

## Prime Focus Limited

April 5, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities - SBLC	75 <sup>@</sup>	<b>^Provisional CARE AA+(SO); Stable [Provisional Double A plus (Structured Obligation); Outlook stable]</b>	Removed from credit watch and rating Revised from Provisional CARE AAA (SO) (Provisional Triple A; Structured Obligation)
<b>Total</b>	<b>75 (Rupees Seventy Five crores only)</b>		

<sup>@</sup>Backed by proposed unconditional and irrevocable corporate guarantee by Reliance Capital Limited

<sup>^</sup>The rating is In-principle subject to the necessary documents being executed and the final rating would be assigned on submission and verification of executed documents to the satisfaction of CARE.

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision of rating alongwith removal of credit watch assigned to the SBLC (aggregate amount of Rs. 75 crore) of Prime Focus (PFL) is mainly on account of revision in rating assigned to the guarantor i.e. Reliance Capital Limited. The removal of 'credit watch' along with rating revision of RCL primarily factors the demerger of RCL's commercial finance division into a wholly owned subsidiary and subsequent proposed conversion of RCL into a 'Core Investment Company (CIC)'. However, at RCL's group level, it would continue to benefit from the synergies of its various subsidiaries. As a CIC, RCL may be prone to volatility in income profile and concentration risk with exposure to group companies, some of which are yet to turn profitable. The ratings continue to factor in RCL's experienced management and strong business franchise of subsidiaries/ associates in Asset Management, Life Insurance, General Insurance, Commercial and Housing Finance businesses. The ratings also draw comfort from RCL's demonstrated ability to unlock value in its investments. RCL's gearing levels, liquidity profile, profitability and group exposures are its key rating sensitivities.

### Detailed description of the key rating drivers of the guarantor (RCL)

#### Key Rating Strengths

##### Financial services Flagship Company of Reliance Group

Reliance Capital Ltd. is the flagship financial services company of Reliance Group which has presence across various sectors namely finance, telecom, defence, energy, power, infrastructure, media and entertainment. RCL's subsidiaries/associates are one of the leading players in Asset Management, Life & General Insurance businesses. RCL also has presence through its group companies in the broking, commercial finance, housing finance and distribution businesses.

#### Financial flexibility

RCL has high financial flexibility and capital raising ability. RCL has also demonstrated track record of ability to unlock value in its subsidiaries over the last few years. Further with a view to reduce its debt levels and consolidate operations, the management is gradually selling off its non-core assets outside financial services sector. RCL has recently monetized its investment in Paytm with a 27x return resulting into a capital gain of Rs.260 crs on an investment of Rs.10 crore.

#### Key Rating Weaknesses

##### Modest gearing levels

Gearing levels, post conversion of RCL into a CIC, would improve on account of transfer of bank borrowings to Reliance Commercial Finance Ltd. The company plans to transfer all of bank borrowings to RCFL and retain only its current market borrowings. As per company's projections, Reliance Capital Limited's gearing levels would stand at 0.9 times by the end FY17.

##### Volatile income profile

RCL on a standalone basis reported total income of Rs.4145 crore during FY16 as against total income of Rs.3988 crore in FY15. Excluding income from commercial finance division, total income in FY16 would stand at Rs.2,309 crore comprising capital gains of Rs.674 crore, interest income of Rs.1,425 crore, dividend and other income of around Rs.210 crore. The

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

company's profit on sale of investments grew substantially during FY16 to Rs.677 crore (PY: Rs.433 crore) on account of stake sale in Reliance Capital Asset Management Limited and Reliance Life insurance Limited. The company on a standalone basis (including commercial finance division) reported PAT of Rs.977 crore in FY16 as against PAT of Rs.757 crore in FY15. Consequently, company's RoTA improved to 2.7% in FY16 (P.Y.: 2.1%). The company's PAT, excluding commercial finance division, would stand at Rs.728 crore during FY16. Income profile of RCL is volatile by virtue of variability of its investment income.

During FY16, RCL's consolidated net profits (after profit/loss in associates/subsidiaries and minority interest) increased by 10% y-o-y to Rs.1101 crore (P.Y.: Rs.1001 crore) on account of rise in revenue streams across all key segments namely finance & investments, general insurance, asset management & commercial finance. During 9MFY17, RCL, on a consolidated basis, reported PAT (after profit/loss in associates/subsidiaries and minority interest) of Rs.669 crore (P.Y.: Rs.686 crore).

#### **Concentration risk and high exposure to group entities**

With RCL, proposed conversion into CIC, it is prone to concentration risk in its portfolio on account of large exposure to group companies. The top 10 group exposures as on December 31, 2016 accounted for 139% of networth which includes investment in subsidiaries viz Reliance Life insurance, Reliance General Insurance, Reliance Home Finance Ltd., etc. RCL's high concentration risk towards its group entities is however, somewhat mitigated by the company's ability to unlock value from its investments.

**Analytical Approach-** The rating of the long term bank facilities of Prime Focus Limited is based on the assessment of RCL which has given an unconditional and irrevocable corporate guarantee for these instruments. RCL has been assessed on a consolidated basis.

#### **Applicable Criteria**

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

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

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for placing rating on credit watch](#)

[Financial ratios – Financial sector](#)

[CARE's criteria for Non Banking Financial Companies](#)

#### **About the Company –PFL**

Prime Focus Limited (PFL), an integrated media services company, incorporated in 1997 by merger of two proprietary concerns of founder promoters, Mr. NareshMalhotra and Mr. NamitMalhotra. In its initial phase PFL was providing post production services for TV serials and has gradually emerged as a one of the global visual entertainment services company, with its facilities spanning across India, UK, USA and Canada

It provides end-to-end creative services (visual effects, stereo 3D conversion, animation), technology products & services (Media ERP Suite and Cloud-enabled media services), production services (equipment rental) and post production services (Digital Intermediate, sound, picture post) to Studios, Broadcast and Advertising industries. The company is behind path breaking technologies like CLEAR™ (Hybrid Cloud technology enabled Media ERP Suite), Primetime Emmy® award-winning DAX Digital Dailies® and View-D™ (stereoscopic 2D to 3D conversion process).

PFL posted total operating income of Rs. 118.85 crore and net loss of Rs. 8.35 crore in FY16 (refers to the period July 1 to March 31). For FY15 (refers to the period July 1 to June 30), PFL registered total income of Rs.133.73 crore and Loss of Rs.28.1 crore.

#### **Background of Guarantor - RCL**

Reliance Capital Ltd. (RCL) is the flagship company of Reliance Group in the financial services space. It is one of India's leading private sector financial services companies and ranks amongst the top private sector financial services companies in terms of net worth. RCL, post demerger of its commercial finance division, will be converted into a 'Core Investment Company'. Reliance Capital has interests in asset management and mutual funds; life and general insurance; commercial and home finance; equities & commodities broking; investment banking; wealth management services; distribution of financial products; exchanges; private equity; asset reconstruction; proprietary investments and other activities in financial services. On a standalone basis, RCL's networth stands at Rs.13,557crore as on December 31, 2016

For a detailed rationale of guarantor (RCL), please refer to our website [www.careratings.com](http://www.careratings.com)

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**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-Term Loan	-	-	-	75.00	Provisional CARE AA+ (SO); Stable

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	75.00	Provisional CARE AA+ (SO); Stable	-	1)Provisional CARE AAA (SO) (Under Credit watch with Developing Implications) (20-Jan-17) 2)Provisional CARE AAA (SO) (Under Credit Watch) (06-Apr-16)	-	-

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