

Grading Report for Mid Valley Entertainment Ltd

Mid Valley Entertainment Limited

IPO Grading: BWR IPO Grade 1 (Poor Fundamentals)

Brickwork Ratings (BWR) has assigned BWR IPO Grade 1 to the proposed IPO of Mid Valley Entertainment Limited (MVEL). Brickwork Ratings "BWR IPO Grade 1" indicates poor fundamentals for the issue in relation to the other listed equity securities in India. BWR assigns IPO grading on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 signifies poor fundamentals of the issue in relation to the other listed equity securities in India.

The grading factors MVEL's promoters experience in management of malls and multiplexes. However, the grading is constrained by small size of operations, declining operations in the last 2 years, four prior unsuccessful attempts by the company to raise funds through IPO, promoters lack of experience in entertainment business, litigation with income tax department for non-payment of tax dues, the promoter companies of MVEL and the group companies incurring loss, very preliminary stage of project implementation, no independent appraisal of the project/project cost and project funding fully from IPO proceeds. Promoters are not participating in the means of finance and their post holding equity holding will decline from current 49.9% to ~34%. The company operates in media and entertainment industry which has high revenue volatility and suffers from video/audio piracy.

Company Profile:

Mid Valley Entertainment Ltd. is engaged in film production, distribution & exhibition in South India. The company produces, distributes and exhibits movies both in Indian and foreign languages. It also holds the music, video and television rights of movies, television serials for sales to TV Channels. The company has earlier produced movies like Thambi and Seena Thana in Tamil. The company presently has screening agreements with 46 theatres across Tamil Nadu (34), Andhra Pradesh (5) and Karnataka (7). The company plans to focus primarily on movie production and exhibition business going forward.

The company has a movie 'Alanganallur Kalai' lined up for production. The script, lead actors, director etc for the same are yet to be finalized. The film is expected to be completed by mid 2011. The company plans to produce low / medium budget movies which yield better returns.

MVEL is promoted by Datuk K. Ketheeswaran and his group companies Unigold Pacific Limited, Kiara Enigma Sdn. Bhd. and Global Motion Pictures & Ventures Pte. Ltd. Datuk. K. Keetheshwaran holds 100% stake in Unigold Pacific, Kiara Enigma and Global Motion Pictures & Ventures Pte Ltd. These companies are either loss making or are making negligible profits.

MVEL was initially promoted as CTV Entertainment Private Limited by Ms. Anuradha K. Chugh, Ms. Mala K. Chugh and Metro Film Pvt. Ltd in 1989 in Bangalore. In January 2000, its name was changed to CEE (I) TV Entertainment Private Limited and then to CEE (I) TV Entertainment Limited in February 2000. It was renamed Mid Valley Entertainment in 2005. The registered office of MVEL was changed from Bangalore to Chennai in 2005.

The current promoters acquired the company in 2005.

Board of Directors & Management

The promoter Datuk K. Ketheeswaran is the Non Executive Chairman and guides the management in strategic decisions. The company's day to day operations are managed by Executive Director and COO, Mr. Murugavel and his management team. The management team has good experience in the field although they have joined the company recently. There has been a revamp of the board in 2009-10. There has also been a significant reduction in number of employees during the year.

Brief profile of Board of Directors

Datuk K. Ketheeswaran - A Malaysian national, Datuk. Ketheeswaran is the Non- Executive Chairman of the Company. He guides the Company on crucial policy decisions. He has promoted companies across varied businesses viz; plantations, investments, entertainment related businesses etc. In the year 2005-06, through his companies, Mr Ketheeswaran acquired the shares of Midvalley Entertainment Ltd from the then existing promoters. He was conferred the title of Datuk, an honorary title by the Malaysian government.

Mr. Sudhir Kumar Jena – Mr. Sudhir Kumar Jena is a CA by profession and has over 20 years of experience in the field of Finance, Taxation and Company Law matters. He is involved in consultancy services for debt structuring, and other corporate finance activities. He also provides services with regards to appeals to income tax, Company Law Board and other government departments. He has been an Independent director on the board since 2006.

Mr. K. Murugavel - Mr Murgavel is a Graduate in Political Science, a PG in Public Administration and in HR Management. He has good experience in retail industry and exposure in operational management and business operations. He has experience in software industry and worked with MNC's like American International Group (AIG). Mr Murgavel was appointed to the board in April 2010.

Mr. C Vasan - Mr Vasan is a film director and producer and has produced four Tamil movies He promoted TGF Media Systems and produced and directed successful Tamil films. He was appointed on board as an Independent Director on June 01, 2010.

