

Mediaone Global Entertainment Ltd (MOGL)

DOLAT CAPITAL

CMP: Rs 40

Target Price: Rs 125

Media / Buy

The Rise of Phoenix...!!!

MOGL's business model is in its final leg of maturity with all building blocks in place (integrated value chain, management pedigree and established relations in all media forms). All the main business lines (TV Software, Distribution, Film Production & recent foray in exhibition) have been on well crafted risk-management model. We recommend a buy on the stock with 12 month price target of Rs125 (15x its FY09E EPS)

BSE Sensex	19163
NSE Nifty	5767

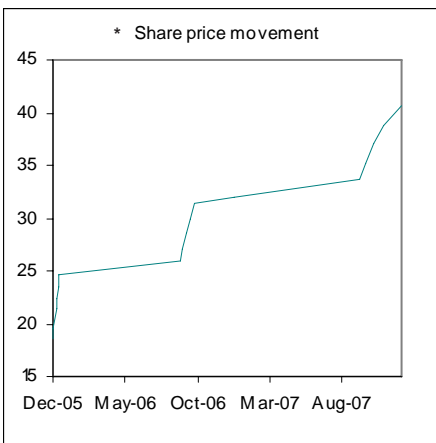
Scrip Details

Equity (Fully Dilluted)	Rs.265.2mn
Face Value	Rs.10/-
Market Cap	Rs.1060.8mn
	US\$26.5mn
52 week High/Low	Rs.40.75/32
BSE Code	503685
NSE Symbol	-
Bloomberg Code	MONEIN
Reuters Code	MEDGBO

Business Group - Indian Private

Shareholding Pattern as on Sept'07(%)

Promoter	69.6
MF/Banks/FIs	-
FIs	-
Corporate Bodies	15.2
Public / Others	15.2



* Recent corporate action makes historical prices irrelevant.

Financials (Consolidated)

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS(Rs.)	PER(x)	ROANW(%)	ROACE(%)
FY06	471.9		14.8	3	7.3		30.2	1.3	100.8	204.9
FY07	581.4	23	35.3	6	25.0	245	53.2	0.8	56.0	76.2
FY08E	852.1	47	92.6	11	58.5	134	3.5	11.6	17.3	16.3
FY09E	2,117.7	149	372.5	18	223.9	283	8.4	4.7	14.7	21.0

Figure in Rs mn

20 December, 2007

Investment rational

Migration to Value Accretive Business model with asset heavy tilt

Asset heavy Movie exhibition venture neutralizes Asset Light-Risk Inclined Movie production and distribution business. The Company plans to enter into exhibition business by taking over/leasing single screens around Chennai region. We believe the owned theatre model offers maximum benefit in exploitation of theatrical as well as non-theatrical revenues (F&B and Advt. and so on) in the long term. In addition, it also offers the property valuation proposition in the long term. The company plans to acquire 39 theatres & 15 theatres on lease by FY09.

Commissioned TV software: Regular cash flow

The intermediate opportunity of commissioned TV content from the new channels in South India (39 existing channels and 15 new channels) offers immediate regular cash flow to MOGL.

Strong Management bandwidth:

The media business is People and Relationship-Centric. The top management has wide experience in all the spheres of media business in India and abroad and has strong relations set in with who's who in the entertainment world. The deal with Eros for an outsourced movie production in UK and quick ramp up in the TV software is case in point. We believe the necessary experience and relations will also help in quick ramp up of Exhibition business in South India, which has a short window of opportunity.

Valuations

We expect the revenue from exhibition business to jump to Rs 506 mn in FY09, from 39 operational owned properties. Overall revenue is expected to grow by 2 year CAGR of 96.8% from Rs 547 mn to Rs 2118 mn in FY09.

We believe the company will report an EPS of Rs 8.44 in FY09. At CMP, it is available at an attractive PER of 4.7x its FY09E EPS.

