Prime Focus (PRIF IN)

Primed for Success; Initiate at Buy

BUY

Price target INR150.00

Price INR108.35^

EQUITY RESEARCH INDIA

Key Takeaway

Visual effects (VFX) in global media content is surging, with India positioned to capitalise with its offshoring advantages. Prime Focus, a Tier-1 VFX provider to Hollywood with multiple Oscar wins, is uniquely positioned to benefit. Acquisitions and restructurings have weighed on the shares thus far, but with these now behind us, earnings and cashflow should surge. We initiate at Buy with a INR150 PT, expecting EBITDA to nearly double by FY20E.

More VFX: Visual effects in media content is surging, helped by the rising success of VFX heavy movies. Budget outlays for technology services in movies have roughly quadrupled in the past two decades. Similar transitions are now visible in home entertainment too.

Top Tier: Prime Focus is uniquely positioned to capitalise on these trends with its game changing acquisition of Double Negative in 2014, propelling it into Top-4 global VFX provider. Its market share within global Top-10 grossers has doubled in the past five years with marquee projects and several Oscar wins recently underscoring its talent, laying the foundation for even higher engagement with top studios. This bodes well for its creative services business (77% of overall revenue).

Rosy outlook: With its order book up 4.5x since FY14, we expect revenue to remain buoyant although capacity to deliver has limited growth off late. A better trained and a rising employee base (up 2x in FY14-17) may address this over time, allowing Prime to gain further share and break into home entertainment too. Its ability to offshore to India, which houses two-thirds of its 9,000 employees, provides margin leverage too.

Past demons: The significant restructurings to support its acquisitive growth have complicated Prime's holding structure though with multiple investors across its key subsidiaries. Strategic investors hold 57% in the list-co, for example, which in turn owns 73% of the ERP and 82% of the creative business. These have weighed on the balance sheet and cash flow too, with net debt rising to 4.3x EBITDA by FY16.

Initiate at Buy: These now appear to be behind us, though, with net debt falling and revenue and margins rising in the past year. This should bring focus back on the core business where we expect EBITDA to nearly double in FY17-20E. We initiate at BUY.

Valuation/Risks

Our 12M DCF-based PT of INR150 implies 24x/17x FY19/20E P/E, in line with India media valuations. **Risks.** Dependence on key personnel at Double Negative; continued restructurings; poor cash flow conversion.

INR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	21,536.0	--	25,100.0	--	29,094.0	--	33,745.0
EBITDA (MM)	--	4,513.0	--	5,601.0	--	6,823.0	--	8,291.0
Net Profit	--	1,274.0	--	1,107.0	--	1,856.0	--	2,780.0
ROE	--	19.0%	--	13.7%	--	18.0%	--	20.3%
P/B		5.8x		4.7x		3.5x		2.7x
EPS								
FY Mar	--	4.26	--	3.70	--	6.21	--	8.78
FY P/E		25.4x		29.3x		17.4x		12.3x

Financial Summary

Net Debt (MM):	INR11,188.0

Market Data

52 Week Range:	INR124.35 - INR50.00
Total Entprs. Value (MM):	INR43.6BN
Market Cap. (MM):	INR32.4BN
Shares Out. (MM):	298.9
Float (MM):	60.8
Avg. Daily Vol.:	186,178

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Price Performance

^Prior trading day's closing price unless otherwise noted.

Prime Focus Limited

Buy: Rs150 Price Target

Scenarios

Target Investment Thesis

- Positives – Among Top-4 providers of VFX, part of marquee box office hits, acquisition of Double Negative a game changer, strong order backlog, good momentum in ERP and tech business, margin levers
- Risks – Change in movie trends away from high visual effects, key personnel moving out, especially in the companies acquired, acquisition-led growth
- Mar 18/19E EPS: Rs3.7/6.2; DCF-based PT of Rs150, FY18/19E PE of 40x/24x

Upside Scenario

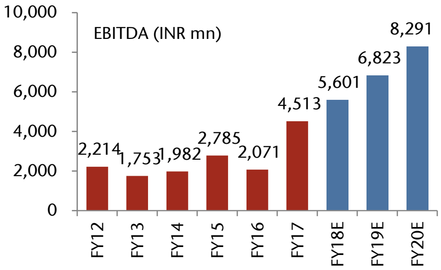
- Further pick-up in VFX spending in movies, more marquee projects coming to the company in creative services, deal wins accelerate in the tech and ERP segment
- Revenue growth estimate of c20% CAGR (USD terms) over FY17-20E
- Margin to expand to 30% due to growth leverage and internal efficiencies
- Mar 18/19E EPS: Rs4.8/7.6; Target Rs180, implying FY18/19E PE of 37x/24x

Downside Scenario

- Growth declines due to changing movie trends towards lower VFX, key personnel departure affecting studio engagements, higher competition in ERP and tech
- Revenue growth estimate of 12% CAGR (USD terms) over FY17-20E
- Margin leverage fails to kick in and flattens out from here on
- Mar 18/19E EPS: Rs3.0/4.7; Target Price Rs90, implying FY18/19E PE of 30x/19x

Long Term Analysis

EBITDA trajectory: Improving momentum



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers (FY17-20E)

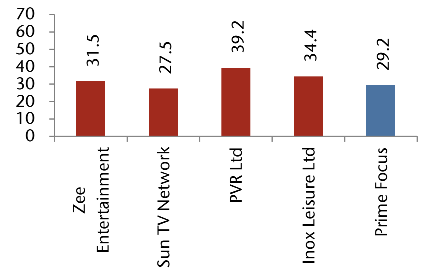
Earnings CAGR	27.2%
Revenue CAGR	16.1%
EBITDA margin	22.5%

Other Considerations

Prime Focus' leadership in the creative services business (VFX and 3D) is evident from the 40% market share in the Top-10 global films and being among the Top-4 studios doing VFX work for Hollywood films. Recent deal wins in the ERP and tech space sets a good platform for future growth

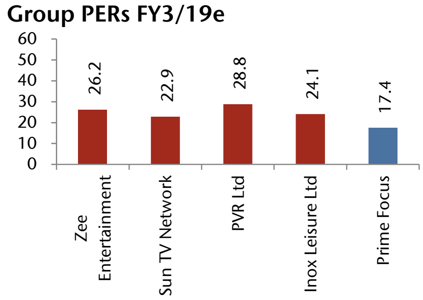
Peer Group

Group PERs FY3/18e



Source: Bloomberg, Jefferies estimates

Group PERs FY3/19e



Source: Bloomberg, Jefferies estimates

Rating/Price Targets

Ticker	Rec	PT (INR)
PRIF IN	Buy	150
Z IN	Hold	375
SUNTV IN	NC	NA
PVRL IN	NC	NA
INOL IN	NC	NA

Source: Jefferies estimates

Catalysts

- Growth rates likely to remain in the high teens on the back of strong order backlog
- Growth of VFX content in movies globally
- Global box office being dominated by more VFX heavy movies
- Incremental deal wins in the ERP and tech segment
- Margin leverage due to offshoring of work and steady growth

Company Description

Prime Focus Limited (PFL) is one of the world's largest independent integrated media services companies. It employs over 9,000 professionals in 15 cities across 4 continents and 6 time zones. It provides end-to-end creative services (visual effects, stereo 3D conversion and animation), technology products & services (Media ERP Suite and Cloud-enabled media services), production services (equipment rental) and post-production services (Digital Intermediate and picture post) to the media and entertainment industry.

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Executive summary

Prime Focus' uniqueness lies in its business of providing visual effect and 3D services to Hollywood studios. Its differentiation lies in its positioning as a top-tier provider, with work on marquee global box office hits, VFX Oscar wins in two of the last three years and delivery through an offshore model. Industry trend of higher VFX spend per movie and VFX movies dominating box office are incremental positives. At the same time, acquisition-led strategy and corporate restructurings have impacted margins, complicated the holding structure and increased debt. However, we believe that these changes are now behind, with the platform set for growth and margin expansion. We forecast a 16%/23%/27% CAGR for FY17-20E revenue/EBITDA/EPS. Our 12M PT of INR150 is based on DCF and implies 24x/17x on FY19/20E EPS; initiate with Buy.

Top tier provider on VFX and 3D services. The creative services business segment (77% of revenue, 70% of EBITDA, USD250mn revenue +18% YoY in trailing 12M) provides visual effects (VFX) and 3D for movies. Acquisition of Double Negative in 2014 was a game changer, propelling Prime Focus into the top-tier of companies providing these services. According to company's estimates, it had a 40% market share in VFX/3D for Top-10 Hollywood films in 2016 vs 20% in 2011. Oscar wins in two of the last three years has boosted order book by 80% YoY. Prime Focus' differentiation is further increased by an offshore delivery model and workforce of >9K, a majority sitting out of India.

Industry trends favourable. Global box office collections have increased at a steady growth of 3.4% annually over the past five years. In addition, a majority of the box office top grossers have been high on VFX increasing workflow for Prime Focus. This has led to 40-60% of movie budgets being allocated to technology vs only 10-20% in the 90s. The development of the ecosystem has been rapid, with 19% increase in digital screens globally over the past five years. Consequently, the company has found itself in the position where capacity to deliver has been the limiting factor to growth. Areas such as TV series and advertisements remain largely unexplored and could further drive growth.

Tech business could provide the positive delta, India following global trend. Prime Focus' Enterprise Resource Planning (ERP) and tech business (17% of revenue, 19% of EBITDA, +17% YoY in trailing 12M) has seen large logo wins in recent years and increased penetration in N America. While competitive landscape is significant and diverse with addressable market large, Prime Focus' smaller scale, investments and steadily improving client profile will sustain growth and provide cross-selling opportunities. India business while small (7% of revenue, 11% of EBITDA in trailing 12M) is stable and could see positive impact of increasing technology in movie making, in line with global trends.

Corporate restructuring/acquisitions have complicated holding structure. The company has gone through a significant restructuring to support its acquisitive growth, which has given Reliance Mediaworks and Standard Chartered PE a 57% stake in the company. The promoter group holds 35%. In addition, on a fully diluted basis, the listed entity holds 73% of the ERP and tech business and 82% in the creative business. Private equity investments by Ambit, Macquarie and AID have been made at the subsidiary level.

Growth and margin leverage, initiate with Buy. The company's operating performance has had issues of deteriorating margins and cash flows on the back of restructurings and acquisitions. We believe that this is now behind with the platform being set for growth, evident from recent growth and margin performance, and the strong order book. Our 12-month price target of INR150 is based on DCF valuation and implies a 24x/17x multiple on FY19/20E forecasts. We believe that this is also justified by the 23% EBITDA CAGR that we project for the company over FY17-20E. Initiate at Buy. **Risks.** Dependence on key personnel at Double Negative, continued restructurings or poor cash flow conversion.

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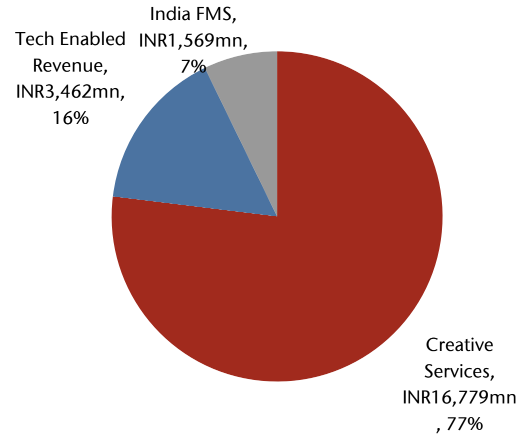
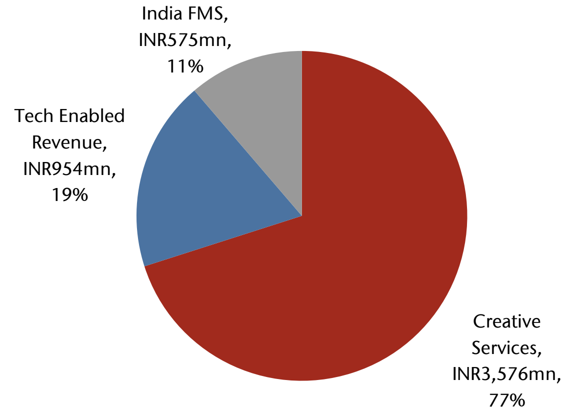
Key Charts

Exhibit 1: Breakdown of revenue by business segment



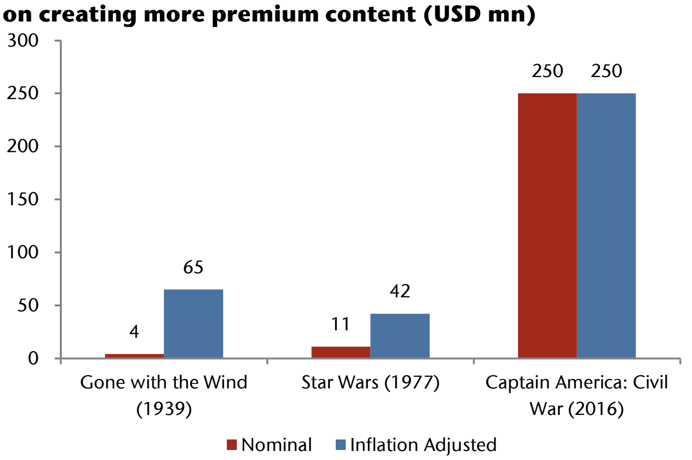
Source: Jefferies, company data

Exhibit 2: Breakdown of EBITDA by business segment



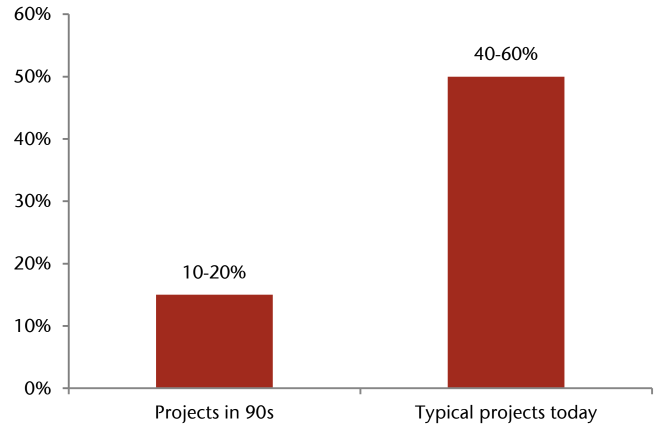
Source: Jefferies, company data

Exhibit 3: Movie budgets over the years, bulk being spent on creating more premium content (USD mn)



Source: Jefferies, company estimates

Exhibit 4: Percentage of the movie budget being allocated towards technology



Source: Jefferies, company estimates

Exhibit 5: Box office top grossers, red denotes titles where Prime Focus has been involved in VFX and 3D

2016 top grossers	WW BO USD mn	2015 top grossers	WW BO USD mn	2014 top grossers	WW BO USD mn
Captain America: Civil War	1,153	Star Wars: The Force Awakens	2,068	Transformers: Age of Extinction	1,104
Rogue One: A Star Wars Story	1,050	Jurassic World	1,670	The Hobbit: The Battle of the Five Armies	956
Finding Dory	1,028	Furious 7	1,516	Guardians of the Galaxy	773
Zootopia	1,024	Avengers: Age of Ultron	1,405	Maleficent	758
The Jungle Book (2016)	967	Minions	1,159	Hunger Games: Mockingjay – Part 1	755
The Secret Life of Pets	876	Spectre	881	X-Men: Days of Future Past	748
Batman v Superman: Dawn of Justice	873	Inside Out	858	Captain America: The Winter Soldier	714
Fantastic Beasts and Where To Find Them	811	Mission: Impossible - Rogue	682	Dawn of the Planet of the Apes	711
Deadpool	783	The Hunger Games: Mockingjay	653	The Amazing Spider-Man 2	709
Suicide Squad	746	The Martian	630	Interstellar	675