Mr. K. Ramadasan - Mr Ramadasan has more than 5 decades of experience in various Civil, Criminal Corporate and other allied Laws. He has been an Advocate in Madras and Bangalore High Courts for over 3 decades. He is currently working with a Law Firm based in Chennai called "Delta Legal Associates". He was appointed to the board in June 2010.

Mr. R. Chandrasegaran - Mr Chandrasegaran is a graduate member of The Institute of Cooperative Auditors, Malaysia and has completed the Management program from Asian Institute of Management, Manila. He has more than 25 years of experience in Auditing, Consulting and Mergers & Acquisitions. He was earlier the Executive Director cum CFO of the company and his term as CFO ended in April 2009.

Brief Profile of Key Management

Mr. S. N. Madhavan (Company Secretary & Compliance Officer) - Mr. Madhavan is a Fellow Member of The Institute of Company Secretaries of India and has over 2 decades of experience in the field. He has been with MVEL since June 2010.

Mr. T.N. Srinivasan - General Manager-Theatre Operations - Mr. Srinivasan has been in the film industry for the past 2 decades and was instrumental in bringing DTS Sound System in many theatres in Tamil Nadu. He joined the company in April 2010.

Mr. M. Pandiyan, Manager Accounts & Finance - Mr. Pandiyan joined MVEL in 2006. He is responsible for the day to day accounts and finance functions.

Mr. S. Subramanian, Head – Distribution Business - Mr. Subramanian has been in the film industry for more than 3 decades Mr. Subramanian has worked in all levels of the industry from distribution manager to head distribution. He joined the company in April 2010.

Table 1: Pre Issue vs. Post Issue holding structure (as on August 26, 2010)

	Pre-Issue (%)	Pre-Issue No. of Shares	Post Issue* No. of Shares	Post Issue (%)
Promoter and promoter Group	49.9%	128,03,807	[•]	~34%
Private Investors	50.1%	100,90,629	[•]	[•]
Public	--	--	[•]	[•]
Grand Total	100%	256,53,140	[•]	100%

~ indicates approximately

*The final Post Issue Shareholding pattern will be determined after the Book-Building Process

There was no pre issue dilution or any change in promoter stake in last 3 years

Objects of the Issue

The main objects of the proposed issue are as follows

1. Entering into screening agreements with 300 cinema theatres
2. Renovation and Up-gradation of cinema infrastructure with Digital Equipment and other related assets for a select 100 screens
3. Acquisition of company, acquisition of screening rights of company having similar line, range and objects of business
4. To meet general corporate expenses & IPO expenses

Table 2: Break up of Total Project Cost

USE of IPO Proceeds		
Sl No	Particulars	Amount (₹ in Cr)
1	Entering into screening agreements with 300 cinema theatres	15
2	Renovation and Up-gradation of cinema infrastructure with Digital Equipment and other related assets for select 100 screens	25.95

3	Acquisition of company, acquisition of screening rights of company having similar line, range and objects of business	12
4	General corporate purposes	[.]
5	Issue Expenses	[.]
	Total	60.0

Source: DRHP

The project implementation is in a very preliminary stage. MVEL has initiated selection process for 300 screens and has identified about 150 screens for screening Focus will remain on B&C towns and majorly on single screen theatres. Evaluation is underway at 18 districts (6 completed) including Tirunelveli, Coimbatore, Vellore etc. MVEL has not entered into firm agreement with screen owners. The company is also looking to increase revenues through management and /or ownership of food courts as the Food & Beverage business at theatres. MVEL plans to screen successful movies from its existing library during lean times. Digital projectors for the modernisation of select theatres will be undertaken from the issue proceeds. Renovation & modernisation of a theatre is estimated to take about 30-45 days.

The company proposes to acquire similar sized entity in the same line of business either in India, South East Asia or Gulf. The company has not identified any target for acquisition.

MVEL over next five years has plans to start Open air theatres in Tamil Nadu. It is looking to buy out smaller multiplexes (with 2-3 screens). The company also plans to expand into Malaysia and Gulf region in next 2 -3 years and capitalise on the promoters' locational knowhow and expertise.

The company also proposes to launch 2- 3 new small/ medium budget movies in the next 1 – 2 years as smaller projects are expected to yield higher returns especially through sale of satellite and music rights.

Project funding

To meet the funding requirements, MVEL plans to raise ₹ 60 Crores (including Issue Expenses) by way of Initial Public Offering of equity shares with Face Value of ₹ 10/- at a premium to be decided later.

