NIRMAL BANG
a relationship beyond broking

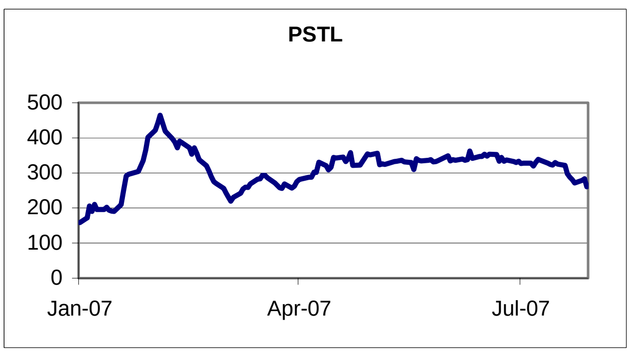
Initiating coverage — Pyramid Saimira Theatres Ltd (PSTL)

Recommendation	**BUY**
CMP (03/08/2007)	**Rs.276**
Sector	**Entertainment**

Stock Details

BSE Code	532791
NSE Code	PSTL
Market Cap (Rs. cr)	780
Free Float (%)	47.00
52- wk HI/Lo	488/125
Avg. volume BSE	399813
Face Value	Rs.10
Dividend (FY06)	NIL
Shares o/s (No.)	2.828

Relative Performance	1Mth	3Mth	6Mth
PSTL	-21.7%	-26.5%	-28.7%
Sensex	1.9%	6.1%	4.7%



Shareholding	
Promoters Holding	53.0%
Institutional (Incl. FII)	13.0%
Corporate Bodies	13.0%
Public & others	21.0%

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Snapshot:

- PSTL came up with different business model in film exhibition wherein it has started taking-over struggling single screen theatres on long term lease basis to take the advantage of scale.
- In 18 months time company has come a long way with over 400 screen (with 125 digitalized screens) over 2.41 lakh seating capacity, 306 lakhs foot fall in a quarter (April – June 07) and became largest theatre chain company in India.
- We believe PSTL's innovative business model involves benefit of scale, benefit of increasing negotiation power with producers, distributors & theatre owners & scalability of business model. The early mover advantage, aggressive management & growing Indian entertainment industry compel us to believe in growth prospects of PSTL.
- Risk associated with innovative business is substantially reduced with initial success and increasing balance sheet size.
- We expect PSTL's revenue and PAT to grow at 172% & 192% CAGR respectively between FY07-FY09.
- The stock discounts FY07, FY08E and FY09E earnings of Rs.4.75, Rs.14.52 & Rs.31.4 at 58.1x, 19.0x and 8.8 respectively.
- We are positive on the growth prospects of the company and recommend **BUY** on the stock with a price target of Rs.471 over a 12-month horizon implying upside potential of 71%.

Year	Sales (Rs. cr.)	Growth	EBIDTA (Rs. cr.)	EBIDTA (%)	PAT (Rs. cr.)	PAT (%)	EPS (Rs.)	P/E(x)	P/BV
FY07A	164.3	3193%	19.4	11.81%	13.4	680.81%	4.8	58.1	6.5
FY08E	598.4	264.20%	82.4	13.76%	52.9	293.62%	14.5	19.0	1.9
FY09E	1215.9	103.17%	182.6	15.02%	114.3	116.26%	31.4	8.8	1.6

About PSTL

PSTL had produced 10 films....

Mr.V. Natrajan promoted PSTL in 1997. He is, a veteran in the South Indian film industries and produced 55 films. Initially PSTL was involved in film production and produced 10 films. But with joining of Mr. Saminathan the direction & vision of company totally changed.

Mr. Saminathan, a cost accountant and having more than 18 years of experience with venture capitalist company & running cable TV Multi System operator company studied the south Indian film industries in detail.

South Indian film Industry situation

- Very high demand for movies
- Theatres situated all around South India
- Movies are primary source of entertainment
- Large number of movies produced
- Unstructured distribution network
- Poor quality of exhibition instruments and screen
- Poor quality of basic amenities in theatres.
- New film reaches theatres in remote villages and towns very late
- Extensive piracy

Entered exhibition industry with Assets Light business model…….

