

IPO Note: Adlabs Entertainment Ltd.

Industry: Amusement Park

Recommendation: Unsubscribe

Date: March 04, 2015

Issue Snapshot

Company Name	Adlabs Entertainment Ltd
Issue Size	Rs. 443 - 461 Cr.
The Offer	20,326,227 Equity shares of Face value Rs.10 each, Comprising of fresh issue of 18,326,227 Equity Shares and Offer for Sale of upto 2,000,000 Equity Shares by Selling Shareholder.
Issue Opens	March 10, 2015 to March 12, 2015
IPO Process	100% Book Building
Face Value	Rs. 10.00
Price Band	Rs. 221 to Rs. 230
Retail Discount	Discount of Rs. 12/- to Retail Investor on Issue Price.
Bid Lot	65 Equity Shares and in multiples of 65 Equity Shares thereafter.
IPO Grading	
Exchanges	NSE & BSE
BRLM	Deutsche Equities India Private Limited, Centrum Capital Limited and Kotak Securities Limited
Registrar	Link Intime India Private Limited

Equity Shares offered through this Offer	Nos. of Share	As a % of total
Equity Shares offered through this Offer	20326227	100.0%
A. Fresh Issue	18326227	90.2%
B. Offer for Sale	2000000	9.8%
I. QIB Portion (Not more than)	15244671	75.0%
- Anchor Investor Portion	9146802	45.0%
- Mutual Funds only (5% of the QIB Portion, excluding the Anchor Investor Portion)	304894	1.5%
- QIBs including Mutual Funds	5792975	28.5%
II. Non-Institutional Portion (Not less than)	3048934	15.0%
III. Retail Portion (Not less than)	2032622	10.0%

Pre and post Issue Equity Shares	Nos. of Share
Equity Shares outstanding prior to the Issue	61,571,583
Equity Shares outstanding after the Issue	79,897,810

Objects of the Offer

The Issue comprises Fresh Issue and an Offer for Sale.

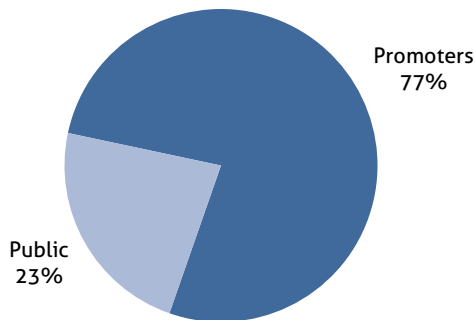
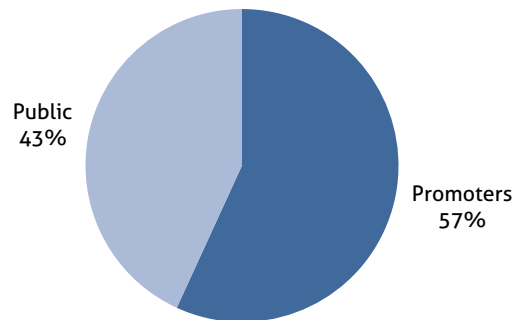
Offer for Sale

The Company will not receive any proceeds from the Offer for Sale.

Requirement of Funds

The Company proposes to utilize the Net Proceeds towards funding the following objects:

- 1) Partial repayment or pre-payment of the Consortium Loan; and
- 2) General corporate purposes.

Pre-Issue

Post-Issue


About the company

The company owns and operate, Imagica – The Theme Park, which is one of the leading theme parks in India. The theme park features a diverse variety of rides and attractions of international standards, food and beverages (“F&B”) outlets and retail and merchandise shops, designed to appeal to a broad demography of the Indian populace, delivering memorable experiences, with a strong value proposition. Imagica – The Theme Park, is a part of Adlabs Mumbai, a ‘one-stop’ entertainment destination that it offer at this location. Adlabs Mumbai also includes Aquamagica, a water park, which became fully operational on October 1, 2014, and a family hotel, Novotel Imagica Khopoli, the first phase of which is expected to be completed by March 2015. Adlabs Mumbai, spread over an aggregate area of approximately 132 acres, is located at Khalapur, which is 74 kilometres from Mumbai, off the Mumbai – Pune Expressway. The total cost for the development of Adlabs Mumbai is approximately Rs.16,504 million.

