

February 21, 2022

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-Based/ Non-Fund Based Working Capital Limits	30.00	30.0	[ICRA]BBB+/[ICRA]A2+ reaffirmed; Outlook revised to Negative from Stable
Unallocated Limit	5.00	0.00	-
Total	35.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Negative factors in the significant decline in SVF Entertainment Private Limited's (SVF) revenues from movie distribution, box office collection of own movies, exhibition and digital cinema segments in FY 2021 owing to the prolonged closure of movie halls and lower production activities due to the Covid-19 pandemic. The second wave of Covid-19 pandemic again impacted the company's distribution, exhibition and digital cinema segments in Q1 FY2022. Moreover, the surge in Covid-19 cases since end of December 2021, leading to deferment of movie releases and lower occupancy will impact SVF's Q4 FY2022 revenues and the company is likely to close the fiscal with an estimated revenue of around Rs. 125 crore much lower than the pre-Covid level of Rs. 200.0 crore. While it's performance is expected to improve sequentially in FY2023, full recovery is still sometime away.

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. The ratings draw comfort from SVF's track record in producing commercially successful Bengali movies, one of the largest movie library in Bengali film industry, which provides a competitive edge and imparts bargaining power in negotiating deals at better rate with TV broadcasters. SVF earns additional revenues from the sale of internet rights of its movies, music, etc. The increasing trend of generating revenues from the sale of satellite and internet rights will 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 remained inadequate to recover the cost of movie production, as witnessed in the past. Moreover, sizeable advances received towards sale of satellite and internet rights remains the key for supporting the company's liquidity.

The rating, however, remains constrained by SVF's small scale of SVF's operations due to its presence in the production of movies, television shows and other contents primarily in a regional language (Bengali). 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 contract renewal risk associated with the sale of satellite rights, as the same is majorly derived from a single customer. Nevertheless, the risk is mitigated by the company's established presence in Bengali movie production. 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 have not yet fetched 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. Furthermore, 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 diverse segments in media and entertainment industry Incorporated in 1995, SVF was initially involved in the business of production and distribution of movies. Subsequently, it diversified into production of TV serials, sale of satellite rights and internet rights of movies, music, branding of advertisements on social media, etc, as well as digital cinema. The company subsequently entered the exhibition business, a kind of forward integration for SVF, by setting up multiplexes in tier-II and tier-III cities in West Bengal.

Established track record of producing commercially successful Bengali movies – The company has produced more than 150 Bengali movies so far. Of these, some of the movies have been huge box-office successes, and have received the National Award. The same is indicative of the promoters' experience in screening and selecting projects.

Increasing sale of satellite and internet rights likely to positively impact SVF's profitability 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. 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 film library. It has contracts with other reputed clients in various segments (including TV broadcaster, OTT platform, social media, etc) for selling the satellite and internet rights of its movies, short video clips, music etc. This provides SVF with revenue visibility and reduces the risks associated with the film production business, as the recurring revenues from the satellite and internet rights strengthen its profitability and cash flows, while box office collections remain inadequate to recover the production cost for most of the movies. Besides, sizeable advances received towards the sale of satellite and internet rights support the company's liquidity.

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.

Covid-19 pandemic adversely impacting overall revenues and profitability – Reduced production activities and prolonged closure of movie halls due to the pandemic in FY2021 adversely affected the revenues from movie distribution, box office collection of own movies, exhibition, digital cinema, TV serials and shows, etc, which has led to 55% decline in revenue in FY2021 vis-à-vis FY2020. The second wave of Covid-19 pandemic impacted the company's distribution, exhibition and digital cinema segments in Q1 FY2022. Besides, SVF rationalised its TV content business in FY2022, which led to lower revenues from the segment. Moreover, the surge in Covid-19 cases since the end of December 2021, leading to deferment of movie releases and hence lower occupancy will impact SVF's Q4 FY2022 revenues. It is likely to close the fiscal with an estimated revenue of around Rs. 125 crore much lower than the pre-Covid level of Rs. 200 crore. While the company's performance is expected to improve sequentially in FY2023, full recovery is still some time away.

