

BSE SENSEX
57,362

S&P CNX
17,153

CMP: INR1,828 TP: INR1,600 (-12%)
Neutral

Stock Info

Bloomberg	PVRL IN
Equity Shares (m)	61
M.Cap.(INRb)/(USDb)	111.1 / 1.5
52-Week Range (INR)	1867 / 961
1, 6, 12 Rel. Per (%)	12/25/29
12M Avg Val (INR M)	1752
Free float (%)	83.0

Financials Snapshot (INR b)

Y/E March	FY22E	FY23E	FY24E
Sales	10.5	49.2	55.2
EBITDA	-3.8	10.5	12.6
Adj. PAT	-4.6	4.8	6.2
EBITDA Margin (%)	-36.1	21.3	22.9
Adj. EPS (INR)	-76.5	79.3	102.7
EPS Gr. (%)	NM	-203.7	29.5
BV/Sh. (INR)	225.3	304.6	407.3

Ratios

Net D:E	3.5	2.4	1.6
RoE (%)	-29.0	29.9	28.9
RoCE (%)	-12.3	19.8	21.1
Payout (%)	0.0	0.0	0.0

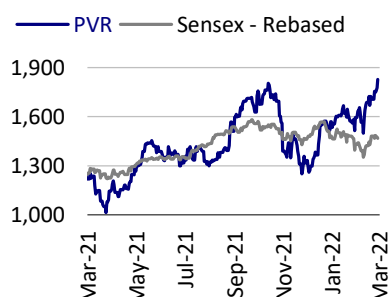
Valuations

P/E (x)	NM	19.4	15.0
P/BV (x)	6.8	5.0	3.8
EV/EBITDA (x)	NM	9.7	7.6
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	17.0	17.0	18.8
DII	28.3	26.0	26.6
FII	31.9	37.8	38.5
Others	22.8	19.1	16.1

FII Includes depository receipts

Stock performance (one-year)

PVR-Inox merger – How are the cards stacked?
Deal contours – equal footing

PVR and Inox, the two major Multiplex players, announced a merger. The share swap ratio stands at three shares of PVR for 10 shares of Inox. Based on the swap ratio, Inox is valued at 17x EV/EBITDA and EV/screen of INR90m, which is 15% higher than its current price, but 18% below PVR's valuation on a FY20 basis. Both promoter groups – PVR and Inox – will hold two board seats in a reconstituted 10 member board, with PVR represented by Mr. Ajay Bijli and Mr. Sanjeev Kumar as MD and ED, while Inox will be represented by Mr. Pavan Kumar and Mr. Siddharth Jain as Non-executive Chairman and Non-executive Director, respectively. The existing properties will continue to use their respective brands, but the new screens will be branded as PVR Inox. CCI approval is likely given the lower nature of operations in FY21. However, PVR's past acquisition called for divestments even on a regional basis where it held dominance.

Opportunity in the Multiplex market

In the last five years, the Cinema industry has seen a decline in the number of screens. Around 70% of the market consist of single screen Cinemas, which are facing a shutdown, whereas multiplexes, with 30% share and ~2,700 screens, are seeing strong growth. Given the large movie market (over 2,000), healthy box office collections, lower number of screens/cinemas, and a concentrated multiplex market (PVR/Inox command over 40% market share), the Multiplex market has healthy room to add new screens. The combined entity plans to deepen their network in Tier II and III markets.

Rationale for the merger

The management highlighted two key points:

- The merger will offer compelling revenue and cost synergies as seen from Inox's lower share of non-ticketing revenue at 42% v/s 48% for PVR. This will allow it to leverage the scale of the merged entity. But given the sizeable scale of Inox in the recent past, we believe it could have bridged this gap even without the merger. PVR too, after multiple rounds of capital raising in the last couple of years, may be able to leverage the Balance Sheet to drive screen additions. On other costs like rentals, the management said the monopolistic nature of the market had resulted in a favorable environment for multiplex operators.
- Historically, the management has been dismissive of the threat posed by OTT platforms. However, for the first time, it acknowledged the threat and the need to create scale to fight the onslaught. The timing of the deal was unclear considering the recovery in the Cinema industry and the strong pipeline of movies, including recent feedback on box office revenue. Despite the huge opportunity for growth in screen additions, the management acknowledged the threat posed by OTT platforms to occupancies and screen level profitability metrics.

