December 31, 2019

PVR Limited: Rating reaffirmed; outlook revised from Stable to Positive

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	360.0	360.0	[ICRA]AA-; reaffirmed, Outlook revised from Stable to Positive
Commercial Paper	200.0	200.0	[ICRA]A1+; reaffirmed
Fund based-Term Loan	219.0	219.0	[ICRA]AA-; reaffirmed, Outlook revised from Stable to Positive
Total	**779.0**	**779.0**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook on long term rating for PVR Limited (PVR) has been revised following the completion of a Qualified Institutional Placement (QIP) in October 2019, with the same leading to an inflow of Rs. 500 crore. The major part of these proceeds is expected to be utilised towards prepayment of existing debt obligations, with the balance to be used towards settlement of milestone based payments in relation to acquisition of SPI Cinemas and future capital expenditure requirements. This prepayment, together with scheduled repayments, is expected to result in PVR's debt level reducing to around Rs. 1,000 crore by the end of March, 2020 as compared to Rs. 1,374 crore as on September 30, 2019. With this reduction in debt, as well as the continued generation of healthy cash accruals from operations, PVR's capital structure and debt coverage indicators are expected to witness a considerable improvement over the near term.

The ratings continue to factor in the healthy operating synergies between PVR Limited (PVR) and SPI Cinemas Private Limited (SPI), post-acquisition of the latter by the former. The amalgamation of the two entities has also been approved by the NCLT in August 2019 with effective appointed date of August 17, 2018. With this acquisition, as well as PVR's ongoing organic capital expenditure, the consolidated entity's screen network has increased to 821 operational screens as on December 15, 2019, as compared with 748 screens as on December 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 19.05% in H1FY2020 as compared to 18.6% in H1FY2019[1].

The ratings are, however, constrained by the aggressive ongoing expansion, which has partially been funded by debt in the past. Repayment obligations scheduled over the next two fiscals remain high, although ICRA draws comfort from PVR's robust cash generation from operations, planned prepayment from QIP proceeds and its high financial flexibility. ICRA notes that PVR is continuing to focus on expansion going forward, and plans to organically add 80-100 screens

[1] The figures are not fully comparative as they include financials of SPI Cinemas from August 17, 2018 onwards.

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 investments made. PVR also continues to be exposed to risks associated with the movie business including piracy, regulatory risks, and substitution risk from competing distribution channels especially the fast emerging OTT platforms.

Going forward, the actual reduction in debt levels and consequent improvement in debt coverage and leverage indicators will be a key rating sensitivity. In addition, PVR's ability to execute its planned capex in a timely manner and generate adequate returns on the same will also remain an important credit monitorable.

Key rating drivers and their description

Credit strengths

Conclusion of QIP in October, 2019; major part of proceeds expected to be used for debt reduction, leading to improvement in capital structure – PVR has completed a Qualified Institutional Placement (QIP) in October 2019, with the same leading to an inflow of Rs. 500 crore. The major part of these proceeds is expected to be utilised towards prepayment of existing debt obligations, with the balance to be used towards settlement of milestone based payments in relation to acquisition of SPI Cinemas and future capital expenditure requirements. This prepayment, together with scheduled repayments, is expected to result in PVR's debt level reducing to around Rs. 1,000 crore by the end of March, 2020 as compared to Rs. 1,374 crore as on September 30, 2019. With this reduction in debt, as well as the continued generation of healthy cash accruals from operations, PVR's capital structure and debt coverage indicators are expected to witness a considerable improvement over the near term.

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 172 properties and a total of 821 screens across India as on November 15, 2019. 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 consolidated basis, the occupancy for PVR increased to a healthy 37.5% in H1FY2020 from 35% in H1FY2019. Further, the spend per head also increased to Rs. 100 in H1FY2020 as compared to Rs. 91 in H1FY2019[2].

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 0.89 times as on September 30, 2019.

[2] The figures are not fully comparative as they include financials of SPI Cinemas from August 17, 2018 onwards.

