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Multiplex Cinemas

Profitable take

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India's craze for films has not been fully exploited by the "Film Exhibition" industry due to the lack of screen density in the country coupled with the poor quality of screens. "Multiplex Cinemas" offer an alternative to tap this potential by providing a quality experience to the viewer as well as economies to the multiplex operator. We are initiating coverage on 2 multiplex operators, PVR and Shringar Cinemas with a Market Outperformer rating on both.

Multiplex Cinemas have arrived in the Metro cities and we believe there is a strong probability over the next couple of years to venture into some of the tier-2 cities as well since it gives a better ambience and experience while watching the movie. The advent of corporatisation of the film industry will lead to more multiplexes being constructed as the cost of the acquisition of the new print from the distributors would go down which enhances the returns for the multiplex owners. Hence we see Multiplexes have several advantages like:

- Multiplexes are emerging as anchor tenants for mall owners/developers at prime locations.
- As multiplex operators have different seating capacity/screen, they can choose the screen on the basis of expected potential of a film. Besides multiplex operators can shift movies between screens (large and small) depending on the performance of the movie, which was the bane the standalone screen operators.
- As a result on any given point 7 movies can run concurrently – which reduces the risk for the multiplex operators, which results in better collection and superior yield management over the long term
- The manpower costs and other related fixed costs are better distributed – this reduces the break even and enhances the operating leverage.
- And finally with several states offering entertainment tax holidays for newly constructed multiplexes - is likely to increase in profitability over the medium term.

Untapped potential for "Film Exhibition": Although films constitute nearly 27% of the Indian entertainment revenues of Rs222bn($5bn), the per capita monthly spend on films in India is extremely low at Rs4 per month. In spite of India being the largest producer of films, the screen density is India is also extremely low at 12 screens per million population as compared to other countries.

Poor quality cinemas due to lack of economies: Out of the 12,900 existing screens, 95% are single screen cinemas. These screens are poorly maintained due to lack of economies of scale and organized finance. Therefore multiplexes, which provide a quality viewing experience, have emerged as a trend. Multiplexes are able to achieve economies because of 2 reasons. Firstly the operation of multiple screens under one roof enables them to allocate common costs over number of screens and secondly, the ability to achieve higher occupancies on account of smaller seating capacities per screen

Entertainment tax exemptions-positive for multiplexes: In the late 1980's various governments imposed high entertainment taxes on cinemas making them unviable. In 2001, to encourage investment in this sector, certain states introduced entertainment tax incentives for newly set up multiplexes for the initial years of operations. Over a period of time as multiplex operators can justify higher tax collections for state goverments with lower tax rates, rationalization of entertainment tax is expected.

Initiating coverage on multiplex operators: Taking into account the huge potential for Film Exhibition in the country coupled with shift in trend from single screen cinema towards multiplexes, we are initiating coverage on 2 multiplex operators **PVR** and **Shringar Cinema** with a Market Out performer rating. Our Price target for PVR is Rs362 and for Shringar Cinema is Rs72.

Preferred Companies

	PVR	Shringar Cinema
Recommendation	Out performer	Out performer
Current price (Rs)	332	66
Target price (Rs)	390	77

KARVY STOCK BROKING LIMITED

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The Current Industry Scenario

In the current economic scenario, the Indian entertainment industry is in the cusp of strong growth. According to the CII - KPMG report the Indian entertainment industry was valued at Rs222bn ($5bn) in 2004 and are expected to grow at 18% CAGR to reach Rs588bn ($13bn) by 2010.

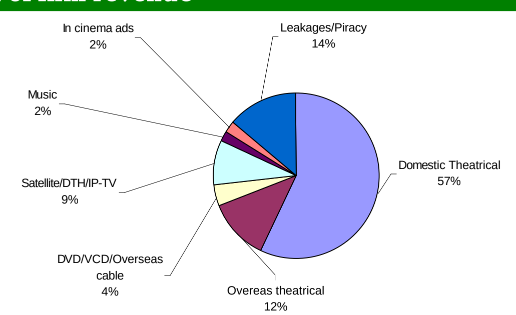
"Films" has been one of the integral components of the Indian entertainment industry contributing nearly 27% of the total revenues of the entertainment industry. Besides, films also contribute to other components of the entertainment industry like music, television and live entertainment. The Indian film industry is one of the most complex and fragmented national film industries in the world comprising of a number of regional film industries like Hindi, Tamil, Telugu, Kannada and others. The Hindi film industry is the most popular among them.

Though India produces the largest number of films in the world (Approximately 1000 per year), it accounts for only 1% of the global film industry revenues. In spite of being over 90 years old, the Indian film industry was accorded the status of industry only in 2000. Over the years, the Indian film industry has been highly unorganized. as film financing was dependant on private and individual financing at extremely high interest rates. Only recently, the industry has got access to organised finance. With vertical integration taking place between producers, distributors, exhibitors, broadcasters and music companies; corporatization is now taking shape in the Indian film industry. We believe, that corporatiation, will bring about transparency, accountability and consolidation; which will help to improve the overall profitability of the Indian film industry as well as reduce piracy and leakages which presently account for 14% of the Indian film industry's revenues.

Film exhibition business in India- tremendous scope

Film exhibition forms the most important component of the Indian film industry. According to the CII - KPMG report domestic theatrical revenues contributes 57% of the total Rs59bn film industry revenues and are expected to grow at 17%. Overall, the Indian film industry is expected to grow at 16% CAGR from Rs59bn in 2004 to Rs143bn in 2010. (CII-KPMG)At present, the per capita monthly spend on films is less than Rs4 per month. This amount is extremely low for a country like India, where entertainment is given significant importance and is therefore expected to increase over a period of time. The main pockets for film exhibition in India are Delhi, Mumbai and South India. Due to various regional language film industries in the South, it has become an important film exhibition pocket. Hyderabad and Bangalore are 2 southern cities where occupancies are exceptionally high at around 70%-80%.

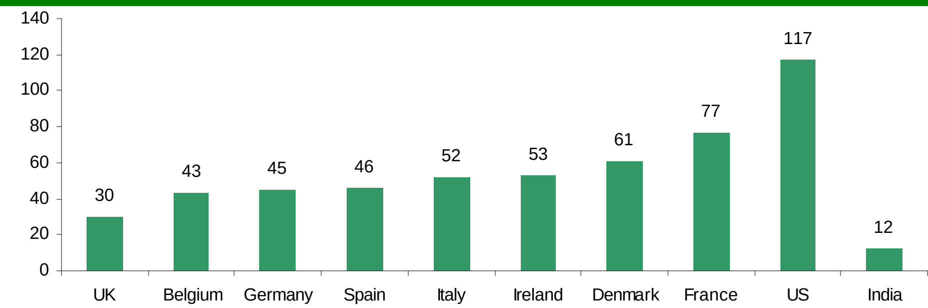
Exhibit 1: Distribution of film revenue



Source: CII-KPMG

With around 12,900 active screens, India is under screened. China, which produces far lesser films than India has 65,000 screens while the US has 36,000. India’s screen density stands low at 12 screens per million population. There is a need of at least 20,000 screens as against the current 12,900. This gives multiplex operators enough room to grow as the traditional single-screen theatres do not have the the financial wherewithal nor do they enjoy tax incentives.

Exhibit 2: Screens per million population



source: CII-KPMG Report

Trending towards multiplexes

Of the 12,900 existing screens, 95% are standalone, single screens. Until recently, the film exhibition business in India has been carried out in an unorganized manner. Majority of the single screen cinemas are operated by individual owners and hence lack economies of scale. These single screen cinemas are poorly maintained as the owners find it difficult to upgrade and renovate their facilities, due to unavailability of organized finance. The deteriorating quality of these cinemas disuaded viewers and they started using alternative viewing options.

Over the last few years, multiplexes have emerged as a trend in urban India. "Multiplexes" are essentially cinemas with 3 or more screens. They provide a quality viewing experience and are generally located around shopping malls to increase footfalls in these malls. Each screen in a multiplex has small seating capacities in the range of 150-300 seats as compared to single screen cinemas which have capacities in the range of 800-1,200 seats. As on May 2005, there were 73 multiplexes operating in India with a total seating capacity of 89,470 spread over 276 screens. (Bollywood Emerging Business Trends and Growth Drivers-Yes Bank Report as cited in PVR RHP) The percentage of multiplex screens is negligible in India as this phenomenon is in an embryonic stage.

Multiplexes have several advantages as compared to single screen cinemas

- Multiplexes have access to prime locations as a large number of mall developers are considering setting up movie theaters to attract footfalls in the mall. Multiplex operators are emerging as anchor tenants for malls and are therefore being offered attractive rental rates.
- Multiplexes offer a large variety of movies for their viewers as a number of movies are running simultaneously in a single property. Typically, 7 movies can run simultaneously in a 4 screen multiplex.
- Occupancies in multiplexes are higher as compared to single screen cinemas as the seating capacity per screen in a multiplex is lesser than that of a single screen cinema. Different screens in a multiplex have different seating capacities. The multiplex operator can therefore choose to show movies on a larger or smaller screen based on the expected potential of a film. Besides the multiplex operator can also choose to show movies on larger screens in the first few weeks of release and later continue to show this film on a smaller screen.
- Multiplex operators can charge different prices depending on the time and popularity of the film.
- A multiplex operator can maximize the number of shows as multiple films are available for screening. Based on the screening duration of different films, the multiplex operator can efficiently programme his shows to maximize the number of shows and thereby generating higher number of patrons.
- Multiplex operators use common manpower for several screens and hence have better cost efficiencies.

- Multiplex operators can offer a wide range of food and beverages as multiple screens use common food and beverage facilities. This wide range helps in increasing the F&B spend per patron.
- Multiplex operators can achieve significant operating efficiencies due to better film management and common vendor relationships.
- Due to the large number of screens, multiplex operators have better bargaining power with distributors.
- Entertainment tax, levied by the state, is the main levy on the exhibition industry. This varies from 30% to 100% of the net ticket price from state to state. Recently certain states have announced entertainment tax holidays for newly constructed multiplexes. This is likely to increase the profitability for these multiplexes.

Drawbacks of a Multiplex

Multiplexes charge a 30%-50% premium on ticket prices as against standalone cinemas. This is one the major drawbacks of multiplex operators as multiplexes attract only a section of the society consisting of the Rich and Upper Middle class. The premium charged by multiplexes is for the better ambience as well the high quality audio and visual effects.

In certain areas, multiplexes have become a cause for traffic jams. People residing near multiplexes find this to be a nuisance.

To set up a multiplex, a series of approvals and licenses have to be acquired by the mall developer as well the multiplex operator. This is due to the heavy regulation imposed by state governments. These regulatory issues are a cause of concern as they cause delays in setting up a multiplex.

