

## Cinemax India

### Margin pressure continues

**Sales in line with estimates:** Cinemax India's consolidated revenues for Q4FY09 rose 34.9% YoY to Rs 334mn, broadly in line with our estimates. The exhibition business was the main revenue growth driver, rising 43.4% YoY to Rs 308.3mn. Income from the retail space stood at Rs 22.5mn, while windmill and distribution/production revenue stood at Rs 3.1mn and Rs 0.3mn respectively.

Exhibition revenues increased because of the addition of 22 new screens during the year along with higher footfalls, although the average occupancy dipped to 25% in Q4 from 29% in comparable properties, and average ticket price (ATP) declined marginally to Rs 129. Occupancy in non-comparable properties was 28% and ATP stood at Rs 118. F&B spend per head at comparable properties increased to Rs 31 from Rs 29 in Q4FY08, whereas it stood at Rs 27 for non-comparable properties.

**Lower occupancy rates and decline in ATP lead to margin pressure:** Operating profit declined 25.8% YoY to Rs 35mn owing to lower occupancy rates and ATP. Film distribution cost increased to Rs 67.7mn, rising by 70bps as a percentage of net revenue to 20.3%. Other expenses rose by 68% to Rs 182mn, accounting for 54.4% of net revenue (up 1,080bps). F&B cost and employee cost stood at Rs 18.4mn and Rs 30.6mn respectively.

**Net profit drops 55.8% YoY:** Cinemax reported a PBT of Rs 2mn in Q4FY09 against Rs 37mn in Q4FY08. In spite of a tax write-back of Rs 8mn, PAT declined 55.8% YoY to Rs 10mn.

**Operational highlights – 16 new projects in the pipeline:** Cinemax is present in 25 locations as of Q4FY09 with 74 screens, including 5 added during the quarter. The number of footfalls has increased from 6.6mn in Q3FY09 to 8.5mn in Q4FY09. The company has a total of 16 new projects in the pipeline which will add 55 screens and 12,678 seats by FY10.

**Earnings estimates cut – Hold:** The stock is quoting at 10.2x P/E and 7.5x EV/EBITDA on FY10E. We have reduced our net profit estimate for FY10 by 12.4%, on account of lower revenue estimates given the standoff between producers and multiplex owners. In addition, we have switched over from a DCF-based valuation to a P/E model in order to capture the overall re-rating in the media sector. Our revised price target thus stands at Rs 61, based on a P/E of 10x on FY10E. We upgrade the stock from Sell to Hold.

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 62	Rs 61	HOLD	HIGH

BSE	NSE	BLOOMBERG
532807	CINEMAX	CNMX IN

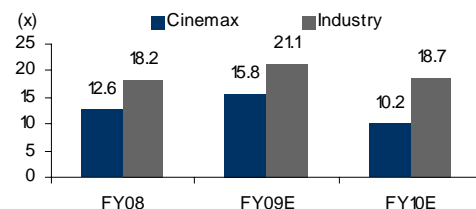
#### Company data

Market cap (Rs mn / US\$ mn)	1,747 / 37
Outstanding equity shares (mn)	28
Free float (%)	31.9
Dividend yield (%)	0.8
52-week high/low (Rs)	112 / 24
2-month average daily volume	32,280

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Cinemax	62	38.6	84.0	72.9
Sensex	13,906	22.7	56.2	59.9

#### P/E comparison



#### Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	13.7	12.6	15.8	10.2
P/E @ Target	13.4	12.4	15.5	10.0
EV/EBITDA @ CMP	10.6	10.7	8.9	7.5

#### Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	939	1,016	1,446	1,573
Growth (%)	(8.9)	8.3	42.3	8.7
Adj net income	128	138	111	171
Growth (%)	(61.1)	8.1	(20.0)	54.5
FDEPS (Rs)	4.5	4.9	3.9	6.1
Growth (%)	(91.7)	8.1	(20.0)	54.5

#### Profitability and return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	27.6	25.4	21.4	23.3
EBIT margin	22.1	18.7	8.3	13.6
Adj PAT margin	13.6	13.6	7.6	10.9
ROE	15.8	9.7	7.3	10.4
ROIC	14.1	7.6	3.9	5.9
ROCE	11.7	7.5	6.3	7.9





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	334	356	(6.0)
EBITDA	35	71	(50.2)
Adj net income	10	22	(55.3)
FDEPS (Rs)	0.35	0.78	(55.3)

Source: RHH

**Fig 2 - Quarterly performance**

(Rs mn)	Q4FY09	Q4FY08	% Chg YoY	Q3FY09	% Chg QoQ
Revenue	334	248	34.9	377	(11.4)
Expenditure	299	200	49.3	291	2.8
Operating profit	35	48	(25.8)	87	(59.1)
Other income	35	14	145.1	13	178.0
Interest	17	8	108.5	18	(3.9)
Depreciation	52	17	197.7	38	35.9
PBT	2	37	(94.3)	44	(95.2)
Tax	(8)	14	(153.5)	23	(133.7)
PAT	9.8	22.2	(55.8)	21	(52.4)
EBITDA margin (%)	10.6	19.2	(866bps)	22.9	(1,234bps)
FDEPS (Rs)	0.3	0.8	(55.9)	0.73	(52.4)

