RATING RATIONALE

6 January 2021

Zee Entertainment Enterprises Limited (ZEEL)

Brickwork Ratings downgrades the ratings of 6% Cumulative Redeemable Non- Convertible Preference Shares (CRNPS) and issuer rating of Zee Entertainment Enterprises Limited. The rating continues to remain on Credit Watch with Negative Implications.

Particulars.

Instruments	Previous Amount (Rs. Cr)	Present Amount (Rs. Cr)	Previous Rating (7 August 2020)	Present Rating
6% Cumulative Redeemable Non-convertible Preference Shares (CRNPS)	806.78	806.78	BWR AA- Credit Watch With Negative Implications	BWR A Credit Watch With Negative Implications
Issuer Rating	NA	NA	BWR AA- Credit Watch With Negative Implications	BWR A Credit Watch With Negative Implications
Total	806.78	806.78	INR Eight Hundred Six Crores and Seventy-Eight Lakhs Only.	

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

Rating Action: Brickwork Ratings (BWR) downgrades the ratings of CRNPS and issuer ratings of Zee Entertainment Enterprises Limited (ZEEL) to BWR A (Credit Watch with Negative Implications) from BWR AA- (Credit Watch with Negative Implications)

The rating downgrade factors heightened uncertainties on contingent liabilities/claims against ZEEL causing increase in credit risk and rating concern as detailed hereunder.
BWR has received intimation from one of the bank on 23rd December 2020 regarding non-payment of financial obligations of Rs. 83.08 Cr by ZEEL on account of DSRA guarantee agreement issued by ZEEL for the debt of Siti Networks Limited (SNL). On seeking clarification from ZEEL by BWR, it was informed by them that the demand from the bank is not in accordance with the provisions of the DSRA Guarantee and that ZEEL has filed a Suit before the Hon'ble Delhi High Court. It is observed that ZEEL has inter alia sought quashing of and setting aside of the demand and has prayed to the court to pass a permanent injunction against bank restraining the bank to recover the amount from ZEEL and permanent injunction from addressing any communication to the stock exchange, credit rating agencies and any other reliefs the court may deem fit to pass. The Suit is sub judice. ZEEL has also filed interim application against the said

demand notice claiming that liability is Rs. 1.96 Cr only. The interim application was dismissed by the Hon'ble Delhi High Court on 21 December 2020 and the suit is listed for hearing on 15 March 2021.The court had stated that ZEE had guaranteed the entire debt under the facility. The court had mentioned clauses 20 and 24 of the DSRA Guarantee agreement. It is informed by ZEEL that it has taken legal view and is planning to appeal against the said interim order. It is also learnt from ZEEL that there are claims from other banks against the similar guarantee amounting to Rs. 91.8 Cr and the said banks have given them time and are not taking any unilateral action against ZEEL, however BWR is unable to verify the veracity of the same. ZEEL has informed superior liquidity and adequate financial strength to support the contingent liabilities. BWR earlier took note of the audit qualification with respect to non-recognizing the liability against the put option agreement entered into by a wholly owned subsidiary with the related party and recent note to account for the half year ended September 2020 saying that ZEEL has received demand notice/Communication from a bank calling upon the Company to honor the obligations under the DSRA guarantee BWR earlier also took a note that ZEEL had extended a letter of undertaking for a NCD raised by a related party (the issuer) wherein a moratorium on repayment sought by the related party owing to Covid-19 was denied by the investor. This was followed by filing a writ petition in Bombay High Court by the issuer seeking order to extend the redemption date, which was dismissed and subsequent to this only ZEEL paid to the existing investor under its guarantee. These events have heightened the uncertainties regarding quantum of contingent liabilities/claims against ZEEL early settlement of the same by ZEEL, outcome thereto in the court cases and increasing number of claims and litigations. All this has caused an increase in credit risk and rating concerns.

Earlier the Ministry of Corporate Affairs (MCA) has sought certain information and inspection under Section 206 (5) of the Companies Act, 2013 as per the company's filing to the stock exchange on 5 February 2020. As per the information from the ZEEL they have provided information to MCA however have not heard anything from them.

