



Phantom Digital Effects Limited

Review Report On IPO



IPO Details

Opening Date	Oct 12, 2022
Closing Date	Oct 14, 2022
Stock Exchange	BSE SME
Lot Size	1200 Shares
Issue Price	₹91-95 per share
Issue Size	30,63,600 Equity Shares
Application Amount	₹ 1,14,000

IPO Objective

Capital Expenditure for Setting up of Studios

General Corporate Expenses

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	78,64,200	87.38%
Public	11,35,800	12.62%

Promoter of the Company

1 Mr. Bejoy Arputharaj Sam Manohar

Competitive Strengths

- Well equipped with advance technology
- Experienced Promoters and Technically Sound Operation Team
- Marque Clientele

Company Background

- Company was incorporated in 2016 in the state of Tamil Nadu.
- Promoter Mr. Bejoy Arputharaj Sam Manohar started the journey of VFX and animation in the year 2011 by taking up small projects.
- Company is a Certified Trusted Partner Network (TPN) company, full-fledged creative VFX studio, based in India with offices operating in US and Canada.
- Company provides high-end visual effects solutions for commercials, feature films, and Web series globally. Phantom Digital Effects Limited offers all sorts of creative VFX works, ranging from Final Compositing and Roto to creating 3D Elements, Photo real creatures and Environments, 3D, match move, and Animations.
- Company had 306 employees as on 30th June, 2022

Financial Summary

For the Period Ended	(In Lacs)		
	Jun-22	Mar-22	Mar-21
Total Assets	2,108.34	1,491.08	731.95
Net Assets	936.64	525.53	35.32
Total Borrowings	276.91	251.81	385.25
Total Revenue	1,234.88	2,236.60	715.41
Profit After Tax	411.11	490.21	7.51



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Company Overview

Company was formed in the year 2016 and is engaged in the business of providing wide range of VFX services. The company's main services include - Completing a Shot with final compositing, creating 3D elements, photoreal creatures, and environments, Rig/Wire removal, paint cleanup, rotoscoping, 3D matchmove, 3D animation (storyboard, animation), Pre-visualization Game cinematics, Fire / water Fx and other natural phenomena 3D ride animation.

Analysis

Although the company has been incorporated in the year 2016, the promoter of the company has been taking small VFX projects from the year 2011 itself. Company is into the industry which has shown tremendous opportunity in the recent past and is expected to boom in the coming times.

With the growing popularity of VFX services, the company finds itself in a niche product/service segment. As claimed by the company, company has served thousands of shots for Domestic and International Films. As given in the website, company has worked in projects in various popular films/ web series like Beast, Grey's Anatomy, RRR, Silicon Valley, Avengers, Bahubali and many more.

Some of the recent Indian Projects & International Projects that the company has executed successfully and well recognised by the industry and well appreciated by the viewer are as under:

Indian Projects		
S. No	Name of the Movie	Scope of Work
1.	Vikram	VFX & CGI Compositing
2.	Beast	VFX
3.	RRR	VFX
4.	Minnal Murali	VFX & CGI Compositing
5.	Robot 2.0	VFX & CGI Compositing
6.	Bahubali 1 and Bahubali 2: The Conclusion	VFX Comp
7.	Puli (South)	Set Extensions, VFX, CGI & Bridge
8.	Ayirathil Oruvan	Photo Real CG Shots
9.	Maaveran	Set Extensions & Compositing
10.	Seemaraja	Set Extensions, CGI & VFX Compositing

International Projects		
S. No	Name of the Movie	Scope of Work
1.	Avengers	Stereo Roto & Paint
2.	Van Helsing	VFX Comp
3.	Transformers	Stereo Roto & Paint
4.	Dangerous	VFX
5.	Superman & Lois	VFX
6.	The Art of the Walking Dead Universe	VFX
7.	Outlander	VFX
8.	The Flash	3D Matchmove & Rotomation
9.	Grey's Anatomy	Roto & Paint

The revenue of the company had shown a huge jump from FY 21 to FY 22 and the reason for the same can be attributed to new films hitting the theatres after the slow down due to the pandemic.

