

DQ Entertainment Ltd

Issue Highlights

- DQ Entertainment Ltd (DQE), headquartered in Hyderabad, produce animation, visual effects, game art and entertainment content for the Indian as well as global media and entertainment industry. The company has forayed into production and distribution of live action television and feature films. The company's revenue flow through licensing and distribution activities with an asset base of over 350 hours of animation content.
- The company launched its first home-produced 3D CGI television series "The Jungle Book" based on Rudyard's Kipling's novel, followed by three special TV features "Balkand", "Omkar" and "Ravan" based on Indian mythology.
- DQE has a client base of over 90 companies which include internationally recognized brands such as, inter alia, the Disney Group, Nickelodeon, American Greetings, BBC, Moonscoop Group, ZDF-Germany, Australian Broadcasting Corporation and NBC Universal
- DQE has an order book worth ~Rs.4.5bn. Out of which, about 40% of the order book are at various stages of production, while the rest are due for commencement. More than 80% of FY10 revenues have already been factored in with the executed orders. About Rs.1.3bn of the orders are to be executed in FY10E and the balance beyond FY10.
- The company has 10 production facilities in India (8 in Hyderabad and 1 each in Mumbai and Kolkata) and has wide-reaching presence through third-party sales representatives in Paris, Tokyo and Los Angeles.
- DQE enjoys healthy margins at 39.1% for H1FY10, compared to its peers. With the Indian animation industry (estimated at, \$494mn in 2008) expected to grow at a CAGR of 22% between 2008-12 to reach \$1bn industry by 2012, DQE stands a clear chance to capitalize on with its strong operational performance and a healthy order book portfolio along with strong clientele base with higher sustainable margins.
- At the price band of Rs.75-80, the stock trades at a P/BV of 3.24-3.31x on book value Rs.23.2-24.2 post dilution. The stock quotes at PE of 29.1-31.2x its FY10E annualized EPS of Rs.2.6. Looking at the operational efficiency with high growth opportunity in the animation industry, along side its healthy revenue opportunity augers well for the company, hence we believe DQE provides a good opportunity for investors and recommend "Subscribe at cut-off" to the issue.

Objects of the issue

Particulars	(Rs. Mn)	Funds Requirement
■ Investment in co-production agreements, focusing on IP content creation		1049.7
■ Development of office premises and production facilities; Development of infrastructure and additional facilities at the SEZ Unit, Kokapet Village		519.2
■ Investment in our Subsidiary, DQ Entertainment (Ireland) Ltd		145.9
■ General Corporate Purposes		[.]
Total		[.]

Financial Summary (Rs. Mn)

Y/E	Total Income	PAT	Equity Capital	EPS	BV	P/BV	Mcap	CMP
H1FY10	1,058.2 [#]	203.3 [#]	792.8*	2.6 [#]	23.2-24.2	3.24-3.31	5946-6343	75-80

* Post Dilution /# EPS Annualised,

Issue Details

Issue Size (At Lower Band)	: Rs.1203.6mn
Issue Size (At Upper Band)	: Rs.1283.8mn
Face Value	: Rs.10
Issue Opens on	: 8th March, 2010
Issue Closes on	: 10th March, 2010
Price Band	: Rs.75 - Rs.80
Bid Lot	: 80 shares and in multiples thereof

Lead Managers

SBI Capital Markets Limited

Shareholding Pattern (%)

	Pre Issue	Post-Issue
Promoter & Promoter Group	94.0	75.0
Financial Institutions	4.6	3.7
Non-Institutions	1.3	1.5
Public	-	19.8

Pattern of Book -Building

	(No. of Shares)
Total Issue Size	15,727,000
Issue Break Up:	
QIB Portion (60%)	9,436,200
Non-Institutional (10%)	1,572,700
Retail Portion (30%)	4,718,100
Employee Reservation Portion	321,011

Financial Performance

Y/E March	H1FY10	2009
Total Sales	705.5	1,498.20
Total Expenditure	479.3	972.2
Operating Profits	181.5	384.4
OPM %	27.5	28.3
Other Income	32	10.9
EBITDA	258.2	536.9
EBITDA %	39.1	39.6
Interest	26.7	55.6
Depreciation	123.8	282.2
PBT	108.4	199.1
PAT	101.7	160.5
NPM %	15.4	11.8
EPS	1.7	2.7

Source: RHP

Contd...

