July 10, 2017

# Tips Industries Limited

**Summary of rated instruments**

| Instrument* | Rated Amount (in crore) | Rating Action |
|---|---|---|
| Long-term Fund-based Limits | 85.00 | [ICRA]BB (Stable); Revised from [ICRA]BB+ (Stable) |
| **Total** | **85.00** | |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has revised the long-term rating assigned to the Rs. 85.00-crore[1] fund-based limits of Tips Industries Limited (Tips/the company) to [ICRA]BB (pronounced ICRA double B)[2] from [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long-term rating is Stable.

**Rationale**

The revision in rating takes into account the decline in revenues in FY2017 on account of the lower-than-expected royalty income due to the delayed renewals of royalty agreements as well as lesser film distribution income due to the non execution of the sale of satellite rights. Further, the operating profitability turned negative on account of the accelerated write-off of the old movie inventory on a lower top line. Additionally, Tips has significant net intangibles (its library value in the balance sheet) and the timely monetisation of the same is critical for maintaining its financial profile. ICRA also notes the modest coverage and cash accruals given the high debt levels and the subsequent interest outgo.

Nevertheless, the rating takes into account the more-than-three-decade long experience of the promoters in the entertainment industry. A strong brand presence and a robust content library that enables the company to generate stable cash flows in the form of royalty receipts, and its demonstrated strategy of de-risking itself from box-office performances through pre-sale of movies whenever possible are other positives.

Going forward, a healthy content pipeline with timely renewals of royalty agreements, performance of its movies at the box office and its ability to de-risk its business model through pre-sales will be the key rating sensitivities.

[1] *100 lakh = 1 crore = 10 million*

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

**Key rating drivers**

**Credit strengths**

- More than three decades of experience of the promoters in the entertainment business; established relations with various industry participants
- Diversified revenue stream facilitating monetisation of intellectual property rights (IPRs) across various platforms and a strong content library to support future monetisation

**Credit weaknesses**

- Decline in the revenues in FY2017 owing to the lower-than-expected royalty income as well as film distribution income
- Loss reported at operating level due to accelerated write-off of the old movie inventory; lower top line
- Significant ongoing investments in building content library; commensurate returns from the same remains critical for the credit profile
- Large capital employed in intangibles; timely monetisation critical for maintaining financial profile
- Industry risks involving piracy; seasonality in business and events continue to pose challenges for the movies business
- Modest coverage indicators and cash accruals on account of high borrowing levels and subsequent interest outgo

**Description of key rating drivers**

The company generates revenues from the sale of audio rights in the form of royalty and from film distribution, which includes sale of satellite rights, theatrical rights, video rights, etc. The royalty income is a relatively stable source of income for the company with periodic renewal of contracts. However, the non-renewal of agreements on time leads to volatility in revenues and remains a key rating sensitivity. The net royalty receipts declined 27% to Rs. 31.95 crore in FY2017 from Rs. 43.09 crore in FY2016. Also, the film distribution income decreased 41% in FY2017 to Rs. 15.06 crore from Rs. 25.35 crore in FY2016.

Tips' operations are working capital intensive, mainly due to the long gestation period of the film projects with the production cost usually recovered on the release of the film. A large amount of funds are blocked against advances it makes to artists, directors, script writers, actors, music directors etc. The inventory of the company remains high as the cost of production incurred on the movies is inventoried till the movies are ready to be released. In addition, the company pays a significant amount as content/film production advances to book talent as well as finance the film.

**Analytical approach**

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria**

- Corporate Credit Rating Methodology
- Media Industry (Film Production, Distribution and Exhibition)

**About the company**

Tips was incorporated as a trading firm in the 1980s by Mr. Kumar Taurani and his brother Mr. Ramesh Taurani. In 1981, the duo began recording songs by new artists in Hindi and other regional languages like Punjabi, Sindhi, Rajasthani, Marathi, Bengali and Bhojpuri, through their partnership firm, RK Electronics. In 1988, Tips formed a new partnership firm, Tips Cassettes and Records Co., which had manufacturing facilities at Palghar and Silavassa for blank and pre-recorded cassettes. In 1992, RK Electronics was dissolved and merged with Tips Cassettes and Records Co., which was later converted into a private limited company — Tips Industries Private Limited — in 1996.

Tips is currently involved in film production and distribution. It holds audio right of a large number of Hindi as well as other regional songs.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information**

In FY2017, the company reported a net profit of Rs. 3.44 crore on an operating income of Rs. 47.02 crore compared with a net profit of Rs. 3.03 crore on an operating income of Rs. 68.44 crore in the previous year.

**Rating history for the last three years**

**Table**

| S. No. | Instrument | Current Rating (FY2017) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. Crore) | Date & Rating | | Date & Rating in FY2016 | Date & Rating in FY2015 | Date & Rating in FY2014 |
| | | | | July 2017 | December 2016 | - | - | - |
| 1 | Fund-based Limits | Long Term | 85.00 | [ICRA]BB (Stable) | [ICRA]BB+ (Stable) | - | - | - |

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1**

**Instrument Details**

| Instrument | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|
| Fund-based Limits | August 2014 | - | September 2021 | 85.00 | [ICRA]BB (Stable) |

Source: Tips Industries Limited

## Contact Details

**Analyst Contacts**

**Subrata Ray**
+91 22 6114 3408
subrata@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Tushar Bharambe**
+91 22 6169 3350
tushar.bharambe@icraindia.com

**Irina Goel**
+91 22 6114 3452
irina.goel@icraindia.com

**Relationship Contact**
**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

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|---|---|
| **Mumbai**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>3rd Floor, Electric Mansion<br>Appasaheb Marathe Marg, Prabhadevi<br>Mumbai—400025,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax:<br>+91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range<br>Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-<br>25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj<br>Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |