Shemaroo Entertainment Ltd

April 19, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Term Loan	31.50 (reduced from 45)	**CARE A; Stable (Single A; Outlook:Stable)**	**Reaffirmed**
Long-term Bank Facilities – Cash Credit	125.00 (enhanced from 100)	**CARE A; Stable (Single A; Outlook:Stable)**	**Reaffirmed**
Total Facilities	**156.50 (Rupees One hundred fifty six crore and fifty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Shemaroo Entertainment Limited (SEL) continues 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 along-with availability of significant content library and healthy growth environment of the Indian film and television industry.

However, the rating strengths are tempered by the working-capital intensive nature of operation, 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.

SEL's ability to scale up its operations with diversified revenue stream in new age media business, maintain the profitability by generating healthy realizations from broadcasting rights while maintaining its capital structure are the key rating sensitivities.

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: SEL has built up the content library of around 423 movies with perpetual rights and around 1394 movies with periodical rights ranging from 2 years to 10 years which can be monetized on various media platforms. The company also has 1615 titles in regional and special interest content.

Consistent improvement in operational performance : In FY16 (refers to the period April 1 to March 31), the total income grew by 16% to Rs.377 crore from Rs.325 crore in FY15, while the PBILDT margin have remained

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

healthy at 29.85% in FY16. SEL's revenue from new media grew by 70% to Rs.64 crore in FY16 from Rs.37 crore in FY15. Revenue from traditional media grew by 9% to Rs.313 crore in FY16 from Rs.286 crore in FY15. The company's revenue from new media has recorded a significant growth of 70% in FY16, with increasing internet penetration and smartphone use, the consumption of video content has increased in the recent past.

Comfortable gearing levels: Capital structure of SEL remains moderately leveraged with overall gearing at 0.57x as on March 31, 2016 though deteriorated from 0.43x as on March 31, 2015 with increase in short term loan for funding of content acquisition coupled with increase in working capital borrowings.

Key Rating Weaknesses

Elongated working-capital cycle leading to working capital intensive nature of operations: Operating cycle for SEL continues to remain high at 557 days in FY16 increased from 488 days in FY15 due to the inherent business model of BS 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 company allows a modest credit period to broadcasters for payment due to increasing competition from broadcast syndication business while the creditors mainly production houses are paid in a month's time. The average utilization of working capital limits for the past 12 months ending January 2017 is high at 80% providing limited liquidity back-up.

Reducing dependence on the broadcast syndication business: The BS business is primarily dependent on broadcasting channels and is also exposed to increasing competition from the other content aggregators. Thus, during weak economic scenario the realization from various rights may get adversely impacted.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning outlook to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Financial Ratios: Non Financial Sectors
Rating methodology: Service Sector Companies

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) and home video (VCD/DVD). The company also has a tie-up with many content providers in the industry. SEL's content library has more than 3400 titles including new and old prominent Bollywood movies and also titles in various other regional languages.

During FY16, SEL reported PAT of Rs.55.43 crore on a total income of Rs.376.76 crore as compared to PAT of Rs.41.81 crore on a total income of Rs.324.62 crore for FY15. In 9MFY17, SEL reported PAT of Rs.48.93 crore on a total income of Rs.320.27 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

***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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Long Term	-	-	Q1FY19	156.50	CARE A; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	156.50	CARE A; Stable	-	1)CARE A (11-Apr-16)	-	1)CARE A- (23-Feb-15)

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