INDIAN MULTIPLEXES – THEATRE MAGIC !

THE BACKDROP

A number of factors are contributing to the growth of the multiplex business in India.

- **Change in the lifestyle of Indian consumers.**

A sea change in the lifestyles of the Indian consumers has already begun. We believe that India is ready to leap into a fast-growing consumption boom. The 4 Fs (fun, food, films and fashion) have become a pertinent and a potent mixture to attract discerning consumers who want their needs to be met under one single roof. Industries such as organized retailing, airlines, apparel brands, media and entertainment, hospitality and leisure, are likely to see a significant increase in revenues over the next decade.

- **Rising disposable incomes**

Disposable incomes are on an all-time high and affordability is not a barrier. The aspirations of India's middle class have now climbed to a different scale. Rising disposable income of the urban Indian consumer has, in turn, led to a consumption boom.

- **Low multiplex penetration vs traditional cinemas**

With 3.7bn movie tickets sold annually, India is approximately two and a half times the size of the second largest market (USA - 1.4bn). However, organized multiplex business still comprises only 5% of the total exhibition business in terms of number of screens.

Organized retail consumption increased from 1% of total retail consumption in 1999, to nearly 3% in 2004. This proportion is likely to increase to about 8%-10% over the next five years. The retail business in India is likely to register healthy growth in the next few years: by the end of 2007, the number of shopping malls is likely to increase to a staggering 358. Multiplexes, being one of the anchor tenants in large malls, contribute to about 40-50% footfalls. We expect this boom in organized retail to result in the success of multiplex cinemas. About 2,000 multiplexes and digital cinemas is expected to redefine the movie distribution chain over the next five years.

MULTIPLEXES: REASONS TO INVEST

- **Aggressive expansion plans**

The organized players in the movie exhibition industry have laid out aggressive expansion plans to be executed during the next 2-3 years. Most of these players, including Shringar, Inox, PVR, Cinemax, Adlabs intend to expand their domestic presence by setting up multiplexes in Tier II and Tier III cities that offer strong growth prospects. Until now, most of these players were focused on metros and Tier I cities. These expansion plans, if executed successfully, are likely to change the face of the multiplex industry. The organized retail boom in the country is likely to complement the growth of these multiplexes over the medium term.

- **Entertainment tax exemptions**

Entertainment tax rates in India are one of the highest in the world and vary from 20% to 125% of net box office collections. To encourage investments in this high-demand movie exhibition industry, various state governments have announced policies offering entertainment tax benefits. This has encouraged the growth of multiplex cinemas, while encouraging single-screen theatres to convert into multiplexes. We believe this would increase the profitability for multiplex owners.

- **Strong growth prospects of the Indian film industry**

The fortunes of the multiplex industry are linked to the performance of the Indian film industry. Over the years, movies have emerged as the most popular and affordable means of entertainment. Movie production has moved from unorganized to organized sector (from informal to formal financing). The entry of corporate entities in the production space has professionalized and corporatized the Indian film industry; some of these corporate entities include UTV, Yash Raj Films, and Sahara One. Given these indicators, we believe that the production of quality movies is likely to improve significantly, going forward. This, in turn, will augment the growth prospects of the Indian film industry.

- **Insulated from content risk**

We feel that multiplexes offer a safer, though less glamorous, way to invest in the Indian entertainment sector. This is because they have the choice of switching content that does not go down well with audiences. They do ride the success of hit content, although sometimes with lower revenue share !

DOWNSIDES

- **Dependent on real estate developers**

Execution is the biggest concern in the exhibition industry. Majority of the multiplexes are being set up on leased properties. Hence, multiplex operators have to depend on real estate developers. Any delay in the delivery of the civic shell (the internal structure of multiplex) could impact the operator’s earnings.

- **Piracy, DTH, IPTV**

Piracy is another concern for the film exhibition business as it directly affects business volumes. Also DTH and IPTV poses a threat to the exhibition business, though we are of the strong opinion that watching a movie in the cinema hall is a more complete experience in itself, and as such, people will continue to prefer watching movies in the cinema hall.

