

# COMPACT DISC INDIA LTD

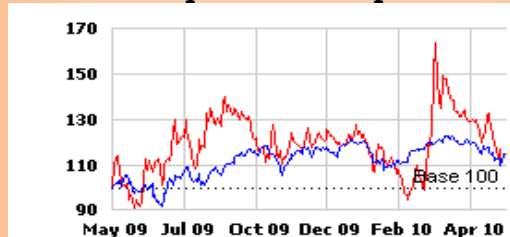
## BUY

April 29<sup>th</sup>, 2010

C.M.P:  
Rs.61.60

Target Price:  
Rs.80.00

### 1 Year Comparative Graph



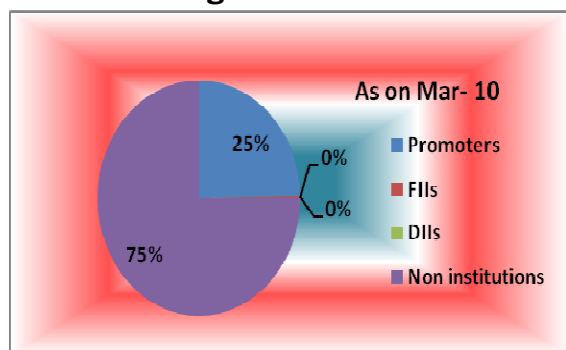
COMPACT DISC INDIA LTD

BSE SENSEX

### Stock Data

Sector	Media & Entertainment
Face Value(Rs)	Rs.10.00
52 wk. High/Low (Rs.)	Rs.95.90/46.85
Volume (2 wk. Avg.)	39000
BSE Code	526141
Market Cap(Rs in Mn)	589.57

### Share Holding Pattern



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### SYNOPSIS

- We initiated the coverage of Compact Disc India Ltd 'BUY' in this scrip and set a target price of Rs.80.00 for Medium to Long term gains.
- Compact Disc India Ltd (CDIL) was established in the year 1992. The company is the largest animation company in South Asia.
- CDIL is a profit making company engaged in multimedia and entertainment production in India.
- The Company operates in the United States of America and European countries.
- CDIL informed that Premier Brands Pvt. Ltd., a wholly owned subsidiary of Compact Disc India Ltd. has become the Title Sponsors for Team India and signed a 3 year sponsorship deal worth Rs. 7.50 crore with the Badminton Association of India (BAI).
- The Company has outsourcing contract with iMedia Ventures Ltd, a part of the world's largest media house. CDI is also associated with White Light Entertainment, the world's largest production house.
- Net Sales and PAT of the company are expected to grow at a CAGR of 37% and 41% over 2008 to 2011E respectively.

Financials (Rs in Mn)	FY08	FY09	FY10E	FY11E
Net Sales	1027.3	1871.0	2292.9	2636.8
EBIDTA	208.21	446.18	525.00	592.33
PAT	195.03	394.97	490.01	549.48
EPS	20.38	41.27	51.20	57.41
P/E	3.57	1.49	1.20	1.07

