SECTOR COVERAGE

Industry	Media / Multiplex
Industry View	ATTRACTIVE (AT)

PVR CINEMAS

Rating	BUY
CMP (Rs.)	177.7
Market Cap (Rs.Mn.)	4086.0
Share Cap (Rs.Mn.)	230
52 Wk High/Low	377/156
Avg. Vol. (Weekly)	20,090
Face Value (Rs)	10

FAME INDIA

Rating	BUY
CMP (Rs.)	60
Market Cap (Rs.Mn.)	2085.5
Share Cap (Rs.Mn.)	348
52 Wk High/Low	135/50
Avg. Vol. (Weekly)	45,808
Face Value (Rs)	10

CINEMAX INDIA

Rating	BUY
CMP (Rs.)	82
Market Cap (Rs.Mn.)	2,296.0
Share Cap (Rs.Mn.)	280
52 Wk High/Low	179/89
Avg. Vol. (Weekly)	76,162
Face Value (Rs)	10

INOX LEISURE

Rating	BUY
CMP (Rs.)	90
Market Cap (Rs.Mn.)	5,400
Share Cap (Rs.Mn.)	595
52 Wk High/Low	242/90
Avg. Vol. (Weekly)	82,686
Face Value (Rs)	10

Indian Multiplex Sector

March 19, 2008

A fine 'Picture'!!!

The Indian exhibition industry is undergoing rapid transformation – from the days of poor viewing experience, rampant piracy (50% of industry revenue lost), high entt. tax (30%+) and low ATPs (Rs.25); to one with high ATPs (~Rs.120), tax exemption on multiplex theatres and multiple revenue models (Food & Beverages, Gaming). These factors combined with growing consumerism is expected to drive Indian multiplex industry to over 1500 screens (~500 screens now) by FY10. Driven by ~Rs.16bn of capex, the Indian multiplex industry will grow at 62% CAGR over FY07-10E to Rs.40bn. Although a multiplex model will be under risk from dropping ATPs (due to foray into tier-II, III cities), overcrowding, high interest cost and continuous equity dilution (for funding capex), we believe that a multiplex player with regional dominance or presence across the film value chain (production, distribution and exhibition) will be able to emerge as a winner in the industry.

Multiplexes – the future of film entertainment

The Indian exhibition sector is being transformed into a much safer investment and highly profitable venture, due to the growth of multiplex theatres. Brought out by the positive regulatory changes (tax exemption in many states), booming consumerism and surge in organized retail, multiplexes are expected to propel the film industry to ~Rs.146bn by FY10 (15% CAGR from here on).

However long term risks are inherent with the business

Although a 3x growth in the number of multiplex screens over the next 2 years (from ~500 now to ~1500 by FY10) will bring many benefits to the film industry, we believe that it won't be without certain challenges. We believe that as multiplex companies grow, they will face increasing competitive pressure due to overcrowding in the same region (mainly tier I), dropping ATPs (with foray into tier II and III cities) and high interest cost or equity dilution (to continuously fund the heavy capex).

Regionally dominant and all-round player in film entertainment will be the winner

We believe that standalone multiplex players will have to re-craft their business model to weather the challenges ahead of them. Cutting costs at operating level is the best way to address this problem, as the increasing lease cost will continue to haunt the players. We therefore think that a multiplex player will have to form a strong foothold in a region, or become a player across the film value chain (Production, Distribution and Exhibition), which will provide them the bargaining power with the distributors and film makers.

PVR is the ideal business model, Cinemax and Fame look attractive on valuations

We have modeled the multiplex industry to grow at an EPS CAGR of 30-60% (except Adlabs), one of the highest growth across any industry. We therefore believe that 15x FY10E EPS is fair valuation for the industry. But, due to multiple risks associated with the industry and the heavy capex requirement, the Free Cash Flow (FCF) of all the players will be under pressure for the next 3-4 years. We are therefore discounting our target multiple by 20%, and giving 12x as the target multiple. However, PVR's re-crafting into a complete film entertainment model is a case for assigning higher valuations. We have therefore valued it at 10% premium to other players. We also see value in Cinemax and Fame India due to attractive valuations.

TABLE OF CONTENTS

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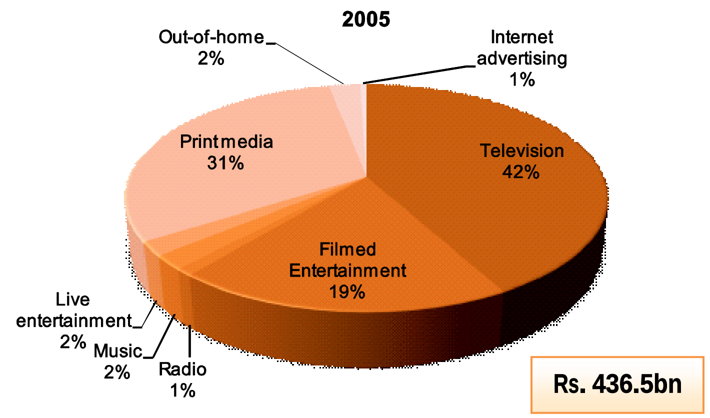
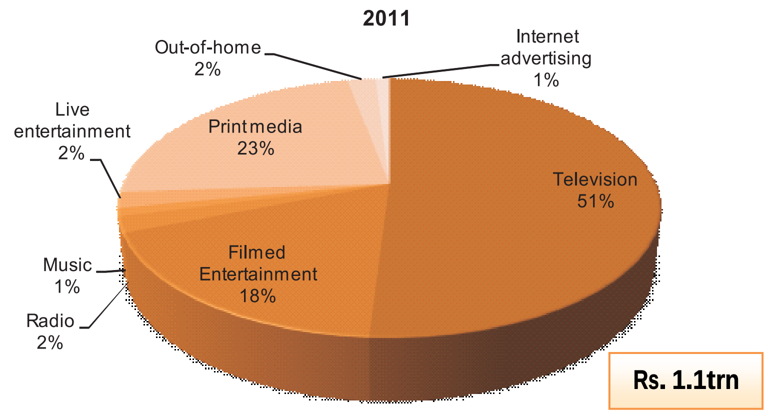
INDIAN EXHIBITION INDUSTRY

Indian Entertainment and Media Sector

The Indian entertainment and media (E&M) industry has been outperforming the Indian economy and is one of the fastest growing sectors in India. Buoyed by increasing consumer and corporate spending, favorable regulatory changes, reduction in piracy and evolution of digital media, the industry grew at a rate of ~17% in the last 2 years. Going forward, the evolving of the industry into a more organized structure and the convergence of different media will drive the industry to grow at a faster rate of ~19% over the next 3 years.

Fig 1: Growth of Indian E&M Industry (Sector-wise) – from 2005 to 2011





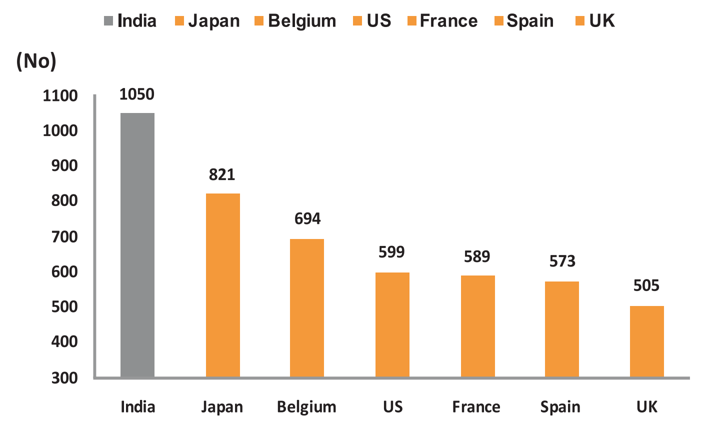
Source: Industry

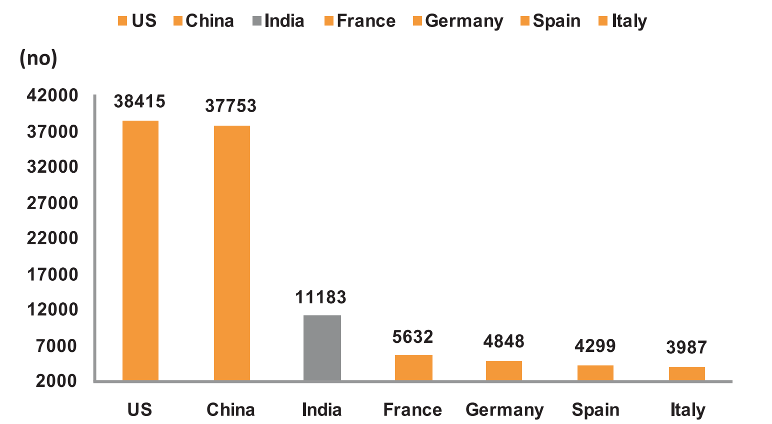
Indian Film Entertainment Industry

One of the largest globally

The Indian film industry is one of the largest in the world with over 1000 films released annually and ~3.8bn tickets sold per year. The size of the Indian film industry is ~Rs.90bn presently, with ~75% of revenues coming from theatrical sales. Mumbai, Chennai and Hyderabad film industries contribute ~95% of the sales of the industry, while accounting for ~90% of films released in India annually.

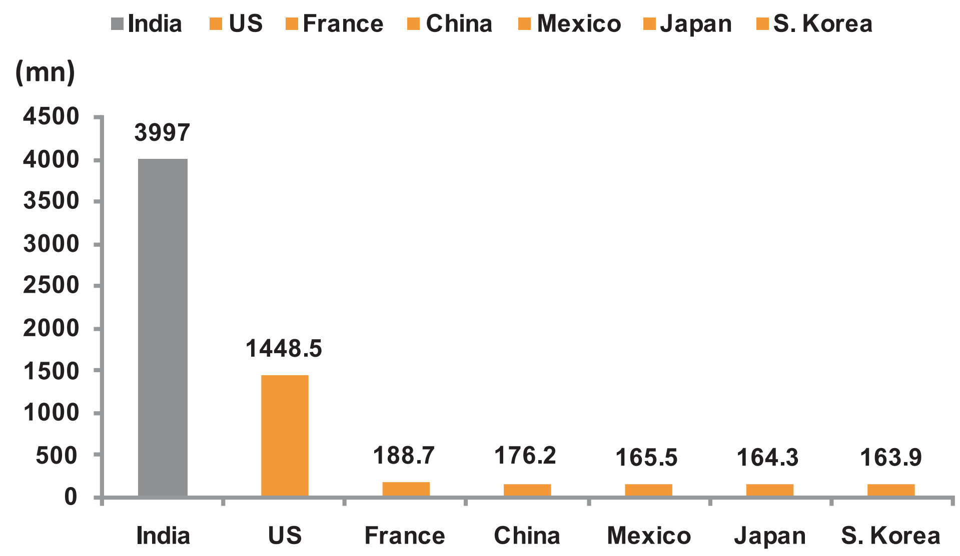
Fig 2: India has the highest no. of films released annually… …and is top 3 globally in the no. of theatre screens (2005)





Source: Australia Film Commission

Fig 3: …and also has the highest no. of patrons visiting theatres annually

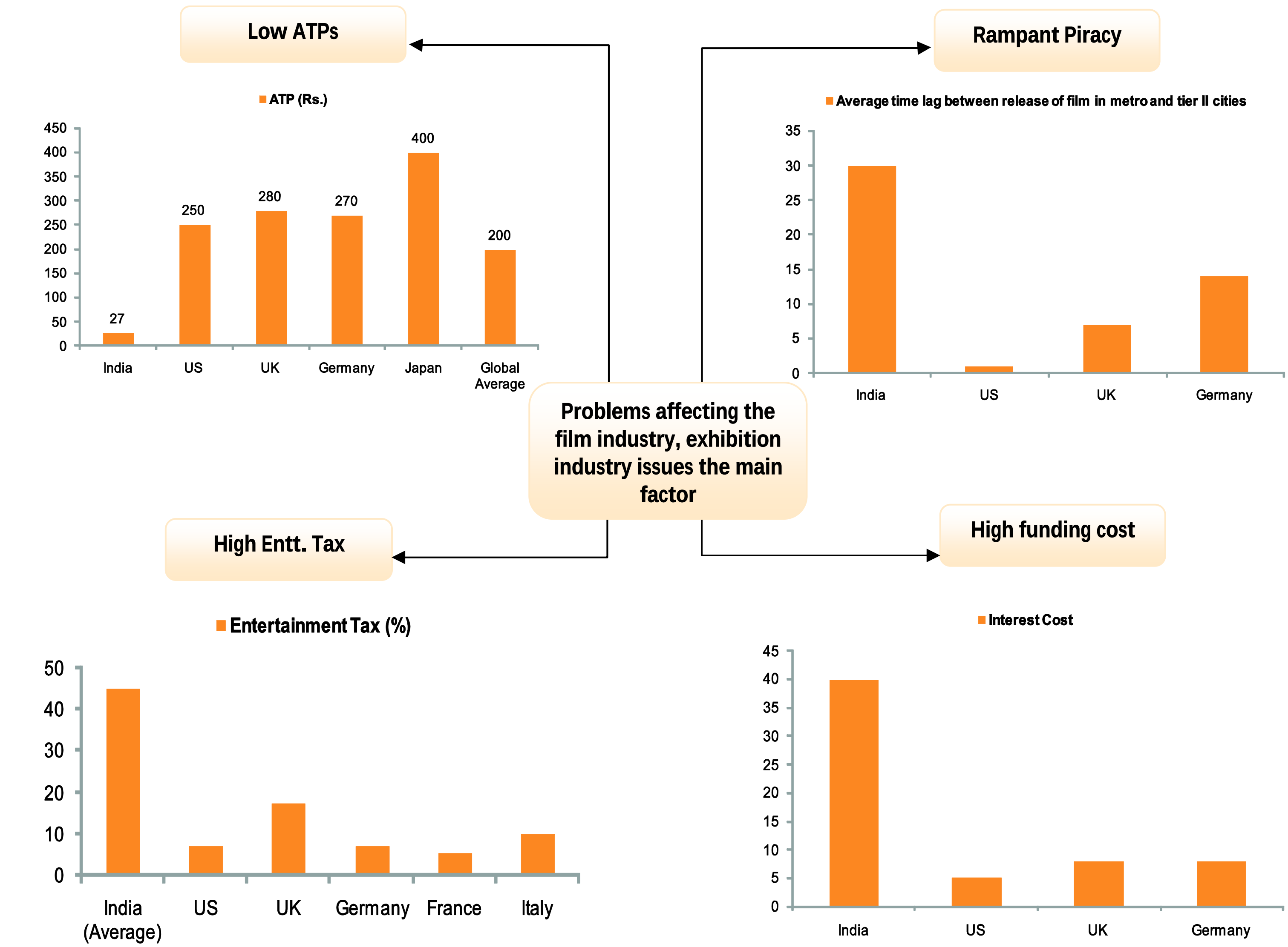


Source: Australia Film Commission

But riddled by multiple issues, with major shortcomings at exhibition level

The film industry has been riddled by the unorganized nature of the exhibition industry, with low ATPs and rampant piracy. This combined with high entertainment taxes, high cost of funding for films by financial institutions and low investment into the sector by corporates had driven the Indian exhibition industry into doldrums. This is the reason that an industry boasting of over 13,000 screens pan-India, has ATPs as low as Rs27; which is the reason that the industry revenues are just at Rs.96bn.

Fig 4: Problems affecting the film entertainment industry – Low ATPs, Rampant Piracy, High Entt.Tax and High funding cost



Source: Systematix Institutional Research

But the scenario is changing for good

The Indian exhibition industry is witnessing some positive changes since the film industry received 'Industry' status. The exemption of entertainment tax on multiplex properties in some states, cheaper funding availability for the industry players, evolution of shopping malls and increasing consumerism are together driving the growth of the exhibition industry in India. This has given rise to 2 basic exhibition models – Multiplexes and Digital Cinema.

Fig 5: Changing scenario of Indian exhibition industry – All Paths proving the necessity and emergence of Multiplexes

Issue	Change	Driving	Which in turn is...
High Entt. Tax	Reduction or waiver of Entt. Tax in several states	Theatre owners to charge higher ATPs & explore multiple revenue streams	Driving growth of Multiplexes
High cost of funding	Banks reduce Interest cost on funding to producers	More high budget and high quality films being released by filmmakers	Multiplexes charging higher ATP and providing better viewing experience
Low Investments	Increasing consumerism driving higher ASP	Opening up of and expansion of organized retail (malls) with multiple entertainment models	Multiplexes opening to multiply the entertainment sources in such malls

Source: Systematix Institutional Research

Digital Cinema

There are almost 1,100 digital screens in India, with the key players being UFO Moviez (950), E-City Digital (115), Real Image and Pyramid Saimira Theatre (390). Digital Cinema, due to its easy installation even across a single screen property and centralized film beaming method, can help in reducing the film release period between a metro city and Tier-II and III cities, thus helping reduce Piracy. The total number of digital screens is expected to increase to 5,000 screens by 2010.

Table 1: Advantages of digital cinema

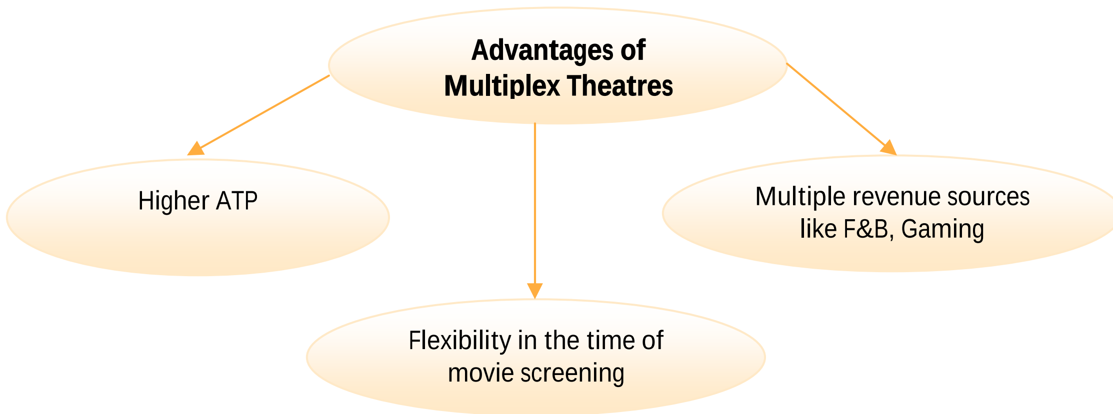
BENEFITS	PRODUCER	DISTRIBUTOR	EXHIBITOR	AUDIENCE	NATION
Savings in Print Cost	Nominal one time investment for Digital Prints. Possibility of releasing old films also	No investment for Digital Prints	No investment for Digital Prints	No increase in Ticket costs	Savings of foreign Exchange in importing film stock
Wide Release of Film	Early release in all centres protects film from piracy and adverse publicity	No investment for Digital Prints allows distributor to give wide release with no extra cost	Digital Distribution reaches even C and D Centres on day of release	Audience in C and D centers will get access to new releases on day of release	Increase in cinema collections means increased entt. tax revenues
Durability of Media	As opposed to optical prints which deteriorate in quality, digital prints will have virtual	No expenses on reprints in case of a hit film and no loss in case of a flop	No hassles such as bad quality prints, delivery dates etc	Good and uniform viewing experience	Good quality prints shall result in increased collection
Curb on Piracy	Digital content protection software restricts piracy	No expenses on reprints in case of a hit film and no loss in case of a flop	Maximizes a film's theatrical potential thus increasing revenues	Access to good quality theatre viewing in the early part of a films life	Curb on piracy will increase cinema collection
Promoters Niche Cinema	Producers are able to experiment with newer genres of cinema	No risk situation since investment in prints and copyright in minimal	Provides access to newer variety of cinema	Provides access to newer variety of cinema	Encourages film production and enhances revenue potential
Promotes regional specific films	Golden opportunity to invest in regional films	Generates newer revenue streams	Provides access to newer variety of cinema	Provider access to newer variety of cinema	Encourages film production by enhancing revenue potential
Lower Break Even Point	A wide release ensures early recovery of money	Early recovery of investments in copyright print and publicity	Decreased expenses on account of running cost of theatres	Encourages producers to make good and meaningful cinema	Production of more films will increase cinema collections

Source: UFO Moviez

Multiplex Industry – 'multiple' advantages to the film industry

The growth of multiplexes and digital cinema is in turn a big positive for the film industry as a whole, as multiplexes drive higher ATP (thus increasing sales per film) and are source of multiple revenue streams like Food & Beverages, Gaming etc. (thus providing Higher Spend Per Head-SPH). Besides this, the flexibility in timing of films has also led to the growth of films made on niche ideas, which was earlier avoided by film makers due to unviable economics linked to these movies. Digital Cinema on the other hand, due to its easy installation even across a single screen property and centralized film beaming method, can help in reducing the film release period between a metro city and Tier-II and III cities, thus helping reduce Piracy.

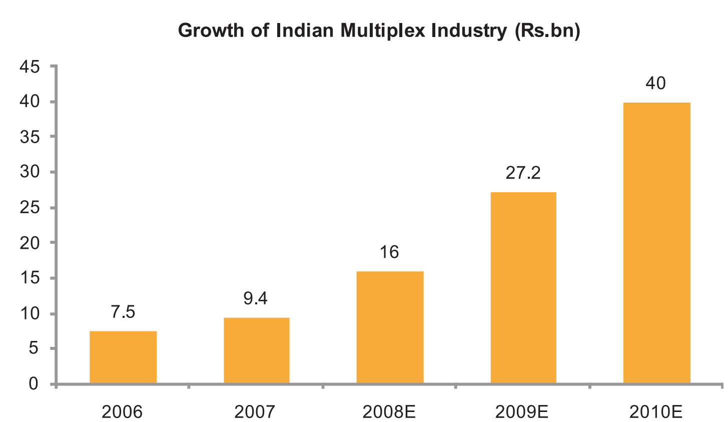
Fig 6: Advantages of multiples for the exhibition and film industry as a whole

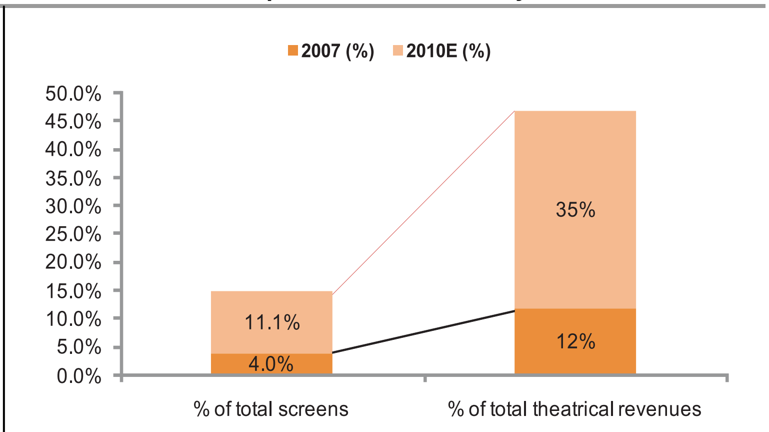


Source: Systematix Institutional Research

We believe that the exhibition industry in India will continue to see good times, mainly driven by the growth of multiplexes. At ~500 screens, Multiplexes presently comprise of only 4% of total no. of film screens in India and account for ~12% of total exhibition industry revenues. We expect the multiplex screens to increase to ~1500 by FY10 (11% of total film screens), which will drive the Indian multiplex industry growth at 62% CAGR over the same period to Rs.40bn, thus contributing 28% to the total theatrical sales for the film industry.

Fig 7: Growth of Indian Exhibition Industry… **…Contribution of Multiplexes to total industry screens & revenue**





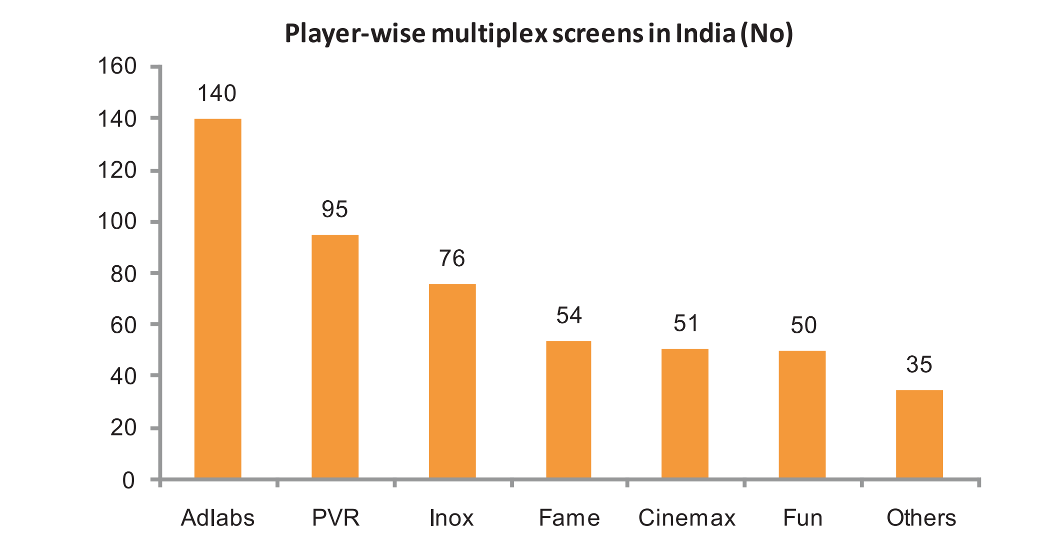
Source: Industry, Systematix Institutional Research

Indian Multiplex Sector – Detailed Analysis

The magic of the comfort-viewing and Dolby digital sound effects of multiplexes has got most cinema goers hooked, thus leading to multiplexes becoming a preferred source of family entertainment for families. The main factors that led to this sudden growth are increasing disposable income of consumers, favorable demographic changes like infrastructure, growth in organized retail, increase in number of films targeted at niche audiences and entertainment tax benefits granted by various states.

PVR Cinemas was the first player to bring multiplex concept to India, by opening its 1st multiplex in Saket, South Delhi in 1997. Currently, there are ~500 multiplex screens operating across the country.

Fig 8: Player-wise multiplex screens in India

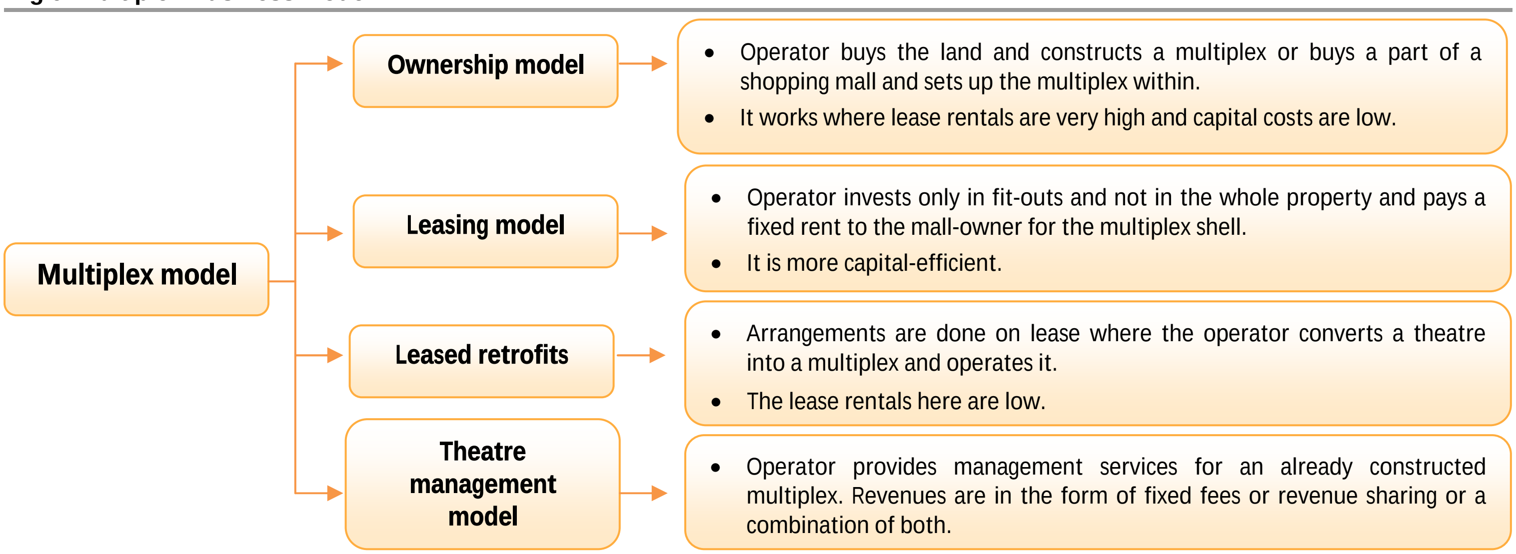


Source: Company

Multiplex Business Models in India

A multiplex operator in India adopts any of these models based on strategic, legal, tax and other regulatory consideration.

Fig 9: Multiplex Business Model



Source: Crisil

As compared to single screens, multiplexes provide better viewing experience, higher ticket price (ATP), entertainment tax benefits, better occupancy, diversified revenue stream, higher number of shows and better exploitation of movies; which in turn benefits everyone engaged in the film making process.

Table 2: Multiplexes are beneficial to every stakeholder across the industry value chain

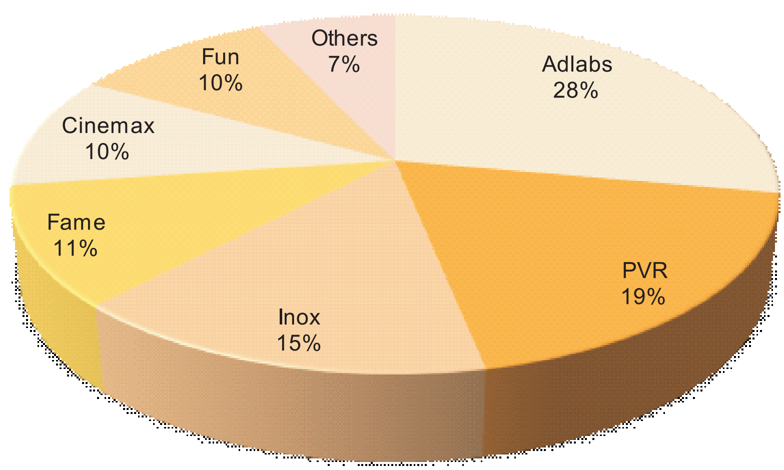
Stake Holder	Benefits
Consumers	a) Movie viewing experience is much better than in single screen. b) Consumers get more options of entertainment – food, gaming, and more no. of films
Exhibitors	a) Average occupancy as well as ATPs in multiplexes higher than in single screens. b) Multiplex owners also enjoy flexibility to exploit the commercial value of a movie.
Distributors	a) All sales in multiplexes are reported by computerized ticketing systems - thus there is very little revenue leakage. b) Distributors stand to gain, as their returns would increase with higher collections.
Producers	a) Higher revenue collections would translate into better returns for the producers. b) Multiplexes also provide producers with increased scope of producing niche and low-budget films, as such films typically attract audiences at multiplexes.

Source: Systematix Institutional Research

Players in the Indian Multiplex Industry

There are 6 major players in the Indian film exhibition space - Adlabs Films, PVR Cinemas, Inox Leisure, Shringar Cinemas, Cinemax India and Fun Cinemas. While there are many small players like Satyam Cineplex, Wave etc. in the business, ~96% of revenues of the multiplex industry are contributed by these 6 players.

Fig 10: Market share of major players (no of screens)



Source: Systematix Institutional Research

Operating parameters of multiplex players

The multiplex players in India are presently operating at similar economics – viz. ATPs, Occupancy and Average No. of seats are concerned. This is mainly because of the fact that all the players have done their initial expansion in Metro cities and other Tier-I cities. However, due to the varied ownership structure – owned and leased properties, the multiplex companies operate at different lease rental (As % of sales) and hence different operating margins.