PSTL has drawn up a plan to consolidate the exhibition, improve the quality of viewing and amenities at theatres and tackle the problem of piracy.

PSTL prepared an **Assets Light Model** where it takes theatres on long term lease, tied up with digital projector company for installation of instruments in theatres on pay per use basis, transmission of films via V-SAT without investing in number of copies of movie reels.

PSTL set an ambitious target of taking 268 theatres by FY07, 835 theatres by FY08 & 2000 theatres by 2010 on lease.

PSTL came out with initial IPO to raise around Rs.84Cr in Dec 2006 at Rs.100 per share. The object of the issue was to finance cost of renovation and up-gradation of theatres, P&M for digitalization of theatres, P & M for central network operation center & security deposits for theatres.

Became largest Theatre chain company in 18 months with over 400 screen ……

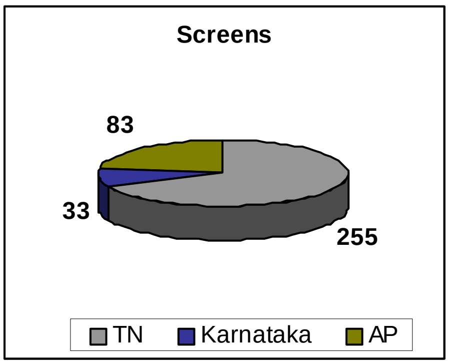
PSTL started taking theatres on lease in November 2005 and in 18 months time company has come a long way with over 400 screen (with 125 digitalized screens) over 2.41 lakh seating capacity, 306 lakhs foot fall in a quarter (April – June 07) and became largest theatre chain company in India.

52 Theatres in Malaysia under JV……..

Through JV, PSTL has created its presence in Malaysia with 52 theatres all digitalized and became one of the largest film theatre chain companies in Malaysia.

FCCB of Rs.369Cr with conversion price of Rs.454….

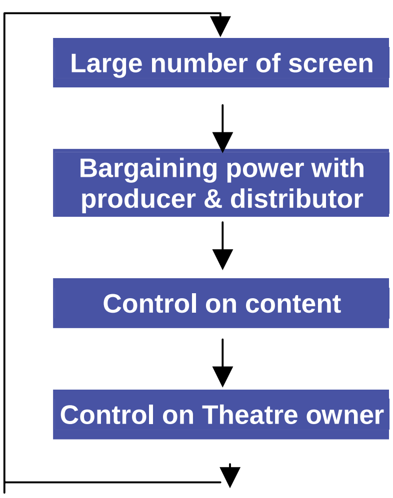
PSTL recently concluded fund raising program through FCCB issue of $90 million (Rs.369Cr) convertible in 5 years at Rs.454 to fund up-gradation of theatres in Tamilnadu, fund 100% subsidiary for film production business and for strategic acquisitions outside India



PSTL has set an ambitious plan for its wholly owned subsidiary engaged in film production business. PSTL will be investing around Rs.100Cr in subsidiary and plan to produce 34 films in current year. This ramp-up of film production subsidiary will secure content side of business model.

Investment Rational

Monopolistic Business Model



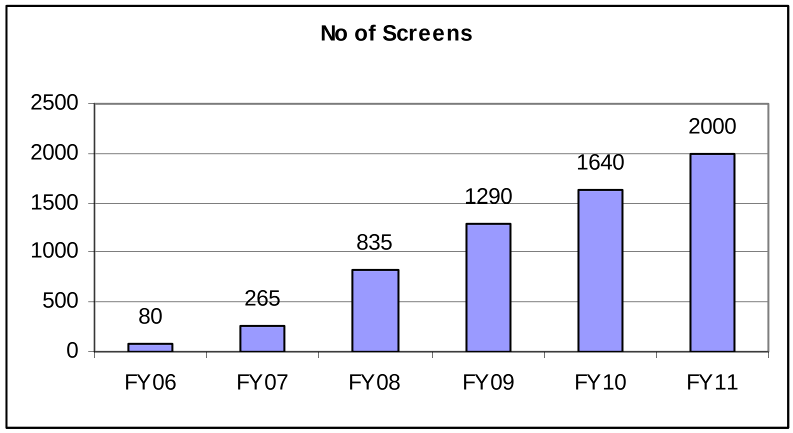
South Indian film industry is at around Rs.4000Cr. with over 7000 screens. PSTL has already taken 400 screens on lease and plan to ramp-up aggressively. PSTL being first mover in this type of business model has identified and taking over premium location that to at competitive price. PSTL is expanding its theatre chain by acquiring clusters of theatres in particular region for operational competitiveness, which create monopoly in the region.

