Prime Focus

BSE SENSEX	S&P CNX
34,011	10,452
Bloomberg	PRIF IN
Equity Shares (m)	299
M.Cap.(INRb)/(USDb)	30.7 / 0.5
52-Week Range (INR)	135 / 76
1, 6, 12 Rel. Per (%)	-15/-8/0
Avg Val, INRm	22.0
Free float (%)	65.0

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	24.2	27.7	31.9
EBITDA	5.4	6.5	7.7
PAT	0.7	1.7	2.6
EPS (INR)	2.5	5.8	8.8
Gr. (%)	100.6	137.5	50.6
BV/Sh (INR)	23.8	37.9	46.7
RoE (%)	11.6	18.9	20.7
RoCE (%)	10.2	13.6	15.7
P/E (x)	41.7	17.6	12.9
P/BV (x)	4.3	2.7	2.2
EV/EBITDA (x)	7.7	5.6	4.2

Estimate change
TP change
Rating change

CMP: INR102 TP: INR130 (+27%) Buy

Creative business drives growth; robust order book augurs well

Meager growth in EBITDA, despite strong revenue: Revenue grew 20% YoY (+11.4% QoQ) to INR6.1b (in-line), led by robust growth in the Creative business. Yet, EBITDA (pre-ESOP) grew by a meager 4% YoY (+6% QoQ) to INR1.3b (8% miss) due to a 25% YoY rise in operating expenses. EBITDA margin contracted 320bp YoY (-120bp QoQ) to 20.9% (180bp). However, adjusted for one-offs (INR100m of forex translation accounting, and INR100m of Montreal set-up cost), EBITDA margin stood at 24.2%. Higher finance cost and depreciation led to a loss of INR87m (est. of profit of INR258m; INR227m profit in the year-ago period).

Creative business drives growth: Creative segment (~78% of revenue) rose 25% YoY to INR4.8b, led by growing offerings to movie content. Adj. EBITDA margin grew 230bp YoY to 26%. Also, Tech business reversed the previous quarter's negative trend, growing by 3% YoY to INR0.9b. However, higher SGA expenses led to a 360bp Tech margin contraction to 23.6%.

Robust order book augurs well: PRIF has a strong order book of USD250m+ for the creative segment. This, coupled with the gradual shifting of operations to low-cost centers, is likely to drive strong growth in the creative segment. Furthermore, a steady ~USD200m pipeline in the Tech business augurs well. We cut FY19/20E revenue/EBITDA by 2-3%, and expect consol. revenue/EBITDA CAGR of 15%/19% over FY18-20, led by a 21% EBITDA CAGR in Creative.

Maintain Buy with a TP of INR130: The stock trades at an attractive EV/EBITDA of 5.6x/4.2x on FY19/20E. Our SOTP-based valuation assigns 10x EV/EBITDA to Creative, 9x to Tech/Tech Enabled business, and 6x to India FMS business (given its low-growth profile). Ex-minority and 15% holdco. discount, we arrive at a TP of INR130. Maintain **Buy.**

Quarterly Performance (Consolidated)