Source: Box Office Mojo

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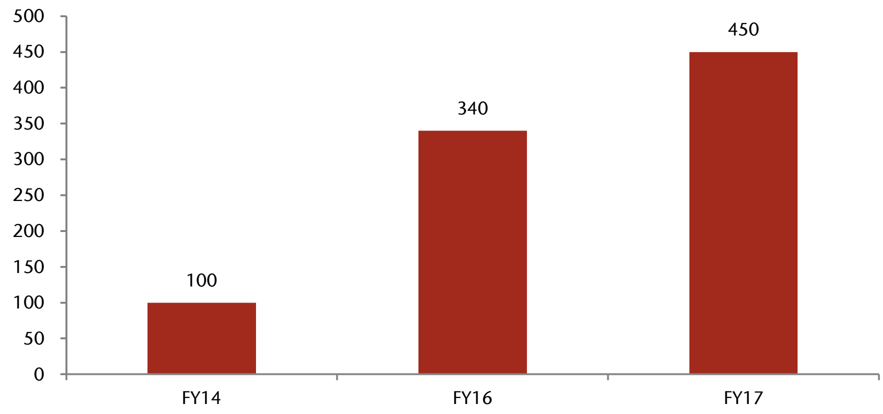
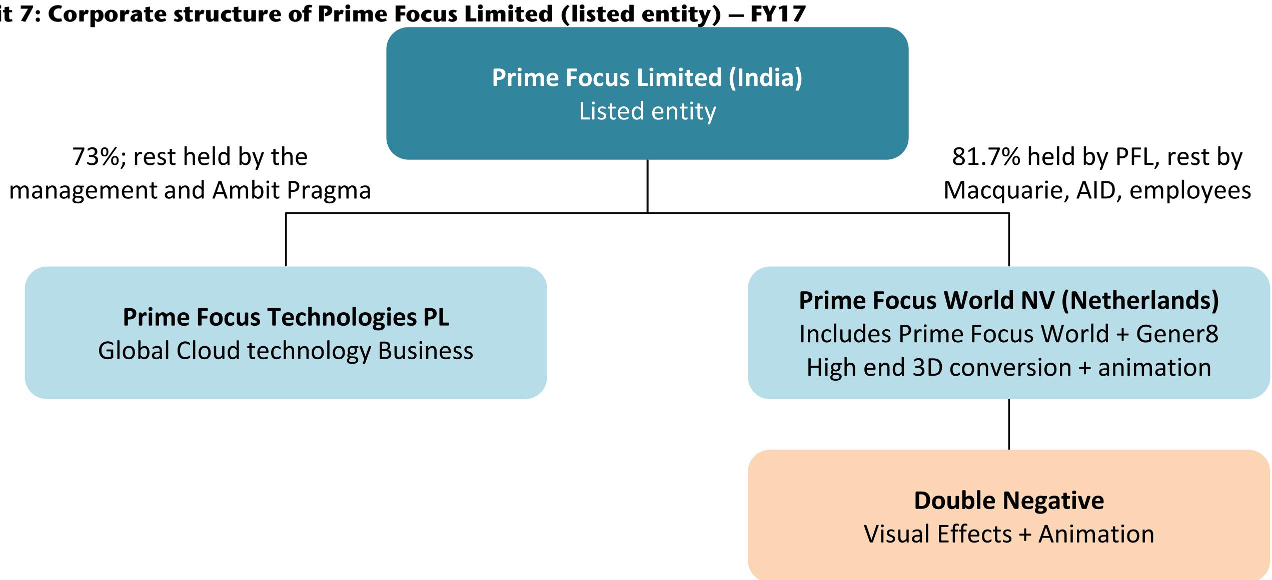
Exhibit 6: Order book, USD mn



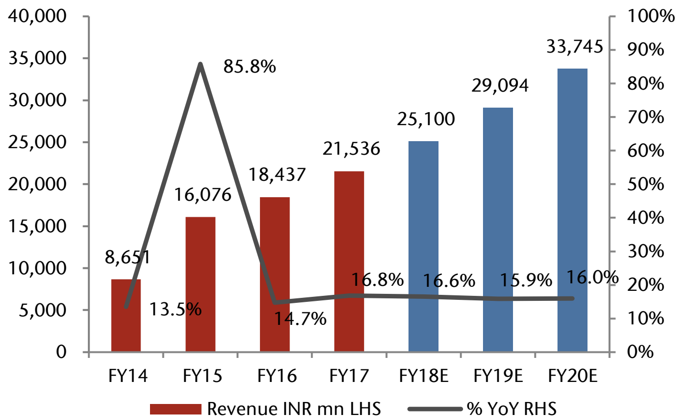
Source: Jefferies, company data

Exhibit 7: Corporate structure of Prime Focus Limited (listed entity) – FY17



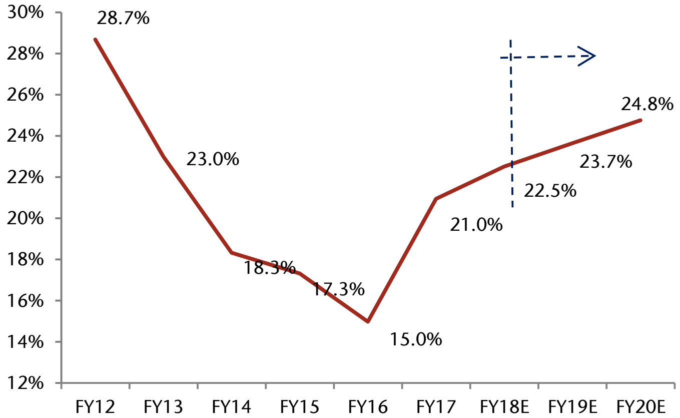
Source: Jefferies, company data

Exhibit 8: Revenue growth projections (annualized to fiscal)



Source: Jefferies estimates, company data

Exhibit 9: EBITDA margin projections



Source: Jefferies estimates, company data

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Unique positioning, top tier provider to major studios

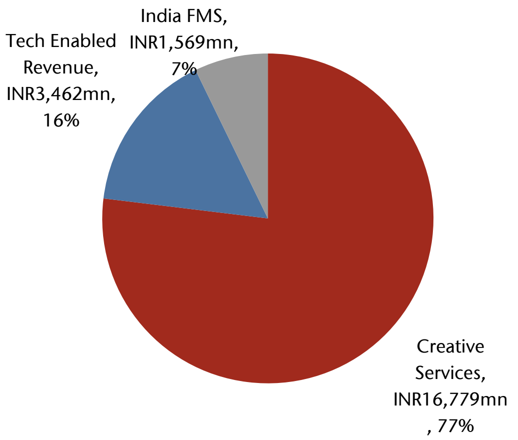
Key business segments

Three key business segments – global movies the biggest segment for the company

Prime Focus is one of the largest independent media services company, which derives >80% of its revenues from overseas markets. Its major clients include top Hollywood and Indian studios and media companies across the globe. The company employs over 9,000 people globally, with a majority based in India. It operates in three major segments:

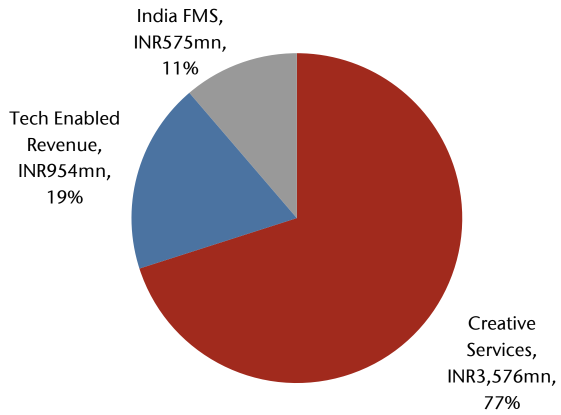
- **Creative services** – This segment accounts for 77% of the company revenues and 70% of the EBITDA on TTM basis. Services offered include Visual Effects (VFX), stereo conversion in 3D and animation services. The company is one of the Top-4 global players in the VFX segment and has a robust history of working with marquee names on big projects that have been major box office grossers
- **Media ERP and technology** – This segment accounts for 16% of the revenue and 19% of the EBITDA on a TTM basis. CLEAR, the company's hybrid cloud enabled media ERP suite and cloud media services helps broadcasters, studios, brands, sports and digital organizations drive efficiencies, reduce cost and realize new monetization opportunities
- **India Film and Media Services** – This segment accounts for 7% of company's revenues and 11% of EBITDA on TTM basis. The company offers complete media services across the spectrum – production (equipment rental and line production), post-production (digital intermediate/colour grading and picture post) and creative (visual effects, 3D conversion and animation) services.

Exhibit 10: Breakdown of revenue by business segment



Source: Jefferies, company data

Exhibit 11: Breakdown of EBITDA by business segment



Source: Jefferies, company data

#1: Creative services, Double Negative acquisition creates the step change

Stable revenue growth, TTM growth at 18% YoY

Prime Focus is now among the Top-4 players in the Visual Effects (VFX) market post the merger with D-Negative, giving it invaluable inroads into major studios and productions. In addition, the partnership with Gener8 enhances its position in the 3D conversion market. The company's revenue has been stable over the past few quarters with the recent quarter seeing a ramp-up on the back of new facility set up in India. Order book has remained healthy and investments tapering down should continue to help margins. Margins would also benefit as delivery from the India centres ramps up.

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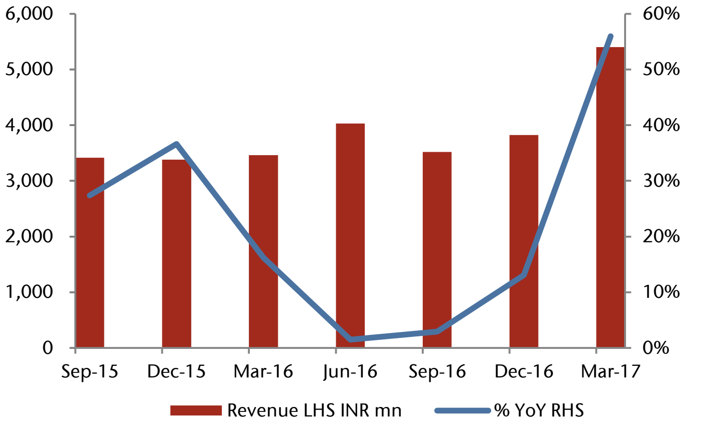
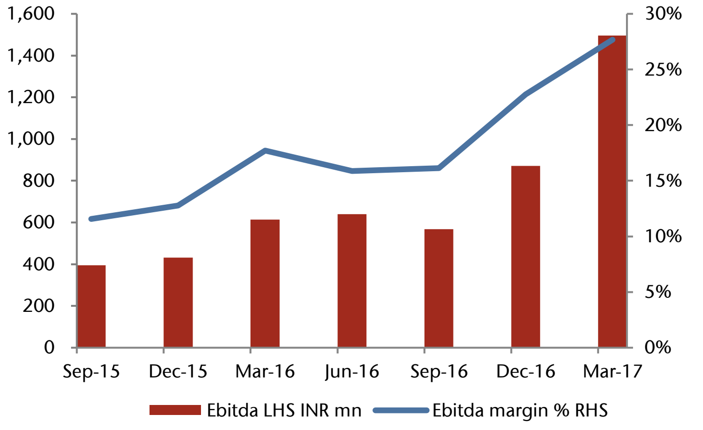
Exhibit 12: Revenue trends for creative services



Source: Jefferies, company data

Exhibit 13: EBITDA AND margin trends for creative services



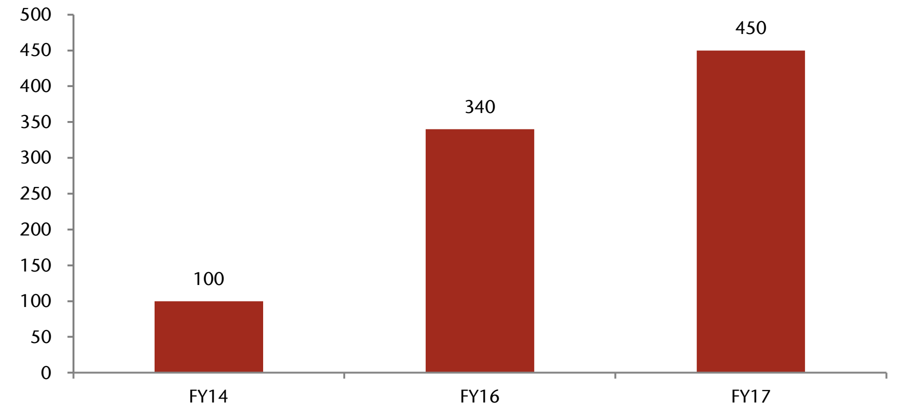
Source: Jefferies, company data

Overall order book +32% YoY, order book in creative services +79% YoY

Order book growing, provides strong near term visibility

What is pertinent to gauge in the improvement in business momentum is the steady growth in the company's order book. The order book stood at USD450mn (+32% YoY) at end-FY17, with cUSD250mn (+80% YoY) being projects in creative business which would be executed in the next year itself. The rest of the order book comprises projects in the ERP and cloud business to be executed over the future years.

Exhibit 14: Order book, USD mn



Source: Jefferies, company data

Market share in top grossers has grown on the back of Double Negative partnership

Gaining market share in top box office grossers

The merger with Double Negative in 2014 provided Prime Focus the much needed entry into top tier of visual effect companies. **Double Negative's credentials are evident from the eight Oscar awards won, with two won in the last three years in VFX category.** This has led to strengthening relationship with top Hollywood studies like Marvel, Universal, Warner Brothers, Fox, Sony, Disney and Legendary. Prime Focus has continued to cross sell via its bundled 3D and VFX offering that has helped grow its market share in major releases and top Hollywood grossers.

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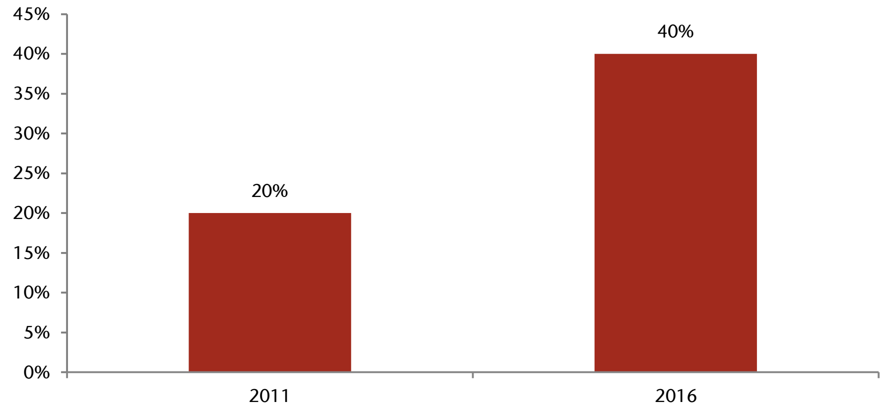
Exhibit 15: Market share in Top-10 global films (3D and VFX conversion work)



Source: Company Data

Competitive landscape – strong and unique positioning

Among Top-4 studios, well positioned even within that elite group

While the overall market is quite fragmented with a number of players in the market, revenue and larger projects are concentrated towards four major players who do most of the VFX and 3D conversion work for marquee movies, with Prime Focus (Double Negative) being one of them. With two Oscars for visual effects (VFX) in the past three years, this positioning has been further strengthened with demand for engagement requests from top studios rising. Projects have been lucrative too, with the larger movies spending in excess for >USD50mn for a project executed over 9-12 months. This need for VFX focused content is also increasing in TV series (made by Netflix, HBO, Amazon etc.) which should be a further driver of revenue growth for the company.

