

**SCS****Indian Technology Investments****India – Media Sector****Galaxy Multimedia Ltd. (Rs 10)****SUBSCRIBE****Latest Planet in the Media Universe**

- GML offers a balanced exposure to the entire business spectrum of the Indian Media Sector. GML is well positioned as a strategic **ONE-STOP MEDIA SHOP** that encompasses T.V serials, Music video production, post-production and multimedia offerings. GML is in the **advanced stages** of delivery for most of its service offerings.
- GML has tied up with **Zee Telefilms** for its T.V serial **“Hotel Hindustan”** which is **expected to go on air soon**, with a **Leading Indian music production company** for music videos for an upcoming Indian music band and with **Schoolnet India** for multimedia CBT titles.
- We expect GML to generate cash profits from the **first year of operations** itself, enabled due to the **low gestation period** and **advanced stages of order delivery**. We expect GML’s FY01 revenues at Rs 142.2m and a PAT of Rs 32.2m.
- We expect a **46.7% surge in the EPS** from Rs 3.2 in FY01 to Rs 4.7 in FY02 and further by **45.8% to Rs 6.7 in FY03**. A unique one-stop media shop setup and professional workflow methodology, we believe will lead to better valuations of GML’s business model vis-à-vis peers in the Indian media sector. **SUBSCRIBE.PriceTarget(12months):Rs100**

**Results and estimates**

Year-end	Revenue	Net profit	Chg.	EPS	Chg.	P/E	FV/EBITDA	P/CE
31-Mar	(Rs m)	(Rs m)	(%)	(Rs)	(%)	(x)	(x)	(X)
FY01E	141.2	32.1	0.0	3.2	0.0	3.2	11.6	2.2
FY02F	202.2	47.1	46.7	4.7	46.7	2.1	7.2	1.7
FY03F	271.7	68.7	45.8	6.9	45.8	1.4	4.8	1.2

<sup>a</sup> Rs in millions. SCS-ETG Estimates & Company Draft Prospectus. Source: SCS-ETG.

**Key data**

Mkt. cap: Rs 100.5m / USD 2.3m	Issued shares: 10.1m	52-week avg. daily volume: N/A	Reuters code: N/A
Exchange rate: 43.5	52-week price range: N/A	Major shareholders: Promoters – 75%, I.P.O-25%	Bloomberg code: N/A

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## INDUSTRY SCENARIO

**Satellite players are driving the demand.**

Major Television broadcasters such as Zee Telefilms, Sony Entertainment and Star Channels have now **established 24-hr programming** in India. This has led to an **unabated surge in demand for quality TV software's, Ad-films and quality Post-Production Houses (PPH).**

**Crash in TV prices has caused an unprecedented surge in fresh viewership.**

Indian viewers have taken full advantage of the recent television price wars by either upgrading or making fresh purchases of television sets. The new-for-old exchange schemes have increased the pervasiveness of the used televisions into lower middle-class families. This has led to fresh creation of viewer pipelines for T.V broadcasters to push through TV software's. In effect the buoyant demand for TV software's will allow the producers to maintain their margins with attractive growth rates.

**Many PPH outfits yet a void exists**

The demand for TV serials drives the demand for post-production jobs. The market for **post-production is estimated at Rs 1000 crores** and is growing at a **pace of 20%** per annum. The TV Serial production and Post-Production sectors are highly fragmented and are typically Sole-proprietary units dedicated to a particular producer or serial. A significant void yet exists for a **Professionally managed, fully Digital One-Stop Media Shop.**

**Demand shift to high-end Post-Production**

The demand for TV software has seen a **sea change** in the **production quality** aspects; also ad-film makers are increasingly utilizing **multimedia** for **ad-differentiation**. These needs cannot be catered to via the existing setup of PPH's. We expect these jobs to be channeled to digitally-savvy and professional PPH's.