## Peer Group Comparison

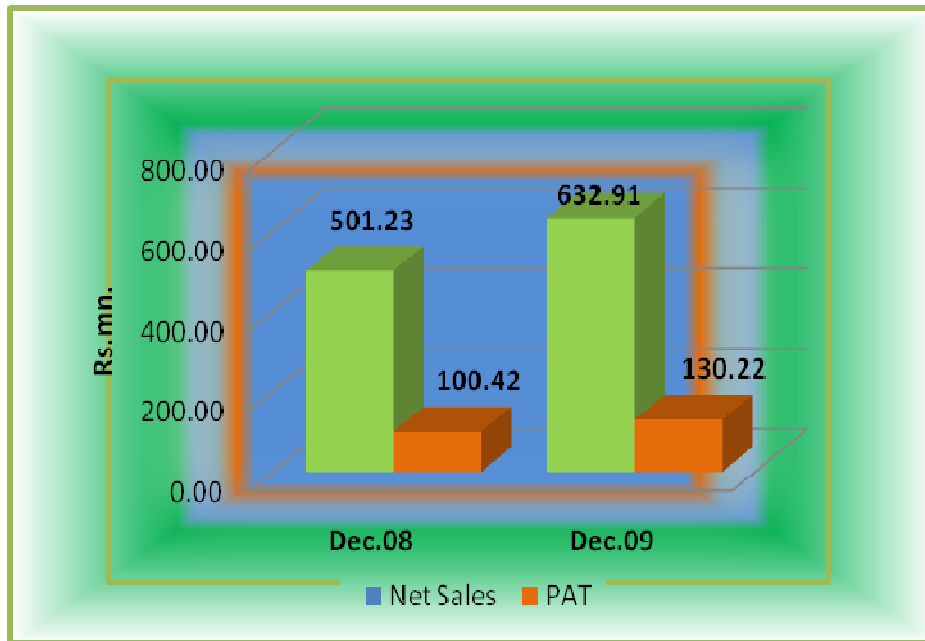
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Compact Disc	61.60	589.57	41.27	1.49	0.76	20.00
MMTC	28720.20	143601	43.44	661.15	107.12	80.00
Bala Tech Inds	3.34	2.33	0.32	10.44	0.72	0.00
Ricoh India	36.50	145.15	3.96	9.22	1.48	0.00

## Investment Highlights

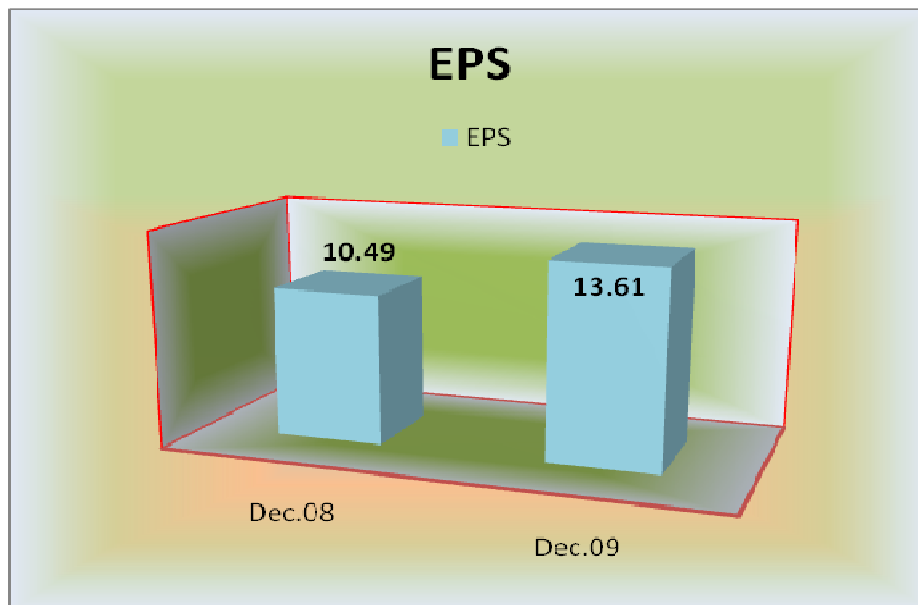
### ✚ Q3 FY10 Results Update

Compact Disc India Ltd disclosed results for the quarter ended December 2009. Net sales for the quarter moved up 26% to Rs.632.91 million as compared to Rs. 501.23 million during the corresponding quarter last year. During the quarter, PAT is increased to Rs.130.22 million from Rs.100.42 million in previous year same quarter. The Basic EPS of the company stood at Rs.13.61 for the quarter ended December 2009.

Quarterly Results - Standalone (Rs in mn)			
As At	Dec-09	Dec-08	%Change
<b>Net sales</b>	632.91	501.23	26%
<b>PAT</b>	130.22	100.42	30%
<b>Basic EPS</b>	13.61	10.49	30%



**Basic EPS of the company stood at Rs.13.61**



- **Large Animation contract**

The Company has been awarded a very large animation contract to make an animation feature film on Hitler. CDI has secured this contract from a renowned British film production house that is producing this feature film jointly with a known Hollywood Studio. The total contract value is US\$ 82 million including

developing three video games and merchandising based on Hitler. This feature film will be completed and released during the second half of the year 2013. CDI will become the largest animation film company of Asia, once this film is completed.

