

# Tower Capital & Securities Pvt. Ltd.

## Media

Apr 16, 2007

<b>CMP</b>	<b>Rs. 52.25</b>
Sensex	13184

## Stock Statistics

Reuters code	SHRC.BO
Bloomberg code	SCIN@IN
BSE code	532631
NSE code	SHRINGAR
ISIN No.	INE886G01011

Equity Cap (Rs. Mn)	315.9
Market Cap (Rs. Bn)	1.6
Market Cap (\$ mn)	38.0
52 Week High/Low	103/35
Avg. Vol. (6M)	70063

## Stock Performance

	1m	3m	6m
Absolute	0.0	-7.0	-15.0
Relative	2.0	4.0	-22.0

## Shareholding Pattern (%)

Promoters	38.14
FII/Other Foreign Inv	30.21
MF/Banks/FIs	16.34
Non PCBs	3.04
Public & Others	12.27

## Price Chart (1 yr)



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## Management visit note:

### Shringar Cinemas Ltd. (SCL)

We met the management of Shringar Cinema Ltd (SCL) to understand industry dynamics, company's expansion plans and future prospects.

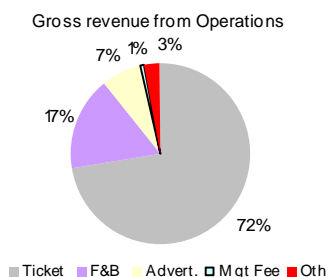
## Background

Shringar Cinemas Ltd has interest in film exhibition, film distribution and food court business. The main focus of the company is the exhibition business under multiplexing. The company operates its exhibition business under FAME brand.

## Key Takeaways

- ⇒ SCL posted an impressive turn around in 9MFY07 due to faster roll out of screen inventory in FY07. Higher corporate overheads got distributed resulting in higher operating profit and robust operating margin of 20%.
- ⇒ During FY07, the company commenced operation of 14 screens comprising of 5579 seats accounting for 87% jump in number seats existing at the end of FY06.
- ⇒ The company has aggressive plans to operate additional 9622 seats by FY09 resulting in total seat capacity of 21635 seats and 73 screens.
- ⇒ Occupancy rate in theatres have jumped from 34% in 9MFY07 from 31% in 9MFY06 due to higher occupancies in newly commenced theatres and better content available throughout FY07. However, we expect 4QFY07 to have lower occupancies as 4Q is normally the worst quarter for film exhibition industry.
- ⇒ Average Ticket Price (ATP) has increased from Rs. 113 in 9MFY06 to Rs. 118 in 9MFY07 mainly due to better realizations from theatres which became operational in FY06. We believe ATP will stabilize at current levels since company has expansion plans in both tier I and tier II cities neutralising the impact of any divergence in ATP.
- ⇒ The company is also exploring opportunities in Food Court business. One such court has already started in Surat while other will start operation in 2HFY08 in Chandigarh. SCL has no concrete expansion plan in food court business and is planning to adopt a measured approach for the same. Hence, we believe food court business will not contribute materially to the revenue in future.
- ⇒ Recent budgetary announcement of service tax on rental properties will wash out 150-200 bps from the margin of the company. However due to company's aggressive expansion plan, we believe company will manage margins of 20-22% due to lower corporate overheads as a % of revenue.

## INTRODUCTION



Shringar Group started of in the early 50's when Mr. Gobindram Naomal Shroff and Mr. Vasudev Naomal Shroff formed a partnership firm by the name of "Issardas Naomal", with the main objective of financing Bollywood films.

By the mid 60's the firm formed Maya & Co. and began acquiring film distribution rights and distributed them to theaters through M/s Chhabra Film Exchange. The success of the films at the box office prompted the Shroff brothers to venture into the distribution trade.

In early 70's Mr. Shyam Shroff and Mr. Balkrishna Shroff (sons of Mr. Gobindram N. Shroff) launched a partnership firm Shyamlal Balkrishna & Co. and exported various films to various overseas countries. Success of such films made the Shroff family launch a firm by the name of "Shringar Films" in 1975. In 1997, under Mr. Shravan Shroff's leadership Shringar Films ventured into the exhibition business with programming of theaters as Company's forte. Later the company ventured into Multiplex business with first theatre starting in Andheri in partnership with Adlab films called Fame Adlabs. The company operates theatre under the brand FAME.