**GML is well positioned to benefit**

The TV Serial and Music Video software is currently a Rs 2.7b market and is growing at a pace of over 30% each year. The Post Production business is typically 24hrs x 7 days a week in nature, as the demand for post-production jobs can arise at any given time. GML will be strategically positioned to gain from this industry situation. Better quality and professional services and premium positioning will enable GML to earn better margins over its peers in the long run. We also expect the receivables cycle to remain at par with peers for the initial stages of the project and improving steadily going forward.

**KEY INVESTMENT CONSIDERATIONS****Professional  
& Committed  
Management**

The Managing Director of Galaxy Multimedia has over two decades experience in the Industry and several years in the Film & Entertainment business. He has acquired extensive experience as advisor to Prime Focus Pvt. Ltd., in setting up post production facilities and liasoning with TV Channels like ZEE TV and SONY. He has been instrumental for the commissioning of a television serial "Hotel Hindustan" of 52 episodes via a partnership with Prime Focus and Galaxy Multimedia Ltd. Naresh Malhotra, is a well known industry figure and has been the production controller of many blockbuster films. Arun Singhania, Executive Production is vastly experienced and has accumulated the same with reputed media/animation and hardware suppliers such as Prasad Video Digital, TV18 and Tata Elxsi (I) Ltd. The promoters of GML have showed a strong commitment in the form of bringing in Rs 51mln out of the Rs 100.5m equity capital required for the project.

**One-Stop  
Media Shop**

Other PPH's currently are either unorganized or near obsolescence and few have fully digital capabilities. Existing PPH's are unable to keep up with the production quality and high-tech requirements of the industry. GML is uniquely positioned with a single point delivery system for TV Software, Post-production and Multimedia CBT (Computer Based Training) titles. GML plans to setup a 4260 sq. ft. state-of-the-art post-production unit that will be comparable to none in the Industry. The open-architecture based system allows flexibility towards adopting future changes in post-production technology. The facility is of strategic advantage to GML as an in-house production facility enabling better margins for its TV Software revenue. Externally it will command a premium for its services than other PPH's, as it reduces the time-to-market for producers with the high levels of quality desired.

**A Wild Card**

T.V serial producers have two options on the acceptance of their pilot serial. The producer can, either air his serial on the national channel DD, receive Free Commercial Time (FCT) of 150 seconds per 30-minute episode and market this to advertisers. Alternatively a producer could air his serial via Cable & Satellite (C&S) players-ZEE TV, SONY or Star TV who buy out the serial/concept and pay a negotiated sum per episode. While in the former model one can increase ad-rates depending on the success of the show, with the C&S players any success attracts a pre-negotiated bonus. However in the reverse situation, an unsuccessful serial could be a drain on internal resources in dealing with DD, whereas with C&S players the downside is factored into the pricing of the serial. Further airing a serial on DD requires payment of telecasting charges. GML has successfully marketed "Hotel Hindustan" to ZEE TV and the same is expected to air by late Dec '99. GML plans to outrightly sell the TV serial to avoid any immediate risk and telecasting costs etc. In the long run however we expect GML to lease out the serial and hold the rights of the serial/concept and thereby create a program library.

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### Industry Comparative

	<i>Sri Adhikari Brothers</i>	<i>Crest Communications</i>	<i>Galaxy Multimedia*</i>
TV Serial/Music Video/Ads <b>(%age of FY01 Revenues)</b>	100.0%	22.3%	53.0%
Animation and Multimedia <b>(%age of FY01 Revenues)</b>	0.0%	26.3%	14.0%
Post-Production Jobs <b>(%age of FY01 Revenues)</b>	Outsourced	50.4%	33.0%
In-house PPH	Outsourced	Yes	Yes
Fully Digital PPH	-	No	Yes
Open System Setup	-	No	Yes
Professional Management	Family-Run	Yes (Recently)	Yes
Promoter Holding	39.8%	48.0%	51.0%
* - all figures for GML are SCS estimates			