- **Dividend Declaration**

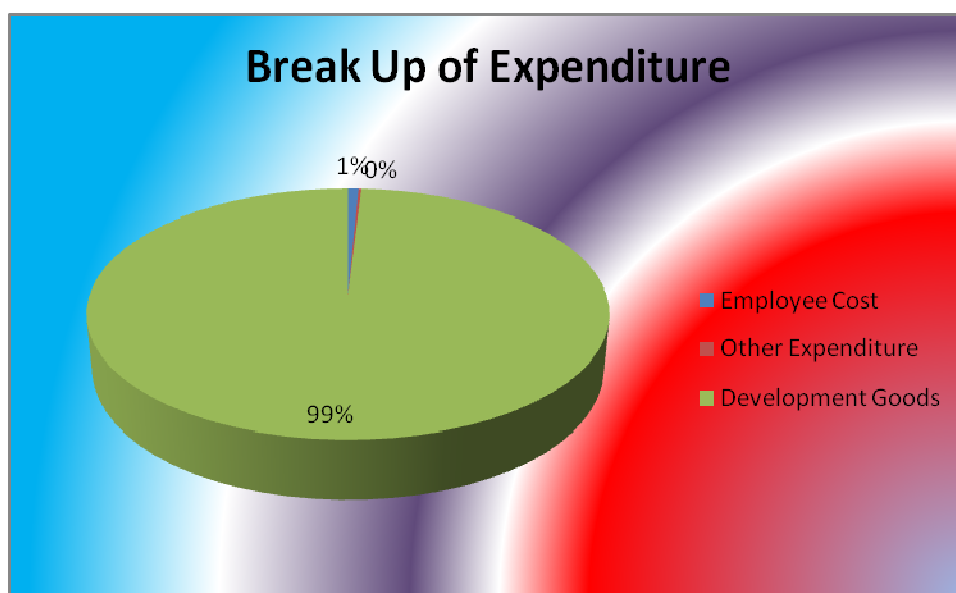
The Company has decided to repay the entire outstanding dues of The Hongkong & Shanghai Banking Corporation (HSBC) from its internal cash accruals. This will facilitate CDI to release dividend @ Rs. 2/- per share for the financial year 2008-09 immediately, subject to approval of the members.

- **Signed a 3 year sponsorship deal**

Compact Disc India Ltd has informed that Premier Brands Pvt. Ltd., a wholly owned subsidiary of Compact Disc India Ltd. has become the Title Sponsors for Team India and signed a 3 year sponsorship deal worth Rs. 7.50 crore with the Badminton Association of India (BAI).

Premier Brands Pvt. Ltd. will soon be announcing several other international sports and lifestyle alliances on the global scale.

- **Break Up of Expenditure**



## **Company Profile**

Compact Disc India Ltd was established in the year 1992. The company is the largest animation company in South Asia. It is engaged in multimedia and entertainment production in India. It has extensive expertise in creation, distribution and management of content for Media and entertainment sector. Beside India Company has strong presence in Malaysia and Singapore. Compact Disc is respected in the animation industry for the quality of content and timely delivery. Company is fast emerging as the undisputed leader in animation film industry in Asia.

Company has outsourcing contract with iMedia Ventures Ltd, a part of the world's largest media house. CDI is also associated with White Light Entertainment, the world's largest production house.

## **Business models**

- Outsourcing Model.
- Own Production/Co-production Model.

## **Products**

The product range covers all the segments of entertainment including big screen (theatres), small screen (home videos and television) and personal screen (personal computers).

## **Associates**

Compact Disc India partners with forward thinking companies who bring specialized expertise and capabilities to complement each other. CDIL is associated with such global leaders as:

- iMedia Ventures Limited.
- Laser Infomedia.
- Premier Brand Licensing and Merchandising.

## Financials Results

### 12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in million)	FY08A	FY09A	FY10E	FY11E
	12m	12m	12m	12m
Description				
<b>Net Sales</b>	<b>1027.32</b>	<b>1871.02</b>	<b>2292.93</b>	<b>2636.87</b>
Other Income	0.49	50.00	30.28	33.31
Total Income	1027.81	1921.02	2323.21	2670.18
Expenditure	-819.60	-1474.84	-1798.21	-2077.86
<b>Operating Profit</b>	<b>208.21</b>	<b>446.18</b>	<b>525.00</b>	<b>592.33</b>
Interest	-0.31	-6.53	-0.08	-4.02
Gross Profit	207.90	439.65	524.92	588.31
Depreciation	-1.28	-1.55	0.00	0.00
Profit before Tax	206.62	438.10	<b>524.92</b>	588.31
Tax	-11.59	-43.13	-34.91	-38.83
<b>Profit after Tax</b>	<b>195.03</b>	<b>394.97</b>	<b>490.01</b>	<b>549.48</b>
Equity Capital	95.71	95.71	95.71	95.71
Reserves	285.08	680.04	1170.05	1719.53
Face Value(Rs)	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>20.38</b>	<b>41.27</b>	<b>51.2</b>	<b>57.41</b>

\*A=Actual, \*E=Estimated

## Quarterly Ended Profit & Loss Account (Standalone)

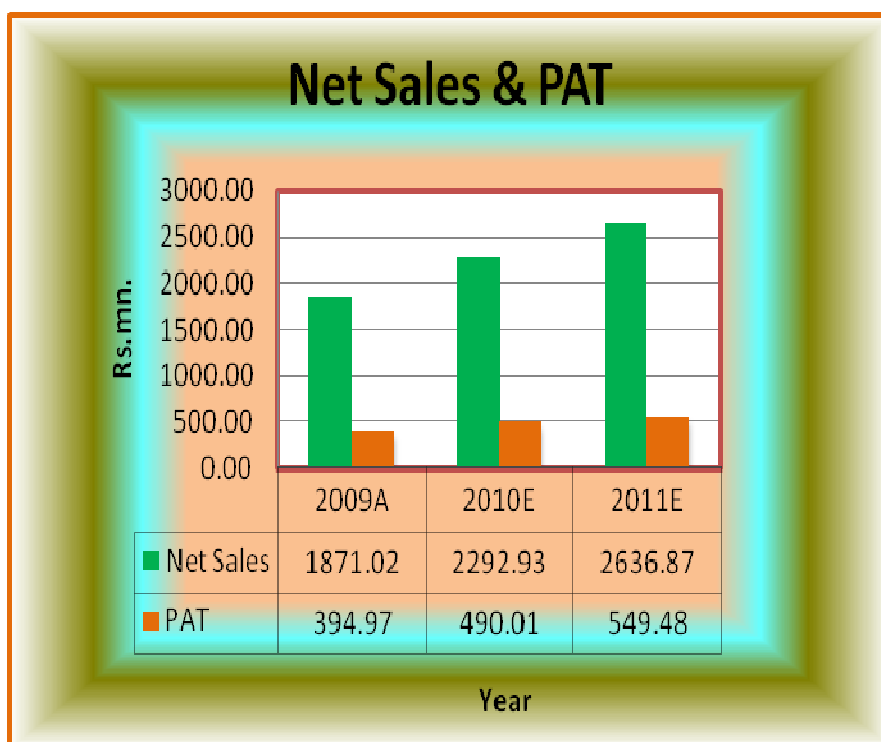
Value(Rs.in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
	3m(A)	3m(A)	3m(A)	3m(E)
<b>Description</b>				
<b>Net Sales</b>	<b>442.03</b>	<b>616.73</b>	<b>632.91</b>	<b>601.26</b>
Other Income	0.00	0.00	0.00	30.28
Total Income	442.03	616.73	632.91	631.54
Expenditure	-350.28	-488.30	-502.67	-456.96
<b>Operating Profit</b>	<b>91.75</b>	<b>128.43</b>	<b>130.24</b>	<b>174.58</b>
Interest	-0.02	-0.02	-0.02	-0.02
Gross Profit	91.73	128.41	130.22	174.56
Depreciation	0.00	0.00	0.00	0.00
Profit before Tax	91.73	128.41	130.22	174.56
Tax	0.00	0.00	0.00	-34.91
<b>Profit after Tax</b>	<b>91.73</b>	<b>128.41</b>	<b>130.22</b>	<b>139.65</b>
Equity Capital	95.71	95.71	95.71	95.71
Face Value	10.00	10.00	10.00	10.00
<b>EPS</b>	<b>9.58</b>	<b>13.42</b>	<b>13.61</b>	<b>14.59</b>

