May 30, 2007

Initiating Coverage - Sector: Media

Cinemax India

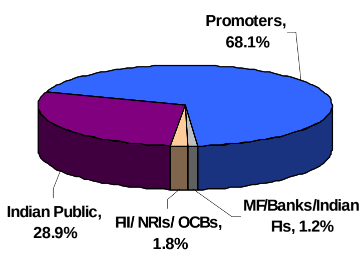
Buy

CMP: Rs 160 | **Target Price: Rs 210**

Key Data

Market Cap (Rs bn)	4.3
Market Cap (US$ mn)	106
52 WK High / Low	204 / 101
Avg Daily Volume	1333628
Face Value (Rs)	10
BSE Sensex	14398
Nifty	4257
BSE Code	532807
NSE Code	CINEMAX
Reuters Code	CIMA.BO
Bloomberg Code	CNMX@IN

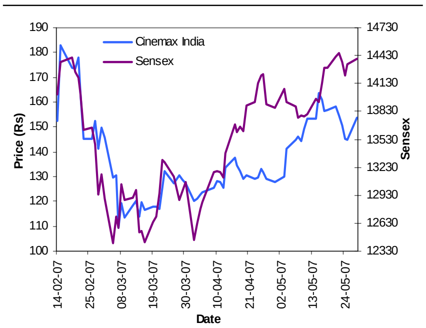
Shareholding Pattern (%)



Price Performance (%)

	Absolute	Relative
3 Months	9.0	(2.3)
Since listing	1.1	(1.7)

Cinemax India vs BSE



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Spreading wings..

Cinemax India Limited (CIL) is an emerging entertainment company primarily focused on the exhibition business with limited interests in gaming and mall development. The company is on an expansion spree and is likely to establish a pan India presence in years to come.

Investment Argument

- Factors like rising consumerism, increase in disposable income, favourable demographics, lower penetration of multiplexes within the country and boom in retail sector throw up excellent opportunities for the multiplex sector in India.
- Mumbai accounts for 15% of all India box office collections. With 8 out of CIL's 9 current properties owned and located at prime locations in Mumbai, CIL is well poised to ride the multiplex boom in the west.
- On the back of the real estate expertise of its promoter group, CIL has undertaken an ambitious expansion plan of establishing a pan India presence by geographically diversifying its properties by FY2009E. Lease model based expansion plan would enable CIL to achieve break-even at lower occupancy rates and avoid huge capital expenditure.
- Healthy growth of revenues accompanied by E-Tax exemption benefits will push down CIL's cost structure thereby resulting in impressive growth in Revenues at a CAGR of 57%, EBIDTA at a CAGR of 61% and Net profit at CAGR of 78% over FY2007-09E

Valuations

At CMP of Rs 160, the stock trades at a P/E of 20.1x FY2008E EPS of Rs 8 and 11.5x FY2009E EPS of Rs 13.9, and EV/EBIDTA of 12.3x FY2008E and 7.7x FY2009E. Considering the positive outlook for the multiplex industry and CIL's expansion plans **we Initiate Coverage on the stock with a 'Buy' recommendation and a target price of Rs 210**

Key Financials

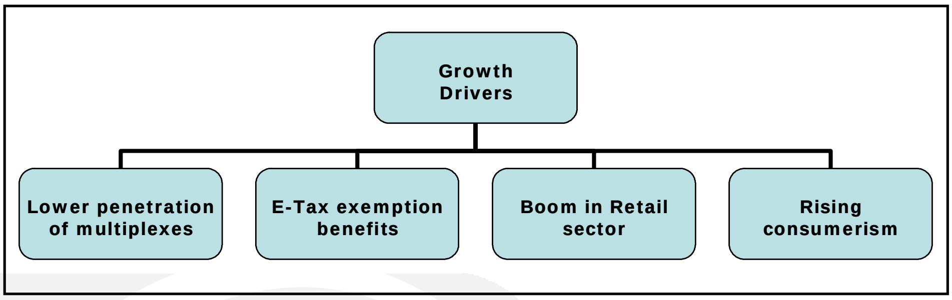
Y/E March (Rs mn)	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	**723**	**1,046**	**1,664**	**2,586**
% chg	114.7	44.6	59.1	55.4
Net Profit	**77**	**123**	**223**	**390**
% chg	23.0	60.5	81.2	75.0
EPS (Rs)	**12.8**	**4.4**	**8.0**	**13.9**
EBITDA Margin (%)	20.9	23.5	24.0	25.0
P/E (x)	12.5	36.4	20.1	11.5
P/CEPS (x)	9.1	26.6	15.2	9.5
ROE (%)	31.4	7.7	12.2	17.6
ROCE (%)	17.0	10.7	16.2	22.9
P/BV (x)	3.9	2.8	2.5	2.0
EV/EBITDA (x)	33.2	20.2	12.3	7.7