### Comparison – Post Production Facility

	<i>Crest Communications</i>	<i>United Studios Ltd.</i>	<i>Galaxy Multimedia</i>
Telecine	URSA Gold	URSA Gold	URSA Diamond
Offline Editing(A)	Linear (C)	Linear (C)	Fully Digital (O)
Online Editing(A)	Fire	Fire (2 Units)	Fire on Onyx 2
Audio Suite(DL)	Non-Integrated	Non-Integrated	Digidesign/ Protocol/Mix24+
Graphic Suite(DL)	Quantel (C)	Flint / Animo (O)	Flint / Animo (O)
2D	SoftImage	SoftImage	Maya / 3D Max+
3D	Digibeta, Beta	Digibeta, Beta	Digibeta, Beta
Output	170+ approx.	270+ approx.	40-45
Technical Staff (FY00)	33.6	N.A	4.9
Salaries and Wages (Rs mln)			

**(C) – Close sys; (O) – Open sys; \*(A)-Autodesk; (DL)-Discreet Logic; (+)-Latest. Ver**

Autodesk has now merged with Discreet Logic; thus the integrated set-up stems from the products offering of Autodesk and Discreet Logic for post production. Integration of the other activities with the set-up is the pioneering effort of Galaxy Multimedia.

**SCS****Indian Technology Investments****BUSINESS DIVISIONS**

**TV Serials/Music Video Production will remain the major contributor to GML revenues**

***TV Serials / Music Videos Production (53% of FY01 Revenues)***

Galaxy Multimedia has already tied-up with ZEE TV for its first TV serial "Hotel Hindustan" a joint-effort between Galaxy Multimedia and Prime Focus. The company has sold 10 episodes of the same and the remainder is currently under production and will be aired on an ongoing basis. The serial is slated to air in early Dec '99, the company plans to produce 5 TV serials or 260 episodes by FY01. We expect TV Serials to contribute Rs 74.9m to FY01 revenues. The company has also executed one music video for an upcoming band in a venture with a leading Indian music company. The contract is valued at Rs 9.6m is spread over 12 music videos. The music video is currently on air on premier Asian music channels Channel [V] and MTV. We expect the company to achieve better margins due to the utilization of an in-house post production facilities. The company also has a time to market advantage in its offerings due to the same.

**In-House PPH is the nucleus of value creation in GML.**

***Post Production (33% of FY01 Revenues)***

The company plans to set up a fully integrated and an open system based post production facility, the company has already invested Rs 16.3m in a 4,260 sq. ft commercial facility. The facility is located in a prime business location as most of the film & TV serial directors stay around that area; 90% of the film and TV studios are located in the western suburbs. AD LABS, which is the sole provider of LAB services for Films, Advertisements and Music videos, is in close proximity. Clients have to commute with the film negative for Telecine. Since film negative is a precious and sensitive commodity, they would utilize the company's state-of-the-art facilities. We expect the facility to go on-stream by late Dec'99 - early Jan '00. The company has entered into an exclusive tie-up with Maaza Films for providing an end-to-end range of post-production services. Mazaa Films is a reputed Films/TV Serial production house promoted by a well-known Indian film director.

**Multimedia a parallel and synergistic line of business**

***Multimedia Division (14% of FY01 Revenues)***

There is an increased accent on the high-tech quality of TV Serials, Music Videos and Ads, thus there is an upswing in the use of high-end multimedia by the producers of media software's. The multimedia division of GML will operate along a parallel track with the usual post production services of GML. GML also plans to enter the animation segment by accepting jobwork in the same. The company has already tied-up with Schoolnet India a project for 10 Computer-Based-Training (CBT) titles, we estimate the divisions revenues to grow at a CAGR of 20% from Rs 19.8m for FY01, Rs 25.4m in FY02 and Rs 34.1m in FY03.

