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Fame India

1QFY2010 Result Update

NEUTRAL

Price	**Rs18**
Target Price	**-**
Investment Period	**-**

Stock Info

Sector	Media
Market Cap (Rs cr)	63
Beta	0.6
52 WK High / Low	46/9
Avg Daily Volume	45,886
Face Value (Rs)	10
BSE Sensex	15,173
Nifty	4,514
BSE Code	532631
NSE Code	FAME
Reuters Code	SHRC.BO
Bloomberg Code	FAME @IN

Shareholding Pattern (%)

Promoters	43.7
MF/Banks/Indian FIs	13.3
FII/ NRIs/ OCBs	21.1
Indian Public	21.9

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	33.1	10.0	41.2
Fame (%)	51.9	(55.3)	(56.4)

Anand Shah

Tel: 022 – 4040 3800 Ext: 334
e-mail: anand.shah@angeltrade.com

Performance Highlights

- **Multiplex-Producer strike impacts Top-line, dips 33%:** For 1QFY2010, Fame reported a decline in Top-line of 33.2% yoy to Rs15.8cr (Rs23.6cr) on a Standalone basis, largely impacted by the 63-day strike (covering almost the entire quarter) between Multiplex-Producers due to which most movie releases were stalled. Second season of the IPL and Elections also impacted footfalls during the quarter, which fell 36% yoy to 1.05mn (1.6mn) leading to a drop in occupancy levels by almost 1,200bp to 13% (25%). However, steady Average Ticket Prices (ATPs) and 11% improvement in F&B Spend helped arrest further fall in Top-line.

- **Margins collapse, register a huge Operating Loss:** On the Operating front, Fame's Margins completely collapsed resulting in a substantial Operating Loss of Rs5.2cr (Loss of Rs2.7cr). A weak Revenue base magnified the impact on Margins (as a % of Sales) leading to the sharp contraction. While direct costs (Distributor's share and F&B costs) remained flat (as a % of Sales), higher Staff costs (up 643bp yoy, flat in absolute terms) and 46% yoy jump in Rentals (up 2,466bp yoy) to Rs7.2cr (Rs4.9cr) impacted Margins severely.

- **Bottom-line dips deep into the Red**: The company's Bottom-line dipped deep into the Red registering a Loss of Rs9.5cr (Loss of Rs3.7cr loss) on a reported basis. Earnings were depressed due to the sharp contraction in Margin, higher Depreciation charges (up 79% yoy) and sharp jump in Interest costs (up 124% yoy).

Key Financials (Consolidated)

Y/E March (Rs cr)	**FY2008**	**FY2009**	**FY2010E**	**FY2011E**
Net Sales	**92.6**	**133.6**	**142.6**	**201.1**
% chg	*5.0*	*44.3*	*6.8*	*41.0*
Net Profit	**14.1**	**3.4**	**(6.3)**	**5.5**
% chg	*44.6*	*(75.5)*	*-*	*-*
OPM (%)	13.7	10.0	7.9	13.5
EPS (Rs)	**4.0**	**1.0**	**(1.8)**	**1.6**
P/E (x)	4.4	18.2	-	11.3
P/BV (x)	0.6	0.6	0.7	0.6
RoE (%)	14.5	3.4	(6.7)	5.5
RoCE (%)	3.2	0.5	(2.0)	3.3
EV/Sales (x)	1.2	1.2	1.4	1.1
EV/EBITDA (x)	8.9	11.8	17.4	8.3

Source: Company, Angel Research

Key Highlights

Exhibit 1: Exhibition Capacity

Particulars	1QFY2010	1QFY2009	*Addition*	4QFY2009	*Addition*
Propts Under Operation	21	15	6	21	-
Screens Under Operation	74	55	19	74	-
Seats Under Operation	21,608	16,731	4,877	21,608	-

Source: Company, Angel Research

Exhibition Capacity: At the end of 1QFY2010, Fame had 74 screens and 21,608 seats under operation with a presence in 11 cities. During the quarter, the company did not add any new properties. However, on July 3, 2009 the company added one new property – *Fame Kalyan* (five screens with 1,320 seats) taking its total tally to 22 properties with 79 screens and 22,928 seats.

