

Bhavya Gandhi
bgandhi@mfglobal.com
Bhautik Doshi
bdoshi@mfglobal.com

Date: 13th September 2011

MF Global Sector – Entertainment

Cinemax India- Management Meet Note

CMP : Rs 31

Fair Value: Rs 44

Key take away

About the company: Cinemax India (Cinemax), a theatre chain operator promoted by the Kanakia Group that has got an experience of more than two decades in the real estate development. Cinemax is operating in about 34 locations, with 114 screens having a capacity of ~29000 seats. Its theatre chain consist of a diverse mix of theatre operations, ranging from budget retrofit single screens, to high end multiplexes with special facilities such as recliner seating arrangement and massage chairs at “The Red Lounge”, a concept initiated by Cinemax. The average ticket price (ATP) for Cinemax is around Rs 132. The group initially retrofitted the single or multiple screen theatres, but with the introduction of the multiplex policy by the various state government in terms of entertainment tax benefit, the group moved into the development of the multiplex. Currently ~30 screens of the company get Entertainment tax exemption.

Diversified Revenue Model – will improve yield from footfall: Cinemax is mainly into film exhibition business, which gives revenue from ticketing sales and food & beverage. To improve the yield from the footfall, company has added a Gaming zone under the brand name “Giggles”. The gaming business has six outlets located either in the theatre foyer or adjacent to the theatre. We believe that the gaming zone will lead to cross selling opportunity and also ensure higher footfall at the premises. The company plans to set up few more gaming zones with an average area of 10,000 sq. ft. During the year FY11, company added a bowling alley at Delhi by investing around Rs25mn.

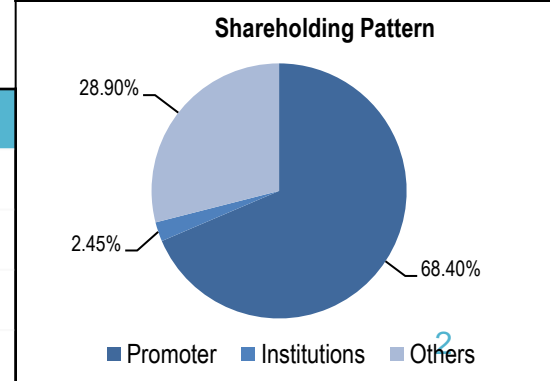
De leverage of Balance sheet -Mall property in Nagpur ready for sale: Cinemax owns a Mall property in Nagpur of about 1,00,000sq ft. where nearly 65,000sq ft. has been given on lease, the remaining area is utilized for the multiplex purpose. Company is looking for exiting from this property and looking to generate a cash flow of Rs 600 to Rs 650mn. We believe that selling this property will help the company to deleverage its balance sheet. For year ended FY11, it had debt of Rs 1,263mn (0.73x D/E).

Year	NTI	EBITA	PAT	EPS	BV	ROCE(%)	ROE(%)
FY10	827	359	213	6	59	9.7	10.2
FY11	895	353	55	2	61	5.6	3.2
FY12E	1,072	496	98	3	64	8.7	5.4
FY13E	1,174	586	146	5	70	10.1	7.5

Sensex	16501
Nifty	4946

Stock Data	
BSE Code	532807
NSE Code	CINEMAX
Bloomberg	CNMX IN
Reuters	CIMA.BO
Shares Issued (mn)	28.0
Market Cap (Rs mn)	872
52 Wk H/L (Rs)	66/27
Face Value (Rs)	10
Avg. daily vol. (12M)	26,672

Return (%)			
	1m	3m	12m
Absolute	(7)	(14)	(40)
Rel. to Sensex	(5)	(6)	(40)



Key take away

Asset light approach: Cinemax started its business predominantly with owned properties (which currently is 25% of capacity, 170,000 sq ft). Over the last 3-4 years, company has changed its policy and moved to leasing model. The initiative is to curtail down the capital commitment. The capital cost incurred for building the fit outs ranges between ~Rs 60k-Rs75k per seat. So we believe that the initiative of improving yield from increased footfall and expected good quality content will lead to improvement in return ratios in the coming year.

Occupancy to increase on account of high quality content expected: We expect a good quality content release during the year FY12E-13E. This will lead to higher footfall for the theater, which will lead to an improved occupancy level for the company. From September 2010 to April 2011 company has added ~6000 seats, so the improvement in footfall will drastically improve the profitability of the company. Cinemax plans to add another ~6791 seats. At present Cinemax operates at a comfortable level of ~26% occupancy with varied seating capacities and an average ATP of Rs 132. We believe that the improvement in occupancy will lead to higher profitability.

Financials: For FY11, the company reported net profit of Rs 54 mn on sales of Rs 1,916 mn, with reported EBIDTA margins of 15% in FY11. We expect the revenues for the company to grow at a CAGR of 18% over the next two years. As per our estimates the company will report Net income of Rs.1,072 mn & net profit of Rs. 98 mn for FY12E and Rs 1,174 mn net sales and Rs 149 mn for FY13E. The revenue mix is expected to remain almost same with film exhibition business contributing 35-36% of net revenues, food & beverages 35-36%, 15-16% from advertising and Others (incl. gaming) , 10-15%.

