January 20, 2023

SVF Entertainment Private Limited (earlier Shree Venkatesh Films Private Limited): Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Fund-Based/ Non-Fund Based Working Capital Limits	30.0	30.0	[ICRA]BBB+ (Stable)/[ICRA]A2+; reaffirmed; Outlook revised to Stable from Negative
Total	**30.0**	**30.0**	

Instrument details are provided in Annexure-I

Rationale

The revision in the rating outlook to Stable from Negative factors in the healthy improvement of SVF's performance in FY2022 and YTD FY2023, and ICRA's expectation of a sustained recovery in its performance over the medium term. SVF reported a 28% YoY growth in revenues in FY2022, albeit on a low base of FY2021, despite the impact of the pandemic's second wave. In 7M FY2023 (provisional), the revenues were Rs. 99.3 crore on the back of recovery across its varied segments viz. movie distribution, own-movie box-office collection, exhibition, IPR, video rights and digital cinema. The operating profit margins improved to 21.3% and 15.3% in 7M FY2023 and FY2022, respectively, from 12.7% in FY2021, led by higher contribution from the high-margin business of film distribution/exhibition, branding and digital cinema. Given the improved profitability, the company's capital structure and coverage metrics also remained comfortable in FY2022 with TOL/TNW of 1.5 times (PY: 1.9 times), gearing of 0.4 times (PY: 0.2 times) and interest coverage of 8.6 times. Though SVF's performance has improved sequentially in YTD FY2023, however, it is expected to surpass the pre-pandemic levels only in FY2024.

The ratings reaffirmation continues to factor in the company's established position in the media and entertainment industry with a diversified presence in movie production, distribution, content production for television (TV), exhibition, digital cinema (digitisation of cinema screens), sale of satellite, internet rights of movies, music, branding of advertisements on social media, etc. ICRA takes note of SVF's track record in producing commercially successful Bengali movies and having one of the largest movies' libraries in the Bengali film industry, which provides it a competitive edge and imparts bargaining power in negotiating deals with TV broadcasters. SVF earns additional revenues from the sale of internet rights of its movies, music, etc. Post-pandemic, dubbed content is also providing a healthy monetisation potential for the company. The increasing trend of generating revenues from the sale of satellite and internet rights will continue to benefit SVF's profitability and cash flows and mitigate the risks associated with the film production business, to a large extent, by reducing dependence on box-office collection, which remains inadequate to recover the cost of movie production, as witnessed in the past. Moreover, sizeable advances received towards the sale of satellite and internet rights, remains the key for supporting the company's liquidity.

The ratings, however, remain constrained by SVF's modest scale of operations due to its concentrated presence in West Bengal. The ratings continue to factor in the company's exposure to the inherent risks associated with the film production and distribution business such as piracy, seasonality in business and audience rejection. ICRA notes SVF's vulnerability to the contract renewal risk associated with the sale of satellite rights, as the same is primarily derived from a single customer. Nevertheless, the risk is mitigated by the company's established presence in the Bengali movie production industry. ICRA also notes SVF's substantial investments in Group entities including the wholly-owned subsidiary, Hoichoi Technologies Private Limited (HTPL), owner of the Bengali over-the-top (OTT) platform Hoichoi, which are yet to start generating commensurate returns. The company's ability to improve its financial risk profile by ramping-up its revenue base, while maintaining adequate buffer in its working capital limits will be crucial. Further, SVF's ability to timely monetise its substantial investments in subsidiaries will be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Established presence across diversified media platforms; track record of producing commercially successful Bengali movies – Incorporated in 1995, SVF is present across multiple media platforms. It was initially involved in the production and distribution of movies and has produced more than 150 Bengali movies since its inception. Of these, some of the movies have been box-office successes, and have even received the National Award. The same is indicative of the promoters' experience in screening and selecting projects. Subsequently, the company has diversified into the production of TV serials, sale of satellite and internet rights of movies, music, branding of advertisements on social media, etc., as well as digital cinema. The company entered the film exhibition business subsequently, by setting up multiplexes in tier-II and tier-III cities in West Bengal, which is forward integration for its existing business. At present, it operates 30 screens across West Bengal.

Comfortable capital structure and debt coverage metrics - The company's debt primarily comprises working capital borrowing. SVF's limited dependence on debt due to sizeable advances received from customers has kept its gearing low (0.4 times as on March 31, 2022). The company's debt coverage metrics also remained comfortable in FY2022 because of low debt and healthy profit margins, reflected in the interest coverage of 8.6 times, TOL/TNW of 1.5 times and net debt[1] / OPBDITA of 0.5 times.

Increasing sale of satellite and internet rights likely to improve profits and cash flows – Over the past few years, SVF has been entering into an annual contract with a major national TV broadcaster for the sale of satellite rights of its recently released/upcoming movies and television series. Moreover, in FY2018, with the same TV broadcaster, SVF was able to renew a long-term contract (for five years) of a substantial amount for the sale of satellite rights of its films' library. It has contracts with other reputed clients in various segments including TV, OTT platform, social media, etc., for selling the satellite and internet rights of its movies, short video clips, music, etc., for three to five years. Post-pandemic, dubbed content is also providing a healthy monetisation potential. This provides SVF with revenue visibility and reduces the risks associated with the film production business, as the recurring revenues from the sale of satellite and internet rights support its profitability and cash flows, while box-office collections remain volatile (often inadequate to recover the production cost for most of the movies). A sizeable advance receivable towards the sale of satellite and internet rights, which have shown an increasing trend in the recent past, is likely to support the company's liquidity position and expansion plans.

