

## Adlabs Entertainment

### IPO Note – Valuation expensive; Avoid

**Company background:** Adlabs Entertainment Ltd (AEL) is promoted by Manmohan Shetty and Thrill Park Ltd. AEL owns and operates Imagica – The Theme Park, which is one of the upcoming theme parks in India. It features a diverse variety of rides and attractions of international standards, food and beverages (F&B) outlets, and retail and merchandise shops, designed to appeal to a broad demography of the Indian populace. Adlabs Mumbai includes Aquamagica, a water park, which became fully operational on October 1, 2014, and a family hotel - Novotel Imagica Khopoli, the first phase of which is expected to be completed by March 2015. Imagica – The Theme Park is a one-of-a-kind offering in India and currently has 25 rides and attractions, which are spread over six theme-based zones. AEL proposes 287 key hotels; the first one - Novotel Imagica Khopoli is to comprise of 116 rooms.

**Outlook and Valuation:** Given that the company is in its initial stage of business operations, the operating costs are high and utilization level is low. Also, currently the company has a sizable debt of ₹1,256cr on its balance sheet. The debt levels are likely to remain high even after IPO proceeds are utilized to pare debt. Lower utilization coupled with higher interest and depreciation is likely to keep the bottom-line in the red in the near-term. For FY2014, Adlabs Imagica reported a top-line of ₹103.7cr and a loss of ₹52.4cr on the bottom-line front. For 1HFY2015, the company has reported a top-line of ₹72.2cr and a net loss of ₹53.3cr.

Further, even at the lower end of the price band, the company looks expensive compared to its close peers like Wonderla Holidays which is already making profits and has a healthy balance sheet. On the EV/sales front, the company is valued at 13.6x (at the lower end of the price band) while its peer Wonderla Holidays is trading at 6.9x on the basis of 9MFY2015 annualized numbers.

**Hence, considering all the above factors, we recommend an Avoid on the issue.**

#### Key Financials

Y/E March (₹ cr)	FY2013	FY2014	1HFY2015
<b>Net Sales</b>	-	104	72
<b>Net Profit</b>	(2)	(52)	(54)
OPM (%)	-	3.6	4.7
<b>EPS (₹)</b>	(0.4)	(10.8)	(11.0)
P/E (x)*	-	-	-
P/BV (x)*	3.5	3.4	-
EV/Sales (x)*	-	21.0	-

Source: Company, Angel Research; Note: \*The above numbers are considering subscription at the lower end of the price band

## AVOID

Issue Open: March 10, 2015  
 Issue Close: March 12, 2015

#### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹61.57cr

Fresh Issue: 1.83cr Shares

Offer for Sale: 0.2cr Shares

Post Eq. Paid up Capital: ₹79.90cr

Issue size (amount)\*\*: ₹449cr - ₹468cr

Price Band\*\*: ₹221-230

Post-issue implied mkt. cap\*\*: ₹1,766cr-1,838cr

Promoters holding Pre-Issue: 77.0%

Promoters holding Post-Issue: 56.8%

Note:\*\*at Lower and Upper price band respectively

#### Book Building

QIBs	At least 75%
Non-Institutional	At least 15%
Retail	At least 10%

#### Post Issue Shareholding Pattern

Promoters Group	56.8
MF/Banks/Indian FIIs/FIIIs/Public & Others	43.2

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## Issue details

The company is offering 2.03cr equity shares of ₹10 each via book building route in a price band of ₹221-230, consisting of fresh equity issue of 1.83cr shares and offer for sale by promoters group of 0.20cr shares. Further, the company has offered a discount of ₹12 per share to retail investors. The issue will constitute 25.44% of the post-issue paid-up equity share capital of company.

### Exhibit 1: Share Holding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter group	47,417,239	77.0%	45,417,239	56.8%
Others	14,154,344	23.0%	34,480,571	43.2%
Total	61,571,583	100.0%	79,897,810	100.0%

Source: Company, Angel Research

## Objects of the Offer

- Utilize the fund for debt repayment of ₹330cr.
- General corporate purposes.

