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Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

BETTER OPPORTUNITIES' FOR INVESTMENT IN MEDIA AND ENTERTAINMENT SECTOR WITH REFERENCE TO EQUITY ANALYSIS

***Dr. Shriprakash Soni,**
Assistant Professor,
MAEERS, MIT College of Engineering's,
Centre for Management Studies and Research, Kothrud, Pune – 411038 , Maharashtra, India

****Ms. Malini Iyer,**
MBA, II Year Student,
MAEERS, MIT College of Engineering's,
Centre for Management Studies and Research,Kothrud, Pune – 411038 , Maharashtra, India

1. ABSTRACT

The most valuable asset in the financial market is information. Investors always rely on the information as to where to invest their money. The information generally comes from market or some other sources and to act on this information, a group of people or a division, start researching whether the information has positive or negative impact. This research which is conducted by such group is called Equity Research. As quoted by Albert Einstein, "Scientific Research can reduce superstition by encouraging people to think and view things in terms of cause and effect."

The equity research analyst stresses on the accuracy of the information. If investor takes actions based on misinformation or misrepresentation, the losses incurred could be tremendous and harmful as the recovery of the investment can take a lot of time or can be irrecoverable. That is why equity analysts are required to spend a substantial amount of time for examining stocks or shares and calculating estimations of the same. The analyst suggests if the stocks have to be bought or to be sold with the help of information available.

The Indian Media and Entertainment Sector has a very volatile market. This sector is making high growth in the market. The Media and Entertainment Sector has a strong growth phase whose backbone is increase in advertising revenues and increase in consumer demand. This sector comprises of Television, Filmed Entertainment, Print Media, Radio, Music, Home Advertising and Live Entertainment. As said by Warren Buffet, "If a Business does well, the stock eventually follows".

Keywords: Information, Stock Market, Media and Entertainment Sector, Technical Analysis, Equity Research

2. Introduction:

Stock market plays an important role in the nation building. Investors feel that venturing into capital market can be risky. But if there is no risk, there is no gain. If an investor wants to earn a huge profit, he has to take some risks. But before taking such risks, he should have the knowledge of the stock market. In current scenario, we see many people venturing into stock market and taking the risks to earn good amount of profit. As per Dave Ramsey, "Financial peace isn't the acquisition of stuff. It's learning to live on less than you make, so you can give money back and have money to invest. You can't win until you do this".

As far as Media and Entertainment Sector is concerned, it has a very high potential towards growth. The entertainment sector in India is poised for a CAGR of 20%, according to KPMG Report, 2015. The key factors that driving the growth this industry in India are listed below:

- Favourable demographics
- Growing literacy
- Increasing affluence
- Development of technology
- Government support
- Growing interest in the Indian way of life.

This sector comes under the purview of the Ministry of Information and Broadcasting, Government of India. This study is an attempt to understand, as to what are the opportunities in Media and Entertainment Sector from the point of investing and to suggest investors about the companies for future investment in this sector.

