

## Upgrade to Accumulate (Prev. Sell)

**Concerns prevail over ambitious screen/ad. growth guidance**

PVR reported revenue growth of 9.4% YoY on back of higher Net box office collection and better F&B revenue. EBITDA margin improved 211bps YoY to 19.7% due to lower overhead expenses due to GST credits. We expect occupancy levels to improve over the next two quarters helped by a strong Hindi content pipeline. PVR has corrected by almost 16% since the F&B announcement and is currently trading at inexpensive valuations of 10x/9x based on our FY20/FY21 EV/EBITDA estimates. We upgrade PVR to an Accumulate rating and rollover to Sep'19 TP of ₹ 1,275 (10.5x EV/EBITDA)

**Revenue above expectation; lower overheads led to improved margin**

PVR reported healthy revenue growth of 9.4% YoY to ₹ 6,963 (DCMe: ₹ 6,741mn), tad above our estimate on the back of better growth in F&B revenue and Net Box office collection. EBITDA margin improved 211bps YoY at 19.7% (DCMe: 16.6%) on back of lower overhead expenses. PAT during the quarter improved by 17.3% YoY at ₹ 521mn (DCMe: ₹ 387mn).

**Growth in F&B revenue led by better SPH/higher footfalls**

Footfalls for the quarter grew 8% YoY despite the high base of Bahubali-The Conclusion in Q1FY18. F&B spend per head reported a growth of 8% YoY to ₹ 94 which in turn helped F&B revenue grow 23% YoY to ₹ 2,027mn. Advertisement revenue reported muted growth of 6% YoY to ₹ 718mn.

**Growth in BO collection despite higher base of Bahubali in Q1FY18**

Box office collection reported healthy growth of 12% YoY to ₹ 3,849mn despite the high base of Bahubali- The Conclusion, led by performance of movies like Avengers, Race-3, Baaghi-2 and Jurassic Park. Hollywood's contribution towards BO revenue surged 1200bps YoY to 34%.

**View**

Screen addition for PVR has been poor as it has added mere 9 screens until date in FY19 and has guided for a total screen addition of over 90 screens in FY19; we expect the organic screen addition to be 60 in FY19. We expect occupancy levels to improve over the next two quarters helped by a strong hindi content pipeline; we estimate Hindi Box Office revenue to grow 27% and 53% YoY basis for Q2 and Q3 of FY19 respectively. This is primarily led by some major releases like Thugs of Hindustan (Aamir Khan & Amitabh Bachchan), Zero (ShahRukh Khan), Student of the Year 2 (Tiger Shroff), Gold (Akshay Kumar), Satyamav Jayate (John Abraham), Sui Dhaaga (Varun Dhawan), Robot 2.0 (Rajnikanth and Akshay Kumar) and Simmba (Ranveer Singh).

**Q1FY19 Result (₹ Mn)**

Particulars	Q1FY19	Q4FY18	Q1FY18	QoQ(%)	YoY(%)
Revenue	6,963	5,849	6,366	19.0	9.4
EBITDA	1,372	944	1,120	45.4	22.5
Pre-Tax Profit	805	415	700	93.9	15.0
Net Profit	521	262	445	99.0	17.3
EPS (₹)	11.2	5.6	9.5	99.0	17.3
<b>Margins (%)</b>				<b>bps</b>	<b>bps</b>
EBITDA Margin	19.7	16.1	17.6	357	211
PBT Margin	11.6	7.1	11.0	446	57
Net Margin	7.5	4.5	7.0	301	51

CMP	₹ 1,120
Target / Upside	₹ 1,275/14%
BSE Sensex	36,984
NSE Nifty	11,167

**Script Details**

Equity / FV	₹ 467mn/₹ 10/-
Market Cap	₹ 52bn
	USD 770mn
52 week High/Low	₹ 1,567/1,064
Avg. Volume (no)	845,059
NSE Symbol	PVR
Bloomberg Code	PVRL IN