The Promoters, together with the Promoter Group own 49.91% of the paid-up capital of the company. The total post-issue dilution (including promoter and promoter group) is expected to be in the range of 30-35 %. An aggregate of 20% of the post-Issue equity capital of the company, held by the Promoters shall be locked in for a period of three years from the date of Allotment in the Issue, which as per SEBI guidelines will be considered as Promoters' Contribution.

The fund requirements and funding plans have not been appraised by any bank / financial institution. The deployment of funds for the projects is therefore, entirely at the discretion of the company.

The company is relying on the IPO proceeds for execution of its expansion plans. The company may approach banks for financing small budget film production. The company also proposes to tap film financiers for funding if required.

Corporate Governance

MVEL is complaint with the provisions of Clause 49 of the Listing Agreement. There are currently 6 Directors on the Board of MVEL, which includes 1 Executive Directors, 3 Independent Directors and 2 non executive non independent directors.

The company had related party transactions to the tune of Rs.20 lakhs in fiscal 2009 pertaining to managerial remuneration.

MVEL has set up the Audit Committee, Shareholders/Investor Grievance Committee and the Remuneration Committee. The audit committee was constituted in May 2006 and reconstituted in June 2010. The three committees are chaired by Mr. Jena, an Independent Director. Members of all three committees are Independent Directors. Mr. Murugavel, Executive Director & COO is a member on the Audit Committee.

The board members have experience in the fields of film making, law and management.

The company has filed DRHP with SEBI on 4 previous occasions in 2000, 2002, 2007 and 2008. The company under its previous management did not proceed with the IPO in 2000, 2002 and 2008 due to prevailing market conditions.

In 2007, the BRLM withdrew the offer document due to financial inconsistency (absence of financial data of subsidiaries) and eligibility criteria. The current DRHP was filed in August 2010.

Industry Analysis

The Indian Media and Entertainment industry stood estimated at US\$ 12.9 billion in 2009 and has registered a growth rate of over 14% over last year and is expected to grow at a 13 % compound annual growth rate (CAGR) to reach the size of US\$ 24.04 bn by 2014. (Source: DRHP, Joint report by KPMG & industry chamber). The industry has a wide reach across various socio economic segments. Its various segments – Film, Television, Advertising, Print and Digital among others – have witnessed very strong growth in the last few years. There has been an exponential growth in the number of television channels and also private FM radio operators in the last few years.

The Indian film industry is second largest in the world and the largest in terms of the films produced and tickets sold. The low cost of production (as compared globally) and high revenues ensure a good return on investment for the industry in India.

The Media & Entertainment industry is highly linked to GDP growth. Key growth drivers are rising incomes result in increased spending on leisure activities. Changing lifestyle and growing middle class has resulted in an exponential growth of this sector. The growing success of small/medium budget films, cross over films etc coupled with revenues from sale of satellite rights and CD/ DVD's have helped improve profitability. Further, 100% FDI is allowed in the film production segment resulting in large global media houses investing in Indian business. Technological innovations like online distribution channels, web-stores, multi- and Mega-Plexes, animation, 3D etc are contributing to the growth of the sector. There are presently more than 800 multiplex screens in India, and this is estimated to grow to 1,500 screens in the next two to three years.

However, the industry is highly fragmented and capital intensive with few large players and numerous small players making survival of smaller companies difficult. The industry is characterized by high volatility in revenues and profitability and requirement of moderate to large investments. The sector in India is highly fragmented and there is lack of cohesive production & distribution infrastructure, particularly with respect to the music industry. Industry is also infected with high levels of piracy, violation of IPR and copyrights.

Unorganised nature of industry is a deterrent for bank / institutional financing. However the scenario is now seeing some change by way government granting industry status and banks willing to finance smaller projects.

Business Risk

The company is a small player in the highly fragmented and competitive film production, distribution & exhibition business. The company's operations are concentrated in South India particularly in the B & C category towns with single screens. The industry is characterized by few large players including corporate players and numerous small players.

The film production, distribution and exhibition business has highly volatile revenues and profitability's, with no reasonable certainty regarding the success or failure of films. MVEL's management team has good experience in the field; however, they have recently joined the company. Further, MVEL has not produced any new movie in the last 2 years. The company now proposes to produce a small budget film. Script, location, director, actors (company plans to cast new actors) etc for the same are pending finalization. The timely execution, completion and success of the movie cannot be reasonably predicted.