Imagica – The 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. Their marquee offerings include Rajasaurus River Adventure, a boat ride offering their guests a peek into the pre-historic habitats of dinosaurs, Wrath of the Gods, a VFX show based on an archaeological discovery of an ancient Indian civilisation, Nitro, which they believe is India’s largest roller coaster, I for India, a simulated helicopter ride over various sights and attractions across India and Mr. India – the Ride, a simulated ride based on the popular Bollywood movie, Mr. India. They also offer entertainment through live performances by acrobats, magicians, dancers, musicians and other artists throughout the day in various parts of the theme park.

In Imagica, the Company owns and operates an array of F&B outlets, including Roberto’s Food Coaster, a multicuisine food court, which also has a separate Jain restaurant, Red Bonnet, an American diner-styled restaurant, Imagica Capital, an Indian buffet restaurant which serves cuisines from across the country, Zeze, a bar and grill which is designed as an African Zulu village and Armada, a cafe and bar modelled as a ship, which offers panoramic views of the entire theme park, as well as several kiosks spread across the theme park. The park became fully operational on November 1, 2013. For a period of approximately six months prior to November 1, 2013, some of the rides and attractions in the theme park were open to the public. The total number of guests hosted at the park for the twelve months ended December 31, 2014 was 912,061. The park hosted 11,933 guests on December 20, 2013, the highest number of guests hosted in a day since the theme park became fully operational.

The prices of some of the current admission packages for the theme park are set out below

	Weekdays			Weekends and Public Holidays		
	Adult (Rs.)	Child (Rs.)	Senior Citizen (Rs.)	Adult (Rs.)	Child (Rs.)	Senior Citizen (Rs.)
Regular	1,500	1,200	1,200	1,900	1,600	1,600
Imagica Express	2,200	2,000	2,000	3,000	2,600	2,600
College Pack	1,300	-	-	1,500	-	-
School Packages	-	800 - 1,000	-	-	1,200 - 1,300	-

Details about guests hosted at the theme park for the periods indicated

	Jan 1 – Mar 31, 2014	Apr 1 – Jun 30, 2014	Jul 1 – Sep 30, 2014	Oct 1 – Dec 31, 2014				
Total Number of Guests Hosted	238,796	181,056	200,503	291,706				
Daily Average Number of Guests Hosted	2,653	1,990	2,179	3,171				
Average Realisation per Guest (Rs.)	1,655	2,026	1,758	1,998				
<i>Out of which</i>								
Tickets	1,249	75.50%	1,554	76.70%	1,354	77.02%	1,525	76.33%
F&B	285	17.20%	308	15.20%	304	17.30%	299	14.96%
Retail & Merchandise	78	4.71%	120	5.90%	69	3.92%	136	6.81%
Retail (Digi Photo)	11	0.70%	18	0.90%	12	0.68%	14	0.70%
Parking & Stroller Charges & others	33	1.99%	26	1.28%	19	1.08%	24	1.20%

Aquamagica, the water park located adjacent to the theme park, became fully operational on October 1, 2014. For a period of six days prior to October 1, 2014, some of the rides and attractions in the water park were open to the public. It offers 14 kinds of water slides and wave pools. It also offers water-based entertainment such as a beach front, waterfalls, cabanas and comprises separate family play areas, kids play zones and toddlers play equipment. The water park has a separate admission ticket and a separate entrance from the theme park.

