



Press Release
Suresh Productions Private Limited
March 05, 2024
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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 reaffirmation:

The reaffirmation of rating considers Suresh Productions Private Limited (SPPL) well established presence in the film industry over 5 decades, experienced management, Moderate financial risk profile and strong movie portfolio as on January 2024 which provides medium term revenue visibility and translates to comfortable order book to total operation revenue of ~2.6x for FY23.

The rating further derives benefit from the improving scale of operations and moderate financial risk profile. Revenue of the company increased to Rs.135.74Cr. in FY23 from Rs. 86.69Cr. of FY22 while EBITDA margin declined to 15.51 percent in FY23 from 30.73 percent in FY22. However, the revenue is expected to moderate in the range of Rs.100-105Cr for the current year on account of delay in release of few movies. The capital structure remained comfortable with gearing of 0.89 times and total outside liabilities to tangible network of 1.52 times as on March 31, 2023.

The ratings are however constrained by intensive working capital operations due to huge working capital requirement which is inherent to the nature of business 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.

Unsupported Rating

Not Applicable

Acuité 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. Till date he acted in close to 26 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 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.136 Cr in FY23; around 16 percent was from Satellite rights, 48 percent from new films, 6 percent from youtube, 12 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.

Moderate financial risk profile:

Financial risk profile of the company is moderate marked by moderate net worth, capital structure and moderate debt protection metrics. Company's net worth stood at Rs. 73.67 Cr as on March 31, 2023 as compared to Rs. 64.71 Cr as on March 31, 2022. Improvement in net worth is on account of accretion for profits to reserves. SPPL's capital structure is moderate marked with gearing and total outside liabilities to total net worth (TOL/TNW) of 0.89 times and 1.52 times respectively as on March 31, 2023 as against 0.94 times and 2.11 times as on March 31, 2022. The coverage indicators were deteriorated to during FY23 with DSCR of 2.38 times as on March 31st 2023 as against 4.53 times as on March 31st 2022. Interest coverage stood at 2.89 times as on March 31st 2023 as against 5.79 times as on March 31st 2022. Debt to EBITDA has also deteriorated to 3.10 times during FY23 from 2.21 times during previous year. The deterioration is on account of declined absolute EBITDA.

Acuite believes that the financial risk profile of the company will remain stable for FY24 as well on account of moderate net worth position.

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 company, 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 GCA days of 331 as on March 31, 2023 against 597 days as on March 31, 2022. Debtor days of the company stood at 57 days as on March 31, 2023 against 53 days on March 31, 2021. Current ratio of the company stood at 1.40 times as on March 31, 2023 against 1.36 times of previous year. 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.

Liquidity Position: Adequate

SPPL's liquidity position is adequate which is evident from sufficient net cash accruals (NCA) to meet the debt repayment obligations. The company has reported Net Cash Accruals (NCA's) of Rs.10.64Cr on March 31, 2023 against debt repayment obligations of Rs.0.24Cr. The cash accruals are estimated to remain in the range of Rs.6-10.8Cr in the medium term against

expected moderate debt repayment range of Rs.1.80-1.25Cr for the same period.

The company has healthy unencumbered cash and bank balances of Rs.13.12Cr as on March 31, 2023 providing additional comfort towards liquidity. Adequate cash accruals and intensive working capital operations have led to moderate reliance on the fund based working capital limits which were utilized in the range of ~75 percent during the past 12 months ending December, 2023. Acuite believes that liquidity position of the company will remain adequate in the medium term on account of sufficient NCA.

Outlook: Stable

Acuite 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	135.74	86.69
PAT	Rs. Cr.	8.96	15.11
PAT Margin	(%)	6.60	17.44
Total Debt/Tangible Net Worth	Times	0.89	0.94
PBDIT/Interest	Times	2.89	5.79

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Dec 2022	Term Loan	Long Term	1.85	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.37	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.09	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.40	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.97	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Proposed Cash Credit	Long Term	3.32	ACUITE BBB- Stable (Assigned)

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 avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.32	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	22.00	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	1.09	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	21 Mar 2025	Simple	1.40	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Dec 2026	Simple	1.85	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Dec 2024	Simple	3.37	ACUITE BBB- Stable Reaffirmed
Central Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	02 Jan 2024	Simple	1.97	ACUITE BBB- Stable Reaffirmed
Central Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2031	Simple	10.00	ACUITE BBB- Stable Reaffirmed

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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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