- **Entertainment tax exemption –a limited window**

Entertainment tax is typically exempted for a period of five years. After this relief period, the e-tax load can increase significantly; this is particularly applicable for multiplexes launched a few years ago. In such a scenario, only industry players that consistently and successfully expand their presence in the domestic market may benefit from tax exemptions on their new properties.

Also, with ramp up in terms of number of screens, multiplex players are expected to have better bargaining power with distributors, and occupancy rates are likely to go up, thus limiting the downside of the fallout from the entertainment tax exemptions.

- **Lack of differentiators**

Multiplex operators offer little by way of USPs, and we believe that the current expansion phase is characterized by “land-grabbing”. However, execution ability will ultimately decide the long term winners. As of now, we are initiating our coverage with three companies whose managements and business models look promising: Shringar Cinemas, Inox Leisure and PVR Cinemas.

MULTIPLEX PLAYERS : HOW DO THEY COMPARE ?

We have evaluated three prominent players in the industry across a number of parameters. We have listed P/E and EV/EBIDTA in the table below, but we think that the best way to look at these players is to evaluate them on the basis of EV per screen.

This is because it is still too early to assign a valuation premium or discount on the basis of reported or projected ROIs or ROEs. These will ultimately depend on the quality of management and execution challenges faced.

On the EV/screen parameter, our top pick is Shringar. We feel that Inox already commands a premium valuation in view of its high visibility, while PVR seems to be the safest bet given its pioneering status and market leadership which is likely to be sustained.

PARTICULARS	Shringar	PVR	Inox
Current Market Price (Rs)	60.00	212.00	135.00
No of shares(FY07)(cr)	3.16	2.30	5.95
No of shares(FY08)(cr)	3.16	2.30	5.95
No of shares(FY09)(cr)	4.07	2.30	5.95
Market cap(FY07) (Rs cr)	**189.54**	**487.60**	**803.25**
Market cap(FY08) (Rs cr)	189.54	487.60	803.25
Market cap(FY09) (Rs cr)	243.96	487.60	803.25
Debt (FY07)	110.72	105.58	85.76
Debt (FY08)	100.72	85.58	45.76
Debt (FY09)	40.72	75.58	45.76
Cash and investts (FY07)	73.99	98.69	115.06
Cash and investts (FY08)	26.63	24.54	40.29
Cash and investts (FY09)	21.66	16.92	20.60
EV - cash (FY07)	226.27	494.49	773.95
EV - cash (FY08)	263.63	548.64	808.72
EV - cash (FY09)	263.02	546.26	828.41
EPS (FY07)	1.55	4.39	3.59
EPS (FY08)	4.35	10.11	5.21
EPS (FY09)	6.43	17.79	8.64
EBIDTA (FY07)	17.64	32.56	40.98
EBIDTA (FY08)	32.95	57.20	58.10
EBIDTA (FY09)	59.05	85.80	90.90
Screens (FY07)	39.00	82.00	51.00
Screens (FY08)	75.00	127.00	91.00
Screens (FY09)	115.00	157.00	131.00
EV/Screen (FY07)	**5.80**	**6.03**	**15.18**
EV/Screen (FY08)	**3.52**	**4.32**	**8.89**
EV/Screen (FY09)	**2.29**	**3.48**	**6.32**
EV/EBIDTA (FY07)	**12.83**	**15.19**	**18.89**
EV/EBIDTA (FY08)	**8.00**	**9.59**	**13.92**
EV/EBIDTA (FY09)	**4.45**	**6.37**	**9.11**
P/E (FY07)	**38.71**	**48.29**	**37.60**
P/E (FY08)	**13.79**	**20.97**	**25.91**
P/E (FY09)	**9.33**	**11.92**	**15.63**

All figures are in Rs cr unless otherwise mentioned.

