Global Equity Research - India

Initiating Coverage

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Sector: Multiplex

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Cinemax (Rs.155) — Buy

Reeling it in.... — Target Price: Rs.200

Cinemax, a dominant theatre chain operator in Mumbai and Maharashtra has aggressive expansion plans to triple its theatre properties over FY08 and FY09. The company's business foray promises to be lucrative given the advent of corporatization in the Indian film industry which has brought about high quality content due to the emergence of large production houses. We expect the company to exhibit strong topline and bottomline growth over FY08 and FY09. At CMP, the company's valuations are at a discount to Inox and PVR and similar to valuations of Shringar. As the company's profitability is far superior to that of Shringar, we expect re-rating of the company's valuations. We rate the stock BUY with a price target of Rs.200.

Aggressive expansion: From the current 12 properties and 38 screens, the company's expansion plans entail the setting up of 29 new properties and 96 screens over FY08 and FY09. Currently, 8 of the company's 12 properties are owned by them. Going forward, the company's expansion plans are based on a "leased" model so as to spur the pace of expansion on account of lower capital commitments.

Initial focus on western India states to aid regulatory process: Of the 96 screens to be set up, 60% are expected in Maharashtra and Gujarat. Since company is familiar with the regulatory procedures of the states, we expect delays on account of the same to be minimized. This would enable the company to build scale at a faster pace.

Real estate background to enable timely execution: A large number of delays in multiplex rollouts are on account of late handovers of the property by the mall developers. As Cinemax is part of the Kanakia group which has a real estate background, we expect the company to have a better judgment on the estimated date of handover. We therefore expect execution risk to be lower in case of the company.

Strong financial growth: On the back of rapid expansion, revenues are expected to grow at 73% CAGR over FY08 and FY09. This is likely to be accompanied with expansion in operating margins from 25.3% in FY07 to 30.5% in FY09. Expansion in operating margins is likely to be on account of allocation of fixed costs across a larger number of properties. In FY06 and FY07, the company developed and sold mall space which led to a squeeze in margins. As this project has been completed, we expect margins to strengthen. Strong topline growth accompanied with margin expansion is likely to result in strong net profit growth of 99% CAGR over FY08 and FY09.

Valuations: Cinemax trades at PER of 17.2x FY08E and 9.5x FY09E which is a discount to valuations of Inox and PVR. Cinemax trades at 12% discount to Inox based on FY08E and 25% discount based on FY09E. In case of PVR, it trades at 33% discount to FY08E and 21% discount to FY09E. The valuations of Cinemax are similar to those of Shringar as their toplines are in the same range. Nevertheless, Cinemax's profitability is far superior as compared to Shringar. We expect an upward re-rating in Cinemax's valuations. Cinemax is likely to trade at a premium to Shringar, in line with the valuations of Inox and PVR. We thereby rate the stock **BUY** with a price target of Rs.200.

Cinemax		Rsmn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Reuters/Bloomberg Code	CIMA.BO/CNMX.IN	Net Sales	290.3	661.8	952.1	1,579.9	2,863.8
Market Cap. (Rsmn)	4,340.0	EBITDA	103.0	151.6	240.8	479.1	873.6
Market cap. (US$mn)	96.4	Net Profit	62.2	76.8	115.6	251.9	456.0
Shares Outstanding (mn)	28.0	EPS (Rs)	10.4	12.8	4.1	9.0	16.3
52-week High/Low (Rs)	214/101	EPS Growth (%)	1,987.4	23.5	(67.7)	117.9	81.0
		EBITDA margin (%)	35.5	22.9	25.3	30.3	30.5
		PER (x)	15.0	12.1	37.5	17.2	9.5
Major Share Holders (%)		P/BV (x)	4.4	3.8	2.7	2.3	1.9
Promoter/Majority	68.2	Market Cap/Sales (x)	15.0	6.6	4.6	2.7	1.5
FIIs	1.5	EV/EBITDA (x)	11.8	9.9	20.4	10.3	5.7
Others	1.2	ROCE (%)	13.8	17.1	9.7	17.1	24.0
Public	29.1	ROE (%)	29.7	31.5	7.2	13.6	19.8

Source: Company and Karvy Estimates

Investment Positives

Strong expansion plans- focus on select states to aid timely execution

"Cinemax" a dominant theatre chain operator in the Mumbai and Maharashtra region is looking at rapidly expanding its business operations.

The company currently operates 12 properties with 38 screens most of which are located in the state of Maharashtra. Nine of the company's properties are located in the Mumbai and Thane region while one is located in Nashik. The company recently commenced operations of its 2 new multiplexes, one of which is located in Himatnagar, Gujarat and the other in Guwahati, Assam.

The company's theatre chain consists of a diverse mix of theatre options ranging from budget retrofit/single screens to high end multiplexes with special facilities such as the recliner seating arrangement and massage chairs at "The Red Lounge"; a concept introduced by Cinemax.

Exhibit 1: Existing properties

No	Property	Region	No. of Screens	No. of Seats
1	Goregaon	Mumbai	2	698
2	Kandivali (W)	Mumbai	1	287
3	Andheri	Mumbai	1	362
4	Sion	Mumbai	5	827
5	Wonder Mall, Thane	Mumbai	4	1,136
6	Mira Road	Mumbai	3	1,018
7	Nashik	Maharashtra	3	1,002
8	Versova	Mumbai	6	1,575
9	Kandivali (E)	Mumbai	4	1,259
10	Eternity Mall, Thane	Mumbai	4	1,056
11	Himatnagar	Gujarat	3	1,146
12	Guwahati -Dona Planet Commercial Complex	Assam	2	457
	Total		**38**	**10,823**

Source: Company and KSBL

The company's expansion plan entails setting up of further 14 new properties in FY08 and 15 new properties in FY09 resulting in an addition of 41 screens in FY08 and 55 screens in FY09. In FY08, the company has already set up 2 properties and 5 screens. The company's total tally of screens is likely to be 134 by FY09.

The company's strategy is to focus its initial expansion effort in western India; with Maharashtra and Gujarat being the target states. Of the 96 new screens to be set up by the company over the next 2 financial years, 60% are expected to come up in these 2 states.

The 2 main hurdle in setting up of a multiplex are delays on part of the mall developer in handing over the multiplex to the operator for fit outs as well as regulatory approvals that are required to commence operations at a multiplex. Every state has a different set of rules and regulations for multiplex operators on account of which the operators need to gain familiarity with individual state procedures. Cinemax is familiar with the regulatory environment in both; Maharashtra and Gujarat and is therefore confident of timely execution.

