

## Zee Media Corporation Limited

	Amount	Rating Action
	In Rs. Crore	
Long-term, fund-based bank facilities	95.00	[ICRA]A (Negative); reaffirmed
Long-term loans	80.00	[ICRA]A (Negative); reaffirmed
Short-term, fund-based facilities	8.00	[ICRA]A2+, reaffirmed

ICRA has re-affirmed the [ICRA]A (pronounced ICRA A) rating assigned to the Rs. 80.0 crore<sup>1</sup>, long-term loans and the Rs. 95.0 crore long-term, fund-based facilities of Zee Media Corporation Limited ('ZMCL', or the company)<sup>2</sup>. The outlook on the rating is 'Negative'. ICRA has also reaffirmed the [ICRA]A2+ (pronounced ICRA A two plus) rating assigned to the Rs. 8.0 crore, short-term, non-fund based facilities of ZMCL.

ZMCL has announced a debt funded acquisition of the radio broadcasting business of Reliance Broadcast Network Limited (RBNL). The increase in debt levels and corresponding pressure on credit metrics are however mitigated by – 1) demerger of the asset heavy and the loss making print segment from ZMCL with effect from April 01, 2017; 2) expected synergy benefits in acquiring new clients and achieving deeper penetration with its existing client base, being part of the Essel group; and 3) maintenance of debt service reserve account (DSRA) equivalent to three months of ensuing debt obligations at all times during the currency of the facility.

ZMCL has made two recent announcements - demerger of the asset heavy and the loss making print segment from ZMCL with effect from April 01, 2017 and the proposed acquisition of the radio broadcasting business of RBNL, which comprises 45 operational and 14 recently acquired (yet to become operational) radio licenses, under the brand '92.7 BIG FM'. Subject to the approval of Ministry of Information and Broadcasting (MIB), RBNL shall transfer its radio business into two special purpose vehicles (SPVs) - (i) 45 operational radio licenses to Vrushvik Entertainment Pvt Ltd (Vrushvik) and (ii) 14 new radio licenses to Azalia Media Services Pvt Ltd (Azalia). The acquisition of 100% stakes in these two SPVs by ZMCL is valued at Rs. 1,592 crore. However, ZMCL would be currently acquiring only 49% stake in these two SPVs for a consideration of Rs. 1,580 crore (including the Rs 1,570 crore for transfer of radio business from RBNL to two SPVs), with a call option to acquire the balance 51% stakes in the SPVs at a fixed consideration of Rs. 8 crore and Rs. 4 crore for Vrushvik and Azalia, respectively. The option can be exercised for Vrushvik from April 1, 2018 and for Azalia from April 1, 2020 (expected) as per MIB license conditions.

The acquisition is aimed at enhancing the business diversity of ZMCL by providing access to a large ready radio network, increasing the audience reach for ZMCL leading to regional base expansion and enabling synergies on advertisement sales. The profit margins of ZMCL are also expected to improve following the demerger of the loss-making print segment, further supported by the high margin radio broadcasting business.

The acquisition is to be entirely debt funded. The debt is proposed to be raised partly by ZMCL and partly by the two SPVs of RBNL. While this will result in deterioration in the debt metrics of ZMCL over the near term, the liquidity position of ZMCL, is however expected to remain adequately supported by the proposed long tenor of the debt (including the debt raised by SPVs) to be drawn to fund the acquisition, with a moratorium period of 2.25 years and ballooning quarterly principal repayments thereafter, spread over five years. Additionally, of the total debt to be raised to fund the acquisition, Rs 300 crore is proposed to be advanced by one of the holding companies of ZMCL, subordinated to the existing and fresh debt of ZMCL.

