Rating Rationale

Brickwork Ratings assigns 'BWR AA' for Zee Entertainment Enterprises Ltd.'s Cumulative Redeemable Non-convertible Preference Shares amounting to ₹ 2100 Cr

Brickwork Ratings (BWR) has assigned the **Rating**[1] 'BWR AA' *(BWR Double A)* **(Outlook: Stable)** for Zee Entertainment Enterprises Ltd.'s *(ZEEL or the Company)* Cumulative Redeemable Non-convertible Preference Shares (CRNPS) amounting ₹ 2100 Cr (INR Twenty One Hundred Crores only) with **tenor of eight years**.
Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

BWR has essentially relied upon the terms of issue of CRNPS shared by the issuer, audited financial results of ZEEL and the information and clarification provided by the issuer.

The rating factors, inter alia, the strength of the promoter group who 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 segments, Large array of offerings of channels across General Entertainment, Sports, Regional and Niche segments and Continuous expansion in international markets and alternate platforms such as Digital TV. The rating further draws comfort via strong financial risk profile of ZEEL marked by continual sales growth, strong profitability and coverage indicators, healthy net worth and negligible gearing. However the gearing will increase on account of the said CRNPS issue but the impact would be mitigated by healthy cash accruals and accumulated reserves at the time of principal payouts. The mandatory implementation of digitization is expected to serve as a boon to the broadcasting industry and ZEEL is in a strong position to benefit from the same.

The rating is constrained by Stiff competition on account of the presence of number of channels in the Indian television space, Key component of ZEE's revenues i.e. Advertisement revenues dependent on macroeconomic environment, Huge contingent liabilities consisting of Support extended to its subsidiaries and other group companies viz Dish TV, Siti Cable and Zee Learn via providing corporate guarantees as well as Disputed Tax liabilities.

Background

Zee Entertainment Enterprises Limited (ZEEL) is one of India's largest vertically integrated media and Entertainment Company and is the flagship company of the business conglomerate Essel Group. The Company was formed in 1992.

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

ZEE was the first private company to launch a satellite channel in India and from being a single channel for a single geography today operates multiple channels across multiple geographies in different languages and genres. 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.

CRNPS Structure

Zee Entertainment had announced distribution of ~₹ 2100 crores to its shareholders through a bonus issue, on completion of 20 years in the business. The company has decided to reward the shareholders through issue of 21 redeemable preference shares of ₹1 each by way of a bonus, for every equity share of Rs1 each held in the company. The redeemable preference shares will carry a dividend of 6 per cent payable annually. The tenor of the same would be 8 years from the date of allotment and the redemption would be 1/5th of the nominal value (i.e. 20%) of the Bonus Preference Shares every year from the 4th anniversary of the date of allotment. The Company shall have option to buy back the Bonus Preference Shares earlier. They are proposed to be listed on the same stock exchanges on which the equity shares of the company are listed.

Management Profile

ZEEL is promoted by Mr. Subhash Chandra who is promoter of Essel Group of Companies and serves as a Non – Executive Chairman of ZEEL. The operations of ZEEL are overseen by Mr. Chandra's son Mr Punit Goenka who started his career with Essel Group in 1995 with the music division of Zee and has since taken charge of a host of other Group companies. He took charge of Zee TV in 2004 and has assumed full responsibility of Programming, Operations, Administration and HR functions of Zee Network and was designated as MD and CEO of ZEEL in 2008. The board of directors consists of eminent and qualified directors including 4 independent directors and professional second line of management.

Experienced promoters

The promoters of ZEEL are the founders of the Essel Group which is a business conglomerate having diverse business presence across media, entertainment, packaging, infrastructure, education, precious metals and technology sectors .They have been in the Media & entertainment industry since 1992 and have strong presence in the Industry. They have built the company from offering a single channel to a diversified portfolio of 32 domestic and 29 international channels and are among the most reputed media houses in the country.

Channel offerings across segments & continuous expansion in international markets

The company caters to Indian origin audiences across the globe via its diverse offerings of channels across General Entertainment, Sports, Regional and Niche segments. The company has grown from a single channel to a wide portfolio of 32 domestic channels and 29 international channels with few channels added every year in the domestic as well as international front. The company has also entered into digital platform via presence in digital media business through Ditto TV and India.com.

Mandatory Digitization to serve as a boon to the industry

The implementation of digitization across the country by 2014 is poised to effect major positive changes in the industry. The government's push towards digitalization and addressability for cable TV by 2014 is welcomed by all stakeholders of the industry. If the analog cable TV sunset date of 2014 is adhered then the entire television value chain will realize true potential of their content. It is also expected to cater to the unique and diverse needs of the consumer when it comes to entertainment. To achieve a better quality viewing and transparency in revenue earning and sharing digitalization is inevitable path forward. Currently distribution cost including carriage and placement fees is approximately 25-30% of total operating cost, Digitization would reduce distribution costs by 10-15% in Phase-1 and overall 50-60% by Phase-4 and boost operating margin and will result into healthy bottom-line for Broadcasters. With digitization, the broadcasters are expected to command their rightful share of approximately 45% of the subscription revenue. With the integrated nature of operation and large channel offerings, ZEEL would largely benefit from the same.

Support extended to Group Companies

On a consolidated level ZEEL has higher contingent liabilities amounting to ₹1390.50 crores for FY2013 in the form of corporate guarantees to the subsidiaries as well as group companies such as ZEE Learn, Siti Cable, Dish TV and Taj TV Mauritius, Disputed Taxes and Claims not acknowledged as debts. The contingent liabilities amount approximately to 45% of the net worth and the support to the group companies may continue in the near term which is one of the key concerns.

Financials

On a consolidated level ZEEL has posted operating income of ₹3699.60 Cr for FY13 against ₹3040.50 Cr for FY12 was registering a growth of ~22%. Overall growth was witnessed in advertisement revenues of 24% to ₹1963.9 crs in FY 2013 as against ₹1584.1 Cr in FY 2012. Subscription Revenue has recorded a growth of 23% from ₹1324.4crs to ₹1623.4 Cr due to continuous growth of DTH and cable subscribers on account of digitization as well as performance of the JV MediaPro. Operating profit increased by ~28%, from ₹749.40 crs in FY 2012 to ₹956.60 crs in FY 2013.

The operating margin is at 26% for FY 2013 which slightly improved compared to FY2012. The increase in operating profit is mainly attributable to increase in broadcasting revenue during the year which is partially offset by increase in operating costs. Profit after tax for the year FY2013 increased by 22 % to Rs.717.20 crs from Rs.590.80 crs in FY2012.

The capital structure of the company was comfortable for FY13 with negligible gearing ratio account of miniscule debt of ₹2.80 Cr for FY13 against Tangible net worth of ₹3080.70 Cr. However the gearing will increase in the future on account of the preference share issue which will result into staged withdrawal from reserves to service the interest and principal for the tenor of the issue but the same will be mitigated partially via buildup of reserves on account of healthy cash accruals . 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 ~₹531 Cr and liquid investments worth ₹726 Cr.

For 9 months ended Dec 2013 on a consolidated level, the Company has posted revenues of ₹3262.89 Cr and PAT of ₹673.80 Cr against revenues of ₹2735.28 Cr and PAT of ₹537.80 Cr for 9 months ended Dec 2012.

Rating Outlook

The performance of ZEEL has been improving year on year in terms of financials as well as market presence, the ability of the company to maintain the growth trend and market positioning amongst the fiercely competitive broadcasting industry, reduced dependence of associate companies on ZEEL in terms of corporate guarantees provided as well the effective implementation of digitization across the country are the key rating sensitivities.

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