

RATING RATIONALE

17 Dec 2019.

Zee Entertainment Enterprises Limited (ZEEL)

Brickwork Ratings downgrades the ratings to BWR AA from BWR AA+ for 6% Cumulative Redeemable Non-convertible (CRNPS) Preference Shares amounting to of Rs. 1210.6 Cr and issuer rating of Zee Entertainment Enterprises Limited. The ratings continues to remain on Credit Watch with Negative Implications.

Particulars:

Instruments	Previous Amount	Current Amount	Previous Rating (November 2019)	Current Rating (December 2019)
	(Rs. Cr)	(Rs. Cr)		
6% Cumulative Redeemable Non-convertible Preference Shares (CRNPS)	1210.16	1210.16	BWR AA+ Credit Watch With Negative Implications	BWR AA Credit Watch With Negative Implications
Issuer Rating	NA	NA	BWR AA+ Credit Watch With Negative Implications	BWR AA Credit Watch With Negative Implications
Total	1210.16	1210.16	Rupees One Thousand Two Hundred Ten Crores and Sixteen Lakh Only.	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION /OUTLOOK

The downgrade in ratings factors in resignation of independent directors from the board and Chief Compliance Officer & Company Secretary. The ratings also factors in dilution of controlling stake of the promoter and promoter group, which now owns ~5% in ZEEL and also stepping down of Shri. Subhash Chandra as Chairman of the Board, who, however, will remain as Non-executive Director of the Company.

On 27 November 2019, the Company announced the resignation of three directors. Mr. Sunil Sharma (Independent Director), Mr. Subodh Kumar (Non-Independent Director) and Ms. Neharika Vohra (Independent Director). Mr. Sunil Sharma in his resignation letter dated November 24, 2019 has informed that subsequent to sale of shares by the promoter group, and reconstitution of the Board, he has tendered his resignation. Mr. Subodh Kumar (Non-Independent Director) and Ms. Neharika Vora (Independent Director) have given reasons



relating to Corporate governance such as large film advances given, appropriation of Company's fixed deposits towards promoter's loan & the management not taking legal actions, alleged laxity in spending of CSR amount given to related party foundation trust, letter received from a PMS entity holding preference shares of the Company raising questions regarding buildup of related party balances and advances for content acquisition, non implementation of certain decision of the Board meeting and no action on large outstanding from Dish TV and Siticable for the content supplied by ZEEL.

The Company in its filing to the stock exchange have given comments on the above issues raised by the directors. However, the above developments have raised concern and uncertainties.

Outlook: The ratings continues on "Credit Watch with Negative Implications" on account of uncertainties relating to recent changes in ownership and management control, and any further changes that may happen in the coming months. Related party issues including receivables from group entities is another area of concern. BWR will monitor these issues on a continuous basis.

The ratings however continues to factor in established track records of promoters in Indian television broadcasting industry & presence in media and entertainment industry for more than two decades. The ratings also takes note of adequate financial profile as reflected in increase in the current scale of operations and low debt.

KEY RATING DRIVERS

Credit Risks

Uncertainties relating to management.

Post the recent stake sale by the promoters, the promoter's group holdings is ~5% making ZEEL an investor owned company. Shri. Subhash Chandra has resigned as the Chairman of ZEEL and as per the Company's disclosure; this is in line with the requirements of Regulation 17 (IB) of SEBI Listing Regulations. Shri Subhash Chandra will remain as Nonexecutive Director of the Company and Mr. Puneet Goenka, who was recently reappointed as MD & CEO for a further period of 5 years, continues. Resignation of the directors and some key officials is indicated above. The Company has also appointed three new independent directors Mr. R Gopalan, Mr. Surendra Singh and Mrs. Aparajita Jain.

Increase in trade receivables.

The trade receivables for H1FY20 stood at Rs. 2418.46 Cr as on September 2019 on consolidated basis compared to Rs.1827.39 Cr as on March 2019. The increase in receivables as per the clarification from the Company is primarily on account of reconciliations in process post TRAI regime with various MSOs (Multisystem Operator) and seasonality of collections for subscription receivables. However the receivables from group companies is approximately Rs 700 Cr of which the majority is from Dish TV and Siti Networks (promoter group of Companies), with overdue in the range of Rs.250 Cr to Rs. 300 Cr. The Company has informed



that they have received a payment plan from them and they expect to bring this down. Given the weak financials of these counter parties, this increases the risk factor.

Working capital intensive nature of business and volatile nature of main advertising revenue.

ZEEL's operation is working capital intensive mainly on account of higher inventory holding in the form of content development and rights. The Company is also making significant investment in its OTT platform i.e ZEE5 in order to compete with the other players. During Q2FY20, the Company have launched 23 original shows and movies in 5 language. Since more choice has to be offered to the customers, the Company focus on content production which form major part of the inventory. In addition, the advertisement revenue largely depends on macroeconomic conditions, viewership and quality and popularity of the channel and content.

Credit Strengths

Established track record in the media and entertainment industry: The promoters are known to be the pioneers of the private Indian television broadcasting industry and are in the media and entertainment industry since more than 2 decades. Strong presence of Brand Zee in the Indian Media Space via its presence in diverse segment and positioning of the flagship channel 'Zee TV' amongst the top Hindi General Entertainment Channels (GECs) with rights to more than 4,200 movie titles of Hindi film library. Through its strong presence worldwide, ZEEL entertains over 1.3 billion viewers across more than 170 countries.

