

Shemaroo Entertainment Limited
April 1, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating¹	Remarks
Long term Bank Facilities – Term Loan	61.70 (enhanced from 34.95)	CARE A; Stable (Single A; Outlook:Stable)	Reaffirmed
Long term Bank Facilities – Cash Credit	175.00 (enhanced from 125.00)	CARE A; Stable (Single A; Outlook:Stable)	Reaffirmed
Long term Bank Facilities – Bank overdraft	44.00	CARE A; Stable (Single A; Outlook:Stable)	Assigned
Total	280.70 (Rupees Two Hundred and Eighty crore and Seventy 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) continue 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 an increasing content library. The new media segment is expected to drive the growth for the company.

However, the rating strengths are tempered by the working-capital intensive nature of operations; recurring investments required with respect to content acquisition, partial funding of content acquisition through external debt 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 and liquidity are the key rating sensitivities.

CARE notes that additional borrowings of the company (to be used for acquisition of copyrights and working capital requirement) are being rated. Increase in external borrowing above existing levels will be a key rating monitor able and would warrant a review in rating.

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; new initiatives undertaken to increase outreach

As in May 2018, SEL has a large content library of around 471 movies with perpetual rights and around 1454 movies with periodical rights ranging from 2 years to 10 years which can be monetized on various media platforms. During FY18, SEL has launched its mobile app Shemaroo-Me through which customers can access SEL's content. SEL expects significant revenue from subscription charges.

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

Growing new media business and favourable growth drivers

SEL's total operating income grew by 14% y-o-y in FY18 vis-à-vis a growth of 11% achieved in FY17 on a y-o-y basis. Profitability also continued to remain strong with PBILDT margin at 29.59% during FY18 (P.Y. 31.47%). Revenue from the new media increased by 42% y-o-y from FY17 to FY18. Rising smartphone penetration, affordable data rates, emergence of OTT platforms were the key factors leading to increasing contribution from new media.

Comfortable capital structure

Capital structure remains satisfactory with overall gearing remaining below unity. However with SEL proposing to raise additional debt to purchase copyrights, its ability to monetize the content profitability remains critical in maintaining the financial risk profile at satisfactory levels.

Key Rating Weaknesses***Elongated working-capital cycle leading to working capital intensive nature of operations***

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 continues to remain high at 657 days in FY18 as compared to 667 days in FY17 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. Moreover, C&S rights are sold to the broadcasters for around five years, which requires long monetization period, necessitating high credit period from sellers like SEL. Nonetheless, the quality of receivables is satisfactory, as major customers are established broadcasters in India namely VMPL, ZEE Entertainment Enterprises Ltd, MSM (Sony TV), Star Plus etc. The company's operations are supported by bank borrowings and internal accruals to fund its operating cycle. Going forward, with additional inventory coming in books on account of new copyrights purchased, the operating cycle is expected to continue remaining elongated.

Reducing dependence on the broadcast syndication business

The broadcast syndication 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.

Liquidity

Liquidity profile of SEL is moderate with long inventory holding period leading to current ratio of 2.86x during FY18. The average maximum working capital utilization for the last 12 months ended February 2019 was 88% and provides limited backup. However the consistent and healthy cash accruals support the liquidity position of the company. Net cash flow from operations also remained positive during the year.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[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 3700 titles including new and old prominent Bollywood movies and also titles in various other regional languages.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	418.93	478.20
PBILDT	131.83	141.50
PAT	61.68	69.49
Overall gearing (times)	0.68	0.40
Interest coverage (times)	4.08	4.61

A: Audited

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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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 A; Stable
Fund-based - LT-Term Loan	-	-	Dec-2021*	61.70	CARE A; Stable
Fund-based - LT-Bank Overdraft	-	-	-	44.00	CARE A; Stable

*for sanctioned facilities

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	175.00	CARE A; Stable	1)CARE A; Stable (04-Apr-18)	1)CARE A; Stable (19-Apr-17)	1)CARE A (11-Apr-16)	-
2.	Fund-based - LT-Term Loan	LT	61.70	CARE A; Stable	1)CARE A; Stable (04-Apr-18)	-	-	-
3.	Fund-based - LT-Bank Overdraft	LT	44.00	CARE A; Stable	-	-	-	-

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