The Company's objective is to take advantage of cross selling opportunities offered by these two different entertainment experiences. The Company intends to position Aquamagica as a destination for young party-goers and host Bollywood and electronic dance music events where popular Indian and international artists and DJs perform at the '#gowiththeflow' weekend events. For the period commencing on September 25, 2014, when some of the rides and attractions were open to the public, up to December 31, 2014, the total number of guests hosted at the water park was 90,940.

In Aquamagica, the F&B offerings are primarily designed as 'grab and go' options, which cater to the preferences of customers enjoying water-based entertainment in the park. In addition to a Ammos, a street-styled, dine-in, multi-cuisine food court, our other outlets include Sun Beatz – Pizzeria, Labanese & Bar, located next to the wave pool, Red Bonet Express, a classic quick-service American Diner, Cones, which offers a variety of ice-creams and sundaes, Sandy Sipss, which offers juices, shakes and smoothies and Salty's – Snacks & Rolls, which offers a range of rolls which can be picked up on-the-go. It also has a variety of self-serving kiosks with a diverse range of express meals, including burgers, pizzas, Greek and Lebanese wraps and rolls, hot dogs and Mumbai street food. The Company also offer utility products and toys that the guests are likely to use in a water park.

The prices of some of the current admission packages for the theme park are set out below

	Weekdays			Weekends and Public Holidays		
	Adult (Rs.)	Child (Rs.)	Senior Citizen (Rs.)	Adult (Rs.)	Child (Rs.)	Senior Citizen (Rs.)
Regular	950	650	650	1,150	800	800
College Pass	800	-	-	950	-	-

Details about guests hosted at the theme park for the periods indicated

	Oct 1 – Dec 31, 2014	
Total Number of Guests Hosted	75,316	
Daily Average Number of Guests Hosted	819	
Average Realisation per Guest (Rs.)	1,331	
<i>Out of which</i>		
Tickets	875	65.74%
F&B	237	17.81%
Retail & Merchandise	163	12.25%
Retail (Digi Photo)	21	1.58%
Parking & Stroller Charges & others	34	2.55%

The first phase of the proposed 287 key hotel, to be called Novotel Imagica Khopoli, comprising 116 keys, is expected to be completed by March 2015 and will include facilities such as banquet halls, conference rooms, specialty restaurants, a gourmet bar, recreation areas, a swimming pool, a spa, a kids' activity centre and a fitness centre to cater to varying entertainment requirements of the guests. The company has entered into a hotel management agreement with AAPC India Hotel Management Private Limited ("AAPC") to manage and operate hotel, under the name Novotel Imagica Khopoli. A memorandum of understanding with ACME Entertainment, will conceptualize, construct, install, erect and run on a build, own, operate and transfer basis, a snow park at Adlabs Mumbai and share a portion of ticket sales for the snow park with the company. With addition of the water park, the soon-to-be-launched hotel and the snow park, the company will be able to enhance guest experience at Adlabs Mumbai and position Adlabs Mumbai as a wholesome entertainment destination.

The promoter of the company, Mr. Manmohan Shetty, has more than three decades of experience in the Indian media and entertainment industry. Mr. Shetty is the former promoter of Adlabs Films Limited, one of India's largest entertainment companies.

For the financial year ended March 31, 2014, total income and loss after tax of the company was Rs. 106.9 Cr. and Rs. 52.5 Cr., respectively. The revenue from the sale of admission tickets, which was for a period of five months from November 1, 2013 (when theme park became fully operational) to March 31, 2014, from F&B operations and from retail and merchandise operations was Rs. 71.3 Cr., Rs. 24.0 Cr. and Rs. 6.4 Cr., respectively. For the six months ended September 30, 2014, the total income and the loss after tax were Rs. 73.3 Cr. and Rs. 53.5 Cr., respectively. The revenue from the sale of admission tickets, from F&B operations and from retail and merchandise operations for the six months ended September 30, 2014 was Rs. 55.4 Cr., Rs. 12.0 Cr. and Rs. 3.9 Cr., respectively.

