IL&FS INVESTSMART
INDIA'S FINANCIAL MULTIPLEX

Institutional Equity

Media

Pyramid Saimira Theatre Limited

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Shareholding (%)

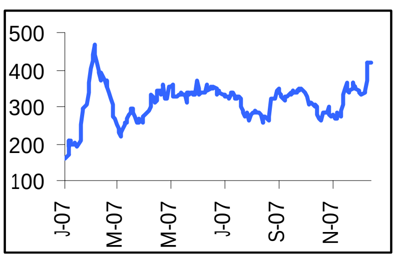
Promoters	*53.1*
FII's	*12.3*
Mfs	*2.4*
Others	*34.2*

Share price performance

52-week high/low (Rs)			488/106
	-1m	-3m	-12m
Abs (%)	25.2	123.5	-
Rel* (%)	27.4	-5.0	-

*to Nifty

Stock chart



Speed, Scale and Synergy

Pyramid Saimira Theatre Limited (PSTL), a leading exhibitor based in South India is all set to emerge as India's largest fully integrated media company with business interests in production, distribution and exhibition. PSTL has successfully demonstrated its ability to enhance revenues and realize operating efficiencies while ramping up at a fast pace. The company's revenues and PAT are expected to record a CAGR of 151% and 254% respectively through FY07-09E. We initiate coverage on PSTL with a BUY recommendation.

- **Integeration and Synergy across business verticals:** The pyramid group is evolving into a new fully inetegerated entity by de-fragmenting the highly fragmented production and distribution operations. This would enable the company to fortify its own domain strength and cross mitigate risks.
- **Speed of Execution:** PSTL has ramped up operations on a fast mode by adding a screen a day thereby consolidating the best locations to create location-based entry barrier.
- **Growth through Scale:** PSTL has ensured value creation at each vertical separately through an independent scalable business model. The scales of operations is likely to provide pricing power advantage and cross packaging opportunities to the company.
- **Advertising Revenue Opportunity**: PSTL is planning to capture additional revenue generating opportunities out of its theatre assets by exploiting OOH sites, in-film and in-programme placement and cinema advertising.
- **Operational and Financial Performance:** By adding more than 200 screens in H108, PSTL generated revenues of Rs2,669.02mn at 16.36% EBITDA margin. This is significantly higher than the revenues of Rs1647.62mn recorded in FY07 at 11.08% EBITDA margin.
- **Valuation:** The stock is trading at PE multiple of 18XFY08E and 9XFY09E earnings which is quite attractive vis-à-vis peers. We expect PSTL to build on its innovative business model and synergies from integration. We initiate coverage on the stock with BUY rating and a price target Rs736 implying 76% upside.

Buy

Rs417

December 17, 2007

Market cap
Rs bn 12
US$ mn 299

Avg 3m daily volume
333,274

Avg 3m daily value
Rs mn 107

Shares outstanding (mn)
28

Reuters/Bloomberg
PYSA.BO/PSTL.IN

NSE/BSE
PSTL

Sensex
19,261

Nifty
5,777

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PBR	RoE	RoCE
March	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(%)	(Rs)	(%)	(x)	(x)	(x)	(%)	(%)
FY2006	50	-	14	-	17	-	1.1	-	392.6	465.6	34.0	8.7	7.1
FY2007	1,643	3192.9	194	1246.9	134	683.1	4.8	347.3	87.8	60.0	9.1	10.4	14.4
FY2008E	5,979	263.8	955	392.1	650	383.5	23.0	383.5	18.2	14.2	6.1	33.4	16.5
FY2009E	10,368	73.4	2,121	122.1	1,675	157.9	46.0	100.3	9.1	6.3	2.1	22.9	28.6

Pyramid Saimira Theatre Limited

Investment Rationale

- **Integration and Synergy acoss business verticals:** The Pyramid group is attempting to de-fragment its highly fragmented production and distribution operations to create a unique value chain. This is being achieved by agglomerating the theatres under single management and extending the power of scale on the entire value chain. Pyramid Saimira Production Ltd (PSPL) was formed to create backward integrated operations for distribution and exhibition network of the Pyramid Group across the globe. This also enables the group to plan content as a supply chain. The company enjoys domain strength, forward integration presence both India and overseas, pricing power, and cross-packaging advantage. Further, the group has tremendous eco-system strengths that gives it a competitive edge and restricts entry of new players.

Figure 1. Synergies driving growth

Synergies	Prospect	Objective
Synergy across the Value Chain: Content Production (TV & Film) – Distribution – Exhibition, enabling: • Cost Control • Optimising Resource Utilisation • Creating Negotiation Edge • Content Creation & Agglomeration • Supply Chain Management	Growth primarily driven by: • Volumes • Higher Capacity Utilisation • Lower Content Cost • Higher Ticket Prices • Improved Process Transparency • Overall Corporatisation through Digitisation	Leadership Position in • Exhibition • Film Production & Distribution –India & Overseas • TV content • Advertisement –OOH sites On screen – Off Screen • Post Production/vfx • F&B-Monetising Footfall

Source: IISL research, company

Figure 2. Growth strategy has strong Vertical, Horizontal, Lateral and Parallel focus.

Vertical	From Exhibition to distribution to Production
Horizontal	Geographical spread in Exhibition Agglomeration and Syndication of Content
Lateral	**Monetizing Footfalls** - Food and Beverage (F&B), Gaming **Exploiting Eyeballs -** Advertisement (In screen and off screen)
Parallel	**Exploiting Eco System -** TV content production, Processing / Post production / VX / Studio / Animation

Source: IISL research, company

- Speedy Execution without compromising the consumer experience: PSTL has ramped up operations on a fast mode by adding a screen per day. It is consolidating the best locations to create a unique 'location-based entry barrier'. The company has created an Assets Light model wherein the fixed capital investment is minimal. This helps PSTL to acquire large numbers of theatres without investing much capital and grow at a rapid pace. This, however, does not imply inferior experience at the consumer level. PSTL is investing in digital technologies and developing a central network operations centre to convert and deliver digital prints to multiple screens simultaneously; this reduces dependence on physical prints. Moreover, PSTL provides good picture, sound quality, and good overall ambience in all its theatres, leading to increment in footfalls and improved box office collections in Tier-II cities.

- Growth through Scale: PSTL attempts to create value at each vertical separately through an independent scalable business model. The scales of operation will enable to cross-mitigate the risks.

  By 2010, PSTL plans to operate around 2,000 screens across 1550 locations. PSPL, the film and television production segment plans to produce more than 40 films annually by the third year of operation and more than 16 hours per day of TV programme in the first full year of operation itself. This would make PSPL the largest film and TV content supplier in India while giving the company an edge in c*ost management and negotiation* with distributors, producers, artists/actors, theatre owners, suppliers, and other parties in the value chain.

  PSPL is concurrently producing more than six films and plans to produce 13 films in the first year of its operations. Its TV content division currently produces two hours of original TV programme a day.

- Advertising Revenue Opportunity: PSTL is planning to capture additional revenue generating opportunity out of its theatre assets by exploiting OOH sites, in-film and in-programme placement, and cinema advertising. With presence in over 703 screens, and future opportunity for in-film and in-programe placements, a one-stop solution is being created for the advertisers to reach audience across geographies and segments by exploiting OOH sites, in film/ programme placement, cinema, and TV Spots.

