UFO Moviez India

IPO Note – Valuation attractive; Subscribe

UFO Moviez India (UFO Moviez) is India's largest digital cinema distribution network and in-cinema advertising platform in terms of numbers of screens. It operates India's largest satellite-based, digital cinema distribution network using its UFO-M4 platform, as well as India's largest D-Cinema network.

In cinema advertisement segment to drive overall growth of UFO Moviez: UFO Moviez has reported a strong ~64% CAGR over FY2012-14 in the advertisement segment. As per the Management, the ad segment is a higher growth driver for the company. Further, the company's business model in this segment is reliable and stable due to a large number of single screen players tied up with the company for ad screening. Single screen players are unable to draw advertisement assignments due to their lower scale of operations. Thus they tie-up with companies like UFO Moviez, which have a pan India presence in the ad screening segment.

Going forward, we expect the company to be able to generate strong numbers on the advertisement revenue front on back of (a) higher growth in cinema ad industry. The current industry size is of around ₹490cr, which is expected to grow to around ₹1,380cr by FY2020E which would make UFO Moviez a key beneficiary on this account with it operating 3,700 screens across 1,800 locations across India and (b) with the company planning to increase its advertisement inventory from 3 minutes to 10-15 minutes per movie show.

Market leadership in the digital cinema space: UFO Moviez is India's largest digital cinema distribution network and in-cinema advertising platform in terms of numbers of screens. According to CRISIL, the company has an ~54% market share in India's digital cinema exhibition industry in terms of screens that use digital cinema distribution networks. In terms of advertising screens, the company has a reach of over 3,700 screens across 1,800 locations across India as of October 31, 2014, which according to CRISIL, is six to seven times greater than PVR, the largest cinema chain in India.

Outlook and Valuation: Currently, UFO Moviez looks a tad expensive in terms of PE valuation, partly because of higher depreciation charge (~20% of gross block). Going forward, in our view, the company will be less expensive on a PE valuation basis on the back of higher growth in in-cinema ad segment leading to a higher EPS for the company. Further, incurrence of less capex will bring down the depreciation expense for the company which will boost the bottom-line (as per the Management major business capex is already through). On the EV/EBITDA front, the company is valued at 10.1x (at the upper end of the price band) and on PE front the company is valued at 32.9x (at the upper end of the price band) on the basis of 9MFY2015 annualized numbers. **Considering future growth potential, we recommend a Subscribe on the issue for listing gains as well as for accruing handsome rewards from a long term investment.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014
Net Sales	337	421
Net Profit	33	47
OPM (%)	31.7	31.3
EPS (₹)	12.9	18.0
P/E (x)	48.5	34.8
P/BV (x)	4.7	4.0
RoE (%)	9.6	11.6
RoCE (%)	12.4	13.2
EV/Sales (x)	4.9	3.9
EV/EBITDA (x)	15.4	12.6

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

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Issue Open: April 28, 2015
Issue Close: April 30, 2015

Issue Details
Face Value: ₹10
Present Eq. Paid up Capital: ₹25.9cr
Offer for Sale**: 0.96cr Shares
Post Eq. Paid up Capital: ₹25.9cr
Market Lot: 24 Shares
Offer for sale (amount): ₹600cr
Price Band: ₹615-625
Post-issue implied mkt. cap ₹1,593cr*-1,619cr**

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

Book Building	
QIBs	50%
Non-Institutional	15%
Retail	35%

Pre Issue Shareholding Pattern(%)	
Promoters Group	37.8
MF/Banks/Indian FIs/FIIs/Public & Others	62.2