Current market price	58
Price target	115
Upside (%)	98

SHRINGAR CINEMAS : TOP PICK RS 58

INTRODUCTION

Shringar Cinemas Limited (Shringar), one of the oldest players in the Indian movie distribution and exhibition segment, is currently operating a chain of cinemas under the brand Fame. Having raised USD 20 million through FCCB, Shringar has aggressively planned to scale up the multiplex business to 115 screens by FY09 from the current 39.

Shringar also has a five-decade history in the film distribution business, and is promoted by the Shroff family.

INVESTMENT SUMMARY

AGGRESSIVE EXPANSION PLANS

- **Film exhibition – in expansion mode**

In the next few years, Shringar intends to establish itself as a pan-India player by expanding to 115 screens by FY09. While the focus in the first phase will be on Tier-I cities, Shringar will also tap smaller towns with single screen theatres having a lesser number of seats.

- **Film distribution – key inherited strength**

The Shroffs are originally a much respected and capable distribution house. In the distribution business, which accounts for 10% of revenues, Shringar has adopted a commission model, which is less risky. Shringar is also involved in distribution of English and regional movies (South Indian).

- **Food Court management – an opportunistic extension**

Shringar has recently forayed into the food court management business through a wholly owned subsidiary Oxford Multiplex Cinemas Pvt. Ltd, and operates it under the brand 'Via 1 Food Court'. The food courts, planned to be set up on the same floor as the multiplex, will help the company tap into not just the moviegoer base (in turn increasing its Average Revenue Per Customer), but also the other footfalls in the mall. This is also an economically attractive proposition, as buyout of the entire floor space would provide Shringar a better bargaining power with the developer of the mall.

VALUATIONS

We think Shringar is the cheapest stock in the multiplex space.

With the growth in earnings coupled with improving margins, we have estimated an EPS of Rs 4.35 in FY08 and Rs 6.43 in FY09. In our projections of FY09, we have diluted the equity to the extent of FCCB raised.

At a target P/E of 18 X FY09 earnings, we expect the target price to be Rs 115 by August 2008.

We initiate coverage on Shringar with an outperformer rating.

Note: Shringar had raised $20 mn through two FCCB issues of $ 12 mn (convertible at Rs 90/sh) and $ 8 mn convertible at Rs 110/sh) maturing in April 2011.

INCOME STATEMENT

PARTICULARS	FY06	FY07	FY08e	FY09e
Net sales	58.01	87.81	150.37	245.57
Core EBIDTA	8.31	17.64	32.95	59.05
Extraordinary income	0.36	5.56	0.00	0.00
Interest	3.60	3.11	1.79	4.47
Depreciation	5.71	8.94	11.55	17.25
PBT	-0.64	11.15	19.61	37.33
Tax	1.36	1.45	5.88	11.20
Deferred tax provn	-0.13	-0.05	0.00	-
PAT	-1.87	9.76	13.73	26.13
APAT	-2.92	4.89	13.73	26.13
Equity	31.57	31.59	31.59	40.66
Reserves	24.36	25.35	39.08	143.32

BALANCE SHEET

PARTICULARS	FY06	FY07	FY08e	FY09e
Equity + warr/sh.app	31.57	31.59	31.59	40.66
Reserves	24.36	25.35	39.08	143.32
Pref capital	-	-	-	-
NET WORTH	55.93	56.94	70.67	183.98
Debt	38.83	110.61	100.61	40.61
Deferred Taxes	0.17	0.11	0.11	0.11
TOTAL LIABILITIES	**94.93**	**167.66**	**171.39**	**224.71**
Gross block + CWIP	79.15	110.54	175.34	247.34
Accum. Depreciation	32.12	40.94	52.49	69.74
Net block	47.03	69.60	122.85	177.60
Investments	7.42	5.02	20.02	15.02
CURRENT ASSETS				
Debtors	5.23	5.28	6.59	8.07
Inventory	0.09	0.22	0.82	2.02
Loans & advances	30.38	46.12	50.80	56.00
Cash/Bank	19.48	68.97	6.61	6.64
CURRENT LIABILITIES				
Creditors	11.44	23.70	31.31	33.64
Other liabilities	3.26	3.85	5.00	7.00
NET CURRENT ASSET	40.48	93.04	28.52	32.09
TOTAL ASSETS	**94.93**	**167.66**	**171.39**	**224.71**

