

# PVR

## Weak content trips ATP and footfalls

India Equity Research | Media



**PVR's Q2FY18 revenue and EBITDA came in line. Key positives were: i) 10% YoY jump in ad revenue despite weak content; and ii) 9% YoY LTL SPH increase. Key negatives were: i) LTL footfalls fell 5% YoY as only *Toilet: Ek prem katha* performed well; and ii) LTL ATP increased ~2.0% YoY. Though the company had guided for ~60 new screens in FY18 (our estimate: 50 screens), delays in mall completion and regulatory approvals resulted in only 21 additions in H1FY18. While H2FY18 movie line up, increase in rental cost and LBT in Chennai are key monitorables, initiatives like loyalty programme and focus on premium screens (PVR XL) are long-term positives. Maintain 'BUY'.**

### Weak content, GST roll out hurt key metrics

**PVR's overall ATP increased merely ~1% and footfalls rose only 1% impacted by weak content.** Film hire (as % of reported NBOC) jumped 120bps YoY to 46.2% in Q2FY18 due to reduction in NBOC on account of discontinuation of tax holidays and uncertainty over other deductions (theatre maintenance charges etc.) under the new GST regime. **Even though SPH increased 8%, net F&B revenue rose only 2% on account of higher tax on F&B sales under GST (18% versus 12% earlier).**

### Q2FY18 conference call: Key takeaways

**i) PVR estimates 15-18% YoY ad growth in FY18 and FY19 each; ii) it passed on GST benefit by lowering ticket prices from INR120-150 to INR118 as the GST rate is 18% for tickets priced below INR100 (28% above INR100); iii) theatrical releases will not compete with other formats as all films maintain 8 weeks' window before releasing in other formats; iv) PVR XL will be priced at INR25-50 premium to normal screens and the company is targeting 11 screens over the next 18 months; and v) 50% of total admissions were via online platforms (including partner platforms).**

### Outlook and valuations: Premium show; maintain 'BUY'

We remain enthused by PVR's pricing power with regards ATP, F&B and advertising. We expect the company to be key beneficiary of anticipated uptick in urban consumption. **Screen expansion and movie line up will be key monitorables.** We maintain 'BUY/SO' with target price of INR1,516 (32x FY19E EPS). At CMP, the stock is trading at 30.0x FY19E EPS.

Financials							(INR mn)		
Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E	
Revenues	5,554	5,542	0.2	6,366	(12.8)	21,628	23,828	28,429	
EBITDA	905	930	(2.7)	1,120	(19.2)	3,570	3,995	5,523	
Adj. Profit	258	291	(11.6)	445	(42.1)	999	1,158	2,212	
Adj. dil. EPS	5.5	6.3		9.5		21.4	24.8	47.4	
Diluted P/E (x)						66.4	57.3	30.0	
ROAE (%)						10.4	11.0	18.3	

### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

### MARKET DATA (R: PVRL.BO, B: PVRL IN)

CMP	: INR 1,421
Target Price	: INR 1,516
52-week range (INR)	: 1,660 / 1,006
Share in issue (mn)	: 46.7
M cap (INR bn/USD mn)	: 66 / 1,021
Avg. Daily Vol.BSE/NSE('000)	: 209.8

### SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	20.3	20.3	20.2
MF's, FI's & BK's	26.4	28.7	29.8
FII's	41.4	39.7	38.9
Others	11.9	11.3	11.1
* Promoters pledged shares (% of share in issue)			Nil

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	21.0	6.0	6.0
3 months	6.8	3.0	1.6
12 months	17.1	19.8	9.0

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**Table 1: Trends at a glance**

