RATING RATIONALE

7 January 2022

Zee Entertainment Enterprises Limited (ZEEL)

Brickwork Ratings reaffirms the ratings of BWR A Credit Watch with Negative Implications of 6% Cumulative Redeemable Non- Convertible Preference Shares (CRNPS) and Issuer Rating of Zee Entertainment Enterprises Limited.

Particulars.

Instrument/ Facility*	Previous Amount (Rs. Cr)	Present Amount (Rs. Cr)	Tenure	Previous Rating (6 January 2021)	Present Rating
6% Cumulative Redeemable Non-convertible Preference Shares (CRNPS)	806.78	**403.39**	Long Term	BWR A Credit Watch with Negative Implications	**BWR A Credit Watch with Negative Implications (Reaffirmed)**
Issuer Rating	NA	**NA**	Long Term	BWR A Credit Watch With Negative Implications	**BWR A Credit Watch with Negative Implications (Reaffirmed)**
Total	806.78	**403.39**	**Rupees Four Hundred Three Crores and Thirty Nine Lakhs Only/-**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
For Details of instrument please refer to the annexure I

Rating Action: Brickwork Ratings (BWR) reaffirms the ratings of BWR A Credit Watch with Negative Implications of CRNPS and issuer ratings of Zee Entertainment Enterprises Limited (ZEEL).

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.

The ratings remain on Credit Watch with Negative Implications on account of uncertainties associated with the outcome of the inspection by the Ministry of Corporate Affairs (MCA) as disclosed by the company to the stock exchange in February 2020, contingent liabilities//claims on account of the letter of comforts/guarantees issued by the Company in the past and pending outcome of income tax survey. The Credit Watch with negative implications also factors in ongoing legal dispute with the largest shareholder of ZEEL and uncertainties associated with the outcome of the legal dispute on the management of the Company.

Key Rating Drivers.

Credit Strengths-:

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 a library of 270,000+ hours of library content. Zee's broadcast portfolio of 49 channels caters to the diverse Indian audience across the country. ZEEL's international broadcast portfolio of 35 channels reaches more than 170 countries.

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 MAU stood at 93.2mn and global DAU stood at 9.3mn as on 30 September 2021.

Superior liquidity profile: The cash and treasury investments of the company as of September 202 stood at Rs.16.2bn which includes bank balance of Rs.7.8bn, fixed deposits of Rs.3.4bn Mutual Fund investments of Rs.4.5bn and NCDs worth 438mn against which the company has repayment obligation of preference share amounting to Rs.403.39 Cr.

Credit Weakness-:

Legal dispute with the largest shareholder.

The Company on 13th September 2021, informed BSE that it has received a letter titled 'Requisition for calling an Extraordinary General Meeting of the shareholder under section 100(2)(a) and other applicable provisions of the Company Act, 2013 and the rules framed there under. Invesco Developing Market Fund and OFO Global China Fund LLC are the shareholder of the Company and hold 17.88% of the paid up share capital of the Company and the company has received requisition for calling an EGM of the shareholder of the company to pass resolutions for removal of Mr. Punit Goenka as Director, Mr. Manish Chokhani as Director and Mr. Ashok Kurein and appointment of six independent directors. The two directors Mr. Manish Chokhani and Mr. Ashok Kurein resigned from the ZEEL board. The honorable Bombay High court granted injunction to ZEEL against EGM requirement, Invesco has challenged the same in the Divisional bench. The matter is currently sub judice.

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

The company has receivables aggregating to Rs.3.1bn as on 30th September 2021 including amounts that are long overdue. In FY20, a revised plan was agreed with Dish TV which involved recovering the amount over a time. From March 20 o/s of Rs.5.8 bn (March 21 – Rs4.5bn). The Company has been receiving as per the agreed payment plan. For the half year ended 30

September 2020, Company has provided for the overdue trade receivables from SNL aggregating to Rs.81.20 Cr. Given the weak credit profile of these counter parties, the risk factor of collection continues to remain high.

