

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

April 01, 2022 | Mumbai

PVR Limited

Rating placed on 'Watch Positive'

Rating Action

Total Bank Loan Facilities Rated	Rs.1033.33 Crore
Long Term Rating	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')

Rs.250 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD A+ r /Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.5 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.10 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.50 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.50 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.5 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Rs.30 Crore Non Convertible Debentures	CRISIL A+/Watch Positive (Placed on 'Rating Watch with Positive Implications')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its ratings on the long-term bank facilities and debt programmes of PVR Limited (PVR) on 'Rating Watch with Positive Implications'.

The rating action follows the announcement made by the company on March 27, 2022 regarding approval from the boards of PVR and INOX Leisure Ltd (INOX; rated CRISIL A+/CRISIL A1/Watch Positive) for their merger. The amalgamation is subject to approval of the shareholders of PVR and INOX respectively, stock exchanges, SEBI and such other regulatory approvals. Upon obtaining all approvals, when the merger becomes effective, INOX will merge with PVR. As part of the transaction, INOX shareholders will receive 3 shares in PVR for 10 shares of INOX. Post the merger, the promoters of INOX will become co-promoters in the merged entity along with the existing promoters of PVR.

CRISIL Ratings believes that amalgamation of these entities would help the merged entity to lead the cinema exhibition industry with a significant market share. Moreover, expected synergies post-merger should benefit operating efficiency. As a result, the business as well as financial risk profiles of the merged entity is expected to improve significantly. CRISIL Ratings will continue to closely monitor the said transaction and will remove the ratings from watch and take a final rating action once the transaction is concluded.

The rating continues to reflect strong rebound in the operating performance of PVR during the third quarter of fiscal 2022. While the third wave of the Covid-19 pandemic did marginally impact operations in January 2022, recovery began from February onwards. Besides improvement in occupancy, average ticket prices (ATP) and spend per head (SPH) on food & beverages have sustained at levels higher than those prior to the pandemic. Moreover, movies released since last week of February reported strong performance at the box office. Business should continue to boost in the coming quarters, supported by uplifting of pandemic-related restrictions and strong content line up ready to be released over the next few months. The operating margin may also benefit from some of the cost-control measures undertaken over the last two years, which are expected to sustain longer.

The company's liquidity benefitted significantly from the various equity raises undertaken over the past two years. Cash and bank balance, undrawn committed bank lines and other liquid investments stood at above Rs 740 crore as on December 31, 2021, which should sufficiently cover debt obligation and capital expenditure (capex) in fiscal 2023. Sustained improvement in revenue and operating margin, along with maintenance of healthy liquidity, will continue to be monitored. Impact of any further waves of the pandemic on occupancy will remain monitorable as well.

The ratings continue to consider strong market position and established brand of PVR, improving operating efficiency, and healthy financial risk profile and liquidity. These strengths are partially offset by exposure to risks inherent in the film exhibition business.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of PVR; its subsidiaries, PVR Pictures Ltd, PVR Lanka Ltd, Zea Maize Pvt Ltd, SPI Entertainment Projects (Tirupati) Pvt Ltd; and the joint venture (JV), Vkaao Entertainment Pvt Ltd. The entities, collectively referred to herein as PVR, are in the same business and have common promoters.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position and established brand**

PVR is the largest multiplex operator in India, with strong brand equity. It had ~871 screens with operations in 181 locations across 73 cities as on March 31, 2022. PVR added ~246 screens through inorganic acquisitions since 2012 till date. Addition of screens from SPI Cinemas Pvt Ltd in August 2018 significantly improved the market position in south India and helped diversify content, as cinema from the region typically contributes over 35% to the overall box office collection.

In fact, post-merger, market position of the merged entity will improve significantly as it would be operating ~1546 screens across 341 properties across 109 cities (as per screen count of PVR and INOX as on March 27, 2022).

- **Improving operating efficiency**

Operating margin was healthy at 17.6% in fiscal 2020 (ex-Ind AS-116 adjustment), compared with 19.0% and 17.2% in fiscals 2019 and 2018, respectively, despite operations being shut in the latter half of March 2020.