KEY RATIOS & PARAMETERS

PER SHARE (Rs)	FY06	FY07	FY08e	FY09e
Face value	10.00	10.00	10.00	10.00
CMP	60.00	60.00	60.00	60.00
Book value	17.72	18.02	22.37	45.25
Dividend	-	-	-	-
EPS	(0.93)	1.55	4.35	6.43
CEPS	0.88	4.38	8.00	10.67

VALUATION	FY06	FY07	FY08e	FY09e
P/E	(64.8)	38.7	13.8	9.3
P/C	68.0	13.7	7.5	5.6
P/B	3.4	3.3	2.7	1.3
EV(adj)/EBIDTA	24.3	12.8	8.0	4.5
EV/Net sales	3.5	2.6	1.8	1.1
Dividend yield %	0.0%	0.0%	0.0%	0.0%

GROWTH	FY06	FY07	FY08e	FY09e
Topline growth %		51.4%	71.2%	63.3%
EBIDTA growth %		112.3%	86.8%	79.2%

MARGINS	FY06	FY07	FY08e	FY09e
Core EBIDTA %	14.3%	20.1%	21.9%	24.0%
APAT%	-5.0%	5.6%	9.1%	10.6%

PROFITABILITY	FY06	FY07	FY08e	FY09e
ROCE%	1.8%	7.7%	9.1%	13.6%
RONW%	-3.3%	17.1%	19.4%	14.2%
EBIDTA/TCE%	9.1%	13.8%	19.2%	26.3%

OTHERS	FY06	FY07	FY08e	FY09e
Topline/TCE	0.6	0.5	0.9	1.1
Topline/Gross block	0.7	0.8	0.9	1.0
Debtors/topline (days)	33	22	16	12
NCA/topline(days)	255	387	69	48
D/E	0.7	1.9	1.4	0.2

CASH FLOW

PARTICULARS	FY06	FY07	FY08e	FY09e
PAT	(1.87)	9.76	13.73	26.13
Depreciation	5.71	8.94	11.55	17.25
Deferred tax provn	(0.13)	(0.05)	-	-
Working cap NC (incr)		(3.07)	2.16	(3.55)
OPERATING cash flow	**3.71**	**15.57**	**27.44**	**39.84**
Deferred tax (paid)		-		
Debt raised (retired)		71.78	(10.00)	(60.00)
Capital issuances	-	0.02	-	87.18
Dividend (paid)	-	-	-	-
FINANCING cash flow	**-**	**71.80**	**(10.00)**	**27.18**
Gross block (added)		(31.39)	(64.80)	(72.00)
Investments (added)		2.40	(15.00)	5.00
INVESTING cash flow	**-**	**(28.99)**	**(79.80)**	**(67.00)**
TOTAL CASH FLOW	**3.71**	**58.38**	**(62.36)**	**0.02**
Add : opening cash		19.48	68.97	6.61
Closing cash	3.71	77.86	6.61	6.63

Current market price	135
Price target	172
Upside (%)	27

INOX LEISURE : HOLD RS 135

INTRODUCTION

Inox Leisure Limited (ILL) is one of India's leading film exhibition companies, operating a chain of multiplexes across the country under the brand Inox. It was among the early players to perceive an emerging opportunity in multiplexes.

With 14 properties (51 screens), Inox is India's most profitable multiplex player. Unlike peers, Inox initially set up multiplexes at bought out properties (mostly at prime locations) in Mumbai, Pune, Vadodara, Kolkata, etc. However, aiming to step up the pace of growth, incremental properties are being added on a leased model.

Inox has plans to scale up operations to about 200 screens by FY10 (mostly in smaller cities). The shift in the business model from owned to leased properties and lower Average Ticket Price (ATP) from smaller cities would put pressure on margins.

