Press Release

Miraj Entertainment Limited

August 08, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/ Complex/ Highly complex)
Long Term Bank Facilities	62.36	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	**62.36 (Rupees Sixty-two Crores and thirty-six lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Miraj Entertainment Limited derive strengths from experienced promoter group & established brand name and improvement in business performance. However, the rating is constrained due to leveraged capital structure and weak debt coverage indicators, exposure to stiff competition and risks inherent in the film exhibition business and vulnerability to cyclicality in the business operations in the events of economic slowdowns and various government regulations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in revenues & profitability with higher-than-expected screen additions leading to an overall improvement in the operational performance
- Significant improvement in the overall financial risk profile and the overall liquidity position

Downward Factors

- Any underachievement in revenues & profitability leading to an overall deterioration in the operational performance.
- Any significant debt-funded CAPEX.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter group & established brand name

Miraj Entertainment Ltd is a part of Miraj Group which is promoted by Mr. Madanlal Paliwal. The Miraj Group came into existence in 1987. Mr. Madanlal Paliwal has diversified experience in various industries as the business has diversified verticals like Tobacco, Cinema Exhibition, Cinema Production & Distribution, Printing & Packaging, FMCG, manufacturing of Pipes & Fittings, Hospitality, Real Estate, retails, Digital etc. Miraj Entertainment Ltd commenced cinema exhibition business in the year 2012 under the brand name “MIRAJ CINEMAS”. Promoters have support company’s operations as well as its capex requirement from time to time by infusing funds thereby demonstrating its resourcefulness of promoters.

Miraj Cinemas has made their identity in 15 different states and across 44 cities of India, at present Miraj cinema serves more than 13 million patrons annually under the leadership of Mr. Amit Sharma who is the Managing Director of the company with an experience of two decades. The company is also supported by a group of qualified professionals. With the support of such extensive domain experience coupled with a professional management team, enhances the competitive position of the company in the industry.

Improvement in business performance

Miraj had reported operating losses of Rs. 36.69 Cr. during FY21 as compared with operating profit of Rs. 32.11 Cr. during FY20 on account of significant decline in the TOI coupled with large fixed costs which are inherent to the movie exhibition business. The operations were further impacted during Q1FY22 due to 2nd wave of Covid-19 pandemic. Operations partially stabilized during Q2FY22 and Q3FY22 with moderate increase in the footfall and increase in occupancy level as compared with FY21 level. However, occupancy level remained impacted by capacity restriction as announced by various state governments.

The company posted ~154% recovery in revenue during FY23 (Provisional) as compared to FY22, with TOI increasing to Rs. 303.21 Cr. as against Rs. 119.15 Cr. in FY22 on account of recovery in the cinema industry with removal of restrictions and increased occupancy. Miraj posted operating profit post Covid-19 impact and the EBITDA stood at Rs. 4.98 Cr. in FY23 Prov. as against operating losses of Rs. 6.18 Cr. in FY22. Consequently, the margins improved during FY23 to 1.64% as against -5.18% on account of improved business. However, the company incurred PAT losses due to high finance cost and depreciation. Thus, the PAT loss for FY23 Prov. stood at Rs. -29.68 Cr. as against Rs. -27.17 Cr in FY22.

Operating parameters such as average ticket price (ATP) and spend per head (SPH) on food and beverages for the company rose to Rs 188 and Rs 66, respectively during FY23 from Rs 146 and Rs 44, respectively, for the corresponding period of FY20 i.e., pre-pandemic period. The revenue stream was also constrained by weak content performance and fewer film releases during the pandemic period and post relaxation of restrictions.

Key Rating Weaknesses

Leveraged capital structure and weak debt coverage indicators

The capital structure of the company remained leveraged with adjusted long term debt equity ratio of 3.11x and adjusted overall gearing ratio of 3.43x as on March 31, 2023, Prov. However, long term debt equity ratio and the overall gearing ratio estimated to improve in the projected tenure mainly driven by lowering the debt level along with accretion of profit to net worth. However, the Total debt to GCA remains negative due to its negative cash accruals and leveraged capital structure. Also, the TOL/ adj. TNW stood elevated at 7.46x and DSCR stood below unity at 0.53x in FY23 Prov. Though going forward Total debt/GCA, interest coverage & other debt protection metrics are expected to remain comfortable driven by scheduled repayment of term loans and accretion of profit to reserves.

