Midvalley Entertainment Ltd. - IPO Note

Issue Details	Particulars
Issue Date	January 10, 2011 – January 12, 2011
Issue Size	Rs. 602 - 650 mn
Price Band	Rs. 64-70
FV	Rs.10
Fresh Issue	9.4 equity shares
Equity shares prior to issue	25.6 mn equity shares
Equity shares post issue	35 mn equity shares
Post issue market capitalization	Rs. 2,240 mn- Rs.2,450 mn
IPO Rating	Grade 3 by CRISIL
Issue Manager	Aryaman Financial Services Ltd.

About the company

Midvalley Entertainment Ltd. is a film production, distribution and exhibition company, actively engaged in the media and entertainment industry in South India. It has presence in the media and entertainment activity from concept to completion i.e. from script to screen.

The company produces, distributes and exhibit movies both in Indian and foreign languages. In addition, it also holds the music, video and television rights of movies, television serials for sales to TV Channels and other emerging media sources. The company intends to emerge as one of the leading theatre chain in Southern India. In this quest, the company has currently entered into screening agreements with 46 theatres in distribution territories of Hyderabad and Tamil Nadu.

It also plans to foray into the field of Combined Entertainment Plexes (CEPs) and Drive-In Open air theatres by way of organic as well as inorganic growth.

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Objects of the issue

Particulars	Amount (Rs in mn)
Entering into screening agreements with 300 cinema theatres	150
Renovation and up gradation of cinema infrastructure with digital equipment and other related assets for select 100 screens	259.5
Acquisition of company, acquisition of screening rights of company having similar line, range and objects of business	120
General Corporate Expenses	-

Risk and concerns

1) **Non payment of income tax:** The company has not been able to pay its undisputed income tax dues of Rs 91.40 million plus interest (provided in books) and is negotiating with tax authorities for deferring payments. Company`s bank accounts and property have also been attached.

2) **Cropping up of exceptional items:** The company has a history of exceptional item cropping up. Amortization of satellite and distribution rights has significantly impacting the profitability of the company. Rs. 87 mn was amortized towards the same in FY09, Rs 50 mn in FY10 and Rs 16 mn in Q1FY11. This poses a concern on the company's ability to acquire quality rights at appropriate prices. With this trend, it poses serious threat to the profitability of the company in the future.

3) **Poor working capital cycle:** It has witnessed poor efficiency in terms of managing its debtors and inventory. Over the period FY08-10, debtors days have increased from Rs. 92 days to 815 days implying poor quality of efficiency and a rare case. In addition to this, inventory days have worsened from 56 days to ~400 days in FY10.

Outlook and recommendation:

With due consideration to factors like a) non payment of income tax, b) poor working capital cycle in the industry, c) frequent repetition of exceptional items affecting profitability, we strongly recommend to **'AVOID'** the issue.

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