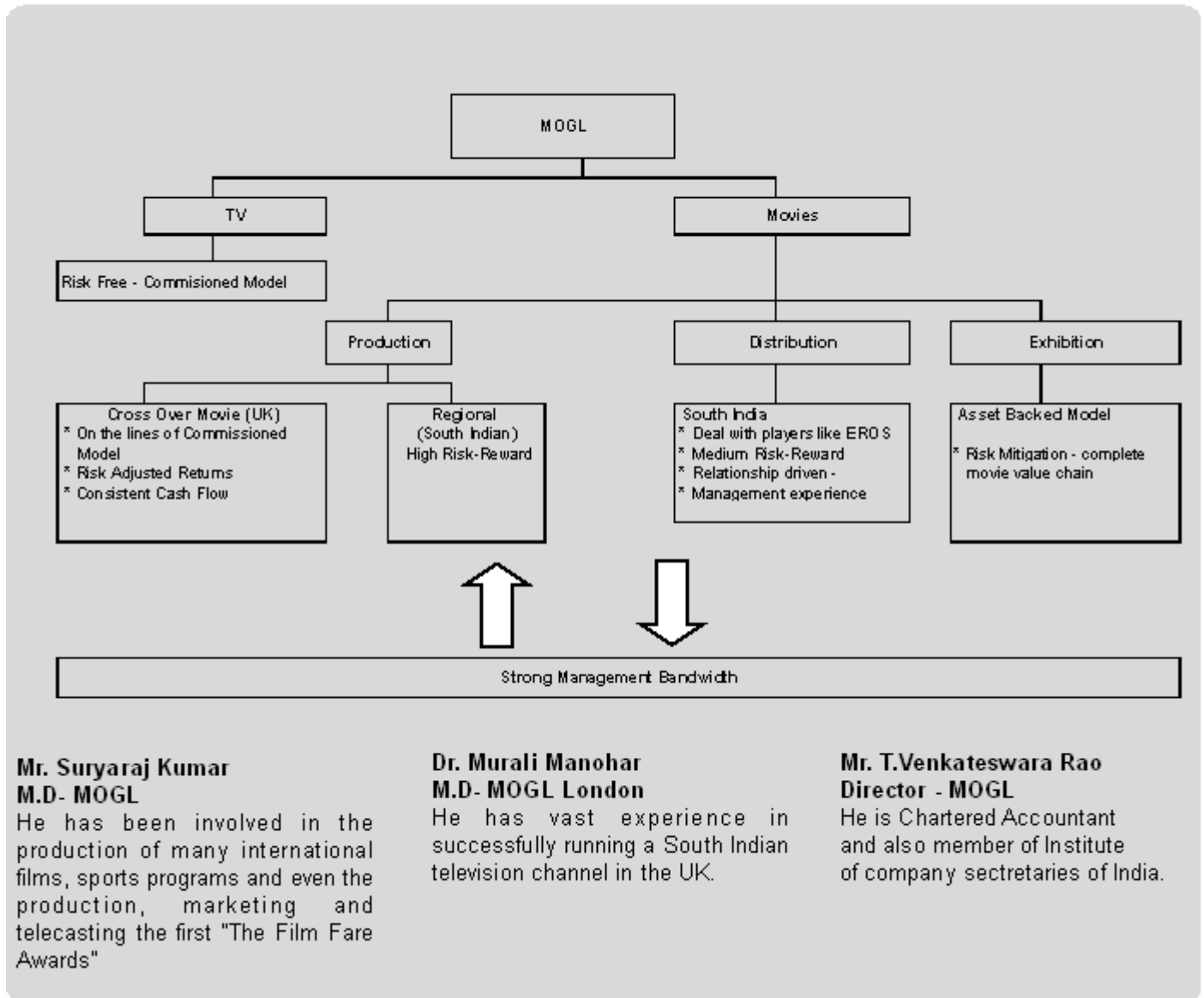
MOGL quotes at a discount of atleast 20% to its nearest competitor (On present equity base of competitor as against fully diluted equity of MOGL). An evolving business model and its scalability would drive the valuations upward comparable to its competitor. We recommend a buy on the stock with 12 month price target of Rs 125 (15x its FY09E EPS).

