

April 24, 2015

UFO Moviez India Ltd

Price band ₹ 615-625

Distribution screen market share of 54%...

UFO Moviez India Ltd (UFO) is India's largest digital cinema distribution network and in-cinema advertising platform with a screen network of about 6611 screens worldwide, including 4,912 screens in India. The distribution arm contributes ~50% to total revenues amounting to ₹ 212.6 crore and has grown at 80% CAGR in FY10-14. UFO also provides digital equipment to exhibitors, which contributes about ~₹ 97.5 crore or 23% of its revenues. This stream has witnessed 27% CAGR in FY10-14. UFO has an association with ~1669 advertisers & controls the advertisement rights of ~3400 screens. This revenue stream has become nearly 10x from ₹ 9.7 crore in FY10 to ₹ 100 crore in FY14. It remains the key focus area & it intends to grow the yield & ad minutes. UFO has already enjoyed the benefits of strong operating leverage with margins expanding from 2% in FY10 to 31% in FY14. It is likely to grow further with the benefits emanating from an increase in advertising revenues. We remain bullish on the movie exhibition and production space, which is directly linked to Indian consumption growth and recommend **SUBSCRIBE** for listing gains.

Investment Rationale

Consumerism to drive film industry, UFO set to emerge as beneficiary

The Indian film industry is expected to grow at 12.3% CAGR from ₹ 13800 crore to ₹ 21980 crore in FY14-18E. Increasing screen penetration and an exponential increase in middle class consumption spending (to \$3.2 trillion by 2025) may act as catalysts boosting UFO revenues further.

Market leader in movie distribution space, 54% market share...

UFO caters to ~4912 screens in the movie distribution space and enjoys 54% market share. It collects virtual print fee from distributors. Relatively, single screens are more dependent on UFO Moviez; however major screen additions in the sector is stemming from the multiplexes currently.

Advertisement revenues have potential, SUBSCRIBE for listing gains....

Advertisement revenues that are highly margin accretive, have grown ~10x in the past four years and are expected to grow further. Though the P/E multiple of ~34x FY14 EPS may appear expensive, it is in line with other consumption driven stocks. However, in the long term there is a looming risk of vertical integration by exhibitors and hence we recommend **SUBSCRIBE** for listing gains.

Concerns

- Reduction in single screens in future may weigh on ad revenues
- Technology not very capital intensive, risk of new entrants and vertical integration by exhibitors.
- Post offer promoter holding is not very clear

Exhibit 1: Key Financials

₹ crore	FY10	FY11	FY12	FY13	FY14
Net Sales	73.2	108.8	206.7	336.2	420.4
EBITDA	1.6	11.7	51.4	105.7	131.0
EBITDA Margins (%)	2.2	10.7	24.8	31.4	31.2
Other Income	0.3	1.2	0.9	1.3	0.7
Depreciation	19.7	25.4	39.0	53.6	65.5
Finance Cost	6.0	3.3	4.7	12.1	16.4
Minority Interest	0.0	(6.2)	1.8	5.7	3.6
Profit from associates	-	-	(0.1)	0.2	(0.8)
PAT	(23.8)	(9.7)	4.4	33.4	46.5
EPS (₹)	(9.2)	(3.7)	1.7	12.9	18.0

Source: RHP, ICICIdirect.com Research

Rating matrix

Rating : **Subscribe**

Issue Details

Issue Opens	28/4/2015
Issue Closes	30/4/2015
Issue Size (₹ Crore)	₹ 600 crore
Price Band (₹)	₹ 615-625
No of Shares on Offer (Crore)	0.96-.97
QIB (%)	50
Non-Institutional (%)	15
Retail (%)	35
Minimum lot size	24 shares and in multiple of thereof

Objects of the Issue (₹ Crore)

The IPO is an offer for sale. However, the reduction in holding of promoters or PE investors will depend on final subscription. The overall offload is about 37% of the total number of shares. It is an offer for sale by PE investors namely 3i Research (Mauritius Ltd), P5 Asia Holding Investments (Mauritius) Ltd and some of the promoter members

Valuation Summary (at ₹ 625 ;upper price band)

