

Qube Cinema Technologies Private Limited

November 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	151.10 (Reduced from 155.67)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	5.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Qube Cinema Technologies Private Limited (Qube) continue to derive strength from the company's established position in the digital cinema exhibition industry with a sizeable screen count under its ambit, benefit of being one of the two major digital cinema service providers in the country and experienced management team.

The rating also takes note of acquisitions done in the recent past, which resulted in incremental debt to an already leveraged capital structure, while also being anticipated to enhance the revenue and margin. However, ratings are constrained by the limited potential for screen base expansion, technology risk alongside the threat of new distribution channels, and moderately leveraged capital structure, considering capex intensive business model.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling-up of operations with total operating income (TOI) ~₹600 crore.
- Improvement in the capital structure with total debt to gross cash accruals (TD/GCA) improving below 2x.

Negative factors

- Deterioration in the working capital cycle with elongation in debtors beyond 120 days.
- Drop in TOI below ₹250 crore on a consistent basis.

Analytical approach: Consolidated

For arriving at its ratings, CARE Ratings Limited (CARE Ratings) has taken a consolidated view of Qube, and its foreign subsidiary Qube Cinema Inc (QCTPL holds 100% stake), its joint-controlled entity, Justickets Private Limited, in which it holds a 43% stake and its step down subsidiary Mega Film Enterprise (Mega)

Outlook: Stable

CARE Ratings expects the company would continue to maintain its momentum backed by the expansion of Qube-wire offering in multiple territories, improvement in advertisement income, and stable revenues from other revenue streams and incremental revenue from recent acquisitions.

Detailed description of key rating drivers:

Key strengths

One of the two major players in digital cinema space

The digital cinema space is currently dominated by two players, one of them being Qube. Qube is present in the entire value chain of procuring analogue prints from producers and distributors, mastering, creating digital cinema packages (DCPs), and delivering them to exhibitors, and providing the necessary infrastructure in terms of equipment and projectors for this. The market being more of a duopoly, large distributors and production houses have to rely on them for a wider release of movies.

Established position in the digital cinema exhibition industry

Qube has a strong market position as a digital cinema technology and infrastructure provider to film exhibitors. Since FY23 end, Qube is also delivering movies to over 1700 screens of PVR Inox multiplex chain increasing their overall screen presence in the country. It has a network of 6287 screens as on March 31, 2024, which accounts to ~64% of the screens operating in the country. Qube has been able to capture a large market share in south India despite a fragmented industry structure, with ~60% of its screens present in the south. In addition to the Indian market, Qube also serves international markets through its subsidiary, Qube Cinema Inc, which primarily provides global electronic movie delivery services, mainly covering majority Indian movies screened abroad and a few Hollywood movies.

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

Diversification in the revenue profile

In the film exhibition business, two major revenue components include the virtual print fee (VPF) and in-cinema services. The VPF is charged as a composite fee for mastering and digitalising services provided to producers who own rights of the movies, whereas in-cinema services include advertising revenue, sale of theatre equipment, and related services. The company installs movie projection equipment in theatres, for which it receives the right to exploit on-screen advertising time and receives lease rentals in some cases for a defined period. The VPF charges account for ~30-35% share of the TOI and ad accounts for ~20%, followed by the sale of digital equipment and its service charges accounting for 20-25% of the revenue share.

In the last three years, the company has seen a significant growth in QubeWire. QubeWire is a logistics business used for global theatrical distribution. The company delivers Digital Cinema Packages (DCPs) and Key Delivery Messages (KDMs) electronically through its devices installed in the theatre network of ~7000+ screens. This accounts for ~15-20% of the company's revenue. This segment has seen good growth in the last few years and is expected to widen the company's network globally and be a growth driver for the future.

While all of the above segments are in the film exhibition business, the company has also diversified out of this in TV broadcasting management through its media solutions segment. Media solutions is a service for newsroom integration and workflow management to media channels. The VPF revenue growth seems to be limited, however, the advertisement revenue and Qube wire services are expected to be the major revenue growth drivers, going forward.

Significant recovery in operations post-COVID

The movie exhibition business faced significant disruptions in operations post the outbreak of COVID pandemic, with theatre operations remaining suspended for an extended period in the last two financial years. This impacted Qube's performance significantly, with the company incurring operating losses in for FY21 and FY22. The film exhibition business has seen a recovery compared to pre-COVID levels with reopening of theatres and complete removal of restrictions. The number of big-ticket movies also saw a surge post-COVID with some reaching record box office revenues. These factors led to strong recovery in the operations of Qube in revenue and profitability from FY23 onwards. In FY24, the company's TOI grew 9.6% to ₹ 508 crore. Sustainability of recovery in the film exhibition business and growth of in-cinema advertisement remains critical for the company.

In May 2024, the company acquired its joint revenue operator, E-city Digital cinema Private Limited (E-city) and NCLT has accorded approval for merger of E-city with Qube in October 2024

In September 2024, Qube has acquired Malaysia-based Mega Film Enterprise (Mega). Mega has been offering digital cinema solutions and content delivery in Malaysia and Singapore.

Experienced management team

Qube was originally set up in the name of 'Real Image Media Technologies' by founders Senthil Kumar and Jayendra Panchapakesan, in 1993, with the primary business in the field of non-linear editing and digital cinema sound. The firm was later renamed to its current form in 2003 and started as a provider of end-to-end digital cinema technology and solutions to film distributors and exhibitors. In March 2021, the major stake in the company was acquired by Kiran Reddy, who came in as an investment partner, through his investment firm, S.S. Theatres LLP. Kiran Reddy was the erstwhile promoter of SPI Cinemas Private Limited, which was earlier in the movie exhibition business predominantly in south India, before being sold to PVR. Promoters have over three decades of experience in the film industry. The company's day-to-day operations are supervised by Harsh Rohatgi, Chief Executive Officer, who has been one of the founding team members at NDTV Imagine. Promoters have continuously demonstrated their resourcefulness through regular need-based equity infusions as well been able to raise capital through private investors in the past.

