

September 02, 2021

UFO Moviez India Limited: Ratings downgraded to [ICRA]A(Negative)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based – Term Loan	97.31	107.89	[ICRA]A(Negative) downgraded from [ICRA]A+(Negative)
Long-term, Fund based – Cash Credit	75.00	10.00	[ICRA]A(Negative) downgraded from [ICRA]A+(Negative)
Long-term, Short term: Unallocated#	-	64.42	[ICRA]A(Negative)/[ICRA]A2+ downgraded from [ICRA]A+(Negative)/ [ICRA]A1
Short-term, Non-fund based – Letter of Credit / Bank Guarantee	10.00	-	-
Total	182.31	182.31	

*Instrument details are provided in Annexure-1

#There are no sanctioned/tied up bank lines in place for the Rs. 64.42 crore rated limits.

Rationale

While assigning the ratings, ICRA has taken a consolidated view of UFO Moviez India Limited (UMIL), its 12 subsidiaries/step-subsidiaries, and seven associates, given the common management, strong business and financial linkages within the Group. ICRA also notes the proposed corporate action of integrating Scrabble Entertainment Limited (SEL) (rated [ICRA]A (Negative)), Scrabble Digital Limited (SDL), Scrabble Entertainment (Mauritius) Limited (SEML) with UMIL in the current financial year.

The rating downgrade and the continuation of the Negative outlook factors in the impact of the disruptions caused by the Covid-19 pandemic, with theatre operations remaining suspended/muted for an extended period, leading to a delayed recovery in UMIL's operations and cash losses. UMIL (consolidated) recorded a net loss (excluding share of profits/loss from associates) of Rs. 116.9 crore and cash loss of Rs. 88.5 crore in FY2021, against a PAT of Rs. 34.8 crore in FY2020. While some recovery was seen in Q4FY2021, mainly in the southern markets, the resurgence of Covid-19 cases towards the end of March 2021 led to various state governments re-stating restrictive measures, including temporary closure of theatres. This led to a 16% QoQ decline in Q1FY2022 revenues to Rs. 27.2 crore from Rs. 32.4 crore in Q4FY2021. Losses also widened, with net loss of Rs. 26.7 crore and cash loss of Rs. 20.6 crore in Q1FY2022, as against Rs. 25.5 crore and Rs. 12.30 crore respectively in Q4 FY2021. Although ICRA notes that the company has undertaken several cost rationalisation measures which will help to reduce cash outflows over the near term, adequate ramp up in revenues will remain critical for improvement in the overall credit profile. Moreover, while the company has sufficient near-term liquidity to tide over the disruptions, its ability to raise funds to maintain its liquidity position and capital structure will remain a key rating monitorable. UMIL's financial flexibility also stands restricted on account of the sharp decline in share price over the past few years.

The ratings, however, continue to factor in the company's comfortable capital structure, with total outside liabilities / tangible net worth (TOL/TNW) of 0.7 times as on March 31, 2021 on a consolidated basis. UMIL's leading position in the digital cinema services industry, with ~55% market share (in terms of the number of digitised screens in the country) on a consolidated basis, a large installed base of its systems among exhibitors and the acceptance of UMIL as a digital partner by film producers /distributors, and its experienced management team also support the ratings. The build-up in content pipeline, with around 55 movies scheduled for theatrical release over the next few months also provides comfort, although revenue generation from

the same will remain contingent on continued easing of restrictions, particularly the opening up of cinemas across India. UMIL, like film exhibitors, also remains exposed to a significant risk of movies (including big budget productions) being released directly on OTT platforms in the event of delays in opening theatres and/or in ramp up of footfalls. Over the long-term, UMIL's ability to maintain commercial terms (VPF/rentals) with its clients (film producers/distributors and exhibitors) remains the key for sustained business growth, given the limited potential for increasing the screen base in India. Risks also arise from the Group's operating lease-based revenue model, which has required high initial investments in technology and projection systems, as well as the moderate life of projection systems of 6 to 8 years, necessitating some level of maintenance/replacement capital expenditure on a continuous basis, and the vulnerability to changes in technology. ICRA however, notes the company's attempts to diversify into new revenue streams, which, if successful, would mitigate the above-mentioned risks to an extent.