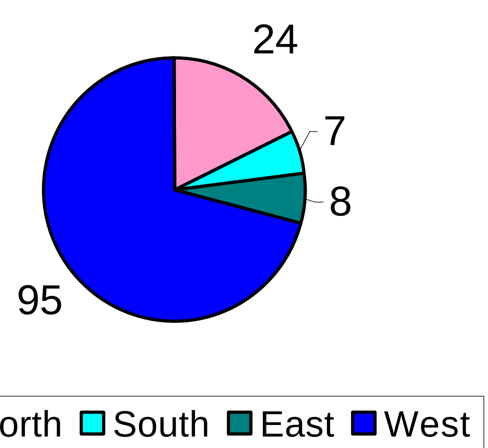
Exhibit 2: Expansion Plans

Year	No. of Properties	No. of Screens	No.of Seats
FY2007	10	33	9,220
FY2008	26	79	20,870
FY2009	41	134	34,607

Source: Karvy Estimates

By FY09, out of the expected total of 134 screens 95 are expected to be located in West India, 24 in North India, 8 in East India and 7 in South India.

Exibit 3: Region wise break up of screens - Post expansion (FY09)



Source: Company and KSBL

Change in business model of the company to spur expansion

Of the 12 theatre properties operated by Cinemax, 8 are owned by the company. This makes Cinemax one of the largest owners of multiplex properties in India. The company has largely been operating on an "Owned Property" model.

To spur expansion, the company has planned all its future expansion on a "Leased Property" model. The company will thereby, lease space within malls to operate their multiplexes, hence reducing capital commitments. The company will therefore be able to increase its footprint at a faster pace.

In the "Leased Property" model, the mall developer develops the mall after which he hands over the property to Cinemax. The interiors of the property are done up by Cinemax. These are known as "Fit Outs". The procedure of fit outs takes approximately 3-4 months. The cost incurred for the interiors works out to Rs60,000-80,000 per seat. Cinemax pays an average monthly rental of Rs35-40 per square foot.

Real estate background to help in timely multiplex rollout

We have noticed that the biggest hurdle faced by multiplex operators is timely execution. Multiplex operators have been facing tremendous delays in setting up multiplexes as mall developers do not hand over the property at the scheduled time. Mall developers are unable to estimate the time required to set up the mall which results in delays in multiplex operator's expansion plans.

Cinemax is a part of the Kanakia group, which has been associated with real estate development for over 2 decades. The group has developed over 5 million square feet of commercial and residential property.

Owing to the group's real estate background, we expect Cinemax to have a better judgment on the execution time line. The company will therefore be able to assess better probable hand over dates from mall developers. The company's fit out execution is also likely to be on schedule. Execution risk in case of Cinemax is likely to be lower than that of other multiplex operators.

Large number of owned properties- lower impact of service tax on rentals

The Union Budget FY2007-08 levied service tax on rentals of immoveable commercial property. This levy is likely to have a negative impact on all multiplex companies as majority multiplexes are operated on a lease basis.

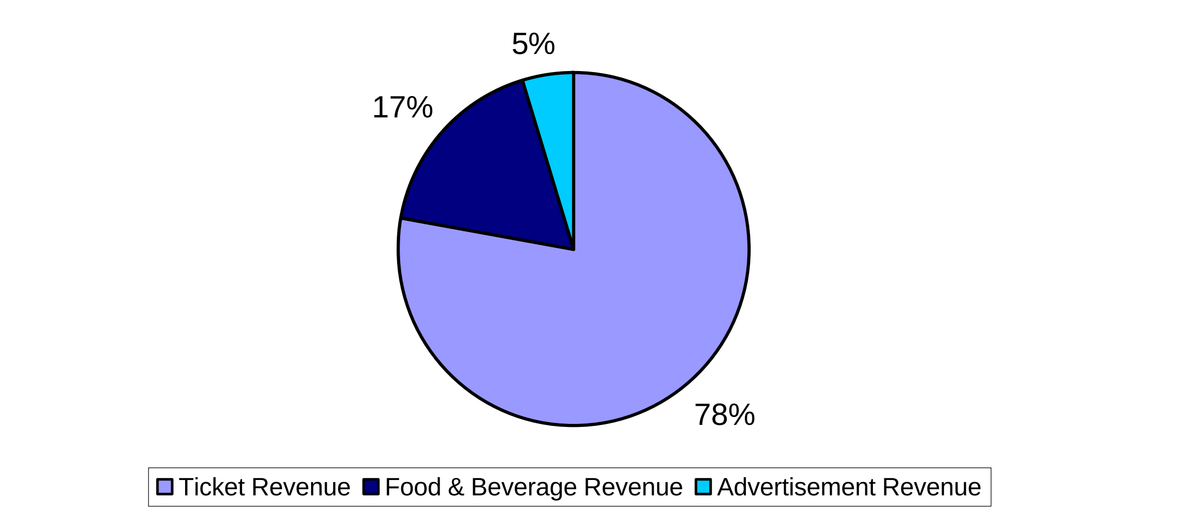
Though Cinemax has planned all its expansion on a "Leased Property Model", 8 of its 12 existing properties are owned by the company. Therefore the impact of the service tax levy on the company's existing properties is likely to be reduced to that's extent.

Theatrical revenue growth of 84% CAGR

On the back of rapid expansion over FY08 and FY09, we expect theatrical revenues to grow at 84% CAGR over FY08 and FY09. We expect occupancies to remain between 34-36% and average ticket prices to be in the range of Rs125-130.

Theatrical revenues consist of 78% ticket revenue, 17% F&B revenue and 5% advertisement revenue.

Exhibit 4: Break up of theatrical revenues



Source: Company and KSBL

With an addition of 46 screens in FY08 and 55 screens in FY09, we expect theatrical revenues of the company to grow by 85% and 83% respectively. We expect ticket revenue to grow at 85% and 86% over FY08 and FY09 respectively. Average ticket price for Cinemax are likely to increase from Rs125 in FY07 to Rs127 in FY08 and Rs130 in FY09.

F&B revenue growth over FY08 and FY09 is likely to be 90% and 91% respectively and is likely to equal around 22% of gross ticket revenues. Advertisement revenues which are likely to be 6% of ticket sales are likely to grow by 112% and 83% over FY08 and FY09 respectively.

Exhibit 5: Theatrical Revenues

Rsmn	FY2006	FY2007E	FY2008E	FY2009E
Sale of Tickets	384.9	698.3	1,293.2	2,406.5
Sale of Food & Beverages	57.7	147.6	280.1	536.4
% of ticket revenue	**15.0**	**21.1**	**21.7**	**22.3**
Advertisement Revenue	25.0	38.4	81.5	149.2
% of ticket revenue	**6.5**	**5.5**	**6.3**	**6.2**
Gross Theatrical Revenues	467.6	884.3	1,654.8	3,092.2
Entertainment Tax	61.5	67.2	147.1	338.1
Net Theatrical Revenues	406.0	817.1	1,507.6	2,754.1
% Growth		**101.3**	**84.5**	**82.7**

Source: Karvy Estimates

"Giggles Gaming Zone"- an additional source of revenue

As a complimentary to the theatrical business, the company has embarked on a Gaming business. The company runs one gaming zone at Eternity Mall in Thane Mumbai under the brand name of "Giggles". It is spread over 10,000 sq ft of area and offers around 50 state-of-the-art games for all age groups. The company Gaming business will have a ready customer base as it will be located either in the theater foyer or adjacent to the theatre. The company aims at driving revenues by providing complete family entertainment at a single location as well as keeping the prices of the games at competitive levels.

