17th May, 2024

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Company Code: PVRINOX/ 532689

Sub: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015- Update on Credit Ratings

Dear Sir,

In compliance with Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that Company has received credit rating letter, today, from India Ratings and Research Private Limited, the credit rating agency.

Further, credit rating agency has upgraded the rating of the long-term fund based facilities to IND AA/Stable/IND A1+ (upgraded from IND AA-) and reaffirmed credit rating of the short-term debt instruments to IND A1+ (A one Plus).

Copy of rating letter is enclosed.

This is for your information and to all concerned.

Kindly take the same on record.

Thanking You.

Yours faithfully
For PVR INOX Limited

MUKESH KUMAR
Digitally signed by MUKESH KUMAR
Date: 2024.05.17 12:16:34 +05'30'

Mukesh Kumar
SVP - Company Secretary
& Compliance Officer

Encl: A/a

India Ratings Upgrades PVR INOX's Bank Facility to 'IND AA'; Outlook Stable

May 16, 2024 | Film Production | Distribution & Exhibition

India Ratings and Research (Ind-Ra) has upgraded PVR INOX Limited's fund-based facility's rating to 'IND AA' from 'IND AA-' with a Stable Outlook while affirming the short-term debt rating at 'IND A1+'. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/ Watch	Rating Action
Fund-based facility	-	-	-	INR650	IND AA/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed

Analytical Approach

Analytical Approach: Ind-Ra continues to take a consolidated view of PVR INOX and its subsidiaries while arriving at the ratings, due to the close strategic and operational linkages among them.

Detailed Rationale of the Rating Action

The upgrade reflects a meaningful recovery in the consolidated EBITDA (after lease rentals) during FY24 and the resultant improvement in the credit metrics. PVR INOX's operational parameters such as average ticket price (ATP) and spend-per-head (SPH) reported strong improvement during FY24, being 25%-45% higher than pre-covid levels. While overall admits remained about 10% lower than pre-covid levels, they displayed meaningful improvement over FY20-FY24. Ind-Ra expects ATP and SPH to continue growing at inflationary rate during FY25-FY26, while admits are likely to recover during the same period on the back of a strong content pipeline. Ind-Ra expects PVR INOX to achieve a net cash position (based on debt excluding lease liabilities) over the next three years, backed by an improvement in the overall profitability and the management's articulated capital-light strategy (pre-paying debt from free cash flow and asset-light capex strategy).

The rating is also supported by PVR INOX's dominant market share in the Indian movie exhibition industry. As per Ind-Ra, the higher scale of operations has been helping the entity in terms of improved revenue efficiencies, optimising the overall cost structure, and better bargaining power with counter-parties, which is likely to result in more stable and improving financial profile. However, the rating is constrained by the inherent volatility in the movie exhibition industry.

List of Key Rating Drivers

Strengths

Meaningful improvement in financial profile in FY24

Strong business profile; market leader position

Limited risk from over-the-top (OTT) players

Weaknesses

Capital-intensive business; re-calibration of capex strategy

Exposure to potentially volatile box office performance

Detailed Description of Key Rating Drivers

Meaningful Improvement in Financial Profile in FY24: In FY24, PVR INOX exhibited strong improvement in its overall scale of operations, with revenue rising to INR61.1 billion (FY23: INR37.5 billion; proforma FY23: INR 52.2 billion) and EBITDAR increasing to INR18.1 billion (FY23: INR10.5 billion; proforma FY23: INR 15.1 billion). The reported revenue and EBITDAR numbers for FY23 include the revenue and EBITDAR of PVR until 9MFY23 and revenue of PVR INOX for 4QFY23. Hence proforma numbers for FY23 have also provided. The improvement was backed by growth in admits (FY24: 151.5 million; FY23: 95 million; proforma FY23: 140.4) and a meaningful increase in the ATP (INR259, INR240; INR236) and SPH (INR132, INR128, INR120). PVR INOX's EBITDA (post-Ind-AS adjustments) rose to INR7.1 billion in FY24 (proforma FY23: INR5.2 billion), exhibiting a recovery in the EBITDA margins to 11.7% (10.0%). Ind-Ra expects the admits and occupancy to improve over FY24-FY26 on the back of strong content pipeline along with initiatives undertaken by PVR INOX (such as the passport program). This along with organic growth in the ATP and SPH, and operating leverage would enable PVR INOX to continue to report growth in overall profitability.