Table 3: Operating Parameters of major players in India

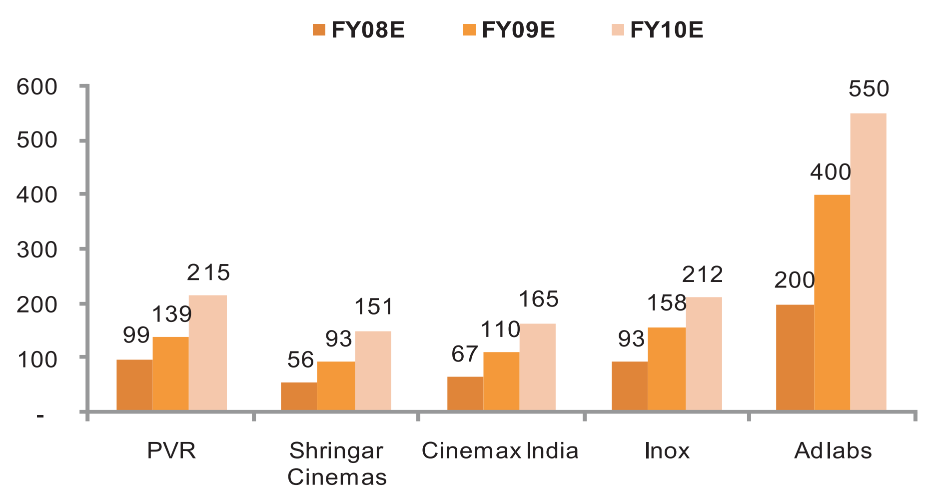
Particulars	Inox	PVR	Shringar Cinemas	Cinemax India	Adlabs
Parameters					
No of Screens	76	95	48	51	140
No of Seats	23,199	24,450	15,285	13,881	45,238
ATP (Rs.)	130.0	130.0	113.0	131.0	110.0
Average Occupancy	45%	40.5%	30.0%	35.0%	30.0%
Footfalls	3,477,901	4,760,000	1,599,000	1,736,000	N.A.
Revenues (% of total sales)					
Sale of Tickets	75.5%	60.5%	42.5%	65.1%	19.0%
Sale of Food and Beverages	14.0%	18.6%	9.9%	13.4%	4.6%
Income from Advertisements	4.1%	9.0%	4.4%	4.6%	2.1%
Revenue Sharing	0.0%	9.4%	0.0%	0.0%	0.0%
Revenue from Distribution	2.4%	0.0%	31.3%	0.0%	32.9%
Income from management of malls	0.0%	0.0%	0.6%	0.0%	0.0%
Processing and Printing of films	0.0%	0.0%	0.0%	0.0%	13.2%
Others	4.1%	2.5%	11.3%	16.9%	28.3%
Cost (% of total sales)					
Film Distribution Share	33.1%	31.2%	14.8%	28.4%	11.9%
Cost of F&B	7.0%	8.2%	3.6%	6.8%	3.4%
Staff Cost	11.6%	14.0%	10.6%	9.2%	10.7%
Other Expenditure	48.3%	46.6%	71.0%	55.7%	74.0%
EBITDA margin (%)	***31.3%***	***30.4%***	***14.4%***	***32.3%***	***49.5%***
PAT margin (%)	***16.2%***	***5.1%***	***11.1%***	***12.3%***	***21.1%***
EPS (Rs.)	4.2	4.4	3.1	6.5	22.7

Source: Company releases, Systematix Institutional Research

Expansion plans of multiplex players – project delay and high rentals to remain the hurdles

With the Indian multiplex industry in such high growth path, the major players are undertaking significant expansion of their properties. While the large players like Adlabs and PVR are targeting to reach ~550 and 250 screens respectively by 2010, players like Fame India and Cinemax too have plans of reaching ~200 screens by then. We expect a slight delay in the project execution due to construction delays across properties, and ***expect launch of ~1500 multiplex screens by 2010. We believe that this expansion will require a capex of ~Rs.16bn by the top 5-6 players in the next 3 years.***

Fig 11: Expansion Plans of Indian Players



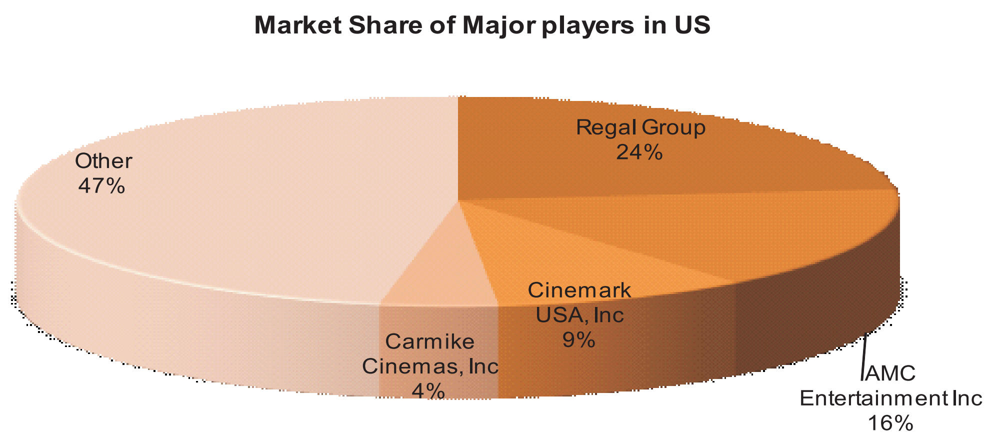
Source: Company, Systematix Institutional Research; ***Note:*** *All expansion plan nos. are our projections for companies, except for Adlabs*

US Multiplex Industry – an overview

The US movie theatre industry includes about 2,000 companies with combined annual revenue of USD11bn and around 5,000 indoor theatres and 300 drive-ins. Major companies in the industry are Regal Entertainment, AMC Entertainment and Cinemark. The industry is highly concentrated one, with 50 largest firms owning half of the nation's theatres and earning ~85% of the industry revenue.

The profitability of US companies depends largely on securing access to popular movies and sales of high-margin F&B and gaming business. The large companies like Regal, Cinemark and AMC usually have high negotiating power with the distributors and hence have an edge over other players, with the smaller players gaining market share by providing better amenities and services. Average revenue per worker in the industry is at USD80,000.

Fig 12: US – a consolidated market – top 4 players accounting for ~53% of revenues

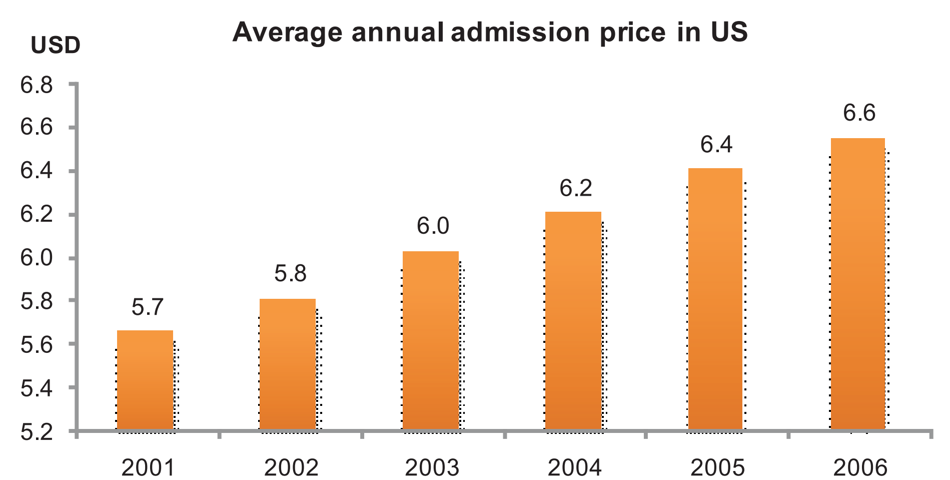


Source: Systematix institutional Research

Industry Size and ATP Trend

The average ATP of multiplex players in US has been on an uptrend and has increased from USD5.7 in 2001 to ~USD6.6 presently. This combined with continuous release of high budget films in the US markets, has driven the box office revenues to ~USD11bn by 2007, with ~35% of revenues coming from theatre viewership while the remaining derived from other revenue sources such as DVD/ VHS/ cable, satellite, pay-per-view, etc.

Fig 13: Average annual admission price in US



Source: MPA

Multiplex Business Models in the US

US multiplex business operates under two models - owned and leased, with majority of the theatres under lease model. The industry reports 3 sources of revenues – a) ***Admission revenues***, which refers to the ticket revenues; b) ***Concession revenues***, which refers to the revenues from F&B, Gaming and other Value Added Services; and c) ***Other Revenues***, which refers to the revenues from advertising and marketing done in the multiplex premises.

Table 4: Revenue streams in US Multiplexes

Revenue Stream	Definition
Admission Revenues	Ticket revenue
Concession Revenues	Concession revenue comes from sales with additional revenues from screen advertising sales and other revenue streams, such as vendor marketing programs, pay phones, ATM machines and electronic video games located in its theatres.
Other Revenue	Included in other operating revenues are onscreen advertising revenues marketing revenues from our vendor marketing programs and other theatre revenues.

Source: Systematix Institutional Research

Revenue Analysis of Indian & US Players

The Indian and US players operate on a different revenue structure, according to our analysis. While both the Indian and US players earn ~70% of their revenues from Ticket Sales (Admissions Revenue), the main difference stems in case of Concessions Revenue. Concessions Revenue (which includes F&B, VAS and Gaming Revenues) accounts for ~30% of total sales for the players in US, which in case of Indian players is just at 20% (except PVR). Besides this, the US players garner ~5% of their revenues from other avenues like screen advertisements, merchandise sales etc.

The key factor to look at is that the US players earn only about 6-7% EBITDA margins from ticket sales, while the major margin drivers are F&B and gaming segments (40% and 50% margins from each respectively). This leads to a blended EBITDA margin of ~15-16% for the industry. In India too, we are seeing growth along the same lines, with the players expanding their F&B business through opening of specialized outlets. Besides this, Indian players are also looking at expanding their gaming and other niche businesses (PVR entering into a JV with an Indonesian ***Gaming & Bowling*** player) to expand their margins and exploit the increasing footfalls into malls and their multiplexes.

Table 5: Revenue Analysis of players in Indian and US multiplex industry

	US Players		Indian Players				
(as % of total revenues)	Cinemark Holding Inc.	Regal Group	PVR Cinemas	Fame India	Cinemax India	Adlabs Cinemas	Inox Leisure
Admissions	64.5%	67.8%	61.3%	64.8%	77.3%	74.1%	77.3%
Concessions	30.4%	27.6%	29.6%	28.8%	17.3%	18.4%	18.5%
Other	5.0%	4.6%	9.1%	6.4%	5.4%	7.5%	4.2%

Source: Company financial releases, Annual Reports ***Note:*** *Others include advertising revenue for US and revenue sharing for Indian players, Concession revenue include gaming and F&B*

Cost Analysis of Indian and US Players

The Indian and global multiplex operators have a diversified cost structure esp. when we consider the margins from ticket sales. While both types of players have similar margins in their concessions revenue segment, they vary a lot in their film rentals (Distributor's share) cost. It is because, in India ~90% of the film distributors are unorganized and hence can't command higher revenue share from the multiplex operators, compared to US where over 85% of the film distributors are organized. Similarly, the rent expenses (As % of sales) is higher for global players, as most of the Indian players have started their operations with owned properties, and have only now started expanding through leased properties. Fame India stands out in this context as it owns only 1 out of its 11 properties presently.

Table 6: Cost Analysis of players in Indian and US multiplex industry

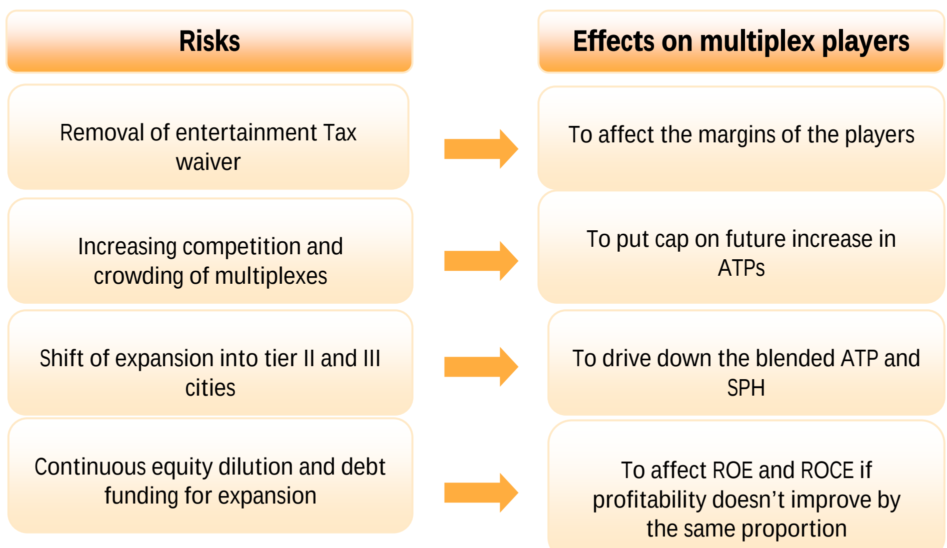
	Cinemark Holding Inc.	Regal Group	PVR Cinemas	Fame India	Cinemax India	Adlabs Cinemas	Inox Leisure
	(USD mn)		(Rs.mn)				
Cost of Operations							
Film rentals and advertising	128.3	957.5	437.6	111.0	192.3	257.7	347.5
% of exhibition revenues	*33.9%*	*36.0%*	*22.0%*	*18.4%*	*22.8%*	*7.3%*	*23.3%*
Cost of concession	17.5	103.8	114.6	27.0	46.2	74.3	73.9
% of exhibition revenues	*4.6%*	*3.9%*	*5.8%*	*4.5%*	*5.5%*	*2.1%*	*4.9%*
Rent exps.	51.6	335.9	177.5	80.4	49.0	3.5	97.4
% of exhibition revenues	*13.7%*	*12.6%*	*8.9%*	*13.3%*	*5.8%*	*0.1%*	*6.5%*
General & Adm. Exps.	18.7	63.1	199.2	163.2	162.1	918.8	97.2
% of exhibition revenues	*5.0%*	*2.4%*	*10.0%*	*27.1%*	*19.2%*	*25.9%*	*6.5%*

Source: Company financial releases, Annual Reports

But, the money making opportunity in multiplex industry remains limited

While the multiplex industry will continue to benefit the Indian film industry in terms of higher revenue growth, better margins and promoting films on various niche subjects, we see many issues hampering the industry growth in the coming years. We believe that these hindrances can either be in the form of un-favorable government or regulatory actions, or in the form of increasing competition.

Fig 14: Multiple risks associated with multiplex businesses the longer run



Source: Systematix Institutional Research

Removal of Entertainment Tax waiver

We believe that the multiplex industry will be adversely hit as and when the entertainment tax waiver is removed (will lead to drop in margins).

Table 7: Present details of Entertainment Tax charged by different states

Region	Tax rate	Exemption rule					Eligibility	
	(%)	Yr1	Yr2	Yr3	Yr4	Yr5	Min. seats	Min. screens
Mumbai	45	100	100	100	75	75	1,250	4
Rest of Maharashtra	40	100	100	100	75	75	1,000	3
Punjab	50	100	100	100	100	100	1,000	3
West Bengal	30	100	100	100	100	-	1,000	3
Rajasthan	50	50	50	50	50	50	-	-
Uttar Pradesh	60	100	100	100	100	100	1,000	3
Madhya Pradesh	50	100	100	100	75	50	1,000	3
Goa	44	100	100	100	100	100	-	-
Karnataka	40	100	100	100	75	75	-	-

Source: Industry

Table 8: Impact on industry margins when the Entertainment tax waiver is removed

	With entertainment Tax exemption (on 50% of screens at 30% and 0% on rest)	Without Entt. Tax exemption (average entt. Tax at 20%)
No. of screens	4.0	4.0
No. of seats per screen	250.0	250.0
ATP	120.0	120.0
Capacity Utilization (%)	35.0%	35.0%
Ticket Revenues	42,000.0	42,000.0
Entertainment Tax	6,300.0	8,400.0
Other fixed costs	28,560.0	28,560.0
Operating margins (%)	20.0%	15.0%

Source: Systematix Institutional Research

Competition and crowding to put cap on increase in ATPs

We also believe that increasing competition and hence the crowding of multiplexes in cities will lead to multiplexes losing their regular audience (and hence a regular income inflow), and at the same time this will not let multiplex companies increase their Average Ticket Price.

Next round of expansion into tier II and III cities – to drive down the ATPs and also the margins

Further, we believe that the second round of expansion for multiplex players will happen in tier-II and III cities, which will lead to reduction in ATP to Rs.60-65 in these cities, and thus lead to a drop in the average blended ATP for the industry. The foray into tier II and III cities will also lead to lower contribution to revenues from F&B and gaming, as the average spending ability of the customer in those cities will be lower. Since F&B is the major contributor to the margins of any player, we expect the margins of the industry to also drop to ~15%.

Table 9: Impact on industry margins when F&B income not included

	With F&B	Without F&B
No. of screens	4.0	4.0
No. of seats per screen	250.0	250.0
ATP	120.0	120.0
Capacity Utilization (%)	35.0%	35.0%
No. of footfalls	350.0	350.0
SPH	20.0	20.0
Ticket Revenues	42000.0	42000.0
F&B Revenues	7000.0	
Other Revenues	200	200
Total Revenues	**49200.0**	**42200.0**
Entertainment Tax	6300	6300
F&B Expenses	3850	0
Other Operating expenses	29400	29400
Total Cost	**39550**	**35700**
Operating margin (%)	19.6%	15.4%

Source: Systematix Institutional Research

Continuous equity dilution or debt funding to lead to pressure on ROE and ROCE

Besides this, the multiplex companies are on a major expansion spree for which they will need continuous funding. For this, either they will have to continuously dilute their equity or raise debt, both of which can be detrimental to investors (if the PAT margins also drop) in terms of lower ROE and ROCE. We have analyzed that a similar type of expansion period happened in the US during the late 1990s, which finally led to the closure of various multiplex chains, acquisitions of many, while many of them filed for bankruptcy. Although we don't see any of such situations occurring in India in the coming years, we certainly see this as one of the risks associated with the business of film exhibition.

EXCERPT FROM AN ARTICLE: *For theater-chain owners in the US in the past few years, life has been a cliffhanger. Spurred by easy money and swept up by the media-consolidation craze, they went on buying sprees, snapping up smaller chains and piling on debt to build multiplexes on what seemed like every street corner in America. By last year, four of the largest U.S. chains were in Chapter 11, including such well-known names as Loews, United Artists, and Regal (RGC). "It was our version of the perfect storm," says Peter C. Brown, CEO of AMC Entertainment Inc., which dodged bankruptcy but closed 30 theaters and slashed capital expenditures.*

The way forward – regional dominance and evolution of players as complete film entertainment models

Although there are numerous risks associated with operating a standalone multiplex model, we believe that the re-crafting of multiplex players into a differentiated film entertainment model will help them weather the risks associated with the industry. We believe that a multiplex company can be benefitted from most of the risks if it employs a 2 pronged business model: a) Develop as a strong regional player (get high market share and also get the bargaining power from the film distributors for revenue sharing), and b) Develop into a complete film entertainment player operating across verticals like Distribution, Production and Exhibition. This will certainly help the players in mitigating the risks associated with the business and at the same time enlarge their horizon in the industry.

Regional Dominance – provides bargaining power with distributors and film makers

The players in the exhibition business in India are riddled by high distribution cost, which range up to 50% of ticket sales of films. Including the F&B, advertisement and other revenues, the distribution cost for multiplex operators presently ranges from 20-26% of total sales, much higher than that of players in US for whom the proportion is at 10-12%. This is mainly because of 2 reasons: a) the US exhibition market is extremely consolidated with the top 3 players capturing ~50% of the market, and b) ~40% of the theatre screens in US are operating under digital model, which automatically reduces the distribution cost to NIL. In India though, we believe that consolidation of multiplex players as a strong regional player will lead to a slight drop in distribution cost (as % of sales), as they will be either distribute the films in that region on their own or will be able to bargain for a lesser share with the distributor. The former option is becoming more prevalent in India presently.

We believe that players like PVR (NCR Region) and Pyramid Saimira (TN and Kerala), who are already developing into such a business model, will be the immediate beneficiaries.

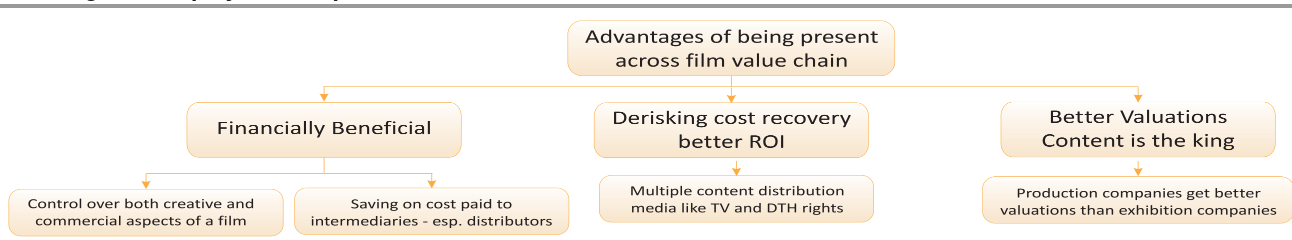
EXCERPT showing the problem between Yash Raj Films and PVR: *YRF demanded 50 percent share of the first week's collections for "Dhoom 2", as against 48 percent that is the norm. PVR did not agree, and refused to screen YRF's "Dhoom 2" and "Kabul Express" across the country.*

Although the box office collections of 'Dhoom 2' were good in both domestic and international markets, as it was not released at PVRs the producers faced losses of a little less than Rs.40 million and PVR too lost up to Rs.30 million. And 'Kabul Express' couldn't find the kind of audience it deserved, and tanked at the box office.

Re-crafting business model to become a complete player across film entertainment

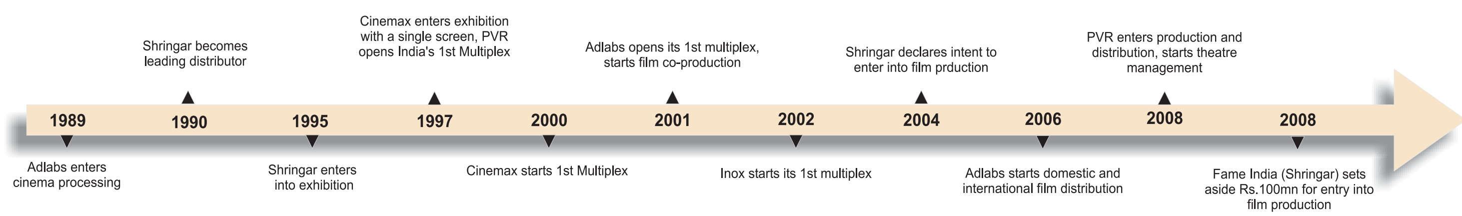
The standalone multiplex players are looking to de-risk their business model by developing into a player across film entertainment value chain (Production, Distribution and Exhibition). While PVR started its distribution business in 2006 and then forayed into production through the movie 'Taare Zameen Par', India's largest multiplex operator – Adlabs ventured into distribution in 2006 and has co-produced ~25 films till date. The main reason which is driving the players towards this model is the control over both – creative and commercial aspects of film entertainment. Besides this, the fast changing face of Indian film industry into a corporate entity is driving huge funds into the content development side (Production). This is clearly evident from the fact that, while large players like The Indian Film Company and UTV raised USD55mn and USD70mn through AIM listing, even new entrants like PVR Pictures (Production arm of PVR Cinemas) are looking to raise money through private placement. This clearly indicates that it is becoming more economically beneficial to be present across the value chain. Further, the evolution of multiple exhibition platforms (Foreign rights, TV Rights etc.) has reduced the risks associated with recovery of film cost.

Fig 15: Advantages for a player to be present across the film value chain



Source: Systematix Institutional Research

Fig 16: and the evolution of film exhibitors into a complete value chain player is clear indication of the emerging business model



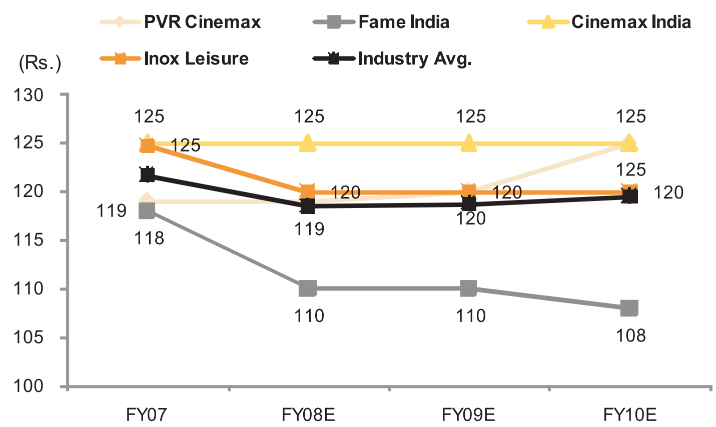
Source: Systematix Institutional Research

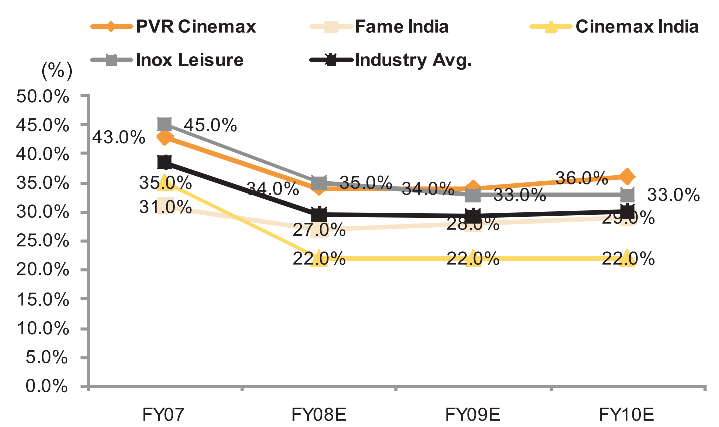
FINANCIALS OF MULTIPLEX OPERATORS

	PVR Cinemas				Fame India				Cinemax India				Inox Leisure			
	Fy07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E
No of screens	91	108	151	225	39	56	91	156	33	72	142	217	51	93	158	212
No of screens (Our Estimate)	82	99	139	215	39	56	82	140	33	67	112	165	51	83	125	180
Revenues (Rsmn)																
Ticket Sales	1,217.0	1,798.9	2,517.4	4,512.2	373.0	798.2	1420.1	2302.4	651.8	885.3	1,574.0	2,360.0	1,154.8	1,636.4	2,283.9	3,254.2
F&B Sales	373.5	432.0	630.0	1,092.0	87.2	138.6	252.6	415.8	134.5	168.3	369.3	595.8	214.0	328.7	495.0	712.8
Production Income	-	288.0	632.0	900.0	-	-	-	-	-	-	-	-	-	-	-	-
Distribution Income	26.2	26.6	27.0	27.4	275.0	88.0	57.0	31.0	-	-	-		36.4	52.8	68.6	89.2
Advertising Income	181.1	235.4	306.0	397.9	38.4	39.4	71.0	127.8	45.9	68.9	103.3	154.9	62.3	81.0	103.7	132.8
Revenue Sharing	190.0	249.0	323.6	427.2	85.6	132.6	212.2	339.5	-	-	-	-	-	-	-	-
Others	24.6	26.1	28.9	33.2	18.9	22.5	28.0	35.5	169.3	18.6	32.6	53.5	62.7	79.5	100.9	128.3
Gross Sales	1,987.8	3,029.9	4,436.1	7,356.6	878.1	1,219.4	2,040.7	3,252.0	1,001.6	1,141.1	2,079.2	3,164.2	1,530.1	2,178.4	3,052.2	4,317.3
(-) E-Tax	291.6	386.8	553.8	992.7	-	-	-	-	68.7	79.7	149.5	236.0	119.4	261.4	381.5	539.7
(-) Sales tax on F&B	40.7	45.4	66.2	114.7	-	-	-	-	-	-	-	-	-	-	-	-
(-) Service tax	12.9	34.7	86.8	173.5	-	-	-	-	-	-	-	-	-	-	-	-
Net Sales	1,642.7	2,563.0	3,729.3	6,075.7	878.1	1,219.4	2,040.7	3,252.0	932.9	1,061.5	1,929.7	2,928.2	1,410.7	1,917.0	2,670.7	3,777.6
y-o-y growth	-	56.0%	45.5%	62.9%	-	38.9%	67.4%	59.4%	-	13.8%	81.8%	51.7%	-	35.9%	39.3%	41.4%
Net profit	101.8	232.9	358.2	590.6	97.6	175.6	216.4	281.8	123.1	124.7	229.3	361.0	248.2	306.6	410.8	567.3
y-o-y growth	-	128.7%	53.8%	64.9%	-	80.0%	23.2%	30.2%	-	1.4%	83.8%	57.5%	-	23.5%	34.0%	38.1%
EBITDA Margin (%)	16.0	20.1	20.5	20.4	14.4%	20.6%	20.4%	19.5%	27.3%	24.5%	24.6%	24.7%	25.5%	24.9%	24.8%	24.8%
PAT Margin (%)	6.1	9.0	9.5	9.7	11.1%	14.4%	10.6%	8.7%	13.2%	11.8%	11.9%	12.3%	17.6%	16.0%	15.4%	15.0%
EPS (Rs)	4.4	10.1	15.6	25.7	3.1	5.1	5.5	6.9	4.4	4.5	8.2	12.9	4.1	5.1	6.8	9.5
y-o-y growth	-	128.7%	53.8%	64.9%	-	63.4%	9.1%	24.9%	-	1.4%	83.8%	57.5%	-	23.5%	34.0%	38.1%
Price/Earnings (x)	40.1	17.5	11.4	6.9	19.3	11.8	10.9	8.7	18.7	18.4	10.0	6.4	21.6	17.5	13.0	9.4
Price / Book Value (x)	2.0	1.9	1.7	1.4	3.3	2.4	2.1	1.7	1.7	1.5	1.4	1.1	2.5	2.3	2.0	1.8
EV/EBITDA (x)	19.6	10.2	7.2	4.8	18.6	9.1	6.7	5.1	11.6	11.5	6.9	4.9	18.5	13.5	9.5	6.7
EV / Sales (x)	3.1	2.0	1.5	1.0	2.7	1.9	1.4	1.0	3.2	2.8	1.7	1.2	2.3	2.1	1.9	1.6
CMP				177.7				59.8				82.2				90
Target Price				333.8				82.6				154.7				113.5
Upside/ (downside)				87.9%				38.1%				88.2%				26.1%

FOCUS CHARTS

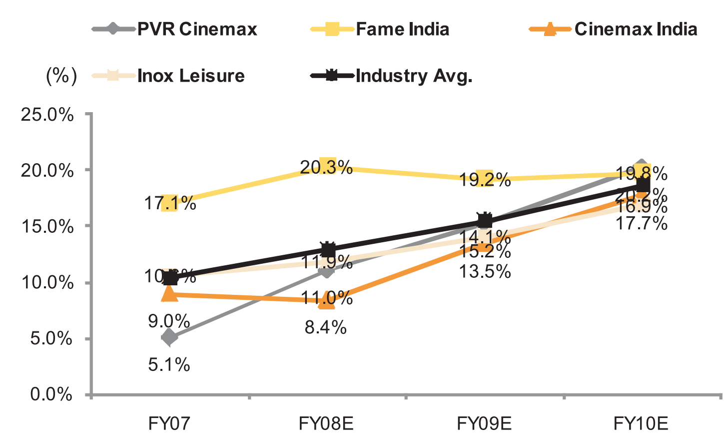
Fig 17: ATP of Industry… …and Occupancy Level of Industry

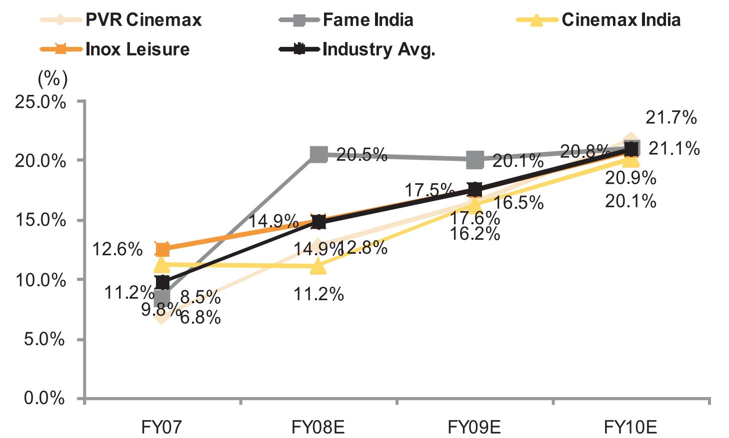




Source: Systematix Institutional Research

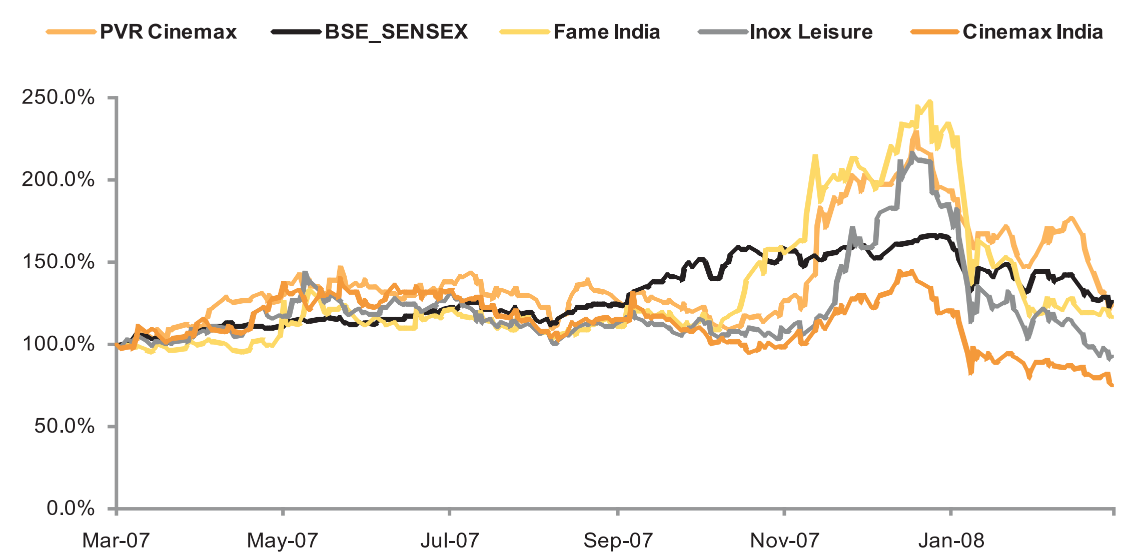
Fig 18: ROE of the Industry… … and ROCE of the Industry





Source: Systematix Institutional Research

Fig 19: Movement in prices of players vis-à-vis Sensex



Source: Systematix Institutional Research

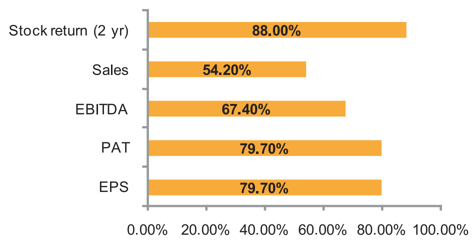
COMPANIES SECTION

PVR CINEMAS

INITIATING COVERAGE

Stock Rating	BUY
CMP (Rs.)	178
Target Price (Rs.)	334

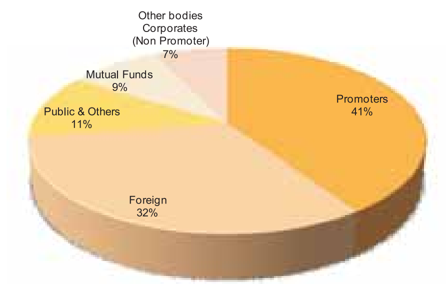
Investment Profile



Bloomberg	PVRL IN
Reuters	PVRL.BO
BSE Group	B
BSE Code	532689
NSE Symbol	PVR
BSE Sensex	14,799.9
NSE Nifty	4,523.7

Shareholding Pattern

(As on 31st December 2007) (%)



Market Data

Market Cap (Rs.Mn.)	4086
Share Cap (Rs.Mn.)	230
52 Wk High/Low	377/156
Avg. Vol. (Weekly)	20,090
Face Value (Rs)	10

Financials (Cons)	FY07	FY08E	FY09E	FY10E
Net Sales	1,667.2	2,589.1	3,758.2	6,108.9
Net profit	101.8	232.9	358.2	590.6
EBITDA Margin (%)	16.0	20.1	20.5	20.4
PAT Margin (%)	6.1	9.0	9.5	9.7
EPS (Rs)	4.4	10.1	15.6	25.7
Price/Earnings (x)	40.1	17.5	11.4	6.9
EV/EBITDA (x)	18.1	9.4	6.7	4.5
EV / Sales (x)	2.9	1.9	1.4	0.9
RoE (%)	5.1	11.0	15.2	20.2
RoCE (%)	6.8	12.8	16.5	21.7

Completing the Picture!!

