Shemaroo Entertainment Limited

August 07, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long term Bank Facilities – Term Loan	35.80	**CARE BBB+; (Triple B Plus; Credit watch with negative implications)**	Rating revised from CARE A-; Stable (Single A Minus; Outlook: Stable) ; and Placed on Credit watch with negative implications
Long term Bank Facilities – Cash Credit	175.00	**CARE BBB+; (Triple B Plus; Credit watch with negative implications)**	Rating revised from CARE A-; Stable (Single A Minus; Outlook: Stable) ; and Placed on Credit watch with negative implications
Long term Bank Facilities – Bank overdraft	44.00	**CARE BBB+; (Triple B Plus; Credit watch with negative implications)**	Rating revised from CARE A-; Stable (Single A Minus; Outlook: Stable) ; and Placed on Credit watch with negative implications
Total	**254.80 (Rupees Two Hundred and Fifty Four crore and Eighty Lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the rating assigned to the bank facilities of Shemaroo Entertainment Limited (SEL) on credit watch with negative implications on account of uncertainties relating to *delay in release of enhanced cash credit facilities and term loan.*

The revision in the rating assigned to the bank facilities of SEL takes into account cash losses reported by SEL during Q4FY20 and Q1FY21 due to the decline in revenues and increase in operating costs. The revenues have declined as the various media platforms (Digital, TV Syndication etc) have reduced their purchase of content due to lower advertising revenues in FY20, and YTD FY2021 which is in line with the overall economic slowdown. The operating costs have increased as SEL has launched 2 Free-to-home channels, in a very challenging business environment, and these initiatives are still in the gestation period, and not contributing to the bottomeline.

The rating however continues to derive strength from the experienced promoters, and well-placed market position in the Broadcast Syndication (BS) business.

However, the rating strengths are tempered by the working-capital intensive nature of operations, recurring investments required with respect to content acquisition, content acquisition partially funded through external debt and competitive nature of broadcast syndication business, which is also highly susceptible to the vagaries of economic cycles.

<u>Rating Sensitivities</u>

Positive Factors

- Timely completion of joint documentation and subsequent release of enhanced credit facilities and term loan.
- Improvement in PBILDT margin of more than 25% on a sustainable basis
- Improvement in Gross Cash Accruals from operations going ahead on a sustained basis

Negative Factors

- Deterioration in overall gearing to more than unity on sustained basis
- Further delay in release of fresh bank facilities

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

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 an 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 industry.

Large content library supporting operations

As on May 2019, SEL has a large content library of around 1195 movies (498 Hindi Movies) with perpetual rights and around 2746 movies (1466 Hindi movies) with periodical rights ranging from 2 years to 10 years which can be monetized on various media platforms. The company acquires broadcasting rights predominantly in the movie's second leg of syndication (i.e. after 5 – 7 years of the movie's release). Risk is lower in acquiring movies with the known performance trend and review, unlike as in case of acquiring the broadcasting rights during pre-launch of the movie which involves relatively higher risk.

Investment in new initiatives to increase outreach

In order to monetize its content library SEL had invested Rs.26.47 crore in FY20 and Rs.13.97 crore in Q1FY21 for new initiatives to add more revenue stream such as investments in 'Shemaroo MarathiBana' its first satellite Free To Air (FTA) channel and 'Shemaroo TV' its first satellite Hindi GEC (General Entertainment Channel) FTA Channel in Dec 19 and May 20 respectively.

Satisfactory financial risk profile

Capital structure continued to remain comfortable with overall gearing remaining below unity as on March 31, 2020. TD/GCA deteriorated from 2.29x in FY19 to 5.40x in FY20 led by lower profitability coupled with marginal increase in total debt. Further long term loan of the company is projected to increase going forward for acquisition of copy rights of various movies.