Y/E March	FY17				FY18				FY17	FY18E	3Q	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			FY18E	var (%)
Net Sales	**5,262**	**4,665**	**5,072**	**6,537**	**5,135**	**5,473**	**6,096**	**7,451**	**21,536**	**24,154**	**6,102**	**-0.1**
YoY Change (%)	1.5	4.0	8.3	40.4	-2.4	17.3	20.2	14.0	13.3	12.2	20.3	
Total Expenditure	4,246	3,925	3,849	4,748	4,102	4,265	4,823	5,532	16,767	18,722	4,717	2.2
EBITDA	**1,016**	**740**	**1,223**	**1,790**	**1,033**	**1,207**	**1,273**	**1,919**	**4,769**	**5,432**	**1,385**	**-8.0**
Margins (%)	19.3	15.9	24.1	27.4	20.1	22.1	20.9	25.8	22.1	22.5	22.7	-180.7
Depreciation	690	701	653	502	645	708	758	709	2,546	2,821	724	4.6
Interest	303	325	229	421	376	362	453	449	1,279	1,641	235	92.9
Other Income	13	172	8	52	85	65	26	29	245	205	14	86.4
ESOP expense	6	53	113	84	115	139	42	43	256	340	123	-65.6
Foreign exchange gain/(loss)	10	-96	8	-336	22	149	-25	55	-414	200	50	-150.2
PBT before EO expense	**40**	**-264**	**244**	**498**	**2**	**211**	**21**	**801**	**519**	**1,035**	**367**	**-94.2**
Extra-Ord expense	-1,019	41	0	9	0	0	0	0	-968	0	0	
PBT	**1,059**	**-305**	**244**	**489**	**2**	**211**	**21**	**801**	**1,487**	**1,035**	**367**	**-94.2**
Tax	6	90	-38	32	-28	-8	91	152	90	207	94	**-2.7**
Rate (%)	0.6	-29.3	-15.4	6.5	-1,212.4	-3.9	432.2	19.0	6.0	20.0	25.6	
MI & P/L of Asso. Cos.	31	-34	55	71	21	41	16	17	123	95	15	
Reported PAT	**1,022**	**-361**	**227**	**387**	**10**	**178**	**-87**	**633**	**1,274**	**733**	**258**	**-133.6**
Adj PAT	**9**	**-308**	**227**	**395**	**10**	**178**	**-87**	**633**	**365**	**733**	**258**	**-133.6**
YoY Change (%)	-97.1	-3.8	-220.1	-122.7	4.8	LP	-138.2	60.1	LP	101.2	13.6	
Margins (%)	0.2	-6.6	4.5	6.0	0.2	3.2	-1.4	8.5	1.7	3.0	4.2	-564.1

Aliasgar Shakir – Research analyst (Aliasgar.Shakir@motilaloswal.com); +91 022 6129 1565
Hafeez Patel – Research analyst (Hafeez.Patel@motilaloswal.com); +91 22 3010 2611

Valuation and view

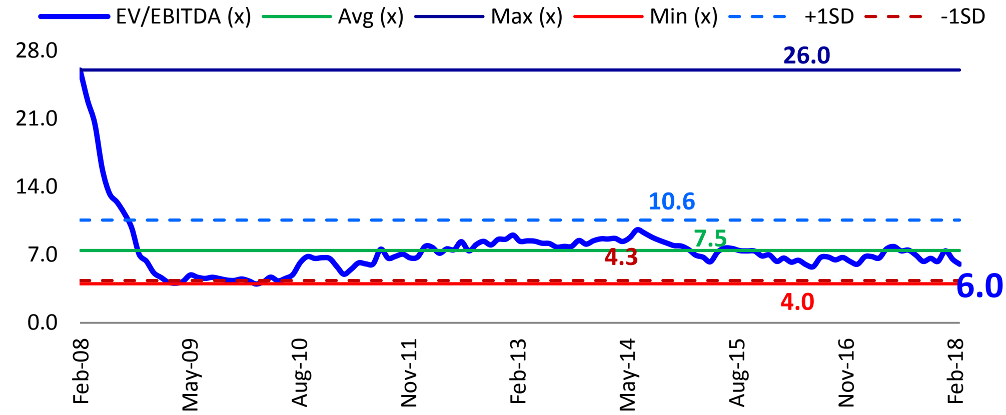
- Order book of USD250m+ for the Creative segment (led by robust demand for the VFX and animation business in Hollywood), coupled with the gradual shifting of operations to low-cost centers (expanded to Chennai), is expected to drive strong growth in the Creative segment revenue and margins. Further, a steady ~USD200m pipeline in Tech (led by additions to clientele), along with newer contracts (with existing client), augurs well.
- We expect consol. revenue/EBITDA CAGR of 15%/19% over FY18-20; expect RoCE to reach ~16% by FY20 (11% in FY17).
- The stock is trading at an attractive EV/EBITDA of 5.6x/4.2x on FY19/20E. Our SOTP-based valuation assigns 10x EV/EBITDA to Creative, 9x to Tech/Tech Enabled business, while the India FMS business is valued at 6x, given its low-growth profile. Ex-minority and 15% holdco. discount, we arrive at a TP of INR130. Maintain **Buy.**
- Implied P/E on our estimates works out to be 22x/16x on FY19/20E.

