

Press Release

Suresh Productions Private Limited

December 06, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	70.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.70.00 Cr bank facilities of Suresh Productions Private Limited (SPPL). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned takes into account the well established presence in the film industry over 5 decades, experienced management, above-average financial risk profile. However, the rating is constrained by working capital intensive operations and inherent risk of performance of films.

About the Company

Suresh Productions Private Limited (SPPL) was set up in 1983 by Late .D. Ramanaidu to undertake film production, and owns three film studios two in Hyderabad(Telangana) and one in Visakhapatnam (Andhra Pradesh). SPPL is one of India's largest film production companies with over 50 years of contribution to national and regional cinema. The directors of the company are Mr. Vijayaraghavan Lakshmi, Mr. Sureshbabu Daggubati, Ms. Lakshmi Daggubati, Mr. Ramanaidu Daggubati and Mr. Abhirammohan Narayan Daggubati. The registered office of SPPL is in Hyderabad, Telangana

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Suresh Production Private Limited (SPPL) to arrive at the rating.

Key Rating Drivers

Strengths

Established Presence and Experienced Management:

Suresh Productions Private Limited (SPPL) was set up in 1983 by Late .D. Ramanaidu to undertake film production, and owns three film studios, two in Hyderabad (Telangana) and one in Visakhapatnam (Andhra Pradesh). SPPL is one of the largest film production companies with over fifty years of contribution to national and regional cinema. Late Mr. Daggubati Ramanaidu (1936 – 2015) was an Indian film producer and the founder of SPPL known for his work in Telugu cinema (Tollywood). He was placed in the Guinness Book of World Records for the most films produced by an individual, with more than 150 films in 13 Indian languages. Actor Daggubati Suresh Babu (elder son of Daggubati Ramanaidu) is the managing Director of SPPL. He is the key member of various committees formed by the government of Telangana and AP working towards the development of Tollywood film industry. Actor Daggubati Venkatesh (younger son of Daggubati Ramanaidu), is one of the top heroes in Tollywood for the last 3 decades and acted as lead hero in more than 70 movies. He won 5 Nandi Awards for Best Actor and 6 Filmfare Awards South in various categories. Actor Rana Daggubati (elder son of Daggubati Suresh Babu), is one of the known actors in Indian cinema. He rose to prominence as Bhallaladeva, the main antagonist in pan-Indian film/s Baahubali 1: The Beginning (2015) and Baahubali 2: The Conclusion (2017) which recorded the second highest and first highest gross opening for an Indian film. Till date he acted in close to 25 films in various languages. Acuité expects SPPL to benefit from its experienced management and established presence in the film industry over the medium to long term.

Diversified revenue streams

SPPL currently has 4 major revenue streams which includes productions (revenue from sale of rights of old and new films produced exclusive under its own banner, revenues from distribution of movies of Venkatesh/Rana etc which are produced by other production houses or done on a JV basis, revenues from renting out infrastructure and equipment and revenue from brand service agreements entered by Actor Venkatesh. SPPL's total revenues stood at ~Rs. 78.02 Cr in FY2022; around 0.38 percent was from Satellite rights, 66.2 percent from new films, 7.1 percent from youtube, 5.7 percent from in-house heroes and balance from others. SPPL earns revenues by selling distribution rights, satellite rights, digital rights, mobile rights, etc of movies exclusively under its own banner. The company also earns revenues by selling rights of its earlier produced movies, the revenues of which are booked in the form of royalty. SPPL also has produced movies in JV with other production houses under profit sharing basis. SPPL has incurred capex over the years to set-up a unit to meet all the infrastructural needs for producing a movies like colour laboratory, Digital Theatre System(DTS) sound recording, recording, preview and dubbing theatre, film production unit, outdoor unit etc. This infrastructure is lent out to other production houses to earn revenues. SPPL realizes income by entering into service agreements with companies who avail the services of Venkatesh for promotion. Some of the brands endorsed include Medplus, Manappuram Gold, Ram Raj Cotton, BikeWo amongst others. Acuité believes that diversity in revenue streams would help SPPL in balancing its revenue profile.

Availability of in-house actors like Venkatesh and Rana for continuous production of movies

Mr. Venkatesh, younger son of Late Mr. D. Rama Naidu is popularly known by screen name Victory Venkatesh, predominantly works in Telugu film industry and with an experience of 4 decades as a lead actor. Besides, Mr. Rana, elder son of Mr. Suresh Babu, is a pan India actor works across all film industries. SPPL realizes income by entering into service agreements with companies and production houses who avail the services of actor Venkatesh (He is the senior family actor of Suresh Productions, predominantly works as lead actor in movies) for promotion and acting. Some of the brands endorsed include Medplus, Manappuram Gold, Ram Raj Cotton, BikeWo etc. With the presence of in house actors, Acuite believes that SPPL will have the benefit of revenue from additional sources like advertisements.

