



Press Release

Cineline India Limited

November 2, 2022

Ratings

Instrument/Facility	Amount (INR Crore)	Ratings	Rating Action
Proposed Term Loan	115.51*	IVR BBB-/Stable (IVR Triple B with Stable outlook)	Assigned
Long Term ECLGS	17.05	IVR BBB-/Stable (IVR Triple B with Stable outlook)	Assigned
Total	132.56		

**With the change in the business model post April 1, 2022, the Company is planning to refinance the existing LRD with term loan.*

Details of facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Cineline India Limited derive comfort from established track record of operations coupled with renowned group presence thereby supporting the re-entry into the film exhibition business, Operations driven by experienced management coupled with significant funding support, Assets monetization & loan prepayment plans & developments in place, entering long-term lease arrangements for new screen additions, Change in business model. The ratings are, however, constrained by the Significant project execution risk associated with expansion project for addition of new screens and exposure to stiff competition from other renowned & established players in the film exhibition business, decline in revenues during FY21 and FY22 due to Covid related lockdown of cinemas leading to low Interest Coverage and DSCR.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in revenue and profitability.
- Improvement in the capital structure with improvement in TOL/TNW and sustained improvement in debt protection metrics.
- Improvement in liquidity.



Press Release

Downward Factors

- Any decline in revenue & profitability leading to deterioration in debt protection metrics with interest coverage.
- Deterioration in liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Established track record of operations coupled with renowned group presence thereby supporting the re-entry into the film exhibition business

Since its inception in 1997, CIL owned & operated one of the reputed multiplex chains – Cinemax, with 23 owned screens in various parts of Maharashtra and 115 screens obtained on lease. However, in 2012, the company sold its exhibition business along with Cinemax brand to PVR and changed its business model from film exhibition to owning & leasing of cinema halls to PVR for the latter to run its film exhibition business. However, w.e.f. April 2022, the company marked its re-entry into the film exhibition business upon expiry of the lease agreements with PVR on Mar 31, 2022 and launched its own brand – Moviemax. The Company announced tie-up of 105 screens till date out of which 20 screens are owned. Currently, total operational screens are 35, with the others in fit-out / development stages...

Operations driven by experienced management coupled with significant funding support

CIL is a part of the larger Kanakia Group. The Kanakia Group is promoted by Mr. Rasesh Kanakia along with his brother Mr. Himanshu Kanakia, both of whom possess a vast experience of over 3 decades in the real estate industry. Mr. Rasesh Kanakia began his career as a real estate consultant and subsequently ventured into real estate development & construction in 1986. On the other hand, Mr. Himanshu Kanakia is a civil engineer and looks after the day-to-day management. Moreover, Mrs. Hiral Kanakia looks after the overall HR & administrative functions of the company. Moreover, for supporting the change in the business model, the promoters have been continuously supporting the company by providing significant funding support in form of subscription & conversion of warrants issued by the company. In September 2021, the company issued 14,68,532 warrants at an issue price of Rs.71.50 per warrant, convertible into an equivalent number of equity shares of Rs. 5 Face Value each. In



Press Release

May 2022, the company converted these warrants into equivalent number of equity shares, taking the total inflow from the issue & conversion to Rs.10.50 crore. In July 2022, the company issued 27,00,000 warrants at an issue price of Rs.130 per warrant, convertible into an equivalent number of equity shares of Rs.5 Face Value each. These warrants shall be convertible into equivalent number of equity shares within 18 months from the date of the issue, taking the total inflow from the issue & conversion of this issue to Rs.35.10 crore.

Assets monetization & loan prepayment plans & developments in place

In view of the changing business model and to free up cash for the new business model, during Q2FY23 the company has fully divested its non-core assets namely, Eternity Mall, Nagpur sold at a total valuation of Rs. 60 crores and 2 commercial properties in Mumbai at a total valuation of Rs. 21 crores. The total amount received of Rs. 81 crores have been primarily used towards prepayment of its long-term debt by ~Rs. 64 crores. The balance amount is being used towards acquisition of new screens on lease and increase the leased screen capacities. The company plans to hive off the hotel in Goa, viz. Hyatt Centric operating under R&H Spaces Private Limited, a subsidiary company of Cineline India Limited. The company has announced plans to monetize the hotel and is in talks with various prospective buyers. The Company expects to realise an amount of Rs. 350 crores out of the sale proceeds from Hyatt Centric Hotel, Goa. In case of non-realization of the hive off plan, the Company believes that the hotel will generate healthy business and EBITDA going forward.

Entering long-term lease arrangements for new screen additions

The Company has announced tie-up of 105 screens till date including 20 of its own screens. As on date there are 35 operational screens, including 15 on lease basis. The other screens are under various stages of development. With MovieMax, the company's strategy is to focus on an asset light expansion with plug & play screens. Under this business model, the company shall incur small capex since it will lease out screens which were operated by other multiplex / cinema chains or where the property owners incur a share of the fit-out cost. However, as per the new arrangement the Company will now take on lease those theatres which are ready to use like plug and play business model thereby, reducing the capex.



