

Rating Rationale

Brickwork Ratings Reaffirms ‘BWR A+ (SO)’ for Essel Corporate Resources Pvt Ltd.’s Structured NCD aggregating ₹ 100 Cr

Brickwork Ratings (BWR) has *reaffirmed* the **Rating¹ BWR A+ (SO) [Pronounced BWR Single A Plus (Structured Obligation)]** with **Stable Outlook** for Essel Corporate Resources Pvt Ltd.’s (ECRPL or Company) structured secured NCD of ₹100 Cr with tenor of two years and two months.

Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

BWR has essentially relied upon the audited financial results of ECRPL and of the group Companies, whose shares are provided as security, and the clarifications/explanations provided by the issuer.

The rating continues to factor, inter alia, the underlying security of pledge of preference shares of a group Company which is listed, and structure of the proposed NCD issue. However, the rating is constrained by unavailability of assured cash flows of the issuer at redemption and dependency on group support, refinancing or alternatively, liquidation of the securities to meet the obligations arising from the NCD issue.

Background

ECRPL is a promoter company of Essel Group belonging to Mr. Subhash Chandra and family. The Company has two directors on board – Mr. Sunil Singhal and Mr. Ashok Sanghvi, who are nominees of the promoters. The Company mainly acts as a holding company investing in the group entities. The revenue sources for the company are rental income from owned building and dividend income from investments. For FY13, ECRPL reported revenue of Rs 32.89 Cr, loss of ₹106.12 Cr, Total Debt of ₹1355.22 Cr (Secured & Unsecured) and negative networth of ₹1096.65 cr. The Debt is majorly in the form of NCD’s, unsecured loans from financial institutions and NBFCs and ICDs from group companies. The source of repayment would be refinancing/ promoter funding.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Key Terms of Outstanding NCD

Instrument	Amount (₹ Cr)	Rating	Rating Assigned in
Structured NCD	100	BWR A+(SO) [BWR Single A Plus (Structured Obligation)] (Outlook: Stable)	April 2014

The Company has raised this structured NCD of ₹100 Cr with tenor of two years and two months to be used for general corporate purpose. The NCD's are secured by way of pledge of Cumulative Redeemable Non-convertible Preference Shares (CRNPS) of ZEE Entertainment Enterprises Ltd. Initial cover of the pledge shall not be less than 1.25 times the principal amount at inception and also during the currency of debentures. The Facility will require a top-up in the form of cash if the cover falls below 1.25 times such that the cover is restored to 1.25 times. If the security cover is 1.30 times or higher, Issuer may request the Trustee to release such number of preference shares so that security is maintained at least at the level of 1.25 times. Issuer shall be required to deposit all amounts outstanding under the Facility in the Issuer Bank Account charged to the Debenture Trustee 30 days prior to the Maturity Date (T-30).

A brief on the company, whose shares are pledged, is given below:

Zee Entertainment Enterprises Limited (ZEEL):

It is one of India's leading television, media and entertainment companies. It is amongst the largest producers and aggregators of Hindi programming in the world, with an extensive library housing over 100,000 hours of television content. The Company's programming reaches out to over 670 million viewers across 169 countries. It has pan India presence through regional and Hindi channels with diversified portfolio of 33 domestic channels and 29 international channels. Mr. Subhash Chandra is Non-Executive Chairman and Mr. Punit Goenka is Managing Director of the company. For FY14, ZEEL has reported consolidated operating revenue of ₹4421.7 Cr against ₹3699.6 Cr in FY13 (up 19.5% YoY), PAT of ₹890.20 cr against ₹717.20 Cr in FY13 (up 24.1% YoY). The TNW stood at ₹3766.7 Cr against ₹3080.7 Cr in FY13. The market price of equity share of ZEEL as on July 22, 2014 was ₹300.55 per share on BSE with 52 week High/Low being 310.75/208.10. The market price of ZEE Cumulative Redeemable Non-convertible Preference Shares (CRNPS) of FV Rs.1, as on July 22, 2014 was ₹0.77 per share on BSE with of 52 week High/Low being 0.81/0.65.

Credit Risk Analysis:

Since ECRPL is basically an investment company, it does not have sufficient operational cash flows to service its debt obligations. Accordingly the repayment of the NCD will either by way of infusion of funds by promoters or refinancing or by liquidation of the securities for the NCD. The Security provided for the outstanding issue are Cumulative Redeemable Non-convertible Preference Shares (CRNPS) of ZEE Entertainment Enterprises Ltd (ZEEL) with a tenor of 8 years. These CRNPS are to be redeemed by ZEEL stage wise with 20% amount redeemed from the 4th year onwards. These CRNPS are traded on the exchanges, however their daily trading turnover is relatively low as compared to equity shares. However such instruments being issued by ZEEL (Rated BWR AA) which has strong financial risk profile could be marketable if sold at a discount. The cushion available in the form of additional shares would assist in liquidation of securities to take care of repayment of NCD in case of any eventuality. There is a period of 30 days before the repayment date where the funds need to be available in the designated repayment account in the absence of which the shares could be liquidated to make available the required funds to redeem the NCD on the due date.

Rating Outlook

Performance of ZEEL and their stock market performance are key sensitivity factors to the Rating.

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