The consolidated credit metrics improved in FY24 due to the rise in the EBITDA, with net leverage (net debt including lease liabilities to EBITDAR) of 4.4x (proforma FYE23: 5.1x) and interest coverage (EBITDAR to gross interest) of 2.3x (2.0x). The net leverage (net debt excluding lease liabilities to EBITDA) improved to 1.8x in FY24 (proforma FY23: 2.8x). Ind-Ra expects PVR INOX's net leverage (net debt including lease liabilities to EBITDAR) to gradually reduce to 2.5x-2.7x by FYE26. The net leverage (net debt excluding lease liabilities to EBITDA) is likely to gradually reduce to lower than 0.5x levels by FYE26, and the company is likely to achieve a net cash position by FY27E. The interest coverage is likely to improve to 3.6x-3.8x by FY26E as against 2.3x at FY24 (proforma FY23: 2.0x). Ind-Ra expects PVR INOX to sustainably report double-digit ROCEs (FY23 and FY24: negative ROCE) from FY25. (ROCE = [loss before tax + finance costs excluding lease payouts + exceptional items – other income] / [total equity +total financial borrowings – goodwill and other intangible assets]

Strong Business Profile; Market Leader Position: PVR INOX holds a dominant position in the Indian multiplex industry, with a presence across 112 cities. It had 359 cinemas and 1,718 screens as of March 2024 , making it the largest multiplex chain in India, with a screen market share of around 50%. Post the merger with INOX Leisure Limited (effective date of 6 February 2023), PVR INOX's market position has significantly strengthened, since the second largest player's screen market share is around 20%, which is significantly lower than PVR INOX's combined screen market share around 50%. Additionally, PVR INOX's multiplex network is well spread-out over the northern, southern, western and central parts of India, with a reasonable presence in the eastern part of the country as well, thereby insulating it from any unfavourable developments in specific regions.

Ind-Ra expects PVR INOX to maintain its market share, as the agency believes that the barriers such as: (a) relationships with distributors and producers, (b) early-mover advantage of the existing players, (c) already large scale of operations of the existing players, (d) a lack of real estate availability for new developers to open cinemas, apart from the regulatory barriers, will pose challenges for new players to make a significant presence in the movie exhibition industry.

Limited Risk from OTT Players: The agency believes the emergence of OTT platforms will continue to pose only a limited risk to multiplexes. The pandemic has been instrumental in the emergence of OTT as an alternative medium for small- and medium-budget movies and other new contents. However, as per industry sources, films released directly on OTT almost halved in 2023 compared to 2022, as content creators have rationalised their strategy for digital-first premiers. Also, multiplexes will continue to benefit from the guideline of maintaining a gap of at least eight weeks between a theatrical release and its OTT premiere. Overall, the agency believes the multiplex experience remains an integral and affordable entertainment option in India and growth in the overall content pie should augur well for PVR INOX. However, any significant change in the competition landscape/demand for the multiplexes owing to the OTTs will remain a key rating monitorable.

Capital-intensive Business; Re-calibration of Capex Strategy: Setting up and operating a multiplex business is a capital-intensive process, given the initial set-up capex as well as refurbishment costs, which typically kick in six-to-eight years after a multiplex begins operations. Given India's under-penetration in terms of screens compared to the US and China, Ind-Ra believes PVR INOX shall continue expand its screen footprints as there is sufficient scope to continue to invest over the long term. Ind-Ra shall continue to monitor PVR INOX's capex plans and its funding strategy.