**EARNINGS OUTLOOK****Profitable from first year of operations itself**

Galaxy Multimedia already has Rs 64.6m worth of orders in hand for various TV serial, Music Video and CBT contracts. These include 260 episodes of TV Serial, 12 music videos and 10 CBT Titles. GML has already executed and received Rs 2.5m 10 TV Serial episodes and one of the 12 music videos, which is currently on air and is reported to be faring successfully. We also believe that an in-house post production facility is a key enabling factor for GML achieving profitability and cutting short the break-even period of the project. We expect the company to achieve revenues of Rs 141.3m for FY01, Rs 202.2m in FY02 and Rs 271.8 in FY03 at a CAGR of 25.1% and profit after tax at Rs 32.2m for FY01, Rs 47.1m for FY02 and Rs 68.7m in FY03.

**Strong Free Cashflow Generation**

The company has already invested Rs 16.3m and plans a further Rs 65.7m for the post production facility, with a view on future order generation and commensurate resources required. The fact that GML's post production facility is based on an open systems leads to a much lower cost of upgradation/scalability than that of costly hardware. We believe that there will be no further capital expenditure apart from Rs 10m in FY03. We expect GML to generate free cash flows of Rs 8m in FY01, Rs 27m in FY02 and Rs 40.9m in FY03. GML has tied-up loans to the tune of Rs 19m, this compared to an equity capital of Rs 100.5m is at a very low debt/equity ratio of 0.19:1. The outflow as interest charges being low will enable GML to sustain the free cash flow generation.

**Steady business, ROE's on par with peers**

The media business is not cyclical, a singular TV Serial provides revenues for one year, and a suite of TV serials leads to a steady business cycle. Further, the need for post production services and multimedia is not only on the upswing, the demand has ensured a fair slice of margins for technologically savvy post production houses. We thus expect a return on equity of 27.0% in FY01, 35.4% in FY02 and 41.1% in FY03 on the back of steady net profit margins at 22.8% in FY01 to 25.3% in FY03. GML's ROE of 27.9% in FY01 compares favorably against 17.1% in FY01 for Crest Communications and 32.4% in FY01 for Sri Adhikari Brothers.

**Divisional valuations**

We have utilized the current market valuations of Sri Adhikari Brothers and Crest Communications in order to arrive at a valuation of GML's various divisions. Although the same is skewed due to the triple-digit valuations attracted by Crest Communications, the fact that GML's TV Serial production model is superior as: GML will not amortize production expenses like Sri Adhikari, GML will expense all production costs within the same period during which they are incurred and has a depreciation policy on par with the industry. Also GML post production facilities and skill sets are as superior as that of Crest Communications. We believe that GML thus, is available at a fair discount to its peers at 3.1x FY01 earnings.

Company	Comparative Div.	P/e (FY01 EPS)	Sales By Div. (Rs in Millions)	Profit on a Per Share basis	Valuation Rs.	Fair Price
Sri Adhikari Brothers	TV Software	40x	88.3	2.2	88.0	
Crest Communication	PPH and Multimedia	75x	53.0	1.0	75.0	163.0

**SCS****Indian Technology Investments****INCOME STATEMENT**

Yr. to Mar (Rs m)	FY01E	FY02F	FY03F
Serials & Music Videos	88.3	128.7	172.9
Post Production	37.1	48.2	64.7
Multimedia / CBT's	15.9	25.4	34.1
Net Operating Income	141.3	202.2	271.8
Cost of Multimedia	68.5	88.6	115.4
Employee Costs	4.9	5.0	5.8
Administration Expenses	11.7	22.6	25.8
Others	0.0	0.0	0.0
Total Operating Expenses	85.1	116.2	147.1
Operating Income	56.1	86.0	124.7
Other Income	0.2	0.3	0.4
Financial Charges	6.7	5.8	6.5
Depreciation	13.3	13.0	15.8
Miscellaneous Exp w/off	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0
PBT	36.4	67.5	102.8
Tax	4.2	20.4	34.1
PA T	32.2	47.1	68.7

