Rating Rationale

March 23, 2020 | Mumbai

PVR Limited

Rating placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	**Rs.823.33 Crore**
Long Term Rating	**CRISIL AA (Placed on 'Rating Watch with Negative Implications')**

Non-Convertible Debentures Aggregating Rs.460 Crore	**CRISIL AA (Placed on 'Rating Watch with Negative Implications')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its rating on the long-term bank facilities and debt instruments of PVR Limited (PVR) on '**Rating Watch with Negative Implications'**.

The rating action follows the closure of movie theatres across India by orders of state governments to contain the spread of Novel Coronavirus (Covid-19). While the present closure is valid until March 31, 2020, it could be extended if the pandemic worsens. Prolonged closure may significantly impact credit profiles of the film exhibition industry, including PVR.

PVR has been taking proactive steps to reduce its cost and augment liquidity. Lease is a major fixed cost for PVR, and it has invoked the *force majeure* clause for lease agreements with mall developers. PVR expects no payment of leases during the closure. PVR is also looking to conserve cash by reducing workforce, deferring maintenance, and capital expenditure (capex) outlay.

Currently, PVR has liquidity (cash and bank balance, undrawn committed bank lines, and other liquid investments) in excess of Rs 250 crore, which should sufficiently cover its curtailed operating costs as well as debt servicing for the next few months. PVR is looking to further augment its liquidity to enhance the cushion.

CRISIL will continue to engage closely with PVR to ascertain that operations are being run at curtailed costs and will closely monitor its liquidity position. CRISIL will remove the ratings from watch and take a final rating action once there is clarity on resumption of operations.

The rating continues to reflect PVR's strong market position and well-established brand, healthy operating efficiency, and a significantly improved financial risk profile. These strengths are partially offset by exposure to risks inherent in the film exhibition business.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of PVR, its subsidiaries, PVR Pictures Ltd, PVR Lanka Ltd, Zea Maize Pvt Ltd, and the joint venture (JV) Vkaao Entertainment Pvt Ltd. This is because all these entities, collectively referred to as PVR group, 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 well-established brand:** PVR is the largest multiplex operator in India, with a strong brand equity. It had 845 screens and presence in over 176 locations across 71 cities as on March 20, 2020, and has 33% more screens than the second largest player. Addition of screens from SPI Cinemas Pvt Ltd (SPI) has led to significant improvement in PVR's market position in South India and has helped diversify content, as cinema from the region contributes more than 40% to the overall box office collections. Any capex plans to add screens have been put on hold temporarily given the current uncertainties around the spread of Covid-19. However, once the situation normalises, earlier plans to add 80-100 screens per annum over the medium term should help PVR maintain its leadership position.

* **Healthy operating efficiency**: Presence in prime locations in major cities helps the company command a higher average ticket price than its peers. Moreover, contribution from the high-margin food and beverages segment and advertisement revenue (together comprising 40% of the total income) remains high.

PVR continues to grow significantly across all operating parameters, with occupancy of 36.1% for the nine months ended

December 31, 2019 (fiscal 2019: 36%; fiscal 2018: 31%), spend per head (SPH) of Rs 100 (Rs 91; Rs 89), and advertisement revenue of Rs 307 crore (Rs 353; Rs 297). As a result, earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin was 19.9% for the nine months ended December 31, 2019 (19%; 17.2%). While the company's operating performance could be impacted in fiscal 2021, its ability to sustain healthy margin after operations are restored will remain a key monitorable.

*** Significantly improved financial risk profile**: PVR's financial risk profile is expected to benefit from strong operating efficiency and significantly enhanced scale of operations. Moreover, with qualified institutional placement (QIP) of Rs 500 crore in October 2019, debt protection metrics should see a significant shift. Gearing is expected to improve to below 0.75 time, interest coverage to 5 times, and debt to EBITDA ratio to below 1.8 times in fiscal 2020 against 1.24 times, 4.8 times, and 2.2 times, respectively, in fiscal 2019.

However, if operations are closed for a prolonged period, there could be an impact on the debt profile, with decline in accrual weakening the financial risk profile. Any sustained impact of Covid-19 on the operations and, subsequently, PVR's 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 PVR, though the impact should be cushioned marginally by the large scale and diversification of content. Multiplex players, given their high fixed costs, should remain dependent on occupancy, which is driven by the success of films (PVR's occupancy was 36.1% and 35.4% in the nine months ending December 31, 2019, and December 31, 2018, respectively). 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

PVR has current liquidity of more than Rs 250 crore, including cash and bank balance, undrawn committed bank lines, and other liquid investments. It has plans to further enhance its liquidity. In case operations remain disrupted until June 2020, the total cash outflow, including fixed costs and debt obligation, is expected at Rs 160-170 crore; this will help the company tide over the current situation in the next few months. Upon resumption of normal operations, the company's cash accrual should sufficiently cover its capex as well as debt obligation. CRISIL will continue to monitor PVR's current liquidity position.

