

October 18, 2019

Diligent Media Corporation Limited: Rating downgraded to [ICRA]BB(CE)(Negative)/[ICRA]A4

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]BB(CE) (Negative); downgraded from [ICRA]BBB-(SO) (Negative)
Short-term, Non-fund Based Facility	20.0	20.0	[ICRA]A4; downgraded from [ICRA]A3(SO)
Total	270.0	270.0	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]B

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. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]BB(CE) (Negative) rating

The above rating is based on the strength of the corporate guarantee provided by Zee Media Corporation Limited (ZMCL), a Group company, for the Rs. 250.0-crore non-convertible debenture (NCD) programme of Diligent Media Corporation Limited (DMCL).

The rating revision factors in the further weakening in the financial flexibility of the Essel Group promoters, amid the high pledged shareholding as well as slower than expected progress on asset monetisation. The promoter shareholding in the key listed entity of the Group, Zee Entertainment Enterprises Limited (ZEEL), reduced to 22.37% as on September 30, 2019 (of which 96% was pledged) from 35.79% as on June 30, 2019 (of which 63.98% was pledged), following stake sale of 8.97% (of the agreed 11%) to Invesco Oppenheimer Developing Markets Fund and invocation of pledges by lenders, following the inability of the promoters to clear the dues by the agreed timeline of September 30, 2019. The quantum of pending dues of the promoter holding companies remains sizeable at ~Rs. 7,000 crore, whose repayment timeline has now been extended by most lenders till March 2020. The pace of additional stake sale or asset monetisation is thus a key rating monitorable.

The Negative outlook on the long-term rating factors in the reduced financial flexibility of the Group, which is constrained by borrowings through pledging of promoter shareholding.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers

the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism to ensure timely repayment of the NCDs. Given these attributes, the guarantee provided by ZMCL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]BB(CE)** against the rating of [ICRA]B without explicit credit enhancement. In case the rating of the guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The guarantee is unconditional, irrevocable and continuing one.*
- » *Guarantor undertakes that on receipt of Notice of Demand, to pay as per the amount demanded, without any demur or protest, within two business days of receipt of demand or by the due date of the NCDs, whichever is earlier.*
- » *The guarantors would be the principal obligors for the NCDs*

For the [ICRA]A4 rating

The rating reflects the continued weak performance of DMCL, as characterised by continued losses and 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 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. ICRA also notes the discontinuation of the print publication business of DNA with effect from October 10, 2019.

Despite the corporate guarantee from ZMCL for DMCL's bank lines, in ICRA's opinion, the short-term rating does not benefit from credit enhancement.

Key rating drivers

For the [ICRA]BB(CE) (Negative) rating

Credit strengths

Corporate guarantee extended by ZMCL - 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 the promoter 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 the promoters have entered into an agreement with Invesco Oppenheimer Developing Markets Fund for sale of 11% of their stake in ZEEL for a consideration of Rs. 4,224 crore during August 2019, as of date, the promoters have sold 8.7% of this stake and the balance 2.3% is yet to be sold. As on date, ~Rs. 7,000 crore of dues are still pending to be repaid by the promoters. The promoters missed the deadline of repaying the same by September 30, 2019, and have been granted another extension by most investors. The pace of additional stake sale or asset monetisation is thus a key rating monitorable. Improvement in the Group's financial flexibility is a key rating sensitivity.

For the [ICRA]A4 rating

Credit challenges

Weak financial profile and sizeable debt repayments – DMCL’s financial profile is weak, as characterised by continued net loss and negative net worth. DMCL has sizeable debt repayments, going forward, and given its weak financial profile, especially with the recent announcement of the closure of its print editions, 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

For the [ICRA]BB(CE) (Negative) rating: Stretched

While ZMCL’s (guarantor’s) standalone liquidity profile is comfortable, supported by healthy cash accruals and buffer on sanctioned working capital limits, in case the corporate guarantee for DMCL’s NCDs and bank facilities is invoked, the liabilities towards the same would be sizeable when compared to ZMCL’s liquidity position and financial profile.

For the [ICRA]A4 rating: 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. 8.3 crore as on March 31, 2019, it had a total debt of Rs. 818.0 crore. It does not have any fund-based working capital lines.

Rating sensitivities

For the [ICRA]BB(CE) (Negative) rating

The rating assigned to the Rs. 250-crore NCD programme would remain sensitive to any movement in the rating of the guarantor, ZMCL.

For the [ICRA]A4 rating

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 by way of timely release of share pledges, provided they continue to hold a meaningful share in the key listed entities of the Group, would also be a positive factor.

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	Not applicable
Consolidation / Standalone	The [ICRA]A4 rating is based on the standalone profile of the company. For arriving at the [ICRA]BB(CE) rating, ICRA has considered the consolidated financials of ZMCL (guarantor). As on March 31, 2019, ZMCL had a subsidiary, which is enlisted in Annexure-2.

About the company

Until October 09, 2019, DMCL published *DNA*, an English daily newspaper, which was circulated in the two cities of 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 June 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. The company shall, however, continue to concentrate on publication through its digital platform, dnaindia.com, completely.

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	-4.9%	-7.3%	10.4%	6.0%
Total Outside Liabilities/ Tangible				
Net Worth (times)	-1.8	-1.7	0.5	0.6
Total Debt/ OPBDIT (times)	-66.5	-48.3	1.2	1.1
Interest Coverage (times)	-0.3	-0.4	5.9	9.6
DSCR	-0.3	-0.3	2.2	8.8

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		
				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]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]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 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

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]BB(CE) (Negative)
INE082T07025	NCD	June 30, 2015	11.9%	June 30, 2020	75.0	[ICRA]BB(CE) (Negative)
INE082T07033	NCD	June 30, 2015	11.9%	June 30, 2020	125.0	[ICRA]BB(CE) (Negative)
-	Non-fund Based Facility	-	-	-	20.0	[ICRA]A4

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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