

March 31, 2020 ^{Revised}

PVR Limited - Update on Material Event; Ratings placed on watch with developing implications

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 implications
Commercial Paper	200.0	200.0	[ICRA]A1+&; placed on watch with developing implications
Fund based-Term Loan	219.0	219.0	[ICRA]AA-&; placed on watch with developing implications
Total	779.0	779.0	

Material Event

As a result of the COVID-19 pandemic, there has been an extension in the closure of cinema halls from March 31, 2020 to April 14, 2020, following the nation-wide lockdown announced till April 14, 2020. This has resulted in all PVR Limited's (PVR's) screens being shut down for the stated period.

Impact of the Material Event and Rationale

The ratings remain unchanged at the earlier ratings of [ICRA]AA-/A1+. However, the ratings have been placed on watch with developing implications following the nation-wide lockdown and consequent extension in the period of shutdown till April 14, 2020. As a result of this extension, and the possibility of further restrictions on cinema halls going forward, the impact on PVR's revenues and cash accruals is expected to be further aggravated, relative to the shorter shut-down period announced earlier. However, the ratings remain supported by PVR's adequate liquidity, with available cash balances of around Rs. 300 crore¹, generated primarily by draw-down of previously unutilized working capital lines and newly sanctioned term loans. Further, the low debt repayment obligations over the next few months, coupled with healthy financial flexibility, provide additional comfort. ICRA also notes that a significant part of the operating cost of the company is variable in nature which will enable it to reduce costs to a large extent during this period of screen closure; however, on overall basis, the company is expected to report operating losses during the period of shutdown. ICRA will continue to monitor the developments in this regard and the corresponding impact on PVR's liquidity and overall financial position.

The ratings continue to factor in PVR's position as the market leader in the domestic film exhibition industry. PVR is the largest multiplex operator in the industry with 176 properties and a total of 845 screens across India as on March, 16 2020. 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. The company commands strong brand value and has established strong relationships with various real-estate developers, which enables it to launch properties at premium locations.

¹ As on 30th March 2020, as per discussion with management

Key rating drivers and their description

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 176 properties and a total of 845 screens across India as on March 16, 2020. 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, notwithstanding the impact of screen closure due to Covid-19 – 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 36.1% in 9MFY2020 from 35.4% in 9MFY2019. Further, the spend per head also increased to Rs. 100 in 9MFY2020 as compared to Rs. 91 in 9MFY2019². However, the operating metrics over the near future are expected to witness moderation on account of COVID-19.

High occupancy and average ticket prices in past quarters, along with conclusion of QIP, 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. Also, PVR completed a Qualified Institutional Placement (QIP) in October 2019, with the same leading to an inflow of Rs. 500 crore. A significant part of the proceeds have been utilised towards prepayment of existing debt obligations thereby keeping the capital structure healthy. However, lower occupancies/temporary screen closures and increased debt availed to maintain liquidity because of the impact of COVID-19 may result in some deterioration in the financial profile over the near term.

Credit challenges

Disruption in business operations due to screen closure on account of Covid-19 expected to adversely impact revenues and cash accruals over the near term – In line with Government announced closures of cinema halls and the nation-wide lockdown, all 845 screens of PVR have been closed from mid/end-March 2020 onwards and are expected to remain closed at least till April 14, 2020. This is expected to adversely impact the revenues of the company and lead to operating losses during the period of shutdown. Any further restrictions imposed on cinema halls going forward will exacerbate the financial impact. ICRA, however, draws comfort from the adequate liquidity position of the company at present, and will continue to monitor the developments in this regard.

Aggressive planned capex with addition of 80-100 screens per year; budgeted funding from internal accruals enhances content risks for PVR, although some deferment is expected due to the impact of Covid-19 – 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. However, ICRA notes that with the slowdown in operations from March, 2020 onwards because of COVID-19, some capex plans might get deferred.

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

Repayment obligations remain high over the near-to-medium term – Despite the reduction in debt levels on the back of QIP proceeds, the debt remained elevated at the end of February 2020 with total debt amounting to Rs. 1,011 crore. Further, the absolute repayment obligations scheduled over the next two fiscals are likely to remain high (Rs. 200 crore and Rs. 223 crore in FY2021 and FY2022, respectively). ICRA also notes that the increased debt availed to meet liquidity requirements because of the impact of COVID-19 would further increase the repayment obligations, although a staggered schedule has resulted in the same remaining limited for Q1FY2021 at Rs. 9.08 crore.

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 available cash balances of around Rs. 300 crore, generated primarily by draw-down of previously unutilized working capital lines and newly sanctioned term loans. While the absolute repayment obligations scheduled over the next two fiscals are likely to remain high (Rs. 200 crore and Rs. 223 crore in FY2021 and FY2022, respectively), ICRA draws comfort from the low repayment obligations in Q1FY2021, as well as the healthy financial flexibility enjoyed by the company. ICRA will continue to monitor the developments in this regard and the corresponding impact on PVR's liquidity and overall financial position.

Rating sensitivities

Positive Trigger - The rating may be upgraded if 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 the cinema shut-down extends beyond April 14, 2020, or the ramp-up in operating metrics post resumption of operations is slower than expected, resulting in moderation in PVR's financial risk profile and higher than expected debt levels. Specific metrics leading to a downward revision may include an increase in TD/OPBDITA to above 2.25x.

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 176 properties and a total of 845 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	Amount Outstanding (Rs. crore)	Date & Rating	Earlier Rating			Date & Rating in FY2019			Date & Rating in FY2018		Date & Rating in FY2017		
			(Rs. crore)		31-Mar-20	17-Mar-20	31-Dec-19	15-Mar-19	17-Aug-18	6-Jun-18	8-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+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loans	Long Term	219	29	[ICRA]AA-&	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-&	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	NCD Programme	Long Term	360	185	[ICRA]AA-&	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-&	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	

Amount in Rs. Crore

& - placed on watch with developing implications

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-&
INE191H07151	NCD	16-Oct-14	11.00%	16-Oct-21	25	[ICRA]AA-&
INE191H07177	NCD	24-Nov-14	11.00%	24-Nov-20	15	[ICRA]AA-&
INE191H07185	NCD	24-Nov-14	11.00%	24-Nov-21	20	[ICRA]AA-&
INE191H07193	NCD	9-Jan-15	10.75%	8-Jan-21	50	[ICRA]AA-&
INE191H07201	NCD	9-Jan-15	10.75%	7-Jan-22	50	[ICRA]AA-&
NA	NCD (not Placed)	-	-	-	175	[ICRA]AA-&
NA	Term Loan 1	Jun-16	-	May-23	4	[ICRA]AA-&
NA	Term Loan 2	-	-	-	215	[ICRA]AA-&

Source: PVR

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PVR Pictures Limited	100.00%	Full Consolidation
SPI Entertainment Projects (Tirupati) Private Limited	100.00%	Full Consolidation
PVR Lanka Limited	100.00%	Full Consolidation
Zea Maize Private Limited	79.87%	Full Consolidation

Source: PVR; as on March 30, 2020

Corrigendum:

Rationale dated March 31, 2020 has been corrected with revisions as detailed below:

- Update in Annexure – 1: Instrument Details
- Update in Annexure – 2: List of entities considered for consolidated analysis

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