September 28, 2022

UFO Moviez India Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	107.89	103.82	[ICRA]A (Stable); rating reaffirmed, outlook revised to Stable from Negative
Long-term Fund-based – Cash Credit	10.00	10.00	[ICRA]A (Stable); rating reaffirmed, outlook revised to Stable from Negative
Long-term/Short-term – Unallocated	64.42	11.18	[ICRA]A (Stable)/[ICRA]A2+; ratings reaffirmed, outlook revised to Stable from Negative
Total	**182.31**	**125.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook on the long-term rating of UFO Moviez India Limited (UMIL) factors in the material recovery demonstrated in the theatrical business (includes the revenue streams from theatres and cinema distributors) in Q1 FY2023 after being severely impacted by the Covid-19 pandemic in FY2021 and FY2022. In Q1 FY2023, the company reported strong growth in operating income (OI) and cash profits after eight quarters of cash losses. The business recovery demonstrated the company's established position in the cinema value chain. At a consolidated level, UMIL reported an OI of Rs. 90.55 crore in Q1 FY2023 (a 61% QoQ and a 221% YoY growth) compared to an OI of Rs. 160.10 crore in FY2022. It reported an operating profit (operating profit before depreciation, interest, tax and amortisation, or OPBDITA) of Rs. 9.78 crore (operating profit margin (OPM) of 10.8%) compared to an operating loss of Rs. 18.09 crore in Q1 FY2022 and Rs. 11.94 crore in Q4 FY2022. The improvement in operating performance resulting in an improvement in debt coverage indicators, with interest coverage at 3.70 times in Q1 FY2023.

While the theatrical business posted healthy recovery in the recent quarters, the in-cinema advertisement revenues (ad revenues) continue to be significantly below the pre-pandemic level. The company's ad revenues remain subdued due to the slower pick up in government advertisements, which contributed to a large share of ad revenues for UMIL pre-pandemic, even while the company witnessed strong traction in corporate advertisements. Sustainability of the recovery in theatrical and corporate advertisement segments and adequate ramp-up in the government advertisement segment remain important from the credit perspective. Given the high operating leverage in the business, due to high initial investments in technology and projection systems, the scale up in ad revenues is critical for an improvement in profitability.

The ratings, continue to factor in the company's comfortable capital structure, with total outside liabilities/tangible net worth (TOL/TNW) of 0.6 times as on March 31, 2022, on a consolidated basis. UMIL has maintained an adequate liquidity and the net debt stood negative as on June 30, 2022. Amid the pandemic, the company strengthened its capital structure and liquidity profile by raising equity worth Rs. 96.30 crore. UMIL's ratings are supported by its leading position in the digital cinema exhibition industry, with ~55% market share (in terms of the number of digitised screens in the country) on a consolidated basis, a large installed base of its systems among exhibitors and the acceptance of UMIL as a digital partner by the film producers /distributors, and its experienced management team.

The ratings are, however, constrained by limited potential for increasing the screen base with almost full digitisation of cinema screens in India and the business vulnerability to changes in technology. Further, the projection systems have a life of 6 to 10 years which necessitates regular maintenance/replacement capital expenditure (capex).

Key rating drivers and their description

Credit strengths

Leading digital cinema technology and infrastructure provider to film exhibitors in India – UMIL has established a strong market position by consolidating the industry, especially through the 100% stake acquired over the years in Scrabble Entertainment Limited (SEL), a digital cinema initiative (DCI) compliant system integrator. UMIL (consolidated, i.e., combined with SEL) is the leading digital cinema technology and infrastructure provider to film exhibitors in India, with a network of 4,972 screens across India as on June 30, 2022. These screens include 3,175 perpetual content delivery charges (CDC) category screens (non-sharing basis) and 1,797 VPF Category screens (revenue sharing basis). ICRA is given to understand that UMIL and SEL together service ~55% of the digital cinema screens in the country.

Wide coverage of theatres across India attracting advertisers – The company's advertisement network of 3,503 screens (as on June 30, 2022) across India is split into two channels – prime screens (2,085; multiplexes and Hollywood release centres) and popular screens (1,418; standalone screens and mass appeal screens). Pre-pandemic, this wide coverage of screens had helped UMIL in attracting advertisers from diverse sectors (corporate and government). The advertisement revenues, however, witnessed a YoY decline of 98% in FY2021 and remained modest at ~10% of the pre-pandemic (FY2020) level in FY2022. While the advertisement revenues are witnessing a gradual recovery, constrained by lower government advertising spending, the corporate advertising segment has shown a significant recovery QoQ in Q1 FY2023. As UMIL continues to maintain its network of advertisement screens, the value proposition for the advertisers (i.e., ability to reach wide spectrum of viewers across the country through a single channel) is intact. ICRA expects the company to grow its ad revenues to pre-pandemic level over the medium term.

