



SELL

Price	Rs29
Target Price	Rs23
Investment Period	12 Months

Stock Info

Sector	Media
Market Cap (Rs cr)	99
Beta	0.6
52 WK High / Low	41/9
Avg Daily Volume	74,765
Face Value (Rs)	10

BSE Sensex	15,405
Nifty	4,564

BSE Code	532631
NSE Code	FAME
Reuters Code	SHRC.BO
Bloomberg Code	FAME @IN

Shareholding Pattern (%)

Promoters	43.7
MF/Banks/Indian FIs	13.8
FII/ NRIs/ OCBs	5.0
Indian Public	37.5

Abs.	3m	1yr	3yr
Sensex (%)	(3.3)	49.0	17.3
Fame (%)	51.5	62.7	(50.5)

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Performance Highlights

- Drop in Occupancy and Flat ATP results in muted Top-line growth yoy:** For 2QFY2010, Fame reported a muted Top-line growth of 15.3% yoy to Rs35.6cr (Rs30.9cr), on a standalone basis, partially impacted by the Swine flu scare, coupled with limited movie releases, due to Shradh and Ramazan falling in this quarter. Hence, occupancy dropped yoy to 23% (29%). Further, a flattish ATP growth of 0.8% to Rs128 (Rs127) aggravated the woes of the company. However, higher revenues from the sale of F&B and advertisement, which increased by approximately 25% to Rs8.5cr (Rs6.8cr) and to Rs2.8cr (Rs2.3cr), respectively, backed by a 12.1% yoy increase in footfalls to 2.3mn (2.1mn), on account of four property additions this quarter, helped the company in registering a muted growth of 11.3% in Ticket sales to Rs23.9cr (Rs21.4cr)
- High Direct cost drags Operating Margins:** On the Operating front, Fame's Margins collapsed by 440bp yoy to 10% (14.4%), resulting in a weak operating profit of Rs3.6cr (Rs4.5cr). While the Personnel cost remained flat (in absolute terms), higher direct costs were up by 270bp yoy to Rs13.1cr (Rs10.5cr). Moreover, a 57.4% yoy jump in Rentals (up 650bp yoy) to Rs8.7cr (Rs5.5cr) severely impacted the Margins.
- Earnings dip into the red due to higher Interest and depreciation costs:** In terms of Earnings, the company's Bottom-line dipped into the red, registering a loss of Rs0.9cr (Profit of Rs2.8cr), on a reported basis. Earnings were depressed due to a sharp Margin contraction, higher depreciation charges (up 78.2% yoy, due to 4 new property additions during the quarter) and a sharp jump in interest costs (up 158.8% yoy, on account of higher debt to fund capex).

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	92.6	133.6	136.3	190.6
% chg	5.0	44.3	2.1	39.8
Net Profit	14.1	3.6	(9.1)	2.1
% chg	44.6	(74.6)	-	-
OPM (%)	13.7	10.1	7.5	13.6
EPS (Rs)	4.0	1.0	(2.6)	0.6
P/E (x)	7.2	28.3	-	47.3
P/BV (x)	1.0	1.1	1.3	1.2
RoE (%)	14.5	4.0	(11.4)	2.6
RoCE (%)	3.2	0.5	(3.0)	2.1
EV/Sales (x)	1.6	1.4	1.9	1.5
EV/EBITDA (x)	12.0	14.4	25.4	10.6

Source: Company, Angel Research

Key Highlights for the Quarter
Exhibit 1: Exhibition Capacity

	2QFY2010	2QFY2009	Addition	1QFY2010	Addition
Propts Under Operation	25	16	9	21	4
Screens Under Operation	93	61	32	74	19
Seats Under Operation	26,393	17,746	8,647	21,533	4,860

Source: Company, Angel Research

Exhibition Capacity: At the end of 2QFY2010, Fame had 93 screens and 26,393 seats under operation, with a presence in 12 cities. During the quarter, the company added four new properties in Mumbai, Bengaluru, Baroda and Pune. In total, the four new properties added 19 screens and 4,860 seats (including the addition of 2 new screens at the existing Ghatkopar property) to the existing screen and seat count of Fame.

Exhibit 2: Revenue Breakup (Standalone)

(Rs cr)	2QFY2010	2QFY2009	% chg
Gross Ticket Sales	30.3	26.8	12.9
Less: Discount	0.9	0.8	19.0
Ticket Revenue	29.3	26.0	12.8
Less: Ent. Tax	5.5	4.6	19.4
Net Ticket Sales	23.9	21.4	11.3
Sale of F&B	8.5	6.8	25.3
Advt. Revenue	2.8	2.3	24.9
Mgmt. Fees	0.2	0.2	5.0
Prog. / Others	0.2	0.2	4.3
Net Operating Income	35.6	30.9	15.3

Source: Company, Angel Research

Ticket Sales: Net Ticket Sales for the quarter registered a muted growth of 11.3% yoy to Rs23.9cr (Rs21.4cr), owing to a weak 12.1% increase in Footfalls to 2.3mn (2.1mn), largely on account of four property additions this quarter. Average Spend per Head also improved by 3.1% yoy to Rs167 (Rs162), driven by both steady ATPs and a higher F&B Spend.

