

Explanatory Notes

Fifth Meeting of Stakeholder Consultation Committee in Liquidation of SRS Limited to be held on 04.11.2020 at 03:00 P.M. at RBSA Restructuring Advisors LLP, 2nd Floor, IAPL House, 23, South Patel Nagar, New Delhi – 110008 through video conferencing

This meeting has been called to discuss the latest update on hearings before NCLT and PMLA w.r.t. attachment of assets of Corporate Debtor, closure of business and process to be adopted for e-auction of assets.

Agenda Item No. 1

To discuss the hearing before NCLT and PMLA court w.r.t. the attachment of assets of SRS Limited on 19.10.2020 and 14.10.2020

▪ **Matter pending before NCLT:**

The Liquidator has filed following applications before NCLT, Chandigarh Bench relating to ED and Income Tax Attachment Orders dated 08.01.2020 and 06.01.2020 (new order of Income Tax dated 15.07.2020) respectively which are pending:

SNO	Application No	Brief of Application
1	CA 22/2020	Application filed seeking defreeze of bank accounts attached by ED.
2	CA 60/2020	Application for injunction on ED attachment including on bank accounts of Corporate Debtor or to allow open the new bank account for operating the business
3	IA 33/2020	Application filed updating completion of section 230 process and seeking direction for sale of assets pending the attachments of ED and Income Tax
4	IA 136/2020	Application filed for declaring PAO dated 08.01.2020 passed by ED as illegal and without jurisdiction
5	IA 88/2020	Application filed for allowing to sell cinema assets at two locations at Aditya City Mall, Indirapuram and Eldeco Mall, Sector-12, Fbd, where leases have expired
6	IA 447 & 448/2020	Application filed for urgent hearing on attachment of income tax on assets of Corporate Debtor

The applications were last listed and heard on 01.10.2020. The Income Tax counsel was not present, hence, the, matter could not be decided. Matter on ED attachment was also heard and discussed where our legal counsel also explained the situation of the Company before the Tribunal and sought for urgent relief of funds of the Corporate Debtor attached by ED. We have also filed an additional affidavit in this regard. The applications were then listed on 19.10.2020 where the matter could not be heard due to paucity of time and was adjourned to 02.11.2020. The matter could not be heard again due to paucity of time as the matter was listed at Sno 15 and is again scheduled for next date which is 04.11.2020.

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, are now adjourned to 10.12.2020 (except one application CA 1172/2019 filed by depositor which is listed on 06.11.2020).

▪ **Matter pending with PMLA Court:**

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 was then listed on 20.08.2020, 10.09.2020, 25.09.2020 and last heard on 14.10.2020. The matter is now listed on 06.11.2020

The Liquidator shall discuss on the hearings in detail held before NCLT and PMLA in the meeting.

Agenda Item No. 2

To discuss on the closure of the business of Corporate Debtor

- As deliberated in earlier meetings, the Corporate Debtor operated only cinema business majorly from leased premises. The rise of covid-19 impacted the business severely as it continued to remain close for more than seven months from mid of March 2020. With no revenue for this entire period when the business continued to remain close, the cash flows were severely impacted whereas the liabilities on account of staff salary, lease rentals, CAM, Electricity, housekeeping and security expenses, legal fees, statutory dues such as GST, TDS, EPF, ESI and other liquidation costs remain unpaid.
- The pending liabilities have now reached around Rs 12 Crs as of September 2020 (including lease rentals and CAM of leased premises for lockdown period). This also includes pending liabilities towards rent and other charges for the period prior to lockdown i.e. for Feb and March 2020 when the business was in operations. The Corporate Debtor does not have funds in the operative account to meet these liabilities as whatever funds available have been utilized to meet security expenses at various locations and other urgent expenses during these past months.
- The business of Corporate Debtor runs from 14 locations out of which 13 are leased whereas the one owned is currently under attachment of ED and also by Income Tax. Leases of two cinema locations i.e. Aditya Mall at Ghaziabad and Eldeco Mall at Sector 12 Faridabad have already expired prior to lockdown for which Liquidator has already filed an application with NCLT (IA 88/2020) seeking necessary directions which is pending and the developers have not shown interest to renew the lease deeds. The other Developers, on account of non-payment of rentals have issued notices of termination seeking payment of pending dues. Few of Developers have also threatened to remove the assets installed at their premises if dues are not paid at the earliest.
- Ministry of Home Affairs vide its guidelines dated 30.09.2020 had permitted to open cinemas from 15.10.2020, however, Liquidator has not been able to open the business as of date due to non-payment of pending liabilities. The Developers have been constantly seeking for the dues for the period prior to lockdown and for the period w.e.f. 15.10.2020 along with CAM and electricity dues for the period during lockdown. In addition to the past liabilities, there are expenses which are required to be incurred for opening of cinemas which includes security, housekeeping, sanitization, procurement of food items, renewal of licenses, salaries of staff, rent of leased premises from the date the business starts. With no cash flows, it is not possible to run the cinema operations.
- Moreover, the employees have not been paid salary from May 2020 onwards whereas only partial salary was paid for the month of March and April 2020. Many of them have started approaching labour courts against Liquidator and Company and are demanding for their

