

Adlabs Entertainment Ltd

Sensex: 33820

CMP: INR 56

Target: INR 119



Media & Entertainment

Adlabs Entertainment Ltd. (AEL) reported mixed set of numbers with higher than expected footfalls in Theme Park and Water Park which was partly offset by fall in ARPU. EBITDA margin in the quarter improved on the back of various cost cutting measures. The company's plan to monetize excess land and selling of Novotel business is on track, we expect the deal to go through in 1Q FY18. We remain bullish in longer term prospect of overall theme park industry and recommend buy with a target of INR 119.

Revenue increased 4% YoY on the back of 14% jump in total footfall

AEL's 3Q FY18 revenue increased by 4.1% YoY to INR 629.8 mn due to higher footfalls and increasing revenue from FnB segment. Footfall for Q3 stands at 4.94 lakh vs. 4.33 lakh, recording an impressive growth of 14%. Robust growth seen in theme park footfalls at 18% YoY and water Park continue to show strong growth in footfall growing at 38% YoY. For 9M FY18, footfall grew by 13% to 13 lakh vs 11.47 lakh in 9M FY17. ARPU for the theme park and water park declined 17% and 11% respectively as the company could not pass on incremental cost due to GST and deal days offers continued in the quarter. Revenue from Novotel grew 76.4% YoY at INR 91 mn in 3Q FY18 (INR 51 mn in 3Q FY17). Average occupancy in the quarter stood at ~76%. Average room rent was INR 6809 and including F&B, ARR was INR 11266.

EBIDTA increased by ~11.1% YoY

EBIDTA in 3Q FY18 stood at INR 196.8 mn, up ~11.1% from INR 177.1 mn in 3Q FY17 due to tight cost control. Several cost control measures like rationalization of workforce between park & hotel, indigenization of spare parts, sourcing power through open access have resulted into lower operating expenses which declined 17% YoY to INR 427mn. RM cost as % of sales has gone up 92 bps YoY mainly on the back of increasing share of FnB segment which stood at ~34% of total sales in the quarter (29% YoY). Interest cost was up.

Monetization of Land and Hotel Business to go through in 2 months

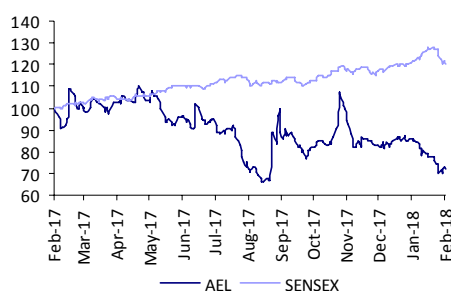
The board has given approval for monetization of excess land (INR 1500 mn) and selling of Novotel business (INR 2000 mn), management expects to complete the deal in two months' time. Management intend to utilize proceeds to repay the debt. Post monetization, the company would continue to hold an excess land of ~30 acres which will be used to set up additional themes on revenue sharing basis. We don't expect any major CAPEX in next couple of years.

Valuation & Outlook

Footfall growth in the quarter was impressive while declining ARPU remain a cause of concern. At current level of footfall, penetration of just 4.3%/0.8% in primary/secondary catchment area. Considering robust GDP growth, young & aspiring population and rising income per capita, we strongly believe that long term prospect of domestic theme park industry remains intact. With all three parks operational coupled with hotel availability, we expect steady and growing footfalls in future. We expect AELs revenue and EBITDA to grow at a CAGR of 106% and 122% respectively from FY17 to FY20. We recommend buy with DCF target price to INR 119.

Shareholding (%)	Dec-17
Promoters	50.1
FII's	0.00
DII's	7.21
Others	28.79

Relative Price Performance



Key Data	
BSE Code	539056
NSE Symbol	ADLABS
Bloomberg Code	ADLB IN
Reuters Code	ADLA.BO
Shares Outstanding (mn)	88
Face Value	10
Mcap (INR bn)	4.92
52 Week H/L	93/53
2W Avg. Vol, BSE	18387
CMP	56
Beta	1.1