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net box revenues (INR mn)	2,662	2,452	2,111	3,080	2,809	2,692	2,646	3,433	2,993
Ad revenues (INR mn)	461	693	454	515	624	784	527	674	688
F&B revenues (INR mn)	1,196	1,136	1,037	1,475	1,396	1,349	1,285	1,646	1,423
Comparable ATP (INR)	184	199	182	193	194	195	189	215	208
Comparable footfalls (mn)	16.7	14.6	14.6	17.4	14.2	13.8	15.6	17.3	16.3
Comparable SPH (INR)	68	74	73	77	86	80	77	87	94
No. of screens	477	491	524	551	557	569	579	587	600
<b>Growth rate (%)</b>									
Net box revenues	16.7	6.3	33.7	15.5	5.5	9.8	25.4	11.5	6.6
Ad revenues	13.5	28.6	19.3	12.7	35.3	13.1	16.1	30.9	10.2
F&B revenues	31.7	12.9	49.9	13.7	16.8	18.8	23.9	11.6	1.9
<b>% of revenues</b>									
Employee cost	9.2	10.1	12.3	9.7	9.8	10.8	11.2	10.7	10.6
EBITDA margin	18.4	16.5	8.8	18.9	16.8	15.1	9.7	17.6	16.3
PAT margin	6.5	6.0	(1.5)	7.6	5.3	4.5	(0.0)	7.0	4.5

Source: Company, Edelweiss research

## Q2FY18 conference call: Key highlights

### Net box office performance

- Net box office increased by ~7.0% YoY aided by 1% YoY ATP rise and 1% YoY footfalls increase.
- LTL ATP growth stood at 2.0% YoY.
- LTL footfalls dipped 5% YoY.
- Film hire as % of reported NBOC jumped up from 45.0% in Q2FY17 to 46.2% in Q2FY18 due to reduction in NBOC on account of:
  - discontinuation of tax holidays under various state exemption schemes.
  - uncertainty over other deductions like theatre maintenance charges etc. under the new GST regime.

### Food & beverages

- F&B increased ~2% YoY aided by 8% YoY SPH growth and 1% YoY footfalls increase.
- LTL SPH growth stood at 9% YoY.
- SPH increased by 8%, but net F&B revenue grew 2% on account of higher tax incidence on F&B sales under GST (18% vs. 12% earlier).

### Ad growth

- The company anticipates 15-18% YoY ad growth (absolute terms) over the next 2 years.

### Rental cost

- PVR continues to face high competitive intensity in big markets.
- In smaller markets where the competitive intensity is less, it is business as usual.

### Loyalty programme

- It will create more stickiness and increase visitation from existing customers.

- It will also enhance F&B spending.
- Redemption of points will go as expenditure. Hence, it will not impact ATP.

#### **GST**

- PVR has passed on the benefit by lowering the ticket price of INR120-150 to INR118 as GST rate is 18% for tickets prices below INR100.
- F&B tax realisation has moved up under GST.
- Input tax benefit makes the situation neutral.

#### **PVR extra large**

- It is about one third capital expenditure compared to IMAX property.
- Payback: 2.5 to 3.0 years.
- ATP: It is at INR25-50 premium compared to normal screens.
- PVR is targeting 11 screens over the next 18 months.

#### **Screen expansion**

- PVR added 21 screens in H1FY18.
- There are another 48 screens ready which will be opened in Q3FY18 and Q4FY18.

#### **Chennai**

- Though the strike has been called off, PVR continues to engage with the government.
- The company is hopeful of success.
- PVR to push for no LBT. If it fails, it will push zero LBT for non-Tamil movies.