Figure 3. Transforming the Theatre into a Unique Advertising, Promotional and Communications Platform

- Theatres Provide Better Recall
  - High impact
  - Captive audience
- Increasing Fragmentation Among Traditional Mediums
- Advertisers Seeking New Platforms To Create Consumer Touch points

Source: IISL research, company

Pyramid Saimira Theatre Limited

- Spread across geographies: PSTL is the only theatre chain in India with a growing presence in metros and non-metros through multiplexes and stand-alone cinemas. The company is eyeing attractive growth opportunities in Tier II and Tier III cities. Currently, there are no single-screen theatre chains operating in the country. Moreover, multiplex theatre chains like INOX and PVR are expanding mainly in metros

  PSTL is also strengthening its presence in Malaysia, Singapore, and USA, countries with a significant India/Asian population.(see table 1).

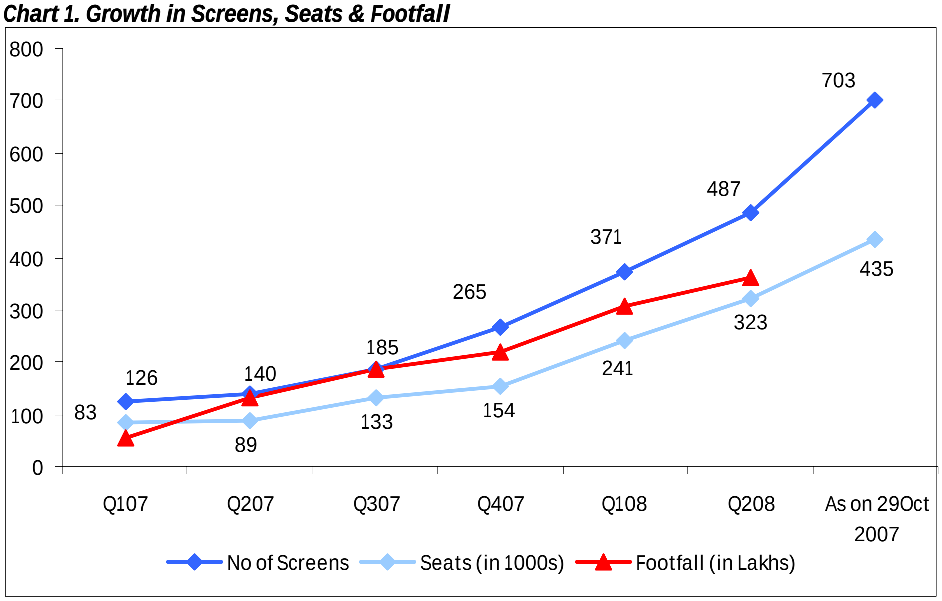
Table 1: PSTL's Expanding Presence

Countries	No. of multiplexes	No. of multiple screens	No.of single screens	Total screens	Total seats
India	35	77	548	625	414,527
USA	5	23	0	23	6,528
Malaysia	3	9	42	51	12,800
Singapore	1	4	0	4	1,100
Total	**44**	**113**	**590**	**703**	**434,955.0**

Source: IISL research, Company

- Operational Performance: PSTL added 106 screens in Q1FY08, and 116 in Q2FY08 and another 216 by end of October 2007. PSTL saw a footfall of 30.63 mn in Q1FY08 as compared to 22.07 mn in Q4FY07, an increase of 38.8% QoQ. In Q2FY08 , it registered a footfall of 36.19 mn, an increase of 17.9% QoQ

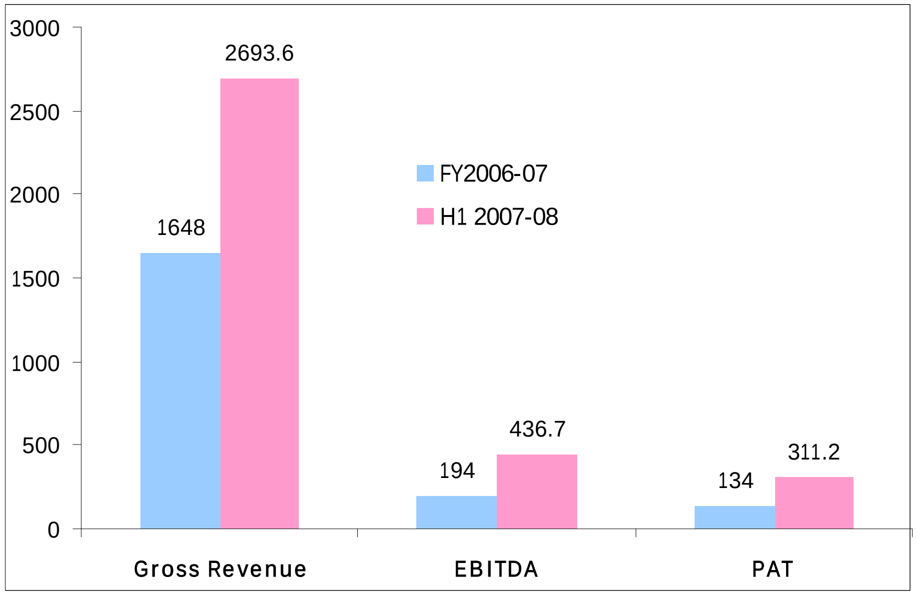
Chart 1. Growth in Screens, Seats & Footfall



Source: IISL research, Company

- Financial Performance: In FY07, PSTL generated total consolidated revenues of Rs1647.62mn, and EBITDA of Rs194.105mn, representing an EBITDA margin of 11.08%. In H108, the company's revenues stood at Rs2,669.02mn, and EBITDA margins improved to 16.36%.

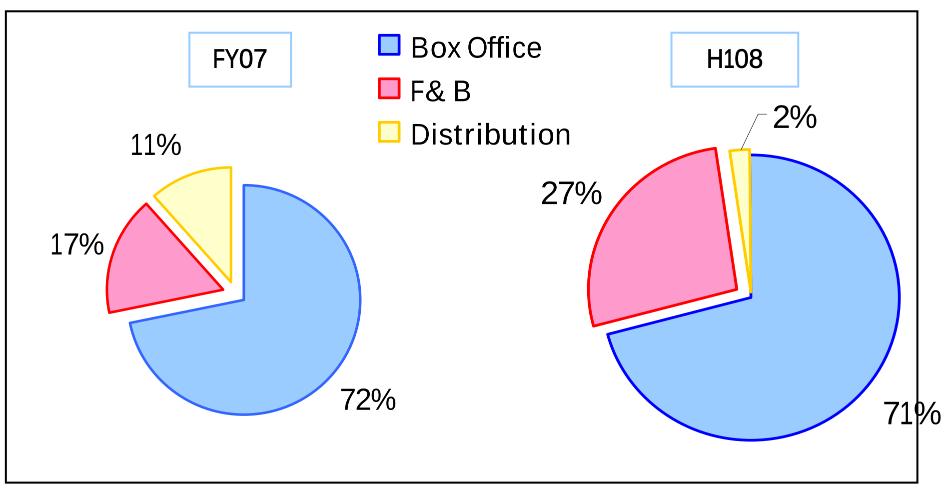
Chart 2. FY07 vs. H1 08



Source: IISL research, Company

Income from box office accounted for 72% of the total revenues in FY07 and 71% in H108. Share of revenues from the Food and Beverage(F&B) segment also increased from 17% in FY07 to 27% in H108 . This was mainly on account of better monetisation of increasing footfalls.