PVR is the 2nd largest multiplex operator in India (95 screens) with dominant position in north India (particularly National Capital Region-NCR) with 53 screens. Although PVR has experimented with niche business models like PVR Talkies (low ATP multiplexes for small towns), its growth in the next 2 years will be driven by expansion into tier-I cities. While this will lead to PVR maintaining its ATP and SPH, it will also expose PVR to high competition and interest cost (due to capex of Rs.85,000/seat for PVR compared to <Rs.70,000 for other players) in the industry. However, PVR's expansion into film distribution and production (tie-up with Aamir Khan and Rajkumar Santoshi) will help it gain the benefits of a complete film entertainment model. An equity dilution (through PE route) of PVR Cinemas – the Film production and distributon arm, could be the next trigger, as it will also provide PVR with the requisite capital to undertake any further expansion into film production (plans to do 4-6 movies annually). We hereby initiate our coverage on PVR with a 'BUY' rating a 24-months price target of Rs.334.

Second largest multiplex operator, dominates the NCR region

PVR is India's 2nd largest multiplex operator with 95 screens under operation presently. It commands a strong 24.2% market share in the NCR region while having a 50%+ share of the north Indian theatrical market. PVR also commands the highest ATP (Rs.130) amongst all the players in the industry.

Aggressive Expansion plans, focus into tier-I cities to help maintain ATP and SPH

PVR is planning to expand its presence pan-India with 250 screens by FY10. Planned with a capex of ~Rs28bn, this expansion will drive PVR's theatrical revenues by 97.7% CAGR to Rs.47.5bn bn FY10. Since ~90% of the expansion will be carried out in tier I, metro and tier II cities, we do not expect PVR to see any erosion in its ATP or SPH.

Foray into film distribution and production – completing the picture

PVR plans to be amongst the leading players across the film value chain in India. It has therefore forayed into film distribution and production in an aggressive manner. While PVR is distributing various Indian and foreign films under its distribution business, it has also entered into co-production deals with Aamir Khan and Raj Kumar Santoshi for 2 films each. PVR plans to do 4-6 movies every year at an average budget of Rs.100-120mn and EBITDA margins of ~20%.

PE funding into PVR Pictures the key trigger

PVR is planning to get PE funding into PVR Pictures (film production and distribution arm) to fund the large initial capex reuired for film production. With UTV's Motion Pictures business getting listed in AIM at an EV of USD300mn and IFC too raising USD55mn, we believe that PVR Pictures could be valued at ~2x FY10 revenues. We believe any upside to this could be a major valuation trigger for PVR.

Valuations look attractive, initiate with 'BUY'

PVR is expected to register 79.7% EPS CAGR and 54.2% revenue CAGR over FY07-10E. We believe that PVR's growth into a leading film entertainment model is a fair case for us to give a 10% premium to its peers in the multiplex industry, who are being valued at 12xFY10E EPS. Moreover with the production business of PVR expected to be valued at 2xFY10E sales (~Rs.78), we have valued PVR's consolidated business at 13x FY10E EPS, and have arrived at a 24-month price target of Rs.334.

INVESTMENT CASE

PVR is India's 2nd largest multiplex operator with 95 screens under operation currently, and commands ~50% market share in North Indian theatrical market. Besides setting a target of reaching ~250 screens by FY10, PVR has also planned to simultaneously expand its concession business (which drives the margins) by entering into tie-ups with various players in F&B and gaming business. We believe that the scale-up of exhibition business coupled with foray into film co-production and distribution will re-craft PVR into one of the top 3 film entertainment players in India.

Our positive view on PVR is based on the following arguments

2nd largest player in the industry, enjoys 1st mover advantage in North India

- PVR currently has 95 screens under operation, next only to Adlabs with 140 screens.
- It has a 1st mover advantage in North India with around 56% screens, which helps it to bargain for the share of ticket revenue with distributors and film makers.
- Since NCR region has the highest ATPs and occupancy of any of the metros in India, PVR consistently contributes 10-13% of box office collections for the top 5 films in India.

Aggressive expansion plans – target of 250 screens by FY10

- Having built a strong presence in the NCR region, PVR is now looking to expand its presence pan-India.
- PVR has kept an aggressive target of over 250 screens by 2010, which will be majorly in Tier-I city and in tax exempt regions.

New innovative Initiatives to keep the SPH high, while multiplying revenue sources

- PVR has introduced innovative concepts like PVR talkies located in tier-II and tier-III cities having lower ATP (Rs60-80) and PVR Premiere catering to the premium segment of the society having higher ATP (Rs240-250).
- Besides this, PVR has also entered into a tie-up with leading food and entertainment (gaming) chains globally, for setting up chains of these stores in its theatres.
- We believe that these new innovative concepts will help PVR maintain its SPH much higher than the competition.

Foray into film distribution and production

- To complete the film entertainment model, PVR entered into film production through its 100% subsidiary PVR Pictures and released its 1st film 'Taare Zameen Par' co-produced with Aamir Khan Productions Pvt. Ltd.
- It has further tied-up with Aamir Khan for one more film and Rajkumar Santoshi for 2 more films. We expect PVR to do 4 movies in FY09E and 6 movies in FY10E, with an average budget of Rs100-120mn.
- PVR also forayed into film distribution by initially distributing Indian and foreign films in north Indian markets. It has now started to undertake film distribution for theatres pan-India.
- The film distribution business will be additionally beneficial to PVR when it releases its own productions, as that will save the company a significant amount of distribution cost, both from a producer's and an exhibitor's point of view.
- Apart from Adlabs, PVR is the only player which has presence across the film value chain.

Table 10: Presence of multiplex operators across the film value chain

Company Name	Exhibition	Distribution (Domestic)	Distribution (Overseas)	Production
Adlabs Films	P	P	P	P
PVR Cinemas	P	P	A	P
Inox Leisure	P	A	A	A
Shringar Cinemas	P	P	A	A
Cinemax India	P	A	A	A

Source: Systematix Institutional Research, Note: P (Present) and A (Not Present)

VALUATIONS

EPS growth the best in the industry, mainly due to margin expansion

We are positive on PVR's growth story considering its aggressive expansion plans in the E-Tax exempt areas, commanding presence in North India and foray into film production. Also, we believe PVR's recent tie-up with Major Cineplex for setting up of various lifestyle entertainment concepts like Bowling Alleys, Karaoke centers, Gaming Zones etc., could also lead to improving margins.

We have estimated PVR's revenues and net profit to grow at CAGR of 54% and 80% respectively over FY07-10E. EBITDA and PAT margins though increase only marginally as PVR gains more % of its revenues from F&B and Gaming, and will be able backward integration into film production resulting in better bargaining power against other distributors.

Table 11: Key Ratios

(%)	FY06	FY07	FY08E	FY09E	FY10E
Revenue growth	-	58.9%	55.3%	45.2%	62.5%
EPS growth		92.4%	128.7%	53.8%	64.9%
EBITDA margin	*16.5*	*16.0*	*20.1*	*20.5*	*20.4*
PAT margin	*5.0*	*6.1*	*9.0*	*9.5*	*9.7*
ROE	*2.7%*	*5.1%*	*11.0%*	*15.2%*	*20.2%*
ROCE	*4.6%*	*6.8%*	*12.8%*	*16.5%*	*21.7%*

Source: Systematix Institutional Research

Valuations Analysis

The stock is presently trading at a P/E multiple of 12.5x and 7.6x based on FY09E and FY10E earnings. On EV/EBITDA basis the stock is available at a multiple of 7.2x and 4.8x FY09E and FY10E financials respectively.

Table 12: Valuation Ratios

	FY06	FY07	FY08E	FY09E	FY10E
Price/Earnings (x)	77.2	40.1	17.5	11.4	6.9
Price / Book Value (x)	2.1	2.0	1.9	1.7	1.4
EV/EBITDA (x)	23.5	18.1	9.4	6.7	4.5
EV / Sales (x)	3.9	2.9	1.9	1.4	0.9

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend 'BUY' on PVR with a 24-months price target of Rs334. We base our price target based on 13x FY10 EPS, 10% premium to what we have assigned for other players in the industry. As film production companies command high valuations (over 3x FY09 revenues assigned by many brokerages for Balaji Telefilms' film business and UTV's Motion Pictures business being valued at ~20x FY09 EV/EBIT), we believe that PVR's film production arm – ***PVR Pictures***, would be fairly valued at ~2x FY10 revenues (premium to Balaji Telefilms' production arm) which will convert into ~Rs.78.

At CMP of Rs178, PVR is trading at P/E multiple of 11.4x and 6.9x FY09E and FY10E earnings estimates respectively. In our view this leaves enough room for upside given the strong earnings growth projected for the company, coupled with huge expansion plans in both its exhibition and film production business.

Table 13: Details of Price target derivation

Target multiple for Industry	15x FY10E EPS
Discount for industry (on account of negative free cash flow for next few years)	20%
Target multiple for Industry (post discount)	12x FY10E EPS
Premium for PVR (due to its strong presence in film production)	10%
Therefore, target multiple for PVR	13x FY09E EPS
FY09E EPS for PVR (Rs.)	25.7
Target Price (Rs.)	333.8

Source: Systematix Institutional Research

Risks to our Target Price

Among the potential risk factors to our target price we list the following as foremost:

a) Delay in execution

PVR plans to set up over 250 screens by FY10E, which involves huge capital cost and dependence on mall developers. Mall development has been experiencing construction delays and even if mall developer completes the project on time, there are delays in the commencement of multiplex operations on account of delay is getting necessary permissions from statutory bodies.

b) Withdrawal of E-Tax exemption

The withdrawal of entertainment tax incentives for its existing and proposed properties would have a adverse effect on its profitability.

c) Further dilution of equity

Any further dilution of equity to meet its fund requirement for huge expansion, will lead to the valuations becoming costlier.

COMPANY IN-DEPTH

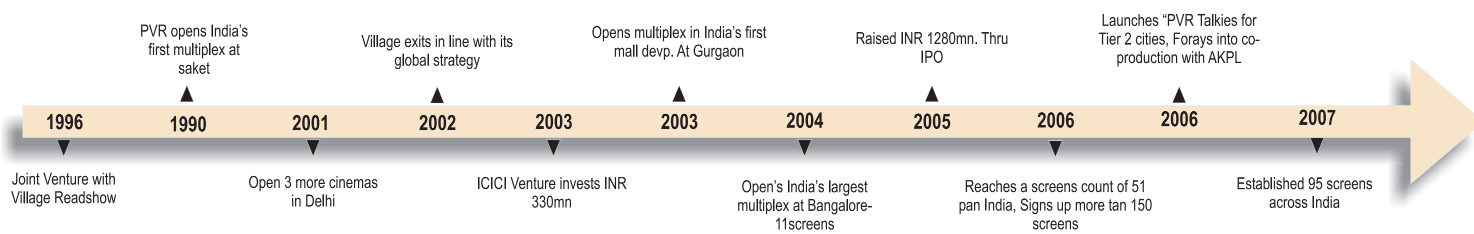
PVR, India's largest Multiplex Cinema operator, established the 1st Multiplex Cinema in India, ***PVR Anupam*** (Saket, Delhi) in 1997 and the largest Multiplex Cinema in India, ***PVR Bengalooru*** in 2004. The company now has 95 screens under operation and has plans to add 200 additional screens across India in the next 3 years.

PVR is the only film exhibition company in India, which has an international film exhibition operator as a strategic investor. The company was incorporated in April 1995 pursuant to a joint venture agreement between Priya Exhibitors Private Limited and Village Roadshow Limited, one of the largest non-U.S. cinema exhibition companies in the world with more than 1,000 screens under operation. Village Roadshow's international experience enabled PVR to begin its film exhibition business operations at PVR Saket, the first Multiplex Cinema in India, using international best practices.

Corporate Structure and subsidiary details

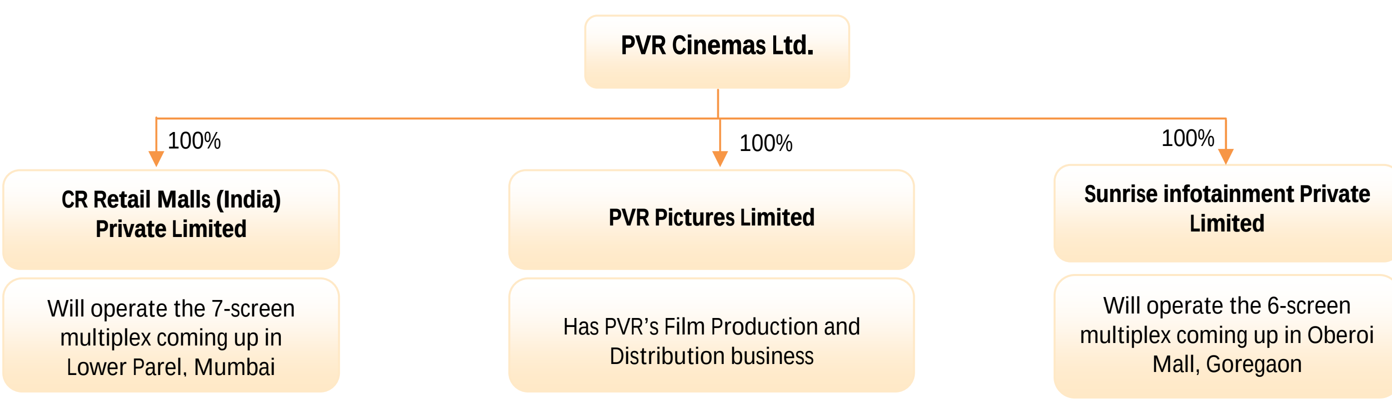
PVR has divided its businesses like film production, distribution, and also some of its upcoming multiplex properties into various subsidiaries to manage large projects in an effective manner.

Fig 20: PVR's Corporate Timeline…



Source: Company

Fig 21: …and the Corporate structure



Source: Company

CR Retail Malls (India) Private Limited

CR Retail Malls (India) Private Ltd. is implementing the 7 screens Multiplex Project at The Phoenix Mills compound, Lower Parel, Mumbai, a prime retail and entertainment destination in Mumbai.

PVR Pictures Limited

PVR Pictures Limited is engaged in the business of film distribution and has therefore successfully distributed various Hollywood and Hindi movies. It has got its offices in Delhi, Mumbai, Bangalore, Indore and Hyderabad and distributes movies in all territories in India on its own or with the help of its associates.

With it plans to have a bigger foothold in the Hindi film distribution, PVR Pictures is exploring options for alliances and tie ups with producers to exploit film rights. It recently tied up with Aamir Khan Productions to co-produce 2 movies, one of which is at an advanced stage of production. PVR Pictures shall additionally be distributing these movies on pan India basis.

Sunrise Infotainment Private Limited

Sunrise Infortainment Private Ltd. is implementing the 6 screens Multiplex Project at The Oberoi Mall, Goregaon Mumbai. This Multiplex is a part of much awaited mall at a prime location in the suburbs of Mumbai.

Exhibition Business

India's 2nd largest multiplex chain

As of February 2008, PVR had 95 screens spread over Delhi, Gurgaon, Faridabad, Ghaziabad, Noida, Mumbai, Bangalore, Hyderabad, Indore, Lucknow, Ludhiana, Aurangabad, Latur & Baroda. It is thus a well-divesified set up pan-India and is only 2nd largest player after Adlabs (140 screens).

Table 14: Details of Current Properties

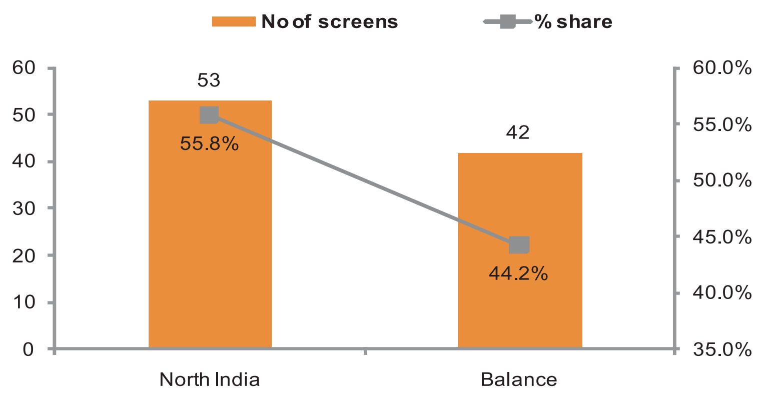
	City	Name of Property	Screens	Seats	E Tax % on net	E tax exemption	Opening date	E tax exemption date
1	Delhi	Anupam, Saket	4	1,000	30%	No	Jun-97	-
2	Delhi	Priya, Vasant Vihar	1	944	30%	No	Jan-00	-
3	Delhi	Naraina	4	830	30%	No	Aug-08	-
4	Delhi	Vikaspuri	3	921	30%	No	Nov-08	-
5	Gurgaon	Metropolitan Mall	7	1,310	30%	No	May-08	-
6	Faridabad	Crown Plaza	2	504	30%	No	May-08	-
7	Delhi	Plaza	1	300	30%	No	May-08	-
8	Bangalore	Forum Mall, Bangalore	11	2,011	40%	No	Nov-08	-
9	Ghaziabad	EDM	3	726	60%	Yes	Mar-08	Apr-08
10	Hyderabad	Central Mall, Hyderabad	3	926	20%	No	Feb-08	-
11	Delhi	Rivoli	1	329	30%	No	Feb-08	-
12	Indore	Treasure Island, Indore	5	1,140	50%	Yes	Apr-08	Apr-08
13	Lucknow	Sahara Mall, Lucknow	4	874	60%	Yes	Apr-08	Apr-08
14	Mumbai	Juhu	5	1260	45%	Yes	Apr-08	Jun-08
15	Mumbai	Nirmal Lifestyle, Mulund	6	1,815	45%	Yes	Jun-08	Sep-08
16	Gurgaon	Sahara Mall	2	528	30%	No	Jul-08	-
17	Aurangabad	Aurangabad	3	1,156	40%	Yes	Sep-08	Jan-08
18	Latur	Latur	3	1,136	34%	Yes	Oct-08	Jan-08
19	Baroda	Baroda	3	1,094	20%	No	May-08	-
20	Ludhiana	Flamez Mall, Ludhiana	4	1,025	50%	Yes	Aug-08	Aug-08
21	Delhi	Prashant Vihar	3	786	30%	No	Aug-08	-
22	Delhi	Select City Walk Saket	6	1,238	30%	No	Nov-08	-
Management/ Franchisee								-
23	Noida	Spice Mall	8	1,821	60%	Yes	Dec-08	-
24	Faridabad	SRS Mall	3	776	30%	Yes	Nov-08	-
Total			**95**	**24450**				

Source: Company

Continues to have dominant position in North India, esp. NCR region

PVR has a first mover advantage in North India, with ~56% of the PVR's total 95 screens located is in northern India. In fact, out of its 53 screens in North India 23 screens are located in the NCR region. NCR region comprises of one of the most affluent class of people in India, which helps PVR command the highest ATPs across the country. Besides, a dominant position in both the NCR region and north India as a whole helps PVR bargain for the share of ticket reveneues with the distributors and film makers.

Fig 22: Dominant position in North India



…with majority of properties in NCR region

	Screens	% share of total
NCR Region	23	43.4%
Rest of North	30	56.6%
Total screens in North India	**53**	

Source: Company

Source: Company, Systematix Institutional Research

And therefore earns over 10% of box office revenues for top 5 films

Being present in a market with one of the highest ATPs and at the same time commanding strong market share in that region, has shaped up extremely positive for PVR. Due to the same, PVR has been consistently contributing (for the last 3 quarters) 10-13% of box office collections for the top 5 films in India.

Table 15: Net box office collection of PVR Cinemas and contributio to all India theatre collections

(Rs.mn)	Net Box Office - PVR*	Net Box Office - All India**	% Contribution	(Rs.mn)	PVR$	All India#	% Contribution
Chak De India	87	232	16%	Om Shanti Om	69	697	10%
Partner	49	502	10%	Jab We Met	51	252	20%
Heyy Babyy	48	424	11%	Bhool Bhulaiyya	45	404	11%
Dhamaal	26	237	11%	Taare Zameen Par	64	286	22%
Harry Potter And Order Of The Phoenix	22	-	-	Welcome	44	489	9%
TOTAL	232	-	-	Top 5 Films	273	2128	13%

*Source: Ibosnetwork.com, *Net box office earned during 1st july-31st September, ** as on 17th October 2007, $Net box office earned till 6th Jan, # as on 6th January, 2007*

PVR Talkies, PVR Premiere and tie up with *Major Cineplex*– adding new niches

PVR Talkies

PVR Cinemas has forayed into tier II and tier III cities with the launch of PVR Talkies in India, thus reviving the cinema experience in smaller towns in India. It is currently present in 3 cities, namely Aurangabad, Latur and Vadodara, having a total of 9 screens. It has an ATP in the range of Rs60-80. It plans to have 2 to 3 more properties under this format in the next 2-3 years.

PVR Premiere

During Q3FY08, PVR Cinemas unveiled its premium brand of multiplexes called 'PVR Premiere', which addresses the esteemed urban consumers with facilities like 180-degree leather upholstered reclining seats, personalized menu, lounge areas, and many such services, thus completing the entire value chain of luxurious movie watching experience. The ATP for PVR Premiere is in the range of Rs240-250.

Currently it has one such property at Select City Walk Mall at Saket in New Delhi and plans to have around 3-4 more properties under this format by FY10.

Table 16: PVR Talkies & PVR Premiere - 2 different business models

	No of properties	ATP	Margins	Capex per seat
PVR Talkies	2-3 properties in next 2-3 years	Rs60-80	20%	Rs60,000 -75,000
PVR Premiere	3-4 properties by FY10E	Rs240-250	17-18%	Rs7.5 -1.5 lakh

Source: Company, Systematix Institutional Research

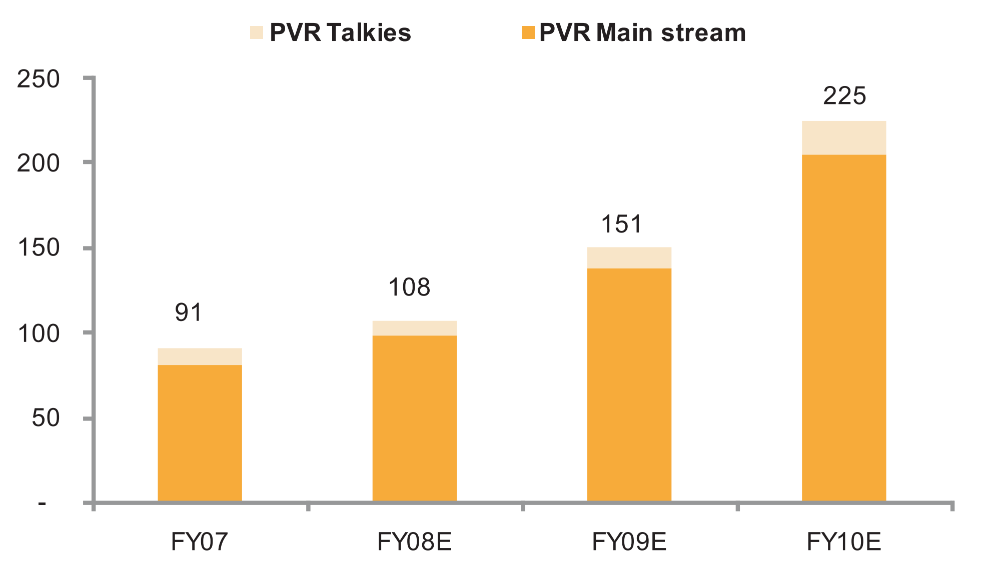
Tie up with Major Cineplex group for Gaming zones

PVR recently entered into a JV agreement with ***Major Cineplex*** group of Thailand for setting up of various lifestyle entertainment concepts like Bowling Alleys, Karaoke centers, Gaming Zones etc. in the theatre premises of PVR. PVR has planned to set up ~200 bowling lanes in its multiplex properties across India in the next 3 years.

Expansion plans – Entt. Tax Exemption, Higher ATPs and Higher SPH the key focus

Having built a strong bastion in the NCR region, PVR is now looking to expand its presence pan-India. PVR has kept an aggressive target of over 250 screens by 2010. The key feature of the expansion plans is that ~90% of it is being planned in the metro and other tier-I cities and in regions with tax exemption rules applicable (Maharashtra, Punjab etc.). This expansion plan will be advantageous to PVR as it will not have to dilute its ATP during the expansion, while earning the same (or higher) SPH.

Fig 23: Strong ramp-up of properties lined up



Source: Company

Table 17: Upcoming Properties (in the next 3-4 months)

	Cinema	Location	Screens	Seats	Status	Likely opening schedule	E TAX Exemption
1	Centra Mall, Chandigarh	Punjab	4	1,171	Construction complete; Licensing in Progress	Q4 2007-08	No
2	Oberoi Mall, Goregaon	Mumbai	6	1,819	Fit-outs in progress.	Q1 2008-09	Yes
3	Ambience Mall, Gurgaon	Haryana	7	1,194	Fit-outs in progress	Q1 2008-09	No
4	Phoenix Mills, Lower Parel	Mumbai	7	1,965	Fit-outs in progress	Q1 2008-09	Yes
	Total		**24**	**6149**			

Source: Company

…and the expansion plans for FY09

Subsidiary Companies	Location	Screens	Seats	Opening Schedule	Entt. Tax waiver
Phoenix Mills, Lower Parale	Mumbai	7	2,000	Q1 2009	Yes
Oberai Mall, Goregaon	Mumbai	6	1,747	Q1 2009	Yes
Total		**13**	**3,747**		
PVR Ltd					
Ambi Mall, Gurgaon	Haryana	7	1,218	Q1 2009	No
Ampa Mall, Chennai	Tamil Nadu	7	1,600	Q4 2009	No
Ahmedabad, The Acropolis	Gujarat	6	1,400	Q4 2009	No
Vijaywada	Andhra Pradesh	4	1,230	Q2-2009	No
Jalandhar, BMC Chowk	Punjab	4	1,300	Q4 2009	Yes
World Trade Park, Jaipur	Rajasthan	4	1,067	Q4 2009	Yes
Ghatkopar, Mumbai	Mumbai	4	1,250	Q3 2009	Yes
Raipur	Chattisgarh	4	1,417	Q4 2009	No
Mysore	Karnataka	6	2,235	Q4 2009	Yes
Total		**39**	**11,499**		

Source: Company

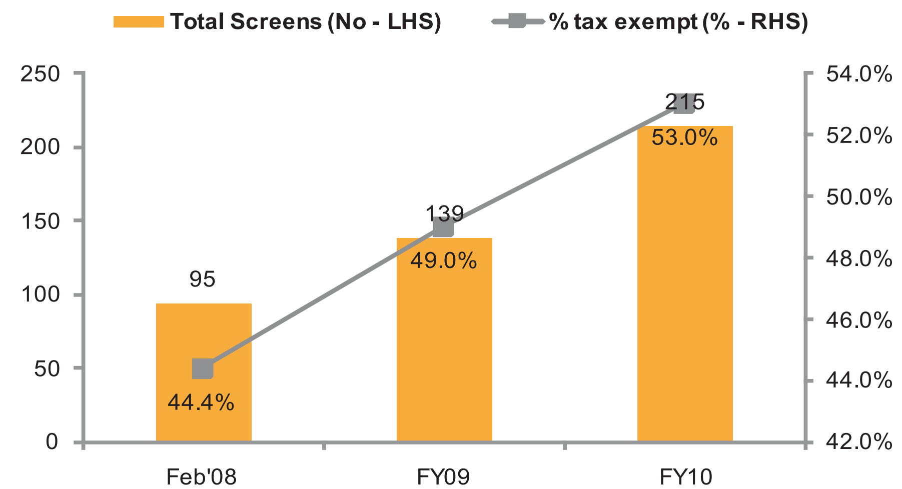
Tieup with Prestige Group in Bangalore – will put it among top players in Bangalore region

PVR recently entered into an agreement with ***Prestige Group***, a leading Bangalore based real estate developer, to develop multiplexes in their upcoming mall developments in Bangalore and nearby cities in southern India. Under this tie-up, PVR will partner Prestige as an anchor tenant for its next 5 mall developments across cities in South India namely Bangalore (ShantNiketan and Whitefield), Cochin, Hyderabad and Mangalore. We believe this association with one of the leading developers in South India will help PVR get access to customers in good catchment areas and hence build a strong set up in this untapped region.