Exhibit 2: Revenue Breakup (Standalone)

Particulars (Rs cr)	1QFY2010	1QFY2009	*% chg*	FY2009	FY2008	*% chg*
Gross Ticket Sales	12.6	19.5	*(35.6)*	93.8	64.8	*44.8*
Less: Discount	0.3	0.7	*(50.7)*	2.8	3.0	*(5.6)*
Ticket Revenue	**12.2**	**18.8**	***(35.0)***	**91.0**	**61.8**	***47.2***
Less: Ent Tax	1.7	2.8	*(38.5)*	15.6	5.7	*174.2*
Net Ticket Sales	**10.6**	**16.1**	***(34.4)***	**75.4**	**56.1**	***34.4***
Sale of F&B	3.8	5.2	*(27.5)*	23.6	14.6	*61.5*
Advt Revenue	1.2	1.9	*(36.3)*	8.6	4.9	*77.8*
Mang Fees	0.1	0.2	*(73.7)*	0.8	0.7	*7.0*
Prog / Others	0.2	0.2	*(25.0)*	1.3	1.4	*(12.6)*
Net Operating Income	**15.8**	**23.6**	***(33.2)***	**109.6**	**77.7**	***41.1***

Source: Company, Angel Research

Ticket Sales: Net Ticket Sales during the quarter fell by 34.4% yoy to Rs10.6cr (Rs16.1cr) owing to the 35.9% dip in Footfalls largely impacted by the 63-day strike (covering almost the entire quarter) between the Multiplex-Producers whereby most movie releases were stalled. However, Average Spend Per Head improved by 3.2% yoy to Rs159 (Rs154) driven by both steady ATPs and higher F&B Spend.

Other Revenues: The company's Revenue mix during the quarter improved due to its increased focus on Advertising and F&B Revenues. However, in absolute terms, Advertising Income for the quarter registered a decline of 36.3% yoy growth to Rs1.2cr (Rs1.9cr). F&B Revenues witnessed a 28% yoy decline to Rs3.8cr (Rs5.2cr) primarily aided by higher F&B Spend which increased by 11.4% yoy to Rs39 (Rs35).

Exhibit 3: Operational Performance (Excl Fame Adlabs & Surat)

Parameters	1QFY2010	1QFY2009	*% chg*	FY2009	FY2008	*% chg*
Footfalls (Mn)	1.0	1.6	*(35.9)*	7.3	5.8	*25.2*
Occupancy (%)	13.0	25.0		25.0	29.0	
No of Shows	5.0	5.2		5.3	5.4	
Average Ticket Price, ATP (Rs)	120.0	119.0	*0.8*	128.0	111.0	*15.3*
F&B Spend Per Head (Rs)	39.0	35.0	*11.4*	35.0	28.0	*25.0*
Avg Spend Per Head, SPH (Rs)	159.0	154.0	*3.2*	163.0	139.0	*17.3*

Source: Company, Angel Research

Multiplex – Producers Strike ends

The standoff between the Multiplexes and Producers/Distributors over Revenue-sharing agreement that lasted for around 63 days and resulted in estimated losses of Rs250-300cr for the Hindi Film Industry finally ended on June 5, 2009 with the Multiplex owners succumbing to Producers' demands. After the last major release *8x10 Tasveer* on April 3, 2009, a long dull quarter due to IPL and Elections, it was business as usual for Multiplexes from June 12, 2009 with the first big release being Vashu Bhagnani's *Kal Kisne Dekha.*

Agreement terms

- *Revenue Sharing* - It was decided the Multiplex owners would give 50% to the Producers in first week, 42.5% in the second week, 37.5% in the third week and 30% in the fourth week for all movies. For all the blockbusters that manage to collect around Rs17.5cr, it would be 52, 45, 38 and 30%, respectively. If the film grosses less than Rs9cr, the Multiplex owners would get an increase of 2.5% share in revenues.
- *Distribution* - Multiplexes have agreed that the release plan in theatres would be decided by the Distributors for films that are released at above 500 screens. In case of below 500 screens, the Distributors would supply prints to the extent of 5% to the national chain of Multiplexes. The print and freight costs will, however, be absorbed by the Multiplexes.

We believe the agreement terms favour the Producers/Distributors rather than the Multiplex owners who will now have to shell out higher Revenue share in turn impacting their Margins. Moreover, due to a string of big releases getting delayed owing to the strike, we believe that the hurry to release new films will result in a 'bunching effect' whereby two-three big ticket movies could clash going ahead. Moreover, these bottlenecks are also likely to lead to lower shelf lives of the movies resulting in lower Revenue share for the Multiplex owners as per the new terms.