The main region for the company is India followed by USA and Canada and the revenue bifurcation is given in the table below –

(Amount in lacs)

Country	2020-21		2021-22		30-06-2022	
	Amount	%	Amount	%	Amount	%
India	477.73	70.62%	1,571.49	70.37%	1,190.20	95.03%
Canada	158.02	23.36%	375.85	16.83%	15.18	1.21%
US	27.36	4.04%	206.15	9.23%	-	0.00%
Rest of World	13.34	1.97%	79.77	3.57%	47.12	3.76%
Total	676.44	100.00%	2,233.27	100.00%	1,252.50	100.00%

The top 10 clients of the company are –

(Amount in lacs)

Particulars	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	June 30, 2022
KJR Studios	-	-	236.00	200.00	200.00	573.48
DRP-Gunaa Teamworks	-	-	-	21.40	144.59	160.06
Zoic INC	-	-	-	-	44.68	142.90
RaajKamal Film International	231.16	162.00	-	-	35.40	141.60



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Particulars	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	June 30, 2022
Retrophiles Private Limited	-	-	-	-	421.85	84.37
MatchBox Shots LLP	-	-	-	-	54.62	50.70
VFX Cloud	136.19	89.10	73.43	75.06	90.11	9.64
Barnstorm	100.80	111.33	53.41	7.27	41.97	7.88
Side Street Post	-	5.32	78.67	219.92	116.34	5.54
Sun TV Network	-	-	-	-	539.56	-
24AM Studios	133.26	293.32	-	-	39.95	-
Eros International Media Ltd	-	-	153.99	150.76	-	-
The Vermillioan World	-	-	-	31.31	153.38	-
Konidela Production Company	-	12.39	106.20	-	-	-
Slingshot Creations	-	25.96	63.19	1.77	16.26	-

To conclude, the company has been into a growing segment, and after the pandemic, has shown good strength in the financial numbers. However, the industry is very competitive and is subject to regular innovations.