\*A=Actual, \*E=Estimated

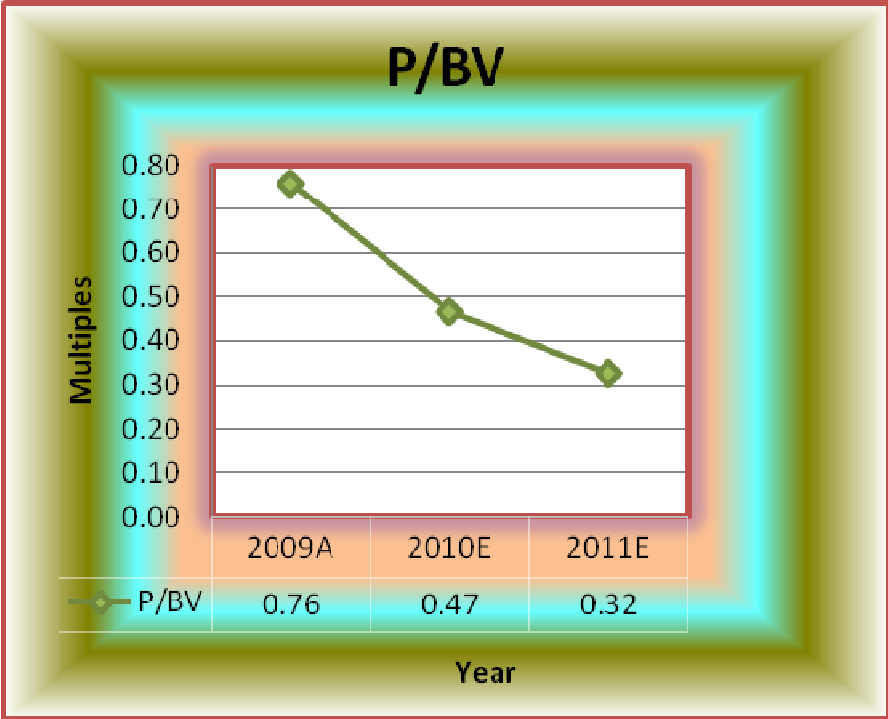
## Key Ratios

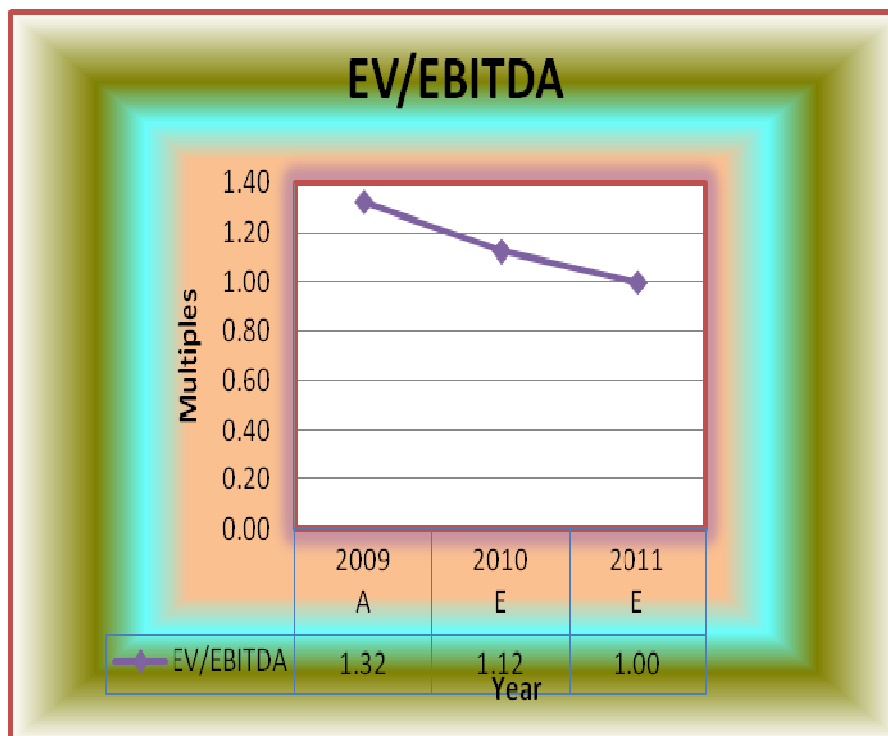
Particulars	FY08	FY09	FY10E	FY11E
EPS (Rs.)	20.38	41.27	51.2	57.41
EBITDA Margin (%)	20.27%	23.85%	22.90%	22.46%
PAT Margin (%)	18.98%	21.11%	21.37%	20.84%
P/E Ratio (x)	3.57	1.49	1.20	1.07
ROE (%)	51.22%	50.91%	38.71%	30.27%
ROCE (%)	53.95%	46.42%	36.03%	29.38%
EV/EBITDA (x)	3.34	1.32	1.12	1.00
Debt-Equity Ratio	0.01	0.23	0.15	0.11
Book Value (Rs.)	39.79	81.05	132.25	189.66
P/BV	1.83	0.76	0.47	0.32