The company plans to set up 7 gaming zones by 2010. The average area of its gaming zone will be around 10,000 square feet. We expect revenues from this venture to be Rs30mn in FY08 and Rs50mn in FY09.

Mall development in a limited way

On account of the group's real estate development background, Cinemax has ventured into mall development in a limited way. The company has developed around 200,000 square feet of mall space at Eternity Mall in Thane, Mumbai. A part of this mall is occupied by the company's exhibition and gaming business while the remaining is occupied by varied retailers like Proline, Planet M, Metro Shoes, Bon Bon Shoes, My Dollar Store and others. The company's mall development business is limited to the development of the additional 30,000 square feet Floor Space Index (FSI) available in Eternity mall as well as to the development of a mall in Nagpur of 100,000 square feet which is currently being constructed by them.

The Nagpur mall is expected to be ready by mid FY08 and the additional space at Eternity mall Mumbai is likely to be ready by FY09. For an initial period of 2 years this mall space is expected to be leased out by the company. In the future we expect the company to sell this area to fund further expansion of their exhibition business. The company is expected to earn rental income of Rs42mn in FY08 and Rs60mn in FY09.

Financials

Expansion to drive revenues

The company is expected to set up 29 new properties by FY09 and will therefore have 134 screens under operations. From being Mumbai focused, the company is now moving into Tier 2 cities as well. On account of this shift we have assumed subdued growth in average ticket prices. We expect the ticket prices of the company to grow by 4% annually from Rs125 in FY07 to Rs127 in FY08 and Rs130 in FY09.

Average occupancies are expected to increase with a diversification of properties out of Mumbai as occupancies in the Mumbai region are low. We expect occupancies to increase from 34% in FY07 to 36%.

We have assumed an average delay of 3 months in commencing operations at every multiplex. On an average we expect the proprieties to be operational for 8.9 months in FY08 and 9.4 months in FY09.

The company’s theatrical revenues are expected to increase by 87% in both FY08 and FY09. Other operational income includes income from gaming and mall development. This is expected to decline in FY08 by 46% as FY07 includes revenue from sale of mall space. In FY08 and FY09, we have only assumed a rental from leased out mall space. Net revenues of the company are expected to grow by 66% and 81% in FY08 and FY09 respectively.

Exhibit 6: Revenue Projections

	FY07	FY08E	FY09E
Number of Properties	10	26	41
Number of Screens	33	79	134
Number of Seats	9,220	20,870	34,607
Average Ticket Price (Rs.)	125	127	130
Average Occupancy %	34	36	36
Average Months Under Operations	11.7	8.9	9.4
Gross Thetarical Revenue (Rs.mn)	884.3	1,654.8	3,092.2
Growth %		**87**	**87**
Other Operational Revenue (Rs.mn)	135.0	72.3	109.7
Growth %		**(46)**	**52**
Total Operational revenue (Rs.mn)	1,019.3	1,727.0	3,201.9
Growth %		**69**	**85**
Entertainment tax (Rs.mn)	67.2	147.1	338.1
Net Revenue (Rs.mn)	952.1	1,579.9	2,863.8
Growth %		**66**	**81**

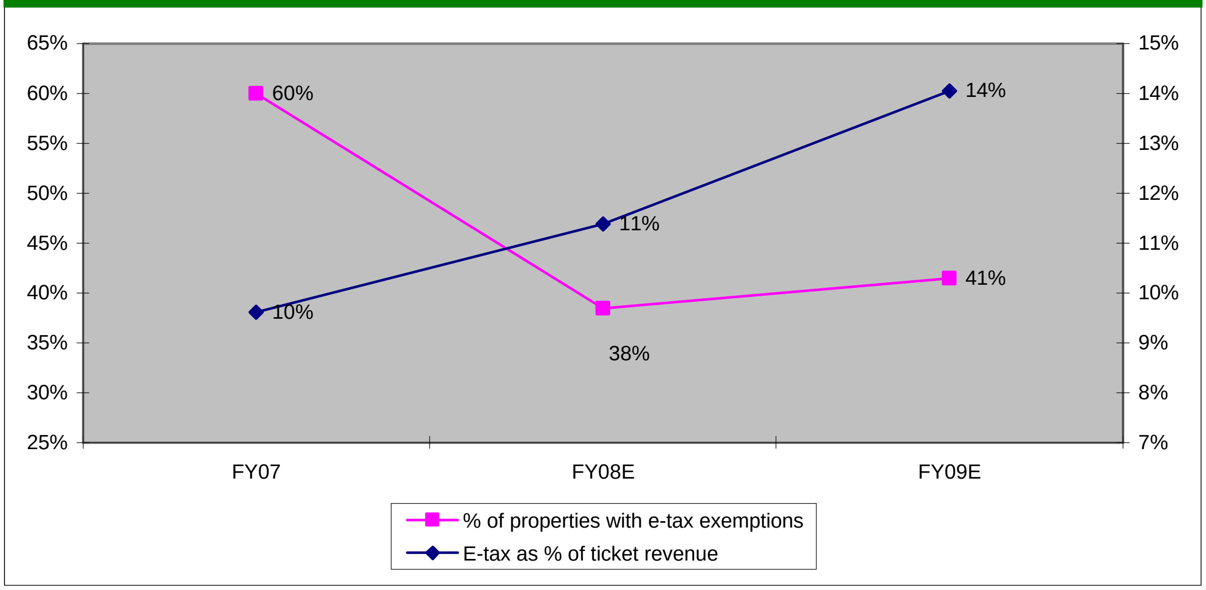
Source: KSBL

Higher percentage of non e-tax exempt properties to increase e-tax cost

In FY07, Cinemax operated 10 properties of which 6 have an entertainment tax (E-tax) exemption. Though we expect a larger number of properties to have e-tax exemptions, the proportion of e-tax exempt properties is expected to decline. Of the total 26 properties expected to be operational in FY08, we expect 10 properties to have e-tax exemptions. In FY09, we expect 17 of the 41 properties to be e-tax exempt. In our assumptions, we assume a 3 month delay in receipt of e-tax exemptions.

E-tax as a percentage of ticket revenue is expected to increase from 10% in FY07 to 11% and 14% in FY08 and FY09 respectively.

Exhibit 7: E-tax effect



Source: KSBL

EBIDTA margins to firm up by 520 bps

We expect margins to firm up on 2 counts. Firstly, margins were subdued due to the mall development business where gross margins were only 15% of the project income. As majority of the company's Eternity mall project has been completed and future projects are expected to be on a rental basis, we expected this phenomenon to be corrected. Secondly, we expect administrative and other fixed costs to get allocated over a larger revenue base. The company's margins are expected to firm up from 25.3% in FY07 to 30.3% in FY08 and 30.5% in FY09.