On the other hand PSTL takes distribution rights directly from producer for different areas where it has larger presence, which restricts theatre owners to terminate the lease of theatres, as independently they may not be able to get right to exhibit those films taken by PSTL as distributors.

The monopolistic business model will help PSTL to dictate its terms to producers, distributors and theatre owners. PSTL will be able to remove distributors & directly negotiate with producers for exhibition of films, which will improve PSTL operating margin.

Scale Benefit

PSTL started acquiring theatres in November 2005 and reached to over 400 screens as of now. PSTL planed to increase it to 835 by FY08 and 2000 by 2010.



PSTL is creating a large customer base, which it can serve from common platform. Post digitalization of theatres PSTL can relay the movie across the theatres at a time eliminating reel cost & taking the movie to remote area on the day of release along with metros, which will reduce piracy and increase the occupancy of Theatres.

PSTL can source food and beverages directly from manufacturers for its chain of theatres and enjoy better terms, which will improve margin on F & B sales.

With increasing number of footfall, digitalization of theatres and centrally controlled exhibition, PSTL can improve advertisement revenue substantially.

With increasing infrastructure and footfall PSTL can explore various other source of revenue like gaming, food court etc.

As of now PSTL revenue is mainly contributed by box office collection and supportive revenue like F&B etc are unexplored. We believe over a period once the business model start maturing, these revenue will start contributing more, which will be margin accretive.

Scalable Business Model

PSTL has created Assets Light model wherein the fixed capital investment is very minimum. This helps PSTL to acquire large numbers of theatres with out investing much capital and grow very fast.

PSTL is already operating in various parts of south India and relationship with producers and distributors are well set. With more number of theatres PSTL has to bargain with same producers and distributors for more numbers of exhibition areas.

Risk Involved in the business model is substantially reduced

Net-worth over 500Cr post FCCB conversion……

At initial stage when PSTL introduced this concept things were not certain, clear and tested. With existence of over 18 months and over 400 theatres running smoothly, the business model is now well tested and working smoothly.

Initial IPO, which rose around Rs.84Cr and recent FCCB issue of Rs.369Cr has infused the required net-worth in the company and improved the balance sheet size. These resources made PSTL much stronger and reduced the financial risk.

Various large profile investors have also started believing in PSTL model and increased there holding in company.

Holding (%)	Jun-07	Mar-07	Dec-06
Bennett Coleman & Company Ltd	1.77	1.77	1.77
Citigroup Global Markets Mauritius	3.18		
Emirates Family of Funds	1.41	1.41	1.41
India Max Investments Fund Ltd		1.05	
Kotak Investment Opportunities Fund	1.56	1.81	
Merrill Lynch Capital Markets Espana SA SV	1.53		
UBS Securities Asia Ltd	4.35	5.99	

And lastly the release of Blockbuster *Sivaji* validated the PSTL model with release of the film simultaneously in 200 PSTL theatres and extracting maximum out of it.

