Ref No.: SEL / Mar-2022/ Reg 30

March 24, 2022

Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Bandra-Kurla Complex
Bandra (E), Mumbai-400 051.
NSE Symbol: SHEMAROO

Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai-400 023.
Scrip Code : 538685

Dear Sir/Madam,

Re: SHEMAROO ENTERTAINMENT LIMITED - ISIN: INE363M01019

Sub: Rationale for the Credit Rating

This is in furtherance to our letter dated March 04, 2022, regarding intimation of credit rating by Care Ratings, please find enclosed herewith rationale for the rating issued vide their letter no. CARE/HO/RR/2021-22/1726 dated March 23, 2022.

The same is also disseminated on the website of the Company i.e. www.shemarooent.com.

This is for your information and records.

Thanking you,

Yours faithfully,
For Shemaroo Entertainment Limited

Dipesh U. Gosar
Company Secretary & Compliance Officer
ICSI Membership No.: A23755

Enclosure: A/a

CareEdge
RATINGS

No. CARE/HO/RR/2021-22/1726

Shri Amit Haria
Vice President – Accounts & Finance
Shemaroo Entertainment Limited
Shemaroo House, Plot No. 18,
Marol Co-operative Industrial Estate,
Off Andheri Kurla Road, Andheri (E), Mumbai
Maharashtra 400059

March 23, 2022

Confidential

Dear Sir,

Credit rating of Bank Facilities for Rs.221.00crore

Please refer to our letter dated March 03, 2022 on the above subject.

1. The rationale for the rating is attached as an Annexure-I.

2. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by March 24, 2022, we will proceed on the basis that you have no comments to offer.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Uttara Ghugardare

Uttara Ghugardare
Analyst
Uttara.ghugardare@careedge.in

Arunava Paul
Associate Director
arunava.paul@careedge.in

Encl.: As above

Disclaimer

CARE’s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE’s ratings do not convey suitability or price for the investor. CARE’s ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE’s rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1

Rating Rationale
Shemaroo Entertainment Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**221.00**	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**
Total Facilities	**221.00 (Rs. Two Hundred Twenty-One Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the long-term bank facility of SEL considers deterioration in operational performance of the company over the past couple of years. The management took strategic decision to reduce the low margin content syndication business. The reduced advertisement spending in view of slowdown in the economy has also adversely impacted the traditional/digital media revenue of SEL The profitability was impacted on account of significant investments in new initiatives along with the launch of two new broadcasting channels. SEL forayed into the broadcasting space with the launch of two new channels – Shemaroo Marathi Bana and Shemaroo TV. These channels were launched just before the onset of the Pandemic in 2020. The company had made significant investments in those channels during FY20, FY21 and FY22 with low advertising revenue. This was the main reason for significant decline in profitability during FY20 and the loss in FY21.

The newly launched channels have already started to gain traction on the TRP space and is expected to breakeven from FY23 onwards. Further the advertising spend of the industry is improving and thus the revenue and profitability is expected to improve from FY23 onwards. Thus, the outlook is revised to Stable.

The ratings of the company continue to derive strength from the experienced promoters, their established business relationship in the Indian film industry, well-placed market position in the broadcast syndication (BS) business. The ratings further draw comforts from the big content library with investments in new initiatives to add sources to monetize its content library, low risk due to presence in second & subsequent legs, strong customer profile albeit customer concentration risk and moderate financial risk profile.

However, the rating strengths are tempered by decline in sales and profitability margins during FY20 and losses in FY21; albeit, improvement witnessed in 9MFY22 on YOY basis, working-capital intensive nature of operations, significantly high inventory holding period, recurring investments required with respect to content acquisition and competitive nature of broadcast syndication business which is also highly susceptible to the vagaries of economic cycles.

Key Rating Sensitivities

Positives

- Increase in sales to more than Rs. 400 crore and PBILDT margin of more than 25% on a sustainable basis
- Positive Cash Flow from Operations going ahead on a sustained basis

Negatives

- Inability of the company to break even on the new initiatives
- Inability of the company to reduce working capital utilization and sustained improvement in cash flow from operations

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters
The Managing Director, Mr. Raman Hirji Maroo, has over three decades of experience in the entertainment industry. The company has experienced management team to handle different operations. Moreover, SEL's promoters and management have long-standing relationships with the film production houses and well-known broadcasters in the Indian television & media industry.

