

Tips Industries Limited

May 19, 2021

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	21.43	CARE BBB+ (CWD) (Triple B Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Facilities	21.43 (Rs. Twenty-One Crore and Forty-Three Lakhs Only)		

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Tips Industries Limited (TIL) on credit watch with developing implications post the following announcements made by the company. On May 10, 2021, the board of TIL approved and announced demerger of TIL in two separate entity Tips Industries Limited and Tips Films Limited, to transfer films production business in sperate entity, according to the management the demerger process is expected to take 8-9 months subject to necessary statutory and regulatory approvals. CARE will take a final view on the ratings, once the exact implications of the above development on the business and overall credit profile of the company are clear.

The rating assigned to the bank facilities of Tips Industries Limited (TIL) factors in improvement in capital structure and debt coverage indicators. The rating also factors in the stable & consistent revenue growth from music business, strong profitability and strong liquidity position of the company. The rating continues to derive strength from the vast experience of the promoters in the music industry. The ratings are however tempered by moderate scale of operation and presence in single value chain, intense competition from other players, high obsolescence risk associated with the distribution formats, risk of acquisition of right content and threat from piracy; albeit; reduced .

Rating Sensitivities

Positive Factors

- Increase in scale of operation above Rs.150crore from music rights business
- ROCE of above 35% on sustained basis.

Negative Factors

- Increase in Gross gearing to 1.50x on sustained basis
- ROCE below 15%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record

TIL has been founded by the Taurani brothers - Mr. Ramesh Taurani and Mr. Kumar Taurani, both of whom have more than 35 years of experience in the media & entertainment industry. Promoters have also been instrumental in TIL having created an established market presence and enjoying good relationships with film producers, distributors, satellite channel companies etc.

Demonstrated stable generation of license fees through extensive library of music titles

TIL is a holder of large number of audio rights comprising of Bollywood film music, regional music, pop music etc. Over the years, TIL has built a repertoire of more than 29,000 songs over the years. The catalogue is dominated with music from the 90's to early 2000's. Its music rights are protected under copyright law for 60 years and film rights are owned in perpetuity. TIL has posted compounded annual growth rate of 32% during FY17-FY20 from royalty income generated through music in both audio & video format. During FY20, the revenue growth was 44% (vis-à-vis 56% in FY19) was on account of several enabling demand drivers such as affordable data, increasing smartphone penetration, emergence of streaming platforms etc. OTT segment revenues (internet platforms such as Amazon, Gaana, Saavn etc.) grew significantly 55% on Y-o-Y basis. Furthermore, with more Indians preferring OTT platform over DTH, going forward the revenue growth is expected from OTT platform.

Improved capital structure and debt protection metrics

Over a period, due to increase in reserves due healthy profitability, TIP'S dependence on working capital borrowing for acquisition of music rights has reduced considerably, which has resulted into robust capital structure. During FY20 financial

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

risk profile of the company improved significantly as indicated by overall gearing of 0.02(PY: 0.12), on account of reduction debt and higher accretion of profit to Net worth, interest coverage ratio improved to 597x(PY:3.8x) on account of higher PBILDT and lower interest cost, TDGCA improved to 0.2X (PY:1.2X) on account of reduction in debt and improvement in GCA. During 9MFY21 TIL did not had any debt hence capital structure of the company remained robust.

Demerger of movie business

On January 05, 2021, in its board meeting the management had in principally agreed to explore the option of demerger of film production division in to separate entity. The same would result in stability of revenue and profitability of music segment company.

Key Rating Weaknesses

Moderate scale of operations & presence in single value chain

Size and scale of operations of TIL are moderate and it also faces competition from larger media conglomerates having presence across multiple segments the film industry value chain, which not only enjoy higher bargaining capacity but also are more capable to monetize content across platforms as compared to small scale producers and distributors. Although TIL is a reputed player, its music library is concentrated to only songs of 90's and 2000's era which may not be appealing to consumers across all generations. Having a wider genre of songs would mitigate any such concentration risk.