dues. The Company shall be requiring funds to make them regular payments from the day the company start its operation, which is practically not possible, owing to the present situation.

- Due to pending attachment of ED on bank accounts and FDR of Corporate Debtor which is around Rs 15 Crs (approx.), Liquidator cannot utilize the funds to meet the pending liabilities and restart the business. The matter pertaining to ED attachment continues to remain subjudice and there is no certainty when the attachment shall get vacated.
- Cinema industry has been gravely hit by the pandemic and has not seen major audience till date leading to very low revenue as against the expenses incurred. Also, as per the latest estimate, no high budget movie is going to be released till the end of 2020 thus showing no sign of progress for the business for at least next 5-6 months.
- Hence, the Corporate Debtor is not in a position to restart its operations. The employees of the cinema business shall be sent notice of termination and only limited staff pertaining to Accounts, Secretarial work and IT related shall be retained to complete the books of the Company, statutory compliances and liquidation process.
- With regards to SRS Mall, the Mall was opened w.e.f. 01.07.2020 and since then has been running on losses. Many of the tenants have vacated the shops owing to low footfall. A minimum of Rs 10 Lakhs is required to run and maintain the mall and the major portion includes electricity dues. In addition, the other payments are to be made towards CAM, security, housekeeping and staff whereas the revenue earned is around Rs 5Lakhs. There is already a pending due of electricity of about Rs 6 lakhs for the month of September 2020. Efforts are being made to attract more parties for the shops and discussions are also being held with electricity dept regarding the pending dues so as to sustain the working of Mall. In case nothing works out, the mall shall also have to be closed in next two months.

The Liquidator shall discuss on the closure of business of Corporate Debtor in detail.

Agenda Item No. 3

To discuss on the sale of cinema business and other assets of Corporate Debtor

- Since the Liquidator is unable to operate the business of Corporate Debtor on account of no funds, the best available option is to sell the cinemas at the earliest possible. Liquidator had initiated E-auction process for the SRS Cinemas from 13 leased premises on going concern basis, though the actual date of E-auction remained undecided pending the Income Tax attachment. Only three bidders submitted the documents for due diligence and none of them had come forward to submit the EMD. The bidders had shown concern over continuation of lease deeds by the Developers with them due to non-payment of their dues by the Corporate Debtor. Multiple applications have been filed with the Hon'ble NCLT seeking vacation of Income Tax attachment, however, no desired results have been obtained yet. Moreover, due to the seven months lockdown due to covid-19 and inability to restart the operations, the prospects of selling the SRS cinemas had reduced drastically.
- The Liabilities of SRS Cinemas towards fixed expenses is accruing on the continuous basis, even though the cinema business continue to remain closed. However, in the current situation Liquidator does not have the authority to sell SRS Cinema. Other way is that the Liquidator may remove the assets of the Corporate Debtor installed at the various sites in order to save the fixed cost associated in terms of lease rentals and CAM. The Liquidator is

not in a position to remove these assets from these premises as the assets are installed at different locations and it will involve huge cost to remove these assets and bring them at a single location and incur additional cost on their security for which the company has no funds. Moreover, the value of these assets are derived if they are sold as part of lease on going concern basis.