Nonetheless, we believe that the worst is over for Multiplexes and with a host of big Bollywood releases lined up almost till the end of the year and strong support from Hollywood blockbusters, Multiplexes are set to stage a comeback. However, quality of content will continue to remain the key Revenue driver for the Multiplexes.

Outlook and Valuation

We have marginally tweaked our Top-line estimates for FY2010E to factor in longer-than-expected continuation of the tiff between the Exhibitors- Producers. During the FY2009-11E, we expect Fame to register a robust 22.7% CAGR in Top-line mainly driven by addition in seating capacity as we expect ATP and F&B Spend to improve only marginally. We expect the screen count to increase from the current 78 screens to 95 screens in FY2010E and 116 screens in FY2011E. On the Operating front, we expect Margins to dip in FY2010E (on account of the weak 1QFY2010) before recovering to 13.5% in FY2011E aided by higher Operating leverage driving a robust 42.7% CAGR in EBITDA during FY2009-11E. However, increasing pressure from higher Distribution costs (on account of the revised Revenue sharing norms) may have additional impact on the Margins. In terms of Earnings, we expect Fame to register a CAGR of 26.7% during FY2009-11E driven by robust growth in Revenue and Margin expansion. However, we expect Fame to report a significant Loss in FY2010E owing to poor 1QFY2010, higher Depreciation charge and sharp rise in Interest costs (due to higher Debt to fund future expansion).

We believe the worst is over for the Multiplex Sector in terms of an exceptionally weak quarter. While execution risks in terms of property roll-outs and heavy dependence on content (beyond their control) remain a cause of concern, improving liquidity situation, strong movie line-up and up-tick in economic activity are key positives for the Sector. At the CMP of Rs18, Fame India is trading at 11.3x FY2011E EPS, which limits any potential upside given the concerns over its FCCB issue. Hence, **we recommend Neutral view on the stock. However, any announcements on FCCB buyback (likely at a discount) would provide an upside trigger for the stock.**

Exhibit 4: 1QFY2010 (Standalone)

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	**15.8**	**23.6**	***(33.2)***	**109.6**	**77.7**	***41.1***
Direct Cost	5.1	7.7	*(33.6)*	37.1	25.1	*47.9*
(% of Sales)	*32.3*	*32.5*		*33.9*	*32.3*	
Personnel Cost	3.2	3.3	*(2.2)*	13.1	10.4	*26.4*
(% of Sales)	*20.3*	*13.8*		*12.0*	*13.4*	
Rent	7.2	4.9	*45.7*	22.8	12.5	*82.4*
(% of Sales)	*45.5*	*20.9*		*20.8*	*16.1*	
Other Expenses	5.5	10.4	*(47.3)*	25.2	19.1	*32.0*
(% of Sales)	*34.9*	*44.2*		*22.9*	*24.5*	
Total Expenditure	**21.0**	**26.3**	***(20.3)***	**98.2**	**67.0**	***46.5***
Operating Profit	**(5.2)**	**(2.7)**	***92.8***	**11.4**	**10.7**	
OPM (%)	*(33.0)*	*(11.4)*		*10.4*	*13.7*	
Interest	1.5	0.7	*124.1*	3.6	3.0	*18.7*
Depreciation	3.8	2.1	*78.7*	11.2	6.1	*83.0*
Other Income	0.9	0.6	*43.9*	4.1	12.6	*(67.5)*
PBT (excl. Ext Items)	**(9.5)**	**(4.8)**		**0.8**	**14.2**	*(94.2)*
Ext Income/(Expense)	-	-		-	-	
PBT (incl. Ext Items)	**(9.5)**	**(4.8)**		**0.8**	**14.2**	***(94.2)***
(% of Sales)	*(60.2)*	*(20.4)*		*0.8*	*18.3*	
Provision for Taxation	0.0	(1.1)	*(103.1)*	(1.1)	1.8	
(% of PBT)	*(0.4)*	*23.8*			*12.6*	
Reported PAT	**(9.5)**	**(3.7)**		**1.9**	**12.4**	***(84.7)***
Equity shares (cr)	3.5	3.5		3.5	3.5	
EPS (Rs)	**(2.7)**	**(1.1)**		**0.5**	**3.6**	***(84.7)***
MTM Gain/ (Loss)	0.0	(3.9)		(1.9)	6.7	
PAT w/o MTM	**(9.6)**	**0.2**		**3.8**	**5.7**	***(33.3)***

Source: Company, Angel Research

Research Team: Tel: 4040 3800 | E-mail: research@angeltrade.com | Website: www.angeltrade.com

Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	