

September 1, 2023^(Revised)

Royal Challengers Sports Private Limited: [ICRA]AA (Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Working capital demand loan	100.00	[ICRA]AA (Stable); Assigned
Long-term/Short term – Bank guarantee	100.00	[ICRA]AA (Stable)/[ICRA]A1+; Assigned
Total	200.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings derive comfort from Royal Challengers Sports Private Limited's (RCSPL/the company) strong parentage, being a wholly owned subsidiary of United Spirits Limited (USL). The ratings also consider RCSPL's strong revenue visibility for five years starting from FY2024, supported by its fixed-income arrangement with the Board of Control for Cricket in India (BCCI). As a franchisee of the cricket team, Royal Challengers Bangalore (RCB), which participates in the Indian Premier League (IPL), majority of its revenues are contributed by the media rights and official sponsorship income received from the BCCI. ICRA notes that the media rights for the current five-year cycle of IPL 2023-2027 (likely to be played between FY2024 and FY2028) were sold by the BCCI for Rs. 48,390 crore during June 2022, witnessing a significant uptick (~300% increase) from the previous cycle's bid price of Rs. 16,347 crore. This is expected to substantially increase the company's net central rights revenue starting FY2024. The company has witnessed gross revenues of over Rs. 470 crore from the fixed arrangement with the BCCI in FY2024 against ~Rs. 200-250 crore between FY2021 and FY2023. Apart from the fixed revenues, the company also generates income from sponsorships and match ticketing, etc. ICRA also notes that the company needs to pay 20% of its gross revenues to the BCCI as franchisee fee for the IPL. Overall, RCSPL's financial profile is expected to remain healthy, supported by robust operating profit margins (OPM) of over 35% and healthy debt metrics over the next few years.

The ratings are, however, constrained by RCSPL's nascent stage of operations in the Women's Premier League (WPL), which started in CY2023. While the WPL franchisee fee payout of Rs 90.1 crore per annum for a tenor of 10 years is expected to impact the profits of the company to a certain extent, strong cash flows from the IPL are expected to largely mitigate the same. Further, while ICRA notes that RCSPL has strong revenue visibility over the medium term, the single line of business (cricket tournament) contributing to majority of the company's cash flows poses a risk. Any significant unexpected decline on the viewership of the IPL/WPL tournaments or termination of franchisee by the BCCI would impact RCSPL's operations. Further, delay in receipt of payments from the BCCI for the accrued revenues of respective IPL seasons, may lead to interim cash flow mismatches for the company given the lumpy nature of its expenses. However, ICRA notes that no significant delay has been witnessed by the company in the past.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company will continue to have a steady base over the medium term and will maintain healthy debt metrics.

Key rating drivers and their description

Credit strengths

Strong parentage of USL – RCSPL is a wholly-owned subsidiary of USL. While the company does not require any financial

support from USL at present, it enjoys financial and operational flexibilities due to its parentage. Further, ICRA notes that the company had received loans from USL in the past and USL will continue to provide need-based support.

Strong revenue visibility on account of fixed-income arrangement with BCCI – The company owns the franchisee rights of RCB which participates in IPL, a tournament held by the BCCI on an annual basis. It derives majority of its revenues from the central rights income, which is shared by the BCCI with all its franchisees (which owns the IPL teams). This income is based on the auction value for sale of media rights conducted by the BCCI every five years. The media rights for the current five-year cycle of IPL 2023-2027 (likely to be played between FY2024 and FY2028) were sold by the BCCI for Rs. 48,390 crore during June 2022, witnessing a significant uptick (~300% increase) from the previous cycle's bid price of Rs. 16,347 crore. ICRA understands that the majority of the total media rights income (excluding the share of BCCI) is equally distributed among the 10 franchisees and some portion is distributed as per the league standing. As the revenue derived by the company is proportional to the media rights income received from the BCCI, this increase has translated into robust revenue growth for IPL in FY2024. The company has witnessed gross revenues of over Rs. 470 crore from the fixed arrangement with the BCCI in FY2024 against ~Rs. 200-250 crore between FY2021 and FY2023. ICRA also notes that the company needs to pay 20% of its gross revenues to the BCCI as franchisee fee for IPL. Overall, the company has a strong visibility for major portion of its revenues for the five-year period starting from FY2024, which will support its cash flows to a large extent.

Healthy financial profile – The company witnessed largely stable revenues in the past three years, supported by the media rights and official sponsorship income received from the BCCI. Apart from the fixed revenues, the company also generates income from sponsorships and match ticketing, etc., portion of which were impacted during FY2020 and FY2021 due to Covid and deferral in IPL matches. During FY2023, the revenues witnessed YoY decline of 16.3%, primarily due to reduced number of matches played by RCB in FY2023 (12 league matches against 16 in FY2022) and change in IPL league position (4th against 3rd league standing in IPL 2021). The OPM remained strong at over 35% during FY2019 – FY2022, before witnessing an operating loss of Rs. 6 crore during FY2023. The loss was majorly due to franchisee fee payout of Rs 90.1 crore for the WPL rights acquisition. Adjusting for the same, the OPM remained strong at 34.4% in FY2023. With the expected increase in central rights income and other sources, RCSPL is expected to witness significant uptick in revenues from FY2024 to ~Rs. 500 crore, coupled with strong operating margin of over 35% in the near to medium term. Further, the company does not have any long-term debt outstanding and is expected to have a comfortable liquidity position. Going forward, RCSPL's financial profile is expected to remain healthy, supported by stable revenues, strong margins and healthy debt metrics over the medium term.

