

## The Week Gone By

Weekly Newsletter



### Parag's View

#### The Secret to Buying Growth Stocks

Growth stocks are incredibly tempting. Perhaps it's their youthful vigor and their promise of bigger and better things to come.

Maybe it's simply a fascination with their unexplored and untapped potential. Or it just might be the raw visual appeal of their tremendous curves -- of the potentially exponential profit growth variety, of course.

Whatever the reason for the primal attraction, it's easy to get tempted by growth stocks. Even so, their dream projects can prove financially deadly to an unprepared investor. The big problem with growth stocks is simply that by the time you hear of them, everyone else has heard about it too.

You can't really think you're the first to desire a piece of the next big thing. As a result, you won't likely find tremendous growth trading at bargain basement prices. The market may not be perfect at predicting the future, but it's pretty darn good at reflecting current investors' expectations of things to come.

The drawback is that those expectations are set by other human beings -- people who are just as fallible and bad at guessing the future as any of the rest of us are. As a result, when a company misses or otherwise guides down the market's expectations, the consequences can be devastating.

If you want to have a successful investing relationship with growth companies, the time to buy them is when everyone else has given up hope on their already successful businesses.

That's certainly one way to think about it, but not the best way. Why take more risk than is necessary, particularly if you're not being compensated for it? There's a better way to generate great investment returns.

Simply demand:

- The highest quality
- The lowest price

Yes, the thinking is that simple. The execution, however, is more difficult. Quality comes in many forms, and the stock market doesn't always provide low prices.

Defining quality

When I think of quality, I think of great brand names, great management teams, and great prospects. Getting the lowest price requires being patiently opportunistic, something very difficult to do in today's got-to-have-it-now culture. But patience will be rewarded with the highest margin of safety, the difference between an estimate of intrinsic value and a company's stock price.

So that's it: Buy high quality at low prices. Mix those factors with a little and you've got a recipe for generating extraordinary wealth over time.

Lloyd Electric & Engineering Limited  
Page - 2

Pyramid Saimira Theatre Limited  
Page - 11

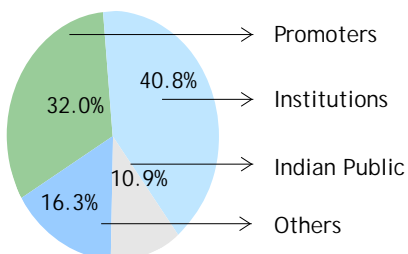
**Stock Codes**

Bloomberg	: LEE.IN
Reuters	: LEEG.BO
BSE Code	: 517518
NSE Code	: LLOYDELENG
BSE Group	: B

**Stock Data**

Benchmark	: BSE 500
52 Week High	: 224.0
52 Week Low	: 93.95
Mkt Cap	: Rs. 342.2 Crs.
Face Value	: Rs. 10.0

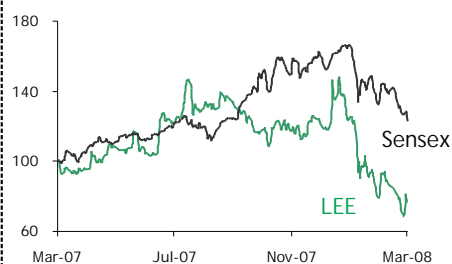
**Shareholding Pattern (as on Dec '07)**



**Stock Returns**

	1 Mth	3 Mths	6 Mths
LEE	-3.77	-35.77	-41.48
Sensex	-9.39	-23.33	-1.58

**Price Comparison**



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**Change in Business Mix:**

There has been a shift in the business mix of Lloyd Electric & Engineering (LEE). The focus is on higher margin businesses like contract manufacturing and railways vis-a-vis coil manufacturing. In the coils segment LEE is the nationwide market leader with a share of 60%. Thus coils ensure a steady stream of revenues with stable operating margins.

**Growth In Railways business:**

Railways is a higher margin business and the margins stand at appx 27.5% (OPM). LEE along with Fedders Lloyd (Group Company) are prominent players in this market. The higher margins are enjoyed on account of a couple of factors:

1. The railways projects are on a turnkey basis covering the entire spectrum of services ranging from design, manufacturing, installation & maintenance.
2. The railways being a Govt Of India undertaking the approval required for the entry of a new player would also act as an entry barrier.

LEE has received an order from Delhi Metro Rail Corporation (DMRC) which is a high margin order. Air International of Australia has outsourced the manufacture of AC units for the Delhi Metro project to LEE. The total contract size is Rs80 Crs.

The manufacturing of frost free coils will also help the company going forward. Currently, these coils are imported. Thus it provides LEE an opportunity to capture a large chunk of the market and also enjoy the first-mover's advantage. The production in excess of the domestic demand would be exported to South Korea.

At CMP of Rs. 110.35, LEE is trading at 3.6 times its projected FY10 earnings. We recommend a BUY with a target of Rs. 153, 38% upside.

Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Total Revenues	243.1	347.4	498.7	662.4	864.2	1,107.7
PAT	11.6	30.5	48.7	59.0	81.5	110.0
EBITDA (%)	9.5%	13.1%	14.4%	13.3%	13.2%	13.2%
PAT (%)	4.8%	8.8%	9.8%	8.9%	9.4%	9.9%
EPS (Rs.)	6.5	11.3	15.7	19.0	22.6	30.6
P/E (x)	16.9	9.8	7.0	5.8	4.9	3.6
ROCE (%)	14.1%	14.2%	15.5%	17.1%	16.2%	18.6%
RONW (%)	17.4%	13.9%	16.3%	16.9%	15.3%	17.6%
Debt/Equity (x)	0.9	0.3	0.4	0.3	0.2	0.2

LEE is in the business of manufacturing Heat Exchanger Coils for air conditioning and refrigeration application, 'U' bend and return bend for heat exchanger coils, system tubing and header line for air conditioner equipment and sheet metal items for air conditioner systems made from CNC presses and are leaders in India. It is the largest player in the segment with a market share of nearly 60% in coils. It is also in the business of contract manufacturing of air conditioners and is also an OEM (Original Equipment Manufacturer) to railways for Roof mounted packaged units (RMPU) which are done on a turn-key basis.

The company is OEM supplier to almost all AC manufacturers in India, and have overseas business of approximately 20% of its sales turnover. The heat exchanger are made out of Aluminium and Copper Fin stock and Copper tube, having facility of using pre coated Fin stock and in house facility of painting and tin plating.