## Company Details

Adlabs Entertainment Ltd (AEL) is promoted by Manmohan Shetty and Thrill Park Ltd. AEL owns and operates Imagica – The Theme Park, which is one of the upcoming theme parks in India. ‘Imagica’ and ‘Aquamagica’ is spread over an area of 132 acres in Khopoli district of Maharashtra. It features a diverse variety of rides and attractions of international standards, food and beverages (F&B) outlets, and retail and merchandise shops, designed to appeal to a broad demography of the Indian populace. Adlabs Mumbai includes Aquamagica, a water park, which became fully operational on October 1, 2014, and a family hotel - Novotel Imagica Khopoli, the first phase of which is expected to be completed by March 2015. Imagica – The Theme Park is a one-of-a-kind offering in India and currently has 25 rides and attractions, which are spread over six theme-based zones. AEL proposes 287 key hotels; the first one - Novotel Imagica Khopoli is to comprise of 116 rooms.

### Exhibit 2: Novotel Imagica Khopoli (Hotels)

	Phase 1	Phase 2
Expected to be operational	01-Apr-15	FY2017
No of key	116	171

Source: RHP, Angel Research

**Exhibit 3: Adlabs' tariff card**

(₹)	Weekdays			Weekends and Public Holidays		
	Adult	Child	Senior Citizen	Adult	Child	Senior Citizen
Regular	1,500	1,200	1,200	1,900	1,600	1,600
Imagica Express	2,200	2,000	2,000	3,000	2,600	2,600
College Pack	1,300			1,500		
School Packages	800-1,000			1,200 – 1,300		

Source: RHP, Angel Research

**Exhibit 4: Aquamagica tariff card**

(₹)	Weekdays			Weekends and Public Holidays		
	Adult	Child	Senior Citizen	Adult	Child	Senior Citizen
Regular	950	650	650	1150	800	800
College Pack	800			950		

Source: RHP, Angel Research

**Exhibit 5: Driving distance to Adlabs Mumbai from key cities**

City	Km
Mumbai	74
Navi Mumbai	46
Pune	90
Nashik	204
Aurangabad	319
Surat	337
Lonavla	25

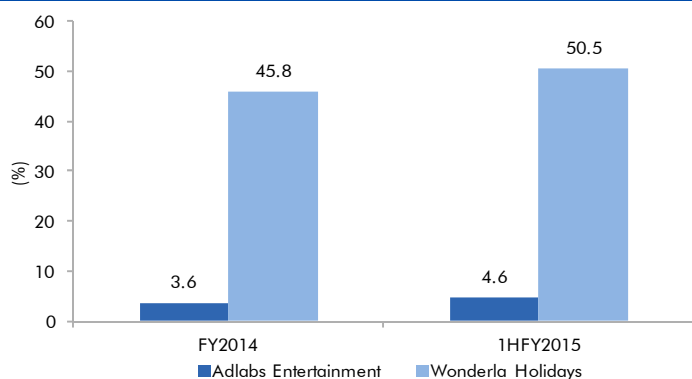
Source: RHP, Angel Research

**Key investment concerns**
**Higher operating cost, Interest and Depreciation cost to keep pressure on bottom-line:**

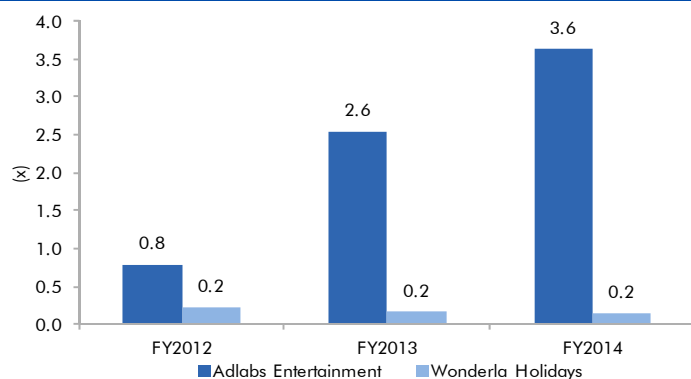
Considering AEL's operations are at an initial stage, we sense that AEL would require more time to absorb its higher fixed cost base. Currently the company has a lower operating margin compared to its close peer - Wonderla Holidays. Also, the company has a sizable debt of ~₹1,256cr on its balance sheet (Pre-IPO basis), indicating D/E ratio of 3.6x in FY2014. IPO proceeds are likely to be used towards part debt repayment. This should lower the debt levels to ~₹926cr, with it paying off ₹330cr, and D/E ratio to 1.4x (Post-IPO).