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Company background

Incorporated in 2004, UFO Moviez India is India's largest digital cinema distribution network and in-cinema advertising platform in terms of numbers of screens. UFO Moviez operates India's largest satellite-based digital cinema distribution network using its UFO-M4 platform, as well as India's largest D-Cinema network. UFO-M4 is a satellite-based, E-Cinema movie delivery platform. "E-Cinema" is a commonly used term to describe various technologies used to digitally deliver movie content other than through D-Cinema. Since the beginning of its operations, UFO Moviez has digitally delivered more than 8,800 movies in India. As on February 28, 2015, UFO's global network spans 6,625 screens worldwide, including 4,911 screens across India and 1,715 screens across Nepal, the Middle East, Israel, Mexico and the USA. UFO provides D-Cinema solutions through its subsidiary Scrabble Entertainment Ltd (Scrabble) in India and overseas. Scrabble's international deployment includes UAE, Bahrain, Qatar, Oman, Kuwait, Lebanon, Jordan and Israel. Post successful deployment in India and the above countries, Scrabble has rolled out DCI solutions in the United States of America and Mexico through associates.

Issue detail

The company's private equity backers are selling their shares in the offer for sale issue via the book building process in the price band of ₹615-625 (face value of shares: ₹10/- each), aggregating up to ₹600cr. Private equity investors such as 3i Research (Mauritius) Ltd and P5 Asia Holding Investments (Mauritius) Ltd (P5), and promoters will pare their stakes through the IPO. The offer for sale will constitute ~37% of the post-issue paid-up equity share capital of the company.

Objects of the offer

- Achieve benefits of listing equity shares on the stock exchanges; and
- Enable sale of equity shares for selling shareholders.

Key investment arguments

UFO Moviez to benefit from in-cinema ad industry growth of ~19% CAGR over next 5 years

Increase in number of multiplexes and digitization of screen has created strong footfalls in theatres which is attracting advertisers to increase the share of ad budget in cinema advertising. The current industry size is of around ₹490cr which is expected to grow to around ₹1,380cr by FY2020E (ie a CAGR of 19%) on back of growth in number of screens and improvement in overall GDP.

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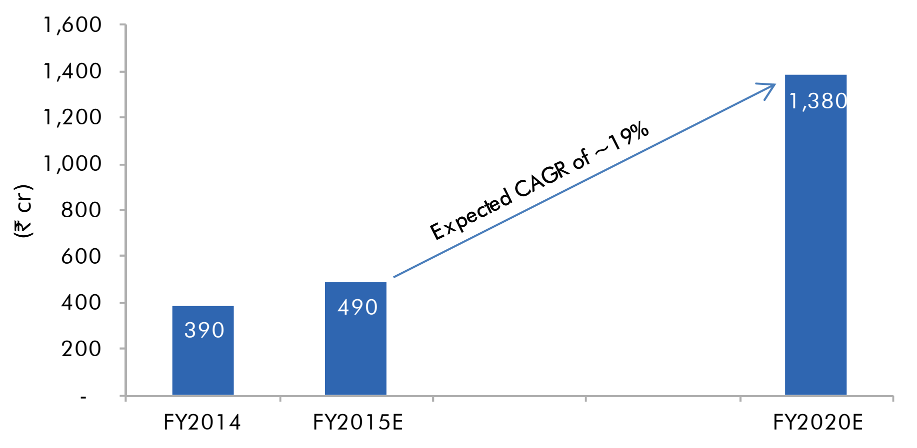
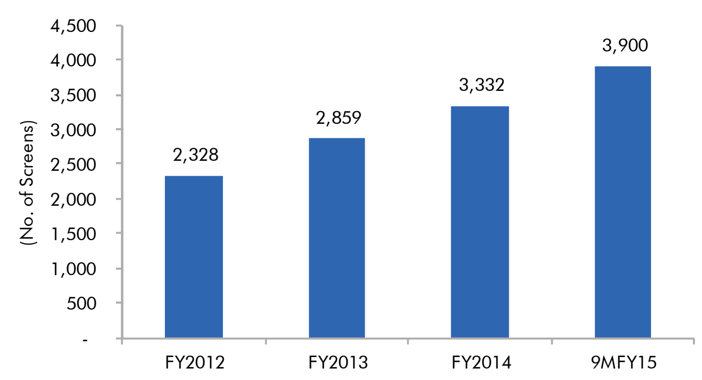
Exhibit 1: Projected growth in cinema advertising industry