MVEL is also looking to foray into management /ownership of food courts in the theatres where it has screening tie ups / own theatres and the food & beverage segment garners significant revenues. The company has no prior experience of managing / operating the food and beverage business.

The company has had no significant operations in the last 2 years with a reduction in number of theatre tie ups for screening from 85 to 46. The company has library of TV serial episodes and music rights of films which it is not pursuing as the segment is very competitive. The company plans to re-start and rapidly scale up operations with the proceeds of the proposed IPO.

Financial Performance

Total Income has consistently declined in the last 2 years from ₹ 73.6 crore in 2008 to ₹ 8.4 crore in 2010 for the 10 months ending February 2010. The company undertook no significant operations in the last 2 years due to slowdown in the economy. The company also did not acquire any new distribution rights since 2009. Cost of film production/distribution rights form a significant proportion of the company's costs. Operating margins are high in the range of 45-50%; however net profit margins are low at around 3% due to high depreciation and amortization costs. (The company amortises 60% of cost of rights acquired or produced by it in the 1st year of acquisition).

Revenues & profitability are highly volatile and dependent on success / failure of movie and choice of film selected for exhibition/ distribution. Considering the company's small size of operations and low networth base (₹ 54.6 crore), it will be difficult for the company to sustain this volatility.

MVEL had negative cash flows from operations in FY2009 due to high receivables and loans & advances. The company also has high levels of inventory in the form of stock of rights of own production or acquired rights.

Table 3: Current Assets excluding cash

₹ Crore	10 M February 28, 2010	12 M April 30, 2009
Inventories	14.94	16.86
Sundry Debtors	15.65	26.44
Loans & Advances	19.56	19.58

Sundry debtors outstanding for more than 6 months ₹ 15.56 crore (as on 28th Feb 2010) as against the total income of ₹ 8.44 crore

Litigations

The company has delayed in payment of statutory dues of employees. Litigation with Income Tax Dept. pertaining penalty levied for ₹ 0.91 crores for non filing of returns for FY 2002, 2003 and subsequent years and non-payment of income tax dues aggregating to ₹ 9.14 crore including interest. The company has defaulted in servicing its vehicle loan in FY10. Earlier in 2006, the company settled an old loan (default in 2001) of the earlier promoters. The company has settled the same subsequently.

Table 4: Abridged Profit & Loss Statement

In ₹ Cr	2010 (Feb-2010)	2009 (30 Apr-09)	2008 (30 Apr-08)
Production	-	-	14.23
Distribution	2.50	5.83	11.97
Exhibition	5.93	15.27	47.38
Total Income	8.44	21.16	73.62
EBDITA	4.41	10.15	19.24
Interest	0.0005	0.01	0.03
Depreciation & Amortisation	4.02	9.2	5.88
PBT	0.38	0.95	13.34
Tax	0.073	1.59	4.48
PAT/ (Loss)	0.307	(0.64)	8.86
Net-worth	54.61	53.82	54.54
Borrowings	0.042	0.071	0.087

Net fixed assets	17.56	3.69	4.43
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Table 5: Key Performance Indicators

OPM (%)	50%	47%	46.1%
NPM (%)	3.64%	-3.02%	12.04%
ROCE	0.56%	-0.87%	-
Current Ratio	4.46	4.24	6.33
Debt Equity ratio	0.01	0.01	0.03
Interest Cover	NM	NM	NM
Total No. of Shares	25,653,140	25,653,140	25,653,140
Book Value per Share	21.19	20.98	21.26

N.M. – Not Meaningful

Table 6: Abridged Balance Sheet

In ₹ Cr	10M Feb 28 2010	12 M April 30, 2010	12 M April 30, 2008
Share Capital	25.65	25.65	25.65
Reserve and Surplus	28.96	28.65	29.13
Net-worth	54.61	53.82	54.54
Fixed Assets	17.56	3.69	4.43
Investments	-	-	-
Current Assets, Loans and Advances			
Inventories	14.94	16.85	22.88
Sundry Debtors	15.65	26.44	18.58
Cash & Bank Balance	0.01	0.01	1.80
Loans & Advances	19.56	19.58	17.85
Sub Total	50.17	62.90	61.12
Liabilities & Provisions			
Secured Loan	0.042	0.071	0.087
Unsecured Loan	-	-	-
Deferred Tax Liability	1.81	2.55	1.24
Current Liabilities	1.28	0.98	0.62

Provisions	9.97	9.15	9.04
Sub Total	13.12	12.76	11.00
Total	54.61	53.82	54.54

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