**BALANCE SHEET**

Yr. to mar (Rs m)	FY01E	FY02F	FY03F
Share Capital	100.5	100.5	100.5
Reserves and Surplus	18.9	46.2	87.3
<b>ShareHolder's Funds</b>	<b>119.4</b>	<b>146.7</b>	<b>187.8</b>
Secured Loans	19.0	15.0	11.0
Unsecured Loans	0.0	0.0	0.0
<b>Total Loan Funds</b>	<b>19.0</b>	<b>15.0</b>	<b>11.0</b>
<b>Total</b>	<b>138.4</b>	<b>161.7</b>	<b>198.8</b>
Application of Funds			
Gross Block	99.6	99.6	109.6
Depreciation	13.3	26.3	42.1
Net Block	86.3	73.3	67.5
Work in Progress			
<b>Net Fixed Assets</b>	<b>86.3</b>	<b>73.3</b>	<b>67.5</b>
Investments	0.0	0.0	0.0
Current Assets,	63.0	102.9	150.2
Loans and Advances			
Inventories	7.7	10.5	12.3
Debtors	35.1	50.4	67.8
Cash and Bank	8.0	27.0	50.9
Other current Assets	0.7	0.9	1.2
Loans and Advances	11.5	14.2	18.1
Current Liabilities	10.9	14.5	18.9
Provisions	0.0	0.0	0.0
Net Current Assets	52.1	88.4	131.2
Miscellaneous Exp	0.0	0.0	0.0
<b>Total</b>	<b>138.4</b>	<b>161.7</b>	<b>198.8</b>

**CASHFLOW STATEMENT**

Yr. to mar (Rs m)	FY01E	FY02F	FY03F
<b>Sources of Funds</b>			
Net Profit	32.2	47.1	68.7
Depreciation	13.3	13.0	15.8
Inc / (Dec) in Equity Capital	100.5	0.0	0.0
Inc / (Dec) in Share Premium	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	19.0	-4.0	-4.0
Inc / (Dec) in Current Liabilities	10.9	3.6	4.4
Inc / (Dec) in Provisions	0.0	0.0	0.0
<b>TOTAL</b>	<b>175.9</b>	<b>59.8</b>	<b>84.9</b>
<b>Applications of Funds</b>			
Dividends	12.1	18.1	25.1
Tax on dividend @ 10%	1.2	1.8	2.5
Inc / (Dec) in Gross Block	99.6	0.0	10.0
Inc / (Dec) in CWIP	0.0	0.0	0.0
Inc / (Dec) in Invst	0.0	0.0	0.0
Inc / (Dec) in Inventories	7.7	2.8	1.9
Inc / (Dec) in Debtors	35.1	15.3	17.3
Inc / (Dec) in Other Current Assets	0.7	0.2	0.3
Inc / (Dec) in Loans & Adv.	11.5	2.7	3.9
Inc / (Dec) in Misc Exp	0.0	0.0	0.0
<b>TOTAL</b>	<b>167.9</b>	<b>40.8</b>	<b>61.1</b>
Op cash bal.	0.0	8.0	27.0
ADD / (Deficit)	8.0	19.0	23.9
<b>CI bal. of cash</b>	<b>8.0</b>	<b>27.0</b>	<b>50.9</b>

**KEY RATIOS**

Yr. to mar (Rs m)	FY01E	FY02F	FY03F
<b>Per Share</b>			
EPS (Rs)	3.2	4.7	6.8
CEPS (Rs)	4.5	6.0	8.4
Div / Share (Rs)	1.2	1.8	2.5
BV / Share (Rs)	11.9	14.6	18.7
<b>Margins</b>			
Oper. Margins	39.7%	42.5%	45.9%
Pre-tax Margins	25.8%	33.4%	37.8%
Net Prof. Margins	22.8%	23.3%	25.3%
<b>Liquidity Ratio</b>			
Current ratio	5.8	7.1	7.9
<b>Returns</b>			
Return on Equity	53.9%	35.4%	41.1%
Return on Assets	46.5%	31.4%	38.1%
<b>PER (x)</b>	<b>FY00E</b>	<b>FY01F</b>	<b>FY02F</b>
10x	32.0	46.9	68.4
15x	48.1	70.3	102.6
20x	64.1	93.8	136.7
25x	80.1	117.2	170.9
30x	96.1	140.7	205.1

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