

Scrabble Entertainment Limited

Instrument	Amount	Rating Action
Term loans	Rs. 13.55 crore (revised from Rs. 30.00 crore [^])	[ICRA]A- (stable) reaffirmed
Long-term, fund based facilities	Rs. 3.00 crore	[ICRA]A- (stable) reaffirmed
Short-term, non-fund based facilities	Rs. 30.00 crore [^]	[ICRA]A2+ withdrawn

[^] Rs. 30.00 crore short-term, non-fund based facilities were completely inter-changeable with Rs. 30.00 crore term loans rated on the long-term scale; currently, the non-fund based limits have fully matured into term loan facilities and an amount of Rs. 13.55 crore is outstanding against the said term loans

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 13.55 crore (revised from Rs. 30.00 crore)¹, term loans and the Rs. 3.00 crore, long-term, fund-based limits of Scrabble Entertainment Limited² ('SEL' or 'the company'). The outlook on the long-term rating is 'stable'. ICRA has also withdrawn the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 30.00 crore, short-term, non-fund based limits of the company as there is no amount outstanding against the said facilities; the said non-fund based facilities were completely inter-changeable with Rs. 30.00 crore term loans rated on the long-term scale and currently, the said limits have fully matured into term loan facilities.

The rating reaffirmation takes into account the established position of SEL and its parent – UMIL – in the digital cinema exhibition industry – with a combined market share of ~54% (in terms of number of screens digitised in the country); the experienced management team; the demonstrated ability of the company in growing the scale of operations thereby resulting in improvement in profitability – in light of high operating leverage in the business; healthy financial risk profile of the company characterised by healthy cash accruals, low leverage, adequate liquidity and comfortable debt coverage indicators; and estimated reduction in capital expenditure (capex) requirement going forward. The ratings are, however, constrained by the limited tenure of Hollywood VPF income, limited potential of increasing the screen base, limited life of projection systems which would necessitate moderate levels of maintenance capex going forward, and high competitive intensity in a highly penetrated digital cinema industry – which may impact future growth in terms of theatre coverage as well as commercial terms with customers. The business is also vulnerable to changes in technology.

ICRA notes that the operating lease based revenue model followed by the company in the domestic market has required high investments – especially in FY2014 when the company embarked on aggressive screen roll-out, impacting profitability as well as capital structure (as the investment requirements were funded by debt). However, ICRA takes comfort from the subsequent reduction in capex levels, which are expected to remain modest going forward. Ability of the company to maintain commercial terms (VPF/rentals) in the face of competition, to grow non-Hollywood VPF revenue, and to minimize maintenance related capex remains key to maintain healthy profitability and credit profile.

About the Company

Scrabble Entertainment Limited ('SEL' or 'the company') was incorporated in February 2008 as a private limited company, with seed capital investment from Mr. Ranjit Thakur and Dr. Sunil Patil, and has been engaged in digitization of theatre screens. In 2008, Mr. Manmohan Shetty took 50.2% stake in the company by making an investment of Rs. 5 crore. Thereafter, through a series of investments and minority shareholders buyout, UFO Moviez India Limited (UMIL, rated [ICRA]A+ (Positive)/ A1+) acquired 91.33% stake in SEL.

SEL had signed a contract with the six Hollywood Studios for rolling out 2k digital cinema initiative (DCI) compliant digital projection systems (D-cinema screens) for theatrical exhibition in India, for a virtual print fee for a period of five years from the date of each roll-out (contract was applicable only for the theatres rolled out till December 31, 2014). As of December 31, 2015, SEL has rolled out 1,453 D-cinema screens (including 415 screens owned by UMIL) in India (including screens in Nepal).

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications

SEL also has presence in global markets such as the Middle East (through Scrabble Entertainment DMCC, a subsidiary; 740 screens), Israel (through a branch of Scrabble Entertainment Mauritius Ltd, a subsidiary; 155), and Mexico and the United States of America (through Scrabble Ventures S. de R.L. de C.V. and Scrabble Ventures Inc, respectively; associate companies; together 757 screens). The company, through its associates – Scrabble Digital Ltd (in India) and Scrabble Digital DMCC (in Dubai), also has interest in conversion of analog movie prints into digital prints.

Recent Results

SEL (on a consolidated basis) reported a profit after tax (PAT; concern share) of Rs. 22.66 crore on an operating income of Rs. 206.82 crore during FY2015, as against a PAT of Rs. 17.27 crore on an operating income of Rs. 182.52 crore during FY2014. As per the provisional financial statements for the nine months period ending December 31, 2015, SEL (on a consolidated basis) reported a PAT of Rs. 20.27 crore on an operating income of Rs. 186.84 crore.

April 2016

For further details, please contact:

Analyst Contacts:

Mr. Subrata Ray (Tel. No. +91 22 6114 3408)
subrata@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: **9821086490**

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500