

August 09, 2019

## Diligent Media Corporation Limited: Ratings downgraded to [ICRA]BBB-(SO)(Negative)/[ICRA]A3(SO)

### 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]BBB-(SO)(Negative); downgraded from [ICRA]A-(SO)(Negative)
Short-term, Non-fund Based Facility	20.0	20.0	[ICRA]A3(SO); downgraded from [ICRA]A2+(SO)
<b>Total</b>	<b>270.0</b>	<b>270.0</b>	

\*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 ratings downgrade reflects the continued stress at the Essel Group level, amid the continued high pledged shareholding across the Group's listed entities<sup>1</sup>. This has reduced the promoter Group's ability to support the operating entities, resulting in increased refinancing risks for DMCL. While ICRA notes the recent announcement of a stake sale of up to 11% in Zee Entertainment Enterprises Limited (ZEEL) by the Group for up to Rs. 4,224 crore, given the quantum of pending dues, the pace of additional asset monetisation will be a key rating monitorable.

DMCL has 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 DMCL's weak financial profile, ICRA expects the repayment to be met through refinancing or partly through asset sale. However, in the current scenario, the Group's refinancing ability has weakened significantly. 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.

<sup>1</sup>Includes 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 refinancing risks, amid continued 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 delays by the Group in asset monetisation (for clearing the pending dues towards addressing the issue of pledged promoter holdings), or a 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 of exceptional loss towards impairment pertaining to its investments in DMCL. Furthermore, 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 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. While ICRA notes the recent announcement of a stake sale of up to 11% in ZEEL by the Group for up to Rs. 4,224 crore, given the quantum of pending dues, the pace of additional asset monetisation will be a key rating monitorable. Improvement in the Group's financial flexibility is a key rating sensitivity.

DMCL has sizeable debt repayments going forward, and given its weak financial profile, 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. 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.

### Liquidity position

ZMCL's (guarantor's) liquidity profile is expected to remain comfortable supported by healthy cash accruals. However, in case the corporate guarantee extended for 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Media Broadcasting Industry</a> <a href="#">Rating Methodology for Entities in the Print Media Industry</a> <a href="#">Approach for Rating Debt Instruments Backed by Third-Party Explicit Support</a>
Parent/Group Support	The ratings are based on the unconditional and irrevocable corporate guarantee from ZMCL.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of DMCL and consolidated financials of ZMCL (guarantor). As on March 31, 2019, ZMCL had one subsidiary, which is enlisted in Annexure-2.

## 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 undertakes printing job work at its Mahape, Navi Mumbai printing 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 June 30, 2019, the promoters held a 62.17% 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)	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	124.0	114.2	578.0	686.9
PAT (Rs. crore)	-98.2	-57.6	32.4	-5.8
OPBDIT/ OI	-9.4%	-14.8%	18.1%	25.3%
RoCE	-	-	10.4%	6.0%
Total Debt/ TNW(times)	-1.9	-1.7	0.2	0.3
Total Debt/ OPBDIT (times)	-	-	1.2	1.1
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		Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		
				August 2019	May 2019	February 2019	December 2018	November 2017	October 2017	September 2016	April 2016	
1	NCD Programme	250.0	250.0	[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	20.0	-	[ICRA]A3(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)@	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)	[ICRA]A2+(SO)

\*As on June 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](http://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]BBB-(SO)(Negative)
INE082T07025	NCD	June 30, 2015	11.9%	June 30, 2020	75.0	[ICRA]BBB-(SO)(Negative)
INE082T07033	NCD	June 30, 2015	11.9%	June 30, 2020	125.0	[ICRA]BBB-(SO)(Negative)
-	Non-fund Based Facility	-	-	-	20.0	[ICRA]A3(SO)

Source: Diligent Media Corporation Limited

### Annexure-2: List of entities considered for consolidated analysis for ZMCL

Company Name	Ownership	Consolidation Approach
Zee Akaash News Private Limited	100.0%	Full Consolidation

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