ZMCL has entered into a service agreement with Zee Unimedia Limited (ZUL, 100% subsidiary of Zee Entertainment Enterprises Limited) to act as a canvassing agent for sale of available advertisement space for the entire bouquet of news channels under ZMCL. ZUL is a strategic business unit incorporated by Essel Group to integrate group wide advertisement sales function into a single entity, with offerings across genres and platforms. This arrangement will benefit ZMCL in acquiring new clients and achieving deeper penetration

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>2</sup> 100 lakh = 1 crore = 10 million



with its existing client base, thereby helping improve the advertising revenues and thus profits, and remains a key rating sensitivity.

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 currency of the facility. ICRA also takes comfort from the group's endeavor 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 recently launched channels (the most recent being the English news channel – WION – in FY2017) as well as the high competitive intensity in the news broadcasting space. ICRA also notes the decline in subscription revenues post conversion of Zee News into a free-to-air channel with effect from June 2016. The extent to which the increase in advertising revenues on account of wider reach compensates for the de-growth in the subscription revenues remains a key rating sensitivity.

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

#### **About the Company**

Zee Media Corporation Limited (ZMCL) operates eleven 24x7 news and entertainment channels, which 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 Sangam (news channel for Uttar Pradesh and Uttarakhand), Zee Madhya Pradesh Chhattisgarh (news channel for Madhya Pradesh and Chhattisgarh), Zee Marudhara (news and entertainment channel for Rajasthan), Maurya TV (news and entertainment channel for Bihar and Jharkhand), Zee Kalinga (Odia language news and entertainment channel) and the recently launched World Is One News (WION; global English news channel). 24 Ghanta is operated by a 60% subsidiary, Zee Aakash News Private Limited, with 40% held by Sky B (Bangla) Private Limited; also, ZMCL increased its equity stake in Maurya TV Private Limited (an entity engaged in the business of broadcasting of Maurya TV) from 37.87% to 100.00% in December 2014.

In May 2014, the Scheme of amalgamation for merger of Essel Publishers Private Limited (EPPL) with ZMCL was approved by the Hon'ble Bombay High Court. Consequent to the amalgamation of EPPL with ZMCL, the company has expanded into print news segment through subsidiaries Diligent Media Corporation Limited (DMCL) which publishes DNA newspaper in Mumbai (earlier even Pune and Bengaluru editions) and Pri Media Services Private Limited (Pri Media) which is engaged in the printing of DNA newspaper and other printing job work.

The company, in its Board Meeting held on October 27, 2016, has announced the demerger of the printing business (under Mediavest India Private Limited, DMCL and Pri Media) from ZMCL and to be housed under DMCL, with effect from April 01, 2017. DMCL is expected to be listed on the stock exchanges, with a mirror shareholding as that of ZMCL. The company has also announced the amalgamation of Maurya TV Private Limited into ZMCL.

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 recently incorporated Special purpose vehicles (SPVs)-Vrushvik Entertainment Pvt Ltd (Vrushvik) and Azalia Media Services Pvt Ltd (Azalia). The company shall at present, acquire 49% equity stake in Vrushvik and Azalia, with a call option of acquire balance 51% stake in the SPVs at fixed consideration, in compliance with MIB regulations. The option can be exercised from April 1, 2018 and April 1, 2020 (expected) respectively for Vrushvik and Azalia 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 shall be required to issue corporate guarantee for securing proportionate borrowings of Vrushvik and Azalia as well as 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, shall be subject to regulatory approvals, including approval from MIB. The proposed acquisition is expected to be completed in the first half of CY2017.

#### **Recent results**

As per unaudited financials for the six month period ended September 30, 2016, ZMCL (consolidated) reported a net loss (before minority interest) of Rs. 15.7 crore on an operating income (OI) of Rs. 254.4 crore as against a net loss of Rs. 24.0 crore on an OI of Rs. 262.3 crore during the six month period ended September 30, 2015.

As per audited financials for the twelve month period ended March 31, 2016, ZMCL (consolidated) reported a net loss of Rs. 3.0 crore on an OI of Rs. 542.9 crore as against a net loss of Rs. 43.2 crore on an OI of Rs. 544.3 crore as per audited financials for the twelve month period ended March 31, 2015.

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