



Press Release
Pen India Limited
December 12, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	240.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	240.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 240.00 crore bank facilities of Pen India Limited (PIL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade takes into account the significant improvement in profitability of the company despite witnessing decline in revenues. The revenues of the group stood at Rs. 740.79 Cr in FY23 as against Rs. 836.87 Cr in FY22. The decline in revenue was majorly on account of moderation in revenues earned from sale of rights of movies during the period. The group earned Rs. 457.59 Cr in FY23 via sale of rights as against Rs. 724.59 Cr in FY22. In FY23, despite having sufficient funds, the group exclusively wanted to invest in big projects. Consequently, the movie lineup was limited, thereby impacting the operating income of the group. However, the group's revenue via distribution and theatre increased significantly from Rs. 84.81 Cr in FY22 to Rs. 232.24 Cr in FY23.

Also, despite a degrowth in revenues, the group witnessed a significant improvement in profitability as reflected in the EBITDA margins which stood at 18.23% as against 8.56% in FY22. The PAT margins also improved and stood at 14.83% in FY23 as against 4.89% in FY22. Furthermore, the rating also draws comfort from the strong pipeline of projects of the company which includes A-list actors. The group distributed some of the hit films in FY23 namely - Jersey, Bhediya, Vikram Vedha, PS-I, PS-II, Cirkus, Satya Prem Ki Katha, Zara Hatke Zara Bachke, Dream Girl 2 and Sukhee. The group also has a strong pipeline of movies for which the agreements are still pending including A list actors and directors like Dunki, Merry Christmas, Start Up, Hanuman, The Crew and Untitled – Shahid/Kriti Movie. This strong pipeline will further establish the position of the group in the industry.

Furthermore, the rating also takes into account the established track record of operations with healthy financial risk profile and adequate liquidity position. However, the rating is constrained by improved yet moderate working capital operations and risks associated in the film industry.

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

About the Group

Pen Studios (formerly Popular Entertainment Network) is an Indian film production and distribution company established by Dr. Jayantilal Gada on 31 March 1987. The company entered into the media and entertainment industry with a video library called Popular Video Cassette Company. He subsequently ventured into trading video rights and distributing video cassettes across India, soon becoming the largest video library not just in India but also in Asia. In 1995, the business started under the name 'Popular Entertainment Network (Pen Studios)' and began to acquire video rights for movies to be distributed over various mediums such as video cassettes, satellites, terrestrial platforms etc. The Company subsequently forayed into theatrical and distribution rights of movies. Over the years, the company has adapted to changing trends by expanding into content creation and distribution for the broadcasting channel Zee. The company focuses on partnering with renowned producers and directors in the industry and promptly monetizing all the movie rights primarily in the pre-release stage.

The Pen group consists of Pen Marudhar Cine Entertainment Private Limited, Bollywood Times Private Limited and Media Network Broadcasting Private Limited. All the entities have common set of promoters, common line of business and have significant operational linkages. The group earns majority of its revenue from Pen Marudhar Cine Entertainment Private Limited and Pen India Limited.

Pen Marudhar Cine Entertainment Private Limited, formed in 2018, is engaged in the distribution of movies. Pen Marudhar has strategically partnered with top production houses like Bhansali Productions, Red Chillies Ent., T-Series, Balaji Motion Pictures, Pooja Entertainment, and Jio Studios.

Media Network Broadcasting Private Limited became a subsidiary of Pen India Limited in March 2022. The company is engaged in licensing of television channel broadcasting. Its satellite TV channels are 'BFLIX' and 'I LOVE' and 'MTUNES'.

Bollywood Times Private Limited earns its revenue from its Youtube Channel. It is a 100% owned subsidiary of Pen India Limited, hence the entire the revenue goes to Pen India Limited.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The Pen group consists of Pen Marudhar Cine Entertainment Private Limited, Bollywood Times Private Limited and Media Network Broadcasting Private Limited. All the entities have common set of promoters, common line of business and have significant operational linkages. The group earns majority of its revenue from Pen Marudhar Cine Entertainment Private Limited and Pen India Limited.

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 RRR, Gangubai Kathiawadi, PS-Il&Il among others. The group has also established strong association with top production houses like Bhansali Productions, Red Chillies Ent., T-Series, Balaji Motion Pictures, Pooja Entertainment, and Jio Studios.

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.