Considering the amusement park's location, huge land parcel over which it is spread (132acres), and high-end quality of machines deployed, we are of the view that the company's financials and fixed cost structure are different from its peers, ie Wonderla Holidays. Hence, the average realization per person is higher for AEL vs Wonderla Holidays.

Given higher capex deployed towards land and machinery by AEL, the debt as well as gross block requirements are higher for AEL vis-a-vis Wonderla Holidays. This has resulted in higher depreciation and interest expenses. Higher depreciation and interest expenses coupled with lower utilization rates have eaten into the overall profitability of the company. Hence, for 9MFY2015, AEL reported a loss of ~₹54cr vs a profit of ~₹31cr posted by Wonderla Holidays, during the same period.

**Exhibit 6: Operating margins comparison**


Source: RHP, Angel Research

**Exhibit 7: Debt to equity comparison**


Source: Company, Angel Research

**Expensive Valuation**

For FY2014, Adlabs Imagica reported a top-line of ₹103.7cr and a loss of ₹52.4cr on the bottom-line front. For 1HFY2015, the company has reported a top-line of ₹72.2cr and a net loss of ₹53.3cr.

On the Price to Book value (P/BV; pre-IPO) front, the company is valued at 5.2x 9MFY2015 annualized numbers while its peer Wonderla Holidays is trading at 4.3x 9MFY2015 annualized numbers. The company looks expensive compared to its close peers like Wonderla Holidays which is already making profits and has a healthy balance sheet. Alternatively on EV/sales front, the company is valued at 13.6x (at the lower end of the price band) while its peer Wonderla Holidays is trading at 6.9x (on 9MFY2015 annualized numbers). **Hence, considering all the above factors, we recommend an Avoid on the issue.**

**Exhibit 8: Valuation table (9MFY2015 annualized)**

	AEL	Wonderla Holidays
EV/Sales	13.6	6.9
Price/BVPS (Pre-IPO)	5.2	4.3
Price/BVPS (Post-IPO)	2.7	4.3

Source: Company, Angel Research, Note: Considered lower price band to arrive at implied market cap, EV and Book value

**Risks to upside**

For 9MFY2015, the company has reported ~17% yoy growth in the amusement park business (excludes Aqua Imagica, which has been operational since 3QFY2015). During 3QFY2015 (October to December 2014) the park had footfalls of 2,91,706 which is surprisingly lower than the 2,92,633 footfalls in only two months of 3QFY2014 i.e. (November to December 2013) when the park commenced operations fully. Going forward, if the company reports much higher growth than in the aforementioned 9-month period, then it would be a risk to our recommendation.

**Profit & Loss**

Y/E March (₹ cr)	FY2013	FY2014	1HFY2015
<b>Total operating income</b>	-	104	72
<b>Total Expenditure</b>	6	100	69
Cost of Materials	-	10	6
Personnel Expenses	3	20	20
Others Expenses	3	70	43
<b>EBITDA</b>	<b>(6)</b>	<b>4</b>	<b>3</b>
(% of Net Sales)		3.6	4.7
Depreciation & Amortisation	0	31	37
<b>EBIT</b>	<b>(6)</b>	<b>(27)</b>	<b>(33)</b>
(% of Net Sales)		(25.8)	(46.2)
Interest & other Charges	-	43	54
Other Income	4	3	1
(% of PBT)	(141.9)	(4.9)	(1.3)
Share in profit of Associates	-	-	-
<b>Recurring PBT</b>	<b>(3)</b>	<b>(66)</b>	<b>(86)</b>
Prior Period & Extraordinary Expense/(Inc.)	-	-	-
<b>PBT (reported)</b>	<b>(3)</b>	<b>(66)</b>	<b>(86)</b>
Tax	1	14	33
(% of PBT)	(29.6)	(20.6)	(37.9)
<b>PAT (reported)</b>	<b>(2)</b>	<b>(52)</b>	<b>(54)</b>
Add: Share of earnings of associate	-	-	-
Less: Minority interest (MI)	-	-	-
<b>PAT after MI (reported)</b>	<b>(2)</b>	<b>(52)</b>	<b>(54)</b>
<b>ADJ. PAT</b>	<b>(2)</b>	<b>(52)</b>	<b>(54)</b>
(% of Net Sales)		(50.6)	(74.2)
<b>Basic EPS (₹)</b>	<b>(0.4)</b>	<b>(10.8)</b>	<b>(11.0)</b>
<b>Fully Diluted EPS (₹)</b>	<b>(0.4)</b>	<b>(10.8)</b>	<b>(11.0)</b>

