Applause Entertainment Private Limited

December 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	1,000	CARE A-; Stable/ CARE A2+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Applause Entertainment Private Limited (AEPL) derive significant comfort from being an Aditya Birla group entity with its strong parentage of Birla Group Holdings Private Limited (BGHPL) providing significant financial flexibility to AEPL. The ratings also draw comfort from consistent growth in content investments by AEPL backed by funding support from promoter group and its focus on owing content IP rights which provides monetisation potential over long term.
However, the ratings are constrained by AEPL's modest scale of operations amidst limited operational track record, operating losses, and leveraged capital structure despite supported by recent equity infusion and highly competitive entertainment media production industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Sustained improvement in total operating income (TOI) with operating profitability.

Negative factors:

- Change in BGHPL's controlling ownership of AEPL.
- Deterioration in the credit profile of BGHPL.
- Sustained losses resulting in erosion of networth and/or delay in support from BGHPL.

Analytical approach: Standalone. The ratings also factors in strong parentage of BGHPL.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes AEPL shall derive benefit from its strong parentage in scaling up of its operations with need-based timely support expected from BGHPL.

Detailed description of key rating drivers

Key strengths

Strong and resourceful parentage of BGHPL entailing significant financial flexibility to AEPL

AEPL derives significant comfort from BGHPL's strong credit risk profile and financial flexibility. BGHPL is a key holding company in Aditya Birla group with significant investments in the group's operating/holding companies such as Grasim Industries Limited (rated CARE AAA; Stable/ CARE A1+), Aditya Birla Capital Limited, Hindalco Industries Limited (rated CARE AA+; Stable/ A1+), Aditya Birla Fashion and Retail Limited, and Pilani Investments & Industries Corporation Limited (rated CARE A1+) among others. BGHPL's strong credit profile derives comfort from large market value of its investments in listed Aditya Birla group companies having strong credit profile against its external debt.
AEPL's board of directors includes Sushil Agarwal (Group CFO - Aditya Birla group) and two other directors who are also on the board of other Aditya Birla group entities. Under the aegis of board of directors, AEPL is managed by managing director, Sameer Nair, who has an experience of over three decades in media and entertainment industry.
BGHPL, along with Aditya Birla group companies, has undertaken to hold at least 51% stake and to have management control in AEPL during the tenure of bank facilities. BGHPL has also provided letter of comfort to some of the AEPL's lenders. Being a part of Aditya Birla group, AEPL enjoys adequate financial flexibility which gives AEPL access to debt market for raising funds at favourable terms.

Consistent growth in content investments with focus on IP creation

AEPL has consistently increased content investments for production of movies, music, web series and animation, resulting in content inventory of ₹687 crore as on September 30, 2024. AEPL has been able to license rights for its content to all major TV and digital broadcasters for ~7-10 years period and also releases movies on box office; however, with retention of IP rights with itself. AEPL intends to create and own IP rights of large content inventory which can generate long term cash flows for the company.

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

Liquidity: Adequate

AEPL's adequate liquidity is primarily derived from strong stance of its parent to provide need-based support to AEPL which ensures financial flexibility. Also, AEPL has unutilised working capital limits of ~₹190 crore as on September 30, 2024, providing adequate liquidity.

Key weaknesses

Modest scale of operations amidst limited operational track record and operating losses

AEPL has a modest scale of operations marked by TOI of ₹141 crore in FY24 and ₹75 crore in H1FY25 amidst limited operational track record. Also, AEPL has been incurring operating losses due to limited scale of operations and unfavourable demand scenario from digital and TV entertainment media broadcasters in the last two years. AEPL's scale of operations is expected to improve significantly with improved demand scenario and AEPL's sizable content investment plans backed by financial support from Aditya Birla group. However, the company's ability to generate adequate realisations from license of content rights and its profitability will be a key monitorable.

Leveraged capital structure supported by recent equity infusion

AEPL's total debt of ₹1,731 crore primarily comprises of working capital bank borrowings of ₹440 crore and inter-corporate deposits (ICDs) of ₹1,249 crore against net worth of ₹383 crore as on March 31, 2024. AEPL avails working capital bank borrowings for content investments, whereas it avails ICDs primarily from group companies and extend the same to group companies. Recently, promoters have infused equity of ₹296 crore in May 2024 to fund the company's sizable content investment plans resulting in provisional net worth of ₹674 crore as on September 30, 2024, against sanctioned working capital limits of ₹710 crore. AEPL's capital structure is expected to remain leveraged in the medium term with expected increase in working capital borrowings for its content investment plan.

Highly competitive entertainment media production industry

Indian entertainment media industry is highly competitive with large number of production houses, producing diverse content which is delivered to the audience through several TV channels, and cinema screens across the country and growing usage of digital platforms. Entertainment media production industry faces many challenges such as piracy, continuously changing audience preferences resulting in risk of non-acceptance of content by audience and cyclicality associated with content demand by TV broadcasters and digital platforms.

Although AEPL endeavours to pre-sale large part of its content before or in early stages of production, it is exposed to monetisation risk for sizable part of its content inventory.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Service Sector Companies
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial Sector Entities
Short Term Instruments

About the company

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Media, entertainment and publication	Entertainment	Media and entertainment

Applause Entertainment Private Limited, incorporated on March 20, 2002, is a media and entertainment venture of Aditya Birla group. Aditya Birla group holds 100% stake in AEPL through Birla Group Holdings Private Limited (BGHPL) and Surya Kiran Investments PTE Ltd holding 51.22% and 48.78% stake, respectively, as on September 30, 2024.

AEPL is content and IP creation studio with a focus on films, digital series, television, animation and music. The company creates content and partners with varied distribution platforms (box office, TV, digital) to deliver its content globally. AEPL's key digital series/movies includes Criminal Justice, Hostages, The Office, City of Dreams, Rudra, Scam 1992, Scam 2003, Tanaav, Avrodh, Your Honour, Undekhi, Hasmukh, Modern Masters, Mind the Malhotras, Rasbhari, Bhaukaal, Madhuri Talkies, Hello Mini, Zwigato and Por Thozhil among others.

Brief Financials of AEPL (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (Prov.)
Total operating income	161	141	75
PBILDT	-45	-23	-38
PAT / (Net losses)	-70	-29	-21
Overall gearing (times)	2.60	4.52	NA
Interest coverage (times)	NM	NM	NM

A: Audited; Prov.: Provisional; NA: Not available; NM: Not Meaningful; 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/Non-fund-based-LT/ST	-	-	-	-	1,000	CARE A-; Stable / CARE A2+

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/Non-fund-based-LT/ST	LT/ST	1,000	CARE A-; Stable / CARE A2+	-	-	-	-

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/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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.

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About us:

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