Other Revenues: The revenue mix for the quarter improved due to an increased focus on Advertising and F&B revenues, which yield higher Margins. Advertising Income for the quarter registered a growth of 24.9% yoy to Rs2.8cr (Rs2.3cr). F&B revenues witnessed a similar growth of 25.3% yoy to Rs8.5cr (Rs6.8cr), primarily aided by a higher F&B Spend per Head, which increased by 11.4% yoy to Rs39 (Rs35).

Exhibit 3: Operational Parameters (Excl. Fame Adlabs and Surat)

	2QFY2010	2QFY2009	% chg
Footfalls (mn)	2.3	2.1	12.1
Occupancy (%)	23.0	29.0	
Average Ticket Price, ATP (Rs)	128.0	127.0	0.8
Spend Per Head, SPH (Rs)	39.0	35.0	11.4
Average Spend Per Head (Rs)	167.0	162.0	3.1

Source: Company, Angel Research

Exhibit 4: Quarterly Financial Update (Standalone)

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
Net Sales	35.6	30.9	15.3	51.4	54.5	(5.7)
Direct Cost	13.1	10.5	24.5	18.2	18.2	(0.2)
(% of Sales)	36.8	34.1		35.4	33.5	
Personnel Cost	3.4	3.2	5.6	6.6	6.5	1.1
(% of Sales)	9.5	10.3		12.8	11.9	
Rent	8.7	5.5	57.4	15.9	10.4	52.3
(% of Sales)	24.4	17.9		30.9	19.1	
Other Expenses	6.9	7.2	(4.5)	12.4	17.6	(29.7)
(% of Sales)	19.3	23.3		24.1	32.3	
Total Expenditure	32.0	26.4	21.2	53.0	52.7	0.5
Operating Profit	3.6	4.5	(19.9)	(1.6)	1.8	
OPM	10.0	14.4		(3.2)	3.2	
Interest	1.7	0.7	158.8	3.2	1.4	134.1
Depreciation	4.5	2.6	78.2	8.3	4.7	78.5
Other Income	1.8	2.4	(26.7)	2.7	3.0	(10.6)
PBT (excl. Ext Items)	(0.9)	3.7		(10.4)	(1.2)	
Ext Income/(Expense)	-	-		-	-	
PBT (incl. Ext Items)	(0.9)	3.7		(10.4)	(1.2)	
(% of Sales)	(2.6)	11.9		(20.3)	(2.2)	
Provision for Taxation	(0.0)	0.8		0.0	(0.3)	
(% of PBT)	3.7	23.1		0.0	24.3	
Reported PAT	(0.9)	2.8		(10.4)	(0.9)	
Equity shares (cr)	3.5	3.5		3.5	3.5	
EPS (Rs)	(0.3)	0.8		(3.0)	(0.3)	
MTM Gain/ (Loss)	(0.1)	0.0		(0.1)	(3.9)	
PAT w/o MTM	(0.8)	2.8		(10.4)	3.0	

Source: Company, Angel Research

Outlook and Valuation

After the weak 2QFY2010 results and weak revenue traction, we have revised our estimates downwards for both FY2010E and FY2011E. We expect the screen count to increase from the current 93 screens to 97 screens in FY2010E and to 116 screens in FY2011E. While the property addition by Fame in 1HFY2010 has been impressive, we have revised our Earnings estimates downwards to factor in, 1) A significant rise in Interest costs (higher debt to fund capex) and depreciation (property roll-out), 2) higher distribution share (revised norms after the Multiplex-Producer strike), and 3) higher Rental costs.

Exhibit 5: Revision in Estimates

(Rs cr)	Old Estimate		New Estimate		% chg	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Revenue	143	201	136	191	(4.4)	(5.2)
OPM (%)	7.9	13.5	7.5	13.6	(44bp)	13bp
EPS (Rs)	(1.8)	1.6	(2.6)	0.6	(45.2)	(61.7)

Source: Angel Research

At the CMP of Rs29, Fame India is trading at expensive valuations of 47.3x its FY2011E revised EPS of Rs0.6, largely driven by news-flow on a possible change in ownership. Nonetheless, our interaction with the management suggests that the promoters are not interested in selling out. While we expect Fame to recover at the operational level in FY2011E, we believe that the higher depreciation and interest costs will keep the Bottom-line under check. Hence, **we downgrade the stock to Sell, with a Target Price of Rs23 (based on 1x P/BV FY2011E). Upside risks to our estimates include, 1) Announcements on FCCB buyback (likely at a discount), and 2) clarity over the recent share acquisition from the open market.**



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Ratings (Returns): Buy (> 15%)
Reduce (-5% to -15%)

Accumulate (5% to 15%)
Sell (< -15%)

Neutral (-5% to 5%)