

December 12, 2023 ^(Revised)

UFO Moviez India Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based – Term loans | 103.82 | 68.34 | [ICRA]A (Stable); reaffirmed |
| Long-term Fund-based – Cash credit | 10.00 | 10.00 | [ICRA]A (Stable); reaffirmed |
| Long-term/Short-term – Unallocated | 11.18 | 46.66 | [ICRA]A (Stable)/[ICRA]A2+; reaffirmed |
| Total | 125.00 | 125.00 | |

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation for UFO Moviez India Limited's (UMIL) factors in the recovery in UMIL's operating income (OI) and profitability, led by recovery in film exhibition industry post-lifting of the Covid-19 pandemic-related curbs. In FY2023, UMIL's OI increased by 147.2% YoY to Rs. 395.9 crore (against the pre-Covid level of Rs. 502.1 crore in FY2020). Consequently, the company reported operating profits of Rs. 32.4 crore in FY2023 (against operating loss of Rs. 51.0 crore in FY2022) translating into operating profit margins of 8.2%. In FY2023, the revenues from distributor and exhibition segments reached 94% and 90% of FY2020 levels, while the recovery in the advertisement revenues was subdued at 49% of FY2020 levels due to reduced ad-spends by the Government/PSU clients. UMIL's exit from non-performing theatres, along with change in accounting for recognising income from distribution business led to decline in operating revenues in H1 FY2024 by 13% on a YoY basis. However, the OPM improved significantly to 19.2% in H1 FY2024, supported by reduced operating overheads. The ratings continue to draw comfort from its comfortable capital structure with TOL/TNW of 0.5 times, along with the negative net debt status as of September 2023. The company's debt coverage metrics are expected to remain adequate with estimated interest coverage of around 7 times in FY2024 (PY: 2.9 times). ICRA expects the OI to remain marginally lower in FY2024 and then grow moderately in FY2025, while the OPM are expected to be maintained at H1FY2024 levels. The ratings also factor in the company's dominant position in the digital cinema exhibition industry, a large installed base of its equipment among exhibitors and the acceptance of UMIL as a digital partner by the film producers /distributors, and its experienced management team.

ICRA notes that the company has witnessed traction in corporate advertisement, which on an annualised basis was around 80% of the FY2020 corporate advertisement revenue in H1 FY2024. However, the advertisements from the Government and PSUs clients continue to remain muted and thereby restricted the overall recovery in advertisement revenues (typically, Government ads accounted for 45% of the overall pre-Covid ad revenues). Given the high operating leverage in the business, due to high initial investments in technology and projection systems, sustainability of the recovery in theatrical and corporate advertisement segments and adequate ramp-up in the Government advertisement segment remain important for an improvement in operating profits.

The ratings remain 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).

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its dominant market position, low leverage and recovery in cinema business in India.

Key rating drivers and their description

Credit strengths

Leading digital cinema technology and infrastructure provider led by professional and experienced management – UMIL is a dominant digital cinema technology and infrastructure provider to film exhibitors in India, with a network of 3,394 screens across India as on September 30, 2023. These screens include 3,045 perpetual content delivery charges (CDC) category screens (non-sharing basis) and 349 VPF category screens (revenue sharing basis). The company is led by Mr. Sanjay Gaikwad, Founder and Managing Director of UMIL, who has an extensive experience of around three decades in the media business. He is supported by a team experienced in various facets of the business.

Wide coverage of theatres across India attracting advertisers – The company has an advertisement network of 3,303 screens (as on September 30, 2023) across India. The wide coverage of screens helped UMIL in attracting advertisers from diverse sectors (corporate and Government). The advertisement revenues increased to Rs. 75.5 crore in FY2023, reaching 49% of FY2020 levels (Rs. 154.7 crore in FY2020) and are expected to grow by ~50% in FY2024 on a YoY basis, largely supported by increased advertisement spends by corporates. The recovery in advertisement revenues from the Government/PSUs continues to remain muted. ICRA expects the company to grow its ad revenues to the pre-pandemic level over the medium term.

Expected improvement in profitability and comfortable capital structure – UMIL demonstrated a healthy recovery in its operating income (OI), which grew by 147.2% to Rs. 395.9 crore in FY2023 (against the pre-Covid level of Rs. 502.1 crore in FY2020). Consequently, the company posted an operating profit of Rs. 32.4 crore in FY2023 (against an operating loss of Rs. 51.0 crore in FY2022) translating into operating profit margins of 8.2%. This was largely driven by increased revenues from distributor and exhibition segments, which reached 94% and 90% of FY2020 levels, while the recovery in the advertisement revenues was subdued at 49% of FY2020 levels due to reduced ad-spends by the Government/PSU clients. UMIL's exit from non-performing theatres, along with change in accounting for recognising income from distribution business led to decline in operating revenues in H1 FY2024 by 13% on a YoY basis. However, the OPM improved significantly to 19.2% in H1 FY2024, supported by reduced operating overheads. Its capital structure has continued to remain comfortable with TOL/TNW of 0.5 times, along with the negative net debt status as of September 2023. The company's debt coverage metrics are expected to remain adequate with estimated interest coverage of around 7 times in FY2024 (PY: 2.9 times). ICRA expects the OI to remain marginally lower in FY2024 and then grow moderately in FY2025, while the OPM are expected to be maintained at H1FY2024 levels.

