

Rating Rationale

Brickwork Ratings assigns ‘BWR A (SO)’ for the Proposed Structured Non-Convertible Debenture Issue of ₹ 700 Cr for Spirit Textiles Pvt Ltd

Brickwork Ratings (BWR) has assigned the **Rating¹** ‘BWR A (SO)’ [Pronounced BWR Single A (Structured Obligation)] **with Stable Outlook** for Spirit Textiles Pvt Ltd.’s (*STPL or the ‘Company’*) Structured NCD of ₹ 700 Cr with **tenor of 60 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 draft term sheet outlining the structure of the deal , audited financial results of the issuer STPL as well as Zee Entertainment Enterprises Ltd (ZEEL) whose equity shares are provided as security and information and clarification provided by the issuer.

The rating factors, inter alia, the strength of underlying security in the form of pledge of equity shares of ZEEL which are listed, fundamentals of ZEEL 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 the group support or alternatively liquidation of the securities to meet the obligations arising from the proposed NCD issue.

Background

STPL is a part of Essel Group belonging to Mr. Subhash Chandra & Family. The company primarily acts as a holding company for the group. The Company has two directors on board - Mr. Sanjeev Chaudhary & Mr. Amol Deshmukh who are nominees of the promoters. The Company intends to use the proceeds of the NCD towards General Corporate Purposes as well as for the repayment of the existing debt. For FY13, STPL reported revenue of ₹60.05 Cr, loss of ₹52.39 Cr, Total Debt of ₹1449.67 Cr (Secured & Unsecured) & net worth of ₹754.16 Cr.

NCD Structure

The company has proposed to raise this structured NCD of ₹700 Cr in multiple tranches with tenor of 60 months to be used for general corporate purpose as well as to repay issuer’s existing debt. There will be Put Option at the end of 2nd, 3rd & 4th year and call option at the end of 3rd & 4th year. The NCD’s have bullet repayment on maturity or on the exercise of Put/Call option. The NCD’s are secured by way of pledge of equity shares of ZEE Entertainment Enterprises Ltd. Initial cover of the pledge shall not be less than 1.50 times the principal amount at inception & also during the currency of debentures. There will no intermediate coupon payment as it is payable on maturity date on or redemption whichever is earlier.

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

The security cover shall be calculated on the outstanding principal amount plus interest accrued but not paid and other costs of the transaction. The Facility will require a top-up in the form of cash if the If the price of any of the Listed Shares falls by more than 40% from the price as of the Deemed Date of Allotment such that the cover is restored to 1.50 times. If the security cover is 1.65 times or higher for a period of 10 consecutive trading days, Issuer may request the Trustee to release such number of shares so that security is maintained at least at the level of 1.50 times. Issuer shall be required to deposit all amounts outstanding under the Facility in the Issuer Bank Account 15 days prior to the Maturity Date (T-15). Any interest, coupon, dividend, prepayment, buyback/sale proceeds from the Collateral Shares shall be deposited in the Collection Account. Issuer Account and Collection Account shall be charged to the Debenture Trustee.

Background of Zee Entertainment Enterprises Limited (ZEEL), whose Equity shares are pledged, It is one of India's leading television, media and entertainment companies, and a key operating company of the Group. 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 32 domestic channels and 29 international channels Some of Zee's well-known brands include Zee TV, Zee Cinema, Zee Classic, Ten Sports, Ten Cricket, Zee Studio, ETC Music etc. The company also has a strong offering in the regional language domain with channels such as Zee Marathi, Zee Bangla, Zee Telugu, Zee Kannada, Zee Talkies. Mr. Subhash Chandra is Non-Executive Chairman and Mr. Punit Goenka is Managing Director of the company

Financials of Zee Entertainment Enterprises Limited (ZEEL)

On a consolidated level, ZEEL has posted operating income of ₹4421.7 Cr in FY14 against ₹3699.6 Cr in FY13 registering a growth of ~20%. 2014. Overall growth was witnessed in advertisement revenues of 21% to ₹2380.1 Cr in FY 2014 as against ₹1963.9 Cr in FY 2013. Subscription Revenue has recorded a growth of 11% from ₹1623.5 Cr to ₹1802.2 Cr. Operating profit increased by 26%, from ₹956.60 Cr in FY 2013 to ₹1206.60 Cr. The operating margin is at ~27% for FY 2014 compared ~26% for FY13. Profit after tax for the year FY2014 increased by ~24% from Rs.717.20 Cr in FY13 to Rs.890.20 Cr in FY14.

The capital structure of the company was comfortable for FY14 with negligible gearing ratio, on account of miniscule debt of ₹2.90 Cr for FY14 against Tangible networth of ₹3766.70 Cr. However considering the preference share issue which will result into staged withdrawal from reserves to service the interest and principal for the tenor of the issue as both debt and as a part of networth, the gearing comes out to be 0.54. The debt coverage indicators such as ISCR and DSCR were also healthy on account of negligible borrowings.

Further the company has strong liquidity on account of higher cash and bank balances to the tune of ~₹564 Cr and liquid investments worth ~₹534 Cr.

Rating Outlook

The assigned rating is primarily a function of total adherence of the issuer to the term sheet shared with Brickwork and enforcement of security within specified time of occurrence of an event of default.

The Rating is subject to completion and submission of the following documents to Brickwork Ratings:

1. Executed transaction documents that includes the terms in line with the indicative term sheet provided by the company to Brickwork Ratings
2. Legal opinion on the enforceability of the transaction

The given rating essentially captures performance of ZEEL, since STPL does not have operational cash flows and the NCD structure involves pledge of ZEEL equity shares provided as security. Security cover of 1.50 times provides cushion to investors. T-15 clause requiring the Company to deposit all amount payable under the facility (including principal and interest) in the Issuer Bank Account charged to the Trustee at least 15 days prior to maturity date addresses the liquidity aspects to an extent should there is a need to invoke the security. Performance of ZEEL and other promoter companies as well as adherence to the structure are the key sensitivities to the Rating.

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