Inox owns 15 (across four properties) of the 51 screens it operates, which helps it save on lease rentals (10-12% of revenues for a multiplex player). This enables Inox to earn better margins compared to peers.

INVESTMENT SUMMARY

- **Rapid growth plans backed by strategic tie-ups**

Inox has lined up aggressive expansion plans with a target to have 200 screens by FY10 (85% of the properties already identified). Inox proposes to merge Calcutta Cinema Pvt. Ltd ('89 Cinemas'), which runs seven screens in Kolkata. Inox also has the right of first refusal for multiplex space in 38 malls to be developed by Pantaloon (Kshitij).

- **Distribution business – a natural extension**

We believe getting into distribution is a natural extension for a multiplex operator. As Inox strengthens its presence in some strong distribution territories like Mumbai, Gujarat, West Bengal and Bangalore, it is in a strong position to vie for distribution rights for the territory. With the distribution rights for movies like 'Rang de Basanti', 'Gangster', 'Family', 'Apaharan', and 'Garam Masala', the film distribution business accounted for 6% of Inox's revenues in FY06. Film distribution has provided a platform for Inox to de-risk its model by going for revenue based sharing and also increase its share in the film value chain (a distributor's share is always the highest expense for any multiplex player). While Inox currently does not have any major plans for the distribution business, it can potentially scale up the business once it creates more clusters in certain film distribution territories.

VALUATIONS

With a good but decreasing margins (attributable to commissioning of new properties under a rental model rather than ownership) and rising earnings, we have estimated an EPS of Rs 5.21 in FY08 and Rs 8.64 in FY09. At a target P/E of 20 X FY09 earnings, we can expect the target price to be Rs 172 by August 2008.

We initiate coverage on Inox with a neutral rating.

INCOME STATEMENT

PARTICULARS	FY06	FY07	FY08e	FY09e
Net sales	107.10	153.00	239.20	390.88
Core EBIDTA	36.99	40.98	58.10	90.90
Extraordinary income	0.97	4.47	0.00	0.00
Interest	7.90	6.66	3.15	3.85
Depreciation	5.20	6.40	10.65	13.65
PBT	24.86	32.39	44.30	73.40
Tax	3.22	7.60	13.29	22.02
Deferred tax provn	4.14	0.00	0.00	-
PAT	17.50	24.79	31.01	51.38
APAT	16.82	21.37	31.01	51.38
Equity	60.00	59.50	59.50	59.50
Reserves	155.79	180.58	211.59	262.97

BALANCE SHEET

PARTICULARS	FY06	FY07	FY08e	FY09e
Equity + warr/sh.app	60.00	59.50	59.50	59.50
Reserves	155.79	180.58	211.59	262.97
Pref capital	-	-	-	-
NET WORTH	215.79	240.08	271.09	322.47
Debt	108.93	75.00	35.00	35.00
Deferred Taxes	10.76	10.76	10.76	10.76
TOTAL LIABILITIES	**335.48**	**325.84**	**316.85**	**368.23**
Gross block + CWIP	193.31	223.00	295.00	375.00
Accum. Depreciation	17.82	24.22	34.87	48.52
Net block	175.49	198.78	260.13	326.48
Investments	145.21	110.00	35.00	15.00
CURRENT ASSETS				
Debtors	2.53	3.50	5.90	7.50
Inventory	0.47	1.00	1.31	2.14
Loans & advances	32.53	35.00	40.20	45.40
Cash/Bank	3.03	5.06	5.29	5.60
CURRENT LIABILITIES				
Creditors	22.86	26.00	28.18	29.99
Other liabilities	0.92	2.00	2.80	3.90
NET CURRENT ASSET	14.78	16.56	21.72	26.75
TOTAL ASSETS	**335.48**	**325.34**	**316.85**	**368.23**

