

Press Release

Pen India Limited

September 30, 2021

**Rating Reaffirmed and outlook revised
from 'Negative' to 'Stable'**



Total Bank Facilities Rated*	Rs.225.0 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed and outlook revised from 'Negative' to 'Stable')

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.225.0 crore bank facilities of Pen India Limited (PIL). The outlook is revised from **'Negative'** to **'Stable'**.

Rationale for reaffirmation

The reaffirmation of rating continues to factor the experienced promoters with established track record of operations resulting in healthy net worth with comfortable debt coverage indicators. The reaffirmation also factors in the satisfactory financial performance during FY21, marked by improving profitability levels and improving Gross Current Asset (GCA) days leading to adequate liquidity position. The rating also takes into account movie projects that are in pipeline with A list actors and top directors in the industry. The movies are at various stages of completion. The rating however continues to remain constrained on account of decline in revenue from 'distribution segment' due to COVID-19 pandemic resulting in closure of theatres in FY21. Acuite also takes into account infusion of debt for the movie production and repayment of the same is dependent on release of the movie.

Rationale for revision in outlook from 'Negative' to 'Stable'

The revision in outlook takes into account, the operating performance of the company which was not significantly impacted by the ongoing pandemic. The revision in outlook also considers the improvement in operating margins from 7.08 per cent in FY20 to 8.22 per cent in FY21 and completion of shooting of two big budget movies viz. 'Gangubai Kathiawadi' and 'RRR' for which the company has already sold the OTT rights and satellite rights, thereby monetizing the content. Further, with relaxation in COVID norms and reopening of theatres, the group is expected to witness gradual improvement in revenue from distribution segment.

About the rated entity

Pen India Limited (PIL) is a Mumbai based film production and co-production company, which was established by Mr. Jayantilal Gada in 2000. The company is involved in Production, Distribution and Movie Aggregation. The distribution is done through Pen Marudhar Cine Entertainment Private Limited.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Pen India Limited (PIL) and Pen Marudhar Cine Entertainment Private Limited (PMPL); collectively referred to as Pen Group, as all the entities have common set of promoters, common line of business and have significant operational and financial linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

• Experience management and established track record of operation

PIL has established track record of more than 3 decades in the industry and hence, is familiar with changing trends. The company is promoted by Mr Jayantilal Gada, who has produced various successful movies in past such as Kahaani, Shivaay, Lakshmi. Further, the promoter has been infusing funds in the form of unsecured loan in order to support the operations of the group. The group has also established strong association with Zee Entertainment Enterprises Limited and other production houses such as Red Chillies

Entertainment. Further, the group companies such as Marudhar Entertainment Private Limited and Dhaval Gada Enterprises also infuse funds in the form of unsecured loans over the years. Acuite believes, the experience on the promoters in picking up commercially viable projects can favourably impact the credit profile of the company in medium term.

• Improvement in profitability

The group reported total operating income of Rs.565.25 crore in FY21 (Prov.) against Rs.601.51, registering marginal y-o-y de growth of around 6%. This decline in revenue was primarily on account of closure of theatres due to COVID-19 induced lockdowns which was offset by significant increase in revenue in through Sale of rights of content that were produced by PIL. Further, the operating margin of the group increased to 8.22 per cent in FY21 as against 7.08 per cent in FY20. The same is on account decline in distribution cost in FY21. The net profit remained at similar level at Rs.25.81 crore with marginal decline. Acuite believes, going forward, the company will be able to capitalize on sale of movie rights to OTT platforms thereby improving recoveries on projects.

• Moderate financial risk profile

The debt-equity ratio of the group improved to 0.63 times as on March 31, 2021 vis-à-vis 1.07 times as on March 31, 2020. The same is due to decline in outstanding working capital balance as on March 31, 2021. The net cash accruals to total debt improved marginally to 0.27 times in FY21 as against 0.23 times during FY20. The total outstanding liabilities to tangible net worth improved significantly to 4.04 times as on March 31, 2021 vis-à-vis March 31, 2020, on account of decline in security deposits from Rs.621.34 crore during FY21 to Rs.366.0 crore during FY20. The interest coverage ratio, however moderated to 5.07 times during FY21 against 9.71 times during FY20, due to increase in interest expenses.

Acuite believes that any increase in debt for production of movie would impact the financial risk profile of the group till the content is monetized through sale of rights.

• Upcoming Projects

PIL has invested in 5 movies, out of which shooting of 3 movies has already been completed and is at final stage. The movies are Gangubai Kathiwadi, RRR and Attack. The movies are being directed by top directors such as Sanjay Leela Bhansali and Rajamouli with A-list actors. Hence, the same fetch higher value in terms of sale of rights.

Weaknesses

• Decline in revenue from distribution segment

During FY21, there has been significantly decline in revenue from 'distribution and theatre' due to COVID-19. The nation witnessed lockdown, during which the malls and theatres remain closed during almost whole year. The same reopened gradually from July 2021 with 50% seating capacity. The revenue contribution from the segment declined from ~30% in FY20 to less than ~3% in FY21. Acuite believes, the segment performance will improve once the restrictions on theater operations are withdrawn by the government.

• Infusion of debt for upcoming movies

The movies are majorly funded by loan (film loan) and the repayment of same would commence post release of the movie in theatres. Hence, any delay in the same could result in pile up of debt in balance sheet of the company.

Acuité believes that release of the movie would be crucial in order to maintain a comfortable financial risk profile.

Rating Sensitivities

- The completion and timely release of movies, resulting in cash inflow post release
- Any further lockdown resulting in delay in release of the movie

Material Covenants

None

Liquidity Position: Adequate

The group has adequate cash accruals marked by net cash accruals of Rs.26.51 crore during FY21. The repayment of the loan taken for respective movie is linked to release of respective film. The group is expected to repay Rs.45.0 crore during FY22. Hence, it would be repaid as and when cash-flows are realized. The working capital loan of Rs.39.93 crores which the group has availed has moratorium period of two years and thus, the repayment of the same is expected to commence in FY24. As, the COVID lockdown has been relaxed and theatres have reopened, the operating revenue of the group is expected to increase going ahead. The group has a cash and bank balance of Rs.24.34 crore as on March 31, 2021. The current ratio remained at 1.43 times during FY21 as against 1.24 times in FY20. Acuite believes, the liquidity position of the company will improve once the theaters are opened and distribution revenue from theaters segment improves.

Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt and working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	565.25	601.51
PAT	Rs. Cr.	25.81	29.32
PAT Margin	(%)	4.57	4.87
Total Debt/Tangible Net Worth	Times	0.63	1.07
PBDIT/Interest	Times	5.07	9.71

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-July-2020	Term Loan	Long Term	75.00	ACUITE BBB-/Negative (Assigned)
	Overdraft	Long Term	35.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	75.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long Term	40.00	ACUITE BBB-/Negative (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of India	Term Loan	Not Available	Not Available	Not Available	75.00	ACUITE BBB-/Stable (Reaffirmed and outlook revised from negative to stable)
Yes Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-/Stable (Reaffirmed and outlook revised from negative to stable)
Yes Bank	Term Loan	Not Available	Not Available	Not Available	75.00	ACUITE BBB-/Stable (Reaffirmed and outlook revised from negative to stable)
Yes Bank	Term Loan	Not Available	Not Available	Not Available	40.00	ACUITE BBB-/Stable (Reaffirmed and outlook revised from negative to stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in J Subhadra Analyst – Rating Operations Tel: 9958455408 j.subhadra@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in

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 8,850 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 Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.