Industry Charts

Exhibit 1: Market Size of Media and Entertainment Market

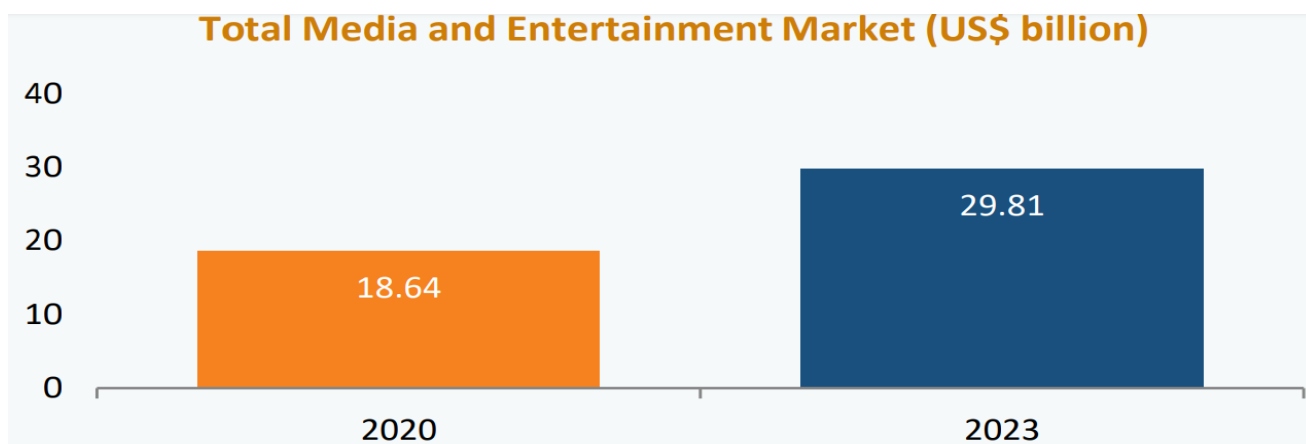


Exhibit 2: Sector Composition of Media and Entertainment Industry

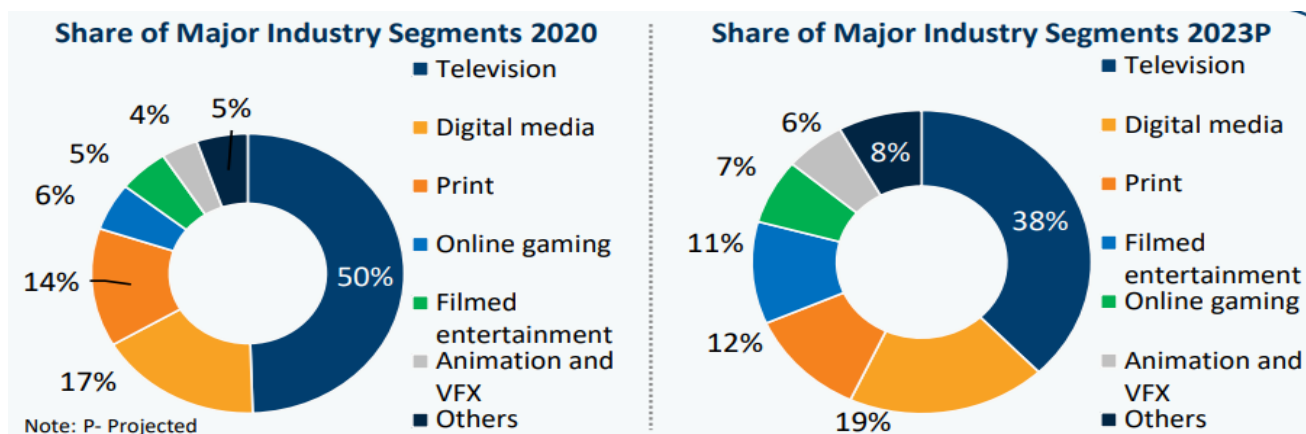
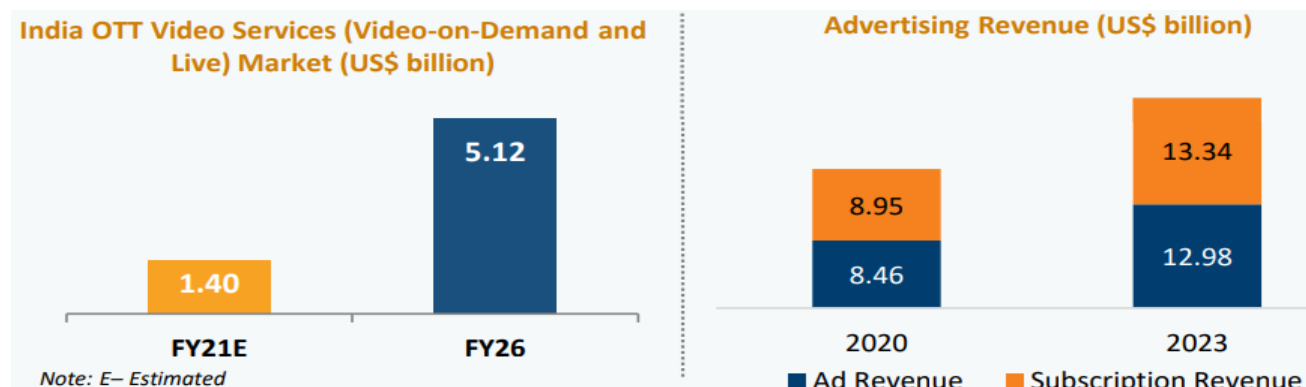


Exhibit 3: Key Trends in Media and Entertainment Industry



(Source: ibef.org)

Investment Overview

Media Industry

The Indian Media and Entertainment (M&E) industry is a sunrise sector for the economy and is making significant strides. Proving its resilience to the world, Indian M&E industry is on the cusp of a strong phase of growth, backed by rising consumer demand and improving advertising revenue. According to a FICCI-EY report, the advertising to GDP ratio is expected to reach 0.4% by 2025 from 0.38% in 2019.

As per BCG report, India's M&E industry is expected to grow between US\$ 55-70 billion by 2030. India's digital advertising industry is expected to grow to Rs. 23,673 crores (US\$ 3.09 billion) in 2022 from Rs. 18,938 crores (US\$ 2.47 billion) in 2021. Television would account for 40% of the Indian media market in 2024, followed by print media (13%), digital advertising (12%), cinema (9%), and the OTT and gaming industries (8%).

The market is projected to increase at a CAGR of 17% between 2020 and 2023. Within the M&E sector, Animation, Visual Effects, Gaming and Comic (AVGC) sector is growing at a rate of ~29%, while the audio-visual sector and services is rising at the rate ~25%; is recognised as one of the champion sectors by the Government of India. The AVGC sector is estimated to grow at ~9% to reach ~Rs. 3 lakh crore (US\$ 43.93 billion) by 2024, stated Union Minister of Commerce & Industry, Consumer Affairs & Food & Public Distribution and Textiles, Mr. Piyush Goyal.