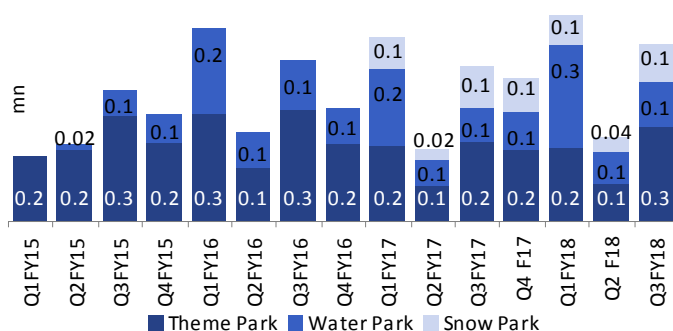
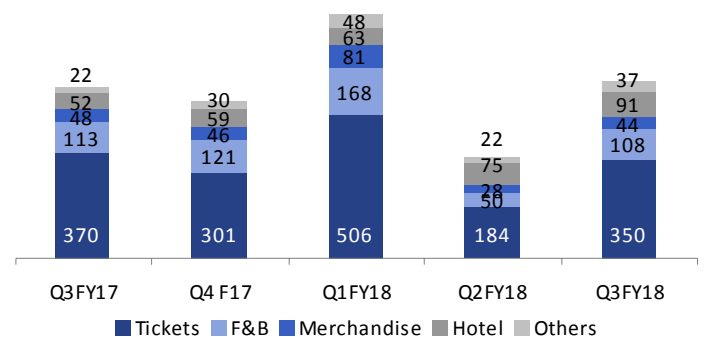
Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	2340	2390	2409	2339
Growth (%)	23.52%	2.14%	0.82%	-2.92%
EBIDTAM (%)	17.15%	25.46%	25.87%	32.41%
Adj. PAT	-912	-1171	-1558	-1186
Growth (%)	NA	NA	NA	NA
Adj. EPS (INR)	-11.41	-14.66	-17.70	-13.47
P/E (x)	NA	NA	NA	NA
EV/EBIDTA	33.12	25.92	23.63	20.98
EV/Sales	5.68	6.60	6.11	6.80
RoACE (%)	NA	NA	NA	NA
RoAE (%)	NA	NA	NA	NA

Quarterly Financials - Standalone

(In INR mn)	3Q FY18	3Q FY17	2Q FY18	% Chg (YoY)	% Chg (QoQ)	9M FY18	9M FY17	% Chg (YoY)
Revenue	630	605	359	4.2	75.6	1,855	1,833	1.2
RM Cost	67	59	44	14.0	52.7	202	179	12.8
Operating Expenses	240	240	201	0.1	19.4	753	741	1.5
Employee Cost	126	129	132	-2.3	-4.8	399	423	-5.5
Total Expenditure	433	427	377	1.3	14.8	1,354	1,343	0.8
EBITDA	197	177	-19	11.1	-1,161.2	500	490	2.1
Depreciation	234	232	235	0.7	-0.3	698	718	-2.8
Other Income	0	1	0	-56.0	50.0	2	5	-55.6
EBIT	-37	-54	-253	-32.2	-85.4	-196	-223	-12.4
Interest	320	310	316	3.5	1.5	955	900	6.2
Exceptional Items				NA	NA			
PBT	-357	-364	-569	-1.9	-37.2	-1,151	-1,123	2.5
Tax		-136		NA	NA	-	-264	-100.0
Profit After Tax	-357	-228	-569	56.9	-37.2	-1,151	-860	33.9
Equity	799	799	799			799	799	
Face Value	10.0	10.0	10.0			10.0	10.0	
EPS	-4.5	-2.9	-7.1	56.8	-37.2	-14.4	-10.8	33.9
% of Sales				bps	bps			bps
RM Cost	10.7	9.8	12.3	92.0	-160.5	10.9	9.8	111.9
Employee Expenses	20.0	21.3	36.8	-133.0	-1,686.2	21.5	23.1	-152.0
Other Expenses	38.1	39.6	56.1	-153.2	-1,794.3	40.6	40.4	15.2
EBITDAM Excl Other income (%)	31.2	29.3	-5.2	194.2	3,641.0	27.0	26.7	24.9
EBITDAM (%)	31.3	29.4	-5.1	187.0	3,640.1	27.1	27.0	9.9
PATM (%)	-56.7	-37.7	-158.6	-1,906.3	10,184.6	-62.1	-46.9	-1,517.8

Derivation of fair value	
SUM PV of cash flows (explicit)	2,538
PV of terminal cash flow	14,608
Enterprise Value (FCFF)	17,146
Less: Total Debt	6,700
Intrinsic value (INR mn)	10,446
No. of shares (diluted) (mn)	88.06
Fair value per share (Rs.)	119
Current Price (Rs.)	56
Under/ (over) valued	112%

Long-run Assumptions	
Terminal WACC	11.2%
Terminal multiple	23.7x
Growth (Perpetual)	6.7%
Risk free rate	7.5%
Market Return	15%

