

## VISIT NOTE

### Share Data

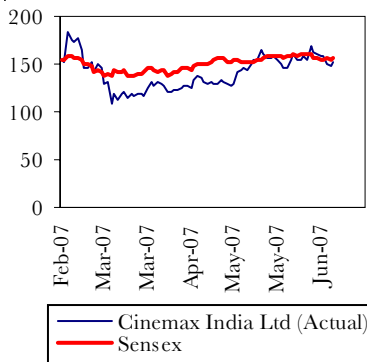
Reuters code	CIMA.BO
Bloomberg code	CNMX IN
Market cap. (US\$ mn)	103
Issued shares (mn)	28

Performance (%)	1m	3m	12m
Absolute	(1)	33	–
Relative	(3)	17	–

### Major shareholders (%)

Promoters	68
FII's	2
MF's	1
Public & Others	29

### Relative performance



### Largest multiplex operator in Mumbai with 30 screens

## Cinemax India

Not Rated

Price: Rs. 151

BSE Index: 14204

15<sup>th</sup> June 2007

### Cinemagic!

**We recently met the management of Cinemax India and the key takeaways of the meeting were as under:**

- Cinemax India is a leading multiplex operator with 12 properties and 38 screens with a large presence in Mumbai.
- Cinemax is the largest operator in Mumbai with 30 screens and 35% share of the Mumbai market which earns close to 15% of India's Box Office revenues.
- The company has limited interests in mall development and gaming parlours.
- Of the 12 properties (38 screens), the company owns 8 properties (23 screens) and the next phase of the expansion will be based on lease model.
- The company is planning aggressive expansion and wishes to have 77 properties equating to 299 screens by FY10. It has already signed the MoU's and paid the deposit to the respective owners.
- The management believes there is scope for each multiplex player to expand up to 500 screens.
- The management believes since around 4-5 hindi movies are released every week, there is no dearth of exhibition content as such.

### Company background

Cinemax India is promoted by the Kanakia Group, which has 20 years experience in residential and commercial property development. The company started its operations in 1997 by acquiring a single-screen theatre in Mumbai and later retrofitting it into a 2 screen multiplex. Initially, the company worked on this model and ended up owing most of the properties. Once the government announced the multiplex policy, Cinemax opted for the lease model for its upcoming projects. The company has limited interests in mall development and gaming parlours.

### Film exhibition

Cinemax is the largest multiplex player in Mumbai with 9 properties and 30 screens. These properties are present in high catchment areas and the company offers a bouquet of high end reclining seats and also budget seats to its patrons. The rest of the 3 operational properties of the company are located in Nasik, Himmatnagar and Guwahati. This gives the company a total of 12 properties, 38 screens and 10,868 seats.

As of FY06, the company had 10 subsidiaries which operated/owned the properties for it. By the end of FY07, the company had amalgamated 7 of these subsidiaries and currently it has 3 subsidiaries namely, Vista Entertainment Pvt. Ltd., Growel Entertainment Pvt. Ltd. and Nikmo Finance Pvt. Ltd. (a wholly owned subsidiary of Growel Entertainment Pvt. Ltd.). Vista operates the multiplex at Versova and Nikmo operates at Kandivali (E) multiplex property for the company. Cinemax has no plans of amalgamating these subsidiaries with it in the coming years.

## Operational properties

No.	Name of property	Location	Property	Screens	Seats type	Commencement date	E-tax exemption date
1	Cinemax	Goregaon	Ownership	2	698	December 1997	
2	Cinemax	Kandivali (West)	Ownership	1	287	February 1998	
3	Cinemax	Andheri (East)	Ownership	1	362	August 1998	
4	Cinemax	Sion	Ownership(3)/lease(2)	5	827	October 2000	
5	Wonder Mall	Thane	Ownership	4	1,136	December 2003	100% exemption till February 2007 and 75% exemption from February 2007-09.
6	Cinemax	Mira Road	Ownership	3	1,018	May 2004	100% exemption till September 2007 and 75% exemption from September 2007-09.
7	Cinemax	Nashik	Ownership	3	1,002	May 2004	100% exemption till October 2007 and 75% exemption from October 2007-09.
8	Cinemax	Versova**	Leased	6	1,575	September 2005	100% exemption till April 2009 and 75% exemption from April 2009-11.
9	Cinemax	Kandivali (East)**	Leased	4	1,259	January 2006	100% exemption till October 2009 and 75% exemption from October 2009-11
10	Eternity Mall	Thane	Ownership	4	1,056	May 2006	100% exemption till October 2009 and 75% exemption from October 2009-11.
11	Multiplex	Himmatnagar	Leased	3	1,148	April 2007	
12	Multiplex	Guwahati	Leased	2	500	May 2007	
<b>Total</b>				<b>38</b>	<b>10,868</b>		

Source: Cinemax, B&K Research

### ***Limited interests in gaming and mall development***

#### **Mall development and gaming**

The company owns and operates Giggles – The Gaming Zone at Eternity Mall, Thane. It is spread across 13,000 sq.ft. and has around 50 new age games appealing all age groups. The Eternity Mall was developed by the company and has a carpet area of 200,000 sq. ft. The company has anchor tenants like Globus, Peter England, Nike, etc. The company is currently developing a mall at Nagpur with 100,000 sq.ft. in carpet area. This will house a multiplex over 30,000 sq.ft. and the rest of the area will be leased out to big retailers.