3. Literature Review:

Debshika Dutta (2009) revealed out that the current association with big west entertainment giants like Walt Disney and Warner Group are surely taking Bollywood jumps and bounds ahead from its present time and also leading India to a platform where it would become the most encouraging destination for many global production units of film sector. Certainly the opening of Indian Film Industry to FDI is itself stepping into a larger and worldwide network. Nasreen Teher & Swapna Gopalan (2007), concluded that corporatization, is creating an opportunity for better practices bringing about an increased level of professionalism in accounting and business practices and opening up new paths for this industry to make revenues through merchandising, advertising and co-branding. In view of the changing scenario, the Indian Film industry will probably witness certain remarkable trends over the next several years boosting it towards gaining appreciation as a major player in the international market. Nasreen Teher & Swapna Gopalan (2007), pointed that globalization of the film industry was not a totally new phenomenon; by penetrating practically every society, the international spread of cinema resulted in films becoming the primary universal medium. Globalization build up greatly after the 1960s, based not only on colonialism but on social and economic ties between countries. Nilanjana Sensarkar (2010), opined that the problem of liability of internet middlemen gets an importance in India due to its speedily growing information and communication industry and the exceptional growth of its entertainment sector. The Indian Copyright Act, 1957 does not address the question of secondary responsibility for getting, storing, or conveying alleged infringing content. Thus, the focus moves on the assessment of the efficiency of India's Information Technology Act, 2000 and its proposed amendments explain the situation to some extent. However, their result is muddled, with the government's policy objectives remaining vague. The Indian entertainment industry's reply has been to collaborate with its counter parts worldwide in the implementation of risk mitigation strategies. Thomas L. McPhail (2010) stated out that more than 50 per cent of Hollywood movies earn their revenues from abroad. 80% of MTV's audiences are from other countries and this percentage is likely to enhance as the international economy maintains to grow in size and importance. C.Barathi, C.D.Balaji and Dr. C. H. Ibohal Meitei (2011) mentioned in their research paper that with the low cost structure and availability of brilliant and trained manpower, India can repeat the success achieved in the IT industry as the preferred destination for outsourcing in the entertainment sector also. Governments also over the years have unnoticed the potential of using the audio-visual means as a tool of state policy.

4. Concept of Equity Research:

Equities or common stock includes a big share in any company's capital. Shareholders need to know whether to stay financed in the company or sell the shares and leave that company. Both, the buy-side and the sell-side companies invest in sustaining an equity research division. This research may also include bonds and commodities. The role of the equity researcher is to present a thorough analysis of a company, assisting investors to make an informed decision.

For an investment bank, the equity research segment yields revenue as buy-side firms. They compensate the equity research team to look into its records and analyses the information.

As an individual, it is strenuous to do equity research. That is the reason, people working in research companies does the equity research and recommend companies for the sake investment.

Advantages of Equity Research:

1. They provide investigative, not profile-raising services.
2. They are paid annually in cash; no forms of equity are to be taken, as if they do so the interest conflicts may arise.

Disadvantages of Equity Research:

1. The research may not be true always, as the market information is not always true.
2. The external analysis may disturb the activity.

Equity Research Process:

a) **Economic Analysis**: It is a methodical practice undertaken to find out the usability of available resources, link between two or more resources, accounting opportunity costs and measuring the scope or practicality of an investment.

b) **Industry Analysis**: It is an instrument used for assessing present markets and understanding its difficulties. Political, economic and market aspects are reviewed to know its influence over the growth of the industry.

c) **Company Analysis**: It is a series of activities undertaken to analyze the operations of a business, highlighting on the cause and effect of decisions and how they are likely to profit or not future investors.

d) **Financial Statement Analysis**: The accounts of a company are evaluated to determine the financial soundness of the business organization. Profit and loss statements and management practices are overseen to prepare correct and accurate financial statement.

e) **Financial and Valuation Modelling :** This is the process of valuing the company and its assets.

f) **Report Writing:** All the above processes conclude into the report writing stage where the equity analyst prepares an in-depth report accessible to relevant shareholders.

g) **Presentation or Recommendation**: Based on the report, recommendations are made for the profit of the company and its stakeholders.

5. Scope of study:

The main process of the study is to let the investors invest in stock market, whether to buy or sell the company's share in a particular sector. The researcher analyses and gathers sector data and financial models of a specific company in a particular sector. It also involves understanding recent market trends, both from the views of micro economy and macro economy, and the findings. The equity research targets a definite people, it is necessary to modify the findings to the people's demand.

Segment	Expected Growth by 2018
Television	16.2%
Filmed Entertainment	11.9%
Print Media	9.0%
Radio	3rd Phase Expansion
Music	62%

(Source: CII-PwC's Report)

The Media and Entertainment Sector is in high growth phase.The Government of India has hold up this sector's growth by taking different initiatives such as digitising the cable distribution sector to attract greater institutional subsidy, rising in FDI limit from 74% to 100% in cable and DTH satellite platforms, and giving industry status to the film industry for trouble-free access to institutional finance. India's Entertainment and Media Sector is likely to grow gradually over the coming five years as per CII-PwC's Report, titled 'India Entertainment & Media Outlook 2014'. The industry is estimated to exceed Rs 2, 27,000 crores by 2018, growing at Compound Annual Growth Rate (CAGR) of 15 % between 2013 and 2018.The companies taken for the study are PVR and INOX leisure.