Source FICCI-KPMG, Angel Research

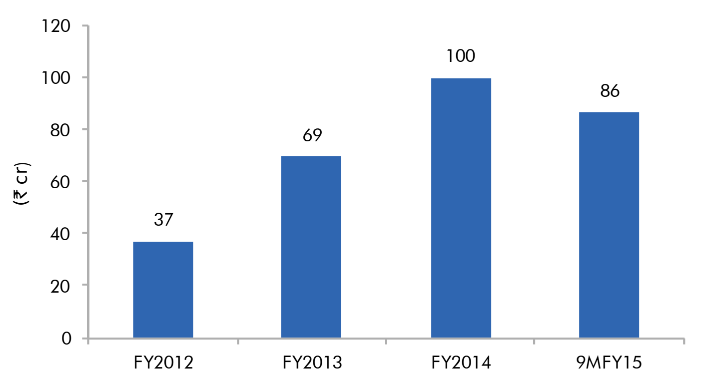
Normally in-cinema advertising comes from three main sources (a) private companies, (b) government agencies and (c) local businesses. Typically companies in the FMCG, financial services, telecom, mobile phone manufacturing, healthcare and airlines use in-cinema advertising. Government agencies award their advertisements to the advertisement agencies empanelled with them. The advertisement agencies in turn deal directly with large multiplex chains such as PVR and Inox to play the advertisements, and with digital integrators like UFO Moviez to air the advertisements at single screens at remote locations.

Exhibit 2: No. of ad screens



Source: RHP, Angel Research

Exhibit 3: In cinema ad revenue trend



Source: RHP, Angel Research

UFO Moviez is planning to increase its ad inventory from 3 minutes to 10-15 minutes to generate more revenue by tapping growing ad markets.

Currently UFO Moviez has more than 3,900 screens, out of which, ~1,500 screens don't have advertisement rights (they sell their own advertising inventory) which includes PVR, Inox, etc. As of now, the company has an average inventory of 3 minutes per movie show as compared to 15 minutes inventory per movie show for PVR, Inox, cinema multiplexes etc. According to the company, the in-cinema advertising segment would undergo substantial growth in the coming years. The company is planning to increase its ad inventory from 3 minutes to 10-15 minutes to generate more revenue by tapping growing ad markets. Currently, the company caters to corporates and government and is planning to tap the local retail market by providing tailor-made services. The company is also sharing a portion of advertisement revenue with exhibitors. The company has reported strong revenue growth in this segment, ie of around 64% (CAGR) over FY2012-14. Further, we expect the company to report strong numbers on back of wide reach. The company has a reach of over 3,700 screens spanning 1,800 locations across India, which attracts advertisers.

Exhibit 4: Comparison of major peers

	Ad screens	Ad revenue (₹ bn)	No. of locations
PVR	*454	1.4	107
Inox	*298	0.5	92
UFO Moviez	**3,709	1.0	3,532

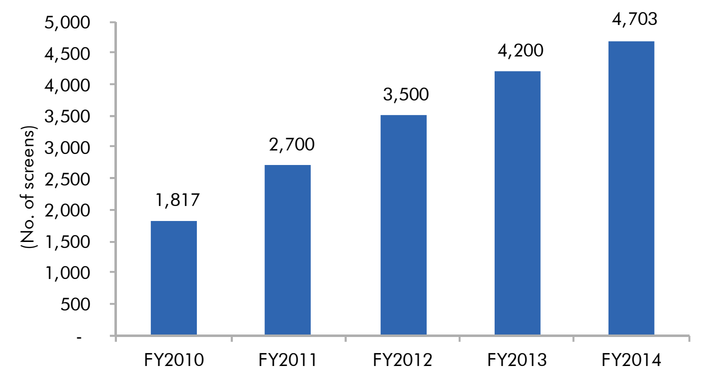
Source: RHP, Angel Research, Note: as of 30th September 2014, ** as of 31st October 2014*

Leading player in the digital cinema space with market leadership in number of screens

According to CRISIL, the company has an ~54% market share in India's digital cinema exhibition industry in terms of screens that use digital cinema distribution networks