After reporting operating losses in fiscal 2021 and first half of fiscal 2022, PVR generated operating profit in the third quarter of fiscal 2022. Moreover, key operating parameters such as ATP and SPH food & beverages stood higher at Rs 239 and Rs 129 respectively, during the third quarter of fiscal 2022 as compared to Rs 204 and ~Rs 99 respectively, in fiscal 2020. Although the operating profit may be constrained during the fourth quarter of fiscal 2022, by the third wave of the pandemic, it is expected to rebound significantly in fiscal 2023, given the current pace of recovery in occupancies and sustenance of higher ATP and SPH on food & beverages compared to pre-pandemic levels. Moreover, post-merger, expected synergies should also benefit operating efficiency of the merged entity.

- **Healthy financial risk profile**

The financial risk profile is supported by a strong ability to raise funds from capital markets. The company raised Rs 1,600 crore through rights issue of Rs 300 crores in August 2020 and qualified institutional placement (QIP) of Rs 1,300 crores (Rs 500 crore in October 2019 & Rs 800 crore in January 2021). Net debt reduced to ~Rs 857 crore as on December 31, 2021 from ~Rs 914 crore as on September 30, 2021. The significant rebound in operating performance expected in fiscal 2023 should further improve the financial risk profile. However, impact of any further waves of the pandemic on financial risk profile will remain a key monitorable.

Weakness:

- **Exposure to risks inherent in the film exhibition business**

Fluctuations in profitability, inherent in the film exhibition business, will continue to affect operations, though the impact should be cushioned marginally by the large scale of operations and diversified revenue. Multiplex players, given their high fixed costs, should remain dependent on occupancy, which is driven by the success of films. Other forms of entertainment and new content distribution platforms, including over-the-top, will continue to expose the company to challenges of sustaining profitability and growth.

Liquidity: Strong

Liquidity was more than Rs 740 crore as on December 31, 2021, including cash and bank balance, undrawn committed bank lines and other liquid investments. This, along with expected annual net cash accrual of over Rs 500 crore should be sufficient to meet debt servicing obligations of around Rs 470 crore during fiscal 2023 and working capital as well as capex requirements.

Rating Sensitivity factors

Upward factors

- Significant reduction in debt and improvement in cash accrual, leading to net debt to earnings before interest, taxes, depreciation, and amortisation (EBITDA) ratio sustaining below 2.0 times
- Steady recovery in revenue, resulting in strong rebound in EBITDA margin (ex-Ind AS-116 adjustment) above 17%

Downward factors

- Weakening of the capital structure, with net debt to EBITDA ratio sustaining above 3.0 times
- Impact on revenues as well as profitability due to other forms of entertainment and new content distribution platforms, including over-the-top

About the Company

PVR was established in 1995 as a 60:40 JV between Priya Exhibitors Pvt Ltd and Village Roadshow Ltd (VRL), a world leader in the multiplex business. In 1995, PVR took a single-screen cinema hall, Anupam, in Saket, Delhi, on lease and converted it into a four-screen multiplex. The hall started operations in 1997 as PVR Anupam and was the first multiscreen cineplex in India. As part of its global business strategy, VRL exited the JV in 2002.

In November 2012, PVR acquired Cinemax, strengthening its presence in west India. Cinemax operated in 39 locations with 138 screens. This acquisition made PVR the largest multiplex operator in India. In May 2016, it completed the acquisition of DT Cinemas' 32 screens (29 operational and three upcoming) for a consideration of Rs 433 crore. PVR raised equity of Rs 350 crore in fiscal 2016 to partly fund the acquisition. The balance was to be funded through debt and cash accrual. In January 2017, Warburg Pincus Llc acquired a 14% stake in the company, with 9% from its current shareholders (Multiples Private Equity Fund I Ltd) and 5% from the promoters. Thereafter, in August 2018, PVR acquired SPI Cinemas, which further added 76 screens to the company's portfolio.

Net loss was Rs 383 crore on operating revenue of Rs 794 crore for the nine months ended December 31, 2021, as compared to net loss of Rs 459 crore on operating revenue of Rs 99 crore in the corresponding period of the previous fiscal.