Financial profile

The Company has maintained comfortable financials risk profile as reflected from increased scale of operations, healthy profitability and net worth and low debt. The total Operating Income registered a growth of 10.2% YoY for H1FY20 and stood at Rs. 4130.13 Cr. The revenue was driven by growth in subscription revenue which grew by 27.11 % and 2.32 % growth in advertisement revenue. The growth in domestic subscription revenue was derived by sustained growth in viewership. The EBITA margin stood at 32.75% in 1HFY20. Q2FY20 results have disclosed an exceptional loss of Rs. 170.62 Crs on account of provision made. The Company in earlier year had given Inter- Corporate Deposit aggregating to Rs. 150 Crs. On account, of delays in recovering the amount, the ICD was assigned to certain related parties to secure the payment of Rs.170.62 Crs (including interest). Since there are, further delays in receiving payment from these related parties this amount has been provided as an exceptional item in Q2FY20.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has analyzed ZEEL's credit profile by considering the consolidated financial statements of the group owing to financial and operational linkages between the parent and its subsidiaries. The list of subsidiaries are given at the end of the rationale as Annexure II

RATING SENSITIVITIES.



Post changes in ownership and board membership, business strategies, future investments, relationship with related parties of the previous majority shareholders, corporate governance and disclosure, etc., become key rating sensitivities.

Positive: Clarity on future strategies, investments, growth plans and significant improvement in financial performance (including reduction in related party exposures) and improvement in financial flexibility of the group are Credit positive.

Negative: Any deterioration in the financial performance of the company, or adverse developments relating to ongoing audit with respect to related party transactions and advances are Credit negative.

LIQUIDITY POSITION:

The Company has adequate liquidity as reflected from Cash and Cash equivalent amounting to Rs. 584 Cr as on September 2019 against debt obligation of Rs. 352.96 C for FY20.

COMPANY PROFILE

Zee Entertainment Enterprises Limited (ZEEL)

ZEEL is one of India's leading television, media and entertainment companies, and a key operating company of the Group. The Company claims to be largest producers and aggregators of entertainment content in the world, with an extensive library housing over 250,000 hours of television content. ZEE has rights to more than 4,200 and through its strong presence worldwide; ZEEL entertains over 1.3 billion viewers across more than 170 countries. It has pan India presence through regional and Hindi channels with diversified portfolio of 32 domestic channels and 39 international channels The company also has a strong offering in the regional language domain. Mr. Subhash Chandra is Non-Executive Chairman and Mr. Punit Goenka is Managing Director of the company

KEY FINANCIAL INDICATORS- Consolidated (in ₹ Cr)

Key Parameters	Units	FY18	FY19.
Result Type		Audited	Audited
Total Operating Income	Rs. in Cr	6685.70	7933.90
EBITDA	Rs in Cr	2087.4	2563.94
PAT	Rs. in Cr	1477.8	1567.24
TNW	Rs. in Cr	6841.90	8226.87
Total Debt/TNW	Times	0.22	0.13
ISCR	Times	14.42	19.7
DSCR	Times	3.42	3.78

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY:

S N	Instrument/Facility	Current Rating (Year 2019)					Rating History		
		Type	Amount (Rs Cr)	December 2019	Rating November 2019	June 2019	January 2019	November 2018	November 2017
1	Cumulative Redeemable Non-convertible Preference Shares (CRNPS)	Long Term	1210.16	BWR AA Credit Watch with Negative Implications	BWR AA+ Credit Watch with Negative Implications	BWR AAA; Credit Watch With Negative Implications	Credit Update	BWR AAA Credit Watch With Developing Implications	BWR AAA Outlook : Stable
2	Issuer Rating	NA	NA	BWR AA Credit Watch with Negative Implications	BWR AA+ Credit Watch with Negative Implications	BWR AAA; Credit Watch With Negative Implications	Credit Update	BWR AAA Credit Watch With Developing Implications	BWR AAA Outlook : Stable

COMPLEXITY LEVELS OF THE INSTRUMENTS.

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Policy for Placing Rating on Credit Watch](#)
- [Services Sector](#)

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf



Hyperlink/Reference to applicable Criteria

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Zee Entertainment Enterprises Limited ANNEXURE I

List of entities consolidated

Subsidiaries
Zee Turner Limited
Essel Vision Productions Limited
ZEE Digital Convergence Limited
Zee Unimedia Limited
Margo Networks Private Limited
Fly by Wire International Private Limited
India Webportal Private Limited
Idea Shopweb and Media Private Limited
Zee Multimedia Worldwide (Mauritius) Limited
Zee TV USA Inc.
OOO Zee CIS Holding LLC
OOO Zee CIS LLC
Asia Multimedia Distribution Inc.
Zee TV South Africa (Proprietary) Limited
Asia TV USA Limited
ATL Media Ltd
Expand Fast Holdings (Singapore) Pte Limited
Taj TV Limited
Asia Today Limited
Asia Today Singapore Pte Limited
Zee Technologies (Guangzhou) Limited
Zee Entertainment Middle East FZ-LLC



ATL Media FZ-LLC
Zee Studio International Limited
Z5X Global FZ - LLC
Asia TV Gmbh
Pantheon Production Limited
Eevee Multimedia Inc.
Asia TV Limited (UK)
Zee Studio International Limited
Joint venture
Media Pro Enterprises India Private Limited
Associates
Aplab Limited (till 15 January 2019)
Asia Today Thailand Limited

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