# Miraj Entertainment Limited (Revised)

February 24, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 7.84<br>(Reduced from 40.34) | CARE BB+; Stable<br>(Double B Plus; Outlook: Stable) | Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) |
| **Total Bank Facilities** | **7.84<br>(Rs. Seven Crore and Eighty-Four Lakhs Only)** | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The revision in the rating assigned to the bank facilities of Miraj Entertainment Limited (MEL) is on account of significant losses incurred during FY21 (FY refers to the period April 1 to March 31) and 8MFY22 due to prolonged impact of Covid 19 pandemic induced disruptions on its operation resulting in significant erosion in the tangible net-worth and its leveraged capital structure and weak debt coverage indicators. The rating is further constrained on account its stretched liquidity and project risk related to the proposed capital expenditure (capex). The rating also factors in its presence in competitive movie exhibition industry which continue to face headwinds amidst Covid 19 and resultant government restriction, lower footfalls and competition of over the top (OTT) platforms.

The rating, however, continue to derive strength from its experienced management and resourceful promoter group, established brand name and continuous addition of movie screens with geographical diversification. The rating also take cognizance of infusion of funds by promoters and related parties in form of unsecured loans to support the operations and debt servicing.

**Rating Sensitivities**

**Positive Factors – Factors that could lead to positive rating action/upgrade:**

- Achieving normalcy in operations by reporting satisfactory occupancy levels at pre-covid levels leading to improvement in its financial profile

**Negative Factors - Factors that could lead to negative rating action/downgrade:**

- Lower-than-expected ramp up in occupancies resulting in continued loss incurring operations even beyond FY22 on a sustained basis which adversely impacts its liquidity and debt coverage indicators.
- Any delay in receipt of financial assistance from promoter group thereby impacting its operations in near term

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

***Significant erosion in the net-worth base with leveraged capital structure and weak debt coverage indicators***

Tangible net worth of MEL reduced from Rs.82.41 crore as on March 31, 2020 to Rs.34.54 crore as on March 31, 2021 and Rs.7.54 crore as on November 30, 2021 with losses incurred at the PAT level during FY21 and 8MFY22. The losses were funded by the unsecured loan from the promoter which led to increase in total debt from Rs.63.03 crore as on March 31, 2020 to Rs.108.61 crore as on March 31, 2021 and Rs.111.42 crore as on November 30, 2021 resulting in significant deterioration in its capital structure from 0.76x as on March 31, 2020 to 3.14x as on March 31, 2021 and 14.77x as on November 30, 2021. MEL is expected to incur losses in Q4FY22 amidst third wave of Covid 19 which would deteriorate its networth base and necessitates further infusion of funds by promoters.

With losses reported at PBILDT level as well as cash losses, overall debt coverage indicators of MEL marked by PBILDT Int. coverage and TDGCA turned weak (negative) during FY21 and 8MFY22.

***Decline in scale of operation with cash losses due to impact of Covid 19 pandemic during FY21 and 8MFY22***

TOI of MEL declined by 93% from Rs.224.09 crore during FY20 to Rs.14.78 crore during FY21 on the back of shutdown/partial shutdown of the theatre for major part of the year during FY21 due to Covid 19 pandemic. The Central / State Governments have taken various measures towards containment of Covid 19 pandemic which includes temporary closure of non-critical establishments which resulted in closure of all Cinema Halls of across India since mid of the March 2020 and the same were reopened from October 15, 2020 albeit with 50% capacity in some states. Many states approved to re-open the cinema halls with 100% capacity from February 12, 2021; however, certain key market of MEL (i.e. Maharashtra) continued to operate with

