May 23, 2017

PVR Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Commercial Paper	150.0 (enhanced from 125.0)	[ICRA]A1+ assigned/outstanding
Non convertible debetures	360.0	[ICRA]AA- (Stable) outstanding
Fund based –term loan	219.0	[ICRA]AA- (Stable) outstanding

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned short term rating of [ICRA]A1+ to the Rs. 150.0 crore (enhanced from Rs. 125.0 crore) commercial paper (CP) programme of PVR Limited (PVR). ICRA also has a rating outstanding of [ICRA]AA- (Stable) for its Rs. 360.0 crore non convertible debenture (NCD) programme and Rs. 219.0 crore bank lines of PVR Limited.

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 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.

With the acquisition of DT Cinemas and PVR's on-going capex, PVR's network has increased to 579 screens (excluding under construction screens). This has helped PVR consolidate its position as the market leader in an industry that has witnessed significant consolidation in recent years.

The ratings also draw comfort from the strong financial risk profile of the company as reflected by the steady increase in its operating income and healthy debt coverage indicators. The ratings factors in favourably the high growth in other revenue segments like food & beverages and advertisement in 9mFY2017 as compared to 9mFY2016. However, on account of drop in occupancy level in the period 9mFY2017 as compared to 9mFY2016, limited growth in the film revenues (10% increase in 9mFY2017) and increase in fixed costs (20% increase in 9mFY2017) for the company due to increasing scale of operations, the margins have been lower at 18.1% in 9mFY2017 as compared to 19.6% in 9mFY2016. Also, to conclude the acquisition and support ongoing capex, PVR had to rely on fresh debt in 9mFY2017. 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. 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 Q3FY2017, which lowered the margins for the quarter as compared to last year. Nevertheless, ICRA also notes the shift in the mode of payment from cash to online modes of payment, whose share increased from 44% to 65% post demonetisation and moderation of the demonetisation scheme's impact over the last few months.

The company's working capital requirement 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 and increase in its scale of operations. 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 as per the envisaged mode of funding along with ability to 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
- Improvement in operating metrics of average ticket price and spend per head in 9mFY2017
- Healthy revenue growth in 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 9mFY2017 due to drop in occupancy level, has led to an increase in the debt level
- 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 579 screens across 126 properties. With the 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 and market presence. 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 9mFY2017. 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, due to poor movie content and the effect of demonetisation, there was a dip in occupancy in 9mFY2017 which along with limited growth in film revenues (10% in 9mFY2017 as compared to 20% in 9mFY2016) and rising fixed costs, there was a dip in the operating margin of PVR from 19.6% in 9mFY2016 to 18.1% in 9mFY2017. Furthermore, the aggressive expansion plans led to an increase in the debt level. 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: Standalone financials have been considerate to arrive at the rating of PVR.

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. Currently, it has a geographically diverse cinema circuit in India, consisting of 126 theatres with a total of 579 screens.

On a standalone basis, in 9mFY2017, PVR reported an operating income of Rs. 1558.85 crore with a profit after tax (PAT) of Rs. 92.81 crore translating to a net margin of 5.95%.

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 FY2017	Month- year & Rating in FY2017	Month- year & Rating in FY2015
				May 2017	January 2017	October 2016	July 2016	April 2015
1	Commercial paper	Short term	150.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loans	Long Term	219.00		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	NCD programme	Long Term	360.00		[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 (in Rs. Crore)	Current rating and outlook
CP I*	6-Mar-17	6.45%	5-May-17	35.00	[ICRA]A1+
CP II*	20-Mar-17	6.50%	22-May-17	15.00	[ICRA]A1+
CP III*	22-Mar-17	6.50%	22-May-17	35.00	[ICRA]A1+
CP (not placed)				65.00	[ICRA]A1+
NCD	1-Jan-10	11.40%	1-Jan-18	2.00	[ICRA]AA- (Stable)
NCD	1-Jan-10	11.40%	1-Jan-19	3.00	[ICRA]AA- (Stable)
NCD	1-Jan-10	11.40%	1-Jan-20	3.00	[ICRA]AA- (Stable)
NCD	25-Feb-14	10.95%	25-Feb-19	50.00	[ICRA]AA- (Stable)
NCD	10-Jun-14	10.75%	10-Jun-19	50.00	[ICRA]AA- (Stable)
NCD	16-Oct-14	11.00%	16-Oct-18	25.00	[ICRA]AA- (Stable)
NCD	16-Oct-14	11.00%	16-Oct-19	25.00	[ICRA]AA- (Stable)
NCD	16-Oct-14	11.00%	16-Oct-20	25.00	[ICRA]AA- (Stable)
NCD	16-Oct-14	11.00%	16-Oct-21	25.00	[ICRA]AA- (Stable)
NCD	24-Nov-14	11.00%	24-Nov-19	15.00	[ICRA]AA- (Stable)
NCD	24-Nov-14	11.00%	24-Nov-20	15.00	[ICRA]AA- (Stable)
NCD	24-Nov-14	11.00%	24-Nov-21	20.00	[ICRA]AA- (Stable)
NCD	9-Jan-15	10.75%	8-Jan-21	50.00	[ICRA]AA- (Stable)
NCD	9-Jan-15	10.75%	7-Jan-22	50.00	[ICRA]AA- (Stable)
NCD (not placed)				2.00	[ICRA]AA- (Stable)
Term Loan I			FY2019-20	47.30	[ICRA]AA- (Stable)
Term Loan II			FY2019-20	61.30	[ICRA]AA- (Stable)
Term Loan III			FY2023-24	110.40	[ICRA]AA- (Stable)

**as on 30th April, 2017*

Source: PVR Limited

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