**Shareholding Pattern June'18 (%)**

Promoters	20.3
MF/Banks/FIs	29.2
FII's	41.3
Public / Others	9.2

**Valuation (x)**

	FY19E	FY20E	FY21E
P/E	29.9	27.3	21.0
EV/EBITDA	12.1	10.3	8.7
ROE (%)	15.1	14.3	15.9
ROCE (%)	11.4	12.1	13.6

**Estimates (₹ Mn)**

	FY19E	FY20E	FY21E
Net Sales	25,780	29,818	33,713
EBITDA	4,790	5,431	6,165
PAT	1,750	1,919	2,488
EPS (₹)	37.4	41.1	53.2

**VP-Research:** Karan Taurani

Tel: +91 22 4096 9754

E-mail: karant@dolatcapital.com

**Associate:** Vinesh Vala

Tel: +91 22 4096 9736

E-mail: vineshv@dolatcapital.com

**Associate:** Priyanka Sureka

Tel: +91 22 4096 9751

E-mail: priyankas@dolatcapital.com

Challenges persist in the case of PVR vs Inox as the former's ad revenue/SPH growth is expected to converge in the near term; further, management has guided for ad. revenue growth of 18%-20% in FY19 which in our view is ambitious given its muted performance in Q1FY19 and peaked out inventory in the ad. segment. The Mumbai High Court yesterday adjourned the PIL hearing by two weeks due to which overhang prevails for F&B revenue growth in PVR; due to the above, we believe PVR will continue to trade at a lower multiple vs avg. (15.3x – 3-year avg. EV/EBITDA multiple).

### Valuation

PVR has corrected by almost 16% since the F&B announcement and is currently trading at inexpensive valuations of 10.3x/8.7x based on our FY20/FY21 EV/EBITDA estimates which limits scope for any further downside in our view. We have revised our earnings estimates upwards by 3% for FY20/FY21 primarily factoring a better EBITDA margin; however, due to the overhang on F&B we have cut our target EV/EBITDA multiple by 15% to 10.5x (12.5x earlier) for PVR. Apart from F&B, other risks pertaining to exhibition segment remain in our view – uncertainty over LBT, converging growth in ATP, threat from VoD (increased consumption of short films); however, trigger remains in the form of a strong Hindi movie content pipeline in the near term which will support valuations. We upgrade PVR to an Accumulate rating and rollover to a Sep'19 target price of ₹ 1,275 based on 10.5x one-year fwd. EV/EBITDA.

As mentioned below, we have also highlighted various scenarios under which there would be an EBITDA downgrade for PVR which would lead to a cut in the target prices; as per our view and our channel checks, we believe allowance of outside food seems highly unlikely due to the subjectivity issue (which and what type of food to be allowed), whereas there may be a high likelihood of reduction/rationalization in the F&B prices; in that case there may be a further downgrade of ~12% to our current target price as SPH which is currently estimated to grow at ~8% would report double digit decline YoY for the next two years. Further, gross SPH for PVR (₹ 89) is 35% higher than that of Inox based on FY18 and hence PVR may have to rationalize prices by a higher margin vs Inox in case all multiplexes agree for a reduction in food prices.

### Various scenarios regarding the F&B announcement –

#### Scenario 1 – Outside food is allowed only for patients, children and special patrons

Impact – This will have minimal negative impact on the F&B revenue for multiplexes (~1%-2 negative impact on EBITDA)

#### Scenario -2 – Outside food allowed in the state of Maharashtra only

Impact – Maharashtra contributes ~22%-24% of the F&B revenue for PVR/Inox; this will have a huge negative impact on the F&B revenue growth and could pare our EBITDA estimates by ~4%-5%

#### Scenario – 3 – Outside food allowed in all states

Impact – F&B revenue contributes ~23%-25% for PVR/Inox; allowance of outside food in all states will have a further larger negative impact on EBITDA by ~10%-12%. However, the likelihood of this scenario is not much as there are security issues, particularly in the state of Delhi where outside food is banned for this reason

#### Scenario -4 – Lowering prices of all food items across all states

Impact – Lowering prices of key food items like Popcorn, Samosa, Coke etc will have a further larger negative impact on the F&B revenue, which could even decline YoY by almost 20%; this will have a negative impact of ~15-17% on our EBITDA estimates. This scenario is also unlikely as the provision currently mentions of products being sold on MRP; bottled water and other beverages are already sold on MRP. However, there could be a ruling, or an order imposed to reduce/rationalize the prices, which the exhibitors will eventually resort towards to gain public confidence.

