

Media

Jan 30, 2007

ICICIdirect Code: PRIFOC

Company Profile

Registered Office

Anand Kunj North Avenue,
Linking Road,
Santacruz (West), Mumbai - 400054,
Tel: 91-22-66925000
www.prmiefocus.co.in

CEO: Naresh Malhotra

Business Group: **Not Applicable**

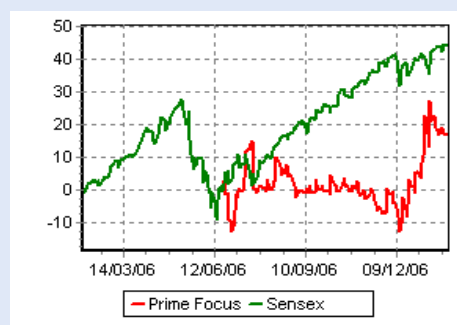
Shareholding Pattern 31/12/2006

Major Holder	%
Promoters	55.53
Institutional Investors	11.61
Other Investors	16.15
General Public	16.71

Stock Data

Market Cap (Rs cr)	485
Shares Outstanding (cr)	1.12
52-week High (Rs)	428
52-week Low (Rs)	274
Average Volume	19730
Absolute Return 3m (%)	15.59%
Absolute Return 12m (%)	NA

Performance Chart



Ankit Kedia
ankit.kedia@icicidirect.com

ICICI Brokerage Services Ltd
2nd Floor, Stanrose House,
Appasaheb Marathe Road,
Prabhadevi, Mumbai-400 025

Prime Focus

OUTPERFORMER

Current Price Rs 382	Target Price Rs 520
Potential upside 36%	Time Frame 12-15 mths

Prime Focus results for the Oct-Dec 2006 quarter (Q3FY07) results were in line with expectations. Top line increased 30.6% y-o-y and 13.06% q-o-q on the back of an increase in post-production activities from new studios. PAT increased to Rs 5.59 crore, up 65% y-o-y. The stock currently trades at 23.25x FY07E earnings of Rs 16.43 and 13.61x FY08E earnings of Rs 28.06. Considering the company's dominance in the post-production space, we maintain our OUTPERFORMER view at target price of Rs 520 (18.5x FY08 earnings).

RESULT HIGHLIGHTS

- The company continued to dominate the post-production market with sales growing at 30.6% y-o-y and 13.06% q-o-q on back of increase in post-production activities from the Chennai studio that began operations from Sept 2006. For the 9-month period ended Dec 2006, top line grew by 32.9% compared to the same period last year as two new studios were started at Lower Parel (Mumbai) and Chennai.
- EBITA margins increased by 650 bps y-o-y due to the increase in high-end post production activities from all studios which command high margins. PAT margins also increased by 710 bps y-o-y due to lower depreciation and interest.
- Net profit increased to Rs 5.59 crore from Rs 3.77 crore, up 65.8% y-o-y, in line with expectations. On a 9-month basis, net profit jumped by 45.4% to Rs 16.05 crore from Rs 11.04 crore.
- From this quarter onwards the company has started to write-off IPO expenses to the tune of Rs 78.6 lacks every year for next 10 years. Also from next quarter onwards, the company will disclose consolidated results including VTR.

Exhibit 1: Key Financials (Standalone)

Year to March 31	Q3FY06	9-month ended		%	FY06
		Dec-06	Dec-05		
Sales	14.84	38.91	29.29	32.8%	42.38
Other Income	1.86	5.69	4.27	33.3%	3.99
Total Income	16.7	44.61	33.56	32.9%	46.38
Operating Costs	6.09	15	12.24		18.11
Total Expenditure	6.09	15	12.24	22.5%	18.11
PBIDTA	10.61	29.6	21.32	38.8%	28.26
Interest	0.54	1.83	1.13		1.93
Depreciation	2.12	5.81	3.76	54.5%	5.4
Miscellaneous Expenses	0.57	0.57	0		0
Profit before Tax	7.37	21.38	16.42	30.2%	20.92
Tax - Current	0.64	3.81	4.7		5.17
Deferred Tax-Provision	1.13	1.51	0.67		1.72
Profit After Tax	5.59	16.05	11.04	45.4%	14.02

Source: Company, ICICIdirect Research

KEY DEVELOPMENTS

- Prime Focus is in an advanced stage of talks with Hyderabad-based Suresh Productions, for the buyout and takeover of the latter's post-production arm branded 'Spirit DI'. This is a part of the company's domestic expansion plan in Hyderabad which the company was planning to set up on its own and is aimed at providing quality post production services to the Telugu film industry, which has a significant number of movies now involving and budgeting for Visual effects (VFX) and Digital Intermediate (DI).
- During the quarter, the company completed the setting up and commissioning of the VFX studio at Royal Palms, Mumbai. This studio will be catering to the growing demand for quality VFX and Graphics facility for both Domestic and International media and entertainment business.
- It acquired additional 12,24,490 ordinary shares (face value of 5 pence each) of VTR plc., UK and increased its stake to 55%.

VALUATIONS

The stock is currently trading at 23.25x the FY07E EPS of Rs 16.43 and 13.61x FY08E EPS of Rs 28.06. Considering the company's dominance in the post-production space we maintain our OUTPERFORMER view at target price of Rs 520 (18.5x FY08 earnings).

Exhibit 2: Valuations (standalone)

(Rs crore)

Year	Sales	PAT	EPS (Rs)	% change	P/E (x)	RoNW	RoCE	EV/EBIDTA
FY06	42.39	14.03	13.60		28.09	20.03%	22.98%	15.57
FY07E	65.88	20.89	16.43	20.81%	23.25	10.94%	14.96%	10.3
FY08E	107.63	35.7	28.06	70.79%	13.61	15.74%	21.17%	6.07

Source: ICICIdirect Research

RATING RATIONALE

ICICIDirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: $\pm 10\%$ return;
Underperformer: -10% or more.

Harendra Kumar

Head - Research and Content

harendra.kumar@icicidirect.com

**ICICIdirect Research Desk,
ICICI Brokerage Services Limited,
2nd Floor, Stanrose House,
Appasaheb Marathe Marg,
Prabhadevi, Mumbai – 400 025**

research@icicidirect.com

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Brokerage Services Limited (IBSL). The author of the report does not hold any investment in any of the companies mentioned in this report. IBSL may be holding a small number of shares/positions in the above-referred companies as on the date of release of this report. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. IBSL and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. IBSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IBSL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.