### Infrastructure

During FY07, the company commenced operation of 14 screens comprising of 5579 seats which is 87% jump in number seats existing at the end of FY06. As of 31st March 2007, SCL operates 39 screens with the total capacity of 12013 seats. Out of this 28 screens (8486 seats) are eligible for Entertainment Tax benefit.

Name of Property	Location	Screen	Seats	E Tax % on Net	E Tax Policy benefit
Mumbai	Citi Mall, Andheri	5	1,282	45%	Yes
Mumbai	Inorbit Mall, Malad	6	1,571	45%	Yes
Nasik	Nashik Shirdi Road	3	1,407	40%	Yes
Mumbai	Raghu Leela Mall, Kandivili	4	1,275	45%	Yes
Kolkatta	Metropolitan Mall,	4	899	30%	Yes
Pune	Jai Ganesh Mall, Pimpri	3	1,009	40%	Yes
Surat	Raj Empire Mall, Surat	6	1,841	25%	No
Mumbai	Nakshatra Mall, Dadar	1	280	45%	No
Mumbai	Thakur Cinemas	1	782	45%	No
Aurangabad	CIDCO, Aurangabad	3	1,043	40%	Yes
Anand	Anand	3	624	25%	No
		<b>39</b>	<b>12,013</b>		

### Expansion Plans

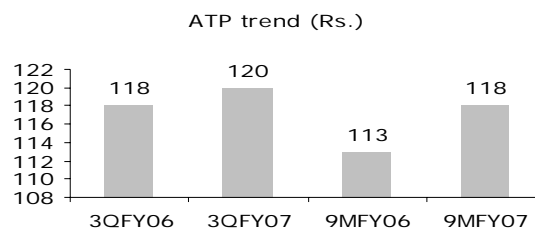
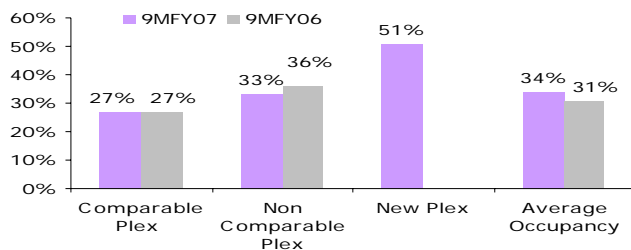
The company has formalized aggressive expansion plans to add another 9622 seats in the next 2 years taking the aggregate capacity to 21635 seats and 73 screens. Out of this 18 screens (4741 seats) are currently eligible for E-Tax benefits. We expect the company to increase its screen inventory by 49 % CAGR and seats inventory by 50% CAGR through FY06-FY09E. The expansion is in line with company's long term strategy of operating 232 screens and 63256 seats in next 4-5 years.

Name of Property	Location	Screen	Seats	E Tax on Net %	E tax policy Benefit	Expected Commencement Date
Kolkatta	South City	6	1,436	30%	Yes	1st Quarter 2008
Bangalore	Lido	4	1,040	40%	No	1st Quarter 2008
Mumbai	Thakur Movies	1	380	45%	No	1st Quarter 2008
Chandigarh	Panchkula	3	663	30%	No	2nd Quarter 2008
Mumbai	Thakur Mall	4	1,758	40%	No	2nd Quarter 2008
Patiala	Omaxe	4	1,150	19%	Yes	2nd Quarter 2008
Pune	Fun N Shop	3	1,025	40%	Yes	3rd Quarter 2008
Ahemdabad	R 3	4	1,040	25%	No	3rd Quarter 2008
Thane	Lake Mall	5	1,130	40%	Yes	3rd Quarter 2008
		<b>34</b>	<b>9,622</b>			

### Rising ATR and Occupancies

Occupancy rate in theatres have jumped from 34% in 9MFY07 from 31% in 9MFY06 due to higher occupancies in Newly commenced theatres and better content available throughout FY07. However, we expect 4QFY07 to have lower occupancies as 4Q is normally the worst quarter for film exhibition industry.

