21st July, 2021

National Stock Exchange of India Limited
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Company Code: PVR / 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, please find enclosed the rating published on 20th July, 2021 by India Ratings & Research, the Credit Rating Agency.

This is for your information and records.

Thanking You.

Yours faithfully
For **PVR Limited**

MUKESH KUMAR
Digitally signed by MUKESH KUMAR
Date: 2021.07.21 12:07:30 +05'30'

Mukesh Kumar
SVP- Company Secretary
& Compliance Officer

India Ratings & Research
A Fitch Group Company

India Ratings Downgrades PVR to 'IND AA-'/Negative

20

JUL 2021

By Manish Divekar

India Ratings and Research (Ind-Ra) has downgraded PVR Limited's Long-Term Issuer Rating to 'IND AA-' from 'IND AA'. The Outlook is Negative. The instrument-wise ratings is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based facility	-	-	-	INR650	IND AA-/Negative/IND A1+	Long-term rating downgraded; short-term rating affirmed

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

The downgrade reflects the weakening of PVR's financial profile in FY21, with the fall in occupancies due to the impact of the second-wave of COVID-19 having led to continued cash losses. The Negative Outlook reflects the continued lack of visibility regarding a recovery in the operational parameters (occupancies, average ticket prices, and spend per head, etc.) and normalised profitability margins over the near-to-medium term, which would impact the sustainable financial capital structure of PVR.

From a long-term perspective, though, PVR's business profile remains strong, supported by its market leadership in the underpenetrated Indian movie exhibition market. Ind-Ra also derives comfort from PVR management's proactive approach towards managing its liquidity position, exemplified by its cost-cutting initiatives and timely raising of funds (equity and debt) at competitive rates.

KEY RATING DRIVERS

Weak Financial Performance in FY21, Impacted by COVID-19 Disruptions: In FY21, PVR's revenue fell by 92% yoy to INR2.8 billion (FY20: INR34.1 billion) due to the disruptions caused by the pandemic. The company reported an EBITDA loss of INR4.5 billion in FY21 (FY20: EBITDA profit of INR5.8 billion; margin of 17%), leading to a deterioration in the credit metrics (FY20: gross interest coverage (operating EBITDA/gross interest expenses) of 3.8x; net leverage (debt less cash/operating EBITDA) of 1.7x). The gross debt increased slightly to INR13.5 billion at FYE21 (FYE20: INR12.9 billion).

Strong Business Profile; Market Leader Position: PVR holds a dominant position in India's multiplex industry, with a presence across 71 cities; it had 176 cinemas and 842 screens at end-FY21. This makes PVR the largest multiplex chain in India, with a screen market share of 28% in FY21. Ind-Ra expects PVR to maintain its market share, given the high entry barriers in the movie exhibition industry, which primarily pertains to the lack of real estate availability for new developers to open cinemas. The other entry barriers include regulatory approvals; early-mover advantage of incumbents; large scale of operations; and the resultant relationships with distributors and producers. PVR's multiplex network is evenly spread-out over north, south and west India, thereby insulating it from any geographic disturbances. While PVR's overarching strategy was to reach 1,000 screens by FY23, its near-term capex plans have been put on hold owing to the lockdown, to conserve liquidity. However, the agency believes the pandemic could lead to greater consolidation in the industry, benefiting large players such as PVR.

Liquidity Indicator - Adequate: PVR completed a qualified institutional placement (QIP) of INR8 billion in 4QFY21, which significantly bolstered its liquidity profile. The QIP again highlighted PVR's successful track record in raising funds from the equity markets, following an INR3 billion rights issue completed in 2QFY21. PVR's liquidity is further bolstered by 1) additional funding of INR2 billion available under the Emergency Credit Line Guarantee Scheme, 2) the receipt of board approval to raise non-convertible debentures worth INR5 billion, 3) continued strong focus on keeping costs under check. PVR continues to be in talks with shopping mall developers for discounts on lease rentals for 1HFY22, in line with the trend in FY21. Overall, the agency opines that medium-term repayment risk remains limited for the company. At FYE21, PVR's available liquidity lines amounted to a total of INR7.9 billion, including cash on the balance sheet and unutilised working capital lines.