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Business Model



Theatre Exhibition: the Asset Heavy Model: Risk mitigated model to Film production and Distribution

Why Exhibition:

Risk Mitigation – Two legs of the Movie value chain namely Movie production and Distribution carry a high Risk high Return proposition as well as the asset light approach. The theatre owning and leasing in turn brings an Asset heavy approach with consistent revenue from Theatrical as well as Non-theatrical revenues.

Complete Movie Chain – MOGL proposes to include ‘Exhibition’ so as to have a complete presence in its movie value chain to reap the maximum benefits.

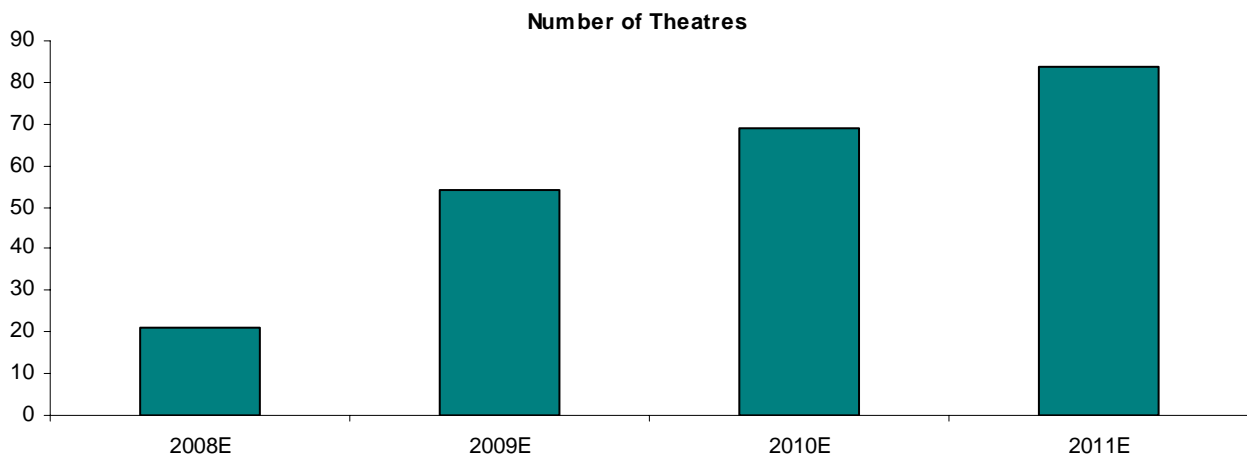
Asset Backed Model: ‘Buy’ preferred over ‘Lease’

We believe ‘Theatre Owning’ is preferred over ‘Lease Model’ mainly to exploit benefits from refurbication in the form of increased Theatrical as well as Non-Theatrical revenue. More over, it will also benefit from a value accretion of the property over a period of time.

Area specific selection: Key differentiating factor

MOGL’s target area includes NSC territory (North Arcot, South Arcot and Chengulpet district), which is strategically located within 100 KMs radius of Chennai. With Automobile and other industries growing in this area, we believe “Value and Quality proposition” theatres will be preferred as a source of entertainment.