Key Points

Uniquely Positioned to Capitalise on the Increasing Propensity of Indians to Spend on Entertainment

Favourable macroeconomic and demographic factors such as economic growth, rising disposable income, a growing young population, an expanding middle class and rapid urbanisation have resulted in the Indian population spending more on entertainment. Adlabs Mumbai has been designed to provide a wholesome, day-long and 'value for money' entertainment option for guests. It offers entertainment options for all age groups through a variety of rides and attractions, which we believe are comparable to and provide the international standards of experience that leading theme parks and water parks offer globally. The offerings are also customised to Indian tastes. This positions Adlabs Mumbai to capitalise on the increasing number of Indian customers spending on good-quality entertainment.

Strategically Located in an Attractive Catchment Area

Adlabs Mumbai is located off the Mumbai – Pune Expressway. Currently, it attracts guests primarily from Mumbai, Pune and the rest of Maharashtra and Gujarat, which are some of the more economically developed areas in India. It also has the ability to attract pan-India guests due to the proximity and the connectivity of Adlabs Mumbai to Mumbai and Pune through the Mumbai – Pune Expressway. Mumbai is well connected to other large cities in India by air, road and rail with multiple flight options in a day. In addition, Lonavala, which is 25 kilometres away from Adlabs Mumbai, is a very popular weekend destination for the customer base in this region and thus Adlabs Mumbai will be able to attract many such travellers.

Rides and Attractions of International Quality Standards which are Customised to Indian Tastes and Preferences

The parks are attractively themed and deliver high-quality entertainment, aesthetic appeal, shopping and dining options. Theme park rides and attractions, such as popular attractions, Wrath of the Gods, I for India and Mr. India – the Ride, have been designed in accordance with international quality standards and customised to appeal to the tastes and preferences of Indian customers. The water-park rides and attractions are designed to cater to the requirements of thrill-seekers based on a '#gowiththeflow' theme. Adlabs Mumbai has a large number of rides and attractions of various genres to keep the guests from different age groups and with varying tastes and preferences engaged for an entire day. Peter Smulders of Attractions International, an internationally acclaimed design consultant for entertainment destinations, was engaged by Adlabs to conceptualise and design the theme park. The rides and attractions for the theme park and water slides and equipment in the water park have been designed and sourced from global industry leaders. Further consultants and vendors hired by Adlabs have worked with many of the leading theme and water parks across the world, thus allowing Adlabs to leverage their expertise in customising or creating the rides and attractions of international quality standards for Indian requirements. Adlabs has also launched a parade of the theme park characters called the 'Grand Imagica Parade' which is performed in the evenings. As part of this parade, performers accompanied by Imagica characters such as Tubby, Roberto, Rajasaurus and Mogambo move through the theme park. The parade includes themed-floats and performers such as dancers, stilt-walkers, magicians and jugglers.

Competitive Advantage through Entry Barriers

The Company has the ability to leverage the 'first-mover advantage' through Adlabs Mumbai. There are significant barriers to entry into the business of theme and water parks in India and it is difficult to replicate a project of similar scale and size in the catchment area. Among the most important of these barriers is the need for significant capital expenditure to set up theme and water parks, the difficulty to identify and purchase large and suitable parcels of land on commercially viable terms and the long leadtime from the conceptualisation to the launch of rides and attractions.

Proven and Experienced Management Team and Execution Strength

Senior management team, led by Manmohan Shetty, includes experienced media and entertainment, marketing and consumer businesses executives, with an average tenure of more than 15 years in such industries. Mr. Manmohan Shetty is a well known entrepreneur in the media and entertainment business in India and has more than three decades of experience in consumer-facing entertainment businesses. The parks operations team comprises highly skilled and dedicated employees with wide ranging experience in operations, product development, business development and marketing. The Chief Operating Officer, Vincent Pijnenburg is an experienced theme park executive with more than two decades of experience with small, medium and large sized parks and family entertainment centres across the globe. Through the experience and leadership of the management team the company will be able to complete the development of our parks in a timely manner and within the estimated project cost. We believe that we will be able to leverage their experience in the ongoing development of the hotel and the development of additional entertainment destinations in other locations.