Risk of acquisition of right content

The choice of acquisition of music rights plays a crucial role in the industry. Once the rights are acquired it remains exclusive to the licensee for 60 years from the date of production. Thus, the company would have to continuously acquire the right content to continue to grow in the long run and that stands crucial from credit perspective.

In view of the above TIPS have been preferring to create more music inhouse. Despite operational set back from Covid - 19, TIPS has created and released 215 new tracks during FY21, thus reducing dependence on acquisition of music rights.

High obsolescence risk associated with the distribution formats and nascent stage of paid-service model

TIL is operating in a fast-moving industry where the formats for distribution of music change with technological advancement like long record player was replaced by music cassettes which was then replaced by CDs and then digital platform. Though minimal yet TIL like other players in the industry faces the risk associated with the changing distribution formats. Although demand drivers for music are favorable, the paid-service model still in the nascent India-based streaming services has amassed over 100 million users, the overall conversion rate to paying is estimated to be around 1 percent.

Continuous threat from piracy

Piracy has been eating into the profitability of the media and entertainment industry. Though this has always been in existence, the incidence has increased in the last few years with innovation of new formats for distribution, supported by availability of cheap technology. However, Government of India has been taking adequate steps to curb piracy. However, with availability of free licensed music coupled with affordable data costs the threat of piracy has reduced.

Industry analysis - OTT

India is the fastest growing entertainment and media market globally and in the next 5 years India will see significant growth in OTT segment. OTT segment is highly competitive with domestic music OTT platform like Saavn, Gaana & Hungama, international streaming platforms like Apple music, Amazon Prime, Google Play & others and telecom operator backed platforms like Jio music & Wynk music. The Indian Music segment grew 8.3% to reach Rs. 15.3 billion in 2019. It is expected to grow at a CAGR of 10% to cross Rs. 20 billion by 2022, on the back of increasing digital revenues and performance rights.

Liquidity: strong

TIL continues to have strong liquidity position marked by nil term loan, near zero working capital utilization, stable gross cash accruals and presence of high cash balance. The company reported a GCA of Rs.12.31 crore in FY20 and Rs.25.35 crore during 9MFY21.As against this the company continued to have nil term loan as on December 31, 2020.Furter, liquidity comfort is also drawn from the fact that, the company had a total cash and liquid investment Rs.31crore as on March 31, 2020, which improved to Rs.62crore as on December 31, 2020(Rs.55crore as Feb 28,2021).Average bank limit utilization for the 12 month ended on December 31,2020 was 1% (post reduction of CC limits from Rs. 80 crore to Rs.25 crore, which reduced to Rs.21.42 September,2020.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of non-financial sector entities](#)
[Rating Methodology - Service Sector Companies](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Tips Industries Limited (TIL), is one of India's leading entertainment companies having presence across music, film production, distribution and artist management. The company also has a large music library with a collection of over 29,000 songs across various genres and major regional languages. Mr. Kumar Taurani and his brother Mr. Ramesh Taurani are the founders of TIL. The company has a library of over 25,000 songs and earns royalty income for the same. TIL has produced and released around 40 Hindi films in the past 20 years and also sells the theatrical, satellite and various other rights to distributors, broadcasters etc.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)	9MFY21
Total operating income	205.25	93.33	64.96
PBILDT	8.31	14.76	37.67
PAT	2.85	11.34	25.19
Overall gearing (times)	0.12	0.02	-
Interest coverage (times)	3.79	597	1883

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	21.43	CARE BBB+ (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Bank Overdraft	LT	21.43	CARE BBB+ (CWD)	-	1)CARE BBB+; Stable (26-Mar-21)	1)CARE BBB; Stable (04-Mar-20) 2)CARE BBB-; Stable (22-Apr-19)	-
2.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (04-Mar-20)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Current ratio	Company to maintain current ratio above benchmark level i.e. 1.17times till the currency of loan

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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