Exhibit 1: SOTP based on FY19E (INR m)

	EBITDA	EV / EBITDA (x)	Enterprise Value	Net Debt	SH Value	Ownership (%)	Propor-tionate SH Value	Value/ Share (INR) (Gross)	Holding company discount (%)	Value/ Share (INR) (Net)
Creative Services	4,807	10	48,068	2,966	45,102	80	36,082	121	15	103
Tech and Tech Enabled	1,042	9	9,381	2,561	6,821	74	5,047	17	15	14
Indian FMS	613	6	3,799	0	3,799	100	3,799	13	0	13
Total Value	**6,462**	**9**	**61,249**	**5,527**	**55,722**		**44,928**	**150**		**130**

Source: MOSL, Company

Exhibit 2: Prime Focus: EV/EBITDA band chart 1 year forward (x)



Source: Bloomberg, MOSL

Exhibit 3: Quarterly performance (INR m)

Particulars	3QFY17	2QFY18	3QFY18	YoY%	QoQ%	3QFY18E	v/s est (%)
Revenue	**5,072**	**5,473**	**6,096**	***20.2***	***11.4***	**6,102**	***-0.1***
Operating expenditure	3,849	4,265	4,823	*25.3*	*13.1*	4,717	*2.2*
EBITDA (pre ESOP)	**1,223**	**1,207**	**1,273**	***4.1***	***5.5***	**1,385**	***-8.0***
EBITDA margin (%)	***24.1***	***22.1***	***20.9***	***-323bps***	***-117bps***	***22.7***	***-181bps***
ESOP expense	*113*	*139*	*42*	*-62.7*	*-69.7*	*123*	*-65.6*
Forex gain/(loss)	*8*	*149*	*-25*	*-397.1*	*-116.9*	*50*	*-150.2*
Depreciation and amortization	653	708	758	*16.0*	*7.0*	724	*4.6*
Finance Costs	229	362	453	*97.6*	*25.1*	235	*92.9*
Other income	8	65	26	*219.8*	*-59.9*	14	*86.4*
Profit before Tax (before EO)	**244**	**211**	**21**	***-91.3***	***-90.0***	**367**	***-94.2***
Exceptional items	0	0	0	*NA*	*NA*	0	*NA*
PBT	244	211	21	*-91.3*	*-90.0*	367	*-94.2*
Tax	-38	-8	91	*-342.4*	*-1216.2*	94	*-2.7*
Tax rate (%)	*-15.4*	*-3.9*	*432.2*	*44765bps*	*43609bps*	*25.6*	*40659bps*
Profit after Tax	**282**	**219**	**-70**	***-124.9***	***-132.1***	**273**	***-125.7***
Minority Interest	55.1	41.1	16.3	*-70.5*	*-60.4*	15.4	*5.8*
PAT	**227**	**178**	**-87**	***-138.2***	***-148.7***	**258**	**-133.6**
Adjusted PAT	**227**	**178**	**-87**	***-138.2***	***-148.7***	**258**	**-133.6**

Operating expenses break-up	3QFY17	2QFY18	3QFY18	YoY%	QoQ%	3QFY18E	v/s est (%)
Employee cost (incl Technician fees)	2,760	3,162	3,477	*26.0*	*10.0*	3,533	*-1.6*
Other expenditure	1,089	1,103	1,345	*23.6*	*22.0*	1,184	*13.6*
Total operating expenses	3,849	4,265	4,823	*25.3*	*13.1*	4,717	*2.2*

Source: Company, MOSL

Earnings Call Highlights

- Debt of INR1.9b maturing in Nov-18 is likely to be repaid from the warrant funding.
- Management has guided for ~INR3-4b reduction in gross debt (INR15.5b as on Dec-17).
- Additional finance cost of INR55m (redemption premium on SCPE NCDs) to continue till the NCDs get repaid.
- Capex for FY18 is expected to be ~INR1.7b. For FY19, management has guided for ~USD25-30m capex.
- Depreciation expense (excluding one-off of INR80m) to continue at similar levels.
- Total ESOP expense is ~INR110m, of which, INR40m will be recognized in 4QFY18 and balance INR70m in FY19.
- Debtor stands at INR4.5b, including unbilled revenue.
- Provisioning for debtors during the quarter was INR100m.
- Operating cash flows for 9MFY18 stands at INR1.85b.