Comfortable capital structure along with adequate liquidity profile – Healthy operating cash flows pre-pandemic, coupled with the management's ability to raise equity to fund the growth, have helped the company achieve a strong financial profile. It raised equity through preferential allotment for cash consideration of Rs. 96.3 crore to Nepean Focused Investment Fund in F2022. As on March 31, 2022, UMIL (consolidated) had a robust capital structure with total outside liabilities/tangible net worth (TOL/TNW) of 0.6 times. The company had a negative net debt status (Rs. 20.24 crore) as on June 30, 2022 due to the healthy liquidity profile on the back of the fundraising and reduced debt levels (reduction in long-term debt following scheduled repayments).

Recovery in theatrical business in Q1 FY2023 – UMIL demonstrated a material recovery in the revenue streams from the theatres and the cinema distributors in Q1 FY2023 after being severely impacted by the Covid-19 pandemic in FY2021 and FY2022. In Q1 FY2023, the company reported strong revenue growth and cash profits after eight quarters of cash losses due to the business disruptions caused by the pandemic. The business recovery also demonstrated the company's established position in the cinema value chain.

At a consolidated level, UMIL reported an OI of Rs. 90.55 crore in Q1 FY2023 (a 61% QoQ and a 221% YoY growth) compared to an OI of Rs. 160.10 crore in FY2022. It reported an operating profit (operating profit before depreciation, interest, tax and amortisation, or OPBDITA) of Rs. 9.78 crore (operating profit margin (OPM) of 10.8%) compared to an operating loss of Rs. 18.09 crore in Q1 FY2022 and Rs. 11.94 crore in Q4 FY2022. The improvement in operating performance resulting in an improvement in debt coverage indicators, with interest coverage at 3.70 times in Q1 FY2023. Sustainability of the recovery in theatrical and corporate advertisement segments and adequate ramp-up in government advertisement segment remain important from the credit perspective.

Professional and experienced management team – Mr. Sanjay Gaikwad, the founder and managing director of UMIL, has extensive experience in the media business. He is supported by a team experienced in various facets of the business. During UMIL's initial years and more recently in FY2022, the management was able to raise private equity to fund its growth requirements.

Credit challenges

High penetration levels of digital cinema in theatres limiting growth prospects in terms of screen additions – With almost full digitisation of theatres in India, there is a limited potential for increasing the screen base. It has taken initiatives, such as Nova Cinemaz, to drive the establishment of new screens in the country. Nevertheless, no major increase in number of screens is expected over the medium term. While the competition in the industry is moderate, with UMIL servicing ~55% of the digitised screens in the country, the company has been witnessing some churn in its screens owing to partial or complete closure of screen due to the pandemic situation and aggressive rental terms offered (to the film exhibitors) by some of the regional players. However, it is likely that these film exhibitors return to UMIL over the longer term on the back of its ability to provide content and generate ad revenues for the theatres.

Risks of changes in technology despite strong installed base of UMIL's systems among film exhibitors in India – UMIL, being present in a technology-intensive media business, is exposed to the risks associated with any technological disruptions leading to complete change in the business landscape. However, given that UMIL (along with SEL) has established a wide network of digital cinema screens across the country and has efficiently adopted the changes in technologies over period of time, it will be difficult for a new player (with new technology) to replace its systems, unless backed by a sustainable business and financial plan for all stakeholders.

Operating lease-based revenue model requires high investments; limited (6-10 years) life of projection systems – ICRA notes that UMIL's lease-based revenue model has required high initial investments in technology and projection systems, which has historically constrained its profitability. The projection systems have a life of 6 to 10 years which necessitates regular maintenance/replacement capital expenditure (capex).

Liquidity position: Adequate

As on June 30, 2022, UMIL (consolidated) had a cash and bank balance and liquid investments of Rs. 98.47 crore compared to gross debt of Rs. 78.23 crore. The scheduled debt repayments stand at Rs. 36.40 crore in FY2023. While the on-balance sheet liquidity is adequate for debt servicing, the improving earnings and cash accruals provide support to the liquidity profile.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a recovery in advertisement revenues to the pre-pandemic level and thereby, a sustained improvement in its profitability.

Negative factors – The ratings may be downgraded in case of sustained weakening in revenue and profitability or any material deterioration in liquidity and/or leverage.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Film Industry (Production Distribution and Exhibition)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UMIL. As on June 30, 2022, the company had six subsidiaries, six stepdown subsidiaries and seven associates, which are all listed in Annexure II.

