

October 29, 2020

## SVF Entertainment Private Limited (earlier Shree Venkatesh Films Private Limited): Ratings reaffirmed with Stable outlook on the long-term rating and removed from rating watch with negative implications

### 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	35.00	30.00	[ICRA]BBB+ (Stable) / [ICRA]A2+; Reaffirmed and removed from rating watch with negative implications
Unallocated Limit	-	5.00	[ICRA]BBB+ (Stable) / [ICRA]A2+; Reaffirmed and removed from rating watch with negative implications
<b>Total</b>	<b>35.00</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The removal of SVF Entertainment Private Limited's (SVF; earlier Shree Venkatesh Films Private Limited) ratings from 'rating watch with negative implications' primarily takes into account the fact that the arrest of one of the key promoters in January 2019 did not have any material impact on the company's business profile so far and at present he is neither a Director nor a shareholder of the company. However, ICRA notes that the matter still remains sub-judice.

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 and internet rights of movies, music etc. The ratings draw comfort from SVF's track record in producing commercially successful Bengali movies, some of which also won National Awards. ICRA notes that SVF enters into annual contract with a major national TV broadcaster for the sale of satellite rights of its recently released/upcoming movies and renewed a long-term contract (for five years) with the same TV broadcaster for the sale of satellite rights of its film library in FY2018 for a sizeable contract value. SVF also earns additional revenues from the sale of internet rights of its movies, music etc. An increasing trend in the revenues from the sale of satellite and internet rights is likely to positively impact SVF's profitability and cash flows and mitigate risks associated with the film production business to a large extent by reducing dependence on the box office collection, which remained inadequate to recover the cost of movie production, as witnessed in the recent years. Moreover, a sizeable advance received towards sale of satellite and internet rights are likely to support the company's liquidity. The ratings are also supported by the company's low gearing and strong debt coverage metrics.

The ratings are, however, constrained by the 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 also 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 also 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, such risk is mitigated by SVF'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, owner of the Bengali over-the-top (OTT) platform "Hoichoi", which have not yet fetched commensurate returns.

In the current fiscal, a significant decline in revenues from movie distribution, box office collection of own movies, exhibition and digital cinema segments owing to the prolonged closure of movie halls and lower production activities due to the Covid-19 pandemic would lead to a sizeable decrease in SVF's overall operating income. However, the Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that an increasing trend in revenues from satellite and internet rights are likely to support the company's profitability and cash flows. Moreover, revenues from other segments are likely to recover in the near to medium term.

## Key rating drivers and their description

### Credit strengths

**Established presence across diverse segments in the media and entertainment industry** – Incorporated in 1995, SVF was initially involved in the business of production and distribution of movies. Subsequently, it diversified into the production of TV serials, sale of satellite rights and internet rights of movies, music 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 met with huge box-office successes in the past. 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; however, the pandemic would adversely impact the overall revenues in the current fiscal** – Over the last 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. SVF 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 profitability and cash flows while box office collections remain inadequate to recover the production cost for most of the movies. Moreover, sizeable advances received towards the sale of satellite and internet rights are likely to support the company's liquidity. Revenues from this segment have shown an increasing trend in the recent years, which is likely to continue in the current fiscal. However, reduced production activities and prolonged closure of movie halls due to the pandemic have adversely impacted the revenues from other segments like movie distribution, box office collection of own movies, exhibition, digital cinema, TV serials and shows, etc. which is likely to result in a significant decline in the company's operating income in the current fiscal.

**Low gearing and comfortable debt coverage metrics** – SVF's limited dependence on debt due to sizeable advances received from customers kept its gearing low. The gearing declined further to 0.06 times as on March 31, 2020 from 0.65 times as on March 31, 2019. Low debt level and improved profits strengthened the company's debt coverage metrics in FY2020, as reflected by an interest coverage of 11.76 times (4.81 times in FY2019), net cash accrual relative to total debt of 484% (37% in FY2019) and total debt relative to OPBDITA of 0.18 times (2.11 times in FY2019). Nevertheless, significant advances from customers kept SVF's TOL/TNW high (2.72 times as on March 31, 2020).