Exhibit 4: Summary of estimate change

	FY18E	FY19E	FY20E
Revenue (INR b)			
Old	24.7	28.4	32.8
New	24.2	27.7	31.9
Change (%)	*-2%*	*-2%*	*-3%*
EBITDA (INR b)			
Old	5.5	6.5	7.8
New	5.4	6.5	7.7
Change (%)	*-1%*	*-1%*	*-2%*
EBITDA margin (%)			
Old	22.3	23.0	23.8
New	22.5	23.3	24.0
Change (bp)	*22*	*26*	*25*
PAT (INR b)			
Old	1.0	1.8	2.7
New	0.7	1.7	2.6
Change (%)	*-24%*	*-5%*	*-4%*

Source: MOSL, Company

Story in charts

Exhibit 5: Revenue and EBITDA margin trend

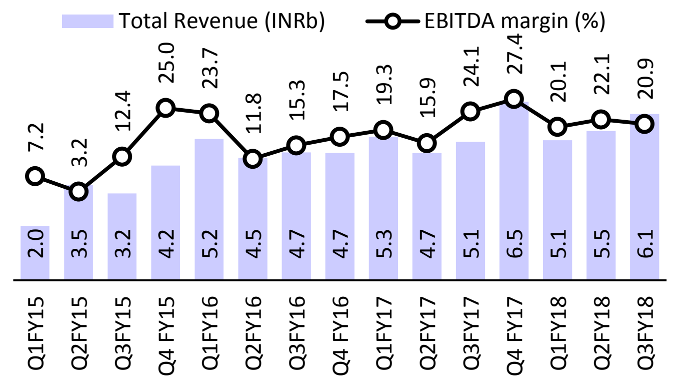


