Date: March 04, 2022

To,
The National Stock Exchange of India Limited
Listing Department
Exchange Plaza,
Bandra-Kurla Complex
Bandra East, Mumbai – 400 051
Fax Nos.: 26598237 / 26598238

To,
BSE Limited
Listing Department
Phiroze Jeejebhoy Towers,
Dalal Street,
Mumbai – 400 001
Fax Nos.: 22723121 / 2037 / 2039

Ref.: Scrip Code: BSE – 532748/NSE-PFOCUS

Sub: Credit Rating Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

This is to inform you that Indian Ratings and Research (Ind-Ra), the credit rating agency has placed Prime Focus Limited's (PFL) Long-Term Issuer Rating of 'IND BBB' on Rating Watch Positive (RWP). The Outlook is "Stable". The instrument-wise rating actions are as follows

Instrument Type	Maturity Date	Size of Issue (million)	Rating / Rating Watch	Rating Action
Standby letter of credit (LC)	-	INR 1,085	WD	Withdrawn (paid in full)
Fund-based working capital limits	-	INR 320	IND BBB/RWP/IND A2/RWP	Placed on RWP

Analytical Approach: Ind-Ra continues to take a consolidated view of PFL and its principal subsidiaries, including Prime Focus Technologies Limited (PFT; 'IND BBB'/Stable) and DNEG India Media Services Limited (DNEG India; 'IND BBB'/Stable), on account of the strong legal, operational and strategic linkages among them. At FYE21, PFL held about 73.8% stake in PFT and 71.3% stake in DNEG India.

The RWP reflects a meaningful development on balance sheet deleveraging by PFL. In January 2022, Prime Focus World NV. (PFW), a subsidiary of PFL, entered into a definitive business combination agreement with Sports Ventures Acquisition Corp. (SVAC, a Nasdaq-listed special purpose acquisition vehicle (Nasdaq: AKIC)), which will result in substantial deleveraging at the consolidated level and PFW becoming a public listed company on the Nasdaq. The transaction is subject to various approvals and is likely to conclude by May 2022.

PFL's underlying credit profile is supported by revenue visibility, backed by a healthy orderbook and recovery in profitability, resulting from the cost-optimisation measures implemented by the company.

<u>FOLLOWING ARE THE KEY RATING DRIVERS AS REFERRED BY THE CREDIT RATING AGENCY:</u>

Transaction to Improve Financial Profile: The business combination agreement stipulates the infusion of about USD 400 million into DNEG Global (operating subsidiary of PFW), including a commitment for equity infusion of USD168 million from investors and USD 230 million in cash, which is being held in SVAC's trust account. In event of contingencies, an affiliate of SVAC has agreed to provide a backstop arrangement for up to USD 350 million as a minimum cash condition, subject to limitations. DNEG Global might also refinance a substantial portion of its debt via mix of term loans and revolving credit facilities. Post the transaction, DNEG's existing shareholders would own 71% stake in the company.

The transaction could lead to a substantial reduction in PFL's total net debt at the consolidated level, assuming limited redemption from SVAC shareholders. This along with recovery in revenue, backed by robust orderbook of USD 731 million (as on 30 September 2021) and improvement in profitability, could lead to a meaningful improvement in PFL's consolidated financial profile. Ind-Ra will monitor the progress on transaction completion along with the likely impact on the linkages between PFL, PFT and DNEG India.

Consolidated Leverage to Improve: The consolidated leverage profile deteriorated slightly in 1H FY22 due to an increase in the net debt to INR 38,275 million (FY21: INR 35,375 million) and fall in the cash levels to INR 978 million (FY21: INR 3,667 million). However, the company is likely to deleverage on the successful completion of the aforementioned merger of one of its subsidiaries, DNEG Global, with SVAC. In 1H FY22, the consolidated EBITDA stood at INR 2,784 million in 1H FY22 (FY21: INR 5,832 million). The annualised net leverage (net debt/EBITDA) increased to 6.9x in 1H FY22 (FY21: 6.1x). In 9M FY22, the company reported revenue and EBITDA of INR 22,872 million (FY21: INR 25,365 million) and INR 4,771 million (FY21: INR 5,832 million), respectively. The gross interest coverage (EBITDA/interest coverage) stood at 1.8x in 9M FY22 (FY21: 4.6x, FY20: 6.2x). The agency will monitor the progress on the merger of DNEG Global with SVAC and its impact on the overall capital structure of the company.