Changing demographics and consumption patterns favorable for multiplexes

Multiplex operators are expected to be key beneficiaries from the changing demographics in India as well as changing spending patterns of urban consumers. The urban population between the ages of 15-34 years is expected to increase from 107mn in 2001 to 138mn in 2011 and the urban population between the ages of 15-44 is expected to increase from 146mn to 186mn in the same period. (Source: Yes bank Report as cited in PVR RHP).These expected increases are likely to cause a rise in demand for movies, especially in 15-44 years age group as this age group represents the most frequent movie goers across the global markets. (Source: Yes Bank report as cited in PVR RHP)

A KSA Technopak survey on spending behavior of more than 10,000 urban households in India indicates that consumers have started spending more on lifestyle categories like eating out, movies and entertainment in the last two years.

The advent of corporatization in the Indian film industry

Over the years, the Indian film industry has been highly unorganized and fragmented. No individual entity (Producer, distributor, exhibitor) has been able to command a significant presence in the industry due to lack of organized finance available to the film industry, leading to excessive dependence on private finance at high interest rates. Largely films were financed by distributors or music companies who would give an advance to film producers in exchange to acquire theatrical and music rights. As a result, it was difficult to achieve economies of scale and the quality of content suffered.

Over the last few years, the Indian film industry has taken certain steps towards corporatization. In the year 2000, the Indian film industry was granted industry status after which organized lending from banks and financial institutions was made available for films. Organized funding has led to finance costs for films falling. However, lending rates are still higher for films as compared to other sectors. The availability of organized finance has led to the emergence of large production houses as well as entry of large corporate houses into this sector. Increasing corpratization is likely to result in improvement of film content which will ultimately increase demand for films.

Entertainment tax exemptions beneficial for multiplexes

Various state governments imposed steep increases in entertainment tax in the late 1980's. This amount varies from state to state and ranges between 30% and 100% of the net ticket revenue.

Entertainment Tax	% of Net Ticket Revenue
Delhi	30
Haryana	30
Karnataka	40
Uttar Pradesh	60
Maharashtra	45
Mumbai	45
Andhra Pradesh	20
Madhya Pradesh	50
West Bengal	30
Gujarat	100

Source: Industry data

Working of Entertainment tax

E-Tax is imposed on the net ticket revenue. Net ticket revenue is equal to the admission fee charged to a patron minus entertainment tax. Therefore, if the tax rate in a particular state is 50% and the admission fee charged to a patron is Rs150, the Entertainment tax will be calculated as 50% of (Rs150-E-Tax). This is equal to 33.3% of Gross Ticket Revenue (Rs150). Hence the E-Tax to be remitted to the state will be Rs50.

Net Ticket Revenue=	Total Admission Fee Charged to Patron-Entertainment Tax
Eg. Entertainment Tax as % of Net Ticket Revenue	50
Total Admission Fee (Gross Ticket Revenue) (Rs)	Rs150
Entertainmenttax (Rs)	Rs50
Net Ticket Revenue (Rs)	100
Entertainment Tax as % of Gross Ticket Revenue	33

Source: KSBL

The imposition of this tax adversely affected investment in cinemas and hampered the quality of cinemas as operators found it unviable to maintain these cinemas. To encourage investment in the entertainment sector, several states introduced entertainment tax incentives in 2001. These incentives are by way of complete or partial wavier of entertainment tax in the initial five years of operations for new multiplexes. This benefit is a retention benefit; hence it comes into effect from the day the entertainment tax exemption is granted by the government. The availability of these exemptions would be dependant on compliance with certain conditions specified by the relevant state. Multiplex operators aim to recover their fixed costs during the period of tax holidays.

Over a period of time, as multiplex operators are able to justify higher tax collections for state governments with imposition of lower entertainment tax rates, we expect further rationalization of entertainment tax rates.

	Year1	Year2	Year3	Year4	Year5	Min. seating	Min. no. of screens
Mumbai	100	100	100	75	75	1,250	4
Rest of Mah	100	100	100	75	75	1,000	3
Punjab	100	100	100	100	100	1,000	3
Kolkata	100	100	100	100	N.A	1,000	3
Rajasthan	100	100	90	80	N.A	N.A.	N.A.
UP/Bhopal/Indore/Jabalpur	100	100	100	75	50	1,000	3

Source: Industry data

Value chain in the film industry

The entire process of making a film to presenting it to the viewer, typically involves 3 stages:

- Production
- Distribution
- Exhibition

Production

In this stage, the entire film is developed; right from conceptualization of the idea, to scripting, market research, budgeting, shooting and editing. In this phase, the entire film is made ready for screening.

This is the most important stage in the value chain of the film industry, as the content is developed in this stage. The success of distributors and exhibitors will depend on the on the quality and quantity of content. The Indian film industry comprises of several regional film industries. "Bollywood is the most popular film industry among them Out of the regional films, Tamil and Telugu are the most popular film industries.

With the onset of corporatisation, the film making process is getting more professionalized and the Indian film industry is segmenting their films for particular target groups. The availability of organized finance for film production has led to the emergence of several large production houses like Mukta Arts, Yashraj Films and K SeraSera.

Distribution

Film distributors basically form a link between producers and exhibitors. They buy film distribution rights from the producer for one or more territories and give them to exhibitors. Distributors also extend finance to producers and undertake marketing of films.

There are 2 key ways in which the revenue sharing takes place between producers and distributors. Earlier the most prevalent form was by way of giving the producer a minimum guarantee for the film. A portion of this guarantee was given in advance to the producer to finance his film. Today; the revenue sharing model has taken a lead. In this model, the producer and distributor agree to share revenues in a fixed proportion. The distributor may give an advance to the producer, but if the revenues collected are lesser than the advance, the producer agrees to return the extra amount.

Exhibition

Film exhibition is the final stage in the film making process. In this stage the film reaches its audience. Film exhibition takes place in single screen cinemas or in multiplexes. The success of a film primarily depends on box office collections. (Total ticket revenue) Revenue from domestic theatrical distribution is expected to grow at 17% CAGR from Rs34bn in 2003 to Rs86bn in 2010(CII-KPMG).

Revenue sharing between distributors and exhibitors takes place in two ways. One is the minimum guarantee model, where the exhibitor guarantees weekly revenue to the distributor. The more popular revenue model is the revenue sharing model, where the exhibitor shares a part of the net ticket revenue with the distributor. The percentage of revenue shared with the distributor may be a flat percentage of the revenue or the percentage share may be higher in the first week of release and then gradually decrease with every ongoing week. On an average a multiplex operator shares 40%-41% of his net ticket revenues with the distributor. If the exhibitor is availing of entertainment tax exemption, then the revenue share is calculated assuming the payment of entertainment tax.

Procedure of setting up a multiplex

The procedure of setting up a multiplex is divided into 3 phases after the multiplex operator has decided the location of the multiplex and entered into the agreement with the mall developer.

Development of property

In this stage the mall developer develops the property according to the specifications agreed upon by the multiplex operator and the mall developer. The mall developer has to get certain approvals from various authorities. After the mall developer completes development and gets approvals, the property is handed over to the multiplex operator.

Fit outs: After the property has been handed over to the multiplex operator, the interiors are done up by him. This includes civil and architectural work, designing, seating, carpeting, putting up the screens etc. This stage normally takes between 2-6 months depending on the size and scale of the project.

Approvals: After fit outs are completed, the multiplex operator has to get various approvals before he can commence operations. On an average this stage takes around 1-3 months depending on the stste as he has to get approvals from the fire department, electrical department, health department and various other licenses.

Revenue model of a multiplex

A multiplex has primarily 3 sources of income:

Ticket Income

Majority of the revenues of a multiplex are earned in form of ticket income. This is the admission fee charged to a patron. 67% -77% of the total income of a multiplex comes from this category. Ticket Income is dependant on the number of seats, the ticket price, number of shows and the occupancy in a multiplex. These parameters vary across properties and according to the day and time of the week. 55%-60% of revenues are collected during weekends where typically occupancies are higher.

Concession Income

The food and beverage spend of a patron is captured under this head. Food and beverage items include popcorn, soft-drinks, confectionary etc. 19%-22% of the total income of a multiplex comes from here. Great importance is given by multiplex operators to increase the patron's spend on food and beverages as margins on this are relatively higher. New varieties of food and beverages are introduced to increase spend per patron. Expenditure on food and beverages is relatively higher in North India as compared to the South.

Advertisement Income

Advertisement income is a relatively small source of income for multiplexes. It ranges between 6%-13% of the total revenues of a multiplex. It includes on-screen advertisements, off-screen advertisements and cinema association activities. On-screen advertisements are ads displayed before the film or in the interval. Off-screen advertisements include ads on the back of tickets or popcorn boxes, foyer displays and others. Cinema association includes sponsorships of premiers and other events.

Cost structure of a multiplex

Various costs are incurred for the working of a multiplex. They are:

Distributor Share

This is the cost incurred to acquire the film content. Distributors are paid a percentage of the ticket revenue after deducting entertainment tax if the multiplex operator has to pay entertainment tax or after deducting a notional entertainment tax if the multiplex is enjoying a tax holiday. This percentage is normally around 40%

Food and Beverage Cost

This is the cost incurred in sourcing various food and beverages. It is normally in the range of 6%-8% of gross total income.

Lease Rentals

In cases where the multiplex is taken on lease basis, lease rental has to be paid to the property owner. This can be in terms of monthly rentals or long term lease contracts. This amount ranges between 10% and 16% of the gross total income depending on the location of the multiplex.

Other Operating Costs

Other operating costs include employee costs, marketing cost and utilities costs like electricity, water, security, maintenance, IT, and telecom.

Seasonality in the exhibition business

The exhibition business depends greatly on new film releases. Films releases slow down during times when schools and colleges have examinations. This is primarily in the months of March and April. During the festival of Ramzan, is another period when producers do not release any new films. Majority of the films are released in the period of May to September making the Q1 and Q2 the most profitable quarters for film exhibition. Q3 and Q4 are relatively weaker for the film exhibition business. Approximately 55% of exhibition revenues are earned Q1 and Q2 and the remaining in Q3 and Q4.

Quarterly Break Up of Revenues (%)

Q1	27
Q2	28
Q3	25
Q4	20

Global Equity Research - India

Initiating Coverage

KARVY STOCK BROKING LIMITED

Sector: Multiplex

PVR (Rs332)

Outperformer
Target Price: Rs390

To make a significant position in the new world of multiplexes, the company is expected to expand its multiplex chain by more than 2 fold over FY07 and FY08. Correspondingly, this would result in revenue growth of 92% CAGR. Operating leverage coupled with entertainment tax exemptions is expected to result in strong earnings growth of 306% in FY07 and 104% in FY08. We rate the stock Market Outperformer with a price target of Rs390.

Increasing the number of properties from 13 to 36: The Company is expected to set up 23 new properties by FY08. With this expansion the company is expected to operate 160 screens and will have presence in 19 cities across India. PVR is expected to have a strong presence in Delhi and Mumbai, 2 of the largest film pockets in India.

92% CAGR growth in revenues: On account of the expansion the company is expected to undertake, revenues for the company are expected to increase by 91% in FY07 to Rs1,987.8mn and by 92% in FY08 to Rs3,813.7mn. Significant expansion in Mumbai and entertainment tax exemptions are expected to increase net ticket revenues per patron from Rs78.4 in FY06 to Rs94.3 in FY08.

