

May 22, 2019

Diligent Media Corporation Limited: Long-term rating downgraded to [ICRA]A-(SO)(Negative); ratings removed from Watch with Negative Implications

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)(Negative); downgraded from [ICRA]A(SO) and removed from Watch with Negative Implications
Short-term Non-fund Based Facility	20.0	20.0	[ICRA]A2+(SO); removed from 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.

Rationale

The ratings are based on an unconditional and irrevocable guarantee provided by Zee Media Corporation Limited (ZMCL) for the Rs. 250.0-crore non-convertible debenture (NCD) programme 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 long-term rating downgrade reflects the continued stress at the Essel Group level amidst slow progress on monetisation, and the significant increase in the pledged shareholding of the promoters across the Group's listed entities¹ since February 2019. This has further reduced the promoter Group's ability to support the operating entities, resulting in increased refinancing risks for DMCL.

DMCL has significant repayments going forward. Its 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 a 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 DMCL's weak financial profile, ICRA expects NCD 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 sizeable when compared to ZMCL's liquidity position and financial profile. Improvement in the Group's financial flexibility is a key rating sensitivity.

¹Includes Zee Entertainment Enterprises Limited (ZEEL), Dish TV India Limited (DTIL), SITI Networks Limited (SNL), ZMCL, and Zee Learn Limited

Outlook: Negative

The Negative outlook factors in DMCL's high debt repayment obligations and increased refinancing risks, amid weak financial flexibility of the Group. The Group's financial flexibility is constrained by borrowings through pledging of promoter shareholding. The ratings may be downgraded in case of a lack of meaningful progress towards addressing the issue of pledged promoter holdings or deterioration in ZMCL's credit profile.

Key rating drivers

Credit Strengths

Corporate guarantee extended by ZMCL for NCD and bank facilities of DMCL - ZMCL has invested Rs. 436.3 crore in DMCL's redeemable preference shares. However, in Q4 FY2019, ZMCL reported Rs. 103.35-crore exceptional loss towards impairment pertaining to its investments in DMCL. 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 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's promoters and entities has reduced significantly, with high level of pledged shareholding across the Group's listed entities. Improvement in the Group's financial flexibility is a key rating sensitivity.

Liquidity position

ZMCL's (guarantor's) liquidity profile is expected to remain comfortable supported by healthy cash accruals. However, in case the corporate guarantee given to DMCL's NCDs is invoked, the liabilities towards the same would be sizeable when compared to ZMCL's liquidity position and financial profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Media Broadcasting Industry Rating Methodology for Entities in the Print Media 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 three cities - Mumbai, Delhi and Ahmedabad. The Mumbai edition has been in circulation since July 2005, the Delhi edition since October 2016 and the Ahmedabad edition 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, 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 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 Chhattisgarh, 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).

Key financial indicators (audited)

Rs. crore	DMCL		ZMCL (Consolidated)	
	FY2017	FY2018	FY2017	FY2019
Operating Income (Rs. crore)	85.3	124.0	578.0	686.9
PAT (Rs. crore)	-25.5	-98.2	32.4	-5.8
OPBDIT/ OI	-51.5%	-9.4%	18.1%	25.3%
RoCE	-	-	10.4%	6.0%
Total Debt/ TNW(times)	5.1	-1.9	0.2	0.3
Total Debt/ OPBDIT (times)	-	-	1.2	1.0
Interest Coverage (times)	-	-	5.9	9.6

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	Current Rating (FY2020)			Chronology of Rating History for the Past 3 years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating May 2019	Date & Rating in FY2019		Date & Rating in FY2018			Date & Rating in FY2017	
					February 2019	December 2018	November 2017	October 2017	September 2016	April 2016	
1	NCD Programme	250.0	250.0	[ICRA]A-(SO) (Negative)	[ICRA]A(SO)@	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Negative)	-	-	
2	Non-fund Based Facility	20.0	-	[ICRA]A2+(SO)	[ICRA]A2+(SO)@	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	

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

Source: Diligent Media Corporation Limited

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