Exposure to stiff competition and risks inherent in the film exhibition business

The company is exposed to stiff competition from other renowned & established players in the film exhibition business. The company's ability to provide a similar theatre experience as available at established brands like PVR INOX or Cinepolis or other established brands, and at competitive ticket prices shall remain critical. In order to remain familiar among the populace the company will be required to maintain the screen additions. Fluctuations in profitability are inherent in the film exhibition business and will continue to affect operations, though the impact should be cushioned marginally by the large scale of operations and diversified revenue streams. The revenue streams are majorly dependent on occupancy rate which is driven by the success of movies. Other forms of entertainment and new content distribution platforms expose the company to challenges of sustaining profitability and growth.

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

The film exhibition business is vulnerable to cyclicality, wherein the per head spends on the entertainment highly depends upon the economic stability of the country. Hence, any economic slowdowns arising out of any uncertain events like the Covid-19 pandemic situation in the recent past, may have a direct impact on the footfalls. Moreover, as a cascading effect leading to intervention of the government, the restrictions imposed by the government regarding 50% occupancy in the cinema halls post the second wave of Covid-19 had only added to the financial stress underwent by the film exhibition players, which were shut down for a very long period of time since the first wave of Covid-19. Any such uncertainty arising in the country or any such government intervention in the future may have a direct bearing on the overall operational performance of the company, thereby affecting the profitability and the overall financial risk profile.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Rating Methodology for Service sector Companies]

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

[Criteria of Rating Outlook | Infomerics Ratings]

Liquidity – Stretched

In view of improvement in the revenue from operations and profitability, the company's cash flow from operations is estimated to improve in projected tenure. The overall average working capital utilization stood at a moderate level of around 59% and Maximum monthly Utilisation at 90% during the last twelve months ended June-2023. However, the current ratio and quick ratio remained low at 0.47x and 0.41x in FY23 Prov. Also, the GCA for FY23 Prov. stood negative at Rs. 5.25 Cr. Thus, the factors result in stretched liquidity for the company.

About the Company:

The Miraj Group came into existence in 1987 and started by Mr. Madanlal Paliwal. The business has diversified verticals like Tobacco, Cinema Exhibition, Cinema Production & Distribution, Printing & Packaging, FMCG, manufacturing of Pipes & Fittings, Hospitality, Real Estate, retails, Digital etc. All the verticals have been managed by separate professional who has experience and knowledge in the particulars business.

Cinema exhibition business was started in the year 2012 under the brand name "MIRAJ CINEMAS" and its Managing Director is Mr. Amit Sharma

Miraj Cinemas made their identity in 15 different states and across 44 cities of India, at present Miraj cinema serves more than 13 million patrons annually.

All the cinemas are operated under "Miraj Entertainment Ltd." except one i.e., City Pulse – Ahmedabad with 7 screens which operates under "Anoli Holdings Pvt. Ltd."

Financials (Standalone):

(Amount in Rs. Cr.)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Provisional)
Total Operating Income	119.15	303.21
EBITDA	-6.18	4.98
PAT	-27.17	-29.68#
Total Debt	40.48	94.00
Adj. Tangible Net worth	56.86	27.44
EBITDA Margin (%)	-5.18	1.64
PAT Margin (%)	-22.69	-9.75
Overall Gearing Ratio (times) (adjusted)	0.71	3.43

Classification as per Infomerics standards

#excludes deferred tax

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term loan	Long-term	24.00	IVR BBB-/ Stable Outlook	-	-	-
2.	Term loan	Long-term	30.00	IVR BBB-/ Stable Outlook	-	-	-
3.	Term loan	Long-term	2.36	IVR BBB-/ Stable Outlook	-	-	-
4.	Cash Credit	Long-term	6.00	IVR BBB-/ Stable Outlook	-	-	-

Press Release

Name and Contact Details of the Rating Analyst:

Name: Mr. Prakash Kabra
Tel: (022) 62396023
Email: prakash.kabra@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term loan	-	-	June 2030	24.00	IVR BBB-/ Stable Outlook
Term loan	-	-	February 2031	30.00	IVR BBB-/ Stable Outlook
Term loan	-	-	May 2027	2.36	IVR BBB-/ Stable Outlook
Cash Credit	-	-	--	6.00	IVR BBB-/ Stable Outlook

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Miraj-aug23.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 www.infomerics.com