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

capacity restrictions. The same had impacted the operations of the MEL during FY21 as total footfall declined by 93% on y-o-y basis during FY21.
MEL has taken various steps for cost cutting by curtailing its major expenses like invocation of force majeure clause in all its lease agreements while negotiating for reduced rentals/revenue sharing post-opening of screens, salary cuts, termination of agreement with housekeeping and security agencies, discontinuation of Programming contract etc. MEL had reported operating losses of Rs.36.62 crore during FY21 as compared with operating profit of Rs.32.64 crore during FY20 on the back of significant decline in the TOI and large fixed cost which is inherent to the movie exhibition business. With decline at the PBILDT level and increase in the depreciation (due to opening up of new screens) and interest cost (due to increase in total debt), MEL reported net loss of Rs.48.01 crore and cash losses of Rs.41.84 during FY21.
The operations of MEL were further impacted during Q1FY22 due to 2nd wave of Covid 19 pandemic. Operations of MEL partially stabilized during Q2FY22 and Q3FY22 with moderate increase in the footfall and increase in occupancy level as compared with FY21 level. However, occupancy level remains impacted by capacity restriction as announced by various state governments. For 8MFY22, MEL had reported TOI of Rs.34.55 crore with net loss of Rs.27 crore. MEL had also renegotiated its lease rentals in 8MFY22 to control its operational cost to certain extent.

***Exposure to consumer spending trends and intense competition with risk inherent to the movie exhibition business which is facing headwinds due to Covid 19 disruptions***
Movie watching is discretionary in nature and closely linked to consumer spending patterns, particularly on the basis of movie performance and content releases etc. Besides, MEL’s revenues remain vulnerable to consumers' changing tastes, preferences and evolving trend of over the top (OTT) contents. MEL faces stiff competition from alternative distribution platforms like streaming services and satellite television in the current scenario where the market has grown significantly post Covid. It also faces strong competition from the other established brands like PVR Cinemas, INOX Leisure, Carnival Cinemas and Cinepolis having significant pan India presence.
COVID-19 disruptions had a major impact on the multiplex sector which had led to shut down all screens across the country which opened gradually with restricted capacity as per government regulations. Industry witnessed lower occupancy levels and lower big budget films in last 2 years.
Factors like availability of quality content, other exhibitors in the areas where it operates, competition from other modes of movie watching (video on demand/OTT applications), piracy etc. can impact the movie exhibition business. Further, theater operators have to pay fixed lease rentals to the property owners irrespective of the collections. Hence, minimum occupancy level is desired to meet administrative and lease expenses.

***Project execution risk***
Earlier, for FY22, MEL had planned a capex for addition of 44 screens with the envisaged cost of Rs.90.01 crore which was to be funded through term loan of Rs.74.11 crore and balance through internal accruals. However, due to extended Covid 19 pandemic and its adverse impact on the financial profile, MEL had decided to lower its capex spends and revised its implementation schedule with capex of ~Rs.20 crore during FY22 and balance (~Rs.74 crore) to be executed during FY23 & FY24. As articulated by management, capex is subject to the scale up of the operation and availability of the surplus cash with balance cost to be fund from the unsecured loan from the promoters resulting in comparatively lower project risk. However, any disruption in the project implementation leading to significant time and/cost overrun and its funding pattern remains key rating monitorable.

**Key Rating Strengths**

***Experienced management with resourceful promoter group & established brand name***
Overall operations of the company are managed by Mr. Amit Sharma, Managing Director; who has around 17 years of experience in the movie exhibition industry. Prior to joining MEL, he was associated with PVR Limited as Head - Operations & Strategy (PAN India). Mr. Madan Lal Paliwal, Director, who is also Chairman of Miraj Group, has extensive experience of more than two decades in diversified businesses. MEL is part of financially resourceful Miraj Group. Promoters/associates companies have infused unsecured loans of Rs.36.18 crore during FY21 and Rs.7.12 crore during 8MFY22 to support MEL’s operations as well as its capex requirement; thereby demonstrating its resourcefulness and timely funding support. The group has established the brand name of “MIRAJ” in the market.

***Continuous addition of screens and geographical diversification***
MEL commenced operations with movie production in 2010. The company forayed into movie exhibition business in 2012 with two screens in Ajmer. MEL has been continuously adding screens to its portfolio to increase its presence in movies exhibition business across country. During FY21, it added 18 screens and further added 10 screens in 9MFY22 taking its total screen count to 146 screens as on December 31, 2021. MEL has presence in 54 locations across 15 States of India indicating its geographically diversified presence thereby reducing its dependence only on Bollywood content. Maharashtra remains the key market of MEL having ~27% of its total screens followed by Rajasthan, Telengana, Gujarat, Uttar Pradesh and other states.

