Shemaroo Entertainment Limited

February 11, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities (i)	221.00 (Enhanced from 219.00)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed and removed from Credit watch with Negative Implications; Negative outlook assigned
Long Term Bank Facilities (Term Loan)	-	-	Withdrawn
Total Bank Facilities	**221.00 (Rs. Two Hundred Twenty-One Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had placed the rating assigned to the bank facilities of Shemaroo Entertainment Limited (SEL) on credit watch with negative implications vide its press release dated August 07, 2020 on account of uncertainties relating to delay in release of enhanced cash credit facilities and term loan. SEL has availed the enhanced cash credit limits from two banks in May 2020 and Oct 2020. Further, SEL has decided not to avail the sanctioned term loan facilities from both the banks and requested for withdrawal vide email dated February 08, 2021. Taking cognizance of the above CARE has withdrawn the outstanding rating of CARE BBB+ 'Under credit watch with negative implication' assigned to the long term bank facility- term loan of SEL with immediate effect.

The rating assigned to the long term bank facility of SEL continues 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 9MFY21; albeit, improvement witnessed in Q3FY21 on QoQ basis, negative outlook for the Television media, the working-capital intensive nature of operations, 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

- PBILDT margin of more than 35% on a sustainable basis
- Positive Cash Flow from Operations going ahead on a sustained basis

Negatives

- Inability of the company to register improvement in QoQ performance and reporting cash losses in coming quarters
- Inability of the company to reduce working capital utilization and sustained improvement in cash flow from operations

Outlook: Negative

The outlook of the company has been changed to negative due to the impact of covid-19 on the television industry especially the broadcasting and syndication business amid reduced advertisement spend in FY20 & 9MFY21. The covid-19 related disruptions have impacted the total operating income and profitability margins of the company. Although, there has been improvement in revenue on a QoQ basis, its sustainability still needs to be seen.

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.

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

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.

Large content library supporting operations
SEL has built up the content library of around 517 Hindi movies with perpetual rights and 1,499 movies with periodical rights ranging from 2 years to 10 years as on July 29, 2020 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 the company has invested Rs.26.47crore on these new initiatives largely funded from internal accruals. Further during 9MFY21 it has invested Rs.44.90crore 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 59% of the net sales in FY20. 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 overall gearing of the company has deteriorated marginally from 0.36x as on March 31, 2019 to 0.39x as on March 31, 2020. The decline was on account of accretion of lower amount of profit to reserves & surplus coupled with increase in debt. In spite of loss at EBITDA & PAT in absolute terms in 9MFY21 due to unprecedented Covid-19 crisis the overall gearing further deteriorated to 0.44x as on September 30, 2020, however, continued to remain at comfortable levels. TD/GCA also deteriorated to 7.77x in FY20 (vs. 2.29x in FY19) on account of lower cash accruals coupled with increase in debt. Interest coverage ratio declined to 0.17x in 9MFY21 due to lower PBILDT and TD/GCA as on December 31, 2020 turned negative due to negative GCA.

Key Rating Weaknesses
Decline in sales and profitability margins during FY20 and 9MFY21; albeit, improvement witnessed in Q3FY21 on QoQ basis
SEL's total operating income declined by 12.51% to Rs.480.54crore in FY20 (vs Rs.549.25crore in FY19) primarily on account of decline in the revenues from traditional media by around 20%. The reduced advertisement spending in view of slowdown in the economy has adversely impacted the traditional media revenue of SEL. This was however, partially offset by the growth in the revenue from digital media of around 15%. 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.
PBILDT margin declined to 15.81% during FY20 (P.Y. 29.58%) on account of increase in employee cost and higher content cost in percentage terms. In 9MFY21 SEL's TOI has declined by around 40% y-o-y to Rs.230.42crore as the movie channels were deferring content investment on account of reduced advertising spends and uncertainty on account of covid-19. In 9MFY21 revenue from both Digital and Traditional media segments declined significantly. However, during Q3FY21 revenue from traditional media segment largely remained stable when compared on a YoY basis.
Consequent to decline in PBILDT margins, the company reported a loss of Rs.22crore at net level during 9MFY21. However, there has been an improvement witnessed on a QoQ basis led by improved demand post easing of lockdown.

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 653 days in FY20 as compared to 615 days in FY19 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 showed marginal deterioration of 38 days in FY20, compared to FY19. The same was on account of increase in average inventory holding

period. The inventory period increased from 533 days in FY19 to 594 days in FY20. However, there was a marginal improvement of 11 days in collection period of the Company.

Negative Outlook of Television Media
There has been a perceptible slowdown in global economic activity since 2019 with rising trade barriers and increasing geopolitical tensions constraining growth. The tepid economic climate combined with a slowdown in domestic consumption had an adverse impact on the media and entertainment (M&E) sector in India, which grew slower than anticipated at about 7 per cent in FY20. Further, led by the impact of covid-19 M&E sector is expected to contract at higher rate in FY21 as compared to YoY decline in FY20 with major segments like TV, films and print all seeing major declines.

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 company reported a gross cash accrual of Rs.29.93 crore in FY20. Further, the company reported a negative GCA of Rs.16 crore in 9MFY21. As against this the company has scheduled repayment obligation of Rs.11.84 crore to be repaid in FY21 and SEL has repaid Rs.9.75 crore till January, 2021 and the balance Rs.2.09 crore is due for repayment in the coming months of FY21. The liquidity comfort is drawn from the fact the as on December 31, 2020 SEL had total cash and bank balances of Rs.6.61crore. The average of maximum utilization of working capital limits for past 12 months ending December 2020 remained high at 98.60%.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Rating
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology – Service Sector Companies
Financial ratios – Non Financial Sector
CARE's Policy on Liquidity Analysis of Non-Financial Sector Entities

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 4167 titles as on July 29, 2020 which includes new and old prominent Bollywood movies and also titles in various other regional languages.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	478.20	549.25	480.54	230.42
PBILDT	141.50	162.44	76.00	3.36
PAT	69.49	86.11	23.79	-21.50
Overall gearing (times)	0.43	0.36	0.39	NA
Interest coverage (times)	4.61	6.37	3.29	0.17

A: Audited; UA: Unaudited; 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	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+; Negative
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Bank Overdraft	-	-	-	46.00	CARE BBB+; Negative

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	175.00	CARE BBB+; Negative	1)CARE BBB+ (Under Credit watch with Negative Implications) (07-Aug-20) 2)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	1)CARE A; Stable (04-Apr-18)	1)CARE A; Stable (19-Apr-17)
2.	Term Loan-Long Term	-	-	-	1)Withdrawn (06-Apr-20)	-	-	-
3.	Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	1)Withdrawn (06-Apr-20)	-	-	-
4.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+ (Under Credit watch with Negative Implications) (07-Aug-20) 2)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+; Negative	1)CARE BBB+ (Under Credit watch with Negative Implications) (07-Aug-20) 2)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Manohar Annappanavar
Contact no. : +91-22-6754 3436
Email ID: manohar.annappanavar@careratings.com

Business Development Contact
Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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