Average Ticket Price (ATP) has increased from Rs. 113 in 9MFY06 to Rs. 118 in 9MFY07 mainly due to better realizations from theatres which became operational in FY06. we believe ATP will stabilize at current levels since company has expansion plans in both tier I and tier II cities neutralising the impact of any divergence in ATP.



### Budgetary Impact

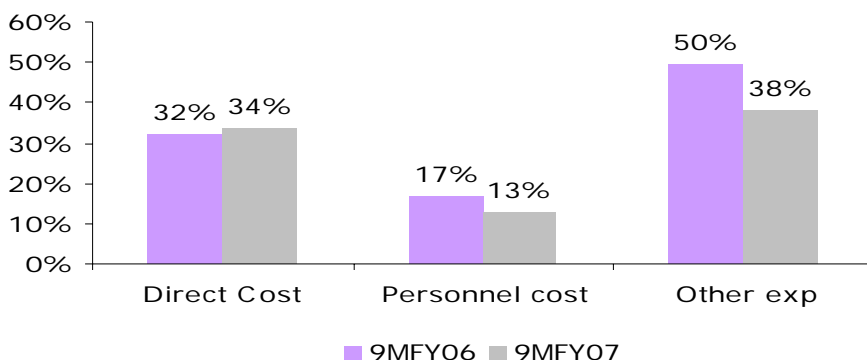
Recent budgetary announcement of levying service tax on commercial renting of property is negative for all the multiplex operators since it will increase their lease rentals. We believe this will wash 150 to 180 bps from the operating margin of SCL. Although, our sense is that SCL will still maintain 20% margin in FY08 since the company will be able to further distribute its high corporate overheads as more properties will come up in FY08.

### Turnaround in FY07

SCL posted an impressive turn around in 9MFY07 due to faster roll out of screen inventory in FY07. Higher corporate overheads got distributed resulting in higher operating margins thereby resulting in robust operating margins of 20%.

We expect company to continue with its impressive performance in FY08 also. As more and more screens will add up and corporate overheads as a % of sales reduce, SCL will be able to post robust profits in FY08 also.

We expect company to post an EPS of Rs 3.2 in FY07 and Rs 5.5 in FY08 making it one of the cheapest stocks available in multiplex space.



## FINANCIALS

Particulars ( Rs mn )	FY05	FY06	9MFY07P	FY07E
<b>Net Sales</b>	<b>81.6</b>	<b>290.7</b>	<b>380.4</b>	<b>460.0</b>
<i>% growth in sales</i>		<i>256.3</i>		<i>58.3</i>
Direct Cost	33.9	91.6	128.1	155.0
<i>Direct cost as a % of sales</i>	<i>41.5</i>	<i>31.5</i>	<i>33.7</i>	<i>33.7</i>
Personnel cost	22.6	51.2	49.1	59.8
<i>Personnel cost as a % of sales</i>	<i>27.7</i>	<i>17.6</i>	<i>12.9</i>	<i>13.0</i>
Other Expenditure	65.6	148.7	145.2	166.5
<i>Other expenditure as a % of sales</i>	<i>80.5</i>	<i>51.2</i>	<i>38.2</i>	<i>36.2</i>
<b>Total Expenditure</b>	<b>122.1</b>	<b>291.5</b>	<b>322.3</b>	<b>381.3</b>
<b>Operating Profit</b>	<b>-40.6</b>	<b>-0.9</b>	<b>58.0</b>	<b>78.7</b>
Depreciation	15.5	36.4	31.7	42.3
<b>Gross Profit</b>	<b>-56.0</b>	<b>-37.3</b>	<b>26.3</b>	<b>36.4</b>
Interest	19.4	37.1	27.2	36.2
Other Income	23.2	26.6	79.7	106.2
<b>Profit Before Tax</b>	<b>-52.2</b>	<b>-47.8</b>	<b>78.8</b>	<b>106.4</b>
Tax	0.4	1.1	3.2	5.3
<b>Reported Net Profit</b>	<b>-52.6</b>	<b>-48.8</b>	<b>75.6</b>	<b>101.0</b>
<b>EPS</b>	<b>NA</b>	<b>NA</b>	<b>2.4</b>	<b>3.2</b>

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