Leased properties to drive rental costs

Out of the 10 properties operated by the company in FY07, 8 properties were owned by the company. Going forward, majority of the company's new properties are expected to be leased out. On account of this shift in business model we expect the company's rental cost to increase from 4.7% of sales in FY07 to 8.3% in FY08 and 10.4% in FY09. The company has adopted the rental model to reduce capital commitments and thereby accelerate growth.

PAT to treble by FY09

Stimulated by strong revenue growth of 73% CAGR over FY08 and FY09 accompanied with expansion in EBIDTA margins, we expect the company's PAT to grow by 118% in FY08 and 81% in FY09. The company's PAT is expected to increase from Rs.115.6mn in FY07 to Rs251.9mn in FY08 and Rs456mn in FY09.

Strong capex plans

The company is expected to set up additional 11,650 seats in FY08 and 13,737 in FY09. The capex per seat is expected to be Rs.60,000-80,000 per seat. The company is expected to incur capex of Rs.701.2mn in FY08 and Rs.1,162.8mn in FY09 on the exhibition business. Further the company is expected to incur Rs.92mn and Rs.76mn on their other ventures in FY08 and FY09 respectively. To fund these capex plans, the company has raised Rs.1,235mn through a public issue in FY07 and is expected to maintain a debt equity ratio of 0.4.

Exhibit 8: Capex plans

Rs. Mn	FY08E	FY09E
Capex on exhibition business	701.2	1,162.8
Capex on mall development business	52.0	36.0
Capex on gaming zones	40.0	40.0
Total capex	**793.2**	**1,238.8**

Source: KSBL

Company background

Cinemax is a part of the Kanakia group, which has been associated with real estate development for over 2 decades. The group has developed over 5 million square feet of commercial and residential property. It later diversified into entertainment, education and hotels. The company was incorporated in May 2002 with the name of Cineline Entertainment (India) Private Limited. The name of the company was changed to Cinemax Cinemas (India) Private ltd. in December 2005 and later in June 2006 converted from a private limited to a public limited company.

The company carried out a restructuring in 2006 which was done with a view to consolidate the theatres and multiplexes operated by the group through various subsidiaries under the brand name of CINEMAX.

Cinemax was promoted by Mr. Rasesh Kanakia and Mr. Himanshu Kanakia. Rasesh Kanakia, the Chairman of the company, started his career as a real estate consultant and later ventured into development of properties. He was instrumental in diversification of the Kanakia group from real estate to entertainment, education and hotel industry. He closely looks into the functions of finance and strategy.

Himanshu Kanakia, the Managing Director of the company, is a qualified civil engineer. He has handled more than fifty projects involving development of approximately five million square feet for the Kanakia Group. He is the key person involved with the operations, construction, systems and administration of the company.

Concerns

Delays in multiplex rollout

One of the main concerns in the business model of multiplex companies is the roll out of new multiplexes. As future growth is dependant on the setting up of new multiplexes, delays in execution is a key risk. Delays occur as often mall developers are unable to accurately estimate the time line. Certain regulatory issues may also crop up delaying execution. We have factored a 3 month delay in our model; nevertheless any delay beyond this is likely to impact revenue assumptions.

Issues in obtaining licenses/permissions

Several licenses and permissions are required by the multiplex operator before he commences operations at a multiplex. Every state has a different set of rules and regulations. Getting familiar with the regulations of a state and attaining necessary approvals may delay timely rollout. This could adversely affect revenue estimates.

Change in state regulations

Several states offer e-tax exemptions which we have factored into our revenue model. An unfavourable change in these policies could prove to be negative for the company. If e-tax exemptions are removed completely by the state governments, there could be a drop in profit margins which could be as high as 5-7%. Any other adverse changes like imposition of a cap on ticket prices in any state where the company operates/is likely to operate a multiplex would be negative for the company. The broad trend in most states is towards relaxation of regulations to encourage investment in the sector. We therefore believe this risk is minimal.

Dependence on content

The success of a multiplex is broadly dependant on the quality and quantity of movies released. There could be periods of slackness in content flow which would affect the business of a multiplex. With the advent of multiplexes and corporatization of the film industry, the genres of films have increased. Besides there has also been an improvement in the quality of film content as the number of ‘A’ grade films are increasing.

Low return ratios

As the company is in expansion mode, return ratios in FY07 were subdued. The RoCE of the company was 10% and RoE was 7%. We expect a recovery in FY08 and FY09 whereby RoCE is expected to be 17% and 24% in FY08 and FY09 respectively. RoE is expected to be 14% and 20% in FY08 and FY09 respectively.

Valuations

Cinemax's competitor universe includes Inox Leisure, PVR and Shringar Cinema. PVR is the largest in terms of number of properties while Inox is the largest in terms of market capitalization.

Cinemax trades at PER of 17.2x FY08E and 9.5x FY09E which is a discount to the valuations of Inox and PVR. Cinemax trades at 12% discount to Inox based on FY08 and 25% discount based on FY09. In case of PVR, it trades at 33% discount to FY08 and 21% discount to FY09.

The valuations of Cinemax are similar to those of Shrinagr on account of their toplines being in the same range. Nevertheless, Cinemax's profitability is far superior as compared to Shringar on account of the larger number of Cinemax's owned properties. Cinemax's operating margins for FY07 stand at 25% as compared to 14% for Shringar.

Amongst the multiplex operators, we expect Cinemax's earnings growth to be the highest. Cinemax is the cheapest in terms of PEG. The stock trades at 0.17x FY08E and 0.1x FY09E. Cinemax's return ratios are lower than those of Inox on account the Cinemax's rapid pace of expansion which requires larger capital commitments.

Execution risk in case of Cinemax is minimized on account of the Kanakia real estate background as well focus on 2 states; Gujarat and Maharashtra.

We expect an upward re-rating in Cinemax's valuations. Cinemax is likely to trade at a premium to Shringar, in line with the valuations of Inox and PVR. We thereby rate the stock BUY with a price target of Rs200.

Exhibit 9: Valuation Matrix

		Cinemax	PVR	Inox Leisure	Shringar
Price (Rs)		155	211	137	63
Price Target (Rs)		200	255	170	70
Recommendation		BUY	Outperformer	Outperformer	Market performer
Market Capital (Rsmn)		4,340.0	4,835.1	8,220.0	1,988.7
Market Cap. (US$mn)		109	121	206	50
	FY2007E	952.1	1566.9	1415.9	878.1
Sales (Rsmn)	FY2008E	1,579.9	2485.6	2678.2	1764.2
	FY2009E	2,863.8	4148.2	4286.7	2713.1
	FY2007E	240.8	232.1	384.8	126.4
EBITDA (Rsmn)	FY2008E	479.1	501.5	723.3	266.9
	FY2009E	873.6	941.4	1,172.4	538.8
	FY2007E	115.6	91.0	237.6	97.6
PAT (Rsmn)	FY2008E	251.9	195.3	434.5	139.8
	FY2009E	456.0	424.4	664.4	277.2