Key rating drivers and their description

Credit strengths

Leading digital cinema technology and infrastructure provider to film exhibitors in India – UMIL has established a strong market position by way of consolidation and inorganic growth, especially through the 100% stake acquired over the years in SEL, a digital cinema initiative (DCI) compliant system integrator. UMIL (consolidated, i.e., combined with SEL) is the leading digital cinema technology and infrastructure provider to film exhibitors in India, with a network of 4,996 screens across India as on June 30, 2021. These screens include 1,779 D-Cinema screens and 3,217 E-Cinema screens across single screen theatres and multiplexes. UMIL and SEL together account for ~55% of the digital cinema screens in the country. The consolidated entity has a large installed base of systems among exhibitors, and is well-accepted as a digital partner by film producers / distributors.

Wide coverage of theatres across India attracting advertiser; notwithstanding the downtrend in advertising revenues since FY2020 – In Q3 FY2020, along with the launch of a new logo, the company introduced a new brand identity, UFO Cine Media Network (UCMN), to leverage on its wide theatre network and reinforce its focus on in-cinema advertising. With the introduction of UCMN, the company realigned its advertisement network into two channels – prime screens (1,911; multiplexes and Hollywood release centres as on March 31, 2021) and popular screens (1,647; standalone screens and mass appeal screens as on March 31, 2021). However, in FY2020, UMIL's advertisement revenues dipped by ~35% mainly on account of the decline in the Central Government's revenues (which witnessed a YoY decrease of 77%). The Covid-19 pandemic further impacted advertising revenues from FY2021 onwards, with the same reducing to almost nil. ICRA notes that recovery in advertising revenues will remain contingent on the increase in theatre footfalls, and will continue to monitor the same.

Comfortable capital structure along with adequate liquidity profile – In the past years, healthy operating cash flows, coupled with the management's ability to raise equity to fund the growth, helped the company achieve a comfortable capital structure and maintain adequate liquidity. As on March 31, 2021, UMIL (consolidated) had a low level of leverage with total outside liabilities / tangible net worth (TOL/TNW) of 0.7 times. It also reported total cash and liquid investments of Rs. 79.0 crore, against a gross debt (excluding lease liabilities) of Rs. 112.7 crore as on June 30, 2021.

ICRA, however, notes that the company's share price has declined significantly over the past few years, resulting in reduced financial flexibility. ICRA factors in the high dividend payout (including DDT) of ~Rs. 148.2 crore in FY2020 (including Rs. 30 per share dividend announced for FY2019 and the interim dividend of Rs. 15 per share announced on February 27, 2020). Any further large dividend pay-outs would remain a key rating monitorable.

Professional and experienced management team – Mr. Sanjay Gaikwad, the founder and Managing Director of UMIL, has extensive experience in the media business. He is supported by a team experienced in various facets of the business. During UMIL's initial years, the management was able to raise private equity to fund its growth requirements. The management's abilities were also demonstrated when they provided an exit to its investors through an offer for sale in May 2015.

Credit challenges

Continuing operational disruptions due to pandemic resulting in cash losses - ICRA notes the significant disruptions in UMIL's operations due to the pandemic and delayed recovery in operations with theatre operations remaining suspended/muted for an extended period, leading to a delayed recovery in operations and cash losses. UMIL (consolidated) recorded a net loss (excluding share of profits/loss from associates) of Rs. 116.9 crore and cash loss of Rs. 88.5 crore in FY2021, against a PAT of Rs. 34.8 crore in FY2020. While some recovery was noted in Q4FY2021, mainly in the Southern markets, the resurgence of Covid-19 cases towards the end of March 2021 led to various state governments re-stating restrictive measures, including temporary closure of theatres. This led to a 16% QoQ decline in Q1FY2022 revenues to Rs. 27.2 crore from Rs. 32.4 crore in Q4FY2021. Losses also widened, with net loss of Rs. 26.7 crore and cash loss of Rs. 20.6 crore in Q1FY2022, as against Rs. 25.5 crore and Rs. 12.3 crore respectively in Q4 FY2021. Nevertheless, the financial position improved YoY as compared to Q1FY2021, which had seen a more stringent nation-wide lockdown.

Although ICRA notes that the company has undertaken several cost rationalisation measures which will help to reduce the cash outflows over the near term, adequate ramp up in revenues will remain critical for improvement in the overall credit profile, especially given the ongoing fear of third wave of the pandemic and restrictions on cinema hall operations. UMIL, like other film exhibitors, also remains exposed to a significant risk of movies (including big budget productions) being released directly on OTT platforms in the event of delays in opening theatres and/or in ramp up of footfalls. This is a key rating monitorable.