Exhibit 16: Tiering of players providing VFX services to major studios

Tiering	Number of players
Tier I	4 - Prime Focus, MPC, ILM, Weta Digital
Tier II	15-20
Tier III	Fragmented

Source: Jefferies, company data

Exhibit 17: Relative positioning of the Top-4 players in the industry

	Double Negative/Prime Focus World	Industrial Light and Magic	MPC (Technicolor)	Weta Digital
Captive or Studio Owned/Independent	Independent	Studio owned (Disney)	Independent	Captive
Focus areas	Films	Films	Films, Advertising	Films
Headquarters	London	San Francisco	London	Wellington
Production Setup	London, Vancouver, Mumbai	San Francisco, Vancouver, London, Singapore	London, LA, Vancouver, Montreal, New York, Amsterdam, Shanghai, Bangalore	Wellington
Employees	~5,000	~1,400	~1,000	~1,300
Recent projects	Ex-Machina, Interstellar	Star Wars: The Force Awakens	The Martian, Guardians of the Galaxy	The Hobbit
Stereo Conversion	Y	N	N	N

Source: Jefferies, company data

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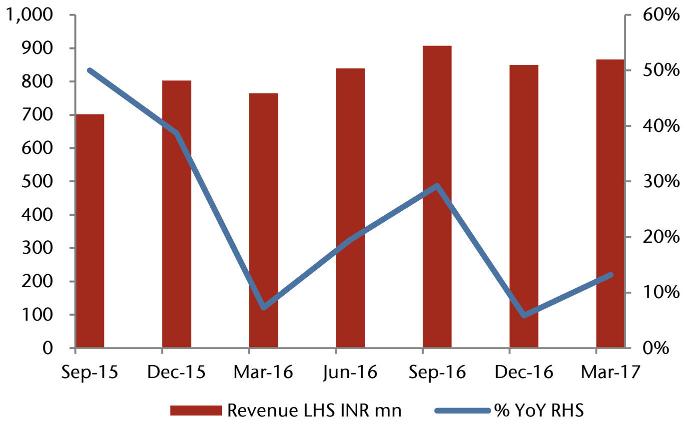
#2: Media ERP and tech – well-positioned

TTM revenue growth at 16.5% YoY, small scale and robust product allows ample opportunities for growth

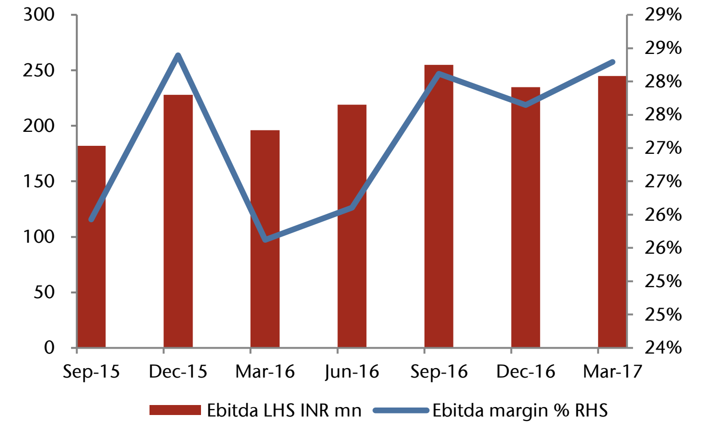
Prime Focus' ERP and tech business is a combination of product and services, which helps companies in the media and entertainment industry drive creative enablement, enhance efficiencies, reduce cost and realize new monetization opportunities. Like creative services, growth has been stable (+16.5% in TTM) with margin steadily improving on the back of internal efficiencies and increasing component of product sales. The relationship with major studios and production houses on the back of creative services also helps cross-sell of these services to them. Margin leverage would come from increase in proportion of product sales.

Exhibit 18: Revenue trends for media ERP and tech



Source: Jefferies, company data

Exhibit 19: EBITDA and margin for media ERP and tech



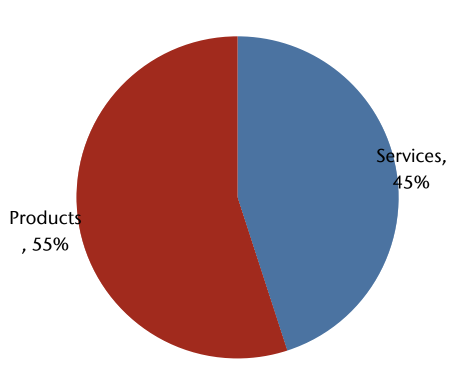
Source: Jefferies, company data

Breakdown of revenue within the business and revenue components

Three-five-year contract duration, high component of long-term contracts provides good visibility

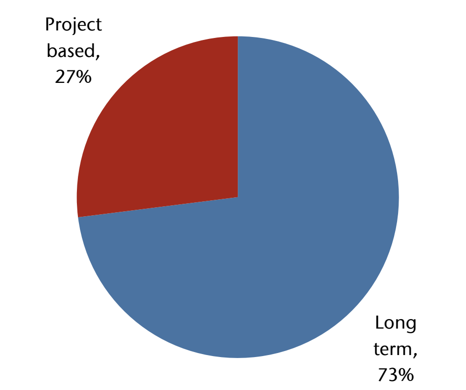
Most of the contracts for the company are three-five year contracts, often with products and services integrated into the same contract. The product component has an annual licence fee for the platform with the services being charged on a volume based billing monthly.

Exhibit 20: Revenue breakdown by business line



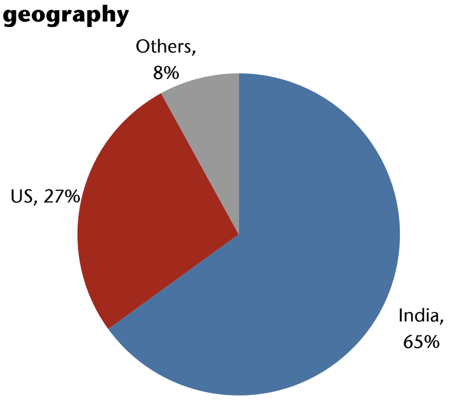
Source: Jefferies, company data

Exhibit 21: Revenue breakdown by contract type



Source: Jefferies, company data

Exhibit 22: Revenue breakdown by geography



Source: Jefferies, company data

Details of the product and services offered

End to end servicing across the content value chain

Prime Focus' product CLEAR is a hybrid cloud that allows clients not just store the content, but also performs end to end content operations. On top of this the media ERP is a single software that provides the entire content solution – production, broadcast and distribution. It integrates content suppliers, vendors, partners and customers across

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geographies, departments and businesses. It also enables clients to drive digital and OTT offerings. Through its products and services, the company offers the entire range, from content creation, transformation, distribution and exhibition.

Exhibit 23: Product and services offered under the segment

Products	Services
Cloud Media ERP	**Data Services**
Cloud MAM	Meta data
Broadcast cloud	Analytics
Production cloud	**Content Localization**
Distribution cloud	**Content Transformation**
Operations Cloud	Digitization
Playout cloud	Quality control
Playout monitoring	Content preparation
Digital and OTT Platforms	Editorial packaging

Source: Jefferies, company data

Some key clients for the business include:

- **Broadcasters** – Star, Sony, Zee, Colors, Disney India, HBO, Viacom18, CNBC Africa, Bloomberg
- **OTT** – Hotstar, HooQ
- **Studios** – 20th Century Fox, Lionsgate, Miramax, Indian Premier League, MTV, Warner Brothers, Legendary, Eros International
- **Brands** – Unilever, LG, Dabur, Vodafone, Nestle, Nivea, Idea, Britannia, Kellogg's, ITC

Competitive landscape

Competition includes range of players from ISV, IT services, cloud and M&E specific vendors

Given the extensive breadth of cloud technology and technology enabled services, the business segments runs into a broader cross-section of competitors from single point solution providers. These include:

- **Independent software vendors** – Imagine, Avid, Pilat, VizRT
- **IT services** – TCS, IBM, Cognizant, Accenture
- **Playout** – ViaSat, Arquiva, Globecast, Essel Shyam, Encompass
- **Digital/Cloud –** AWS, Azure, Verizon, Zencoder, Kalture, Anvato
- **Advertising** – Ericsson, IMD, Tag, Wide, Hogarth, Extended Research
- **Post Production** – Technicolor, Fotokem, Point360, RedBee

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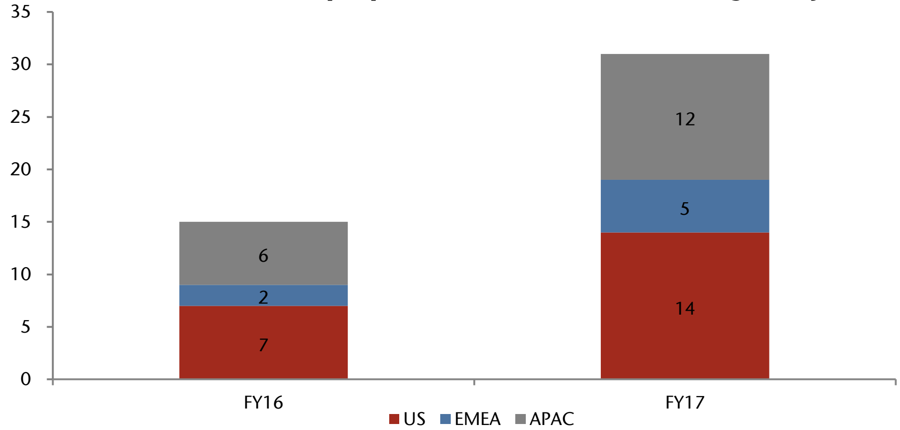
Significant growth expected from international markets, sales force being built out to drive sales

Opportunities for growth

The company expects the current revenue mix by geography to change from the current 70:30 of India to international to change to 30:70. The company should be able to grow in well entrenched relationships with top broadcasters in India as well as with key broadcasters globally. There is also an opportunity to cross sell into existing relationships from the creative side of business. The acquisition of Dax has been an important step in increasing foothold potential in the Americas.

The company continues to strengthen its product suite to include new modules and analytics. Order book is currently at $200 mn and is growing on account of strong traction in domestic and international markets, led by PFT's recent product launches and marketing efforts.

Exhibit 24: Number of sales people for ERP and cloud business globally



Source: Jefferies, company data

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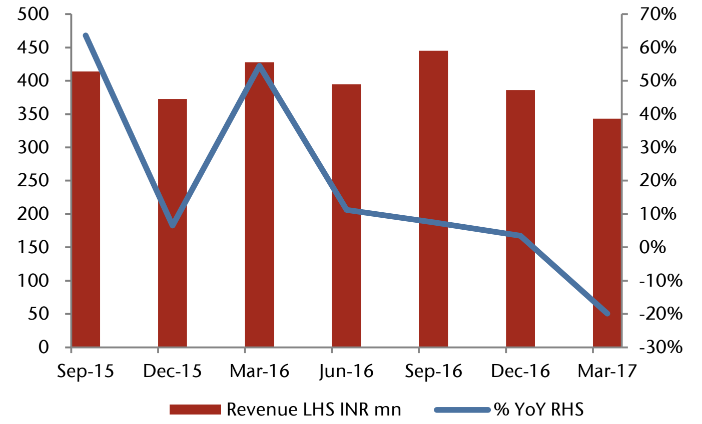
#3: India FMS – small stable business

Provider of complete range of media services in India

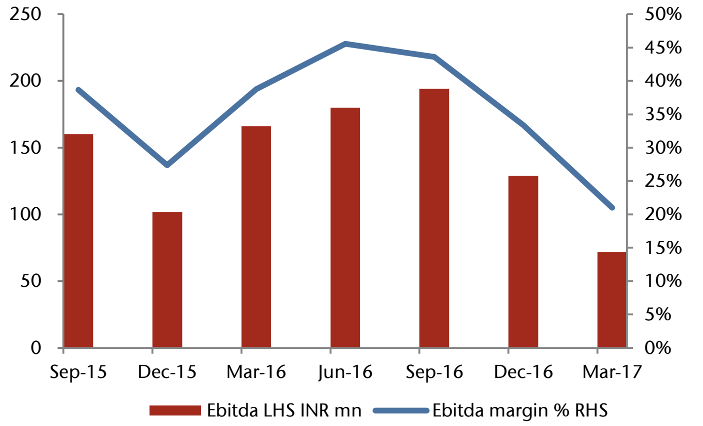
The genesis of Prime Focus lay in its India Film and Media Services (FMS) business. It offers complete media services across the spectrum i.e. production (equipment rental and line production), post-production (digital intermediate/colour grading and picture post) and creative (visual effects, 3D conversion and animation) services. The company's revenue has been flat on TTM basis, primarily due to decline in the last two quarters. Its margins too have declined from highs of >40% at the EBITDA level.

Exhibit 25: Revenue trends for India FMS



Source: Jefferies, company data

Exhibit 26: EBITDA and margin for India FMS



Source: Jefferies, company data

Key points for the India FMS business

- One of the largest camera equipment rental companies in India with its huge inventory of over 40 high-end feature film cameras
- Owns an integrated studio with c25% of the capacity of the Mumbai studio market
- India VFX team delivered a total of 12,000 VFX shots for over 30 films, including some of some of the biggest Bollywood movies of the year in FY16.
- Delivered post production services for some of the highest-grossing films of 2016
- Carried out grading services on over 60 films last year
- There is also a trend towards higher VFX in Indian movies with **'Baahubali – the Beginning', being a landmark Indian movie where an unprecedented INR850mn was spent on VFX alone**

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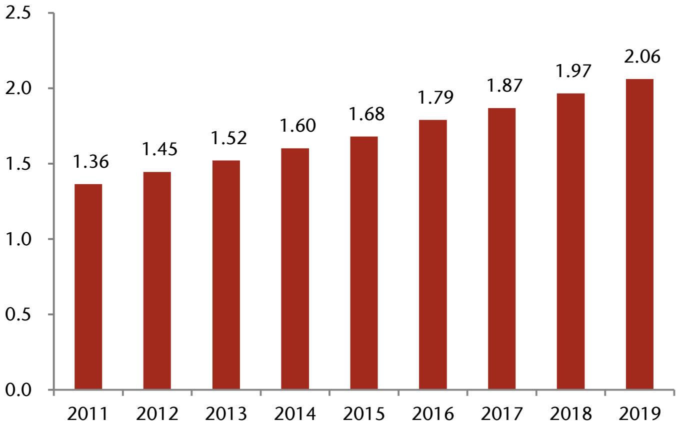
Strong tailwind due to increasing tech adoption in media industry

Industry spending healthy, digital content main focus area

Digital to be the key driver of growth for media and entertainment industry globally

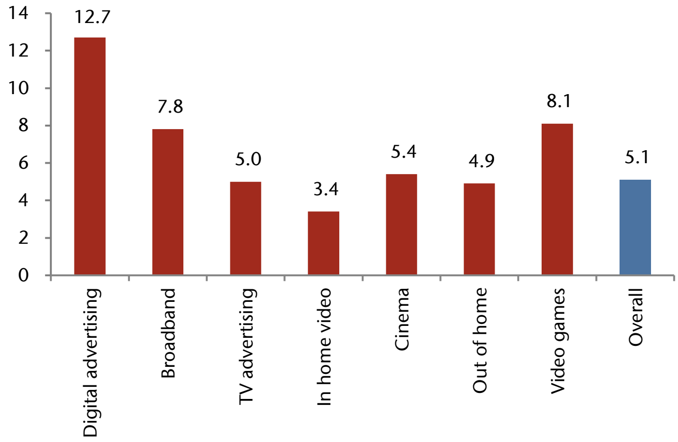
According to an industry study, the global spending on media and entertainment is expected to grow at a CAGR of 5.1%, from USD1.6tn in 2014 to USD2.1tn in 2019. Digital advertising, video games, broadband and cinema are expected to be the fastest growing segments during 2015-19. Creating digital content and conversion of existing one would be the key growth drivers, which fits into the areas of strength for Prime Focus.