		Cinemax	PVR	Inox Leisure	Shringar
	FY2007E	25.3	14.8	27.2	14.4
EBITDA Margin (%)	FY2008E	30.3	20.2	27.0	15.1
	FY2009E	30.5	22.7	27.3	19.9
	FY2007E	4.1	4.0	4.0	3.1
EPS (Rs)	FY2008E	9.0	8.2	7.0	3.7
	FY2009E	16.3	17.5	10.7	6.8
	FY2007E	NA	71.8	35.4	NA
EPS Growth (%)	FY2008E	117.9	106.3	77.4	20.4
	FY2009E	81.0	113.1	52.9	83.6
	FY2007E	37.5	53.1	34 .9	20.4
PER (x)	FY2008E	17.2	25.8	19.5	16.9
	FY2009E	9.5	12.1	12.8	9.2
	FY2007E	4.6	3.1	5.8	2.3
Mcap/Sales (x)	FY2008E	2.7	1.9	3.1	1.1
	FY2009E	1.5	1.2	1.9	0.7
	FY2007E	0.38	0.48	0.53	0.42
PEG	FY2008E	0.17	0.23	0.30	0.35
	FY2009E	0.10	0.11	0.20	0.19
	FY2007E	20.4	25.1	22.4	17.8
EV/EBITDA (x)	FY2008E	10.3	12.0	12.3	8.5
	FY2009E	5.7	6.4	7.7	4.3
	FY2007E	9.67	7.43	12.34	9.56
ROCE (%)	FY2008E	17.05	12.10	20.27	13.00
	FY2009E	23.98	20.47	28.71	19.31
	FY2007E	7.25	5.20	10.58	12.92
ROE (%)	FY2008E	13.64	10.01	17.33	14.20
	FY2009E	19.80	17.83	22.67	16.77
	Existing	12	22	14+2*	11
Properties	FY2008E	26	31	25+2*	21
	FY2009E	41	43	34+6*	31
	Existing	38	83	51+7*	39
Screens	FY2008E	79	131	94+14*	73
	FY2009E	134	182	130+26*	119

*Acquisition through Calcutta Cine Pvt. Ltd.

Competitor Snapshot

Inox Leisure (Rs.155) — Outperformer

Target Price: Rs.170

Inox Leisure is a premium multiplex operator, having a diversified presence across the country. The company operates 14 properties and 51 screens. 4 of the company's properties are owned by the company while the remaining are operated on a lease basis.

The company chooses premium locations for their multiplexes and is therefore able to charge higher ticket prices. The company's multiplexes are normally located in affluent residential areas or central business districts of the city so as to give them a competitive advantage over the long term.

To get access to premium mall space, Inox has entered into an alliance with the Pantaloon Group, whereby Inox will get preferential access to all the real estate developments associated with Pantaloon. Inox will have the right of first refusal in all these developments.

Inox is in the process of amalgamating Calcutta Cine Private Ltd. (CCPL) with itself which it acquired in early FY07. CCPL manages its multiplex business under the brand name of "89 Cinemas". CCPL is dominant in East India. The company currently operates 2 properties and 7 screens one of which is located in Calcutta and the other in Durgapur. CCPL has entered into an alliance with Bengal Ambuja- a leading real estate developer in East India, which gives CCPL preferential access as the preferred multiplex operator to all properties being developed by Bengal Ambuja.

Inox is expected to commence operations at 11 new properties in FY08 and 9 new properties in FY09. Through CCPL, additional 2 properties are expected in FY08 and 4 in FY09.

The company's topline is expected to grow 74% CAGR over FY08 and FY09 with a profit growth of 67% CAGR. The company trades at 19.5x FY08E and 12.8 x FY09E. In terms of market capitalization, Inox is the largest multiplex play at CMP of Rs137. We rate the stock Outperformer with a price target of Rs.170.

Inox Leisure		Rsmm	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Reuters/Bloomberg Code	INOL.BO INOL.IN	Net Sales	594.3	1,020.7	1,415.9	2,678.2	4,286.7
Market Cap. (Rsmn)	8,220.0	EBITDA	206.4	360.0	384.8	723.3	1,172.4
Market cap. (US$mn)	182.7	Net Profit	70.8	175.4	237.6	434.5	664.4
Shares Outstanding (mn)	60.0	EPS (Rs)	1.6	2.9	4.0	7.0	10.7
52-week High/Low (Rs)	215/95	EPS Growth (%)	106.4	81.6	35.4	77.4	52.9
		EBITDA margin (%)	34.7	35.3	27.2	27.0	27.3
		PER (x)	85.1	46.9	34.6	19.5	12.8
Major Share Holders (%)		P/BV (x)	11.1	3.8	3.5	3.2	2.7
Promoter/Majority	66.0	Market Cap/Sales (x)	13.8	8.1	5.8	3.1	1.9
FIIs	11.4	EV/EBITDA (x)	44.4	25.8	22.4	12.3	7.7
Others	10.1	ROCE (%)	12.9	13.8	12.3	20.3	28.7
Public	12.5	ROE (%)	13.7	12.9	10.6	17.3	22.7

Source: KSBL

PVR (Rs.211) — Outperformer

Target Price: Rs.255

PVR is the largest multiplex chain in the country with 22 properties and 82 screens. The company's major focus has been in North India as it is a Delhi based company. During FY07, the company strengthened its position in western India. The company's strategy is to dominate the northern region as well as create a dominant presence in western and southern India.

The company's chain also consists of low budget digital cinemas which have been branded as PVR Talkies. The digital chain is focused towards B and C centres and aims to reach out to the masses.

The company plans to set up a total of 22 properties over the next two financial years, of which 10 are expected to commence operations in FY08 and the remaining 12 in FY09.

The company also has a limited presence in the distribution segment through its 100% subsidiary, PVR Pictures. This is a strategic move so as to deepen its presence in the film industry. In FY07, the company announced its foray into the film production space. The company has signed a co-production deal with Aamir Khan Production Private Ltd. to co-produce 2 films. This venture marks the company's entry into the production space as the company perceives a huge opportunity on account of a lack of organized financing as well as a lack of professional marketing of Indian films. Both the films are due for release in FY08.

The company has also announced its foray into the food court business. It plans to set up food courts in malls where they have a theatrical presence. The company would be able to negotiate a favourable rental as it will be procuring space for the both; the multiplex venture as well as the food court venture. The space will be leased out to various food vendors with a revenue sharing agreement. The aim is to earn an arbitrage of 20-25% on the rental.

Revenues of the company are likely to grow at 63% CAGR over FY08 and FY09. This is likely to be accompanied with margin expansion from 14.8% in FY07 to 22.7% in FY09. The company's profit growth over FY08 and FY09 is likely to be 116%. The company currently trades at 25.8 x FY08E and 12.1 x FY09E. At the CMP price of Rs211, we rate the stock Outperformer with a price target of Rs.255.

