

Press Release

Phantom Films Private Limited

March 12, 2021

Rating Downgraded and outlook revised



Total Bank Facilities Rated*	Rs.40.00 Cr.
Long Term Rating	ACUITE BB/Negative (Downgraded and outlook revised)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 40.00 crores bank facilities of Phantom Films Private Limited (PFPL). In addition, Acuité has revised the outlook to '**Negative**' from '**Stable**'.

Revision in ratings

The revision in ratings and outlook is primarily driven by deterioration in operating performance as well as current challenges faced by the company in maintaining adequate liquidity buffers commensurate with its near to medium term debt obligations. Also, continuous decline in cash flow from operations during last two years has resulted in limited financial flexibility. Further, the company has substantial quantum of debt maturing in June 2021, is exposing the company for refinancing risk. The company's operations have been severely impacted after the COVID-19 outbreak leading to nationwide lockdown in India as well as other foreign countries, resulting in delays in production, release and distribution of feature films. Thus, resulting in lower revenue of Rs. 6.98 crore in 9MFY2021 (Provisional) as against Rs.358.37 crores in 9MFY2020 and Rs. 361.32 crores in FY2020. The decline is on account of loss of revenue from domestic theatrical revenues due to nationwide lockdown and impact of pandemic across the industry. Thus, resulting in deterioration in overall operating performance and liquidity profile of the entity in current year.

Secondly, tepid market conditions and prolonged operating cycle has resulted in high levels of working capital utilization. Further, exposure to risks inherent in the film industry, and limited financial flexibility on account of loans and advances extended to its affiliates. Acuité believes Covid-19 has upended the domestic and global film industry in current year, halting film production, content pipeline and closing cinemas has created uncertainty in cash flows required to maintain stable credit risk profile. The biggest short-term risk seems to be consumers' dwindling confidence in physical venues due to rising spread of COVID-19.

About the Company

Phantom Films Private Limited (PFPL) is based of Mumbai, was incorporated in 2011. The company 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 founded by three renowned film directors, Mr. Anurag Kashyap, Mr. Vikramaditya Motwane and Mr. Vikas Bahl along with producer Mr. Madhu Mantena. The company operations are currently managed by Mr. Anurag Kashyap, Mr. Vikramaditya Motwane and Mr. Madhu Mantena's company 'Mad Man Ventures'. The Reliance Big Entertainment Private Limited also hold 50 percent stake in PFPL.

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 diversified revenue streams**

PFPL was founded by directors, Mr. Anurag Kashyap, and Mr. Vikramaditya Motwane, who have been in the entertainment industry for more than two decades. They, along with Mad Man Ventures private limited (E- Mantena Film Ventures Private Limited company of producer Mr. Madhu Mantena) own 12.50 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 is likely to generate cash flows in FY2022. The balance 50 per cent stake is owned by Reliance Big Entertainment Private Limited (RBE), which is part of Anil Dhirubhai Ambani Group (ADA Group).

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. However, coronavirus pandemic has upended the content pipeline, halting film production and closing cinemas halls having adverse impact on operations in current year. 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. 182.70 crore as on March 31, 2020 as compared to Rs. 184.54 crore as on March 31, 2019. The debt to equity stood moderate at 0.96 times as on March 31, 2020 as compared to 0.35 times as on March 31, 2019. The total debt has increased significantly to Rs. 175.53 crore as on March 31, 2020 as against Rs. 65.00 crores as on March 31, 2019. The increase is due to addition of term loan of Rs. 99.62 crores, increase in unsecured loans from the promoters and related parties to Rs.35.98 crores and other includes Rs. 39.93 crores working capital borrowings from bank. The company's major earning assets comprises the inventory of Rs. 172.42 crore as on March 31, 2020 which includes the library of content of Rs. 54.35 crore and content under production of Rs. 118.07 crores. The interest coverage ratio stood low at 0.94 times as on March 31, 2020 as against 1.26 times as on March 31, 2019. Acuite expects PFPL's credit metrics to stay 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 and hence the requirement of external funding for such business is moderate. However, the company has substantial quantum of debt maturing in June 2021, which is exposing the company for refinancing risk.