Credit challenges

Regional player with major revenues derived from Bengali movies and TV content production – The company is a leading movie production and distribution entity in eastern India. Nevertheless, its movie and TV content production activities, which are the key revenue drivers, are mainly limited to the Bengali language, restricting SVF's overall scale of operations. However, the company has started dubbing its original content in other languages, which is expected to support its revenue growth over the medium term.

Exposed to contract renewal risks, given SVF's significant dependence on a single broadcaster for sale of satellite rights – The major portion of SVF's satellite rights sales is derived from a national TV broadcaster. This exposes the company to contract renewal risks. However, SVF's established presence in Bengali movie production with a large scale of operations and a larger collection of Bengali movies (library) compared to other local production houses mitigate such risks, to a large extent. Its biggest contract with a major broadcaster is expiring in March 2023 and the renewal of the same will be a key monitorable.

---

[1] *Net debt = Total debt – Cash and liquid investments; majority of debt comprised OD against FD facilities.*

The company would remain vulnerable to the inherent risks associated with the film production and distribution business such as piracy, seasonality in business and audience rejection risks.

Substantial financial exposure to Group entities which are yet to generate commensurate returns – As on March 31, 2022, SVF had made substantial investments of Rs. 57.9 crore (viz. 76% of SVF's net worth) in several Group entities. Of the total, majority of its investment is in HTPL, which operates the Bengali OTT platform, Hoichoi. During FY2019 to FY2022, SVF made sizeable incremental investments in HTPL, and as on March 31, 2022, these stood at Rs. 44.7 crore (including equity of Rs. 18.2 crore and debentures of Rs. 26.58 crore) against Rs. 7.6 crore in FY2018. However, such investments in Group entities are yet to start generating commensurate returns.

Liquidity position: Adequate

SVF's liquidity is expected to remain adequate, driven by healthy cash flows from operations and supported by undrawn working capital limits. The company's dependence on external borrowing is moderate, reflected in its average utilisation of 60% out of the Rs. 12.5-crore working capital limits in the trailing 11-month period (ended November2022), providing a cushion of Rs. 5 crore. It has a nominal long-term debt repayment obligation of Rs. 0.33 crore over the next 12 months (in FY2024). Nevertheless, any sizeable incremental investment in Group entities may exert pressure on SVF's cash flows.

Rating sensitivities

Positive factors – ICRA may upgrade SVF's ratings, if any sustained and significant improvement in revenues and profit margins strengthens the company's financial profile. The monetisation of any investment in subsidiaries/Group companies, which leads to strengthening of its liquidity profile will also be a credit positive.

Negative factors – Inability to ramp-up its revenues, on a sustained basis, and/or non-renewal or any significant downsizing of contracts with key customers, impacting its cash flows and profitability may lead to pressure on the company's ratings. Additionally, crystallisation of any material contingent liability may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Media Industry (Film production, Distribution and Exhibition)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone assessment of SVF while factoring in the ordinary and extraordinary support that the company is expected to extend to its select material subsidiaries, which are enlisted in Annexure-II.

About the company

SVF, incorporated in 1995 and promoted by Mr. Shrikant Mohta and Mr. Mahendra Soni, is involved in the business of producing and distributing movies, production of television serials and events, trading in satellite and internet rights of movies, music, etc., digital cinema and exhibition segments. The company, through its subsidiary, also owns an over-the-top (OTT) platform, Hoichoi. Majority of the company's content is in the Bengali language. At present, SVF's physical presence – mainly theatre screens – is also concentrated in West Bengal.

The company's name was changed to SVF Entertainment Private Limited from the erstwhile Shree Venkatesh Films Private Limited in March 2017.

Key financial indicators (audited)

Standalone	FY2021	FY2022	7M FY2023 Provisional
Operating income	94.1	120.1	99.3
PAT	6.9	9.5	12.5
OPBDIT/OI	12.7%	15.3%	21.3%
PAT/OI	7.3%	7.9%	12.6%
Total outside liabilities/Tangible net worth (times)	1.9	1.5	-
Total debt/OPBDIT (times)	1.2	1.5	-
Interest coverage (times)	17.9	8.6	-

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

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 of Nov 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 20, 2023	Feb 21, 2022	Oct 29, 2020	Dec 11, 2019
1	**Fund-based/ Non-fund Based Working Capital***	Long Term/ Short Term	30.0	3.0	**[ICRA]BBB+ (Stable) / [ICRA]A2+**	**[ICRA]BBB+ (Negative) / [ICRA]A2+**	**[ICRA]BBB+ (Stable) / [ICRA]A2+**	**[ICRA]BBB+@ / [ICRA]A2+@**
2	**Unallocated Limit**	Long Term/ Short Term	-	-	-	-	**[ICRA]BBB+ (Stable) / [ICRA]A2+**	-

**Includes sales/purchase invoice financing limit of Rs. 30 crore and various sub-limits like Pre-Shipment and Post-Shipment Credit, Overdraft, Letter of Credit and Bank Guarantee within the overall limit of Rs. 30 crore*

@ - Under rating watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/ Non-fund Based Working Capital (Long-term/ Short-term	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	**Fund-based/ Non-fund Based Working Capital**	June 2020	NA	NA	30.0	[ICRA]BBB+ (Stable) / [ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SVF Ownership	Consolidation Approach
Hoichoi Technologies Private Limited	100%	Limited consolidation

Source: Company Annual Report FY2022

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

Soumantak Bagchi
+91 33 7150 1226
soumantak.bagchi@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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches