

Adlabs Entertainment Ltd. (AEL) : "High risk investors can Subscribe for listing gains "

10th March, 2015

The Company founded by Media & Entertainment Industry veteran Mr. Manmohan Shetty (more than 3 decades of experience, former promoter of Adlabs Films Limited, one of India's largest entertainment companies) owns and operates, Imagica – The Theme Park, which is one of the leading theme parks in India. The theme park 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, delivering memorable experiences, with a strong value proposition. Adlabs Mumbai also 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. Adlabs Mumbai, spread over an aggregate area of approximately 132 acres, is located at Khalapur, which is 74 kilometres from Mumbai, off the Mumbai – Pune Expressway. The two parks together have a combined daily capacity of 20,000 visitors. Apart from the promoters, ICICI ventures and Jacob Ballas have invested Rs 1.44bn and Rs. 500mn respectively. The capital structure currently consists of Rs 11bn of debt and Rs 5.5bn of equity. Of the total Rs 16.5 bn, Rs 13bn has been invested in the theme park (Imagica), Rs 2bn in the hotel and the remaining Rs 1.5bn in the water park (Aquamagica).

Adlabs Mumbai has had a footfall of ~1.7mn (as of Jan 2015) with a total annual capacity of 7mn and an expected utilisation rate of ~60% (peak capacity of Imagica is 15,000 visitors a day and Aquamagica is 5,000 visitors a day). Imagica is an all season theme park with over 70% rides and queuing areas covered allowing the park to be open even during the monsoon months. The theme park does 40% of its business in the first half of the year and the remaining 60% in the second half indicating a seasonality factor in the business.

The Company's objective is to take advantage of cross selling opportunities offered by these two different entertainment experiences. It intends to position Aquamagica as a destination for young party-goers and host Bollywood and electronic dance music events where popular Indian and international artists and DJs perform at its '#gowiththeflow' weekend events. For the period commencing on September 25, 2014, when some of the rides and attractions were open to the public, up to December 31, 2014, the total number of guests hosted at its water park was 90,940. AEL has also entered into a memorandum of understanding with ACME Entertainment, which will conceptualize, construct, install, erect and run on a build, own, operate and transfer basis, a snow park at Adlabs Mumbai and share a portion of ticket sales for the snow park with AEL. With addition of the water park, the soon-to-be-launched hotel and the snow park, the management believes it will be able to enhance guest experience at Adlabs Mumbai and position Adlabs Mumbai as a wholesome entertainment destination.

At the upper band of the issue price, AEL is valued at 2.10 x Post issue Book Value and 3.36x (pre IPO). With due consideration to factors like a) play on India's consumption story, b) uniquely positioned to capitalize on the increasing propensity of Indians to spend on entertainment, c) strategically located in an attractive catchment area, d) competitive advantage through entry barriers (the initial payback period is estimated to be 5-7 years (which is a large entry barrier), e) enjoys high operating leverage and underutilized assets like Hotel and Aquamagica would contribute significantly in future financials and improve return ratios, f) debt repayment post IPO would improve capital structure, g) pre IPO placement to ICICI Venture and NYLIM Jacob Ballas instills confidence on the Business Model and Promoters quality, we recommend "High risk investors can subscribe for listing gains.

Issue date	Mar. 10– 12, 2015		
Issue size	Rs. 4,674 mn at upper end of the price band		
Face Value	Rs.10		
Price Band	Rs. 221 - 230 per share		
Discount	Rs. 12 for retail investors		
Lot size	65 equity Shares and in multiples of 65 equity shares thereof		
Issue structure	QIB: 75% Retail: 15% Non – Institutional: 10%		
Type of issue	Fresh issue – 18.32 mn equity shares  Offer for sale – 2 mn equity b by promoter group (Thrill Park Ltd.)		
Equity shares post issue	79.90 mn equity shares		
Post issue market capitalization	Rs. 18,377 mn at upper price band		
Book Running Lead Managers	Deutsche Equities Centrum Capital Kotak Mahindra Capital		
Registrar to the issue	Link Intime India Private Ltd.		
Shareholding Pattern (%)	Pre Issue	Post Issue	
Promoters group	77.01	56.84	
MF/Banks/Indian Fls, Fls/Public & Others	22.99	43.16	
Total	100	100	
Y/e 31 Mar (Rs. mn)	H1FY15	FY14	FY13
Total income	733	1,069	35.5
EBITDA	45.65	69.66	(24.96)
EBITDA Margin (%)	4.7	3.6	-
Reported PAT	(535.19)	(524.82)	(17.64)
PAT margin (%)	-	-	-
Post issue EPS (Rs.)	(11.0)	(10.8)	(0.4)
Equity Capital	484.63	484.63	458.72
Networth	2600.26	3135.45	3090.27
Book value per share	-	63.8	64.7

## Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400  
mail : research@ajcon.net Website : www.ajcononline.com

## Objects of the issue

The Company proposes to utilize the Net Proceeds towards funding the following objects:

- 1) Partial repayment or pre – payment of the Consortium Loan to the extent of Rs. 350 crores
- 2) General corporate purposes

## Concerns

The Company is in nascent stage of its operations with high debt of Rs. 1,256 crores. Even post IPO, the debt would remain high. High interest cost would affect PAT for some years. The park also witnessed few accidents which pose questions on the safety of the rides and affects brand image. The Company's immediate peer is profit making with strong balance sheet. Further, Wonderla Holidays is cheaper than AEL on valuation terms. In terms of EV/Sales, AEL is valued at 18.1x on annualized H1FY15 financials as compared to Wonderla Holidays trading at 6.9x annualized EV/sales.

## Disclaimer

The content in this research report has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. The content in the research report should not be research reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global Services Ltd. would not be responsible for any loss to the investors; they should verify all the fundamentals before investing. Investors should not solely rely on the information contained in this research report and must make investment decisions based on their own investment objectives, goals, risk profile, financial position and based on their own analysis.. The securities discussed in this research report may not be suitable for all investors. The recipients of this material should take their own professional advice before acting on this information. Ajcon Global Services Ltd., its directors and employees, will not in any way be responsible for the contents of this research report. This is not an offer to sell or a solicitation to buy any securities.

Ajcon Global Services Ltd. proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in Futures and Options Segment, and buy or sell the securities in Cash market thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this research report certifies that all of the views expressed in this research report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this research report. Ajcon Global Services Ltd., may be considered as interested party in view of its relationship as the financial advisors and consultants to some of the companies discussed in the research report.



### For research related queries contact:

Mr. Akash Jain – Vice President (Research) at [research@ajcon.net](mailto:research@ajcon.net), 022-67160443 (D)

CIN: L74140MH1986PLC041941

**Website:** [www.ajcononline.com](http://www.ajcononline.com)

### Corporate and Broking Division

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

### Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40

### Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400  
mail : [research@ajcon.net](mailto:research@ajcon.net) Website : [www.ajcononline.com](http://www.ajcononline.com)