COMPANY PROFILE

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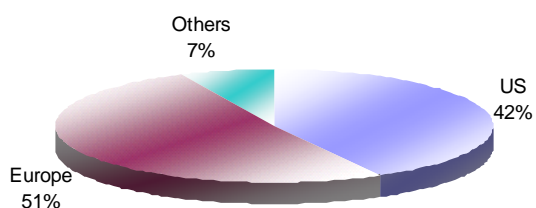
The company has set up the DQ School of Visual Arts in FY08 to train people and produce high quality animation and gaming professionals. The School has, centres at Hyderabad, Mumbai and Kolkata. Since its inception, the school has trained about 715 people.

Financial Performance

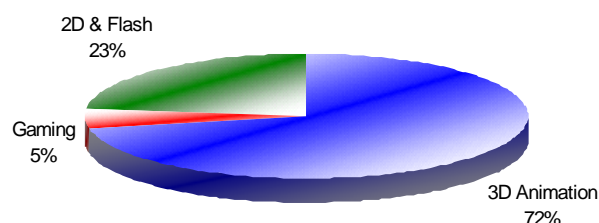
The company has registered Rs.1.5bn consolidated revenues for FY09, accompanied by EBITDA margins at 39%. Most of the revenues (91%) of the company in FY09 were from television production. Licensing and distribution activities contributed 5% of revenues, while full motion video and game development contributed 4%.

The company has high dependence on the European and American geographies, which together have contributed over 90% to the revenues over FY08 and FY09. Around 72% of the work in FY09 was from 3-D animation, whilst low margin 2-D animation services accounted for the remaining 28%.

Geographical Break up



Segment Revenue



Source: RHP

Contd...

ISSUE PROFILE

Investment Positives

Diversified Revenue flows

DQE's generates revenues through two main streams comprising of production and licensing & distribution revenues and each of the two have various sub-streams. Service revenues comprise revenues from traditional 2D animation, digital 2D animation, 3D animation and 3D game art. IP exploitation revenues comprise revenues from licensing for free and pay televisions, cable television, home videos, DTO, publishing, merchandising and distribution.

DQE's strategy to get into co-production arrangements enables it to continue to receive production revenues generating its production margin, and alongside acquire rights to earn license revenues and also entering into intellectual property ownership & distribution.

Healthy Order Book

DQE has an order book worth ~Rs.4.5bn. Out of which, about 40% of the order book are at various stages of production, while the rest are due for commencement. More than 80% of FY10 revenues have already been factored in with the executed orders. About Rs.1.3bn of the orders are to be executed in FY10E and the balance beyond FY10.

Global client base

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Flexible and in-house animation techniques

The company has the flexibility to produce different styles of animation including traditional 2D animation, technology based 2D digital and 3D animation through its several in-house animation techniques and technologies providing an edge over its competitors.

Investment Concerns

Piracy of content

Piracy of animated content, including digital and Internet piracy is made easier by technological advances. Hence, unauthorized copies and piracy of these products will have an adverse affect to the business causing revenue loss

Heavy dependence on clients from US and European regions

The Company's revenue contribution from the US and European nations for FY09 were 41.57% (40.62% for FY08) and 51.18% (58.81% for FY08) respectively. Hence, loss of a major client going into financial distress or a reduction in the services performed for such a major client could result in a reduction of its revenues and also is exposed to high currency fluctuation concern.

Business Outlook

With the Indian animation industry (estimated at, \$494mn in 2008) expected to grow at a CAGR of 22% between 2008-12 to reach \$1bn industry by 2012, DQE stands a clear chance to capitalize on with its strong operational performance and a healthy order book portfolio along with strong clientele base with higher sustainable margins.