#### **Other key takeaways**

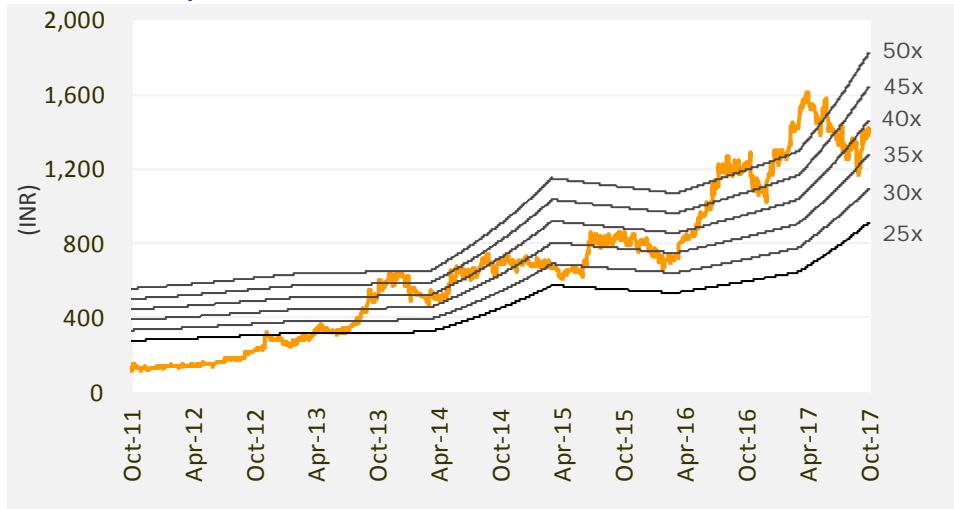
- All films maintain 8 weeks' (2 months) window before they are released in other formats.
- PVR booked 2 months of revenues for Bluo (INR100-120mn revenue booked in Q2FY18).
- 50% of total sales (admissions) were through online platforms (including partner platforms).

## Outlook and valuations: Premium show; maintain 'BUY'

We remain enthused by PVR's pricing power with regards ATP, F&B and advertising. We expect the company to be key beneficiary of anticipated uptick in urban consumption. Further, the Union Cabinet has approved 7 CPC recommendations, implying ~24% aggregate hike in government employees' incomes, boosting disposable incomes—this is positive for multiplexes. With acquisition of DT Cinemas, PVR will enhance market share in all key cities, which is likely to drive growth once consumption picks up. Bargaining power of the combined entity is expected to improve significantly.

We remain enthused by PVR's pricing power with regards ATP, F&B and advertising. We expect the company to be key beneficiary of anticipated uptick in urban consumption. Screen expansion and movie line up will be key monitorables. We maintain 'BUY/SO' with target price of INR1,516 (32x FY19E EPS).

**Chart 1: PVR's 1-year forward PE band**



Source: Bloomberg, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	5,554	5,542	0.2	6,366	(12.8)	11,920	23,828	28,429
Exhibition cost	1,335	1,144	16.6	1,449	(7.9)	2,783	5,347	6,236
Cost of F&B	385	356	8.0	413	(6.8)	798	1,509	1,888
SG&A	1,371	1,614	(15.0)	1,620	(15.4)	2,991	6,100	6,965
Employee expenses	587	544	7.8	679	(13.7)	1,266	2,502	2,843
Rent expense	972	953	1.9	1,085	(10.5)	2,057	4,375	4,974
Total expenditure	4,649	4,612	0.8	5,246	(11.4)	9,894	19,833	22,906
EBITDA	905	930	(2.7)	1,120	(19.2)	2,025	3,995	5,523
Depreciation	347	346	0.3	376	(7.8)	723	1,728	1,833
EBIT	558	585	(4.5)	744	(25.0)	1,303	2,267	3,690
Other income	42	49	(14.4)	164	(74.7)	206	300	400
Interest	207	193	7.1	208	(0.6)	415	830	780
Add: Prior period items								
Add: Exceptional items	(6)					(6)		
Profit before tax	387	440	(12.0)	700	(44.7)	1,087	1,737	3,310
Provision for taxes	140	149	(6.0)	258	(45.8)	398	573	1,092
Minority interest	(5)	-		(2)	NA	(7)	5	5
Associate profit share								
Reported net profit	252	291	(13.6)	445	(43.4)	696	1,158	2,212
Adjusted Profit	258	291	(11.6)	445	(42.1)	702	1,158	2,212
Diluted shares (mn)	-	47		47		47	47	47
Adjusted Diluted EPS	-	6.3	(100.0)	9.5	(100.0)	15.1	24.8	47.4
Diluted P/E (x)	-	-		-		-	57.3	30.0
ROAE (%)	-	-		-		-	11.0	18.3
Tax Rate	-	-		-		-	33	33
Exhibition cost (% of revenue)	24.0	20.6		22.8		23.3	22.4	21.9
Cost of F&B (% of revenue)	6.9	6.4		6.5		6.7	6.3	6.6
Employee cost	10.6	9.8		10.7		10.6	10.5	10.0
Rent	17.5	17.2		17.0		17.3	18.4	17.5
SG&A	24.7	29.1		25.4		25.1	25.6	24.5
EBITDA	16.3	16.8		17.6		17.0	16.8	19.4
Adjusted net profit	4.6	5.3		7.0		5.8	4.9	7.8

