

November 22, 2024

Mallemaala Entertainments Private Limited: Rating reaffirmed and removed from Issuer Non Cooperating Category

Summary of rating action

Instrument ^A	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	24.60	24.60	[ICRA]BB+(Stable); Reaffirmed and removed from ISSUER NOT COOPERATING category
Long-term – Fund-based – Term loan	7.40	7.40	[ICRA]BB+(Stable); Reaffirmed and removed from ISSUER NOT COOPERATING category
Total	32.00	32.00	

^AInstrument details are provided in Annexure I

Rationale

The rating reaffirmation considers Mallemaala Entertainments Private Limited's (MEPL) established track record of more than three decades in the entertainment industry and its established relationship with the sole customer in the media segment, ETV Network, which is a subsidiary of Ushodaya Enterprises Private Limited (UEPL, rated [ICRA]AA (Stable)/[ICRA]A1+). The strong popularity of MEPL's flagship shows has resulted in steady revenues, over the years, for the media division. ICRA expects the revenues to grow by 10% in FY2025, driven by continued popularity of MEPL's flagship shows in ETV Network and addition of new shows, coupled with stable performance of the poultry division. The rating considers the improvement in operating margins in FY2024 on the back of breakeven in poultry division, which is expected to sustain in the near term, aided by favourable realisation of table egg prices and soft input prices.

The rating, however, remains constrained by the company's modest scale of operations and high customer concentration in the media as well as poultry division. It has a high customer concentration in the poultry division with all entire revenues derived from the sale of table eggs to a local trader, National Egg Stores. Moreover, it sells television content exclusively to ETV Network. However, MEPL's established relationship with its customers, and satisfactory performance of its shows mitigate the risk to an extent. The profitability in the poultry segment remains exposed to volatility in the price of eggs and feed prices. Any fluctuation in prices of the key agro commodities impacts the profitability adversely, as witnessed in the past. The rating also considers the competition faced by MEPL from other content producers (television and digital media) in the entertainment industry.

The Stable outlook on the long-term rating reflects the expected improvement in revenues, with sustenance of the profitability margins on the back of steady performance of its media business and favourable realisation for its poultry products in the near term.

Key rating drivers and their description

Credit strengths

Established track record in content production – MEPL has a long track record of more than three decades in the entertainment industry. It primarily produces television content including daily soaps, dance shows, comedy shows, seasonal events, etc. The company has successfully produced various television shows in Telugu, Kannada, Marathi, Bengali, Gujarati and Oriya languages.

Established relationship with ETV Network and strong popularity of flagship shows to support revenues – The company's portfolio comprises television shows across different genres with a current portfolio of around 15 shows and are exclusively telecasted on one of the major Telugu general entertainment channels, ETV, and its associate channels, ETV Plus and ETV Abhiruchi. The promoters have a long-standing relationship with Eenadu Television Private Limited (ETPL, 50.94% subsidiary of UEPL) resulting in continued collaboration over the years. Though there is no exclusivity agreement, the company is expected to develop new content for the network over the medium term, which is likely to support its revenues. Further, continued popularity of MEPL's flagship shows resulted in steady revenues, over the years, for the entertainment division.

Credit challenges

Modest scale of operations – The scale of operations remains modest with an operating income (OI) of Rs. 132.1 crore in FY2024, which marginally declined from Rs. 138.9 crore in FY2023 (Rs. 66.46 crore for the media and entertainment division and Rs. 66.74 crore for the poultry division in FY2024). The revenue is expected to grow by more than 10% in FY2025, supported by addition of new shows in the entertainment segment and favourable table prices for eggs in the poultry division.

High customer concentration – The company has high customer concentration in the poultry division as it derives its entire revenues from the sale of table eggs to a local trader, National Egg Stores. Moreover, it sells television content exclusively to ETV Network. MEPL faces competition in the entertainment industry from other television shows of similar genres, along with the growing popularity of over-the-top (OTT) and digital content. However, MEPL's established relationship with ETV, and satisfactory performance of its shows mitigate the risk to an extent.

Low profitability margins in poultry division – The profitability in the poultry segment is exposed to volatility in the price of table eggs and feed prices. Maize and soya are the major raw material for feed, which accounts for more than ~80% of raw material consumption in the poultry segment. However, the company has reported positive profits in FY2024 with softening of input prices and high table egg prices in the poultry segment. The same is expected to sustain going forward, resulting in the company's overall margins to remain in the range of 11-13%.

Liquidity position: Adequate

MEPL's liquidity is adequate with cushion in working capital limits and sizeable free cash balances of Rs. 8.9 crore as on March 31, 2024. The average working capital limit utilisation remained moderate at 78% in the past 12 months ending in July 2024 with a buffer of around Rs. 7-8 crore. The company has no major capex plans and its cash flows from operations should be sufficient for its debt repayment of Rs. 3.21 crore in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade MEPL's rating if there is a significant revenue growth along with improvement in margins, resulting in improved debt coverage metrics and liquidity position on a sustained basis.