Proven Track Record: PVR's network expanded to over 842 screens by end-FY21 from just 100 screens in 2008. The company registered a strong performance during FY18-FY20; it was adversely affected by the pandemic-led issues in FY21. Although India has surpassed developing countries in terms of the number of screens (10,000 screens), it remains under-penetrated as compared to the US (41,000 screens) and China (55,000). With rising disposable incomes and urbanisation, Ind-Ra believes cinema screens, especially multiplex screens, will continue to grow in India, and PVR is well placed to benefit from this trend, given its strong track record of operating pan-India, its established brand and diversified exposure to national and regional cinema. Furthermore, PVR's management team has significant experience in the multiplex field, and enjoy strong relationships with both movie producers and mall developers.

Potential Risk from Over-The-Top Players: The agency believes the emergence of over-the-top (OTT) platforms continues 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 content. However, big budget films which contribute the bulk of a multiplex theatre's revenue have continued to avoid OTT platforms. OTT growth has also been constrained by the low internet penetration in India and OTT content being expensive (though some OTT players have started introducing low-priced plans in India). 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.

Capital-Intensive Business; Re-Calibration of Capex Plans Amid Pandemic: 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. In the last few years, PVR has expanded its screen network via a combination of organic and inorganic growth. Prior to the outbreak of COVID-19, PVR had planned to expand to 1,000 screens in the next few years, but the capex plans have been recalibrated now, considering the weak occupancies levels and the need to conserve liquidity. However, given India's under-penetration in terms of screens compared to countries such as the US and China, Ind-Ra believes the company has sufficient scope to continue to invest and expand its screen footprint over the long term.

Measures Implemented to Combat COVID-19 Risk: In the wake of the COVID-19 outbreak, which had a major impact on the multiplex sector, PVR had shut down all its screens across the country. Subsequently, it began to operate at certain locations with restricted capacity. To deal with the impact of the pandemic-led disruptions, PVR sharply reduced its cost base to conserve liquidity. The key steps taken in this regard include the following: invoking the force majeure clause, leading to the suspension of rent and common area maintenance payments till the multiplexes are closed as well as a significant drop in rental expenses post the reopening of cinemas, a reduction in employee compensation implemented across the organisation, and cutting down operational expenses (e.g. electricity and repair and maintenance charges) substantially. Ind-Ra shall continue to monitor the pandemic-related developments and its impact on PVR's liquidity and financial position.

Exposure to Potentially-Volatile Box Office Performance: PVR'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 leads to robust net box office collections and food and beverage sales. While consistent footfalls and high occupancy levels lead to strong advertisement revenues, a weak movie pipeline or overall macroeconomic slowdown could result in weak advertisement revenue growth. The box office collections depend on a strong pipeline of films being released over a particular period; however, PVR has exposure to a combination of Bollywood, Hollywood and regional cinema, which helps mitigate the risk to revenues in the event that a particular segment reports a weak performance.

RATING SENSITIVITIES

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

- a meaningful recovery in key operational parameters such as occupancy, average ticket prices, and spend per head
- a recovery in profitability and continued stable debt levels, leading to a higher visibility of the net leverage (excluding rent capitalisation) being below 2.5x on a sustained basis.

Negative: The developments that could, individually or collectively, lead to a negative rating action include:

- a slower-than-expected ramp-up in operational parameters, and/or failure to achieve the intended cost optimisation, leading to lower profitability on sustained basis
- a higher-than-expected capex or debt-funded acquisition or weak profitability, leading to higher visibility on the net leverage (excluding rent capitalisation) exceeding 2.5x, on a sustained basis, beyond FY22

COMPANY PROFILE

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 has now spread across India (mainly north, south and west), with about 11% of the screen portfolio classified as premium portfolio.

FINANCIAL SUMMARY

Financials (INR billion)	**FY21**	**FY20**
Revenue	2.8	34.1
EBITDA	-4.5	5.8
EBITDA margin (%)	n.m	16.9
Interest expense	1.5	1.5
Total debt	13.5	12.9
Source: PVR Limited, Ind-Ra n.m: not meaningful		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (million)	Rating	23 December 2020	20 March 2020
Issuer rating	Long-term	-	IND AA-/Negative	IND AA/Negative	IND AA/RWN
Fund-based facility	Long-term/Short-term	INR650	IND AA-/Negative/IND A1+	IND AA/Negative/IND A1+	IND AA/RWN/IND A1+/RWN

COMPLEXITY LEVEL OF 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.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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