Source: Company; FQ Research

Industry Overview

The Multiplex business segment is in its nascent stage of growth. Several multiplexes have blossomed in many parts of the country over the past few years. Multiplexes were the preferred choice for distributing movies in large cities. Multiplexes not only increased the number of available screens, but also provided them with excellent acoustics, enhanced picture display and luxurious, glamorous aesthetics.

Exhibit 1: Growth Drivers



Source: Company, FQ research

Rising consumerism supported by increase in disposable income and favorable demographic changes

The Indian middle class is emerging with a greater earning power and higher disposable income. Multiplex Cinemas generally cater to middle and high income households. This is one of the key factors that will drive the growth of Multiplex cinema segment. Median age in India is lowest in the world at 24 years as compared to 35 years in US , 41 years in Japan and 30 years in China. A significant change in the age profile of population is observed which will be leading to accelerated consumption over the next few years . Increased levels of disposable income along with lower median age will result into lower savings and more spending. The urban population between the age group of 15-34 years is the most frequent movie going section in the country and growth in this segment would propel growth in the multiplex segment too.

Boom in the retail sector

A growth in consumption levels, changing lifestyles, the availability of quality real estate and significant investments in malls are expected to result in an increase in the size of the organized retail business in India. The organized retail market in India is expected to increase its share of the total retail market in years to come. Multiplexes are one of the anchor tenants in large format malls, as their presence increases footfalls by approximately 40-50%. The expected organized retail boom should result in a significant increase in the number of Multiplex Cinemas.

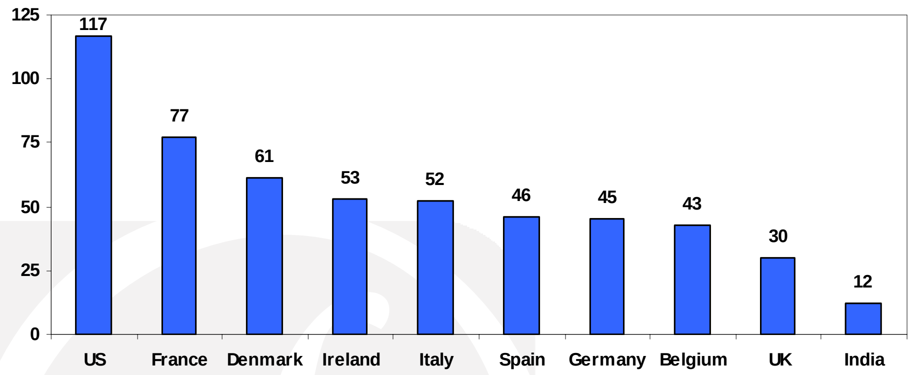
Entertainment tax benefits

The entertainment tax rates in India are very high thus pulling down the profitability of the cinemas. In order to encourage investment in the film exhibition sector, many state governments have announced policies offering entertainment tax benefits. This has encouraged the growth of Multiplex Cinemas and also encouraged single-screen theaters to convert into Multiplexes. The quantum of entertainment tax benefit which may be available in each state is different and the availability of these exemptions would be dependant on compliance with certain conditions specified by the relevant state.

Lower penetration of multiplexes within the country

India has a total of 13,000 screens that makes it less than 13 screens per million populations. This equation is on a far lower side as compared to the developed nations like US and France. More than 95% of theatres are standalone, single-screen theatres with fragmented ownership, unclear control, paucity of funds for maintenance and up gradation. A UNESCO study says India has a market for 20,000 screens today. Considering the facts, the untapped potential for growth of Multiplex industry in India is huge.

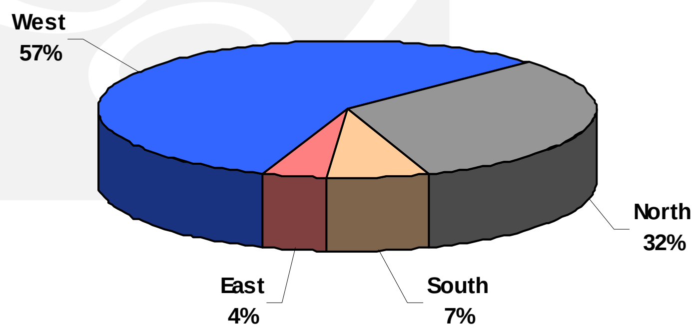
Exhibit 2: Screens per million Population



Source: Company, FQ research

Moreover the multiplex concentration in India is primarily in the North and the west region.