Margins to improve significantly: On account of the operating leverage which the company is expected to achieve; with the allocation of fixed costs over a larger number of properties as well as expected entertainment tax exemptions on 17 of the 23 new properties; we expect margins to improve from 16.2% in FY06 to 26% in FY08.

Valuations: At CMP, the stock trades at a P/E of 17x FY08. We expect earnings growth of 189% CAGR. The RoE of the company is expected to increase from 4% in FY06 to 19% in FY08 and the RoCE from 7% in FY06 to 21% in FY08. Strong growth coupled with an established business model justifies a price target of Rs390 on the stock. At the price target, the stock trades at a P/E of 20x FY08. We rate the stock a Market Outperformer.

PVR-Consolidated

Reuters/Bloomberg code	PVRL.BO/PVRL.IN						
Market cap. (Rsmn)	7,000						
Market cap. (US$mn)	155.6						
Shares outstanding (mn)	22.9						
52-week High/Low (Rs)	337/251						
Major shareholders (%)							
Promoter/Majority	40.4						
FIIs	41.3						
Others	5.8						
Public	12.5						

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net sales	482	686	1,039	1,988	3,814
EBITDA	68	111	168	453	987
Net profit	16	37	54	220	449
EPS (Rs)	1.2	2.2	2.4	9.6	19.6
EPS growth (%)	(34.9)	83.4	9.6	307.7	104.3
EBITDA margin (%)	14.1	16.2	16.2	22.8	25.9
PER (x)	283.1	154.4	140.8	34.5	16.9
P/BV (x)	14.8	10.8	4.0	3.6	3.0
EV/EBITDA (x)	115.5	71.5	45.5	18.8	8.7
RoCE (%)	9.1	9.6	6.7	12.6	20.9
RoE (%)	6.9	8.9	4.5	11.0	19.3

Source: Company and Karvy Estimates

Business Overview

PVR is in the "film exhibition" business. The company is amongst the largest multiplex cinema operators in the country. They currently operate 13 properties and 53 screens across 6 cities. The multiplexes are operated under the brand name of "PVR" Most of PVR's properties are operated on long term lease basis.Along with achieving "Pan India" presence, the company is looking at dominating certain markets by setting up a number of multiplexes in that area. Delhi is a market where PVR has significant dominance. 7 of the company's multiplexes are operated out of Delhi.

The company also runs 2 multiplexes in Faridabad and 1 multiplex in Hyderabad, Bangalore, Noida and Gurgaon. The Bangalore multiplex set up by PVR is the largest in India with 11 screens and 2,016 seats.

Exhibit 1:

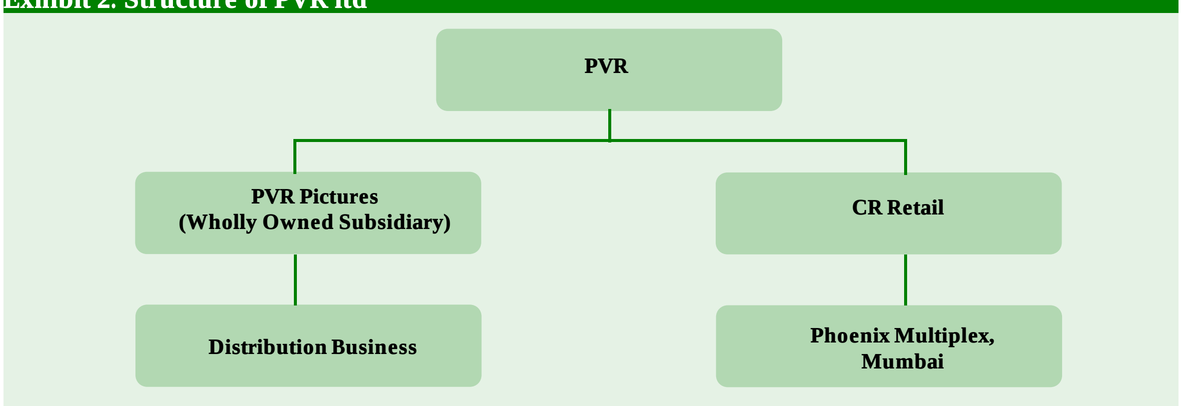
City	No. of Properties	No. of Screens	No. of Seats
Delhi	7	17	5,082
Faridabad	2	5	1,280
Gurgaon	1	7	1,310
Noida	1	8	1,821
Hyderabad	1	5*	1,322
Bangalore	1	11	2,016
Total	**13**	**53**	**12,831**

Source: company **3 are operational*

PVR has 2 wholly owned subsidiaries, PVR pictures and CR Retail. PVR Pictures undertakes the distribution business of the company. It distributes English and Hindi language movies.PVR has invested Rs20mn in this company.

PVR's project at Phoenix Mills Mumbai is being undertaken by CR Retail. PVR's investment in this company is Rs300mn

Exhibit 2: Structure of PVR ltd



Investment Positives

"Massive expansion" 36 properties, 160 screens by FY08

The company is looking at expanding its chain of multiplexes from the existing 13 properties to 36 by FY08. This expansion will give PVR presence in 13 new cities. At present PVR is present is 6 cities. Currently PVR has significant presence in the Delhi region which is one of the biggest pockets for film exhibition. The company is now looking at creating significant presence in Mumbai, another large pocket for film exhibition. The company is expected to set up 5 multiplexes (31 screens, 8,510 seats) in Mumbai by FY08.

The company's strategy is to put up number of screens in particular area as against dotting the entire country. PVR is expected to set up 13 new properties in FY07 with 64 screens and 16,839 seats and 10 new properties in FY08 with 43 screens and 10,630 seats.

After the completion of this expansion, the company's major presence will be felt in Delhi, Mumbai and the states of Uttar Pradesh, Punjab, Haryana, Karnataka and Andhra Pradesh.. This strategy to dominate certain regions is basically to develop bargaining power with distributors in that region by controlling a significant number of screens.

Exhibit 3: New Multiplexes

Year	No. of Properties	No. of Screens	No. of Seats
FY07	13	64	16,839
FY08	10	43	10,630
Total	23	107	27,469

Source: Company

The company selects the location for setting up multiplexes based on research done on the demand and supply parameters in the particular area. A multiplexes target market is the population in the 5km radius of the multiplex. Based on the age of the population, the movie going population is estimated. Demand at various price points is then calculated for that area. Supply in the area is estimated on the basis of the number of existing cinema screens in that area. Accordingly a decision is taken on whether to set up a multiplex in that area.

The company's strategy is to enter into an agreement with the mall developer at an early stage of development of the mall. This is primarily for 2 reasons, firstly to avail of lower rentals and secondly for design flexibility; so that they can give their exact requirements to the mall developer. The mall developer normally takes 1.5-2 years to develop the property. The company takes between 4-6 months for fitouts and around 2.5 months to avail of the various approvals and licenses. In our assumptions we have assumed a 3 month delay in setting up each multiplex.

Funding Expansion Plans

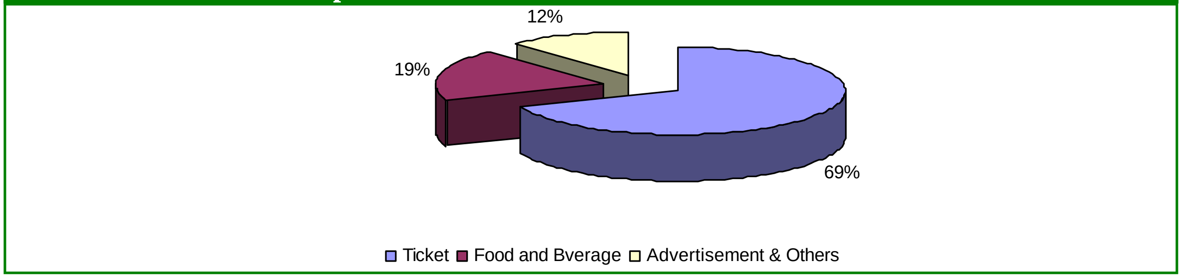
The capital expenditure per seat is around Rs75, 000-Rs85, 000 per seat. The total capital expenditure expected to be incurred by the company in FY07 is Rs1,250mn and in FY08, Rs1,027mn. The company raised approximately Rs1, 280mn through an equity issue at a price of Rs225 in the current financial year. We expect the debt component for the company to be Rs1, 250mn in FY07 and Rs1, 475mn in FY08.

Robust revenue growth at 92% CAGR

On the back of the massive expansion that the company is undertaking, we expect the revenues of the company to grow by 91% in FY07 from Rs1,039mn in FY06 to Rs1,987.8mn in FY07. Robust revenue growth of 92% is expected in FY08 as well. We expect revenues of Rs3,813mn in FY08.

69% of the revenues of PVR (standalone) accrue from ticket sales, 19% from food and beverage sales and 12% from advertisement and other related income.

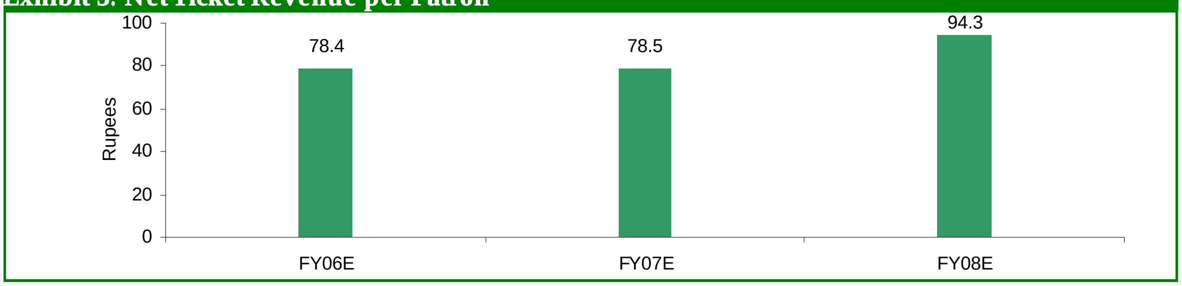
Exhibit 4: Revenue Break Up-PVR Ltd



Source: Company and KSBL Research

With the company expanding its operations in prime cities like Mumbai as well as entertainment tax exemptions expected the net ticket revenue per patron is expected to increase from Rs78.4 in FY06 to Rs94.3 in FY08 as the company has the ability to charge higher ticket prices. The company is also focusing on increasing food and beverage spend by introducing new items and offering attractive packages like food combo's.

Exhibit 5: Net Ticket Revenue per Patron



Source: Karvy Estimates

Franchise model

The company operates two multiplexes under the franchise model; PVR SRS in Faridabad (3 screens, 776 seats) and PVR Spice in Noida (8 screens, 1,821 seats). Under this model, the property the company sells its expertise in developing and managing the operations of the multiplex to the mall developer. PVR advises the mall developer on design specifications, business plan and the financial and operational feasibility of the multiplex. PVR manages the operations of the multiplex and uses its brand name to attract patrons.