At the price band of Rs.75-80, the stock trades at a P/BV of 3.24-3.31x on book value Rs.23.2-24.2 post dilution. The stock quotes at PE of 29.1-31.2x its FY10E annualized EPS of Rs.2.6. Looking at the operational efficiency with high growth opportunity in the animation industry, along side its healthy revenue opportunity augers well for the company, hence we believe DQE provides a good opportunity for investors and recommend "Subscribe at cut-off" to the issue.

COMPANY FINANCIALS

Profit & Loss Statement

(Rs. In Mn)

Y/E March	Consolidated		Standalone		For the period from 13 April 2007 to 31 March 2008
	H1FY10	2009	H1FY10	2009	
INCOME					
Animation	660.8	1,356.6	612.5	1,356.6	818.2
Gaming	1.2	67.0	1.2	67.0	65.6
Distribution	43.5	74.6	43.5	74.6	38.3
Total Sales	705.5	1,498.2	657.2	1,498.2	922.1
Total Expenditure	479.3	972.2	434.6	971.9	694.0
Operating Profits	181.5	384.4	177.9	384.7	124.2
OPM %	27.5	28.3	29.1	28.4	15.2
Other Income	32.0	10.9	32.9	10.9	23.6
EBITDA	258.2	536.9	255.5	537.2	251.7
EBITDA %	39.1	39.6	41.7	39.6	30.8
Interest	26.7	55.6	25.7	55.6	43.4
Depreciation	123.8	282.2	122.1	282.2	127.3
PBT	108.4	199.1	107.1	199.4	81.0
PAT	101.7	160.5	102.6	160.9	70.0
NPM %	15.4	11.8	16.7	11.9	8.6
EPS	1.7	2.7	1.7	2.7	1.2

Balance Sheet Statement

(Rs. In Mn)

Y/E March	Consolidated		Standalone		For the period from 13 April 2007 to 31 March 2008
	H1FY10	2009	H1FY10	2009	
APPLICATION OF FUND					
A. Fixed Assets					
Gross Block	1,753.9	1,350.4	1,697.0	1,350.4	1,002.6
Less: Depreciation	668.6	586.8	666.8	586.8	356.1
Net Block	1,085.4	763.6	1,030.2	763.6	646.5
Capital Work in Progress	441.6	626.7	441.6	626.7	357.4
Sub – Total	1,527.0	1,390.3	1,471.8	1,390.3	1,003.9
B. Current Assets, Loans & Ad.					
Unbilled Revenue	196.1	184.0	146.4	184.0	208.5
Sundry Debtors	543.4	415.7	597.0	415.7	231.3
Cash & Bank Balances	76.4	105.4	70.7	105.4	429.3
Loans and Advances	195.1	89.0	62.0	93.5	79.2
Sub - Total	1,011.0	794.1	876.1	798.6	948.4
C. Total Assets (A+B)	2,538.0	2,184.4	2,347.8	2,188.9	1,952.3
SOURCES OF FUND					
D. Liabilities and Provisions					
Secured Loans	273.2	364.7	273.2	364.7	403.7
Unsecured loans	104.9	-	-	-	-
Current Liabilities	508.4	255.0	440.7	254.7	169.7
Provisions	89.1	91.0	88.3	95.5	78.3
Sub- Total	975.6	710.7	802.2	714.9	651.6
E. Deferred Tax Liability/(Asset)	-	12.5	-	12.5	-
F. =(C-D+E)	1,562.4	1,461.2	1,545.6	1,461.5	1,300.7
I. Net Worth					
Represented by					
Share Capital	594.6	16.3	594.6	16.3	16.3
Reserves & Surplus	967.8	1,445.0	967.7	1,445.2	1,284.4
Net Worth	1,562.4	1,461.2	1,562.3	1,461.5	1,300.7

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833

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