Exhibit 3: Geographical concentration of Multiplexes in India



Source: Company, FQ research

Advantages of multiplexes

Multiplex Cinemas offer significant economic advantages over similar size single-screen theaters. The key economic advantages are as follows:

Better occupancy ratios

Multiplex Cinemas have multiple screens with different seating capacities. The Multiplex Cinema operator can choose to show a movie in a larger or a smaller theater based on its expected potential. This enables the Multiplex Cinema operator to maintain higher capacity utilization compared with a single-screen cinema.

Greater number of shows

Each movie has a different screening duration. A Multiplex Cinema operator has the flexibility to decide on the screening schedule so as to maximize the number of shows in the Multiplexes, thus enabling it to generate a higher number of patrons.

Better cost management:

A Multiplex Cinema benefits from a set of shared facilities, such as the box office, toilets, food and beverage facilities and common manpower, resulting in a lower cost of overhead per screen.

Dynamic Pricing

States like Maharashtra and Delhi have incorporated dynamic ticket pricing, allowing them to charge ticket prices according to demand and supply. Following of the same strategies by other states would help multiplexes in improving their operating efficiencies.

Industry Concerns

Aggressive growth plans could lead to a supply glut

Majority of the multiplex players have aggressive expansion plans. With more and more properties of these players rolling out there is a risk of competition getting more intense. This could lead to a supply glut resulting into lower occupancy rates and price war

Escalating realty prices could force higher rentals

Majority of the multiplex players are coming up with multiplexes in leased properties. Therefore rentals form one of the major costs for these multiplexes. Escalating realty prices could force higher rentals adding to the fixed costs. This may put pressure on the operating margins of the multiplexes.

Entertainment Tax exemptions are for a certain period

Entertainment Tax in India is a state subject. Different states have different ETax policies. E-Tax exemptions announced by several state governments are one of the key drivers for growth of multiplexes and also for scaling up their profitability during the exemption period. However these exemptions are for a specific period, and once this duration ends the margins of the company could come under pressure.

Lack of good content could result in lower occupancy

Occupancy levels of multiplexes are directly related with the content side. Lack of good content for a long time would result in lower occupancy rates and thereby putting pressures on margins.

Investment Rationale

Major presence in Mumbai at prime locations

CIL currently has 8 properties in Mumbai spread across various prime locations like Goregaon, Andheri, Kandivli Sion, Mira Road and Thane. Mumbai is the hub for Indian Cinema and is a large market for exhibition business accounting for 15% of all India box office collections. CIL has strong presence in Mumbai with 9 theatres, 30 screens and a seating capacity of 8218.

Exhibit 4: Location Details- existing properties

Location	Property Status	No of screens	Seats	E-tax Status
Goregaon	Ownership	2	698	No
Kandivli	Ownership	1	287	No
Andheri (E)	Ownership	1	362	No
Sion	Own/lease	5	827	No
Thane- Wondermall	Ownership	4	1136	Yes
Mira Road	Ownership	3	1018	Yes
Nashik	Ownership	3	1002	Yes
Versova	Leased	6	1575	Yes
Kandivli (E)	Leased	4	1259	Yes
Thane- Eternity	Ownership	4	1056	Yes
	Total	**33**	**9220**	

Source: Company

Ownership of majority of its existing properties- an added advantage

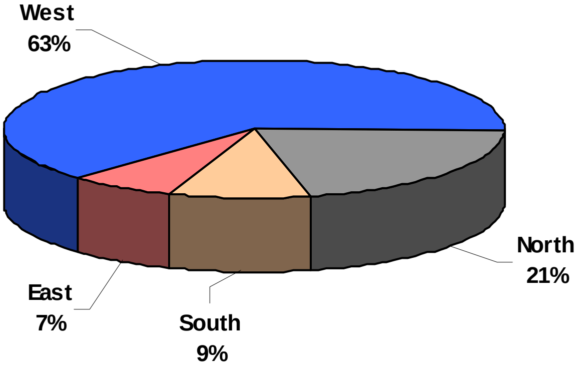
CIL is one of the largest owners of theatre properties in India. CIL currently owns 8 properties with 21 screens which are spread over approximately 146,242 sq. ft. area. Among the owned properties, 7 properties spread across 120,000 sq. ft. area are located in Mumbai and Thane. This gives the company an added advantage as it considerably reduces its rent outflow and also enables the company to ride the real estate boom. In addition, CIL also has flexibility of remodeling the screen formats within the owned premises with newer technology and exhibition formats.