***Liquidity: Stretched***
MEL has stretched liquidity with negative cash flow from operation during FY21, high utilization of its working facility and below unity current ratio. MEL is expected to report cash losses of ~Rs.25-30 crore during FY22. MEL doesn’t have any long-term loan as on March 31, 2021, however; it has availed guaranteed emergency credit line limit of Rs.2.50 crore during May, 2021. Avg. fund based (overdraft) working capital utilization remained moderate at 80.91% however, maximum utilization remained high

at more than 90% for past 12 months ended December 31, 2021. Current ratio and quick ratio remained low at 0.29x and 0.25x respectively as on March 31, 2021 as compared with 0.37x and 0.31x respectively as on March 31, 2020.
Generally, MEL receives payments from the online ticket booking platforms within T+1 days, whereas share of convenience charges are received on monthly basis resulting in low debtors days. It receives payments within 45-60 days from the advertisers. The company makes payment of distributors' share of box office collection within 15 days of billing. Further, MEL makes payment to the food and beverages supplier within 30 days and keeps inventory of F&B of 10 days at various locations. MEL also receives advances from its online ticket booking partners (Paytm and Bookmyshow) against convenience/ ticket booking which aids in working capital management. MEL has negative operating cycle at 62 days during FY21 as compared with 21 days during FY20.

**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
Service Sector Companies

**About the Company**

MEL (CIN: U92100RJ2008PLC026391) was established in April 2008 by Mr Madan Lal Paliwal and his family members. MEL commenced operations with movie production in 2010. The company forayed into movies exhibition business in 2012 with two screens in Ajmer, (Rajasthan). As on December 31, 2021, MEL operates 146 screens across different states in India.
MEL is part of Udaipur based Miraj group having interest in diversified businesses. Miraj Products Private Limited, engaged in manufacturing of tobacco, is the flagship company of Miraj Group which also has interest in business sectors including FMCG through Acharan Enterprises Private Limited (AEPL), Stationery & Printing material manufacturing through Miraj Multicolor Private Limited (MMPL), Real Estate through Miraj Developers Limited, PVC pipes & fittings manufacturing through Miraj Pipes and Fittings Private Limited. It has also presence in the Hospitality segment through Gajanan Hotels and Miraj Hotels Private Limited under which company is constructing a hotel in Nathdwara for which it has done tie-up with Radisson Hotels. Miraj Multi Service Private Limited is engaged in engineering services.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | 8MFY22 (Prov.) |
|---|---|---|---|
| Total operating income | 224.09 | 14.78 | 34.55 |
| PBILDT | 32.64 | -36.62 | -11.38 |
| PAT | 8.45 | -48.01 | -27.00 |
| Overall gearing (times) | 0.76 | 3.14 | 14.77 |
| Interest coverage (times) | 7.43 | NM | NM |

A: Audited; NM-Not Meaningful

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

**Complexity level of various instruments rated for this company:** Annexure- 4

**Annexure 1: Details of Instrument/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-Bank Overdraft | - | - | - | - | 5.34 | CARE BB+; Stable |
| Fund-based - LT-Term Loan | - | - | - | May 2027 | 2.50 | CARE BB+; 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-Bank Overdraft | LT | 5.34 | CARE BB+; Stable | - | 1)CARE BBB-; Negative (30-Mar-21)<br>2)CARE BBB-; Negative (10-Aug-20)<br>3)CARE BBB; Negative (04-Jun-20) | 1)CARE BBB; Stable (30-Mar-20) | 1)CARE BBB; Stable (06-Feb-19) |
| 2 | Fund-based - LT-Term Loan | LT | 2.50 | CARE BB+; Stable | - | 1)CARE BBB-; Negative (30-Mar-21)<br>2)CARE BBB-; Negative (10-Aug-20)<br>3)CARE BBB; Negative (04-Jun-20) | 1)CARE BBB; Stable (30-Mar-20) | 1)CARE BBB; Stable (06-Feb-19) |

**Annexure -3: Detailed explanation of covenants of the rated instrument//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-Term Loan | Simple |

**Annexure -5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please **click here**

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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 Limited:**
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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