Low risk business due to presence in second & subsequent legs
In the first leg of movie lifecycle, SEL is present only in ancillary revenue streams like DTH and in-flight movie distribution. It typically participates in the second and subsequent cycles of film monetization which are of lower risk due to visibility of performance of movie during first cycle of launch. These subsequent cycles of film monetization have been typically growing due to various factors like increased advertisement spends, digitization etc. SEL decides on the cost of the content after it is confident of achieving the desired ROI at portfolio level and then distributes this content over different platforms like broadcasting channels and digital media platforms.

Large content library supporting operations
SEL has built up the content library of around 577 Hindi movies with perpetual rights and 1,293 Hindi movies with periodical rights ranging from 2 years to 10 years as on March 31, 2021 which can be monetized on various media platforms.

Investment in new initiatives to increase outreach
During FY20, SEL entered into the broadcasting space with the launch of two new channels. SEL launched free-to-air Marathi Movies satellite channel named as Shemaroo 'MarathiBana' in December 2019 and free-to-air Hindi general-entertainment-channel Shemaroo TV in May 2020.
During FY20 and FY21 the company has invested Rs.26.47 crore and Rs.51.00 crore respectively on these new initiatives largely funded from internal accruals. Further during 9MFY22 it has invested Rs.53.20 crore on new initiatives. SEL plan to enhance its distribution and monetization of its existing Marathi and Hindi titles through this channel which is expected to benefit SEL to improve its revenue and profitability going ahead.

Strong customer profile albeit customer concentration risk
SEL has customer concentration risk as Top 10 customers of the company contribute around 64% of the net sales in FY21. The top customers are reputed, having long track record and have a stable credit profile which mitigates counterparty risk. Further these companies are in expansion phase and looking constantly to increase their content. Hence association with these companies is expected to benefit SEL.
Moderate financial risk profile
The capital structure of SEL is comfortable marked by adequate tangible net worth. The overall gearing stood at 0.45 times as on March 31, 2021. Interest coverage ratio declined to 0.56 times in FY21 owing to low PBILDT. PBILDT/ interest coverage ratio improved to 1.48 times in 9MFY22 owing to improvement in profitability.

Key Rating Weaknesses
Decline in sales and profitability margins during FY21
SEL's total operating income declined by 36% to Rs.305.70 crore in FY21 (vs. Rs. 480.54 crore in FY20) primarily on account of decline in the revenues from both traditional and digital media. The management took strategic decision to reduce the low margin content syndication business. The reduced advertisement spending in view of slowdown in the economy has adversely impacted the traditional/digital media revenue of SEL. As the movie channels were deferring content investment on account of reduced advertising spends and uncertainty on account of covid-19. Traditional media holds the major chunk of the total revenue pie; however, the share of digital media in the pie has been rapidly growing over the past 4 years.

The PBILDT margin of the company declined in FY21 to 4.93% from 15.81% in previous year. This is owing to business carriage cost incurred on 'Shemaroo Marathibana' and 'Shemaroo TV' which are yet to break even. Moreover, advertisement revenue took major hit during the period. The PBILDT margin improved to 9.66% in 9MFY22 compared to 1.46% in previous year. This is owing to improvement in advertisement revenue post 'UNLOCK' measures implemented by GOI. The PBILDT margins are expected to be in range of 11-12% in FY22 and FY23 as the 'Shemaroo Marathibana' and 'Shemaroo TV' platforms launched by company in digital media space are expected break even in FY23 as per management. Hence, the profitability is expected to improve from FY24 onwards.

Elongated inventory holding period leading to stretched working capital cycle
The entertainment business is a working capital-intensive business mainly on account of higher inventory holding in the form of content development and motion pictures rights acquisition. Operating cycle for SEL continues to remain high at 957 days in FY21 as compared to 653 days in FY20 due to the inherent business model of broadcast syndication business and thereby rendering it working-capital intensive. SEL is required to hold inventory of the movie rights primarily to elevate its bargaining power against the broadcasters and differentiate it from other players. The working capital cycle of the company deteriorated in FY21 on account of increase in average inventory holding period. The inventory period increased from 594 days in FY20 to 922 days in FY21.

Reducing dependence on the broadcast syndication business
The broadcast syndication business is primarily dependent on broadcasting channels and is also exposed to increasing competition from the other content aggregators. Thus, during weak economic scenario the realization from various rights may get adversely impacted. On the other hand, with changing industry trends, increasing acquisition of movies by the broadcasters directly from the producers may put pressure on SEL's acquisition cost going forward.

