rs. 438.9 crore (including redemption premium) on June 30, 2020. Given the weak financial profile of DMCL, ICRA expects NCDs repayments through refinancing or partly through asset sale. In case DMCL is unable to meet the NCD repayments, the entire liability will fall on the guarantor, ZMCL. The NCD repayments are large when compared to the liquidity position and the financial profile of ZMCL.

The previous detailed rating rationale is available on the following link: Click here

Outlook: On watch with negative implications

The ratings have been placed on watch with negative implications due to the reduced financial flexibility of the Group following the recent sharp decline in the share price of DTIL and some other entities of the Group and the high level of pledged shareholding across the listed entities of the Group. This is expected to reduce promoter's group ability to support the operating entities. Improvement in the financial flexibility of the Group is a key rating sensitivity.

Key rating drivers

Credit Strengths

Corporate guarantee extended by ZMCL for NCD and bank facilities of DMCL - 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.

Credit Challenges

Reduced financial flexibility of the Group- The ratings factor in the high likelihood of the promoter Group, the Essel Group, extending financial support to DMCL. The financial flexibility of the Essel Group promoters and its entities has, however, reduced following the recent sharp decline in the share price of some entities of the Essel Group and continued high level of pledged shareholding across the listed entities of the Group. Improvement in the financial flexibility of the Group is a key rating sensitivity.

[4] *The Essel Group promoters have entered into an agreement with the lenders, wherein the latter agreed to not invoke pledges due to the event of default that occurred owing to the sharp decline in the share price of ZEEL and DTIL. As per the agreement, the lenders have drawn comfort from a resolution through the strategic sale of upto 50% of the promoters' shareholding in ZEEL, in a time-bound manner. Furthermore, it has been agreed that the equity proceeds of the strategic sale will be first utilised towards the repayment of dues to the lenders. The Group, through Essel Infraprojects Limited (EIL), is also in the process of raising additional funds by way of stake sale in its solar, transmission and certain road projects (with the company having finalised transactions for transmission projects).*

Liquidity position

ZMCL's (guarantor's) funds flow from operations remained positive from FY2016 to FY2018, supported by healthy operating profit margins 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. In case the corporate guarantee given to the NCDs of DMCL is invoked, the liabilities towards the same would be large when compared to the liquidity position and financial profile of ZMCL.

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	The ratings are based on the unconditional and irrevocable corporate guarantee from ZMCL.
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 2005, 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)

Rs. crore	DMCL FY2017	DMCL FY2018	ZMCL (Consolidated) FY2017	ZMCL (Consolidated) 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 February 2019	Date & Rating December 2018	Chronology of Rating History for the Past 3 years: Date & Rating in FY2018 November 2017	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 February 2016
1	NCD Programme	Long-term	250.0	250.0	[ICRA]A(SO)@	[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)	[ICRA]A2+ (SO)/ Provisional [ICRA]A2+ (SO)

**As on December 31, 2018; @: On rating watch with negative implications*

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)@
INE082T07025	NCD	June 30, 2015	11.9%	June 30, 2020	75.0	[ICRA]A(SO)@
INE082T07033	NCD	June 30, 2015	11.9%	June 30, 2020	125.0	[ICRA]A(SO)@
-	Non-fund Based Facility	-	-	-	20.0	[ICRA]A2+(SO)@

@: On rating watch with negative implications

Source: Diligent Media Corporation Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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