NSC area has over 300 theatres out of which the company is planning to have a share of 23% by 2010



Source : Company, Dolat Research

Capex Requirement

The company plans to acquire about 39 theatres over next two year, which will entail capex of about Rs 1.1bn. (Rs 20 mn as an acquisition cost + Refurbishment cost of Rs 15000 per seat)

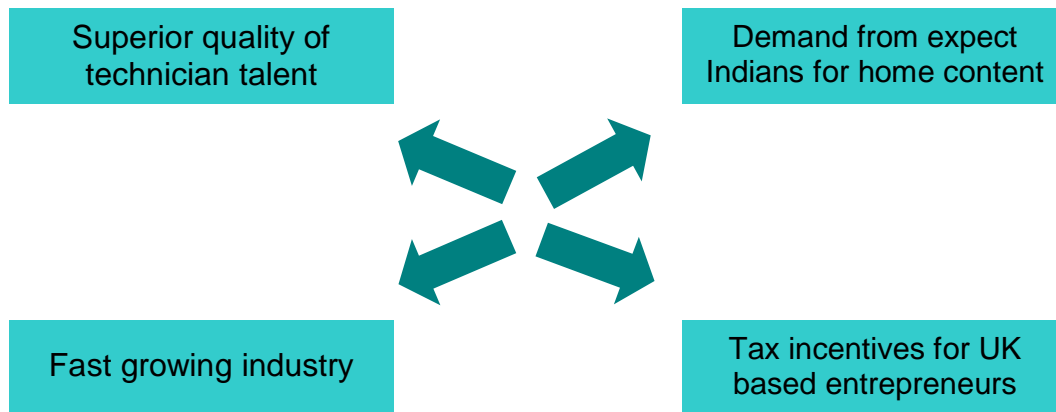


Movie Production:

Outsourced Film Production:

Outsourced Film Production works almost similar on the grounds of TV Software commissioned model – the overseas entrepreneur reaps the profit and bears the loss of the movie's performance without affecting the fixed commission as a percentage of cost.

At present, MOGL's 100% UK subsidiary produces 'Cross-Over movies'. In the past, it has produced 'Provoked' starring Aishwary Rai and 'Telling Lies' starring Jason Fleming and Melanie Brown (Spice Girls fame).



Source : Company, Dolat Research

Low risk proposition

The company makes an alliance with the entrepreneurs/financiers/distributors and pre-sells the movie. The revenue for the company is in the form of the fees – a fixed percentage of movie budget.

Time Management & Tight Budget

Without any compromise on the creative part, the company emphasis on stringent cost management. Time management is also one of the crucial feature directly looked after by the top management (for example release date is announced as soon as the shooting starts)

Leveraging relationship

The company has now ventured into mainstream Hindi film production to be shot in UK in association with Eros as per the agreements signed in July 2007.

The company is planning to have 1-2 movies in a year, which entails 5-7% margin on the budget of the movie.

Own produced South Indian Movies: Leveraging UK subsidiary's expertise and relations

A long association of the promoters in the film trade in India as well as in UK and the experience of UK subsidiary in project based Movie production, are the key drivers for success in Movie production.

To achieve scalability, the company may undertake production of movies on contract basis for foreign producers in local (Hindi) or English movies to be produced in India.

The company plans to produce 2-3 movies in a year under its own banner or Co-production, in addition to Contract based movie production.

Films distribution in association with Bhagyalakshmi Pictures

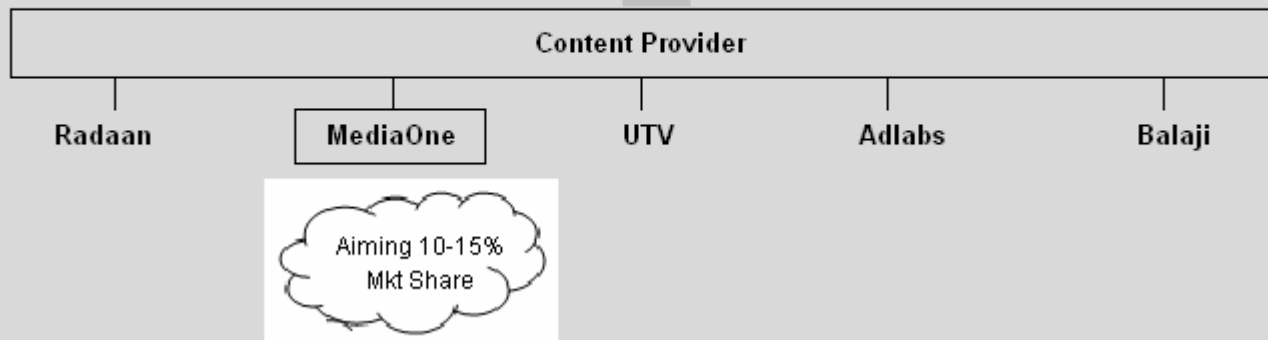
MOGL in an association with Bhagyalakshmi Pictures is one of the largest distributors of Hindi movies in Karnataka. At present, the company is distributing EROS movies in Karnataka. As a geographical expansion, The Company plans to enter into TamilNadu region. The company has distributed 10 movies and earned about 5.5% margin thereof.