Lloyd Electric & Engineering Ltd. (LEE), promoted by Mr. Brij Raj Punj, the current CMD was incorporated in 1987 as private limited company. The constitution was changed to public limited company in 1994.

Currently, the company's operations are managed by Mr. A.K. Roy, CEO, a mechanical engineer, who brings with him more than 35 years of experience in the engineering, automobile and consumer durable industry.

The domestic market for Heating, Ventilation, Air-conditioning and Refrigeration industry (HVACR) is growing at a healthy pace. Secondly, with the increase in disposable income, change in lifestyle and easy availability of finance at low rate of interest has led to the sharp growth in air conditioner segment

## Timeline

1988	Year Of Incorporation. Factory in Bhiwadi, Rajasthan
1994	Capacity Expanded To 900 Coils Per Day
1995	Largest Coil Manufacturer In India.
1997	Capacity Expanded To 1500 Coils Per Day & Developed Air conditioner units for Railway Coaches
1998	ISO 9002 Certification
2000	Capacity Expanded To 3500 Coils Per Day
2001	Started Exporting To Gulf Countries & Opened Office In Dubai
2002	Got ISO 9000 Certification
2004	Established new manufacturing Facility in Kala Amb, Himachal Pradesh
2006	Manufacturing facility set up at Dehradun, Uttranchal

Coils (Condenser & Evaporator)

LEE specializes in the custom design and manufacturing of heating and cooling coils for original equipment manufacturers participating in a variety of markets. They offer a wide spectrum of tube size, tube pattern, and fin corrugations that combine to form nearly 70 unique fin surfaces, each of which is produced under a stringent set of quality and testing standards. Single, dual or quad compressor circuits allow precise capacity control. Unique interlaced circuiting options assure uniform refrigerant distribution over the entire face area of the coil. Wide fin spacing availability reduces the affect of frost build up on low temperature applications.

Contract manufacturing of air conditioners

LEE is also in the business of manufacturing Window and Split air conditioner and are OEM supplier to various multi national companies in India and i have state of the art assembly line for assembly and testing for window and split air conditioners and have also backward integration facility for manufacturing heat exchanger coils, tubing, capillary etc.

Railways (Roof mounted packaged units)

LEE is also involved in the manufacturing of air conditioning composite package unit for railway coaches and are OEM supplier to Indian Railways and are supplying these product to Rail Coach Factory at Kapurthala, India and Integral Coach Factory at Chennai India. The air conditioning units are manufactured for railways are on turnkey basis i.e. design, manufacturing, supplying, installation and maintenance. LEE has has service stations located all around India at New Delhi, Mumbai, Chennai, Bangalore, Hyderabad, Lucknow, Jaipur, Guwahati and Culcutta for maintaining the AC package unit installed on the railway coaches.

DMRC

LEE has received an order of Rs. 80 Crs from DMRC which is a high margin contract. It has entered into a technology tie-up with Air International Transit Pty. Ltd. (AITPL) of Australia (an OEM supplier of AC package units to ROTEM, supplier of Railway coaches DMRC) for designing, manufacturing and supplying of AC package units to Metro Rail Corporation in India.

## Manufacturing facilities

Currently LEE has manufacturing facilities over 3 locations in India and the 4th, a greenfield facility is being set up at JNPT, Maharashtra where production is expected to be streamlined by Q4 FY2009. The details in terms of location, product range and capacities are shown below:

LEE currently has 12.25 Lakh coil and 4.00 Lakh AC manufacturing facility along with an assembly facility for 2000 RMPU per annum at its three locations i.e. Bhiwadi in Rajasthan, Kala-Amb in Himachal Pradesh and Dehradun in Uttrakhand.

Location	Coils	AC	Year
Bhiwadi	600000	2000	1987
KalaAmb	400000	200000	2002
Dehradun	400000	200000	2006
JNPT, Mumbai	400000	200000	2009 (E)
Total	1800000	602000	

Plants at Kala-Amb and Dehradun, located in tax free zones, have been set-up during the last two financial years and have a capacity to manufacture condenser and evaporator coils aggregating 4.0 Lakh in number and assemble 2.0 Lakh AC units per annum. Dehradun facility has been set-up during Q1FY08 with a total outlay of Rs. 25 Crs. funded by a Debt of Rs. 20 Crs. and balance through internal accruals.

## Change in Business Mix

There has been a shift in the business mix of LEE. The focus is on higher margin (OPM) businesses like contract manufacturing and railways vis-a-vis coil manufacturing. The mix will be further aided by the addition of Frost free coils manufacturing at JNPT, Maharashtra in FY09 (Q4). The reasons for higher margins in contract manufacturing are on account of the forward integration in the value chain. Typically coils account for nearly 40% of the costs in case of room air conditioners while compressor accounts for another 40% odd with the rest including body and fabrication. In the coils segment LEE is the nationwide market leader with a share of 60%. Thus coils ensure a steady stream of revenues with stable operating margins.

## Growth In Railways business

Railways is a higher margin business and the margins stand at appx 27.5% (OPM). LEE along with Fedders Lloyd (Group Company) are prominent players in this market. The higher margins are enjoyed on account of a couple of factors:

1. The railways projects are on a turnkey basis thus the margins enjoyed by LEE cover the entire spectrum of services ranging from design, manufacturing, installation & maintenance.
2. Also, the only other player of a large size comparable would include Sidwal Engg Of Delhi which is a private company. Railways being a Govt Of India undertaking the approval required for the entry of a new player would also act as an entry barrier.

Also, the growth in Railways business could come in from an increase in the total number of trains planned by Indian Railways coupled with upgradation of existing coaches.

## Tie-up with Air International Transit Pvt. Ltd.

LEE has entered into a technology tie-up with Air International Transit Pvt. Ltd. (AITPL) of Australia, an OEM supplier of AC package units to ROTEM, supplier of Railway coaches to Delhi Metro Rail Corporation (DMRC) for designing, manufacturing and supplying of AC package units to Metro Rail Corporation in India. DMRC is a high margin order. Air International of Australia has outsourced the manufacture of AC units for the Delhi Metro project to LEE. The total contract size is Rs80 Crs. Going ahead this could also lead to a large order inflow from Mumbai & Bangalore Metro projects given the backing of a reputed International player and LEE's prior experience in this highly lucrative segment.