### Concall KTA's

- Management indicated that they had 2 new properties and a total of 9 screen additions during the Quarter; 5 screens on June 7, 2018 at Vellore in Tamil Nadu and 4 screens on July 25, 2018 at Mysore in Karnataka. Management further guided for 90 screen additions with 25-30 screens to be added in Q2FY19 and balance to follow in H2FY19
- The reported ATP growth of only 2%YoY this quarter was a conscious decision taken by them because 1) ATP growth was very high last year for a consecutive 5 weeks during the Bahubali-The Conclusion release; this quarter Avengers-Infinity War was the only big release 2) The management stated their focus to be on the footfall even though lower ATP growth because as the number of footfalls increase so does the F&B consumption
- Hollywood BO collection accounted for 34% in the quarter as compared to 22% LY same quarter due to the release of Avengers-Infinity War, Bollywood BO collection contributed 48% in Q1FY19 as against 58% in Q1FY18 as no big blockbuster except Race -3 released this quarter and the balance was contributed by Regional BO collection of the PVR box office revenue
- On Rental cost growth, the management indicated that the some of the cost growth was not reflected due to GST.
- Signed non-binding MoU with Dubai based Al-Futtaim group for jointly developing Cinema Business in the MENA region. Management believes there was a gap in the market there and they could provide premium, heightened offerings to the customers there; they believe people there are very fond of Indian films.
- Management refrains to comment on F&B issue until there is clarity on the issue, but at the same they said that they are working out strategies to make F&B valuation more attractive for consumers like how ticket pricing has become dynamic, but F&B has not.
- The management indicated that the growth in SPH on F&B was mainly due to volume growth and not price growth.
- Convenience income reduces due to discontinuance of ticketing partners Just Dial and TicketNew, even the contract with online aggregators like BMS is up for contract renewal this year. The management feels the new apps are not adding to their ticketing inventory given their small size

**Exhibit 1: Q1FY19 Performance**

(₹ mn)	Q1FY19	DCMe	Diff (%)	Q4FY18	QoQ(%)	Q1FY18	YoY(%)
Revenue	6,963	6,741	3.3	5,849	19.0	6,366	9.4
EBITDA	1,372	1,119	22.6	944	45.4	1,120	22.5
Pre-Tax Profit	805	605	33.0	415	93.9	700	15.0
Net Profit	521	387	34.6	262	99.0	445	17.3
EPS (₹)	11.2	8.2	35.4	5.6	99.0	9.5	17.3
<b>Margins (%)</b>							
EBITDA Margin	19.7	16.6		16.1		17.6	211
Net Margin	7.5	5.7		4.5		7.0	51

Source: Company, DART

**Exhibit 2: Revenue Analysis**

(₹ Mn)	Q1FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Net Box Office	3,433	3,124	3,849	23	12
Food & Beverages	1,646	1,571	2,027	29	23
Advertising	674	720	718	0	6
Other Revenues	385	284	226	(20)	(41)
<b>% Share of Revenue</b>				<b>bps</b>	<b>bps</b>
Net Box Office	55.9	54.8	56.4	162	51
Food & Beverages	26.8	27.6	29.7	216	292
Advertising	11.0	12.6	10.5	(211)	(46)
Other Revenues	6.3	5.0	3.3	(167)	(296)

Source: Company, DART

**Exhibit 3: Operating highlights**

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Occupancy (%)	36.2	32.1	32.0	31.7	35.6	29.6	29.1	31.5	35.9
YoY (bps)	(180)	(500)	(200)	320	(80)	(230)	(290)	(10)	80
Footfalls (mn)	20.7	18.5	17.9	18.2	21	18.7	17.4	19	22.7
YoY Growth (%)	9	(2)	8	19	1	1	(3)	4	8
Average Ticket Price (₹)	195	202	199	190	214	204	212	209	217
YoY Growth (%)	7	8	(1)	4	10	1	7	10	1