Company's Strategy going forward

- Develop Adlabs Mumbai as an Integrated Holiday Destination
- Continue to Focus on Increasing the Number of Guests Hosted at the Parks
- Diversify Revenue Streams
- Increase Profitability and Achieve Cost Optimisation
- Expand Existing Operations and Foray into New Geographies in India

Key Concern

- The business and results of operations could be adversely affected by changes in public and consumer tastes or a decline in discretionary consumer spending, consumer confidence and general economic conditions.
- The business is seasonal in nature, and may be affected by weather conditions, school vacations, public holidays and weekends. Therefore, a sequential quarter-to-quarter comparison of the results of operations may not be a good indicator of the performance.
- Currently, all the revenues are attributable to Imagica – The Theme Park and Aquamagica at Adlabs Mumbai. Any event negatively affecting the parks or the Mumbai - Pune region may have an adverse effect on the company.
- The company has incurred substantial indebtedness that exposes to various risks.
- The Promoter has pledged and may continue to pledge a portion of its equity shareholding in the Company in favour of the lenders, who may exercise their rights under the respective financing agreements in events of default.

Valuation

Adlabs Entertainment Ltd (AEL) is promoted by Manmohan Shetty and Thrill Park Ltd. The promoters plan to sell up to 2,03,26,227 equity shares of face value of Rs.10. The issue comprises a fresh issue of 18,326,227 equity shares and an offer for sale of 2,000,000 equity shares by Thrill Park Ltd. At the lower band of Rs.221, the issue will raise Rs.449.20 crore while at the upper band of Rs. 230, the IPO will mop up Rs.467.50 crore. AEL owns and operates, Imagica – The Theme Park, which is one of the leading theme parks in India featuring diverse variety of rides and attractions of international standards, food and beverages ("F&B") outlets and retail and merchandise shops, designed to appeal to a broad demography of the Indian populace, delivering memorable experiences, with a strong value proposition. The park became fully operational on November 1, 2013. Adlabs Mumbai also includes Aquamagica, a water park, which became fully operational on October 1, 2014, and a family hotel, Novotel Imagica Khopoli, the first phase of which is expected to be completed by March 2015.

*The company has started its operations from November, 2013 and has come up with an IPO in just one and half years. It will be unjust to compare the financial performance of AEL with established player like Wonderla Holidays, which incidentally listed its shares after more than thirteen years of operation. For, FY14 as well as 9MFY15, AEL reported (standalone) loss after tax to the tune of Rs 52.48 crores and 53.52 crores respectively. Besides, AEL delivers operating profit margin of 6.3%-6.7% as against 38% of Wonderla in FY08 (after completing 8 years of operation). Thus, it highlights that the company is unable to scale up its operation and operating margins are under pressure. However, it is a relatively startup company & has every chance to scale up its operations. Besides, at the higher price band of Rs 230, the P/B of the company works out to be ~2.10x (post issue) and ~3.36x (pre issue) book value, comparatively lower than 4.71x of incumbent Wonderla Holidays (at the time of IPO). Given the operating performance, financial leverage and year of operation, the company is currently into nascent phase and it is too early to invest in the company. So we recommend to **AVOID** this IPO.*

Financial Statement

Income Statement

(In Rs. Cr)	FY10	FY11	FY12	FY13	FY14	H1FY15
Revenue from operations	-	-	-	-	103.7	72.2
Other income	-	-	-	3.6	3.2	1.2
Total revenue	-	-	-	3.6	106.9	73.3
Total expenses	-	-	0.6	6.1	100.0	68.8
Operating Profit	-	-	-0.6	-6.1	3.8	3.4
OPM (%)	-	-	-	-	3.6	4.7
Depreciation	-	-	-	-	30.5	36.8
Finance cost	-	-	-	-	42.5	54.0
Tax expense	-	-	-0.1	0.7	13.6	32.7
Net Profit	-	-	-0.7	-1.8	-52.5	-53.5