Corporate guarantee extended to related party and ongoing litigations: 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 SNL as at 30 September 2021 which is backed by DSRA guarantee is Rs.200.90 Cr. On account of defaults made in repayments by SNL, during the year FY21 the Company has received demand notices/communications from the banks/representatives calling upon the Company to honor the obligations under the DSRA guarantee. As per the update received from the Company, Basis legal advice ZEEL has initiated legal proceedings before the Hon'ble Delhi Court seeking relief against demand raised by IndusInd under the DSRA Guarantee in which, the Division Bench of the Delhi High Court passed an interim order dated 25th February 2021 directing IndusInd Bank not to take any coercive step against ZEEL. Pursuant to a hearing on 3rd December 2021, the court modified the said interim order clarifying that there will be no restrain on IndusInd to take recourse to legal remedies available towards recovery of outstanding amounts. The order further clarifies that since the Division Bench of High court is seized of the matter and the suit is also pending before the single judge, no final order shall be passed in any proceeding initiated by IndusInd without the leave of the Appellate Court. The matter is next listed for hearing on 28th February 2022. The credit profile of SNL continues to remain weak as such, any fallback on the guarantor would continue to remain key rating sensitivity.

Pending closure of inspection by the Ministry of Corporate Affairs (MCA) and Income Tax Survey.

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 and income tax department. Any adverse outcome of the inspections will be key rating sensitivities.

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 FY21 ZEE5 released 75+ originals during FY21 and for the quarter ended September 2021 ZEE5 released 13 original shows and movies. 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 stood at Rs.5403 Cr for FY21 and inventories levels as of 30 September 2021 increased to Rs.5629.93 Cr as on 30 September 2021.

Concerns about management of contingent liabilities and claims against the company. Litigations and crystallization of the amount of liabilities, qualifications by the auditor in the past with respect to non-recognition of liabilities remains concern with respect to management of these liabilities.

Pending regulatory and shareholder approvals for merger with Sony Pictures Networks India Private Limited.
Sony Pictures Networks India Private Limited (SPNI) and Zee Entertainment Enterprises Ltd. (ZEEL) have signed definitive agreements on 22 December 2021 to merge ZEEL with and into SPNI and combine their linear networks, digital assets, production operations and program libraries. The agreements follow the conclusion of an exclusive negotiation period during which ZEEL and SPNI conducted mutual due diligence. After closing, the new combined company will be publicly listed in India. The closing of the transaction is subject to certain customary closing conditions, including regulatory, shareholder, and third-party approval.
Under the terms of the definitive agreements, SPNI will have cash balance of USD $1.5 Bn including through infusion by the current shareholders of SPNI and the promoters (founders) of ZEEL, to enable the combined company to drive sharper content creation across platforms, strengthen its footprint in the rapidly evolving digital ecosystem, bid for media rights in the fast-growing sports landscape and pursue other growth opportunities. SPNI is an indirect subsidiary of Sony Pictures Entertainment Inc. (SPE). Under the transactions contemplated by a non-compete agreement, SPE, through a subsidiary, will pay a non-compete fee to certain promoters (founders) of ZEEL, which will be used by such promoters (founders) to infuse primary equity capital into SPNI, entitling the promoters (founders) of ZEEL to acquire shares of SPNI, which would eventually equal approximately 2.11% of the shares of the combined company on a post-closing basis. After the closing, SPE will indirectly hold a majority 50.86% of the combined company, the promoters (founders) of ZEEL will hold 3.99%, and the other ZEEL shareholders will hold a 45.15% stake. Mr. Punit Goenka will lead the combined company as its Managing Director & CEO. The majority of the board of directors of the combined company will be nominated by the Sony Group and will include the current SPNI Managing Director and CEO, Mr. N.P. Singh. As part of the definitive agreements, the promoters (founders) of ZEEL have agreed to limit the equity that they may own in the combined company to 20% of its outstanding shares. This construct does not provide the promoters (founders) of ZEEL any pre-emptive or other rights to acquire equity of the combined company from the Sony Group, the combined company or any other party.

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 and favorable outcome of various court cases and legal battles.
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 and adverse outcome of various court cases and legal battles are key rating sensitivities.

Liquidity profile: Superior: The cash and treasury investments of the company as of September 2021 stood at Rs.16.2bn which includes bank balance of Rs.7.8bn, fixed deposits of Rs.3.4bn Mutual Fund investments of Rs.4.5bn and NCDs worth 438mn against which the company has repayment obligation of preference share amounting to Rs.403.39 Cr

COMPANY PROFILE
Zee Entertainment Enterprises Limited (ZEEL)
ZEEL is one of India's leading television, media and entertainment companies. ZEE is among the top Hindi General Entertainment Channels (GECs) with a library of 270,000+ hours of library content. Zee's broadcast portfolio of 49 channels caters to the diverse Indian audience across the country. ZEEL's international broadcast portfolio of 35 channels reaches more than 170 countries. 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 MAU stood at 93.2mn and global DAU stood at 9.3mn as on 30 September 2021.