	FY11	FY12	FY13	FY14
P/E	(167.6)	371.3	48.5	34.8
EV/EBITDA	142.8	32.5	15.8	12.7
P/B	11.8	5.2	4.7	4.0
ROCE	-8.1	3.4	12.1	13.1
ROE	-7.1	1.4	9.6	11.6

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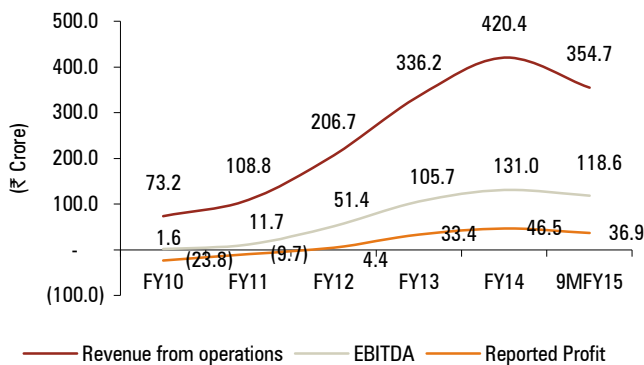
Company Background

UFO Movies India was incorporated in 2004 and is promoted by Sanjay Gaikwad, Narendra Hete, Valuable Technologies Ltd, Valuable Media Ltd and Apollo International Ltd. At present, Sanjay Gaikwad is the Managing Director (Executive non-independent director) of the company. UFO is India's largest digital cinema distribution network and in-cinema advertising platform (in terms of numbers of screens) as it caters to about 6611 screens worldwide, including 4,912 screens across India & 1,699 screens across Nepal, Middle East, Israel, Mexico and US. The company operates India's largest satellite-based, digital cinema distribution network using its UFO-M4 platform, as well as India's largest D-Cinema network.

The company digitally delivered more than 1,500 movies in 22 languages to 4,703 screens with aggregate seating capacity of ~2.14 million viewers spread across India in FY14. UFO has remained pivotal in the film industry value chain helping widespread, same day release of movies across India and occupies nearly 54% market share in the screen distribution network. The company also serves exhibitors by providing them the D-Cinema and E-Cinema equipment and, in return, charges them a lease rental. UFO also has in-house in-cinema advertising platform with generally long-term advertising rights to ~3,767 screens, with an aggregate seating capacity of ~1.86 million viewers and a reach of over 1,800 locations across India. The company currently has an association with about 1669 advertisers across India.

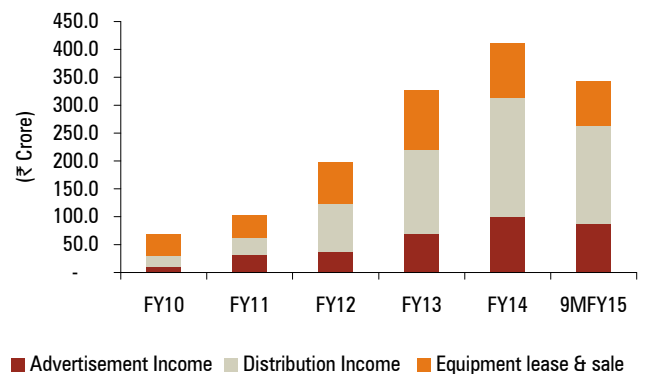
The company has exhibited a strong fundamental performance over the past four years, with revenues growing at 55% CAGR in FY10-14 to ₹ 420.4 crore from ₹ 73.2 crore in FY10. The EBITDA has become nearly 73x of FY10 levels growing from a meagre ₹ 1.6 crore with 2% margin to about ₹ 118.6 crore with 32% margins. The company became PAT positive in the same period with negative PAT of ~₹ 23.8 crore in FY10 to ₹ 46.5 crore in FY14 (PAT is calculated excluding minority interest).