Exhibit 27: Global spending in media and entertainment industry (USD tn)



Source: Jefferies, McKinsey & Co

Exhibit 28: 2014-19 CAGR for the major segments with media and entertainment (%)



Source: Jefferies, McKinsey & Co

Creative services opportunity – 77% of revenues

Global box office collections have increased steadily

Box office collections have steadily improved over the past five years

Given Prime Focus' bulk of revenues come from movies, revenue collections and success of movies at box office is critical to increase spend on them by studios and production houses. Global box office collections reached USD38bn in 2016, clocking a CAGR of 3.4% over the past five years. International collections have clearly been the growth driver with China and APAC being the big contributors.

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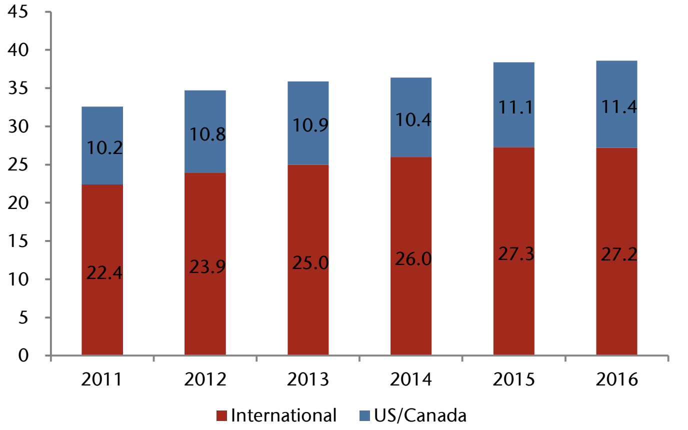
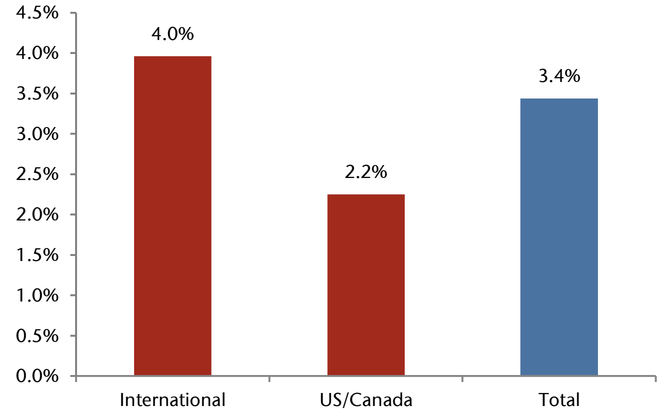
Exhibit 29: Global box office collections (USD bn)



Source: Jefferies, MPAA

Exhibit 30: 2011-16 CAGR (five- year) for global box office collections

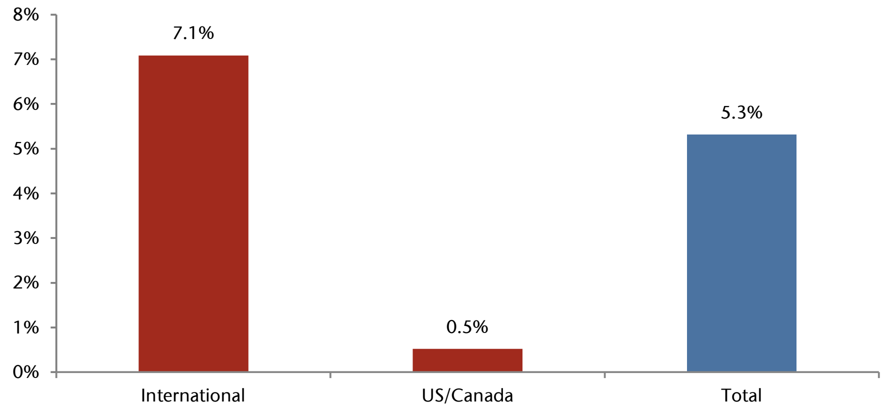


Source: Jefferies, MPAA

Growth likely to sustain at steady levels, market to reach USD50bn by 2021E vs USD39bn in 2016

Projections on industry growth done by the Motion Picture Association of America (MPAA) suggest that this will only accelerate going forward. Global box office collections are likely to reach USD50bn by 2021E, implying a 5.3% CAGR. Most of this growth will be driven by growth in markets outside of US/Canada.

Exhibit 31: Expected CAGR of global box office collections, 2016-21E



Source: Jefferies, MPAA

Screen ecosystem transitioning towards digital, 3D and large formats

19% CAGR of digital and 3D screen globally over the past 5 years

What also aids Prime Focus' business of VFX/3D/digital is the transition of the movie screen ecosystem globally towards digital screens. In fact, the number of digital screens has grown by 19.4% annually over the past five years, creating an ecosystem that could support digital content. 3D screens have also grown at a similar rate, creating an incremental market for 3D movie content.

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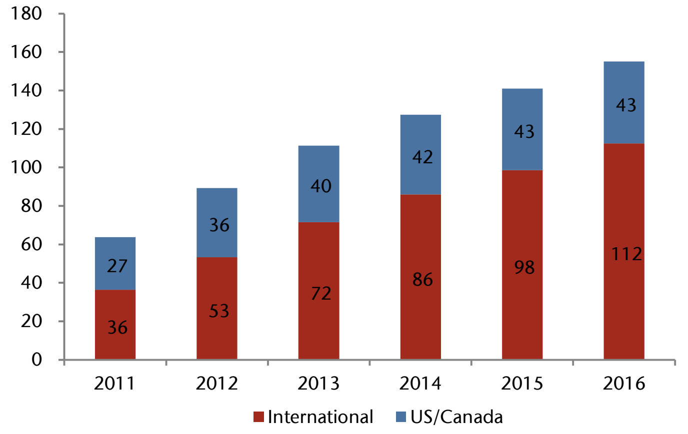
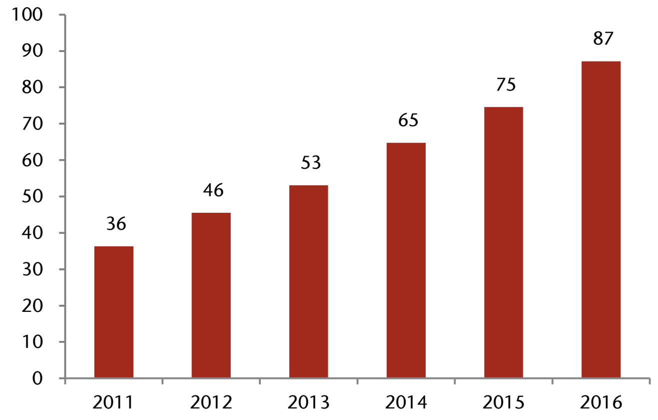
Jefferies

Exhibit 32: Number of digital screens (000s)



Source: Jefferies, IHS Markit

Exhibit 33: Number of 3D digital screens (000s)

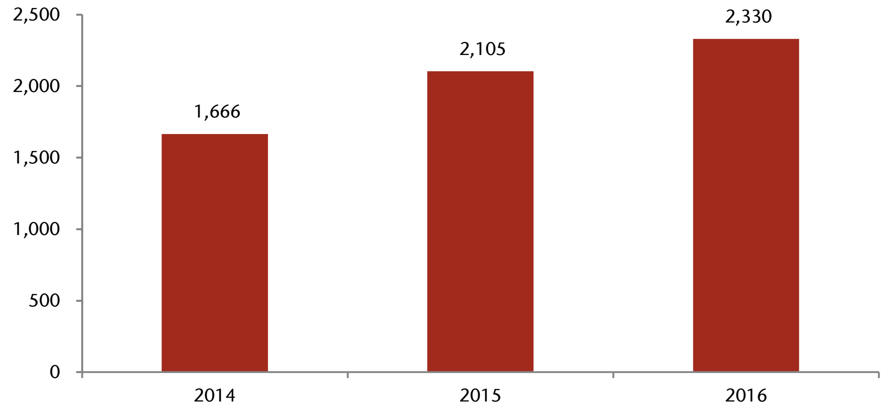


Source: Jefferies, IHS Markit

Number of PLF screens above the 2,300 mark globally

In fact, the latest addition to the technology iteration is the premium large format (PLF), which enhances the movie watching experience and necessitates further digital effects in movie making. Content too remains the core driver as well as beneficiary of this transition. PLF screens globally have crossed the 2,300 mark by the end of 2016 (an 18% annual growth over the past two years).

Exhibit 34: Number of premium large format (PLF) screens globally



Source: Jefferies, IHS Markit

Movies shifting towards more digital content – VFX (Visual Effects) and 3D

Majority of top grossing movies are high on visual effects, 3D and new technology

The development of the ecosystem has in turn seen an increased trend towards studios and production houses spending more to differentiate with more premium content. This has increased demand for VFX and 3D conversion services. This is evident from the box office top grossers over the past three years, where a majority of the names are high on special effects, 3D and new technology. In fact, it is estimated that the VFX and 3D conversion market alone is USD2.3bn in 2015 likely to grow to USD3.5bn by 2021E. <u>Another major opportunity for Prime Focus is the conversion of over 35,000 titles with major studios (approximate billing for 3D conversion is USD5mn per movie).</u>

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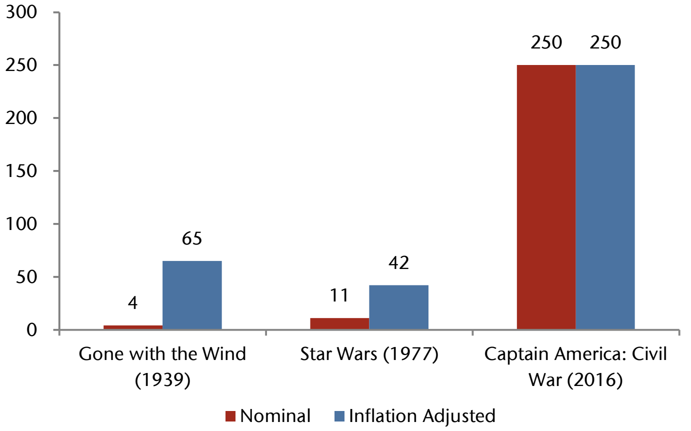
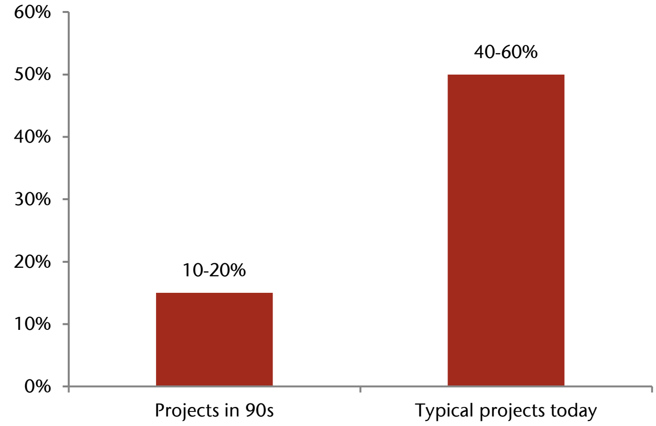
Exhibit 35: Movie budgets over the years, bulk being spent on creating more premium content (USD mn)



Source: Jefferies, company estimates

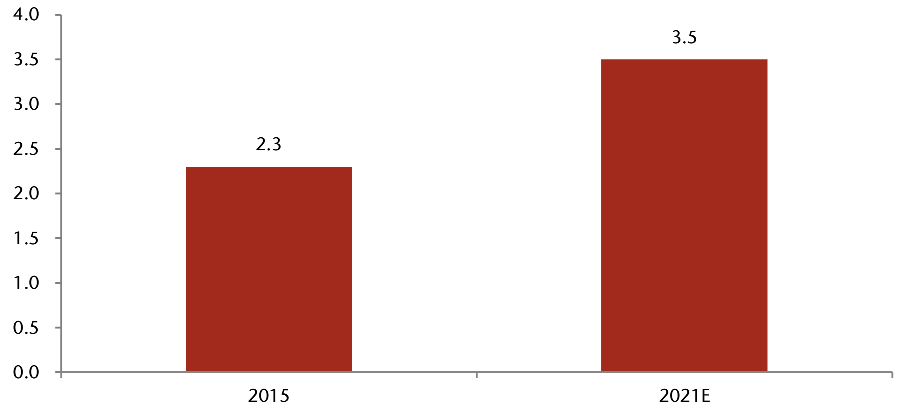
Exhibit 36: Percentage of the movie budget being allocated towards technology



Source: Jefferies, company estimates

7% CAGR over 2015-21E for VFX and 3D conversion services

Exhibit 37: Demand for technology enabled digital content services



Source: AT Kearney

Exhibit 38: Box office top grossers, red denotes titles where Prime Focus has been involved in VFX and 3D

2016 top grossers	WW BO USD mn	2015 top grossers	WW BO USD mn	2014 top grossers	WW BO USD mn
Captain America: Civil War	1,153	Star Wars: The Force Awakens	2,068	Transformers: Age of Extinction	1,104
Rogue One: A Star Wars Story	1,050	Jurassic World	1,670	The Hobbit: The Battle of the Five Armies	956
Finding Dory	1,028	Furious 7	1,516	Guardians of the Galaxy	773
Zootopia	1,024	Avengers: Age of Ultron	1,405	Maleficent	758
The Jungle Book (2016)	967	Minions	1,159	Hunger Games: Mockingjay – Part 1	755
The Secret Life of Pets	876	Spectre	881	X-Men: Days of Future Past	748
Batman v Superman: Dawn of Justice	873	Inside Out	858	Captain America: The Winter Soldier	714
Fantastic Beasts and Where To Find Them	811	Mission: Impossible - Rogue	682	Dawn of the Planet of the Apes	711
Deadpool	783	The Hunger Games: Mockingjay	653	The Amazing Spider-Man 2	709
Suicide Squad	746	The Martian	630	Interstellar	675

Source: Box Office Mojo

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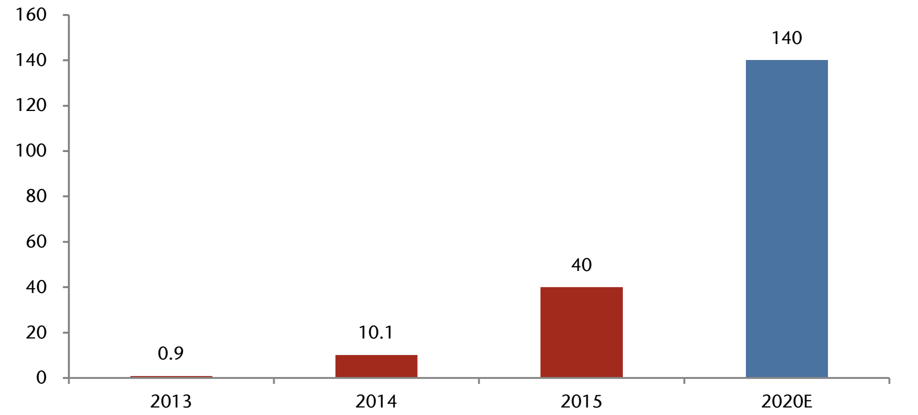
Transition also in home entertainment

Higher quality digital content is becoming a norm at home too

The transition towards higher visual and special effects in movies is limited not just to the cinema hall. With more content being available, consumers are seeking the best resolution and highest quality images driving demand for cutting edge display technology at all screen sizes. Bigger, higher resolution screens and more immersive content require higher quality digital production techniques, which are Prime Focus' strengths.