## Company Description

PVR was incorporated in 1995 pursuant to a JV with Village Roadshows, one of the largest cinema exhibition companies in the world. It opened its first multiplex in Delhi in 1997. In November 2002, Village Roadshows divested its stake in PVR as part of an overall strategy to rationalise its operations across 18 countries. Since then, PVR has come a long way and is presently one of the leading multiplex players in India with 501 screens across 111 properties. PVR is also present in the movie distribution business through its subsidiary PVR Pictures. It has also ventured into retail entertainment and management of food courts to diversify its revenue stream

## Investment Theme

PVR has 501 screens as of March 2016. The company plans to add 60-70 screens annually for the next few years. With its primary focus on the movie exhibition business, PVR has decided to go slow in the bowling business and loss-making movie production business. Increasing 3D content will further enhance revenues. DT Cinemas acquisition is expected to create operating synergies going ahead.

## Key Risks

- Unavailability of quality content
- Slowdown in consumer discretionary spends
- Delay in rollout of proposed multiplexes
- Competition from other forms of entertainment

## Financial Statements

### Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
<b>Company</b>				
<b>Sales assumptions</b>				
Ad revenue growth (%)	21.1	17.3	18.0	18.0
Average Ticket Price	188.0	196.0	205.8	215.1
Footfalls (mn)	70	75	82	93
F&B revenues (% of rev.)	23.1	23.1	22.7	24.0
SPH (INR)	72.0	81.0	-	-
Cost assumptions	1	1	1	1
F&B COGS (% of F&B rev)	25.1	24.2	24.0	23.8
Personnel cost(% of rev)	9.9	10.2	10.5	10.0
Rent exp (% of rev)	17.6	18.0	18.4	17.5
Financial assumptions	1	1	1	1
Tax rate (%)	29.8	36.3	33.0	33.0
Capex (INR mn)	(2,406)	6,555	3,170	3,170
Debtor days	16	16	16	16
Inventory days	11	12	12	12
Payable days	109	111	111	111
Cash conversion cycle	(81)	(83)	(83)	(83)
Int rate on debt (%)	12.7	12.4	10.3	8.9
Dep. (% gross block)	11.0	10.2	10.2	8.9

Income statement	(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E
Net revenue	18,811	21,628	23,828	28,429
Film exhibition cost	4,198	4,652	5,347	6,236
COGS of F&B	1,248	1,401	1,509	1,888
Employee costs	1,859	2,205	2,502	2,843
Rent expense	3,316	3,902	4,375	4,974
Total SG&A expenses	4,950	5,899	6,100	6,965
Total operating expenses	15,571	18,058	19,833	22,906
EBITDA	3,240	3,570	3,995	5,523
Depreciation	1,151	1,384	1,728	1,833
EBIT	2,089	2,186	2,267	3,690
Add: Other income	319.00	188.6	300.00	400.00
Less: Interest Expense	840	806	830	780
Add: Exceptional items	(116)	(41)	-	-
Profit Before Tax	1,453	1,528	1,737	3,310
Less: Provision for Tax	467	570	573	1,092
Less: Minority Interest	5	1	5	5
Reported Profit	981	958	1,158	2,212
Exceptional Items	(116)	(41)	-	-
Adjusted Profit	1,097	999	1,158	2,212
Shares o/s (mn)	47	47	47	47
Diluted shares o/s (mn)	47	47	47	47
Adjusted Diluted EPS	23.5	21.4	24.8	47.4
Dividend per share (DPS)	2.0	2.0	1.9	3.6
Dividend Payout Ratio(%)	9.5	9.8	7.5	7.5

