Reliance Mediaworks Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture issue	200@	**CARE AA+(SO); Credit Watch [Double A Plus; (Structured Obligation); credit watch with developing implications]**	**Continues on credit watch with developing implications**
Total	**200 (Rupees two hundred crores only)**		

******Details of instruments/facilities in Annexure-1*
@backed by unconditional and irrevocable corporate guarantee by Reliance Capital Limited

Detailed Rationale & Key Rating Drivers

The ratings on the instrument of Reliance Mediaworks Limited (RML) has 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 ratings of RCL continue to be on 'credit watch with developing implications' on account of exposure of 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. Further, sale of strategic assets as per timelines provided by RCL to pare down its debt levels is also a key rating monitorable.

The ratings take 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 ratings also draw comfort from underlying potential value in some of its investments and company's intent to unlock value from them to reduce debt levels. The ratings factor in the 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 large size exposure to few of the 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-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 and housing finance business. The promoter shareholding in RCL stood at 52.2% as on September 30, 2017 out of which 34.2% shares are pledged.

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

On November 23, 2016, the group announced sale of its radio business and general entertainment TV business to Zee group. The transaction is yet to be executed. The management expects full inflow from this transaction by March 2018. During FY17, the company additionally sold 4.43% stake in Reliance Nippon Life Asset Management Ltd. (RNAM) to Nippon Life Insurance and also received inflow by way of offer for stake sale via IPO of RNAM.

Further, the company plans to sell up to 25% stake in Reliance General Insurance via IPO by February 2018. The company has also committed to divest from its media related businesses and other investments to pare down its debt levels. While these divestments would unlock the underlying substantial potential value of the investments, the culmination of the

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

same in a time bound manner and expected valuations as communicated by the management and subsequent reduction in debt levels remains a key rating monitorable.

Key Rating Weaknesses

Exposure to Reliance Communications (RCOM) group

RCL has exposure towards RCOM (rated CARE D) and its group companies which forms around 8% fund based and 3% non-fund based of its networth as on September 30, 2017. The management is confident of recovering majority of this exposure post completion of strategic transactions. The recovery and provision/write off from this exposure as per explanation provided by the management is a key rating monitorable.

Modest gearing levels and liquidity position

RCL's standalone gross and net gearing levels increased to 1.37 times and 1.19 times, respectively as on March 31, 2017 mainly on account of incremental market borrowings during Q4FY17. The company's outstanding bank balances (excluding lien marked bank facilities) as on March 31, 2017 stood at Rs.2,515 crore. Capital adequacy ratio as on March 31, 2017 stood at 38%. The company has 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.

As on September 30, 2017, the company reported gross and net gearing levels of 1.39 times and 1.29 times, respectively. As intimated by the management, post completion of committed strategic transactions, net gearing levels would reduce to ~0.7 to 0.8 times by March 31, 2018. Reduction in gearing levels as indicated by the management is a key rating monitorable.

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.739 crore on total income of Rs.2309 crore (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.

During H1FY18, RCL (standalone) reported PAT of Rs.403 crore as against PAT of Rs.343 crore during H1FY17 while consolidated PAT stood at Rs.590 crore during H1FY18 as against consolidated PAT of Rs.460 crore during H1FY17.

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.

Industry Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run.

Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

Analytical approach: Standalone

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 – RML
Reliance Mediaworks Ltd (RML) 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.

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 Instruments

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) (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	-	-	-	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) (Under Credit watch with Developing Implications)	1)CARE AA+ (SO); Stable (05-Apr-17)	1)Provisional CARE AAA (SO) (Under Credit watch with Developing Implications) (09-Feb-17)	-	-

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