Exhibit 39: Ultra HD 4K TV shipments worldwide



Source: Jefferies, Statista

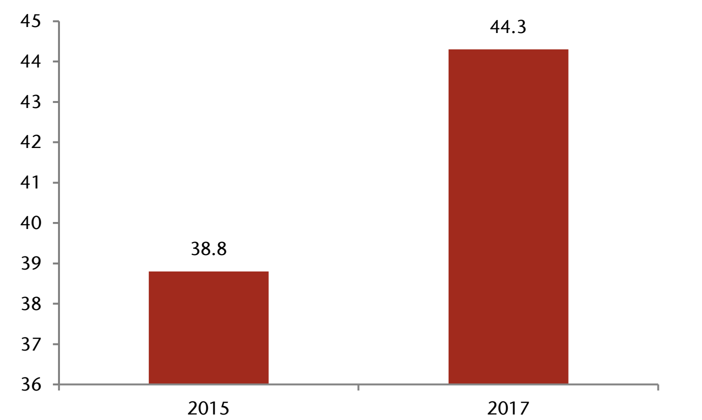
Tech enablement opportunity – 16% of revenues

Content management need in media and entertainment industry

Strong enterprise wise platforms a necessity in M&E industry

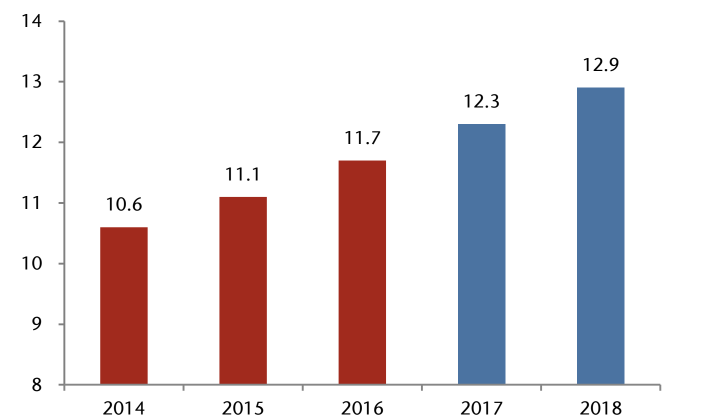
The importance of content and its development cannot be stressed enough within the media and entertainment industry. Given the proliferation of content, enterprises are now seeking to bring together internal departments, vendors and distributors under a single system. Content owners are also seeking to reach digital platforms faster, efficiently and make it quickly discoverable. M&E industry specific Enterprise Resource Planning ERP solutions are becoming a necessity. With its CLEAR and other cloud based solutions; Prime Focus is reasonably well positioned, having already signed a bouquet of marquee clients.

Exhibit 40: Total M&E technology spend (USD bn)



Source: Jefferies, company estimates

Exhibit 41: Addressable market for ERP in M&E industry (USD bn)



Source: Jefferies, company estimates

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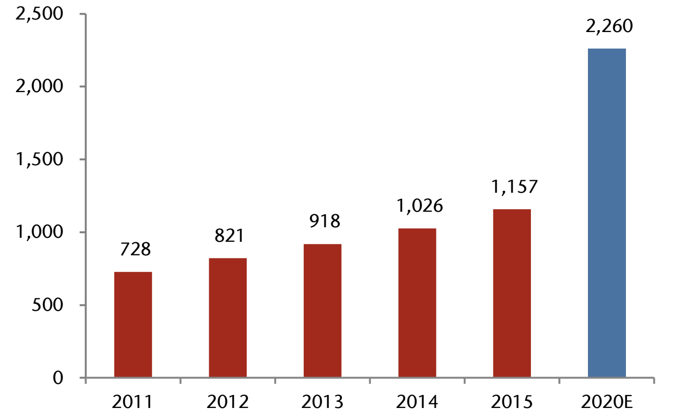
India opportunity – 7% of revenues

India M&E industry revenues to double, film revenue to continue growing at robust pace

Robust growth expected in the India M&E and film industry

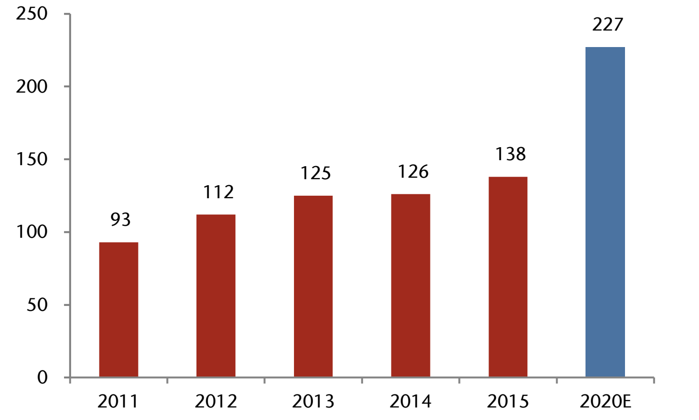
The set up for Prime Focus' India business, although a small portion of revenues, is also encouraging, given the M&E entertainment industry is all set to double in 2015-20E while the revenues from movies is expected to grow at healthy 11% annually during the same time period.

Exhibit 42: India M&E industry revenue (INR bn)



Source: Jefferies, FICCI frames

Exhibit 43: Indian film industry revenue (INR bn)



Source: Jefferies, FICCI frames

Addressable market of >INR100bn by 2020, for Prime Focus' services

The Indian film industry is one of the largest globally with number of movies in production exceeding 1,000 per annum. A number of mainstream movies in India are now resorting to technology tools including VFX on the back of improving technologies, techniques and media output evident from Hollywood projects. The total animation services, production, VFX and post production is likely to be a >INR100bn industry, growing at 16% annually in 2015-20E.

Exhibit 44: Addressable market for Prime Focus' services in India

INR bn	2011	2015	2020	CAGR 2011-15	CAGR 2015-20
Animation services	7.1	8.3	12.5	4.0%	8.5%
Animation production	4.2	5.6	8.4	7.5%	8.4%
VFX	6.2	14.4	45.1	23.5%	25.7%
Post production	13.5	22.8	42.0	14.0%	13.0%
Total	**31.0**	**51.1**	**108.0**	**13.3%**	**16.1%**

Source: Jefferies, FICCI frames

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Corporate structure and valuations

Major drivers and risks for the business

Inorganic strategy could be a risk, so could be key people exiting at Double Negative

The major drivers for the company have been multi-fold – 1) Acquisition of Double Negative, one of the topmost VFX studios globally; 2) depreciation of the GBP that has resulted in increase of work to studios based in UK; 3) trend of major box office grossers being towards higher VFX.

At the same time, there are risks – 1) Growth in recent years and positioning has been led by acquisitions; 2) Double Negative which is the major differentiator for the company is dependent on key people who run the business and the relationships; 3) A change in movie trends away from high visual effects could be a major business risk.

Shareholding structure – current and change through the years

Reliance Media Works and Standard Chartered PE own 55% of the company

The shareholding structure of the company includes two entities – Reliance Media Works and Standard Chartered Private Equity (57% of the total equity of the company) which might not have a strategic long-term interest. Any selling or a potential stake sale will remain an overhang for both the company and the stock.

Exhibit 45: Shareholding through the years

	FY12	FY13	FY14	FY15	FY16	FY17
Promoters	49.7%	40.9%	41.6%	44.0%	35.0%	35.0%
Reliance Media Works	0.0%	0.0%	0.0%	23.6%	35.1%	35.1%
StanC PE	0.0%	19.7%	19.7%	19.7%	22.0%	22.0%
Others	50.3%	39.4%	38.7%	12.8%	7.9%	7.9%
Number of share o/s (mn)	138.9	185.4	185.4	298.9	298.9	298.9

Source: Jefferies, company data

Timeline of corporate restructuring

History of corporate restructuring and current major shareholders, AID and Ambit investments into subsidiaries

The major turning points for the company in the past few years have been on account of corporate restructuring and acquisitions. A few of these, most recently being the entry of Reliance Mediaworks, was facilitated to raise funds to complete the Double Negative acquisition. The key transactions in the recent years are as follows.

- **Standard Chartered Private Equity:** In November 2012, StanC PE acquired 36.5mn equity share in Prime Focus Limited on a preferential basis for aggregate amount of USD35mn at price of INR51.75 per share. StanC PE also issued INR denominated NCD (Non-Convertible Debentures), equivalent of USD35mn. In September 2015, StanC bought 29.1mn shares from Reliance Mediaworks for INR1,513mn at price of INR52 per share.

- **AID Capital Partners Limited:** In March 2013, AID invested USD10mn in Prime Focus World (Creative business), valuing it at an EV of USD250mn. AID is private equity firm focused on buyout and expansion capital in media and entertainment industry.

- **Macquarie Capital:** In June 2013, Macquarie Capital invested USD53mn equity investment into Prime Focus World (creative division) to be deployed in two phases for growth and international expansion.

- **Reliance Mediaworks:** In April 2015, Reliance Capital invested INR1.2bn in Prime Focus Limited at a price of IN52 per share, subscribing to 23mn shares. This came after a merger of the two entities earlier in 2014.

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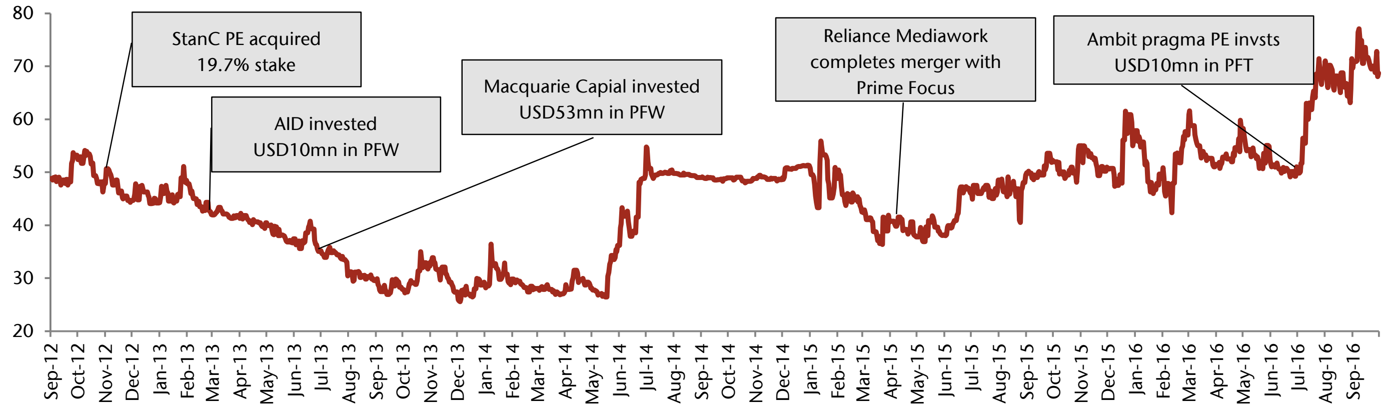
- **Ambit Pragma PE**: In August 2016, Ambit Pragma PE invested USD10mn in Prime Focus Technologies (ERP and Tech business), valuing it at an enterprise value of USD200mn

Exhibit 46: Stock price and timeline of key corporate restructurings



Source: Jefferies, company data

Deal with Reliance Mediaworks

Merger included assets and a total injection of INR2.4bn from promoter and Reliance, into the combined entity

Reliance Mediaworks came into the company in 2014 with a combination of asset merger as well as injection of money which along with the injection from the promoter was used to finance the merger of Double Negative. The promoter group and Reliance each injected INR1.2bn into the combined entity.

Exhibit 47: Details of the transaction

Total shares o/s pre transaction (mn)	185
Total shares o/s post transaction (mn)	299
Pre transaction shareholding	
Promoter	41.6%
SCPE	19.7%
Others	38.7%
Total	**100.0%**
Pre transaction shares held (mn)	
Promoter	77.0
SCPE	36.4
Others	71.6
Post transaction shareholding	
Promoter	33.5%
Reliance Media Works	30.2%
SCPE	12.3%
Others	24.0%
Total	**100.0%**
Post transaction shares held (mn)	
Promoter	100.2
Reliance Media Works	90.3
SCPE	36.8
Others	71.8
Shares issued to Promoter	23.2
Shares to Reliance Mediaworks	90.3

Source: Jefferies, company data

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Reliance Mediaworks was valued at INR3.5bn of equity and assumed debt along with multiple assets which came into the merged entity:

- 200,000 square feet studio facility in Film City
- 90,000 square feet SEZ in Navi Mumbai and 75,000 square feet facility in Film City
- 30% stake in Digital Domain (which was sold in April 2016 for USD30mn)
- 100% ownership in Lowry Digital

The combined debt of Reliance Mediaworks and Double Negative during this transaction was INR2.5bn.

Post the transaction, the promoter group and Reliance Mediaworks acquired an additional 16ppt stake in the company through an open offer, 9.7ppt of which was later sold to Standard Chartered Private Equity in 2015.

Acquisitions made by the company

Acquisition ex-Reliance deal at >USD100mn over past three years

The company's positioning in each of its key areas of business has been on account of acquisition made, which have also helped build scale and the ability to offshore some parts of the business. The key acquisitions made by the company are as follows, with total value of the three acquisitions well above USD100mn.

Exhibit 48: Details of acquisitions made by the company

Date	Company acquired	Details
Mar-14	Dax	Provider of cloud-based production workflow to achieve deeper penetration in North America via cross selling services to DAX Clients, EV of cCAD16mn
Jun-14	Double Negative	One of the world's foremost providers of VFX, thereby creating among the largest Independent Tier I VFX services firm in the world, EV of the transaction at cGBP55mn
Jan-15	Gener8	Global leader in 3D conversion market), the two companies together enjoy market share of ~30% in the Hollywood stereo conversion market. EV of cUSD12mn

Source: Jefferies, company data

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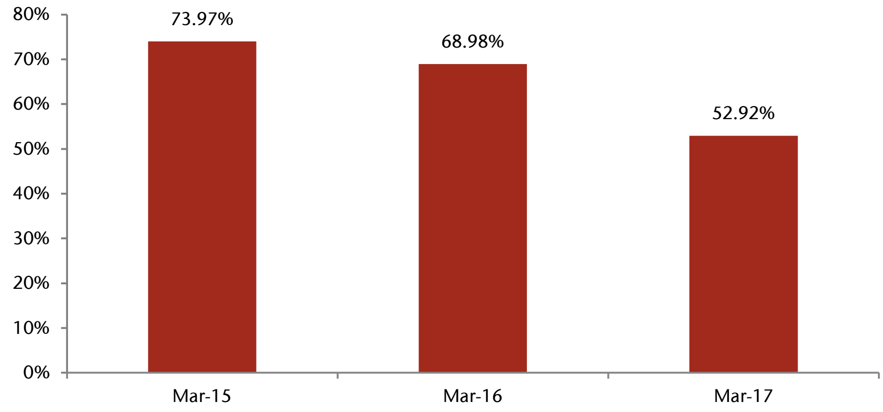
Pledged shares – half of the promoter holding

% of promoter shares pledged has gone down in FY17

Currently, over 52% of the promoter holding is pledged. This is on account of the loans (plain vanilla debt, structure loans and non-convertible debentures) that lies on the company's books, which the promoter group has backed by the way of personal guarantees and share pledged. The trend is downward, helped both by the reducing debt at the company and increasing share price. We believe that any risk on this account will be a result of risk in business, a low probability event given the strong momentum being shown by the company.

