



Founded in 2004, Moviez India Limited ("UFO") is the India's largest digital cinema distribution network and in-cinema advertising platform (in terms of numbers of screens). UFO operates India's largest satellite-based, digital cinema distribution network using their UFO-M4 platform (satellite based E- cinema movie delivery platform), as well as India's largest D-Cinema network. In fiscal year 2014, company digitally delivered more than 1,500 movies in 22 languages to 4,703 screens with aggregate seating capacity of approximately 2.15 million viewers spread across India. Since the beginning of the operations, UFO has digitally delivered more than 8,800 movies in India. As at Feb. 28, 2015, their global network spans 6,626 screens worldwide, including 4,911 screens across India and 1,715 screens across Nepal, the Middle East, Israel, Mexico and the USA. It has created a pan - India, high impact, in cinema advertising platform with generally long term advertising rights to 3,770 screens, with an aggregate seating capacity of ~1.85 mn. Viewers and a reach of over 1,800 locations across India, as at Feb. 28, 2015. UFO receive revenues primarily from a) advertisers, through in-cinema advertising, b) movie producers and distributors, for the secured delivery and screening of their movies and c) exhibitors, through equipment rental and sales for digital cinema equipment.

Significant market share

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.

Value addition to all stakeholders

UFO adds value to all stakeholders in the movie value chain, spanning movie producers, distributors, exhibitors and the cinema-going audience. They provide value to movie producers and distributors by reducing distribution costs, providing reach to a wide network of over 4,911 screens across India as at February 28, 2015, providing a faster method of delivery of content, and reducing piracy through encryption and other security measures. They provide value to movie exhibitors throughout India by providing access to first day release of movies on their digital platform.

Strong Financial Performance

The company has reported robust total revenue CAGR of ~42% and an impressive 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. In addition, 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).

Outlook, Valuation and Recommendation

At the upper band of the issue price, UFO is valued at 30x 9MFY15 Annualised EPS of Rs. 20.9. With due consideration to factors like a) early mover advantage and market leadership in digital cinema distribution, b) strong profitability with diversified and visible revenue streams, c) strong past financial performance and robust growth track record, d) historical free cashflow trend of UFO, e) depreciation expense to reduce owing to less capex going forward (Rs. 25- 30 crs. over the next 3-4 years) which will improve PAT, f) favorable capital structure, g) company would be able to generate higher cash flows on account of UFO's high profitability and it has met most of its capex requirements (invested ~Rs. 455 crores in the last five years), we believe valuations deserves a premium, hence we recommend "SUBSCRIBE".

Issue date	April 28 - 30, 2015			
Issue size	Rs. 6 bn at upper end of the price band (Offer for sale)			
Face Value	Rs.10			
Price Band	Rs. 615 - 625 per share			
Lot size	24 equity Shares and in multiples of 24 equity shares thereof			
Issue structure	QIB: 50% Retail: 35% Non - Institutional: 15%			
Type of issue	Offer for sale: 9.6 mn equity shares by 3i Research (Mauritius) Ltd., P5 Asia Holding Investments (Mauritius) Ltd., Valuable Media Ltd., Valuable Technologies Ltd., Sanjay Gaikwad, Narendra Hete, Raaja Kanwar and others			
Equity shares post issue	25.89 mn equity shares			
Post issue market capitalization	Rs. 16.1 bn at upper price band			
Book Running Lead Managers	Axis Capital, Citigroup Global Markets India Pvt. Ltd.			
Registrar to the issue	Karyv Computershare Pvt. Ltd.			
Shareholding Pattern (%)	Pre Issue			
Promoters group	37.8			
MF/Banks/Indian FIs, FIs/Public & Others	62.2			
Total	100			
Y/e 31 Mar (Rs. cr)	9MFY15	FY14	FY13	FY12
Total income	354.74	420.43	336.23	206.7
Growth (%)	-	25.04	62.67	89.98
EBITDA	121.04	131.70	106.95	52.30
EBITDA Margin (%)	34.12	31.33	31.81	25.30
Reported PAT	40.62	50.09	39.07	6.15
PAT margin (%)	11.45	11.91	11.62	2.98
Post issue EPS (Rs.)	13.04	16.77	11.70	0.62
Equity Capital	25.90	25.90	25.90	25.90
Networth	438.81	397.08	343.44	306.62
RoE (%)	7.69	10.94	8.82	0.41



Objects of the issue

- 1) **Achieve benefits of listing equity shares on the stock exchanges; and**
- 2) **Enable sale of equity shares for selling shareholders** - The Company's 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.

Recent development

Proposed Acquisition of Valuable Digital Screens Private Limited (“VDSPL”)

On December 18, 2014, company has entered into an investment agreement with Valuable Technologies Limited (“VTL”) one of the Promoters, VDSPL and other parties for the acquisition of entire equity shares of VDSPL. VDSPL is an India-based business that has two primary operations:

- The “Club Cinema” business provides digital screening of movies in clubs and community centres at private screens, such as remote industrial townships, corporate auditoriums, educational institutions and other leisure and entertainment complexes. Club Cinema provides a complete digital cinema solution for screening of recently released films outside of traditional cinemas, facilitating content acquisition for such screening from movie producers and distributors and renting and provision of digital cinema equipment.
- The “Caravan Cinema” business provides movie screenings with low capital expenditures in targeted rural areas, especially “Haats” (weekly market place at villages), creating a unique opportunity for advertisers to reach a captive audience by partnering with various brands. Currently, movies are screened free to viewers and Caravan Cinema derives its revenues through advertising.

Key risks and concerns

Future competition may affect business operations

At present, apart from UFO, there is no major 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.

Decline in single screens to affect 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.



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