Weaknesses

- **Working capital intensive nature of operations and significant exposure to affiliates**

The operations are working capital intensive marked by Gross Current Assets (GCA) days of 411 days as on March 31, 2020 as compared to 462 days as on March 31, 2019. The GCA days are mainly dominated by high inventory days of 117 days as on March 31, 2020. The inventory days stood high on account of high inventory of stock of completed featured films and stock of acquired rights of feature films. The same is likely to increase due to delay in production and release of films. The previously developed content pipeline and other untitled projects under production has already been running delayed by a year due to pandemic. The same has resulted in higher utilization of working capital limits which remained fully utilised for last six months ended February, 2021. However, the debtor days stood moderate at 26 days in FY2020 as compared to 61 days in FY2019. Acuite believes the working capital to remain intensive over the medium term on account of high inventory due to the nature of the business and adversely impact liquidity profile of the Company.

Further, company has extended loans of Rs. 128.72 crores as on March 31, 2020 as against Rs. 8.22 crores as on March 31, 2019 to its affiliates. Also, long term loans of Rs. 99.61 has been taken for movies project

executed by Reliance Big Entertainment Private limited. The loan had tenure of two years which is repayable in June 2021, against cash flow to be generated from movie projects. The loan outstanding as on February 28, 2021 is Rs.90.00 crores and the content pipeline is yet to generate revenues/cash flow. Thus, resulting in execrated pressures on liquidity profile and refinancing risk prevails as it depends on lenders stance for extending such repayments. However, there are no assets of PFPL pledge and no charge has been created, which mitigates risk to certain extent.

• **Risks related to film industry and impact of pandemic on the 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. Further, related to authorities imping stability of the company over near term. Acuite also notes that the recent event of Income Tax raids conducted at various premises of PFPL, its directors and related actors. However, outcome of the event is yet to be materialise.

The pandemic has upended the domestic and global film industry in current year, halting film production, content pipeline and closing cinemas has created uncertainty in cash flows required to maintain stable credit risk profile. The biggest short-term risk seems to be consumers' dwindling confidence in physical venues due to rising spread of COVID-19. Acuite believes that the ability to manage steady revenue growth while maintaining profitability and efficiently managing working capital cycle will be the key rating sensitivity factors.

Rating Sensitivities

- Steady growth in revenue with sustained profitability levels
- Infusion of long term funds, thereby reducing significant debt levels
- Refinancing risk associated for loans availed for affiliate due in near term.

Liquidity Position: Stretched

Phantom Films Private Limited has stretched liquidity as evident from decline in net cash accruals and lower cash flows in current year resulting in stretched liquidity profile to repay its near to medium term maturing debt obligations. The company's net cash accruals stood in the range between Rs 1.12-1.47 crore FY2018-2020 as against no major debt obligation during the same period. The working capital limits from bank remains utilized at full for the last six months ended February, 2021. The current ratio stood at 3.60 times in FY2020. Acuite believes that the capital infusion from the promoters is likely to partly support the current liquidity levels of the group. Further, successful refinancing of debt of Rs.90.00 crores as on February 2021, will mature in June 2021, will remain the key monitorable.

Outlook: Negative

The outlook is revised to negative on account of deterioration in operating performance as well as current challenges faced by the company in maintaining adequate liquidity buffers commensurate with its near to medium term debt obligations visible through persistence higher reliance on working limits. However, company will benefit from promoters experience. The outlook may be revised to 'Stable' in case of company demonstrated ability to sustain its revenues, profitability along with maintaining its working capital cycle. Conversely, the rating may be downgraded in case of any deterioration in working capital management and/or sharp decline in its revenues or profitability of the company leading to deterioration in the financial risk profile and liquidity position. Further, rating can be upgraded if company is able to demonstrate sustained increase in its revenue, most likely driven by increased contribution from production business and stable occupancy at its theatres while maintaining its profitability as well as working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	361.32	344.00
PAT	Rs. Cr.	(1.36)	1.24
PAT Margin	(%)	(0.38)	0.36
Total Debt/Tangible Net Worth	Times	0.96	0.35
PBDIT/Interest	Times	0.94	1.26

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

None

Any other information

None

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Mar-2020	Cash Credit	Long Term	40.00	ACUITE BBB-/Stable (Reaffirmed)
18-Feb-2020	Cash Credit	Long Term	40.00	ACUITE BBB-/Stable (Reaffirmed)
31-Jan-2019	Cash Credit	Long Term	40.00	ACUITE BBB-/Stable (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 BB/Negative (Downgraded and outlook revised)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,383 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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