## Charts:









## Outlook and Conclusion

- ✚ At the current market price of Rs.61.60, the stock is trading at 1.20 x FY10E and 1.07 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 0.47 x and 0.32 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.51.20 and Rs.57.41 respectively.
- ✚ Net Sales and PAT of the company are expected to grow at a CAGR of 37% and 41% over 2008 to 2011E respectively.
- ✚ CDIL informed that Premier Brands Pvt. Ltd., a wholly owned subsidiary of Compact Disc India Ltd. has become the Title Sponsors for Team India and signed a 3 year sponsorship deal worth Rs. 7.50 crore with the Badminton Association of India (BAI).

- ✚ The Company has outsourcing contract with iMedia Ventures Ltd, a part of the world`s largest media house. CDI is also associated with White Light Entertainment, the world`s largest production house.
- ✚ On the basis of EV/EBITDA, the stock trades at 1.12 x for FY10E and 1.00 x for FY11E.
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend **‘BUY’** in this particular scrip with a target price of Rs.**80.00** for Medium to Long term investment.

## **Industry Overview**

The Indian media and entertainment (M&E) industry is one of the fastest growing industries in the country. Its various segments— film, television, advertising, print and digital among others—have witnessed tremendous growth in the last few years.

According to a 2009 report jointly published by the Federation of Indian Chambers of Commerce and Industry (FICCI) and KPMG, the media and entertainment industry in India is likely to grow at a compound annual growth rate (CAGR) of 12.5 per cent per annum over the period between 2009-13 and touch US\$ 20.09 billion by 2013.

With a majority of the population below the age of 35, and increasing disposable income in Indian households, the average spend on media and entertainment is likely to grow in India, according to the 2009 edition of PricewaterhouseCoopers’ Indian Entertainment and Media (E&M) Outlook, covering the forecast period of 2009–2013.

### **Television**

According to the study by FICCI and KPMG, the television industry, which is currently valued at about US\$ 4.63 billion, will expand by 14.5 per cent between 2009 and 2013. According to the above PwC report, the television advertising industry is expected to account for a share of 41.0 per cent of the advertising industry in 2013, up from the present share of 39.0 per cent.

Digital distribution platforms such as direct-to-home (DTH) and Mobile TV are transforming the industry. Mobile TV—where content will stream in on mobile phones—is poised to grow big with the advent of 3G, according to experts. With the DTH industry estimated to grow by almost 100 per cent in the 2009-10 fiscal—from US\$ 310.16 million in 2008-09 to an expected US\$ 620.25 million in 2009-10—leading DTH firms such as Sun Direct, Bharti Airtel DTH and Big TV have increased their marketing budget by 20-25 per cent in the fiscal year 2010.

