

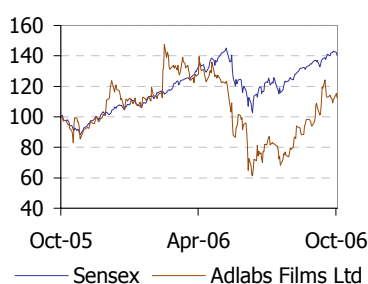
Adlabs Films Ltd

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 39.8mn
Market cap : Rs.14.3bn
52 week high/low : Rs.474/ Rs.171
Avg. daily vol. (6mth) : 471,600 shares
Bloomberg code : ADLF IN
Reuters code : ADLF.BO

Shareholding (%) Sep-06 QoQ chg

Shareholder	Shareholding (%)	QoQ chg
Promoters	54.9	0.0
FIIs	12.6	0.0
MFs / UTI	5.4	1.1
Banks / FIs	0.0	0.0
Others	27.1	(1.1)

ENCOURAGING PERFORMANCE

Adlabs Films Ltd. declared revenues of Rs.501mn (115% YoY), EBIDTA of Rs.214mn (123% YoY) and PAT of Rs.205mn (226% YoY), during Q2FY07 (standalone basis). The results were better than our expectations. EBIDTA margin increased from 41.3% (Q2FY06) to 42.8% (Q2FY07), due to higher ATPs from the film exhibition business. Effective tax rate for H1FY07 stood at ~17.4% on the back of better tax planning. Interest income rose from Rs.84mn to Rs.95mn (13% QoQ).

Q2FY07 Highlights:

- Revenue from film processing grew by 78% YoY to Rs.204mn in Q2FY07. Adlabs has processed ~5,892 prints during the quarter, across 47 films (52% increase QoQ).
- Revenue and PBIT from the IMAX/ Multiplex theatres grew by a phenomenal 290% to Rs.199mn and by 229% to Rs.28mn respectively on a YoY basis. Adlabs launched 2 new properties in Q2FY07, including the prestigious Metro Adlabs in Aug 06, taking its total to 13 properties with 50 screens and ~16,272 seats.
- The company distributed 5 films this quarter with another ~5 films planned for distribution in Q3FY07 (*See overleaf*).
- The company's radio foray is on schedule with 4 stations already operational and demerger of the same expected in Q3FY07.
- Adlabs also marked its foray into television content with the acquisition of controlling stake in Synergy Communications.
- Depreciation/ Amortization expenditure increased from Rs.13.8mn to Rs.91.5mn (YoY) due to amortization of film distribution rights.

Outlook

The demerger of the radio business is expected to unlock substantial shareholder value. Given the timely rollout of premium properties and increased visibility in the content business, we revise our FY07E EPS estimates upwards from Rs.11.0 to Rs.15.3 and our FY08E EPS from Rs.14.9 to Rs.19.8 on a fully diluted basis. At CMP (Rs.360), the stock trades at 23.5x FY07E earnings. We maintain our sector **Outperformer** rating and revise our target price upwards to Rs.440.

Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	957	219	-	4.6	22	28.5	19.7	29.2	15.9
2006	1,240	283	-	5.9	29	66.4	9.9	8.3	40.7
2007E	2,784	733	10.3	15.3	159	23.5	15.9	10.9	22.8
2008E	4,543	949	13.2	19.8	30	18.2	13.2	13.4	12.4

Source: Company, ENAM estimates, *Consensus broker estimates; Note: EPS Calculated on Fully Diluted basis. Nos. exclude radio business.

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Sep-06	Sep-05	% Chg	Jun-06	% Chg	Mar-07E	Mar-06	% Chg
Net Sales	501	233	114.8	511	(1.9)	2,784	1,240	140.3
EBIDTA	214	96	122.5	115	85.8	794	435	82.4
Other income	95	14	596.0	84	12.9	350	71	390.2
PBIDT	310	110	181.3	200	55.0	1,144	506	125.8
Depreciation	91	14	559.0	19	379.4	150	71	186.6
Interest	3	3	(7.1)	2	22.4	11	16	(31.0)
PBT	215	93	130.8	178	20.7	983	419	121.5
Tax	11	30	(64.6)	58	(81.3)	250	138	128.6
Adjusted PAT	205	63	225.5	121	69.7	733	283	118.1
No. of shares (mn)	39.8	36.0	-	39.8	-	39.8	39.8	-
EBIDTA margin (%)	42.8	41.3	-	22.6	-	28.5	35.1	-
PBIDT margin (%)	61.8	47.2	-	39.1	-	41.1	40.8	-
EPS - annualized (Rs.)	20.6	7.0	194.5	12.1	69.7	18.4	7.1	118.1

Source: ENAM Research. Note: Financials are not consolidated for Radio numbers.

Prestigious releases in Q3FY07

Film	Producer	Cast
Nishabd	Ram Gopal Varma	Amitabh Bachchan
Jaaneman	Nadiadwala Grandson	Salman, Akshay Kumar
Umrao Jaan	J P Datta	Abhishek Bachchan, Aishwarya Rai
Guru	Mani Ratnam	Abhishek Bachchan, Aishwarya Rai
Babul	Ravi Chopra	Amitabh Bachchan, Rani Mukharjee
Vivah	Rajshri Production	Shahid Kapoor, Amrita Rao

Source: Company

Film Exhibition – Multiplex rollout plans

Property	No. of screens	No. of seats	Expected Date
Metro Adlabs	5	1,491	Jul-06
RDB Adlabs (Kolkata)	3	1,000	Dec-06
Adlabs Palm Beach	4	1,008	Oct-06
Himalaya Adlabs (Ahmedabad)	5	1,200	Oct-06
Mani Square (Kolkata)	4	1,350	Dec-06

Source: Company

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