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 Re. 1 /- each (consolidated to face value of Rs. 10/- each in 2017) by way of bonus in the ratio of 21 bonus preference shares of Re. 1 /- each fully paid-up for every one Equity share of Re.1 each fully paid-up and are listed on 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 Re 1/- each has been 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 till the said anniversary, then there will be no redemption on that anniversary. During the year FY21, the Company redeemed 20% (Rs.2/- each)

of the Nominal Value of 2,016,942,312 bonus preference shares of Rs.10/- each (par value) consequent to which the face value of these preference shares stand revised to Rs 2/- each.
At the 8th anniversary of the date of allotment, all the remaining and outstanding bonus preference shares shall be redeemed by the Company.

KEY FINANCIAL INDICATORS- Consolidated (in Rs Cr)

Particulars.	**Units**	**FY20**	**FY21**
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. in Cr	8129.9	7729.9
EBITDA	Rs in Cr	1644.7	1806.6
PAT	Rs. in Cr	524.6	793.1
TNW	Rs. in Cr	8749.8	9486.70
Total Debt/TNW	Times	0.07	0.04
ISCR	Times	11.35	31.64
DSCR	Times	1.82	3.14

H1FY22: The total operating revenue increased by 23.71% to Rs.3753.77 Cr from Rs.3034.23 Cr for H1FY22. The growth was supported by growth in advertisement which registered a growth of 52.33% and growth in other sales and services which registered a growth of 20.4%. The Company reported PAT of Rs.474.86 Cr v/s PAT of Rs.122.69 Cr for H1FY21.

RATING HISTORY (INCLUDING RATING WITHDRAWAL AND SUSPENDED)

Sr. NO	Instrument Facility	Current Rating January 2022			Rating History		
		Type	Amount (Rs Cr)	Rating	2021 6th January 2021	2020 7th August 2020	2019
1	6% Cumulative Redeemable Non-Convertible Preference Shares (CRNPS)	Long Term	403.49	BWR A (Credit Watch With Negative Implications)	BWR A (Credit Watch With Negative Implications)	BWR AA- (Credit Watch With Negative Implications)	BWR AAA Credit Watch with Negative Implication (4 June 2019) BWR AA+ Credit Watch with Negative Implications (15 November 2019) BWR AA Credit Watch with Negative Implications (17 December 2019)
2	Issue Rating	Long Term	NA	BWR A (Credit Watch With Negative Implications)	BWR A (Credit Watch With Negative Implications)	BWR AA- (Credit Watch With Negative Implications)	BWR AAA Credit Watch with Negative Implication (4 June 2019) BWR AA+ Credit Watch with Negative Implications (15 November 2019) BWR AA Credit Watch with Negative Implications (17 December 2019)

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple
For more information, visit https://www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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

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Zee Entertainment Enterprises Limited

ANNEXURE I

Instrument	Issue Date	Redemption Date	ISIN	Amount (Rs. Cr)
6% Cumulative redeemable non-convertible Preference Share (CRNPS	05- March- 2014	05-Mar-2022	INE256A04022	**403.39**

ANNEXURE II

Sr. No.	Particulars
	Parent
	Zee Entertainment Enterprises Limited
	Subsidiaries
1	Zee Studios Limited
2	Zee Digital Convergence Limited
3	Pantheon Productions Limited
4	Zee Unimedia Limited
5	Zee Network Distribution Limited
6	Margo Networks Private Limited
7	Asia Multimedia Distribution Inc.
8	Asia Today Limited
9	Asia Today Singapore Pte Limited
10	Asia TV Gmbh
11	Asia TV Limited (UK)
12	Asia TV USA Limited
13	ATL Media FZ-LLC
14	ATL Media Limited
15	Expand Fast Holdings (Singapore) Pte Limited
16	OOO Zee CIS LLC
17	Taj TV Limited
18	Z5X Global FZ – LLC
19	Zee Entertainment Middle East FZ-LLC
20	Zee Multimedia Worldwide (Mauritius) Limited
21	Zee Studio International Limited
22	Zee TV South Africa (Proprietary) Limited
23	India Webportal Private Limited
24	Idea Shop Web Private Limited
25	Fly by Wire International Private Limited
26	OOO Zee CIS Holding LLC
	Joint Venture
1	Media Pro Enterprise India Private Limited
	Associate
1	Asia Today Thailand Limited

List of entities consolidated

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