Shemaroo Entertainment Limited

March 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**221.00**	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**
Total Facilities	**221.00 (Rs. Two Hundred Twenty-One Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the long-term bank facility of SEL considers deterioration in operational performance of the company over the past couple of years. The management took strategic decision to reduce the low margin content syndication business. The reduced advertisement spending in view of slowdown in the economy has also adversely impacted the traditional/digital media revenue of SEL. The profitability was impacted on account of significant investments in new initiatives along with the launch of two new broadcasting channels. SEL forayed into the broadcasting space with the launch of two new channels – Shemaroo Marathi Bana and Shemaroo TV. These channels were launched just before the onset of the Pandemic in 2020. The company had made significant investments in those channels during FY20, FY21 and FY22 with low advertising revenue. This was the main reason for significant decline in profitability during FY20 and the loss in FY21.

The newly launched channels have already started to gain traction on the TRP space and is expected to breakeven from FY23 onwards. Further the advertising spend of the industry is improving and thus the revenue and profitability is expected to improve from FY23 onwards. Thus, the outlook is revised to Stable.

The ratings of the company continue to derive strength from the experienced promoters, their established business relationship in the Indian film industry, well-placed market position in the broadcast syndication (BS) business. The ratings further draw comforts from the big content library with investments in new initiatives to add sources to monetize its content library, low risk due to presence in second & subsequent legs, strong customer profile albeit customer concentration risk and moderate financial risk profile.

However, the rating strengths are tempered by decline in sales and profitability margins during FY20 and losses in FY21; albeit, improvement witnessed in 9MFY22 on YOY basis, working-capital intensive nature of operations, significantly high inventory holding period, recurring investments required with respect to content acquisition and competitive nature of broadcast syndication business which is also highly susceptible to the vagaries of economic cycles.

Key Rating Sensitivities

Positives

- Increase in sales to more than Rs. 400 crore and PBILDT margin of more than 25% on a sustainable basis
- Positive Cash Flow from Operations going ahead on a sustained basis

Negatives

- Inability of the company to break even on the new initiatives
- Inability of the company to reduce working capital utilization and sustained improvement in cash flow from operations

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

The Managing Director, Mr. Raman Hirji Maroo, has over three decades of experience in the entertainment industry. The company has experienced management team to handle different operations. Moreover, SEL's promoters and management have long-standing relationships with the film production houses and well-known broadcasters in the Indian television & media industry.

Low risk business due to presence in second & subsequent legs

In the first leg of movie lifecycle, SEL is present only in ancillary revenue streams like DTH and in-flight movie distribution. It typically participates in the second and subsequent cycles of film monetization which are of lower risk due to visibility of performance of movie during first cycle of launch. These subsequent cycles of film monetization have been typically growing due to various factors like increased advertisement spends, digitization etc. SEL decides on the cost of the content after it is confident of achieving the desired ROI at portfolio level and then distributes this content over different platforms like broadcasting channels and digital media platforms.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Large content library supporting operations
SEL has built up the content library of around 577 Hindi movies with perpetual rights and 1,293 Hindi movies with periodical rights ranging from 2 years to 10 years as on March 31, 2021 which can be monetized on various media platforms.
Investment in new initiatives to increase outreach
During FY20, SEL entered into the broadcasting space with the launch of two new channels. SEL launched free-to-air Marathi Movies satellite channel named as Shemaroo 'MarathiBana' in December 2019 and free-to-air Hindi general-entertainment-channel Shemaroo TV in May 2020.
During FY20 and FY21 the company has invested Rs.26.47 crore and Rs.51.00 crore respectively on these new initiatives largely funded from internal accruals. Further during 9MFY22 it has invested Rs.53.20 crore on new initiatives. SEL plan to enhance its distribution and monetization of its existing Marathi and hindi titles through this channel which is expected to benefit SEL to improve its revenue and profitability going ahead.

Strong customer profile albeit customer concentration risk
SEL has customer concentration risk as Top 10 customers of the company contribute around 64% of the net sales in FY21. The top customers are reputed, having long track record and have a stable credit profile which mitigates counterparty risk. Further these companies are in expansion phase and looking constantly to increase their content. Hence association with these companies is expected to benefit SEL.

Moderate financial risk profile
The capital structure of SEL is comfortable marked by adequate tangible networth. The overall gearing stood at 0.45 times as on March 31, 2021. Interest coverage ratio declined to 0.56 times in FY21 owing to low PBILDT. PBILDT/ interest coverage ratio improved to 1.48 times in 9MFY22 owing to improvement in profitability.