High penetration levels of digital cinema in theatres limiting growth prospects in terms of screen additions – With almost full digitisation of theatres in India, there is a limited potential for increasing the screen base. While it has taken initiatives, such as Nova Cinemaz, to drive the establishment of new screens in the country, no major increase in the number of screens is expected over the medium term. While the competition in the industry is moderate, with UMIL accounting for ~55% of the digitised screens in the country, the company has been witnessing some churn in its screens owing to temporary/permanent closure of some of the screens. However, it is likely that some of these film exhibitors return to UMIL over the longer term on the back of its ability to provide content and generate advertisement revenues for the theatres.

Risks of changes in VPF agreement/technology despite strong installed base of UMIL's systems among film exhibitors in India – UMIL, being present in a technology-intensive media business, is exposed to the risks associated with any technological disruptions leading to complete change in the business landscape. However, given that UMIL (along with SEL) has established a wide network of digital cinema screens across the country, and is offering theatres a sustainable business model by providing a share in advertisement revenues, it will be difficult for a new player (with new technology) to replace its systems, unless backed by a sustainable business plan for all stakeholders. Any material changes in VPF for D-Cinema or E-Cinema (Bollywood producers) remain crucial – Limited tenure of D-Cinema VPF income from the Hollywood studios has resulted in a gradual decline in Hollywood VPF income starting from FY2016, and eventual expiry in FY2020, thereby impacting its OPM. ICRA notes that the company did not charge any VPF for November and December 2020 and has offered discounts for the months of January to March 2021 on account of restricted occupancy in the theatres. Any further material changes in the terms of the VPF for D-Cinema or E-Cinema (Bollywood producers) is a key rating monitorable.

Operating lease-based revenue model requires high investments; moderate life (6 to 8 years) of projection systems – ICRA notes that UMIL's lease-based revenue model has required high initial investments in technology and projection systems, which has historically constrained its profitability.

Liquidity position: Adequate

UMIL's liquidity position remains **adequate**, despite the moderation witnessed in FY2021 due to cash losses. It reported cash and liquid investments of Rs. 79.0 crore, against a gross debt (excluding lease liabilities) of Rs. 112.7 crore as on June 30, 2021.

Rating sensitivities

Positive factors – An upgrade is unlikely in the near term. However, ICRA could revise the outlook to Stable if the group shows a sustained improvement in its profitability, supported by significant growth in revenues and scale of operations.

Negative factors – The ratings may be downgraded in case of sustained weakening in revenue and/or profitability or further deterioration in liquidity or leverage.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Film Industry (Production, Distribution and Exhibition)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UMIL; as on March 31, 2021, the company had 12 subsidiaries/step-subsidiaries, and seven associates, which are all listed in Annexure-2.

About the company

The UMIL Group operates as an infrastructure service provider for the film distribution and exhibition industry. UMIL receives analogue movie prints from film producers / distributors, and then digitises, compresses, encrypts and transmits the same through satellite to authorised exhibitors. It also facilitates the exhibitors to screen digital cinema by providing them with the required infrastructure—such as satellite dishes, servers, digital projectors and UPS. UMIL, thus, offers cost and time arbitrage to the film industry. UMIL also facilitates advertisers to showcase their advertisements on screen during a movie show. UMIL is currently the leading digital cinema infrastructure provider to theatres in India, with a digital screen market share of ~55% (consolidated level). UMIL also has 100% stake in SEL.

The company has proposed a corporate action for integration of part of SEL, SDL and SEML businesses with UMIL. The rationale behind this corporate action was that the continuing business operations of SEL are similar to the operations of the UMIL and will fetch synergetic benefits once the theatre networks of the SEL and UMIL are merged and consolidated under one roof. SEML is involved in the business of investment holding and the deployment of digital cinema equipment, for distribution across cinema theatres in Israel through its Israel branch. It holds majority investment in Scrabble Entertainment DMCC which conducts digital cinema deployment business in Middle East region. SDL is involved in the business of providing digital cinema encoding services such as DCI-based mastering and duplication of content, transportation of encrypted content to the theatres. The proposed corporate action is aimed at better business synergies, improved overall operational efficiencies and cost savings besides reduction in legal and regulatory compliances that are currently carried out by multiple entities of the group.