The ratings remain on Credit Watch with Negative Implications on account of uncertainties associated with the outcome of the ongoing inspection by the Ministry of Corporate Affairs (MCA) as disclosed by the company to the stock exchange in February 2020 and contingent liabilities//claims on account of the letter of comforts/guarantees issued by the company.

BWR has come across recent news in the media reporting about Income Tax Department searches/surveys at the office of ZEEL. BWR has sought clarifications from the company regarding the same and their reply is awaited. BWR will take a review of the matter in due course.

The ratings continue to factor in the established track record of ZEEL in the Indian television broadcasting industry and presence in the media and entertainment industry for more than two decades, a large array of offerings across general entertainment, regional and niche segments and the current low debt, high net worth and superior liquidity.

Key Rating Drivers.

Credit Strengths

Established stakeholders and management and track record of the Company in media and entertainment industry:

The strong presence of Brand Zee in the Indian media space is via its presence in the diverse segments and positioning of flagship channel Zee TV among the top Hindi General Entertainment Channels (GECs) with rights to more than 4800 movie titles of the Hindi film library and 260K+ hours of television content. Through its strong presence worldwide, ZEEL entertains over 1.3 billion viewers across more than 173 countries, 46 domestic channels and 40 international channels. Mr. Punit Goenka is the managing director and CEO. .

ZEEL's diversification across segments.

ZEEL's portfolio is diversified across varied segments, including broadcasting in domestic and international markets, the production and distribution of films across several languages, launching leading music labels, organizing various live entertainment events and content distribution through digital OTT platform ZEE5. ZEE5's global MAUs and DAUs stood at 63.1mn and 6mn, respectively, in March 2020.

Superior liquidity profile: The Company has superior liquidity, with cash and cash equivalents of ~Rs.14.50bn as on 30 September 2020 and the Company has indicated further improvement in liquidity position post 30 September 2020.

Credit Weakness.

Concerns about management of contingent liabilities and claims against the company.

Increasing number of claims received by the ZEE, litigations and crystallization of the amount of liabilities, qualifications by the auditor with respect to non-recognition of liabilities, raises concerns with respect to management of these liabilities.

High receivables from related parties having weak financial profiles continues to remain concern.

The company has trade receivables aggregating Rs. 815.52 Cr from two key strategic customers (Dish TV and Siti Networks) as on 31 March 2020, including amounts that are long overdue. The Company has been making provisions on these over dues trade receivable. For the half year ended 30 September 2020, Company has provided for the overdue trade receivables from SNL aggregating to Rs. 81.20 Cr. The company has informed that it has received a payment plan from them, and the receivables position was expected to come down. Given the weak credit profile of these counter parties, the risk factor of collection continues to remain high.

Corporate guarantee extended to group Company

ZEEL extended a corporate guarantee for Siti Network Limited (SNL). The quantum of corporate guarantee as of 30th September 2020 stood at Rs. 97.1 Cr (this does not factor the claim contested by ZEEL for Rs. 83 Cr as detailed above). The Current outstanding loan of SNL as reported by

ZEEL is Rs. 205.9 Cr. The credit profile of SNL continues to remain weak as such, any fallback on the guarantor would continue to remain key rating sensitivity. During earlier years, the Company had provided commitments for funding shortfalls in Debt Service Reserve Account (DSRA guarantee) in relation to certain financial facilities availed from banks by Siti Networks Limited (SNL), a related party, including certain facilities availed when the cable business undertaking was part of ZEEL before its demerger into SNL. The loan outstanding of SNI as at 30 September 2020 which is backed by DSRA guarantee is Rs 205.9 Cr On account of defaults made in repayments by SNL, during the quarter the Company has received demand notices/communications from the banks/representatives calling upon the Company to honour the obligations under the DSRA guarantee. The Company has reported exceptional item amounting to Rs. 97.1 Cr as on 30 September 2020 on account of liability arising on account of corporate guarantee extended to SNL.