Key Rating Weaknesses
Decline in sales and profitability margins during FY21
SEL's total operating income declined by 36% to Rs.305.70 crore in FY21 (vs. Rs. 480.54 crore in FY20) primarily on account of decline in the revenues from both traditional and digital media. The management took strategic decision to reduce the low margin content syndication business. The reduced advertisement spending in view of slowdown in the economy has adversely impacted the traditional/digital media revenue of SEL. As the movie channels were deferring content investment on account of reduced advertising spends and uncertainty on account of covid-19. Traditional media holds the major chunk of the total revenue pie; however, the share of digital media in the pie has been rapidly growing over the past 4 years.
The PBILDT margin of the company declined in FY21 to 4.93% from 15.81% in previous year. This is owing to business carriage cost incurred on 'Shemaroo Marathibana' and 'Shemaroo TV' which are yet to break even. Moreover, advertisement revenue took major hit during the period. The PBILDT margin improved to 9.66% in 9MFY22 compared to 1.46% in previous year. This is owing to improvement in advertisement revenue post 'UNLOCK' measures implemented by GOI. The PBILDT margins are expected to be in range of 11-12% in FY22 and FY23 as the 'Shemaroo Marathibana' and 'Shemaroo TV' platforms launched by company in digital media space are expected break even in FY23 as per management. Hence, the profitability is expected to improve from FY24 onwards.

Elongated inventory holding period leading to stretched working capital cycle
The entertainment business is a working capital-intensive business mainly on account of higher inventory holding in the form of content development and motion pictures rights acquisition. Operating cycle for SEL continues to remain high at 957 days in FY21 as compared to 653 days in FY20 due to the inherent business model of broadcast syndication business and thereby rendering it working-capital intensive. SEL is required to hold inventory of the movie rights primarily to elevate its bargaining power against the broadcasters and differentiate it from other players. The working capital cycle of the company deteriorated in FY21 on account of increase in average inventory holding period. The inventory period increased from 594 days in FY20 to 922 days in FY21.

Reducing dependence on the broadcast syndication business
The broadcast syndication business is primarily dependent on broadcasting channels and is also exposed to increasing competition from the other content aggregators. Thus, during weak economic scenario the realization from various rights may get adversely impacted. On the other hand, with changing industry trends, increasing acquisition of movies by the broadcasters directly from the producers may put pressure on SEL's acquisition cost going forward.

Liquidity: Adequate
The average utilization of working capital limits for past 12 months ending November 2021 was 90%. The current ratio of 3.07x as on March 31, 2021. Current ratio is high due to the high levels of inventory holding. Quick ratio (excluding inventory) of the company stood at 0.40x as on March 31, 2021. The gross cash accrual of the company stood at Rs.9.41 crore in FY21. As on December 31, 2021 SEL has total cash and bank balances of Rs.6.72 crore which provides support to the liquidity of the company. The expected cash accruals for FY22 are around Rs.11crore, as against this the company has scheduled repayment obligation of Rs.6.81 crore. SEL has repaid Rs.6.20 crore till January, 2022.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the Company
Shemaroo Entertainment Limited (SEL), established in 1962, is promoted by the Chairman, Mr. Buddhichand Hirji Maroo. SEL has its presence across different verticals of movies and entertainment business including content aggregation, acquisition, film production and subsequent distribution of the movie rights to be monetized through the broadcasting channels (like television, home entertainment), new media (internet/ Value Added Services, OTT etc.) and preloaded devotional devices. The company also has a tie-up with many content providers in the industry. SEL's has a movie catalogue of 4211 titles as on March 31, 2021 which includes new and old prominent Bollywood movies and also titles in various other regional languages.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	9MFY22 (UA)
Total operating income	480.54	305.70	279.81
PBILDT	76.00	15.07	27.87
PAT	23.79	-19.25	4.29
Overall gearing (times)	0.40	0.45	NA
Interest coverage (times)	3.29	0.56	1.48

A: Audited; UA: Un-audited; NA: not available

Status of non-cooperation with previous CRA: Not applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	175.00	CARE BBB; Stable
Fund-based - LT-Bank Overdraft		-	-	-	46.00	CARE BBB; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	175.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	1)CARE A; Stable (04-Apr-18)
2	Term Loan-Long Term	-	-	-	-	1)Withdrawn (06-Apr-20)	-	-
3	Fund-based - LT-Bill Discounting/ Bills Purchasing	-	-	-	-	1)Withdrawn (06-Apr-20)	-	-
4	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	1)CARE A; Stable (04-Apr-18)
5	Fund-based - LT-Bank Overdraft	LT	46.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	-

**Long term/ short term*

Annexure-3: Detailed explanation of covenants of the rated facilities- Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:
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