According to BCG, India's SVOD subscriptions is expected to increase by 51% as compared to 2019 and is estimated to reach 90-100 million by 2022.

Advertising revenue in India is projected to reach Rs. 915 billion (US\$ 12.98 billion) in 2023, from Rs. 596 billion (US\$ 8.46 billion) in 2020.

(Source: ibef.org)

Addressable Market for Phantom Digital Effects Limited

The company is primarily into providing the VFX and other animation services to its clients mainly in India, USA and Canada. The company plans to cater to its existing clients in these regions but at the same time is focused to mark its presence in other parts of the world as well.

Competition

The competitive scenario is very high in this segment. The competition is mainly from Indian and multinational companies and some of the key competitors of the company are Prime Focus Ltd., PIXAR, SideFX, Sitni Sati. The threat of new entry is also high.

Peer Analysis

As Mentioned in the prospectus, the company has only 1 listed peer viz. Prime Focus Limited –

Company	Phantom Digital Effects Limited	Prime Focus Limited
Net Profit (INR Cr)	4.90	-171.57
EBITDA (INR Cr)	7.49	888.42
Return on Capital Employed	89.37%	20.53%
Return on Equity	93.28%	-150.10%
EPS (INR)#	4.26	-6.60
P/E* (Times)	22.27	-

#EPS on post IPO basis

*As on 10/10/2022

Promoters' Profile and Management Analysis

Mr. Bejoy Arputharaj Sam Manohar



- **Mr. Bejoy Arputharaj Sam Manohar** is the Promoter, Managing Director and Chairman of the Company.
- He holds degree in Bachelor of Science in Computer Science from Kalinga University.
- He has an experience of around 22 years in the Industry.
- He is responsible for the managing and supervising operations, expansion of business, sourcing new projects and overall management of the business of the Company.

Analysis on the Company's Promoter and Board of Directors

Mr. Bejoy Arputharaj Sam Manohar, aged 39 years, is the Promoter and Chairman & Managing Director of the Company. He holds degree in Bachelor of Science in Computer Science from Kalinga University. He has an experience of around 22 years in the Industry. He is responsible for the managing and supervising operations, expansion of business, sourcing new projects and overall management of the business of the Company.

Mrs. Syntia Moses Darry, aged 38 years, is the Whole Time Director of the Company. She holds a Master degree in Commerce and Computer Application. She has over 12 years of experience in industry. She is responsible for budgets, cost effectiveness and Company's finance.

Mr. Binu Joshua Sammanohar, aged 36 years, is the Whole Time Director of the Company. He holds a Bachelor degree in commerce from Manonmaniam Sundaranar University. He has an experience of more than 12 years working in Sales, Marketing and Operations. He is responsible for Company's day to day operations, creating strategies for sustained growth, envisioning Company policies and finance

To conclude, the company's management is well educated and has good experience. The independent directors of the company also have good experience and educational qualification and could be a great driving force for the company. Although, Mrs. Syntia has roles and responsibilities which do not exactly match the educational qualification.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th June, 2022
Profit and Loss			
Revenue from operation	676.44	2,233.27	1,218.64
Other income	38.97	3.34	16.24
Total Revenue	715.41	2,236.61	1,234.88
Expenses	644.39	1,487.43	668.03
Depreciation and Amortisation Cost	39.08	28.56	6.92
Finance Cost	29.76	65.53	1.45
Total Expenses	713.23	1,581.52	676.40
PBT	2.18	655.09	558.48
PBT Margin	0.32%	29.33%	45.83%
EBITDA	71.02	749.18	566.85
EBITDA Margin	10.50%	33.55%	46.51%
Net Profit	7.51	490.21	411.11
Net Profit Margin	1.11%	21.95%	33.74%
Balance Sheet			
Total Borrowings	385.25	251.81	276.91
Net Worth	35.32	525.53	936.64
Fixed Assets	67.83	71.03	159.32
Net Working Capital	274.79	632.11	968.36
Financial Measures			
Inventory Turnover Ratio	0.05	0.15	0.17
Receivables Turnover Ratio	68.05	5.74	1.20
Payables Turnover Ratio	0.21	1.09	0.80
Fixed Assets Turnover Ratio	9.97	31.44	7.65
Return on Capital Employed	8.00%	89.37%	45.28%
Return on Equity	21.26%	93.28%	43.89%
Debt-Equity Ratio	10.91	0.48	0.30

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 71.02 lacs in 2021 to Rs. 749.18 lacs in 2022 and up to June'22 it is Rs. 566.85 lacs and if we annualise the same, it would be around Rs. 2,267.40 lacs. The EBITDA margin in 2021 was 10.50%, 33.55% in 2022 and 46.51% up to June'22. The EBITDA has shown some extra-ordinary growth and such growth is not likely to sustain.

