PVR Limited

Instrument	Amount	Rating Action
	Rs. Crore	
Long-term Fund Based Facilities	295.8 (enhanced from 262.3)	[ICRA]AA-(Stable) assigned/outstanding
Unallocated limits	50.0	[ICRA]AA-(Stable) Assigned
NCD Programme	360.0	[ICRA]AA-(Stable) (Outstanding)
Commercial Paper	80.0	[ICRA]A1+ (Outstanding)

ICRA has assigned **[ICRA]AA-** (pronounced ICRA double A minus) rating to the Rs 295.8 crore[1] (enhanced from Rs 262.3 crore) long-term fund based limits of PVR Limited [2]. ICRA has also assigned [ICRA]AA- rating to the Rs 50.0 crore unallocated limits of PVR. ICRA has an outstanding rating of [ICRA]AA- for the Rs. 360.0 crore NCD programme of PVR. The outlook on the long-term rating is **Stable.** Further, ICRA also has an outstanding short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 80.0 crore commercial paper programme of PVR.

The re-affirmation of rating takes into account the strengths derived from PVR's leadership position in the Indian multiplex industry and the successful business integration of Cinemax India Limited as witnessed in the ramp up of revenues and operating profits in recent years. The rating draws comfort from PVR's strong management and established track record, which has enabled it to witness better operating metrics compared to most of its peers. The ratings favourably factor in strong operating performance of the company in FY2016 and significant improvement in operating metrics led by strong box office performance of released films during the same period.

The rating notes the successful conclusion of PVR's acquisition of 'DT Cinemas', the cinema exhibition business of DLF Utilities Limited, on a slump sale basis for an aggregate amount of Rs. 433 crore. The transaction was announced in June 2015 and was concluded after almost a year after obtaining the required approvals from the Competition Commission of India (CCI). The acquisition was funded through Rs. 350 crore of fresh equity and the rest from a mix of debt and internal accruals.

With the acquisition of DT Cinemas with its 29 existing screens and three under-construction screens, PVR's network has increased to 552 screens (excluding under-construction screens), while consolidating its position as the market leader in an industry that has witnessed significant consolidation in recent years. While the presence of DT's concentrated portfolio in high paying markets such as the Delhi National Capital Region and Chandigarh will improve the overall operating metrics of PVR. The shift from fixed rentals to revenue sharing for acquired screens would also result in cost savings. Furthermore, the synergy derived from the acquisition in the medium term is likely to improve the profitability of the consolidated entity.

The ratings also draw comfort from the improvement in the financial risk profile of the company as reflected by deleveraging of capital structure following the significant equity infusion, albeit to fund acquisition, and improvement in profitability led by higher occupancies and consistently increasing average ticket price and spend per head. The higher fund generation has allowed PVR to fund the capex undertaken in FY2016, thereby reducing dependence on external debt. However, to conclude acquisition and support ongoing capex, PVR has raised fresh debt in Q1 FY2017. ICRA notes that since PVR continues to be under an organic expansion mode, as it plans to add 60-70 screens annually, any unexpected deterioration in fund generation or any additional inorganic growth plan could also increase its reliance on external debt, thereby impacting the credit profile of the company. Moreover, content risk assumes significance considering that the company plans to fund its ongoing capex largely through internal accruals, and is therefore dependent on good content at the box office, coupled with scaling up of performance of new properties to generate the expected accruals. Furthermore, as is typical of the industry, PVR continues to be exposed to risks associated with the movie business like piracy, regulatory risks, and substitution risk from competing distribution platforms.

---

[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

The company's working capital requirements is negative owing to cash receipt nature of multiplex operations. However, it resorts to short-term borrowings for managing temporary cash flow mismatches, given the seasonal nature of the movie industry. With a steady ongoing expansion plan and the seasonal nature of business, the company's ability to manage its cash flows, while improving the debt coverage indicators will be a key rating sensitivity. The company's ability to execute its planned capex in a timely manner and generate commensurate returns from the new screens would continue to be rating sensitivities.

Recent results

On a consolidated basis, in FY2015, PVR reported an operating income of Rs. 1477.12 crore with a profit after tax (PAT) of Rs. 11.6 crore translating to a net margin of 0.8%. In FY2016, PVR reported an operating income of Rs. 1,868.8 crore with a profit after tax of Rs. 119.28 crore translating to a net margin of 6.4%. PAT margins were aided by low tax outgo on account of reversal of deferred tax liability pursuant to a favourable legal ruling with regard to treatment of entertainment tax subsidy in the recent past.

About the Company:

PVR Limited (PVR) is a leading "Film Exhibition" company in India. It pioneered the multiplex industry in the country by establishing the first multiplex cinema (four screens) in 1997, along with the largest (11-screen) multiplex cinema in the country in 2004. Currently, it has a geographically diverse cinema circuit in India, consisting of 120 theatres with a total of 552 screens. PVR's other businesses include movie distribution business through its wholly owned subsidiary, PVR Pictures; its bowling alley business through PVR Bluo Entertainment Ltd.; and its gourmet popcorn business through Zea Maize Pvt. Ltd.

July 2016

For further details please contact:
Analyst Contacts:
Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

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

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: +**91 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: +**91 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: +**91 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: +**91 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: +**91 9821086490** 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: +**91 9821086490** 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: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	