PVR Ltd.		Rsmn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Reuters/Bloomberg Code	PVRL.BO/ PVRL.IN	Net Sales	686.5	1,049.1	1,566.9	2,485.6	4,148.2
Market Cap. (Rsmn)	4,835.1	EBITDA	111.5	158.7	232.1	501.5	941.4
Market cap. (US$mn)	107.4	Net Profit	36.8	52.9	91.0	195.3	424.4
Shares Outstanding (mn)	22.9	EPS (Rs)	2.2	2.3	4.0	8.2	17.5
52-week High/Low (Rs)	344.40 / 188.40	EPS Growth (%)	83.4	7.4	71.8	106.3	113.1
		EBITDA margin (%)	16.2	15.1	14.8	20.2	22.7
		PER (x)	98.1	91.3	53.1	25.8	12.1
Major Share Holders (%)		P/BV (x)	6.8	2.8	2.7	2.4	1.9
Promoter/Majority	40.5	Market Cap/Sales (x)	7.0	4.6	3.1	1.9	1.2
FIIs	28.4	EV/EBITDA (x)	46.7	30.4	25.1	12.0	6.4
Others	26.4	ROCE (%)	9.6	7.1	7.4	12.1	20.5
Public	4.7	ROE (%)	8.9	4.7	5.2	10.0	17.8

Source: KSBL

KARVY STOCK BROKING LIMITED

Shringar Cinema (Rs.63)

Market performer

Target Price: Rs.70

Shringar operates its multiplexes under the brand name of “Fame”. Its presence is focused in western India. It operates 11 properties and 39 screens of which 8 are located in the western region. 5 of the company’s properties are located in Mumbai.

The company future multiplex openings are expected to be diversified across the country as they intent to be national players. The company plans to open 20 new properties over FY08 and FY09.

Out of the 10 new properties to be set up in FY08, 7 properties are already handed over to the company. We therefore expect strong roll out during the current year.

The company undertakes distribution of films in its 100% subsidiary "Shringar Films". The distribution business for the company is strategic in nature. It aids the company to stay in closer touch with the movie world and establish good relations with producers. It gives them access to an information data pool of box office collections and demands in various cities and also enables them to host premiere shows.

The company’s revenues are expected to grow at 76% CAGR over FY08 and FY09. We expect margin expansion of 550bps between FY07 and FY09. The company’s profits are expected to grow at 69% which looks subdued on account of extra-ordinary other income in FY07. The company trades at a discount to its peers on account of its market capitalization which is the smallest amongst its peers. At CMP of Rs63, the stock trades at 16.9x FY08E and 9.2x FY09E. We rate the stock Market performer with a price target of Rs.70.

Shringar Cinema		Rsmn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Reuters/Bloomberg Code	SHRC.BO/ SCIN.IN	Net Sales	378.6	580.1	878.1	1,764.2	2,713.1
Market Cap. (Rsmn)	1,988.7	EBITDA	33.7	53.1	126.4	266.9	538.8
Market cap. (US$mn)	44.2	Net Profit	(52.0)	(29.0)	97.6	139.8	277.2
Shares Outstanding (mn)	31.6	EPS (Rs)	(2.2)	(0.9)	3.1	3.7	6.8
52-week High/Low (Rs)	92.75 / 32.75	EPS Growth (%)	-	-	-	20.4	83.6
		EBITDA margin (%)	8.9	9.2	14.4	15.1	19.9
		PER (x)	(28.4)	(68.6)	20.4	16.9	9.2
Major Share Holders (%)		P/BV (x)	7.4	3.6	3.1	1.8	1.3
Promoter/Majority	47.7	Market Cap/Sales (x)	5.3	3.4	2.2	1.1	0.7
FIIs	11.5	EV/EBITDA (x)	70.2	41.1	17.8	8.5	4.3
Others	18.5	ROCE (%)	2.0	3.8	9.6	13.0	19.3
Public	22.3	ROE (%)	(15.6)	(5.0)	12.9	14.2	16.8

Source: KSBL

Annexure 1: The current industry scenario

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

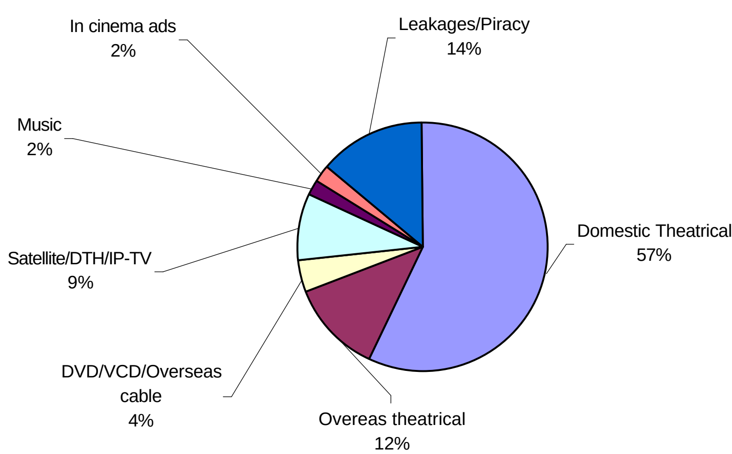
"Films" has been one of the integral components of the Indian entertainment industry contributing nearly 27% of the total revenues of the entertainment industry. Besides, films also contribute to other components of the entertainment industry like music, television and live entertainment. The Indian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

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

Film exhibition business in India- tremendous scope

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

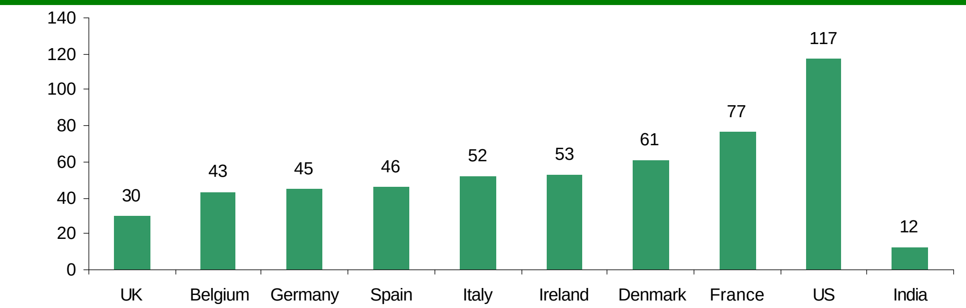
Exhibit 10: Distribution of film revenue



Source: CII-KPMG

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

Exhibit 11: Screens per million population



Source: CII-KPMG Report

Trending towards multiplexes

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

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

Multiplexes have several advantages as compared to single screen cinemas

- Multiplexes have access to prime locations as a large number of mall developers are considering setting up movie theaters to attract footfalls in the mall. Multiplex operators are emerging as anchor tenants for malls and are therefore being offered attractive rental rates.
- Multiplexes offer a large variety of movies for their viewers as a number of movies are running simultaneously in a single property. Typically, 7 movies can run simultaneously in a 4 screen multiplex.
- Occupancies in multiplexes are higher as compared to single screen cinemas as the seating capacity per screen in a multiplex is lesser than that of a single screen cinema. Different screens in a multiplex have different seating capacities. The multiplex operator can therefore choose to show movies on a larger or smaller screen based on the expected potential of a film. Besides the multiplex operator can also choose to show movies on larger screens in the first few weeks of release and later continue to show this film on a smaller screen.