**Balance sheet**

Y/E March (₹ cr)	FY2013	FY2014	1HFY2015
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	46	48	48
Reserves & Surplus	263	265	212
<b>Shareholders Funds</b>	<b>309</b>	<b>314</b>	<b>261</b>
Minority Interest	-	-	-
Total Loans	788	1,140	1,256
Deferred Tax Liability	-	-	-
<b>Total Liabilities</b>	<b>1,097</b>	<b>1,454</b>	<b>1,517</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>	<b>248</b>	<b>1,294</b>	<b>1,269</b>
Capital Work-in-Progress	819	100	196
Investments	-	-	0
Current Assets	87	91	77
Inventories	-	5	9
Sundry Debtors	-	1	20
Cash	30	36	7
Loans & Advances	10	10	11
Other Assets	46	40	30
Current liabilities	57	47	73
<b>Net Current Assets</b>	<b>29</b>	<b>45</b>	<b>4</b>
<b>Deferred Tax Asset</b>	<b>1</b>	<b>14</b>	<b>47</b>
Mis. Exp. not written off	-	-	-
<b>Total Assets</b>	<b>1,097</b>	<b>1,454</b>	<b>1,517</b>

**Cash flow statement**

Y/E March (₹ cr)	FY2013	FY2014	1HFY2015
Profit before tax	(3)	(66)	(86)
Depreciation	0	31	37
Change in Working Capital	66	(9)	26
Interest / Dividend (Net)	0	42	54
Direct taxes paid	(0)	(0)	(0)
Others	0	0	0
<b>Cash Flow from Operations</b>	<b>63</b>	<b>(3)</b>	<b>30</b>
(Inc.)/ Dec. in Fixed Assets	(690)	(358)	(108)
(Inc.)/ Dec. in Investments			
<b>Cash Flow from Investing</b>	<b>(690)</b>	<b>(358)</b>	<b>(108)</b>
Issue of Equity	0	0	0
Inc./(Dec.) in loans	650	366	62
Dividend Paid (Incl. Tax)	0	0	0
Interest / Dividend (Net)	0	0	0
<b>Cash Flow from Financing</b>	<b>650</b>	<b>366</b>	<b>62</b>
Inc./(Dec.) in Cash	24	6	(16)
<b>Opening Cash balances</b>	<b>6</b>	<b>30</b>	<b>36</b>
<b>Closing Cash balances</b>	<b>30</b>	<b>36</b>	<b>19</b>

**Key Ratios**

Y/E March	FY2013	FY2014
<b>Valuation Ratio (x)</b>		
P/E (on FDEPS)	-	-
P/CEPS	-	-
P/BV	3.5	3.4
EV/Sales	-	21.0
EV/EBITDA	-	579.4
EV / Total Assets	4.2	-
Debt/Equity	2.6	3.6
<b>Per Share Data (₹)</b>		
EPS (Basic)	(0.4)	(10.8)
EPS (fully diluted)	(0.4)	(10.8)
Cash EPS	(0.2)	(2.7)
Book Value	63.8	64.7
<b>Turnover ratios (x)</b>		
Asset Turnover (Gross Block)	0.0	0.1
Inventory / Sales (days)	-	17
Receivables (days)	-	2
Payables (days)	-	52
Working capital cycle (ex-cash) (days)	-	(32)

Note: \*Valuation Ratio at the lower price band



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