## Frost Free Coils

The manufacturing of frost free coils will also help the company going forward. Currently, these coils are imported. Thus it provides LEE an opportunity to enjoy the first-mover's advantage. The facility at JNPT is set up as a technical collaboration JV with Hanyung Alcobis, Korea. This would also help LEE in having a ready export market.

## Key Highlights:

Sequential (QoQ)

Revenues up 7.7% to Rs 158.7 Cr (Q308) from Rs 147.3 Cr (Q208)

PAT after EI was up 1.97% to Rs 14.4 cr (Q308) from Rs 14.1 Cr (Q208)

## Observations:

1. The OPM has fallen by 75 bps on account of account of a rise in RM costs and other expenses which account for nearly 86% of sales

## Yearly: (YoY)

Revenues up 42.52% from Rs 111.3 Cr in Q207 to Rs 158.7 Cr in Q308

PAT after EI up 31.72% from Rs 10.9 Cr in Q307 to Rs 14.4 Cr in Q308

## 9M08:

Revenues up 40.8%

PAT after EI up 39.7%

Earnings Statement								
YE March (Rs Crs)	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	158.7	147.3	7.7%	111.3	42.5%	482.8	342.8	40.8%
Cost of Materials	131.9	121.7	8.4%	90.6	45.6%	399.7	286.3	39.6%
Gross Profit	26.8	25.7	4.2%	20.8	29.0%	83.1	56.6	46.9%
Staff Costs	1.2	1.2	2.2%	1.0	28.0%	3.6	2.7	29.8%
Other Expenses	5.4	4.7	15.4%	5.3	2.4%	18.1	12.9	40.2%
Total Expenditure	138.6	127.6	8.6%	96.9	43.1%	421.3	301.9	39.5%
Operating Profit	20.1	19.8	1.7%	14.5	39.0%	61.5	40.9	50.2%
Other Income	1.2	1.4	-11.1%	1.6	-21.9%	4.2	4.8	-12.7%
EBITDA	21.3	21.2	0.9%	16.0	33.0%	65.6	45.7	43.6%
Depreciation	2.5	2.5	1.6%	2.0	23.3%	7.2	5.9	22.3%
EBIT	18.8	18.7	0.8%	14.0	34.4%	58.4	39.8	46.7%
Interest	2.7	2.9	-4.5%	1.9	46.6%	8.1	4.4	84.9%
PBT	16.1	15.8	1.7%	12.2	32.6%	50.3	35.5	42.0%
Tax	1.8	1.8	0.0%	1.3	40.0%	5.4	3.3	64.1%
PAT	14.4	14.1	2.0%	10.9	31.7%	44.9	32.2	39.8%
Equity Capital	31.0	31.0	0.0%	27.0	14.8%	31.0	27.0	14.8%
EPS	4.6	4.5	2.0%	4.0	14.7%	14.5	11.9	21.7%
Ratio Analysis								
Profitability								
YE March	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
OPM (%)	12.7%	13.4%	(74.5)	13.01%	(32.6)	12.7%	11.9%	79.3
EBITDA (%)	13.4%	14.4%	(90.7)	14.41%	(95.9)	13.6%	13.3%	26.0
EBIT (%)	11.9%	12.7%	(81.4)	12.59%	(71.4)	12.1%	11.6%	48.7
PAT (%)	9.0%	9.6%	(50.8)	9.79%	(74.2)	9.3%	9.4%	(7.0)
Operational Parameters								
YE March	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
RM Consumed	83.1%	82.6%	56.1	81.36%	176.2	82.8%	83.5%	(71.2)
Staff Cost	0.8%	0.8%	(4.1)	0.85%	(8.7)	0.7%	0.8%	(6.3)
Other Expenditure	3.4%	3.2%	23.0	4.78%	(134.5)	3.7%	3.8%	(1.7)
Effective Tax Rate	10.9%	11.1%	(19.0)	10.29%	57.7	10.7%	9.3%	144.5

**Concerns** A slowdown in the air conditioning market on account of rising power costs and/ or a slowdown in expansion plans of players for whom company is undertaking contract manufacturing poses a risk to both the topline growth as well as profitability. This will affect the company's core business of coil manufacturing and inturn lead to a slowdown in higher margin business of contract manufacturing.

A consistent rise in input prices such as copper, aluminum and steel which form a major chunk of raw materials have shown a rising trend on account of the commodities boom. While the input prices have consistently moved up there has been a fall in the selling prices of air conditioners on account of market pressures due to increasing competition. Thus the margins of air conditioner marketing companies have taken a hit which could inturn lead to some kind of pressure on LEE asking for reduction in supply prices and/or a slowdown in order inflow or a shift towards setting up captive units as a means of backward integration.

**Our Take** LEE is looking to start a greenfield facility at JNPT near Mumbai for manufacture of Frost-free refrigetaor coils. It has entered in a JV with Hanyung of Korea for the same. There are no manufacturers of the same in India as of now so this would throw open a fairly large market for LEE and also coils will be exported to Korea which will be marketed by Hanyung. The business mix of the company has undergone a change with a focus to concentrate on Contract manufacturing and Railways business as opposed to manufacture of coils where the margins are significantly lower. It is low debt company with a dividend paying history an trades at very reasonable valuation in fast growing industry. LEE is a good defensive pick in a Growth sector.

