

March 22, 2024

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

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+(Positive)/[ICRA]A2+; reaffirmed and outlook revised to Positive from Stable
Total	30.0	30.0	

*Instrument details are provided in Annexure-I

Rationale

The revision in rating outlook to Positive from Stable factors in the expected improvement in the credit profile of SVF Entertainment Private Limited (SVF), over the near to medium term, driven by the company's movie production deal with Jio Studios (JS) and receipt of sizeable advances towards the sale of satellite and internet rights, which has substantially improved its liquidity position and leverage metrics. In FY2024, sales tax matter pertaining to Rs. 32.4 crore has been discharged leading to a significant reduction in contingent liability.

The ratings continue 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. SVF's leverage and coverage metrics are expected to remain comfortable, with TD/TNW likely to remain below 0.2 times and interest cover estimated to remain above 12.0 times going forward. ICRA takes note of SVF's track record in producing commercially successful Bengali movies and having one of the largest movie libraries in the Bengali film industry, which provides a competitive edge and enhances its bargaining power in negotiating deals with TV broadcasters. During the last 6-8 quarters, SVF has diversified into other language-based web series and TV serials, which, along with increasing revenue from dubbed content, is likely to support growth and reduce volatility in the revenue as witnessed in the past.

The rating, however, remains constrained by SVF's modest scale of operations and its concentrated presence in West Bengal. While the company is trying to diversify into other languages, the same are in nascent stages. The rating continues to factor in its exposure to the inherent risks associated with content production and distribution business such as piracy, seasonality in business and audience rejection risks. 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 strong liquidity position will be crucial.

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. While the promoters have a successful track record of production and distribution of Bengali movies of more than 28 years, the company has, in the recent past, diversified into production of TV serials (including other languages), sale of satellite and internet rights of movies, music, branding of advertisements on social media and digital cinema. During the last 1.5 years, SVF has diversified into other language-based

web series and TV serials, which, along with increasing revenue from dubbed content, is expected to support growth and reduce volatility in the revenue as witnessed in the past.

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 (0.1 times as on December 31, 2023). Its debt coverage metrics also remained comfortable because of low debt and adequate profit margins, reflected in the interest coverage of 13.2 times, TOL/TNW of 1.3 times and net debt¹ / OPBDITA of -2.3 times as on December 31, 2023.

Long-term contracts mitigate revenue risk – 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. In FY2023, the company has entered into a deal with JS for production of movies till August 2026 where the satellite rights for the JS- approved movies will be purchased by the latter at a predetermined price, thereby reducing risks associated with the film production business. Further, it has entered into a library deal with Viacom18 towards the sale of satellite and internet rights for the next six years and has received sizeable advance towards the same leading to improvement in liquidity position.

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, it is trying to diversify into other languages. SVF has started dubbing its original content in other languages and has also recently produced two web series in Tamil language.

Substantial financial exposure to Group entities which are yet to generate commensurate returns – As on March 31, 2023, SVF had made substantial investments of Rs. 57.9 crore (viz. 58% 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 FY2023, SVF made sizeable incremental investments in HTPL. As on March 31, 2023, 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. While as per the management's guidance, HTPL has turned cashflow positive in FY2024 and no incremental investment is required, such investments in Group entities including HTPL are yet to start generating commensurate returns. Any sizeable incremental investment in Group entities, which exerts pressure on SVF's cash flows, could add pressure on SVF's rating.

Liquidity position: Strong

SVF's liquidity is expected to remain strong, with cash and liquid investments of ~Rs. 63 crore as on December 31, 2023, with no major capex/investment plans. The company's dependence on external borrowing is moderate, reflected in its average utilisation of ~45% out of the Rs. 20.0 crore working capital limits in the trailing 11-month period ended December 2023, thereby providing a cushion of Rs. 11 crore. It has a nominal long-term debt repayment obligation of Rs. 0.16 crore over the next 12 months.

¹ Net debt = Total debt – cash and liquid investments; majority of debt comprised OD against FD facilities.

Rating sensitivities

Positive factors – ICRA may upgrade SVF’s ratings, if there is a sustained improvement in scale of operations and profitability along with improved business diversification, while maintaining strong liquidity. The monetisation of any investment in subsidiaries/Group companies generating significant returns will also be a credit positive.

Negative factors – Sustained pressure on earnings impacting its cash flows and coverage metrics may lead to pressure on the company’s ratings. Any large debt-funded investments, thereby materially impacting coverage metrics and leverage metrics could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 OTT platform, Hoichoi. Majority of its content is in the Bengali language. At present, SVF’s physical presence – mainly theatre screens – is also concentrated in West Bengal.

Key financial indicators (audited)

	FY2022	FY2023	9MFY24*
Operating income (Rs. crore)	120.1	153.7	185.3
PAT (Rs. crore)	9.5	9.7	13.2
OPBDIT/OI (%)	15.3%	17.7%	11.9%
PAT/OI (%)	7.9%	6.3%	7.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.3	1.3
Total debt/OPBDIT (times)	1.5	0.7	0.5
Interest coverage (times)	8.8	12.7	13.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * provisional

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 December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 22, 2024	Jan 20, 2023	Feb 21, 2022	Oct 29, 2020
1 Fund-based/ Non-fund based – Working capital*	Long Term/ Short Term	30.0	9.8	[ICRA]BBB+ (Positive) / [ICRA]A2+	[ICRA]BBB+ (Stable) / [ICRA]A2+	[ICRA]BBB+ (Negative) / [ICRA]A2+	[ICRA]BBB+ (Stable) / [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

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	February 2024	NA	NA	30.0	[ICRA]BBB+ (Positive) / [ICRA]A2+

Source: Company

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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

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