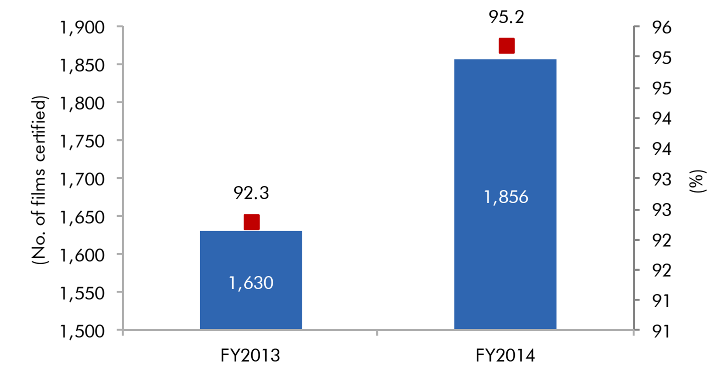
UFO Moviez provides end-to-end, high-quality digital cinema solutions which has made it an essential partner for movie producers, distributors and exhibitors in India. We believe that this has helped the company in creating a leading digital cinema distribution network, in terms of market share, size and scale. According to CRISIL, the company has an ~54% market share in India's digital cinema exhibition industry in terms of screens that use digital cinema distribution networks. The company has grown the number of screens that use digital cinema distribution network in India from 1,817 as of March 31, 2010 to 4,911 as of February 28, 2015.

Exhibit 5: UFO Moviez's no.of screens in India



Source: RHP, Angel Research

Exhibit 6: Market share in no. of films certified

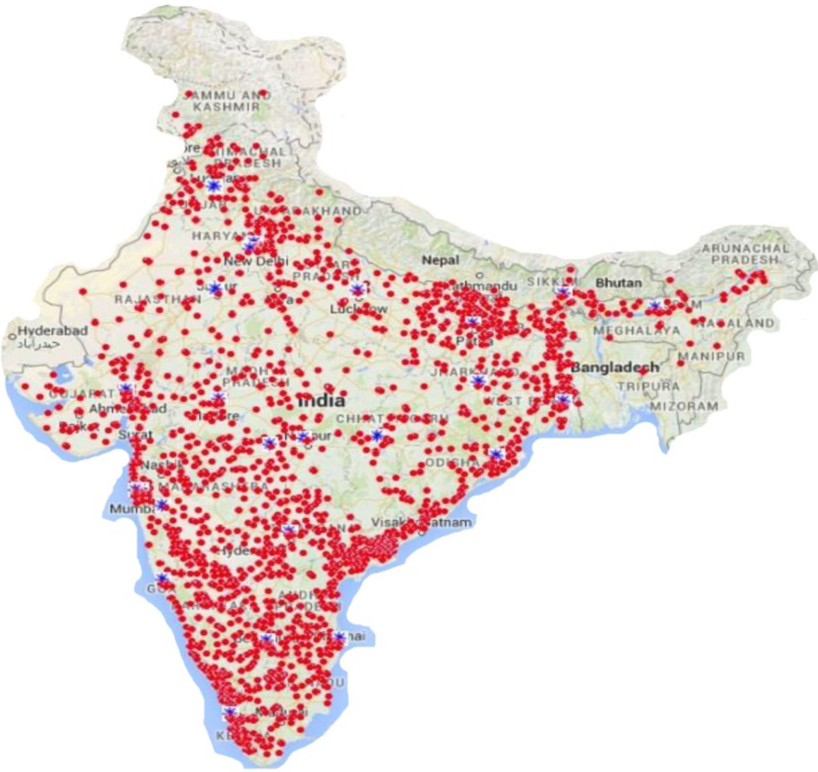


Source: CRISIL, RHP, Angel Research,

UFO Moviez released 1,504 and 1,767 films, respectively, representing 92.3% and 95.2% of the total number of films certified in the respective years

According to CRISIL, the number of films certified in India for fiscal years 2013 and 2014 was 1,630 and 1,856, respectively. Out of these, UFO Moviez released 1,504 and 1,767 films, respectively, representing 92.3% and 95.2% of the total number of films certified in the respective years.