Further expansion in tax exempted regions – to help maintain margins

In FY07, PVR had around 29 out of 82 screens which were E-Tax exempt. But due to maximum earnings coming from its proeprties in the NCR region (which is not exempted from entertainment tax) the company ended up paying higher proportion of its gross revenues as taxes. But company's future expansion will be nothing but positive in terms of tax concessions as over 50% of the planned properties from hereon are in tax exempted regions. We believe that this will certainly lead to a sharp increase in PVR's net revenues, while helping the company maintain its Operating margins.

Fig 24: Expected screens in the coming years and % of tax exempt screens



Source: Company, Systematix Institutional Research

But, competitive pressure looms large

PVR's expansion plans are focused towards metro and tier-I cities, which with numerous benefits also bring significant number of risks to the table. Most of the players in the multiplex industry have already started building their strong foothold in large cities. While Cinemax is building a strong foothold in Mumbai and surrounding regions, Adlabs is building a strong fortress in the Eastern and Southern region. Hence, PVR's further expansion into the large cities in these regions will be met with increasing competition. Since there is negligible content differentiation between 2 multiplex properties, the location of the property remain the key advantage to any player. We believe that this competitive pressure will either lead to PVR paying higher cost for its properties in prime locations, or will be affected by low occupancy and slightly lower ATPs.

Film Distribution – natural extension for a regionally dominant player

As PVR is a dominant player in the north Indian exhibition market and is also one of the highest contributors to the box office revenues in that region (over 25%), the next step for it was to reduce the distributor's cost for its theatres in that region. It therefore forayed into distribution of Indian and foreign films in the north Indian markets to start with and now also for theatres pan-India. The film distribution business will be additionally beneficial to PVR when it releases its own productions, as that will save the company a significant amount of distribution cost, both from a producer's and an exhibitor's point of view.

Some of the recent films distributed by PVR are ***Taare Zameen Par, Bal Ganesh, Lions of Punjab, Don, Omkara, Bheja Fry*** and ***Honeymoon Travels Pvt. Ltd.***

Film Production – recrafting PVR into a complete film entertainment model

During Q3FY08, PVR entered film production through its wholly owned subsidiary PVR Pictures and released its 1st film 'Taare Zameen Par', co-produced with Aamir Khan Productions Pvt. Ltd. Taare Zameen Par has done a total gross box office collection of Rs579.7mn till Feb 2008, out of which approximately 55% is PVR's share. It has further tied-up with Aamir Khan for one more film and with Rajkumar Santoshi for 2 more films (for approx. Rs600mn).

The success of 'Taare Zameen Par' has helped PVR create a dominant name for itself in the film fraternity and has therefore signed more co-production deals with renowned producers and directors. ***Although, the film production business poses risk to the cash flows of the company, we believe that with a co-production model (equal funding by the partners) and***

the changing economics of film exhibition (sale of rights to multiple exhibition media like Domestic theatres, International Theatres, TV rights, DTH etc.) will derisk the business returns for PVR. This is the reason that this business provides a certain 15-20% operating margin to many leading film production houses like Adlabs, UTV and now for PVR (20%+ expected operating margins from Taare Zameen Par). We expect PVR to do 4 movies in FY09E and 6 movies in FY10E, with an average budget of Rs100-120mn.

Table 18: Film Production – tie ups

Association with	Film	Expected release
Aamir Khan Productions	Taare Zameen Par	Released in Jan'08
Aamir Khan Productions	Jaane Tu Ya Jaane Na	To release in Feb'09
Rajkumar Santoshi	Ashok - The Great (Ajay Devgan as Actor)	To release in Aug'08
Rajkumar Santoshi	Comedy movie (Shahid Kapoor, Katrina Kaif)	To release in March'09

Source: Company

Dilution of stake in PVR Pictures – the key trigger

PVR plans to invest ~Rs100mn into film production in next 2 years, as it plans to release ~10 movies in the next 30 months. We believe that PVR will not go for further equity dilution in the parent company (PVR Cinemas) to fund this business, and therefore expect it to undertake an equity dilution in its subsidiary PVR Pictures. With UTV's film production business (UTV Motion Pictures) getting listed in AIM for a whopping USD300mn and Indian Film Company too raising USD55mn from AIM, we expect PVR's production business to get valued at ~2x FY10E revenues. We believe that any upside to this valuation can be a positive trigger to our valuation estimates.

Strong Management Bandwidth

One of the key positives about PVR is the quality of management it posseses. The 2 most important qualities required to become a leading player in this business are: ***a)*** Faster Execution of property development, and ***b)*** Being in the right place at the right time, i.e. identifying the right locations to build a multiplex. PVR has one of the best track record as far as the speed of execution is concerned, and has smartly built a stronghold in the NCR region at the right time. We believe that this is a result of having a strong and experienced management at the helm. Led by Ajay Bijli (the Promoter), having over 16 years of experience in this business (worked with Australia based Village Roadshow), PVR's management has developed into one of the strong teams in this business.

Table 19: Management Details

Key Personnel	Designation	Qualification (Experience)
Ajay Bijli	Chairman & Managing Director	B.Com, O P M P (Harvard Business School), 17 years
Sanjeev Kumar	Joint Managing Director	Bachelor's Degree in Finance & Accounting, MBA, 12 years
Sumit Chandwani	Director	N.A.
Vikram Bakshi	Director	N.A.
Amitabh Vardhan	Chief Executive, Officer, Exhibition	Diploma in Hotel Management, Diploma in Training & Development, 14 years
Ashish Saksena	Chief Executive, PVR Pictures	B.Tech, 18 years
Gautam Dutta	Chief Executive, Cinemedia	B.A, 19 years
Nitin Sood	Chief Financial Officer	Joined PVR in 2001, 11 years of experience
N .C Gupta	Head of Legal	B Com, FCA , ACS, 38 years

Source: Company

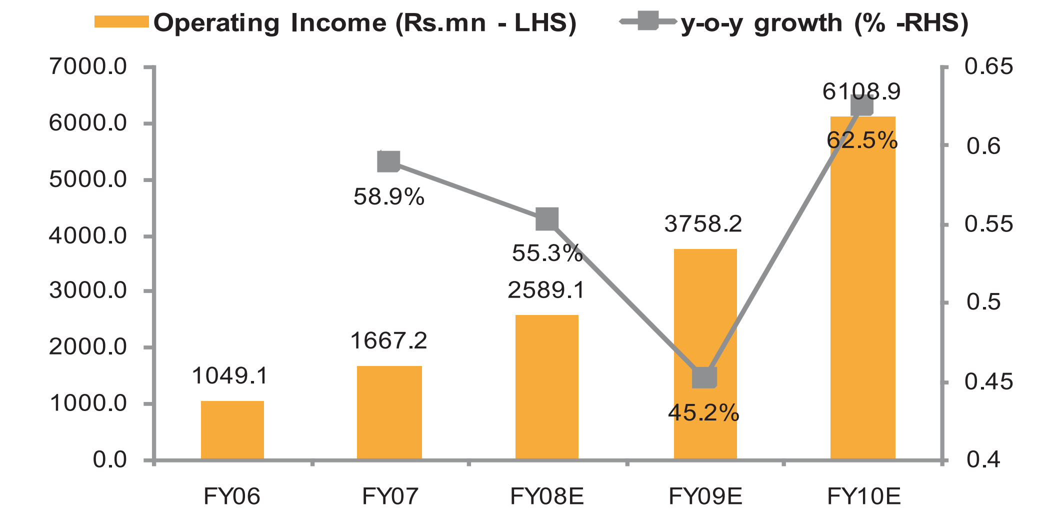
EARNINGS OUTLOOK & FINANCIALS

Revenue to grow at a CAGR of 54% during FY07-10E

We expect PVR to record a significant growth in the topline, growing at a CAGR of 54% over FY07-10E, where as historically it has grown at a CAGR of 35.1% over FY05-07.

PVR Cinemas derives more than 60% of the revenues from sale of tickets.

Fig 25: Consolidated revenues and % yoy growth



Source: Company, Systematix Institutional Research

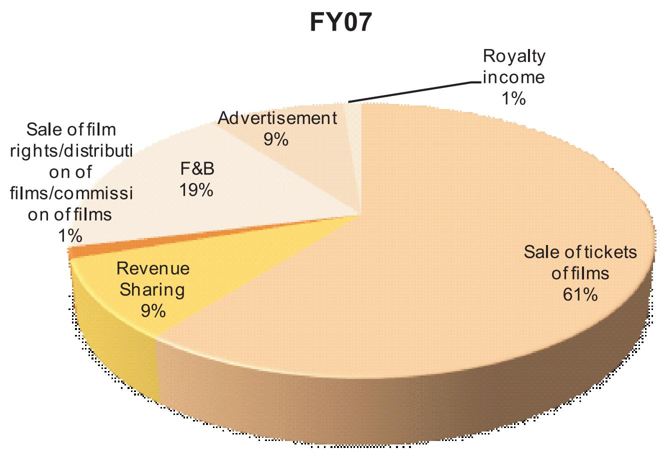
Sement-wise revenue analysis

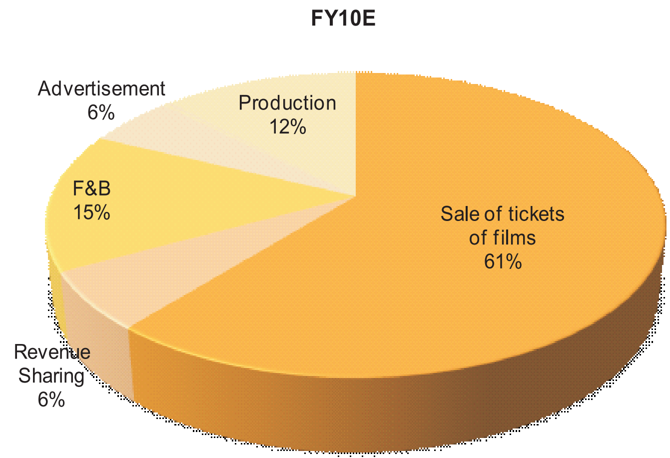
In the exhibition business, we expect the revenues to go up from Rs1.2bn in FY07 to Rs4.5bn in FY10E backed by the huge expansion plans and increase in the average ticket price & occupancy level. Also, innovative concepts like PVR Talkies and PVR Premiere will add to the exhibition revenues.

Major plans set for the food and beverages segment will lead to increase in spend per head, increasing the F&B revenues from Rs373mn in FY07 to Rs1.1bn in FY10E.

In FY08E, we expect part of the revenues coming from production business as well, with its launch of the 1st movie 'Taare Zameen Par'. We have estimated the production revenues to grow from Rs288mn in FY08E to Rs900mn in FY10E.

Fig 26: Change in the Revenue-Mix





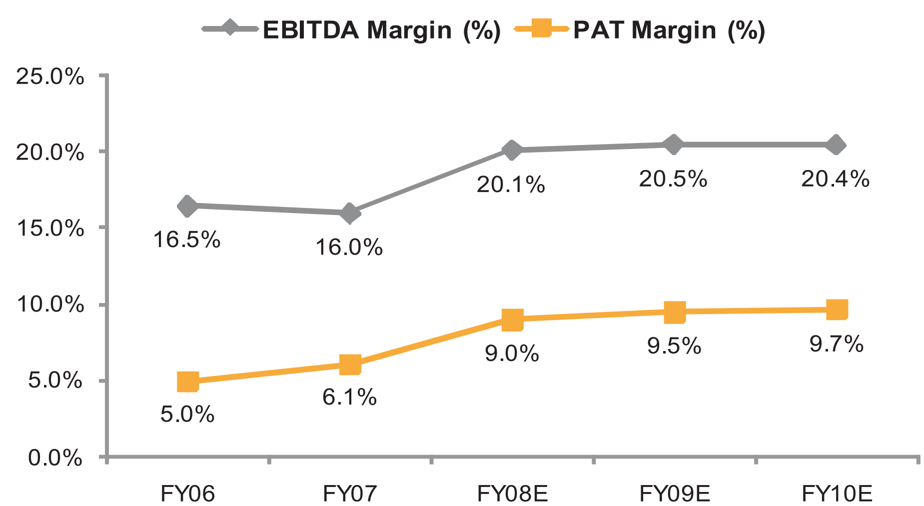
Source: Company, Systematix Institutional Research

Shift in the revenue mix leading to expansion of EBITDA and PAT margins

EBITDA and PAT margins to expand

We believe that the film distributor's cost will continue to drop for PVR and will eventually fall in line with that of other players in the industry (at 32% of ticket sales). We have therefore estimated EBITDA margins to increase by 240bps over FY07-10E to 20.4% in FY10E. PAT margins will also increase by 360bps to 9.7% by FY10E.

Fig 27 : EBITDA and PAT margin expansion

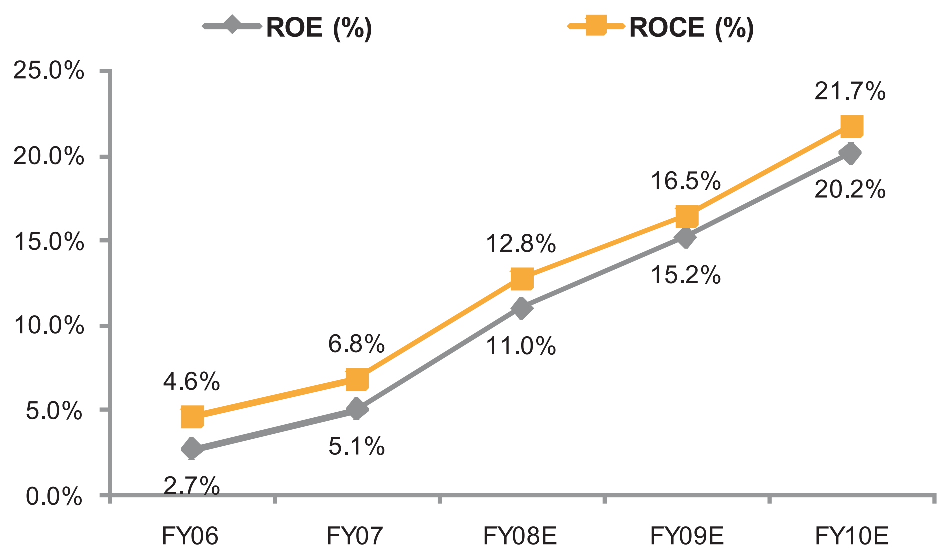


Source: Systematix Institutional Research

ROE and ROCE showing an upward trend

Besides the increase in the margins, we expect ROE to increase from 5.1% in FY07 to 20.2% in FY10E. RoCE will also increase from 6.8% in FY07 to 21.7% in FY10E.

Fig 28 : Improvement in ROE and ROCE



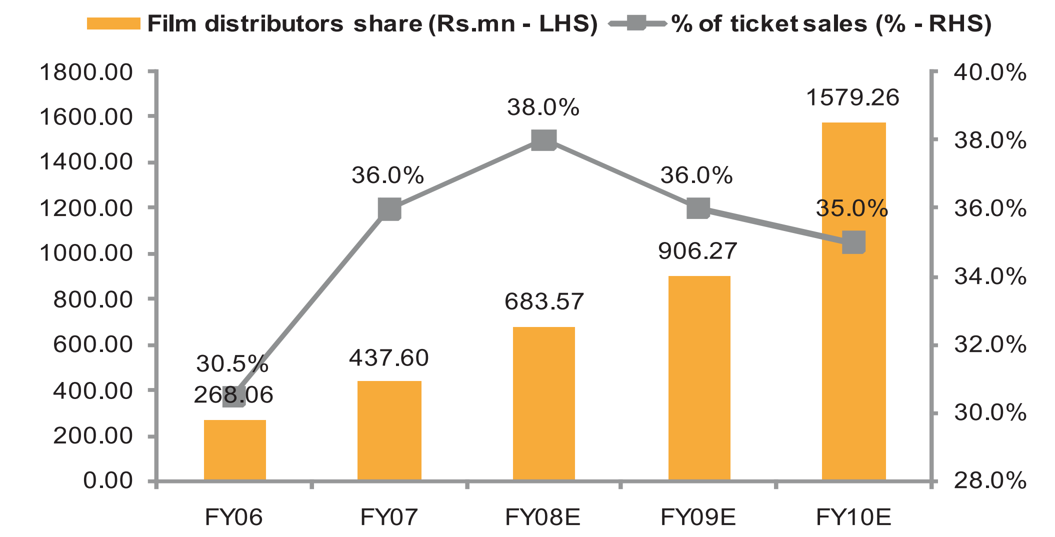
Source: Systematix Institutional Research

COST ANALYSIS

Film Distributors share witnessing a drop as % of total sales

Film Distributors share comprises of payments made to distributors for supplying movies to be played at PVR's cinemas. A movie distributor gets about 40-45% of net ticket collections in the 1st week for the movie rights, which falls with every subsequent week. PVR has one of the highest film distributor's cost (38% of ticket sals Vs 30-32% for oher players). We expect film distributor's cost to drop to ~35% of ticket sales by FY10E, in line with that of other players.

Fig 29: Film Distributors share to drop as % of ticket sales

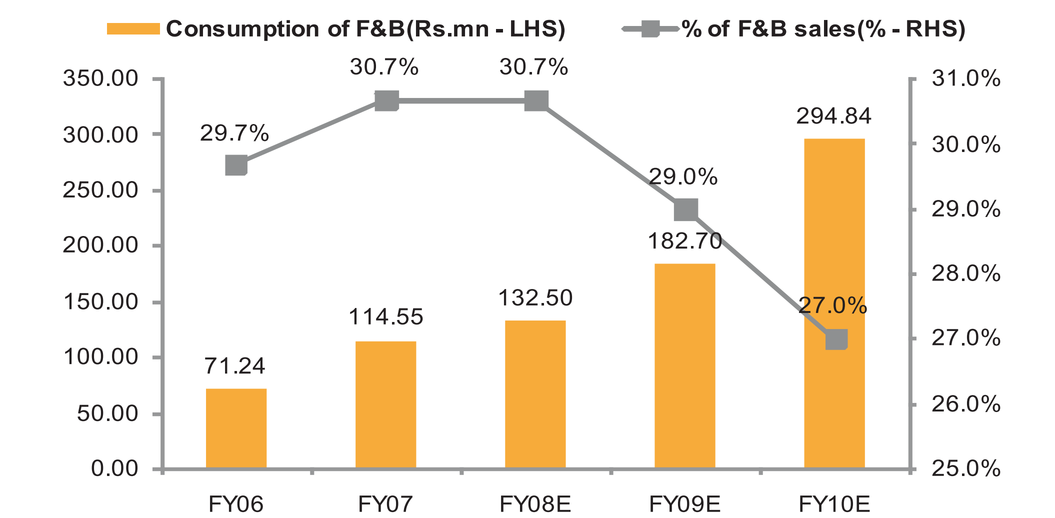


Source: Systematix Institutional Research

Consumption of F&B moving southwards

We expect F&B cost to increase from Rs114.6mn in FY07 to Rs294.8mn in FY10E. The F&B sales (as % of F&B revenues) is expected to go down from 30.7% in FY07 to 27.0% in FY10E.

Fig 30: Consumption of F&B to drop as % of sales

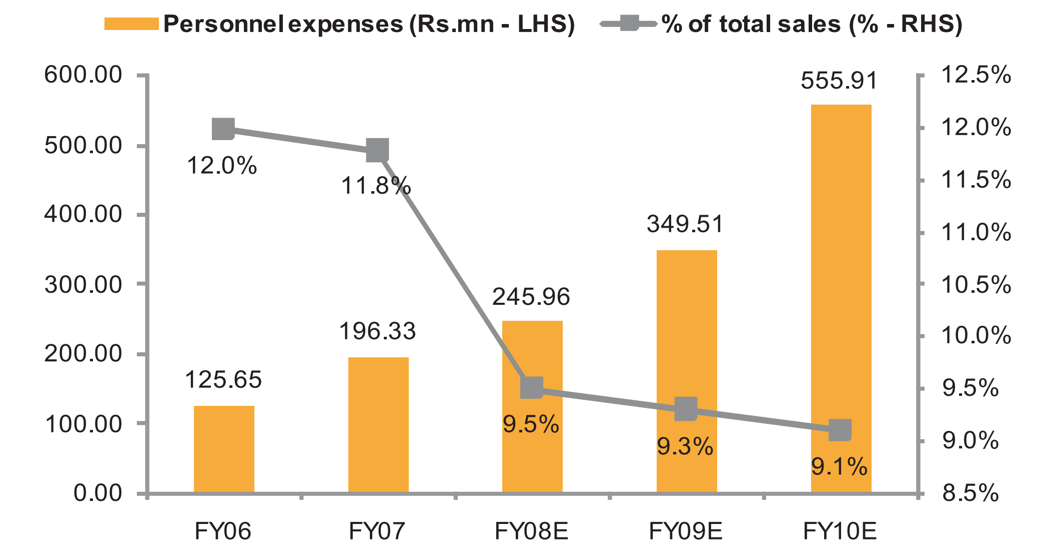


Source: Systematix Institutional Research

Employee cost to remain constant

The employee cost is a big factor for a multiplex operator, and so for PVR for whom it contributed ~11.8% of sales in FY07. Although the employee cost will remain relatively constant for PVR as % of its theatrical revenues (ticket + F&B + Other Revenues), as % of total sales (which includes production income also) it will drop to 9.1% by FY10E.

Fig 31: Employee cost to remain constant as % of sales



Source: Systematix Institutional Research

FINANCIAL DETAILS

Profit & Loss Statement (Rs mn)	FY06	FY07	FY08	FY09	FY10
Net Sales	1,049.1	1,667.2	2,589.1	3,758.2	6,108.9
% yoy growth		59%	55%	45%	63%
Total Cost	876.4	1,400.9	2,068.2	2,988.4	4,860.5
EBITDA	172.6	266.3	520.9	769.9	1,248.4
EBITDA Margin (%)	*16.5%*	*16.0%*	*20.1%*	*20.5%*	*20.4%*
Depreciation	83.4	133.4	182.7	238.2	354.7
Interest	30.7	43.9	66.0	84.0	115.5
Other Income	29.0	61.3	72.3	85.3	100.7
PBT	87.4	150.4	344.5	533.0	878.9
Tax	34.8	48.6	111.6	174.8	288.3
Net Profit (pre exceptional items)	52.6	101.8	232.9	358.2	590.6
YoY Growth (%)		*93%*	*129%*	*54%*	*65%*
Minority Interest	-	-	-	-	-
Net profit after adjustment	52.6	101.8	232.9	358.2	590.6
Effective tax rate (%)	40%	32%	32%	33%	33%

Balance Sheet (Rs mn)	FY06	FY07	FY08	FY09	FY10
Share Capital	428.7	430.0	330.0	230.0	230.0
Reserves & Surplus	1,497.8	1,570.4	1,779.5	2,120.6	2,694.2
Total Shareholder's funds	1,926.5	2,000.4	2,109.5	2,350.6	2,924.2
Minority Interest	-	-	-	-	-
Secured Loans	613.7	850.7	1,100.0	1,400.0	1,650.0
Unsecured Loans	2.4	0.0	-	-	-
Total Debt	616.1	850.7	1,100.0	1,400.0	1,650.0
TOTAL LIABILITIES	2,542.6	2,851.1	3,209.5	3,750.6	4,574.2
Gross Block	1,011.6	1,701.7	2,004.7	2,811.1	4,461.1
Less: Accumulated Depreciation	227.9	349.7	532.3	770.5	1,125.2
Net Block	783.6	1,352.1	1,472.4	2,040.6	3,335.9
Intangible Assets	15.7	29.6	54.6	82.6	112.6
CWIP	642.3	659.9	674.9	684.9	694.9
Investments	294.2	421.0	471.0	371.0	221.0
Interest accrued on long term investments	1.9	3.0	4.5	6.0	7.5
Inventories	9.2	17.6	15.8	22.1	39.6
Sundry Debtors	42.5	68.9	64.1	89.7	160.7
Cash and Bank	630.2	115.4	284.3	335.9	143.5
Other current assets	10.4	4.9	6.2	7.9	10.3
Loans and Advances	310.7	567.5	767.5	987.5	1,237.5
Current Liabilities	238.7	328.0	484.3	699.8	1,138.2
Provisions	71.6	69.1	65.7	61.1	55.0
Net Current Assets	694.6	380.1	592.3	688.2	405.8
Total Assets	2,543.1	2,851.0	3,209.5	3,750.6	4,574.2

Cash Flow Statement Year to 31 Mar (Rs.mn)	FY06	FY07	FY08	FY09	FY10
Profit before tax	87.4	150.4	344.5	533.0	878.9
Depreciation	83.4	133.4	182.7	238.2	354.7
Tax paid	(21.9)	(39.8)	(111.6)	(174.8)	(288.3)
Others	26.5	8.5	9.2	9.1	9.1
Cash from operation	175.4	252.5	424.8	605.5	954.4
Increase/(Decrease) in WC	(31.0)	(61.6)	(43.3)	(44.2)	89.9
Cashflow from operations	144.5	190.9	381.5	561.2	1,044.3
Capital expenditure	(799.9)	(632.1)	(343.0)	(844.3)	(1,690.1)
Investments	(287.2)	(126.6)	(50.0)	100.0	150.0
Other Investing Activities	(585.0)	546.7	36.5	18.2	9.1
Cashflow from investing	(1,672.1)	(212.0)	(356.5)	(726.1)	(1,531.0)
Dividends paid	-	(69.6)	(33.0)	(26.1)	(26.1)
Increase in capital	1,371.1	3.9	(100.0)	(100.0)	-
Increase in borrowings	148.0	234.6	249.3	300.0	250.0
Other Financing activities	(59.6)	(58.3)	27.6	42.6	70.3
Cashflow from financing	1,459.5	110.7	143.9	216.5	294.2
Increase/(Decrease) in cash	(68.1)	89.6	168.9	51.6	(192.4)
Opening Cash balance	81.4	13.3	115.4	284.3	335.9
Closing cash balance	13.3	102.9	284.3	335.9	143.5
Change in cash (as per books)	(68.1)	89.6	168.9	51.6	(192.4)

Valuation Ratio	FY06	FY07	FY08	FY09	FY10
Price/Earnings (x)	77.2	40.1	17.5	11.4	6.9
Price / Book Value (x)	2.1	2.0	1.9	1.7	1.4
EV/EBITDA (x)	23.5	18.1	9.4	6.7	4.5
EV / Sales (x)	3.9	2.9	1.9	1.4	0.9

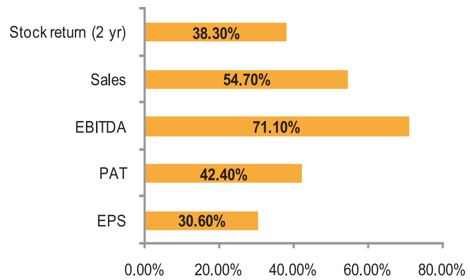
Ratio Analysis (%)	FY06	FY07	FY08	FY09	FY10
Revenue growth	-	58.9%	55.3%	45.2%	62.5%
EPS growth		92.4%	128.7%	53.8%	64.9%
EBITDA margin	16.5	16.0	20.1	20.5	20.4
PAT margin	5.0	6.1	9.0	9.5	9.7
ROE	2.7%	5.1%	11.0%	15.2%	20.2%
ROCE	4.6%	6.8%	12.8%	16.5%	21.7%

FAME INDIA LIMITED

INITIATING COVERAGE

Stock Rating	BUY
CMP (Rs.)	60
Target Price (Rs.)	83

Investment Profile



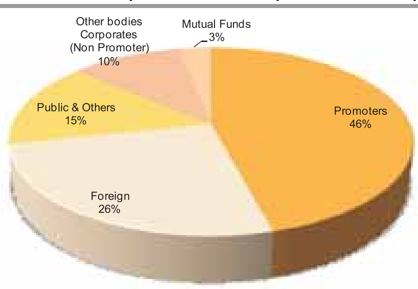
Bloomberg	SCIN IN
Reuters	SHRC.BO
BSE Group	B
BSE Code	532631
NSE Symbol	FAME
BSE Sensex	14,799.9
NSE Nifty	4,523.7

Market Data

Market Cap (Rs.Mn.)	2085.5
Share Cap (Rs.Mn.)	348
52 Wk High/Low	135/50
Avg. Vol. (Weekly)	45,808
Face Value (Rs)	10

Shareholding Pattern

(As on 30th September 2007) (%)



Financials (Cons)	FY07	FY08E	FY09E	FY10E
Net Sales	878.1	1,219.4	2,040.7	3,252.0
Net profit	97.6	175.6	216.4	281.8
EBITDA margin (%)	14.4%	20.6%	20.4%	19.5%
PAT margin (%)	11.1%	14.4%	10.6%	8.7%
EPS (Rs)	3.1	5.1	5.5	6.9
Price/Earnings (x)	19.4	11.9	10.9	8.7
Price / Book Value (x)	3.3	2.4	2.1	1.7
EV/EBITDA (x)	18.3	8.9	6.6	5.1
EV / Sales (x)	2.6	1.8	1.3	1.0
ROE (%)	17.1	20.3	19.2	19.8
ROCE (%)	8.5	20.5	20.1	21.1

Banking on its Experience...

Fame India Ltd. (FIL), erstwhile Shringar Cinemas Ltd. is one of the age old film distributors in Indian film industry. But dropping margins for standalone distributors and favourable regulatory changes in exhibition business drove FIL towards film exhibition business in 1999. Started as a theatre management company (still manages 11 theatres and plans to reach 29 theatres by FY10), FIL now owns and operates 54 screens pan-India. With a view of maintaining top 5 position in the business as also to tap the booming consumerism, FIL is planning to expand to 156 screens by FY10 (capex of Rs.18.7bn). We believe that the strong film industry background of the promoters and a vision to become a complete film entertainment model are the key positives for FIL. An entry into film production and reducing exposure to film distribution will also lead to margin accretion – from 14.4% presently to 19.5% by FY10. We initiate our coverage on FIL with a 'BUY' rating and a 24-month price target of Rs.83.

Film Distribution – Industry Leader for decades

FIL began its film distribution business in 1954, and has since then distributed some of the biggest films across India. Operated through its 100% subsidiary – Shringar Films Limited (SFL), FIL also has a tie-up with Paramount Pictures (Hollywood) to distribute its movies in India, both in English language and Other regional languages. FIL though is slowly shifting its focus away from the age-old distribution business as the profitability of a standalone distributor continues to erode.

Film exhibition business - theatre management experience proving a strong learning base

FIL entered into the exhibition business in 1999 when it took the assignment of managing the 'Maratha Mandir' theatre in Mumbai. As of now FIL manages 11 such theatres spread across Mumbai and surrounding regions, and Indore. FIL plans to increase its presence to 29 such theatres by FY10, after the recent tie-up with HDIL. We believe that the experience in theatre management has been a key driving force for a successful entry into multiplexes.

Amongst the top 5 multiplex operators, aggressive expansion planned

FIL presently has 54 screens under operation, and plans to increase its tally to 156 screens by FY10E. The key positive behind this expansion is that over 95% of the screens planned for launch in next 15 months are already identified. We believe that FIL will be able to reach 140 screens by FY10E and have therefore modelled 92.4% revenue CAGR during this period.

Successful foray into film production could develop it into an attractive model

While FIL continues to build on its experience in film exhibition and the industry as a whole through aggressive expansion of its multiplex chain, it is also planning to enter into film production. Since film production business is one of high-risk, high-return, we believe that a successful co-production model needs to implemented to gain maximum gains out of this foray. FIL has earmarked Rs.100mn for this plan.

31% EPS CAGR through FY07-10E, Initiate with 'BUY'

We expect FIL to undergo 30.6% EPS CAGR over FY07-10E, led by 510bps expansion in EBITDA margins. We have valued FIL at 12x FY10E EPS, and have thus arrived at a 24-months Price Target of Rs.83, 38% upside from hereon. We initiate our coverage with a 'BUY' rating.