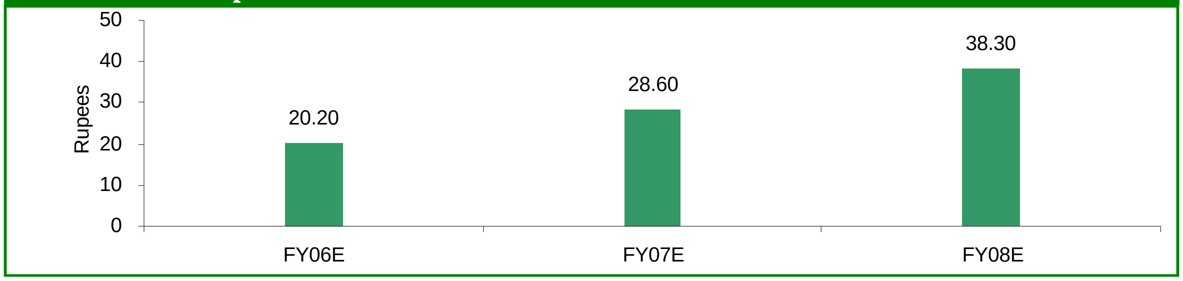
For these services, PVR is entitled to a revenue share from the multiplex. In the case of PVR SRS, PVR charges 5% of the net revenues of the multiplex as management fee. For PVR Spice, the management fee is calculated as 3% of the net revenue and 5% of the net profit of the multiplex.

The franchise model is a good strategy for the company in places where they want to take limited risk or in areas where the company wants to take exposure but the mall developer desires to own and operate the multiplex.

142% CAGR growth in operating profits

Margins for the company are expected to strengthen significantly from 16.2% in FY06 to 22.8% in FY07 and 25.9% in FY08. This improvement in margins is on account of the operating leverage that is achieved by allocation of selling and administrative costs over a larger number of properties as well as entertainment tax exemptions that the company is likely to avail. Selling and administrative costs as a percentage of sales are expected to reduce from 10.9% in FY06 to 8.7% in FY07 and 8.5% in FY08. Operating profits are expected to grow by 142% CAGR over FY07 and FY08.Operating profit earned per patron by the company is expected to increase from Rs20.2 in FY06 to Rs28.6 in FY07 and Rs38.3 in FY08. This has been represented in the chart below.

Exhibit 6: EBIDTA per Patron

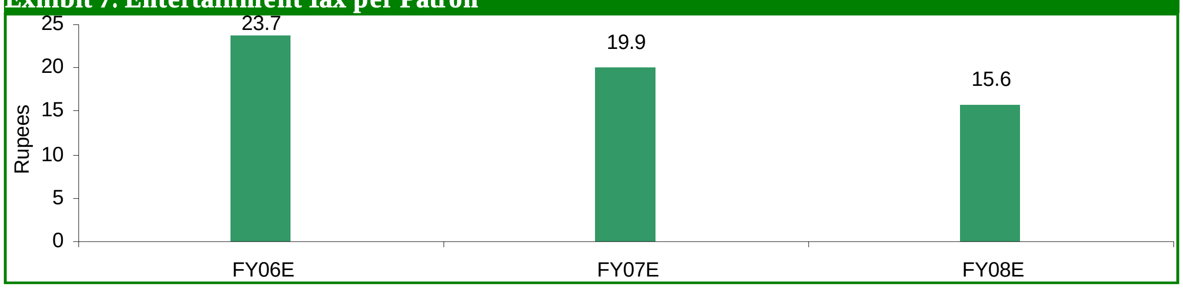


Source: Karvy Estimates

Entertainment tax exemptions to strengthen profitability

At present only 1 of the existing 13 properties is availing of entertainment tax exemptions. Out of the 23 new properties expected to be set up over FY07 and FY08, 17 are expected to avail of entertainment tax exemptions. Entertainment tax costs approximately accounts for 16%-18% of gross revenues for the company. This cost is expected to come down to 13% in FY07 and 9% in FY08. We have accounted for a 4 month delay in receiving exemptions after each property is set up. Entertainment tax per patron is expected to decrease from Rs23.7 in FY05 to Rs19.9 in FY07 and Rs15.6 in FY08

Exhibit 7: Entertainment Tax per Patron



Source: Karvy Estimates

Distribution business to solidify exhibition growth

The company runs the distribution business in its wholly owned subsidiary PVR Pictures. This business in strategic in nature and is operated to aid PVR's exhibition growth by providing content to their cinemas across the country. The aim of the distribution business is to become the preferred distributor for Hindi and English films. PVR Pictures is currently the largest independent Hollywood films distributor in India. The company acquires and distributes Hindi films in areas where their cinemas are located; therefore the company has stronger bargaining power.

The company has distribution offices in Bangalore, Delhi, Mysore,Nizam teritorry and Punjabl. PVR's investment in this business is Rs20mn and is expected to increase to Rs70mn. We expect revenues of the company to increase from Rs25mn in FY06 to Rs165mn in FY08. Profits in the corresponding period are expected to increase from Rs2.68mn to Rs20.3mn.

Exhibit 8: PVR Pictures

Rs.mn	2006E	2007E	2008E
Net Sales	25.0	75.0	165.0
Total Expenditure	21.8	62.2	135.6
EBIDTA	3.2	12.8	29.4
Margins%	13	17	18
Net profit	2.7	8.8	20.3

Source: Karvy Estimates

Seven screen multiplex in prime location in Mumbai

The company is developing a seven screen multiplex at Phoenix Mils in Mumbai. This project is being executed in the company's wholly owned subsidiary, CR Retail. The company has paid a one time premium of Rs466mn to acquire perpetual sublease rights on the multiplex building which will bear a nominal rent of Re.1 per year. The total project cost will be Rs720mn. PVR equity contribution in the company is to the tune of Rs300mn. This multiplex is expected to commence operation in the 4Q FY07. The multiplex will have a seating capacity of 2,050 seats.

We expect revenues of CR Retail to be Rs22mn in FY07. Revenues are expected to grow substantially to Rs341.7mn in FY08 on account of full year operations of the multiplex in FY08. Operating margins are likely to improve significantly from 32.6% in FY07 to 39.0% in FY08 as the property is likely to avail of entertainment tax exemptions in FY08.We expect the company to even break in FY07 and the net profit for the company in FY08 is expected to be Rs80.3mn.

Exhibit 9: CR Retails

Rs.mn	2007E	2008E
Net Sales	22.1	341.7
Total Expenditure	14.9	208.4
EBIDTA	7.2	133.3
Margins%	32.6	39.0
Net profit	0.3	94.5

Source: Karvy Estimates

Company Background

PVR ltd was incorporated in April 1995 as a joint venture between Priya Exhibitors Private Ltd and Village Roadshow Ltd, one of the largest non-U.S. cinema companies in the world with more than 1,000 screens under operation. Leveraging on Village Roadshow's international experience, PVR set up India's first multiplex, PVR Anupam in Delhi in 1997. This multiplex achieved occupancy of over 70% in its first year. The company has benefited immensely on account of their association with Village Roadshow as they learned how to conduct the multiplex business from Village Roadshows worldwide experience.

In 2002, Village Roadshow sold their entire stake to Priya Exhibitors Private Limited as per their planned divestment strategy. Today, PVR ltd is one of India's largest multiplex operators with 13 properties and 51 screens under operations.

The current promoter of the company is Mr.Ajay Bijli who is also the Chairman and Managing Director of the company. He has completed the Owners President Management Program at Harvard Business School and has 15 years of experience in the film exhibition business. He was awarded "Theatre

World Newsmaker of the Year Award for 2003" at Frames 2004, a global convention on the business of entertainment organized by FICCI. In 2004, CineAsia, a prominent Asian film industry convention gave him a special award for his significant contribution to India's Multiplex cinema sector.

Financials

In 9M FY06 the company reported 59% increase in turnover over 9M FY05 to Rs784mn. Margins declined from 17.8% in FY05 to 16.1% in FY06 on account of a one time expenditure incurred on the employee share purchase scheme. Net profit for the company increased by 50% Y-o-Y in 9M FY06.

Nine Month Results-FY06

Rs.mn	9M -05	9M-06	% change
Net sales	491.7	784.0	59
Total Exp	404.4	657.8	63
EBITDA	87.3	126.2	45
EBITDA margin (%)	17.8	16.1	
Other income	15.5	21.9	41
Interest	15.8	23.5	49
Gross Profit	87.0	124.6	43
Depreciation	39.2	50.3	28
Profit Before Tax	47.8	74.3	55
Tax	17.2	28.5	66
Net Profit	30.6	45.8	50
Effective Tax Rate	36.0	38.4	

We expect revenues of the company to increase from Rs1038.9mn in FY06 by 91% to Rs1987.8mn in FY07 and by 92% in FY08 to Rs3,813.7mn. Operating profit of the company is expected to increase from Rs167.8mn in FY06 to Rs452.7mn in FY07 and Rs986.9mn in FY08 representing CAGR growth of 142% from FY06 to FY08. Net profits for the company are expected to increase substantially from Rs53.9mn in FY06 to Rs219.9mn in FY07 and Rs449.4mn in FY08. The EPS of the company is expected to increase from Rs2.4 in FY06 to Rs9.6in FY07 and Rs19.6 in FY08.

The company's plan to open a multiplex theatre in Dynamix Mall in Juhu (Mumbai)in C1FY06, seenmd delayed, since the mall developer has violated CRZ (coastal regulatory guidelines) and quite a few other guidelines too has been not strictly followed. The matter has become sub-judice and hence we are not sure - when the same will be reopened. As a result we have not factored any revenues to flow in from this multiplex theatre - and there is no downside to our revenue and profitability projections. On the contrary - if the issued is resolved over the next six months - there could be an upside of Rs0.7 to the EPS for FY07 and for FY08 it coule be Rs1.8.

Concerns

Execution of projects on schedule is one of the biggest risks in this business model. Delays beyond the 3 months factored by us in setting up of the multiplex will result in lower than expected revenues. Delays in setting up properties normally occur in the mall development stage or in the approval stage.

Another concern which could hamper profitability of the company is the delay in receiving entertainment tax benefit. We have factored in a 4 month delay in our assumptions of entertainment tax. Any further delay is likely to hamper profitability.

Since the company is in capex mode, the cash flows of the company after capex are negative. We expect cash flows after capex to remain negative till FY08, thereafter which this issue is expected to correct.

The current RoCE and RoE of the company are low at 7% and 4% respectively. These ratios are expected to increase over FY07 and FY08 to stabilise at 21% RoCE and 19% RoE in FY08.

Exhibit 10: Key assumptions

No. of Properties	No. of Seats	No. of Screens	Occupancy	Avg Ticket Price	Avg Number of months Operational	Avg. No of Shows per Day
24	25,609	100	46.3	109	6.2	4.7
36	39,089	155	44.8	116	10.3	4.7

Source: KSBL Estimate

Valuations

At the current price of Rs332, the stock trades at P/E of 17x FY08E. We expect EPS growth of 189% CAGR over FY07 and FY08. At CMP, the stock trades at PEG of 0.18x FY07 and 0.09x FY08. We believe the growth in the company coupled with the established business model of the company warrant a Market Outperformer rating on the stock with a price target of Rs390. At the price target, the stock trades at P/E of 20x FY08.

