**Shemaroo Entertainment Limited**
**April 06, 2020**

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Ratings[1]** | **Rating Action** |
|---|---|---|---|
| Long term Bank Facilities – Term Loan | 35.80 (reduced from 61.70) | **CARE A-; Stable (Single A Minus; Outlook:Stable)** | **Revised from CARE A; Stable (Single A; Outlook: Stable)** |
| Long term Bank Facilities – Cash Credit | 175.00 | **CARE A-; Stable (Single A Minus; Outlook:Stable)** | **Revised from CARE A; Stable (Single A; Outlook: Stable)** |
| Long term Bank Facilities – Bank overdraft | 44.00 | **CARE A-; Stable (Single A Minus; Outlook:Stable)** | **Revised from CARE A; Stable (Single A; Outlook: Stable)** |
| **Total** | **254.80 (Rupees Two Hundred and Fifty Four crore and Eighty 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 Shemaroo Entertainment Limited (SEL) takes into account decline in sales and profitability margins during 9MFY20 due to slowdown in the economy and negative outlook for the Television media. 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.*

***Key Rating Sensitivities***

***Positives***

- PBILDT margin of more than 35% on a sustainable basis
- Positive Cash Flow from Operations going ahead on a sustained basis

***Negatives***

- Increase in Gross gearing to more than unity on sustained basis
- Further delay in completion of Join documentation with banks for increase in credit facilities
- Sustained decline in GCA/average inventory level in comparison to historic levels of circa 15%

**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***

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

As in 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***

SEL invested Rs.15.7 crore during FY20 in new initiative to add more sources to monetize its content library. Its investment in new initiatives includes:

1) Launched of its OTT platform Shemaroo-Me in Q4FY19. This OTT app is a source for B2B revenue and SEL has partnered with Vodafone and Airtel video for the same. Further the OTT is also available on Amazon Firestick and Apple TV.
2) Launch of new free-to-air Marathi movies satellite channel Shemaroo 'MarathiBana' in 9MFY20. SEL plan to enhance its distribution and monetizarion of its existing Marathi titles through this channel.

***Satisfactory financial risk profile***

Capital structure remains comfortable with Overall Gearing remaining below unity. TD/GCA also improved from 3.00x in FY18 to 2.29x in FY19. However, the same is going to deteriorate in FY20 on account of lower projected profit. Further long term loan of the company is projected to increase going forward for acquisition of copy rights of various movies. Further, SEL has healthy gross cash accruals of Rs.91.27 crore against the debt repayment of Rs.12.98 crore in FY19.

**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 continues to remain high at 615 days in FY19 as compared to 662 days in FY18 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. 680crore as on September 31, 2019 on account of 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.

***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.

***Decline in sales and profitability margin during FY20 on account of slowdown in the economy***

Total revenue from operations decreased by 8.97% on y-o-y basis to Rs.381.53 crore in 9MFY20 (vs Rs.419.12 crore in 9MFY19). 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 22.98% on a y-o-y basis during 9MFY20). Further, advertisement revenue of all the major broadcasters have declined by around 13%-14% during Q3FY20 which resulted in lower spent on content. Due to the slowdown in economy, SEL has projected a decline in revenue by around 20% on y-o-y basis in FY20 as compared to FY19.

***Negative outlook of the television media***

The Indian media and entertainment industry is set for slowdown and may grow by a slower rate of 12% during FY20 as per KPMG report. The long-term forecast for advertising growth in the television industry has been placed at 12.6% CAGR over FY20-FY24. Q3FY20 have been the toughest quarter for Indian media industry. The advertisement revenue had declined by around 13%-14% on a y-o-y basis for all the big broadcasters. The decline in ad revenue in Q3FY20 is primarily due to the economic slowdown that has resulted in cutback in ad spends by large categories such as consumer goods, auto, telecom and retail. While subscription revenue has been saving all the broadcasters, TRAI's revised new tariff order (NTO2) could dampen the growth of subscription revenue of consumers. The new regulation has also capped bouquet discounting at 33 per cent, which certainly would be a huge setback for the broadcasters. In order to ensure reach, broadcasters discounted their bouquets by as much as 80 per cent and the consumer found it more lucrative to buy the broadcaster-created bouquets rather than buy channels a-la-carte. With bouquet discounting capped, it is now likely that consumers would buy bouquets. This would mean that several channels will not make it to consumer homes and if that happens it will not just impact distribution revenue, it will also impact advertising**.**

**Liquidity: Moderate**

The company has cash & cash equivalent of Rs.1.11 crore and current ratio of 3.01x as on March 31, 2019. The company has cash & cash equivalent of Rs.0.72 crore as on December 31, 2019. Current ratio is high due to the high levels of inventory holding. Quick ratio (excluding inventory) of the company stood at 0.72x as on March 31, 2019. The gross cash accrual of the company was Rs.91.27 crore in FY19. The average maximum working capital utilisation for the last 12 months ended February 2019 was 85%.

**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

**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) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 478.20 | 549.25 |
| PBILDT | 141.50 | 162.44 |
| PAT | 69.49 | 86.11 |
| Overall gearing (times) | 0.43 | 0.36 |
| Interest coverage (times) | 4.61 | 6.37 |

*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

**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 | - | - | - | 35.80 | CARE A-; Stable |
| Fund-based - LT-Bank Overdraft | - | - | - | 44.00 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 175.00 | CARE A-; Stable | 1)CARE A; Stable (01-Apr-19) | 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 | 35.80 | CARE A-; Stable | 1)CARE A; Stable (01-Apr-19) | 1)CARE A; Stable (04-Apr-18) | - | - |
| 3. | Fund-based - LT-Bank Overdraft | LT | 44.00 | CARE A-; Stable | 1)CARE A; Stable (01-Apr-19) | - | - | - |

***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.



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