INVESTMENT CASE

FIL, one of the oldest players in the film distribution business in India, with a strong presence in the western markets. But dropping margins and fading relevance for a standalone film distributor is driving FIL away from its age-old distribution business to the more safer business model of film exhibition. FIL presently owns and operates 54 multiplex screens with 16,711 seats spread over 3 states and 9 cities. Apart from the above, it also operates 11 theatres under theatre management. FIL targets to have around 167 screens by FY10 pan-India with increased focus on Mumbai, Pune and Kolkatta regions. In theatre management it has tied up with HDIL to manage 13 screens to be rolled out by mid-FY10.

Our positive view on Fame India is based on the following arguments

Film Distribution – fading concentration from this business

- FIL has been an industry leader in film distribution for over 50 years.
- FIL has distributed blockbuster movies like Lage Raho Munnabhai, Lagaan, Mission Impossible-3, etc. pan-India.
- But it is slowly shifting its focus away from the age-old distribution business to more relevant business of film exhibition, as margins for a standalone film distributor are eroding with time.

Strong ramp up plans in exhibition business to be the growth driver

- FIL currently operates 48 screens and has plans to ramp up its multiplex screens to 167 screens by FY10E with increased focus on Mumbai, Pune and Kolkatta regions.
- FIL also operates 11 theatres under theatre management model. Through its recent tie-up with HDIL it plans to increase its presence to 29 theatres by FY10E.

Tax exempt properties to drive the revenues

- ~60% of FIL's current properties are tax exempt, one of the highest ratios in the industry.
- With most of the expansion being undertaken in tax exempt cities and towns, we expect the proportion of tax exempted and not-exempted cities to remain at ~50% till FY10.

Expanding high margin Food Court Business

- FIL runs food court in Surat under the brand name "VIA 1".
- It plans to launch two food courts in FY08E – one in Chandigarh and another in Baroda, and if successful, may look at expanding it to many other cities.

Planning foray into film production business

- FIL has plans to foray into film production business to complete the film value chain.
- It plans to invest up to Rs100mn into this venture in the initital period.
- A good co-production model with a leading director will be an ideal model for FIL, as it derisks the cash pay-back for the producers.
- We believe that FIL will enter this business only by H2FY09 and the first film will release only in FY10.

VALUATIONS

Growth momentum to continue

We expect FIL to register robust growth backed by its aggressive expansion plans in the exhibition space, ramp up of its F&B business, and its plans to enter film production business in the coming years.

EPS growing at a CAGR of 30.6% during FY07-10E

We expect FIL's revenues and PAT to grow at CAGR of 54.7% and 42.4% over FY07-10E repectively. But the EBITDA and PAT margins will see contnued erosion due to hish interest cost and depreciation, both a result of heavy capex and hence high debt.

Table 20: Key Ratios

	FY07	FY08E	FY09E	FY10E
Revenue growth	51.4%	38.9%	67.4%	59.4%
EPS growth	-436.9%	63.4%	9.1%	24.9%
EBITDA margin	14.4%	20.6%	20.4%	19.5%
PAT margin	11.1%	14.4%	10.6%	8.7%
ROE	17.1%	20.3%	19.2%	19.8%
ROCE	8.5%	20.5%	20.1%	21.1%

Source: Systematix Institutional Research

Fame India has reported an EPS of Rs3.1 in FY07, which we expect to jump to Rs6.9 in FY10E. We expect ROE and ROCE to jump from 17.1% and 8.5% in FY07 to 19.8% and 21.1% in FY10E respectively.

Valuations looks attractive

At CMP, Fame India trades at 8.7x FY10E EPS and 5.1x FY10E EV/EBITDA multiple.

Table 21: Valuations

	FY07	FY08E	FY09E	FY10E
Price/Earnings (x)	19.4	11.9	10.9	8.7
Price / Book Value (x)	3.3	2.4	2.1	1.7
EV/EBITDA (x)	18.3	8.9	6.6	5.1
EV / Sales (x)	2.6	1.8	1.3	1.0

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend 'BUY' on Fame India with a 24 months price target of Rs83. We base our 12-month price target on an P/E multiple based valuation methodologies – 12x FY10E EPS.

At CMP of Rs60, Fame India is trading at P/E multiple of 10.9x and 8.7x based on our FY09E and FY10E earnings estimates.

Table 22: Details of Price target derivation

Target multiple for Fame India	~12x FY10E EPS
FY10E EPS for Fame India (Rs.)	6.9
Target Price (Rs.)	83

Source: Systematix Insitutional Research

Risks to our Target Price

Among the potential risk factors to our target price we list the following as foremost:

a) Delay in execution

Historically Fame India has experienced a huge delay in execution of more than 20 screens delay. Therefore, with its huge expansion plans we expect Fame India to face trouble in executing its plans.

b) Withdrawal of E-Tax exemption

The withdrawal of entertainment tax incentives for its existing and proposed properties would have a adverse effect on its profitability.

c) Huge capex, debt putting pressure on margins

FIL will incur a huge capex of about Rs18bn over FY08E-10E on new properties. Apart from the FCCB amount, it will still need to raise more by way of debt, thus leading to increase in interest expense and may put pressure on the operating margins.

d) Further dilution of equity

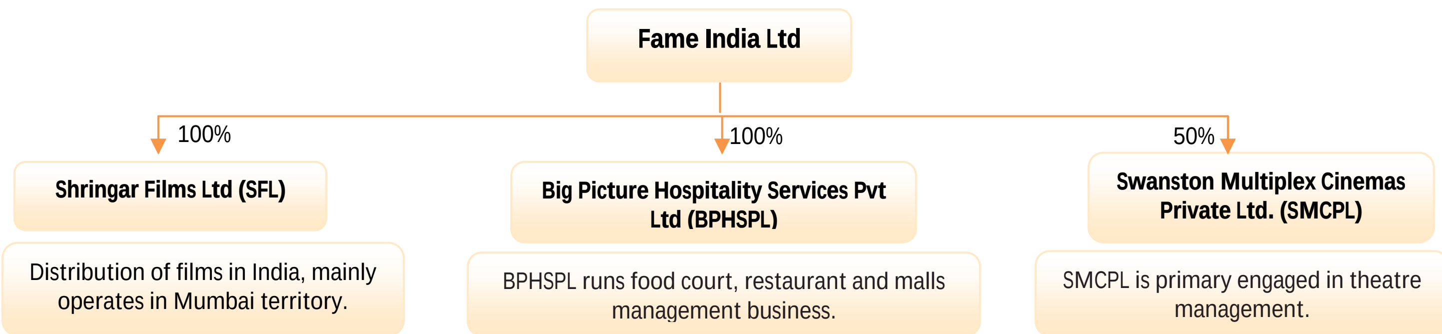
If no debt funding is done, then it will have to do further dilution of equity, which will put pressure on our target price.

Company In-depth

An Overview

FIL is one of the oldest players in the film distribution business in India with a strong presence in this business segment in western India. FIL began its foray into the exhibition space by starting theatre management for various single theatre owners, but later started its own multiplex theatre chain in 2002. It has thus leveraged on its experience in Film distribution business to develop its Film Exhibition business. Going forward, FIL is planning to become a pan-India player in the exhibtion business, while having strong plans of entering the film production business.

Fig 32: Fame India's Corporate Structure



Source: Company

Shringar Films Limited (SFL)

SFL was incorporated in FY99. Its principal activity is distribution of films in India and mainly operates in the Bombay territory. It has done a sales of Rs288.7mn and a net loss of Rs1.4mn.

Big Pictures Hospitality Services Private Limited (BPHSPL)

BPHSPL was incorporated in FY04. The company's principal activity is Food Courts and Restaurants. It enters into conducting agreements with various vendors to run Food Court and Mall Management business. The revenue is of fixed amount plus share of net sales or net profit etc, and the same is recognised on monthly accrual basis.

Swanston Multiplex Cinemas Private Limited (SMCPL)

SMCPL was incorporated in FY01 and is primarily engaged in managing a multiplex.

Business Lines

Film Distribution – the histrorical legacy

FIL carries out its film distribution business through its 100% subsidiary – Shringar Films Limited (SFL). It is also having a tie-up with Paramount Pictures (Hollywood) to distribute its movies in India, both in English language and Other regional languages.

Table 23: List of key films distributed by Fame India in the last 50 years

Language	Film Name
Hindi	Lage Raho Munnabhai, Eklavya, Dor, Baap Beti, Bheegi Raat, Aanchal, Qyaamat se Qyaamat tak, Rangeela, Raja Hindustani, Lagaan, Kaante, Baazigar, Munnabhai MBBS, Hyderabad Blues, Leela, Chachi 420, Bandit Queen, Chandni Bar, Chhota Chetan etc
Regional	Classmates (Malayalam), Vettaiyadu Vilayadu (Tamil), etc
Foreign	Superman Returns, Mission Impossible-3, Life is Beautiful, American Psycho, Shrek3, King Kong, etc

Source: Company

But dropping margins driving away the focus from this business

to the more relevant business of film exhibition. As the profitability of a standalone film distributor continues to erode, FIL is slowly shifting its focus away from this age-old business to the business of film exhibition. We believe that this shift in focus from this segment caters well for the company in the long run, as it will only improve FIL"s overall profitability. FIL is expected to do an EBIT of ~5-6mn from the distribution business in FY08, a significant drop in profitability as compared to earlier years.

Film Exhibition – the future driver

Theatre Management – Providing market breadth and increased bargaining power

With a view to expand its foothold, market presence and hence the bargaining power in front of film distributors, FIL had forayed into theatre programming business in 1999. Under this business model FIL offers its content selection and programming skills to the theater owner for a fee and/or a share of profits.

While FIL had already been managing over 11 such theatres for over 2-8 years, it has entered into 2 more theatre management contracts in Q3FY08. While one of the contracts is for managing 5 screens in Pune, another one is for the management of 13 screens of HDIL to be rolled out by mid-FY10. One such property is already operational in Vashi, near Mumbai.

Table 24: Properties under / Expected to be under thetare management by FY10

Cinema Name	Location
Maratha Mandir (Matinee)	Mumbai
Gossip	Bandra
Mehul	Mulund
Globus	Bandra
Prabhat	Sholapur
Velocity	Indore
Imax Adlabs	Wadala
Diamond	Borivali
Starcity	Matunga
Gemini	Bandra
Premiere	Parel
Rahul	Poona
Vaibhav, Hadapsar	Poona
Ashok, Pimpri	Poona
Arun, Dapodi	Poona
HDIL (13 properties)	Multiple Locations

Source: Company

Multiplex Operations – amongst the top 5 players in India

FIL presently owns and operates 54 screens with 16,711 seats spread over 3 states and 9 cities. The key positive about FIL is that ~60% of its present properties are tax exempted, which is expected to remain at the same proportion even by FY08 end. It presently has an average occupancy level of ~32% with blended ATP at ~Rs113.

Table 25: Multiplex properties presently under FIL

	No of properties	No. of screens	No. of seats	Exempt Seats	E tax % on Net
Mumbai	6	17	6,107	2,846	45%
Pune	1	3	1,009	1,009	40%
Nashik	1	3	1,407	1,407	40%
Aurangabad	1	3	1,043	1,043	40%
Kolkata	1	4	979	979	30%
Anand	1	3	624	-	25%
Bangalore	1	4	993	-	40%
Total	**12**	**37**	**12,162**	**7,284**	
Properties Under JV					
Mumbai	1	5	1,282	-	45%
Properties under management model					
Surat	1	6	1,841	-	25%
Kolkata	1	6	1,426	1,426	30%
Total operational	**15**	**54**	**16,711**		
Expected to commence by March '08					
Mumbai	-	1	20	-	45%
Bangalore	1	1	612	-	40%
Total	**1**	**2**	**632**	**1,426**	
Cumulative expected as at March 2008	**16**	**56**	**17,343**		

Source: Company

Strong ramp up plans in exhibition business – targetting 167 screens by FY10

FIL is planning to ramp up its multiplex screens to 55 screens by end of FY08 and, 115 screens by end of FY09 and 167 screens by FY10. While the expansion in FY08 will be in Kolkatta (one single screen theatre), further expansion in FY09 will be pan-India but with increased focus on Mumbai, Pune and Kolkatta regions.

Table 26: Properties Handed over to FIL and under construction

	City	No. of screens	No. of seats	Exempt seats	E tax % on Net	Expected Commencement Date
Neelyog Ghatkopar	Mumbai	4	1,262	1,262	45%	Q1 FY 08-09
RL Vashi	Mumbai	6	1,017	-	40%	Q1 FY 08-09
Prabhat Thane	Mumbai	1	215	-	40%	Q1 FY 08-09
Shalimar Panchkula	Chandigarh	3	663	-	30%	Q2 FY 08-09
FNS Kumar Pune	Pune	3	1,010	1,010	40%	Q2 FY 08-09
Shriram Dhanbad	Dhanbad	4	1,032	1,032	112%	Q2 FY 08-09
Total		**21**	**5,199**	**3,304**		
B) Not handed over but expected to commence by March '09						
Bharuch	Bharuch	3	909	-	25%	Q2 FY 08-09
Seven Seas Vadodara	Vadodara	4	1,121	-	25%	Q2 FY 08-09
Emporio	Chandigarh	4	1,020	-	30%	Q3 FY 08-09
MBD Neopolis Ludhiana	Ludhiana	5	1,519	1,519	50%	Q3 FY 08-09
Westfield Kalyan	Mumbai	5	1,411	-	40%	Q3 FY 08-09
Coromandel Plaza	Chennai	4	1,518	-	15%	Q3 FY 08-09
Total		**25**	**7,498**	**1,519**		
Total of new properties in FY09		**46**	**12,697**	**4,823**		

Source: Company

Also expanding its Food Court Business

FIL through its subsidairy Big Pictures launched its maiden food court in Surat under the brand name “VIA 1”. Being anchor tenant in the mall and having a food court provides FIL an opportunity to enhance yields from the customer and on the other hand being on the same floor of the multiplex gives better bargaining power with the developer. BPHSPL plans to launch 2 more food courts under the same franchisee in FY08, one in Chandigarh and another in Baroda.

Planning foray into film production business – setting aside Rs.100mn for the venture

FIL is planning to foray into film production business in the coming months, and has decided to invest up to Rs100mn into this venture in the initial period. It is already exploring various business models for the same. We believe that a foray into film production business will complete the value chain for FIL, a must for any standalone multiplex player in the business. Film production doesn’t just provide an additional revenue source to a company, but also helps a company to leverage its expertise in the film value chain by becoming a content producer. This also helps a company to earn more margins on its own films as there is no cost to the distributor in this case.

Management Bandwidth - Strong background of film industry the key

One of the most important advantages with FIL is the strong and age-old film industry background of its promoters. The Shroff family have been the pioneers in the film distribution business, and the legacy has been continued with the company extending its presence to the film exhibition business. We believe that good relationships with the film fraternity are also an important factor when bargaining for content cost (distributor’s and film maker’s cost), which remains a positive for FIL.

Table 27: Management Details

Key Personnel	Designation	Qualification (Experience)
Mr. Shravan Shroff	MD	MBA (9 years)
Mr. Shriram Krishnan	CFO	CA (13 years)
Mr. Prasanna Manjrekar	Head (Projects & Business Development)	Master in Construction Management (13 years)
Mr. Rishi Negi	Head (Operations)	IHM Degree and an F&B specialist (12 years)
Mr. Naushad Shaikh	Head (Finance)	CA (7 years)
Mr. Aditya Shroff	Head (Programming)	N.A.
Mr. Pankaj Mehra	Head (Ad Sales)	MBA
Mr. Abhishek Raina	Head (Marketing)	(8-9 years)

Source: Company

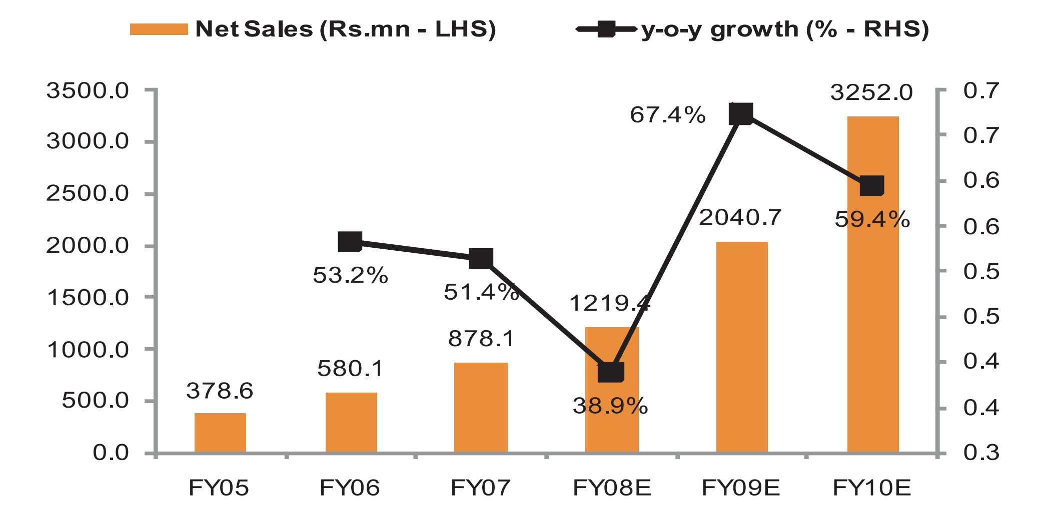
Earnings Outlook & Financials

Revenues to grow at a CAGR of 55% over FY07-10E

We expect the FIL's revenues to grow from Rs878.2mn in FY07 to Rs3.3bn in FY10E. The growth is majorily contributed by theatrical exhibition revenues and F&B sales (83% and 68% CAGR respectively).

Revenues to grow at a CAGR of 55% over FY07-10E driven by ticket and F&B sales

Fig 33: Expected Sales growth



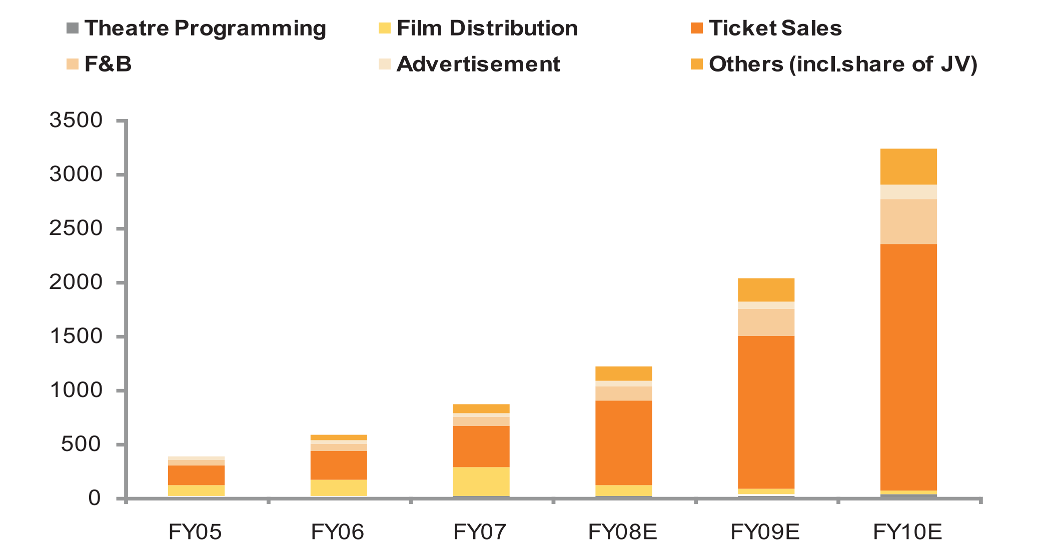
Source: Systematix Institutional Research

Segmental revenues analysis

In the exhibition segment,we expect the revenues to increase by 83.4% CAGR, from Rs373mn in FY07 to Rs2.3bn in FY10E. Also increase in spend per head to Rs.22/patron will lead to 68.3% CAGR in F&B revenues to Rs.416mn by FY10E.

We expect the Programming revenues to grow at a CAGR of 24.9% over FY07-10E to Rs.339.5mn backed by its tie-up with HDIL.

Fig 34: Revenue-Mix - maximum contribution by ticket sales

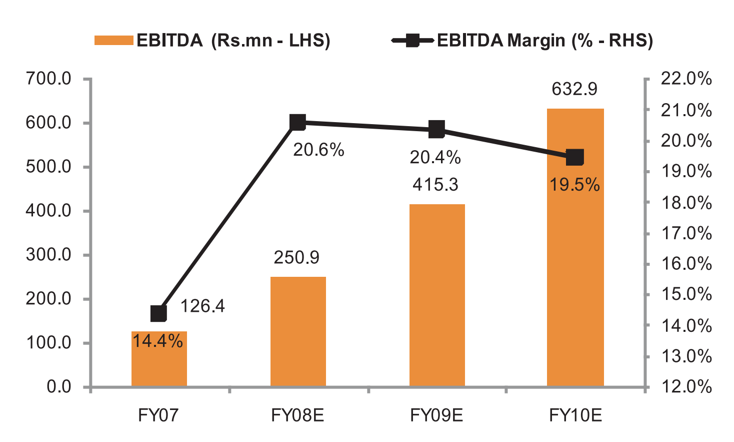


Source: Systematix Institutional Research

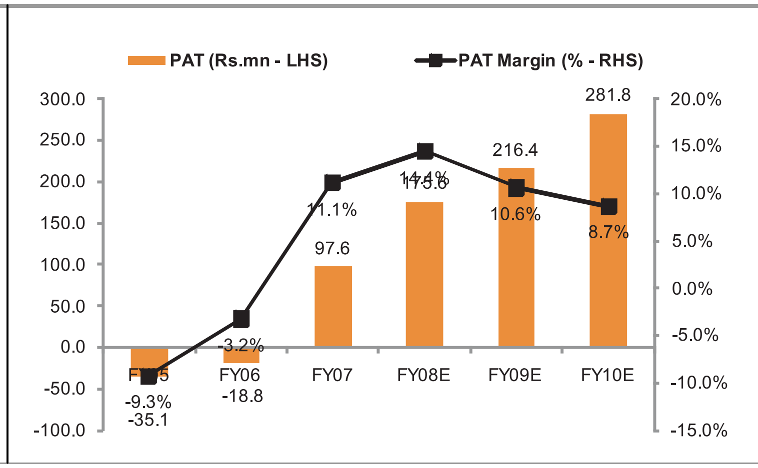
High rental and interest cost to drive down EBITDA and PAT margins

We expect FIL's EBITDA and PAT margins to moderate in the coming years mainly due to an increase in rental and employee expenses (As % of net sales). The PAT margins on the other hand wil drop at a faster pace due to high interest and depreciatio cost and will be ~8.7% by FY10E, drop of 240bps over FY076-10E.

Fig 35: Operating Profit Growth…



Net Profit Growth….

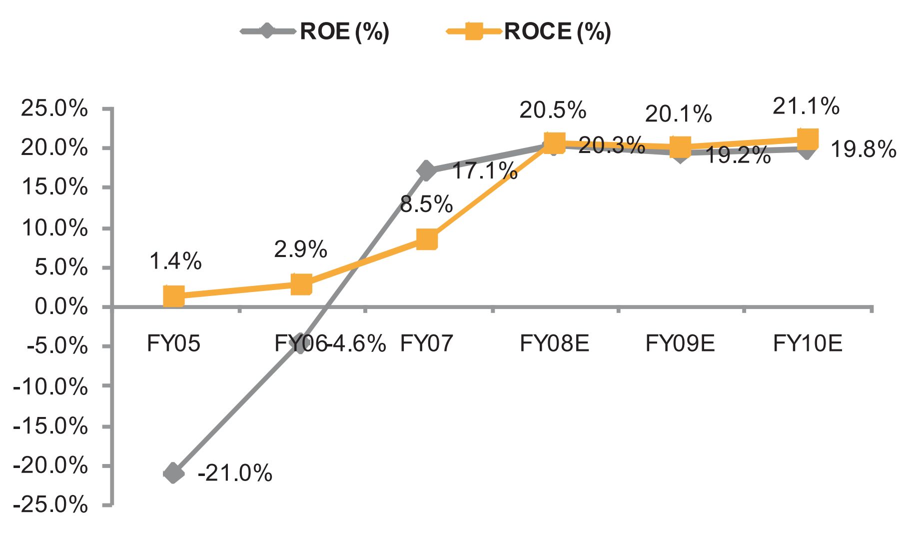


Source: Systematix Institutional Research

ROE and ROCE to remain constant

FIL's ROE is expected to improve from 17.1% in FY07 to 19.8% by FY10E, with the ROCE jumping from 8.5% in FY07 to 21.1% in FY10E.

Fig 36: ROE and ROCE showing constant uptick



Source: Systematix Institutional Research

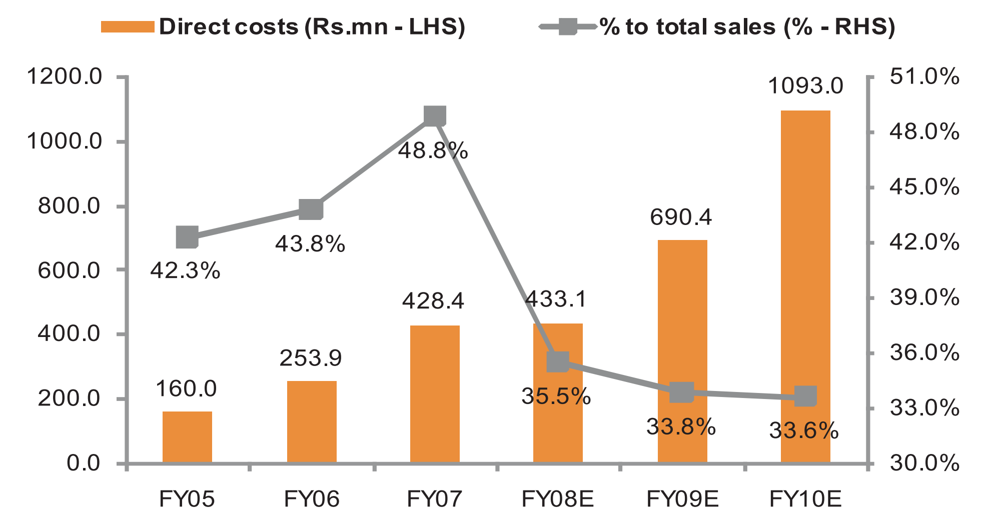
Cost Analysis

Direct cost as % of total sales to drop

Direct costs includes distributors cost, programming cost, exhibition cost and F&B cost. Since FIL is planning to discontinue its film distribution business it will save a lot of cost associated with it and hence lead to a drop in Direct cost as % of sales. We expect that direct cost as % of net sales to drop, from 48.8% in FY07 to 33.6% in FY10E.

We expect direct cost to drop as a % of sales, whereas, personal cost to remain constant.

Fig 37: Direct cost to drop from 48.8% to 33.6%

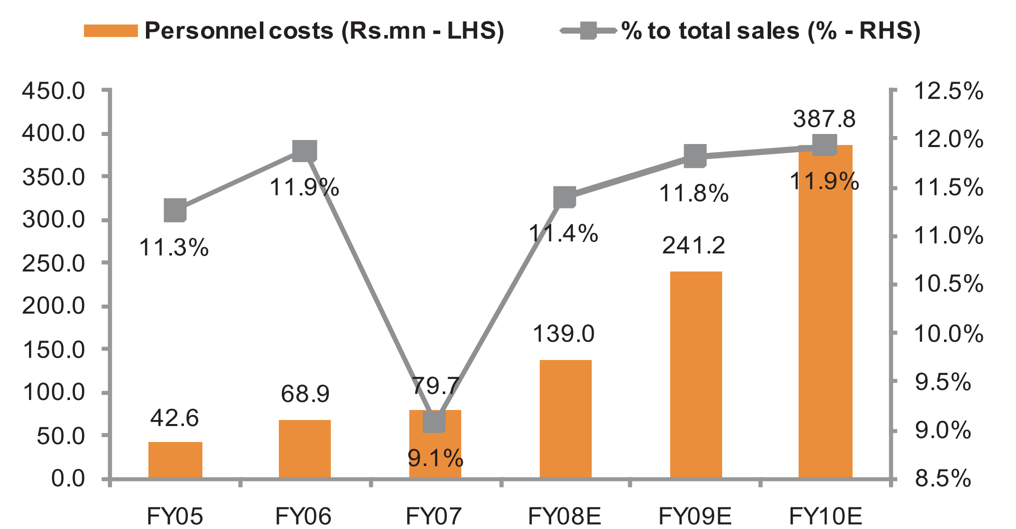


Source: Systematix Institutional Research

Personnel cost to remain stable

With the increase in the scale of operations we expect personal cost to increase by 280bps over FY07-10E to 11.9% of sales.

Fig 38: Personal cost to remain in the range of 11-12%

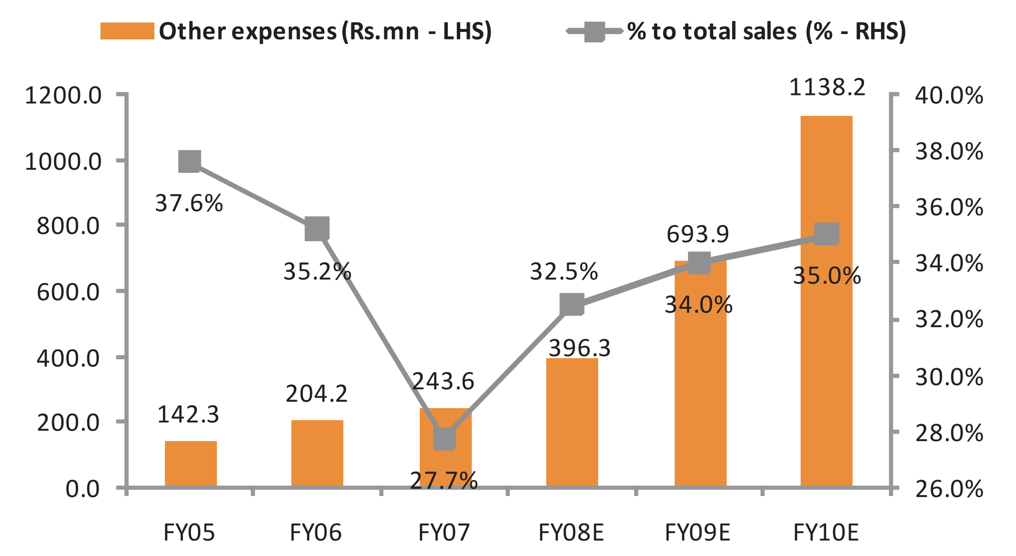


Source: Systematix Institutional Research

Other expenses to increase due to increase in the lease rentals

We expect other expenses as % of net sales to increase from 27.7% in FY07 to 35.0% in FY10E backed by an increase in the rent as all upcomig properties will be under lease model. Besides this an increase in electricity cost in Maharashtra and Delhi will also affect the margins of FIL.