Earnings Statement						
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Total Revenues	243.1	347.4	498.7	662.4	864.2	1,107.7
- Growth (%)		42.9%	43.6%	32.8%	30.5%	28.2%
Total Expenditure	220.6	304.2	432.7	580.3	755.7	966.8
Operating Profit	22.5	43.1	66.1	82.1	108.5	140.9
Other Income	0.5	2.3	5.7	5.7	5.7	5.7
EBITDA	23.1	45.5	71.8	87.9	114.2	146.6
Depreciation	4.7	5.9	8.5	9.5	10.1	9.8
EBIT	18.4	39.6	63.3	78.4	104.1	136.8
Interest	4.8	5.4	6.8	11.0	11.0	11.0
PBT	13.6	34.2	56.5	67.4	93.1	125.7
Tax	1.94	3.7	7.9	8.4	11.6	15.7
PAT Before EI	11.6	30.5	48.7	59.0	81.5	110.0
- Growth (%)		162.4%	59.8%	21.1%	38.1%	35.1%
Extra-ordinary Items	0.0	0.0	0.0	0.0	0.0	0.0
PAT	11.6	30.5	48.7	59.0	81.5	110.0
Ratio Analysis						
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E
OPM (%)	9.3%	12.4%	13.2%	12.4%	12.6%	12.7%
EBITDA (%)	9.5%	13.1%	14.4%	13.3%	13.2%	13.2%
PBIT (%)	7.6%	11.4%	12.7%	11.8%	12.0%	12.3%
PAT (%)	4.8%	8.8%	9.8%	8.9%	9.4%	9.9%
Interest Cover (x)	3.8	7.3	9.4	7.1	9.4	12.4
EPS (Rs.)	6.5	11.3	15.7	19.0	22.6	30.6
P/E (x)	16.9	9.8	7.0	5.8	4.9	3.6
P/BV (x)	2.9	1.4	1.1	1.0	0.7	0.6
BVPS (Rs.)	37.5	81.0	96.6	112.7	147.5	173.4
Market Cap (Rs. Mn.)	196.3	297.9	342.2	342.2	397.4	397.4
M Cap/Sales (x)	0.8	0.9	0.7	0.5	0.5	0.4
EV (Rs. Mn.)	255.4	257.7	348.3	356.4	305.8	286.9
EV/EBITDA (x)	11.1	5.7	4.9	4.1	2.7	2.0
EV/Sales (x)	1.1	0.7	0.7	0.5	0.4	0.3
ROCE (%)	14.1%	14.2%	15.5%	17.1%	16.2%	18.6%
RONW (%)	17.4%	13.9%	16.3%	16.9%	15.3%	17.6%
Debt/Equity Ratio (x)	0.9	0.3	0.4	0.3	0.2	0.2
Inventory T/o Days	57.0	57.4	60.0	60.0	60.0	60.0
Debtors T/o Days	68.4	79.2	80.2	80.0	80.0	80.0
Advances T/o Days	9.8	6.2	20.5	20.0	20.0	20.0
Creditors T/o Days	38.6	42.6	30.7	35.0	35.0	35.0
Working Cap T/o Days	100.5	200.4	193.8	173.3	205.3	192.5
Fixed Assets T/o (Gross)	2.6	2.8	2.9	3.7	4.3	5.4
DPS (Rs.)	0.0	1.0	2.0	2.5	3.0	4.0
Dividend Payout (%)	0.0%	8.9%	12.7%	13.1%	13.3%	13.1%
Dividend Yield (%)	0.0%	0.9%	1.8%	2.3%	2.7%	3.6%

Balance Sheet						
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Equity Capital	17.8	27.0	31.0	31.0	36.0	36.0
Reserves	48.9	191.7	268.4	318.5	495.0	588.5
Shareholders Funds	66.7	218.7	299.4	349.5	531.0	624.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	63.3	61.1	110.2	110.2	110.2	110.2
Deferred Tax Liability	3.9	4.7	5.7	5.7	5.7	5.7
Total Liabilities	133.9	284.5	415.4	465.4	646.9	740.4
Fixed Assets (Incl CWIP)	65.8	90.9	147.8	148.4	158.2	153.5
Investments	0.6	2.6	2.6	2.6	2.6	2.6
Current Assets	94.3	237.2	323.7	386.4	580.6	706.3
Inventory	38.0	54.7	81.9	108.9	142.1	182.1
Sundry Debtors	45.5	75.4	109.6	145.2	189.4	242.8
Loans & Advances	6.5	5.9	28.1	36.3	47.4	60.7
Cash & Bank Balance	4.2	101.3	104.2	96.0	201.8	220.7
Current Liabilities	27.3	46.5	58.9	71.9	94.5	121.9
Sundry Creditors	25.7	40.6	42.0	63.5	82.9	106.2
Provisions	1.6	6.0	17.0	8.4	11.6	15.7
Net Current Assets	67.0	190.7	264.8	314.5	486.1	584.4
Miscellaneous Expenditure	0.5	0.3	0.2	0.0	0.0	0.0
Total Assets	133.9	284.5	415.4	465.4	646.9	740.4
Cash Flow						
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Opening Cash & Bank	5.2	4.2	101.3	104.2	96.0	201.8
Profit After Tax	11.6	30.5	48.7	59.0	81.5	110.0
Invt Income	(0.5)	(2.3)	(5.7)	(5.7)	(5.7)	(5.7)
Interest Paid	4.8	5.4	6.8	11.0	11.0	11.0
Miscellaneous Exp W/Off	0.2	0.2	0.2	0.2	0.0	0.0
Depreciation	4.7	5.9	8.5	9.5	10.1	9.8
Deferred Taxation	0.5	0.1	1.0	0.0	0.0	0.0
Others	0.5	(0.7)	(1.0)	0.0	0.0	0.0
Change in Working Cap	(14.0)	(31.0)	(80.5)	(57.8)	(65.9)	(79.3)
CF - Operating Activities	7.8	7.9	(22.2)	16.1	31.0	45.8
Change in Fixed Assets	(18.5)	(30.7)	(65.4)	(10.0)	(20.0)	(5.0)
Change in Investments	(0.2)	(2.0)	0.0	0.0	0.0	0.0
Investment Income	0.5	2.3	5.7	5.7	5.7	5.7
CF - Investing Activities	(18.2)	(30.3)	(59.7)	(4.3)	(14.3)	0.7
Increase in Equity	0.0	129.9	45.0	0.0	112.5	0.0
Changes in Borrowings	14.3	(2.2)	49.2	0.0	0.0	0.0
Interest Paid	(4.8)	(5.4)	(6.8)	(11.0)	(11.0)	(11.0)
Dividend Paid	0.0	(2.7)	(2.7)	(8.9)	(12.4)	(16.6)
CF - Financing Activities	9.4	119.5	84.7	(19.9)	89.1	(27.6)
Net Change in Cash	(1.0)	97.1	2.9	(8.1)	105.7	19.0
Closing Cash & Bank Bal	4.2	101.3	104.2	96.0	201.8	220.7

Pyramid Saimira Theatre Ltd
Buy | CMP Rs. 315.0
Initiating Coverage

**Stock Codes**

Bloomberg : PSTL.IN  
 Reuters : PYSA.BO  
 BSE Code : 532791  
 NSE Code : PSTL  
 BSE Group : B