Source: Company, DART

**Exhibit 4: Estimate Revision**

(₹ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	25,780	29,818	33,713	26,050	30,548	34,867	(1.0)	(2.4)	(3.3)
EBITDA	4,790	5,431	6,165	4,433	5,287	6,006	8.0	2.7	2.6
Pre-Tax Profit	2,736	2,999	3,888	2,379	2,920	3,775	15.0	2.7	3.0
Net Profit	1,750	1,919	2,488	1,522	1,869	2,415	15.0	2.7	3.0
EPS (₹)	37.2	40.8	52.9	32.4	39.8	51.4	15.0	2.7	3.0
<b>Margins (%)</b>									
EBITDA Margin	18.6	18.2	18.3	17.0	17.3	17.2			
Net margin	6.8	6.4	7.4	5.8	6.1	6.9			

Source: Company, DART

### Income Statement (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
<b>Net Sales</b>	<b>23,341</b>	<b>25,780</b>	<b>29,818</b>	<b>33,713</b>
Total Expenditure	19,323	20,990	24,387	27,548
COGS	6,967	7,607	8,921	10,152
Employee Expenses	2,541	2,805	3,257	3,694
Other Expenses	9,815	10,579	12,209	13,702
<b>Gross Profit</b>	<b>16,374</b>	<b>18,173</b>	<b>20,897</b>	<b>23,562</b>
<b>EBIDTA</b>	<b>4,018</b>	<b>4,790</b>	<b>5,431</b>	<b>6,165</b>
Depreciation	1,537	1,588	1,827	1,903
<b>EBIT</b>	<b>2,481</b>	<b>3,202</b>	<b>3,604</b>	<b>4,262</b>
Other Income	313	328	162	204
Interest	837	795	767	578
Profit Before Tax & EO	1,958	2,736	2,999	3,888
Extra Ordinary Exps/(Inc)	6	0	0	0
Profit Before Tax	1,952	2,736	2,999	3,888
Tax	704	985	1,080	1,400
Net Profit	1,247	1,751	1,919	2,488
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>1,247</b>	<b>1,750</b>	<b>1,919</b>	<b>2,488</b>

### Balance Sheet (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
<b>Sources of Funds</b>				
Equity Capital	467	467	467	467
Reserves	10,286	12,037	13,955	16,443
<b>Net Worth</b>	<b>10,754</b>	<b>12,504</b>	<b>14,423</b>	<b>16,911</b>
Secured Loans	6,614	6,114	5,114	3,614
Unsecured Loans	108	108	108	108
<b>Loan Funds</b>	<b>6,722</b>	<b>6,222</b>	<b>5,222</b>	<b>3,722</b>
<b>Total Capital Employed</b>	<b>17,481</b>	<b>18,732</b>	<b>19,651</b>	<b>20,638</b>
<b>Applications of Funds</b>				
<b>Net Block</b>	<b>12,286</b>	<b>13,699</b>	<b>14,272</b>	<b>14,869</b>
Other Long term assets	3,263	3,263	3,263	3,263
Goodwill on consolidation	4,629	4,629	4,629	4,629
Investment	187	187	187	187
<b>Current Assets, Loans &amp; Advances</b>				
Cash and Bank Balance	328	734	1,696	2,682
Other Current Assets	1,041	1,015	1,150	1,280
<i>sub total</i>	3,123	3,310	4,652	6,003
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	6,007	6,357	7,352	8,313
<i>sub total</i>	6,007	6,357	7,352	8,313
Net Current Assets	(2,884)	(3,046)	(2,701)	(2,310)
<b>Total Assets</b>	<b>17,481</b>	<b>18,732</b>	<b>19,651</b>	<b>20,638</b>

