Press Release

Digital Subscriber Management and Consultancy Services Private Limited (DSM)

04 July, 2017

Rating Assigned and Withdrawn

Total Instruments Rated*	Rs. 360.00 Cr
Long Term Rating	SMERA A+/Stable

**Refer Annexure for details*

Rating Rationale

SMERA has assigned rating of **'SMERA A+' (read as SMERA A plus)** to the Rs. 360.00 crore bank facility of Digital Subscriber Management and Consultancy Services Private Limited (DSM). The outlook is **'Stable'**. Further, SMERA has withdrawn the rating of 'SMERA A+' (read as SMERA A plus) on the Rs. 309.20 crore bank facility with immediate effect as the term loan has been fully repaid as certified by the banker.

DSM 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 company is in the business of leasing out property and providing management consultancy services.

Key Rating Drivers

Strengths

Stable rental flows from strong counter party ZEEL

DSM has purchased commercial property (14th to 20th floors) in Marathon Futurex, Lower Parel, one of the premium locations in Mumbai. The company has leased out this property to ZEE Entertainment Enterprise Limited (ZEEL), the flagship company of Essel group on leave and license basis for two years with a two year extension. The leave and license 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. 51.95 crore in FY2017 (provisional) as against 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 and risk of early exit as well as agreement renewal risk is significantly mitigated.

ZEEL, incorporated in 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 (Non-executive Chairman) and Mr. Punit Goenka (Managing Director). ZEEL is among the largest producers and aggregators of Hindi programmes with strong presence in the domestic and overseas markets.

On a consolidated basis, ZEEL posted total income of Rs. 6,658.20 crore in FY2017 (Provisional) as against Rs. 6,053.10 crore in FY2016 (refers to the period April 01 to March 31) and net profit after tax (PAT) of Rs.2,221.70 crore in FY2017 as against Rs. 1,026.70 crore in FY2016. Any change in the credit profile of ZEEL will be a key rating sensitivity.

Waterfall Mechanism in Escrow account

The terms of sanction for the rated term loan stipulate an 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.

SMERA believes that the waterfall mechanism in the escrow account will support the timely servicing of the debt subject to availability of adequate funds in the account on the due date.

Weaknesses

Moderate coverage indicators of DSM

DSM has moderate coverage indicators with interest coverage ratio (ICR) of 1.16 times and debt service coverage ratio (DSCR) of 1.06 times in FY2016-17 (provisional). SMERA expects that DSCR will remain in the range of 1.02 to 1.08 over the medium term.

Renewal risk

The ability of DSM to renew the lease rental agreements on time and at envisaged terms and variation in the credit profile of Licensee, ZEEL, constitute key rating sensitivity. The regulatory environment governing real estate transactions will also be a key factor in this regard. Any regulatory changes impacting leave and license transactions may impact the future revenues of DSM.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of DSM along with ongoing financial and business support of Essel group.

Applicable Criteria

- Infrastructure Sector - https://www.smera.in/criteria-infra.htm
- Default Recognition - https://www.smera.in/criteria-default.htm
- Application Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Outlook: Stable

SMERA believes that DSM will maintain a stable outlook over the medium term on the back of its experienced management and reputed 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 the Rated Entity - Key Financials

For FY2016-17 (Provisional), DSM reported net loss of Rs. 1.28 crore on operating income of Rs. 56.36 crore as compared to net loss of Rs. 1.97 crore on operating income of Rs. 53.00 crore in previous year.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Dec, 2016	Term Loan	Long Term	309.20	SMERA A+/ Stable (Assigned)

Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings with outlook
Term Loan	NA	NA	NA	309.20	SMERA A+/Stable (Withdrawn)
Term Loan	NA	NA	January 31, 2031	360.00	SMERA A+/Stable (Assigned)

Note on complexity levels of the rated instrument: https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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