Liquidity: Adequate
The average utilization of working capital limits for past 12 months ending November 2021 was 90%. The current ratio of 3.07x as on March 31, 2021. Current ratio is high due to the high levels of inventory holding. Quick ratio (excluding inventory) of the company stood at 0.40x as on March 31, 2021. The gross cash accrual of the company stood at Rs.9.41 crore in FY21. As on December 31, 2021 SEL has total cash and bank balances of Rs.6.72 crore which provides support to the liquidity of the company. The expected cash accruals for FY22 are around Rs. 11 crore, as against this the company has scheduled repayment obligation of Rs.6.81 crore. SEL has repaid Rs.6.20 crore till January, 2022.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the Company

Shemaroo Entertainment Limited (SEL), established in 1962, is promoted by the Chairman, Mr. Buddhichand Hirji Maroo. SEL has its presence across different verticals of movies and entertainment business including content aggregation, acquisition, film production and subsequent distribution of the movie rights to be monetized through the broadcasting channels (like television, home entertainment), new media (internet/ Value Added Services, OTT etc.) and preloaded devotional devices. The company also has a tie-up with many content providers in the industry. SEL's has a movie catalogue of 4211 titles as on March 31, 2021 which includes new and old prominent Bollywood movies and also titles in various other regional languages.

Financial Performance of Shemaroo Entertainment Limited:

For the period ended as at March 31,	**2019**	**2020**	**2021**
	(12m, A)	**(12m, A)**	**(12m, A)**
Working Results			
Total Operating income	549.25	480.54	305.7
PBILDT	162.44	76	15.07
Interest	25.5	23.11	26.72
Depreciation	5.53	7.46	7.22
PBT	133.32	34.4	-19.49
PAT (after deferred tax)	86.11	23.79	-19.25
Gross Cash Accruals	91.27	29.93	-12.27
Financial Position			
Equity Capital/Partners' Capital	27.18	27.18	27.18
Tangible Net worth	579.30	598.70	580.45
Key Ratios			
Profitability			
PBILDT/Total Op. income (%)	29.58	15.81	4.93
PAT (after deferred tax)/ Total income (%)	15.68	4.95	-6.30
ROCE (%)	21.09	7.29	0.96
Solvency			
Debt Equity ratio (times)	0.01	0.06	0.04
Overall gearing ratio	0.36	0.39	0.45
Interest coverage(times)	6.37	3.29	0.56
Term debt/Gross cash accruals (years)	0.06	1.20	-1.98
Total debt/Gross cash accruals (years)	2.29	7.77	-21.26
Liquidity			
Current ratio (times)	3.02	3.25	3.07
Turnover			
Average collection period (days)	99	93	79
Average inventory (days)	533	594	922
Average creditors (days)	22	34	44
Operating cycle (days)	610	653	957

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	175.00	CARE BBB; Stable
Fund-based - LT-Bank Overdraft		-	-	-	46.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	175.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	1)CARE A; Stable (04-Apr-18)
2	Term Loan-Long Term	-	-	-	-	1)Withdrawn (06-Apr-20)	-	-
3	Fund-based - LT-Bill Discounting/ Bills Purchasing	-	-	-	-	1)Withdrawn (06-Apr-20)	-	-
4	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	1)CARE A; Stable (04-Apr-18)
5	Fund-based - LT-Bank Overdraft	LT	46.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (11-Feb-21) 2)CARE BBB+ (CWN) (07-Aug-20) 3)CARE A-; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	-

* Long Term / Short Term

Annexure-3: Details of Rated Facilities
1. Long Term Facilities

1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	74.00
2.	Bank of India	56.00
3.	NKGSB Co-op Bank Ltd	45.00
	Total	**175.00**

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Deutsche Bank	46.00
	Total	**46.00**

Total Long-Term Facilities: Rs.221.00 crore

Total Facilities (1. A+1.B): Rs.221.00 crore

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 5: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

(Reference: This follows our Press Release for the entity published on March 04, 2022)

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careedge.in

Analyst Contact
Arunava Paul
Contact no. – +91-22-6754 3667
Email ID: arunava.paul@careedge.in

Business Development Contact
Name: Saikat Roy
Tel: 98209 98779
Email: saikat.roy@careedge.in

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**