Exhibit 49: % of promoter shareholding pledged



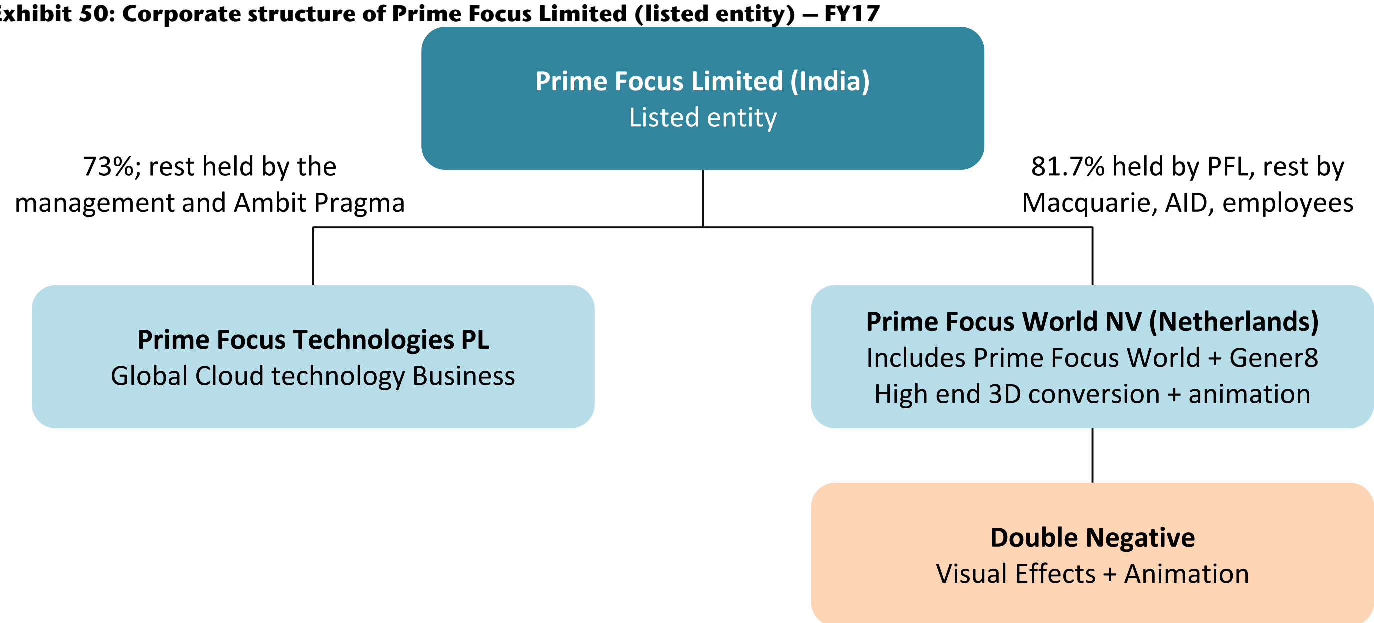
Source: Jefferies, company data

Corporate structure

Investment by financial institutions into subsidiaries and restructuring results in listed entity holding a diluted stake in the major businesses

Owing to the investments at the subsidiary level by PE investors and mergers at the subsidiary levels have led to the holding company (listed entity) having diluted stake in each of its two major subsidiaries. In fact, for Prime Focus World on a fully diluted basis is owned 81.7% by Prime Focus Limited as of March 2017 with the rest being held by Macquarie Capital, AID Partners and employees of Double Negative.

Exhibit 50: Corporate structure of Prime Focus Limited (listed entity) – FY17



Source: Jefferies, company data

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Debt profile of the company

Debt reduction underway, should improve as profitability improves

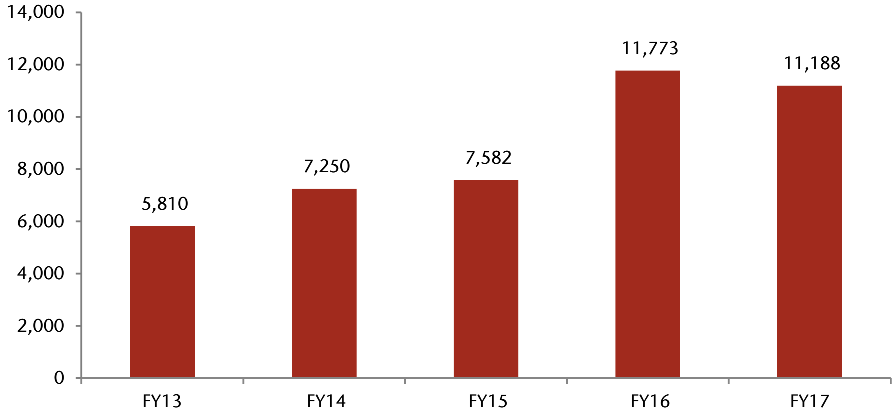
Over the recent quarters, the company has tried to pare down debt with the sale of non-core assets and improving cash flows. Over the past year, the company has done the following transactions over the past year:

- Sold fixed assets (building) worth USD20mn (cINR1.3bn).
- Divested illiquid stake in Digital Domain subsidiary for USD30mn.
  - Second part of the transaction for USD20mn in marketable securities is still in process

There are also efforts towards reducing high cost India debt via re-financing with cheaper and longer-tenure debt, current blended interest cost is c10%.

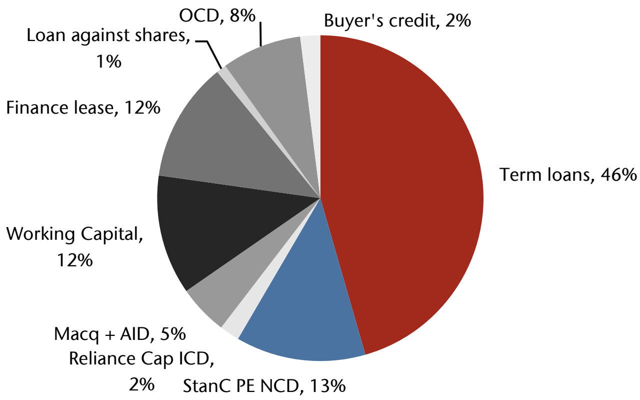
FY17 debt restated to include some warrants which were included in equity earlier, due to Ind-AS

Exhibit 51: Net debt on books, INR mn



Source: Jefferies, company data

Exhibit 52: Composition of debt, FY17



Source: Jefferies, company data

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Details of ESOP plan and stock grant at subsidiary level

6% dilution in FY20E due to ESOP vesting

The company had approved an ESOP plan in August 2014 where up to 6% of the paid up capital of the company (post the preferential allotment in 2015). This aggregated to 17.9mn stock options to be paid to all eligible employees of the company, subsidiaries and associates. While the company has not disclosed details of this ESOP plan, we believe that a bulk of the ESOPs has been already granted and with vesting period of 3-5 years should start hitting the share count in FY20E.

Exhibit 53: Details of the ESOP plan (mn shares)

Current shares o/s	298,879
ESOPs	17,933
Post ESOP o/s	316,812
% dilution	6.0%

Source: Jefferies, company data

Hedging policy

Hedging done for CAD and GBP to maintain margins

Despite c80% of the revenues for the company in USD, the company hedges only to the extent of costs in Canadian Dollar (CAD) and GBP (Great Britain Pound) thereby to maintain margins. INR costs are not hedged due to the company's view that INR is unlikely to appreciate sustainably against the USD over longer period of time, this remains a key risk in case of a significant appreciation of the INR. The performance benchmarking on both revenue growth and margin remains reported numbers in INR terms.

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Cash flow impaired due to investments and changes in business

Cash flows have suffered amidst significant business changes, should improve going forward

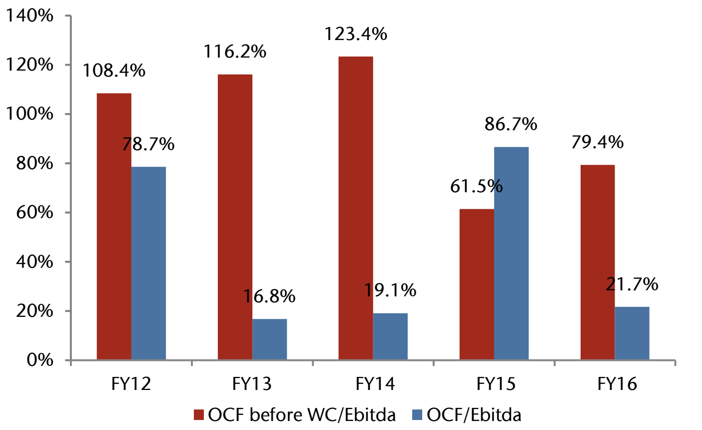
Cash flows for the company have been impaired in the past due to investments being made and the changing nature of business keeping the working capital volatile (on the back of increasing receivable cycle and loans and advances). These should now be behind in our view, as business ramps up, profitability improves and company tightens its working capital cycle (receivable days have already come down significantly).

Exhibit 54: Cash flow details, as reported (INR mn)

	FY12	FY13	FY14	FY15	FY16
OCF before working capital	2,400	2,036	2,445	1,712	1,645
Impact of WC changes	(659)	(1,742)	(2,066)	702	(1,195)
OCF after working capital	1,741	294	380	2,414	450
Operating cash flow	1,664	174	259	2,127	296
Investing cash flow	(1,755)	(1,320)	(2,415)	(5,284)	(989)
Financing cash flow	115	1,694	1,783	2,543	1,234
Total cash flow	135	177	(350)	(613)	554

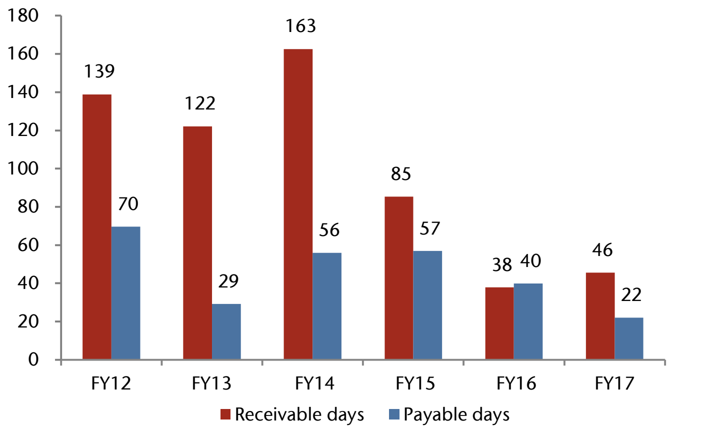
Source: Jefferies, company data *FY17 cash flow number not yet disclosed

Exhibit 55: Cash flow conversion from EBITDA



Source: Jefferies, company data *FY17 cash flow number not yet disclosed

Exhibit 56: Receivable and payable days



Source: Jefferies, company data

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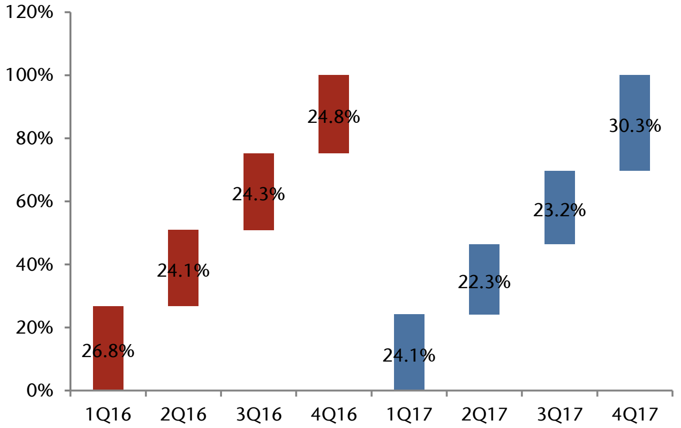
Seasonality of the business

Last quarter the strongest in the year

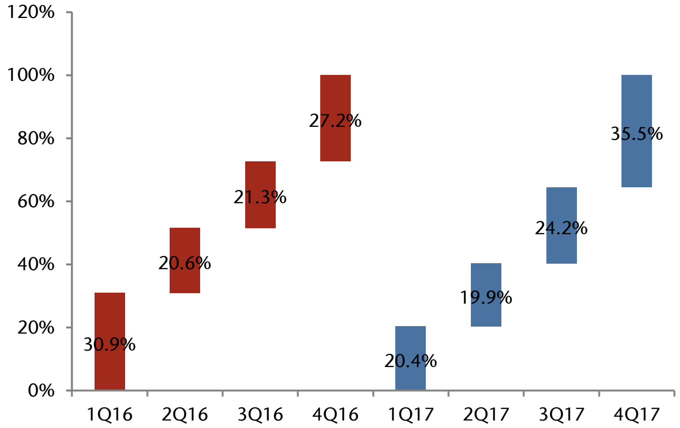
The strong seasonality of the business is pronounced towards the March quarter i.e. the last quarter of the fiscal. This was more evident in FY17 which was the first full year post the corporate restructuring. More than 30% of the revenue and 36% of the Ebitda in FY17 was booked in the last quarter.

Exhibit 57: Seasonality of revenue in past eight quarters



Source: Jefferies, company data

Exhibit 58: Seasonality of Ebitda in past eight quarters



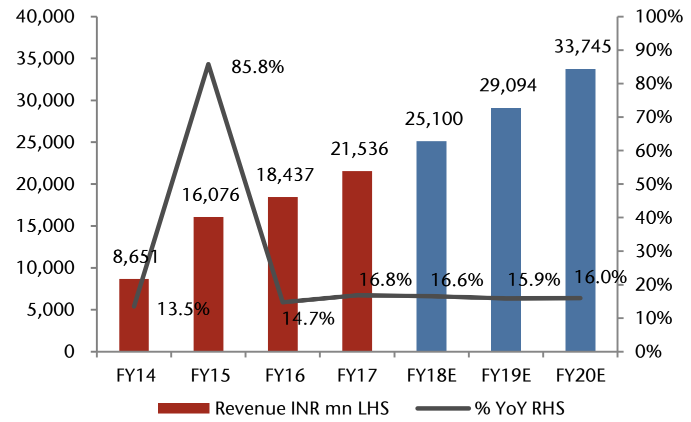
Source: Jefferies, company data

Growth and profitability estimates

16% CAGR in revenue, 23% in EBITDA for FY17-20E

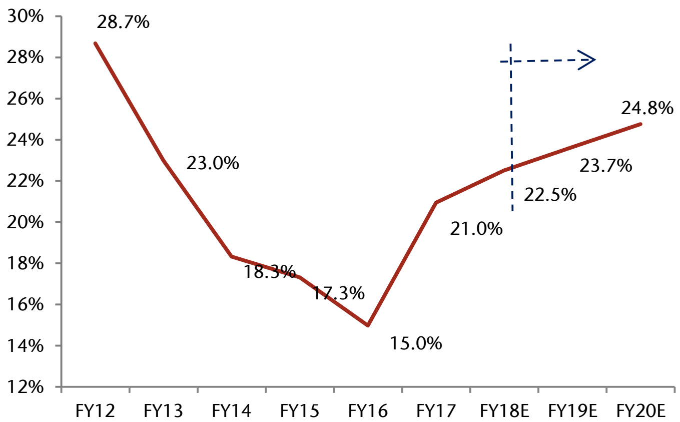
We forecast 16% revenue CAGR over FY17-20E for revenue on the back of strong traction and backlog in both creative and the tech businesses. Margins should also improve on the back of more work delivered from India based locations and operating leverage on the back of growth. This cumulatively leads to an EPS CAGR of 100% over FY17-20E excluding the exceptional (booked in FY17).