Pan-India expansion plans to drive topline by 57% CAGR over FY2006-09E

- **Expansion strategy**

  CIL has chalked out aggressive expansion plans for the future. The company has already signed properties to nurture this growth. The company will have a pan India presence post this expansion. Currently the company has presence only in western India.

Exhibit 5: Geographical presence post expansion



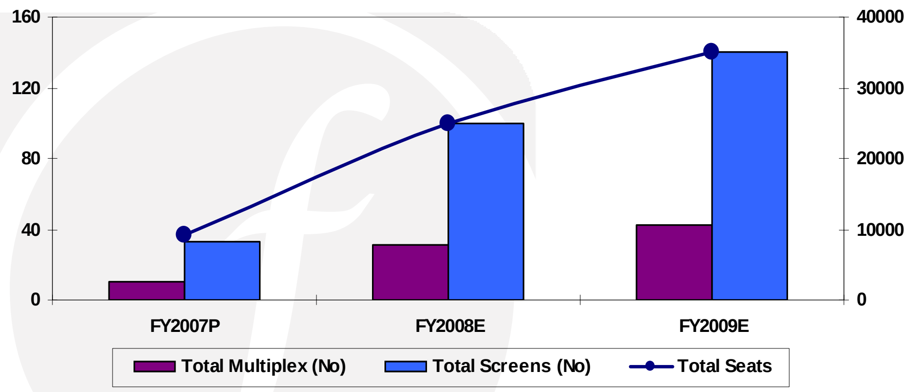
Source: Company, FQ research

CIL plans to increase the number of properties to 31 with 100 screens having around 26,700 seats in FY2008E and further to 41 properties with 140 screens having around 35,000 seats in FY2009. The company will be operating the future properties on a lease model, which would lead to a lower capital expenditure. This strategy would enable CIL to breakeven at a lower occupancy rate of around 20%. Moreover, the company is targeting to open new multiplexes in states where they can derive entertainment tax exemption benefits. We expect the current effective E-tax rate of 10% to be maintained till FY2009E. Increase in the number of properties will be the key to drive up the revenues. We estimate that revenues of CIL will grow at a CAGR of 57% over FY2007-09E

Capex Funding plans

The company had raised around Rs 1080mn through IPO a few months back. We believe the internal accruals and the IPO proceeds would be enough for the company to finance its funding requirements given its above chalked out plan.

Exhibit 6: Expansion Plan



Source: Company, FQ research

Strong developer background coupled with ability to identify strategic locations

CIL is a part of Kanakia Group which has around two decades of experience in real estate development. This background helps CIL to identify strategic locations and acquire properties at competitive prices. CIL also possesses a professional team to assess the potential of a location after evaluating its demographic trends in terms of catchment areas, purchasing power competitive alternatives etc. These factors enable CIL to identify relatively untapped locations and gain a first mover advantage.

Innovative ideas to help improve CIL's brand image

CIL has introduced many innovative concepts in its muliplexes. CIL was amongst the first players to introduce the concept of high comfort recliner seating arrangements under the brand of 'The Red Lounge' CIL also provides various service enhancements like massage chairs and karaoke facilities. CIL also has small presence in the gaming business which is currently operational under the brand name 'Giggles- The Gaming Zone' at Eternity Mall, Thane. Such innovative concepts help it to build its brand image and attract patrons

Concerns

Timely execution of projects

CIL is in a heavy expansion mode and timely execution of the undertaken projects is a key concern. Delay in execution of the projects would cause a severe impact on its earnings.

Clearance from various authorities

For a multiplex to get operational, 22 clearances are required. In the past, one of the properties of CIL in Mumbai was not operational for several months due to extraordinary delay in getting some of the clearances from the authorities. Any delay of such types would hamper its future earnings

Company Background

Cinemax India Limited (CIL) is an emerging entertainment company primarily focused on film exhibition business. The company is involved in gaming business to a small extent and also has limited interests in mall development. CIL is a part of Kanakia Group which has around two decades of experience in real estate development. The group ventured into the exhibition business in 1997 with the acquisition of first single-screen theatre at Goregaon , Mumbai. With the introduction of Entertainment Tax Exemption policy by the State Government of Maharashtra, CIL shifted its focus from single and multiple screen theatres to development of multiplexes. The companys' exhibition operations were spread over various promoter group entities. In order to consolidate the exhibition operations under one single entity , CIL underwent corporate restructuring, which entailed subsidiarisation of all group companies associated with exhibition business under Cinemax Cinemas (India) Private Limited and subsequent merger of these subsidiaries into Cinemax Cinemas (India) Private Limited with effect from April 1, 2006.