Valuation

We value PVR at 12x FY24 EBITDA to arrive at our TP of INR1,600. We maintain our **Neutral** rating. The rich valuation it commanded historically was led by strong growth. The screen addition opportunity does provide an ability to continue its strong growth. However, OTT platforms pose a risk of shrinking the exclusive period, softening occupancies, and lower screen economics.

Exhibit 1: Merger valuation snapshot

FY20	PVR	Inox	Total
Share swap	3	10	
Total no. of shares	60.95	122	98
Market capitalization	1,09,954	57,499	1,76,164
Current price	1,804	470	1,804
Revenue	34,144	19,150	53,294
EBITDA	5,762.24	1,662	9,232
EBITDA margin	17%	18%	17%
PAT	-1,232.67	499	177
PAT margin	-4%	7%	0%
No. of screens	845	648	1,493
Debt	8576.4	779	9,356
M-cap	1,09,954	57,499	1,37,442
EV	1,18,530	58,279	1,46,798
EV/EBITDA	20.57	16.80	15.9
EV/screen	140.27	89.94	98

Source: MOFSL, Company

Exhibit 2: Operating metrics

Screens	860	648	1,508
Seats	182,000	147,436	3,29,436
Occupancy	32%	28%	
Footfalls (m)	87	66	153
ATP (INR)	210	200	
SPH (INR)	100	80	

Source: MOFSL, Company

Exhibit 3: Benefits from the merger for Inox

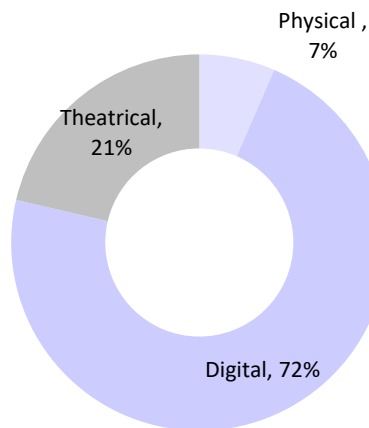
	Old	New
Existing shares	122	36.70
Share swap		03:10
M-cap	57,499	66,210
Premium to current prices		15%

Source: MOFSL, Company

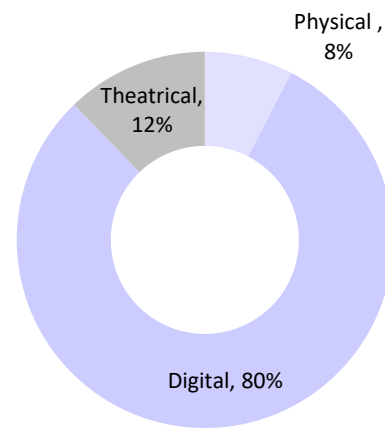
Exhibit 4: Revenue mix of PVR and Inox

	PVR		INOX	
Revenue mix – FY20	INR m	as a percentage of total revenue	INR m	as a percentage of total revenue
Box office revenue	17,316	52%	11,046	58%
Revenue from food and beverages	9,487	29%	4,972	26%
Revenue from advertisements services	3,759	11%	1,790	9%
Convenience fees	1,719	5%	668	3%
Other services	1,000	3%	674	4%
Total revenue	33,281	100%	19,150	100%

