Press Release

Phantom Films Private Limited (PFPL)

March 13, 2020

Rating Reaffirmed

Total Bank Facilities Rated	Rs. 40.00 crore
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs 40.00 crore bank facilities of Phantom Films Private Limited (PFPL). The outlook is **'Stable'**.

Incorporated in 2011, Phantom Films Private Limited (PFPL) is engaged in the business of production of feature films, television serials & commercials, distribution of movies in the domestic market and syndication of library content. The company was incorporated and currently managed by three renowned film directors, Anurag Kashyap, Vikramaditya Motwane and Vikas Bahl along with producer Mr. Madhu Mantena. In FY 15-16 Reliance Big Entertainment Private Limited (RBE) entered into Business Transfer Agreement with PFPL by acquiring 50% equity shares in the company.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established business model with renowned directors and diverse revenue streams**
  PFPL was founded by directors, Mr. Anurag Kashyap, Mr. Vikramaditya Motwane and Mr. Vikas Bahl who have been in the entertainment industry for more than two decades. They along with Mantena Film Ventures Private Limited (a company of producer Mr. Madhu Mantena) own 50 per cent stake in PFPL. These directors have established position in the entertainment industry. Their content has wide acceptance and appreciation across domestic and international market. Their notable projects includes 'Queen', 'Lootera', 'Sacred Games', 'Ghoul', 'Simba' among others. The upcoming content pipeline includes films like 'Sooryavanshi'(starring Akshay Kumar, Ajay Devgan and Ranveer Singh),'83'(starring Ranveer Singh and Deepika Padukone), 'Mira' (starring Parineeti Chopra, Aditi Rao Hydari and Kirti Kulhari), besides other untitled projects under production. The balance 50 per cent stake is owned by Reliance Big Entertainment Private Limited (RBE). PFPL has diversified revenue mix which includes theatrical revenue from feature films vis-à-vis revenue from original contents creation for digital platform like Netflix, Amazon Prime and others, distribution of movies in the domestic market and syndication of library content. The company generally pre-sales majority of its content to mitigate the risk related to its box office performance. The presence of RBE in the industry supports PFPL distribution segment on which the company earns commission on distribution revenue

- **Above average financial risk profile**
  PFPL has above average financial risk profile marked by healthy net worth of Rs.184.54 crore as on March 31, 2019 as compared to Rs.183.33 crore as on March 31, 2018. The debt to equity stood healthy at 0.35 times as on March 31, 2019 as compared to 0.35 times as on March 31, 2018. The total debt of Rs.65.00 crore as on March 31, 2019 includes Rs. 30.22 crore of unsecured loans from the promoters and related parties and Rs. 34.78 crore working capital borrowings from bank. the company's major earning assets comprises the inventory of Rs. 296.34 crore as on March 31, 2019 which includes the library of content of Rs. 65.22 crore and content under production of Rs. 208.95 crore.
  Acuité expects PFPL's credit metrics to stay above average in the near to medium term since most of the content is pre-sold, the funding requirement is primarily funded by advances from buyers the requirement of external funding for such business is modest.

Weaknesses

- **Risks related to film industry**
  The film is exposed to event based risks like agitations against actors, producers, which can influence the release date and cash flows of the project. During the period under production, funds are invested in it which will be released only after realization of advances. Any unexpected delay in releases will have material effect on profitability and fund flow. The performance of the film is dependent on script, reception of the film by the audience. Acts of piracy can also impact the cash flows of the project.

- **Working capital intensive nature of operations**
  The operations are working capital intensive marked by Gross Current Assets (GCA) days of 463 days in FY2019 as compared to 598 days in FY2018. The GCA days are mainly dominated by high inventory days of 321 days in FY2019 as against 423 days in FY2018. The inventory days stood high on account of high inventory of stock of completed featured films and stock of acquired rights of feature films. However, the debtor days stood moderate at 61 days in FY2019 as compared to 76 days in FY2018. The working capital limits from bank remains utilized at nearly 93 percent for 6 months ended December, 2019. Acuité believes the working capital to remain intensive over the medium term on account of high inventory due to the nature of the business.

Rating Sensitivity

- Steady growth in revenue with sustained profitability levels

Material Covenants

None

Liquidity Profile

Phantom Films Private Limited has adequate liquidity as evident from healthy net cash accruals as against no major long term debt obligations. The company's net cash accruals stood in the range between Rs 1.72-1.47 crore FY2017-2019 as against no major debt obligation during the same period. The working capital limits from bank remains utilized at nearly 93 percent for 6 months ended December, 2019. The Gross Current Assets (GCA) days stood high at 463 days in FY 2019 and current ratio stood at 1.80 times as on 31st March, 2019. The company maintains unencumbered cash and bank balances of Rs 0.24 crore as on 31st March, 2019. The liquidity of the company is expected to remain adequate over the medium term on account of its healthy cash accruals as against no major debt funded capex plans.

Outlook: Stable

Acuité believes PFPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its established business model based on renowned directors and above average financial risk profile. The outlook maybe revised to 'Positive' in case the company registers more than envisaged revenues thereby sustaining profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile, liquidity position coupled with increase in working capital intensity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	344.00	275.37
PAT	Rs. Cr.	1.24	0.76
PAT Margin	(%)	0.36	0.28
Total Debt/Tangible Net Worth	Times	0.35	0.37
PBDIT/Interest	Times	1.26	1.42

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition - https://www.acuite.in/criteria-default.htm
- Entities in Service Sector - http://acuite.in/view-rating-criteria-8.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-Feb-2020	Cash Credit	Long Term	40.00	ACUITE BBB- (Reaffirmed)
31-Jan-2019	Cash Credit	Long Term	40.00	ACUITE BBB- (Reaffirmed)
06-Dec-2018	Cash Credit	Long Term	40.00	ACUITE BBB-/Stable (Under rating watch with developing implications)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:
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