Improvement in Profitability despite decline in revenue

The group reported operating income of Rs. 740.79 Cr in FY23 as against Rs. 836.87 Cr in FY22. This decline in revenue in FY23 was on account of decline in the revenue earned from sale of rights in FY23. The group earned Rs. 457.59 Cr in FY23 via sale of rights as against Rs. 724.59 Cr in FY22. In FY23, despite having sufficient funds, the group exclusively invested in big projects. Consequently, the movie lineup was limited, thereby impacting the operating income of the group. However, the group's revenue via distribution and theatre increased significantly from Rs. 84.81 Cr in FY22 to Rs. 232.24 Cr in FY23. The other operating revenue which includes commission and digital revenue from Youtube and Facebook also witnessed growth and stood at Rs. 51.11 Cr in FY23 as against Rs. 28.78 Cr in FY22.

Despite, the limited line up of movies in FY23, the group witnessed significant improvement in profitability as reflected in the EBITDA margins of FY23 which stood at 18.23% as against 8.56% in FY22. The PAT margins also improved and stood at 14.83% in FY23 as against 4.89% in FY22. The significant improvement in profitability is on account of decline in the cost of sales which included a decline in the cost of production, distribution and marketing. The production cost in FY23 stood at Rs. 15.79 Cr in FY23 as against Rs. 30.50 Cr in FY22. The distribution cost stood at Rs. 0.13 Cr in FY23 as against Rs. 3.27 Cr in FY22 and the marketing cost also declined in FY23 to Rs. 19.52 Cr in FY23 as against Rs. 30.29 Cr in FY22.

Acuite believes that the group's ability to sustain its operating performance through sale and distribution of movies will remain key rating sensitivity.

Healthy Financial Risk Profile

The financial risk profile of the group is healthy marked by high net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the group stood high at Rs. 304 Cr in FY23 as against Rs. 193.20 Cr in FY22 on account of accretion of profits. The total debt of the group stood at Rs. 107.93 Cr in FY23 as against Rs. 67.06 Cr in FY22. The debt outstanding of the group in FY23 comprises of long-term debt of Rs. 39.93 Cr and Rs. 68.00 Cr of short-term debt. The gearing of the company remained below unity at 0.35 times in FY23 and FY22. The TOL/TNW improved and stood at 0.53 times in FY23 as against 1.53 times in FY22. The debt protection metrics remains comfortable with debt service coverage ratio of 18.91 times in FY23 and interest coverage ratio of 23.70 times in FY23.

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

Moderate working capital operations

The operations of the group are working capital moderate in nature marked by GCA days of 87 days in FY23 compared against 180 days in FY22. The GCA days is driven by inventory days of 46 days in FY23 as against 112 days in FY22. The inventory includes movies in progress. The creditor days of the company stood at 26 days in FY23 as against 40 days in FY22. The average bank limit utilisation in FY23 by the group stood at 57.37% for overdraft facility and 37.79% for term loans.

Acuite believes the working capital operations of the company will continue to remain moderate.

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

All Covenants

None

Liquidity Position Adequate

The liquidity position of the company remained adequate on account of adequate net cash accruals. The net cash accruals of the group stood at Rs. 112.78 Cr in FY23 as against Rs. 42.77 Cr in FY22. The net cash accruals is expected to be in the range of Rs. 127.27 Cr – Rs. 151.12 Cr from FY24 - FY26. Furthermore, the average fund-based utilisation by the group remained moderate at 57.37% for overdraft facility and 37.79% for term loans in FY23. The same is supported by moderate working capital nature of operations marked by GCA days of 87 days in FY23 compared against 180 days in FY22. Also, the company maintains a cash balance of Rs. 2.54 Cr in FY23.

The company has 6 movies in pipelines which are expected to release in FY24 namely Pushpa 2, Surya, Bhima, Bhaiyaji, Main Atal Hoon and Laxman Utekar's film. The company has already paid the agreement amount via internal accruals for 3 movies namely – Pushpa 2, Surya and Bhima. The company intends to pay the pending amount of Rs. 16 Cr via internal accruals for Bhaiyaji, Main Atal Hoon and Laxman Utekar's film.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	740.79	836.87
PAT	Rs. Cr.	109.88	40.95
PAT Margin	(%)	14.83	4.89
Total Debt/Tangible Net Worth	Times	0.35	0.35
PBDIT/Interest	Times	23.70	6.52

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of 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>
- 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2022	Term Loan	Long Term	40.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	85.07	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	39.93	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	72.07	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Upgraded
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB Stable Upgraded
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	39.93	ACUITE BBB Stable Upgraded
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	63.00	ACUITE BBB Stable Upgraded

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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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