KEY RATIOS & PARAMETERS

PER SHARE (Rs)	FY06	FY07	FY08e	FY09e
Face value	10.00	10.00	10.00	10.00
CMP	135.00	135.00	135.00	135.00
Book value	35.97	40.35	45.56	54.20
Dividend	-	-	-	-
EPS	2.80	3.59	5.21	8.64
CEPS	3.67	4.67	7.00	10.93

VALUATION	FY06	FY07	FY08e	FY09e
P/E	48.2	37.6	25.9	15.6
P/C	36.8	28.9	19.3	12.4
P/B	3.8	3.3	3.0	2.5
EV(adj)/EBIDTA	21.1	18.9	13.9	9.1
EV/Net sales	7.3	5.1	3.4	2.1
Dividend yield %	0.0%	0.0%	0.0%	0.0%

GROWTH	FY06	FY07	FY08e	FY09e
Topline growth %		42.9%	56.3%	63.4%
EBIDTA growth %		10.8%	41.8%	56.5%

MARGINS	FY06	FY07	FY08e	FY09e
Core EBIDTA %	34.5%	26.8%	24.3%	23.3%
APAT%	15.7%	14.0%	13.0%	13.1%

PROFITABILITY	FY06	FY07	FY08e	FY09e
ROCE%	7.6%	9.7%	10.8%	15.0%
RONW%	8.1%	10.3%	11.4%	15.9%
EBIDTA/TCE%	11.3%	13.9%	18.3%	24.7%

OTHERS	FY06	FY07	FY08e	FY09e
Topline/TCE	0.3	0.5	0.8	1.1
Topline/Gross block	0.6	0.7	0.8	1.0
Debtors/topline (days)	9	8	9	7
NCA/topline(days)	50	40	33	25
D/E	0.6	0.3	0.1	0.1

CASH FLOW

PARTICULARS	FY06	FY07	FY08e	FY09e
PAT	17.50	24.79	31.01	51.38
Depreciation	5.20	6.40	10.65	13.65
Deferred tax provn	4.14	-	-	-
Working cap NC (incr)		0.25	(4.93)	(4.72)
OPERATING cash flow	**26.84**	**31.44**	**36.73**	**60.31**
Deferred tax (paid)		-		
Debt raised (retired)		(33.93)	(40.00)	-
Capital issuances	-	(0.50)	-	-
Dividend (paid)	-	-	-	-
FINANCING cash flow	**-**	**(34.43)**	**(40.00)**	**-**
Gross block (added)		(24.00)	(72.00)	(80.00)
Investments (added)		35.21	75.00	20.00
INVESTING cash flow	**-**	**11.21**	**3.00**	**(60.00)**
TOTAL CASH FLOW	**26.84**	**8.22**	**(0.27)**	**0.31**
Add : opening cash		3.03	5.06	5.29
Closing cash	26.84	11.25	4.79	5.60

Current market price	212
Price target	320
Upside (%)	51

PVR CINEMAS : HI-QUALITY PLAY RS 212

INTRODUCTION

The first entrant in the multiplex industry in India, PVR Cinemas (PVR) is also the largest multiplex operator with 82 screens across 21 properties. While PVR is a dominant player in Delhi and the surrounding states, it has been quick in moving to new geographies and smaller towns through its 'no-frills' theatre brand 'PVR Talkies'. Strong execution ability and aggressive scale-up plans (approx 160 screens by FY09) make PVR one among the best picks in the booming multiplex space. PVR is also de-risking its business model through entry into distribution and production.

INVESTMENT SUMMARY

With approximately 82 screens and more than 1.47 crore annual patrons in the current year, PVR is the fastest growing multiplex player in India. Having gained dominance in North India, PVR is now extending its presence to the western and southern parts of the country, and is foraying into Tier II and III cities. It is de-risking its business model by backward integrating into movie distribution and production. We are confident of PVR's ability to remain a frontrunner in the USD1bn Indian multiplex opportunity by 2010.

