



## RATING RATIONALE

16 July 2020

### CINELINE INDIA LIMITED

Brickwork Ratings reaffirms the ratings of BWR BBB+ with revision in outlook from Stable to Negative for the existing long term facilities of ₹ 171.60 Crores of Cinline India Limited (CIL or “the Company”).

#### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (March, 2020)	Present
Fund Based	171.60	171.60	Long Term	BWR BBB+/Stable (Pronounced as BWR Triple B plus) [Assigned on Standalone basis]	BWR BBB+/Negative (Pronounced as BWR Triple B plus) [Reaffirmed with revision in outlook]
<b>Total</b>	<b>171.60</b>	<b>171.60</b>	<b>INR One hundred and Seventy One crores and Sixty lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities are provided in Annexure-I.

**Rating: Reaffirmed with revision in outlook.**



## **RATING ACTION / OUTLOOK**

The outlook stands revised to Negative on back of the closure of cinema halls and malls due to the nation-wide lockdown resulting from the outbreak of COVID-19 pandemic. Further, even post resumption of operations, the occupancy levels & footfalls in cinema halls & malls respectively is expected to remain limited on account of social distancing measures. The cash flow of the Company is dependent on the payment of rent from tenants which are presently not being made due to lockdown. Hence, the overall revenue and cash accruals of the Company are expected to remain under pressure due to the impact of COVID-19.

Further, the liquidity profile of CIL is stretched due to the uncertainties of receiving lease rentals with the cinema theatres and malls being closed. However, the same is mitigated to the extent of security deposits including six months rent from the tenants available with CIL to meet its debt obligations. Further, moratorium availed on bank debt obligations for the period from March, 2020 to August 2020, as part of the COVID-19 regulatory package announced by the Reserve Bank of India (RBI) along with the financial flexibility of the promoters provides additional comfort. The Company also has the buffer of interest income, on funds lent to related parties.

The rating continues to take comfort from a strong promoter group with extensive experience in the real estate and hospitality sector; favourable location of the property resulting in steady revenue visibility and reputed tenant profile along with presence of escrow mechanism.

### **Outlook:**

The outlook has been revised to “Negative” on back of the expected deterioration in the revenue resulting from continued closure of the rented spaces of the Company and the compulsions arising out of the pandemic, which may result in the lessees not generating sufficient income to sustain the rent payments. This is also expected to adversely impact the liquidity profile of the Company.

## **KEY RATING DRIVERS**

### **Credit Strengths:**

- **Strong promoter group with extensive experience in the real estate and hospitality sector**



CIL is part of the Kanakia group which was established in the year 1986 and is a renowned real estate player in the Mumbai region. The group is promoted by Mr. Rashesh Kanakia and Mr. Himanshu Kanakia. Kanakia Space Realty Private Limited is the flagship company of the group and the group has delivered over 13 million square feet (Sq. ft.) of commercial, residential, entertainment and education space till date. The group also operates in other sectors including hospitality, entertainment and education.

- **Favourable Location of the property resulting in steady revenue visibility and reputed tenant profile**

The Company benefits from the favourable locations of its commercial properties including Cinemax Multiplexes, Commercial building and retail space. These properties are located in prime areas of Mumbai and Nagpur with good connectivity to residential areas leading to high footfalls. Further, the Company also benefits from the reputed tenant profile, with majority of the revenue being derived from PVR Limited, which reduces the counterparty risk. Also, the tenure of the lease contract ranges between five to ten years with price escalation clause and low renewal risk due to the favourable location of the properties.

- **Presence of the escrow mechanism:**

The Company maintains escrow account with the lender as per the terms of sanctions, wherein all the lease rentals are directly deposited into the escrow account and utilised first to the debt servicing and then towards the operating expenses. Hence, the presence of the escrow mechanism ensures timely servicing of the debt. Also, the Company receives regular interest income from the loans given to related parties which is expected to further support the liquidity profile of the Company.

#### **Credit Risks:**

- **Disruption in business operation due to COVID-19:**

The closure of cinema halls and malls has been due to the nation-wide lockdown resulting from the outbreak of COVID-19 pandemic. Further, even post resumption of



operations, the occupancy levels & footfalls in cinema halls & malls respectively are expected to remain limited on account of social distancing measures. This is expected to adversely affect the overall revenue and profitability of the Company's tenants which is expected to result in delayed payment or low rent remittances for CIL. However, the security deposits available with CIL may help to cushion the liquidity profile of CIL to a certain extent. Going forward, the timely recovery of pending receivables and future rentals under the current economic scenario will be critical.