Exhibit 6: Revenue and EBITDA margin to increase steadily over FY18-20

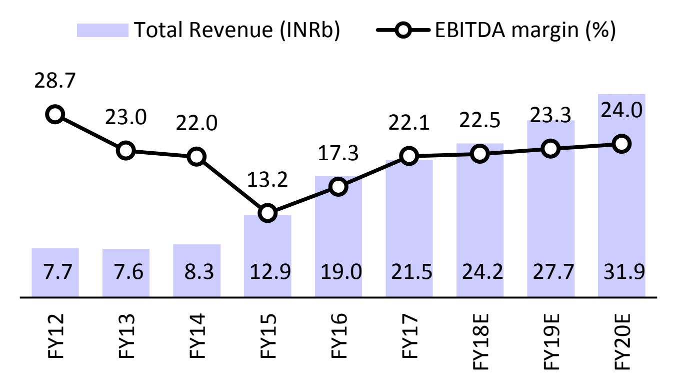


Exhibit 7: Creative services revenue and EBITDA margin trend

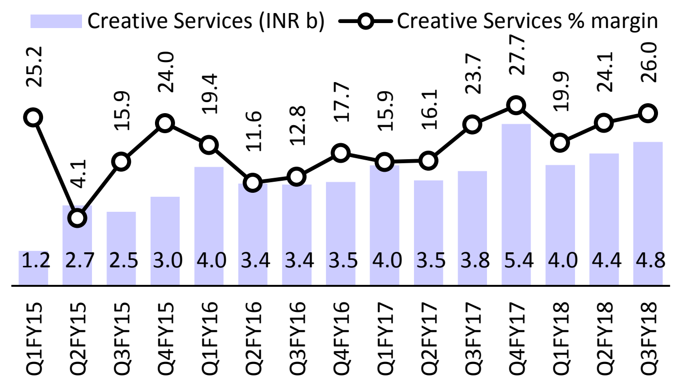


Exhibit 8: Creative services to steer growth

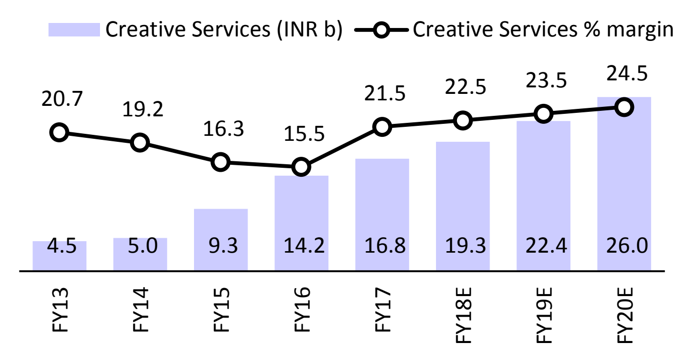


Exhibit 9: Tech/Tech Enabled revenue and EBITDA margin trend

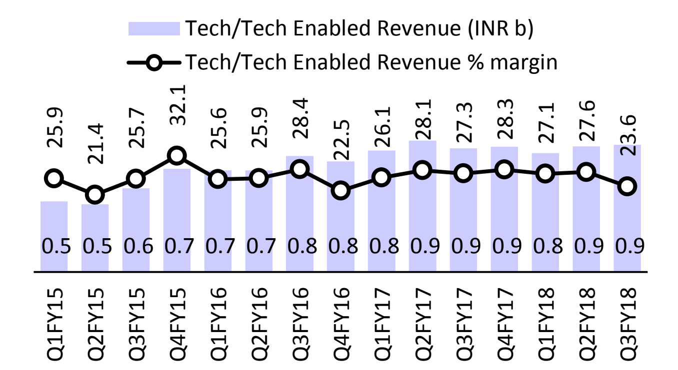


Exhibit 10: Tech segment to witness an uptick

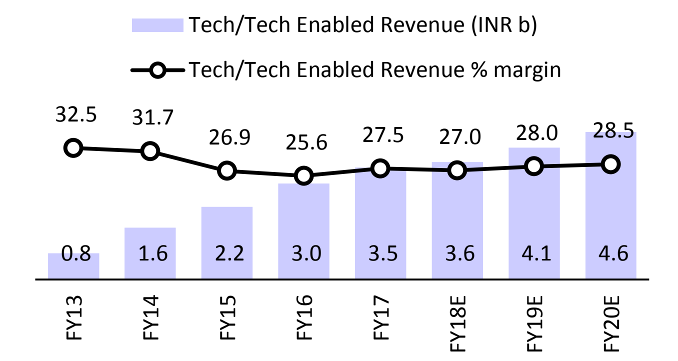
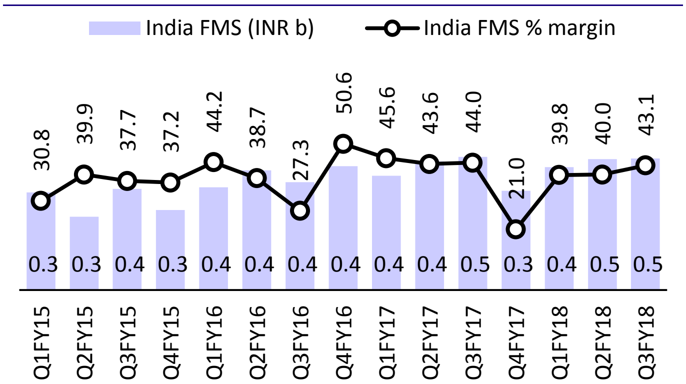
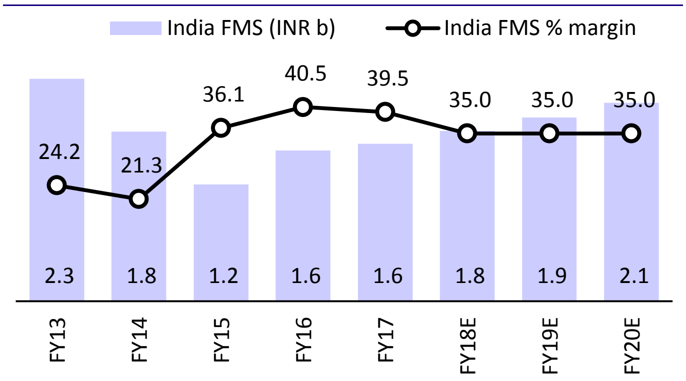