Fig 39: Other expenses to move upwards as % of sales



Source: Systematix Institutional Research

FINANCIAL DETAILS

Profit & Loss Statement (Rs mn)	FY06	FY07	FY08	FY09	FY10
Net Sales	580.1	878.1	1,219.4	2,040.7	3,252.0
% yoy growth	53.2%	51.4%	38.9%	67.4%	59.4%
Total Cost	527.0	751.7	968.5	1,625.4	2,619.0
EBITDA	53.1	126.4	250.9	415.3	632.9
EBITDA Margin (%)	9.2%	14.4%	20.6%	20.4%	19.5%
Depreciation	57.1	89.4	94.6	126.4	203.9
Interest	36.0	31.1	33.3	54.2	63.0
Other Income	33.6	105.6	142.6	92.7	60.2
PBT	(6.5)	111.5	265.7	327.4	426.3
Tax	12.4	13.9	90.1	111.0	144.5
Net Profit (pre exceptional items)	(18.8)	97.6	175.6	216.4	281.8
YoY Growth (%)	-46%	-618%	80%	23%	30%
Minority Interest	10.1	-	-	-	-
Net profit after adjustment	(29.0)	97.6	175.6	216.4	281.8
Effective tax rate (%)	-190%	12%	34%	34%	34%

Cash Flow Statement Year to 31 Mar (Rs mn)	FY06	FY07	FY08	FY09	FY10
Profit before tax	(6.5)	111.5	265.7	327.4	426.3
Depreciation	57.1	89.4	94.6	126.4	203.9
Tax paid	(12.4)	(13.0)	90.1	111.0	144.5
Others	10.1	-	(2.1)	(1.7)	(1.6)
Cash from operation	48.4	187.9	268.0	341.1	484.1
Increase/(Decrease) in WC	(360.3)	(452.1)	(15.5)	84.7	165.5
Cashflow from operations	(311.9)	(264.2)	252.5	425.8	649.6
Capital expenditure	(77.6)	(313.3)	(162.5)	(718.8)	(1,021.5)
Investments	(48.8)	24.1	15.1	5.0	5.0
Other Investing Activities	-	-	46.7	-	-
Cashflow from investing	(126.4)	(289.3)	(100.8)	(713.8)	(1,016.5)
Dividends paid	-	-	-	-	-
Increase in capital	387.8	(84.6)	117.0	45.2	16.9
Increase in borrowings	(12.6)	718.1	(513.7)	182.2	125.7
Other Financing activities			-	-	-
Cashflow from financing	375.2	633.5	(396.8)	227.3	142.6
Increase/(Decrease) in cash	(63.1)	80.1	(245.0)	(60.6)	(224.3)

Balance Sheet (Rs mn)	FY06	FY07	FY08	FY09	FY10
Share Capital	315.7	315.7	347.6	392.7	409.6
Reserves & Surplus	319.4	255.4	516.0	732.4	1,014.2
Total Shareholder's funds	635.0	571.0	863.6	1,125.1	1,423.8
Minority Interest	-	-	-	-	-
Secured Loans	332.2	231.5	200.0	600.0	900.0
Unsecured Loans	56.1	874.3	392.1	174.3	-
Total Debt	388.3	1,105.8	592.1	774.3	900.0
TOTAL LIABILITIES	1,023.3	1,676.9	1,455.7	1,899.4	2,323.8
Gross Block	676.5	910.6	1,050.6	1,759.3	2,770.8
Less: Accumulated Depreciation	321.1	408.5	501.6	626.5	828.9
Net Block	355.3	502.1	549.0	1,132.8	1,942.0
Goodwill on consolidation	46.7	46.7	-	-	-
CWIP	68.3	147.4	170.0	180.0	190.0
Investments	74.2	50.2	35.1	30.1	25.1
Inventories	0.8	2.2	3.3	6.2	9.8
Sundry Debtors	52.3	53.3	74.0	123.9	197.4
Cash & Bank	194.8	689.7	444.8	384.1	159.8
Loans & Advances	303.8	456.5	580.4	680.4	770.4
Current Liablities	114.4	237.7	367.5	603.8	935.5
Provisions	32.6	32.1	32.6	33.6	34.6
Net Current Assets	404.7	931.9	702.4	557.1	167.3
Miscellaneous expenses not written off	75.8	-	-	-	-
Deferred Tax assets / (liability)	(1.7)	(1.1)	(0.8)	(0.6)	(0.5)
Total Assets	1,023.4	1,677.1	1,455.7	1,899.4	2,323.8

Valuation Ratio	FY06	FY07	FY08	FY09	FY10
Price/Earnings (x)	-	19.4	11.9	10.9	8.7
Price / Book Value (x)	3.0	3.3	2.4	2.1	1.7
EV/EBITDA (x)	39.5	18.3	8.9	6.6	5.1
EV / Sales (x)	3.6	2.6	1.8	1.3	1.0

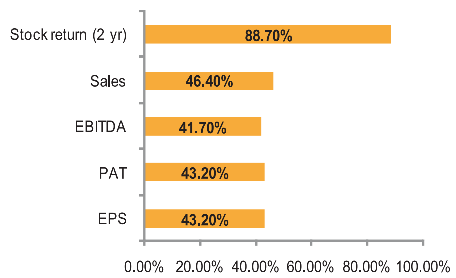
Ratio Analysis (%)	FY06	FY07	FY08	FY09	FY10
Revenue growth	53.2%	51.4%	38.9%	67.4%	59.4%
EPS growth	-58.6%	-436.9%	63.4%	9.1%	24.9%
EBITDA margin	9.2%	14.4%	20.6%	20.4%	19.5%
PAT margin	-3.2%	11.1%	14.4%	10.6%	8.7%
ROE	-4.6%	17.1%	20.3%	19.2%	19.8%
ROCE	2.9%	8.5%	20.5%	20.1%	21.1%

Cinemax India Ltd.

INITIATING COVERAGE

Stock Rating	BUY
CMP (Rs.)	82
Target Price (Rs.)	155

Investment Profile



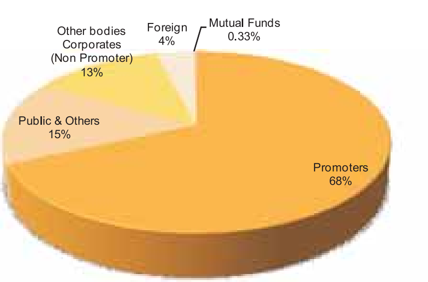
Bloomberg	CNMX IN
Reuters	CIMA.BO
BSE Group	B
BSE Code	532807
NSE Symbol	CINEMAX
BSE Sensex	14,799.9
NSE Nifty	4,523.7

Market Data

Market Cap (Rs.Mn.)	2296
Share Cap (Rs.Mn.)	280
52 Wk High/Low	179/89
Avg. Vol. (Weekly)	76,162
Face Value (Rs)	10

Shareholding Pattern

(As on 31st December 2007) (%)



Financials (Cons)	FY07	FY08E	FY09E	FY10E
Net Sales	932.9	1,061.5	1,929.7	2,928.2
Net profit	123.1	124.7	229.3	361.0
EBITDA Margin (%)	27.3%	24.5%	24.6%	24.7%
PAT Margin (%)	13.2%	11.8%	11.9%	12.3%
EPS (Rs)	4.4	4.5	8.2	12.9
Price/Earnings (x)	18.7	18.4	10.0	6.4
Price / Book Value (x)	1.7	1.5	1.4	1.1
EV/EBITDA (x)	10.9	10.7	6.5	4.7
EV / Sales (x)	3.0	2.6	1.6	1.2
ROE (%)	9.0	8.4	13.5	17.7
ROCE (%)	11.2	11.2	16.2	20.1

'W'ested Growth...

We initiate our coverage on CInemax India Ltd. (CIL) with a 'BUY' and a 24-months price target of Rs.155. CIL, a part of Kanakia Group, which started as a Mumbai region player (Mumbai region still accounts for ~77% of CIL's total screens) presently controls ~30% of theatre seats capacity in Mumbai. CIL is now planning to expand its foothold to other tier I & II cities in western India (Gujarat and Maharashtra) and reach ~220 screens by FY10. Besides this, CIL is also developing Eternity Mall in Nagpur (100,000sq.ft.) and an additional 30,000sq.ft. area in Eternity Mall, Thane, which will lead to ~Rs.4-5mn of rental income in FY09. We believe that CIL's focussed expansion into western India will be positive in the long run (due to improving bargaining power) while the sale of the Nagpur property can be the next trigger. This combined with CIL's expansion of its gaming and F&B retailing business will aid in 43% EPS CAGR over FY07-10E.

Leading multiplex player in Mumbai region

CIL operates ~11 properties across Mumbai covering 9,295screens, and thus captures ~30% of the Mumbai market in terms of number of screens. It also commands ~10% market share of the region in terms of revenue. Mumbai is one of the largest film markets in India (accounts for ~15% of India's box-office revenues), and is also one of the states providing tax exemption for multiplexes. This has helped CIL in having one of the lowest entt. Tax (as % of gross sales) in the industry.

Expansion focussed on western markets, may turn out positive in the long run

We expect CIL to expand to 67 screens by FY08, 110 screens by FY09 and 165 screens by FY10. This expansion will be carried out with a capital expenditure of Rs.2.38bn over FY08-10. The key positive about this expansion is that it is focussed largely on western India (over 60% of properties after expansion will be from Maharashtra and Gujarat).

Mall development too generating lease income

CIL is in the process of constructing a 100,000sq.ft. mall in Nagpur, and an additional area of 30,000sq.ft. in Eternity Mall, Thane. While the Nagpur mall will be operational by March 2008, the additional area in Eternity mall, Thane will be operational by H1FY09. CIL is expected to get ~Rs4-5mn of profit from these malls (lease rentals), while an outright sale of the Nagpur facility (being considered by the management) will provide ~Rs700mn of additional cash inflow for CIL.

Revenue Growth to be coupled with margin expansion, initiate with 'BUY'

We expect CIL's revenues to increase by 46% CAGR over FY07-10E to Rs.2.9bn. Besides, CIL is planning to expand its F&B and gaming business to ~7 franchisees by FY10, which we believe will lead to sustainance of operating margins at 24.7% level. With 43.2% EPS CAGR expected during FY07-10E, we have valued CIL at 12x FY10E EPS and have arrived at a 24-month price target of Rs.155.

INVESTMENT CASE

CIL is a part of the Kanakia Group having a track record of over 20 years in real estate development. Cinemax owns and controls all the movie exhibition businesses of the Kanakia Group. Currently it operates 51 screens spread across 17 properties with major presence in Mumbai (~66.7%). It thus captures ~30% of the Mumbai market in terms if number of screens, while capturing ~10% of the market in terms of revenue. It plans to expand its presence to 217 screens by FY10E.

Our positive view on Cinemax India is based on the following arguments

A leading player in Mumbai

- CIL has 51 screens spread across Maharashtra, Assam, Haryana and Gujarat. Out of total screens ~66.7% are in Mumbai.
- It has the highest no of screens (34 screens) in Mumbai compared to other players like PVR (11 screens), Inox (6 screens), Fame India (17 screens) and Adlabs (20 screens), thus enjoying a dominant presence.

Ownership model and tax exempt a major upbeat

- CIL owns 8 properties out of total 17 properties leading to lower rental cost compared to its peers.
- ~80% of CIL's properties are tax exempt, thus enjoying highest gross margin of over 30%.

Aggressive expansion plans

- CIL is planning to expand its presence to 72 screens by FY08, ~140 screens by FY09 and ~217 screens by FY10.
- Going forward, CIL will continue to focus in the western markets helping it to enjoy bargaining power with distributors and film makers.

Mall Development – sale of Nagpur facility to provide additional cashinflow

- CIL has already developed 200,000sq.ft. Eternity Mall in Thane.
- It is in the process of of constructing a 100,000sq.ft. mall in Nagpur (operational by March 2008) and an additional area of 30,000sq.ft. in Eternity Mall, Thane (operational by H1FY09).
- CIL is expected to get ~Rs4-5mn of profit from these malls (lease rentals), while an outright sale of the Nagpur facility (which is being considered by the management) will provide ~Rs800mn of additional cashinflow.

Expanding high margin Gaming and Food courts business

- CIL is the only player which has gaming in its multiplex premises operated under the brand 'Giggles'. Currently it operates one gaming centre and plans to ramp-up to 10 by FY10E.
- Also, it plans to have around 7 franchisees of food courts and gaming parlours by FY10E. These initiatives will help CIL in attaining higher margins as gaming and food courts business operate at ~30%+ operating margins.

VALUATIONS

Building into a strong western region player, expect EPS CAGR of ~43% over FY07-10E

Among the major players CIL has the majority of the properties owned, but going forward it is shifting towards a lease model which will help in reducing the capex per seat considerably. We expect it to maintain the highest margins in the industry as it will be expanding the high margins gaming and food court business. Also as a dominant player in mumbai gives it an edge to command bargaining power for revenue share with the distributors and producers.

We expect CIL's revenues and PAT to grow at CAGR of 46.4% and 43.2% respectively over FY07-10E. Although there would be some pressure on the EBITDA margins due to high rentals, still it will be maintaining its margins in the level of 24-25%.

Table 28: Key Ratios

	FY07	FY08E	FY09E	FY10E
Revenue growth		13.8%	81.8%	51.7%
EPS growth		1.4%	83.8%	57.5%
EBITDA margin	27.3	24.5	24.6	24.7
PAT margin	13.2	11.8	11.9	12.3
ROE	9.0%	8.4%	13.5%	17.7%
ROCE	11.2%	11.2%	16.2%	20.1%

Source: Systematix Institutional Research

Table 29: Valuations

	FY07	FY08E	FY09E	FY10E
Price/Earnings (x)	20.3	20.0	10.9	6.9
Price / Book Value (x)	1.8	1.7	1.5	1.2
EV/EBITDA (x)	11.6	11.5	6.9	4.9
EV / Sales (x)	1.8	1.7	1.5	1.2

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend 'BUY' on Cinemax India with a 24 months price target of Rs155. We base our 24-months price target on P/E multiple based valuation methodology.

At CMP of Rs89, Cinemax India is trading at P/E multiple of 10.9x and 6.9 based on our FY09E and FY10E earnings.

Table 30: Details of Price target derivation

Target multiple for Cinemax India	12x FY10E EPS
FY10E EPS for Cinemax India (Rs.)	12.9
Target Price (Rs.)	154.7

Source: Systematix Institutional Research

Risks to our Target Price

Among the potential risk factors to our target price we list the following as foremost:

a) Timely execution of aggressive rollout plans

CIL plans to expand its no of screens from current 51 to 217 screens by FY10E. Being a relatively small player compared to Adlabs or PVR or Inox, we expect CIL to face significant risk in terms of rolling out its properties.

b) Withdrawal of E-Tax exemption

The withdrawal of entertainment tax incentives for its existing and proposed properties would have a adverse effect on its profitability.

c) Financing of new projects

We expect that CIL will have to take huge debt to fund the expansion plans, leading to increase in interest cost. This will put pressure on the operating margins.

d) Further dilution of equity

Any further dilution of equity to meet its fund requirement for huge expansion, will put pressure on our target price.

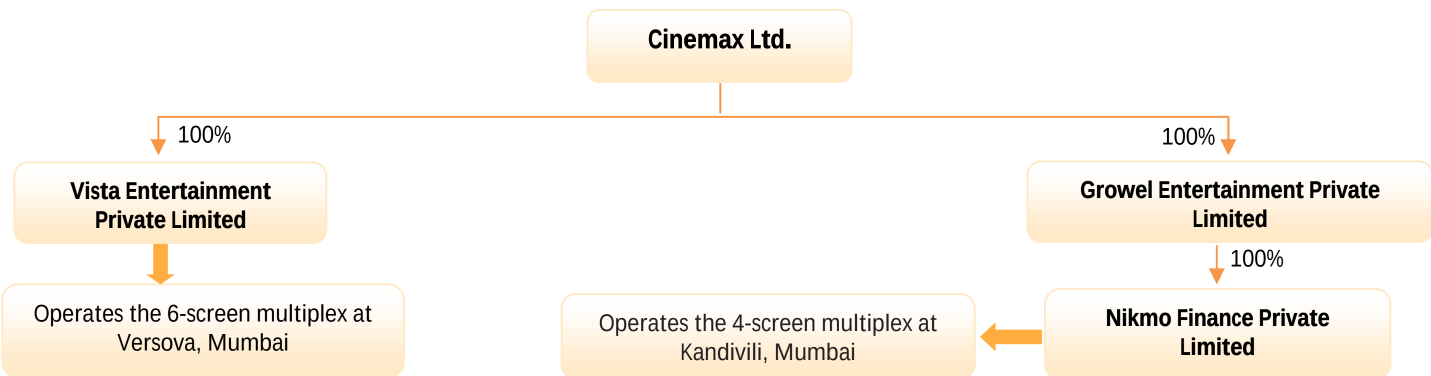
COMPANY IN-DEPTH

An Overview

CIL is a part of the Kanakia Group, which has a track record of over 20 years in real estate development. The Group has developed over 5 million square feet of residential and commercial real estate. Cinemax owns and controls all the movie exhibition businesses of the Kanakia Group. Predominantly started as a Mumbai region player (Mumbai region still accounts for ~77% of seats capacity), CIL presently controls over 10% of theatrical revenues, and 30% of seats capacity in Mumbai. Besides, CIL has also expanded into other regions like Gujarat and Haryana. CIL is looking to remain a dominant player in western India in the coming years. The company also has limited interest in mall development.

The company has three wholly owned subsidiaries that operate its multiplexes at Versova and Kandivili, both suburbs in Mumbai.

Fig 40: CIL's Corporate Structure



Source: Company

Leading Player in Mumbai Exhibition market – entailing high bargaining power

CIL has been one of the early entrants in the Mumbai exhibition space, when it started operating a single-screen theatre in Goregaon ('Samrat') in 1997. Since then, the company has expanded its presence to 11 properties across Mumbai covering 9,295screens. It thus captures ~30% of the Mumbai market in terms if number of screens, while capturing ~10% of the market in terms of revenue. While Mumbai is one of the largest film markets in India, (accounts for ~15% of India's box-office revenues), CIL's dominant presence in this region also helps it in bargaining for revenue share with the distributors and producers.

Table 31: Cinemax has highest proportion of its properties in Mumbai and surrounding region

	No. of Properties	Screens	% of total screens	Seats	% of total seats
Mumbai	11	34	66.7%	9,295	67.0%
Maharashtra (excl. Mumbai)	2	5	9.8%	1,433	10.3%
Assam	1	2	3.9%	500	3.6%
Haryana	1	3	5.9%	664	4.8%
Gujarat	2	7	13.7%	1989	14.3%
		51		**13,881**	

Source: Company, Systematix Institutional Research

Table 32: …and Cinemax's market share in Mumbai speaks for itself

Name of Multiplex	No.of Screens in Mumbai	No.of Properties in Mumbai	% of screen	% of properties
PVR	11	2	11.34	7.14
Cinemax	34	11	35.05	39.28
Inox	6	2	6.18	7.14
Fun Cinemas	9	2	9.28	7.14
Fame (Shringar)	17	6	17.52	21.43
Adlabs	20	5	20.63	17.87
Total	**97**	**28**		

Source: Company, Systematix Institutional Research

Present setup – ownership model and Tax exemption the key positives

CIL has 11 properties in Mumbai, 2 each in Nashik and Gujarat, and 1 each in Assam and Haryana. Of this, 8 properties are owned by CIL, which has led to lower lease cost for the company vis-à-vis its peers.

Besides this, ~80% of CIL's properties are tax exempt because of which the company enjoys one of the highest gross margin in the business (over 30%). According to us, these factors remain the key positives for the company in its present business setup.

Table 33: Details of Current properties

Location	Type	Property Status	Year	Screens	Capacity	Region	Entt. Tax Exempt
Goregaon	Multiple Screen (Retrofit)	Ownership	Dec-97	2	698	Mumbai	Yes
Kandivili	Single Screen (Retrofit)	Ownership	Feb-98	1	287	Mumbai	Yes
Andheri (E)	Single Screen (Retrofit)	Ownership	Aug-98	1	362	Mumbai	Yes
Sion	Multiple Screen (Retrofit)	Ownership	Oct-00	5	827	Mumbai	Yes
Thane- Wonder	Multiplex	Ownership	Dec-03	4	1,136	Mumbai	Yes
Mira Road	Multiplex	Ownership	May-04	3	1,018	Mumbai	Yes
Nasik	Multiplex	Ownership	May-04	3	1,002	Maharashtra	Yes
Versova*	Multiplex	Lease	Sep-05	6	1,575	Mumbai	Yes
Kandivili (East)*	Multiplex	Lease	Apr-06	4	1,259	Mumbai	Yes
Thane-Eternity	Mall + Multiplex	Ownership	May-06	4	1,056	Mumbai	Yes
Himmatnagar	Multiplex	Lease	Apr-07	3	1146	Gujarat	No
Guwahati	Multiplex	Lease	May-07	2	500	Assam	No
Bandra	Single Screen	Lease	Jul-07	1	160	Mumbai	Yes
Panipat	Multiplex	Lease	Sep-07	3	664	Haryana	No
Gandhinagar	Multiplex	Lease	Dec-07	4	843	Gujarat	No
Vashi	Multiplex	Lease	Nov-07	3	917	Mumbai	Yes
Nasik II	Multiplex	Lease	Nov-07	2	431	Maharashtra	Yes
Total				**51**	**13881**		

*Source: Company *Multiplexes operated through subsidiary*

Expansion Plans – western markets to remain the focus

CIL is planning to expand its presence to 72 screens by FY08, ~140 screens by FY09 and ~217 screens by FY10. We expect CIL to expand to 67 screens in FY08, 112 screens by FY09 and 165 screens by FY10. This expansion will be carried out with a capital expenditure of Rs.2.38bn over FY08-10. While this expansion will not do much in altering CIL's market share in the Indian multiplex industry (as other players are also growing at similar or faster pace), the western markets focus by the company (over 60% of proerties after expansion will be from Maharashtra and Gujarat) will help it gain more bargaining power with distributors and film makers. Also, Maharashtra and Gujarat are one of the few states which provide tax exemption for multiplexes. Hence CIL will continue to enjoy higher proportion of properties under tax exemption, and thus have a slight edge over its competitors.

Table 34: Fitouts work in progress

Location	Project	Screens	Seats	Expected Start Date
Existing		51	13881	
Nagpur	Eternity Mall	3	1006	Feb-08
Faridabad	E F 3 Mall	3	732	Feb-08
Ahmedabad	Dev Arc Mall	4	1041	Feb-08
Hyderabad	R K Cineplex	3	1021	Mar-08
Rajkot	Iscon Mega Mall	3	792	Mar-08
Kolkata	Mani Square Mall	4	1275	Mar-08
Ahmedabad	Red Carpet	1	125	Mar -08
Total		**72**	**19873**	

Source: Company

Table 35: Other projects identified by Cinemax

	Screens	(in square feet)		Screens	(in square feet)
Bangalore- Project 1	4	25,000	Jallundhar	6	32,600
Hyderabad- Project 1	10	62,500	Hyderabad - Project 2	3	32500
Noida	5	26,666	Rajkot	3	29,400
Ahmedabad - Project 2	3	11,200	Kalyan - Project 2	2	11,232
Delhi – Project 1	4	25,000	Ludhiana	4	25,000
Bangalore – Project 2	5	30,053	Siligudi	4	27,740
Kolkata	3	18,400	Pathankot	3	26,000
Kalyan- Project 1	5	29,170	Surat	4	25,000
Pune- Project 1	5	24,000	Mehsana	4	25,000
Mumbra	3	28,500	Ahmedabad - Project 3	3	17,500
Mumbai-Grant road	2	10,000	Anand	4	30,000
Pune- Project 2	6	32,000	Meerut	4	32,000
Mumbai - Kanjurmarg	4	26,248	Chennai	6	35,000
Nashik	2	10,000	Dehradun	3	25,000
Amritsar	5	32,000	Delhi -Project 2	3	18,500
Mohali	6	29,120	Gurgaon	3	19,300
Zirakhpur	8	48,000	Cochin	4	14,500
Raipur	5	32,890	Sangli	3	21,666
			Total	**151**	**9,48,685**

Source: Company

Gaming and Food courts business – one of the serious players in this niche

CIL is one of the only serious players in the development of gaming business in its multiplex premises. This business is operated under the brand 'Giggles' and CIL is operating one such game parlor in Eternity Mall, Thane, spread over 13,000sq.ft. Since CIL has clocked ~Rs2mn from this gaming centre in FY07 and is expected to clock ~Rs20mn in FY08, it is looking to expand its operations to ~10 gaming centres and 10 food courts by FY10. We believe this will be a positive on the company on the margin front as gaming and food courts business operate at 30%+ operating margins.

Table 36: Food Courts planned by CIL…

LOCATION	AREA (Sq Ft)	EXPECTED START DATE
Eternity Mall, Nagpur	10,000	Mar-08
Red Carpet, Ahmedabad	14,000	Mar-08
Iscon Mega Mall, Rajkot	14,000	Mar-08

… and expansion plans for gaming business

LOCATION	AREA (Sq ft)	START DATE
EXISTING		
Eternity Mall thane	12500	
PROPOSED		
Eternity Mall Nagpur	5000	Mar-08
Red Carpet , Ahmedabad	4000	Mar-08
Iscon Mega Mall , Rajkot	4000	Mar-08

Source: Company

Mall Development – sale of Nashik property can be the key trigger

CIL's promoters are known names in the mall development space and have already finished the construction of the 200,000sq.ft. Eternity Mall in Thane. Besides this, CIL is also in the process of constructing a 100,000sq.ft. mall in Nagpur, and an additional area of 30,000sq.ft. in Eternity Mall, Thane. While the Nagpur mall will be operational by March 2008, the additional area in Eternity mall, Thane will be operational by H1FY09. CIL is expected to get ~Rs4-5mn of profit from these malls (lease rentals), while an outright sale of the Nagpur facility (which is being considered by the management) will provide ~Rs800mn of additional cashinflow into the company.

Table 37: Mall Development – Details

MALL	LOCATION	AREA (Sq Ft)	STATUS
Eternity Mall	Thane (Near Mumbai)	200,000	Operational
Eternity Mall	Nagpur	100,000	Opening in Mar'08
Eternity Mall	Thane (Near Mumbai)	30,000	Opening in H1FY09

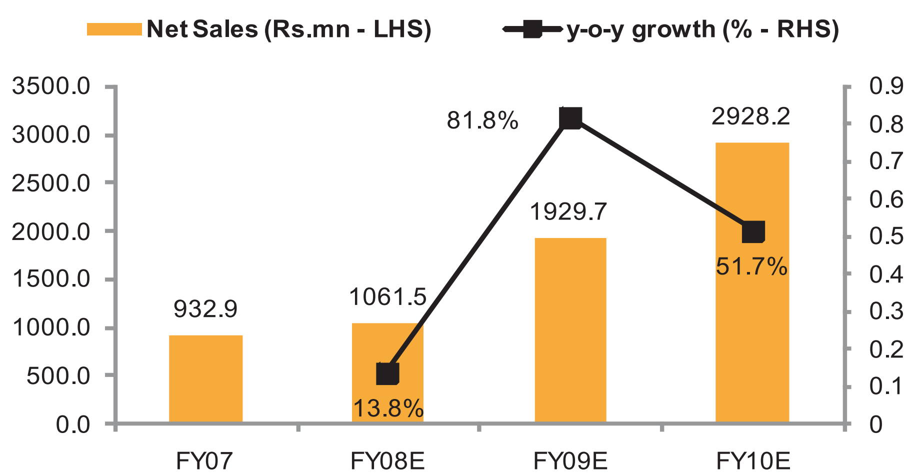
Source: Company

EARNINGS OUTLOOK & FINANCIALS

Consolidated revenues to grow at a CAGR of 46.4% over FY07-10E

We expect CIL's consolidated revenues to grow from Rs932mn in FY07 to Rs2.93bn in FY10E, backed by huge expansion plans in exhibition, F&B and gaming segments.

Fig 41: Revenues to grow at a CAGR of 46%



Source: Systematix Institutional Research

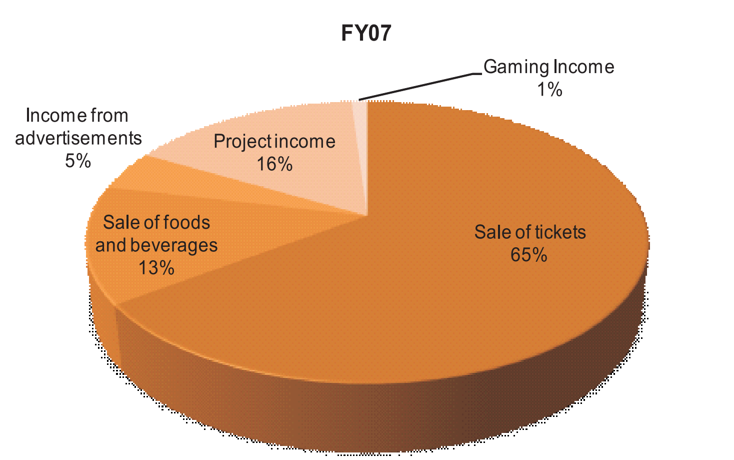
Revenues growth led by aggressive ramp-up plans

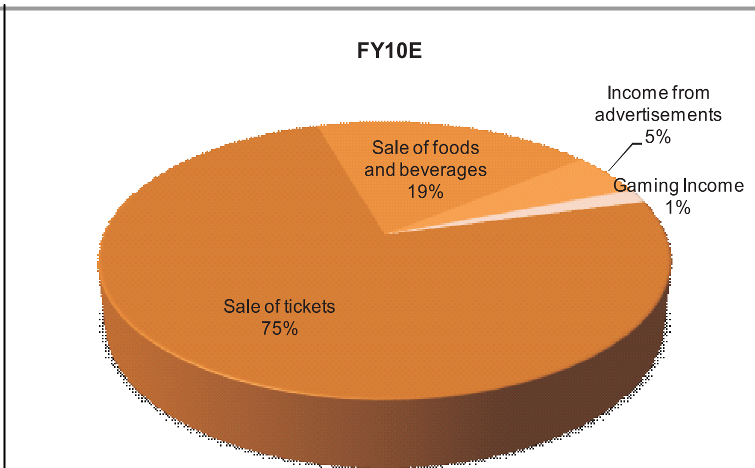
Segment Analysis

We expect exhibition revenues to increase from Rs651mn in FY07 to Rs2.4bn on account of increase in the no of screens and average ticket price. Whereas, we believe that the average occupancy level to remain flat as most of the properties will be opened in the next 2-3 years. Also, its dominant presence in Mumbai region also helps it in bargaining for revenue share with the distributors and producers.

We estimate F&B revenues and gaming revenues to grow at a CAGR of 64% and 63% respectively during FY07-10E. Historically F&B and gaming contributed around 13% and 1% to the total sales, but going forward we expect it to increase to 19% and 2% in FY10E. CIL is expected to expand its operations to ~7 gaming centres food courts by FY10.

Fig 42: Segment-wise Revenues





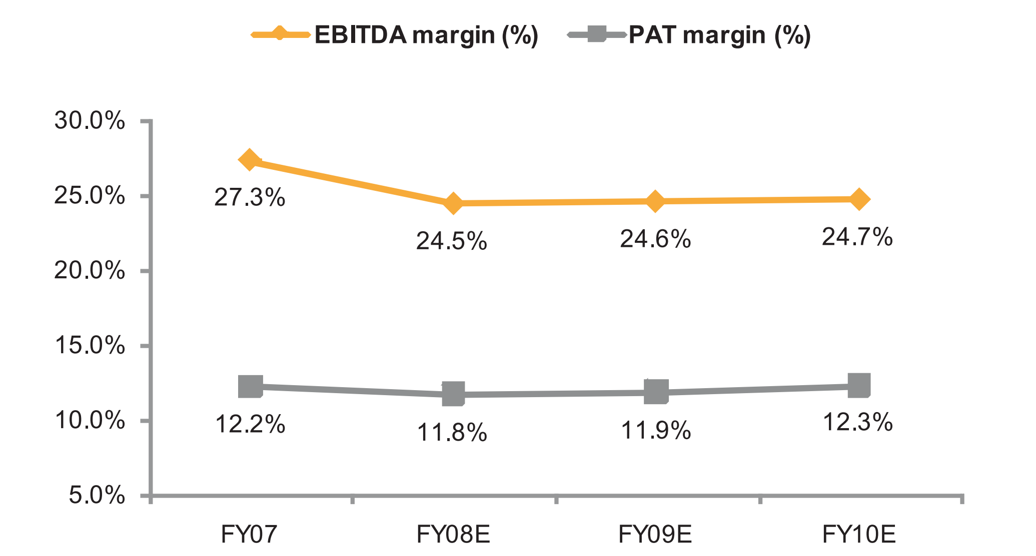
Source: Systematix Institutional Research

EBITDA and PAT margins to be under pressure

An increase in the no of properties under lease model and higher electricity cost in Mumbai have led to a drop in EBITDA margins in FY08E. While the lease rental cost will continue to keep margins under pressure, CIL's expanding F&B and gaming business, combined with lower expected distributor's cost (as % of ticket sales) will lead to margins sustaining at the current level. Higher interest and depreciations cost will also affect the PAT margins to an extent.

Operating and PAT margins expected to be under pressure due to higher lease rentals, depreciation and interest cost.