Exposed to contract renewal, piracy, seasonality and client rejection risks – 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 higher scale of operations and a large collection of Bengali movies (library) compared to other local production houses mitigate such risks to a large extent. Its biggest contract with the major broadcaster is expiring in FY2023 and the renewal of the same will be a key monitorable. 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 has moderated financial risk profile – As on March 31, 2021, SVF had substantial investments and loans (debentures and unsecured loans) of Rs. 57.1 crore in a number of Group entities, which did not fetch commensurate returns. In FY2018, FY2019 and FY2021, the company made sizeable incremental investments in its wholly-owned subsidiary, HTPL, which operates the Bengali OTT platform, Hoichoi. SVF's financial exposure to HTPL stood at

around Rs. 39.9 crore (including equity of around Rs. 18.1 crore and debentures of around Rs. 19.1 crore and unsecured loans of around Rs. 2.6 crore) as on March 31, 2021. Further, there has been incremental support to Hoichoi in FY2022 worth about Rs. 8-9 crore. However, such investments in Group entities are yet to fetch commensurate returns. Lower revenues and incremental support to Group companies moderated the company's financial risk profile and liquidity, along with decline in coverage indicators in FY2022, though they remain comfortable. The company's ability to monetise its investments will be crucial to improve its financial risk profile and liquidity position.

Liquidity position: Adequate

SVF's liquidity is adequate. The company's dependence on external borrowing is moderate, as reflected by average utilisation of Rs. 9.0 crore out of Rs. 12.5-crore working capital limits, providing a cushion of Rs. 3.0-3.5 crore. It has nominal long-term debt repayment obligation of Rs. 0.2 crore for each year in FY2022 and FY2023. SVF is in the process of enhancing its working capital lines, which once sanctioned should support its liquidity. The company is also in process of divesting a minority stake in one of its subsidiaries, which if materialises will limit incremental funding support from SVF and enhance its liquidity position.

Rating sensitivities

Positive factors – ICRA may revise SVF's outlook to Stable if sustained improvement in revenues and profit margins strengthens the company's financial profile. Significant realisation of divestment proceeds from its subsidiary, thereby strengthening its liquidity and financial profile will also be a key credit positive

Negative factors – Inability to ramp-up its operations by enhancing operating revenue from the key segments of TV serial production, distribution and exhibition income and sale of IPR/video rights/royalties will be a credit negative. Further, non-renewal or a significant downsizing of contracts by the 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 rating 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	The ratings are based on the company's standalone financial statements

About the company

Incorporated in 1995 and promoted by Mr. Shrikant Mohta and Mr. Mahendra Soni, SVF is involved in the business of producing and distributing movies. The company is also involved in the production of television serials and events, trading in satellite rights and internet rights of movies, music, etc, digital cinema and exhibition segments. Its name was changed to SVF Entertainment Private Limited from the erstwhile Shree Venkatesh Films Private Limited in March 2017.

Key financial indicators (audited)

SVF Entertainment Private Limited	FY2020	FY2021
Operating Income (Rs. crore)	209.0	94.1
PAT (Rs. crore)	14.0	6.9
OPBDIT/OI (%)	12.8%	12.7%
PAT/OI (%)	6.7%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	1.9
Total Debt/OPBDIT (times)	0.1	1.2
Interest Coverage (times)	13.5	17.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 17, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2019			
				Feb 21, 2022	Oct 29, 2020	Dec 11, 2019	Feb 01, 2019	Oct 5, 2018	
1	Fund-based/ Non-fund Based Working Capital*	30.0	-	[ICRA]BBB+ (Negative) / [ICRA]A2+	[ICRA]BBB+ (Stable) / [ICRA]A2+	[ICRA]BBB+@ / [ICRA]A2+@	[ICRA]BBB+@ / [ICRA]A2+@	[ICRA]BBB+ (Positive) / [ICRA]A2+	
2	Unallocated Limit	-	--	-	[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 watch with developing implications

@ - 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ Non-fund Based Working Capital*	NA	NA	NA	30.0	[ICRA]BBB+ (Negative) / [ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis :- NA

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