PVR Limited

June 06, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	150.0	200.0	[ICRA]A1+; assigned/outstanding
Non-convertible Debenture Programme	360.0	360.0	[ICRA]AA- (Stable); outstanding
Fund based - Term Loan	219.0	219.0	[ICRA]AA- (Stable); outstanding
Total	**729.0**	**779.0**	

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ to the Rs. 200[1]-crore (enhanced from Rs. 150-crore) commercial paper (CP) programme of PVR Limited (PVR)[2]. ICRA also has a rating outstanding of [ICRA]AA-(Stable) for PVR's Rs. 360-crore non-convertible debenture (NCD) programme and Rs. 219-crore bank lines. The outlook on the long-term rating is Stable.

Rationale

The ratings continue to take into account the strengths derived by PVR from its leadership position in the Indian multiplex industry, strong management and established track record which have enabled it to witness healthy operating metrics. ICRA also favourably factors in the improvement in the company's average tickets prices (ATP) and food and beverage (F&B) spend per head, albeit partially offset by declining occupancy levels to 31.3% in FY2018 from 32.9% in FY2017. Further, the company's advertising revenues and other income increased ~20% and ~18%, respectively in FY2018. Consequently, its operating income (OI) rose to Rs. 2246.12 crore in FY2018, up 12% over the previous year. Sustained improvement in revenues from advertising and other income supported the operating profitability of PVR in FY2018. The overall operating profitability was 17.2% in FY2018 against 14.7% in the previous year. Ability to sustain the same will remain a key sensitivity.

With PVR's ongoing capex, its network increased to 625 screens as on March 31, 2018 from 579 screens as on March 31, 2017. This helped PVR consolidate its position as the market leader in an industry that itself 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 (OI) which, along with steady profitability, resulted in healthy debt-coverage indicators. ICRA notes that PVR is continuing its organic expansion and plans to add ~90 screens in the near term. Moreover, content risk assumes significance as the company plans to fund its ongoing capex primarily through internal accruals and is therefore dependent on good content at the box office as well as improved performance of new properties to generate commensurate returns from the investment made. Therefore, any unexpected deterioration in fund generation or any large inorganic growth may increase its reliance on external debt, thereby impacting its credit profile. As is a common industry trend, PVR continues

[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*

to be exposed to risks associated with the movie business like piracy, regulatory risks, and substitution risk from competing distribution platforms. While reaffirming the ratings, ICRA has also taken note of the company's high repayment obligations for the next two fiscals (Rs. 163 crore and Rs. 152 crore in FY2019 and FY2020, respectively) that might led to the weakening of its debt service coverage ratio (DSCR) and expose it to high refinancing risk. However, ICRA's ratings draw comfort from PVR's robust cash generation from operations and its high financial flexibility on account of its unencumbered assets.

The company's working-capital requirement is negative owing to the 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 an 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 as well as improving the debt coverage indicators will be key rating sensitivities. In addition, the company's ability to execute its planned capex in a timely manner and as per the envisaged mode of funding, and its ability to generate commensurate returns from the new screens would continue to be rating sensitivities.

Outlook: Stable

ICRA expects PVR to continue to benefit from its leadership position in the Indian multiplex industry. The outlook may be revised to Positive if there is a sustained growth in its OI as well as its profitability marked by pickup in occupancy levels and maintenance of a healthy financial profile. The outlook may be revised to Negative if significant debt-funded capital expenditure or weak operating performance impacts the financial profile of the company adversely.

Key rating drivers

Credit strengths

Leadership position in Indian multiplex industry – PVR is the largest multiplex operator in the industry with 134 properties and a total of 625 screens across India. Further, the proposed addition of around ~90 screens in the near term is expected to help maintain the market leadership position despite significant consolidations in the industry in the last few years.

Strong financial profile and coverage indicators – Given that the company is the market leader, it enjoys high average ticket prices. In fact, the ticket prices have increased year on year from Rs. 196 in FY2017 to Rs. 210 in FY2018, leading to healthy growth in OI and strong profitability over the years. Further, funding of capex mainly through internal accruals has led to strong capital structure with gearing at 0.79 times and OPBDITA/Interest at 4.63 times in FY2018.

Strong brand value, established relationships with various real estate developers – PVR, being the market leader, is able to command strong brand value and has established strong relationships with various real estate developers. This enables it to launch properties at premium locations. This in turn leads to higher average ticket prices and adequate occupancy levels.