- Multiplex operators can charge different prices depending on the time and popularity of the film.
- A multiplex operator can maximize the number of shows as multiple films are available for screening. Based on the screening duration of different films, the multiplex operator can efficiently programme his shows to maximize the number of shows and thereby generating higher number of patrons.
- Multiplex operators use common manpower for several screens and hence have better cost efficiencies.
- Multiplex operators can offer a wide range of food and beverages as multiple screens use common food and beverage facilities. This wide range helps in increasing the F&B spend per patron.
- Multiplex operators can achieve significant operating efficiencies due to better film management and common vendor relationships.
- Due to the large number of screens, multiplex operators have better bargaining power with distributors.
- Entertainment tax, levied by the state, is the main levy on the exhibition industry. This varies from 30% to 100% of the net ticket price from state to state. Recently certain states have announced entertainment tax holidays for newly constructed multiplexes. This is likely to increase the profitability for these multiplexes.

Drawbacks of a Multiplex

- Multiplexes charge a 30%-50% premium on ticket prices as against standalone cinemas. This is one the major drawbacks of multiplex operators as multiplexes attract only a section of the society consisting of the Rich and Upper Middle class. The premium charged by multiplexes is for the better ambience as well the high quality audio and visual effects.
- In certain areas, multiplexes have become a cause for traffic jams. People residing near multiplexes find this to be a nuisance.
- To set up a multiplex, a series of approvals and licenses have to be acquired by the mall developer as well the multiplex operator. This is due to the heavy regulation imposed by state governments. These regulatory issues are a cause of concern as they cause delays in setting up a multiplex. The regulatory norms differ in each state. This makes it difficult for a multiplex operator who is setting up a multiplex in a particular state for the first time. These regulatory issues, in certain cases cause tremendous delays in commencing operations at a multiplex.
- The Tamil Nadu government has recently imposed a ceiling on multiplex ticket prices at Rs120. Such measures taken by state governments are detrimental for multiplex operators as they make properties unviable.
- Mall rentals have been spiraling over the last couple of years. This is a cause of concern for multiplex operators as high rentals result in properties becoming unviable.
- The recent Budget 2007-08 imposed service tax on rentals of immovable commercial property. This is expected to lead to a further increase in rental costs for the multiplex operators as most of the properties are taken on lease.
- A large number of states have announced entertainment tax exemption policies for newly constructed multiplexes. This exemption is for a limited period of time (4-5 years). If the state governments do not rationalize entertainment tax rate post expiry of the exemption period, it could be negative for the profitability of these multiplexes.

Changing demographics and consumption patterns favorable for multiplexes

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

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

The advent of corporatization in the Indian film industry

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

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

Increasing corporatisation of the film production sector should result in an increase in the number of high quality films produced, which should increase demand for movies. In an increasingly corporate environment, unviable movies with weak scripts should find it difficult to garner funding. Consequently, although the average number of films produced annually in India is expected to fall from over 900 in 2004 to around 600 by 2010, the quality of the movies produced is expected to increase (Source: CII - KPMG Report, 2005).

Entertainment tax exemptions beneficial for multiplexes

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

Exhibit 12: Entertainment tax

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

Source: Industry data

Working of entertainment tax

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

Exhibit 13: Working of entertainment tax

Net Ticket Revenue=	Total Admission Fee Charged to Patron-Entertainment Tax
Eg. Entertainment Tax as % of Net Ticket Revenue	50
Total Admission Fee (Gross Ticket Revenue) (Rs)	150
Entertainmenttax (Rs)	50
Net Ticket Revenue (Rs)	100
Entertainment Tax as % of Gross Ticket Revenue	33

Source: KSBL

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

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

Exhibit 14: Entertainment tax exemptions

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

Source: Industry data

Value chain in the film industry

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

- Production
- Distribution
- Exhibition

Production

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

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

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

Distribution

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

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

Exhibition

Film exhibition is the final stage in the film making process. In this stage the film reaches its audience. Film exhibition takes place in single screen cinemas or in multiplexes. The success of a film primarily depends on box office collections (Total ticket revenue). Revenue from domestic theatrical distribution is expected to grow at 17% CAGR from Rs34bn in 2003 to Rs.86bn in 2010 (CII-KPMG).

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

Procedure of setting up a multiplex

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

Development of property

In this stage the mall developer develops the property according to the specifications agreed upon by the multiplex operator and the mall developer. The mall developer has to get certain approvals from various authorities. After the mall developer completes development and gets approvals, the property is handed over to the multiplex operator. We have noticed tremendous delays on part of the mall developers to hand over the properties to the multiplex operator at the scheduled time. This has been on account of wrong estimation of time to set up the mall as well delays in acquiring permissions to operate the mall.

Fit outs

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

Approvals

After fit outs are completed, the multiplex operator has to get various approvals before he can commence operations. On an average this stage takes around 1-3 months to get the necessary approvals. The procedure to attain these licenses differs from state to state. We have noticed that when a multiplex operator is setting up a multiplex for the first time in a particular state, his approval procedure is normally delayed.

Revenue model of a multiplex

A multiplex has primarily 3 sources of income:

Ticket Income

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

Concession Income

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

Advertisement Income

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

Cost structure of a multiplex

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

Distributor Share

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

Food and Beverage Cost

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

Lease Rentals

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

Other Operating Costs

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

Seasonality in the exhibition business

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

Exhibit 15: Quarterly Break Up of Revenues (%)

Q1	27
Q2	28
Q3	25
Q4	20

Digital Cinema

Digital cinema technology is making inroads into the Indian film industry. Maximum number of theatrical motion pictures are produced, distributed and projected in the celluloid form. The reason for celluloid technology dominating over the digital technology is on account of the lack of viability of high quality digital cinema (D-Cinema). It costs close to Rs600mn to install digital technology.

Digital cinema is the transmission and delivery of films to theatres electronically, where the image is stored in a computer server and the digital beam projected on to the screen with a digital projector. This leads to huge cost reductions of 25-30% of the total budget of a film, as producers can save on print cost.

Besides saving on print costs, digital cinema has various other advantages. Digital prints are less prone to illegal duplication, thereby curbing piracy. With digital technology, the theatre server has the capacity to store multiple digital movies, thereby allowing the flexibility to theatre owners to play different movies at different times or days on their screens, just like multiplexes.

Today a producer of a mainstream commercial film gets around 250-300 celluloid prints released for 12,900 screens in the country. Due to this reason a film dose not get showcased in the first week of release in B and C class cities. Digital cinema would enable simultaneous release of movies in all centers.

Low cost digital cinema has made inroads in B and C class cities of India. This is in the form of E-Cinema, which typically uses the same technology as D-Cinema but with a lower resolution projector. This enables release of films in B and C cities which is normally delayed by a few weeks. Companies like Adlab Films, PVR and Pyramid Saimira are introducing E-Cinema in B and C class cities.