Profit & loss statement - Consolidated

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net Sales	481.7	686.5	1,038.6	1,987.8	3,813.7
% growth	*25.6*	*42.5*	*51.3*	*91.4*	*91.9*
Direct Cost	176.6	226.7	340.4	630.0	1,135.6
Employee cost	58.9	74.4	123.4	148.5	278.9
Operating cost	127.9	189.3	294.1	583.0	1,084.9
Selling cost	19.0	41.3	56.0	82.1	150.6
Administrative cost	31.2	43.4	56.8	91.6	176.9
Total Expenditure	413.5	575.0	870.7	1,535.2	2,826.8
EBITDA	68.1	111.5	167.8	452.7	986.9
% growth	*2.9*	*63.6*	*50.5*	*169.7*	*118.0*
* EBITDA margin (%)	14.1	16.2	16.2	22.8	25.9
Other income	15.7	20.7	26.4	54.6	43.5
Interest	19.1	23.9	47.9	68.1	124.4
Gross Profit	64.7	108.4	146.3	439.2	906.0
% growth	*12.2*	*67.4*	*35.0*	*200.3*	*106.3*
Depreciation	38.4	55.4	68.1	121.6	258.0
Profit Before Tax	26.3	53.0	78.1	317.6	648.0
% growth	*(3.9)*	*101.4*	*47.4*	*306.5*	*104.0*
Tax	10.7	16.2	24.2	97.6	198.6
Effective tax rate (%)	40.7	30.6	31.0	30.7	30.6
Net Profit	15.6	36.8	53.9	219.9	449.4
% growth	*(14.7)*	*135.6*	*46.7*	*307.7*	*104.3*
Extraordinaries	-	-	-	-	-
Reported Net Profit	15.6	36.8	53.9	219.9	449.4
% growth	*(14.7)*	*135.6*	*46.7*	*307.7*	*104.3*
EPS (Rs)	1.2	2.2	2.4	9.6	19.6
% growth	*(0.3)*	*0.8*	*0.1*	*3.1*	*1.0*

Balance sheet - Consolidated

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Equity	133.1	171.0	228.8	228.8	228.8
Reserves	166.4	355.7	1,655.5	1,876.5	2,326.4
Net worth	299.5	526.6	1,884.3	2,105.2	2,555.1
Deffered Tax Liability	34.9	42.9	50.1	60.0	75.0
Short-term Loans	4.1	13.0	50.0	60.0	70.0
Long-term Loans	298.3	455.1	855.0	1,190.0	1,405.0
Total Loans	302.3	468.0	905.0	1,250.0	1,475.0
Prefrence shares	-	-	200.0	200.0	200.0
Liabilities	**636.8**	**1,037.6**	**3,039.4**	**3,615.2**	**4,305.1**
Gross Block	480.7	830.6	1,883.0	3,133.4	4,160.4
Depreciation	111.7	159.6	227.6	349.2	607.2
Net Block	368.9	670.9	1,655.4	2,784.2	3,553.2
Capital work-in-progress	84.6	137.6	262.5	287.5	125.0
Exp. during construction period	32.2	37.7	45.0	75.0	80.0
Intangible assets	2.8	2.9	3.0	3.5	4.0
Long-term Investments	5.0	12.0	55.0	5.0	5.0
Inventories	3.1	6.8	9.4	17.1	30.0
Debtors	26.0	24.6	50.5	107.3	215.2
Cash	26.2	95.0	868.9	335.9	499.1
Loans and advances	177.0	204.6	298.1	400.1	520.1
Other current Assets	0.7	1.6	4.5	4.5	5.0
Total current assets	233.0	332.6	1,231.3	864.9	1,269.4
Current liabilities	87.1	145.6	201.1	370.1	662.8
Provisions	2.6	10.6	11.7	34.7	68.8
Total current liabilities	89.7	156.2	212.8	404.8	731.5
Net current assets	143.3	176.5	1,018.5	460.0	537.9
Total Assets	**636.8**	**1,037.6**	**3,039.4**	**3,615.2**	**4,305.1**

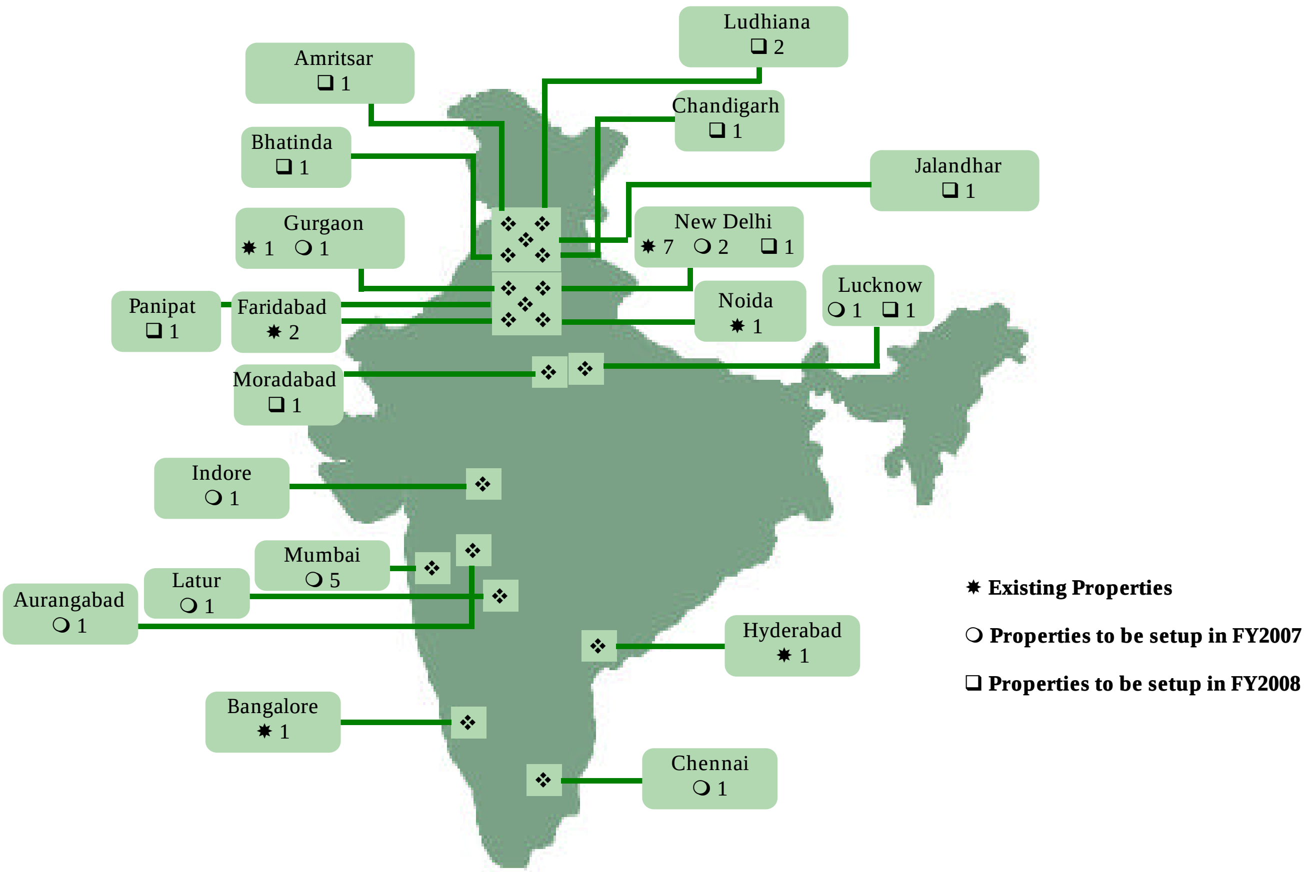
Ratio analysis

	FY2004	FY2005	FY2006E	FY2007E	FY2008E
ROCE (%)	9.1	9.6	6.7	12.6	20.9
ROE (%)	6.9	8.9	4.5	11.0	19.3
Debt/Equity (x)	1.0	0.9	0.5	0.6	0.6
Direct Cost/Sales (%)	36.7	33.0	32.8	31.7	29.8
Employee cost/Sales (%)	12.2	10.8	11.9	7.5	7.3
Others/Sales (%)	37.0	39.9	39.2	38.1	37.0
Net Ticket Rev/Tot.Admissions	91.7	93.0	78.4	78.5	94.3
EBIDTA/Tot.Admissions	20.0	23.2	20.2	28.6	38.3

Cash flow statement

Rsmn	FY2005	FY2006E	FY2007E	FY2008E
EBIT	56.1	99.7	331.0	728.9
(Inc.)/Dec in working capital	35.6	(68.2)	25.5	85.3
Cash flow from operations	91.7	31.5	356.5	814.3
Other income	20.7	26.4	54.6	43.5
Depreciation	55.4	68.1	121.6	258.0
Interest paid (-)	(23.9)	(47.9)	(68.1)	(124.4)
Tax paid (-)	(16.2)	(24.2)	(97.6)	(198.6)
Deferred Tax	8.0	7.2	9.9	15.0
Misc. Expenditure	5.3	3.4	1.0	0.5
Net cash from operations	141.0	64.5	378.0	808.2
Capital Expenditure (-)	(416.0)	(1,184.9)	(1,305.9)	(870.0)
Net cash after capex	(274.9)	(1,120.4)	(928.0)	(61.8)
Inc./(Dec.) in short-term borrowing	8.9	37.0	10.0	10.0
Inc./(dec.) in long-term borrowing	156.8	399.9	335.0	215.0
Inc./(dec.) in borrowings	165.7	437.0	345.0	225.0
Inc./(Dec.) in Investments	(7.0)	(43.0)	50.0	-
Inc./(Dec.) in Preference Capital	-	200.0	-	-
Equity issue/(Buyback)	185.1	1,300.6	-	-
Cash from Financial Activities	343.8	1,894.5	395.0	225.0
Opening cash	26.2	95.0	868.9	335.9
Closing cash	95.0	868.9	335.9	499.1
Change in Cash	68.8	773.9	(533.0)	163.2

PVR Properties



Global Equity Research - India

Initiating Coverage

KARVY STOCK BROKING LIMITED

Sector: Multiplex

Shringar Cinema (Rs66)

Outperformer
Target Price: Rs77

The company is looking at expanding its operations from the current 5 multiplexes to 31 by FY08. We expect 80%CAGR growth in revenues over FY07 and FY08. Operating leverage and entertainment tax exemptions are likely to increase margins from 5.5% in FY06 to 25% in FY08. We rate the stock Market Outperformer with a price target of Rs77.

Expanding to capture cinema potential: Over FY07 and FY08, the company is looking at expanding its presence in 13 new cities by setting up 26 new properties from the current 5 properties operated by them. By FY08, the company is expected to operate a total of 128 screens and 35,566 seats.

