

## Press Release

**G R K THEATRES PRIVATE LIMITED**

**D-U-N-S® Number: 87-726-2529**

January 08, 2020



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 66.00 Cr.
<b>Long Term Rating</b>	ACUITE B- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 66.00 crore bank facilities of G R K THEATRES PRIVATE LIMITED. The outlook is '**Stable**'.

G R K Theatres is a Tamil Nadu based entity, incorporated in the year 1983. The company is operating in diversified business segment namely, theatre screening, auto dealership, commercial space rental business, restaurant business and manufacturing of packaged drinking and soft drinks. The company's operations are mainly in and around Cuddalore, Tamil Nadu. The company receives around 50 percent of revenues from the auto dealership business, 25 percent from the screening of movies and remaining from other segments.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the G R K to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management and long track record of operations**

The managing director of the company is Mr. G R Durairaj, who has vast experience in the film and entertainment industry and automobile industry. He is instrumental in expanding his business to various segments mainly into automobile dealership, infrastructure, FMCG among others. He is ably supported by an experienced team to look after day to day operations. The company is an authorized dealer for Tata Motors passenger vehicles since 2012 and is operating in 5 locations in Tamil Nadu. Further, GRK is operating 23 theatres in South Arcot district, Tamil Nadu. Apart from this, the company generates revenue from rental, restaurant and sale of packaged drinking water and soft drinks. Acuité believes that the company will benefit from the experience of the management and long track record of operations.

#### Weaknesses

- **Weak Financial risk profile**

Financial risk profile of the company is weak marked by negative net worth, high leverage, weak debt protection metrics. Net worth was eroded to Rs.-0.57 crore as on 31 March, 2019 as against Rs.5.90 crore as on 31 March, 2018 due to losses at net level of Rs.6.65 crore in FY2019. On Account of tepid market conditions in Automobile industry and high reliance on working capital funds led to losses during FY2019. The same resulted in weak interest coverage ratio and debt service coverage ratio of 0.14 times and 0.11 times in FY2019. On account of negative net worth, gearing (Debt to equity) and total outside liabilities to total net worth (TOL/TNW) stood negative at 116.64 times and 125.95 times respectively in FY2019. The company has plans to infuse capital of Rs.9 crore by the end of March, 2020. With the tepid market conditions in the automobile industry during FY2020, financial risk profile is expected to be weak over the medium term

- **Working capital intensive operations**

The company's operations are working capital intensive marked by high gross current asset (GCA) of 222 days for FY 2019 as compared 234 days for FY 2018. This is mainly on account of moderately high inventory cycle which stood at 92 days in FY2019 as against 110 days in FY2018. Debtor cycle stood moderate at 46 days in FY2019 as against 64 days in FY2018. Further, GCA days stood high on account advances to group entities and film advances. The same led to full utilisation of its bank lines for six months through November 2019. Acuité believes that the operations will continue to be working capital intensive owing to high inventory cycle and significant advances to related parties.

- **Decline in profitable margins and exposure to intense competition**

Operating margins of the company has declined from 10.09 percent in FY2018 to 1.11 percent in FY2018 due to tepid market conditions in the automobile industry as it is inherently vulnerable to the economic cycles. Apart from that, the company faces intense competition from other dealers of Tata Motors and other established players in this segment such as Hyundai, Maruti Suzuki, Ford and Honda among others operating in its vicinity.

### **Liquidity Position**

Liquidity of the company is poor marked by net losses, negative net worth and working capital intensive operations. The company reported net loss of Rs.-6.65 crore which led to deterioration of net worth to Rs.-0.57 crore as on 31 March, 2019 as against Rs5.90 crore. Operations are working capital intensive with GCA days of 222 days in FY2019. The company's cash balance stood at Rs.0.80 crore. Current ratio stood weak at 0.86 times in FY2019.

### **Rating Sensitivities**

Improvement in net worth through capital infusion in a timely manner. Improvement in revenues and profitability

### **Outlook: Stable**

Acuité believes that GRK will maintain stable outlook over the medium term from its experienced management and long track record of operation. The outlook maybe revised to 'Positive' in case the company registers higher than expected growth in revenues, profitability margins along with equity infusion to improve the capital structure. Conversely, the outlook maybe revised to 'Negative' in case the company fails to infuse capital or fails to achieve the projected revenues or in case of stretch in working capital cycle leading to deterioration in company financial risk profile and illiquidity.

### **About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	81.80	84.59
PAT	Rs. Cr.	-6.65	0.67
PAT Margin	(%)	-8.13	0.79
Total Debt/Tangible Net Worth	Times	-116.64	9.66
PBDIT/Interest	Times	0.14	1.45

### **Status of non-cooperation with previous CRA (if applicable)**

CRISIL, vide its press release dated Dec 17, 2019 had denoted the rating of G R K Theatres Private Limited as 'CRISIL BB / CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

### **Any other information**

None

### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>

- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Not Applicable

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4
Overdraft	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE B- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B- / Stable

#### Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 <a href="mailto:naveen.papisetty@acuite.in">naveen.papisetty@acuite.in</a>	

#### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss

of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.