Exhibition business- The main focus area

CIL's exhibition chain is a combination of high-end multiplexes and budget retrofit single/multiple screens. The company is currently having major presence in Mumbai, Thane and Nasik with 10 properties consisting of 33 screens and seating capacity of 9,220 seats. CIL has a unique feature of owning majority of its existing properties. Out of the 33 screens operational by FY2007, CIL owned 21 screens spread over approximately 146,242 sq ft area.

Gaming Business

CIL has small presence in the gaming business which is currently operational under the brand name 'Giggles- The Gaming Zone' at Eternity Mall, Thane. It is spread over 13,000 sq ft of area and offers around 50 state-of-art games.

Mall development

The company's mall development business is limited to the development of Nagpur mall and development of balance FSI available at Eternity Mall phase 2., Thane. CIL is currently developing a mall in Nagpur with over 1,00,000 sq ft of area and 30,000 sq ft of area at Eternity Mall, Thane (phase 2).

Financials

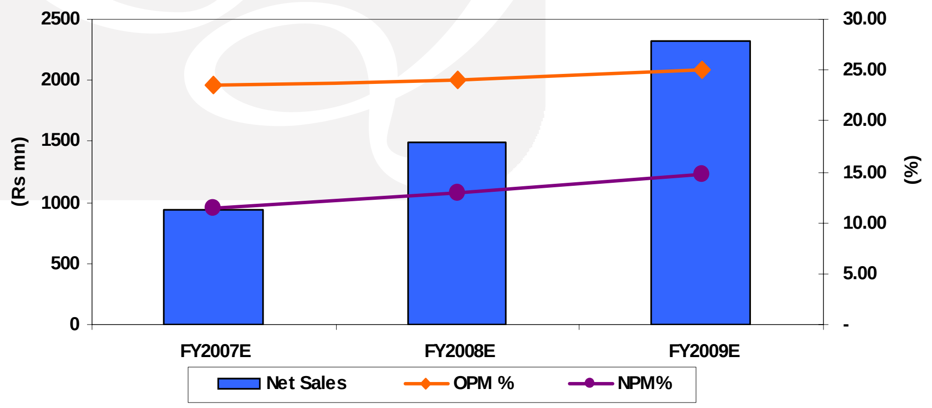
Revenues to grow at a CAGR of 57% over FY2007-09E

On the back of rapid expansion planned by CIL, we expect its revenues to grow at a CAGR of 57% in the next two years. We expect the company to earn revenues of Rs 1,664mn in FY2008E and Rs 2,586mn in FY2009E. CIL plans to have a pan-India presence in coming years. Some of its proposed properties are situated in Tier II cities. Average ticket price at such locations are comparatively less as compared to Tier I cities and metros. Taking this into consideration its dominant presence in Mumbai, we have taken an average ticket price of Rs 125 and Food and Beverage (F&B) spend per patron of Rs 25 per head and occupancy rate of 35% in arriving at the FY2007E revenue numbers. For arriving at the revenue numbers in FY2008E, we have taken an average ticket price of Rs 120; F&B spend per patron of Rs 23 and occupancy rate of 35%. Theatrical exhibition will remain the main revenue contributing segment while minor revenue contribution can be expected from gaming and Mall development business.

EBIDTA and PAT to grow at a CAGR of 61% and 78%, respectively, over FY2007-09E

CIL has an aggressive expansion plan in years to come for which it has incurred additional expenditure. However, being a fixed cost business model, its bottom-line will get a thrust as revenues will increase with more and more properties becoming operational. This will help CIL in increasing its EBIDTA and PAT margins. We expect CIL's EBIDTA margin to improve to 24.1% in FY2008E and 25.2% in FY2009E from 23.5% in FY2007E. We estimate the net profit margins will improve to 13.8% in FY2008E and 15.4% in FY2009E from 11.8% in FY2007E. Therefore we estimate EBIDTA and PAT to grow at a CAGR of 61% and 78% respectively over FY2007-09E.

