

Digital Subscriber Management and Consultancy Services Private Limited: Assigned

Facility	Amount (Rs Crore)	Rating/Outlook
Term Loan	309.20	SMERA A+/Stable (Assigned)

SMERA has assigned rating of **'SMERA A+' (read as SMERA A plus)** to the above mentioned bank facility of Digital Subscriber Management and Consultancy Services Private Limited (DSM). The outlook is **'Stable'**.

The rating draws support from the well-established and experienced promoters (Essel Group) and prominent location of the commercial property (Lower Parel, Mumbai). The rating also factors in the reputed licensee - ZEE Entertainment Enterprise Limited (ZEEL), the flagship company of the Essel group, assuring stable flow of rentals, mitigation of risk of early exit and agreement renewal. The rating also notes the presence of escrow account with waterfall mechanism. However, the rating is constrained by the moderate coverage indicators of the company.

DSM is in the business of leasing out property and providing management consultancy services. The company was incorporated in 1993 by Sprit Textiles Private Limited, the promoter holding company of the Essel Group owned by Mr. Subhash Chandra and family. The promoters possess extensive experience of over two decades in media, infrastructure and other allied sectors.

DSM purchased commercial property (14th to 20th floors) in Marathon Futurex, Lower Parel, one of the premium locations in Mumbai. The company leased out this property to ZEEL on leave and license basis for two years with a two year extension. The leave and licence agreement apart from the rentals and charges for amenities, has factored in escalation clause of five per cent every year. DSM reported rent and amenities receipts of Rs.49.47 crore in FY2015-16.

The rating derives strength from the healthy credit profile of ZEEL marked by strong financial risk profile and liquidity position, thus assuring stable cash flows over a period of two years. Besides, since ZEEL is the flagship company of the Essel group, risk of early exit as well as agreement renewal risk is mitigated.

DSM has escrow mechanism through which rent receipts are routed and used for payment as per the defined payment waterfall. Surplus cash flow after meeting tax expenses, operating expenses, debt servicing obligation can be utilised for acceleration of debt repayment.

DSM has moderate coverage indicators with interest coverage ratio (ICR) of 1.11 times and debt service coverage ratio (DSCR) of 1.09 times in FY2015-16. SMERA expects that DSCR will remain in the range of 1.11 to 1.20 over the medium term. However, the ability of DSM to renew the agreement with ZEEL or enter into a new agreement with other parties at envisaged terms will remain as a key rating sensitivity.

Rating Sensitivity Factors

- Augmentation of adequate cash flows for timely debt servicing
- Renewal of lease agreement at envisaged terms
- Movement in credit profile of the licensee
- Changes in regulatory environment

Outlook: Stable

SMERA believes that DSM will maintain a stable outlook over the medium term on the back of its experienced management and reputation of its tenant. The outlook may be revised to 'Positive' in case the company is able to demonstrate significantly better than envisaged coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company faces challenges in maintaining coverage indicators, renewal of agreement at envisaged terms or adverse movements in the credit profile of the tenant.

About DSM

DSM incorporated in 1993, is an investment company of the Essel group. The company is engaged in leasing out property and providing management and consultancy services.

About ZEEL

ZEEL incorporated in the year 1982, is one of India's leading television media and entertainment companies and a key operating company of the Essel group. The company was promoted by Mr. Subhash Chandra as a Non-executive Chairman and Mr. Punit Goenka, Managing Director. ZEEL is among the largest producers and aggregators of Hindi programmes in the world, with an extensive library of over 222,000 hours of television content. With rights to more than 3,818 movie titles from renowned studios starring iconic film stars, ZEE houses the world's largest Hindi film library. Through its strong presence worldwide, ZEE entertains over 1 billion viewers across 171 countries.

On a consolidated basis, ZEEL posted operating income of Rs.5851.50 crore in FY2016 (refers to the period April 01 to March 31) vis-a-vis Rs.4883.70 crore in FY2015 and PAT of Rs.1028.90 crore in FY2016 vis-à-vis Rs. 975.50 crore in FY2015. During H1FY17, ZEEL posted total income of Rs.3267.06 crore and PAT of Rs.462.11 crore vis-à-vis total income of Rs.2705.27 crore and PAT of Rs.369.75 crore in H1FY16.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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