Footfalls grew by 14% YoY

Ticket revenue declined 5.4% due to lower realizations


Financials - Standalone

Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	2340	2390	2409	2339
% Growth	23.5%	2.1%	0.8%	-2.9%
Employee Expense	595	558	525	451
% Growth	24.3%	-6.3%	-6.0%	-13.9%
SG&A Expense	425	395	395	345
% Growth	-41.8%	-7.1%	0.0%	-12.7%
Oth Expense	918	828	867	785
Total Op Exp	1939	1781	1786	1581
EBIDTA (excl OI)	401	609	623	758
% Growth	95.4%	51.7%	2.4%	21.6%
EBITDA Margin %	17.15%	25.46%	25.87%	32.41%
Dep./Amortization	877	945	902	854
EBIT	-476	-336	-279	-96
EBIT Margin %	-20.34%	-14.07%	-11.56%	-4.11%
Other Income	167	5	6	6
Interest Expense	1107	1199	1285	1096
EBT	-1416	-1530	-1558	-1186
Tax Expenses	-504	-359	0	0
PAT	-912	-1171	-1558	-1186
% Growth	NA	NA	NA	NA
APAT Margin %	-39.0%	-49.0%	-64.7%	-50.7%

Key Ratios

Y/E	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
Reported EPS	(11.4)	(14.7)	(17.7)	(13.5)
Adj. EPS	(11.4)	(14.7)	(17.7)	(13.5)
CEPS	(0.4)	(2.8)	(7.5)	(3.8)
DPS	-	-	-	-
BVPS	77.1	62.5	39.1	25.6
Return Ratios (%)				
RoACE	-1.8%	-2.2%	-1.9%	-0.8%
RoANW	-13.8%	-21.0%	-36.9%	-41.7%
RoIC	1.1%	0.2%	-1.9%	-0.8%
Liquidity Ratios				
Net Debt/Equity	1.6	2.1	3.3	3.1
Interest Coverage Ratio	(0.3)	(0.3)	(0.2)	(0.1)
Current Ratio	0.5	0.2	0.3	0.4
Quick Ratio	0.2	0.1	0.1	0.1
Efficiency Ratios				
Asset Turnover Ratio	0.1	0.2	0.2	0.2
Inventory Days	182.3	202.9	169.8	169.0
Debtor Days	5.9	5.5	5.6	5.6
Creditor Days	49.3	62.9	55.6	55.6
Valuation Ratios				
P/E (x)	(7.5)	(5.5)	(3.2)	(4.2)
P/BV (x)	1.1	1.3	1.4	2.2
P/CEPS (x)	(196.3)	(28.2)	(7.5)	(14.8)
Dividend Yield (%)	-	-	-	-
EV/Net Sales (x)	5.7	6.6	6.1	6.8
EV/EBIDTA (x)	33.1	25.9	23.6	21.0

Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Share Capital	799	799	799	799
Reserves and Surplus	5361	4199	2640	1454
Total Networth	6160	4998	3439	2253
Long Term Debt	9581	9868	11000	6700
Short Term Debt	462	564	517	502
Total Debt	10043	10433	11517	7202
Net Deferred Tax Liability	(1295)	(1654)	(1654)	(1654)
Other Liabilities	26	32	32	32
Sources of Funds	14934	13809	13335	7834
Net Block	13819	13266	12614	8038
Investments	1062	1062	1062	0
Current Assets	590	330	355	471
Current Liabilities	656	959	814	790
Net Current Assets	-66	-629	-459	-319
Other Assets	120	105	113	110
Application of Funds	14934	13809	13335	7834

Cash Flow

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
PAT	(912)	(1,171)	(1,558)	(1,186)
Add: Depreciation	877	945	902	854
Add: Interest paid	1,103	1,199	1,285	1,096
Change in Working Capital	147	(535)	259	29
Others	(639)	-	-	-
Cash Flow from operations (a)	576	1,507	369	735
Change in Fixed Assets	(886)	(392)	(250)	2,874
Change in CWIP	-	(341)	-	849
Change in Investments	22	-	-	1,062
Others	6	10	(8)	3
Cash Flow from Investing (b)	(858)	(723)	(258)	4,787
Change in Equity	-	-	-	-
Debt Raised/(Repaid)	(1,573)	287	1,132	(4,300)
Dividend paid	-	-	-	-
Interest paid	(1,103)	(1,199)	(1,285)	(1,096)
Others	(754)	(344)	-	-
Cash Flow from Financing (c)	(3,429)	(1,256)	(153)	(5,396)
Net Change in Cash (a+b+c)	(3,692)	(471)	(42)	126
Opening Cash	3,895	203	72	30
Closing Cash	203	(269)	30	155

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