Negative factors – Pressure on MEPL's rating could arise if a decrease in revenues and/or profitability results in a material decline in accruals or any stretch in working capital cycle impacts its liquidity position. Specific credit metrics for negative trigger would be DSCR falling below 1.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of MEPL.

About the company

MEPL was incorporated in 1992 and produces television content exclusively for ETV Network. It has a poultry layer farm with 6 lakh bird capacity and a feed plant with an installed capacity of 8 tonnes per hour. The poultry business was acquired from a Group entity, Mallemaala Agro Private Ltd, in 2016. The company's operations are handled by Mr. M. Shyam Prasad Reddy and his family. It was originally promoted by Mr. M. S. Reddy, who had produced 28 feature films in Telugu and many television programmes in Telugu, Kannada, Marathi, Bengali and Oriya languages. MEPL has its own post-production studio, Shabdalya, in Hyderabad.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	138.9	132.1
PAT	5.3	4.2
OPBDITA/OI	11.1%	12.0%
PAT/OI	3.8%	3.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDITA (times)	2.3	2.2
Interest coverage (times)	5.4	4.8

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA:

CRISIL, in its rationale published on Mallemaala Entertainments Private Limited, dated September 25, 2023, put the ratings on Issuer Not Cooperating category at CRISIL B/Stable based on best available information.

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Date & Rating as on November 22, 2024	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
				March 11, 2024	Aug 11, 2023		
1 Term loans	Long term	7.40	[ICRA]BB+ (Stable)	[ICRA]BB+(Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2 Cash credit / Overdraft	Long term	24.60	[ICRA]BB+ (Stable)	[ICRA]BB+(Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based/CC	Simple
Long-term – Fund-based/TL	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2015	NA	FY2025	7.40	[ICRA]BB+ (Stable)
NA	Cash credit	NA	NA	NA	24.60	[ICRA]BB+ (Stable)

Source: Company

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

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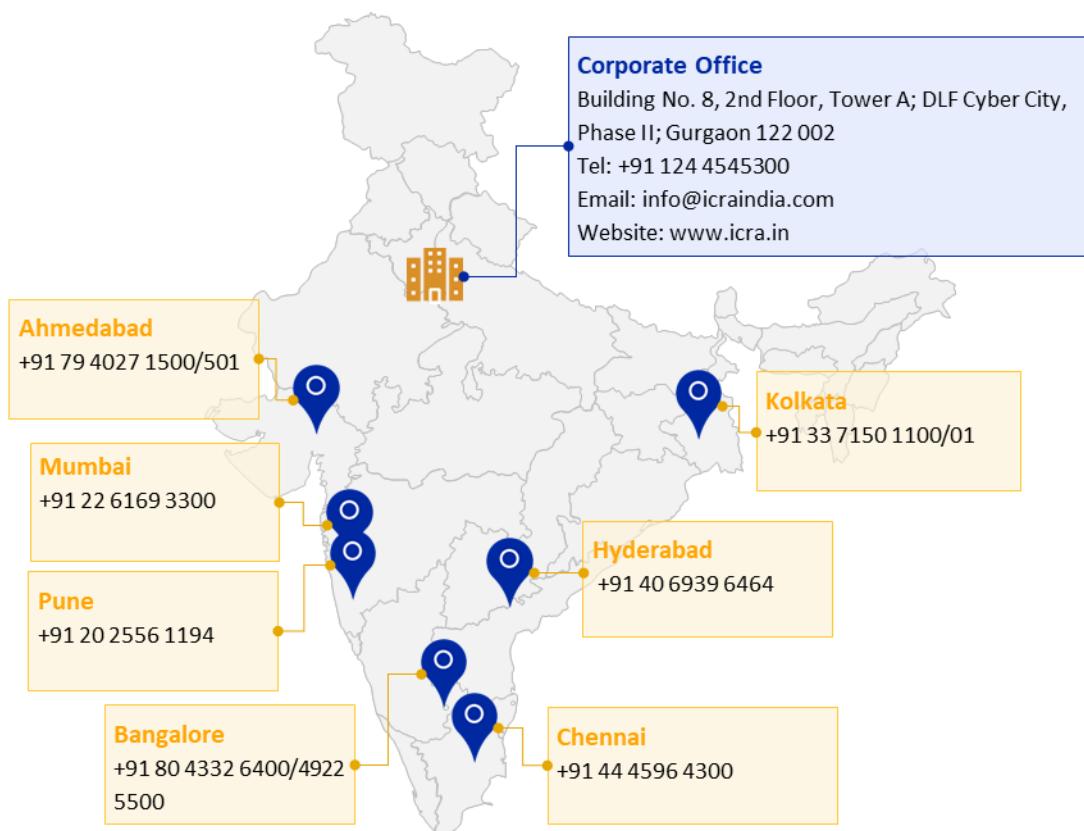
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