About the company

UFO India Limited (UIL) was incorporated in 2004 to provide digital cinema services in India. In 2005, UFO Moviez Limited (UML) was formed as a holding company and majority shareholding of UIL was vested in UML. Subsequently, in May 2008, UML was amalgamated with UIL. Following the amalgamation, UIL was renamed as UFO Moviez India Limited (UMIL). The Indian promoters of the company include the Valuable Group and Apollo International Ltd (an affiliate of Apollo Tyres), which is one of the significant shareholders.

UMIL operates as an infrastructure service provider for the film distribution and exhibition industry. It receives analogue movie prints from film producers/distributors, and then digitises, compresses, encrypts and transmits the same through satellite to authorised exhibitors. It also facilitates the exhibitors to screen digital cinema by providing them with the required infrastructure—such as satellite dish, servers, digital projectors and UPS. UMIL, thus, offers cost and time arbitrage to the film industry and facilitates advertisers to showcase their advertisements on screen during a movie show. At present, it is the leading digital cinema infrastructure provider to theatres in India, with a digital screen market share of ~55% (consolidated level).

Key financial indicators (audited)

UMIL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	86.6	160.1
PAT (Rs. crore)	(116.9)	(90.3)
OPBDIT/OI	-101.3%	-31.8%
PAT/OI	-135.0%	-56.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	(1.1)	(1.7)
Interest coverage (times)	(6.7)	(4.4)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: PAT excludes Share of Profit / (Loss) from associates
Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on August 16, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
					Sep 28, 2022	Sep 02, 2021	Jan 07, 2021	Sep 04, 2020	Mar 13, 2020	Nov 05, 2019	Sep 16, 2019
1	Term loans	Long-term	103.82	103.82	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
2	Cash credit	Long-term	10.00	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
3	Unallocated	Long/Short-term	11.18	-	[ICRA]A (Stable)/[ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	-	-	-	-	-
4	Non-fund based	Short-term	-	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

	facility										

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple
Long-term/Short-term – Unallocated	Not Applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan I	Oct-16	7.92%	FY2022	19.34	**[ICRA]A (Stable)**
NA	Term loan III	Oct-19	8.41%	FY2023	10.78	**[ICRA]A (Stable)**
NA	Term loan IV	Aug-22	9.60%	FY2028	27.50	**[ICRA]A (Stable)**
NA	Term loan - Common Covid-19 Emergency Credit Line	May-21	8.00%	FY2028	22.20	**[ICRA]A (Stable)**
NA	Term loan - Working capital	Dec-20	9.60%	FY2025	24.00	**[ICRA]A (Stable)**
NA	Cash credit	-	-	-	10.00	**[ICRA]A (Stable)**
NA	Unallocated facility	-	-	-	11.18	**[ICRA]A (Stable) /[ICRA]A2+**

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	UMIL Ownership	Consolidation Approach
Scrabble Entertainment Limited	100%	Full Consolidation
Nova Cinemaz Private Limited (earlier Valuable Digital Screen Private Limited)	100%	Full Consolidation
Zinglin Media Private Limited	100%	Full Consolidation
United Film Organizers (UFO) Nepal Private Limited *	-	Full Consolidation
Plexigo Entertainment Private Limited	100%	Full Consolidation
UFO Lanka Private Limited	100%	Full Consolidation
UFO Software Technologies Private Limited	100%	Full Consolidation
Scrabble Entertainment DMCC	100%	Full Consolidation
Scrabble Entertainment Mauritius Limited	100%	Full Consolidation
Scrabble Entertainment Lebanon SARL	100%	Full Consolidation
Scrabble Digital Inc	100%	Full Consolidation
Scrabble Digital Limited (w.e.f. December 14, 2018)	100%	Full Consolidation
Scrabble Entertainment (Israel) Limited	100%	Full Consolidation
Scrabble Digital DMCC	33.33%	Equity Method
Scrabble Venture LLC	50.00.%	Equity Method
Scrabble Ventures, S. de R.L. de C.V, Mexico	30.00%	Equity Method
Mukta V N Films Private Limited	48.12%	Equity Method
Scrabble Audio Visual Equipment Trading LLC (w.e.f. November 25, 2018)	49.00%	Equity Method
Cinestaan Digital Private Limited	33.08% of the Voting Rights	Equity Method
Mumbai Movie Studios Private Limited	30.74%	Equity Method

*Source: UMIL's annual report FY2022 and results published * The company wound-up in FY2022*

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew K Eranat
+91 80-4332 6415
mathew.eranat@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Preeti Kumaran
+91 22 6169 3300
preeti.kumaran@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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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