Margins Return to Historical Levels: PFL's consolidated EBITDA margins improved to 23.0% in FY21 (FY20: 13.7%), largely due to the company's core business – the creative services suite, which continued to drive revenue and margins with revenue of INR 22,270 million and EBITDA of INR 5,330 million in FY21. The technology and software business, which had been incurring losses since FY19, turned EBITDA positive in FY21, with margins of nearly 35%, supported by the acquisition of well-known clients in the media space. The long-term stability in technology and software business, as well as the India Film and Media Services division, supported the consolidated profitability in FY21. The improvement in the consolidated margins is also attributed to PFL's enrolment in government schemes in the US, UK and Canada for reducing employee expenses during FY21, on account of the COVID-19 pandemic and the impact on the film and entertainment business. However, the pay cuts began to normalise in FY22, with employee expense contributing around 61.8% to the overall expense in 9M FY22. Consequently, the EBITDA margin reduced slightly to 20.9% in 9M FY22 (9MFY21: 21.6%). The company is among the top visual-effects and technology companies in the media and entertainment space, and the agency expects its profitability to improve over the medium term/ on the back of two factors – reduction in employee expense by shifting non-core staff to low-cost locations and increased revenue.

Continued Market Leadership: PFL is a market leader in the two dimension-three dimension conversion market and has an established position in the post production services and visual effects market. Furthermore, its key creative services division has a robust order book of an estimated $400 million in FY22, the bulk of which is scheduled to be executed over the next nine-to-12 months. While the revenue has largely been driven by the creative services business, PFL will continue to benefit from its potentially high-growth technology business. During 9M FY22, PFL's revenue increased about 21% yoy to INR 22,900 million on resumption of film scheduling and increased usage of technology and animation in content developed by over-the-top platforms.

Liquidity Indicator - Adequate: The agency assesses PFL's liquidity situation to be adequate, given the substantial repayments of term loans and the fact that any risk from studio loans have been mitigated following the refinancing of the term debt through an infusion of debt from a private equity player overseas. The private equity debt will be repaid by the fund infusion from the business merger with SVAC. The group's free cash flow remained positive at INR 171 million in FY21 (FY20: INR 1,539 million) and is likely to remain positive over the medium term, led by higher operating profit and significantly lower capex than previously projected. As on 31 December 2021, the liquidity available with the group on a consolidated level consisted of unencumbered cash balance of INR 858 million, unutilised international bank lines of USD 65 million, and unutilised domestic bank lines of INR 400 million. Against this, the company has principal debt repayments of INR 4,200 million and INR 3,585 million in FY23 and FY24, respectively.

Improved Standalone Margins: On a standalone basis, the EBITDA margin stood at 52% in 9M FY22 (FY21: 39%). The revenues and EBITDA stood at INR 800 million (FY21: INR 760 million) and INR 430 million (INR 290 million), respectively, during 9M FY22. PFL's standalone operations would not be material as all the post production related services would be transferred to DNEG India, excluding the leasing of the shooting floor to other group companies. As per the management's representation, PFL continue to be the holding company, with minimal debt.

Structural Subordination: Cash flows from the overseas subsidiaries might not be readily available to service debt at the standalone level. Also, PFT and DNEG UK have substantial non-promoter shareholdings that constrain the free upstream of surplus cash flows. However, treasury management and fund raising have been centralised, with full visibility over cash inflows and outflows across the group, thus allowing the smooth transfer of funds across the group, if required.

The press release on the same dated March 03, 2022, has been published by India Ratings & Research on their website viz. www.indiaratings.co.in.

This is for your information and records.

Thanking You,

For **Prime Focus Limited**

Parina Shah

PRIME FOCUS LTD. MUMBAI

Parina Shah
Company Secretary & Compliance Officer