Source: RHP

Asset Liability Statement

(In Rs. Cr)	FY10	FY11	FY12	FY13	FY14	H1FY15
Equity & Liabilities						
Share Capital	31.4	37.3	41.9	45.9	48.5	48.5
Reserves and Surplus	159.7	191.6	208.4	263.2	265.1	211.6
Non - Current Liabilities						
Long -Term Borrowings	-	-	3.1	731.1	1,088.0	1,204.4
Long-Term Provisions	-	-	0.1	1.0	1.5	2.1
Current Liabilities						
Short- Term Borrowings	23.2	45.5	195.0	57.0	52.0	52.0
Trade Payables	0.3	0.1	0.2	0.9	14.7	18.0
Other Current Liabilities	35.2	11.0	18.3	54.9	30.4	52.2
Short-Term Provisions	0.0	0.2	0.4	0.3	0.1	0.3
Total Equity & Liabilities	249.9	285.6	467.5	1,154.2	1,500.2	1,589.0
Assets						
Non - Current Assets						
Tangible Assets	224.1	226.7	230.5	247.6	1,287.0	1,262.2
Intangible Assets	-	-	-	0.4	7.3	7.3
CapitalWork-In-Progress	17.9	44.1	146.2	818.9	100.1	196.2
Non - Current Investments	-	-	-	-	-	0.4
Deferred tax assets (net)	-	-	-	0.7	14.3	47.0
Long-Term Loans and Advances	6.9	7.7	6.9	10.3	10.4	10.7
Other Non-Current Assets	0.3	0.4	-	-	-	-
Current Assets						
Inventories	-	-	-	-	4.9	9.3
Trade Receivables	-	-	-	-	0.6	7.2
Cash and Bank Balances	0.6	6.5	6.2	29.7	35.6	19.1
Short-Term Loans and Advances	0.0	-	-	-	-	-
Other Current Assets	0.0	0.2	77.7	46.5	39.9	29.6
Total Assets	249.9	285.6	467.5	1,154.2	1,500.2	1,589.0

Cash Flow Statement

(In Rs. Cr)	FY10	FY11	FY12	FY13	FY14	H1FY15
Cash flow from Operations Activities	(1.7)	(3.0)	80.4	63.4	(2.9)	29.6
Cash flow from Investing Activities	(4.1)	(28.7)	(105.9)	(690.3)	(357.6)	(108.1)
Cash flow from Financing Activities	6.3	37.7	25.2	650.5	366.4	62.0
Net increase/(decrease) in cash and cash equivalents	0.5	6.0	(0.3)	23.6	5.8	(16.5)
Cash and cash equivalents at the beginning of the year	0.1	0.6	6.5	6.2	29.7	35.6
Cash and cash equivalents at the end of the year	0.6	6.5	6.2	29.7	35.6	19.1

Source: RHP

Ratios

(In Rs. Cr)	FY12	FY13	FY14
Earning per share (EPS) (Rs.)	-0.17	-0.4	-11.23
Net Asset Value per share (Rs.)	60	67	65
Return on Net Worth (RONW) (%)	-0.26	-0.57	-16.74

Source: RHP

Peer Comparison

Name of the company	Face value (Rs.)	Revenue (Rs. Cr.)	EPS (Rs.)	NAV per Share (Rs.)	P/E	RoNW (%)
Adlabs Entertainment Ltd	10	106.9	-11.23	65.0	*	-16.7
Wonderla Holidays Ltd	10	156.0	9.50	35.7	32.94	26.6

Source: RHP

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