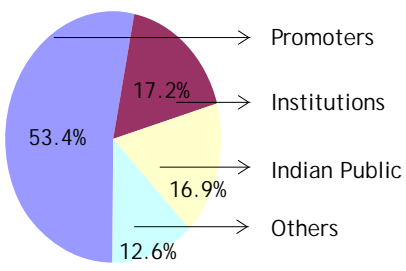
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**Stock Data**

Sensex : 14994.8  
 52 Week High : 551.0  
 52 Week Low : 233.1  
 Mkt Cap : Rs. 8906.9 Mn  
 Face Value : Rs. 10.0

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**Shareholding Pattern (as on Dec '07)**



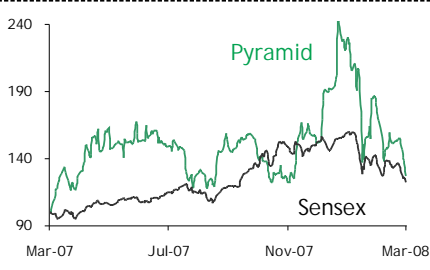

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**Stock Returns**

	1 Mth	3 Mths	6 Mths
Pyramid	-25.81	-16.24	-13.81
Sensex	-11.37	-16.44	5.93

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**Price Comparison**



Jugal Shah - Jugal@ppfas.com

Exhibition, Production, Distribution, Food Courts, IPR's, Real Estate, Home Entertainment, Gaming, Animation... its all there. PSTL, the largest theatre chain company in India is set to explode and emerge as the giant in the entertainment space.

**Super fast Expansion** - Having ramped up its base from 265 screens in March 07 to 733 screens in December 07, it has proven its ability to scale up operation. It has managed to add 1 screen per day in the past 3 quarters & plans to set up 2000 screens by 2010.

**Verticals to bring in synergies** - With production & distribution verticals complimenting the core business of exhibition, PSTL has also ventured into gaming, animation, Food courts & real estate which are supplementary operations.

**Unique Business Model** - The aim to connect all of its screens under a digital network would not only stream line the operations and realizing operating efficiencies but also creating entry barriers for other players.

**Other Key Triggers**

- Room for hike in ticket prices
- Tax exemptions on new properties
- High presence in Tier-II & Tier-III cities where potential is high.
- Diversification would mitigate risk.
- Pricing power from business verticals

**Opinion**

PSTL's revenue & PAT have grown at 245% & 760% CAGR respectively over FY04-FY07, albeit on a low base. It is trading cheap at just 11x FY08E profits as scepticism on capabilities to execute an overly ambitious growth continue weigh heavy. We have valued the company on near-term basis (14x FY08E - Target Rs. 396) so as not to ignore the commendable past & current performance and also avoid the predicament of swing between hope & doubt.

Particulars (Rs Mn)	FY06	FY07	FY08E
Total Revenues	49.9	1,643.2	7,528.8
PAT	17.2	134.3	800.3
EBITDA (%)	28.9%	12.1%	16.8%
EPS (Rs.)	1.1	4.8	28.3
P/E (x)	296.6	66.3	11.1
ROCE (%)	7.3%	14.2%	18.7%
RONW (%)	9.1%	11.3%	40.2%
Debt/Equity (x)	0.0	0.0	2.2

## Company Background

Pyramid Saimira Theatre Limited (PSTL) is the largest theatre chain company in the country with 733 screens operational across 4 countries as on Q3FY08. PSTL started its journey as a leading South based exhibitor and has successfully managed to spread its operations across the country as well as countries like USA, Malaysia & Singapore. PSTL has been on an aggressive expansion mode & ramping up its operations by adding one screen everyday under its operation in the past 3 quarters & plans to set up 2000 screens by 2010.

## Present Operations

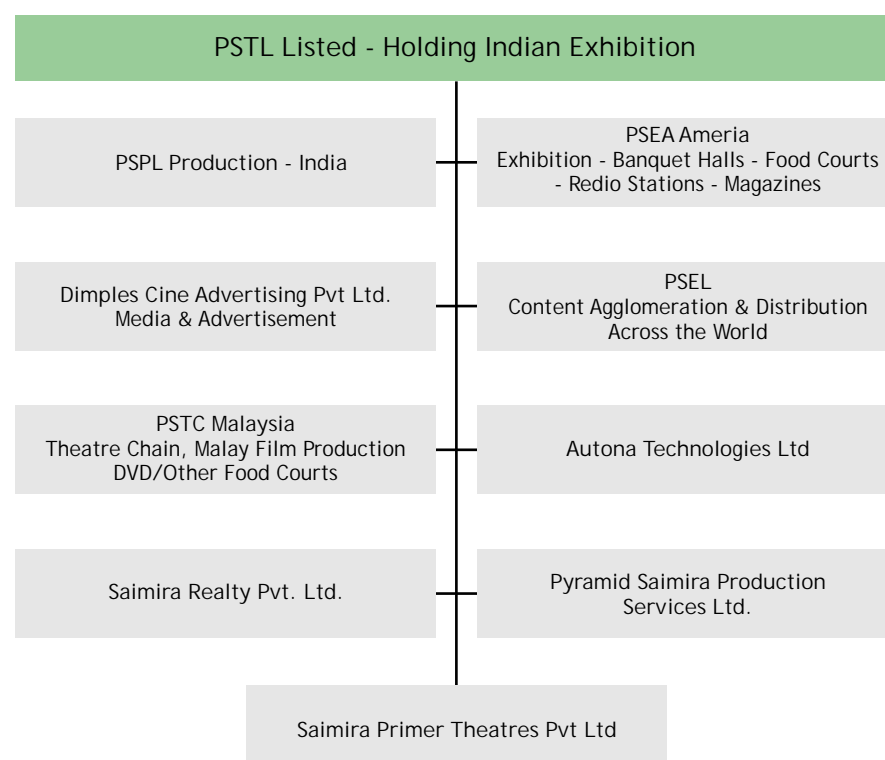
Countries	No. of Multiplexes	No. of multiplex screens	No. of single screens	Total screens	Total seats
India	44	94	561	655	429,000
USA	5	23	0	23	6,528
Malaysia	3	9	42	51	12,800
Singapore	1	4	0	4	1,100
Total	53	130	603	733	449,428

## Business Verticals

PSTL is one of Asia's largest entertainment conglomerates and has been spreading its operations horizontally & vertically across the chain.