Chart 3. Revenue Break-up FY07 vs. H1 08



Source: IISL research, Company

Pyramid Saimira Theatre Limited

Table 2: Peer Comparison - Financial Performance H1FY08

	PSTL	Adlabs	PVR	Inox	Shringar	Cinemax
Revenue	2,669	1,775	1,165	1,022	386	325
EBITDA	461	601	287	328	147	108
PAT	311	427	123	193	92	47
EPS	11	10.7	5.1	3.2	2.9	1.7

Source: BSE Dtata

Valuation: Through FYO7-09, Pyramid is likely to record a revenue growth of 151% CAGR, EBITDA growth of 231% CAGR and PAT growth of 254% CAGR.

Currently, the stock is trading at PE multiple of 18XFY08E and 9XFY09E earnings and EV/EBITDA multiple of 14XFY08E and 6XFY09E. This is quite atractive vis a vis peers Adlabs (PE of 75XFY08E and 54XFY09E), Inox (34XFY08E and 25XFY09E), PVR (36XFY08E and 22XFY09E), Shringar (27 XFY08E and 18XFY09E).

Table 3: Peer Comparison

	FYO8E			FYO9E		
	Revenue	EPS	PE	Revenue	EPS	PE
Adlabs	NA	18	75	NA	25	54
INOX	223	5	34	318	7	25
PVR	257	9	36	387	15	22
Shringar	NA	4	27	NA	6	18
Cinemax	151	7	22	266	14	11

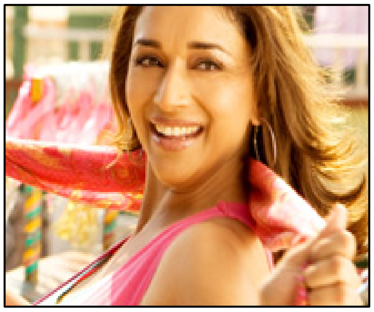
Source: Bloomberg Estimates

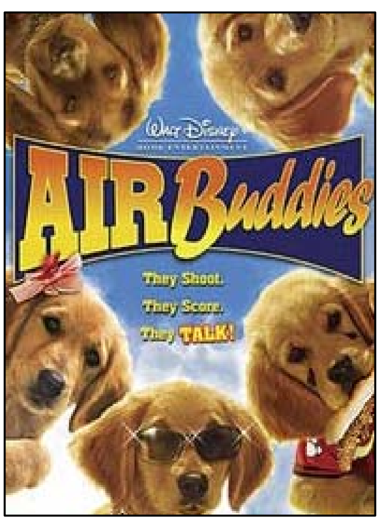
PSTL's fully integrated business model involves benefit of scale and synergy and gives the ability to cross mitigate risks. Going forward, we expect the steep growth trajectory to be facilitated by the impending expansion of screens from 703 currently to 2000 by 2010 by extending PAN India as well as international presence. These valuation multiples reflect only part of the positives that can accrue to PSTL with tremendous value unlocking from subsidiary companies vis PSPL and PSEL. Positive earnings surprises in the coming quarters and the pace of new screen launches could act as potential triggers for the stock.

We initiate coverage with a BUY rating and P/E-based price target of Rs. 736 at a conservative multiple of 16XFY09E, implying 76% upside potential from the current stock price.

Concerns and Risks: Factors that could spell trouble for PSTL's stock performance include: delays and cost overruns in the rollout of new screens, price-cutting by new entrants, and a slump in broader market sentiment.

Industry Overview





The Indian entertainment and media industry currently stands at Rs. 436.5 billion (approximately US$10.7 billion); the industry is estimated to rise at a CAGR of 18% to Rs.1 trillion (approximately US$23 billion) by 2011.

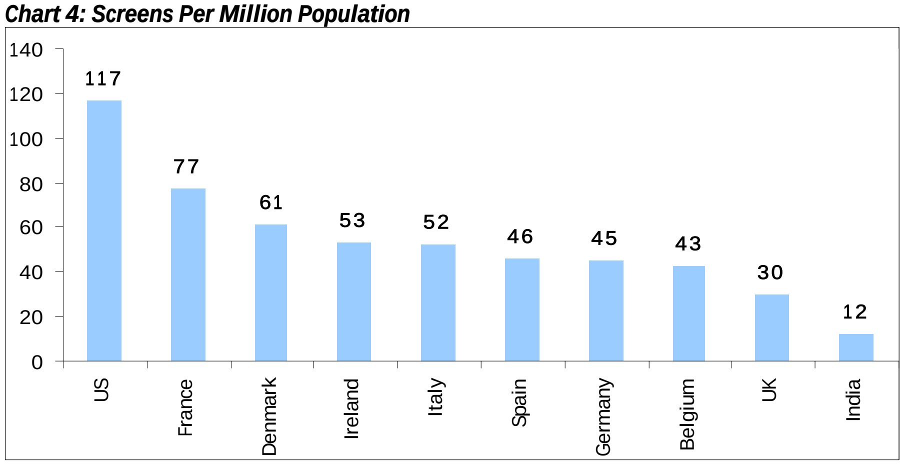
The Indian film industry is the world's largest film industry in terms of the number of films produced and the number of admissions each year. It is projected to grow at a 16% CAGR to become a $4 bn industry by 2010 from its current level of approximately $2.0 bn.

Key Features:

- Key growth drivers include economic growth, rising income levels, increased consumerism, technological advancements, and policy initiatives taken by the governments.
- Low occupancy rates of 35%-40% and low-ticket prices (an average of Rs 20 per ticket) in movie theatres.
- Rising disposable incomes of Indian consumers has encouraged increased spending on leisure and entertainment; this, in turn, has led to the rise of multiplexes.
- For improved experience and quality service, consumers have shown their willingness to spend extra in terms of higher ticket prices (an average of Rs. 60-80 per ticket).

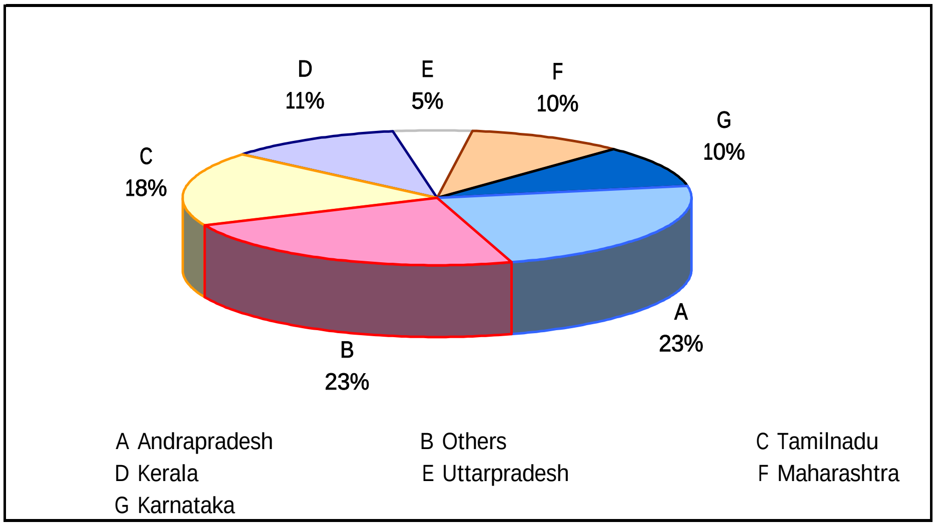
The exhibition industry in India presently has approximately 12,700 cinema screens of which over 95% are standalone single screens. This translates into approximately 13 screens per million people, the lowest screen average in the world. In contrast, China, which produces far less films than India, has 65,000 screens while US has 36,000. Moreover, the Indian exhibition industry is highly fragmented both at production and at exhibition level.