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Film exhibition cost	22.3	21.5	22.4	21.9
COGS of F&B	6.6	6.5	6.3	6.6
Staff costs	9.9	10.2	10.5	10.0
Rent expense	17.6	18.0	18.4	17.5
S G & A expenses	26.3	27.3	25.6	24.5
EBITDA margins	17.2	16.5	16.8	19.4
Net Profit margins	5.9	4.6	4.9	7.8

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	27.4	15.0	10.2	19.3
EBITDA	61.4	10.2	11.9	38.2
Adjusted Profit	634.6	(8.9)	16.0	91.0
EPS	546.8	(8.9)	16.0	91.0

Balance sheet (INR mn)					Cash flow metrics				
As on 31st March	FY16	FY17	FY18E	FY19E	Year to March	FY16	FY17	FY18E	FY19E
Share capital	467	467	467	467	Operating cash flow	3,543	3,196	3,432	4,597
Reserves & Surplus	8,345	9,183	10,237	12,250	Investing cash flow	(2,992)	(6,321)	(2,870)	(2,770)
Shareholders' funds	8,812	9,650	10,704	12,717	Financing cash flow	2,168	602	515	(979)
Minority Interest	401	405	410	416	Net cash Flow	2,720	(2,523)	1,077	847
Short term borrowings	-	1,251	1,250	1,250	Capex	2,406	(6,555)	(3,170)	(3,170)
Long term borrowings	5,718	6,050	7,500	7,500	Dividend paid	(93)	(94)	(87)	(166)
Total Borrowings	5,718	7,301	8,750	8,750					
Long Term Liabilities	67	71	71	71					
Def. Tax Liability (net)	(633)	(424)	(424)	(424)					
<b>Sources of funds</b>	<b>14,365</b>	<b>17,004</b>	<b>19,512</b>	<b>21,531</b>					
Gross Block	9,595	12,243	15,293	18,343					
Net Block	8,824	10,447	11,937	13,355					
Capital work in progress	739	1,056	1,056	1,056					
Intangible Assets	1,192	4,640	4,591	4,511					
Total Fixed Assets	10,756	16,143	17,584	18,922					
Non current investments	10	10	10	10					
Cash and Equivalents	2,680	309	1,386	2,233					
Inventories	205	190	257	273					
Sundry Debtors	901	1,021	1,059	1,263					
Loans & Advances	2,343	2,207	2,207	2,207					
Other Current Assets	1,445	1,945	1,945	1,945					
Current Assets (ex cash)	4,893	5,363	5,467	5,688					
Trade payable	1,716	1,976	2,091	2,478					
Other Current Liab	2,258	2,844	2,844	2,844					
Total Current Liab	3,974	4,821	4,935	5,322					
Net Curr Assets-ex cash	920	543	532	366					
<b>Uses of funds</b>	<b>14,365</b>	<b>17,004</b>	<b>19,512</b>	<b>21,531</b>					
BVPS (INR)	188.7	206.7	229.3	272.4					
<b>Free cash flow</b>	(INR mn)								
Year to March	FY16	FY17	FY18E	FY19E					
Reported Profit	981	958	1,158	2,212					
Add: Depreciation	1,151	1,384	1,728	1,833					
Interest (Net of Tax)	590	513	556	523					
Others	600	587	(21)	(137)					
Less: Changes in WC	(222)	246	(10)	(166)					
Operating cash flow	3,543	3,196	3,432	4,597					
Less: Capex	(2,406)	6,555	3,170	3,170					
<b>Free Cash Flow</b>	<b>5,949</b>	<b>(3,359)</b>	<b>262</b>	<b>1,427</b>					
<b>Peer comparison valuation</b>									
Name	Market cap (USD mn)	Diluted P/E (X)			EV / EBITDA (X)			ROAE (%)	
		FY18E	FY19E		FY18E	FY19E		FY18E	FY19E
PVR	1,021	57.3		30.0	18.6	13.3		11.0	18.3
DB Corp	1,039	15.5		13.8	8.6	7.4		26.3	27.5
DEN Networks	252	(13.7)		(17.3)	5.2	4.7		(9.2)	(7.1)
Dish TV India	1,277	-		-	8.5	6.4		13.1	39.8
Hathway Cable & Datacom	393	-		-	14.7	11.0		(17.6)	(11.1)
Jagran Prakashan	905	15.3		13.6	8.3	7.1		20.1	21.0

