

## RATING REPORT

### Cine Star (SMC-Private) Limited

**REPORT DATE:**

April 18, 2020

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	BBB+	A-2	A-	A-2
<b>Rating Outlook</b>	Rating Watch-Negative		Stable	
<b>Rating Date</b>	April 18, 2020		December 31, 2019	

**COMPANY INFORMATION**

**Incorporated in** 2008

**External auditors:** Baker Tilly Mehmood Idrees Qamar  
Chartered Accountants

**Chairman of the Board:** Faraz Ahmad Chaudhry

**Key Shareholders (with stake 5% or more):**

Faraz Ahmad Chaudhry – 100%

**APPLICABLE METHODOLOGY(IES)**

Applicable Rating Criteria: *Industrial Corporates (May, 2019)*

<http://www.vis.com.pk/kc-meth.aspx>

**Cine Star (SMC-Private) Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>Cine Star (SMC-Private) Limited is incorporated as a single member private limited company with all its shareholding vested by one individual. Total number of employees was reported at 302 at end-June 2019.</i></p> <p><b>Profile of Chairman</b>  <i>Mr. Faraz Ahmad Chaudhry serves as Chairman of Cinestar (SMC-PVT) Ltd. He has completed his Bachelors in Business Administration. He was the former nazim of Gulberg area in Lahore.</i></p> <p><b>Profile of Chief Operating Officer</b>  <i>Mr. Ali Chaudhry serves as Chief Operating Officer of Cinestar (SMC-PVT) Ltd. He is a law graduate and manages all operational matters of this company. Mr. Ali Chaudhry has been associated with the company for the last 8 years.</i></p>	<p>Cine Star (SMC-Private) Limited (Cine Star) operates in the movie exhibitor (theatre) industry and is owned by Mr. Faraz Chaudhry. Cine Star has acquired exclusive rights for launching and operating IMAX theatres across Pakistan from IMAX Corporation, Canada (IMAXC). To date, Cine Star operates through seven locations and has a total of 11 screens in the city of Lahore, one of which is an IMAX screen. Cine Star has also diversified its presence in Multan and plans to launch screens in Faisalabad and Gujranwala. Moreover, IMAX screens are planned to be launched in Karachi and Islamabad.</p> <p>Despite the cinema industry being characterized by its moderate cyclicity and competitive risk, revenue base of the company grew at an average rate of 32.9% during the past two years primarily on the back of additional screens coming online. With the advent of corona virus pandemic along with the continued lockdown as well as the increasingly challenging economic environment, the demand outlook for the cinema industry is considered weak. It is also expected that permission to re-commence business for the entertainment industry may be severely lagged.</p> <p>Assessment of financial profile incorporates elevated leverage indicators and modest debt servicing cushion. After healthy revenue growth in FY18, revenue growth slowed down in FY19. Given that revenue growth is expected to remain constrained in FY20, sustaining profitability indicators is considered important. Sizeable debt repayments over the rating horizon are expected to result in modest cushion in debt servicing ability while free cash flows are expected to remain limited. With higher debt levels mobilized, leverage and gearing indicators were reported on the higher side. Change in ratings incorporate delay in commitment of the sponsor to inject equity to the tune of Rs. 1b to strengthen risk profile of the institution.</p>

**Cine Star (SMC-Private) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>		
<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>FY17</b>	<b>FY18</b>
Paid Up Capital	50.0	50.0
Total Equity	766.0	953.1
<b><u>INCOME STATEMENT</u></b>		
Revenues	580.7	946.0
Profit before Taxation	175.5	176.2
Profit After Taxation	176.8	187.2
<b><u>RATIO ANALYSIS</u></b>		
Fund Flow from Operations	284.3	601.1
Current Ratio (x)	1.23	1.73
Gearing (x)	2.75	2.22

**ISSUE/ISSUER RATING SCALE & DEFINITION**

**Appendix II**

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and / or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(S0) Rating:** A suffix (S0) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and / or credit support from a third party to the transaction. The suffix (S0), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III				
<b>Name of Rated Entity</b>	Cine Star (SMC-Private) Limited					
<b>Sector</b>	Media/Entertainment Industry					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	18-Apr-20	BBB+	A-2	RW-Negative	Downgrade	
	31-Dec-19	A-	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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<b>Due Diligence Meetings Conducted</b>	None					