TV Content: Immediate Cash Cow...

Demand - Size of Opportunity

	No. of Broadcasting Channels				Total
	Tamil	Telugu	Kannada	Malayalam	
GEC	8	6	6	10	20
Others	8	8	3	5	19
Upcoming Channels	9	6	-	-	15

Assuming only 4 hrs of original content from 20 GEC & 19 other channels offers 20,000 hrs of opportunity.



One of the interesting aspects about soap operas is that the viewer ship would remain loyal, irrespective of the channel that broadcasts it. As a result the content creator plays a dominant role in the whole broadcasting chain.

The expertise, experience and extensive connections of management with the promoters of almost all major broadcasters will place MOGL at an initial advantage in getting content deals from the channels.

Serials in Pipeline

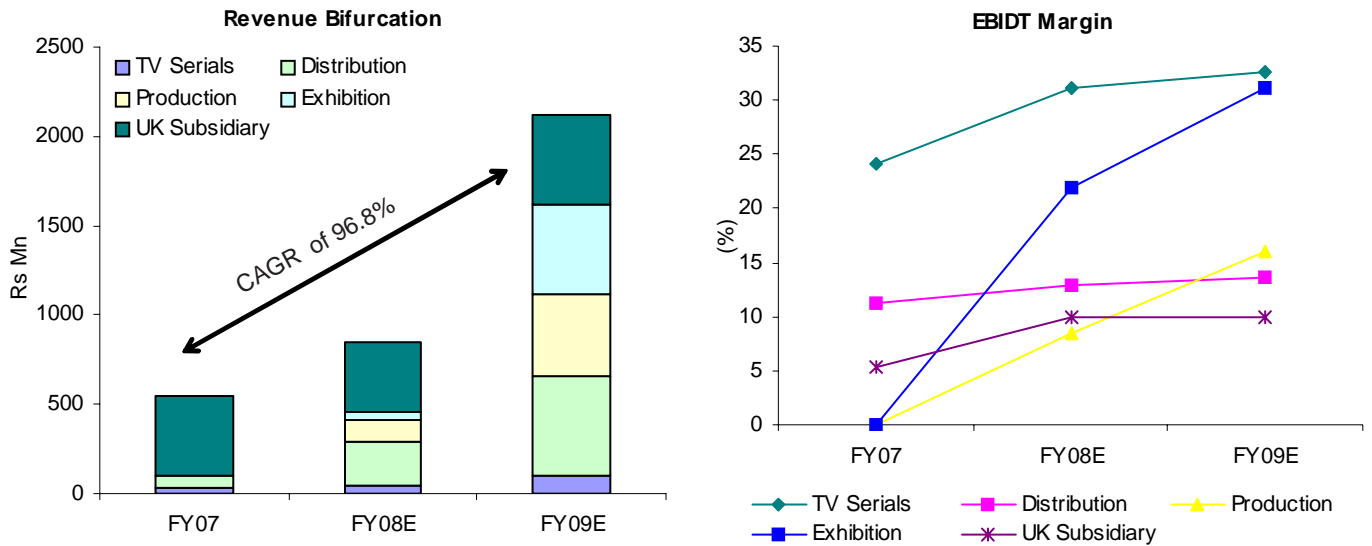
TV Serial Pipeline	Frequency of Shows
Anniyamma Tamil	Weekly
Maayajalam	Weekly
Paarampariyamm	Daily
Thuzhi thuzhi-then-thuzhi	Daily (5mts)
Unnmaiya	Weekly
Varsham	Telefilm
Maya	Bi-Weekly special effect serial