Exhibit 7: Strong reach in terms of number of screens



Source: RHP, Angel Research

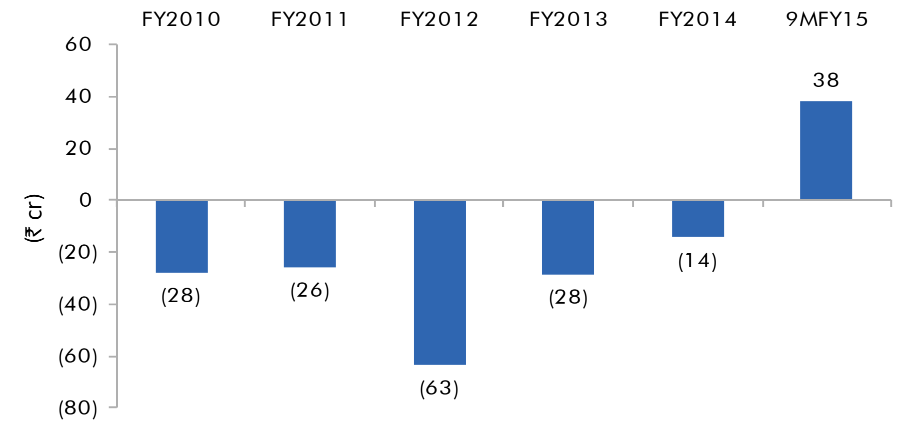
The company has further established its market share with pan-India presence, with a network of sales offices and service centres with field engineer staff across India, and a dedicated workforce, with in-house teams for software development, advertisement sales and repairs and maintenance. Further, according to CRISIL, the Indian film industry is expected to continue growing despite growth of digital entertainment (ie entertainment delivered through mobile and the internet). We believe these factors position the company well for future growth.

Expected to generate higher cash flow

UFO Moviez has invested around ₹455cr in its business in the last five years (until FY2014)

Going forward, we expect the company to be able to generate higher cash flows due to its high profitability. UFO Moviez has invested around ₹455cr in its business in the last five years (until FY2014) while in 9MFY2015 it has been able to restrain its investments to just ~₹31cr. As per the Management, the company has met most of its capex requirements in the near to medium term and going forward, further capex would be restricted with the company expecting a capex of just ₹25-30cr over the next 3-4 years.

Exhibit 8: Historical free cash flow trend of UFO Moviez



Source: RHP, Angel Research

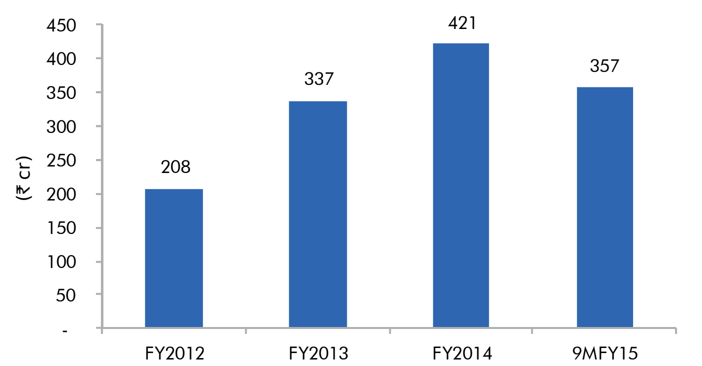
Strong financials and robust growth track record

The company has reported total revenue CAGR of ~42% and profit after tax (PAT) CAGR of ~227% over FY2012-14 on the back of growth in number of screens and strong growth in ad revenue

The company has reported total revenue CAGR of ~42% and profit after tax (PAT) CAGR of ~227% over FY2012-14 on the back of growth in number of screens and strong growth in ad revenue. Also the company has grown in segments like virtual print fees (both for E-cinema and D-cinema), lease rental income, digitization income and sale of products (sale of digital cinema equipments and lamp). Going forward, we believe that the company will be able to increase its net revenue owing to expansion in number of screens and higher growth in the advertisement segment (on back of increase in inventory sales; the company is increasing its advertisement inventory from 3 minutes to 10-15 minutes).

