# PVR Limited

**August 17, 2018**

## Summary of Rated Instrument:

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Non-convertible Debenture Programme | 360.0 | 360.0 | [ICRA]AA-&, placed on watch with developing implication |
| Commercial Paper | 200.0 | 200.0 | [ICRA]A1+&, placed on watch with developing implication |
| Fund based-Term Loan | 219.0 | 219.0 | [ICRA]AA-&, placed on watch with developing implication |
| **Total** | **779.0** | **779.0** | |

& Under rating watch with developing implications

## Material Event

PVR Limited (PVR), on August 12, 2018, announced acquisition of SPI Cinemas Private Limited (SPI) in a cash-cum-stock for a deal value not exceeding Rs. 933 crore. Rs. 633 crore (including Rs. 100 crore deferred payment on achievement of certain milestones) will be paid as cash and the balance will be paid through issuance of equity of PVR Limited.

## Impact of the Material Event

ICRA has placed the long-term rating of [ICRA]AA- (pronounced ICRA Double A minus) outstanding for Rs. 360.0 crore non-convertible debentures (NCD) and Rs. 219.0 bank facilities and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for Rs. 200.0 crore commercial paper programme of PVR Limited (PVR) on 'Rating watch with developing implications'.

## Rationale

The action follows the announcement made by PVR on August 12, 2018 regarding the acquisition of SPI. The said acquisition will be funded through a mix of internal accruals, debt and equity. The deal would be carried out in two-phases, with the first phase seeing acquisition of 71.7% equity share of SPI for Rs. 633 crore. This would be funded through debt of Rs. 150 crore in the near term along with internal accruals to the extent of Rs. 385 crore. The balance Rs. 100 crore would be paid as deferred consideration linked to operational milestones. The second phase would include the acquisition of the balance 28.3% equity shares of SPI and would entail issuance of 1.6 million equity shares of PVR Limited for a consideration not exceeding Rs. 300 crore. Further, SPI has debt outstanding of Rs. 160 crore which will be taken over by PVR taking the total enterprise value to around Rs. 1,000 crore.

With the acquisition of SPI, operationally PVR would have a wider presence in the south Indian market with the 76 screens of SPI being added to PVR's portfolio. This also provides PVR with future growth opportunities as SPI has 13 upcoming screens in the next 12 months and has a strong pipeline of more than 100 screens in the next five years. Further, SPI had healthy occupancy of 58% in FY2018 which would also underpin PVR's overall occupancy and operating profitability going forward.

## Outlook

ICRA has moved the outlook from 'Stable' to 'Under rating watch with developing implications'. ICRA will continue to monitor the rating and it will assess the outcome of the acquisition once more information on cost synergies, debt tie-up and debt maturity profile is available.

## Key rating drivers

## Credit strengths

**Current leadership position in the Indian multiplex industry despite significant consolidation in the industry over the last two years –** PVR is the largest multiplex operator in the industry with 138 properties and a total of 643 screens across India. Further, the addition of 89 screens (existing + upcoming) after the SPI deal will further strengthen the market position of PVR.

**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, which enables it to launch properties at premium locations. This in turn leads to higher average ticket prices and adequate occupancy levels.

## Credit challenges

**Expected increase in debt level –** With the funding of the SPI acquisition through debt to the tune of Rs. 250 crore and take-over of SPI's debt amounting to Rs. 160 crore, PVR's debt is expected to increase post the acquisition of SPI and impact its capital structure and coverage indicators in the near term.

**Aggressive planned capex with addition of 60-70 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.

**Exposed to risks inherent in the movie-exhibition industry like piracy and substitution risks –** PVR continues to be exposed to the inherent risks in the movie-exhibition industry such as 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.

**The previous detailed rating rationale is available on the following link:** Click here

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