Conclusion: We believe that good entertaining movies in pipeline for the rest of the year will keep the exhibitor busy and lead to improve the occupancy. We believe that the return ratio and cash flow will improve going forward. Further, we believe that the sale of Nagpur property and improvement in cash flow will help company to deleverage its balance sheet. At the CMP of Rs 31 company is trading at 0.46x P/BV and 7.1x P/EPS for average of FY12E-13E respectively. Based on the historical median we believe 10x earning and 0.65x book value represent fair discount. Based on that assumption we arrive to a **fair value target of Rs 44 per share**.

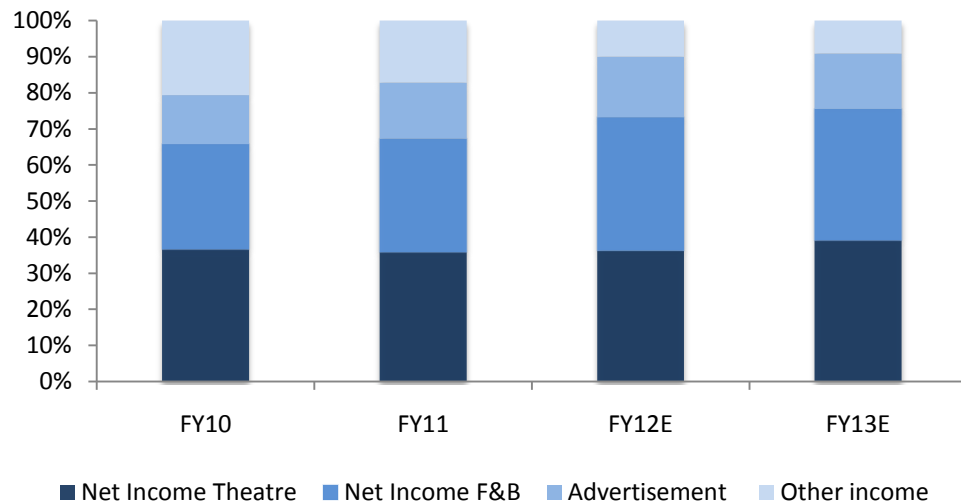
Concerns

Higher concentration on western zone: Cinemax generates ~70% of its revenues from the western zone of the country. Any issues occurring in the western zone can impact the company's revenues.

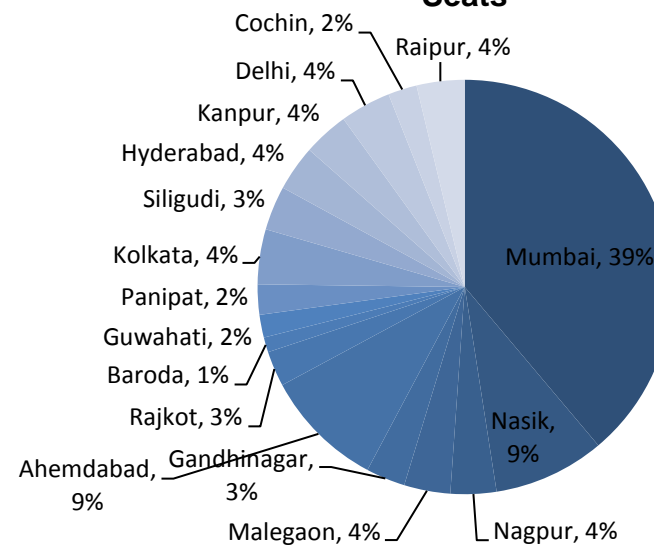
Pledging of promoter shares: As promoter group is in real estate business, they have pledged their holding for that purpose. Currently, 57% of promoter holding is pledge.