- **Distribution business – low risk, high synergies**

With its strong hold on the northern territories of India, PVR is an almost de-facto distributor for these regions for both domestic and international production companies. PVR has even procured the purchase of home video, satellite, cinema and screening rights on behalf of these companies in some cases. PVR distributed Bollywood movies like Omkara, Don, Honeymoon Travels, etc in the North Indian territory.

Having successfully distributed (nationally) some of the biggest Hollywood films like 'The Aviator', 'Chicago', 'Finding Neverland', 'Kill Bill 1' and 'Kill Bill 2', PVR has become the largest independent film distributor of Hollywood films in India. This is evident from its appointment as a co-distributor for Paramount Films in the Delhi and Gurgaon region. PVR has invested more than Rs20m in this company to make an effective low-risk business model. PVR signs distribution agreement on commission and revenue sharing basis, which ensures that it does not lose any money even if the film fails to do well.

- **Film production business – a right step**

As film production is expected to remain the strongest link in the film value chain, we like the fact that PVR has forayed into this business. PVR has signed a 2-film mega deal worth Rs200m with Bollywood superstar Amir Khan. Under the agreement, PVR would have the Home Video, Satellite, Exhibition and TV rights for these two movies for 15 years. The entry into this business will provide PVR with other revenue streams from content distribution avenues like IPTV, DTH and mobile.

- **Food & beverages – a perfect blend**

Revenue from F&B is the second largest source of revenues for multiplex operators. As sales of F&B have a much higher margin than ticket sales, it is a highly profitable activity for any multiplex. F&B items include popcorn, soft drinks, confectionary, and sandwiches. PVR is targeting to become a food court operator in a more organized fashion.

Magic of innovation at PVR

The technology experience of moviegoers starts much before they leave their homes.

PVR multiplexes have adopted automation technology in a variety of areas such as ticketing and back-office operations. The introduction of mobile ticketing has been a runaway success as a value-added service. Movie schedules are just one SMS away for a mobile. The entire system is supported by light emitting diode-based automated ticketing status displays. Cross-location ticket sales, another technology initiative, ensure that a viewer will not return home disappointed if one PVR Cinema is house full.

The intranet boosts the security set-up at PVR Cinemas with a network of close circuit cameras constantly updating the central control rooms.

Also PVR Cinemas have edge-to edge screens and are equipped with modern projection and sound systems. 14 PVR screens have moved to the electronic format, and PVR intends to roll out digital cinema screens next year.

Preferred anchor tenant among mall owners

PVR, the pioneer in the multiplex space, has emerged as one of the preferred anchor tenants among mall owners due to its ability to consistently increase the number of footfalls.

VALUATIONS

We see PVR as a good bet to play given its dominant market share in the box office (10%), geographical dominance, attractive economics and execution ability.

With the growth in earnings coupled with good margins, we have estimated an EPS of Rs 10.11 in FY08 and Rs 17.79 in FY09. At a target P/E of 18 X FY09 earnings, we can expect the target price to be Rs 320 by August 2008.

We initiate coverage on PVR with an outperformer rating.

INCOME STATEMENT

PARTICULARS	FY06	FY07	FY08e	FY09e
Net sales	104.91	166.72	280.30	400.20
Core EBIDTA	18.96	32.56	57.20	85.80
Extraordinary income	1.21	0.21	0.00	0.00
Interest	3.07	4.39	5.49	5.61
Depreciation	8.34	13.34	18.68	22.05
PBT	8.76	15.04	33.04	58.14
Tax	3.48	4.85	9.91	17.44
Deferred tax provn	0.00	0.00	0.00	-
PAT	5.28	10.19	23.12	40.70
APAT	4.55	10.05	23.12	40.70
Equity	22.88	22.88	22.88	22.88
Reserves	149.51	159.70	182.82	223.52

