

Press Release

City Gold Entertainment Limited

March 27, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 40.00 crore bank facilities of City Gold Entertainment Limited (CGEL). The outlook is '**Stable**'.

Incorporated in 2000, City Gold Entertainment Limited is the flagship company of City Gold Group, promoted by Mr. Chimanlal Agrawal and Mr. Sanjay Agrawal. The company is engaged in the business of entertainment, movie exhibition and leasing of space. Presently, Mr. Sanjay Agarwal, Mr. Dhananjay Sanjay Agrawal, Mr. Chimanlal Shah, Mr. Anil Gupta and Mr. Kalpesh Patel are the directors of the company. CGEL is operating a total of four multiplexes in and around Ahmedabad in areas like Ashram Road, Motera, Bopal and Kadi with total of 14 screens having seating capacity of around 2,800 seats. The three screen multiplex at Kadi-Kalol, was recently acquired by the company expanding its arena to outside the city as well.

About the group

The group comprises of CGEL, Kailash Darshan Housing Development (Gujarat) Private Limited (KDPL) and City Gold Media Limited (CGML). KDPL operates a four screen multiplex namely 'City Gold' in a commercial complex located at Shyamal, Ahmedabad. The commercial complex is fully operational and entire area is leased out to four tenants. Apart from this, the company has two other leased out properties viz. a warehouse in Haryana and an industrial property at IMT Manesar. CGML had acquired Nutan Mill compound at Bapunagar through High Court auction and constructed a multiplex with 4 screens and seating capacity of 419 seats.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the CGEL to arrive at this rating.

Key Rating Drivers

Strengths

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

CGEL was incorporated in the year 2000 and is the flagship company of Ahmedabad based 'City Gold' group, promoted by Mr. Chimanlal Agrawal and Mr. Sanjay Agrawal. Mr. Chimanlal Agrawal has an experience of over four decades in construction, real estate development and leasing of space and Mr. Sanjay Agrawal has around two decades of experience in the aforementioned industries. CGEL has been engaged in the business of film exhibition and leasing of space for two decades through its property namely, "City Gold, Ashram Road" accommodating a five screen multiplex along with five other corporate tenants. Further, the company operates three other multiplexes located at Motera, Kadi and Bopal.

The group generates its revenue from film exhibition, real estate development and leasing of space and has developed more than 25 projects spread over 42 lakh square feet of commercial and residential space in Ahmedabad region. Further, the company also operates a total of 6 multiplexes under the brand name 'City Gold' across Ahmedabad region with 22 screens and seating capacity of over 3500.

CGEL has booked a revenue of Rs. 17.67 for the nine months ended December 2020. The extensive experience of the promoters along with its established track record of operations is reflected through the healthy occupancy of ~64 per cent throughout the year. Acuite believes that CGEL will continue to benefit from its established track record of operations and experienced management.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by moderate net worth, low gearing, above average

debt protection metrics and coverage indicators.

The net worth of the company is healthy at around Rs. 66.17 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy profitability.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels over the past three years of 0.44 times and 0.50 times as on March 31, 2017. The leverage levels have improved to around 0.30 times as on March 31, 2019. The total debt of Rs. 19.62 crore as on 31 March 2019 comprises of short-term borrowings. The company has taken a term loan of Rs. 40.00 crore, which is partly disbursed, in the current year to fund its capital expenditure (Expected Project Cost: Rs. 70.00 crore) in order to set up another commercial complex at Vastral, Ahmedabad. With gearing of 0.30 times as on March 31, 2019, CGEL has sufficient gearing headroom, to raise additional debt for its capex. The company's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.8.05 crores to Rs. 9.18 crores which are comfortable to service its repayment obligations while supporting incremental working capital requirements to an extent.

The revenues of the company remained stable at Rs. 22.30 crore during 2018-19, while its operating margins improved to 51.31 per cent in FY2019 as against 37.52 per cent in FY2018. The healthy profitability levels coupled with moderate debt levels has led to above average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.41 per cent and 7.93 times, respectively.

Acuite believes that the financial risk profile of the company is likely to be impacted, though remain healthy over the medium due to debt funded capex plan and healthy accretion to reserves.

Weaknesses

• Highly competitive and fragmented nature of industry

The real estate industry in India is highly fragmented with most of the real estate developers, having a city-specific or region-specific presence. The risks associated with real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others which could affect the operations. CGEL is exposed to intense competition in film exhibition industry which is fragmented in nature as at lower end there are single screen theaters while on top end there are chains such as PVR, Cinepolis, INOX and Carnival Cinemas, to name a few. Further, there arises a need of timely adoption of technology like facilities enabling 4D movies, etc. However, the reduction in GST rates on cinema tickets to 12% from 18%, for tickets priced below Rs. 100 and to 18% from 28% for tickets priced above Rs. 100 have resulted in increase in footfalls and occupancy level to an extent, thus increase in operating cash flows for multiplexes. The industry is also exposed to regulatory risk which is likely to impact revenue model of the players such as CGEL, thereby impacting its operating capabilities. Further, CGEL is exposed to lease renewal risk i.e. while renewing the lease agreements, any significant renegotiations by the lessees can adversely impact the cash flows.

Liquidity position: Adequate

The liquidity position of CGEL is adequate marked by adequate cash flows to its debt service obligations. CGEL's cash flow generation is dependent on good movie release content as well as seasonality inherent in the business. Given the cash receipt nature of the business, the working capital requirements remain limited thereby providing a comfortable liquidity position to the company. However, it requires short-term borrowings for managing temporary cash flow mismatches. CGEL has a drop-line-overdraft facility for its multiplexes with an average utilization of ~89 per cent for the past eleven months, thereby providing additional liquidity buffer. Moreover, debt levels are expected to increase over the medium term owing to the ongoing capital expenditure, while there are no repayment obligations on the same over the next two years. The company maintains unencumbered cash and bank balances of Rs.0.17 crore as on March 31, 2019. Unutilized bank lines are adequate to meet the incremental working capital needs over the next one year. Acuite believes that the liquidity of CGEL is likely remain adequate over near to medium term on account of healthy net cash flows.

Rating Sensitivities

- Decline in occupancy levels leading to cash flows mismatch
- Timely completion of debt-funded capital expenditure
- Ability to renew the lease agreement.

Material Covenants

- None

Outlook: Stable

Acuite believes that CGEL will maintain a 'Stable' outlook over the medium term on account of experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of the company generates healthy net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its collections leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity – Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	22.30	19.36
PAT	Rs. Cr.	5.96	13.31
PAT Margin	(%)	26.72	68.75
Total Debt/Tangible Net Worth	Times	0.30	0.21
PBDIT/Interest	Times	7.93	11.57

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.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 (Up to 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. Crore)	Ratings/Outlook
Term Loan	May 13, 2019	Not Applicable	December 31, 2028	40.00	ACUITE BBB-/ Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Charu Mahajan Analyst - Rating Operations Tel: 011-49731308 charu.mahajan@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite 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 Acuite 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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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) for the latest information on any instrument rated by Acuite.*