Chart 4: Screens Per Million Population



Source: FICCI – PriceWaterhouseCoopers Report on Indian E&M Industry and CII-KPMG, company

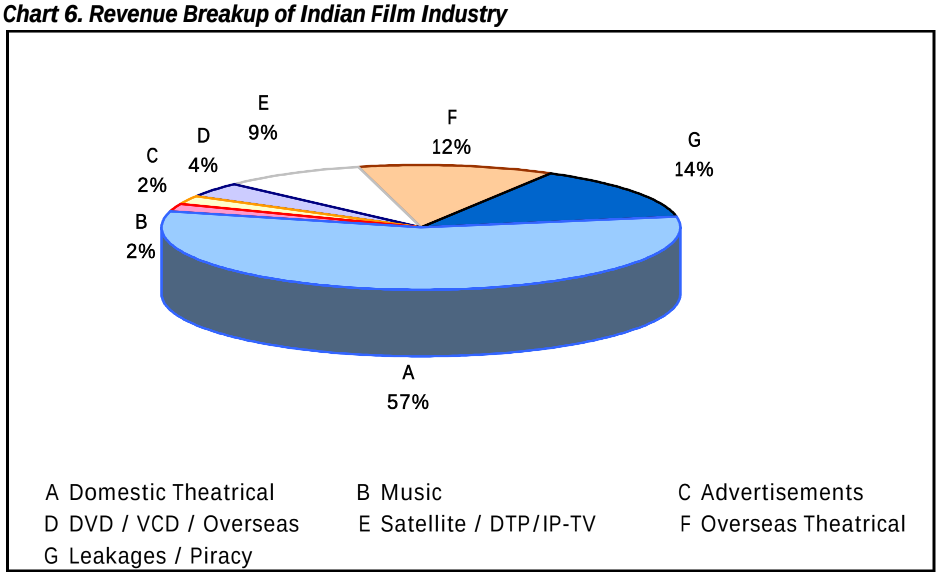
Chart 5: Distribution of Theaters across India



Source: FICCI – PriceWaterhouseCoopers Report on Indian E&M Industry and CII-KPMG, Company

The Tamil Film Industry is the second biggest movie industry in India after Bollywood; in 2005, gross collections of this industry were approximately US$100 mm. Four states of South India have 56% of total movie screens in India with an average occupancy of 45%. Box office collections of Karnataka, Tamil Nadu, Kerala, and Andhra Pradesh grew at a CAGR of 15% in 2004 and 2005. PSTL has a strong foothold in Tamil Nadu and Andhra Pradesh, and is making inroads in the neighboring states of Karnataka and Kerala.

Chart 6. Revenue Breakup of Indian Film Industry



Source: FICCI – PriceWaterhouseCoopers Report on Indian E&M Industry and CII-KPMG, Company

Pyramid Saimira Theatre Limited

Currently, the Indian film industry realises 70% of its revenues from domestic and overseas box offices; as against this, this proportion stands only at 35% for the U.S. film industry. Going forward, revenues from the sale of digital rights to mobile companies and satellite rights to both TV broadcasters and distributors (cable companies and DTH players) – are estimated to increase by 20% per year.

Company Overview

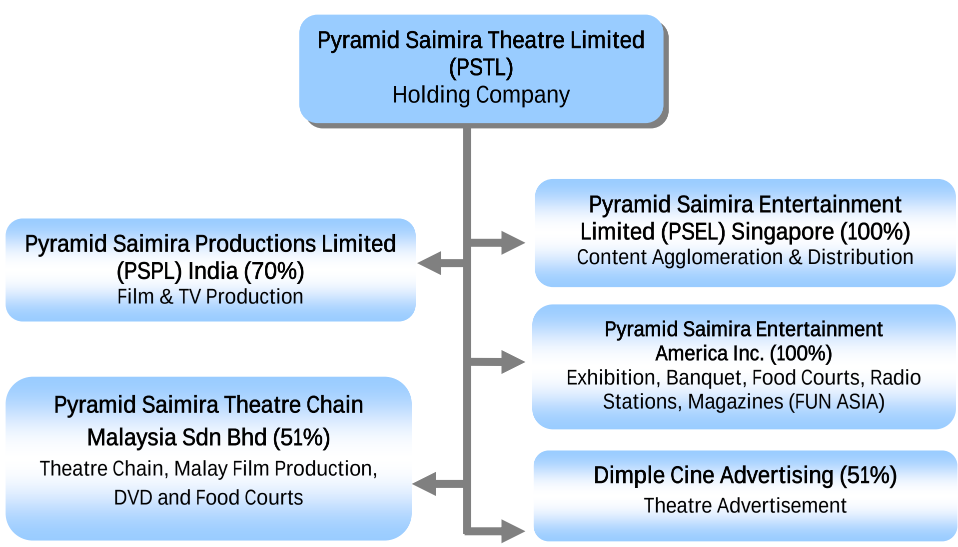
PSTL is expected to grow at a healthy pace by massive geographical expansion and value chain consolidation.

Pyramid Saimira Group is one of India's largest entertainment groups with operations across India, Malaysia, Singapore and the U.S. Its business includes film production, TV content production, distribution and theatres (exhibition). PSTL, the group's flagship company, is an integrated theatre chain in India, having presence in all categories of theatres viz, multiplexes / cineplexes and standalone theatres through its network of 703 screens. Its production division is producing more than six films a year and plans to produce over 40 films in a year in all Indian languages. The TV content division currently produces 2 hours of original TV programme a day. The division is now ramping up to produce more than 16 hours of TV programme per day; this would make it the largest TV content supplier in India.

PSTL is listed on the two main stock exchanges in India – the Bombay Stock Exchange and the National Stock Exchange - (ISIN: INE165H01018). PSTL raised US$90m through the issuance of Foreign Currency Convertible Bonds. These bonds have been listed on the Singapore Stock Exchange (ISIN: XS0306488890).