Recovery in operations in FY22; captive film studios and availability of infrastructure across the value chain of films giving complete control on the cost and profitability

SPPL is one of the largest film production companies with over 50 years of contribution to national and regional cinema. The company undertakes film production, and owns 3 film studios 2 in Hyderabad(Telangana) and 1 in Visakhapatnam (Andhra Pradesh), these studios were created to cater to the increased needs for studio infrastructure. SPPL follows conservative approach towards film budget and focus on movies which cater to large section of people. Film industry was one of the majorly affected segment during the tough 2 years (from March 2020 to March 2022) due to Covid-19. As SPPL was also impacted by the pandemic, it was able to bounce back in FY22 due to inherent strength in the business model. The company generated revenue of Rs. 78.02 Cr in FY22.

Above Average Financial Risk profile:

SPPL's financial risk profile is above-average marked by moderate net worth, low gearing (debt-to equity), and moderate total outside liabilities to total net worth (TOL/TNW). SPPL's net worth is moderate at Rs. 65.60 Cr as on March 31, 2022 as compared to Rs.49.60 Cr as on March 31, 2021. Gearing is healthy at 0.77 times as on March 31, 2022. TOL/TNW is moderate at 1.91 times as on March 31, 2022 against 1.94 times as on March 31, 2021. Interest coverage ratio improved to 5.79 times as on March 31, 2022 from 0.77 times on March 31, 2021. Debt service coverage ratio(DSCR) stood at 4.17 times as on March 31, 2022. Acuite believes that financial risk position of SPPL's will improve over the medium term.

Weaknesses

Working Capital Management

The business of production and distribution of films requires huge working capital; with increase in scale of operations in movie production by the group, working capital to fund the operations like advance payments to movie producers for acquiring distribution or movie rights, and credit to movie producers for using the studio infrastructure have increased. Thus one can notice a sizeable portion of assets is deployed as advances and a large portion of assets is films under production. SPPL's working capital management is intensive marked by gross current asset (GCA) days of 343 as on March 31, 2022 against 1489 days as on March 31, 2021. Debtor days of the company stood at 53 days as on March 31, 2022 against 243 days on March 31, 2021. Creditor days stood at 259 days as on March 31, 2022. Current ratio of the company stood at 0.82 times as on March 31, 2022. Acuite believes that SPPL's working capital will remain stable over the years, as the company is into high intensive working capital business.

Risks incidental to the industry

The choice of acquisition of movie rights plays a crucial role in the industry. Once the rights are acquired it remains exclusive to the licensee for a period of more than 10 years from the date of production. Thus, the company would have to continuously acquire the right content to continue to grow in the long run and that stands crucial from credit perspective. The film industry otherwise, is also exposed to event-based risks like agitations against actors, producers, which can influence the release date and cash flows of the project. During the period under production, funds are invested in it which will be released only after realization of advances. Any unexpected delay in releases will have material effect on profitability and fund flow. The performance of the film is dependent on script, reception of the film by the audience. Acts of piracy can also impact the cash flows of the project.

Rating Sensitivities

- Ability to sustain its operating performance and profitability
- Timely completion and release of movies.

Material covenants

None

Liquidity : Adequate

SPPL's has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.17.76 Cr for FY22, with debt repayment obligations of Rs.0.63 Cr for the same period and the cash accruals of the company are estimated to remain in the range of around Rs.16Cr – Rs.14Cr over the medium term. The company's working capital operations are moderate, marked by GCA of 343 days for FY22. Unencumbered cash and bank balances stood at Rs.9.83 Cr as on March 31, 2022. The current ratio of the company stood at 0.82 times in FY22. Acuité believes that the liquidity position of the firm is likely to improve over the medium term.

Outlook: Stable

Acuité believes that SPPL will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt and working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	79.93	21.83
PAT	Rs. Cr.	16.00	(3.74)
PAT Margin	(%)	20.02	(17.11)
Total Debt/Tangible Net Worth	Times	0.93	0.87
PBDIT/Interest	Times	5.79	0.77

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general

understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

None

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.32	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.09	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.40	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.85	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.37	ACUITE BBB- Stable Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.97	ACUITE BBB- Stable Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Katta Akhil Analyst-Rating Operations Tel: 022-49294065 akhil.katta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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 Acuité.