Source : Company, Dolat Research

Financials: Exhibition-leading from the front

We expect revenue CAGR of 96.8% over FY07-09. although, the other business lines will report decent growth, the exhibition business will grow from NIL to 24% of total revenue over next 2 years.

We expect exhibition business to contribute 44% share of EBIDTA . Overall EBIDTA is expected to increase from Rs 39 million to 361 million in FY09.



Source : Dolat Research

Valuations

	MOGL*	Pyramid Saimira**	Mukta Arts***	PVR**	Adlabs**
CMP (Rs)	40.0	420.0	208.0	315.0	1,425.0
Mcap (Rs Mn)	1,060.8	12,000.0	4,696.6	7,295.3	59,670.0
FY08 P/E (x)	11.6	11.2	106.3	33.9	NA
FY09 P/E (x)	4.7	5.9	24.6	20.6	56.8
FY08 Mcap/Sales (x)	1.2	1.9	3.7	2.8	NA
FY09 Mcap/Sales (x)	0.5	1.0	2.4	1.9	10.5

- * MOGL valuation ratios on fully diluted basis
- ** Bloomberg estimates; valuation ratios on present equity base
- ***Dolat Research estimates

Based on above valuation matrix, MOGL quotes at a discount of atleast 20% to its nearest competitor (On present equity base of competitor as against fully diluted equity of MOGL). An evolving business model and its scalability would drive the valuations upward comparable to its competitor. We recommend a buy on the stock with 12 month price target of Rs 125 (15x its FY09E EPS).

