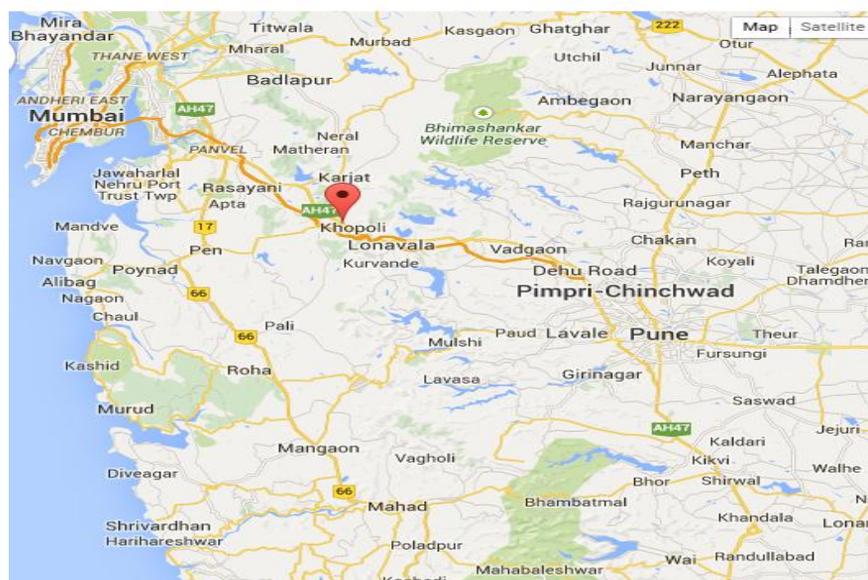




Issue Size # Shares	1,83,26,227
Offer for Sale	20,00,000
Offer Sale (funds raised Rs Cr)	44.2-46
Issue Size (funds raised Rs Cr)	405-421.5
Price band	221-230
Issue opens	10-Mar-15
Issue Closes	12-Mar-15
Minimum Application	65
Multiple Application	65
HNI's maximum of	10% of the issue size
Listing	BSE / NSE

Overview: Adlabs entertainment Ltd (AEL) owns and operates Imagica which is a theme and water park under the management of Manmohan Shetty. Imagica is located at kharpur (khopoli) which is 74kms from Mumbai off the Mumbai-Pune expressway. The location provides patrons an ease in commuting to the destination. Total land owned for this project is 302 acres of which 132 acres have been utilized till date. The total number of patrons catered in Dec FY14 for Theme park admits were 9,12,061 and for the Aqua park was 90,940 since the operations commenced in October.

Growth: As the barriers to entry are high with the acquisition of the land banks along with the capital investment towards the land development, we believe the existing players which are Essel world, Wonderla holidays, Kingdom of dreams also share better prospects in capturing larger target audience. The location of Adlabs Imagica gives an opportunity for better catchment from neighboring towns as can be seen in the chart below. The 300-acre site is within driving distance of three cities—Mumbai, Pune and Nashik with a total catchment size of approx 30 million.



Adlabs Imagica has a burdensome debt amounting to ₹11.0 bn from a consortium of bank loans carries an interest cost keeping pressure on profitability, while the proceeds of the IPO will be utilized towards the retirement of the debt. Post this too the debt levels will be quite significant and it would still take a reasonable amount of time to bring the debt to comfortable levels. Imagica also has chalked plays for expansion in Gujarat, Hyderabad and Delhi for which it would enter into JV thereby not bearing the entire cost of the land acquisition but would once again lead to high debt levels on a consolidated level.



Services offered by Imagica: Theme Park is a one-of-a-kind offering in India and currently has 25 rides and attractions, which are spread over six theme-based zones. It also offer entertainment through live performances by acrobats, magicians, dancers, musicians and other artists throughout the day in various parts of its theme park. Aquamagica, the water park, became fully operational on October 1, 2014 and it offers 14 kinds of water slides and wave pools.

Ticket pricing: Tickets are priced at ₹1,500 on weekdays and Rs 1,900 on weekends for the theme park , while tickets prices for the Aqua park is ₹950 for the weekdays and ₹1150 for weekends allow visitors to take unlimited rides in the park. Food and merchandising are added costs. Imagica expects ticket sales to contribute 75% of its revenue, 25% from F&B and merchandise.

Financial: Adlabs Imagica's operational income for 6mths FY15 was ₹721.6mn with net loss of ₹535.29mn. In the first half of FY15, 98% revenues were generated from sale of products and remaining from services. The company has not shown profitability however one should take into account that the immediate opening of has taken some time to attract audiences and attain maximum capacity. In FY14, it reported standalone revenues of ₹1037mn with net loss of ₹524.8mn. FY13 operational revenues came in at ₹ 35mn with a net loss of ₹17.6mn.

Recommendation: The business model embarked upon is promising from the longer term point of view given the cost are fixed in nature, nevertheless one also has to bear in mind that interest cost would exert pressure on profitability. Our concerns would hover around its ability to meet its interest payments along with the principal each year. Given the limited options available for entertainment along with the increasing catchment around the location of the park and the lifestyle of the audience with the insatiable demand for entertainment could see demand for such services pick up gradually going ahead. The ability to add newer rides and new facilities would also enable to capture the audiences for repeat visits. From a valuation viewpoint, given the higher depreciation cost EV/EBIDTA would be suited over a P/E. We believe that Imagica would need to generate sufficient free cash flows of close to ₹1500-1600mn to cover its obligations of repayment and interest cost. However its profitability would still be in the red if it is unable to generate over and above its obligations. After considering a good increase in ticket prices over the years and increased patronage we believe at the current offering price the stock looks expensive. Keeping this in mind we would currently recommend "AVOID" this issue and look to enter at lower levels post the listing.

Sherwin Fernandes

Sherwin.fernandes@narverlal.com

91-22-42134421