Press Release

PEN INDIA LIMITED

July 03, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 225.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 225.00 Cr bank facilities of PEN INDIA LIMITED. The outlook is **'Negative'**.

About the Company

Pen India Limited (PIL) is an Indian film production and distribution company established by Dr. Jayantilal Gada on 31 March, 1987. Based in Mumbai, it mainly produces and distributes Hindi films. Pen India has six different business verticals which includes Production, Distribution, Broadcasting, Movie Aggregation, Digital Media and VFX & Animation.

Analytical Approach

Acuité has considered a consolidated view of the business and financial risk profiles Pen India Limited (PIL) and Pen Marudhar Cine Entertainment Private Limited (PMPL); collectively referred to as Pen Group, as all the entities have common management, common line of business and have financial and operational linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Established position of promoters' in the entertainment industry**
  Mr. Jayantilal Gada has been engaged in film industry field from 1992. He established Pen India in the year 2000, currently running with an operational track record of 19 years. The company is currently managed by six-member board which comprises of managing director, two executive directors and three independent directors. The managing director and executive directors have sound related industry experience. PIL is one of the leading production houses with many A-list movies such as Kahaani, Entertainment, Shivaay, Singh is Bliing, Sholay 3D, The Accidental Prime Minister and many more. During 2016 to 2019, Mr. Javed Akhtar, Mr. Satish Kaushik, Mr. Tilak Raj Bajalia and few other renowned people from the industry joined Pen as Board of Directors. PIL has diversified revenue mix which includes revenue from satellite, digital and IPR rights, theatrical distribution, focus on acquisition of vernacular film rights coupled with own production, etc. Pen Group also has a longstanding relationship with Zee Entertainments which is expected to support its growth in the medium term. Acuité believes that the operational track record is expected to bring comfort to the growth of the company however, continued support from the promoters' will be key to the maintenance of the credit profile.

- **Diversified revenue stream and strong content library**
  Pen Group has six different business verticals which includes Production, Distribution, Broadcasting, Movie Aggregation, Digital Media and VFX & Animation. More than 90 per cent revenue has been generated through sales of rights in the past two years as compare to distribution & theatrical revenue. The company has three main revenue segments, viz production and distribution of films and development of content for originals, which are primarily for the online audience. Apart from the theatrical revenues, the revenue is also generated from satellite, digital and music rights for the movies. Besides the in-house talent, the company continues to exploit the movies library through its satellite and digital channels and also focuses on acquisition of vernacular film rights coupled with own production. In addition, the company also has completed films of Rs. 592 Cr as on 31 March, 2020. Acuité expects that the library content and satellite and digital rights are expected to support the company's revenue stream during lean periods.

- **Above average financial risk profile**
  Pen Group has above average financial risk profile marked by healthy net worth of Rs.97 Cr as on March 31, 2019 as compared to Rs.70 Cr as on March 31, 2018. The gearing has improved significantly and stood

comfortable at 1.04 times as on March 31, 2019 as compared to 4.12 times as on March 31, 2018. The total debt of Rs.101.74 Cr as on March 31, 2019 includes Rs.66.38 Cr of long-term borrowings, Rs. 25.28 Cr of unsecured loans from the promoters and related parties and Rs. 10.09 Cr working capital borrowings from bank. The company's major earning assets comprises the inventory of Rs. 172.91 Cr as on March 31, 2019 which includes various films under progress of Rs. 29.62 Cr and stock of rights of Rs. 143.28 Cr. There has been a sharp increase in the inventory level reflected by focus in acquiring content. Acuité expects PIL's credit metrics to stay above average in the near to medium term since most of the funding requirement is primarily funded by advances from buyers the requirement of external funding for such business is modest.

Weaknesses

- **Working capital intensive nature of operations**
  The operations are working capital intensive marked by Gross Current Assets (GCA) days of 965 days in FY2019 as compared to 507 days in FY2018. The GCA days are mainly dominated by high inventory days of 244 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 64 days in FY2019 as compared to 148 days in FY2018. The working capital limits from bank remains utilized at nearly 48 percent for past 8 months ended May, 2020. Acuité believes the working capital operations is expected to remain intensive over the medium term on account of high inventory due to the nature of the business.

- **Risks incidental to the industry**
  The choice of acquisition of movie rights plays a crucial role in the industry. Once the rights are acquired it remains exclusive to the licensee for a period of more than 10 years from the date of production. Thus, the company would have to continuously acquire the right content to continue to grow in the long run and that stands crucial from credit perspective. The film industry otherwise, is also 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.

Rating Sensitivities

- Expectation of continued support from promoters helping to maintain the credit profile
- Impact in cashflows causing constraints in liquidity buffers

Material Covenants

- TD/TNW< 4.0x
- Current Ratio>1.0x
- DSCR> 1.0x

Liquidity Position: Adequate

Liquidity of Pen Group is adequate marked by moderate net cash accruals of Rs.33.36 Cr against debt obligations of Rs.20.75 Cr. Besides, the obligations of borrowings taken against particular projects will be settled against cashflows from particular projects. Further, the cash accruals are expected to be at Rs.30.00 Cr to Rs.40.50 Cr, while its repayment obligations are estimated to be in the range of Rs.18.00 Cr to Rs.25.00 Cr for the medium term leaving aside moderate cushion for liquidity. Further, the operations of the company are working capital intensive as reflected by GCA days of 965 days in FY2019 driven majorly due to high inventory and current ratio stood at 1.23 times as on 31st March, 2019. The working capital limits from bank remains utilized at nearly 48 percent for last 8 months ended May, 2020. The company maintains unencumbered cash and bank balances of Rs. 1.28 Cr as on 31st March, 2019.
Acuité believes that the liquidity profile of the company is expected to remain adequate over the medium term on account of moderate cash accruals against debt obligations besides scheduled payment against receivables from particular projects.

Outlook: Negative

Acuité believes that the outlook on Pen Group is likely to remain 'Negative' in the medium term owing to the current transitional phase hence a paradigm shift in content consumption is expected. The change in the consumption pattern is expected to impact the cash flow generation in the industry. The rating may be downgraded if the company is unable to generate adequate cashflows from monetization of content, thereby impacting its liquidity. Conversely, the outlook may be revised to 'Stable' if the company is able to monetize its content or if there is a change in the consumption pattern which enables cash flow generation through theatrical mode.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	303.62	171.75
PAT	Rs. Cr.	32.18	20.24
PAT Margin	(%)	10.60	11.78
Total Debt/Tangible Net Worth	Times	1.04	4.12
PBDIT/Interest	Times	3.36	4.56

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Service Sector Entities- https://www.acuite.in/view-rating-criteria-50.htm
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	35.00*	ACUITE BBB-/ Negative
Term Loan	Not Available	Not Applicable	Not Available	75.00	ACUITE BBB-/ Negative
Term Loan	Not Available	Not Applicable	Not Available	75.00	ACUITE BBB-/ Negative
Term Loan	Not Available	Not Applicable	Not Available	40.00	ACUITE BBB-/ Negative

Working Capital Demand Loan is a sublimit to the OD facility

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About Acuité Ratings & Research:
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