

Shemaroo Entertainment Ltd.

April 04, 2018

Ratings			
Facilities	Amount (Rs. crore)	Rating¹	Remarks
Long term Bank Facilities – Term Loan	34.95 (enhanced from 31.50)	CARE A; Stable (Single A; Outlook:Stable)	Reaffirmed
Long term Bank Facilities – Cash Credit	125.00	CARE A; Stable (Single A; Outlook:Stable)	Reaffirmed
Total	159.95 (Rupees One hundred Fifty Nine Crore and Ninety Five 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, 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 are the key rating sensitivities.

CARE notes that the external borrowings of the company (used for acquisition of contents) have increased from Rs.127 crore as on March 31, 2015 to Rs.255 crore as on March 31, 2017. 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: SEL has built up the content library of around 443 movies with perpetual rights and around 1423 movies with periodical rights ranging from 2 years to 10 years which can be monetized on various media platforms..

Consistent improvement in financial performance; led by growing new media business: SEL's total income grew by 11.19% y-o-y in FY17 vis-à-vis a growth of 16% achieved in FY16 on a yoy basis. Income from new media platform grew by 46% in FY17. Further, SEL's total income grew by 11.29% y-o-y in 9MFY18, while the income from new media platform grew by 42% in 9MFY18 on a yoy basis.

Key Rating Weaknesses

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

Elongated working-capital cycle leading to working capital intensive nature of operations: Operating cycle for SEL continues to remain high at 667 days in FY17 increased from 557 days in FY16 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. 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. The average working capital cycle for the last 12 months ended January 2018 was at 56.52%.

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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	376.76	418.93
PBILDT	112.47	131.83
PAT	55.43	61.68
Overall gearing (times)	0.57	0.68
Interest coverage (times)	4.93	4.08

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	125.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	Q2FY19	34.95	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 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	125.00	CARE A; Stable	-	1)CARE A; Stable (19-Apr-17)	1)CARE A (11-Apr-16)	-
2.	Fund-based - LT-Term Loan	LT	34.95	CARE A; Stable	-	-	-	-

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