Exhibit 59: Revenue growth projections (annualised to fiscal)



Source: Jefferies estimates, company data

Exhibit 60: EBITDA margin projections



Source: Jefferies estimates, company data

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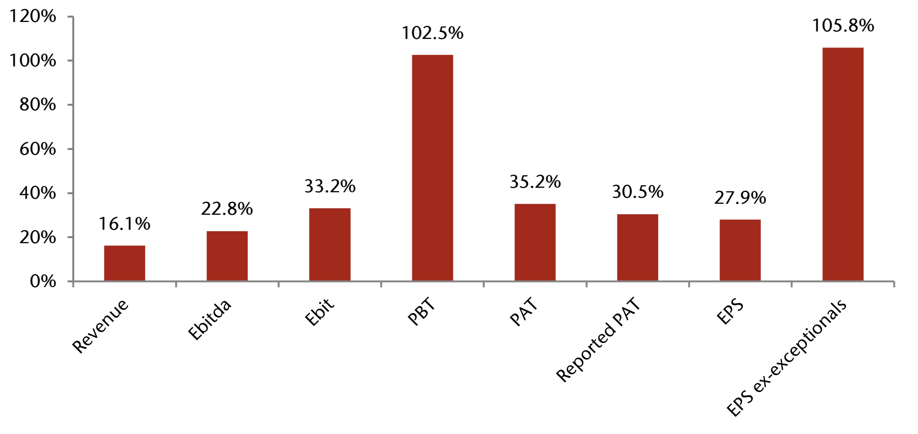
Exhibit 61: FY17-20E CAGR

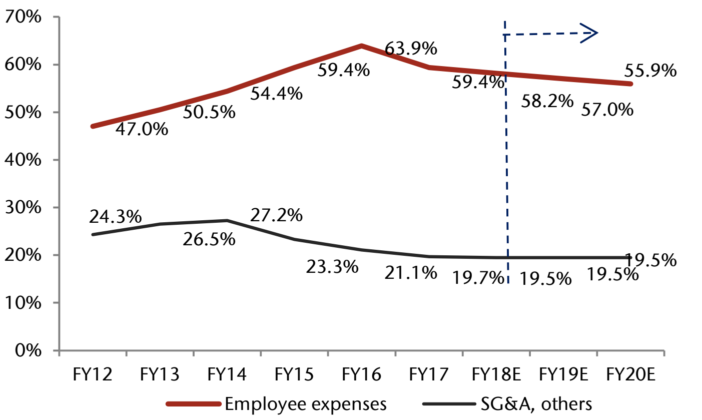


Source: Jefferies estimates

Personnel cost increase due to international expansion and acquisitions

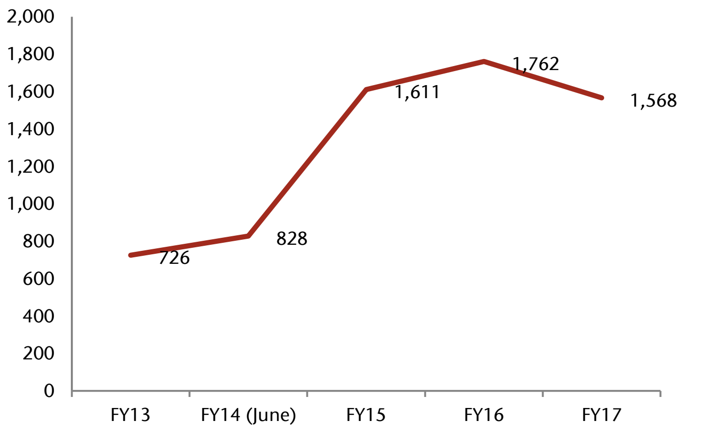
The main reason for decline in margins for the company is the steep increase in employee expenses, especially due to international expansion and the acquisitions abroad. This is reflected in the steep increase in personnel costs in FY15 and FY16. This is also evident from the per capita increase in costs during the same period. The latter has since declined in FY17 as offshore (India) has ramped up, a trend likely to continue and pull up margins.

Exhibit 62: Expenses as % of revenue



Source: Jefferies estimates, company data

Exhibit 63: Per capita employee cost, INR 000 per annum



Source: Jefferies estimates, company data

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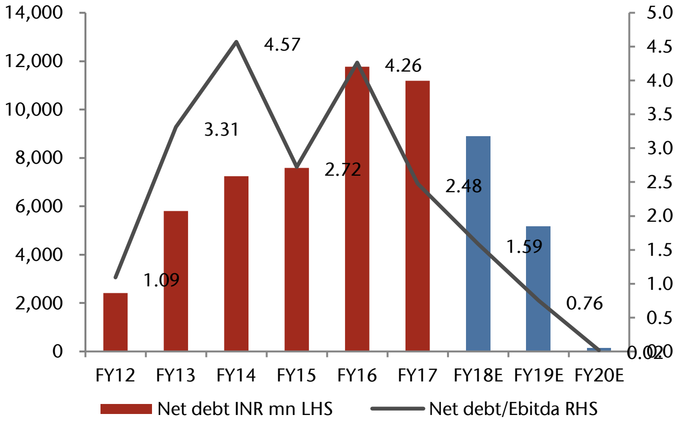
Balance sheet to improve

Improve cash generation should reduce debt, debt free in three years

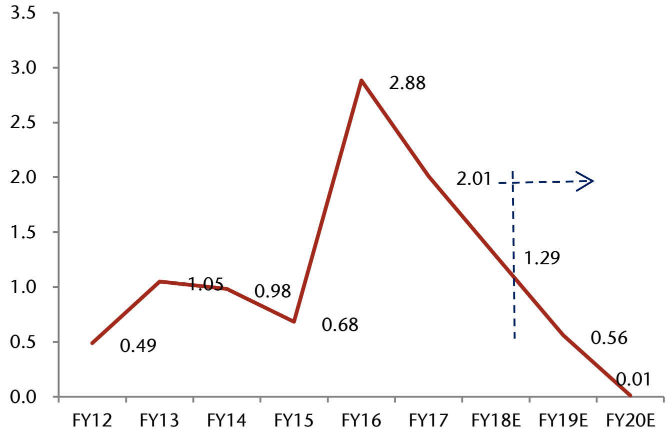
With growth and profitability and improving cash flows, balance sheet is likely to improve further. We believe that if the company were not to undertake further acquisitions or seek avenues for inorganic growth, it could become debt free in three years' time i.e., by FY20. Even as of FY17, net debt to EBITDA was reasonable at 2.5x.

Exhibit 64: Net debt projections



Source: Jefferies estimates, company data

Exhibit 65: Net debt to equity



Source: Jefferies estimates, company data

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Relative valuations – no true peer in the listed space

Nature of business and growth drivers is quite unique

Given the nature of business, creative services to major film studios and ERP software for M&E industry, there are no real peers in the listed space. While we can use large global media giants like Disney, Time Warner, Indian IT services majors and Indian media companies as peers to evaluate on relative valuations, the nature of business and growth drivers for Prime Focus is quite unique.

Exhibit 66: Relative valuation comparison

Company Name	Ticker	Mkt Cap	EV/Sales			EV/EBITDA			P/E			FY17-20 CAGR (%)		
		(US$ m)	2018	2019	2020	2018	2019	2020	2018	2019	2020	Sales	EBITDA	EPS
Global Media														
Walt Disney Co	DIS US	165,298	3.2x	3.0x	2.9x	10.4x	9.6x	9.1x	17.4x	15.3x	14.1x	3.8	6.2	8.4
Time Warner	TWX US	78,771	3.2x	3.1x	2.9x	11.4x	10.7x	10.0x	16.8x	15.4x	14.0x	5.1	6.7	12.9
Dolby Labs*	DLB US	5,036	4.1x	3.8x	3.5x	10.4x	9.3x	Nm	23.2x	19.7x	14.8x	6.7	nm	22.4
Viacom	VIA US	13,494	1.9x	1.9x	1.8x	8.3x	7.8x	7.4x	9.9x	9.2x	8.6x	3.6	7.4	6.6
20th Century Fox	FOXA US	52,155	2.4x	2.3x	2.2x	9.4x	8.8x	8.3x	14.7x	13.5x	11.5x	4.7	7.4	19.6
Imax Corp*	IMAX US	1,442	3.5x	3.1x	2.9x	10.9x	8.7x	8.1x	27.0x	19.4x	16.1x	6.9	16.5	45.8
Beijing Enlight*	300251 CH	3,591	10.1x	8.1x	7.6x	28.3x	21.9x	18.7x	29.3x	23.3x	20.8x	21.0	31.7	16.6
Mean			**4.1x**	**3.6x**	**3.4x**	**12.7x**	**11.0x**	**10.3x**	**19.7x**	**16.6x**	**14.3x**	**7.4**	**12.6**	**18.9**
IT Services														
Accenture	ACN US	80,106	2.2x	2.1x	2.0x	13.2x	12.3x	11.5x	21.1x	19.3x	17.8x	4.1	6.7	2.0
Cognizant	CTSH US	39,398	2.5x	2.3x	2.1x	11.1x	9.8x	8.7x	18.3x	15.7x	13.9x	9.1	16.3	23.5
TCS	TCS IN	71,672	3.3x	3.0x	2.8x	12.3x	11.3x	10.4x	17.0x	15.6x	14.3x	8.2	7.1	6.9
Infosys	INFO IN	33,721	2.5x	2.3x	2.1x	9.5x	8.7x	8.1x	14.7x	13.4x	12.5x	7.8	6.5	6.1
Wipro	WPRO IN	19,368	1.9x	1.8x	1.7x	9.4x	8.8x	8.6x	14.7x	13.6x	12.6x	5.0	2.7	5.3
HCL Tech	HCLT IN	18,451	2.1x	1.9x	1.7x	9.6x	8.7x	8.2x	13.5x	12.3x	11.5x	9.5	8.2	6.3
Mean			**2.4x**	**2.2x**	**2.1x**	**10.8x**	**9.9x**	**9.2x**	**16.5x**	**15.0x**	**13.8x**	**7.3**	**7.9**	**8.4**
Indian Media														
Zee	Z IN	7,410	6.9x	6.0x	5.3x	21.3x	18.1x	15.6x	32.3x	26.9x	23.2x	11.1	20.7	(1.9)
Sun TV*	SUNTV IN	5,019	10.3x	9.0x	7.9x	15.4x	12.9x	11.2x	27.7x	23.0x	19.6x	14.7	13.3	17.3
PVR Ltd*	PVRL IN	1,015	2.9x	2.5x	2.1x	15.7x	12.8x	11.1x	39.5x	29.0x	24.0x	18.3	28.4	42.4
Inox Leisure*	INOL IN	426	1.9x	1.7x	1.4x	12.7x	10.2x	8.1x	34.2x	24.0x	16.9x	19.3	32.7	72.2
Mean			5.5x	4.8x	4.2x	16.3x	13.5x	11.5x	33.4x	25.7x	20.9x	15.8	23.7	32.5
Prime Focus	**PRIF IN**	**507**	**1.6x**	**1.3x**	**1.0x**	**7.4x**	**5.5x**	**4.2x**	**29.2x**	**17.4x**	**12.3x**	**16.1**	**22.5**	**27.2**

Source: Jefferies estimates, NC data from Bloomberg; closing prices as of 7th July 2017; * denotes companies not covered (NC)

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Initiate at Buy, 12M PT of INR150 based on DCF

DCF based PT of INR150, implies 24x/17x on FY19/20E EPS

Our 12-month price target of INR150 is based on DCF valuation and implies a 24x/17x multiple on FY19/20E forecasts. This is in line with valuations for the Indian media sector peers. We believe that this is also justified by the 23% EBITDA CAGR that we project for the company over FY17-20E; initiate at Buy. The sensitivity of PT to various levels of terminal growth and WACC is given in the exhibit below.

Exhibit 67: Key assumptions on DCF, INR mn

Terminal growth	5.0%
Cost of equity	12.5%
NPV	50,091
Net debt as of FY19	5,152
Equity value	**44,939**
No of share o/s (mn)	299
PT (INR)	**150**

Source: Jefferies estimates

Exhibit 68: Sensitivity of price target on our DCF

		Terminal growth				
		1.0%	*3.0%*	*5.0%*	*7.0%*	*9.0%*
WACC	*11.0%*	151	167	194	249	412
	11.5%	141	155	177	219	329
	12.0%	133	144	163	196	273
	12.5%	125	135	150	177	234
	13.0%	118	126	139	161	204
	13.5%	111	119	130	147	181

Source: Jefferies estimates

Risks

- Growth in recent years and positioning has been led by acquisitions
- Double Negative which is the major differentiator for the company is dependent on key people who run the business and the relationships
- Change in movie trends away from high visual effects could be a major business risk
- Continued restructurings and poor cash flow conversion

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Discounted cash flow model

Exhibit 69: DCF model, INR mn

	FY12	FY13	FY14 (15M)	FY15	FY16 (9M)	FY17	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue	7,719	7,622	10,814	16,076	13,828	21,536	25,100	29,094	33,745	38,634	43,652	48,666	53,526	58,069	62,127	65,536	68,812	72,253	75,866
% YoY		-1.3%	41.9%	48.7%	-14.0%	55.7%	16.6%	15.9%	16.0%	14.5%	13.0%	11.5%	10.0%	8.5%	7.0%	5.5%	5.0%	5.0%	5.0%
Ebitda	2,214	1,753	1,982	2,785	2,071	4,513	5,601	6,823	8,291	9,492	10,724	11,956	13,150	14,267	15,263	16,101	16,906	17,751	18,639
Ebitda margin	28.7%	23.0%	18.3%	17.3%	15.0%	21.0%	22.3%	23.5%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%	24.6%
D&A	711	999	1,332	2,211	2,007	2,546	2,887	3,259	3,712	4,057	4,365	4,623	4,817	4,936	4,970	4,915	4,817	4,696	4,552
% D&A	9.2%	13.1%	12.3%	13.8%	14.5%	11.8%	11.5%	11.2%	11.0%	10.5%	10.0%	9.5%	9.0%	8.5%	8.0%	7.5%	7.0%	6.5%	6.0%
Interest income	(146)	(244)	(227)	(905)	(375)	(1,448)	(1,027)	(736)	(341)	68	78	90	104	119	137	158	181	208	240
% inc		67.0%	-7.0%	299.0%	-58.5%	286.1%	-29.1%	-28.4%	-53.7%	-120%	15%	15%	15%	15%	15%	15%	15%	15%	15%
PBT	1,357	510	424	(331)	(348)	519	1,688	2,829	4,238	5,503	6,438	7,423	8,437	9,450	10,430	11,343	12,270	13,263	14,327
Tax rate	22.1%	-78.1%	16.8%	-98.2%	-67.9%	17.3%	20.0%	20.0%	20.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
PAT	1,028	(169)	179	(3,131)	(1,419)	1,397	1,350	2,263	3,390	4,127	4,828	5,567	6,328	7,087	7,823	8,508	9,203	9,947	10,745
Minority	(35)	(35)	64	209	335	(123)	(243)	(407)	(610)	(867)	(1,014)	(1,169)	(1,329)	(1,488)	(1,643)	(1,787)	(1,933)	(2,089)	(2,256)
Reported PAT	993	(203)	243	(2,922)	(1,084)	1,274	1,107	1,856	2,780	3,261	3,814	4,398	4,999	5,599	6,180	6,721	7,270	7,858	8,489
WC	(659)	(1,742)	(2,066)	702	(1,195)	(2,398)	(186)	257	270	(733)	(753)	(752)	(729)	(681)	(609)	(511)	(492)	(516)	(542)
Capex	(1,876)	(1,508)	(2,262)	(3,195)	(2,232)	(1,486)	(1,757)	(2,037)	(2,362)	(2,511)	(2,837)	(3,163)	(3,479)	(3,774)	(4,038)	(4,260)	(4,473)	(4,696)	(4,931)
FCF	(830)	(2,454)	(2,753)	(3,203)	(2,504)	(64)	2,051	3,334	4,400	4,073	4,589	5,106	5,608	6,079	6,503	6,865	7,123	7,342	7,567
TV																			105,942