The Group is now into massive geographical expansion as well as value chain consolidation. It has also acquired other companies in the space and plans to eye more inorganic growth opportunities in the near future. Currently, the following companies constitute the group's entities:

Chart 7. Pyramid Group Structure



Source: Company Data

Pyramid Saimira Theatre Limited

Table 4. Presence Across Value Chain

Entity	Sector	Geography of Operations	Target Market	Competitors / Peers
Pyramid Saimira Theatre Limited (PSTL) – Listed in BSE & NSE & Bonds listed in Singapore Stock Exchange – Holding Company	Exhibition Sector	India – Primarily in Tamil Nadu / Andhra Pradesh / Karnataka / Kerala / Mumbai etc.,	Indian Exhibition – box office as well as utilization of footfall / eye ball and physical space and infrastructure	Adlabs Cinemax PVR INOX Shringar
Pyramid Saimira Productions Limited (PSPL)	Film Production	India	India as well as overseas – Indian Diaspora	Sree Ashtavinayak Films Mukta Arts UTV Adlabs GV Films
	TV Content Production	India	Indian Diaspora – Indian TV Channels / overseas IPTV / Multiple Delivery mechanism	Balaji Telefilms Radaan
Pyramid Saimira Entertainment Limited, Singapore (PSEL)	Distribution & Agglomeration	India / Indian Diaspora across the Globe for Indian films. Mainstream market in respective countries for Hollywood films distribution in Asia Pacific.	- Indian Films across the World. - Hollywood Films Content agglomeration & distribution in Asia Pacific.	EROS
Pyramid Saimira Theatre Chain Malaysia Sdn Bhd	Production / distribution / exhibition / DVD / F & B etc	Malaysia	Mainstream Malaysia	No integrated company exists in Malaysia. As of now , Pyramid is no. 2 in Exhibition space
Pyramid Saimira Entertainment America Inc.	Integrated Entertainment & Eco-system company in the sectors of Exhibition (screens), Banquet Halls / F&B / Restaurants / Shops in theatres / Radio Stations etc	North America & Canada	Asian Diaspora for entertainment, Radio Stations, Banquet Halls etc., Regarding F & B, primarily Asian and later main stream American population for Indian food.	Only Company in the space 'FUN ASIA' acquired 100%.
Undisclosed Company	Theatre Advertisement	India	Theatres	Largest Company in the Sector
Saimira Realities Pvt Ltd.,	Real Estate	India	Integrated Malls with entertainment / shopping / food / hospitality / marriage halls etc.,	No major competitor

Source:, Company Data

Media

Pyramid Saimira Theatre Limited

PSTL is expected to undergo organic growth through increase in number of screens across India, Malaysia, Singapore and the US

PSTL aims to have over 2,000 screens across not less than 1,550 locations in different countries by 2010

PSPL - the film and TV production wing of Pyramid Saimira Group was formed to create a backward integration entity for the distribution and exhibition network of the group

Pyramid Saimira Theatre Limited (PSTL), the group's flagship company, acts as an exhibitor in India and also as a holding company for other group companies. PSTL acts as a consolidator in the film industry, sourcing content directly and then rapidly delivering it to numerous film exhibition venues either under its control or with whom it has strong relationships: these venues include malls, multiplexes, cineplexes, and standalone theatres. The company is focusing particularly on non-metropolitan Tier-II and Tier-III cities where it believes attractive growth and revenue opportunities currently exist. In addition to the exhibition business, PSTL is also focusing on developing ancillary food and beverage outlets, retail outlets, and other entertainment facilities to diversify its revenue sources and improve its competitive visibility.

By 2010, PSTL aims to operate over 2,000 screens across not less than 1,550 locations in different countries. This expansion plan is likely to be supported by its growth strategy that has a strong vertical, horizontal, lateral and parallel focus.

Pyramid Saimira Production Ltd (PSPL) was formed to create a backward integration entity for the distribution and exhibition network of the Pyramid Group across the globe. The entity was also set up to structure the production business by being a role model/eco–system creator; this arrangement also enables the group's exhibition points to plan content as a supply chain.

As the production wing of Pyramid Saimira Group, PSPL has two major divisions: This is the production wing of Pyramid Saimira Group and has two major divisions:

Film Production

In a short span of six months from April 2007, PSPL has established itself as a major producer in South Indian languages and is now expanding across India in Hindi and other languages. This fiscal year, it produced more than 20 films; in the next fiscal, it plans to produce more than 50 films in all Indian languages. PSPL plans to become the largest Asian film producer.


Billa (Co-production)

TV Content Production

PSPL has entered into TV serials in September 2007 and plans to become a major TV content supplier in the current fiscal year by producing over 24 hours of programming per day; by that yardstick, it will become a largest producer of TV content in India.


Mazhalai Pattalam, Kalaignar TV

Film Production Schedule for the next five years: PSPL targets to commence production of films for the next 5 years as under:

Table 5. Provisional film production schedule

Language	Category	Current/ gestation	Year-1	Year-2	Year-3	Year-4
Tamil	A++	1	2	2	2	2
	A	1	3	3	3	3
	B	1	6	7	7	7
	C	1	6	10	10	10
Total		4	17	22	22	22
Telugu	A++	1	2	2	2	2
	A	1	4	4	4	4
	B	1	6	4	4	4
	C	1	6	11	11	11
Total		4	18	21	21	21
Kannada	A++	0	1	1	1	1
	A	1	1	2	3	3
	B	1	2	2	3	3
	C	0	1	2	5	5
Total		2	5	7	12	12
Malayalam	A++	0	1	1	1	1
	A	1	1	3	3	3
	B	1	2	3	3	3
	C	0	1	3	5	5
Total		2	5	10	12	12
Hindia	A+++	1	2	2	2	2
Grand total		13	47	62	69	69

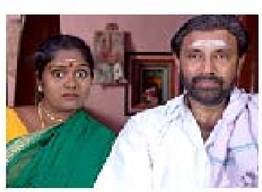
Source:, Company data

PSPL will produce Indian language films and primarily sell them to Pyramid Saimira Entertainment Limited at cost plus basis (presently at 15% plus). It is typically assumed that the production profit would be at 15% of the cost of production. This is an acceptable and justifiable proposition since there is no risk for PSPL in the production arena.