BALANCE SHEET

PARTICULARS	FY06	FY07	FY08e	FY09e
Equity + warr/sh.app	22.88	22.88	22.88	22.88
Reserves	149.38	159.70	182.82	223.52
Pref capital	20.00	20.00	20.00	20.00
NET WORTH	192.39	202.58	225.70	266.40
Debt	61.61	81.00	61.00	51.00
Deferred Taxes	4.58	4.58	4.58	4.58
TOTAL LIABILITIES	**258.58**	**288.16**	**291.28**	**321.98**
Gross block + CWIP	184.89	220.00	310.00	370.00
Accum. Depreciation	24.31	37.81	56.49	78.54
Net block	160.58	182.19	253.52	291.47
Investments	29.42	30.00	20.00	10.00
CURRENT ASSETS				
Debtors	4.46	5.28	7.68	8.77
Inventory	0.92	1.00	1.54	2.08
Loans & advances	31.50	34.00	39.85	43.75
Cash/Bank	63.02	68.69	4.54	6.92
CURRENT LIABILITIES				
Creditors	19.79	21.00	23.04	27.41
Other liabilities	11.53	12.00	12.80	13.60
NET CURRENT ASSET	68.58	75.97	17.77	20.51
TOTAL ASSETS	**258.58**	**288.16**	**291.28**	**321.98**

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KEY RATIOS & PARAMETERS

PER SHARE (Rs)	FY06	FY07	FY08e	FY09e
Face value	10.00	10.00	10.00	10.00
CMP	212.00	212.00	212.00	212.00
Book value	75.35	79.80	89.91	107.69
Dividend	-	-	-	-
EPS	1.99	4.39	10.11	17.79
CEPS	5.63	10.22	18.27	27.42

VALUATION	FY06	FY07	FY08e	FY09e
P/E	106.6	48.3	21.0	11.9
P/C	37.6	20.7	11.6	7.7
P/B	2.8	2.7	2.4	2.0
EV(adj)/EBIDTA	25.3	15.1	9.5	6.3
EV(adj)/Net sales	4.6	3.0	1.9	1.4
Dividend yield %	0.0%	0.0%	0.0%	0.0%

GROWTH	FY06	FY07	FY08e	FY09e
Topline growth %		58.9%	68.1%	42.8%
EBIDTA growth %		71.7%	75.7%	50.0%

MARGINS	FY06	FY07	FY08e	FY09e
Core EBIDTA %	18.1%	19.5%	20.4%	21.4%
APAT%	4.3%	6.0%	8.2%	10.2%

PROFITABILITY	FY06	FY07	FY08e	FY09e
ROCE%	3.2%	5.1%	9.8%	14.4%
RONW%	2.7%	5.0%	10.2%	15.3%
EBIDTA/TCE%	7.8%	11.4%	19.6%	26.6%

OTHERS	FY06	FY07	FY08e	FY09e
Topline/TCE	0.4	0.6	1.0	1.2
Topline/Gross block	0.6	0.8	0.9	1.1
Debtors/topline (days)	16	12	10	8
NCA/topline(days)	239	166	23	19
D/E	0.3	0.4	0.3	0.2

CASH FLOW

PARTICULARS	FY06	FY07	FY08e	FY09e
PAT	5.28	10.19	23.12	40.70
Depreciation	8.34	13.34	18.68	22.05
Deferred tax provn	-	-	-	-
Working cap NC (incr)		(1.72)	(5.95)	(0.37)
OPERATING cash flow	**13.62**	**21.81**	**35.85**	**62.38**
Deferred tax (paid)		-		
Debt raised (retired)		19.39	(20.00)	(10.00)
Capital issuances	-	-	-	-
Dividend (paid)	-	-	-	-
FINANCING cash flow	**-**	**19.39**	**(20.00)**	**(10.00)**
Gross block (added)		(30.00)	(90.00)	(60.00)
Investments (added)		(0.58)	10.00	10.00
INVESTING cash flow	**-**	**(30.58)**	**(80.00)**	**(50.00)**
TOTAL CASH FLOW	**13.62**	**10.62**	**(64.15)**	**2.38**
Add : opening cash		63.02	68.69	4.54
Closing cash	13.62	73.64	4.54	6.92