INCOME STATEMENT (Consolidated)					IMPORTANT RATIOS				
Particulars	Rs.mn				Particulars	June'06	June'07	June'08E	June'09E
	June'06	June'07	June'08E	June'09E					
Revenue	471.9	581.4	852.1	2,117.7	(A) Measures of Performance (%)				
Other income	0.1	9.6	10.6	11.6	Operating Profit Margin (excl. O.I.)	3.1	4.4	9.6	17.0
Total Income	472.0	591.0	862.7	2,129.3	Operating Profit Margin (incl. O.I.)	3.1	6.0	10.7	17.5
Total Expenditure	457.2	555.7	770.1	1,756.8	Interest/Sales	1.3	0.0	0.5	0.0
Operating Profit (excl. Other Income)	14.7	25.7	82.0	360.9	Gross Profit Margin	1.8	6.0	10.3	17.5
Operating Profit (incl. Other Income)	14.8	35.3	92.6	372.5	Tax/PBT	116.1	4.0	30.0	30.0
Interest	6.1	-	4.0	-	Net Profit Margin	1.5	4.2	6.8	10.5
Gross Profit	8.7	35.3	88.6	372.5	(B) Measures of Financial Status				
Depreciation	0.0	0.2	5.0	52.6	Debt / Equity (x)	0.0	0.0	0.6	0.0
Profit Before Tax & EO Items	8.7	35.1	83.6	319.9	Interest Coverage (x)	2.4	-	232	-
Extra Ordinary Exps/(Income)	-	-	-	-	Average Cost Of Debt (%)	-	0.0	2.0	-
Profit Before Tax	8.7	35.1	83.6	319.9	Debtors Period (days)	86.3	40.0	54.4	38.3
Tax	1.4	10.1	25.08	95.96	Closing stock (days)	0.0	31.5	21.4	25.9
Net Profit	7.3	25.0	58.5	223.9	Inventory Turnover Ratio (x)	-	11.6	17.0	14.1
BALANCE SHEET (Consolidated)					Fixed Assets Turnover (x)	1,225.7	820.4	8.9	2.1
Particulars	June'06	June'07	June'08E	June'09E	Working Capital Turnover (x)	68.7	13.1	2.5	4.0
Sources of Funds					(C) Measures of Investment				
Equity Capital	2.5	4.7	169.2	265.2	Earnings Per Share (Rs.) (excl EO)	29.0	532	3.5	8.4
Preference Capital	-	-	-	-	Earnings Per Share (Rs.)	29.0	532	3.5	8.4
Reserves (excl Rev Res)	4.8	40.0	169.0	1256.9	Cash Earnings Per Share (Rs.)	29.1	53.7	3.8	10.4
Net Worth	7.3	44.7	338.2	1522.1	Dividend Per Share (Rs.)	0.0	6.0	0.0	0.0
Revaluation reserve/Minority interest	-	-	-	-	Dividend Payout (%)	0.0	11.3	0.0	0.0
Secured Loans	-	-	-	-	Profit Ploughback (%)	100.0	88.7	100.0	100.0
Unsecured Loans	-	1.3	0.0	0.0	Book Value (Rs.)	29.2	14.9	10.0	28.7
Loan Funds	0.0	1.3	200.0	0.0	Return on Avg. Net Worth (%)	99.5	56.0	17.3	14.7
Deferred Tax Liability	0.0	0.0	0.0	0.0	Return on Avg. Cap. Employed (%)	202.1	762	16.3	21.0
Total Capital Employed	7.3	46.0	538.2	1522.1	Return on Cap. Employed (%) (Excl Cash & Invest.)	230.4	119.7	17.6	21.4
Applications of Funds					(D) Valuation Ratios				
Gross Block	0.406	1.0	101.0	1053.5	Market Price - Average (Rs.)	40.0	40.0	40.0	40.0
Less: Accumulated Depreciation	0.0	0.3	5.3	57.9	Price / Earnings Ratio - Average (x)	1.4	0.8	11.6	4.7
Net Block	0.4	0.7	95.7	995.6	Average Market Cap. (Rs. Mn.)	10.0	18.8	676.8	1,060.8
Capital Work in Progress	-	-	100.0	0.0	Market Capitalisation to Sales (x)	0.0	0.0	0.8	0.5
Investments					Enterprise Value (Rs. Cr.)	9.1	3.4	836.1	1,030.7
Current Assets, Loans & Advances					EV/Sales (x)	0.0	0.0	1.0	0.5
Inventories/WIP	-	502	50.0	150.0	EV/EBDITA (x)	0.6	0.1	9.0	2.8
Sundry Debtors	111.6	636	127.0	222.2	Market Price to Book Value (x)	1.4	2.7	4.0	1.4
Cash and Bank Balance	0.9	16.7	40.7	30.1	Dividend Yield (%)	0.0	15.0	0.0	0.0
Loans and Advances	6.6	34.3	75.0	75.0	(E) Growth Rates (%)				
Other Current Assets	-	-	50.0	50.0	Sales		232	466	148.5
<i>sub total</i>	119.1	164.8	342.7	527.3	Operating Profit (excl OI)		75.5	218.9	339.9
Less : Current Liabilities & Provisions					Gross Profit		306.2	150.8	320.4
Current Liabilities	110.7	108.5	0.2	0.8	PBT		304.3	138.2	282.6
Provisions	1.5	11.9			Net Profit		244.7	133.9	282.6
<i>sub total</i>	112.2	120.4	0.2	0.8	E-estimates				
Net Current Assets	6.9	44.4	342.5	526.6					
Misc Expenses	-	0.9	0.0	0.0					
Total Assets	7.3	46.0	538.2	1522.1					
E-estimates									

The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

DOLAT TEAM

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