Annexure 2: Business model of a multiplex

Income (Rs)	**FY1**	**FY2**	**FY3**	**FY4**	**FY5**	**FY6**	**FY7**
Ticket Revenue	74.0	74.0	74.0	74.0	74.0	74.0	74.0
F&B Revenue	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Ad and other Income	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Gross Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Entertainment tax	-	-	-	(8.0)	(8.0)	(33.0)	(33.0)
Total Tax	-	-	-	(8.0)	(8.0)	(33.0)	(33.0)
Net Revenue	100.0	100.0	100.0	92.0	92.0	67.0	67.0
Expenses							
Film Hire Charges	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Concession cost	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Salary & Wages	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Rent	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)
Others	(15.0)	(15.0)	(14.0)	(14.0)	(13.0)	(12.0)	(12.0)
Total Expenses	(63.0)	(63.0)	(62.0)	(62.0)	(61.0)	(60.0)	(60.0)
EBIDTA	37.0	37.0	38.0	30.0	31.0	7.0	7.0

Assumptions: 1. Entertainment tax @ 0% for FY1, FY2 and FY3

2. Entertainment tax @ 25% of normal tax rate in FY4, and FY5

3. Entertainment tax @ 100% FY6 onwards

4. Entertainment tax rate= 45%

KARVY
STOCK BROKING LIMITED

Profit & loss statement

Rsmn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	290.3	661.8	952.1	1,579.9	2,863.8
% growth	1,255.8	128.0	43.9	65.9	81.3
Direct Cost	113.1	151.1	344.5	690.8	1,322.7
Administrative & Selling Cost	48.0	95.6	164.6	274.6	455.6
Staff Expenses	18.1	29.6	65.7	94.8	157.5
Other Expenses	6.3	15.1	30.4	35.4	47.1
Cost of Project	1.8	218.8	106.3	5.2	7.2
Total Expenditure	187.3	510.2	711.4	1,100.8	1,990.1
EBITDA	103.0	151.6	240.8	479.1	873.6
% growth	1,310.3	47.2	58.9	99.0	82.3
EBITDA margin (%)	35.5	22.9	25.3	30.3	30.5
Other income	8.6	22.4	20.0	30.0	25.0
Interest	9.9	40.6	48.6	47.4	69.3
Gross Profit	101.6	133.4	212.1	461.7	829.3
% growth	1,258.7	31.3	59.0	117.6	79.6
Depreciation	21.8	29.3	44.6	88.5	148.7
Profit Before Tax	79.8	104.1	167.5	373.2	680.7
% growth	(8,326.2)	30.5	60.9	122.8	82.4
Tax	17.6	27.3	51.9	121.3	224.6
Effective tax rate (%)	22.0	26.3	31.0	32.5	33.0
Net Profit	62.2	76.8	115.6	251.9	456.0
% growth	(6,512.8)	23.5	50.5	117.9	81.0
EPS (Rs)	10.4	12.8	4.1	9.0	16.3
% growth	1,987.4	23.5	(67.7)	117.9	81.0

Balance sheet

Rsmn	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Equity	60.0	60.0	280.0	280.0	280.0
Reserves	149.1	184.2	1,315.0	1,566.9	2,022.9
Net worth	209.1	244.2	1,595.0	1,846.9	2,302.9
Deffered Tax Liability	7.4	6.3	6.3	6.3	6.3
Short-term Loans	152.2	57.6	110.0	120.0	175.0
Long-term Loans	290.2	543.5	530.0	500.0	650.0
Total Loans	442.5	601.1	640.0	620.0	825.0
Advance against share capital	0.1	0.1	-	-	-
Liabilities	**659.1**	**851.7**	**2,241.3**	**2,473.2**	**3,134.2**
Gross Block	510.3	603.6	892.1	1,525.5	2,563.1
Depreciation	58.0	87.3	131.9	220.4	369.1
Net Block	452.3	516.3	760.1	1,305.1	2,194.0
Capital work-in-progress	41.5	125.5	179.4	159.7	201.2
Goodwill	0.2	0.2	21.8	21.8	21.8
Long-term Investments	11.9	8.5	800.0	500.0	-
Inventories	90.6	169.7	247.6	402.9	715.9
Debtors	12.4	37.9	57.1	94.8	171.8
Cash	155.0	27.9	67.4	24.4	156.7
Loans and advances	186.1	336.2	413.6	588.9	879.6
Total Current assets	444.0	571.7	785.7	1,110.9	1,924.1
Current liabilities	277.3	331.5	292.8	594.1	1,150.7
Provisions	13.5	39.0	13.0	30.3	56.2
Total current liabilities	290.8	370.5	305.8	624.4	1,206.9
Net current assets	153.2	201.2	479.9	486.5	717.2
Total Assets	**659.1**	**851.7**	**2,241.3**	**2,473.2**	**3,134.2**

Ratio analysis

	FY2005	FY2006	FY2007E	FY2008E	FY2009E
ROCE (%)	13.8	17.1	9.7	17.1	24.0
ROE (%)	29.7	31.5	7.2	13.6	19.8
Debt/Equity (x)	2.12	2.46	0.40	0.34	0.36
Direct Cost / Total Income (%)	37.8	22.1	35.4	42.9	45.8
Admin & Selling Cost / Total Income (%)	14.3	20.4	18.4	16.3	14.5
Staff Expenses / Total Income (%)	6.2	4.5	6.9	6.0	5.5

Cash flow statement

Rsmn	FY2006	FY2007E	FY2008E	FY2009E
EBIT	122.29	196.17	390.63	724.95
(Inc.)/Dec in working capital	(175.03)	(239.29)	(49.66)	(98.30)\
Cash flow from operations	(52.74)	(43.12)	340.97	626.65
Other income	22.44	20.00	30.00	25.00
Depreciation	29.27	44.60	88.48	148.66
Interest paid (-)	(40.59)	(48.64)	(47.43)	(69.30)
Tax paid (-)	(27.34)	(51.94)	(121.29)	(224.62)
Deferred Tax	(1.11)	(0.01)	-	-
Misc. Expenditure	0.98	0.19	-	-
Net cash from operations	(69.09)	(78.91)	290.73	506.39
Capital Expenditure (-)	(177.3)	(342.3)	(613.8)	(1,079.0)
Net cash after capex	(246.38)	(421.25)	(323.05)	(572.64)
Inc./(Dec.) in short-term borrowing	(94.61)	52.37	10.00	55.00
Inc./(dec.) in long-term borrowing	253.25	(13.46)	(30.00)	150.00
Inc./(dec.) in borrowings	158.64	38.91	(20.00)	205.00
Inc./(Dec.) in Investments	3.41	(791.47)	300.00	500.00
Equity issue/(Buyback)	-	1,235.00	-	-
Capital Reserve on consolidation	(42.7)	-	-	-
Good will on Combination	-	(21.6)	-	-
Cash from Financial Activities	119.4	460.9	280.0	705.0
Opening cash	154.95	27.94	67.40	24.36
Closing cash	27.94	67.40	24.36	156.72

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