

## Press Release

### City Gold Entertainment Limited

September 02, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BB+   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as ACUITE double B plus) on the Rs. 40.00 crore bank facilities of City Gold Entertainment Limited (CGEL). The outlook is '**Stable**'.

#### Rationale for rating reaffirmation

The rating reaffirmation of CGEL takes into account adequate cash flows supported by improvement in revenue from multiplex segment post disruptions caused by spread of Covid 19. It also draws comfort from the experienced management with established track record of operations and healthy financial risk profile. Further, CGEL is constructing another property for which lease rentals are expected to start from January 2023 onwards. However, the project completion was delayed and is in the final stages of completion. The timely completion and commencement of lease rental will be a key for CGEL to generate cash flows commensurate with its repayment obligations. Any further delay in completion of project will impart a negative bias to the rating. The rating is constrained on account of lease renewal risk and customer concentration risk. Going forward timely renewal in lease agreements and maintenance in occupancy levels of multiplexes will continue to remain key rating sensitivity factors.

#### About the Company

CGEL incorporated in the year 2000 in Gujarat, 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.

#### 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 three other leased out properties viz. a warehouse in Haryana, an industrial property at IMT Manesar and a newly acquired property at Noida, Uttar Pradesh. CGML had acquired Nutan Mill compound at Bapunagar through High Court auction and constructed a multiplex with four screens and seating capacity of 419 seats.

## **Analytical Approach**

Acuité 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 over two decades through its property namely, "City Gold, Ashram Road" accommodating a five screen multiplex along with four 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.

Acuité believes that CGEL will continue to benefit from its established track record of operations and experienced management.

#### **Healthy financial risk profile**

Financial risk profile of CGEL is healthy marked by healthy networth, moderate gearing and healthy debt protection metrics. The networth of the company has improved to Rs.74 Cr as on 31 March, 2022 (Provisional) as against Rs.70 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) has marginally improved to 0.54 times as on 31 March, 2022 (Provisional) as against 0.57 times as on 31 March, 2021. The gearing of the company is however expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.40 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.33 Cr and short term working capital limit of Rs.7 Cr.

The interest coverage ratio and DSCR stood high at 5.99 times and 6.62 times for FY2022 (Provisional) as against 0.67 times and 0.95 times for FY2021. The Net Cash Accruals to Total debt stood at 0.13 times for FY2022 (Provisional). The Total outside liabilities to Tangible net worth has improved to 0.58 times for FY2022 (Provisional) as against 0.64 times for FY2021. Further, DSCR for the period FY2023 to FY2025 is expected to remain in the range of 1.32 times to 1.43 times.

Acuité believes that the financial risk profile of CGEL will remain healthy in near to medium term due to its improving operating performance, low debt levels vis-à-vis healthy tangible net worth and healthy debt protection metrics.

#### **Improvement in cash flow from the multiplex segment leading to adequacy of cashflow vis-à-vis repayment obligations**

For the year FY2022 (Provisional), CGEL has generated an overall cash inflow of Rs.11.38 Cr which majorly comprises of its improved multiplex income of Rs.6.44 Cr, lease rent & maintenance income of Rs.2.71 Cr, and other income of Rs.2.23 Cr against cash outflow of

Rs.9.97 Cr, which majorly comprises of debt repayment obligation of Rs.5.28 Cr towards the existing DLOD facility and other expenses of Rs.4.68 Cr. Income from the multiplex segment had declined significantly to Rs.0.09 Cr in FY2021 from Rs.18.18 Cr in FY2020. This has recovered to some extent in FY2022 and has further recovered in Q1 FY2023. It stood at Rs.6.44 Cr in FY2022 (Provisional) and Rs.5.38 Cr in Q1 FY2023.

Going forward cash inflow of the company are expected to be in the range of Rs.26 Cr – Rs.30 for the period of FY2023 – FY2025 against the cash outflow in the range of Rs.20 Cr – Rs.21 Cr for the same period. With this, the overall DSCR of the company for FY2022 – FY2024 is expected to remain in the range of 1.32 – 1.43 times. Cash inflows are expected to remain adequate backed by stable income to be generated from the multiplex segment since all the multiplexes are now operating at full capacities post relaxation in covid induced restrictions.

