PVR

07th April, 2022

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Company Code: PVR / 532689

Sub: Disclosure for Credit Rating under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015

Dear Sir,

In compliance with Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please take note that the credit rating agency has reaffirmed the credit rating and there is no change/revision in credit rating of the Company.

Please find enclosed the rating issued by India Ratings & Research, the Credit Rating Agency.

This is for your information and records.

Thanking You.

Yours faithfully,
For **PVR Limited**

PVR LIMITED PVR

Mukesh Kumar
SVP - Company Secretary
& Compliance Officer

India Ratings & Research
A Fitch Group Company

India Ratings Places PVR and its PP-MLD on RWE

04

APR 2022

By Vipul Totla

India Ratings and Research (Ind-Ra) has placed PVR Limited's (PVR) Long-Term Issuer Rating of 'IND AA-' on Rating Watch Evolving (RWE). The Outlook was Negative. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Principal protected market-linked debentures (PP-MLDs)*	-	-	-	INR2,500	IND PP-MLD AA-emr/RWE	Placed on RWE
Fund-based facility	-	-	-	INR650	IND AA-/RWE/IND A1+/RWE	Placed on RWE

*Yet to be issued. PP-MLD refers to full principal protection in the equity-linked notes wherein the issuer is obligated to pay the full principal upon maturity. The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. Ratings of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and do not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index or equity share (detailed in the information memorandum of the issue).

Analytical Approach: Ind-Ra continues 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 RWE follows the announcement of merger between PVR and INOX Leisure Limited (INOX). Ind-Ra shall resolve the RWE upon the conclusion of the merger and once its resultant impact on the merged entity's market share, revenue and cost synergies, growth trajectories and financial profile becomes clear.

Ind-Ra expects the merged entity to have a dominant market share in Indian movie exhibition industry. Also, higher scale of operations would not only improve revenue efficiencies but also optimise the overall cost structure. The merged entity would also likely have higher bargaining power in negotiating various revenue and cost items such as box office collection, rental rates, advertising rates, convenience fees, among others.

The all-stock merger was approved by the boards of PVR and INOX with a share exchange ratio of 3:10, i.e., three shares of PVR for 10 shares of INOX. Post-merger, PVR promoters will have a 10.62% stake while INOX promoters will have a 16.66% stake in the combined entity - PVR INOX Limited with two board seats to each promoter family. Mr. Ajay Bijli would be appointed as the managing director of the merged entity and Mr. Pavan Kumar Jain would be the non-executive chairman of the board. The amalgamation is subject to approvals from shareholders, stock exchanges, the Securities and Exchange Board of India and other regulatory agencies.

KEY RATING DRIVERS

Recovery in Operations Underway: The removal of most of the capacity restrictions and a reasonable content pipeline augur well for the cinema exhibition industry. PVR showed a significant recovery in its operations in 3QFY22 with: (a) average ticket price (ATP) at INR239 and spend per head (SPH) at INR129, touching the pre-COVID-19 levels, and (b) revenue and EBITDA of INR6,142 million and INR1,649 million, respectively. The positive EBITDA after 1.5 years was supported by the resumption of most of the screens, good content flow and cost rationalisation. The sustainability of the recovery in operational and financial metrics remains a key rating monitorable.

Liquidity Indicator - Adequate: As of end-December 2021, PVR's available liquidity lines totaled INR7,416 million, including cash on the balance sheet and unutilised working capital lines. PVR successfully conserved liquidity during the COVID-19 disruptions by cost rationalisation and successful negotiations on lease rentals with mall operators. Ind-Ra expects some of its cost savings to be sustained, while majority of the cost items would touch the pre-pandemic levels.

However, a likely recovery in the operations and revenue would help PVR report positive EBITDA going forward. The EBITDA margin evolution remain a key rating monitorable. Nevertheless, PVR shows a strong financial flexibility, given its track record of raising funds from equity (INR11 billion in FY21) and debt markets. Overall, Ind-Ra expects PVR's cash flow generation and available liquidity to be sufficient to service its debt obligations of INR 4,670 million in FY23.

Strong Business Profile; Market Leader Position: PVR holds a dominant position in the Indian multiplex industry, with a presence across 73 cities. It has 181 cinemas and 871 screens, making it the largest multiplex chain in India, with a screen market share of 28% in FY21. INOX is the second-largest multiplex chain with 675 screens across 160 cinemas in 72 cities. 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 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 was planning to reach 1,000 screens by FY23, it has put the near-term capex plans on hold, owing to the lockdowns, to conserve liquidity.

Potential Risk from Over-The-Top (OTT) Players: The agency believes the emergence of OTT platforms 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, big budget films, which contribute the bulk of a multiplex theatres' 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 past 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 occupancy levels and the need to conserve liquidity. However, given India's under-penetration in terms of screens compared to the 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.

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 lead 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 cinemas, which helps mitigate the risk to revenue in the event that a particular segment reports a weak performance.

Weak Financial Performance in FY21, Impacted by COVID-19 Disruptions: In FY21, PVR's revenue fell 92% yoy to INR2.8 billion, (FY20: INR34.1 billion) due to the COVID-19 disruptions. 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).

RATING SENSITIVITIES

The RWE indicates that the ratings may be affirmed, downgraded or upgraded upon resolution. Ind-Ra will evaluate the impact of the merger on the business and financial profile of PVR and resolve the RWE on conclusion of the merger process.

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 spreads across India (mainly north, south and west), with about 12% of the screen portfolio classified as premium.

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/Rating Watch			Historical Rating/Rating Watch/Outlook			
	Rating Type	Rated Limits (million)	Rating	20 September 2021	20 July 2021	23 December 2020	20 March 2020

Issuer rating	Long-term	-	IND AA-/RWE	IND AA-/Negative	IND AA-/Negative	IND AA/Negative	IND AA/RWN
PP-MLD	Long-term	INR2,500	IND PP-MLD AA-emr/RWE	IND PP-MLD AA-emr/Negative	-	-	-
Fund-based facility	Long-term/Short-term	INR650	IND AA-/RWE/IND A1+/RWE	IND AA-/Negative/IND A1+	IND AA-/Negative/IND A1+	IND AA/Negative/IND A1+	IND AA/RWN/IND A1+/RWN

BANK WISE FACILITIES DETAILS

Click here to see the details

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
PP-MLD	High
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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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.

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

DISCLAIMER

Applicable Criteria

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

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