Key take away

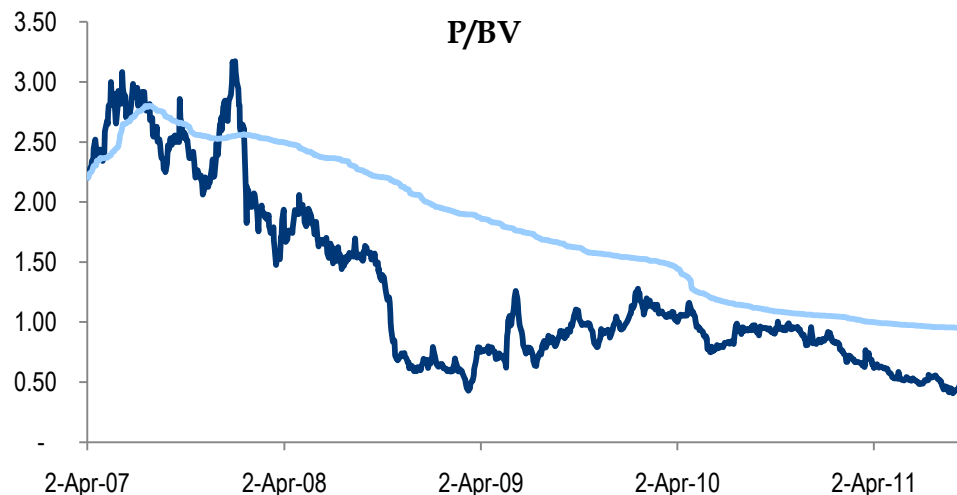
Revenue Contribution



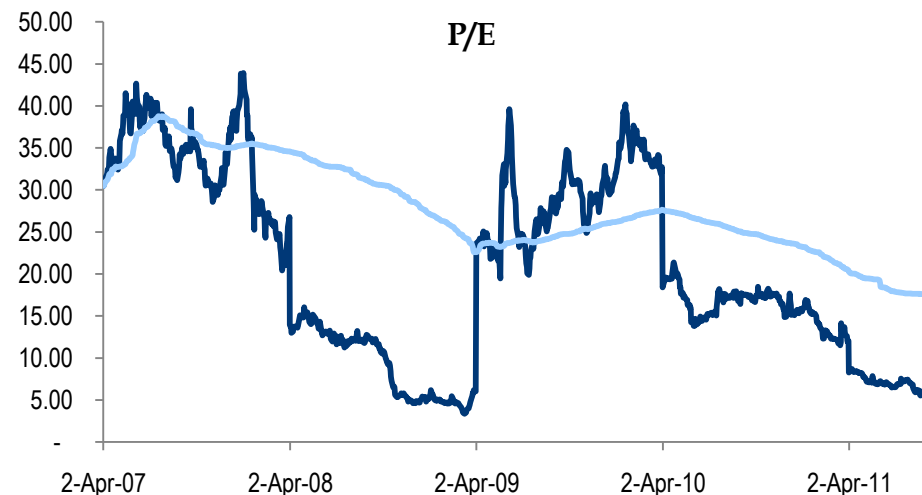
Seats



P/BV



P/E



Financial Statements (Rs mn)

Income Statement	FY10	FY11	FY12E	FY13E	Balance Sheet	FY10	FY11	FY12E	FY13E
Net income Theater	303	321	389	459	Equity capital	280	280	280	280
OPM %	26	25	24	25	Preference Shares	2	2	2	2
Net Income F&B	242	281	397	428	Reserves	1,377	1,432	1,530	1,678
OPM %	72	72	70	70	Net worth	1,659	1,713	1,811	1,960
Income Advisement	112	139	180	180	Total debt	876	1,263	1,025	855
Other Income	171	154	107	107	Minority Interest	-	-	-	-
Total Op. Income	827	895	1,072	1,174	Total liabilities	2,535	2,977	2,837	2,755
Other Direct Expenses	148	207	257	263	Gross fixed assets	2,645	2,928	3,328	3,428
Admin & S&D Exp	319	334	320	325	Less: Cum depreciation	569	760	954	1,185
Total Expenditure	467	542	576	588	Net fixed assets	2,076	2,168	2,374	2,242
EBITA	359	353	496	586	Capital WIP	200	396	50	165
EBITA %	43	39	46	50	Total Fixed Assets	2,276	2,564	2,424	2,407
Depreciation	175	191	213	231	Investments	3	6	6	6
Interest	77	111	149	137	Total Current Assets	536	670	649	704
PBT	107	50	134	217	Total Current Liability	261	257	232	289
Tax	(105)	(4)	36	72	Net current assets	275	412	417	415
PAT	213	55	98	146	Deferred Tax Assets	(20)	(6)	(10)	(17)
NPM (%)	26	6	9	12	Total assets	2,535	2,977	2,837	2,812

Financial Statements (Rs mn)

Cash flow (in Rs mn)	FY10	FY11	FY12E	FY13E
PAT & extra ord. Items	213	55	98	146
Add: Int. depn.& oth. Exp.	117	177	217	238
Cash flow from op.	330	232	315	383
Net chg in w/c, tax, int.	(56)	(109)	(78)	(11)
Net cash flow from op.	274	123	237	373
Capital expenditure	233	479	73	215
Sale/ purchase of inv	-	(3)	-	-
Net cash from inv.	(233)	(482)	(73)	(215)
Issue of eq /loan /warr.		-	-	-
Debt Raised	19	387	(238)	(170)
Dividend Paid	(39)	-	-	-
Net cash from financing	(20)	387	(238)	(170)
Net chg in cash	21	28	(74)	(12)
Op. cash bal	42	63	91	18
Cl. Cash bal	63	91	18	5

Ratios	FY10	FY11	FY12E	FY13E
Growth(%)				
Net Sales	-	9	28	10
Adj PAT	54	(68)	80	49
Adj EPS	93	(74)	80	49
Per share data (Rs.)				
Adj EPS	6	2	3	5
Book value	59	61	65	70
DPS	1	-	-	-
Valuation(x)				
P/E	5	15	9	6
P/BV	0.5	0.5	0.5	0.4
EV/EBIDTA	8	10	5	4
Performance(%)				
RoCE	9.7	5.6	8.7	10.1
RoNW	10.2	3.2	5.4	7.4

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance. This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1 of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, the Firm is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to the Firm. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the Firm's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited.
2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011