December 12, 2019

Diligent Media Corporation Limited: Long-term rating downgraded to [ICRA]B(Negative), short-term rating reaffirmed at [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	250.0	250.0	[ICRA]B(Negative); downgraded from [ICRA]BB(CE)(Negative)
Short-term, Non-fund Based Facility	20.0	20.0	[ICRA]A4; reaffirmed
Total	**270.0**	**270.0**	

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned.

Rationale

The long-term rating revision factors in the poor liquidity position and continued weak performance of Diligent Media Corporation Limited (DMCL), as characterised by continued losses and a negative net worth. DMCL faces significant debt repayments, going forward. The total repayment (including redemption premium) due on its Rs. 250.0-crore NCDs will be Rs. 438.9 crore on June 30, 2020. Given its weak financial profile, ICRA expects the repayment to be met through refinancing or partly through asset sale. However, in the current scenario, the Essel Group's promoters' refinancing ability has weakened significantly, with current pending dues of ~Rs. 2,800-3,000 crore to financial institutions. The promoters' shareholding in the key listed entity of the Group, Zee Entertainment Enterprises Limited (ZEEL), reduced to 5% as on November 30, 2019 (of which, 1.1% was pledged) from 22.37% as on September 30, 2019 (of which, 96% was pledged) following stake sale of 16.5% to various financial investors. Improvement in the Group's financial flexibility is a key rating sensitivity.

The Negative outlook on the long-term rating factors in the reduced financial flexibility of the Essel Group and DMCL's poor liquidity position.

Further, despite the corporate guarantee from Zee Media Corporation Limited (ZMCL) for DMCL's NCD and bank lines, in ICRA's opinion, the rating does not benefit from credit enhancement.

Key rating drivers

Credit strengths

Experience of promoter Group in media industry – DMCL's promoters (Essel Group) have extensive experience in the media industry with presence in television broadcasting and digital news publication.

Credit challenges

Reduced financial flexibility of promoter Group – The financial flexibility of the Essel Group's promoters remains weak, with current pending dues of ~Rs. 2,800-3,000 crore to financial institutions. The promoters' shareholding in the key listed entity of the Group, ZEEL, reduced to 5% as on November 30, 2019 (of which, 1.1% was pledged) from 22.37% as on September 30, 2019 (of which, 96% was pledged) following stake sale of 16.5% to various financial investors. The proceeds (~Rs. 4,300 crore) from the same have been utilised towards repayment of the outstanding dues of the promoters. The pace of additional asset monetisation is a key rating monitorable. Improvement in the Group's financial flexibility is a key rating sensitivity.

Weak financial profile of DMCL and sizeable debt repayments – DMCL's financial profile is weak, characterised by continued net losses and negative net worth. The company has sizeable debt repayments, going forward, and given its weak financial profile, especially with the announcement of the closure of its print editions in October 2019, ICRA expects the repayments to be met through refinancing or partly through asset sale. However, in the current scenario, the Group's refinancing ability has weakened significantly.

Liquidity position: Poor

DMCL's liquidity is poor, as evident from its net losses and negative net worth. While it had cash and bank balance of Rs. 2.7 crore as on September 30, 2019, it had a total debt of Rs. 840.1 crore. It does not have any fund-based working capital lines.

Rating sensitivities

Positive triggers – The rating may be upgraded in case of a sustained improvement in the operating performance of DMCL. An improvement in the financial flexibility of the promoter Group would also be a positive factor.

Negative triggers – The rating may be downgraded in case of any delay in debt repayment or further deterioration in the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone profile of the company.

About the company

Until October 09, 2019, DMCL published DNA, an English daily newspaper, which was circulated in Mumbai and Ahmedabad.

As per a scheme of arrangement and amalgamation among ZMCL, DMCL, Mediavest India Private Limited and Pri-Media Services Private Limited, ZMCL's demerged print media undertaking has been 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 was listed on the stock exchange in December 2017, with a mirror shareholding of ZMCL. As on September 30, 2019, the promoters held a 62.17% stake in DMCL.

With effect from October 10, 2019, the company has ceased the print publication of all editions of DNA. It shall, however, continue to concentrate on publication through its digital platform– dnaindia.com.

During H1 FY2020, DMCL reported a net loss of Rs. 30.5 crore on an operating income (OI) of Rs. 37.4 crore, as against a net loss of Rs. 30.9 crore on an OI of Rs. 53.0 crore during H1 FY2019.

Key financial indicators (audited)

Rs. crore	FY2018	FY2019
Operating Income (Rs. crore)	124.0	114.2
PAT (Rs. crore)	-98.2	-57.6
OPBDIT/ OI	-9.4%	-13.4%
RoCE	-4.9%	-7.3%
Total Outside Liabilities/ Tangible Net Worth (times)	-1.8	-1.7
Total Debt/ OPBDIT (times)	-66.5	-53.3
Interest Coverage (times)	-0.3	-0.4
DSCR	-0.2	-0.3

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	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating (FY2020)				Chronology of Rating History for the Past 3 years					
					Date & Rating				Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
					12-Dec-19	18-Oct-19	09-Aug-19	22-May-19	04-Feb-19	10-Dec-18	06-Nov-17	11-Oct-17	19-Sep-16	29-Apr-16
1	NCD Programme	Long-term	250.0	250.0	[ICRA]B (Negative)	[ICRA]BB(CE) (Negative)	[ICRA]BBB-(SO)(Negative)	[ICRA] A-(SO) (Negative)	[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] A4	[ICRA] A4	[ICRA] A3(SO)	[ICRA] A2+(SO)	[ICRA]A2+(SO)@	[ICRA] A2+(SO)	[ICRA] A2+(SO)	[ICRA] A2+(SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO)

**As on September30, 2019; @: 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]B(Negative)
INE082T07025	NCD	June 30, 2015	11.9%	June 30, 2020	75.0	[ICRA]B(Negative)
INE082T07033	NCD	June 30, 2015	11.9%	June 30, 2020	125.0	[ICRA]B(Negative)
-	Non-fund Based Facility	-	-	-	20.0	[ICRA]A4

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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