PVR Limited

February 08, 2018

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- (Stable); reaffirmed
Commercial Paper	150.0	150.0	[ICRA]A1+; reaffirmed
Fund based-Term Loan	219.0	219.0	[ICRA]AA- (Stable); reaffirmed
Total	**729.0**	**729.0**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) to the Rs. 360.0[1]-crore non-convertible debenture programme and Rs. 219.0-crore fund-based term loans of PVR Limited (PVR). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the 150.0 crore commercial paper programme of PVR.[2] The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to take into account the strengths derived from PVR's leadership position in the Indian multiplex industry and the successful business integration of DT Cinemas as witnessed in the revenue growth over the last two quarters. Further, the ratings draw comfort from PVR's strong management and established track record, which has enabled it to witness better operating metrics than most of its peers. ICRA also favourably factors in the improvement in average tickets prices and food and beverage (F&B) spend per head, though the same was partially offset by declining occupancy levels to 31.2% in 9M FY2018 as against 33.4% in 9M FY2017 and 36.4% in 9M FY2016.

With the acquisition of DT Cinemas and PVR's ongoing capex, the company's network has increased to 612 screens (excluding under-construction screens) as on December 31, 2017 compared with 579 as on March 31, 2017. This has helped PVR consolidate its position as the market leader in an industry that itself has 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, has resulted in healthy debt-coverage indicators. The ratings favourably factor in the high growth in other revenue segments like F&B and advertisement in 9M FY2018 compared with 9M FY2017. ICRA notes that PVR is continuing its organic expansion and plans to add 60-70 screens annually. However, any unexpected deterioration in fund generation or any additional inorganic growth plan could increase its reliance on external debt, thereby impacting its credit profile. Growth opportunity and its mode of funding will remain key credit sensitivity. 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

[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*

improved performance of new properties to generate commensurate returns from the investment made. As is a common industry trend, PVR continues 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 scheduled in the next two fiscals (Rs. 170 crore and Rs. 160 crore in FY2019 and FY2020, respectively) that has led to the weakening of the its debt service coverage ratio (DSCR) and has exposed it to high refinancing risk. However, ICRA draws 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 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 and profitability marked by pick-up 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

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 132 properties and a total of 612 screens across India. Further, the proposed addition of around 60 screens every year is expected to help maintain the market leadership position.

Strong financial profile and coverage indicators – The company being the market leader, enjoys high average ticket prices, which increased year on year from Rs. 198 in 9M FY2017 to Rs. 210 in 9M 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 a gearing at 0.72 times and OPBDITA/Interest at 4.60 times in H1 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, which 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 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.

Declining occupancy levels – The occupancy level of the company has been declining over the past few years. The levels declined to 31.2% in 9M FY2018 from 33.4% in 9M FY2017 and 36.4% in 9M FY2016, mainly due to poor movie content. PVR's OI is highly dependent on occupancy level, which is largely driven by the content and consequent success of the films at the box office. This makes the company's profit margins volatile.

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.

Weakening DSCR because of high repayment obligation in medium term – The company has high repayment obligation scheduled in the next two fiscals (Rs. 170 crore and Rs. 160 crore in FY2019 and FY2020, respectively), which has led to weakening of the DSCR and has exposed it to high refinancing risk. However, ICRA draws comfort from PVR's robust cash generation from operations and its high financial flexibility on account of its unencumbered assets.

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 132 properties and a total of 612 screens.

On a standalone basis, in 9M FY2018, PVR reported an OI of Rs. 1680.15 crore with a profit after tax (PAT) of Rs. 93.25 crore translating to a net margin of 6.74%.

Key financial indicators (audited)

	FY2016	FY2017	9MFY2018
Operating Income (Rs. crore)	1720.4	2002.0	1680.15
PAT (Rs. crore)	93.5	92.9	285.09
OPBDIT/OI (%)	15.92%	14.70%	17.0%
RoCE (%)	20.32%	15.90%	-
Total Debt/TNW (times)	0.76	0.86	-
Total Debt/OPBDIT (times)	2.41	2.78	-
Interest Coverage (times)	3.29	3.68	4.57
NWC/OI (%)	-2%	-4%	-

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 FY2018		Date & Rating in FY2017			Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	February 2018	May 2017	January 2017	October 2016	July 2016	April 2015
1	Commercial Paper	Short Term	150.00	115.0	[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)	-
3	NCD Programme	Long Term	360.00	356.0	[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	20-Nov-17	6.50%	19-Feb-18	50	[ICRA]A1+
INE191H14264	CP II	7-Dec-17	6.50%	6-Feb-18	50	[ICRA]A1+
INE191H14272	CP III	21-Dec-17	6.60%	20-Jan-18	15	[ICRA]A1+
NA	CP (not placed)	-	-	-	35	[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	9.60%	FY2019-20	47.30	[ICRA]AA-(Stable)
NA	Term Loan II	12-Feb-13	9.60%	FY2019-20	61.30	[ICRA]AA-(Stable)
NA	Term Loan III	27-Nov-13	9.45%	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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