The company has presence across Exhibition, Distribution, Production, Cine Advertising, Food & Beverages, Home Entertainment, Radio, Gaming & Animation, Magazines and Realty which it manages through its different subsidiaries. These verticals have a opened up supplementary opportunities along side its exhibition business.

## Company Structure



Backward & Forward  
Integration to bring in  
synergies

#### Pyramid Saimira Production Ltd (PSPL)

- PSPL is a subsidiary & content production arm of PSTL which has presence across 2 division i.e. TV & Films.
- Formed to create backward integration for PSTL's distribution & exhibition business.
- Aims to be the largest TV content production house across various Indian languages with primary focus on non-Hindi languages.
- Presently working on 6 films annually and aims to produce 50 films going ahead. Similarly, it is producing 2 hours of TV content and plans to come up with 16 hours of original content per day going forward.
- This integration across the value chain would bring in synergies for PSTL with respect to:
  - Scalability
  - Exploitation of revenues
  - Building content library & exploiting its rights
  - Content planning

#### Pyramid Saimira Entertainment Ltd

PSEL is a wholly owned subsidiary of PSTL which would be responsible for content distribution & agglomeration. PSEL would be distributing content of PSPL and acquiring international content under its library.

This forward integration would help PSEL to exploit theatrical & non-theatrical rights and bring in revenues by distributing via PSTL and other exhibitors.

#### Pyramid Saimira Production Services

PSTL has plans to set up own studios for post production services like DI, VFX & special effects which would cater to PSPL. At present, PSTL already operates one post production studio in Hyderabad which caters to the production needs for its inhouse movies.

Diversified Revenue  
Streams

Having ventured into different verticals, PSTL has opened up different platforms for revenues which will mitigate risks. Each of its subsidiaries have a unique business model which would facilitate growth across the chain by integrating the operations. PSTL has recently approved an investment of Rs. 3000 mn in its 3 subsidiaries with an objective to create integration.

## Wider Audience base

[Pyramid Saimira Theatre Chain \(Malaysia\) Sdn Bhd \(PSTC\)](#)

PSTC is a Joint Venture with Asian Integrated Industries Sdn Bhd & operates 51 theatres in Malaysia. PSTC is the second largest exhibitor chain in Malaysia & caters to the huge Indian population in the country. PSTC distributes film content in Malayalam, Chinese, English & Tamil languages Apart from distribution, it is now expanding into Food courts & Home entertainment segments which would be ancillary to its core business operations.

[Pyramid Saimira Entertainment America Inc., USA \(PSEA\)](#)

PSTL has recently ventured into USA by acquiring the largest Asian entertainment chain " FunAsia" in Oct 2007. Again here, company would operates 23 screens 3 banquet halls, 1 magazine, 3 radio stations in Houston, Dallas and Chicago.

It aims to be the largest distributor of non-Hollywood content through PSEA in USA, UK & Europe & has plans to spread its accross 15 location accross North America to cater to the wide spread Asian's and capitalize on the huge overseas market.

Efficient Infrastructure  
Planning to lower down  
Rent

[Saimira Reality Ltd](#)

On an average, rent accounts for 6-8% of the revenues for an exhibitor unless the property is self owned. Going ahead, PSTL plans to buy out 100 malls down south and operate malls, multiplexes & hospitality. It also plans to set up a property trust through Saimira Reality Ltd which would buy properties and lease them to PSTL which would lead to additional source of income and create barriers of other players in locations where it operates.

[Saimira Primer Theatres Pvt Ltd](#)

PSTL has recently approved an investment of Rs.1000 mn in SPTPL with an objective to purchase screens outright accross India and convert them into multiplexes. So far, PSTL operates majority of its screens on lease model and going ahead plans to own a few which would be met through SPTPL. By converting a single-screen theatres into multiplexes, PSTL would be able to enjoy the ET exemptions which would come along & widen its overall operational base.

## The Indian Advantage

[Aurana Technologies](#)

PSTL has recently acquired an UK based game developer Aurana Technologies & forayed into the high margin high growth gaming & animation industry. AT develops games on all platforms - Console, PC, Handheld, Arcade & Mobile and has the skills & infrastructure to compete & grab a significant share in the US\$30bn industry.

India accounts for just 0.25% of share in the industry which is estimated to shoot up to 3% by 2010 when the industry is estimated to reach US\$40bn. Given the cheap labour advantage & creative skills India possesses, the developments in next generation platforms like Nintendo, Sony Playstation etc would generate huge outsourcing business in the country.

In addition to this, PSTL would further get access to the 6 IPR's of mobile games AT owns and exploit the rights associated with it which could be an additional source of revenues. Going ahead, PSTL plans to develop Pyramid Fun Zone at its properties which would have coin/card operated arcade games. PSTL estimates a topline of Rs.103 Cr of potential revenues from Pyramid Fun Zone annually.

## Unification of synergies

[Dimples Cine Advertising Pvt. Ltd.](#)

PSTL has recently acquired 51% stake in Dimple Cine Advertising Pvt Ltd which is one of the biggest names in Theatre advertising. DCAPL has a strong clientele across the advertisement space and accounts for a major chunk of theatre advertisement revenues.

This would help PSTL to cash on advertisement revenues from its 2000 planned screens by 2010 & ad revenues from off screen platforms like OOH, hoardings, Magazine & Radio where PSTL operates.

## Unique Business Model

PSTL operates in all categories of theatres including malls, multiplexes, cine-plexes & single screens theatres. The company's business model is unique where it doesn't acquire screens outright and enters into a favorable agreement with the property owners on revenues sharing basis or long term lease rentals. This makes it easy for PSTL to bring more screens under its belt as fixed capital investment is low.

PSTL aims to create the largest "DIGITAL CHAIN" of screens & is planning to connect all its screens under Network Operating Center, which would make its entire chain digital. This would help the company to exhibit films & other content into digital format across all screens at the same time. This would result in a wider release of films, fight piracy and reduce the cost of print per screen..