BILLA


EVANO ORUVAN


VEL


ONBATHU RUPAI NOTTU

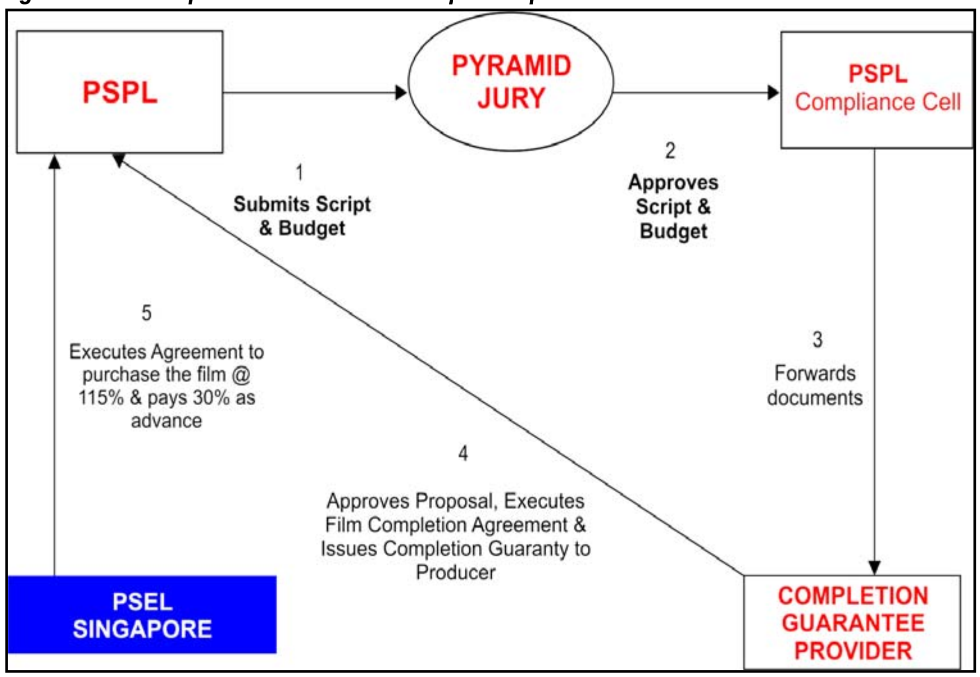

KALLORI


RAMESHWARAM

Pyramid Saimira Theatre Limited

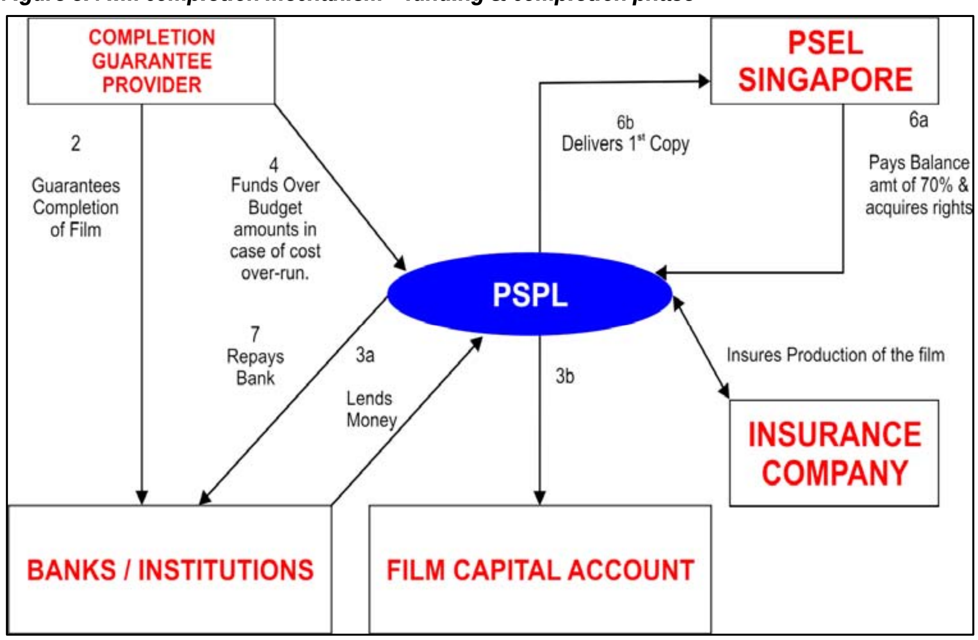
Process driven Approach: PSPL has evolved a structured methodology to address all critical production issues and to mitigate risk at every stage of film production. This methodology also provides comfort to every intermediary involved in the production process.

Figure 4. Film completion mechanism – compliance phase



Source:, Company

Figure 5. Film completion mechanism – funding & completion phase



Source:, Company

Pyramid Saimira Theatre Limited

PSPL Model mitigates risk at every stage of production

The PSPL model addresses various inherent risks associated with the production of a film. Generally perceived as a risky proposition, the PSPL Model mitigates risk at every stage of production besides giving high levels of comfort to the various intermediaries involved, as outlined hereunder.

Table 6. PSPL Model

Intermediary	Comfort Factors
Producer	• Production of the film is fully insured. • Guaranteed Completion of the film through Film Completion Guarantee. • Availability of Organized & timely funding. • Assured return.
Completion Guarantor	• Guarantee backed by full Insurance. • Over budgeted amounts secured by a charge on Film Negative until paid by Pyramid.
Banks	• Producer and Pyramid (as buyer) contribute 50% of the estimated cost. • Timely completion of the film ensured through Infinity Film Guarantee. • Repayment fully guaranteed by Infinity. • Pre-Sales arrangement with Pyramid.
PSPL	• Enables the production and is fully involved in the entire process. • Assured availability of Content through Film Completion Guarantee Mechanism. • Recovers cost at the first instance before paying for over-budgeted amounts to infinity

Source: Company

PSPL Strategy for TV Content

- Purchase of slots from various platforms at appropriate price points.
- Bringing good quality talent and high quality content production
- Creating a niche in each of the channels at differential rates compared to the rates of that particular channel
- Retention of IPR for cross dubbing, cross vending some concept (except the content abroad in multiple formalities)
- Cost: Typically serial production involves certain amount of banking; the cost of funding the production is the largest. A period of 45 days of banking is assumed for PSPL.
- Cost of collection: Generally there is a working capital gap of 90 -120 days for collecting the bills relating to advertisements.
- Revenue and profitability: The exploitation of serials covers the following:
  - Selling of FCT / sponsorships
  - Cross-promoting the programme and thereby reducing the cost or increasing the revenues

- Some programmes are dubbed in other languages and thereby the net average cost of content comes down
- Exploitation of the IPR rights either through channels or independently
- Ability to compress the content / rebuild package as sales compress reach.

Table 7. Tele-serials spread across genre and language

Tele-serials Planned		
Genres	Markets - Languages	Proposed Channel Tie ups- Regional
Soaps	Tamil	Sun TV, Kalaignar TV, Raj TV
Talk/ Chat Shows	Bangla	ETV Cluster
Game Shows	Telugu	MAA
Talent Shows	Malayalam	Asianet, Surya, Amrutha
Reality Television	Marathi	Udaya, Kasturi
Crime, Current Affairs & Business	Kannada	Akash Bangla, Tara
Events	Hindi	Zee Cluster – non Hindi
	Gujarati	

Source: Company

The following table shows the number of hours that PSPL would be operating during the first year:

Table 8. Break-up of Tele-serial hours planned

Types of Programs	Soaps	Hours/ Year	Reality TV	Hours/ Year	Game shows	Hours/ Year	Dubbing Soaps	Hours/ Year
Languages	Tamil	1,560	Tamil	208	Tamil	104	Tamil-Telugu	1,560
	Telugu	520	Telugu	208	Telugu	104	Tamil-Bangla	260
	Malayalam	260	Malayalam	208	Malayalam	104	Telugu-Bangla	260
	Kannada	260	Kannada	208	Kannada	104	Malayalam-Bangla	260
	Bangla	260	Bangla	208	Bangla	104	Bangla-Gujarathi	260
	Gujarathi	260					Bangla-Marathi	260
	Marathi	260					Tamil-Marathi	520
							Telugu-Marathi	520
Total		3,380		1,040		520		3,900

Source: Company

Pyramid Saimira Entertainment Limited – Singapore (PSEL): The business of PSEL consists of two parts:

- Agglomerating Indian content and distributing the same in India and overseas.
- Acquiring Hollywood content and distributing the same across the Asia-pacific region

PSEL agglomerates Indian film content from two sources viz.,

- Indian language films produced by PSPL
- Indian language films produced by other producers in India.

