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Inox to look at acquisitions aggressively for growth

After buying out Satyam, Inox now has three prime properties in NCR, besides some in Rajasthan and neighbouring states

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Deepak Asher is a happy man, having snapped up Delhi-based multiplex chain Satyam and entering the North Indian market with a bang. Asher, who is a director and group head, corporate finance at Inox Group of companies, believes that this is just a step along the way as the multiplex chain aims to expand its footprint in the country.

Currently at the second spot with 358 screens across India, Inox has since its inception looked at acquisitions aggressively and will be continuing with the same strategy, the Satyam acquisition being an example.

Until the Delhi-based multiplex chain came under Inox's fold, the latter had practically no presence in North India. However, with the buyout of Satyam, Inox now stakes claim to three prime properties in the national capital, apart from properties in Rajasthan and neighbouring states.

"India is a prolific producer of content with a thousand-plus movies being released every year. There is appetite for this kind of content as well, since around four billion tickets are sold on an annual basis. The only lacunae lies in the exhibition space. We have just nine screens per million citizens while countries like China have 25 screens per million. Moreover, of these nine, only one or two screens per million are multiplex screens," explains Asher on why he believes this is the best time for expanding footprint in the country.

He further breaks it down. While at the national level, there are three to four players (PVR, Inox, Cinepolis and Big Cinemas), there are nearly 15-20 regional players and more local players (state or city wise). The smaller players will find viability of their business difficult as national players enter the regional space and this will further lead to consolidation.

This however does not mean that expansion will come cheap. Post the Satyam deal announcement, rival and industry leader PVR Ltd' Ajay Bijli commented in an interview on a news channel that he personally felt that the cost per screen in the deal was over-priced. Inox bought the 38-screen multiplex chain for Rs 182 crore, which makes the per screen cost around Rs 4.5 crore. Bijli had explained that the average investment for developing a greenfield property will be around Rs 2 to 2.5 crore, and hence,the cost of Rs 4.5 crore a screen was too high according to him.

Asher explains that at Inox, they do not look at the cost per screen logic always. While he agrees that Bijli's calculation for a new screen via organic route holds true for Inox as well, he (Asher) looks at acquisitions from a EBITDA perspective. "Acquiring a business has to be based on the EBITDA it is making. It is a running business and so, the enterprise value is based on an EBITDA multiple. By that calculation, I do not feel we have overpaid. The valuation is in the market range given the size and scale of Satyam's operations," he asserts.

Asher adds that while Inox has acquired the 38 operational screens from Satyam, the company also has access to 36 screens in the Satyam development pipeline, of which four are already funded. This means that effectively, the company paid Rs 182 crore for 74 screens - 38 operational, four non-operational but fully pre-funded and 32 which are yet to be developed.

Coupling this with the 96 screens, Inox has already planned for organic growth, the company's screen footprint in the country would be around 490 screen by the end of 2015. This, of course, is if Inox does not snap up any more regional players.

Sources also reveal that Asher and company are in talks with Reliance Media Works to merger the Big Cinemas business with Inox's. Remaining non-committal on the matter, Asher simply maintained, "Not specifically referring to the Big Cinemas issue, Inox will always look at acquisition possibilities if they fit the criteria. We usually look at acquiring chains that have at least 15 to 20 screens, complinent the Inox presence in terms of geography and catchment and branding at par with Inox."

If the Big Cinemas merger with Inox becomes a reality, the combined screen count would be in the range of 600 screens, since Big Cinemas operates close to 250 screens in India.

Inox, however, will not be looking at converting single screens to multiplexes after acquisition. Asher explains that there are too many regulatory hurdles in doing so. Additionally, the cost of acquiring and renovating the single screen into a multiplex could actually be more than developing a greenfield property organically. At Inox, they prefer to leave the real estated evelopment to the builder and developers and intend to focus on running the exhibition wing only.

Apart from aggressive acquisitions,Inox is looking to increase its revenues by focusing on increasing the food and beverage business and the cinema advertising business.

"While 70 per cent of our topline comes from ticket sales, hardly 50 per cent goes to the bottom-line since we have to remove the distributor share. In case of F&B and advertising, almost 75 percent reflects in the bottomline. We are consciously trying to up the spends per head by 10 to 12 per cent this year in the F&B segment and aim to touch Rs 50 lakh revenue per screen per annum over the next few quarters," says Asher.

Additionally, Inox plans to reduce the cost on F&B by 25 per cent using economies of scale, which will further help improve EBITDA. Ticket prices may also see an increase, but it will be restricted to the prime slots. Asher explains that the average ticket price at Inox annually is Rs 159. "This is fairly affordable in today's times. We will try and increase the prices for the big movies and the weekends and festival days. On the normal days, we have tickets as low at Rs 70 or 80. The trick is to find that sweet spot where the ticket price is premium but at the same time, footfalls are not affected," he says.