Exhibit 7: Improving Sales and Margins



Source: Company, FQ research

Valuation

The equity capital of the company has been diluted taking into consideration the IPO proceeds. We have projected an EPS of Rs 8 for FY2008E and of Rs 13.9 for FY2009E. At CMP of Rs 160, the stock trades at a P/E of 20.1x FY2008E and 11.5x FY2009E, and EV/EBIDTA of 12.3x FY2008E and 7.7x FY2009E. Considering the positive outlook on the multiplex industry and CIL's expansion plans, **we initiate coverage on the stock with a 'BUY' recommendation, with a price target of Rs 210.**

Profit & Loss Statement — Rs mn

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
Rev. from Operations	**723**	**1046**	**1664**	**2586**
% chg	*114.7*	*44.6*	*59.1*	*55.4*
Total Expenditure	572	800	1265	1939
EBIDTA	**152**	**246**	**399**	**646**
(% of Net Sales)	*20.9*	*23.5*	*24.0*	*25.0*
Other Income	22	30	50	70
Depreciation& Amortisation	29	45	71	81
Interest	41	44	40	44
PBT	**104**	**186**	**338**	**591**
(% of Net Sales)	*14.4*	*17.8*	*20.3*	*22.9*
Tax	27	63	115	201
(% of PBT)	*26.3*	*34.0*	*34.0*	*34.0*
PAT	**77**	**123**	**223**	**390**
(% of Net Sales)	*10.6*	*11.8*	*13.4*	*15.1*

Balance Sheet — Rs mn

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
SOURCES OF FUNDS				
Equity Share Capital	60	280	280	280
Reserves& Surplus	184	1,322	1,545	1,936
Shareholders Funds	**244**	**1,602**	**1,825**	**2,216**
Total Loans	601	550	500	550
Deffered Tax Liability	6	6	6	6
Total Liabilities	**852**	**2,159**	**2,332**	**2,772**
APPLICATION OF FUNDS				
Gross Block	604	934	1,787	2,320
Less: Acc. Depreciation	87	133	204	285
Net Block	**516**	**801**	**1,583**	**2,035**
Capital Work-in-Progress	126	108	-	-
Investments	**9**	**209**	**53**	**53**
Current Assets	572	1,577	1,549	2,009
Current liabilities	371	536	852	1,325
Net Current Assets	**201**	**1,041**	**696**	**684**
Misc expd	**0**	**-**	**-**	**-**
Total Assets	**852**	**2,159**	**2,332**	**2,772**

Cash Flow Statement — Rs mn

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
Profit before tax	104	186	338	591
Depreciation	29	45	71	81
Change in Working Capital	177	77	141	231
Direct taxes paid	27	63	115	201
Cash Flow from Operations	**(71)**	**92**	**154**	**241**
Inc./ (Dec.) in Fixed Assets	410	267	674	452
Free Cash Flow	**(481)**	**(176)**	**(520)**	**(211)**
Inc/ (dec) in investment	(10)	200	(156)	-
Issue of Equity/ Preference	-	220	-	-
Inc/ (dec) in loans	299	(51)	(50)	50
Dividend Paid (Incl. Tax)	-	-	-	-
Others	1,371	570	240	(81)
Cash Flow from Financing	**1,670**	**739**	**190**	**(31)**
Inc./(Dec.) in Cash	1,180	763	(486)	(242)
Opening Cash balances	**153**	**28**	**791**	**306**
Closing Cash balances	**28**	**791**	**306**	**63**

Key Ratios

Y/E March	FY2006	FY2007E	FY2008E	FY2009E
Valuation Ratio (x)				
P/E	12.5	36.4	20.1	11.5
P/E (Cash EPS)	9.1	26.6	15.2	9.5
P/BV	3.9	2.8	2.5	2.0
EV / Sales	6.9	4.8	3.0	1.9
EV / EBITDA	33.2	20.2	12.3	7.7
Per Share Data (Rs)				
EPS	12.8	4.4	8.0	13.9
Cash EPS	17.7	6.0	10.5	16.8
Book Value	40.7	57.2	65.2	79.1
Returns (%)				
ROE	31.4	7.7	12.2	17.6
ROCE	17.0	10.7	16.2	22.9
Operating Ratio				
Raw Material / Sales (%)	79.1	76.5	76.0	75.0
Debtor (days)	19	20	20	21
Creditors (days)	167	168	169	169
Assets/Networth (x)	3.5	1.3	1.3	1.3
Debt / Equity (x)	0.7	0.3	0.2	0.2

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Website: www.finquestonline.com

Ratings (Returns)	Buy > 15%	Hold 0-15%	Sell > -10%