Innovative and Aggressive management with high ambitions

Biometric smart card at Rs.100 per month for 5 movies a week……

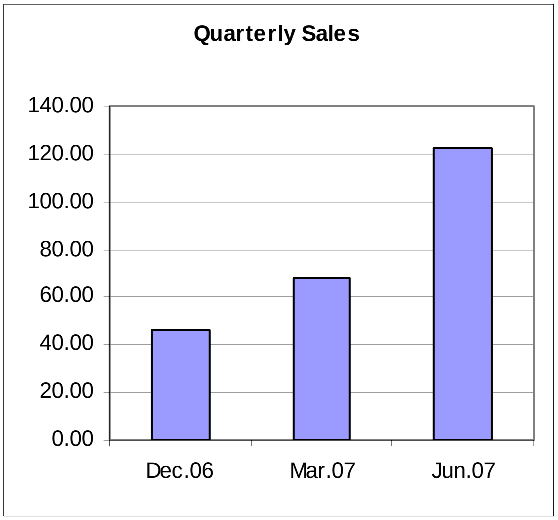
Innovative management will continuously keep on introducing new ideas like, PSTL has tied up with Kalyana Malai, Matrimonial Pvt.Ltd for use of theatres in counseling of bride and groom. PSTL introduced first time in India biometric smart card at Rs.100 per month for 5 movies a week, which will not only stream line collection but will identify the customer to serve him better. PSTL ventured out of India in Malaysia and set up 52 theatres chain under JV.

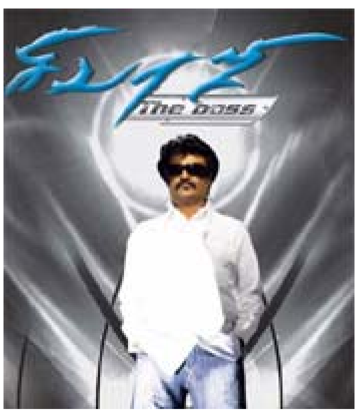
Management will keep on introducing new innovative ideas to maximize the gain from present business model.

Aggressiveness is visible from the number of screen PSTL has added in last 18 months and plan to add further. This aggressiveness will propel management to expand overseas and even look at inorganic growth.

Investment Concern

- High ambitions lead to high risk.
- Through subsidiary PSTL is entering into film production business with ambition of producing 34 films in current year and increasing it to 100 films in a year in future. This looks aggressive and PSTL may not be able to repeat its success in exhibition of films to Production of films.
- Because of aggressive expansion PSTL can face working capital mismatch risk.
- Collection system continue to be traditional in cash and faces leakage problem. PSTL has around 5-7% leakage in collection.





Result analysis

Quarterly

QoQ Comparison	Mar-07	Jun-07	Increase
Screens at the end of quarter	265	371	106
Seats per show (Lakh No.)	1.54	2.41	0.87
Footfall (Lakhs No.)	220.68	306.25	85.57
Capacity Utilization	40.43%	44.26%	3.83%
Revenue per footfall (Rs.)	30.62	40.07	9.45

- Q1&Q2 are generally lean period for single screen exhibition industry (Q1 on account of summer season and Q2 on account of beginning of school & colleges). Whereas PSTL has achieved higher capacity utilization of 44.26% only on account of release of 'Sivaji'.
- 'Sivaji' was released on 15th June and benefit of the same will continue in Q2 even.
- Revenue per footfall was also higher on account of higher utilization of upper class section of theatres during exhibition of 'Sivaji' & higher number of theaters added during the quarter in Andhra Pradesh where ticket prices are higher than Tamil Nadu.
- QoQ sales were up by 81.6% because of more screens, higher utilization and higher realization.
- EBITDA & PBT was up by 267.7% & 247.5% respectively QoQ.
- PAT was up by 174.1%.
- PSTL has reported diluted EPS post FCCB issue at Rs.3.69 for Q1FY08.

Annual Result

- PSTL started taking theatres on lease in Nov.2005, as such FY07 was the first full year of exhibition business.
- During FY07 PSTL added 185 screens and increased it from 80 at the end of FY06 to 265 at the end of FY07.

PSTL achieved footfall of 588.8 lakhs people during FY07

The average box office realization per ticket was at around Rs.20 but average realization for food & beverage and other services were very low at Rs.4.7 per footfall, indicating enough opportunity for improvement.