Strong revenue growth of 80% CAGR: Revenues of the company are expected to grow by 38% in FY07 and by 135% in FY08. This growth in revenues is on the back of the expansion that the company is expected to undertake. Strong revenue growth in FY08 is expected as a number of multiplexes are expected to be set up in 4Q FY07 and hence will see full year operations in FY08.

EBIDTA margins to strengthen: Operating margins for the company are expected to strengthen from 5.5% in FY06 to 18% in FY07 and 25% in FY08. Allocation of corporate expenditure over a larger number of properties will help in propping up the margins. Entertainment tax exemptions which the company is likely to avail on 19 new properties is expected to further augment profitability.

Valuations: At CMP, the stock trades at a P/E of 12x FY08E and an EV/EBIDTA of 5.7x FY08E. We expect the operating profits of the company to grow at 285% CAGR over FY07 and FY08. The RoCE of the company is expected to be 10% in FY07 and 18% in FY08. We rate the stock Market **Outperformer** with a price target of Rs77

Shringar Cinema

Reuters/Bloomberg code	SHRC.BO/SCIN.IN
Market Cap. (Rsmn)	1,452
Market cap. (US$mn)	32.3
Shares Outstanding (mn)	23.4
52-week High/Low (Rs)	104/43
Major Share Holders (%)	
Promoter/Majority	47.8
FIIs	16.4
Others	16.7
Public	19.1

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net sales	221.8	378.6	624.6	861.9	2,026.8
EBITDA	57.0	33.7	34.1	153.6	507.3
Net profit	12.1	(52.0)	(28.9)	77.1	198.7
EPS (Rs)	2.8	-2.2	-0.9	2.2	5.5
EPS Growth (%)					145.3
EBITDA margin (%)	25.7	8.9	5.5	17.8	25.0
PER (x)				29.7	12.1
P/BV (x)	1.2	7.7	3.4	2.5	1.9
EV/EBITDA (x)	28.4	57.1	47.1	11.2	5.7
RoCE (%)	23.9	2.0	2.9	9.6	17.9
RoE (%)	18.7	(15.6)	(5.1)	10.2	18.6

Source: Company and Karvy Estimates

Business Overview

Shringar Cinema operates in the "Film Exhibition" business. They operate multiplexes under the brand name "Fame". Currently the company operates 5 multiplexes in 3 cities with a total of 22 screens and 6,438 seats.. In Mumbai, they have 3 multiplexes and 1 in Nasik and Kolkatta.

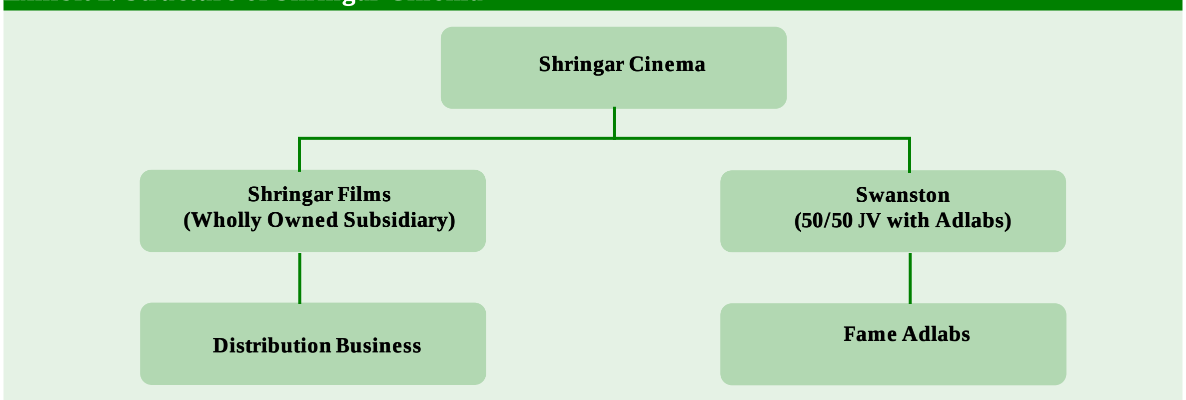
Exhibit 1: Existing Properties

City	Number of Properties	Screens	Seats
Mumbai	3	15	4,134
Kolkatta	1	4	897
Nasik	1	3	1407
Total	5	22	6,438

Source: Company

Out of the 3 multiplexes in Mumbai one of them called "Fame Adlabs" is operated by a company called "Swanston" which is a 50/50 joint venture between Shringar Cinema and Adlabs. Shringar Cinema also runs a film distribution business in its wholly owned subsidiary, Shringar Films.

Exhibit 2: Structure of Shringar Cinema



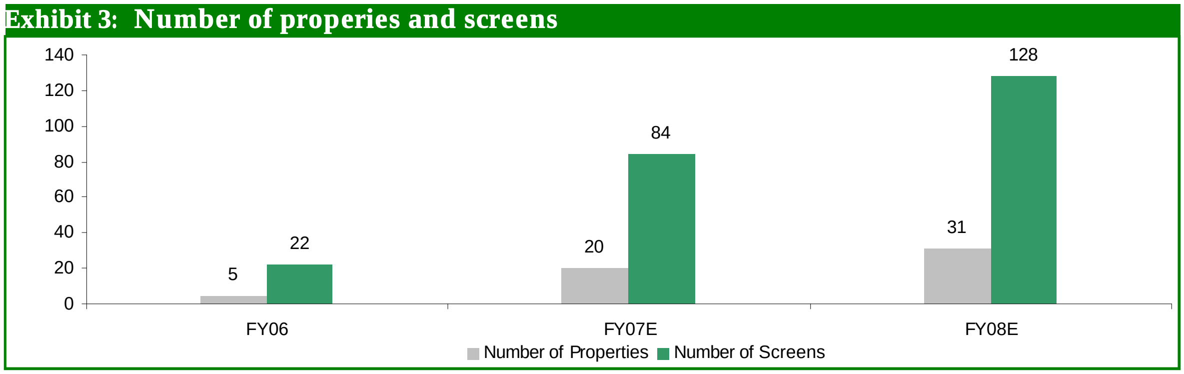
Source: Company & KSBL

Investment Positives

In expansion mode

The company plans to operate multiplexes across the country in 13 new cities.They plan to set up 26 new multiplexes by FY08, with a total of 106 new screens and 29,128 seats. Of the 26 properties, 15 properties are expected to be set up in FY07 and the remaining in FY08.

Exhibit 3: Number of properies and screens



Source: Company, KSBL estimates

These multiplexes will be located in Tier I, II and III cities. Cities are classified into Tiers based on the potential average ticket price that the company can charge a viewer. Multiplexes which fall into the Tier I category have the potential to charge viewers above Rs100 per patron. Multiplexes in Tier II locations have the potential to charge a viewer between Rs60 and Rs100 whereas multiplexes which charge viewers below Rs60 fall into the Tier III category.

In FY07, the company's expansion is likely to be spread over Tier I and Tier II cities. Of the 15 multiplexes expected to be set up in FY07, 8 multiplexes are expected to be set up in Tier I cities, 6 in Tier II cities and 1 in Tier III.

Exhibit 4: New Multiplexes in FY07

Tier	Number of Properties	Screens	Seats
I	8	37	9,805
II	6	22	6,442
III	1	3	1,040
Total	15	62	17,287

Source:Company,KSBL

In FY08, majority of the expansion is expected to take place in Tier I cities. Of the 11 multiplexes, 8 will be set up in Tier I cities and 3 in Tier II. The company's strategy is to have a pan India presence.

Exhibit 5:

Tier	Number of Properties	Screens	Seats
I	8	35	9,041
II	3	9	2,800
III	0	0	-
Total	11	44	11,841

Source:Company,KSBL

On an average, the company takes 3 months for fit outs after the property has been handed over by the mall developer to the company. Another 3 months are taken for acquiring the necessary approvals. In our assumptions, we have assumed a further 3 month delay for each property.

The capex per seat normally ranges between Rs60, 000 and Rs75, 000. The company is likely to incur total capital expenditure of Rs478mn in FY07 and Rs1, 561mn in FY08. A multiplex requires refurbishing after every 3 years. Under their Swanston JV, the company operates a multiplex at Mumbai which has been in operations since April, 2002. We expect the company toincur incremental capex of Rs12mn in both FY07 and FY08 to refurbish this multiplex.

Funding Expansion

To fund the expansion that the company is undertaking, we expect the company to raise total debt to the extent of Rs1, 031mn over FY07 and FY08. The total debt in FY08 is expected to be Rs1, 550mn in FY08.

We have also assumed dilution in equity of 15% at a price of Rs60 per share over the next two financial years to fund expansion and to maintain a reputable debt equity ratio. This will result in an equity base of Rs365mn in FY08.

KARVY STOCK BROKING LIMITED

80% CAGR growth in revenues

On account of the company setting up new multiplexes, we expect revenues for the company to grow at 80% CAGR from Rs625mn in FY06 to Rs2,027mn in FY08. Gross ticket revenues for the company are expected to grow by 38% in FY07 and by 168% in FY08. We expect revenues to gallop in FY08 as a large number of multiplexes are expected to be set up in the last quarter of FY07. Revenue from food and beverages and advertisements are expected to grow at a CAGR of 92% and 87% respectively from FY06 to FY08.

Revenue Model

On an average 72% of the revenues from a multiplex comes from the ticket sales, 22% from food and beverage revenue and 7% from advertising and other related revenues. These percentages differ marginally for cities in the different tiers. Ticket revenue as a percentage of the total revenue is higher for Tier I cities at 73% as compared to 69% or Tier III cities. On the other hand, food and beverage revenues are higher in Tier III cities at 22% as compared to 20% for Tier I cities. These percentages differ as the company is able to charge higher ticket revenue in Tier I cities but find it difficult to attract viewers in Tier III cities if they charge high ticket prices.

Exhibit 6: Revenue Break Up

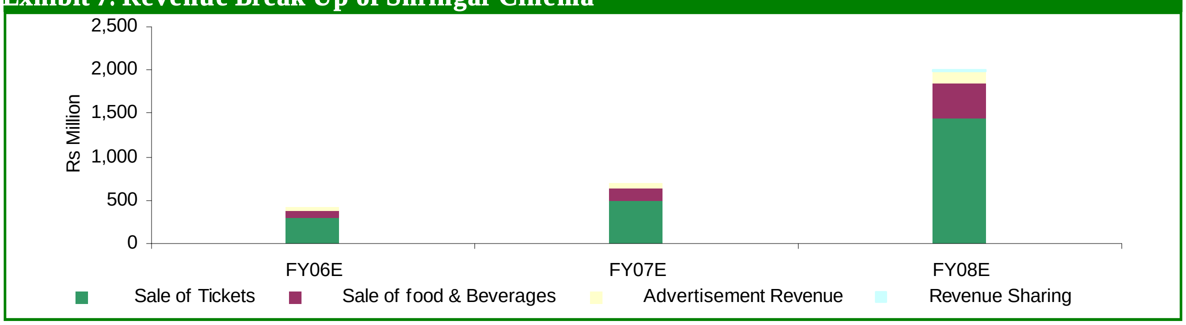
	Tier I	Tier II	Tier III
Ticket	73	72	69
Food & Beverages	20	22	22
Advertisemt & others	7	6	9

Source: Company & KSBL

Management Contracts

The company plans to operate two multiplexes under management contracts; one at Surat (6 screens, 1,850 seats) and one at Allahabad (4 screens, 1,120 seats). Under these contracts, the company only operates the multiplex; all the costs are borne by the property owner. This model is normally followed in cities where rentals are relatively high making the ownership model unviable. Another objective is to lend the company's expertise in running multiplexes without taking additional risks. The company is entitled to 4% of the revenues from the multiplexes as well as 8% of the EBIDTA as management fees.