Exhibit 2: Revenues have grown at 55% CAGR in FY10-14



Source: RHP, ICICIdirect.com Research

Exhibit 3: Topline bifurcation



Source: RHP, ICICIdirect.com Research

Advertisement income

The company receives revenues from advertisers by virtue of its in-cinema advertising platform. UFO also has an association with about 1669 advertisers and controls the advertisement rights of about 3400 screens. It provides advertisers a targeted, captive audience with high flexibility and control over the advertising process. This revenue stream has become nearly 10x from ₹ 9.7 crore in FY10 to ₹ 100 crore in FY14 bolstered by growth in the minutes of ad. The revenue so mentioned is gross. A portion of ad revenues is shared with exhibitors (17-18%) with a minimum guarantee in some cases. The company is currently operating about three minutes of ad per show vs. nearly 5x minutes by multiplexes. In addition, ad rates provided are at a significant discount to that provided by multiplexes. The company intends to focus on the growth of ad revenues by increasing ad rates and ad inventory.

Exhibit 4: Advertisement revenue

	FY12	FY13	FY14	9MFY15
A. Advertisement Revenue (₹ Crore)	37.0	69.5	99.9	86.6
B. Average number of advertising screens (No.)	2,328	2,859	3,332	3,685
C. Advertisement Revenue Per Screen (₹ Crore)	0.016	0.024	0.030	0.031

Source: RHP, ICICIdirect.com Research

Distribution income

UFO delivers movie content through (i) satellite-based cinema distribution network using UFO-M4 platform, and (ii) D-Cinema network. It currently has a 54% distribution screen market share in India with ~4900 screens on its network. As the company was able to consolidate its position by adding a number of screens on its network, its distribution revenues have grown at 80% CAGR in FY10-14. The stream comprises about 50% of its revenues. The company has recently revised the virtual print fee it charges its distributors after a span of about three to four years. The company intends to go slow on further hikes. Moreover, the revenue stream is heavily dependant on the single screens. Some of the multiplex chains manage their digital delivery of movie independently and hence we feel that there is an underlying risk of further independence by exhibitors which the segment is exposed to. The revenues from this stream would grow if it is able to maintain the single screens in its kitty and also take some yield improvement.

Exhibitor rental and sales revenue

UFO earns rental revenue from renting, either directly or through franchisees, of its digital cinema equipment to exhibitors for use on their premises. The income comes in two forms: lease and sale. The non-DCI (E-Cinema) equipment are fixed-periodic fee contracts based on 10 years with the option to terminate for convenience only after a period of four years. Exhibitors are billed on a monthly basis for contractually fixed rental charge, which is in the range of ₹ 3000 to ₹ 17500 per month. The E-Cinema income has grown at 10% CAGR in FY10-14 to ₹ 28.2 crore from ₹ 19.5 crore.

In the D-Cinema business, exhibitors rent D-Cinema servers and projectors, under contracts for a fixed-monthly fee, typically for a contractual period of five to 10 years with an option to terminate for convenience only after a period of three to five years and are billed on a monthly basis in the range of ₹ 6500 to ₹ 40000 per month.

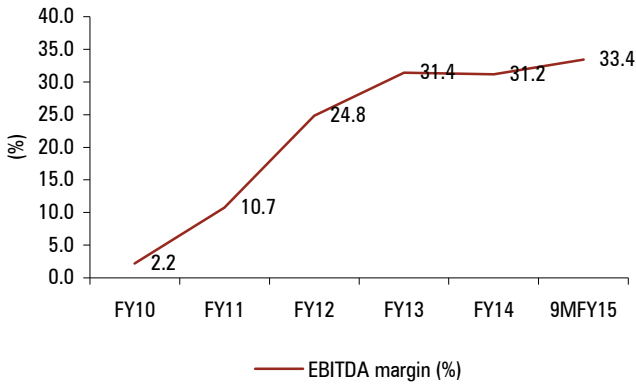
The company also sells digital cinema equipment, as well as related consumables, like lamps to exhibitors. The company earned about ₹ 55.6 crore from the sale of equipment in FY14.

Revenues in the segment would gain a fillip only in the event of new screen additions in its network.

