April 11, 2017

UFO Moviez India Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term loan	107.00	Upgraded to [ICRA]AA- (Stable) from [ICRA]A+ (Positive)
Long-term, fund based limits	30.00	Upgraded to [ICRA]AA- (Stable) from [ICRA]A+ (Positive)
Short-term, non-fund based limits	10.00	[ICRA]A1+; re-affirmed

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating for the Rs. 107.00 crore[1] term loans and the Rs. 30.00 crore long-term, fund based limits of UFO Moviez India Limited ('UMIL')[2] to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus). The outlook on the long-term rating is 'Stable'. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 10.00 crore short-term, non-fund based limits of UMIL.

Rationale

The upgrade of the long-term rating takes into account the consistent robust operating performance of the company, which has resulted in a strong financial risk profile as reflected by healthy cash accruals, low leverage (currently cash surplus), and comfortable debt coverage indicators and liquidity. This coupled with reduction in capital expenditure (capex) from FY2015 onwards has aided cash flows.

The ratings continue to draw comfort from the experienced management team, well-established position of the company in the digital cinema exhibition industry, with ~54% market share (in terms of number of screens digitised in the country) on a consolidated basis, and moderate competitive intensity in the industry with only two players (UMIL and Real Image Media Technologies Private Limited–RIMTPL) accounting for bulk of the industry.

The ratings are, however, constrained by the limited potential for increasing the screen base, limited life of projection systems which would necessitate moderate levels of maintenance / replacement capex going forward, and vulnerability to changes in technology. ICRA further notes that UMIL's operating lease based revenue model has required high initial investments in technology and projection systems (capex), which has historically been constraining its profitability. However, subsequent reduction in capex coupled with continued strong growth in advertisement (ad) revenues has aided improvement in return on capital employed (RoCE) to 18.7% in FY2016. Sustained growth in ad revenues–through higher utilisation of ad inventory, improving earnings per ad slot, and generation of additional ad revenue streams (UFO Framez and Caravan Talkies)–remains key for further improvement in profitability. While UMIL's ability to maintain commercial terms (virtual print fee (VPF) / rentals) with its clients (exhibitors and movie distributors) also remains key for sustained business growth, ICRA derives comfort from the large installed base of UMIL's systems among exhibitors and the acceptance of UMIL as a digital partner by the film distributors. The quantum of replacement capex going forward remains a key rating monitorable.

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[1] Rs. 100 lakh = Rs. 1 crore = Rs. 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

- Leading digital cinema technology and infrastructure provider to film exhibitors in India; wide coverage of theatres across India provides critical mass to attract advertisers
- Strong market position by virtue of 91.33% stake held in Scrabble Entertainment Limited (SEL), a DCI[3] compliant system integrator; UMIL and SEL together account for ~54% of the digital cinema screens in the country
- Robust operating performance over the years; improving scale of operations facilitating better operating leverage
- Strong financial profile as reflected by healthy cash accruals, low working capital intensity, and comfortable capital structure and debt coverage indicators, and resulting financial flexibility
- Professional and experienced management team

Credit Weakness

- Current high penetration levels of digital cinema in theatres limits future growth prospects in terms of additions to screens
- Risks of changes in technology; though partly mitigated by the strong installed base of UMIL systems amongst film exhibitors in India
- Operating lease-based revenue model has required high investments by UMIL, which has been constraining the RoCE; further, limited life of projection systems necessitates continuous investment towards replacement of older projection systems

Description of key rating drivers highlighted above:

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 5,052 screens in the country (includes 121 screens in Nepal, as it forms part of Indian Film Territory) as on December 31, 2016. These screens include 1,521 DCI-compliant (D-cinema) screens and 3,531 non-DCI (E-cinema) screens across single screen theatres and multiplexes. UMIL and SEL together account for ~54% of the digital cinema screens in the country. This wide coverage of theatres across the country provides critical mass to UMIL to attract advertisers for in-cinema advertisements. Aided by its established market position amongst the film industry stakeholders (film exhibitors, film producers / distributors and advertisers), UMIL has posted a robust operating performance over the years as reflected by ~29% compounded annual growth rate (CAGR) in consolidated operating income during FY2013-FY2016 and consistent operating profit margin of 32%-34%. The growth has been driven by ~44% CAGR in in-cinema ad revenues, ~31% CAGR in VPF revenues from film distributors, and ~20% CAGR in lease rental income from exhibitors. Healthy operating cash flows coupled with the management's ability to raise equity to fund the growth have helped the company in achieving a strong financial profile. As of September 30, 2016, UMIL (consolidated) has a comfortable capital structure (gearing of 0.13 times) and a healthy liquidity profile (cash and cash equivalents of Rs. 114.03 crore, as against total debt of Rs. 85.18 crore, and unutilised bank limits of more than Rs. 15 crore).