Exhibit 7: Revenue Break Up of Shringar Cinema

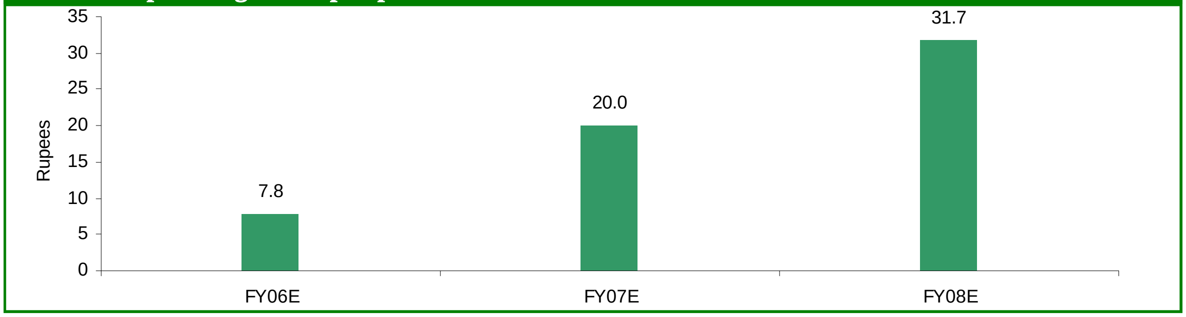


Source: Karvy Estimates

Significant improvement in operating margins

With the opening of additional multiplexes, we expect margins for the company to increase from 5.5% in FY06 to 18% in FY07 and 25% in FY08. This will be on account of corporate expenditure getting allocated over a larger number of properties as well as fiscal benefits which the company is likely to avail of in the form of entertainment tax exemptions. Operating profit per patron is expected to increase from Rs7.8 in FY06 to Rs20 in FY07 and Rs31.7 in FY08.

Exhibit 8: Operating Profit per patron



Source: Karvy Estimates

On a standalone basis, each multiplex entails 5 major costs. The distributors share is around 40% of the ticket revenues net of entertainment tax (actual or notional). This works out to 20% to 24% of the gross total revenues depending on which tier the multiplex is located. Food and beverage costs range between 7%-8% of the gross ticket revenue. Entertainment tax works out to 22% for Tier I cities, 17% for Tier II cities and 20% for Tier III cities. Lease cost varies between 10%-14% of gross revenues, depending on the location of the multiplex and other operating costs range between 22%-26%.

Exhibit 9: Costs of a multiplex

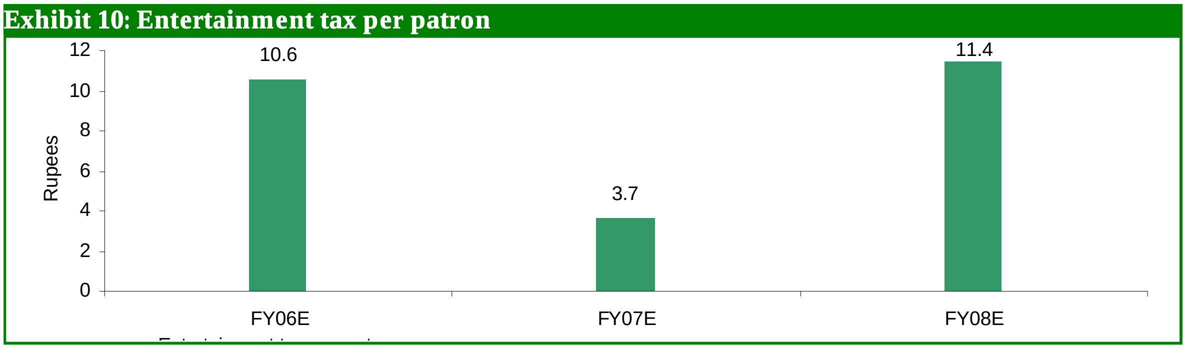
	Tier I	Tier II	Tier III
Distributors Share	20	24	21
Food & Beverage	7	8	8
Lease	10	16	20
Other Operating	22	26	14
Entertainment Tax	22	17	26
Total	81	91	89

Source: Company, KSBL

Entertainment tax exemptions

Currently, out of the 5 operational multiplexes, 3 of them avail of entertainment tax exemptions. Out of the 26 new properties expected to get commissioned over FY07 and FY08, 19 properties are likely to avail of entertainment tax exemptions. Normally entertainment tax forms 17%-22% of the cost structure of a multiplex. On account of the entertainment tax exemptions the company is expected to incur entertainment tax is expected to amount to of 3% of gross sales in FY07 and 8% in FY08. Entertainment tax is higher in FY08 as a large number of properties getting commissioned in 4Q FY07 and 1Q FY08 are expected to receive entertainment tax exemptions in 2H FY08. Entertainment tax exemptions are expected to strengthen the profitability of the company. We have factored in a delay of 4 months in availing these fiscal benefits after the commencement of operations for each property.

Exhibit 10: Entertainment tax per patron



Source: Karvy Estimates

Distribution business to aid exhibition business

The company undertakes distribution of films in its 100% subsidiary "Shringar Films". The distribution business for the company is strategic in nature. It aids the company to stay in closer touch with the movie world and establish good relations with producers. It gives them access to an information data pool of box office collections and demands in various cities and also enables them to host premiere shows. This company has been incurring losses for the last 3 years. Going forward we expect the company to continue incurring losses. We expect the company to incur a loss of Rs6mn in FY06, Rs0.8mn in FY07 and Rs0.9 in FY08.

Exhibit 11: Shringar Films-Financials

(Rs mn)	2006E	2007E	2008E
Net Sales	107.8	113.2	118.9
Total Expenditure	107.6	107.0	112.3
EBIDTA	0.2	6.2	6.5
Margins%	0.2	5.5	5.5
Net profit	(6.0)	(0.8)	(0.9)

Source: Karvy Estimates

Joint Venture with Adlabs

Shringar Cinema operates one multiplex in Mumbai in a company called Swanston Multiplex Cinemas Pvt Ltd. This is a 50% JV with Adlab films. This company was a 50.01% subsidiary of Shringar Cinemas till 30th September 2005. From 1st October onwards structure was converted to a 50-50 JV.

The multiplex at Mumbai has 5 screens with 1,282 seats. It began operations in April,2002. This multiplex has been availing of E-tax exemptions since June, 2002. In Mumbai, for the first 3 years, 100% of E-tax is exempt. For the next 2 years 75% of E-tax is exempt. From June 2005, the company has been paying 25% E-tax. Therefore the EBIDTA margins are likely to decrease from 35% in FY05 to 30% in FY06 and FY07. The average ticket price in this multiplex has been in the range of Rs130 in FY06.

Exhibit 12: Swanston Financials

Rs.mn	2006E	2007E	2008E
Net Sales	194.9	170.0	131.9
Total Expenditure	136.5	118.6	108.3
EBIDTA	58.4	51.5	23.6
Margins%	29.9	30.3	17.9
Net profit	33.6	28.7	10.7

Source: Karvy Estimates

Company background

Shringar Cinema was incorporated in October, 1999 as a private Ltd company. The promoters of the company are the Shroff Family.The Company was then a wholly owned subsidiary of Shringar Films Pvt Ltd. Shringar Cinema was incorporated with the objective of venturing into the film exhibition business while Shringar Films was to operate in film distribution. As the exhibition business progresses well, the promoters decided to convert Shringar Cinema as the parent company and Shringar Films was made its wholly owned subsidiary.

Mr. Shravan Shroff is the Managing Director of the company. He has an MBA from the Melbourne University. He has experience in managing several theatres

Financials

In 9M FY06, the company reported net revenues of Rs220.4mn. EBIDTA margins for the company were weak at 3% on account of high corporate expenditure. Corporate expenditure includes administrative and staff expenses at a corporate level which are high due to few properties being operational. These costs are fixed in nature. The company reported a loss of Rs32.5mn for 9M FY06.

Recent Financials-Unconsolidated

Rs.mn	12M-05	Q1-06	Q2-06	Q3-06	9M-06
Net Sales	81.6	58.7	86.3	75.4	220.4
Total Exp	122.1	57.6	77.7	78.3	213.6
EBITDA	(40.6)	1.0	8.6	(2.9)	6.7
EBITDA margin (%)	(49.7)	1.8	10.0	(3.9)	3.0
Other income	23.2	4.9	5.3	4.8	15.1
Interest	19.4	10.9	8.8	8.5	28.2
Gross Profit	(36.8)	(5.0)	5.1	(6.6)	(6.4)
Depreciation	15.5	7.0	8.8	9.6	25.3
Profit Before Tax	(52.2)	(12.0)	(3.6)	(16.2)	(31.8)
Tax	0.4	0.2	0.3	0.2	0.7
Net Profit	(52.6)	(12.2)	(3.9)	(16.4)	(32.5)

Revenues for the company are expected to grow by 38% in FY07 to Rs861.8mn in FY07 and by 135% in FY08 to Rs2026.8mn. We expect operating margins to increase from 5% in FY06 to 18% in FY06 and 25% in FY08. After incurring a net loss of Rs28.9mn in FY06, the company is expected to report net profit of Rs77.1mn in FY07 and Rs198.7mn in FY08. Our EPS estimates for the company stand at Rs2.2 for FY07 and Rs5.5 for FY08

Concerns

We believe that execution of projects is the primary concern in the company as the company is in the initial stage of setting up multiplexes. Growth in revenues of the company is dependant on the opening of new multiplexes. We have assumed a 3 month delay in opening of each multiplex from the estimated date of opening. Delays in execution of projects over and above our estimates will result in lower than expected revenue growth.

Delays in receiving entertainment tax exemptions would hamper the profitability of the company. We have factored a four month delay in receiving entertainment tax exemptions. Any further delay, will result in lower than expected EBIDTA margins.

In spite of the investment in the distribution business being strategic in nature, the amount invested in it is significant at Rs191mn. Operating losses incurred in this business will hamper return for Shringar Cinemas.

The current return ratios of the company are a cause of concern. The current RoE of the company is negative while the RoCE is low at 2.9%. These ratio's are expected to strengthen to 18.6% RoCE and 17.9% RoE in FY08.