- Concerns
- ATP as low at Rs. 40/- coupled with low occupancy rate.
  - Stream lining all subsidiaries would be a challenge
  - Delays & cost over runs can affect roll out of screens
  - High Entertainment taxes & rising infrastructure cost
  - Aggressive expansion plans by other players
  - High concentration in South

Our View PSTL has been able to scale up its operations rapidly and intends to foray into all verticals in the entertainment space. In spite of this phenomenal growth, at CMP of Rs. 315, it is still trading at 14 times TTM earnings where as players like Inox & PVR are trading at 25 & 32 times TTM earnings respectively. In spite of ATP as low as Rs. 40, on 9 months basis for FY08, the revenues stood at Rs. 4883mn against Rs1643 mn for the entire last year. PSTL has lined up ambitious plans like others, but has demonstrated its ability to scale up its operations in the past.

What augers well for PSTL as an investment option is the comfort for both topline growth and margin expansion. On the screen additions, PSTL has aggressive growth expectations and would be able to deliver a convincing performance despite a few misses here & there. There are no indications of any slowdown on the daily addition of screens into its fold. Also the margins for this industry are directly impacted by the ATPs. The average spend by a PSTL client including ticket, F&B, etc is lower than Rs. 40 at the moment. There are poor chances of these deteriorating from the current levels. In fact these are likely to improve, once the management revamps most of these screens in the coming year. Ergo, PSTL remains an attractive proposition based on historical valuations, aggressive growth & margin expansion. Scepticism on capabilities of the management to execute these unbelievable & overly ambitious growth and a relatively poor management perception in the investment fraternity continue to remain the key drag for the scrip.

Earnings Statement				
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E
Total Revenues	29.2	49.9	1,643.2	7,528.8
- Growth (%)	-27.1%	70.9%	3193.0%	358.2%
Total Expenditure	29.0	35.5	1,449.1	6,345.1
Operating Profit	0.2	14.4	194.1	1,183.7
Other Income	0.0	0.0	4.4	81.7
EBITDA	0.2	14.4	198.5	1,265.4
Depreciation	0.1	0.4	11.7	50.2
EBIT	0.2	14.1	186.9	1,215.2
Interest	0.0	0.0	1.7	76.4
PBT	0.2	14.1	185.1	1,138.8
Tax	0.1	(3.1)	50.8	338.5
PAT Before EI	0.1	17.2	134.3	800.3
- Growth (%)	-	-	683.1%	495.7%
Extra-ordinary Items	0.105	0.0	0.0	0.0
PAT	0.2	17.2	134.3	800.3

Ratio Analysis				
Particulars	FY05	FY06	FY07	FY08E
OPM (%)	0.8%	28.9%	11.8%	15.7%
EBITDA (%)	0.8%	28.9%	12.1%	16.8%
PBIT (%)	0.6%	28.2%	11.4%	16.1%
PAT (%)	0.4%	34.4%	8.2%	10.6%
Interest Cover (x)	n.a.	n.a.	108.2	15.9
EPS (Rs.)	0.0	1.1	4.8	28.3
P/E (x)	13,162.6	296.6	66.3	11.1
P/BV (x)	30.6	27.0	7.5	4.5
BVPS (Rs.)	10.3	11.7	42.2	70.5
Market Cap (Rs. Mn.)	1,500.5	5,087.9	8,906.9	8,906.9
M Cap/Sales (x)	51.4	102.0	5.4	1.2
EV (Rs. Mn.)	1,496.3	5,062.6	8,752.8	13,216.7
EV/EBITDA (x)	6,340.1	351.3	44.1	10.4
EV/Sales (x)	51.2	101.5	5.3	1.8
ROCE (%)	0.4%	7.3%	14.2%	18.7%
RONW (%)	0.2%	9.1%	11.3%	40.2%
Debt/Equity Ratio (x)	0.0	0.0	0.0	2.2
Inventory T/o Days	72.1	106.6	3.4	5.0
Debtors T/o Days	317.8	285.0	21.0	20.0
Advances T/o Days	36.5	403.1	184.8	140.0
Creditors T/o Days	11.2	26.3	6.6	10.0
Working Cap T/o Days	468.6	940.2	230.3	148.9
Fixed Assets T/o (Gross)	79.6	29.5	10.9	11.6
DPS (Rs.)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Balance Sheet				
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E
Equity Capital	47.636	161.5	282.8	282.8
Share Application Money	0.0	18.3	0.0	0.0
Reserves	1.351	18.5	1,013.4	1,813.6
Shareholders Funds	49.0	198.3	1,296.1	2,096.4
Borrowed Funds	0.0	0.0	0.0	4,390.0
Deferred Tax Liability	0.018	(4.8)	20.4	20.4
Total Liabilities	49.0	193.5	1,316.6	6,506.8
Fixed Assets	11.5	55.3	142.8	607.7
Investments	0.0	0.0	32.9	2,722.9
Current Assets				
Inventory	5.771	14.6	15.3	103.1
Sundry Debtors	25.425	39.0	94.7	412.5
Loans & Advances	2.917	55.1	832.0	2,887.8
Cash & Bank Balance	4.264	25.3	154.1	80.3
Current Liabilities				
Sundry Creditors	0.894	3.6	29.8	206.3
Provisions	0.0	1.8	29.7	205.4
Net Current Assets	37.5	128.5	1,036.7	3,072.0
Miscellaneous Expenditure	0.0	9.7	104.2	104.2
Total Assets	49.0	193.5	1,316.6	6,506.8

Cash Flow				
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E
Opening Cash & Bank	0.0	4.3	25.3	154.1
Profit After Tax	0.1	17.2	134.3	800.3
Invnt Income	0.0	0.0	(4.4)	(81.7)
Interest Paid	0.0	0.0	1.7	76.4
Miscellaneous Exp W/Off	0.0	(9.7)	(94.5)	0.0
Depreciation	0.1	0.4	11.7	50.2
Deferred Taxation	0.0	(4.8)	25.2	0.0
Others	(0.0)	0.0	0.0	0.0
Change in Working Cap	(2.7)	(70.0)	(779.3)	(2,109.1)
CF - Operating Activities	(2.5)	(67.0)	(705.3)	(1,263.9)
Change in Fixed Assets	(11.5)	(44.1)	(99.2)	(500.4)
Change in Investments	0.0	0.0	(32.9)	(2,690.0)
Investment Income	0.0	0.0	4.4	81.7
CF - Investing Activities	(11.5)	(44.1)	(127.7)	(3,108.7)
Increase in Equity	18.5	132.1	963.5	0.0
Changes in Borrowings	(0.2)	0.0	0.0	4,390.0
Interest Paid	0.0	0.0	(1.7)	(76.4)
Dividend Paid	0.0	0.0	0.0	0.0
CF - Financing Activities	18.3	132.1	961.8	4,313.6
Net Change in Cash	4.2	21.0	128.8	(59.1)
Closing Cash & Bank Bal	4.3	25.3	154.1	80.3