Rating Sensitivity Factors

Upward Factor

*Sustained increase in scale, including revenue, leading to significant improvement in operating profitability
*Significant reduction in debt leading to debt to EBITDA ratio sustaining around 0.75-0.9 time

Downward Factor

*Continued shutdown of operations leading to nil accrual and weakening of the financial risk profile
*Sizeable, debt-funded capex or acquisitions weakening the capital structure, with debt to EBITDA ratio sustaining above 2 times.

About the Company

PVR was set up 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 the same year, PVR took a single-screen cinema hall, Anupam in Saket (Delhi), on lease and converted it into a four-screen multiplex. The cinema hall started operations in 1997 as PVR Anupam and was the first multi-screen 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 western 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 had raised equity of Rs 350 crore in fiscal 2016 to partly fund the acquisition. The balance was to be funded through debt and internal 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.

For the nine months ended December 31, 2019, operating income was Rs 2,769 crore and profit after tax Rs 101 crore against Rs 2,248 crore and Rs 143 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2019	2018
Operating revenue	Rs crore	3,086	2,334
Profit after tax	Rs crore	189	124
PAT margin	%	6.1	5.3
Adjusted debt/adjusted networth	Times	1.24	0.87
Interest coverage	Times	4.84	5.17

Numbers as reported by the company

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL 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.Cr)	Rating assigned with outlook
INE191H07136	Debentures	16-Oct-14	11.00%	16-Oct-20	25	CRISIL AA/Watch Negative
INE191H07144	Debentures	16-Oct-14	11.00%	16-Oct-21	25	CRISIL AA/Watch Negative
INE191H07177	Debentures	24-Nov-14	11.00%	24-Nov-20	15	CRISIL AA/Watch Negative
INE191H07185	Debentures	24-Nov-14	11.00%	24-Nov-21	20	CRISIL AA/Watch Negative
INE191H07193	Debentures	09-Jan-15	10.75%	08-Jan-21	50	CRISIL AA/Watch Negative
INE191H07201	Debentures	09-Jan-15	10.75%	07-Jan-22	50	CRISIL AA/Watch Negative
INE191H07243	Debentures	12-Jan-17	7.84%	10-Jul-20	50	CRISIL AA/Watch Negative
INE191H07250	Debentures	03-Apr-17	8.05%	02-Apr-21	25	CRISIL AA/Watch Negative
INE191H07268	Debentures	03-Apr-17	8.15%	02-Apr-22	50	CRISIL AA/Watch Negative
INE191H07276	Debentures	18-Aug-17	7.85%	18-Aug-22	50	CRISIL AA/Watch Negative
INE191H07284	Debentures	16-Apr-18	8.72%	16-Apr-21	10	CRISIL AA/Watch Negative
INE191H07292	Debentures	16-Apr-18	8.72%	15-Apr-22	20	CRISIL AA/Watch Negative
INE191H07300	Debentures	16-Apr-18	8.72%	14-Apr-23	20	CRISIL AA/Watch Negative
NA	Debentures*	NA	NA	NA	50	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	31-May-23	3.87	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	31-Mar-24	91.25	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	30-Nov-25	100	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	15-May-25	75	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	13-Sep-26	100	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	29-Sep-25	68.75	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	31-Dec-25	60	CRISIL AA/Watch Negative
NA	Term loan**	NA	NA	31-Dec-25	102.57	CRISIL AA/Watch Negative
NA	Proposed Term loan	NA	NA	NA	221.89	CRISIL AA/Watch Negative

**Not yet issued*
***Outstanding as on Feb-20*

Annexure - List of Entities Consolidated

Entity 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	JVs

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	410.00 01-03-20	CRISIL AA/(Watch) Negative	31-01-20	CRISIL AA/Stable	08-01-19	CRISIL AA-/Stable	06-11-18	CRISIL AA-/Stable	26-12-17	CRISIL AA-/Stable	CRISIL AA-/Stable
								17-08-18	CRISIL AA-/Stable	10-08-17	CRISIL AA-/Stable	
										24-03-17	CRISIL AA-/Stable	
										06-01-17	CRISIL AA-/Stable	
Fund-based Bank Facilities	LT/ST	823.33	CRISIL AA/(Watch) Negative	31-01-20	CRISIL AA/Stable	08-01-19	CRISIL AA-/Stable	06-11-18	CRISIL AA-/Stable	26-12-17	CRISIL AA-/Stable	CRISIL AA-/Stable
								17-08-18	CRISIL AA-/Stable	10-08-17	CRISIL AA-/Stable	
										24-03-17	CRISIL AA-/Stable	
										06-01-17	CRISIL AA-/Stable	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Term Loan	**221.89**		**Long Term Loan**	**623.33**	

		CRISIL AA/Watch Negative			CRISIL AA/Stable
Term Loan	601.44	CRISIL AA/Watch Negative	Term Loan	175	CRISIL AA/Stable
--	0	--	Working Capital Facility	25	CRISIL AA/Stable
Total	823.33	--	Total	823.33	--

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

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