Source: Company data, Jefferies estimates

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Key financials

Exhibit 70: Summary profit and loss, INR mn

Y/E March	FY16 (9M)	FY17	FY18E	FY19E	FY20E
Revenue	13,828	21,536	25,100	29,094	33,745
Annualized % YoY	14.7%	16.8%	16.6%	15.9%	16.0%
Total expenses	11,757	17,023	19,499	22,271	25,455
Ebitda	2,071	4,513	5,601	6,823	8,291
Ebitda margin (%)	15.0%	21.0%	22.3%	23.5%	24.6%
D&A	2,007	2,546	2,887	3,259	3,712
Ebit	64	1,967	2,715	3,564	4,579
Ebit margin (%)	0.5%	9.1%	10.8%	12.3%	13.6%
Other income	(412)	(1,448)	(1,027)	(736)	(341)
PBT	(348)	519	1,688	2,829	4,238
Tax	(236)	(90)	(338)	(566)	(848)
PAT	(1,084)	1,274	1,107	1,856	2,780
EPS (INR)	(3.63)	4.26	3.70	6.21	8.78
% YoY	nm	nm	-13.1%	67.6%	41.3%

Source: Jefferies estimates

Exhibit 71: Summary balance sheet, INR mn

Y/E March	FY16 (9M)	FY17	FY18E	FY19E	FY20E
Shareholder funds	4,082	5,565	6,915	9,178	12,568
Long Term Borrowings	5,555	10,863	8,863	6,863	4,863
Longer term liabilities and provisions	6,477	4,659	4,659	4,659	4,659
Short-Term Borrowings	7,353	1,584	1,084	584	584
Trade payables	2,012	1,297	1,950	2,227	2,545
Other current liabilities	8,665	9,492	10,741	12,238	13,958
Total liabilities and equity	34,144	33,460	34,212	35,750	39,177
Total fixed assets	23,731	22,671	21,541	20,320	18,970
Other non-current assets	3,150	2,074	2,074	2,074	2,074
Trade receivables	1,911	2,694	4,016	4,655	5,399
Cash and cash equivalents	1,135	1,259	1,053	2,295	5,305
Other current assets	4,218	4,761	5,527	6,406	7,429
Total assets	34,144	33,460	34,213	35,750	39,178

Source: Jefferies estimates

Exhibit 72: Summary cash flow, INR mn

Y/E March	FY16 (9M)	FY17	FY18E	FY19E	FY20E
PBT	(1,183)	1,487	1,688	2,829	4,238
Depreciation and amortization	2,007	2,546	2,887	3,259	3,712
Other income	571	1,034	1,027	736	341
Operating profit before WC	1,645	5,067	5,601	6,823	8,291
Change in working capital	(1,195)	(2,398)	(186)	257	270
Cash flow from operations	296	2,579	5,078	6,514	7,713
Cash flow from investing	(989)	(1,486)	(1,757)	(2,037)	(2,362)
Cash flow from financing	1,234	(461)	(3,527)	(3,236)	(2,341)
Net cash flows	554	351	(206)	1,241	3,010

Source: Jefferies estimates

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Appendix 1 – Management Profiles

Namit Malhotra

Founder, Executive Chairman and Global CEO, Prime Focus

As the founder of Prime Focus, Namit has been responsible for the strategy, growth and success of Prime Focus from its beginnings in Mumbai in 1997 to its current position as the world's largest independent and integrated media services powerhouse. In his present role, Namit actively seeks out projects, builds strong talent pool within the company and deliver to clients' world-class creative and technical services and intelligent financial solutions.

Ramki Sankaranarayanan

Managing Director (Also, Founder and CEO, Prime Focus Technologies)

In his role as managing director, Ramki spearheads the group's operational planning that reflects the longer-term objectives and priorities established by the board. Ramki has 18 years of IT industry experience. Prior to starting PFT in 2007, he was CEO of Subex Technologies and before that, Global Head of Sales and Marketing for Product R&D Services at Tata Elxsi. Ramki is an engineering graduate from BITS Pilani and an MBA from SP Jain Institute of Management and Research, India.

Nishant Fadia

Group Chief Operating Officer

Nishant took up this role in August 2014 and is responsible for identifying new expansion opportunities and driving overall operational efficiencies for the group. Before this, for 14 years as its first CFO, Nishant was the face of Prime Focus to the financial community. He took the company public in 2006. Nishant is a Chartered Accountant from the Institute of Chartered Accountants of India (ICAI) and CPA from the American Institute of Certified Public Accountants (AICPA) in the US.

Vikas Rathee

Group Chief Financial Officer

Vikas has over 17 years in Corporate Finance, TMT (Telecom, Media and Technology) Investment Banking, Capital Markets and M&A across US, Europe and Asia. Before this, Vikas was Head - Corporate Finance and M&A at Suzlon Energy, Principal - TMT Investment Banking at Bank of America Merrill Lynch and Executive Director - TMT Investment Banking at ABN AMRO. Vikas is a CFA, an MBA in Finance from the R.H. Smith School of Business, University of Maryland and an Engineering graduate from Delhi Institute of Technology, Delhi University.

Alex Hope

Co-Head of VFX, MD and Co-founder Double Negative

Alex has over 18 years of experience in the VFX industry and was awarded an OBE for this contribution to the VFX industry in 2011

Mathew Holben

Co-Head of VFX, CEO and Co-founder Double Negative

Mathew primarily oversees management and business development for Double Negative. He has been instrumental in the setup of the company's new state-of-the-art London facility and the launch of three important divisions: Double Negative Films, Double Negative TV and Feature Animation.

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Appendix 2 – Board of Directors

Namit Malhotra
Chairman and Executive Director
Profile in Appendix 1

Naresh Malhotra
Whole time Director
A veteran in the Indian M&E industry, Naresh set up India's first digital audio studio in 90s and also started providing equipment rental services to TV and ad film makers. Naresh was Chairman of the Board from 1997 to June 2014.

Ramki Sankaranarayanan
Managing Director (Also, Founder and CEO, Prime Focus Technologies)
Profile in Appendix 1

Udai Dhawan
Director (Representing Standard Chartered PE)
Udai is a Managing Director and the Head for Standard Chartered Private Equity (SCPE) in India. He joined SCPE in 2008 and has been involved in substantial number of SCPE's investments in India till date, and serves on the board of many of the fund's portfolio companies. Prior to SCPE, Udai worked for 13 years in financial services focused on corporate investing, M&A and corporate finance, both in India and the United States. Udai's roles have included senior positions with Kotak Mahindra Capital in investment banking, with Sabre in corporate development, and with Arthur Andersen in corporate finance advisory. Udai is an MBA from the Wharton School, University of Pennsylvania and is a Chartered Accountant from the Institute of Chartered Accountants of India.

Amit Bapna
Non-Executive Director (Representing Reliance Mediaworks)
Amit is a Chartered Accountant with extensive experience in varied business environments, from manufacturing to financial services. He is the Chief Financial Officer at Reliance Capital, where he provides financial direction, oversight and control for Reliance Capital and Group companies. He earlier worked in the capacity of CFO of Reliance Capital Asset Management Ltd and Reliance Consumer Finance where he played a key role and has been a significant contributor to the exponential growth of the business.

Samu Devarajan
Non- Executive Director (Independent)
An industry veteran, Samu Devarajan brings wealth of management experience having previously held the position of Managing Director of CISCO Systems India. As CEO and MD, he helped TATA Elxsi from loss making organization to one of the most successful companies of the TATA Group. Dev is currently the Chairman of Board of Directors at ADC India Communications Limited, Independent Director at Neilsoft Limited and founder and President of Transmation Consulting, his own strategy consulting firm.

Kodi Raghavan Srinivasan
Non- Executive Director (Independent)
Srinivasan is a Chartered Accountant and Cost Accountant with extensive experience in the fields of Internal, Statutory and Management audits, corporate laws, taxation laws, financial consultancy, and Costing and Management Information services.

Padmanabha Gopal Aiyar
Non- Executive Director (Independent)
Padmanabha Gopal Aiyar has been a practicing Advocate at the Bombay High Court for the past 30 years. He has expert knowledge of Civil Law, Company Law and industrial arbitration matters. He is well respected in judicial circles for his sincerity and integrity.

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Rivkaran Chadha

Non- Executive Director (Independent)

Rivkaran is an MBA in finance from Cardiff University, England and Wales. A successful businessman, he provides valuable inputs for the framing and implementation of financial strategies of Prime Focus.

Dr. (Mrs.) Hemalatha Thiagarajan

Non- Executive Director (Independent)

Dr. Hemalatha Thiagarajan is an accomplished academician with over 35 years of experience. She has taught at both Loyola College and Meenakshi College for Women in Chennai, was the principal of Regional Engineering College (REC) Trichy and Director of National Institute of Technology (NIT) Trichy. She holds a Master of Science (M Sc.) and Master of Philosophy (M Phil.) degree in mathematics and doctorate (Ph. D) in operational research. She has guided multiple doctoral theses and travelled to the UK, South Korea, Thailand and Canada as part of academic delegations and presented papers at international conferences. She was a member of the core training group preparing students for International Mathematics Olympiad.

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Appendix 3 – Key milestones

Exhibit 73: Brief history of the company

Date	Events
1997-2004	▪ First high-end finishing, scanning and recording, DI systems player in India ▪ Only VFX company to operate a motion-control rig
2006-07	▪ Entry into the U.S. through acquisition of Post Logic and Frantic Films ▪ Entry into UK market ▪ IPO of Prime Focus Ltd on BSE
2009-10	▪ Launch of View-D and CLEAR (Media ERP Platform) ▪ First to convert an entire film Clash of the Titans to 3D
2011-12	▪ 3D Conversion of Star Wars E1 ▪ PFT digitizes Star TV's content operations through CLEAR ▪ Animation launched ▪ Investment by SCPE FCCB successful redemption
2013	▪ Investment by AID Partner in Prime Focus World ▪ JV to enter China market ▪ Investment by Macquarie ▪ Won the largest VFX order in history of PFL – Sin City 2 ▪ Launch of PFT's digital playout business - Starsports.com
2014	▪ Merger of PFW and Double Negative ▪ Completed acquisition of DAX in PFT ▪ Raised OCDs in PFT ▪ Announced merger with Reliance Mediaworks' media services arm ▪ Equity infusion of INR2.4bn by Reliance and Promoters
2015	▪ Completed merger with RMW's FMS business ▪ Won 87th Academy Award for Best VFX for Interstellar ▪ Increased number of facilities from 16 to 21 ▪ Strategic partnership with Gener8
2016	▪ Won Academy Award for Best VFX for Ex Machina

Source: Company data

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Appendix 4 – Companies mentioned in the report

- Disney (DIS US, USD103.3, Hold)
- Time Warner (TWX US, USD101.2, Buy)
- Dolby Laboratories (DLB US, USD50.3, NC)
- Viacom (VIAB US, USD33.2, Buy)
- Twenty First Century Fox (FOXA US, USD27.9, Buy)
- Imax Corp (IMAX US, USD21.5, NC)
- Beijing Enlight Media (300251 CH, CNY8.15, NC)
- Accenture (ACN US, USD124.2, Hold)
- Cognizant (CTSH US, USD66.9, Buy)
- Tata Consultancy (TCS IN, INR2341, Buy)
- Infosys (INFO IN, INR945, Buy)
- Wipro (WPRO IN, INR257, Underperform)
- HCL Tech (HCLT IN, INR838, Hold)
- Zee Entertainment (Z IN, INR375, Hold)
- Sun TV (SUNTV IN, INR827, NC)
- PVR Ltd (PVRL IN, INR1418, NC)
- Inox Leisure (INOL IN, INR275, NC)
- Reliance Mediaworks (RELMEDIA, INR59.9, NC)

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Company Description

Prime Focus Limited (PFL), is one of the world's largest independent integrated media services companies. It employs over 9,000 professionals in 15 cities across 4 continents and 6 time zones. It provides end-to-end creative services (visual effects, stereo 3D conversion and animation), technology products & services (Media ERP Suite and Cloud-enabled media services), production services (equipment rental) and post-production services (Digital Intermediate and picture post) to the media and entertainment industry.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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Company Specific Disclosures

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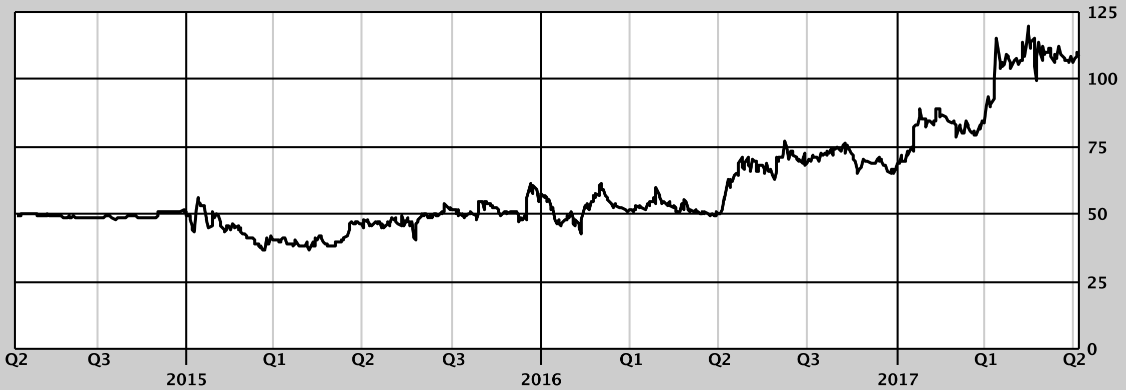
Other Companies Mentioned in This Report

- Accenture plc (ACN: $124.21, HOLD)
- Cognizant Technology Solutions Corp. (CTSH: $66.96, BUY)
- HCL Technologies (HCLT IN: INR831.90, HOLD)
- Infosys (INFO IN: INR935.40, BUY)
- Tata Consultancy Services (TCS IN: INR2,331.95, BUY)
- Twenty-First Century Fox, Inc. (FOXA: $27.90, BUY)
- Wipro (WPRO IN: INR257.70, UNDERPERFORM)
- Zee Entertainment Enterprises Ltd (Z IN: INR506.65, HOLD)

Rating and Price Target History for: Prime Focus Limited (PRIF IN) as of 07-07-2017



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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
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HOLD	898	42.28%	184	20.49%
UNDERPERFORM	155	7.30%	15	9.68%

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