Higher Screen Presence in North to Help Inox Shine

The Tale of Two Plexes

	FY14 (₹ crore)	3-Year CAGR %
Sales	824	35.2
Operating profit	122	55
Net profit	36.9	78.8

Source: Capitaline

Market Share (%)	North	South	West	East
PVR	52	39	43	20
INOX	19	39	26	74

Source: Motilal Oswal

Debt to Equity (as of FY14)

PVR	1.42	INOX	0.6

In highly profitable region, co is taking organic & inorganic route to raise share

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The stock of multiplex company Inox Leisure has lagged behind its larger peer PVR over the past three years, delivering 237% returns compared with 472% of its rival. This gap can be attributed largely to PVR's higher market share in the northern and western regions of the country where Inox did not scale up its presence.

Inox did not address the issue in the two regions even as it ramped up its total capacity to 380 screens from 240 screens in 2011, while PVR went up to 444 screens from 335 screens. However, with its recent strategic acquisition of Gurgaon-based multiplex company Satyam Cineplex, Inox Leisure has scaled up its presence considerably in the highly profitable northern region, where it has a 19% market share at present.

"For the next few years, we are in for high organic and inorganic acquisitions. Being a part of Gujarat Flurochemicals, we have a strong reputation. We will fuel our screen expansion through debt and treasury shares which are worth ₹300 crore," said Deepak Asher, director at Inox Leisure. "In the next two years, we will add 127 screens through organic expansion. Adding Satyam's screens, the management plans to take the screen count to 500 by the first half of 2014-15."

Much of the company's capacity expansion will happen in the northern region, where the company plans to enhance its presence. Northern and western regions have higher share in all-India ticket collections. Hence, enhancing its presence in the North works well for Inox in the coming quarters.

In the last 3 years, the multiplex industry has undergone considerable changes. With two crucial acquisitions – PVR acquiring Cinemax and Inox acquiring Fame India – equations in terms of market share have been defined better.

It recently acquired Gurgaon-based multiplex co Satyam Cineplex to scale up its presence considerably in the North

The multiplex industry, which had six players three years ago, is now more concentrated, with just two players PVR and Inox accounting for over 45% of the industry's total screen capacity of 1,800-2,000.

With its expansion on track, Inox is expected to make the most of film business, which is expected to grow at a CAGR of 11.5% to reach ₹19,330 crore by 2017.

At present, Inox has debt of ₹210 crore. After considering the value of treasury stocks, the company's net debt turns out to be ₹100 crore and its net debt to equity ratio is 1. This is acceptable given the company's size and presence. On the valuation front, on one-year forward earnings basis, Inox is trading at 28 times while PVR is trading at 44 times.

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