PVR Limited

March 15, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	360.0	360.0	[ICRA]AA-; reaffirmed, ratings removed from 'rating watch with developing implication'; Stable outlook assigned
Commercial Paper	200.0	200.0	[ICRA]A1+, reaffirmed, ratings removed from 'rating watch with developing implication'
Fund based-Term Loan	219.0	219.0	[ICRA]AA- ; reaffirmed, ratings removed from 'rating watch with developing implication'; Stable outlook assigned
Total	**779.0**	**779.0**	

*Instrument details are provided in Annexure-1

Rationale

The ratings have been removed from 'rating watch under developing implications' and reaffirmed following the establishment of healthy operating synergies between PVR Limited (PVR) and SPI Cinemas Private Limited (SPI), post-acquisition of the latter by the former. The acquisition is being carried out in two phases, with the first phase involving acquisition of 71.7% equity share of SPI for Rs. 633 crore of which Rs. 535 crore is initially paid the balance Rs. 100 crore remains to be paid as deferred consideration linked to operational milestones. The second phase, which is under progress at present and is expected to be completed within H1 FY2020, includes the acquisition of the balance 28.3% equity shares of SPI in exchange for issuance of 1.6 million equity shares of PVR, thus remaining cash neutral from PVR's perspective.

With the acquisition of SPI Cinemas, as well as PVR's ongoing organic capital expenditure, the consolidated entity's screen network has increased to 748 operational screens as on December 31, 2018, as compared with 625 screens as on March 31, 2018. This has helped PVR to further strengthen its position as the market leader in the domestic film exhibition industry, particularly in the South Indian market, given SPI's leading position in the region. Additionally, the healthy occupancy of SPI's multiplexes has contributed to further improvement in the already strong overall operating metrics and profitability of the consolidated entity. Operating profitability increased to 18.9% in 9MFY2019 as compared to 17.6% in 9M FY2018. ICRA, however, notes that the metrics are not comparable with the previous corresponding period, given the acquisition of SPI w.e.f. August 17, 2018.

The ratings are, however, constrained by the increase in the absolute debt levels of the company, with total debt increasing to Rs. 1,327 crore at the end of September 2018 from Rs. 830 crore at the end of March 31, 2018. Aggressive ongoing expansion, which has partially been funded by debt, has impacted debt levels. Repayment obligations scheduled over the next two fiscals remain high, leading to weakening of the company's debt service coverage ratio (DSCR), and exposing it to high refinancing risk, although ICRA draws comfort from PVR's robust cash generation from operations and high financial flexibility. ICRA notes that PVR is continuing to focus on expansion going forward, and plans to organically add 80-100 screens annually while evaluating additional inorganic growth opportunities as well. Any significant debt contracted to fund such growth may impact the credit profile of the company, and will remain a key credit sensitivity. Moreover, content risk remains significant as good box office content will remain a critical determinant of the ability of the company to generate commensurate returns from the investment made. PVR also continues to be exposed to risks associated with the movie business including piracy, regulatory risks, and substitution risk from competing distribution platforms.

With the ongoing expansion plan and the seasonal nature of the movie business, PVR's ability to execute its planned capex in a timely manner and generate adequate returns on the same while maintaining cash flows and debt-coverage indicators at healthy levels will be a key rating sensitivity.

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 reduction in debt following sustained growth in its OI and profitability, underpinned by pick-up in occupancy levels. 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

Sustained 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 161 properties and a total of 748 screens across India at the end December 2018. The acquisition of SPI Cinemas having 76 screens (68 Operational Screens and 8 screens under construction) in August, 2018 further strengthened PVR's leadership position. Going forward, the proposed addition of around 80-100 screens every year is expected to help maintain the company's market position.