Key Financial Indicators

As on / for the period ended March 31		2021	2020
Operating revenue	Rs crore	274	3,404
Profit after tax (PAT)	Rs crore	-762	23.27
PAT margin	%	-277.9	0.68
Adjusted debt/adjusted networkth	Times	2.24	1.09
Interest coverage	Times	-0.67	2.19

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
INE191H07268	Debentures	03-Apr-17	8.15%	02-Apr-22	50	Simple	CRISIL A+/Watch Positive
INE191H07276	Debentures	18-Aug-17	7.85%	18-Aug-22	50	Simple	CRISIL A+/Watch Positive
NA	Debentures*	NA	NA	NA	50	Simple	CRISIL A+/Watch Positive
NA	Long-term principal protected market-linked debentures*	NA	NA	NA	250	Highly complex	CRISIL PP-MLD A+/Watch Positive
NA	Term loan	NA	NA	20-Mar-27	248.47	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	31-Oct-27	258.92	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	26-Oct-27	150.0	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	30-Sep-26	95.17	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	29-Dec-25	60.55	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	28-Jun-26	56.09	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	31-Mar-25	75.0	NA	CRISIL A+/Watch Positive
NA	Term loan	NA	NA	27-Mar-27	50.0	NA	CRISIL A+/Watch Positive
NA	Overdraft facility	NA	NA	NA	9.00	NA	CRISIL A+/Watch Positive
NA	Overdraft facility	NA	NA	NA	5.00	NA	CRISIL A+/Watch Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	25.13	NA	CRISIL A+/Watch Positive

*Not yet issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
PVR Pictures Ltd	Full consolidation	Subsidiaries
P V R Lanka Ltd	Full consolidation	Subsidiaries

Zea Maize Pvt Ltd	Full consolidation	Subsidiaries
Vkaao Entertainment Pvt Ltd	Equity method	JV
SPI Entertainment Projects (Tirupati) Pvt Ltd	Full consolidation	Subsidiaries

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1033.33	CRISIL A+/Watch Positive	23-03-22	CRISIL A+/Stable	23-09-21	CRISIL A+/Negative / CRISIL A1	07-12-20	CRISIL AA/Negative / CRISIL A1+	08-01-19	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	16-04-21	CRISIL AA-/Negative / CRISIL A1+	06-10-20	CRISIL AA/Negative		--	--
			--		--		--	14-09-20	CRISIL AA/Watch Negative		--	--
			--		--		--	23-03-20	CRISIL AA/Watch Negative		--	--
			--		--		--	31-01-20	CRISIL AA/Stable		--	--
Non Convertible Debentures	LT	150.0	CRISIL A+/Watch Positive	23-03-22	CRISIL A+/Stable	23-09-21	CRISIL A+/Negative	07-12-20	CRISIL AA/Negative	08-01-19	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	16-04-21	CRISIL AA-/Negative	06-10-20	CRISIL AA/Negative		--	--
			--		--		--	14-09-20	CRISIL AA/Watch Negative		--	--
			--		--		--	23-03-20	CRISIL AA/Watch Negative		--	--
			--		--		--	31-01-20	CRISIL AA/Stable		--	--
Long Term Principal Protected Market Linked Debentures	LT	250.0	CRISIL PPMLD A+ r /Watch Positive	23-03-22	CRISIL PPMLD A+ r /Stable	23-09-21	CRISIL PPMLD A+ r /Negative	07-12-20	CRISIL PPMLD AA r /Negative		--	--
			--		--	16-04-21	CRISIL PPMLD AA- r /Negative	06-10-20	CRISIL PPMLD AA r /Negative		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Overdraft Facility	9	CRISIL A+/Watch Positive
Overdraft Facility	5	CRISIL A+/Watch Positive
Proposed Long Term Bank Loan Facility	25.13	CRISIL A+/Watch Positive
Term Loan	248.47	CRISIL A+/Watch Positive
Term Loan	258.92	CRISIL A+/Watch Positive
Term Loan	95.17	CRISIL A+/Watch Positive
Term Loan	56.09	CRISIL A+/Watch Positive
Term Loan	60.55	CRISIL A+/Watch Positive
Term Loan	150	CRISIL A+/Watch Positive
Term Loan	75	CRISIL A+/Watch Positive
Term Loan	50	CRISIL A+/Watch Positive

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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