Source: Company, RHH

**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY10E		
	Old	New	% Chg
Revenue	2,129	1,573	(26.1)
EBITDA	402	366	(9.0)
EBITDA margin (%)	18.9	23.3	438
Net profit	195	171	(12.4)
FDEPS (Rs)	6.9	6.1	(12.2)

Source: RHH

Results below estimates due to lower occupancy rates and ATP

Net sales growth led by 43.4% YoY growth in exhibition business

Operating margin down 865bps on account of lower occupancy and ATP

Standoff between producers and multiplex owners likely to impact FY10 revenues



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09	FY10E
<b>Revenues</b>	<b>939</b>	<b>1,016</b>	<b>1,446</b>	<b>1,573</b>
<i>Growth (%)</i>	(8.9)	8.3	42.3	8.7
<b>EBITDA</b>	<b>259</b>	<b>258</b>	<b>309</b>	<b>366</b>
<i>Growth (%)</i>	(36.0)	(0.2)	19.7	18.2
Depreciation & amortisation	51	69	189	151
EBIT	208	190	121	214
<i>Growth (%)</i>	(44.7)	(8.6)	(36.4)	77.7
Interest	49	35	63	64
Other income	22	47	94	106
EBT	181	202	152	256
Income taxes	53	64	41	85
Effective tax rate (%)	29.4	31.5	27.2	33.3
Extraordinary items	(5)	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	123	138	111	171
Adjustments	(5)	-	-	-
<b>Adjusted net income</b>	<b>128</b>	<b>138</b>	<b>111</b>	<b>171</b>
<i>Growth (%)</i>	(61.1)	8.1	(20.0)	54.5
Shares outstanding (mn)	28.2	28.2	28.2	28.2
<b>FDEPS (Rs) (adj)</b>	<b>4.5</b>	<b>4.9</b>	<b>3.9</b>	<b>6.1</b>
<i>Growth (%)</i>	(91.7)	8.1	(20.0)	54.5
DPS (Rs)	0.2	1.5	0.5	0.5

### Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income + Depreciation	174	207	299	322
Non-cash adjustments	(34)	(0)	11	44
Changes in working capital	229	(331)	(196)	28
Cash flow from operations	369	(124)	115	395
Capital expenditure	(657)	(686)	(142)	(400)
Change in investments	(644)	359	(7)	(50)
Other investing cash flow	-	-	-	-
Cash flow from investing	(1,301)	(326)	(149)	(450)
Issue of equity	1,174	(1)	(0)	(0)
Issue/repay debt	34	330	55	100
Dividends paid	0	(7)	(66)	(16)
Other financing cash flow	(136)	40	(26)	5
Change in cash & cash eq	140	(88)	(71)	33
Closing cash & cash eq	168	79	8	41

### Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	12.3	11.5	13.0	13.0
ROIC (%)	14.1	7.6	3.9	5.9
Invested capital (Rs mn)	1,219	2,201	2,323	2,538
EVA (Rs mn)	22	(87)	(211)	(180)
EVA spread (%)	1.8	(3.9)	(9.1)	(7.1)

### Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	168	80	8	41
Accounts receivable	79	57	88	96
Inventories	10	3	3	5
Other current assets	158	548	600	620
Investments	652	293	300	350
Gross fixed assets	874	1,814	1,914	2,414
Net fixed assets	731	1,603	1,514	1,863
CWIP	513	258	300	200
Intangible assets	4	4	19	19
Deferred tax assets, net	(40)	(61)	(20)	(25)
Other assets	-	-	-	-
<b>Total assets</b>	<b>2,276</b>	<b>2,784</b>	<b>2,813</b>	<b>3,170</b>
Accounts payable	156	139	87	142
Other current liabilities	82	70	95	98
Provisions	34	133	41	85
Debt funds	635	965	1,019	1,119
Other liabilities	-	-	-	-
Equity capital	282	282	282	282
Reserves & surplus	1,088	1,195	1,289	1,443
Shareholder's funds	1,370	1,477	1,571	1,725
<b>Total liabilities</b>	<b>2,276</b>	<b>2,784</b>	<b>2,813</b>	<b>3,170</b>
BVPS (Rs)	58.6	62.4	65.8	71.2

### Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	27.6	25.4	21.4	23.3
EBIT margin	22.1	18.7	8.3	13.6
Net profit margin	13.6	13.6	7.6	10.9
ROE	15.8	9.7	7.3	10.4
ROCE	11.7	7.5	6.3	7.9
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	23	25	18	21
Inventory (days)	82	6	3	3
Payables (days)	221	140	104	69
Current ratio (x)	1.7	3.3	3.8	3.2
Quick ratio (x)	1.0	0.6	0.5	0.6
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	1.3	0.8	0.8	0.7
Total asset turnover	0.5	0.4	0.5	0.5
Interest coverage ratio	4.2	5.5	1.9	3.3
Adjusted debt/equity	0.5	0.7	0.6	0.6
<b>Valuation ratios (x)</b>				
EV/Sales	2.9	2.7	1.9	1.8
EV/EBITDA	10.6	10.7	8.9	7.5
P/E	13.7	12.6	15.8	10.2
P/BV	1.1	1.0	0.9	0.9



### Quarterly trend

Particulars	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Revenue (Rs mn)	248	284	449	377	334
YoY growth (%)	-	16.1	70.7	36.7	34.9
QoQ growth (%)	(10.2)	14.6	58.0	(16.0)	(11.4)
EBITDA (Rs mn)	48	43	143	87	35
EBITDA margin (%)	19.2	15.2	31.8	22.9	20.0
Adj net income (Rs mn)	22	36	44	21	10
YoY growth (%)	-	8	(5)	(42)	(56)
QoQ growth (%)	(37)	64	20	(53)	(52)

### DuPont analysis

(%)	FY06	FY07	FY08	FY09E	FY10E
Tax burden (Net income/PBT)	92.0	70.6	68.4	72.8	66.7
Interest burden (PBT/EBIT)	95.2	87.1	106.3	125.8	119.4
EBIT margin (EBIT/Revenues)	36.4	22.1	18.7	8.3	13.6
Asset turnover (Revenues/Avg TA)	169.5	53.8	40.2	51.7	52.6
Leverage (Avg TA/Avg equitiy)	497.5	216.3	177.7	183.7	181.5
<b>Return on equity</b>	<b>268.9</b>	<b>15.8</b>	<b>9.7</b>	<b>7.3</b>	<b>10.4</b>

### Company profile

Cinemax India is a part of the Kanakia Group which has a track record of over 20 years in real estate development. Cinemax is focused mainly on the theatre exhibition business with limited interests in mall development and gaming. It is one of the largest exhibition theatre chains in India, and is a dominant player in Mumbai – home of the Hindi film industry.

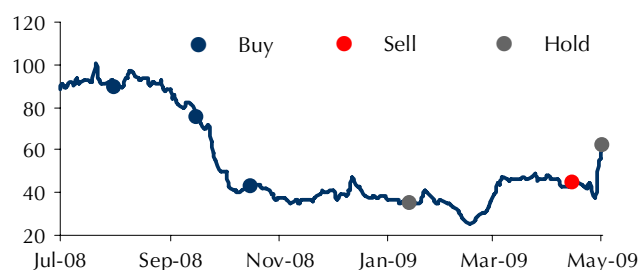
### Shareholding pattern

(%)	Sep-08	Dec-08	Mar-09
Promoters	68.1	68.1	68.1
FIs	3.9	3.9	3.9
Banks & FIs	0.3	0.1	0.1
Public	27.7	27.8	27.8

### Recommendation history

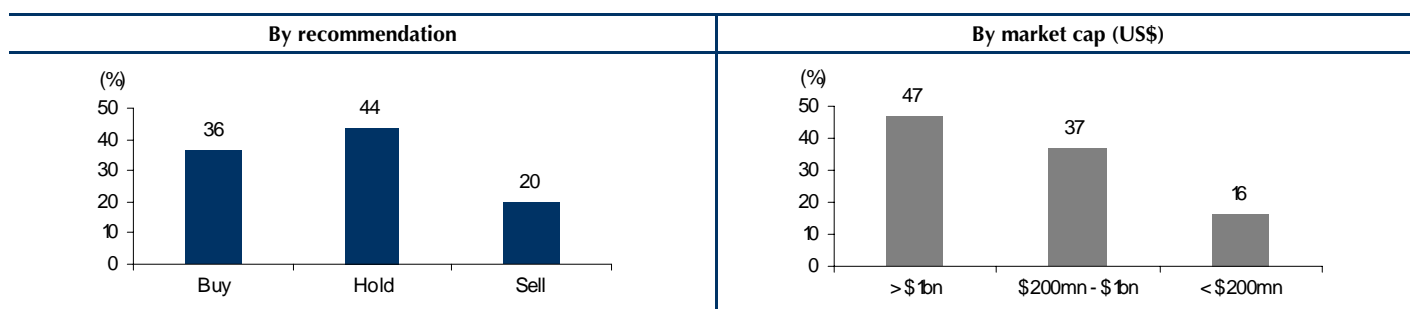
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	89	128	Buy
06-Oct-08	Quarterly Preview	81	100	Buy
06-Nov-08	Results Review	40	60	Buy
03-Feb-09	Results Review	35	41	Hold
06-Apr-09	Quarterly Preview	46	41	Sell
25-May-09	Results Review	62	61	Hold

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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