Press Release

Change in business model

From 2012 to March 2022, CIL generated a major part of its revenues from PVR being the only lessee of its leased cinema halls, wherein the erstwhile 23 screens were then leased out to PVR. However, w.e.f. April 2022, the company marked its re-entry into the film exhibition business upon expiry of the lease agreements with PVR and developing its own brand – Moviemax. Hence, since April 2022, Moviemax is operating as a full-fledged multiplex chain and is in process to add more screens on a lease basis to expand its footsteps in the film exhibition business. The business model is de-risked to the extent that majority of the cost is variable in nature as the expenses are linked to the revenues derived from sale of tickets and F&B revenues. The expenses are mostly variable in nature and major expenses such as Distributor costs and electricity cost is variable thus resulting in stable EBITDA margins. Moreover, the company has 20 owned screens thus reducing the lease rentals expenses to that extent. Also, the business model is such that the expenses is linked to the revenues booked from tickets & F&B and given the variable nature of the expenses the company derives a stable operating profit.

Key Rating Weaknesses:

project execution risk associated with expansion project for addition of new Screens-

CIL is undertaking an expansion project for addition of new screens by obtaining cinema halls on a lease basis to expand its footsteps in the film exhibition business. The Company has tied up 105 screens with 35 screens operational currently. The Company is exposed to execution risk with respect to operationalizing the remaining screens. However, this could be mitigated by the promoters' experience in real estate and entertainment business, along with the strategy to go capex-light / plug & play model.

Exposure to stiff competition from other renowned & established players in the film exhibition business

CIL is exposed to stiff competition from other renowned & established players in the film exhibition business. Moviemax, as a new brand, needs to create its awareness and familiarity to the common masses, which will essentially be driven by the screen additions. Hence, as a part of its marketing strategy, the company is adopting a light marketing model, wherein most of the cinema halls shall be located in the malls, thereby delivering higher footfalls. Moreover,



Press Release

the company shall resort to low-cost marketing model viz. promoting the brand on social media, offering discounts & other offers on the tickets, offering low ticket prices as compared to other renowned & established players, etc.

Vulnerability to cyclicity in the business operations in the events of economic slowdowns and various government regulations

The outbreak of Corona virus had significantly impacted industries across India, with music and entertainment industry being no exception. With the implementation of lockdowns across the states as a way of containing spread of virus, public gatherings had been prohibited and theatres, cinema, music shows, and concerts had been cancelled indefinitely. The Bollywood industry was hit almost immediately as movie theatres across the country was closed and major releases were delayed. Even after the lockdowns were lifted, the call for social distancing became a norm and it had a great impact on the Entertainment industry.

Decline in business performance over FY21 and FY22 owing to pandemic

The total operating income of the Company showed a decline from Rs.26.30 crores in FY20 to Rs.17.86 crores in FY21 and further down to Rs.12.34 crores in FY22 due to the restrictions across the country because of the Covid pandemic induced lockdowns on cinema theatres. The EBITDA margin of CIL has reduced from 60.96% in FY21 to 26.28% FY22 owing to the decline in the total operating income over the same period. Given this, the company posted a net loss of Rs.7.38 crore in FY22 as against a positive PAT in earlier years. The capital structure of CIL stood moderately leveraged with an overall gearing of 1.36 times as on March 31, 2022, as against 1.43 times as on March 31, 2021. The Covid-induced lockdown also weakened the total debt/GCA in FY22 and FY21. However, with the change in the business model and envisaged asset light expansion plan the overall performance is expected to improve in FY23 & beyond.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Service Sector Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)



Press Release

Liquidity - Adequate

The liquidity position of CIL is expected to remain adequate marked by expected healthy gross cash accruals vis-à-vis debt repayment obligations, assets monetization developments, and healthy free cash & bank balance and liquid investments. Furthermore, the free cash & bank balance and liquid investments stood improved as on September 30, 2022 while comparing with March 31st, 2022.

About the Company

Incorporated in 1997 by Mr. Rasesh Kanakia and Mr. Himanshu Kanakia, Cineline India Limited (CIL) is a part of the larger & renowned Kanakia Group which has interests into various activities viz. residential & corporate real estate development & construction in various parts of Mumbai, hospitality, education, entertainment, etc. The group marked its foray into the film exhibition business in 2002 through CIL owning & operating one of the reputed multiplex chains – Cinemax. However, in 2012, the company sold its Cinemax brand as well as operations to PVR Limited (PVR) and changed its business model from film exhibition to owning & leasing of cinema halls to PVR for the latter to run its film exhibition business. Hence, from 2012 till March 2022, the company generated a major part of its revenues from PVR. However, w.e.f. April 1, 2022, the company marked its re-entry into the film exhibition business by terminating the lease agreements with PVR and developing its own brand – Moviemax. Hence, since April 2022, Moviemax is operating as a full-fledged multiplex chain.

Financials (Standalone)

	(INR Crore)	
For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	17.86	12.34
EBITDA	10.89	3.24
PAT	7.92	-7.38
Total Debt	185.95	190.78
Tangible Net Worth	129.93	140.19
<u>Ratios</u>		
EBITDA Margin (%)	60.96	26.28



Press Release

PAT Margin (%)	18.15	-29.77
Overall Gearing Ratio (x)	1.43	1.36

* Classification as per Infomerics' standards

Status of Non-cooperation with previous CRA:

Brickworks Ratings has classified the company rating into 'Issuer Not Cooperating' category vide its press release dated December 8, 2021.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Proposed Term Loan	Long Term	115.51	IVR BBB- / Stable	-	-	-
2.	Long Term ECLGS	Long Term	17.05	IVR BBB- / Stable	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent,



Press Release

robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Term Loan	-	-	-	115.51	IVR BBB- / Stable
Long Term ECLGS	-	-	-	17.05	IVR BBB- / Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Cineline-nov22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at <https://www.infomerics.com/>.