Key financial indicators (audited)

UMIL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	502.1	86.6
PAT (Rs. crore)	34.8	(116.9)
OPBDIT/OI (%)	23.6%	(101.3%)
PAT/OI (%)	6.9%	(135.0%)
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDIT (times)	0.6	(1.1)
Interest Coverage (times)	11.7	(6.7)

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 August 21, 2021 (Rs. crore)	Date & Rating in Sep 02, 2021	Date & Rating in FY2021		Date & Rating in FY2020			Date & Rating in FY2019	
						Jan 07, 2021	Sep 04, 2020	Mar 13, 2020	Nov 05, 2019	Sep 16, 2019	Mar 01, 2019	Jan 31, 2019
1	Term Loan	Long-term	107.89	107.89	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
2	Fund-based Facility	Long-term	10.00	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
3	Unallocated#	Long/short term	64.42	-	[ICRA]A (Negative)/ [ICRA]A2+	-	-	-	-	-	-	-
4	Non-fund Based Facility	Short-term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

#There are no sanctioned/tied up bank lines in place for the Rs. 64.42 crore rated limits.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Unallocated	Not Applicable

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/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Yes Bank	Term Loan I	Oct-16	8.55%	FY2022	5.28	[ICRA]A(Negative)
HDFC Bank	Term Loan II	FY2018	7.92%	FY2023	23.47	[ICRA]A(Negative)
HDFC Bank	Term Loan III	Oct-19	8.41%	FY2023	26.93	[ICRA]A(Negative)
HDFC Bank	ECGLS Term Loan	May-21	8.00%	FY2028	22.20	[ICRA]A(Negative)
IDFC First Bank Ltd.	Working capital Term Loan	Dec-20	9.55%	FY2025	30.00	[ICRA]A(Negative)
IDFC First Bank Ltd.	Cash Credit Facility	March 2020	-	-	10.00	[ICRA]A(Negative)
NA	Unallocated facility#	-	-	-	64.42	[ICRA]A(Negative)/ [ICRA]A2+

Source: Company

#There are no sanctioned/tied up bank lines in place for the Rs. 64.42 crore rated limits.

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

Sl. No.	Name of the Group Company	UMIL's	Consolidation
1	UFO Moviez India Limited (rated entity)	100%	Full Consolidation
2	Scrabble Entertainment Limited	100%	Full Consolidation
3	Scrabble Entertainment DMCC	100%	Full Consolidation
4	Scrabble Entertainment Mauritius Limited	100%	Full Consolidation
5	Scrabble Digital Inc	100%	Full Consolidation
6	Scrabble Entertainment Lebanon SARL	100%	Full Consolidation
7	UFO Software Technologies Private Limited	100%	Full Consolidation
8	Valuable Digital Screen Private Limited	100%	Full Consolidation
9	UFO Lanka Private Limited	100%	Full Consolidation
10	UFO Film Organisers Nepal Private Limited	100%	Full Consolidation
11	Zinglin Media Private Limited (Formerly known as PJSA Technosoft Private	100%	Full Consolidation
12	Scrabble Digital Limited (w.e.f. December 14, 2018)	100%	Full Consolidation
13	Plexigo Entertainment Private Limited (Formerly known as SAPJ Media and Entertainment Pvt. Ltd.)	100%	Full Consolidation
	Associates		
14	Mukta V N Films Private Limited	48.12%	Equity Method
15	Scrabble Digital DMCC	33.33%	Equity Method
16	Scrabble Venture LLC	30.00%	Equity Method
17	Scrabble Ventures, S. de R.L. de C.V, Mexico	30.00%	Equity Method
18	Scrabble Audio Visual Equipment Trading LLC	49.00%	Equity Method
19	Cinestaan Digital Private Limited	33.08%	Equity Method
20	Mumbai Movie Studios Private Limited	30.74%	Equity Method

Source: Annual report and quarterly results of UMIL

\$ Not available

ANALYST CONTACTS

Shubham Jain

+91-124-4545-306

shubhamj@icraindia.com

Mathew K Eranat

+91 80-43326415

mathew.eranat@icraindia.com

Mahi Agarwal

+91 33 7150 1106

mahi.agarwal@icraindia.com

Preeti Kumaran

+91 22 6169 3356

preeti.kumaran@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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