PVR Limited

Instrument	Amount In Crore	Rating
Commercial paper	80.0	[ICRA]A1+('rating watch with developing implications' removed)

ICRA has removed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs 80 crore commercial paper programme of PVR Limited (PVR) from rating watch with developing implications*.

The removal of rating watch follows adequate clarity on PVR's proposed acquisition of 'DT Cinemas' (DT) , its funding mix and impact on PVR's credit profile. In June 2015, PVR announced the acquisition of 'DT Cinemas', the cinema exhibition business of DLF Utilities Limited on a slump sale basis for an aggregate amount of Rs 500 crore. The proposed transaction is awaiting approval from applicable statutory and regulatory bodies and is expected to be concluded by the end of this calendar year. The acquisition is being funded by Rs 350 crore of fresh equity and rest from a mix of debt and internal accruals. While Rs 350 crore of equity was in July 2015 from Multiple Alternate Asset Management Private Limited, a private equity firm which was an existing shareholder, against dilution of 10.7% stake, remaining Rs 150 crore is expected to be raised in CY2016 given the staggered nature of payment schedule.

With acquisition of DT Cinemas having 29 existing screens and 10 under-contruction screens, PVR's network will increase to 503 screens (excluding under-construction screens) while maintaining its position as the market leader in an industry which has witnessed significant consolidation in recent years. While the presence of DT's concentrated portfolio in high-paying markets such as NCR 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. Further the synergy derived from the acquisition in the medium term is likely to improve the profitability of the consolidated entity.

ICRA also takes note of the PVR's healthy growth in revenues and profits in Q1, FY16 on account of strong box office performance of the films released in the quarter. The performance of the company is likely to remain satisfactory in ongoing quarter and ICRA expects higher fund generation in the current financial year. PVR plans to use the surplus, if any in funding a portion of remaining Rs 150 crore for proposed deal which would reduce the dependence on external debt. Nevertheless, PVR continues to be under organic expansion mode as it plans to add 60-70 screens annually and any unexpected deterioration in fund generation or any additional inorganic growth plan could also increase the reliance on external debt thereby impacting the credit profile of the company. Further, 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 box office coupled with scaling up of performance of new properties in order to generate the expected accruals. Further, as is typical of the industry, PVR continues to be exposed to risks associated with the movie business like piracy, regulatory risks, substitution risk from competing distribution platforms.

The company's working capital requirements are limited owing to cash receipt nature of multiplex operations; however it resorts to short term borrowings for managing temporary cashflow 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 cashflows while improving the debt coverage indicators will be a key rating sensitivity. This apart the company's ability to improve its operating performance, execute its planned capex in a timely manner and generate commensurate returns from the new screens would continue to be rating sensitivities.

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* For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

100 lakh = 1 crore = 10 million

Recent results

On a consolidated basis, in FY2015, PVR reported an operating income of Rs 1481.34 crore with a profit after tax of Rs 11.6 crore translating to a net margin of 0.8%. In Q1, FY16, PVR reported an operating income of Rs 486.02 crore with a profit after tax of Rs 58.45 crore compared to an operating income of Rs 362.26 crore with a profit after tax of Rs 7.46 crore translating to a net margin of 2% for Q1,FY15. 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 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 (4 screens) in 1997 and the largest (11-screen) multiplex cinema in the country in 2004. Currently, it has a geographically diverse cinema circuit in India consisting of 106 theatres with a total of 474 screens. PVR’s other businesses include movie distribution business through its wholly owned subsidiary PVR Pictures, bowling alley and restaurant business through its subsidiary PVR Leisure Ltd.

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