- In such uncertain circumstances, the Liquidator is neither in a position to open the business nor able to sell the business, nor in position to vacate the leased premises.
- In case the Income Tax attachment is vacated, the Liquidator shall make all the efforts to sell the SRS Cinemas on individual basis i.e. each leased site on standalone basis and the recoveries may be used to settle the pending dues. It is considered appropriate at this stage to release advertisement for e- auction separately for each 13 Cinema locations. This is expected to facilitate getting bidders to bid for the preferred locations as the bidders have not shown keen interest in acquiring the leases that have already expired for which matter is pending before NCLT or which were loss making for the Corporate Debtor. The realization, though, as was envisaged earlier during CIRP and also prior to Covid -19 epidemic, is expected to fall down. Earlier, the Liquidator had released the advertisement for sale of 13 cinemas with reserve price of Rs 20 Crs considering it will be sold as going concern. However, the value shall go down with around 40-50% if sold on standalone.
- The Liquidator is in talks with the Developers to allow him to retain the access to the premises for the next two months and in the meantime the Liquidator shall make efforts to sell the cinema assets after getting permission of NCLT. The pending dues towards lease rentals, CAM and electricity for the pre lock down period is around Rs 2.50 Crores whereas the estimated rent for the period from 15.10.2020 for 2 months ending on 31.12.2020 is around Rs 3 Crores. It is considered that no rent shall be payable for the period during which cinema was under mandatory closure due to govt guidelines.
- In case the permission to sell the assets is not granted then either the Developer or the Liquidator will himself have to initiate the termination clause and may remove the assets of the Corporate Debtor from the site which shall fetch no significant value for any stakeholder.
- Termination of lease deed shall mean the permanent closure of business and Liquidator will have to extract the assets from the locations which are in the form of:
 - i. furniture and fixtures, chairs, cabinets, almirahs, computers and office equipment's. These assets have been installed at the time of opening of cinemas which on average are around 5-10 years old and the major cost of these assets have already been depreciated. In case they are removed, they are not expected to be of use for any cinema operator and shall be sold in scrap only.
 - ii. The other assets comprise of plant and machinery such as fire extinguishers, products placed at food counters, POS machines, batteries, equipments for exhibition of cinema etc. They do not have long life and are used for cinema operations.
 - iii. A significant investment has been done by the Corporate Debtor on the interior work of the cinemas, flooring, wall paintings, electrical fittings in the form of lights which account for around 70% of the total value of total assets installed at all these 13 leased premises which cannot be extracted and hence, this entire value shall get eroded.
- Thus, the only feasible option left shall be to keep the assets at the premises and adjust

them against the pending dues of the Developers/Owners of the premises so as to avoid any further litigation. Liquidator shall seek necessary directions from NCLT in this regard.

- The assets of Corporate Debtor attached by ED i.e. the real estate properties mainly SRS Mall at Sector-12, Faridabad and shops at various locations in Faridabad cannot be sold pending the attachment.
- With regard to investment in 100% shares in SRS Entertainment India Limited, earlier the reserve price was Rs 10.25 Crores considering its going concern status. The subsidiary is also into cinema business operating from 4 leased premises and has also not been able to restart its operations due to lack of funds. The Income Tax vide its order dated 06.10.2020 and 15.07.2020 has also attached the cinema assets of subsidiary and there is a demand of around Rs 7-8 Crores. Also, an operational creditor has already filed application u/s 9 of IBC with NCLT, Chandigarh which is pending. Due to no funds, the subsidiary has not been able to clear the dues of this operational creditor. In such a scenario, the chances of sale of investments as going concern is limited as not many investors showed interest to acquire the investment. It is expected it will not fetch the same value and may have to be sold on standalone basis.
- As regards, accounts recoverable, the chances of recovery are limited considering that high value transactions are already reported as fraudulent transaction and most of these parties are non-existent. Proper records are not available to verify all these recoverable and decide whether we can proceed against these parties.
- Moreso, the Liquidator does not have adequate funds to pay for (i) security of various cinema locations (ii) electricity bill\ and housekeeping at SRS Mall, Sector-12, Faridabad (iii) salary of limited staff that need to be retained in accounts and IT to complete liquidation (iv) legal counsels who are representing the Liquidator in NCLT, Chandigarh and NCLT, New Delhi for various matters filed by the Liquidator and also filed by other parties, cases pending at civil court, Faridabad and cases filed by various employees against the Liquidator in Labour Court (v) auditors who are required to audit Liquidation account and other financials as the Corporate debtor is a listed entity. The Liquidator who is supported by Team from IPE has not drawn any fees since December 2019.
- The dues towards outstanding liabilities and any future expense incurred for carrying liquidation process, shall form part of Liquidation Cost and any recovery from assets under Liquidation shall be first utilized towards clearance of these dues under Section 53(1) of IBC. However, it is expected that very low recovery shall be made from the cinema assets installed at these leased premises and other assets available for sale and shall be insufficient to meet these dues.

Sd/-

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