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

ZEEL's operation is working-capital-intensive, mainly on account of a higher inventory holding in the form of content development and rights. The company is also making significant investments in its OTT platform ZEE5 to compete with the other aggressive players in the market. In FY20, ZEE5 released 80+ shows and movies in FY20. Since more choice has to be offered to the customers, the company focuses on content production, which forms a major part of the inventory. In addition, advertisement revenue largely depends on macroeconomic conditions, viewership and the quality and popularity of the channel and content. The inventories level increased to Rs. 5347.48 Cr in FY20 to Rs. 3850.5 Cr in FY19. The inventories level as of 30 September 2020 stood at Rs. 5208.6 Cr

Auditors qualifications: ZEEL issued a Letter of Comfort (LOC) issued in May 2016 to Yes Bank Limited (YBL) in connection with a borrowing by Living Entertainment Limited (LEL), a related party, from the said bank, confirming, among other matters, to support ATL Media Limited (ATL), a wholly owned subsidiary of the company, by way of infusion of equity/debt for meeting various requirements of ATL, including honouring a put option entered into by ATL with LEL, which was renewed on 29 July 2019 to be valid until 30 December 2026, to purchase 64.38% of the issued share capital held by LEL in Veria International Limited (VIL), another related party of the company, at the exercise price of $52.50 million (Rs. 392.75Cr as at 31 March 2020), which was assigned by LEL in favour of Axis Bank Limited, DIFC branch, the security trustee for the benefit of the bank, to secure the said borrowing by LEL. In view of the alleged defaults by LEL in repaying its dues to the bank and ATL also not settling the amount called by the bank under the put option, subsequent to the year-end, the bank filed a plaint in the Hon'ble High Court of Bombay on the grounds, among other matters, seeking an interim application with a main prayer that the aforesaid LOC is a guarantee given by the company. The Hon'ble High Court refused the ad-interim relief sought by the bank. The bank has preferred an appeal against the order, and the company is contesting the bank's claim in the Hon'ble High Court. Consequently, the management has not considered the LOC as a financial guarantee and since the matter is sub judice, has not accounted for any liability with regard to the LOC and the aforesaid contention of the bank.

Liquidity profile: The Company has superior liquidity, with cash and cash equivalents of ~Rs.14.5 bn as on 30 September 2020 against which the redemption liability of preference shares is Rs. 403.38 C for FY21.

Analytical Approach: 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 is given at the end of the rationale.

Rating Sensitivities.
Positive: A significant improvement in the overall financial profile of the company, including an improvement in the receivables position from related parties and resolutions of contingent liabilities and claims.
Negative: Any deterioration in the overall financial performance of the company or an adverse development with respect to related party transactions, increase in contingent liabilities/claims and any significant investment are key rating sensitivities.

COMPANY PROFILE
Zee Entertainment Enterprises Limited (ZEEL)
ZEEL is one of India's leading television, media and entertainment Company. ZEE is among the top Hindi General Entertainment Channels (GECs) with rights to more than 4800 movie titles of the Hindi film library and 260K + hours of television content. Through its strong presence worldwide, ZEEL entertains over 1.3 billion viewers across more than 173 countries, 46 domestic channels and 40 international channels. The company also has a strong offering in the regional language domain. The board of directors consists of seven members, with Mr. Punit Goenka as the MD and CEO and Mr. R. Gopalan as the Chairman.

H1FY21 (H1FY20): The total operating revenue stood at Rs. 3034.73 Cr (Rs. 4130.13 Cr) and EBITDA of Rs. 533.6 Cr (Rs. 1352.68 Cr). PAT was reported at Rs. 122.69 Cr (Rs.941.85 Cr)

KEY FINANCIAL INDICATORS- Consolidated (in ₹ Cr)

Particulars.	**Units**	**FY19.**	**FY20**
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. in Cr	7933.90	8128.86
EBITDA	Rs in Cr	2563.94	1634.57
PAT	Rs. in Cr	1567.24	525.59
TNW	Rs. in Cr	8226.87	8749.9
Total Debt/TNW	Times	0.13	0.07
ISCR	Times	19.7	11.3
DSCR	Times	3.78	1.8