Credit challenges

Aggressive planned capex with addition of more than 70 screens per year – The company plans to undertake significant capital expenditure every year, which makes it dependent on good box-office performance of movies as significant funding for the capex is envisaged through internal accruals. Absence of adequate internal accruals would make it dependent on additional borrowings, thereby increasing the debt level and impacting the debt coverage indicators.

Declining occupancy levels – The occupancy level of the company has been declining over the past few years. The levels declined to 31.3% in FY2018 from 32.9% in FY2017 and 34.3% in FY2016, mainly due to poor movie content. PVR's OI is highly dependent on occupancy level, which is largely driven by the content and the consequent success of the films at the box office. This makes the company's profit margins volatile.

Exposure to risks like piracy and substitution risks – PVR continues to be exposed to the risks inherent in the movie-exhibition industry such as piracy, availability of online content and other forms of entertainment. These pose the challenge of sustaining profitability and growth. The risk is further exacerbated by the high fixed-cost nature of the business.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company

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. At present, it has a geographically-diverse presence in India with 134 properties and a total of 625 screens.

On a standalone basis, in FY2018, PVR reported an OI of Rs. 2246.1 crore with a profit after tax (PAT) of Rs. 121.4 crore as against an OI of Rs. 2002.0 crore with a PAT of Rs. 92.9 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2002.0	2246.1
PAT (Rs. crore)	92.9	121.4
OPBDIT/OI (%)	14.70%	17.17%
RoCE (%)	15.90%	17.38%
Total Debt/TNW (times)	0.86	0.79
Total Debt/OPBDIT (times)	2.78	2.15
Interest Coverage (times)	3.68	4.63
NWC/OI (%)	-4%	-3%

Source: PVR

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
					Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2018	February 2018	May 2017	January 2017	October 2016	July 2016
1	Commercial Paper	Short Term	200.00	50.0	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	Term Loans	Long Term	219.00	155.7	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**
3	NCD Programme	Long Term	360.00	356.0	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE191H14256	CP I	13-Mar-18	7.50%	12-Jun-18	50	[ICRA]A1+
NA	CP (not placed)	-	-	-	150	[ICRA]A1+
INE191H07037	NCD	1-Jan-10	11.40%	1-Jan-19	3	[ICRA]AA-(Stable)
INE191H07045	NCD	1-Jan-10	11.40%	1-Jan-20	3	[ICRA]AA-(Stable)
INE191H07060	NCD	25-Feb-14	10.95%	25-Feb-19	50	[ICRA]AA-(Stable)
INE191H07078	NCD	10-Jun-14	10.75%	10-Jun-19	50	[ICRA]AA-(Stable)
INE191H07128	NCD	16-Oct-14	11.00%	16-Oct-18	25	[ICRA]AA-(Stable)
INE191H07136	NCD	16-Oct-14	11.00%	16-Oct-19	25	[ICRA]AA-(Stable)
INE191H07144	NCD	16-Oct-14	11.00%	16-Oct-20	25	[ICRA]AA-(Stable)
INE191H07151	NCD	16-Oct-14	11.00%	16-Oct-21	25	[ICRA]AA-(Stable)
INE191H07169	NCD	24-Nov-14	11.00%	24-Nov-19	15	[ICRA]AA-(Stable)
INE191H07177	NCD	24-Nov-14	11.00%	24-Nov-20	15	[ICRA]AA-(Stable)
INE191H07185	NCD	24-Nov-14	11.00%	24-Nov-21	20	[ICRA]AA-(Stable)
INE191H07193	NCD	9-Jan-15	10.75%	8-Jan-21	50	[ICRA]AA-(Stable)
INE191H07201	NCD	9-Jan-15	10.75%	7-Jan-22	50	[ICRA]AA-(Stable)
NA	NCD (not Placed)				4	[ICRA]AA-(Stable)
NA	Term Loan I	15-Dec-11		FY2019-20	47.30	[ICRA]AA-(Stable)
NA	Term Loan II	12-Feb-13		FY2019-20	61.30	[ICRA]AA-(Stable)
NA	Term Loan III	27-Nov-13		FY2023-24	110.40	[ICRA]AA-(Stable)

Source: PVR

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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

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