The content is the key to PSEL's business; therefore, it is critical that adequate care is taken to choose the right type of content for building the library. PSEL has adequate bandwidth to choose the content internally. Further, the group's ground level presence and access to real-time data gives it an edge for choice of content and pricing. In addition, the company has also put in the right policy framework and internal control system for content selection.

About 60% of the content agglomerated by the company will be exploited by releasing in Indian theatres; the balance 40% would be exploited through home videos, overseas theatrical, satellite rights, internet rights, and airline rights. The mix of this is now changing in favor of overseas and technological options as against domestic theatrical.

The demand for Indian films in overseas markets continues to strengthen. With an estimated market size of USD 400m, (one billion at exhibition level) the overseas market is dominated by Hindi, Tamil, Telugu, and Malayalam films. This market is growing at an exponential phase and is set to touch USD 2bn by 2011.

The overseas market for Hindi films is mainly targeted at the Hindi speaking Indian population living abroad. Tamil films draw demand from Tamil speaking Indians and ethnic Tamils from Sri Lanka that are spread across the globe. Malayalam speaking Indians continue to dominate the Middle East region; this population is the target market for Malayalam films where there is no other source of entertainment.

The business model for PSEL is as follows:

Table 9. Business model - PSEL

Elements of Cost	Revenue Streams	Profitability:	Expansion:	Risk:
Purchase of IPR	Distribution of current films - both theatrical and non-theatrical in Indian and abroad	First level exploitation - expected to generate 20% profitability without IPR and 40% with IPR.	The immediate focus of PSEL would be to agglomerate Indian content and distribute in both in India and overseas. After consolidation, the company will expand to agglomerate Hollywood content for the Asia-Pacific region.	The primary risk associated with this company is film failure, price point failure, and distribution failure. However, PSTL, as a group, has methods to mitigate all three risks.
Payment of advance towards purchase of IPR	Exploitation of library using various access methodologies	Library exploitation(the library would start scaling only after three or four years of operations)		
Blocking of talent				

Source: Company

Other Segments: Other group companies include separate entities for the following activities:

- Exploiting technology and technology advancements
- Exploiting the combined marketing strengths

- Advertisements – On screen and Off Screen: Recently, PSTL acquired a 51% stake in Mumbai-based *Dimples Cine Advertising Pvt. Ltd*. and Dimples Cine Activations. This acquisition will enable PSTL to serve all advertising requirements of a large advertiser or agency under one umbrella.
- Realty
- Post production and visual effects: These will be separate verticals and would deal/ interact with other group companies on purely arms-length basis. All the group companies would work towards a cohesive and unified synergy with an aim to become the market leader by capturing a major share.

Structural Relationship: PSTL and its arms abroad in Malaysia / USA would focus on the exhibition function. These entities would only earn the exhibitors' share in the film value chain. PSEL, Singapore would be a distributor and would have library ownership for most of the films. The company would take distributors' share in exhibition and other modes of last mile (if the film is not on full royalty or full rights basis – basically some third party films). For films produced by PSPL, it would have full IPR and therefore benefit from the shares of both, the producer and the distributor. PSPL, the production wing, has two divisions. In the film production division, it would purely act as an outsourced producer and would sell / offer the right of first refusal to PSEL at a cost plus 15%. For films, PSEL would hold the IPR. For the other division viz., the TV content division, PSPL would market the content in Indian TV space itself. It may, however, use PSEL for international marketing; in this case, PSEL would get distribution commission. IPR of TV content will be owned by PSPL only.

Pyramid Saimira Theatre Limited

Annexure

1.1 The digital cinema revolution: Digital cinema envisages providing a high definition cinematic experience using computer servers, telecommunications, and satellite technology. Today, approximately 12,000 theatres in India are being serviced by around 300 celluloid prints released for each mainstream commercial film. As these prints are insufficient, they are first released in 'A' class cities and thereafter are re-circulated to the 'B' and 'C' class cities in the country. Furthermore, during the period when the new releases are running in the 'A' class cities, pirated copies from these celluloid prints are developed to cater to such audiences in the 'B' and 'C' class cities. The combination of highly fragmented ownership, unavailability of organised funding, and inability to obtain high quality films at optimal costs have resulted in a decline in the quality of services and lack of inclination of single screen owners to invest in infrastructure and upgraded projection systems. Consequently, there has been a global shift in momentum towards the additional development of chains and multiplexes. The growth opportunities in this segment are:

- Government driven initiatives (land & tax benefits)
- Higher quality of theater-going experience offered
- Better commercialisation of individual film viewing capacity

The cost of upgrading from a conventional cinema to a digital theatre is estimated at approximately US$22,000 per theatre, which requires the installation of a digital projector and server to run the digital prints. Once completed, theatres are able to simultaneously obtain prints as soon as the film is released. This new and upgraded method of distribution, coupled with superior quality, is expected to result in higher occupancy rates and higher ticket prices. The quality of the films being screened has risen significantly, increasing the occupancy rates to almost 50% in some of the large-seating single screen theatres. The cost of producing a digital film is estimated to be one-fourth of the cost of a celluloid print; this gives more incentives to film producers as they are able to generate a much larger number of prints than prior to the implementation of the new system. Approximately 10% of all theaters in India are currently undergoing this digital conversion process, creating opportunities to upgrade the remaining 90%.

It is estimated that the Indian film industry loses significant revenues due to piracy. Digital cinema helps to curb piracy as digital prints are less prone to illegal duplication and also are cheaper. In the traditional system, the cost of the print was over Rs. 60,000, which was prohibitive in terms of ensuring the penetration of the films into smaller cities and towns. Furthermore, if satellite delivery technology is adopted, digital cinema can penetrate many more cities and towns without incremental costs. The format also offers savings in handling and transportation and has a longer virtual shelf life as physical prints wear out. These cost savings also help film marketers develop larger promotional budgets.

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1.2 Management Profile

PSTL's management comprises film industry veterans specialising in film production, distribution and management. The board is also advised by experts in related fields.

PSTL was promoted by Mr. V. Natarajan in 1997. Mr. P. S. Saminathan and Mr. N. Narayanan joined later to promote the Mega Digital Theatre Chain Project.

Mr. Natarajan, popularly known as Pyramid Natarajan, has an experience of over four decades in film/content production, management, and distribution. He is a veteran in the film industry and has produced 55 films so far and has a success ratio of more than 60% in film production.

Mr. Natarajan is a committee member/advisor in almost all trade bodies in the film industry; these include South Indian Film Chamber of Commerce and Tamil Film Producers Council. He has served as a member of the advisory panel of Central Board of Film Certification, and as an ex-member of the Advisory Committee of Film Taxation, Government of Tamil Nadu. Mr. Natarajan has the distinction of producing films with leading artists like Rajnikant, Kamalhassan and others. He has accredited of introducing the top music director, Mr. A. R. Rahman, in the film 'ROJA'.

Mr. Saminathan is a visionary with rich experience in the cable and television, communications, and networking industry. He has worked with Jupiter Trade, a major multi-system operator in Chennai. Jupiter Trade was India's first true broadband co-axial based access network. Mr. Saminathan then worked as a senior consultant with Aquastride; in this role, he handled project structuring, techno economic viability, and financial structuring for India's major aquaculture projects.