Acuité believes that ability of CGEL to maintain sustainable growth in revenue from the multiplex segment and lease rental income over the medium term will remain key rating sensitivity factor.

## **Weaknesses**

### **Project execution risk**

CGEL is currently developing a new commercial complex at Vastral, Ahmedabad with a view to expand their leasing portfolio. The complex is proposed to have built up area of 4,15,447 sq. ft. consisting of 3 level basement, ground floor + 10 upper floors. The building is proposed to be entirely leased out to corporates as tenants involved in large format retail stores, automobiles, entertainment, IT and other service providers. The total cost of the project is Rs.70 Cr which is funded through promoters' contribution of Rs.30 Cr and term loan from the bank of Rs.40 Cr. The construction of the said project was started by the company in May 2019 and was expected to be completed by September 2021, however the project completion was delayed for one year period due to disruptions caused by spread of Covid-19 and hence it is further expected to be completed by September 2022. The project is however almost completed by the company now and only certain finishing work is currently going on. The building use permit is also expected to be received within 1-2 months post which the building will be occupied by the tenants.

The demand risk in the project is however mitigated as CGEL has already finalised its lease agreements for the new building with reputed companies like Westside, Reliance Smart, Reliance Trends, Reliance Footprint and Octant Pizza. The lease rentals from these tenants are expected to start from January 2023 onwards.

Acuité believes that timely completion of the project and commencement of lease rental will be a key for CGEL to generate cash flows commensurate with its repayment obligations.

### **Renewal risk and customer concentration risk**

Occurrence of events such as policy decision by key clients to shift their offices to other state or decisions regarding outsourcing, can impact their willingness to continue their lease agreement. However, this risk is mitigated to an extent, given the strategic location of CGEL's properties and its established relations with its tenants. In the event of non-renewal by existing lessee, the future cash flows will be impacted thereby translating to weakening of debt protection indicators. In the event of either of the companies deciding to move out or seeking a renegotiation, the rentals are likely to be impacted. Timely renewal/leasing at similar or better terms than the existing agreements will remain a key rating sensitivity factor.

### **Highly competitive and fragmented nature of industry**

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 lease renewal risk, i.e. while renewing the lease agreements, any significant renegotiations by the lessees can adversely impact the

cash flows. Further, KDPL is exposed to intense competition in film exhibition industry which is fragmented in nature as at lower end there are single screen theatres while on top end there are chains such as PVR, Cinapolis, INOX and Carnival Cinemas, to name a few. Further, there arises a need of timely adoption of technology like facilities enabling 4D movies, etc. 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.

### Rating Sensitivities

- Timely renewal of lease agreement
- Timely completion and commencement of lease rental of the ongoing project.
- Decline in occupancy levels of multiplexes leading to cash flows mismatch

### Material covenants

None

### Liquidity position - Adequate

During the year FY2022 (Provisional), CGEL generated healthy cash inflows of Rs.11.38 Cr against its debt repayment obligations of Rs.5.28 Cr. Company is further expected to generate healthy cash inflows in the range of Rs.26 Cr to Rs.30 Cr for FY2023 to FY2025 backed by its healthy receivables from the multiplex segment and lease rental income. Cash inflows of CGEL during the period FY2023 to FY2025 are adequate to meet the existing and future debt repayment obligations in the range of Rs.6 Cr to Rs.7 Cr during the same period thereby indicating adequate liquidity position.

Acuité expects CGEL to maintain adequate liquidity on account of adequate cushion available between cash out flows and cash inflows.

### Outlook: Stable

Acuité 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	9.54	2.43
PAT	Rs. Cr.	4.47	(1.76)
PAT Margin	(%)	46.90	(72.65)
Total Debt/Tangible Net Worth	Times	0.54	0.57
PBDIT/Interest	Times	5.99	0.67

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

**Note on complexity levels of the rated instrument**  
<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Jun 2021	Term Loan	Long Term	40.00	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
27 Mar 2020	Term Loan	Long Term	40.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	40.00	ACUITE BB+   Stable   Reaffirmed

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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