Fig 43: Operating and PAT margins to remains flat

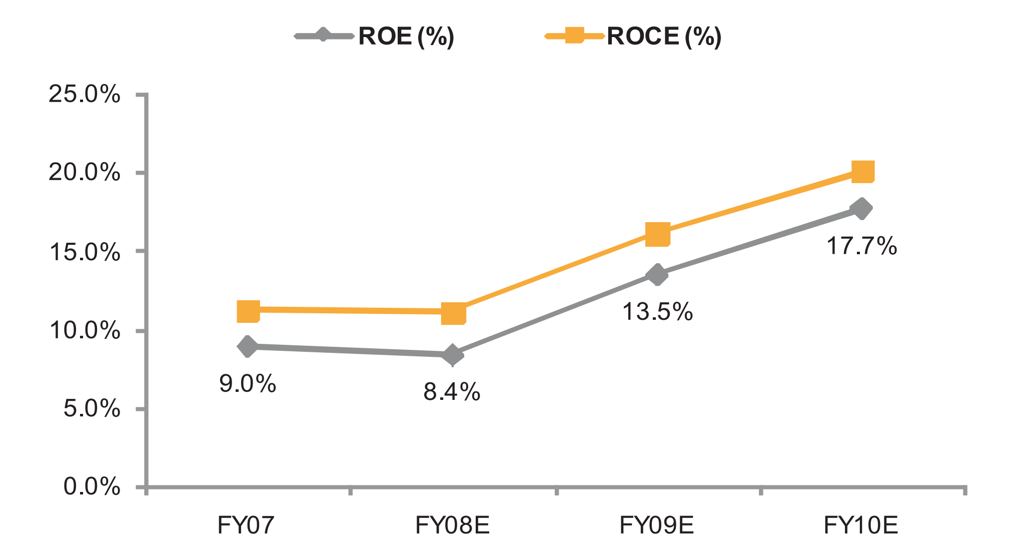


Source: Systematix Institutional Research

ROE and ROCE moving northwards

We have estimated CIL's ROE to grow from 9.0% in FY07 to 17.7% in FY10E and ROCE to grow from 11.2% in FY07 to 20.1% in FY10E.

Fig 44: ROE and ROCE to see an uptick



Source: Systematix Institutional Research

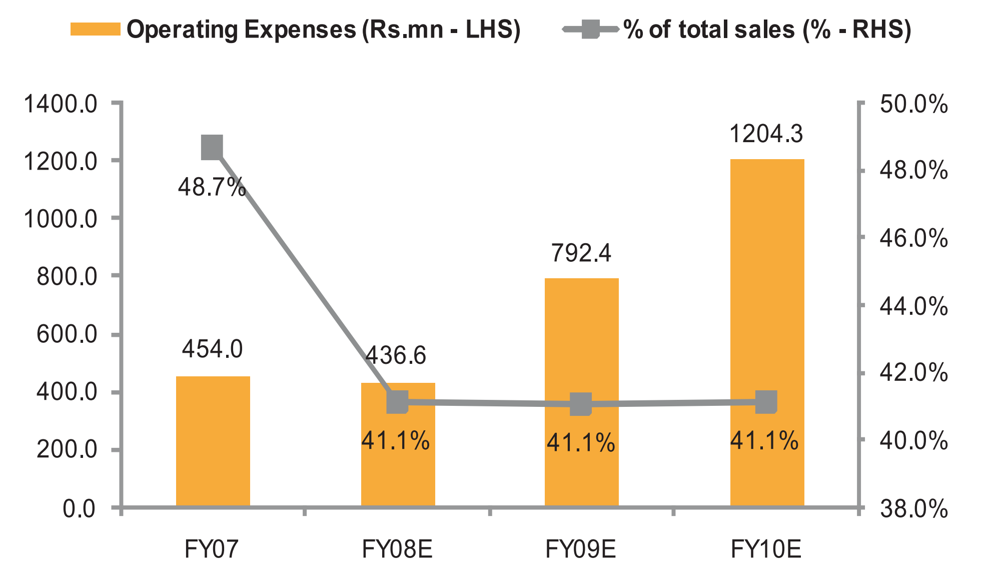
COST ANALYSIS

Operating expenses to go down as % of sales

Operating expenses majorily include distributor's share, Property Rental and F&B cost. While we believe that Rental cost will continue to increase in the comign years, the F&B cost and the cost to the distributor may see a slight drop, leading to the Operating expenses settle at the current level – 41.1% of sales.

Operating expenses to drop as a % of sales as CIL enjoys better bargaining power with distributers

Fig 45: Operating expenses to move downwards

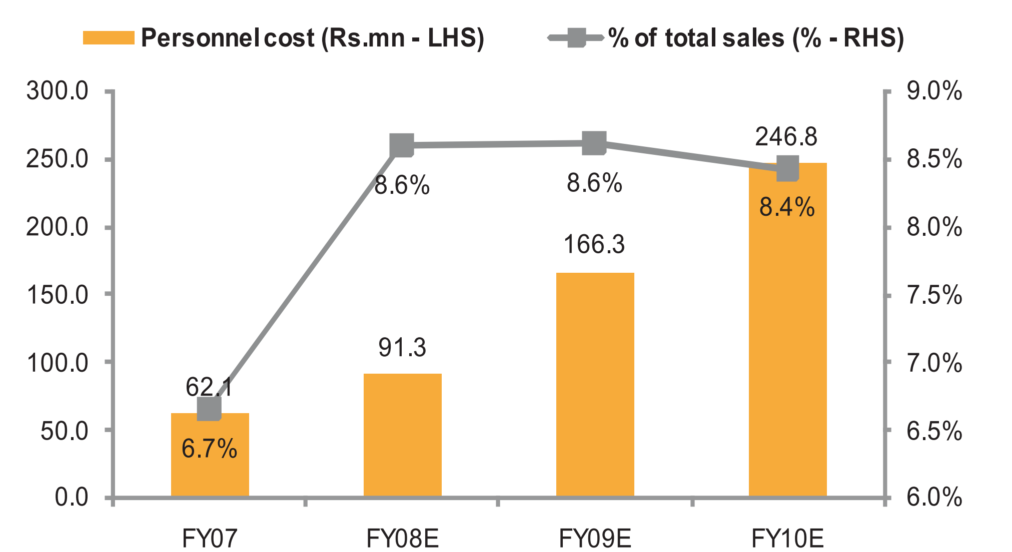


Source: Systematix Institutional Research

Employee cost to go up

The employee cost is expected to remain at the same level (8.6% of sales) for FY08 and FY09 when the expansion into most of tier-I cities gets over, and will subsequently drop in FY10 as CIL starts expanding into tier-II cities.

Fig 46: Personal cost to go up as % of sales

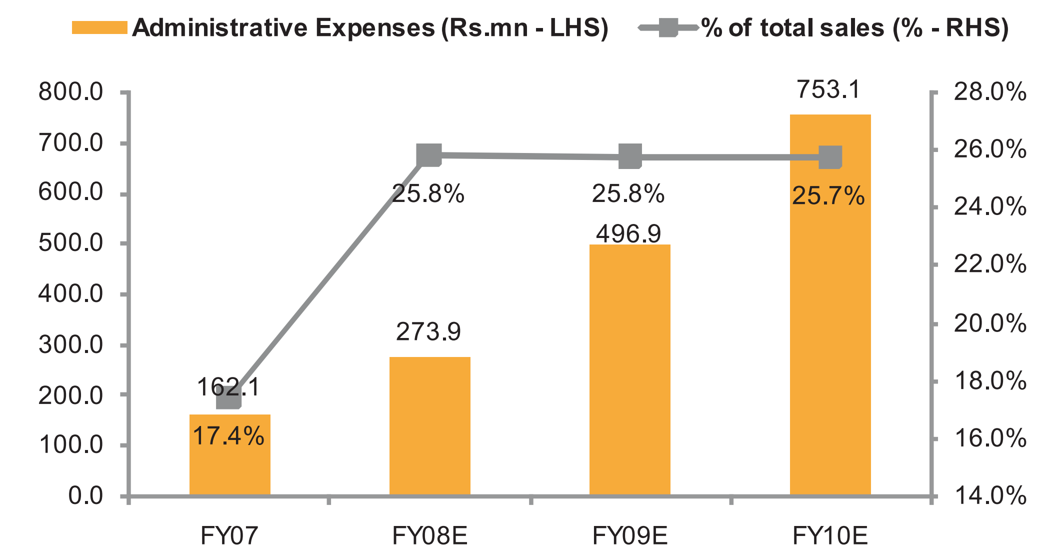


Source: Systematix Institutional Research

Administrative expenses will drop slightly as the advertising cost drops

Due to increase in the scale of operations, we have estimated the administrative expenses to increase from Rs162mn in FY07 to Rs753mn. Administrative expenses include repairs and maintenance which will increase with the additions of more number of screens, which will lead to increase in the advertising and publicity expenses. However, as CIL forays into tier-II and III cities, this cost will start dropping as % of sales.

Fig 47: Administrative expenses to drop slightly by FY10E



Source: Systematix Institutional Research

FINANCIAL DETAILS

Profit & Loss Statement (Rs mn)	FY07	FY08	FY09	FY10
Net Sales	932.9	1,061.5	1,929.7	2,928.2
% yoy growth				
Total Cost	678.2	801.8	1,455.7	2,204.2
EBITDA	254.7	259.7	474.0	724.1
EBITDA Margin (%)	27.3%	24.5%	24.6%	24.7%
Depreciation	51.3	74.3	127.7	177.9
Interest	49.2	43.3	65.2	85.4
Other Income	22.0	42.9	60.1	78.2
PBT	176.2	185.1	341.2	538.8
Tax	53.1	60.3	111.9	177.8
Net Profit (pre exceptional items)	123.1	124.7	229.3	361.0
YoY Growth (%)	51%	1%	84%	57%
Minority Interest	-	-	-	-
Net profit after adjustment	123.1	124.7	229.3	361.0
Effective tax rate (%)	30%	33%	33%	33%

Cash Flow Statement Year to 31 Mar (Rs mn)	FY07	FY08	FY09	FY10
Profit before tax	102.6	185.1	341.2	538.8
Depreciation	36.7	74.3	127.7	177.9
Tax paid	(42.3)	(60.3)	(111.9)	(177.8)
Others	36.3	-	-	-
Cash from operation before WC	133.3	199.0	357.0	539.0
Increase/(Decrease) in WC	195.4	28.1	145.2	167.3
Cash flow from operations	328.7	227.1	502.2	706.3
Capital expenditure	(564.1)	(729.8)	(875.1)	(1,012.9)
Investments	(640.0)	490.5	75.0	50.0
Other Investing Activities	13.4	1.2	3.6	6.4
Cashflow from investing	(1,190.7)	(238.1)	(796.5)	(956.5)
Dividends paid	-	(8.5)	(15.6)	(24.5)
Increase in capital	1,022.3	-	-	-
Increase in borrowings	16.7	(76.8)	253.0	253.0
Other Financing activities	(39.1)	-	-	-
Cashflow from financing	1,000.0	(85.3)	237.4	228.5
Increase/(Decrease) in cash	137.9	(96.3)	(56.9)	(21.8)

Balance Sheet (Rs mn)	FY07	FY08	FY09	FY10
Share Capital	281.7	281.7	281.7	281.7
Reserves & Surplus	1,087.8	1,204.0	1,417.7	1,754.2
Total Shareholder's funds	1,369.5	1,485.7	1,699.4	2,035.9
Minority Interest	-	-	-	-
Secured Loans	628.8	550.0	800.0	1,050.0
Unsecured Loans	10.0	12.0	15.0	18.0
Total Debt	638.8	562.0	815.0	1,068.0
TOTAL LIABILITIES	2,008.3	2,047.7	2,514.4	3,103.9
Gross Block	854.8	1,547.2	2,322.3	3,235.3
Less: Accumulated Depreciation	138.7	213.0	340.7	518.6
Net Block	716.0	1,334.2	1,981.6	2,716.6
Goodwill on consolidation	4.2	4.2	4.2	4.2
Goodwill	15.3	15.3	15.3	15.3
CWIP	512.7	550.0	650.0	750.0
Investments	648.5	158.0	83.0	33.0
Inventories	10.4	10.0	17.1	26.0
Sundry Debtors	79.5	78.2	131.0	173.4
Cash & Bank	167.6	70.9	13.2	(10.7)
Loans & Advances	161.1	181.1	211.1	261.1
Current Liablities	233.4	276.0	501.1	758.7
Provisions	33.7	37.5	47.5	58.5
Net Current Assets	151.5	26.7	(176.2)	(367.4)
Miscellaneous expenses not written off	0.3	0.3	0.3	0.3
Deferred Tax assets / (liability)	(39.6)	(41.1)	(43.8)	(48.1)
Total Assets	2,008.9	2,047.7	2,514.4	3,103.9

Valuation Ratio	FY07	FY08	FY09	FY10
Price/Earnings (x)	18.7	18.4	10.0	6.4
Price / Book Value (x)	1.7	1.5	1.4	1.1
EV/EBITDA (x)	10.9	10.7	6.5	4.7
EV / Sales (x)	1.7	1.5	1.4	1.1

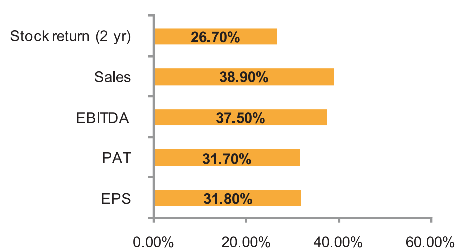
Ratio Analysis	FY07	FY08	FY09	FY10
Revenue growth	-	13.8%	81.8%	51.7%
EPS growth	-	1.4%	83.8%	57.5%
EBITDA margin	27.3	24.5	24.6	24.7
PAT margin	13.2	11.8	11.9	12.3
ROE	9.0%	8.4%	13.5%	17.7%
ROCE	11.2%	11.2%	16.2%	20.1%

Inox Leisure Ltd.

INITIATING COVERAGE

Stock Rating	BUY
CMP (Rs.)	90
Target Price (Rs.)	114

Investment Profile



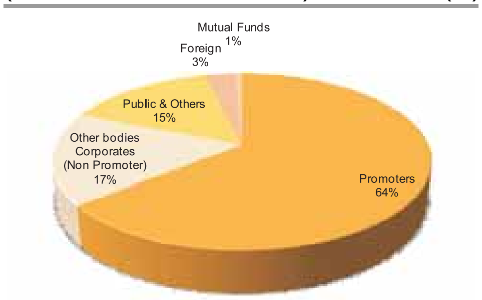
Bloomberg	INOL IN
Reuters	INOL.BO
BSE Group	B
BSE Code	532706
NSE Symbol	INOXLEISUR
BSE Sensex	14,799.9
NSE Nifty	4,523.7

Market Data

Market Cap (Rs.Mn.)	5400
Share Cap (Rs.Mn.)	600
52 Wk High/Low	242/90
Avg. Vol. (Weekly)	82,686
Face Value (Rs)	10

Shareholding Pattern

(As on 31st December 2007) (%)



	FY07	FY08E	FY09E	FY10E
Net Sales	1,410.7	1,917.0	2,670.7	3,777.6
Net profit	248.2	306.6	410.8	567.3
EBITDA Margin (%)	25.5%	24.9%	24.8%	24.8%
PAT Margin (%)	17.6%	16.0%	15.4%	15.0%
EPS (Rs)	4.1	5.1	6.8	9.5
Price/Earnings (x)	21.6	17.5	13.0	9.4
Price / Book Value (x)	2.3	2.1	1.9	1.6
EV/EBITDA (x)	17.1	12.4	8.8	6.1
EV / Sales (x)	4.4	3.1	2.2	1.5
ROE (%)	10.6	11.9	14.1	16.9
ROCE (%)	12.6	14.9	17.5	20.8

Rising in the east...

Inox Leisure Ltd. (Inox) is one of the oldest and the most profitable multiplex operator in India (due to large no. of owned properties). Inox presently operates 22 properties having 76 screens in 17 cities across India. Contrary to its expansion in early 2000, Inox is now planning to expand through lease model to ~212 screens by FY10. Besides this, Inox has also tied up with Pantaloon's Kshitij and Ajay Piramal's Indiareit (both real estate development companies) for first right of refusal to develop multiplex in 50+ malls to be developed by these developers in the coming years (11 such properties already identified). This unique expansion strategy of Inox, combined with it developing a strong foothold in eastern India (esp. West Bengal as it provides tax exemption for multiplexes) are positive for the company. We have modelled 32% EPS CAGR for Inox over FY07-10E, and initiate coverage on it with 'BUY' rating and 24-month price target of Rs.114.

One of the oldest and most profitable multiplex players in India

Inox started multiplex operations in India in 1999, and now operates 76 screens across 17 properties pan India. Since Inox started its initial set up with buying out properties (still has 4 owned properties), it has significantly low lease cost compared to other players and hence operates at one of the highest Operating margins in the industry – 24.9%.

Planning to reach 212 screens by FY10, ~100% of the properties identified

Inox has now planned expansion to reach 212 screens by FY10, and has already identified all of these properties. This, according to us, is a competitively positive for Inox as many of its competitors haven't yet identified many of the properties to be finished in the next 3 years. Inox is planning to build a stronghold in the West Bengal region with plans to reach 15+ screens in that region by FY10.

Multiple tie-ups also adding key locations to Inox's stable

In addition to the expansion plans chalked out by Inox, it has also entered into a tie-up with Pantaloon's Kshitij and Ajay Piramal's Indiareit, wherein it has the first right of refusal for developing multiplexes at properties to be developed by these developers. Inox has already tied-up with Kshitij for 11 properties pan-India. Besides this, Inox has also recently acquired Calcutta Cinema Pvt. Ltd. which operates 7 screens in Kolkata region.

Most scalable model with increasing presence in tax exempted region, initiating with 'BUY' rating

We like Inox's expansion plan involving multiple growth models, especialy its association with leading developers with strong retail outlets brand like Big Bazaar, Pantaloons, Food Bazaar in the same mall. We believe that this will bring in additional footfalls into the malls which will cater well for Inox. This combined with Inox's focus on strengthening its presence in east India also caters well for the company in the long run, as West Bengal provides tax exemption to multiplexes.

We have modelled Inox to register 39% revenue CAGR over FY07-10E, with Operating and PAT margins maintaining at 24.8% and 15% respectively. We initiate our coverage on Inox, with a 'BUY' rating and a 24-month price target of Rs.114, 26.7% upside from current price.

INVESTMENT CASE

Inox Leisure Ltd., incorporated in 1999 by Gujarat Flurochemicals, was one of the first entrants in the Indian multiplex industry. It now operates 76 screens across 17 properties pan-India. Now, Inox has laid down an aggressive expansion plan to reach ~212 screens by FY10, for which it is employing a multiple growth strategy involving tie-ups with some of the leading mall developers – Pantaloon's Kshitij and Indiareit. We believe that Inox's expansion under the association with mall developers is positive as it will bring additional footfalls into its multiplexes and food courts. However, the risks associated with being a standalone film exhibitor, and Inox's extremely diversified expansion strategy remains a risk.

These are our key arguments for Inox:

One of the oldest and most profitable multiplex players in India

- Inox started multiplex operations in India in 1999, and now operates 76 screens across 17 properties pan India.
- Since Inox started its initial set up with buying out properties (still has 4 owned properties,15 screens), it had significantly low lease cost compared to other players.
- Hence operates at high Operating margins – 24.9%.

Planning to reach 212 screens by FY10, 100% of the properties identified

- Inox has now planned expansion to reach 212 screens by FY10, and has already identified almost all of these properties.
- This, according to us, is competitively positive for Inox as many of its competitors haven't yet identified many of the properties to be finished in the next 3 years.

Multiple tie-ups also adding key locations to Inox's stable

- In addition to the expansion plans chalked out by Inox, it has also entered into a tie-up with Pantaloon's Kshitij and Ajay Piramal's Indiareit.
- Under this tie up Inox has the first right of refusal for developing multiplexes at properties to be developed by these developers.
- Inox has already tied-up with Kshitij for 11 properties pan-India.
- Besides this, Inox has also recently acquired Calcutta Cinema Pvt. Ltd. which operates 7 screens in Kolkata region.

Most scalable model with increasing presence in tax exempted regions

- We like Inox's expansion plan involving multiple growth models, especialy its association with leading developers with strong retail outlets brand like Big Bazaar, Pantaloons, Food Bazaar in the same mall.
- We believe that this will bring in additional footfalls into the malls which will cater well for Inox.
- This combined with Inox's focus on strengthening its presence in east India also caters well for the company in the long run, esp. because West Bengal provides tax exemption to multiplexes.

VALUATIONS

EPS growth of 32% coupled, but margins are contracting

Although we are positive about Inox's revenue growth (38.9% CAGR over FY07-10E), we foresee significant margin contraction (70bps reduction in operations margins) in the coming years due to increasing proportion of leased properties.

We expect Inox's EBITDA margin to contract by 70bps over FY07-10E to 24.8% by FY10, while the PAT margins too will contract by 260bps to 15% by FY10. We have modelled an EPS CAGR of 31.8% for Inox over the same period.

Table 38: Key Ratios

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Revenue growth	-	68.6%	38.2%	35.9%	39.3%	41.4%
EPS growth	-	114.0%	41.3%	23.5%	34.0%	38.1%
EBITDA margin	35.9%	35.3%	25.5%	24.9%	24.8%	24.8%
PAT margin	13.5%	17.2%	17.6%	16.0%	15.4%	15.0%
ROE	13.8%	8.2%	10.6%	11.9%	14.1%	16.9%
ROCE	12.4%	10.1%	12.6%	14.9%	17.5%	20.8%

Source: Systematix Institutional Research

Table 39: Valuations

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Price/Earnings (x)	65.3	30.5	21.6	17.5	13.0	9.4
Price / Book Value (x)	6.8	2.5	2.3	2.1	1.9	1.6
EV/EBITDA (x)	23.0	17.9	17.1	12.4	8.8	6.1
EV / Sales (x)	8.3	6.3	4.4	3.1	2.2	1.5

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend 'BUY' rating on Inox Leisure with a 24 months price target of Rs114. We base our price target on P/E multiple based valuation methodology.

At CMP of Rs90, Inox Leisure is trading at P/E multiple of 13.0x and 9.4x based on our FY09E and FY10E earnings respectively.

Table 40: Details of Price target derivation

Target multiple for Inox	12x FY09E EPS
FY09E EPS for Inox (Rs.)	9.5
Target Price (Rs.)	114.4

Source: Systematix Institutional Research

Risks to our Target Price

Among the potential risk factors to our target price we list the following as foremost:

a) Timely execution of aggressive rollout plans

Inox plans to expand its no of screens from current 76 to 212 screens by FY10E at a CAGR of 40.8%, whereas historically it has been expanding its screens at a CAGR of 44.8%. Therefore, we expect it to face problems in timely execution of its properties.

b) Withdrawal of E-Tax exemption

The withdrawal of entertainment tax incentives for its existing and proposed properties would have a adverse effect on its profitability.

c) Financing of new projects

We expect that Inox will have to take huge debt to fund the expansion plans, leading to increase in interest cost. This will put pressure on the operating margins.

d) Further dilution of equity

Any further dilution of equity to meet its fund requirement for huge expansion, will put pressure on our target price.

COMPANY IN-DEPTH

Inox Leisure was incorporated in FY99 and became a subsidiary of Gujarat Flurochemicals. It is primarily into film exhibition carrying out the business of setting up, operating and managing a chain of multiplexes under the brand name 'INOX'. As of February 2008, it had 22 properties having 76 screens in 17 cities.

Strong Presence in the Prime location – catering to the premium segment

Most of the Inox's multiplexes are located in the heart of high traffic commercial business districts or in the midst of affluent residential areas. Currently, it has presence in most of the prime locations such as Jaipur, Mumbai, Indore, Nagpur, Chennai, Gujarat, Pune, Goa, Banglore, Kolkata, etc. Further, it intends to enter into Tier II and III cities.

Table 41: Details of Existing Properties

	No of screens	No of seats	E-Tax exempt	Model
Pune (Bund Garden)	4	1316		Owned
Vadodara (Race Course Circle)	4	1318		Owned
Kolkatta (Elgin Road)	4	1015		Leased
Kolkatta (Salt Lake City)	4	1144	Yes	Leased
Goa (Panaji)	4	1272		Leased
Mumbai (Nariman Point)	5	1323	Yes	Owned
Bangalore (Magarath Road)	5	1103		Leased
Jaipur (Vaishali Nagar)	2	787		Owned
Indore (Sapna Sangeeta Road)	3	1103	Yes	Leased
Darjeeling (Laden La Road)	3	811	Yes	Leased
Kota (Indra Vihar)	3	1117		Leased
Nagpur (Wardhaman Nagar)	3	1068	Yes	Leased
Chennai (Dr. Radhakrishnan Salai)	4	909		Leased
Jaipur (Space Cinema)	3	965		Leased
Kolkata (Swabhumi)	4	1022	Yes	Leased
Kolkata (Durgapur)	3	933		Leased
Vijaywada (Gandhinagar)	3	1389		Leased
Gujarat (Bharuch)	3	1028		Leased
Raipur (New Purena)	4	1280		Leased
Mumbai (Milan)	1	420		Leased
Jaipur (Crystal Palm)	3	846		Leased
Lucknow (Gomti Nagar)	4	1030		Leased
Total	**76**	**23199**		

Source: Company

Expansion plans – building strong presence in East India

The players like PVR (NCR Region), Cinemax India (Mumbai) and Pyramid Saimira (TN and Kerala) have developed regional dominance thus commanding high market share and also get bargaining power from the film distributors for revenue sharing. Whereas, we believe its tie-up with CCPL will further enhance its pan-India presence in movie exhibition and help it in building strong presence in East India. The agreement with CCPL will take Inox's tally of multiplexes in West Bengal & Assam up to 13.

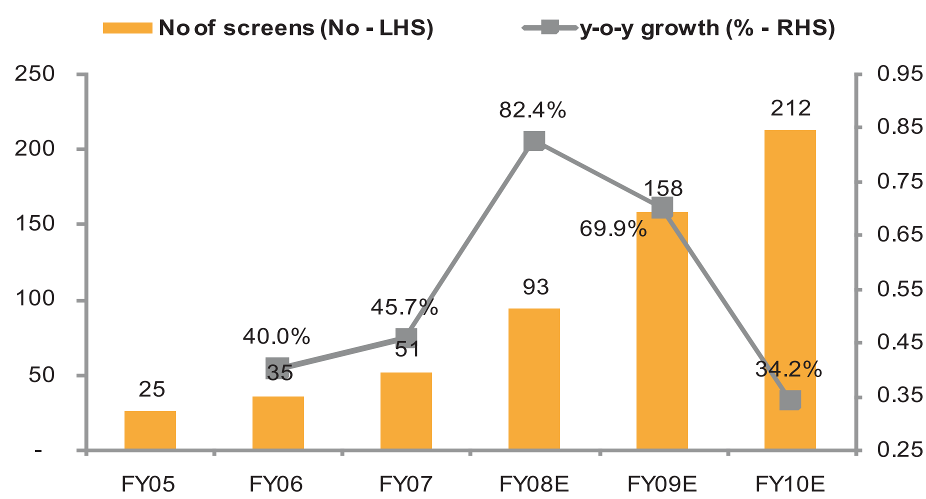
Its expansion plans include ramping up the screens from 76 to 93 screens by FY08E, 158 by FY09E and 212 by FY10E. Expansion will be majorily in the tier-II and tier-III cities like Hubli, Goa, Guwahati, Rajarhat, Jodhpur, etc, thus having presence across pan-India.

Table 42: Future Expansion plans – Properties identified till FY11

	No of screens	No of seats		No of screens	No of seats
FY08E			**FY10E**		
Nagpur (Kamptee Rd)	4	1312	Jodhpur (Old Olympic Cinema)	4	1250
Bangalore (Jayanagar)	3	783	Goa (Porvorim)	4	1000
Faridabad (Delhi-Mathura Rd)	4	1100	Asansol (West Bengal)	4	1000
Hyderabad (GVK)	6	1229	Pune (Senapati Bapat Rd, ICC)	5	1400
FY09E			Vishakhapatnam (Maddilapalem)	4	950
Burdhwan	3	817	Jabalpur (Madhya Pradesh)	4	1250
Indore (Near Treasure Island)	4	1238	Kolkata (Strand Rd)	4	834
Rajarhat	4	1254	Kolkata (Howrah)	4	950
Kharagpur (Puja Complex)	4	1200	Siliguri (West Bengal)	4	1229
Ahmedabad (Nicole)	4	1000	Guwahati	4	1006
Jodhpur (Pali Rd)	4	1250	Ahmedabad (Motera Sabarmati)	6	1600
Navi Mumbai (Nerul)	3	1000	Kolkata (B. T. Rd)	4	1116
Kolkatta (Diamond City, Jeyssore Rd)	5	1042	Pune (Hingewadi)	3	1000
Panditya Rd	4	1064	**FY11E**		
Belgaum (Khanapur Rd)	4	1100	Kolkata (Wood Burn Park)	2	500
Zirakhpur (Chandigarh)	4	1200	Bhopal, Kotra Sultanbad (Madhya Paradesh)	4	1100
Hubli (Gokul Rd)	4	1300	Kolkata (Liluah, Howrah)	3	1120
Bangalore (Sampige Rd Malleswaram)	6	1628	Bhuvaneshwar (Orissa)	3	1160
Mumbai (Borivli)	4	1250	Coimbatore (Avinashi Rd)	5	1500
Kanpur (M.G. Marg)	4	1450	Mangalore (Karnataka)	5	1400
Haldia (West Bengal)	4	1162	Bhopal, Hoshangabad Rd (Madhya Paradesh)	4	1250

Source: Company

Fig 48: Planned Ramp-up of screens



Source: Company, Systematix Institutional Research

Building up multiple growth models through alliances and acquisitions

CCPL acquisition to enhance Inox's presence in Eastern India

Inox has acquired the Calcutta Cinema Pvt Ltd.(CCPL) in share swap deal valued at about Rs490mn. Its merger with CCPL (89 Cinemas), will give INOX access to 9 multiplexes in West Bengal and Assam enhancing presence in the East.

Pantaloon Group alliance – twin benefits of good properties and higher footfalls

Pantaloon Retail has set up a retail development and mall management business under its Rs2.5bn venture capital fund ***Kshitij*** and plans to set up 51 properties over the next 3 years. The fund will lease out real estate to retailers and be independent of Pantaloon. Inox's alliance with the Pantaloon Group will provide preferential access to all real estate development which Pantaloon takes up for its retail chain, and will be beneficial to Inox in the form of additional footfalls as most of these properties will hold Pantaloon's retail chains like ***Big Bazaar*** and ***Food Bazaar*** in them.

Table 43: Properties under Pantaloon tie-up

City	Location	Date Of Handover For Fitouts	No. Of Screens*	No. Of Seats
Indore	Near Treasure Island	Mid - FY09	4	1238
Cochin	MG Road	May, 2009	4	
Mysore	Near Mysore Palace	October, 2008	4	1000
Baroda	Kilachand	October, 2008	4	1000
Trivandrum	Patoor Junction	May, 2009	5	
Kolkata	AJC Bose Road	March, 2009	3	
Vizag	Jagdamba Circle	December, 2007	4	736
Jaipur	Jawahar Colony	December, 2008		
Mumbai	Kurla	May, 2009	4	
Chennai	Velachery	May, 2009		
Kolkata	Strand Road	May, 2009	4	834

*Source: Company, Note : * In some cases the No. of seats and screens are still under finalisation*

Indiareit tie-up – another feather in the cap

Inox has also tied up with Indiareit a real estate fund promoted by Ajay Piramal, and will invest over Rs100Cr in Indiareit's domestic unit as a 'value added' investor. Indiareit will offer a 'preferred tenant' status to Inox in its all upcoming shopping malls and townships projects. The real estate fund will offer a 'first right of refusal' to Inox to set up multiplex in Indiareit's various projects. Inox will benefit from access to upcoming real estate projects across primary Tier I and II cities and will also bring financial support, expertise and presence of leading brands.

Currently, Indiareit is in the process of raising Rs3,800Cr through domestic and offshore offerings by March 2008. Out of its total Rs 1,800-crore corpus, Indiareit already deployed over 70% in eight different projects.

Film Distribution segment – focussed domestic expansion planned

Inox launched its distribution division in FY05. Currently it distributes movies in Rajasthan and West Bengal territories, through its alliance with Eros International & UTV Motion Pictures. It has distributed blockbuster films like Rang De Basanti, Garam Masala, Gangster, Namastey London, Apharan, Dhamaal,Cheeni Kum, Partner, Heyy Babyy, Jab We Met, Om Shanti Om etc.