Key Rating 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. Operating cycle for SEL continued to remain high at 639 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 inventory levels have gone up from Rs.601crore as on March 31, 2019 to Rs. 711crore as on March 31, 2020. The higher inventory was mainly attributable to lower sales on account of some deals of content did not materialize during the year, built of inventory on account of new copyrights purchased and small amount of additional investment for the preloaded devices inventory.

Negative Outlook on Industry

Indian media & entertainment (M&E) industry experienced a slowdown in FY20, as the overall Indian economy saw a downturn in various sectors and consequent decline in advertising spends. Key sectors that account for the ad revenues of broadcasters such as automobiles, FMCG, real estate, telecom, banking and retail reduced advertising spent during FY20 amidst slow growth in business. As a result, various media platforms had lower income from advertising, and reduced purchase of entertainment content from various content providers in the industry.

Decline in sales during FY20 and Q1FY21; Cash losses reported by SEL in Q4FY20 and Q1FY21

Total operating income decreased by 12.35% on y-o-y basis to Rs.481.42 crore in FY20 (vs Rs.549.25 crore in FY19). Further, during Q1FY20 the total revenue from operations decreased by 39.47% on y-o-y basis to Rs.84.35 crore (vs Rs.139.35 crore in Q1FY20). The decline in revenue was on account of slowdown in the economy, lower consumption and subsequent lower spend on the advertisement expense leading to de-growth in the traditional revenue (decline by 20.4% on a y-o-y basis during FY20). At the same time SEL continued to incur acquisition cost of Rs.306.87 crore in FY20 (vs Rs.296.91 crore in FY19) and a marginal increase in other expenses resulting which the PBILDT margins declined to 15.96% in FY20 (vs 29.57% in FY19). Further, SEL has expensed Rs.26.47 crore in FY20 (Including Rs.10.75 crore in Q4FY20) and further about Rs.13.97 crore in Q1FY21 towards the new initiatives, resulting which the company reported a loss at net level in Q4FY20 and Q1FY21.

Liquidity: Moderate

SEL's current ratio as on March 31, 2020 was at 3.25x, led by high level of inventory. Further, in line with industry trend the revenue remained under pressure for SEL in Q4FY20 & Q1FY21, coupled with this, continued investment in new initiatives by SEL, resulted in SEL reporting negative gross cash accruals in Q4FY20 and Q1FY21. Despite, losses SEL had not availed any moratorium from the banks resulting which the utilisation of the working capital limits continued to remain high at 94.73% while the overdraft facility remained fully utilized.

SEL's cash position as on March 31, 2020 was Rs.0.73 crore. Besides, company also had unencumbered term deposit of Rs.5 crore as on June30, 2020. As against this, SEL had a total repayment obligation of Rs.11.28 crore in FY21 on its existing loans, out of which the company has repaid Rs.4.64 crore till August 2020.

Analytical approach: Standalone

Applicable Criteria

- Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
- CARE's Policy on Default Recognition
- Financial ratios – Non-Financial Sector
- Rating methodology: Service Sector Companies
- 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 3941 titles as on May 31, 2019 which includes new and old prominent Bollywood movies and also titles in various other regional languages.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)*	Q1FY21
Total operating income	549.25	481.42	84.35
PBILDT	162.44	76.85	(5.07)
PAT	86.11	23.79	(12.86)
Overall gearing (times)	0.36	0.37	NA
Interest coverage (times)	6.37	3.28	NM

*A: Audited, NM=Not meaning ful, NA=Not available, *Abridged*

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+ (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	*	35.80	CARE BBB+ (Under Credit watch with Negative Implications)
Fund-based - LT-Bank Overdraft	-	-	-	44.00	CARE BBB+ (Under Credit watch with Negative Implications)

*Yet to be disbursed

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+ (Under Credit watch with Negative Implications)	1)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	35.80	CARE BBB+ (Under Credit watch with Negative Implications)	1)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	44.00	CARE BBB+ (Under Credit watch with Negative Implications)	1)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.*

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