6. Objectives:

i. To find out the possible opportunities in Media and Entertainment Sector from the point of investing.
ii. To suggest investors about the companies for future investment in this sector.

7. Research Methodology:

Sr. No.	Particulars	Details
1	Type of Data	Secondary Data
2	Universe / Population	47 Companies in Media and Entertainment Sector
3	Sources of Data	Balance Sheet, Stock Market, Relevant Websites
4	Nature of Source of Data	Quantitative
5	Sample Size	2
6	Sampling Methodology	Purposive Sampling

8. Limitations:

i. While doing technical analysis of a company, the company's position would change in a short period of time as the Media and Entertainment Sector is very volatile in nature.
ii. Only two leading companies are considered for study.

9. Data Analysis and Interpretation:

To calculate the future price of share, the financials of the company has to be taken into consideration. The estimate has been taken with the current growth rate of the company. The estimates for PVR are given below:

Company-I) PVR Ltd. (Estimated P&L) in Cr.

Particulars	FY13-14 Actual	FY14-15 Actual	FY15-16 Expected	FY16-17 Expected
Net Sales	1271.19	1383.98	1643.00	1951.88
Add: Other Income	13.77	3.06	3.06	3.06
Total Revenue	1284.96	1387.04	1646.06	1954.94
Less: Expenditure	1070.52	1197.55	1422.68	1690.15
EBITDA	214.44	189.49	223.38	264.79
Less: Depreciation	78.79	99.54	99.54	99.54

EBIT	135.65	89.95	123.84	165.25
Less: Interest	76.88	76.33	97.70	97.70
EBT	58.77	13.62	26.14	67.55
PAT	58.77	13.62	26.14	67.55
EPS (NO. OF SHARES 415.29 LAKHS)	14.15	3.27	6.29	16.26

- Growth Rate of 18.8% is considered for the years 2015-2016 & 2016-2017
- Depreciation is Considered constant over the Period
- Interest Rate is considered as 28 %, which is calculated on Incremental debt of last 2years.

PRICE EARNING RATIO =MARKET PRICE OF SHARE/ EARNING PER SHAREYEAR 2015 = 706 / 3.27 = 215.9 PE

215.9 is the PE of PVR LTD. on date 4th July 2015

So we can give it a valuation of 215.9X

So estimated price for FY 2016=

EPS of 2016 x P/E of PVR LTD

215.9X 6. 29= Rs.1358.01

And for FY 2017= EPS of 2017 x P/E of PVR LTD

215.9 X 16.26= Rs. 3510.53

Company-II) Inox Leisure (Estimated P&L) in Cr.

Particulars	FY13-14 Actual	FY14-15 Actual	FY15-16 Expected	FY16-17 Expected
Net Sales	868.83	953.69	1251.24	1641.62
Add: Other Income	8.56	10.54	10.54	10.54
Total Revenue	877.39	964.23	1261.78	1652.16
Less: Expenditure	746.87	832.98	1092.85	1433.82
EBITDA	130.52	131.25	168.93	218.34
Less: Depreciation	50.69	71.46	71.46	71.46
EBIT	79.83	80.56	97.47	146.88
Less: Interest	27.63	38.43	40.5	42.27
EBT	52.2	21.36	56.97	104.61
PAT	15.26	(3.41)	18.76	23.08
Net Sales	36.94	24.76	38.21	81.53
EPS(No. Of shares 961.63 Lakhs)	3.84	2.57	3.97	8.47

- The Company Is considering growth of 31.2% in 2015-2016 & 2016-2017
- TAX RATE is 23% in 2015,2016,2017
- Interest Rate is calculated on Incremental Debt of Last 2years