Strong brand value and established relationships with various real-estate developers leads to healthy operating metrics – 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. On a standalone basis, the occupancy for PVR increased to a healthy 34% in 9MFY2019 from 31% in 9MFY2018, with Average Ticket Price (ATP) also increasing to Rs. 216 in 9M FY2019 from Rs. 210 in 9M FY2018. Further, the spend per head also increased to Rs. 91 in 9MFY2019 as compared to Rs. 90 in 9MFY2018. With the occupancy for SPI also remaining robust at 57% in Q3FY2019, consolidated occupancy levels stand high at 36% as per ICRA estimate.

High occupancy and average ticket prices support the overall financial profile –Healthy occupancy levels and high average ticket prices have led to strong growth in OI and strong profitability over the years. Considerable accretions to reserves have also kept the capital structure healthy, despite increasing debt levels, with gearing standing at 0.95 times as on September 30, 2018.

Credit challenges

Aggressive planned capex with addition of 80-100 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. Additionally, any further debt-funded inorganic growth plans would also have an impact on credit metrics.

Elevated debt level and weakening DSCR because of high repayment obligations over the near-to-medium term – The debt level of the company remained elevated with total debt increasing to Rs. 1,327 crore at the end of September 2018 from Rs. 830 crore at the end of March 31, 2018. Also, it has high repayment obligations scheduled over the next two fiscals (Rs. 177 crore and Rs. 216 crore in FY2020 and FY2021, respectively), which has led to weakening of the DSCR and has exposed it to high refinancing risk. However, ICRA draws comfort from PVR's high financial flexibility.

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.

Liquidity Position:

PVR's cash flow generation is dependent on good movie release content as well as seasonality inherent in the business. Given the cash receipt nature of the business, the working capital requirements remain limited thereby providing a comfortable liquidity position to the company. However, it requires short-term borrowings for managing temporary cash flow mismatches. Moreover, debt levels have increased in recent years, primarily to fund growth. While repayment obligations on the same stand at a high level over the next two years, high cash accruals and significant financial flexibility provide comfort.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Consolidated Financial Statements

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 161 properties and a total of 748 screens.

On a consolidated basis, in 9M FY2019, PVR reported an OI of Rs. 2247.93 crore with a profit after tax (PAT) of Rs. 141.62 crore, translating to a net margin of 6.2%.

Key financial indicators (audited, consolidated)

	FY2017	FY2018	9MFY2019
Operating Income (Rs. crore)	2119.43	2334.11	2247.93
PAT (Rs. crore)	95.84	124.02	141.62
OPBDIT/OI (%)	14.8%	17.2%	18.9%
RoCE (%)	15.54%	15.94%	-
Total Debt/TNW (times)	0.82	0.77	-
Total Debt/OPBDIT (times)	2.61	2.07	-
Interest coverage (times)	3.89	4.80	4.80

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		
					Mar-19	Aug-18	Feb-18	May-17	Jan-17	Oct-16	Jul-16
1	Commercial Paper	Short Term	200	100	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loans	Long Term	219	75	[ICRA]AA-(Stable)	[ICRA]AA-&	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	NCD Programme	Long Term	360	278	[ICRA]AA-(Stable)	[ICRA]AA-&	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)

&: rating watch with developing implication

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
INE191H14363	CP I	14-Dec-18	7.45%	15-Mar-19	50	[ICRA]A1+
INE191H14371	CP II	15-Feb-19	6.95%	28-Mar-19	50	[ICRA]A1+
NA	CP (not placed)	-	-	-	100	[ICRA]A1+
INE191H07045	NCD	1-Jan-10	11.40%	1-Jan-20	3	[ICRA]AA-(Stable)
INE191H07078	NCD	10-Jun-14	10.75%	10-Jun-19	50	[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)				82	[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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PVR Pictures Limited	100.00%	Full Consolidation
Zea Maize Private Limited	100.00%	Full Consolidation
PVR Lanka Limited	100.00%	Full Consolidation
SPI Cinemas Private Limited	71.7%	Full Consolidation

ICRA

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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.

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