Prasad Corporation Private Limited

March 02, 2021

Ratings

Facilities	**Amount(Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	5.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**15.00 (Rs. Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Prasad Corporation Private Limited (PCPL) continue to be tempered by small scale of operations, high non-performing debtors due to high receivables from the film production industry, technological obsolescence risk, foreign exchange fluctuation risk and presence in a fragmented and competitive industry. The ratings also factor in moderation in the profitability margins albeit growth in total operating income in FY20 (refers to period April 01 to March 31), improved debt coverage indicators and leveraged capital structure. The ratings, however, continue to derive strength from long track record of the company in visual effects, restoration and digitization business, strong backing from promoters who are present in the film industry for more than five decades, established supplier and customer network, and stable outlook of digital cinema industry.

Rating sensitivities

Positive Factors

- Consistent increase in firm's scale of operations while maintaining minimum PBILDT margin above 20% in future years.
- Improvement in capital structure by maintaining overall gearing below 1x

Negative Factors

- Elongation in operating cycle in near future years leads high to reliance on working capital bank borrowings.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations and degrowth in total operating income

The size of the company continues to be small measured by its total operating income (TOI) of Rs. 43.86 Crore in FY20, however scaled up from Rs. 40.13 Crore in FY19.

Leveraged Capital Structure

The solvency position of the company has improved in FY20 however continued to remained leveraged witnessed by overall gearing of 6.89x as on March 31, 2020 as against 94.14x as on March 31, 2019. On account of losses incurred in the past which has eroded the networth base thereof has impacted the overall gearing upto FY18. With improvement in the operating performance with increase in net profit, the networth base starts to improve since FY19, and with significant increase in PAT in FY20, the same has improved and stood at Rs. 7.94 Crore as on March 31, 2020 exclusive of intangible networth of Rs. 0.28 Crore as on March 31, 2020. Major portion of debt books has been occupied by preference share capital (72%) followed by working capital facilities and Intercorporate loans. With repayment of interest free USL, vehicle loans and lower utilization of WC facility as on balance sheet date has resulted in decrease in debt profile of the company in FY20. All the aforesaid facts have led to improvement in the overall gearing of the company.

High non-performing debtors due to high receivables from the film-production industry

The average debtor days have remained stretched at 187 days in FY20 as against 163 days in FY19. Ideally, the company initiates the work on any project only on receipt of advance, (10%-15% of the project value) thereafter collection is done in stages. The company has high receivables (Rs. 25.36 crore as on March 31, 2020 as against Rs. 20.29 crore as on March 31, 2019) primarily from the film-production industry which are generally stretched mainly on account of prolongation in releasing the movie. Further the company is allowing concessions with regard to credit period for some of its customers where the projects are with better profitability margins. Due to the above fact almost 40% of the existing debtors are more than 180 days. In addition, the detrimental impact of COVID-19 since third quarter end of FY, has also impacted the operations and factored in elongation of receivable period to certain extent. Notably, the company has written of Rs. 3.17 Crore receivables in FY20.

Furthermore, the average creditor days also stood elongated during the review period as a significant portion of the creditors include group companies (94%). Supplier payment terms are aggressively negotiated and include credit maximum up to 60

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

days. Due to the above said factors, the current ratio stood below unity reflecting the stretched liquidity position of the company. The average utilization of the working capital facility was 50% for the last 12 month ended January 2021.

Technological obsolescence risk

Digital technologies are prone to technological obsolescence. With newer technologies/improvements introduced so fast, the existing digital equipment's might get outdated faster and some of them may not be upgradeable to newer technologies, introducing a higher risk on investing in them. Hence PCPL is prone to technological obsolescence risk.

Foreign exchange fluctuation risk

PCPL has 35%-45% export services. So, the profitability margins are susceptible to fluctuation in foreign exchange prices. The company receives payment from some of its customers at current exchange rate. However, the company has natural hedging mechanism to cover forex fluctuation to the extent of PCFC/PC facility to the tune of Rs. 7.00 Crore. Due to this, forex exposure of outstanding PCFC limit in USD will always be limited to INR 7.00Crore, irrespective of rupee appreciation or depreciation against USD. Further during FY20, the company has earned Rs. 28.45 crores on export business which is four times of the limits sanctioned PCFC limit of INR 7.00 Crores.

Presence in fragmented and competitive industry

The vast and diverse nature of the visual effects business has resulted in highly fragmented industry structure, marked by presence of the several unorganised players and competition from several established players. Apart from the fragmentation, the industry is marked by high entry barriers because of high capital investment requirements as well as consistent investments towards content creation, content library and innovation film production.

Key rating Strengths

Long track record of the company in visual effects, restoration and digitization business

PCPL was incorporated in the year 1994 and is a part of Prasad group that holds track record for more than five decades in providing post production services to Indian film industry. PCPL has over two decades of operational track record in the visual effects, restoration and digitization business that has helped the company to get associated with some of the reputed and renowned clients in the film industry. Over the years, the company has marked its presence across the globe with a clientele established in various countries.