Source: Edelweiss research

## Additional Data

### Directors Data

Ajay Bijli	Promoter, Executive Director	Sanjeev Kumar	Executive Director
Vicha Poolvaraluk	Non Executive, Non Independent	Vikram Bakshi	Non Executive, Independent
Sanjai Vohra	Non Executive, Independent	Sanjay Khanna	Non Executive, Independent
Renuka Ramnath	Non Executive, Non Independent	Ravinder Singh Thakran	Non Executive, Non Independent
Amit Burman	Non Executive, Non Independent	Sanjay Kapoor	Additional Director
Narayan Ramachandran	Alternate Director		

Auditors - S.R. Batliboi & Co.

\*as per last annual report

### Holding – Top10

	Perc. Holding		Perc. Holding
Bear Creek Investors Llc	7.67	Gray Birch Inv Ltd	6.33
Artisan Partners Ltd Partnership	5.2	Plenty Pvt Eq Fund I Ltd	4.21
Icici Prudential Asset Mgmt Co	3.83	Multiple Pvt Eq Fu I Ltd	3.79
Morgan Stanley	3.4	Plenty Pvt Equity Fii	2.98
Baron Emerging Mrkts Fund	2.62	Bnp Paribas	2.6

\*as per last available data

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
17 Mar 2017	Vanguard Funds Public Ltd Company Vanguard Ftse All Wor	Buy	321955	1412.38
18 Jan 2017	Sanjeev Kumar	Sell	350000	1260.00
18 Jan 2017	Ajay Bijli	Sell	1985000	1260.00
18 Jan 2017	Multiples Pvt Equity Fund	Sell	389961	1260.00
18 Jan 2017	Gray Birch Investment Ltd	Buy	2958888	1260.00
18 Jan 2017	Multiples Pvt Equity Fund Ii Llp	Sell	233927	1260.00

\*in last one year

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Apr 2017	Aamer Krishan Bijli	Sell	47000.00
03 Apr 2017	Sudha Gupta	Buy	89000.00
03 Apr 2017	N C Gupta	Sell	89000.00
03 Apr 2017	Selena Bijli	Buy	47000.00
03 Apr 2017	Selena Bijli	Buy	47000.00

\*in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
DB Corp	BUY	SO	M	DEN Networks	HOLD	SP	H
Dish TV India	BUY	SP	M	Hathway Cable & Datacom	BUY	SP	M
Jagran Prakashan	BUY	SP	M	PVR	BUY	SO	M
Sun TV Network	BUY	SO	H	Zee Entertainment Enterprises	BUY	SO	M

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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### **Coverage group(s) of stocks by primary analyst(s): Media**

DB Corp, DEN Networks, Dish TV India, Hathway Cable & Datacom, Jagran Prakashan, PVR, Sun TV Network, Zee Entertainment Enterprises

#### **Recent Research**

Date	Company	Title	Price (INR)	Recos
24-Oct-17	Zee Entertainment Enterprises	Domestic ad revenue robust; better H2 in the offing; <i>Result Update</i>	526	Buy
04-Oct-17	Media	Sluggish ad growth; early festive comes to rescue; <i>Result Preview</i>		
03-Oct-17	Media	Hits 'n' Misses: Q2FY18: Tepid content continues to spoil the show; <i>Quarterly Update</i>		

#### **Distribution of Ratings / Market Cap**

##### **Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### **Rating Interpretation**

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

#### **One year price chart**



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