Mr. Narayanan has vast exposure in the field of leadership, management, and providing cohesion among diverse experts. He has worked with Ashok Leyland Limited for 15 years as senior manager, HRD and MIS. After this assignment, he served as an advisor to many reputed organisations with respect to strategy.

Mr. Venkatakrishnan, aged 45, has more than 15 years experience in the South Indian Film Industry. He has been involved in various stages of film production for more than 20 films from the start till exploitation of the film. He has been an Executive Producer for various production companies like Amma Creations, Andhra Talkies and Duet Films amongst others. He has established wide contacts both in the domestic and international markets and is a well known personality in the film industry. Associated with the group since inception, he spearheads its marketing initiatives.

Mr. K S Srinivasan hails from a family that is into production of films for the last 50 years. Commencing film production during 1956, his father has produced films starring veteran stalwarts like Mr. M G Ramachandran (MGR) and Mr. Shivaji Ganesan. Mr. Srinivasan, in his personal capacity spanning over 30 years, has produced more than 32 films with leading star casts like Prabhu and Karthik.

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He has extensive experience in dealing with various crisis situations and solving crucial problems in the film industry. As a member of the apex film body, he was instrumental in obtaining the tax exemption for Tamil.

Mr. Suresh Kumar is one of the leading producers of Malayalam films. He introduced the superstar Mr. Mohanlal and the ace director Mr. Priyadharshan in his film titled POOCHAKE ORU MOOKUTHI. In addition, he has produced more than 25 films; of these, 15 films were blockbusters, 5 films were average, 3 films were below average and 2 films were flops. Mr. Kumar is also the President of the Kerala Film Producers Association.

Mr. Mukesh Mehta has been in the film industry since 1976. He has produced more than eight films in Malayalam, apart from distributing more than 100 films in Kerala. Out of the films produced by him, 5 films were blockbusters, 2 films were hits and one film was a flop. His last film was directed by PRIYADARSHAN and recorded a run of over 100 days. He is actively connected to all film associations.

Mr. Bharadwaj has an illustrious career spanning over 25 years in the film industry. He has produced 17 films and has directed equal number of films in Telugu. He has the credit of introducing top heroes like Chiranjeevi and Srikanth.

Currently, the president of the AP Film Producers Council, he served as the President of AP Film Directors Council for 17 years. He was worked as a director in AP Film Development Corporation Limited for two years. Mr. Bharadwaj heads the Production activities of the AP Zone.

Mr. Rammohan Rao started his film career as an exhibitor during 1986 with 10 theaters and then moved to film distribution in 1992. His maiden film as a distributor is the Mega Star Chiranjeevi's film 'BIG BOSS'.

After a successful stint as a distributor, he entered film production in 1992. So far, he has produced five films. He has also served as a member of the Film Censor Board for two years. Mr. Rammohan Rao heads the distribution and exhibition activities of the Pyramid Group in AP Zone.

Mr. Shakthivel has a 30-year long association with the film and television industry. Starting his film career as a film distributor, Mr. Shakthivel has produced more than seven films apart from producing four mega tele-serials covering 1400 episodes. He has the credit of working with leading heroes and heroines like Vijay Kanth, Radhika, and Karthik. His skills include script analysis and budget finalisation, apart from his in-depth knowledge in all the aspects of film making and content for television. He oversees the day-to-day production activities of the group.

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Financials

Profit & Loss

Rs mn	FY06	FY07	FY08E	FY09E
Net sales	49.9	1,643.2	5,978.7	10,368.3
YoY (%)	70.9%	3193%	264%	73%
Total expenses	35.5	1,449.1	5,023.6	8,247.5
Content Purchase/Theatre Exp	30.1	1,357.9	4,683.5	7,707.5
Staff Expenses	0.0	11.4	62.1	97.0
Administrative Expenses	5.3	79.9	278.0	443.0
EBIDTA	14.4	194.1	955.1	2120.8
EBIDTA (%)	28.9%	11.8%	16.0%	20.5%
Other income	0.0	4.4	24.6	62.9
PBIDT	14.4	198.5	979.7	2,183.7
Interest	0.0	1.7	55.2	2.5
Gross profit	14.4	196.8	924.5	2,181.2
Depreciation	0.4	11.7	51.2	94.2
PBT	14.1	185.1	873.3	2087.0
(-) Tax	(3.1)	50.8	223.8	412.2
Tax / PBT	-22%	27%	26%	20%
PAT	17.2	134.3	649.5	1674.8
Adjusted net profit	17.2	134.3	649.5	1,674.8

Balance Sheet

Rs mn	FY06	FY07	FY08E	FY09E
Equity capital	162	283	283	364
Reserves	37	1,013	1,663	6,947
Net worth	198	1,296	1,946	7,311
Total borrowings	0	0	3,691	0
Deferred tax	(5)	20	46	71
Total liabilities	**194**	**1,317**	**5,682**	**7,382**
Gross block	2	150	635	1,170
Less: Acc. depreciation	0	12	63	158
Net block	1	138	572	1,013
CWIP	54	5	150	300
Investments	0	33	1,689	1,689
Current assets	134	1,096	3,415	4,721
Inventories	15	15	392	770
Debtors	39	95	470	768
Cash	25	154	1,969	1,854
Loans and advances	55	832	585	1,328
Current liabilities	4	30	46	54
Provisions	2	30	202	391
Net current assets	129	1,037	3,167	4,276
Miscellaneous expenses	10	104	104	104
Total assets	**194**	**1,317**	**5,682**	**7,382**

Key Ratios

	FY06	FY07	FY08E	FY09E
EPS (Rs)	1.1	4.8	23.0	46.0
CEPS (Rs)	1.1	5.2	24.8	48.6
Book value (Rs)	12.3	45.8	68.8	200.8
Debt-equity (x)	0.0	0.0	1.9	0.0
ROCE	7%	14%	16%	29%
ROE	9%	10%	33.4%	23%
Valuations				
PE (x)	392.6	87.8	18.2	9.1
Cash PE (x)	384.6	80.8	16.8	8.6
Price/book value (x)	34.0	9.1	6.1	2.1
Dividend yield	0.0	0.0	0.0	0.0
Market cap/sales	135.0	7.2	2.0	1.5
EV/sales (x)	134.5	7.1	2.3	1.3
EV/EBDITA (x)	465.6	60.0	14	6

Cash Flow

Rs mn	FY06	FY07	FY08E	FY09E
Profit before tax	14	185	873	2,087
Depn and w/o	2	28	51	94
Interest paid	0	2	55	3
Interest received	0	(4)	0	0
Change in working cap	(70)	(798)	(488)	(1,412)
Income tax paid	(1)	(6)	(26)	(199)
Others	(11)	(111)	0	0
Operating cash flow	(67)	(705)	465	573
Capex	(44)	(99)	(630)	(685)
Investments	0	(33)	(1,656)	0
Dividend & Interest received	0	4	0	0
Investing cash flow	(44)	(128)	(2,286)	(685)
Interest paid	0	(2)	(55)	(3)
Fresh equity	132	964	0	3,691
Debt	0	0	3,691	(3,691)
Financing cash flow	132	962	3,635	(3)
Others				
Net change in cash	21	129	1,815	(114)
Opening cash	4	25	154	1,969
Closing cash	25	154	1,969	1,854

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