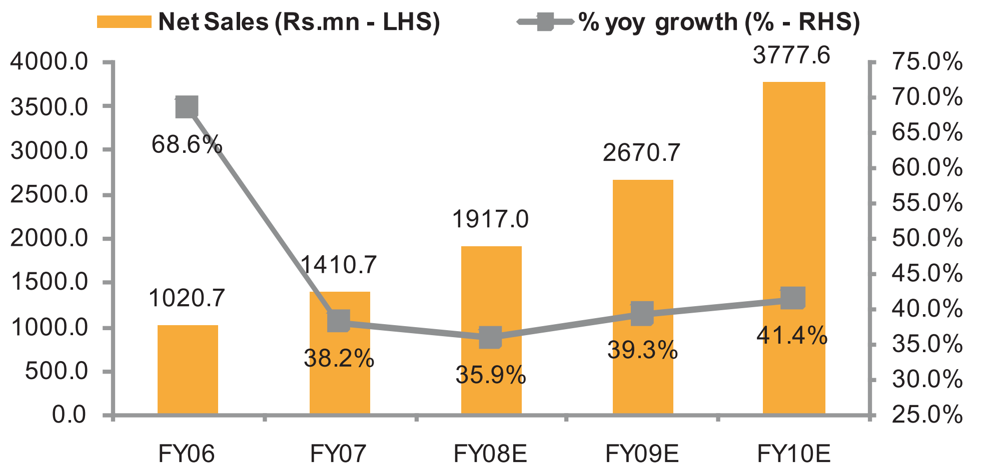
EARNINGS OUTLOOK & FINANCIALS

Topline to grow at a CAGR of 39% over FY07-10E

We expect Inox's net revenues (post deduction of entt. Tax) to grow from Rs1.41bn in FY07 to Rs3.8bn in FY10E. It will be driven by the aggressive expansion plans, both organic and through tie-ups with property developers like ***Kshitij*** and ***Indiareit***, of Inox.

We expect revenues to grow at a CAGR of 39% driven by box office revenues

Fig 49: Revenues to grow at a CAGR of 39%



Source: Systematix Institutional Research

Segment Analysis

We expect box office revenues (ticket sales) to increase from Rs1.15bn in FY07 to Rs3.3bn due to strong ramp up in the no of screens from 51 in FY07 to 180 by FY10E. We expect the ATPs to remain constant as the company continues to expand with a good mix of tier-I and Tier-II and II cities. But we have estimated the occupancy levels to go down to an industry average of 33%, as the competition intensifies in tier-I cities.

The increased number of multiplexes will also convert into higher advertising income, which is expected to jump from Rs62.3mn in FY07 to Rs132.8mn in FY10E.

We also expect F&B revenues to pick up in the coming years, to ~Rs.713mn by FY10E, from just Rs.214mn in FY07.

Table 44: Segment-wise revenues

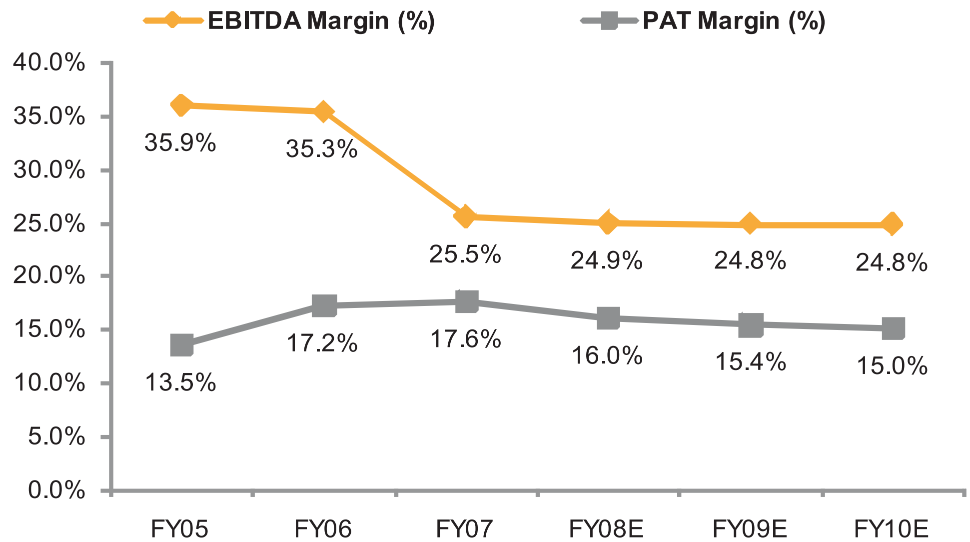
% to gross sales	FY05	FY06	FY07	FY08E	FY09E	FY10E
Box Office Revenues	71.3%	70.3%	75.5%	75.1%	74.8%	75.4%
Sale of foods and beverages	17.0%	14.8%	14.0%	15.1%	16.2%	16.5%
Film Distribution	0.0%	6.4%	2.4%	2.4%	2.2%	2.1%
Conducting Fees	4.5%	3.9%	3.6%	3.2%	2.9%	2.7%
Advertising income	4.1%	3.8%	4.1%	3.7%	3.4%	3.1%

Source: Systematix Institutional Research

EBITDA and PAT margins to maintain at the current levels

As Inox operates majority of its properties under lease model since beginning it has been deriving lease rentals, due to which the EBITDA margins historically has gone down from 35.9% in FY05 to 25.5% in FY07. In future too, all of Inox's properties will be under lease mode. But with Inox having the maximum visibility of property launch as compared to other players (has identified many properties to be launched even till FY12), we believe that the rent expenses will not hurt in the long run. We therefore expect Operating margins and PAT margins to settle at 24.8% and 15% respectively.

Fig 50: EBITDA and PAT margins to remain at current levels

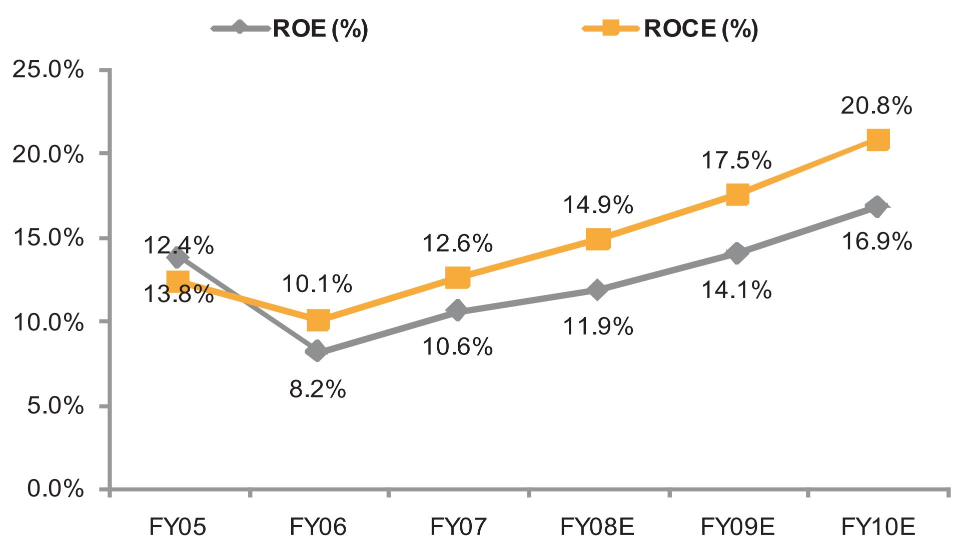


Source: Systematix Institutional Research

RoE and RoCE witnessing an upward trend

We expect Inox's RoE to grow from 10.6% in FY07 to 16.9% in FY10E, with RoCE growing from 12.6% in FY07 to 22.1% in FY10E. We like the fact the the RoCE of Inox is ~1.5x its cost of debt and even in condition of high debt the company is able to improve its return ratios.

Fig 51: RoE and RoCE expect to increase



Source: Systematix Institutional Research

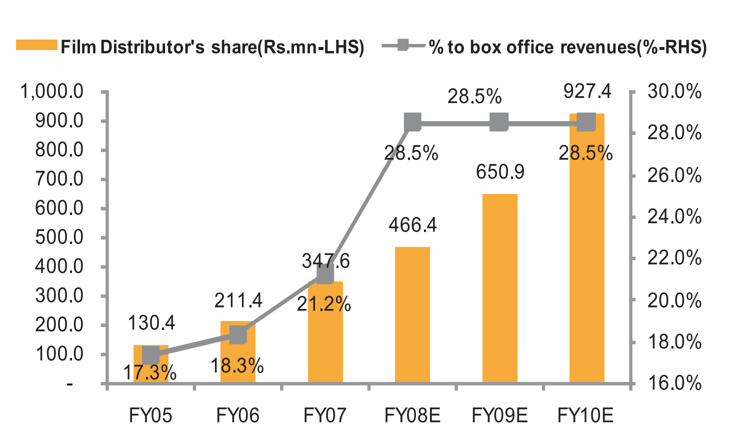
Cost Analysis

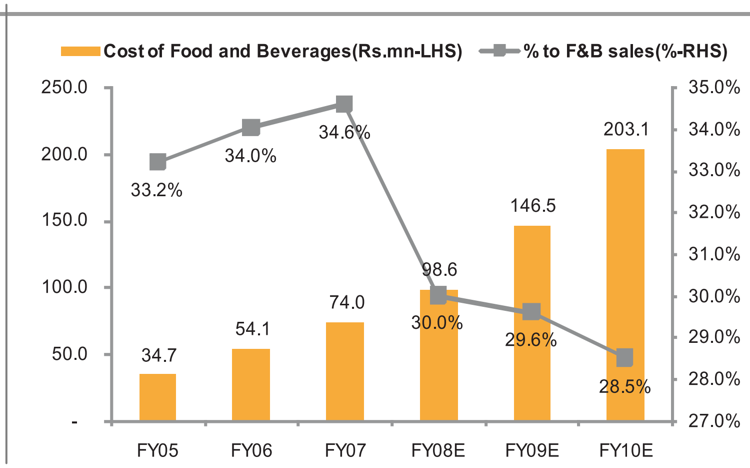
Film Distributors Share & F&B cost to remain constant as % of total sales

As Inox does not enjoy any regional dominance, the film distributors's share in the cost structure has remained relatively constant, at ~24.5% of sales. Going forward also, we expect the film distributor's cost to remain constant at ~24.6% of sales.

We have estimated the cost of F&B (as % of F&B sales) to remain at constant level of of ~29%.

Fig 52: Film Distributors Share & F&B cost to remain constant



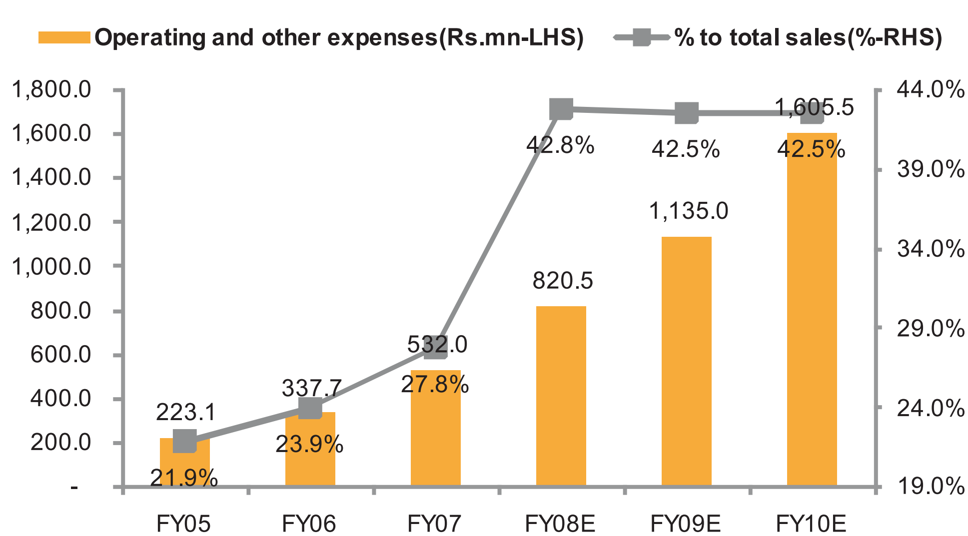


Source: Systematix Institutional Research

Operating cost to move upwards

Operating cost majorily include employee cost, rental and other adminstrative expenses. Increase in the scale of operations will lead to jump in the employee cost and since Inox will be expanding through lease model the rent cost will shoot up. Therefore, we expect operating cost as % of sales to go up from 27.8% in FY07 to ~42.5% in FY10E.

Fig 53: Operating cost to go up



Source: Systematix Institutional Research

FINANCIAL DETAILS

Profit & Loss Statement (Rs mn)	FY06	FY07	FY08	FY09	FY10
Net Sales	1,020.7	1,410.7	1,917.0	2,670.7	3,777.6
% yoy growth	68.6%	38.2%	35.9%	39.3%	41.4%
Total Cost	660.6	1,050.9	1,439.1	2,007.2	2,841.8
EBITDA	360.0	359.8	477.9	663.4	935.8
EBITDA Margin (%)	35.3%	25.5%	24.9%	24.8%	24.8%
Depreciation	51.7	64.1	90.2	116.5	150.9
Interest	78.9	66.6	58.5	52.7	53.7
Other Income	19.7	94.7	118.4	112.5	106.9
PBT	249.1	324.0	447.6	606.8	838.0
Tax	73.6	75.8	141.0	196.0	270.7
Net Profit (pre exceptional items)	175.5	248.2	306.6	410.8	567.3
YoY Growth (%)	113.8%	41.4%	23.5%	34.0%	38.1%
Minority Interest	-	-	-	-	-
Net profit after adjustment	175.5	248.2	306.6	410.8	567.3
Effective tax rate (%)	29.5%	23.4%	31.5%	32.3%	32.3%

Cash Flow Statement Year to 31 Mar (Rs.mn)	FY06	FY07	FY08	FY09	FY10
Profit before tax	249.1	324.0	447.6	606.8	838.0
Depreciation	51.7	64.1	90.2	116.5	150.9
Tax paid	(50.5)	(48.4)	(141.0)	(196.0)	(270.7)
Others	124.9	94.9	26.9	36.4	50.3
Cash from operation before WC	375.2	434.5	423.7	563.7	768.5
Increase/(Decrease) in WC	3.5	(148.2)	31.3	88.9	129.2
Cashflow from operations	378.7	286.3	454.9	652.6	897.7
Capital expenditure	(362.6)	(344.4)	(562.3)	(760.8)	(993.1)
Investments	(1,446.6)	339.7	200.0	300.0	260.6
Other Investing Activities	19.6	98.7	77.7	15.2	14.7
Cashflow from investing	(1,789.6)	94.0	(284.6)	(445.6)	(717.9)
Dividends paid	-	-	(86.7)	(116.2)	(160.6)
Increase in capital	1,382.8	-	36.6	36.6	36.6
Increase in borrowings	121.7	(324.1)	(115.2)	-	30.0
Other Financing activities	(78.9)	(66.6)	80.3	5.8	20.7
Cashflow from financing	1,425.5	(390.7)	(85.0)	(73.9)	(73.3)
Increase/(Decrease) in cash	14.6	(10.3)	85.3	133.1	106.6

Balance Sheet (Rs mn)	FY06	FY07	FY08	FY09	FY10
Share Capital	595.0	595.0	595.0	595.0	595.0
Share application money	-	-	-	-	-
Reserves & Surplus	1,557.2	1,734.9	1,991.1	2,321.9	2,765.0
Employee Stock Options Outstanding	-	3.8	-	-	-
Total Shareholder's funds	2,152.2	2,333.7	2,586.1	2,916.9	3,360.0
Secured Loans	655.0	443.0	450.0	450.0	580.0
Unsecured Loans	434.3	322.2	200.0	200.0	100.0
Total Debt	1,089.3	765.2	650.0	650.0	680.0
TOTAL LIABILITIES	3,241.5	3,098.9	3,390.7	3,757.9	4,281.3
Gross Block	1,743.5	2,006.0	2,578.0	3,328.7	4,311.8
Less: Accumulated Depreciation	120.8	183.2	273.4	389.9	540.8
Net Block	1,622.7	1,822.8	2,304.6	2,938.8	3,771.0
Intangible Assets	78.2	22.3	23.0	23.1	22.8
CWIP	12.5	26.5	35.0	45.0	55.0
Investments	1,452.1	1,160.6	960.6	660.6	400.0
Advance on Capital Account	14.0	18.2	-	-	-
Pre-operative expenditure pending allocation	27.5	45.9	55.0	70.0	85.0
Interest accrued on long term investments	1.5	2.0	2.5	3.0	3.5
Inventories	4.8	8.3	13.1	18.3	25.9
Sundry Debtors	25.3	27.9	47.3	65.9	93.1
Cash and Bank	30.3	19.9	105.2	238.4	345.0
Other current assets	316.3	305.4	295.4	290.4	285.4
Loans and Advances	378.2	363.6	463.6	616.0	752.9
Current Liablities	228.6	151.2	197.1	275.0	389.3
Provisions	9.2	82.1	99.3	129.6	174.9
Net Current Assets	140.4	130.3	167.1	211.4	188.8
Miscellaneous expenses not written off	1.8	-	-	-	-
Deferred Tax assets / (liability)	(107.7)	(127.7)	(154.6)	(191.0)	(241.3)
Total Assets	3,241.4	3,098.9	3,390.7	3,757.9	4,281.3

Valuation Ratio	FY06	FY07	FY08	FY09	FY10
Price/Earnings (x)	30.5	21.6	17.5	13.0	9.4
Price / Book Value (x)	2.5	2.3	2.1	1.9	1.6
EV/EBITDA (x)	17.9	17.1	12.4	8.8	6.1
EV / Sales (x)	6.3	4.4	3.1	2.2	1.5

Ratio Anlaysis	FY06	FY07	FY08	FY09	FY10
Revenue growth	68.6%	38.2%	35.9%	39.3%	41.4%
EPS growth	114.0%	41.3%	23.5%	34.0%	38.1%
EBITDA margin	35.3%	25.5%	24.9%	24.8%	24.8%
PAT margin	17.2%	17.6%	16.0%	15.4%	15.0%
ROE	8.2%	10.6%	11.9%	14.1%	16.9%
ROCE	10.1%	12.6%	14.9%	17.5%	20.8%

Adlabs Films Ltd.

Stock Rating	NR
CMP (Rs.)	556

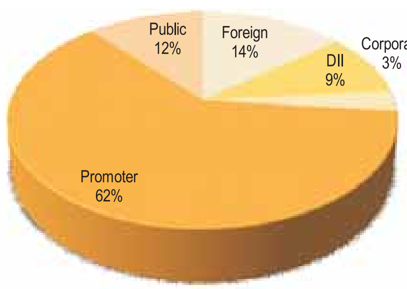
Bloomberg	ADLF IN
Reuters	ADLF.BO
BSE Group	A
BSE Code	532399
NSE Symbol	ADLABSFILM
BSE Sensex	14,799.9
NSE Nifty	4,523.7

Market Data

Market Cap (Rs.Mn.)	22,128.8
Share Cap (Rs.Mn.)	199
52 Wk High/Low	1940/388.5
Avg. Vol. (Weekly)	706,844
Face Value (Rs)	5

Shareholding Pattern

(As on 31st December 2007) (%)



Expanding globally...

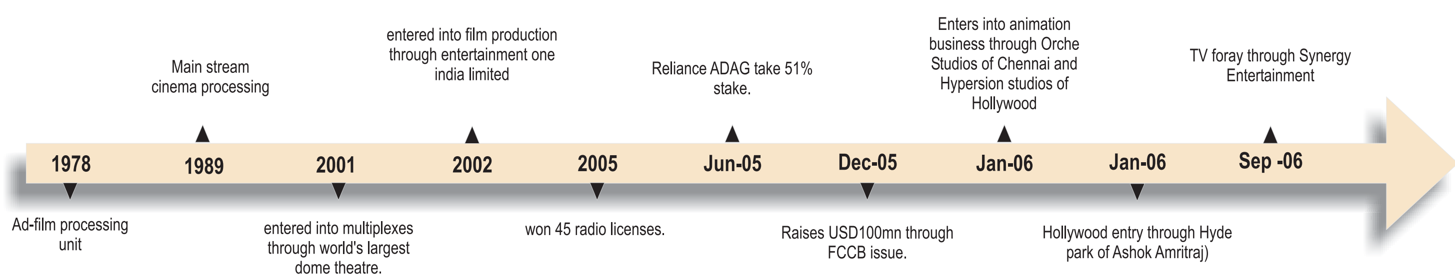
Adlabs is one of the largest media conglomerates in India, having presence across film value chain – Film Processing, Production, Distribution and Exhibition, while having interest in other media segments. Started in 1978 by Vasanji Mamania and Manmohan Shetty as a small film processing unit that catered to ad films, Adlabs has grown into India's 1st player having presence across the complete film entertainment chain. Post the acquisition of majority stake by Reliance ADAG in June 2005, Adlabs has grown at breakneck speed to diversify aggressively into businesses like Radio, Film production, Animation and Television content development. Adlabs presently commands over 60% market share of film processing in India, is the largest multiplex operator in India (140 screens as on Feb'08), owns the largest number of radio stations (44 stations) and is also one of the large distributors of Indian films in US and UK. Adlabs now plans to reach ~400 multiplex screens by FY09, produce ~6 movies per year and generate 1000 hrs of television content annually while expanding all its business domains into international markets.

Largest Film Processing company in India

Adlabs is the market leader in film processing and printing business in India enjoying a 60%+ market share in the films and the advertising industry. Long-standing business relationships with people in the film industry and a technologically advanced facility (including a high quality lab for processing raw exposed films, colour correction, editing and making multiple prints for final distribution, and a well-appointed preview theatre at Film City, Goregaon) have made Adlabs the most sought-after film processing laboratory in India. Adlabs has its processing facilities at Mumbai, Chennai and Kolkata thus catering to film industries across India. Adlabs completed processing of ~200 films and ~20,000 prints in FY07 and is expected to complete this year with ~220 films and ~30,000 prints.

Adlabs reported Rs.243.2mn of revenues from this division in Q3FY08, an increase of 26%yoy. However, the margins in this business continue to erode and Adlabs reported a 12%yoy drop in EBITDA margins at 32.2% in Q3FY08. EBITDA for the quarter from this business was at Rs.78.3mn.

Fig 54: Adlabs' Corporate Timeline



Source: Company

Broadcast Equipment Rental business – entry into high margin business

In accordance with its plan to become a larger Services company, Adlabs has recently commenced its Broadcast Equipment Rental business for providing quality equipment for live shows, reality shows and game shows, among other segments. Adlabs has equipped itself with the complete chain of high end equipments from HD cable acquisition, complete post production facilities including DI. Adlabs has plans to provide an end to end solution to broadcast industry.

One of the key pursuits of Adlabs in this domain is that of sports production rental business. Adlabs has modelled a turnkey solution that would include trained and experienced sports production specialist cameramen to provide training and services to sports channels.

Film Exhibition – leader all the way

With 1 IMAX theatre, 48 properties and 140 screens pan-India, Adlabs is the largest multiplex theatre chain in India. It has plans to expand its domestic operations to 400 screens by FY09 and ~550 screens by FY10. It has expanded at the fastest pace amongst all the multiplex players in India, and is planning to tap all major metro and tier-I cities in the next 12 months. Adlabs' ATP is at Rs.110 and average occupancy at 30%.

Adlabs reported Rs.423.9mn of revenues from this division in Q3FY08, an increase of 75% yoy. But the EBITDA margins of this division dropped by ~300bps to 16.1%, at Rs.68.4mn in Q3FY08, mainly because of an increase in rental income.

Expansion into US markets – inorganic growth planned

Adlabs has also entered the US multiplex market by way of agreements with cinema properties to operate 200 screen cinema exhibition chain across 28 cities, including the key markets in the East, Mid West and West Coast. Adlabs is looking at US markets mainly to play mainstream Hollywood films and Indian films viz., Hindi, Tamil and Telugu. All of these screens are expected to be operational during FY09. The financials of this foray is not yet disclosed by the management.

Film Distribution – Catering to both Indian and global markets

Adlabs made its foray into the international distribution market with Krrish in FY06 and has distributed films like Umrao Jaan, Black Friday, Bheja Fry, Spider-Man 3 and Baabul. It is currently setting up pan-India domestic theatrical distribution outlets, which started with J.P. Dutta's ***Umrao Jaan*** in the Mumbai circuit, Mani Ratnam's ***Guru*** in the Delhi-UP and East Punjab circuits and ***Spider-Man 3*** in Maharashtra, Gujarat, Delhi NCR, Uttar Pradesh and Punjab. For the next 9 months, it has already signed 7-10 movies in domestic territories like ***Love Story 2050, Yeh Bindaas Hai, Paathshala, Dulha Mil Gaya, Summer of 2008,*** Regional films like ***Mera Pind (Punjabi), Sab Charitro & Love Songs (Bengali), Yeh Mera India,*** etc.

For Overseas film distribution, Adlabs has set up offices in UK and US. It has bagged the overseas distribution rights for 3 big upcoming films: ***Gajini, Paathshala*** and ***Dulha Mil Gaya.***

Television content development – Post the acquisition of 'Synergy Communications'

Adlabs forayed into television content creation by becoming majority stakeholders of Siddhartha Basu's Synergy Communications. Synergy has been associated with some of the most popular programmes on Indian television like Kaun Banega Crorepati, Mastermind and Jhalak Dikhhla Jaa (I & II).

Adlabs has introduced and has plans to introduce various new genres of content like fiction, kids, sports, reality and game shows. Currently 16 shows are commissioned/under production translating into 1000 hours of programming per year. Adlabs plans to become the largest television production company in India in the next 12-15 months.

The details of some of the ongoing projects are:

a) ***Kya Aap Panchvi Pass Se Tez Hai*** based on the international format ***Are You Smarter Than a 5th Grader*** hosted by superstar Shah Rukh Khan.

b) ***Jiya Jale*** a daily drama and the highest rated show on 9X.

c) ***Bollywood ka Boss*** - the first ever Bollywood quiz show, hosted by Boman Irani.

d) Foray in Tamil space with 2 non fiction shows ***Manjil Magimai*** and ***Akka Tangai*** aired on Kalaignar channel, topping the TRPs.

Serial under planning stage:

a) Education based fiction ***Angrezi Mein Kehte Hai*** to go on air on NDTV Imagine.

Film Production – High risk, High Return

Adlabs' film production division has been associated with some of the biggest and finest releases, both in terms of commercial success and critical acclaim, esp. films like ***Gangaajal (a national award winner), Taxi No 9211, Bluffmaster,*** and ***Namastey London***. Besides, Adlabs has also made a successful foray into regional cinema through a Tamil co-production with veteran studio Sujatha Cine Arts for ***Kireedam*** starring Ajith.

On the international front too, Adlabs has ventured into Hollywood with Willard Carroll's ***Marigold*** (starring Salman Khan and Ali Larter), which was the first Indo-US co-production starring a major mainstream Bollywood star. Adlabs has now ***signed a deal with Ashok Amritraj's Hyde Park Entertainment and the first release Asylum is expected shortly.*** Future plans include production with reputed directors, producers and artists in the industry namely Ram Gopal Verma, Vipul Shah, Harry Baweja, Akshay Kumar, Priyanka Chopra etc. Adlabs plans to produce 6-7 movies annually. Some of the major films under production are Vipul Shah's ***Singh is King,*** Harry Baweja's ***Love Story 2050,*** Ram Gopal Verma's ***Sarkaar Raaj.***

Table 45: Adlabs' contracts with various directors

Directors	Amount	No. of films
Ram Gopal Verma	Rs1bn	10
Vipul Shah	Rs2bn	8
Madhur Bhandarkar	~Rs500m	3

Source: Company

Table 46: Major film releases for 2008

Film	Director	Starring
Singh is Kinng	Vipul Shah	Akshay Kumar & Katrina Kaif
Love Story 2050	Harry Baweja	Harman Baweja & Priyanka Chopra
Sarkaar Raaj	Ram Gopal Varma	Amitabh Bachchan, Abhishek Bachchan & Aishwarya Rai.

Source: Company

Adlabs reported Rs.469.7mn of revenues from the film production, distribution and television broadcasting business in Q3FY08, 10% yoy increase. This business was running into losses at EBITDA level (EBITDA of –Rs.16mn) In Q3FY07, but has turned around due to release of profitable films like ***Johnny Gaddaar*** and launch of few more television serials.

Film Animation business – a niche foray, to pay well in the long run

Adlabs opened its animation division in FY06 and its first animation project which is under development is 3D feature film ***Sultan the Warrior***, starring South India's most popular star Rajnikanth and co-production with Ocher Studios. The second project is a 3D animation feature based on the characters Gini & Jony who represent the No.1 brand in children's apparel in India. In the animation business its immediate focus is to develop projects for Indian audience, whereas subsequently exploring opportunities in the international animation space as well.

Financial analysis for the quarter ended Dec'08

- Adlabs' revenues for Q3FY08 have increased by 10% from Rs.769.1mn to Rs.846.2mn.
- EBITDA for Q3FY08 has decreased by 1.9% to Rs.672.9mn from Rs.686mn.
- PAT for Q3FY08 has decreased by 6.6% from Rs.219.6mn to Rs.205.1mn.
- EPS for Q3FY08 has decreased to Rs.5 from Rs.5.5 showing a decline of 9.1%.

Table 47: Quaterly Financials Analysis

Particulars	Oct-Dec FY08	Oct-Dec FY07	FY07 (15 Months)
Net sales/ Income from operations	846.2	769.1	3200.9
yoy % increase	*10.0%*		
(Increase) / Decrease in stock in trade	1.2	9.4	(1.1)
Consumption of raw material	102.8	78.3	432.8
% of net sales	*12.1%*	*10.2%*	*13.5%*
Personnel Cost	72.7	40.6	200.4
% of net sales	*8.6%*	*5.3%*	*6.3%*
Direct Operational Expenses	179.3	107.6	674.6
% of net sales	*21.2%*	*14.0%*	*21.1%*
Other Expenditure	98.1	66.9	616.2
% of net sales	*11.6%*	*8.7%*	*19.3%*
Total expenditure	454.1	302.8	1922.9
Other Income	280.8	219.7	737.7
EBITDA	672.9	686.0	2015.6
yoy % increase	*-1.9%*		
EBITDA margin (%)	79.5%	89.2%	63.0%
Depreciation	54.2	25.9	131.4
Interest and Bank Charges	84.6	10.1	44.2
Amortization	191.6	408.3	798.5
Profit before tax	342.4	241.7	1041.6
Provision for tax	137.4	22.1	187.2
Profit after tax	205.1	219.6	854.3
yoy % increase	*-6.6%*		
PAT margin(%)	24.2%	28.6%	26.7%
Paid-up Equity Capital	215.5	199.0	199.0
EPS	5.0	5.5	17.7
yoy % increase	*-9.1%*		

Source: Company

Table 48: Segmental Financials Analysis

	Q2FY08	Q2FY07	YOY (in %)	Q1FY07	QOQ (in %)
Exhibition Cinemas					
Revenues	423.9	241.5	75.0	406.1	4.0
EBITDA	68.4	46.2	48.0	61.6	11.0
Motion Picture Processing					
Revenues	243.2	193.5	26.0	217.3	12.0
EBITDA	78.3	86.3	(9.0)	101.7	(23.0)
Film Production, Distribution & television					
Revenues	469.7	428.4	10.0	826.5	(57.0)
EBITDA	20.6	(16.0)		(25.7)	
Total from operations					
Revenues	1,019.4	829.6	23.0	1,346.8	(24.0)
EBITDA	167.4	116.6	44.0	137.6	22.0
Other income (Net of Unallocated Expenses)	341.0	178.0	92.0	141.8	141.0
EBITDA	504.8	294.6	73.0	279.4	82.0
PBT	365.0	251.1	45.0	176.3	107.0
PAT	217.2	225.3		210.4	23.0

Source: Company

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Stock Ratings

BUY (B)	The stock's total return is expected to exceed 25% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to exceed 15% over the next 12 months.
REDUCE (R)	The stock's total return is expected to be below 15% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector are expected to deteriorate over the next 12-18 months.

Disclosure of Interest

1. *The analysts who have prepared the report have in no way received or are expected to receive any compensation from the subject company.*
2. *The analysts do not hold any position in the subject company's stock, as on the date of release.*
3. *Neither the company nor an affiliate company of Systematix Shares & Stocks (I) Ltd. has received a mandate from the subject company.*
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