

Shemaroo Entertainment Limited (Revised)

September 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	223.00	CARE BBB-; Negative	Revised from CARE BBB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Shemaroo Entertainment Limited (SEL) factors in increase in debt level of the company in FY23 leading to weakening of debt protection indicators. The total debt had increased to Rs 321 crores in FY23 from Rs 254 crores in FY22. The incremental debt was availed to acquire new content (i.e. additional inventory). The inventory increased from Rs 715 crores in FY22 to Rs 735 crores in FY23. The debt protection metrics continue to remain stressed with interest coverage of 1.51 times (PY1.45 times) and TD/GCA of 26.91 times (PY 24.82 times) in FY23. During Q1FY24 the company had posted loss of 1.03 crore on total income of Rs. 154 crores. CARE also notes the recent development in the company i.e. detention of top company officials by Central Goods and Services Tax (CGST) department for alleged discrepancies in claiming Input Tax Credit and were later released on bail. The company's management in its disclosures with Stock Exchanges has denied any such discrepancies. CARE will continue to monitor the same with regards to any potential liability arising on the company.

The ratings 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, 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. However, the rating strengths are tempered by 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in sales to more than Rs. 500 crore and PBILDT margin of more than 15% on a sustainable basis.
- Positive Cash Flow from Operations going ahead on a sustained basis
- Improvement in coverage indicators with improvement in interest coverage above 3x and Total Debt/GCA below 10x on sustained basis

Negative factors

- Decline in scale of operations with sales below Rs. 300 crore and PBILDT margin below 9% on sustained basis
- Further stretch in operating cycle affecting the liquidity position.
- Any liability arising out of the CGST matter that may impact the financial risk profile of the company.

Analytical approach: Consolidated

Care has considered consolidated financials as all its subsidiaries since they are in the similar line of business and are under the same management. Following are the list of companies considered in consolidation along with their holdings by SEL as on March 31, 2023, is provided below:

Name of companies/ Entities	% of holding
Canopy Entertainment Private Limited	100
Shemaroo Contentino Media LLP	72.50
Shemaroo Think Tank Entertainment LLP	99.99
Shemaroo Media and Entertainment LLC	100.00

Outlook: Negative

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

The 'Negative' outlook reflects moderation in the financial risk profile and liquidity position of the company due to increase in debt.

Detailed description of the key rating drivers:

Key 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.

Large content library supporting operations

SEL has built up the content library of around 611 Hindi movies with perpetual rights and 1,119 Hindi movies with periodical rights ranging from 2 years to 10 years as on March 31, 2023 which can be monetized on various media platforms. Additionally, SEL has 1,991 of regional titles and 445 special interest content.

Launch of new TV channel and acquisition of new broadcasting rights

In Q1FY24 SEL launched a new TV channel by name "Shemaroo Chumbak". The said channel provides Hindi entertainment and plans to capture the youth market. Further, in Q2FY24 SEL acquired new broadcasting rights of 20 plus movies via a syndication deal. Both new TV channel and syndication deal have started generating revenue from Q2FY24 which will help SEL to report incremental in FY24 as compared to FY23

Key weaknesses

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. Though the operating cycle for SEL improved in FY23 to 511 days it continues to be high at 511 days (PY 782 days) due to the inherent business model of broadcast syndication business. 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.

Increase in debt leading to weakening of debt protection metrics

In FY23 the total debt increased to Rs 321 crores from Rs 254 crores in FY22. The said incremental debt was on account of increased working capital outstanding which increased to Rs 280 crores as on March 31, 2023 (PY:Rs 203 crores). The debt protection metrics continue to remain stressed with interest coverage of 1.51 times (PY1.45 times) and TD/GCA of 26.91 times (PY 24.82 times) in FY23.

Exposed to intense competition

The company faces stiff competition from both new as well as existing players in the film & television media along with new media segment. Intensified competition in recent years has increased demand for the limited content pool, which has in turn contributed to an increase in costs for content acquisition. Thus, the profit margin of content providers like SEL is expected to remain moderate in medium term.

Vulnerability of advertisement revenues

The media and entertainment industry remains vulnerable to cyclicalities in advertisement spends by corporates and the stiff competition including that from the digital players. In Q1FY24 the advertising spend for SEL was affected due to free broadcasting of Indian Premier League (IPL) on the Reliance Jio platform.

Liquidity: Adequate

The liquidity position is adequate. The company is expected to generate sufficient cash accruals to repay its principal repayment obligations of 6-7 crore each during FY24 and FY25. The average utilization of working capital limits for past 12 months ending August 2023 was 93% and provides limited liquidity backup. The current ratio of 2.29x (PY:2.88) as on March 31, 2023. Current ratio is high due to the high levels of inventory holding. Quick ratio (excluding inventory) of the company stood at 0.60x (PY0.49x) as on March 31, 2023. As on March 31, 2023 SEL has total cash and bank balances of Rs.2.14 crore (PY: Rs 8.01 crores).

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Media, Entertainment & Publication	Entertainment	Film Production, Distribution & Exhibition

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 4166 titles as on March 31, 2023 which includes new and old prominent Bollywood movies and also titles in various other regional languages.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	311.14	368.29	536.39
PBILDT	12.32	37.49	48.57
PAT	-21.88	6.45	7.28
Overall gearing (times)	0.47	0.42	0.54
Interest coverage (times)	0.44	1.52	1.64

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	48.00	CARE BBB-; Negative
Fund-based - LT-Cash Credit		-	-	-	175.00	CARE BBB-; Negative

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	175.00	CARE BBB-; Negative	1)CARE BBB; Stable (05-Apr-23)	1)CARE BBB; Stable (22-Mar-23)	1)CARE BBB; Stable (04-Mar-22)	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CW with Negative Implications) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)
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+ (CW with Negative Implications) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)

5	Fund-based - LT-Bank Overdraft	LT	48.00	CARE BBB-; Negative	1)CARE BBB; Stable (05-Apr-23)	1)CARE BBB; Stable (22-Mar-23)	1)CARE BBB; Stable (04-Mar-22)	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CW with Negative Implications) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)
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*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Sudarshan Shreenivas Director CARE Ratings Limited Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in</p> <p>Arunava Paul Associate Director CARE Ratings Limited Phone: 022-6754 3667 E-mail: arunava.paul@careedge.in</p> <p>Akshay Paradkar Lead Analyst CARE Ratings Limited E-mail: Akshay.Paradkar@careedge.in</p>
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About us:

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