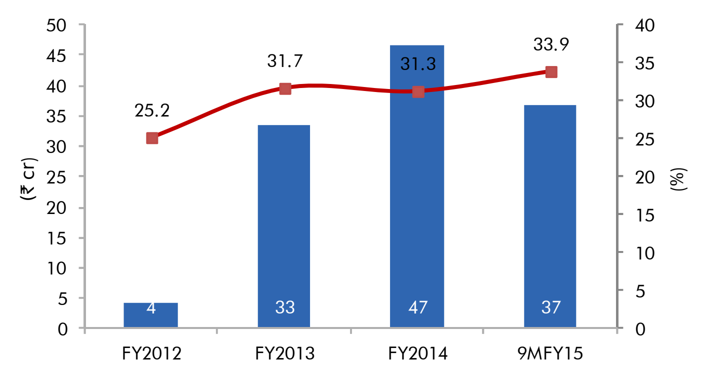
In FY2010 and FY2011, the company reported losses due to lower revenue growth and higher operating expenditure (initial stage of business operating). However, since the last 3 years, the company has reported strong profitability due to higher revenue turnover and improvement in operating margin. Hence, going forward, we believe that the company would be able to increase operating margin and profitability owing to increase in advertisement inventory which will result in additional revenue with the same operating costs. Hence, going forward, we expect UFO Moviez to deliver a strong performance on both the top-line and the bottom-line front.

Exhibit 9: Historical revenue trend



Source: RHP, Angel Research

Exhibit 10: Historical Operating Margin & PAT trend



Source: RHP, Angel Research

Outlook and Valuation

The company is India's largest digital cinema distribution network and in-cinema advertising platform in terms of numbers of screens. Also, the company has reported a total revenue CAGR of ~42% and PAT CAGR of ~227% over FY2012-14 on the back of growth in the numbers of screens and strong growth in cinema ad revenue. We expect this growth to continue on back of improving economy which would drive the ad segment. Over the next 3-4 years, the company would have a higher focus on the cinema ad segment. Further, the increase in the number of screens in India would help the company to generate additional revenue for the company.

Currently, UFO Moviez looks a tad expensive in terms of PE valuation, partly because of higher depreciation charge (~20% of gross block). Going forward, in our view, the company will be less expensive on a PE valuation basis on the back of higher growth in in-cinema ad segment leading to a higher EPS for the company. Further, incurrence of less capex will bring down the depreciation expense for the company which will boost the bottom-line (as per the Management major business capex is already through). On the EV/EBITDA front, the company is valued at 10.1x (at the upper end of the price band) and on PE front the company is valued at 32.9x (at the upper end of the price band) on the basis of 9MFY2015 annualized numbers. **Considering future growth potential, we recommend a Subscribe on the issue for listing gains as well as for accruing handsome rewards from a long term investment.**

Key investment concerns

Competition could hurt market share

As of now there is no big player in this segment and the company is the market leader in terms number of screens in India. Entry of new players in this segment will create competition for the company which could lead to loss in market share and it will resultantly affect the profitability of the company.

Slowdown in Indian economy would impact overall ad spend

The company's ~25% revenue comes from in-cinema advertisement segment where the government and corporates are the major client segments. A slowdown in the economy could affect the spending from these client segments which will resultantly affect the company's overall earnings.

