Tips Industries Limited

March 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	28.57 (reduced from Rs.35.71 crore)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Proposed Long term Bank Facilities	-	-	Withdrawn
Total Facilities	**28.57 (Rs. Twenty eight crore & fifty seven lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Tips Industries Limited (TIL) is on account of growth in revenue from license of music rights, reduced dependence on external borrowings leading to improved capital structure and improvement in the cash flows. The rating continues to derive strength from the experienced promoters, stable & consistent revenue growth in licensing fees derived from its music library along with strong profitability.

However, the ratings are tempered by small size of operations, competition from larger players, obsolescence risk associated with the distribution formats, threat from piracy and cost for content acquisition.

Rating Sensitivities

Positive Factors:

- Minimum revenue growth of 15% from music rights
- PBILDT levels above 30%

Negative Factors:

- Current ratio falls below 2.00x
- Increase in Gross gearing to 1.50x on sustained basis

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.

Extensive library of music titles and demonstrated revenue growth:

TIL is a holder of large number of audio rights comprising of Bollywood film music, regional music, pop music etc. It has repertoire of around 25,000 songs dominated by music from 90's to early 2000's, and the royalty rights to this music is the main source of revenue generation. TIL has posted compounded annual growth rate of 44% from royalty income generated through music in both audio & video format. During FY19, the revenue growth was 56% (vis-à-vis 33% in FY18) & 91% in 9MFY20 in comparison to corresponding period which is on account of several enabling demand drivers such as affordable data, increasing smartphone penetration, emergence of streaming platforms etc. The revenue generated from OTT segment (internet platforms such as Amazon, Gaana, Saavn etc.) increased by 61% from Rs.23.79 crore in FY18 to Rs.38.20crore in FY19.

Comfortable capital structure and debt protection metrics

The company avails short term bank borrowing to finance new content acquisition, and develop in-house music content, and finance its receivables to various buyers. While TIL has been conservative in new content acquisition, and also exited the movie production business in 2017, it has reported strong operational cash flows over the last 3 fiscals, resulting in reduction in the borrowing levels. The outstanding debt has reduced to Rs.1.58 crore as on December 31, 2019 (vs Rs.8.47 crore in FY2018). Further accrual of profits has led to improvement in the net worth base of the company which

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

stood around Rs.70.75 crore as on March 31, 2019. Thus the overall gearing has improved to 0.12x as on March 31, 2019 (vis-à-vis 0.44x as on March 31, 2018) & 0.02x as on December 31, 2019. Further the company has shelved its debt funded acquisition plan, thus going forward capital structure is expected to remain comfortable.
During FY19, GCA remained healthy as 83% of the total expenses being non-cash in nature (i.e. depreciation of fixed assets, and amortization of film inventory). Lower debt levels and healthy GCA lead to improvement in total debt to GCA from 7.91x in FY18 to 1.20x in FY19 & 0.09x in 9MFY20.

Key Rating Weaknesses
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.

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. Although demand drivers for music are favorable, the paid-service model still in the nascent stage. The biggest issue is the general music consumer's apparent unwillingness to pay for music. 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.

Liquidity: Comfortable
TIL manages its working capital requirements through overdraft limits availed from bank and from internal accruals. Liquidity profile of TIL is adequate as marked by average maximum utilization of 12% of its total OD limits for twelve months ending December 2019. Unutilized limits provide comfort in case of any cash flow mismatch. Cash balance stood at Rs.1.39 crore, while the various liquid investments stood around Rs.25.84 crore as on December 30, 2019. Cash flow from operating activities also remained positive during the year.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Policy on Withdrawal of ratings
Financial ratios – Non-Financial Sector
Service sector Companies

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 25,000 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. During FY19, TIL launched the third series of Race franchisee in association with Salman Khan Ventures Private Limited (SKVPL). Under this agreement, SKVPL financed the entire project and retained all rights except for music.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	49.48	205.25
PBILDT	11.57	8.31
PAT	3.13	2.85
Overall gearing (times)	0.51	0.12
Interest coverage (times)	1.75	3.79

Status of non-cooperation with previous CRA: No

Any other information: No

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

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-Bank Overdraft	-	-	-	28.57	CARE BBB; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bank Overdraft	LT	28.57	CARE BBB; Stable	1)CARE BBB-; Stable (22-Apr-19)	-	-	-
2.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	-

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

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 clarification.*

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