

**Press Release**  
**Pen India Limited**

**September 16, 2022**

**Rating Assigned and Reaffirmed**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	225.00	ACUITE BBB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	240.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

**Rating Rationale**

Acuite has reaffirmed the long-term rating at '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 225.00 crore bank facilities of Pen India Limited (PIL).

Acuite has also assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 15.00 crore bank facilities of Pen India Limited (PIL). The outlook is '**Stable**'.

**Rationale for rating reaffirmation**

The rating reaffirmation considers the improvement in operating performance in FY2022 after some stagnation in FY2021 due to impact of Covid 19. It also continues to factor the experience of promoters with established track record of operations. However, the rating remains constrained due to the susceptibility of the operating performance to limited production and distribution pipeline and underperformance of movies. PG's operations are also working capital intensive marked by GCA days of 204 days in FY22.

**About Company**

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. Distribution of movies is done through Pen Marudhar Cine Entertainment Private Limited.

**Analytical Approach**

**Extent of Consolidation**

- Full Consolidation

**Rationale for Consolidation or Parent / Group / Govt. Support**

Incorporated in 2000, Pen group is promoted by Mr. Jayantilal Gada. The group is involved in Production, Distribution and Movie Aggregation. Pen India Limited is engaged in production of movies and its subsidiaries Pen Marudhar Cine Entertainment Private Limited (PMPL) is involved in distribution of movie and Bollywood Times (BT) is engaged in developing a digital platform for movies.

## Key Rating Drivers

### Strengths

#### Established track record of operations and experienced management

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. 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 favorably impact the credit profile of the company in medium term.

#### Healthy operating performance

Pen Group (PG) reported a healthy growth in its operating income with a Y-o-Y growth of 57 percent. The group reported total operating income of Rs.889.68 crores in FY2022 (Prov.) as against Rs.564.32 crores in FY2021. Such growth comes at the back of increase in revenue from theatrical release of movies post Covid-19. Revenue from theatrical releases saw a significant improvement at Rs.144.82 crores in FY2022 (Prov.) as against Rs.0.96 crores in FY2021. PG released 'Gangubai Kathiawadi' and 'RRR' in FY2022 driving the growth in revenues for the group. Besides, distribution revenue has also seen a healthy improvement. More than 80 percent of the revenue is generated from sale of rights. Revenue from sale of rights stood at Rs.724.55 in FY2022 (Prov.) crores as against Rs.548.83 crores in FY2021.

Operating profitability of the group improved at 8.36 percent in FY2022 as against 7.81 percent in FY2021 driven by increased sale of operations of the group. The PAT margins also saw a subsequent improvement at 5.35 percent in FY2022 as against 4.67 percent in FY2021. The group has a total of 7 movies in its pipeline. However, it expects to generate only Rs. 170 crores from such movies. Any underperformance of these movies under production will adversely impact the groups ability to sustain the operating performance.

Acuite believes that the group's ability to sustain its operating performance through sale of movie rights to OTT platforms supported by the revenue from movie production will remain key rating sensitivity

#### Healthy financial risk profile

Financial risk profile of the group remained healthy with a moderate tangible networth, low gearing and comfortable debt protection metrics. Tangible networth of the group stood at Rs.200.72 crore as on 31<sup>st</sup> March 2022 as against Rs.151.37 crores as on 31<sup>st</sup> March, 2021. The networth has strengthened over the years on account of accretion of profits to reserves. Gearing of the group remained low 0.43 times as on 31<sup>st</sup> March, 2022 as against 0.64 times as on 31<sup>st</sup> March, 2022. Gearing of the group has however improved from its peak gearing levels of 1.07 times as on 31<sup>st</sup> March, 2020 and is likely to remain in the range of 0.38-0.28 times on account of healthy accretion to reserves. Total outside Liabilities to Total networth (TOL/TNW) has seen a consistent decline and stood at 1.87 times as on 31<sup>st</sup> March, 2022 as against 4.20 times as on 31<sup>st</sup> March, 2021. Debt protection metrics of the group remained comfortable with comfortable Debt Service Coverage Ratio (DSCR) and Interest Coverage ratio (ICR). DSCR of the group stood at 0.89 times in FY2022 as against 4.47 times in FY2021. It is to be noted that the DSCR is below unity for FY2022 on account of prepayment of term loans of Rs. 56 crores funded from release of working capital blockage. DSCR is likely to range between 1.72-3.01 times in the near to medium term. Interest coverage ratio stood at 6.77 times in FY2022 as against 6.42 times in FY2021.

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.

### Weaknesses

### **Working capital intensive nature of operations**

The operations of the group are intensive marked by GCA days of 204 days in FY2022 as against 486 days in FY2021. GCA days are driven by inventory holding period and advances given to producers. PIL funds the projects majorly through advances from distributors and media companies like Zee Entertainment Enterprises. Further, the group gives advances to producers for production of the movies. Advances given to producers stood at Rs. 100 crore in FY2022 as against Rs. 392.60 crore in FY2021. Inventory includes movies that are in progress. Inventory holding period stood at 112 days in FY2022 as against 155 days in FY2021. Debtor days of the company stood low at 21 days in FY2022 as against 41 days in FY2021.

### **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**

Ability to sustain its operating performance and profitability

Timely completion and release of movies

Increased dependence on bank borrowings for production and lesser than expected recovery from movies in pipeline

### **Material Covenants**

None

### **Liquidity: Adequate**

The group is expected to generate cash accruals in the range of Rs.49.53-52.68 crores as against debt repayment obligation of Rs. 10-12 crores. Net cash accruals of the group stood at Rs.48.71 crore in FY2022 as against debt repayment obligation of Rs. 56 crores. While the net cash accruals remain insufficient the group has repaid the term loan from release of working capital blockage. The group has a sanctioned overdraft limit of Rs. 35 crores which mostly remain unutilised. Unencumbered cash balance maintained by the group stood at Rs.29.73 crore as on 31<sup>st</sup> March, 2022 as against Rs.23.79 crore as on 31<sup>st</sup> March, 2021.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

### **Outlook: Stable**

Acuité 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	889.68	564.32
PAT	Rs. Cr.	47.56	26.36
PAT Margin	(%)	5.35	4.67
Total Debt/Tangible Net Worth	Times	0.43	0.64
PBDIT/Interest	Times	6.77	6.42

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

None

## Any Other Information

None

## Applicable Criteria

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

## Note on Complexity Levels of the Rated Instrument

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

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Sep 2021	Secured Overdraft	Long Term	35.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	40.00	ACUITE BBB-   Stable (Reaffirmed)
03 Jul 2020	Term Loan	Long Term	75.00	ACUITE BBB-   Negative (Assigned)
	Secured 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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	85.07	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-   Stable   Assigned
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	39.93	ACUITE BBB-   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	25.00	ACUITE BBB-   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	40.00	ACUITE BBB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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