Consolidated Profit & Loss

Y/E March (₹ cr)	FY2013	FY2014	9MFY15
Total operating income	**337**	**421**	**357**
% chg	*62.5*	*24.8*	*-*
Total Expenditure	**231**	**289**	**236**
Operating direct costs	128	167	140
Personnel Expenses	45	55	43
Others Expenses	58	68	53
EBITDA	**107**	**132**	**121**
% chg	*104.5*	*23.1*	*-*
(% of Net Sales)	*31.7*	*31.3*	*33.9*
Depreciation& Amortisation	54	65	57
EBIT	**53**	**66**	**64**
% chg	*299.7*	*24.2*	*-*
(% of Net Sales)	*15.8*	*15.7*	*18.0*
Interest & other Charges	15	20	16
Other Income	3	3	4
(% of PBT)	*7.5*	*6.9*	*7.0*
Recurring PBT	**41**	**50**	**52**
% chg	*375.6*	*20.8*	*-*
Prior Period & Extraordinary Expense/(Inc.)	-	-	-
PBT (reported)	**41**	**50**	**52**
Tax	2	(1)	13
(% of PBT)	*5.8*	*(2.2)*	*24.4*
PAT (reported)	**39**	**51**	**39**
Add: Share of earnings of associate	0	(1)	1
Less: Minority interest (MI)	6	4	4
PAT after MI (reported)	**33**	**47**	**37**
% chg	*666.0*	*39.4*	*-*
(% of Net Sales)	*9.9*	*11.1*	*10.3*
Basic EPS (₹)	**12.9**	**18.0**	**14.2**
% chg	*666.0*	*39.4*	*-*

Consolidated Balance sheet

Y/E March (₹ cr)	FY2013	FY2014	9MFY15
SOURCES OF FUNDS			
Equity Share Capital	26	26	26
Reserves& Surplus	321	374	416
Shareholders Funds	**347**	**400**	**442**
Minority Interest	11	15	7
Total Loans	85	101	99
Deferred Tax Liability	-	-	-
Total Liabilities	**443**	**516**	**548**
APPLICATION OF FUNDS			
Net Block	**268**	**346**	**318**
Capital Work-in-Progress	31	20	15
Investments	13	11	15
Goodwill	131	137	168
Current Assets	**183**	**216**	**278**
Inventories	11	10	9
Sundry Debtors	75	91	134
Cash	42	52	54
Loans & Advances	46	53	61
Non-current trade receivables	0	0	-
Other Assets	9	11	21
Current liabilities	186	227	265
Net Current Assets	**(3)**	**(11)**	**13**
Deferred Tax Asset	**2**	**13**	**19**
Mis. Exp. not written off	-	-	-
Total Assets	**443**	**516**	**548**

Consolidated Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	9MFY15
Profit before tax	41	50	52
Depreciation	54	65	57
Change in Working Capital	(21)	2	(33)
Interest / Dividend (Net)	14	19	15
Direct taxes paid	(8)	(17)	(23)
Others	4	1	0
Cash Flow from Operations	84	120	69
(Inc.)/ Dec. in Fixed Assets	(99)	(146)	(51)
(Inc.)/ Dec. in Investments	(11)	3	(5)
Cash Flow from Investing	(110)	(143)	(56)
Issue of Equity	-	-	-
Inc./(Dec.) in loans	55	41	(3)
Interest / Dividend (Net)	(14)	(18)	(15)
Cash Flow from Financing	42	23	(19)
Inc./(Dec.) in Cash	17	0	(5)
Cash & cash equivalents acqd from subsid.	-	1	0
Unrealised Gain/(Loss) on Forex	(1)	2	3
Opening Cash balances	15	30	34
Closing Cash balances	30	34	32

Key Ratios

Y/E March	FY2013	FY2014
Valuation Ratio (x)		
P/E (on FDEPS)	48.5	34.8
P/CEPS	18.6	14.5
P/BV	4.7	4.0
EV/Sales	4.9	3.9
EV/EBITDA	15.4	12.6
EV / Total Assets	0.3	0.2
Per Share Data (₹)		
EPS (Basic)	12.9	18.0
EPS (fully diluted)	12.9	18.0
Cash EPS	33.6	43.3
Book Value	133.8	154.5
Returns (%)		
ROCE	12.4	13.2
Angel ROIC (Pre-tax)	14.2	15.1
ROE	9.6	11.6
Turnover ratios (x)		
Asset Turnover	1.3	1.2
Inventory / Sales (days)	11	8
Receivables (days)	82	79
Payables (days)	38	51
Working capital cycle (days)	55	36

Note: Valuation Ratio at the upper price band

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