Net Profit

The net profit of the company has grown from Rs. 7.51 lacs in 2021 to Rs. 490.21 lacs in 2022 and up to June'22 it is Rs. 411.11 lacs and if we annualise the same, it would be around Rs. 1,644.44 lacs. The net profit margin in 2021 was 1.11%, 21.95% in 2022 and 33.74% up to June'22.

Finance Cost.

The company has incurred finance cost mainly on the long term and short term loans availed from bank.

Financial Measures/Ratios

RoCE of the company up to June 2022 was 45.28% vs 89.37% in 2021 and 8% in 2021. The RoCE of the company increased in 2021 due to substantial increase in the levels of Operating Profit from that of 2020 and also decrease in long term borrowings of the company. If we annualise the EBIT and take into consideration the new capital coming in, the RoCE is estimated to be around 45%.

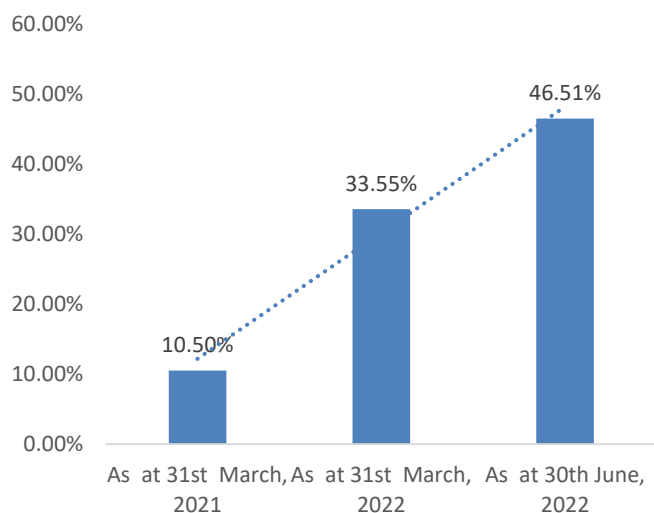
ROE of the company up to June 2022 was 21.26%, 93.28% in 2022 and 43.89% in 2020. The analysis and prediction of the same can be set forth as that of RoCE with estimated annualised ROE of around 35%.

The company has effectively maintained its Inventory but has to give some extra efforts in managing its receivables and payables.

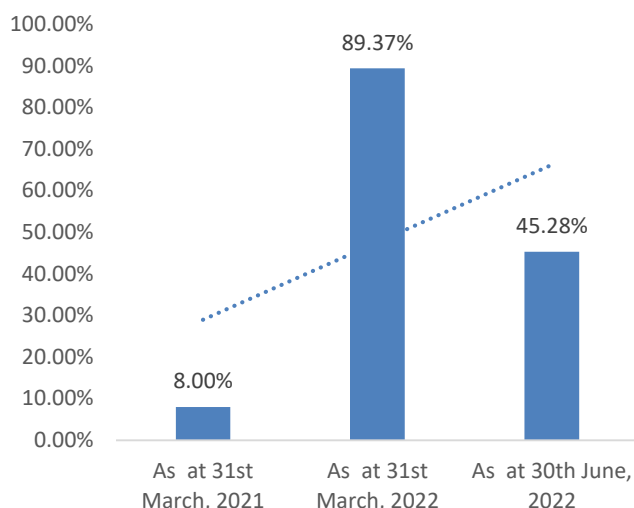
The company has a debt-equity ratio of 0.30 times up to June 2022. The debt-equity has come down from the levels of 2021 due to substantial increase in profits contributing to increase in the equity base of the company and is expected to fall more with the infusion of new capital.

