

Explanatory Notes

Fourth Meeting of Stakeholder Consultation Committee of SRS Limited to be held on 25.08.2020 at 03:00 P.M. at RBSA Restructuring Advisors LLP, 2nd Floor, IAPL House, 23, South Patel Nagar, New Delhi – 110008 through video conferencing

Last stakeholder consultation committee meeting of SRS Limited (in Liquidation) was held on 29.07.2020 wherein the Liquidator apprised the committee present status of business of SRS Limited amid covid-19, status of attachment of assets of Company by Enforcement Directorate and Income Tax Department and sale of assets through e-auction under Liquidation. This meeting has been called to discuss on the latest update on hearings before NCLT and PMLA; e-auction notice issued for sale of cinema assets of Corporate Debtor and to discuss on the continuation of business in lieu of no cash flows in the Company.

Agenda Item No. 1

To discuss and take note of the present status of hearings pending before NCLT and PMLA court w.r.t. the attachment of assets of SRS Limited

▪ **Matter pending before NCLT:**

The Liquidator, in the last meetings apprised the members about the applications filed and pending before NCLT, Chandigarh Bench for vacating attachment of ED dated 08.01.2020 and Income Tax dated 06.01.2020 on assets of Corporate Debtor. A brief summary of the applications filed with NCLT is as under:

SNO	Application No	Last Date of Hearing	Next Date of Hearing
1	CA 22/2020	28.07.2020	31.08.2020
2	CA 60/2020		
3	IA 33/2020		
4	IA 136/2020		
5	IA 88/2020		

Due to nationwide lockdown in the wake of covid-19, the applications could not be heard. Liquidator filed IA 206/2020 seeking urgent hearing in IA 33/2020 & IA 136/2020 and the application was heard on 09.06.2020 wherein NCLT agreed to hear all the above applications on 29.06.2020 for hearing. But, the matters were adjourned twice to 06.07.2020 and 28.07.2020. Again the matter was not heard due to paucity of time and is now listed on 31.08.2020.

The Liquidator mentioned in the last meeting held on 29.07.2020 that he would be filing another application for urgent hearing in the above applications and accordingly, Liquidator has filed an application for urgent hearing in the Income Tax Attachment on assets of Corporate Debtor. The application is yet to be listed and the Liquidator shall discuss on the matter in this meeting.

All other applications pending with NCLT including avoidance application, application filed under Section 19(2) of IBC and applications filed by third parties, that are pending before NCLT, were last listed on 11.08.2020 and have now been adjourned to 17.09.2020 and 25.09.2020 respectively.

▪ **Matter pending with PMLA Court:**

Liquidator informed in the last meeting held on 29.07.2020 that the initial hearing before Adjudicating Authority under the Prevention of Money Laundering Act, 2002 under Section 5 (5) of PMLA Act, 2002 against SRS Limited including SRS Group Companies and directors/promoters and their related parties was scheduled on 07.04.2020 which was adjourned to 24.06.2020 due to lockdown amid Covid-19 and thereafter to 24.07.2020. However, the matter was not heard on both the dates. The matter has been latest listed on 20.08.2020.

Agenda Item No. 2

To discuss and take note of the e-auction notice under Regulation 33 of IBBI (Liquidation Process) Regulations, 2016 issued for sale of assets of SRS Limited (not attached by ED)

- Due to the pending attachment of assets of Corporate Debtor by ED as well as Income Tax Authorities, the Liquidator could not proceed with the e-auction process under IBBI (Liquidation Process) Regulations, 2016.
- The rise of covid-19 has further exaggerated the situation as the cinema business has been under mandatory closure since March 2020 and shall not resume in August 2020 also. There is no clarity on opening of cinemas. The Liquidator and the team have been in regular touch with the Developers, Distributors and vendors so as to continue the business. However, owing to no cash flows in the Company and continuous increase in the outstanding liabilities, it is practically not possible to manage the business as going concern for a long time. Lease deeds of two cinemas have already expired whereas two lessors have invoked the termination clause on account of non-payment of dues. As informed in the last meeting, the outstanding liabilities for the period during lockdown and post lockdown has crossed Rs 7 Crs towards staff salary, lease rentals, CAM, Electricity, housekeeping and security expenses, legal fees, statutory dues such as GST, TDS, EPF, ESI and other liquidation costs. Thus, it is required that cinema business must be sold as early as possible so as to prevent complete erosion of the value
- During the last meeting, the legal counsel for the Liquidator stated that w.r.t. to the Income Tax attachment, the law has now been clear that the attachment is illegal vide various judgements and hence, we can proceed with the e-auction of cinema assets from leased premises and the money can be deposited in a separate escrow account till the time order is received against their attachment. In this regard, following assets are not attached by ED:
 - (a) Cinema assets located at 13 leased premises (not including cinemas at 2nd Floor, SRS Mall, Sector-12, Faridabad) – Presently these assets are attached by Income Tax;
 - (b) 100% equity investment in SRS Entertainment India Limited – Presently, the company is in cinema business and operates from 4 locations. Cinema assets at these locations are also attached by Income Tax;
 - (c) Brand “SRS”; and
 - (d) Vehicle – Car of Brand “Accord” purchased in 2006
- Thus, the Liquidator has released the advertisement of e-auction of above mentioned assets on 06.08.2020 in Financial Express (English) and JanSatta (Hindi), All India Edition. The time for due diligence has been provided till 08.09.2020 and the last date

for submission of EMD is 12.09.2020. EMD is kept at 10% of the reserve price. The information regarding attachment of Income Tax on above assets have been explained in the E-Process Information Documents and the date of e-auction shall be announced after vacation of Income Tax Attachment.