### Credit challenges

**Regional player with most of the 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.

**Exposed to contract renewal risks, given SVF's significant dependence on a single broadcaster for sale of satellite rights** – 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.

**Substantial financial exposure to Group entities** – As on March 31, 2020, SVF had substantial investments and loans (debentures) of Rs. 51.23 crore in a number of Group entities, which did not fetch commensurate returns. In FY2018 and FY2019, the company made sizeable incremental investments in its wholly-owned subsidiary, Hoichoi Technologies Private Limited (HTPL), which owns the Bengali OTT platform, "Hoichoi". SVF's financial exposure to HTPL stood at around Rs. 29 crore (including equity of around Rs. 18 crore and debentures of around Rs. 11 crore) as on March 31, 2020. However, such investments in Group entities are yet to fetch commensurate returns.

**Exposure to piracy, seasonality and client rejection risks** – 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.

### Liquidity position: Adequate

SVF's liquidity is expected to remain **adequate**. A healthy operating profit and sizeable advances received towards the sale of satellite and internet rights kept its cash flow from operations strong (around Rs. 27 crore in FY2020). SVF's working capital limit has been reduced to Rs. 30 crore from Rs. 35 crore earlier and the utilisation of the same has been capped at Rs. 10 crore by the lender due to inadequacy of collateral security. However, the company's dependence on external borrowing is low, as reflected by a low average working capital utilisation in the recent months. The company's nominal long-term debt repayment obligation, a sizeable amount of free cash (Rs. 8.47 crore as on March 31, 2020) and receipt of income tax refund of around Rs. 15 crore in H1 FY2021 are likely to support its liquidity.

### Rating sensitivities

**Positive triggers** – ICRA may upgrade SVF's ratings if a sustained improvement in revenues and profit margins strengthens the company's financial profile.

**Negative triggers** – An adverse outcome of the ongoing litigation, negatively impacting the company's business profile, may trigger a rating downgrade. In addition, a higher-than-estimated decline in the company's revenues due to the pandemic, adversely impacting its profits and cash flows, and non-renewal or a significant downsizing of contracts by key customers may lead to a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Media Industry (Film Production, Distribution and Exhibition)</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial statements of the company.

## About the company

Incorporated in 1995, SVF has been 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. The company's name was changed to SVF Entertainment Private Limited from the erstwhile Shree Venkatesh Films Private Limited in March 2017.

## Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	192.38	208.05
PAT (Rs. crore)	6.06	13.27
OPBDIT/OI (%)	8.32%	10.95%
PAT/OI (%)	3.15%	6.38%
Total Outside Liabilities/Tangible Net Worth (times)	3.79	2.72
Total Debt/OPBDIT (times)	2.11	0.18
Interest Coverage (times)	4.81	11.76

Source: SVF Entertainment Private Limited

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019			FY2018
					29-Oct-2020	11-Dec-2019	1-Feb-2019	5-Oct-2018	31-Jan-2018	
1	Fund-based/ Non-fund Based Working Capital*	Long Term / Short Term	30.00	3.86 (August 2020)	[ICRA]BBB+ (Stable) / [ICRA]A2+	[ICRA]BBB+@ / [ICRA]A2+@	[ICRA]BBB+@ / [ICRA]A2+@	[ICRA]BBB+ (Positive) / [ICRA]A2+	[ICRA]BBB+ (Positive) / [ICRA]A2+	
2	Unallocated Limit	Long Term / Short Term	5.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2+					

Amount in Rs. crore

\*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 rating watch with negative implications

### 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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ Non-fund Based Working Capital*	NA	NA	NA	30.00	[ICRA]BBB+ (Stable) / [ICRA]A2+
NA	Unallocated Limit	NA	NA	NA	5.00	[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

Source: SVF Entertainment Private Limited

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

Company Name	Ownership	Consolidation Approach
NA	NA	NA

## Analyst Contacts

**K. Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Sujoy Saha**  
+91 33 7150 1184  
[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Sovanlal Biswas**  
+91 33 7150 1181  
[sovanlal.biswas@icraindia.com](mailto:sovanlal.biswas@icraindia.com)

## Relationship Contact

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

### About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 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](http://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