PRICE EARNING RATIO =MARKET PRICE OF SHARE / EARNING PER SHARE

YEAR 2015 = 177.95 /2.57 = 69.24PE

69.24 is the PE of Inox Leisure on date 4th July 2015

So we can give it a valuation of 69.24X

So estimated price for FY 2016=

EPS of 2016 x P/E of Inox Leisure

69.24 X 3.97 = Rs. 274.88

And for FY 2017= EPS of 2017 x P/E of Inox Leisure

69.24 X 8.47= Rs. 586.46

Technical Analysis

The technical analysis has been carried out. The following are few methods:

a) **Upward Trend Analysis**: It is a signal that the demand for the asset is greater than the supply, and to suggest that the prices will continue to increase. When the prices go below the trend line it indicates that we have to sell the shares.

b) **Downward Trend Analysis:** It suggests that there is an excess of supply, where shareholders have a high willingness to sell the shares, than to buy it. When the supply is more, the prices fall. So it is an opportunity for the investors to buy the shares.

c) **Simple Moving Average:** Short-term averages respond quickly to changes while long-term averages react slowly. The grey line represents 20 days span while the blue line is for 50 days. The intersection points of these two lines help us to make the decision. When the blue line cuts the grey line from below it is a Sell decision. When the blue line cuts the grey line from above it is buy decision.

d) **Exponential Moving average:** It is similar to a simple moving average, except that more weight is given to the latest data or latest news. The limit days are 20 days and 50 days. Higher the volatility in the sector, the number of days is increased and vice versa. The EMA gives almost accurate results. When the blue line cuts the green line from below, it indicates Buy decision and vice versa for the Sell decision.

e) **Parabolic SAR:** The green dots indicate that the market prices are low and the best time to buy the shares. Whereas the red dots indicate that the market prices are very high and it is assumed to fall so it indicates to sell, so that the investor makes good amount of profit. In this the periods are mentioned as to which period it is time to buy and which period it is time to sell.

f) **Bollinger Bands:** When the markets become more volatile, the bands widen and when less volatile, the bands contract. Volatility means the prices of the shares can either fall or rise, there's no certainty in this phase. And in contraction phase the prices are usually stable. The bands are the time frame during which the shares are bought or sold.

g) Moving Average Convergence Divergence: When the MACD falls below the signal line, it is time to sell. When the MACD rises above the signal line, it is time to buy**.**

Technique	**Period (Year 2015)**	**Buy (when market is low)**	**Sell (when market is high)**
Upward Trend Analysis	**Apr 30-Oct 27**	**PVR-** 17/07/15@764 **INOX-** 04/08/15@230	**PVR**-01/06/15@616, 29/06/15@632, 28/07/15@811 **INOX-**12/05/15@154, 20/07/15@212.
Downward Trend Analysis	**Apr 30-Oct 27**	**PVR-** 12/05/15@659, 09/09/15@800. **INOX-**07/05/15@152, 27/05/15@149, 24/09/15@216.	**PVR-** 15/06/15@652, 23/07/15@860. **INOX-** 25/06/15@175.
Simple Moving Average	**Apr 30-Oct 27**	**PVR-** 02/06/15@668, 06/10/15@840. **INOX-**17/09/15@224	**PVR**-18/09/15@820 **INOX-**18/06/15@174, 13/10/15@253
Exponential Moving Average	**Apr 30-Oct 27**	**PVR-** 04/06/15@654, 03/07/15@669. **INOX-** From the period Apr 30-Oct 27 there has been no indication to buy.	**PVR-** From the period Apr 30-Oct 27 there has been no indication to sell **INOX-** 16/06/15@174.
Parabolic SAR	**Apr 30-Oct 27**	**PVR-** 06/05/15-15/05/15, 28/07/15-04/18/15. **INOX**-06/05/15-18/05/15, 18/09/15-25/09/15.	**PVR-**02/06/15-10/06/15, 01/07/15-23/07/15. **INOX-**15/06/15-07/07/15, 30/09/15-22/10/15.