- In the meantime, Liquidator has filed an application for urgent hearing in the Income Tax Attachment on assets of Corporate Debtor with NCLT, Chandigarh Bench.
- Liquidator and team have contacted various bidders during this period, however, owing to the present situation of cinema business, not many of them have shown interest in the bid. Till date, two bidders have submitted the confidentiality undertaking and Section 29A undertaking for carrying out due diligence. Liquidator and his team are in continuous touch with other investors for participation in the e-auction process.

The Liquidator shall discuss in detail on the e-auction process in this meeting.

Agenda Item No. 3

To discuss on the continuation of the business of Corporate Debtor amid no cash flows in the Company

- The bank accounts of the Company have been provisionally attached by ED vide its order dated 08.01.2020. Liquidator has been managing the business operations including all the receipts and payments from the fresh funds generated from business operations through the new account opened in February 2020. SRS Limited as of date operates only cinema business from 14 locations out of which 13 are leased and a Mall at Sector-12, Faridabad.
- Thereafter, in the wake of covid-19, a nationwide lockdown was declared w.e.f. 25.03.2020. Cinema Industry was the first among to get impacted as the cinema operations were mandatory closed between 15.03.2020-17.03.2020 and has not been opened since then. The restriction on the opening of cinemas has been further extend to 31.08.2020 and there is no clarity whether the cinemas shall be reopened thereafter.
- The cash flows of the Company have been drastically effected due to complete closure of the business as there have been no revenue generation for the past 5 months. However, the fixed liabilities continue to rise even during the lockdown period towards salary of over 425 staff, security and housekeeping expenses, Mall maintenance expenses such as repair, electricity, cinema lease rentals/CAM/electricity as per the lease agreement, statutory dues such as ESI, EPF, TDS and other liquidation costs including fees of legal professional. The liabilities continue to accumulate and have reached over Rs 9 Cr (approx.) as of August, 2020 and the amount continues to rise with each passing day. No salary has been paid to the employees since May 2020.
- The Liquidator had been managing the business and Mall from the funds lying in the new bank account which have now depleted and are not sufficient to continue with the Mall and business.
- There is no clarity on the date from when the cinema business shall be resumed. Moreover, even though the business resumes, it will not be operating at the same capacity as existed in the period prior to Covid-19 and is expected to be less than 30% of the level prior to covid-19. Also, the major revenue is earned from the sale of food & beverages items and keeping in mind the current scenario and till the vaccine is introduced in the market, there is high

probability that the customers shall not purchase these items as a precaution. The Liquidator shall require the funds to reopen the business and shall also be required to pay off the past liabilities which has reached to Rs 9 Cr so as to continue the business arrangement with vendors, developers and distributors and most importantly the employees. However, taking into account present condition of cash flows, it is not possible for Liquidator to resume the business operations once they are permitted by the Government.

- SRS Mall that was under closure, was also reopened w.e.f. 01.07.2020 and the Liquidator has been thriving to manage the Mall amid the lack of funds. The tenants of the shops have started vacating the premises due to low footfall. Various expenses are needed to run the Mall as going such as housekeeping, security, CAM, Electricity, salary of staff managing the Mall work and other miscellaneous expenses. However, in the absence of funds, it is now not possible to continue to run the Mall further.
- The liabilities on account of business operations continue to rise and mount with each day, however, there is no certainty on the revenues to meet such expenses. The matter regarding vacating of ED attachment on bank accounts and other assets have been pending before NCLT since January 2020 and also before PMLA. Despite repeated efforts and requests, no positive outcome has come. It is, hence, not feasible to continue the business on the loss.

Liquidator shall discuss on the further course of action to be taken on continuing with the business of the Corporate Debtor and how to meet the outstanding liabilities against business expenses since the closure of the business.

Agenda Item No. 4

To take note of the complaint filed with Cyber Cell regarding cyber attack on server of SRS Limited

During the lock down period on 23.06.2020 a cyber/virus attack in the data center of Corporate Debtor took place. All the data was encrypted by the dovin ransomware and all the servers are infected. Subsequently, a communication was received from “time2relax@firemail.cc” stating that “Your network is infected with three different ids The cost of decrypting all files is 4.3 bitcoins”. The matter was informed to the Cyber Cell through mail at “cp.fbd@hry.nic.in” on 27.06.2020. The Cyber Cell, Faridabad registered the complaint on 02.07.2020 and has been investigating the matter since then. The team member of Liquidator and employees of the Company have been regularly visiting the office of Cyber Cell, however, the office has not provided any conclusive report in the matter.

Sd/-

ASHOK KUMAR GULLA

Liquidator for SRS Limited

Regn. No: IBBI/IPA-003/IP-N00024/2017-18/10174

RBSA Restructuring Advisors LLP

2nd Floor, IAPL House, 23, South Patel Nagar, New Delhi - 110008

E-mail: ashok.gulla@rbsa.in; ip.srs@rbsa.in (for correspondence)

Date: 21.08.2020