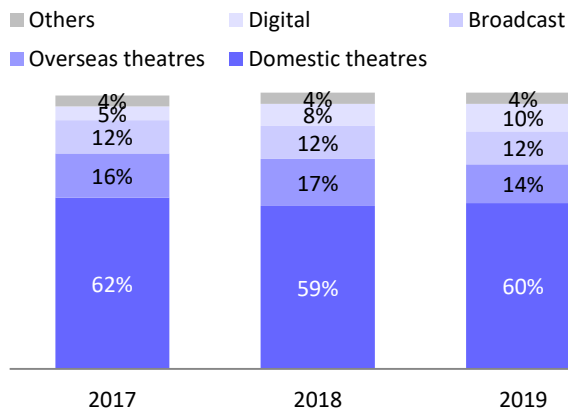
Source: MOFSL, Company

Exhibit 5: Global theatrical market share

Source: MOFSL, Company

Exhibit 6: US theatrical market share

Source: MOFSL, Company

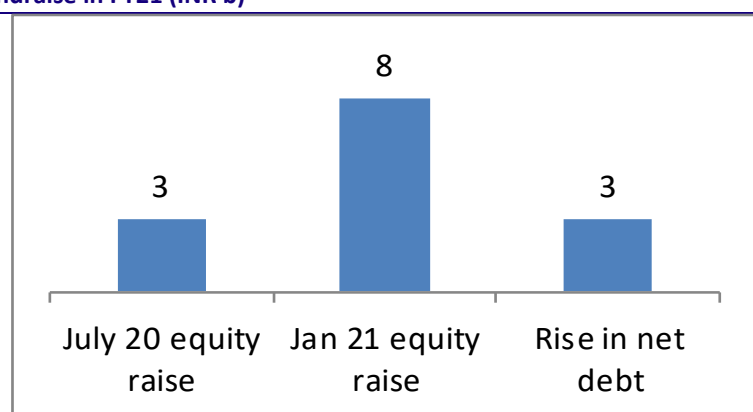
Exhibit 7: Domestic theatricals contribute the highest source of film revenue, but the share of Digital/OTT is rising

Source: MOFSL, Company

Exhibit 8: Theatricals still constitute ~75% of revenue for films in India, but may fall ahead on a rising scale of OTTs

Domestic theatrical	60%
Overseas theatrical	15%
Digital, music rights & OTT	25%

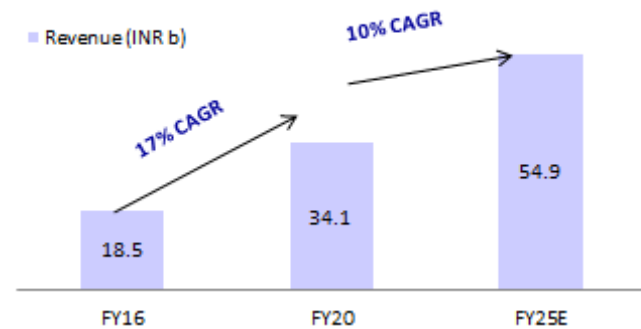
Source: MOFSL, Company

Exhibit 9: Fundraise in FY21 (INR b)

Source: MOFSL, Company

Exhibit 10: Expect 10% revenue CAGR over FY20-25

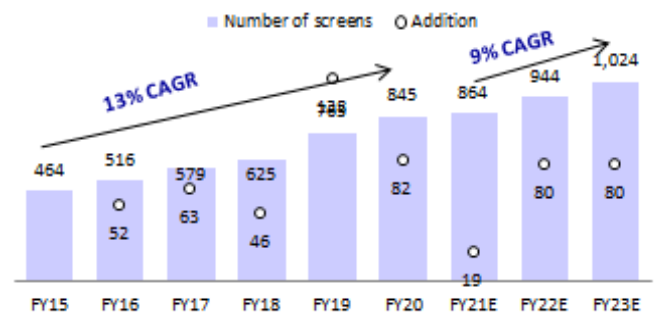
Past 5 years' revenue/EBITDA CAGR at 13%/15%, leading to rich historical valuations



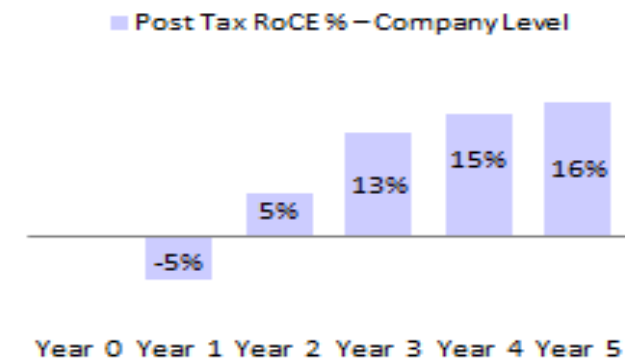
Source: MOFSL, Company

Exhibit 11: Expect PVR screen count to touch 1,024 by FY23

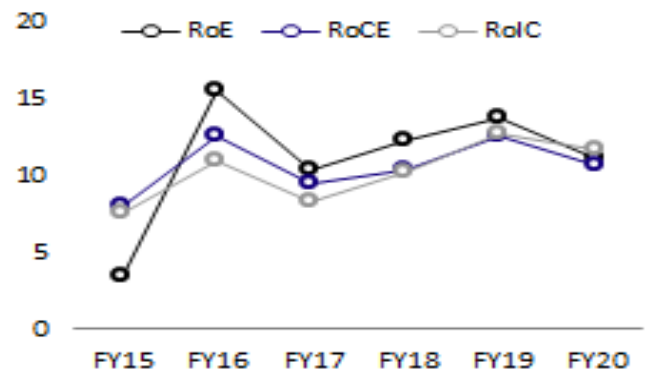
PVR has expanded aggressively in the past, leading to high base of screens (add % of new screen adds)