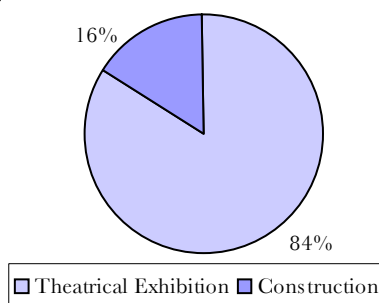
#### **Focus area**

Cinemax sees film exhibition as the main focus area for its expansion. After the completion of the mall at Nagpur, Cinemax will not be developing any more malls/gaming zones and will concentrate on the main area of film exhibition by opening more properties/screens under the lease model. Developing malls and housing multiplexes in it is a very capital intensive project. New multiplexes will be opened under the lease model where the capex requirement is lesser as compared to owned properties.

### ***No plans to enter content production or distribution space***

Cinemax has no plans of entering the content production or distribution space and will be solely concentrating on film exhibition only. The company does not want to be present in all parts of the value chain, as it feels that production and distribution are more risky than film exhibition.

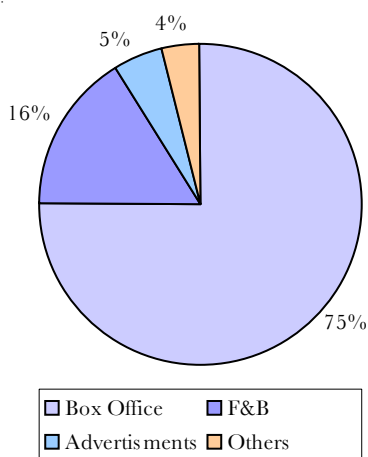
### Consolidated revenue composition



Source: Cinemax

### ATP and F&B SPH on the rise

### Theatrical exhibition revenue composition



Source: Cinemax

### Revenue model

Cinemax derives 84% of its consolidated revenues from theatrical exhibition and the rest from its interest in construction activity.

Of the theatrical exhibition revenues, 75% comes from ticket sales, 16% from F&B sales, 5% from advertisements and 4% from others (includes gaming revenues). The company runs many promotional offers with UTI Bank, SBI and also its in house product Max Mania Card. For FY07, the company has reported consolidated revenues of Rs. 1,016.5 mn with a profit after tax of Rs. 114.8 mn.

### Operational parameters

The number of patrons has been constantly increasing each year as new properties are added every year. The company has been able to increase its ATP from Rs. 86 in FY05 to Rs. 125 in FY07. This has primarily come on the back of higher ticket prices in new properties. The ATP is not expected to grow from here on, as the company's expansion plans are mainly in Tier I and Tier II cities.

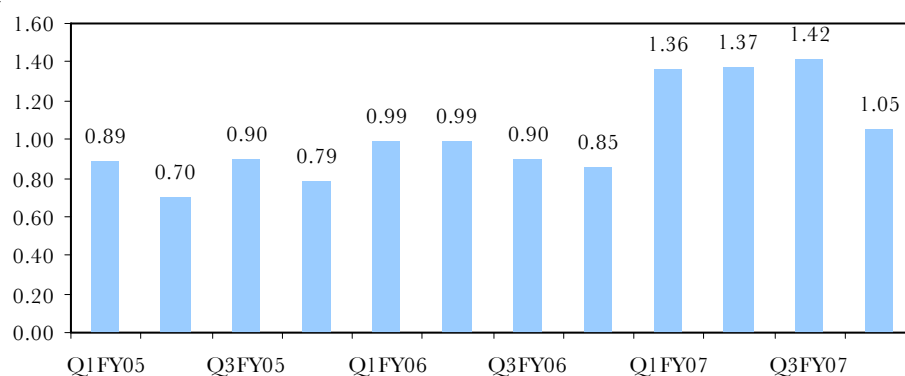
The F&B spend per head has also increased from Rs. 20 in FY05 to Rs. 26 in FY07. We expect this to hover around Rs. 24-26 levels in the coming years. The table below highlights the major operational parameters.

### Operational parameters

	FY05	FY06	FY07
No. of Properties	7	8	10
No. of Screens	19	25	33
No. of Seats	5,330	6,905	9,220
No. of Patrons (mn)	3.33	3.67	5.2
ATP (Rs.)	86	105	125
F&B SPH (Rs.)	20	21	26
<b>Total SPH (Rs.)</b>	<b>106</b>	<b>126</b>	<b>151</b>

Source: Cinemax

### Patrons per quarter



Source: Cinemax

### *Next phase of expansion to come from Tier 2&3 towns*

#### Future plans

Cinemax plans to add 65 properties by FY10 adding a total of 261 screens and a total of 64,827 seats. The company is expanding in Tier II and Tier III cities of Western and Northern India. In most of these towns, the company will have a first mover advantage and in the rest the location is strategically chosen to be located in strong catchment areas.