Bollinger Bands	**Apr 30-Oct 27**	**PVR-**29/05/15-24/06/15 **INOX-**29/05/15-14/07/15	**PVR-** 16/07/15-12/08/15. **INOX-**15/07/15-12/08/15.
Moving Average Convergence Divergence	**Apr 30-Oct 27**	**PVR-** 05/05/15@628, 02/07/15@654, 11/09/15@816 **INOX-** 19/05/15@154, 29/09/15@220.	**PVR-** 10/06/15@700, 04/08/15@834, 22/10/15@849. **INOX-**02/07/15@177, 04/08/15@230, 23/10/15@275.

10. Findings of PVR and INOX leisure

The gap between PVR and Inox in terms of number of screens was 117. That has narrowed to 86 after Inox acquired New Delhi headquartered Cineplex's for Rs. 182 crores. It might narrow further as Inox also has access to 36 screens that are part of Satyam's expansion plan. INOX has made a conscious decision to focus only on the exhibition space.

PVR acquired Cinemax but gave thrust to organic growth. PVR plans to add 66 screens (that makes it a total of 510 screens - ahead of Inox) across 13 properties this financial year through the organic route. PVR has already added 23 screens in the first quarter. It has bought exhibition rights to movies like Our Kind of Traitor, Equals, the untitled Lance Armstrong biopic, American Express, Legend, Civilian, Inversion, Fox Catcher, Alone in Berlin, and Hologram for the King, London Fields and Visions.

Comparison of both the Companies-Valuation for the Year 2014-2015

Ratio	Formula	PVR Ltd.	INOX Leisure
Price to Book Value- **A high P/B Value indicates that markets believe the company's assets to be undervalued or that the company is earning and is expected to earn in the future a high return on its assets.**	= Stock Price / Total Asset-Intangible Asset &Liabilities	6.76	2.50
EV to Sales- **Generally the lower the EV/sales the more**	Market Cap + Debt + Preference Share-	2.49	2.24

attractive or undervalued the company is believed to be.	Cash / Annual Sales		
EV to EBITDA- **A low ratio indicates that a company might be undervalued. The enterprise multiple is used for several reasons.**	= Enterprise value / EBITDA	14.86	14.92
Market Value Added (MVA)- **A high MVA indicates the company has created substantial wealth for the shareholders.**	(Number of shares x share price) – Book value of invested capital	2886.01 crore	1640.41 crore

11. Conclusion:

Entertainment Sector:

a) The Indian Media and Entertainment (M&E) industry is rising sector for the economy and is building high growth steps. The industry has been largely driven by growing digitisation and higher usage of internet over the last decade.

b) The media and entertainment sector is highly recommended for the investment, as the shares of the company in this sector are dependent on the movies and other sources of entertainment.

PVR Ltd.

a) When compared to industry PE ie.40.89 (as per the Report of PWC, 2015) the PE of PVR Ltd. is higher.

b) Being a good company and a market leader it is acceptable from investing point of view.

c) Being overvalued the prices may come down for few times but eventually the price are expected to reach nearly to the valuated prices.

INOX Leisure

a) When compared with the industry PE which is 40.89 (as per the Report of PWC, 2015) the PE of INOX Leisure is also higher.

b) It gives the signal that the company's shares can be bought because still there is a growth for this company which are untapped.

12. Suggestions to Investors to invest in the following:

a) PVR Ltd.

The price of PVR Ltd. shares is expected to Rs. 1358.01 in year 2016 and Rs. 3510.53 by 2017. With all the backing up of achieving a growth rate of 18% company prices are going to rise in near future. From investing point of view it is a good company to invest. If the estimation goes right one can make out a decent profit by investing in this company.

b) INOX Leisure

The price of INOX Leisure shares is expected to Rs. 274.88in year 2016 and Rs.586.46 by 2017. Being the 2ndmarket leader in Media and Entertainment Sector and with an increased step towards the decorative Entertainment segment is expected to grow positively. Theatre business revival all adds up in growth avenues of the company. From investing point of view it is a good company to invest. If the estimation goes right one can make out a good profit by investing in this company.

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