The television distribution industry is expected to reach US\$ 5.2 billion in 2013 from the estimated size of US\$ 3.12 billion in 2008, which translates into a growth of 12.2 per cent on a cumulative basis over the period, according to the 2009 edition of PricewaterhouseCoopers' Indian Entertainment and Media (E&M) Outlook.

Capitalizing on the success of the 3D film Avatar, television manufacturers are gearing up to introduce new 3D TV sets into the market in the second quarter of 2010. Another player to get on the 3D bandwagon, the Indian Premier League, is set to become the first sports body to telecast a match live in 3D.

## **Music**

Industry experts estimate that the current size of the music industry is about US\$ 149 million. According to a PwC study, the industry is likely to grow to become a US\$ 164.56 million industry by 2012.

With music channels giving less space to music programming to accommodate game shows and reality shows, independent music bands such Workshop Them Clones are increasingly looking to promote their videos by making them available online.

Digital music sales are expected to account for 88 per cent of the total music industry revenue in India by 2009. Though for a long time, cassettes and compact discs (CDs) have accounted for most music sales, future growth is expected to come from non-physical formats such as digital downloads and ringtones, among others

According to the 2009 PwC study, the important driver for the music industry over the coming years, will be digital music, and its share is expected to move from 16 per cent in 2008 to 60 per cent in 2013. Also, within digital music, mobile music is expected to continue to increase its share and maintain dominance.

## **Radio**

The cheapest and oldest form of entertainment, reaching 99 per cent of the population, this segment is likely to see many dynamic changes.

According to the 2009 PwC study, the radio industry is forecast to grow at a compound annual growth rate (CAGR) of 18 per cent over 2009-13, reaching US\$ 391.15 million in 2013 from the present US\$ 170.87 million in 2008. That's more than double its present size. In terms of its share of the advertising pie, it is projected that the radio advertising industry will be able to increase its share from 3.8 per cent to 5.2 per cent between 2009 and 2013.

## **Advertising**

The number of brands advertised on television witnessed an 82 per cent increase during 2008 compared to 1999, according to a survey by AdEx India, a division of Tam Media Research.

The television advertising industry is expected to reach US\$ 3.12 billion in 2013 from the estimated size of US\$ 1.75 billion in 2008, which translates into a growth of 12.2 per cent on a cumulative basis, over the period.

Going forward, digital media advertising (internet, mobile and digital signage) is expected to emerge as the medium of choice for advertisers. According to a FICCI-PwC report, online advertising is expected to touch US\$ 212.03 million in 2011.

Digital advertising on newspaper web sites will increase at a 6.8 percent compound annual rate to US\$ 8.3 billion in 2013 from US\$ 6 billion in 2008, increasing its share of total newspaper advertising to 9.1 per cent from 5.4 per cent in 2008, as per the 2009 PwC report on the Indian media and entertainment industry.

According to a PwC report, Internet advertising is projected to expand by 32 per cent over the next five years to reach US\$ 411.74 million in 2013 from US\$ 102.94 million in 2008. Also, the share of online advertising is projected to grow from 2.3 per cent in 2008 to 5.5 per cent in 2013. The report estimates the size of the Out of home (OOH)

advertising spend to be US\$ 308.8 million in 2008. This figure is projected to almost double in 2013 to US\$ 514.67 million.

## **Cinema**

The Indian film industry is the largest in the world in terms of number of films produced per year. The FICCI-KPMG study values the Indian film industry at US\$ 2.11 billion and projects its growth at 9.1 per cent till 2013.

The opening of the film industry to foreign investment coupled with the granting of industry status to this segment has had a favourable impact, leading to many global production units entering the country.

Meanwhile, non-resident Indian (NRI) filmmakers are looking to India as the country offers a large market and a mainstream arts platform. Filmmaker Sangeeta Datta who is based in London says that the framework of reference has changed for NRI cinema and that NRI filmmakers like herself are now more geared towards ethnic communities and the diaspora which assures them of an audience in India, UK and the US.