The real estate developer background of the promoters helps in rapid execution of the projects and cost control. Cinemax has an in-house team of architects and designers; hence project implementation is done in-house. This reduces cost and ensures timely execution of projects.

The screen/seat addition of the company is presented in the table below:

#### Future expansion

	FY07	FY08	FY09	FY10
No. of Properties at the beginning	8	10	34	49
No. of Properties added	2	24	15	28
<b>Total No. of Properties</b>	<b>10</b>	<b>34</b>	<b>49</b>	<b>77</b>
No. of Screens at the beginning	25	33	108	165
No. of Screens added	8	75	57	134
<b>Total No. of Screens</b>	<b>33</b>	<b>108</b>	<b>165</b>	<b>299</b>
No. of Seats at the beginning	6,905	9,220	28,524	42,483
No. of Seats added	2,315	19,304	13,959	33,212
<b>Total No. of Seats</b>	<b>9,220</b>	<b>28,524</b>	<b>42,483</b>	<b>75,695</b>
Seats per Screen	279	264	257	253

Source: Cinemax, B&K Research

#### B&K's view

Cinemax is in an aggressive growth phase with plans to increase number of screens by 8 times from 38 currently to 299 by FY10. Most of its multiplexes are currently located in and around Mumbai. Majority of the new screens addition would be in Tier-2/Tier-3 cities in Northern and Western parts of India. Cinemax would be enjoying first mover advantage in some of the cities it plans entry in and it would be the 2<sup>nd</sup> or third player in some of the cities.

We believe there is considerable scarcity of suitable entertainment avenue in India and Cinema is the pre-eminent means of entertainment for majority of the Indians. Multiplex players are riding on this demand for quality cinema viewing experience. We expect first movers in most of the cities to enjoy pricing power as well as 40%+ occupancy level. But as other players enter in same cities, it could erode occupancy level and profitability of all players.

We do not have a rating on the stock.

## Financials

### P&L

(Rs mn.)	FY05	FY06	FY07
<b>Sales</b>	337	723	1,002
Growth YoY (%)	–	114.7	38.5
<b>Expenditure</b>			
Operating Expenses	(168)	(447)	(523)
As % of sales	49.8	61.7	52.2
Growth YoY (%)	–	166.3	17.0
Employees Remuneration and Benefits	(18)	(30)	(62)
As % of sales	5.4	4.1	6.2
Growth YoY (%)	–	63.2	109.8
Administration and other expenses	(48)	(96)	(162)
As % of sales	14.3	13.2	16.2
Growth YoY (%)	–	99.1	69.5
Preliminary expenses written off	(0)	0	0
As % of sales	0.0	0.0	0.0
Total expenditures	(234)	(572)	(747)
As % of sales	69.4	79.0	74.6
Growth YoY (%)	–	144.4	30.6
<b>EBITDA</b>	<b>103</b>	<b>152</b>	<b>255</b>
EBITDA margin (%)	30.6	21.0	25.4
Depreciation	(22)	(29)	(55)
Interest costs	(10)	(41)	(49)
Other income	9	22	22
<b>PBT</b>	<b>80</b>	<b>104</b>	<b>173</b>
PBT margin (%)	23.7	14.4	17.3
Growth YoY (%)	–	30.5	66.0
Exceptional Item	–	–	(5)
<b>Adjusted PBT</b>	<b>80</b>	<b>104</b>	<b>168</b>
Total Tax paid	(18)	(27)	(53)
Tax rate (%)	22.0	26.3	30.7
<b>PAT</b>	<b>62</b>	<b>77</b>	<b>115</b>
PAT margin (%)	18.5	10.6	11.5
Growth YoY (%)	–	23.5	49.5

**Balance Sheet**

(Rs. mn)	FY05	FY06
<b>Fixed Assets</b>		
Gross Block	510	604
Less: Depreciation	(58)	(87)
Net Block	452	516
Capital WIP	42	126
Total Fixed Assets	494	642
Investments	12	9
Deferred Tax Asset	0	3
<b>Current assets, Loans and Advances</b>		
Inventories	91	170
Sundry Debtors	12	38
Cash & Bank Balances	155	28
Loans and advances	186	336
Total Current assets	444	572
<b>Total Assets</b>	<b>950</b>	<b>1,225</b>
<b>Current liabilities and provisions</b>		
Secured Loans	290	494
Unsecured Loans	152	108
Current liabilities	277	332
Provisions	13	39
Deferred Tax Liability (Net)	7	9
Total Current liabilities and provisions	741	981
<b>Shareholders' funds</b>		
Share capital	60	60
Capital Reserves	85	42
Reserves & Surplus	65	142
Less: Miscellaneous Expenditure	1	0
<b>Total Shareholders' funds</b>	<b>209</b>	<b>244</b>
<b>Total Liabilities</b>	<b>950</b>	<b>1,225</b>



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