- **Tenant concentration risk:**

The top tenant of the Company covers around 71 percent of the total leasable area and contributes around 60 percent of the total rental income leading to moderate tenant concentration risks. The operations of the Company can be adversely affected in case the top tenant vacates the properties. However, in view of the nature of business of this tenant, and the long lease term, the probability of vacation by the tenant appears remote.

- **Susceptibility of the revenue to cyclicality in the real estate industry, economic cycles and external factors.**

The income from the Mall at Nagpur is susceptible to the possible migration of tenants, depending on the economic factors.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the standalone audited financials up to FY20, publicly available information and clarification/information provided by the Company.

## **RATING SENSITIVITIES**

### **Positive:**

The outlook will be revised to Stable if the Company reports:

- Resumption of the tenants' operations resulting in timely receipt of pending receivables and future rentals.



- Significant reduction in the external debt of the Company.

#### **Negative:**

The rating will be downgraded if the:

- Closure of the cinema halls and malls continue for a prolonged period
- Lower than expected remittances of rent by the tenants resulting in deterioration of debt coverage indicators
- Increase in loans given to related parties or increase in the total debt to equity of the Company.

#### **LIQUIDITY POSITION: STRETCHED**

The liquidity profile of CIL is stretched due to the uncertainties of receiving lease rentals with the cinema theatres and malls being closed. However, the same is mitigated to the extent of security deposits including six months rent from the tenants available with CIL. Further, moratorium availed on bank debt obligations for the period from March, 2020 to August 2020, as part of the COVID-19 regulatory package announced by the Reserve Bank of India (RBI) along with the financial flexibility of the promoters provides additional comfort. The Company also has the buffer of interest income, on funds lent to related parties.

#### **Company PROFILE**

Cineline India Limited (CIL) [Erstwhile Cineline Entertainment (India) Private Limited, incorporated in 2002, is primarily engaged in the business of building, owning and operating multiplexes, theaters and entertainment centers. Over the years, the CIL has moved from the ownership model to lease rentals, with commercial premises located in Boomerang, Mumbai, units in Nagpur's Eternity Mall apart from the nine theatres leased out to PVR Cinemas. CIL is part of the Kanakia group having presence in real estate, education and hospitality verticals. The Company's major source of income is the rentals received from the commercial spaces across three verticals viz. entertainment, commercial and retail. Lease received from theaters leased to PVR cinemas forms a substantial part of the total lease received. CIL also owns two windmills at Viswada (Gujarat) and Revangaon (Maharashtra) with power generation capacity of 0.60 MWA and 1.60 MWA respectively. The power generated is sold to the State Government and forms part of the revenue reported by the Company. The Company has a fully owned subsidiary Transquare Realty Private Limited, which is currently non-operational.



**KEY FINANCIAL INDICATORS (in ₹ Cr)[Standalone]**

<b>Key Parameters</b>	<b>Units</b>	<b>FY2019</b>	<b>FY2020</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	Rs. Crs	24.23	25.66
EBITDA	Rs. Crs	16.07	16.85
PAT	Rs. Crs	9.86	7.64
Tangible Net worth	Rs. Crs	114.35	121.99
Total Debt / Tangible Net worth	Times	1.38	1.40
DSCR	Times	1.60	1.55

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

The terms of sanction include standard covenants normally stipulated for such facilities.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]**

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	16 March 2020	2019	28,Dec,2018
Fund Based	Long Term	171.60	BWR BBB+/ Negative (Reaffirmed with revision .in outlook)	BWR BBB+/Stable (Assigned on Standalone basis)	-	BWR A-(SO)/ Stable (Reaffirmed)
<b>Total</b>		<b>171.60</b>	<b>INR One Hundred and Seventy one crores and Sixty lakhs Only</b>			

Note: The previous rating suffix of “SO” represented the credit enhancement derived from escrow mechanism for cash flows from the leased out properties and windmills. However based on the revisions in instructions in September, 2019 this rating is not eligible for credit enhancement. Hence, the rating is assigned on a standalone level.

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Approach to financial ratio**
- **Service sector**

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**Cineline India Limited**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Aditya Birla Finance Limited	Term Loan	171.60	-	171.60
<b>TOTAL</b>					<b>171.60</b>

**Total Rupees One Hundred and Seventy One Crores and Sixty Lakhs only.**





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