Operating leverage

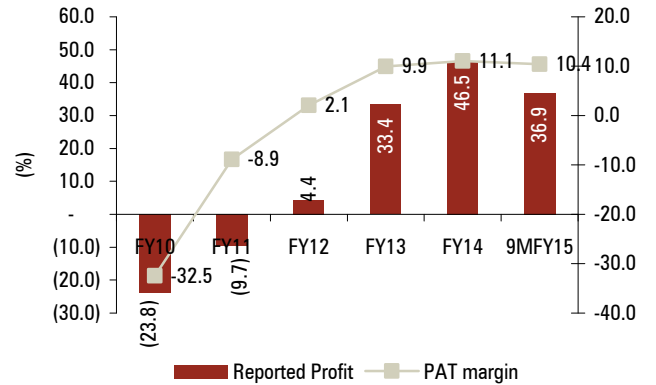
The company has gained strong operating leverage benefits over the past four years as the highly margin accretive advertising revenue segment grew to 10x of FY10 levels. During the same period, EBITDA margins posted growth from 2% to 32%.

Exhibit 5: EBITDA margins trend



Source: RHP, ICICIdirect.com Research

Exhibit 6: PAT & PAT margins trend



Source: RHP, ICICIdirect.com Research

Valuations

Available at 34x FY14 P/E; recommend SUBSCRIBE for listing gains

At the upper price band of ₹ 625, the stock is available at FY14 P/E of ~34x. Advertisement revenues that are highly margin accretive, have grown ~10x in the past four years and are expected to grow further. Though the P/E multiple of ~34x FY14 EPS may appear expensive, it is in line with other consumption driven stocks. However, in the long term there is a looming risk of vertical integration by exhibitors and hence we recommend SUBSCRIBE for listing gains

Exhibit 7: Peer comparison

P/E (x)	FY14	FY15E	FY16E	FY17E
PVR	45.8	165.7	48.9	28.0
Inox	35.2	460.6	42.3	17.3
Eros	21.3	17.6	14.3	12.1

Source: ICICIdirect.com Research

Objects of issue

The objects of the offer are to achieve the benefits of listing the equity shares on the stock exchanges and for sale of equity shares by selling shareholders. Further, the company expects listing of equity shares to enhance its visibility and brand image and provide liquidity to its existing shareholders. UFO will not receive any proceeds of the offer and all proceeds of the offer will go to the selling shareholders.

Exhibit 8: List of top selling shareholders and their holding prior to IPO

Selling Shareholders	Pre-Offer	
	Number of shares	% of share-holding
3i Research (Mauritius) Limited	5,566,570	21.5
P5 Asia Holding Investments (Mauritius) Limited	9,253,740	35.7
Valuable Media Limited	2,131,782	8.2
Valuable Technologies Limited	3,071,745	11.9
Sanjay Gaikwad	329,773	1.3
Narendra Hete	134,724	0.5
Uday Gaikwad	1,617	0.0
Raaja Kanwar	566,214	2.2
Prafulla Vaidya	8,976	0.0
Rakesh Gupta	2994	0.0
Total Holding	21,068,135	81.34

Source: RHP, ICICIdirect.com Research

Key risks and concerns

Gradual closure of single screens to weigh on ad revenues

The Indian film industry has seen closure of many single screens due to lower viability of the business as some of them lost market share to multiplexes. The advertisement stream of income is basically dependant on single screens while a reduction in their number over a period of time could be detrimental for UFO.

Low entry barrier and risk of vertical integration by exhibitors

Majority of the capex towards digitising screens has already been achieved. We feel the business is exposed to the risk of new entrant as the technology and services involved are not very capital intensive. Moreover, multiplexes like Inox independently handle their movie distribution, so there is a possibility of such a trend gaining momentum in near future. In the event of new competition, or present competitors scaling up or resorting to price competition, it may lose market share and may be EPS dilutive.

Promoter holding post issue not clear

The promoter holding pre-IPO stands at about 37.77%. The post IPO holding of the promoters would only be clear post the subscription. We fear a further reduction of the promoter holding.