Key Weaknesses**Saturation in digital cinema and limited growth prospects in terms of new screen expansion**

In the film exhibition business, potential growth areas for the company's screen expansion is limited with almost over 90% of the screens in the country already digitised. While the competition in the industry is moderate, Qube accounts for ~38% of the digitised screens, and no major growth is expected in terms of equipment sales over the medium term except for technology upgradation. Various large multiplexes have been undertaking screen additions, however, the VPF revenue would continue to remain at similar levels.

Technology risk and the threat of new content distribution channels

The company is exposed to high technology risks involved in the digital services business. Rapidly emerging technologies are altering content consumption habits, potentially exposing the company to new competitors. This necessitates Qube to provide a high level of flexibility and adaptability. The industry overall is exposed to risks, while Qube's ability to maintain commercial terms (VPF/rentals) with its clients remains key to its sustained business growth, given the limited potential for increasing the screen base in India. Like any other film exhibitors, Qube also remains exposed to significant risks from over-the-top (OTT) platforms.

Moderately leverage capital structure

The company's capital structure stood moderately leveraged, considering capex intensive business model, with the overall gearing at 1.83x as on March 31, 2024 (PY: 1.95x). Leverage levels as reflected by the overall gearing ratio continues to remain higher-than-envisaged level as the due to the debt funded capex and upgradation in FY24. In FY25, the company raised NCDs of ₹54 crore to finance the acquisition of E-city. The repayment of the NCDs is expected to be met out incremental cash accruals from the acquired/merged entity. While the E-city acquisition was debt funded, acquisition of Mega was primarily funded by fresh equity infusion by the promoters. As the post covid capex cycle for upgradation of theatre projection systems has abated, the reliance on capex and working capital borrowings are expected to come down, rationalising leverage levels in the medium term.

Prospects

Despite having the largest film industry in the world in terms of volume, India has one of the lowest screens per million population. India has just seven screens per million population, as opposed to 30 in China, 68 in the UK, and 125 in the US. Film segment is expected to grow with increased big-ticket releases and improvement in the movie going experience. Film exhibition revenues will continue as the dominant revenue contributor of the filmed entertainment segment as people return to cinemas. With south based movies being more dominant over the last two years, this augurs well for Qube which has a higher presence in the southern market. Advertising is expected to see a gradual improvement with better utilisation of advertisement inventory and with deployment of right tools to measure effectiveness if in-cinema advertisement.

Liquidity: Adequate

The company's liquidity position is adequate, with an estimated cash accrual of ₹70 crore against term loan/lease repayments of ~₹34.7 crore in FY25. The company's operating cycle improved marginally to 71 days (PY: 74 days) with improvement in inventory days. The inventory primarily comprises the equipment traded, accessories of theatre projection systems. Average working capital utilisations for the last 12 months ended July 31, 2024, stood moderate at ~66%. Total cash and liquid investments stood at ₹5.27 crore as on March 31, 2024. The company also has maintained fixed deposits of ₹20.34 crore, which are under lien with banks against the overdrafts availed.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

About the company and industry

Qube, incorporated in 1993 and headquartered in Chennai, is a provider of end-to-end digital cinema technology and solutions to film distributors and exhibitors. Qube's product line is spread with ~7,000 installations (including equipment and wire-tap installations in international locations) across 48 countries and digital cinema operations in over 4,000 cinema screens across India, which is ~40% of Indian screens. The company was originally promoted as 'Real Image Media Technologies' in 1986 by Senthil Kumar and Jayendra Panchapakesan. The company's largest markets in terms of screen number are Tamil Nadu, Andhra Pradesh, Telangana, Kerala, and Karnataka; these states jointly account for ~60% of the company's total screen presence. The company also has a wholly owned subsidiary, Qube Cinema Inc, which operates in the US and provides global delivery services. It also has a joint controlled entity by the name Justickets Private Limited, which is in online ticketing services for movies. In FY25, Qube has also acquired E-city Digital Cinema Services Private Limited (In October 2024, NCLT has approved merger with Qube) and Malaysia based Mega Film Enterprise which are in same business as of Qube.

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Media, entertainment and publication	Entertainment	Film production, distribution and exhibition

Brief Financials (₹ crore)(consolidated)	March 31, 2023 (A)	March 31, 2024 (P)	H1FY24 (P)
Total operating income	464.22	508.92	279.15
PBILDT	68.62	63.03	40.99
PAT (After def Tax)	13.26	10.98	NA
Overall gearing ratio (times)	1.95	1.83	NA
Interest coverage (times)	5.09	3.53	NA

A: Audited P: Provisional NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE BBB+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	28-02-2029	101.10	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-23)	1)CARE BBB; Stable (26-Oct-22)	-
2	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A3+	-	1)CARE A3+ (13-Sep-23)	1)CARE A3+ (26-Oct-22)	-
3	Fund-based - LT-Term Loan	LT	101.10	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-23)	1)CARE BBB; Stable (26-Oct-22)	-
4	Fund-based - LT-Proposed fund based limits	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (13-Sep-23)	1)CARE BBB; Stable (26-Oct-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Qube Cinema Inc	Full	Similar line of business and common management
2	Mega Filem Enterprise	Full	
3	Justickets Private Limited	Moderate	Similar line of business and joint venture with Qube holding 43% stake

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

Contact us

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About us:

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