

Midvalley Entertainment : Weak Issue; **Avoid** IPO Note: Poor corporate governance and high PE Ratio of 41 Rating:*

Issue details

Price band (Rs)	Rs.64-70
IPO Opening Date	10/01/11
IPO Closing Date	12/01/11
Issue Size	Rs.60 Crore

Valuations & Recommendation

The financial performance is not encouraging. For FY 2010 and FY 2009, net sales came down drastically from the previous year levels due to no revenue from production business, fall in revenue in distribution business, and fall in theatre collection. Also, it has made just a small profit of Rs 4 lakh for FY 2010. It was in the red a year back.

The company will have a post issue capital of around Rs 40 cr. There are issues with respect to corporate governance. Shares of the companies in this segment are not fancied in the exchanges. Recently listed EROS Entertainment shares are quoting below the offer price.

At the lower price band of Rs 64 per equity share of Rs 10 face value, the P/E works out to 39 times the annualized EPS of Rs 1.6 (on post-IPO equity) for the quarter ending July 2010 (it's year-end is April). At the upper band of Rs 70, P/E works out to 41.8 times the annualized EPS of Rs 1.7 for the quarter ending July 2010. Looking to its fundamentals and poor corporate governance asking price is very high hence we strongly recommend avoiding this Issue.

Highlights

- ◆ The company presently has screening agreements with 46 theaters across Tamil Nadu (34), Andhra Pradesh (5) and Karnataka (7)
- ◆ The company operates in highly competitive and uncertain segment.
- ◆ Brickworks has assigned an IPO Grade 1 to Midvalley Entertainment Ltd IPO.
- ◆ The company has not paid Income Tax dues aggregating to Rs. 914.00 Lacs.
- ◆ The company had in the past defaulted and failed to repay the loan taken from City Union Bank Limited.
- ◆ For FY 2010 and FY 2009, net sales came down drastically from the previous year levels. Also, It has made just a small profit of Rs 4 lakh for FY 2010 and was in the red a year back.

Company Introduction Company Profile and Business

Midvalley Entertainment is a multinational Media & Entertainment company operating from Chennai. Midvalley's major businesses are Exhibition and Concept Theatres, Film Production, Distribution, Hospitality and Cine Advertising, etc. It produces, distribute and exhibit movies both in Indian and foreign languages.

At present, they are with the network of 40 plus screens across southern peninsula. By 2011, the group positioning to operate 100 plus screens that includes Cineplex, Multiplex, Open Air Theatres and Concept Theatres. Midvalley also preparing well in the segments of film Production and Distribution and expected to release its next movie as by Jan 2011 during Pongal season. It has a library of 651



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movies in various languages, consists of 417 Tamil movies, 107 Telugu movies, 52 Kannada movies and 75 Malayalam movies

Financial Performance

The financial performance is not encouraging. For FY 2010 and FY 2009, net sales came down drastically from its previous year to Rs 12.94 crore and Rs 21.11 crore, respectively, due to nil revenue from production and fall in revenue from distribution and theatre collection. Also, it made just a small profit of Rs 3 lakh for FY 2010 and was in red a year back due to high amortization cost of the satellite and distribution rights. For the three months ended July 2010, net sales stood at Rs 4.83 crore and net profit at Rs 1.43 crore

Industry Outlook

Media and entertainment is one of the booming sectors in India due to its vast customer reach, the growing middle class with high disposable income, change in lifestyle and spending pattern. The company has presence in the entire value chain of the film industry, i.e. production, distribution and exhibition.

IPO and Proceeds

The company is coming out with an initial public offering (IPO) amounting to Rs 60 crore at a price band of Rs 64 – Rs 70 per share of face value Rs 10 each. The money raised through issue will be used for entering into screening agreements with 300 cinema theatres amounting to Rs 15 crore, renovation and upgrading of cinema infrastructure with digital equipment and other related assets for select 100 screens amounting to Rs 25.95 crore, acquisition of company, acquisition of screen rights of a company in similar line, range and objects of business amounting to Rs 12 crore; and rest for general corporate purpose and IPO expenses.

The Object of the issue

1. Entering screening agreements with cinema theatres
2. Renovation & Up-gradation of cinema infrastructure
3. Acquisition of company and acquisition of screening rights
4. To meet general corporate expenses.

Financial Summary Rs. In Crore

Particulars	1007(03)	1004(12)	0904(12)
INCOME	4.83	12.94	21.11
PAT	1.43	0.04	-0.47
EPS#	1.6	0.0	-

Annualised on post-issue equity of Rs 35.03 crore;

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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