Financial Charts

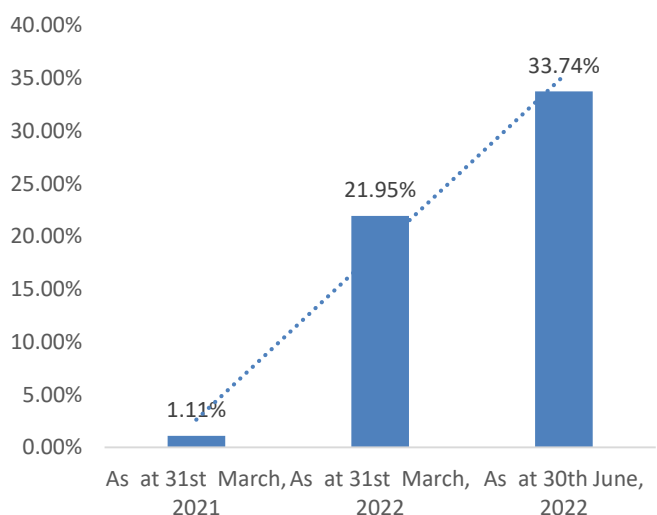
EBITDA Margin



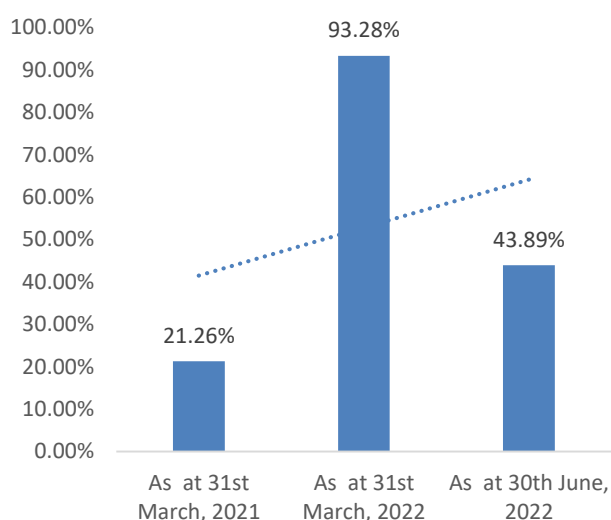
Return on Capital Employed



Net Profit Margin



Return on Equity





Key Risk Factors

1. More than 89.27% of the total revenue comes from its top 5 clients.
2. The company is mainly based on the strategic decision of its Managing Director.
3. The company is into a segment which has regular innovation and the company has to deal with the newer technologies quite effectively and efficiently.
4. Company has its services provided to regions outside India and so is exposed to the risk of Foreign Exchange Fluctuations.

Track Record of Lead Manager

The lead manager to the issue is Corporate Capital Ventures and this is the 12th mandate in the last six fiscals (including the ongoing one). A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Company	Issue Size (In Cr)	Issue Closing Date	IPO Price/share (INR)	CMP# (INR)
Shish Industries Ltd	4.06	Sep 05, 2017	30	177.00
Ratnabhumi Developers Limited	23.31	Dec 14, 2017	63	97.10
Touchwood Entertainment Limited	4.21	Dec 21, 2017	40	102.00
SMVD Ploy Pack Limited	9.02	Dec 26, 2017	55	26.30
Narmada Agrobases Limited	7.48	Apr 19, 2018	32	23.45
Rudrabhishek Enterprises Limited	18.73	Jul 13, 2018	41	160.00
Rajnandini Metal Limited	4.27	Oct 08, 2018	26	293.10
Nupur Recyclers Limited	34.20	Dec 23, 2021	60	255.00
Uma Exports Limited	60.00	Apr 07, 2022	68	49.40
Annapurna Swadisht Limited	30.25	Sep 27, 2022	70	121.60

#CMP is taken as on 07th October 2022

Out of the last 10 listings, 2 opened at discount and the rest with premiums ranging from 0.06% to 71.43% of the listing dates.

Recommendation

The company was established in the year 2016 and is therefore having a little less experience than other big players in the industry. The product portfolio of the company has a very good prospect and is expected to do well in the coming times.

After, the pandemic the company has shown good strength in its top line as well as bottom line but the growth is not expected to sustain in the coming times.

The management of the company is well educated and has good experience in the field of its business line. However, Mrs. Syntia has roles and responsibilities which do not exactly match the educational qualification.

Taking into consideration the figures of FY 22, the PE of the company on post IPO basis is around 22.27 times but if we take into consideration the annualised figures of June'22, the PE is around 6 times.

To conclude, the company has delivered very good projects in the recent years and has shown good but extra-ordinary growth in its financials. The industry has very good prospect and therefore, looking at the product portfolio and recent successful deliveries of the company it seems to be a good bet to take upon and so one with excess capital **may apply** in the IPO.



Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.