



September 21, 2010

ICRA upgrades the rating for bank facilities of Cinemax India Limited; assigns stable outlook; withdraws the A2+ rating assigned to short-term bank facilities

ICRA has upgraded the long-term rating assigned to the Rs. 141.16 crore¹ (enhanced from Rs. 82.26 crore), long-term, term loans of Cinemax India Limited (Cinemax) to LA (pronounced L A) from LA- (pronounced L A minus)[†]. ICRA has also assigned an LA (pronounced L A) rating to the Rs. 18.00 crore, long-term, fund-based bank facilities of Cinemax. The outlook on the long-term rating is 'stable'. ICRA has also withdrawn the A2+ (pronounced A two plus) rating assigned to the Rs. 13.00 crore, short-term, fund-based bank facilities of Cinemax as there is no amount outstanding against the same (the amount stands reclassified as long-term, fund-based facilities).

The rating upgrade takes into account Cinemax's comfortable financial profile and liquidity position; reduced business risks following shelving of its film production and distribution plans; and its growing pan-India presence beyond its earlier geographic concentration in the Western part of India. The rating continues to factor in Cinemax's strong position as the largest theatre chain in Mumbai and its presence in the film exhibition business for over 13 years, which has enabled Cinemax develop longstanding relationships within the industry. The parentage of the Kanakia group, which has over two decades of experience in real estate, along with strong execution capabilities, helps Cinemax leverage opportunities through identification of strategic locations at economical rates, rapid and timely execution of projects, and tight control on costs and quality. The rating, is however, constrained by the relatively smaller scale of operations for the company; negative impact on margins on account of the new revenue sharing agreement between the producers/ distributors and multiplex operators; increasing competition in the film exhibition business following large capacity additions; and the inherent risks associated with the film exhibition business, where revenues depend on box-office performance of movies.

Cinemax's exhibition business has recorded steady operating performance over the last few years with occupancies averaging around 26%. While the average ticket prices (ATPs) in 2009-10 for Cinemax failed to exhibit any growth, starting Q1, 2010-11, ATP as well as total spend per head has witnessed a significant rise. The sustenance of this increase would be critical to improving the company's financial profile, which has been marginally impacted on account of the ~2% higher outflows to the distributors post the new revenue sharing agreement, as also provision of service tax on rentals, which is still being contested by all the multiplex operators. Nonetheless, Cinemax has been operating at a comfortable capital structure (gearing at 0.53 times as on March 31, 2010) and liquidity profile.

ICRA had taken cognizance of Cinemax's entry into the film distribution business in 2008-09, along with plans to venture into film production, as they involve considerable higher business risks as compared to film exhibition. However, having suffered losses in its first assignment (Rs. 3 crore in 2008-09) under film distribution, Cinemax management has decided to exit the film distribution segment, and also shelved plans of entering the film production business, thereby scaling down the overall investment plans for the company.

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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While over the last one and a half years, falling consumer confidence and slowdown in the real estate sector, led to most of the major multiplex chains delaying their expansion plans, the multiplex industry in India is in an investment phase to capitalise on the changing demographics and consumer spending patterns; the improvement in the real estate scenario; and encouragement from state governments in the form of entertainment tax (E-tax) exemptions. Given the pace of capacity additions, there is a strong possibility of oversupply of multiplex seats over the medium term. This may result in a decline in occupancy levels and/ or price-based competition, which may impact the profitability of the multiplex operators. Cinemax also has an aggressive expansion plan in this segment with a target of adding around 42 screens by March 2011, aimed at building presence across 21 cities, from a predominantly Mumbai presence. Though the company's growth strategy appears aggressive, ICRA takes comfort from the Group's strong developer background, project execution capabilities and expertise.

Company Profile

A part of the Kanakia Group which has over 24 years of experience in real estate, having developed over eight million sq. ft. of residential and commercial properties, Cinemax India Limited (Cinemax) owns and controls all the film exhibition businesses of the group. The company started its operations in 1997 by acquiring a single-screen theatre *Samrat* in Goregaon, Mumbai, and later retrofitting it into a two screen multiplex. It was incorporated on May 22, 2002 as Cinline Entertainment (India) Private Limited, and on December 23, 2005, the name of the company was changed to Cinemax Cinemas (India) Private Limited. It was then converted to a public limited company - Cinemax India Limited w.e.f. July 27, 2006. In January 2007, Cinemax initiated an Initial Public Offering (IPO) and was listed on the National Stock Exchange and Bombay Stock Exchange on February 14, 2007.

Initially, the company worked on the ownership model, and ended up owning most of the properties then. Once the Government announced the multiplex policy in August 2001, Cinemax opted for the lease model for its upcoming projects.

The company has limited interests in mall development (has developed over 200,000 sq. ft. of mall area at Eternity Mall (Thane), where part of the space is occupied by the company's exhibition and gaming businesses; and has also developed a mall in Nagpur with over 100,000 sq. ft. of area). The company currently operates in two business segments: film exhibition and gaming.

Cinemax is the market leader in Mumbai with 13 properties and 40 screens, and one of the largest film exhibition theatre chains in India having presence across 28 properties, 91 screens and 24,027 seats across the country (Maharashtra, Andhra Pradesh, Assam, Gujarat, Haryana and West Bengal) as on June 2010.

Recent Results

For the three months ended June 30, 2010, Cinemax reported profit after tax (PAT) of Rs. 1.1 crore on revenues of Rs. 46.0 crore as against a PAT of Rs. 12.7 crore on revenues of Rs. 172.4 crore for the twelve months ending March 31, 2010.

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For further details please contact:

Analyst Contacts:

Subrata Ray (Tel. No. +91 22 3047 0027)

subrata@icraindia.com

Relationship Contacts:

L. Shivakumar (Tel. No. +91 22 3047 0005)

shivakumar@icraindia.com

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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