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 limited potential for increasing the screen base. It has taken initiatives, such as Nova Cinemas, to drive the establishment of new screens in the country. Nevertheless, no major increase in the number of screens is expected over the medium term. While competition in the industry is moderate, with UMIL's dominant market position, the company has been witnessing some churn in its screens owing to partial or complete closure of screens due to the Covid-19 pandemic.

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 risks associated with any technological disruptions leading to complete change in the business landscape. However, given that UMIL has established a wide network of digital cinema screens across the country and has efficiently adopted the changes in technologies over a 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 – UMIL's lease-based revenue model requires 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 October 2023, UMIL had free cash and liquid investments of ~Rs. 87 crore and encumbered cash of Rs. 7.4 crore compared to its gross debt of Rs. 62.0 crore. The scheduled debt repayments for FY2024 and FY2025 stand at Rs. 30.8 crore and Rs. 20 crore. The same can be comfortably met from its estimated cash flow from operations. The company's capex requirement is around Rs. 15 crore in FY2024, which are being funded by debt of Rs. 10 crore and the remaining from internal accruals. Going forward, the capex is likely to remain in the range of Rs. 25-40 crore, annually, which is expected to be funded by a mix of internal accruals and debt.

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 |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of UMIL. As on September 30, 2023, the company had seven subsidiaries, five step-down subsidiaries, seven associates and two joint ventures, 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). While the shareholding has changed over the years, the Indian promoters of the company – Valuable Group and Apollo Group – continue to remain significant shareholders.

UMIL operates as an infrastructure service provider for the film distribution and exhibition industry. The company receives analogue/digital 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 dishes, servers, digital projectors and UPS. UMIL, thus, offers cost and time arbitrage to the film industry. It also facilitates advertisers to showcase their advertisements on screen during a movie show. UMIL is currently one of the leading digital cinema infrastructure providers to theatres in India.

Key financial indicators

| UMIL Consolidated | FY2022 (Audited) | FY2023 (Audited) | H1 FY2024 (Unaudited) |
|--|------------------|------------------|-----------------------|
| Operating income (Rs. crore) | 160.1 | 395.9 | 171.5 |
| PAT (Rs. crore) | (90.3) | (20.6) | 2.7 |
| OPBDIT/OI | -31.8% | 8.2% | 19.2% |
| PAT/OI | -56.4% | -5.2% | 1.6% |
| Total outside liabilities/Tangible net worth (times) | 0.6 | 0.6 | 0.5 |
| Total debt/OPBDIT (times) | (1.7) | 2.5 | 1.0 |
| Interest coverage (times) | (4.4) | 2.9 | 4.8 |

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; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

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 October 31, 2023 (Rs. crore) | Date & Rating in | | Date & Rating in | | Date & Rating in | |
| | | | | Dec 12, 2023 | Sep 28, 2022 | Sep 02, 2021 | Jan 07, 2021 | Sep 04, 2020 | |
| 1 Term loans | Long-term | 68.34 | 58.7 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Stable) | |
| 2 Cash credit | Long-term | 10.00 | 3.34 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A+ (Negative) | [ICRA]A+ (Stable) | |
| 3 Unallocated | Long/Short-term | 46.66 | - | [ICRA]A (Stable)/[ICRA]A2+ | [ICRA]A (Stable)/[ICRA]A2+ | [ICRA]A (Negative)/[ICRA]A2+ | - | - | |
| 4 Non-fund based facility | Short-term | - | - | - | - | - | [ICRA]A1 | [ICRA]A1 | |

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: [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 I | Oct-16 | 9.76% | FY2025 | 8.06 | [ICRA]A (Stable) |
| NA | Term loan II | Aug-22 | 10.82% | FY2028 | 21.39 | [ICRA]A (Stable) |
| NA | Term loan III | Aug-23 | 9.70% | FY2029 | 10.00 | [ICRA]A (Stable) |
| NA | Term loan - Common Covid-19 Emergency Credit Line | May-21 | 9.64% | FY2028 | 19.89 | [ICRA]A (Stable) |
| NA | Term loan - Working capital | Dec-20 | 10.82% | FY2025 | 9.00 | [ICRA]A (Stable) |
| NA | Cash credit | - | 10.82% | - | 10.00 | [ICRA]A (Stable) |
| NA | Unallocated facility | - | - | - | 46.66 | [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 |
| 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 | 100% | Full Consolidation |
| Scrabble Audio Visual Equipment Trading LLC | 100% | Full Consolidation |
| Scrabble Digital Services DMCC | 18.52% | Equity Method |
| Scrabble Digital DMCC | 33.33% | Equity Method |
| Scrabble Venture LLC | 49.00% | 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 |
| Cinestaan Digital Private Limited | 33.08% of the Voting Rights | Equity Method |
| Mumbai Movie Studios Private Limited | 30.74% | Equity Method |
| X86 Media Artists Private Limited | 50.00% | Equity Method |
| Upmarch Media Network Private Limited | 50.00% | Equity Method |

Source: Company, ICRA Research

Corrigendum

Document dated December 12, 2023 has been revised as detailed below:

The applicable rating methodology in the analytical approach table has been revised.

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