

Press Release

G R K THEATRES PRIVATE LIMITED

D-U-N-S® Number: 87-726-2529



June 12, 2020

Rating Assigned

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

* Refer Annexure for details

Erratum: In the original PR dated 08 January 2020, the hyperlinks to the relevant rating criteria referred to an earlier version, which have now been updated in this version.

Rating Rationale

Acuité has assigned its 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. 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: Poor

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 as on 31 March 2019. Current ratio stood weak at 0.86 times as on 31 March 2019.

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	June 2018	Not Applicable	May 2028	10.00	ACUITE B- / Stable
Term loans	June 2018	Not Applicable	May 2022	10.00	ACUITE B- / Stable

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About Acuité Ratings & Research:

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