

October 23, 2019

Mallemaala Entertainments Private Limited: Rating of [ICRA]BB(Stable) assigned

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based/CC	18.25	[ICRA]BB (Stable); assigned
Term Loan	13.50	[ICRA]BB (Stable); assigned
Unallocated limits	0.25	[ICRA]BB (Stable); assigned
Total	32.00	

Rationale

The assigned rating considers the MEPL's long track record of over three decades in the entertainment industry, and its established relationship with Eenadu Television Private Limited (ETPL, subsidiary of Ushodaya Enterprises Private Limited (rated [ICRA]AA (Stable)/A1+)). The rating also positively factors in strong popularity of MEPL's flagship shows resulting in steady revenue over the years for the entertainment division. Further, the rating draws comfort from the healthy demand outlook for layer eggs due to increasing acceptance of eggs as a daily meal component.

The rating, however, remains constrained by moderate scale of operations in both the divisions. MEPL has high customer concentration as it derives its entire revenues from sale of table eggs to National Egg Stores. The rating also considers moderate capital structure with gearing of 1.97 times as on March 31, 2019 and stretched liquidity position, given its high repayment obligations in the near term. The rating factors in the cyclical nature associated with the poultry industry, resultant table egg price volatility and vulnerability of profits to fluctuation in prices of feed (primarily maize, broken rice and soya), which accounts for more than 80% of production cost. The rating considers intense competition from other content producers (television and digital media) in the entertainment industry.

The Stable outlook reflects ICRA's opinion that MEPL will continue to benefit from the company's established track record and customer relationships, and healthy demand for layer eggs.

Key rating drivers

Credit strengths

Established track record: MEPL has a long track record in the entertainment industry with its promoters having more than 30 years of experience in the same. MEPL was initially involved in production of Telugu feature films and was also felicitated by the Government of India, winning two National Awards for its films in the past. Subsequently, it ventured into television content and successfully produced various television shows in Telugu, Kannada, Marathi, Bengali, Gujarati and Oriya languages over the years.

Established relationship with ETPL and strong popularity of flagship shows: The company's portfolio comprises 11 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 ETPL 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 in the medium term. Strong popularity of MEPL's flagship shows has resulted in steady revenue over the years for the entertainment division.

Healthy demand outlook for the layers segment of the industry - Demand for eggs is expected to increase with increase in acceptance of eggs as a daily meal component, supporting company's growth.

Credit challenges

High customer concentration: The company has a high customer concentration in the poultry division as it derives its entire revenues from sale of table eggs to National Egg Stores, a trader in the region. Moreover, it sells television content only to ETV network; however, established relationship with reputed ETV network mitigates the risk to an extent.

Moderate financial risk profile: The company has a moderate scale of operations with operating income of Rs. 104.22 crore in FY2019, limiting its financial flexibility. The capital structure is stretched as characterized by TD/TNW of 1.97 times as on March 31, 2019 and TOL/TNW of 2.69 times as on March 31, 2019. Total debt of Rs. 35.34 crore as on March 31, 2019 comprised long-term borrowings availed towards capacity addition in the poultry division over the years. Steady cash accruals remain critical given the sizeable debt repayment obligations in the medium term.

Vulnerability of poultry margins to rise in feed prices and intense competition in the entertainment industry - Maize and soya forms the major raw material for feed which account for more than ~80% of raw material consumption in the poultry segment. Thus, fluctuation in price of these agro-commodities would impact profitability of the poultry division. It is also affected by the cyclicity associated with the Indian poultry industry and resultant volatility in prices of eggs. The company faces intense competition in the entertainment industry with other television shows of similar genres along with growing popularity of Over-the-top (OTT) and digital content.

Liquidity Position: Stretched

The company's liquidity position is stretched owing to sizeable repayment obligations of Rs. 5.04 crore in FY2019 and Rs. 3.76 crore capital expenditure towards capacity addition in the poultry segment against cash flow from operations of ~Rs. 8-9 crore. However, average working capital limit utilization was moderate at ~76% during the past twelve months.

Rating sensitivities

Positive Triggers: ICRA could upgrade MEPL's rating if it diversifies its customer profile, improves its scale of operations and liquidity position while maintaining its profitability.

Negative Triggers: Negative pressure on MEPL's rating could arise if there is a decrease in revenues and/or profitability resulting in lower-than-expected accruals for the company given its sizeable debt repayment obligations, or any stretch in working capital cycle impacts its liquidity position. Specific credit metrics that could lead to a downgrade of MEPL's rating include DSCR less than 1.2 times

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Mallemalla Entertainments Private Limited (MEPL), incorporated in 1992, is involved in production of television content exclusively for ETV Network. The company also has a poultry layer farm with 6 lakh bird capacity and a feed plant with an installed capacity of 8 ton/hr. The poultry business was acquired from a group entity, Mallemaala Agro P Ltd in 2015. The company's operations are handled by Mr. M. Shyam Prasad Reddy and his family. The company was originally promoted by Mr. M. S. Reddy and has produced many television programmes and feature films in Telugu, Kannada, Marathi, Bengali and Oriya languages over the years. MEPL has its own post production studio, Sabdaalaya, in Banjara Hills, Hyderabad.

Key financial indicators

	FY 2018	FY2019
Operating Income (Rs. Crore)	95.23	104.22
PAT (Rs. Crore)	1.90	4.19
OPBDIT/ OI (%)	13.31%	13.26%
RoCE (%)	19.04%	19.99%
Total Debt/ TNW (times)	2.59	1.97
Total Debt/ OPBDIT (times)	2.80	2.56
Interest coverage (times)	2.98	3.18

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 October 23, 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2019	FY2018	FY2017
1	Fund based/CC	18.25	NA	[ICRA]BB (Stable)	-	-	-
2	Term Loan	13.50	13.50	[ICRA]BB (Stable)	-	-	-
3	Unallocated Limits	0.25	NA	[ICRA]BB (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/CC	NA	NA	NA	18.25	[ICRA]BB (Stable)
NA	Term Loan	2015	NA	2023	13.50	[ICRA]BB (Stable)
NA	Unallocated Limits	NA	NA	NA	0.25	[ICRA]BB (Stable)

Source: Mallemaala Entertainments Private Limited

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