PSTL reported revenue of Rs.164.32Cr in FY07 against Rs.4.99Cr in FY06.

EBITDA was much lower at 11.81% compared to industry average of 15% to 20% mainly on account of lower contribution of F&B and other services.

PSTL has reported PAT of Rs.13.43Cr and PAT margin of 8.17% for FY07. EPS reported for FY07 was Rs.4.75.

Valuation & Recommendation

We believe PSTL's innovative business model involves benefit of scale, benefit of increasing negotiation power with producers, distributors & theatre owners and scalability of business model. The early mover advantage, aggressive management & growing Indian entertainment industry compel us to believe in growth prospects of PSTL.

Risk associated with innovative business is substantially reduced with initial success and increasing balance sheet size.

- We expect PSTL's revenue and PAT to grow at 172% & 192% CAGR respectively between FY07-FY09.
- The stock discounts FY07, FY08E and FY09E earnings of Rs.4.75, Rs.14.52 & Rs.31.4 at 58.1x, 19.0x and 8.8 respectively.
- The stock trades at 6.5x for FY07 and 1.9x FY08E to book value.
- Post full expansion in FY09E the RoE and RoCE are at 18.0% & 25.1% respectively.
- EV/footfall for FY08E is at Rs.54.0 as compare to Sales per footfall of Rs.32.1 looks attractive.

Peer Group Comparison

PSTL is developing different business model with focus on single screen whereas it is also present in multiplexes with 29 theatres. The peer group is focused mainly on multiplexes.

FY07 (Rs.in Cr)	Adlabs	PVR	Inox	PSTL
No of Screen (Jun-07)	69	82	54	371
No of Seat (Jun-07)	23272	21461	16640	241000
Income from Operation	298.1	164.1	153.0	164.3
EBITDA	50.9	25.3	36.0	19.4
EBITDA Margin	17.1%	15.4%	23.5%	11.8%
Interest	3.2	5.5	6.7	0.2
PBDT	47.7	19.8	29.3	19.2
Depreciation	12.6	12.4	6.4	1.2
Other Income	50.1	7.9	9.5	0.4
PBT	85.2	15.3	32.4	18.5
Tax	12.7	4.7	7.6	5.1
PAT	72.5	10.6	24.8	13.4
EPS	18.0	4.6	4.2	4.8
CMP	490.0	213.0	122.0	276.0
PE	27.2	46.4	29.3	58.1
EPS - Q1FY08	3.9	2.5	1.8	4.4
PE on the basis of annualized Q1FY08	31.8	21.5	16.6	15.7

On the basis of FY07 price earning multiple PSTL looks expensive but if we compare based on Q1FY08 annualized earning, it is cheaper than its peer.

- We are positive on the growth prospects of the company and recommend **BUY** on the stock with a price target of Rs.471 over a 12-month horizon implying upside potential of 71%.
- We have derived our target price based on FY09E earning and Price earning multiple of 15.

Profitability (Rs. In Cr)	FY06A	FY07A	FY08E	FY09E
Y/E - March				
Revenues - Net	**5.0**	**164.3**	**598.4**	**1215.9**
% change	*70.9%*	*3193.0%*	*264.2%*	*103.2%*
EBITDA	**1.5**	**19.4**	**82.4**	**182.6**
% change in EBIDTA	*4733.3%*	*1238.6%*	*324.4%*	*121.7%*
Interest	0.0	0.2	0.5	3.8
EBDT	**1.5**	**19.2**	**81.9**	**178.9**
Depreciation	0.0	1.2	6.2	13.2
Other Income	0.0	0.4	5.0	8.0
Extraordinary	0.0	0.0	0.0	0.0
PBT	**1.4**	**18.5**	**80.7**	**173.7**
Tax	-0.3	5.1	27.8	59.4
PAT	1.7	13.4	52.9	114.3
Adj. PAT	**1.7**	**13.4**	**52.9**	**114.3**
Shares o/s (No. in Cr.)	1.6	2.8	3.6	3.6
Adj Diluted EPS	**1.1**	**4.8**	**14.5**	**31.4**
Cash EPS	1.1	5.2	16.2	35.0
DPS (Rs.)	0.0	0.0	2.0	2.0