Source: MOFSL, Company

Exhibit 12: Post tax RoCE (%) at the company level

Source: MOFSL, Company

Exhibit 13: Return ratios

Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	21,194	23,341	30,856	34,144	2,769	10,493	49,246	55,205
Change (%)	14.6	10.1	32.2	10.7	-91.9	279.0	369.3	12.1
Total Production Expenses	6,053	6,967	9,407	9,971	1,156	3,342	14,527	16,009
Personnel Expenses	2,205	2,541	3,373	3,938	2,171	2,466	5,574	6,349
Rent	3,902	4,111	5,091	5,659	1,196	2,949	8,848	9,274
Administrative and Other Expenses	5,899	5,703	7,122	8,815	3,249	5,526	9,801	10,956
Total Expenditure	18,058	19,323	24,992	28,382	7,771	14,283	38,750	42,588
EBITDA	3,136	4,018	5,863	5,762	-5,003	-3,789	10,496	12,616
Margin (%)	14.8	17.2	19.0	16.9	-180.7	-36.1	21.3	22.9
Depreciation	1,384	1,537	1,913	2,324	2,383	2,456	2,720	3,010
EBIT	1,752	2,481	3,951	3,438	-7,386	-6,245	7,776	9,607
Int. and Finance Charges	806	837	1,280	1,521	1,490	1,527	1,537	1,417
Other Income	623	313	331	378	336	1,563	200	150
PBT bef. EO Exp.	1,569	1,958	3,002	2,294	-8,540	-6,209	6,439	8,340
EO Expense/(Income)	41	6	0	5	0	0	0	0
PBT after EO Exp.	1,528	1,952	3,002	2,289	-8,540	-6,209	6,439	8,340
Current Tax	570	489	1,017	627	-2,539	-1,563	1,621	2,099
Deferred Tax	0	216	79	0	0	0	0	0
Tax Rate (%)	37.3	36.1	36.5	27.4	29.7	25.2	25.2	25.2
Less: Minority Interest	-1	0	-68	-5	3	0	0	0
Reported PAT	958	1,247	1,838	1,657	-5,998	-4,646	4,818	6,240
Adjusted PAT	983	1,250	1,838	1,708	-6,010	-4,646	4,818	6,240
Change (%)	-8.1	27.1	47.0	-7.1	387.6	-22.7	-203.7	29.5
Margin (%)	4.6	5.4	6.0	5.0	-217.1	-44.3	9.8	11.3

Consolidated Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	467	467	467	514	608	608	608	608
Total Reserves	9,183	10,286	14,490	14,289	17,726	13,080	17,898	24,138
Net Worth	9,650	10,754	14,957	14,802	18,334	13,687	18,506	24,746
Minority Interest	405	8	5	3	0	0	0	0
Deferred Liabilities (net)	-424	-150	266	-2,049	-3,987	-3,987	-3,987	-3,987
Total Loans	7,301	6,614	11,039	48,723	47,524	50,524	50,524	48,524
Lease Liabilities				37,715	36,512	36,512	36,512	36,512
Capital Employed	16,933	17,226	26,267	61,479	61,871	60,225	65,043	69,284
Gross Block	22,335	24,676	38,193	71,953	70,227	73,227	77,227	81,227
Less: Accum. Deprn.	7,319	8,856	10,769	13,093	15,476	17,931	20,651	23,661
Intangible assets – Goodwill	71	79	0	0	0	0	0	0
Net Fixed Assets	15,087	15,899	27,425	58,860	54,751	55,296	56,576	57,566
Right to use Assets				30,047	27,554	27,554	27,554	27,554
Capital WIP	1,056	1,017	2,208	1,547	2,172	2,172	2,172	2,172
Total Investments	20	209	111	23	3	3	3	3
Curr. Assets, Loans, and Adv.	5,662	6,208	8,659	11,799	14,106	5,127	17,133	21,586
Inventory	190	198	303	307	250	84	368	403
Account Receivables	1,021	1,556	1,839	1,893	307	575	2,698	3,025
Cash and Bank Balance	299	328	341	3,223	7,314	2,743	5,971	9,083
Loans and Advances	4,152	4,126	6,175	6,377	6,235	1,725	8,095	9,075
Curr. Liability and Prov.	4,892	6,107	12,135	10,750	9,161	2,373	10,841	12,043
Account Payables	4,788	5,980	11,920	10,571	8,909	2,318	10,584	11,756
Provisions	104	127	215	180	252	55	256	287
Net Current Assets	771	101	-3,477	1,049	4,945	2,755	6,293	9,543
Appl. of Funds	16,933	17,226	26,267	61,479	61,872	60,225	65,043	69,284