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

Details of CRNPS:

During the year ended 31 March 2014, the company had issued 20,169,423,120 6% Cumulative Redeemable Non-Convertible Preference Shares of Rs. 1/- each (consolidated to face value of Rs. 10 each in FY 2017) by way of bonus in the ratio of 21 bonus preference shares of Rs 1/- each, fully paid-up for every one equity share of Rs 1/- each fully paid-up and are listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in India. During the year ended 31 March 2017, 6% Cumulative Redeemable Non-Convertible Preference Shares of Rs 1/- each were converted to 6% Cumulative Redeemable Non-Convertible Preference Shares of Rs. 10/- each. The company redeems at par value, 20% of the total bonus preference shares allotted, every year from the fourth anniversary of the date of allotment. The company has an option to buy back the bonus preference shares fully or in parts at an earlier date(s) as may be decided by the board. Further, if on any anniversary of the date of allotment beginning from the fourth anniversary, the total number of bonus preference shares bought back and redeemed cumulatively is in excess of the cumulative bonus preference shares required to be redeemed until the said anniversary, there will be no redemption on that anniversary. On the eighth anniversary of the date of allotment, all the remaining and outstanding bonus preference shares shall be redeemed by the company.

RATING HISTORY (including rating withdrawal and suspended)

Sr. NO	Instrument Facility	Current Rating December 2020			Rating History		
		Type	Amount (Rs Cr)	Rating	2020	2019	November 2018
1	Cumulative Redeemable Non-convertible Preference Shares (CRNPS)	Long Term	806.78	BWR A (Credit Watch With Negative Implications)	BWR AA- (Credit Watch With Negative Implications)	BWR AA Credit Watch With Negative Implications (December 2019) BWR AA+ Credit Watch With Negative Implications (November 2019) BWR AAA; Credit Watch With Negative Implication (June 2019)	BWR AAA Credit Watch With Developing Implications
2	Issue Rating	Long Term	NA	BWR A (Credit Watch With Negative Implications)	BWR AA- (Credit Watch With Negative Implications)	BWR AA Credit Watch With Negative Implications (December 2019) BWR AA+ Credit Watch With Negative Implications (November 2019) BWR AAA; Credit Watch With Negative Implication (June 2019)	BWR AAA Credit Watch With Developing Implications

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Policy for Placing Rating on Credit Watch**
- **Services Sector.**
- **Consolidated Approach**

COMPLEXITY LEVELS OF THE INSTRUMENTS.

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

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Zee Entertainment Enterprises Limited

ANNEXURE I

List of entities consolidated

Subsidiaries

Essel Vision Productions Limited
Zee Digital Convergence Limited (Formerly Zee Sports Limited)
Pantheon Productions Limited
Zee Unimedia Limited
Zee Turner Limited
Margo Networks Private Limited
Asia Multimedia Distribution Inc.
Asia Today Limited (Formerly Zee Multimedia (Maurice) Limited)
Asia Today Singapore Pte Limited
Asia TV Gmbh
Asia TV Limited (UK)
Asia TV USA Limited
ATL Media FZ-LLC
ATL Media Limited (Formerly Asia Today Limited)

Eevee Multimedia Inc.
Expand Fast Holdings (Singapore) Pte Limited
000 Zee CIS LLC
Taj TV Limited
Z5X Global FZ - LLC
Zee Entertainment Middle East FZ-LLC
Zee Multimedia Worldwide (Mauritius) Limited
Zee Studio International Limited
Zee Technologies (Guangzhou) Limited
Zee TV South Africa (Proprietary) Limited
Zee TV USA Inc.
India Webportal Private Limited
Idea Shop Web Private Limited
Fly by Wire International Private Limited
000 Zee CIS Holding LLC

Joint Venture

Media Pro Enterprise India Private Limited

Associate

Asia Today Thailand Limited

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