Prime Focus Limited

July 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities – Stand By Line of Credit	75@	**Provisional CARE AA+(SO); Credit Watch [Provisional Double A Plus; (Structured Obligation); credit watch with developing implications]**	**Placed on credit watch with developing implications**
Total	**75 (Rupees Seventy Five crores only)**		

Details of instruments/facilities in Annexure-1

@backed by unconditional and irrevocable corporate guarantee by Reliance Capital Limited

^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.

Detailed Rationale & Key Rating Drivers

The ratings on the proposed bank facilities of Prime Focus Limited (PFL) have been placed on credit watch with developing implications on account of ratings assigned to the guarantor i.e. Reliance Capital Limited (RCL) being placed on credit watch with developing implications.

The rating of RCL has been placed on 'credit watch with developing implications' on account of exposure of Reliance Capital Ltd. (RCL) towards Reliance Communications Ltd. (Telecom Company of the ADAG group) (rated CARE D) and its group companies. The recovery from the aforementioned exposure in a timely manner is a key rating monitorable.

The rating also takes into account RCL's experienced management and strong business franchise of subsidiaries/ associates in Asset Management, Life Insurance, General Insurance, Commercial and Housing Finance businesses. The rating also draws comfort from underlying potential value in some of its investments and company's intent to unlock value from them. The rating also factors proposed conversion of RCL into a 'Core Investment Company (CIC)'. 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. However, at RCL's group level, it would continue to benefit from the synergies of its various subsidiaries.

RCL's gearing levels, liquidity profile, profitability, ability to unlock value in a timely manner from its group exposures and financial flexibility of the ADAG group are its key rating sensitivities.

Detailed description of the key rating drivers of the Guarantor i.e. RCL

Key Rating Strengths

Financial services Company of Anil Dhirubhai Ambani Group

Reliance Capital Ltd. is the 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. The promoter shareholding in RCL stood at 52.3% as on March 31, 2017.

Underlying potential value in some of the investments and company's intent to unlock value from them

On November 23, 2016, the group announced sale of its radio business and general entertainment TV business to Zee group. In addition, the company has recently announced to sell stake in its general insurance and AMC business via IPO by the end of FY18. Also, as intimated by the management, the company plans to exit from its other non-core media assets.

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

While these divestments would unlock the underlying substantial potential value of the investments, the culmination of the same in a time bound manner as communicated by the management is a rating monitorable.

Well diversified resource profile
The company has well-diversified resources profile. However, post demerger of its commercial finance business, the company has transferred all of its bank borrowings to Reliance Commercial Finance Ltd. (RCFL) and retains only market borrowings as on March 31, 2017. Borrowing profile of the company as on March 31, 2017, included Non-Convertible Debentures – 70%, Subordinated Debt – 8%, Market Linked Debentures – 4% and Commercial Papers – 19%.

Key Rating Weaknesses
Exposure to Reliance Communications group
RCL has exposure towards RCOM (rated CARE D) and its group companies which forms around 7% fund based and 5% non-fund based of its networth as on June 30, 2017. As per explanation provided by the management, they are confident of recovering this exposure and expect non-fund based exposure to reduce to zero and fund based exposure to reduce to half of current levels post completions of strategic transactions being undertaken by RCOM, which also the company is confident of recovering. The recovery in a timely manner is a key rating monitorable.

Modest gearing levels
Post demerger of commercial finance business and subsequent transfer of all of its bank borrowings to Reliance Commercial Finance Ltd. (RCFL), the company had indicated that gearing levels would improve to 0.9 times as on March 31, 2017. However, on account of incremental market borrowings during Q4FY17, RCL's standalone gearing levels increased to 1.37 times as on March 31, 2017. The company has also indicated that their exposure to group companies will be limited to further exposure in the normal course of business for growth of its own subsidiaries and associates. RCL's plans to unwind its exposures from various group companies shall have a positive impact on its gearing levels going forward.

Volatile income profile
During FY17, the company on standalone basis (post demerger of commercial finance division) reported PAT of Rs.419 crore on total income of Rs.2071 crore as against PAT of Rs.739crore on total income of Rs.2309crore (excluding financials of commercial finance division). Reduction in profitability during FY17 vis-à-vis FY16 is on account of reduced income from profit on sale of investments. Consequently, the profitability parameters of the company for FY17 stood moderate with Return on Networth (RoNW) and Return on Total Assets (RoTA) at 3.1% and 1.5%, respectively. Income profile of RCL is volatile by virtue of variability of its investment income.
During FY17, RCL's consolidated net profits (after profit/loss in associates/subsidiaries and minority interest) stood stable at Rs.1086 crore (P.Y.: Rs.1101 crore). The profitability remained stable on consolidated basis despite lower profitability on standalone basis on account of growing profits from AMC, general insurance, commercial finance and home finance business.

Concentration risk
With RCL's proposed conversion into a 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 March 31, 2017 accounted for 145% of RCL's networth as against 139% of networth as on December 31, 2016.

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).

About the Guarantor - RCL

Reliance Capital Ltd. (RCL) is the 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 will be converted into a 'Core Investment Company' subject to necessary approvals from RBI. 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.13,701crore as on March 31, 2017.

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income	4076	1954
PAT	977	419
Interest coverage (times)	1.5	1.4
Total Assets	36354	33266
Net NPA (%)	1.7	0.0
ROTA (%	2.7	1.2

*Audited figures of FY16 and FY17 are not comparable as FY17 financials are exclusive of commercial finance business on account of its demerger from RCL

For a detailed rationale of guarantor (RCL), please refer to our website *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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of 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) (Under Credit watch with Developing Implications)

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) (Under Credit watch with Developing Implications)	1)Provisional CARE AA+ (SO); Stable (05-Apr-17)	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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