Exhibit 11: India FMS revenue and EBITDA margin trend



Source: MOSL, Company

Exhibit 12: India FMS margins to remain steady at ~35%



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement (INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	**7,622**	**8,348**	**12,889**	**19,010**	**21,536**	**24,154**	**27,738**	**31,867**
Change (%)	-1.3	9.5	54.4	47.5	13.3	12.2	14.8	14.9
Employees Cost	3,850	4,099	8,133	11,560	12,533	14,162	15,720	17,449
Other Expenses	2,019	2,409	3,053	4,153	4,233	4,560	5,556	6,755
Total Expenditure	**5,869**	**6,508**	**11,186**	**15,713**	**16,766**	**18,722**	**21,276**	**24,204**
% of Sales	77.0	78.0	86.8	82.7	77.9	77.5	76.7	76.0
EBITDA	**1,753**	**1,840**	**1,703**	**3,297**	**4,770**	**5,432**	**6,462**	**7,663**
Margin (%)	23.0	22.0	13.2	17.3	22.1	22.5	23.3	24.0
ESOP	0.0	0.0	0.0	37.0	257.0	340.0	70.0	0.0
Foreign exchange gain/(loss)	67.5	292.4	80.5	-38.9	-413.9	200.0	150.0	100.0
Depreciation	999	1,038	1,716	2,796	2,546	2,821	3,047	3,304
EBIT	**821**	**1,095**	**67**	**425**	**1,553**	**2,472**	**3,495**	**4,459**
Int. and Finance Charges	418	512	648	1,074	1,279	1,641	1,529	1,250
Other Income	107	66	277	51	245	204	450	673
PBT bef. EO Exp.	**510**	**649**	**-304**	**-598**	**519**	**1,035**	**2,416**	**3,882**
EO Items	-1,077	-86	-971	-2,428	968	0	0	0
PBT after EO Exp.	**-567**	**564**	**-1,275**	**-3,026**	**1,488**	**1,035**	**2,416**	**3,882**
Total Tax	-398	232	-296	696	90	207	483	970
Tax Rate (%)	70.2	41.1	23.2	-23.0	6.0	20.0	20.0	25.0
Minority Interest	35	-1	-106	-501	123	95	193	291
Reported PAT	**-204**	**333**	**-873**	**-3,221**	**1,275**	**733**	**1,740**	**2,620**
Adjusted PAT	**117**	**383**	**-127**	**-234**	**365**	**733**	**1,740**	**2,620**
Change (%)	-88.5	227.8	-133.3	84.1	-255.8	100.6	137.5	50.6
Margin (%)	1.5	4.6	-1.0	-1.2	1.7	3.0	6.3	8.2

Consolidated - Balance Sheet (INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	185	185	299	299	299	299	299	330
Eq. Share Warrants & App. Money	0	0	0	0	0	825	3,300	0
Total Reserves	5,358	7,289	10,819	3,783	5,266	5,999	7,738	13,627
Net Worth	**5,543**	**7,474**	**11,118**	**4,082**	**5,565**	**7,122**	**11,337**	**13,957**
Minority Interest	641	1,618	1,540	700	1,142	1,237	1,430	1,721
Total Loans	7,066	8,244	10,375	15,710	14,402	14,902	12,902	10,902
Deferred Tax Liabilities	-471	-368	-492	822	687	687	687	687
Capital Employed	**12,779**	**16,969**	**22,542**	**21,314**	**21,795**	**23,948**	**26,356**	**27,268**
Gross Block	12,302	15,311	24,826	23,533	23,868	25,618	27,368	29,118
Less: Accum. Deprn.	3,685	4,722	11,478	10,009	11,114	13,934	16,981	20,286
Net Fixed Assets	**8,617**	**10,589**	**13,348**	**13,524**	**12,755**	**11,684**	**10,387**	**8,833**
Goodwill on Consolidation	0	0	8,030	9,698	9,719	9,719	9,719	9,719
Capital WIP	269	127	445	508	197	197	197	197
Total Investments	**1**	**1**	**857**	**888**	**40**	**40**	**40**	**40**
Curr. Assets, Loans & Adv.	**5,678**	**8,078**	**10,616**	**8,833**	**10,302**	**13,756**	**18,779**	**22,273**
Inventory	4	0	6	6	5	5	5	5
Account Receivables	2,549	3,675	3,756	1,911	2,694	2,647	3,040	3,318
Cash and Bank Balance	491	531	616	1,134	1,259	3,825	7,376	9,347
Loans and Advances	2,634	3,872	6,238	5,781	6,344	7,279	8,359	9,604
Curr. Liability & Prov.	**1,786**	**1,826**	**10,754**	**12,137**	**11,217**	**11,448**	**12,766**	**13,794**
Account Payables	610	842	2,505	2,012	1,297	1,654	1,900	2,183
Other Current Liabilities	1,162	967	8,099	10,056	9,664	9,596	10,639	11,350
Provisions	14	18	150	69	257	198	227	261
Net Current Assets	**3,892**	**6,252**	**-138**	**-3,304**	**-915**	**2,308**	**6,013**	**8,479**
Appl. of Funds	**12,779**	**16,969**	**22,542**	**21,314**	**21,795**	**23,948**	**26,356**	**27,268**