Quarterly (Rs. In Cr)	Dec.06	Mar. 07	Jun. 07
Revenue	**46.05**	**67.57**	**122.71**
EBITDA	**5.86**	**6.35**	**23.35**
Interest	0.00	0.00	0.00
EBDT	**5.86**	**6.35**	**23.35**
Dep	0.06	0.09	0.94
Other Inc.	0.00	0.23	0.14
Extraordinary	0.00	0.00	0.00
PBT	**5.80**	**6.49**	**22.55**
Tax	0.65	0.65	6.54
Adj PAT	**5.15**	**5.84**	**16.01**
Adj Diluted EPS (Rs.)	1.82	2.07	4.40

Operational Ratio	FY06A	FY07A	FY08E	FY09E
EBITDA margin (%)	29.1%	11.8%	13.8%	15.0%
Adj PAT margin (%)	34.5%	8.2%	8.8%	9.4%
Adj EPS Growth (%)	4969.5%	346.2%	205.5%	116.3%
Price Earnings (x)	259.2	58.1	19.0	8.8
Book Value (Rs.)	10.5	42.2	146.0	174.6
ROE (%)	9.1%	11.3%	9.9%	18.0%
ROCE (%)	7.7%	15.4%	15.0%	25.1%
Debt Equity Ratio	0.0	0.0	0.0	0.1
Price / Book Value (x)	26.2	6.5	1.9	1.6
EV / Sales	89.3	4.7	1.7	0.9
EV / EBIDTA	307.4	40.2	12.2	5.8

Financial Health (Rs. In Cr)	FY06A	FY07A	FY08E	FY09E
Y / E - March				
Share Capital	16.2	28.3	36.5	36.5
Share App. Money	1.83	0.00	0.00	0.00
Reserves & Surplus	1.9	101.3	506.8	612.8
Misc. Exp (not w/o)	1.0	10.4	11.6	13.6
Net Worth	**18.9**	**119.2**	**531.7**	**635.7**
Total Loans	0.0	0.0	0.0	50.0
Deferred Tax Liabilities	-0.5	2.0	10.2	21.8
Total Liabilities	**18.4**	**121.2**	**541.8**	**707.5**
Net Fixed Assets	**5.5**	**14.3**	**132.6**	**169.4**
Investments	**0.0**	**3.3**	**153.3**	**153.3**
Current Assets	13.4	109.6	290.4	453.8
Current liability & Provision	0.5	5.9	34.5	69.0
Working Capital	12.9	103.7	255.9	384.8
Total Assets	**18.4**	**121.2**	**541.8**	**707.5**

Cash Flow (Rs. In Cr)	FY06A	FY07A	FY08E	FY09E
Operating				
Operating Income	1.5	19.4	82.4	182.6
Change in WC	-7.0	-78.0	-124.0	-151.1
Other Adjustment	0.0	0.0	0.0	0.0
CF from Operation	**-5.6**	**-58.5**	**-41.7**	**31.5**
Investment				
Capex	-4.4	-9.9	-124.5	-50.0
Other Investment	0.0	-3.3	-150.0	0.0
Total Investment	**-4.4**	**-13.2**	**-274.5**	**-50.0**
Financing				
Dividend Paid	0.0	0.0	-8.3	-8.3
Share Capital	11.4	12.1	8.2	0.0
Premium / Reserve	0.0	86.1	360.9	0.0
Borrowing	0.0	0.0	0.0	50.0
Other Income	0.0	0.4	5.0	8.0
Other	1.1	-3.3	-1.2	-2.0
Interest	0.0	-0.2	-0.5	-3.8
Tax Paid	-0.2	-2.6	-19.7	-47.7
Total Financing	**12.1**	**84.6**	**344.4**	**-3.7**
Net Chg. in Cash	2.1	12.9	28.2	-22.2
Cash at beginning	0.4	2.5	15.4	43.6
Cash at end	2.5	15.4	43.6	21.4

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