Financial Summary

Exhibit 9: Profit and Loss Statement

Profit and Loss Statement	FY10	FY11	FY12	FY13	FY14	9MFY15
Revenue from operations	73.2	108.8	206.7	336.2	420.4	354.7
Operating direct cost	29.6	35.4	73.0	128.1	166.5	139.6
Employee Cost	15.1	19.8	33.3	44.8	55.3	43.1
Other expense	26.8	41.9	49.0	57.6	67.6	53.5
Total expense	71.6	97.1	155.3	230.5	289.4	236.2
EBITDA	1.6	11.7	51.4	105.7	131.0	118.6
Depreciation	19.7	25.4	39.0	53.6	65.5	56.9
Interest cost	6.4	4.4	11.3	15.2	19.9	15.7
Interest income	0.4	1.1	6.6	3.1	3.4	3.7
Other income	0.3	1.2	0.9	1.3	0.7	2.5
PBT	(23.8)	(15.8)	8.7	41.2	49.8	52.1
Tax	0.0	(0.0)	2.4	2.4	(1.1)	12.7
Profits from associates	-	-	(0.1)	0.2	(0.8)	1.2
Minority Interest	0.0	(6.2)	1.8	5.7	3.6	3.8
Reported Profit	(23.8)	(9.7)	4.4	33.4	46.5	36.9

Source: RHP, ICICIdirect.com Research

Exhibit 10: Balance Sheet

Balance Sheet	FY10	FY11	FY12	FY13	FY14	9MFY14
Equity and Liabilities						
Equity share capital	18.7	20.2	25.9	25.9	25.9	25.9
Reserves and surplus	84.5	116.5	283.8	320.6	374.3	416.0
Total of Shareholder's Funds	103.1	136.6	309.7	346.5	400.2	441.9
Share application money	-	44.0	-	-	-	-
Minority Interest	0.0	0.1	14.4	10.9	14.8	6.5
Non-current liabilities						
Long-term borrowings	35.1	33.0	53.7	68.4	99.9	67.5
Deferred tax liabilities (net)	0.0	0.0	0.0	-	-	0.0
Other long-term liabilities	19.6	25.5	31.7	38.6	44.3	56.5
Long-term provisions	-	-	0.6	1.2	0.8	0.9
Total of Non-Current liabilities	54.7	58.5	86.0	108.2	145.1	125.0
Current liabilities						
Short-term borrowing	-	-	3.8	16.8	0.9	32.0
Trade payables	7.9	20.9	20.1	35.1	59.2	66.7
Other current liabilities	33.5	28.6	70.2	108.4	119.2	136.8
Short-term provisions	0.7	1.0	2.2	2.6	3.4	3.8
Total of Current liabilities	42.1	50.5	96.3	162.9	182.6	239.3
Liabilities Total	199.9	289.7	506.4	628.6	742.6	812.7
Fixed assets						
Tangible assets	110.5	114.4	190.3	261.9	341.2	313.9
Intangible assets	4.5	4.2	7.0	5.7	4.9	4.4
Capital work-in-progress	7.6	7.6	50.8	31.2	19.9	14.6
Total	122.5	126.2	248.1	298.7	366.0	332.9
Goodwill on consolidation	14.4	41.8	116.8	130.9	136.6	167.6
Non-current investments	0.9	18.4	1.6	1.8	5.3	5.8
Deferred tax assets (net)	-	-	1.3	2.2	13.1	18.7
Long-term loans and advances	4.3	4.8	17.4	24.2	37.8	38.5
Trade receivables	-	-	0.4	0.5	0.1	-
Other non-current assets	0.0	-	0.1	6.2	3.7	8.4
Total Non-current assets	142.2	191.3	385.7	464.5	562.6	572.0
Current assets						
Current investments	-	-	1.3	11.7	5.3	9.6
Inventories	5.3	4.1	10.3	10.6	9.7	8.9
Trade receivables	14.3	38.8	38.7	75.4	91.2	133.6
Cash and bank balances	16.1	19.9	51.8	42.1	51.8	53.8
Short-term loans and advances	21.1	35.7	17.6	22.0	15.1	22.5
Other current assets	1.1	0.0	1.0	2.5	6.9	12.3
Total Current assets	57.7	98.4	120.7	164.2	180.0	240.7
Assets Total	199.9	289.7	506.4	628.6	742.6	812.7

Source: RHP, ICICIdirect.com Research

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