

August 11, 2023

Mallemaala Entertainments Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	24.60	24.60	[ICRA]BB+ (Stable); reaffirmed
Long-term – Fund-based/TL	7.40	7.40	[ICRA]BB+ (Stable); reaffirmed
Total	32.00	32.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers Mallemaala Entertainments Private Limited's (MEPL) long track record spanning over three decades in the entertainment industry and its established relationship with the sole customer, ETV Network (subsidiary of Ushodaya Enterprises Private Limited (UEPL, rated [ICRA]AA(Stable))). The rating notes the strong popularity of MEPL's flagship shows resulting in healthy revenue growth over the years, along with healthy demand outlook for eggs. ICRA takes note of the improvement of profitability margins in FY2023, driven by improved realisation of egg prices, coupled with soft input prices for the poultry division and healthy profitability margins in the media segment.

The rating, however, remains constrained by the company's modest scale of operations in both the segments. MEPL has high customer concentration as it derives its entire revenues from National Egg Stores for the poultry division and ETV Network in the media segment. Moreover, the poultry profits remain exposed to fluctuation in feed prices (primarily maize, broken rice and soya), which accounts for more than 80% of the production cost in its poultry segment. 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 ICRA's opinion that MEPL will benefit from its established track record and customer relationships in the media segment.

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 ventured into production of television content and has successfully produced various television shows in Telugu, Kannada, Marathi, Bengali, Gujarati and Oriya languages over the past two decades.

Established relationship with ETPL and strong popularity of flagship shows to support revenues – The company's portfolio comprises television shows across different genres such as reality TV/game shows, daily soaps, cooking shows, etc, which are exclusively telecasted on one of the major Telugu General Entertainment Channels (GEC), ETV, and its associate channels, ETV Plus and ETV Abhiruchi. The promoters have had 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 continue developing new shows for the network over the medium term. Strong 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. 139 crore in FY2023 (Rs. 75.1 crore for the media and entertainment division and Rs. 64.8 crore for the poultry division in FY2023). The company is expected to generate revenues of more than Rs. 140 crore in FY2024, driven by the growth in 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. However, MEPL’s established relationship with ETV and satisfactory performance of its shows mitigate the client concentration risk in media segment to an extent.

Low profitability in poultry division – The poultry segment has incurred losses for FY2021 and FY2022 due to high feed prices, coupled with volatility in the price of eggs, resulting in losses in the division. Maize and soya are the major raw material for feed, which account for more than ~80% of raw material consumption in the poultry segment. Thus, any fluctuation in the prices of these agro-commodities may adversely impact the profitability of the poultry division. With softening in input prices and healthy realisation of egg, the profitability is expected to improve in the poultry division. However, the extent of improvement as well as sustainability of margins remains a key rating monitorable.

Competition in entertainment industry – 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.

Liquidity position: Adequate

MEPL’s liquidity is adequate with cushion in working capital limits and free cash balances of Rs. 2.2 crore as on March 31, 2023. The average working capital limit utilisation remained moderate at 76% in the past 14 months ending in June 2023 with sufficient buffer in working capital limits. The company has no major capex plans and its cash flows from operations should be sufficient for its debt repayment of Rs. 3.50 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade MEPL’s rating if there is 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 decline in revenues and/or profitability results in weakening of debt coverage metrics or any stretch in working capital cycle impacts its liquidity position. Specific credit metrics for negative trigger would be decline in DSCR to less than 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 is engaged in production of 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, Shabdhalaya, in Hyderabad.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	110.2	137.9
PAT	2.6	5.9
OPBDIT/OI	8.5%	9.7%
PAT/OI	2.3%	4.2%
Total outside liabilities/Tangible net worth (times)	2.5	2.0
Total debt/OPBDIT (times)	4.2	3.1
Interest coverage (times)	3.2	6.0

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA:

CRISIL, in its rationale published on Mallemaala Entertainments Private Limited, dated July 25, 2022 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 11, 2023	May 13, 2022	Apr 07, 2021	-
1 Term loans	Long term	7.40	7.65	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-
2 Cash credit / Overdraft	Long term	24.60	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-
3 Unallocated	Long term	-	--	-	-	[ICRA]BB (Stable)	-

Complexity level of the rated instruments

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	Coupon Rate	Maturity	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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