The cashflows after capex of this company are expected to remain a cause of concern over the next 24 months as the company is mode. We expect this issue to be corrected thereafter.

Valuations

At the CMP of Rs66, the stock trades at a P/E of 12X FY08 and an EV/EBIDTA of 5.7x FY08. We expect to grow at 285% CAGR over FY07 and FY08. The RoCE of the company is expected to increase from 3% in FY06 to 18% in FY08. The EPS of the company is expected to increase from Rs(0.9) in FY06 to Rs2.2 in FY07 and Rs5.5 in FY08. We rate the stock Market Outperformer with a price target of Rs77. At our price target the stock trades at a P/E of 14x FY08E.

Exhibit 13: FY07-Key assumptions

Tier	No. of Properties	No. of Seats	No. of Screens	Occupancy	Avg Ticket Price	Avg Number of Months Operational	Avg. No of Shows per Day
I*	3	4,246	23	40%	118	9	5
II	6	6,329	23	40%	89	9	5
III	1	1,407	3	40%	63	12	5
Swanston	1	1,282	5	40%	140	12	5

Exhibit 14: FY08-Key assumptions

Tier	No. of Properties	No. of Seats	No. of Screens	Occupancy	Avg Ticket Price	Avg Number of Months Operational	Avg. No of Shows per Day
I*	18	21,698	82	40	120	6	5
II	10	10,139	35	40	91	9	5
III	2	2,447	6	40	64	8	5
Swanston	1	1,282	5	40	147	12	5

**Excluding Swanston*

Profit & loss statement

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net Sales	221.8	378.6	624.6	861.9	2,026.8
% growth	*18.2*	*70.7*	*65.0*	*38.0*	*135.2*
Direct Cost	83.3	160.0	236.5	299.0	658.8
Employee cost	14.9	42.6	73.1	76.1	174.5
Operating cost	66.7	142.3	280.8	333.1	686.2
Total Expenditure	164.9	344.9	590.5	708.2	1,519.5
EBITDA	57.0	33.7	34.1	153.6	507.3
% growth	*8.4*	*(40.9)*	*1.4*	*350.0*	*230.2*
EBITDA margin (%)	25.7	8.9	5.5	17.8	25.0
Other income	8.2	11.4	31.0	42.2	43.2
Interest	6.3	23.5	32.6	36.8	86.6
Gross Profit	58.8	21.6	32.5	159.1	464.0
% growth	*17.2*	*(63.3)*	*50.9*	*388.8*	*191.7*
Depreciation	11.1	35.6	40.2	67.5	162.2
Profit Before Tax	47.7	(14.0)	(7.6)	91.6	301.8
% growth	*16.6*	*NA*	*NA*	*NA*	*229.6*
Tax	19.4	21.1	12.9	14.4	103.0
Effective tax rate (%)	40.7	NA	NA	15.7	34.1
Net Profit	28.3	(35.1)	(20.5)	77.1	198.7
% growth	*16.2*	*(224.0)*	*(41.5)*	*NA*	*157.6*
Minority Interest	16.2	16.9	8.4	-	-
Reported Net Profit	12.1	(52.0)	(28.9)	77.1	198.7
% growth	*(0.9)*	*NA*	*NA*	*NA*	*157.6*
EPS (Rs)	2.8	(2.2)	(0.9)	2.2	5.5
% growth	*(97.7)*	*(180.4)*	*NA*	*NA*	*145.3*

Balance sheet

Rsmn	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Equity	44	234	316	347	365
Reserves	204	(34)	289	558	871
Net worth	248	200	605	906	1,236
Deffered Tax Liability	5	6	3	3	3
Short-term Loans	32	233	384	319	319
Long-term Loans	75	171	136	326	1,232
Total Loans	107	405	520	644	1,550
Minority Interest	25	24	-	-	-
Liabilities	**385**	**635**	**1,128**	**1,553**	**2,789**
Gross Block	339	572	689	1,183	2,761
Depreciation	248	283	296	352	503
Net Block	91	288	393	831	2,258
Capital work-in-progress	43	96	102	52	52
Goodwill	47	47	47	47	47
Long-term Investments	25	25	25	25	25
Inventories	0	1	2	3	14
Debtors	15	31	42	60	206
Cash	33	29	455	462	228
Loans and advances	223	287	301	418	876
Other Current Assets	2	2	2	3	4
Total Current assets	272	349	802	946	1,329
Current liabilities	93	113	231	335	870
Provisions	-	57	10	12	51
Total current liabilities	93	170	241	347	921
Net current assets	180	179	561	599	408
Total Assets	**385**	**635**	**1,128**	**1,553**	**2,789**

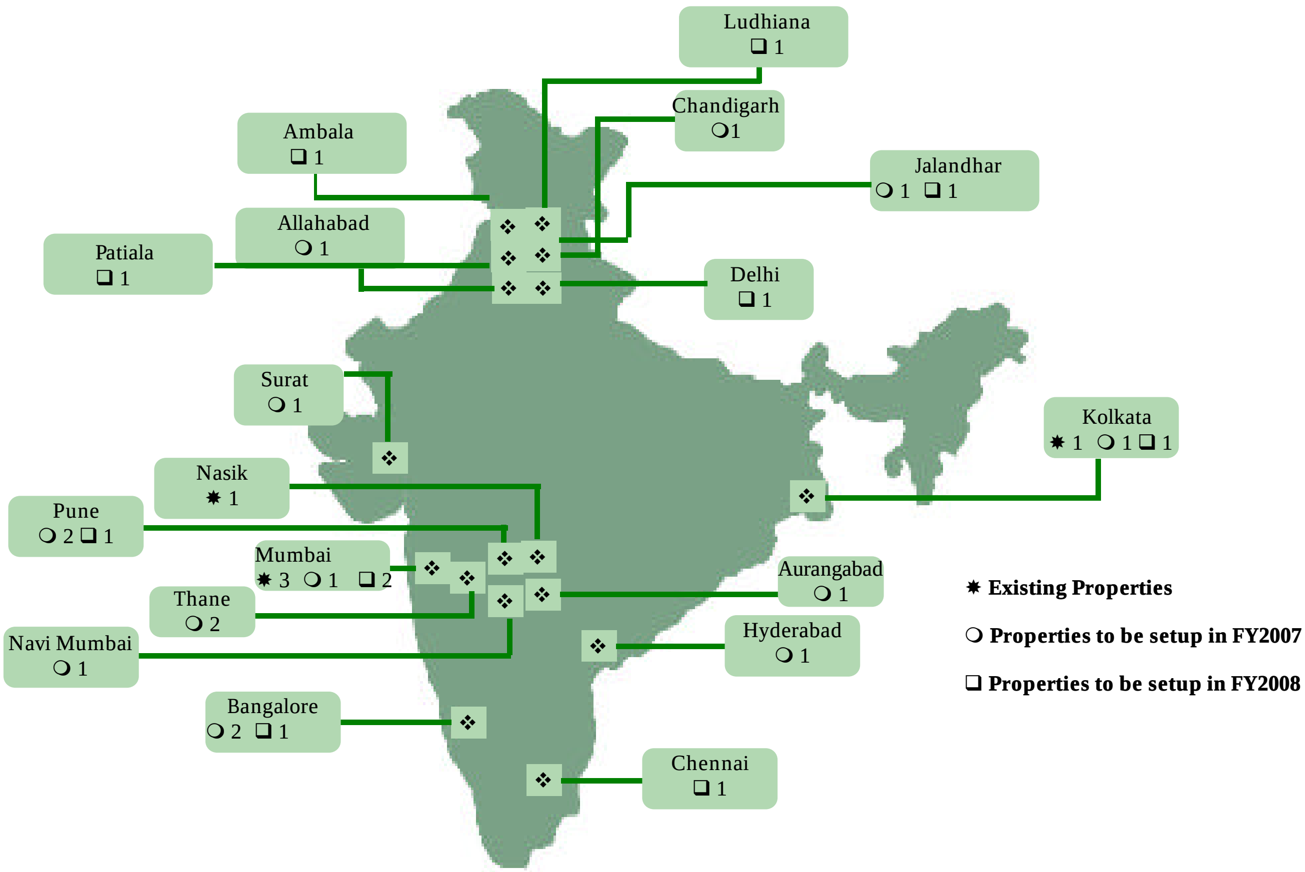
Ratio analysis

	FY2004	FY2005	FY2006E	FY2007E	FY2008E
ROCE (%)	23.9	2.0	2.9	9.6	17.9
ROE (%)	18.7	(15.6)	(5.1)	10.2	18.6
Debt/Equity (x)	0.43	2.02	0.86	0.71	1.25
Direct Cost/Sales (%)	37.5	42.3	37.9	34.7	32.5
Employee cost/Sales (%)	6.7	11.3	11.7	8.8	8.6
Operating cost/sales (%)	30.1	37.6	45.0	38.6	33.9
Net Ticket Rev/Tot.Admissions	NA	NA	82.4	69.0	82.9
EBIDTA/Tot.Admissions	NA	NA	7.8	20.1	31.7

Cash flow statement

Rsmn	FY2005	FY2006E	FY2007E	FY2008E
EBIT	(1.9)	(6.0)	86.1	345.1
(Inc.)/Dec in working capital	(3.4)	45.1	(31.3)	(42.7)
Cash flow from operations	(5.4)	39.0	54.8	302.5
Other income	11.4	31.0	42.2	43.2
Depreciation	35.6	40.2	67.5	162.2
Interest paid (-)	(23.5)	(32.6)	(36.8)	(86.6)
Tax paid (-)	(21.1)	(12.9)	(14.4)	(103.0)
Deferred Tax	0.9	(2.7)	0.2	0.3
Minority Interest (-)	(16.9)	(8.4)	-	-
Dividends paid (-)	(3.0)	-	-	-
Net cash from operations	(22.0)	53.7	113.5	318.6
Capital Expenditure (-)	(285.6)	(151.0)	(455.2)	(1,589.4)
Net cash after capex	(307.6)	(97.3)	(341.7)	(1,270.9)
Inc./(Dec.) in short-term borrowing	201.7	150.2	(65.0)	-
Inc./(dec.) in long-term borrowing	96.3	(35.6)	189.9	906.0
Inc./(dec.) in borrowings	298.0	114.6	124.9	906.0
Inc./(Dec.) in Investments	(0.4)	(0.0)	-	0.0
Inc./(Dec.) in Goodwill	0.0	-	-	-
Equity issue/(Buyback)	7.3	432.5	221.0	121.5
Minority Interest	(1.0)	(24.5)	-	-
Cash from Financial Activities	303.9	522.7	345.9	1,027.5
Opening cash	32.6	29.1	455.4	462.1
Closing cash	29.1	455.4	462.1	228.4
Change in Cash	(3.5)	426.3	6.8	(233.7)

Shringar Cinema - Properties



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Equity Research

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Stock Ratings		Absolute Returns	Stock Ratings		Absolute Returns
Buy	:	> 25%	Market Performer	:	0 - 15%
Out Performer	:	16 - 25%	Under Performer	:	< 0%

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