## **Print/Publishing**

According to a PwC report, the print industry is projected to grow by 5.6 per cent over the period 2009-13, touching US\$ 4.26 billion in 2013 from the present US\$ 3.24 billion in 2008. The relative shares of newspaper publishing and magazine publishing are not expected to change significantly and are expected to remain the same at around 87 per cent in favour of newspaper publishing. Magazine publishing is expected to grow at a higher rate of 6.5 per cent as compared with newspaper publishing which is expected to grow at 5.6 per cent over the five year period between.

The government has indicated that it may soon amend the Press and Registration of Books Act, 1867, so that it keeps pace with the growth of the print media in the country over the years.

Newspaper sales in India, China and Japan which stand at 60 per cent in terms of circulation, are the highest in the world, it has been announced by Timothy Balding,

co-chief executive officer of the World Association of Newspapers and News Publishers (WAN-IFRA) at the 62nd World Newspaper Congress in Hyderabad.

A survey carried out by research firm Valuenotes Database, spanning 237 consultants, publishers and service providers reveals that India continues to be a favoured destination for publishing outsourcing.

### **Theatre**

A project billed as India's answer to Broadway has been inaugurated in Gurgaon. The project called the Kingdom of Dreams, has been conceptualized by the Great Indian Nautanki Company, a joint venture between the Apra Group of Companies and Wizcraft International Entertainment and plans to generate an interest in the genre of musical theatre.

### **Digital media**

According to a FICCI-KPMG study, the Indian animation industry will grow from the current US\$ 362 million to US\$ 811.2 million by calendar 2013.

Further, with the country turning out to be a hub for graphic industries like animation and design, companies such as Intel and Advanced Micro Devices (AMD) are reworking their India strategies to grow their businesses in the computing segment. The move has been triggered by the emergence of high-end games involving real-time 3D rendering.

Tata Teleservices (TTSL) has become the first service provider to offer mobile TV on high speed broadband wireless by launching Photon TV, which allows users to access channels on desktops and laptops.

English news channel, NewsX, has launched a service which will enable mobile phone users to receive live videos on their handset, through a specific mobile URL.

A considerable number of Indian special effects artists and animators are moving up the ranks of established US animation studios such as Walt Disney and DreamWorks Animation SKG and are also creating a niche for themselves in the special effects market as well.

In a move that will strengthen its international presence and expand its offerings to include services such as restoration, 2D-to-3D conversion and post-production services to broadcasters and studios, Reliance MediaWorks (RMW) has acquired the assets of ilab UK Ltd, a film processing facility located in Soho, London.

### **Government Initiatives**

The Government has initiated major reform measures:

- Permitting 100 per cent foreign direct investment (FDI) through the automatic route for the film industry and advertising
- Allowing 49 per cent foreign holding in cable TV and direct to home DTH
- Allowing 100 per cent FDI in non-news publications and 26 per cent FDI in news publications
- The government has allowed 100 per cent FDI in fax editions of magazines and newspapers
- Recently, the government allowed companies with core business in news segment but hived off non-news business, to raise funds from overseas beyond the stipulated FDI limit of 26 per cent. Such companies can raise and route funds from overseas through its non-news arm, which will not be calculated as foreign investment
- The FM radio sector was opened to FDI with a 20 per cent cap
- Permitting the setting up of uplinking hubs for satellite uplinking by private TV broadcasters from Indian soil
- Giving industry status to the films segment
- Opening FM radio operations to the private sector
- The government has allotted US\$ 50.13 million in the current Five-Year-Plan for various development projects for the film industry. The funds will be utilised to set up a centre for excellence in animation, gaming and visual effects



- The government has approved the policy for headend-in-the-sky (HITS) operators, a technology that will provide digitised cable content to viewers across the country.

## **Going Global**

With the growing popularity of Indian content in the world market in general and South Asia in particular, the Indian entertainment industry players are venturing abroad to tap this booming segment.

In fact, according to a report by CII-AT Kearney, the share of international markets in total box office collections is estimated to increase from 8 per cent in 2006 to 15 per cent in 2010. Consequently, many domestic players like Yash Raj Films, Reliance-Adlabs and UTV, among others, have set up distribution arms overseas. Also, content for areas such as music and television have a huge potential international market.

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