

**Adlabs Films Limited****Buy**

CMP : Rs 60  
Face value : Rs 5  
P/E(FY03) : 7.8

52-week H/L : Rs 69/35  
Aug month H/L : Rs 63/53  
Mkt cap : Rs 129 cr

**Background & Business**

Adlabs has been primarily involved in motion pictures film developing and processing business. It is known for its high quality of work and has captured over 70% of the western market. This effectively means that the company controls almost 50% of the total film processing market in the country. It also generates considerable amount of revenues by trading in raw filmstrips.

After the successful public offer in 2000, the company established world's largest IMAX dome theatre with a screen size of 12,700 sq.ft, which is accompanied by 12,000 watts of astounding wrap sound. It also operates multiplex theatres under the exhibition business division. Last fiscal, it ventured into film production business through a wholly owned subsidiary Entertainment One India.

**Investment Positives**

- **Theatre operations show encouraging growth:** In addition to steady growth in its core business of film processing, the company is witnessing strong growth in exhibition business (IMAX and multiple theatre). Revenues from exhibition business grew 82% to Rs 17.5 cr in FY03. Adlabs is aggressively expanding this business with multiplex projects in Mumbai (Borivili and Metro) and Pune (Vascon). This will result significant upside in future.
- **Entertaining prospects:** The first movie release 'Gangajal' from its wholly owned subsidiary Entertainment One India, has received favourable response. The next movie 'Main Madhuri Dixit Banna Chahti Hun' (with Ram Gopal Verma) is slated to release shortly. It will be followed by two movies 'Inteha' and 'Munnabhai MBBS' in the next quarter. Given the upside from movie production business, the company's consolidated performance

is expected to be robust in the coming quarters. In FY03, Entertainment One had zero revenues and posted net loss of Rs 10 lakh.

- **Digital delight:** Adlabs is betting heavily on Digital cinema project. Through its new subsidiary, Adlabs has tied up with HongKong-based GDC Technology to develop digital film technology for encoding, encryption, storage and exhibition of motion pictures. The aim is to fill in the gap between the new films released in metros as compared to B & C class cities. This time gap usually leads to piracy and huge losses for film producers and exhibitors. If successful, this project can considerably accelerate the company's growth in the coming years. The company is investing around Rs 10 cr in the project.

**Latest Results**

For FY03, consolidated revenues grew 28% to Rs 78 cr. Net profit registered growth of 61% to Rs17 cr as compared to Rs 10.3 cr in FY02 reflecting increase in prints processed due to higher number of releases, increase in theatre income, benefit of entertainment tax exemption and efficient cost cutting initiatives adopted by the company.

In film processing, revenues were higher by 24% at Rs 34 cr as compared to Rs 28 cr in the previous year. In 2002-03, Adlabs processed 16 million ft of 35mm motion pictures negative film and 188 million ft of 35 mm motion picture print film as compared to 14 million ft of negative and 160 million ft print film respectively last year. Further, 84 Hindi feature films were processed as against 53 films processed and released last year.

Ticket sales of Imax Dome Theatre stood at Rs 5.4 cr while the four screen multiplex theatre recorded its first full year's ticketing

sales at Rs 7.7 cr in FY03. Income from cafe sales, advertising and retailing was Rs. 3.7 cr.

Adlabs had a disappointing start for the current fiscal. The difference between producers and distributors led to unprecedented delay in release of new films in the first two months of this fiscal. Thus, revenues and earnings declined sharply in Q1FY04. Similarly, the performance was hit by the Cricket world-led slowdown in movie releases in the previous quarter i.e. Q4FY03.

### Valuation

Notwithstanding the lackluster performance in the last two quarters, we expected the

company to post robust growth in revenues and earnings in second and third quarter of the current fiscal. The slew of new movie releases this quarter coupled with upside from launch of movies produced through its subsidiary Entertainment One India should boost its performance. Over the long term, the backward integration in film production and aggressive plans for film exhibition business will lead to steady growth in coming years.

At the CMP of Rs 60 the stock is trading at 7.8 times its FY03 earnings of Rs 7.7 per share and 5.4 times FY04 estimated earnings. We recommend a buy.

## Financial Snapshot

### Quarterly performance

(Rs crore)	Q2FY03	Q3FY03	Q4FY03	Q1FY04	YoY(%)
Net Sales	18.5	18.4	16.1	18.1	-14.5
Operating Profit	7.9	7.9	6.2	7.2	-22.4
PBT	6.6	6.5	4.6	5.9	-25.8
Net Profit	4.2	4.1	2.7	3.8	-30.8
Equity Capital	10.7	10.7	10.7	10.7	
EPS(Rs)	2.0	1.9	1.3	1.8	
<b>Margins(%)</b>					
OPM	42.7	42.9	38.5	39.8	
NPM	22.7	22.3	16.8	21.0	

### Annual Performance

(Rs crore)	FY02	FY03	YoY(%)	FY04E
Net Sales	61.0	78.1	28.1	101.5
Operating Profit	20.8	32.1	54.3	42.3
PBT	16.1	26.8	66.5	35.1
Net Profit	10.3	16.6	61.2	23.8
Equity Capital	10.7	10.7		10.7
EPS(Rs)	4.8	7.7		11.2
<b>Margins(%)</b>				
OPM	34.1	41.1		41.8
NPM	16.9	21.2		23.4

**Analyst : Gaurav Dua**  
gaurav.dua@moneycorp.com