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	20.5	26.7	37.9	32.2	-98.7	-76.5	79.3	102.7
Cash EPS	50.6	59.6	80.2	78.5	-59.7	-36.1	124.1	152.2
BV/Share	206.5	230.1	320.0	288.3	301.7	225.3	304.6	407.3
DPS	1.2	2.0	2.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	7.0	9.0	6.1	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	71.9	55.2	38.9	45.8	NM	-20.1	19.4	15.0
Cash P/E	29.1	24.7	18.4	18.8	NM	-42.6	12.4	10.1
P/BV	7.1	6.4	4.6	5.1	5.1	6.8	5.0	3.8
EV/Sales	3.6	3.2	2.6	3.3	48.2	13.4	2.8	2.4
EV/EBITDA	24.2	18.7	13.6	19.8	NM	-27.6	9.7	7.6
Dividend Yield (%)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	10.4	12.2	13.8	11.1	NM	-29.0	29.9	28.9
RoCE	9.5	10.4	12.5	6.2	NM	-12.3	19.8	21.1
RoIC	8.3	10.2	12.8	6.2	NM	-27.0	29.7	34.3
Working Capital Ratios								
Asset Turnover (x)	1.3	1.4	1.2	0.6	0.0	0.2	0.8	0.8
Inventory (Days)	3	3	4	3	33	3	3	3
Debtor (Days)	18	24	22	20	40	20	20	20
Creditor (Days)	82	94	141	113	1,175	81	78	78
Working Capital Turnover (Days)	8	-4	-45	-23	-312	0	2	3
Leverage Ratio (x)								
Current Ratio	1.2	1.0	0.7	1.1	1.5	2.2	1.6	1.8
Debt/Equity ratio	0.8	0.6	0.7	3.3	2.6	3.7	2.7	2.0

Consolidated Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
(INR m)								
Net Profit/(Loss) Before Tax/EO	1,528	1,952	3,002	896	-9,388	-6,209	6,439	8,340
Depreciation	1,384	1,537	1,913	5,425	5,748	2,456	2,720	3,010
Interest and Finance Charges	806	837	1,280	4,730	4,949	1,527	1,537	1,417
Direct Taxes Paid	-570	-704	-1,097	-295	72	1,563	-1,621	-2,099
(Inc.)/Dec. in WC	381	699	4,007	-2,647	-803	-2,380	-310	-139
CF from Operations	3,529	4,320	9,105	8,108	578	-3,044	8,765	10,529
Others	268	-163	-331	-238	-4,705	-1,563	-200	-150
CF from Operations incl. EO	3,797	4,157	8,774	7,870	-4,127	-4,607	8,565	10,379
(Inc.)/Dec. in FA	-6,752	-2,302	-14,630	-3,838	-1,166	-3,000	-4,000	-4,000
Free Cash Flow	-2,955	1,856	-5,856	4,033	-5,293	-7,607	4,565	6,379
(Pur.)/Sale of Investments	-1	-190	99	0	0	0	0	0
Others	0	0	2,739	-66	-1,720	1,563	200	150
CF from Investments	-6,753	-2,491	-11,793	-3,903	-2,886	-1,438	-3,800	-3,850
Issue of Shares	1	0	0	5,041	10,931	0	0	0
(Inc.)/Dec. in Debt	1,583	-687	4,425	-674	1,768	3,000	0	-2,000
Interest Paid	-806	-837	-1,280	-1,151	-982	-1,527	-1,537	-1,417
Dividend Paid	-68	-113	-113	-360	0	0	0	0
Others	-127	0	0	-4,965	-962	0	0	0
CF from Fin. Activity	583	-1,637	3,033	-2,110	10,755	1,473	-1,537	-3,417
Inc./Dec. in Cash	-2,373	29	14	1,857	3,742	-4,571	3,228	3,111
Add: Opening Balance	2,671	299	328	-74	1,783	5,524	953	4,181
Closing Balance	299	328	341	1,783	5,524	953	4,181	7,293
Bank OD	0	0		1,441	1,790	1,790	1,790	1,790
Net Closing Balance	299	328	341	3,223	7,314	2,743	5,971	9,083

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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