However, given the high penetration levels of digital cinema in theatres in India, the future growth prospects in terms of additions to screens remain limited. While the company has taken initiatives such as Nova Cinemaz to drive setting up of new screens in the country, no major increase in number of screens is expected over the medium term. While the competitive intensity in the industry is moderate with UMIL and RIMTPL accounting for more than 90% of the digitised screens in the country, UMIL has been witnessing some churn in its screens owing to 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

[3] DCI: Digital Cinema Initiative

longer term on the back of UMIL's ability to provide content and to generate ad revenues for the theatres,. The company also faces risks of changes in technology; any disruptive new technology in film exhibition could impact UMIL's business.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of UMIL, along with its 20 subsidiaries and step-down subsidiaries / joint ventures of subsidiaries / associates of subsidiaries.

Links to applicable Criteria
Corporate Credit Rating – A Note on Methodology

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; and post amalgamation, UIL was renamed as UFO Moviez India Limited ('UMIL'). UMIL was originally promoted by the Valuable group and the Apollo group. The promoters, over the years, have diluted their stake in the company to private equity investors (3i Digital Media (3i) in January 2007 and Providence Equity Partners (PEP in May 2011) in order to meet the growth funding requirements. Currently, while the promoters hold 28.13% stake and PEP holds 19.03% stake in UMIL, 3i has fully exited its investment in UMIL. UMIL is listed on Bombay Stock Exchange and National Stock Exchange.

UMIL operates as an infrastructure service provider for film distribution and exhibition industry. UMIL receives the analogue movie print from the producer / distributor, and then digitises, compresses, encrypts and transmits the same through satellite to the authorised exhibitors. It also facilitates the exhibitors to screen the digital cinema by providing them the required infrastructure – includes satellite dish, server, digital projector and UPS. UMIL, thus, offers cost and time arbitrage to the film industry. UMIL also facilitates the advertisers to showcase their advertisements on screen during a movie show.

UMIL is currently the leading digital cinema infrastructure provider to the theatres in India, with a screen market share of ~54% (consolidated level).

As per unaudited financials for the nine-month period ended December 31, 2016, UMIL, on a consolidated basis, reported a profit after tax (PAT) of Rs. 41.34 crore on an operating income (OI) of Rs. 442.33 crore, as against a PAT of Rs. 44.72 crore on an OI of Rs. 423.06 crore during the corresponding period last year.

As per audited financials for FY2016, UMIL, on a consolidated basis, reported a PAT of Rs. 63.47 crore on an OI of Rs. 570.06 crore, as against a PAT of Rs. 50.88 crore on an OI of Rs. 479.34 crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years

Table: Rating History

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				April 2017	**March 2016**	**March 2015**	**October 2013**
1	Term Loan	Long-term	107.00	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2	Fund based bank facility	Long-term	30.00	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
3	Non-fund based bank facility	Short-term	10.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Term Loan – 1	May-2015	10.65%	May-2019	37.00	[ICRA]AA- (Stable)
Term Loan – 2	Aug-2016	9.45%	April-2018	12.00	[ICRA]AA- (Stable)
Term Loan – 3	Aug-2016	9.45%	May -2018	8.00	[ICRA]AA- (Stable)
Term Loan – 4	Oct-2016	9.10%	July-2021	50.00	[ICRA]AA- (Stable)
Long-term, fund based bank facilities	-	-	-	30.00	[ICRA]AA- (Stable)
Short-term, non-fund based bank facilities	-	-	-	10.00	[ICRA]A1+

Source: UMIL

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ICRA

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.

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