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	**0.6**	**2.1**	**-0.4**	**-0.8**	**1.2**	**2.5**	**5.8**	**7.9**
Cash EPS	6.0	7.7	5.3	8.6	9.7	11.9	16.0	18.0
BV/Share	18.5	25.0	37.2	13.7	18.6	23.8	37.9	46.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E			-240.2	-130.5	83.8	41.7	17.6	12.9
Cash P/E			19.3	11.9	10.5	8.6	6.4	5.7
P/BV			2.8	7.5	5.5	4.3	2.7	2.2
EV/Sales			3.1	2.4	2.0	1.7	1.3	1.0
EV/EBITDA			23.7	13.7	9.2	7.7	5.6	4.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-3.9	-10.9	-3.0	-1.9	2.3	9.0	13.9	15.2
Return Ratios (%)								
RoE	2.2	5.9	-1.4	-3.1	7.6	11.6	18.9	20.7
RoCE	2.4	4.8	1.4	2.8	8.5	10.2	13.6	15.7
RoIC	2.0	3.3	-0.1	3.1	10.7	10.4	14.1	17.9
Working Capital Ratios								
Fixed Asset Turnover (x)	0.6	0.7	0.6	0.9	0.9	0.9	1.0	1.0
Asset Turnover (x)	0.7	0.6	0.7	1.0	1.0	1.0	1.0	1.1
Debtor (Days)	131	136	105	54	39	40	37	36
Creditor (Days)	50	32	47	43	28	22	23	23
Leverage Ratio (x)								
Current Ratio	3.2	4.4	1.0	0.7	0.9	1.2	1.5	1.6
Interest Cover Ratio	2.0	2.1	0.1	0.4	1.2	1.5	2.3	3.6
Net Debt/Equity	1.2	1.0	0.8	3.4	2.4	1.5	0.5	0.1

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY13	FY14	FY15 (15M)	FY16 (9M)	FY17	FY18E	FY19E	FY20E
Net Profit/(Loss) before Tax	-567	564	-2,806	-3,006	1,487	1,035	2,416	3,882
Depreciation	999	1,038	2,211	2,031	2,546	2,821	3,047	3,304
Interest & Finance Charges	418	512	668	2,620	1,279	1,641	1,529	1,250
Direct Taxes Paid	-120	-232	-287	-154	-80	-207	-483	-970
(Inc)/Dec in WC	-1,742	-2,320	702	-1,272	-2,069	-658	-154	-495
CF from Operations	**-1,011**	**-438**	**490**	**220**	**3,163**	**4,632**	**6,355**	**6,971**
Others	1,186	36	1,638	76	-251	-204	-450	-673
CF from Operating incl EO	**174**	**-402**	**2,127**	**296**	**2,912**	**4,428**	**5,904**	**6,298**
(Inc)/Dec in FA	-1,335	-2,867	-3,025	-870	-2,238	-1,750	-1,750	-1,750
Free Cash Flow	**-1,160**	**-3,269**	**-898**	**-574**	**674**	**2,678**	**4,154**	**4,548**
(Pur)/Sale of Investments	2	0	-34	-1	1,917	0	0	0
Others	13	66	-1,137	108	-354	204	450	673
CF from Investing Activity	**-1,320**	**-2,801**	**-4,197**	**-762**	**-674**	**-1,546**	**-1,300**	**-1,077**
Issue of Shares/warrants	2,825	2,577	2,394	0	0	825	2,475	0
Inc/(Dec) in Debt	-643	1,178	798	1,919	-825	500	-2,000	-2,000
Interest Paid	-489	-512	-650	-685	-1,047	-1,641	-1,529	-1,250
Others	-370	0	2	12	-15	0	0	0
CF from Fin. Activity	**1,323**	**3,243**	**2,544**	**1,246**	**-1,887**	**-316**	**-1,054**	**-3,250**
Inc/Dec of Cash	**177**	**40**	**475**	**780**	**351**	**2,566**	**3,550**	**1,971**
Opening Balance	313	491	141	355	908	1,259	3,825	7,376
Closing Balance	**491**	**531**	**616**	**1,134**	**1,259**	**3,825**	**7,376**	**9,347**

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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