Strong backing from promoters who are present in the film industry for more than five decades

Prasad Group, one of Asia's largest providers of post-production services was founded in 1956 by Dada Saheb Phalke Award recipient Mr. L.V. Prasad. Prasad Group includes Prasad Productions Private Limited, Prasad Digital Film Laboratories, Prasad Corporation Private Limited, Digital Film Technology GmbH, Prasad Media Corporation Limited, Prasad Recording Studios, Prasad Panavision, Prasad Extreme Digital Cinema Network Private Limited and Prasad Corp - U.S.A. Prasad Group's services encompass every area involved in the film and video post-production process including visual effects, digital intermediate, digital film lab services, cine equipment rentals, editing, audio, complete 3D movie production solutions, digitization, digital film restoration, digital archiving, media asset management and family entertainment concepts. The group has major production facilities and offices in Chennai, Mumbai, Hyderabad, Bangalore, Thiruvananthapuram, Bhubaneswar, Kolkata, USA, UK, Germany and Japan.

Established supplier and customer network

PCPL has established relationships with its key suppliers which enables the company to procure its key inputs at competitive prices. With a presence of over two decades in the industry, PCPL has good relationships with customers resulting into established customer base.

Growth in total operating income

The TOI has grown at the rate of 9% and stood at Rs. 43.86 Crore in FY20 from Rs. 40.13 Crore in FY19 at the back of income majorly from restoration and digitalization and managed (DMD) services followed by computer graphics services and metadata services. Although other verticals viz tape transfer NFAI services posted slight moderation in comparison with previous year, increase in restoration and DMD services has balanced in surging up the revenue of the company.

Moderation albeit healthy profitability Margins

The operating profit margin has dropped by 57 bps and stood at 21.81% in FY20 as against 23.14% in FY19 however remained healthy. This accounts impact due to bad debt written off in FY20 to the tune of Rs. 3.17 Crore (PY : Rs. 0.50 Crore) which constitutes major portion among the expense part. This followed by increase in cost of material consumed and professional/consultancy fee has also taken part in moderation of operating profit margin in FY20. This however, the company has managed to improve its net profit margin from 5.35% in FY19 to 15.70% in FY20 at the back of reduction in interest costs and depreciation provisions along with impact of income tax paid for the year.

Stable outlook of digital cinema industry

With more cinemas being distributed digitally than in analogue formats, visual effects, restoration and digitization business is witnessing increasing demand. The digital cinema solution companies have ample scope for operating maximum out of the present market dynamics.

Liquidity: Adequate

Liquidity position of the firm remained comfortable characterized by sufficient cash accruals which stood at Rs. 9.80 crore in FY20 along with a modest cash and bank balance of Rs. 0.46 crore as on March 31, 2020. However the current and quick ratio of the company stood below unity at 0.97x respectively as on balance sheet date and the same is on account of trade payable to its related parties. Further the company reduced its reliance on working capital facility when compared to previous year and the average utilization is 50% and hence the unutilized portion of working capital stood at Rs. 6.00 Crore for last twelve months ended January 31, 2021. As per RBI announcement on COVID-19, the company has availed moratorium from March 2020 to May 2020 for bank facilities.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology – Service Sector Companies]
[Criteria for Short term instruments]

About the Company
Prasad Corporation Private Limited (PCPL), incorporated in 1994, is engaged in digital media content involving VFX & digital restoration services. It specialises in computer graphics, digital intermediate, digital film restoration and other digitisation & managed services. The company has two subsidiaries namely Prasad Global Media Services LLC USA and Digital Film Technologies GmbH, Germany and three step-down subsidiaries namely Prasad Corporation USA, Digital Film Technology LLC and Prasad Corporation GK, Japan. Prasad Global Media Services LLC USA (PGMS USA) offers digitisation & managed services and Digital Film Technologies GmbH (DFT GmbH) manufactures and sells high-end scanners. The high-end scanners are called scanity, which is the primary machinery required in restoration of old film content.

Brief Financials (Rs.crore)	FY19 (A)	FY20(A)
Total operating income	40.13	43.86
PBILDT	9.29	9.56
PAT	2.15	6.89
Overall gearing (times)	94.14	6.89
Interest coverage (times)	4.64	5.30

(A)-Audited;

Status of non-cooperation with previous CRA: *nil*

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB+; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	7.00	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB+; Stable	-	1)CARE BB+; Stable (04-Dec-19)	1)CARE BB+; Stable (27-Jul-18)	-
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	7.00	CARE A4+	-	1)CARE A4+ (04-Dec-19)	1)CARE A4+ (27-Jul-18)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4+	-	1)CARE A4+ (04-Dec-19)	1)CARE A4+ (27-Jul-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Packing Credit in Foreign Currency	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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