Exposure to Potentially Volatile Box Office Performance: PVR INOX's chief sources of revenue are net box office collections from cinema goers, food and beverage revenue and advertisement revenue. The strong performance of films screened in multiplexes is a key driving factor for footfalls, which lead to robust net box office collections and food and beverage sales. While consistent footfalls and high occupancy levels lead to strong advertisement revenue, a weak movie pipeline or overall macroeconomic slowdown could weaken the same. The box office collections depend on a strong pipeline of films being released over a particular period. That said, PVR INOX's exposure to a combination of Bollywood, Hollywood and regional cinemas helps the company mitigate the risk arising from the weak performance of any particular segment.

Liquidity

Adequate: PVR INOX's liquidity is supported by its unencumbered cash of slightly more than INR4.0 billion (as of March 2024) and unutilised working capital limit of about INR2.0 billion (as of March 2024). In the medium term, the company plans to open 110-130 new screens (FY24: 130 screens) and close 60-70 screen (FY24: 85 screens) every year. However, the overall capex intensity is likely to come down from FY24 levels by about 25%, with the management adopting a capital-light strategy and prudent capital allocation. The management has articulated that most of the new capex shall be funded through internal accruals, and the debt is likely to be partly prepaid with the available free cash flows. Ind-Ra believes PVR INOX's internal accruals would be sufficient to meet its annual capex requirement of INR4.5billion-5 billion and annual debt principal repayment ranging from INR4.0 billion-4.5 billion over FY25-FY27, without any major dependence on debt. PVR INOX's liquidity is also supported by its strong financial flexibility, as evident from its track record of raising funds from the equity markets (FY21: INR11 billion) and debt markets at competitive rates.

Rating Sensitivities

Positive: The developments that could, individually or collectively, lead to a positive rating action include:

- a meaningful recovery in occupancy and admits to pre-pandemic levels while sustaining ATP and SPH at current levels
- a recovery in profitability and continued stable debt levels, leading to the net leverage (net debt including lease liabilities to EBITDAR) reducing below 3.0x on a sustained basis
- track record of double-digit ROCEs

Negative: Slower-than-Ind-Ra-expected ramp-up in operational parameters such as occupancy levels, admits, advertisement revenue, leading to lower profitability and/or a higher-than-expected capex, resulting in the net leverage (net debt including lease liabilities to EBITDAR) exceeding 4.0x, on a sustained basis, could lead to a negative rating action.

About the Company

PVR was set up in 1995 as a 60:40 joint venture between Priya Exhibitors Private Limited and Village Roadshow Limited. It started its operations in 1997 at its first screen in Saket, Delhi. The company's screen network spreads across India (mainly north, south and west), with about 12% of the screen portfolio classified as premium. The proposed scheme of amalgamation of INOX with PVR was approved by National Company Law Tribunal in February 2023. The amalgamated company's name has been changed to PVR INOX Limited effective 20 April 2023.

KEY FINANCIAL INDICATORS

Particulars (INR billion)	FY24	Reported FY23
Revenue	61.7	37.5
EBITDAR	18.1	10.5
EBITDAR margin (%)	29.6	27.9
Interest expense	7.9	5.7
Gross financial debt (excluding lease liabilities)	17.2	17.9
Source: PVR INOX Limited, Ind-Ra FY23 numbers are not fully comparable with FY24 since numbers merger of erstwhile PVR and INOX became effective from 6 February 2023.		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/ Rating Watch/ Outlook					
	Rating Type	Rated Limits (million)	Rating	22 September 2023	21 August 2023	10 November 2022	4 April 2022	20 September 2021	20 July 2021
Issuer rating	Long-term	-	-	WD	IND AA-/Positive	IND AA-/Rating Watch with Developing Implications	IND AA-/Rating Watch with Developing Implications	IND AA-/Negative	IND AA-/Negative
PP-MLD	Long-term	-	-	-	WD	IND PP-MLD AA-emr/Rating Watch with Developing Implications	IND PP-MLD AA-emr/Rating Watch with Developing Implications	IND PP-MLD AA-emr/Negative	-

Fund-based facility	Long-term/Short-term	INR650	IND AA/Stable/IND A1+	-	IND AA-/Positive/IND A1+	IND AA-/Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	IND AA-/Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	IND AA-/Negative/IND A1+	IND AA-/Negative/IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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