Local Equity Market						Top Gainers & Losers of the Week			
INDICES	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Top Gainers		Mar 24, 08	% Chng
Sensex	14,994.83	14,809.49	1.25	17,349.07	(13.57)	Salora International Ltd.	164.75	7.12	
Nifty	4,573.95	4,503.10	1.57	5,110.75	(10.50)	Tube Investments of India Ltd.	56.80	4.80	
CNX Nifty Junior	7,431.15	7,577.25	(1.93)	9,559.10	(22.26)	Jindal Stainless Ltd.	144.40	3.07	
S&P CNX500	3,657.80	3,642.35	0.42	4,295.35	(14.84)	Satyam Computer Services Ltd.	391.15	3.03	
CNX Midcap 200	5,847.70	5,907.75	(1.02)	7,094.75	(17.58)	Infotech Enterprises Ltd.	240.05	2.50	
CNX IT	3,501.15	3,405.95	2.80	4,017.30	(12.85)	Apollo Hospitals Enterprises Ltd.	500.70	2.43	
International Equity Market						Top Losers			
INDICES	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Orchid Chemicals & Pharmaceuticals Ltd.	116.25	(48.46)	
DJIA	12,361.32	11,972.25	3.25	12,381.02	(0.16)	Lumax Industries Ltd.	155.50	(30.89)	
Nasdaq	2,258.11	2,177.01	3.73	2,303.35	(1.96)	Mercator Lines Ltd.	60.10	(29.91)	
S&P 500	1,329.51	1,276.60	4.14	1,353.11	(1.74)	Indiabulls Financial Services Ltd.	388.05	(29.74)	
FTSE 100	5,495.20	5,414.40	1.49	5,888.50	(6.68)	Gujarat Ambuja Exports Ltd.	37.65	(28.76)	
Nikkei 225	12,528.90	11,787.51	6.29	13,500.46	(7.20)	Federal-Mogul Goetze (India) Ltd.	53.00	(28.14)	
Hang Seng	21,108.22	21,084.61	0.11	23,305.04	(9.43)	Asian Electronics Ltd.	165.15	(27.68)	
HSCEI	10,836.20	11,037.09	(1.82)	13,336.89	(18.75)	Cholamandalam DBS Finance Ltd.	134.15	(27.49)	
MSCI Indices						Sectoral Performance			
MSCI Indices	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Sectors	Week	Month	3 Months
The World Index	1,406.98	1,378.56	2.06	1,471.83	(4.41)	Cycles	4.80	(14.65)	(6.89)
Emerging Market	1,052.01	1,044.63	0.71	1,161.46	(9.42)	Refractories	(3.74)	(3.70)	(1.91)
EM Asia	414.50	400.81	3.42	462.49	(10.38)	Paints	(4.45)	(5.78)	(5.70)
EM India	463.69	457.42	1.37	560.24	(17.23)	Metals	(4.46)	(10.69)	(1.74)
Commodities						Cigarettes	(4.95)	(9.29)	(12.07)
Commodities	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Brew/Distilleries	(5.14)	(8.72)	(36.51)
GOLD (\$/oz)	912.34	1,002.70	(9.01)	945.20	(3.48)	Personal Care	(5.44)	(2.03)	(4.26)
SILVER (\$/oz)	16.96	20.17	(15.92)	18.03	(5.94)	Telecommunication - Services	(5.48)	(14.26)	(17.34)
ALUMINIUM (\$/t)	2,843.00	2,948.00	(3.56)	2,920.00	(2.64)	Abrasives	(7.12)	(23.21)	(41.12)
COPPER (\$/t)	7,840.00	8,051.00	(2.62)	8,330.00	(5.88)	Diversified	(7.99)	(16.38)	(14.71)
CRUDE - BRENT (\$/bbl)	99.20	101.75	(2.51)	96.91	2.36	Travel And Transport	(8.30)	(6.68)	(12.24)
CRUDE - WTI (\$/bbl)	100.32	104.23	(3.75)	98.42	1.93	Dyes And Pigments	(8.36)	(19.19)	(19.28)
Transportation						Automobiles - 2 And 3 Wheelers	(8.47)	(10.58)	(21.96)
Commodities	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Gas	(8.98)	(16.69)	(8.10)
World SCALE	122.50	95.00	28.95	120.00	2.08	Miscellaneous	(9.31)	(14.59)	(13.42)
BALTIC FREIGHT INDEX	7,684.00	7,913.00	(2.89)	7,187.00	6.92	Bearings	(9.79)	(15.78)	(29.04)
Forex						Pharmaceuticals	(9.90)	(12.12)	(18.82)
FOREX	24-Mar-08	Week Ago	% Chng	Month Ago	% Chng	Oil Exploration/Production	(9.93)	(13.52)	(11.93)
USD	40.45	40.74	(0.71)	40.05	0.99	Computers - Software	(9.94)	(18.57)	(37.95)
GBP	79.99	81.43	(1.77)	78.96	1.30	Food And Food Processing	(10.08)	(18.05)	(7.70)
EURO	62.13	64.07	(3.03)	59.53	4.37				
YEN	40.53	41.85	(3.15)	37.46	8.20				
Global Listings						Inflation (%)			
Scripts	24-Mar-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR	10 year G-Sec Bond Yield			
Infosys ADR	33.88	2.64	(20.46)	2.17%	1				
Wipro ADR	10.66	5.44	(13.96)	14.55%	1				
ICICI Bank ADR	35.95	2.25	(34.73)	-5.08%	2				
Satyam ADR	22.00	5.06	(18.93)	14.15%	2				
HDFC Bank ADR	94.37	7.17	(21.00)	0.23%	3				
MTNL ADR	4.90	1.24	(20.26)	1.38%	2				
Dr. Reddy ADR	13.29	(1.77)	(1.46)	-0.66%	1				
Reliance GDR	103.25	(1.20)	(13.28)	-3.24%	2				
ITC GDR	4.62	3.82	(12.40)	-0.23%	1				
Ranbaxy GDR	10.81	(1.73)	5.77	-2.83%	1				
L & T GDR	71.90	8.61	(22.93)	2.49%	1				

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