

## Reliance Media Works Limited

April 5, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non Convertible Debenture	200 <sup>@</sup>	<b>CARE AA+(SO); Stable [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>200 (Rupees Two Hundred crores only)</b>		

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

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in rating, along with removal of credit watch, assigned to the NCD issue (aggregate amount of Rs. 200crore) of Reliance Media Works Limited (RMWL) is mainly on account of revision in rating assigned to the guarantor i.e. Reliance Capital Limited and submission of executed versions to documents to the satisfaction of CARE. 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

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

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 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 NCDs of Reliance Mediaworks 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 –RMWL**

Reliance Media Works Ltd (RMWL) owns two properties in Mumbai, which are leased for the purpose of theatrical exhibition. Additionally, the company owns investment in equity shares of Prime Focus Limited to the tune of Rs. 634 crore.

The company had proposed a transfer of its film and media services business to Prime Focus Limited which inter-alia included the transfer of a BOT contract for shooting floors located at Goregaon, Mumbai. Pending approval for transfer of the BOT contract, the transfer of business to Prime Focus Limited has been completed in April 2015 excluding the shooting floors and debt of Rs. 200 cr, which will be transferred upon completion of necessary formalities.

In the past, the Company also operated a cinema chain under the brand 'Big Cinemas' which was effectively transferred to Carnival Cinemas in July 2015.

The Company also holds rights for several popular movies, as it was the producer for these movies.

The Company's subsidiary Big Synergy Media Limited is a popular non-fiction based content creation company for the broadcasting industry. In June 2016, Big Synergy has forged a strategic alliance with Phantom Films Private Limited to foray into the scripted segment of the TV and Digital Media.

RMWL on standalone basis posted total operating income of Rs. 178.07 crore and net loss of Rs. 197.13crore in FY16 (refers to the period April 01 to March 31). For FY15 (refers to the period April 01 to March 31), RMWL registered total income of Rs.403.77 crore and Loss of Rs. 693.5crore.

#### **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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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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
Debentures-Non Convertible Debentures	February 03, 2017	9.5%	April 15, 2020	200.00	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	-	-	-	1)Withdrawn (13-Apr-16)	-	1)CARE BB+ (10-Mar-15)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (13-Apr-16)	-	1)CARE AAA (SO) (29-Jan-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (19-Mar-15)
4.	Fund-based - LT-Working Capital Limits	LT	-	-	-	1)Withdrawn (13-Apr-16)	-	1)CARE BB+ (10-Mar-15)
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (13-Apr-16)	-	1)CARE BB+ (10-Mar-15)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+ (SO); Stable	-	1)Provisional CARE AAA (SO) (Under Credit watch with Developing Implications) (09-Feb-17)	-	-

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