Credit challenges

Nascent stages of WPL impacting profitability to a certain extent – The company purchased the franchisee rights for operating a cricket team in WPL with a bid price of Rs. 901 crore during January 2023. RCSPL has an obligation to pay Rs. 90.1 crore per season for the first ten seasons. As the first season of WPL was played only in 2023, it is yet to reach its optimum revenue potential. The media rights income earned by the BCCI from WPL seasons 2023-2027 amounts to Rs. 951 crore, part of which will be distributed equally among five franchisees and some portion will be distributed as per league position. Overall, while the WPL payout will impact the profitability of the company, experience of RCSPL in managing an IPL franchisee and strong cash flows from IPL are expected to mitigate the risk, to an extent.

Single line of business – The company has franchisee rights of RCB, which participates in the IPL and WPL conducted by the BCCI. RCSPL's entire income is derived from its share of media rights income of IPL/WPL, sponsorships and match ticketing generated from the two cricket tournaments. Any significant unexpected decline on the viewership of IPL/WPL tournaments and unavailability of key players leading to decline in the franchisee's sponsorship revenues could impact the company's revenues. That said, strong revenue visibility from the fixed-revenue arrangement with the BCCI for the IPL is expected to mitigate this risk to an extent.

Delay in payments from BCCI leading to cash flow mismatches – BCCI has a scheduled payment structure for distributing the central rights revenue to all the franchisees. While there has been no major delay in these payments in the past, temporary cash flow mismatches may arise in case there is a delay in payments, which are to be received from the BCCI, given the lumpy

nature of its expenses. That said, the company has working capital limits available which would largely support the cash flow mismatches, if any.

Liquidity position: Adequate

As of July 31, 2023, the company had cash and bank balance of ~Rs. 32 crore. The same is expected to improve over the near term with the receipt of third tranche of central rights revenue from the BCCI pertaining to IPL 2023. Further, the liquidity is expected to improve over the medium term with the accruals from the next IPL season. The company does not have any long-term debt obligations; however, the company has committed obligation of Rs. 90.1 crore per annum to the BCCI for WPL franchisee rights. Overall, ICRA expects the company to meet its operational requirements through its cash accruals and existing reserves. Further, the company is also expected to receive support from USL, its parent company, if required in the near to medium term.

Rating sensitivities

Positive factors – RCSPL's ratings could be upgraded, if there is any significant improvement in its revenues, earnings and liquidity position, while maintaining its strong debt metrics, on a sustained basis.

Negative factors – RCSPL's ratings could be downgraded, if there is any sustained deterioration in its revenues, earnings, debt metrics or liquidity position. Any significant debt-funded capital expenditure, deterioration in the parent's credit profile or RCSPL's operational/financial linkages with the parent, could also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	USL holds 100% stake in RCSPL at present. It enjoys financial and operational flexibilities by virtue of its parentage.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of RCSPL.

About the company

RCSPL, incorporated on March 11, 2008, holds the perpetual franchisee rights of RCB, which participates in the IPL and WPL. These rights were purchased from the BCCI. The franchisee rights of RCB were bought by RCSPL for ~Rs. 480 crore in 2008 (for IPL) and Rs. 901 crore in January 2023 (for WPL). In IPL 2023, the team finished 6th (out of 10 teams) and in WPL 2023, the team was at 4th position (out of five teams). The company is a wholly-owned subsidiary of United Spirits Limited (USL).

Key financial indicators (audited)

RCSPL Standalone	FY2022	FY2023
Operating income	291.6	244.2
PAT	66.1	(11.6)
OPBDIT/OI	37.4%	(2.5%)
PAT/OI	22.7%	(4.8%)
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	1.2	(15.1)
Interest coverage (times)	8.7	(1.5)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Interest coverage: OPBDIT/Interest and finance charges; Amount in Rs. crore; All amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022		Date & rating in FY2022		Date & rating in FY2021
					Sep 1, 2023	-	-	-	
1 Working Capital Demand Loan	Long Term	100.00	--	[ICRA]AA (Stable)	-	-	-	-	-
2 Bank Guarantee	Long term/Short term	100.00	--	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Working Capital Demand Loan	Simple
Long term/Short term – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Working Capital Demand Loan	FY2023	NA	NA	100.00	[ICRA]AA(Stable)
NA	Long term/Short term – Bank Guarantee	FY2023	NA	NA	100.00	[ICRA]AA(Stable)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

Corrigendum

Document dated September 01, 2023, has been corrected with revisions as detailed below:

“Rating approach- Implicit parent or group support” methodology in Applicable rating methodologies under Analytical approach table has been removed. Complexity Indicator of one of the instruments updated.

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 5328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Mythri Macherla

+91 22 6114 3435

mythri.macherla@icraindia.com

Seetha Pillai

+91 80 4332 6411

seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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