January 16, 2017

PVR Limited (Revised)

Instruments*	Amount Rated (Rs. crore)	Rating Action
Non Convertible Debentures	360.0	[ICRA]AA- (Stable) / reaffirmed
Commercial Paper	125.0	[ICRA]A1+ / reaffirmed
Long term: Fund based limits (Note)	219.0 (revised from 295.8)	[ICRA]AA- (Stable) / reaffirmed
Unallocated limits	0.0 (revised from 50.0)	
Total	**704.0 (revised from 830.8)**	

**Instrument details are provided in Annexure-1*
Note: The ratings of [ICRA]AA (stable)/ [ICRA]A1+ shall be applicable depending on the usage of the facilities

Rating Action
ICRA has reaffirmed the long term rating of [ICRA]AA- (pronounced as ICRA double A minus) [2] for the Rs. 219.00 crore[1] (revised from Rs. 295.80 crore) fund based facilities and Rs. 360.00 crore non convertible debenture (NCD) programme of PVR Limited (PVR). ICRA has also reaffirmed the short term rating at [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 125.00 crore CP programme of PVR Limited. The outlook on the long term rating is Stable.

Rationale
The rating continues to take into account the strengths derived from PVR's leadership position in the Indian multiplex industry and the successful business integration of Cinemax India Limited and DT Cinemas as witnessed in the ramp up of revenues over the last two years. Further, the rating also 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 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, although part payment is still pending which is linked to the delivery of few projects by DLF.

With the acquisition of DT Cinemas with its 29 existing screens and three under-construction screens, PVR's network has increased to 562 screens (excluding under-construction screens), while consolidating its position as the market leader in an industry that has witnessed significant consolidation in recent years. ICRA believes 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 as is also evidenced by improvement in average ticket price and spend per head in H1FY2017 as compared to H1FY2016. 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 strong financial risk profile of the company as reflected by the increase in the operating income and improvement in debt coverage indicators. The rating factors in favourably the high growth in other revenue segments like food & beverages and advertisement in H1FY2017. Consequent to the improvement in the key drivers of operating revenues, fund flows for PVR improved in FY2016 reducing dependence on external financing. However, to conclude the acquisition and support ongoing capex, PVR had to rely on fresh debt in H1FY2017. 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

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1 100 lakh = 1 crore = 10 million
1 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

profile of the company. Growth opportunity and its mode of funding will remain key credit sensitivity. 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 platform. Also, with the government's demonetisation scheme announced on November 08, 2016, there was a dip in the occupancy level in the following two weeks. However, the fall was partly captured by the company through launch of offers to promote online transactions as well as some good content movie releases in November - December 2016.

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 the 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.

Key rating drivers

Credit Strengths

- Current leadership position in the Indian multiplex industry despite significant consolidation in the industry over the last two years
- Significant ramp up in revenues in the last two years on account of successful integration of Cinemax and DT Cinemas
- Improvement in operating metrics of average ticket price and spend per head in H1FY2017
- Healthy revenue growth in high margin Foods & Beverage (F&B) and advertisement streams
- Strong brand value, established relationships with various real estate developers enables PVR to launch multiplex at prime locations

Credit Weakness

- Aggressive expansion plans, coupled with decline in margins in H1FY2017, has led to an increase in the debt level, thereby deteriorating the gearing level as on Sep 30, 2016
- Planned capex with addition of 60-70 screens renders company dependent on good performance of movies, the absence of which would make it dependent on additional borrowings.
- Exposed to risks inherent in the movie exhibition industry like piracy, regulatory and substitution risks

Description of key rating drivers highlighted above:

Despite significant consolidation in the film exhibition industry, PVR Limited continues to be the market leader with 562 screens across 122 properties. With the recent acquisition of DT Cinemas, the company has successfully integrated the newly acquired theatres under the brand of PVR leading to ramp up in its revenues. With increasing presence in high paying markets, operating metrics of average ticket price and spend per head have witnessed continued growth. Non exhibition segments like F&B and Advertisement revenues have also witnessed a healthy growth in FY2016 and H1FY2017. Being high margin revenue streams, these segments have contributed in pulling the operating profitability. Brand value and strong relationships with real estate developers has enabled PVR to scale up its operations in prime locations thereby contributing to its growth spree. However, on account of lack of good movie content, there was a dip in occupancy level leading to decline in operating margin in H1FY2017 (as compared to H1FY2016). Furthermore, the aggressive expansion plans led to an increase in the debt level as on Sep 30, 2016. PVR is highly dependent on box office collections to generate healthy cash flows to fund its expansion, thereby making it vulnerable to content risk. Apart from this, it is also exposed to inherent risks in the industry like piracy, regulatory as well as substitution risks.

Analytical approach: Not applicable

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

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 122 theatres with a total of 562 screens. PVR’s other businesses include movie distribution business through PVR Pictures; its bowling alley business through PVR Bluo Entertainment Ltd.; and its gourmet popcorn business through Zea Maize Pvt. Ltd.

On a consolidated basis, in H1FY2017, PVR reported an operating income of Rs. 1124.45 crore with a profit after tax (PAT) of Rs. 72.30 crore translating to a net margin of 6.4%. In FY2016, PVR reported an operating income of Rs. 1,874.40 crore with a profit after tax of Rs. 98.62 crore translating to a net margin of 5.3%.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				January 2017	October 2016	December 2015	April 2015	December 2013
1	Commercial paper	Short term	125.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	Term Loans	Long Term	219.00	January 2017	July 2016	February 2016		
				[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
3	NCD programme	Long Term	360.00	January 2017		February 2016		
				[ICRA]AA- (Stable)	-	[ICRA]AA- (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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue* (Rs. Cr)	Current Rating and Outlook
Term loan 1	-	-	FY2019-20	47.3	[ICRA]AA- (Stable)
Term loan 2	-	-	FY2019-20	61.3	[ICRA]AA- (Stable)
Term loan 3	-	-	FY2023-24	110.4	[ICRA]AA- (Stable)
NCD -1	01-01-2010	11.40%	01-01-2018	2.0	[ICRA]AA- (Stable)
NCD-2	01-01-2010		01-01-2019	3.0	[ICRA]AA- (Stable)
NCD-3	01-01-2010		01-01-2020	3.0	[ICRA]AA- (Stable)
NCD-4	25-02-2014	10.95%	25-02-2019	50.0	[ICRA]AA- (Stable)
NCD-5	10-06-2014	10.75%	10-06-2019	50.0	[ICRA]AA- (Stable)
NCD-6	16-10-2014	11.00%	16-10-2018	25.0	[ICRA]AA- (Stable)
NCD-7	16-10-2014		16-10-2019	25.0	[ICRA]AA- (Stable)
NCD-8	16-10-2014		16-10-2020	25.0	[ICRA]AA- (Stable)
NCD-9	16-10-2014		16-10-2021	25.0	[ICRA]AA- (Stable)
NCD-10	24-11-2014	11.00%	24-11-2019	15.0	[ICRA]AA- (Stable)
NCD-11	24-11-2014		24-11-2020	15.0	[ICRA]AA- (Stable)
NCD-12	24-11-2014		24-11-2021	20.0	[ICRA]AA- (Stable)
NCD-13	09-01-2015	10.75%	08-01-2021	50.0	[ICRA]AA- (Stable)
NCD-14	09-01-2015		07-01-2022	50.0	[ICRA]AA- (Stable)
NCD (not placed)				2.0	[ICRA]AA- (Stable)
CP	21-12-2016	6.50%	21-03-2017	50.0	[ICRA]A1+

**as on 31st Dec, 2016*

Source: PVR Limited

Name and Contact Details of the Rating Analyst(s):

K. Ravichandran
+91 44 45964301
ravichandran@icraindia.com

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Manav Mahajan
+91 124 4545 817
manav.mahajan@icraindia.com

Piyush Sen
+91 124 4545 392
piyush.sen@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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**

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** **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	