Credit challenges

Aggressive planned capex with addition of 80-100 screens per year; planned funding from internal accruals enhances content risks for PVR – The company plans to undertake significant capital expenditure every year, a considerable part of which is expected to be funded through internal accruals. The generation of adequate accruals remains dependent on good box-office performance, resulting in enhanced content risks for PVR.. Absence of adequate internal accruals would make the company 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.

Repayment obligations remain high over the near-to-medium term, despite expected prepayment of certain debt; however, healthy accruals from operations provide comfort – The debt level of the company remained elevated at the end of September 2019 with total debt increasing to Rs. 1,374 crore from Rs. 1282 crore at the end of March 31, 2019. Despite the expected reduction in debt levels going forward on the back of QIP proceeds, absolute repayment obligations scheduled over the next two fiscals are likely to remain high (Rs. 217 crore and Rs. 250 crore in FY2021 and FY2022, respectively). However, ICRA continues to draw comfort from PVR's robust cash generation from operations and 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: Adequate

PVR's liquidity is expected to be supported by healthy cash accruals in excess of Rs. 450 crore per year. Inflow of Rs. 500 crore through QIP issue in Q2 FY2020 has further aided the liquidity position, with this amount planned to be partially utilized towards repayment/ prepayment of existing debt obligations, with the balance to be used towards settlement of milestone based payments in relation to acquisition of SPI Cinemas and other future capital expenditure requirements. Also, given the cash receipt nature of the business, the working capital requirements remain limited. However, repayment obligations on the outstanding debt are expected to remain at a high level over the next two years, notwithstanding the prepayment of certain debt obligations from QIP proceeds. High cash accruals and significant financial flexibility, however, provide comfort.

Rating sensitivities

Positive Trigger - The rating may be upgraded if the planned debt reduction from QIP proceeds, together with continued growth in OI and profitability, lead to a sustained improvement in leverage and coverage indicators. Specific metrics leading to the upgrade may include a reduction in TD/OPBDITA to below 1.5x on a sustained basis.

Negative Trigger – Negative pressure on the rating could arise in case of lower than expected debt reduction or weak operating performance impacts the financial profile of the company adversely. Specific metrics leading to a downward revision may include an increase in TD/OPBDITA to above 2.0x.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
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 172 properties and a total of 821 screens.

Key financial indicators (audited) – Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	2334.1	3085.6
PAT (Rs. crore)	124.0	189.4
OPBDIT/OI (%)	17.22%	19.00%
RoCE (%)	15.94%	19.51%
Total Outside Liabilities/Tangible Net Worth (times)	1.17	1.61
Total Debt/OPBDIT (times)	2.07	2.19
Interest Coverage (times)	4.80	4.58
DSCR	2.21	1.74

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		
					31-Dec-19	15-Mar-19	17-Aug-18	08-Feb-18	23-May-17	16-Jan-17	25-Oct-16	12-Jul-16
1	Commercial Paper	Short Term	200	-	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+&	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Term Loans	Long Term	219	29	[ICRA] AA- (Positive)	[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	185	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA]AA-&	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	-	[ICRA] AA- (Stable)

Amount in Rs. Crore

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
NA	CP (not placed)	-	-	-	200	[ICRA]A1+
INE191H07144	NCD	16-Oct-14	11.00%	16-Oct-20	25	[ICRA]AA-(Positive)
INE191H07151	NCD	16-Oct-14	11.00%	16-Oct-21	25	[ICRA]AA-(Positive)
INE191H07177	NCD	24-Nov-14	11.00%	24-Nov-20	15	[ICRA]AA-(Positive)
INE191H07185	NCD	24-Nov-14	11.00%	24-Nov-21	20	[ICRA]AA-(Positive)
INE191H07193	NCD	9-Jan-15	10.75%	8-Jan-21	50	[ICRA]AA-(Positive)
INE191H07201	NCD	9-Jan-15	10.75%	7-Jan-22	50	[ICRA]AA-(Positive)
NA	NCD (not Placed)	-	-	-	175	[ICRA]AA-(Positive)
NA	Term Loan	Nov-13	-	FY2023-24	219	[ICRA]AA-(Positive)

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

Source: FY2019 Audited Financial Statement

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