E – Estimates

### Cash Flow (₹ mn)

Particulars	Mar18	Mar19E	Mar20E	Mar21E
<b>PAT</b>	<b>1,253</b>	<b>1,750</b>	<b>1,919</b>	<b>2,488</b>
Depreciation & w.o.	1,537	1,588	1,827	1,903
Change in Working Capital	1,319	569	617	595
Other	0	0	0	0
<b>(A) CF from Oper. Act</b>	<b>4,109</b>	<b>3,907</b>	<b>4,362</b>	<b>4,986</b>
Capex	(2,320)	(3,000)	(2,400)	(2,500)
<b>Free Cash Flow to Firm</b>	<b>1,789</b>	<b>907</b>	<b>1,962</b>	<b>2,486</b>
Other	(396)	0	0	0
<b>(B) CF from Invest Act.</b>	<b>(2,883)</b>	<b>(3,000)</b>	<b>(2,400)</b>	<b>(2,500)</b>
Issue of Equity/ Preference	295	204	204	204
Inc./(Dec.) in Debt	(688)	(500)	(1,000)	(1,500)
Interest exp net	7	0	0	0
Other	(368)	0	0	0
<b>(C) CF from Financing</b>	<b>(1,198)</b>	<b>(500)</b>	<b>(1,000)</b>	<b>(1,500)</b>
Net Change in Cash	29	407	962	986
Opening Cash balances	299	328	734	1,696
Closing Cash balances	328	734	1,696	2,682

### Important Ratios

Particulars	Mar18	Mar19E	Mar20E	Mar21E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin	17.2	18.6	18.2	18.3
Interest / Sales	3.6	3.1	2.6	1.7
Gross Profit Margin	70.2	70.5	70.1	69.9
Tax/PBT	36.1	36.0	36.0	36.0
Net Profit Margin	5.3	6.8	6.4	7.4
<b>(B) As Percentage of Net Sales</b>				
COGS	29.8	29.5	29.9	30.1
Employee Expenses	10.9	10.9	10.9	11.0
Other Expenses	42.0	41.0	40.9	40.6
<b>(C) Measures of Financial Status</b>				
Debt / Equity (x)	0.6	0.5	0.4	0.2
Interest Coverage (x)	3.0	4.0	4.7	7.4
Average Cost of Debt (%)	11.5	12.3	13.4	12.9
Non-Cash WC (₹ Mn)	(3,212)	(3,781)	(4,397)	(4,992)
<b>(D) Measures of Investment</b>				
EPS (₹)	26.7	37.4	41.1	53.2
CEPS (₹)	59.6	71.4	80.1	93.9
DPS (₹)	3.0	2.0	2.0	2.0
Dividend Payout (%)	11.2	5.3	4.9	3.8
Profit Ploughback (%)	88.8	94.7	95.1	96.2
Book Value (₹)	230.1	267.5	308.6	361.8
RoANW (%)	12.3	15.1	14.3	15.9
RoACE (%)	9.3	11.4	12.1	13.6
<b>(E) Valuation Ratios</b>				
CMP (₹)	1,120	1,120	1,120	1,120
P/E (x)	42.0	29.9	27.3	21.0
Market Cap. (₹ Mn)	52,349	52,349	52,349	52,349
MCap/ Sales (x)	2.2	2.0	1.8	1.6
EV (₹ Mn)	58,743	57,836	55,874	53,389
EV/Sales (x)	2.5	2.2	1.9	1.6
EV/EBDITA (x)	14.6	12.1	10.3	8.7
P/BV (x)	4.9	4.2	3.6	3.1
Dividend Yield (%)	0.3	0.2	0.2	0.2

E – Estimates

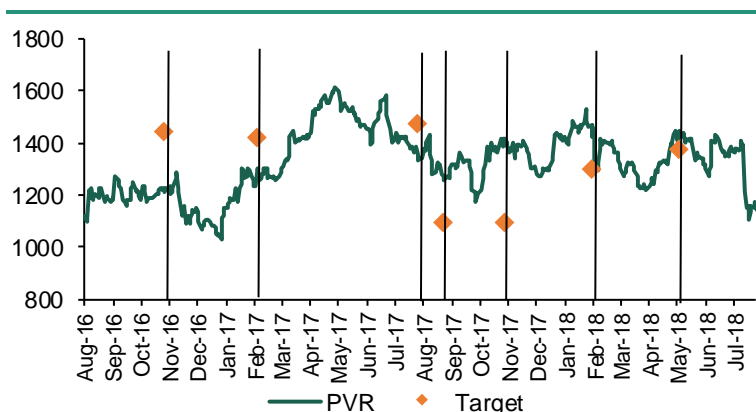


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



	Rating	TP (₹)	Price (₹)*
Oct-16	BUY	1,450	1,215
Feb-17	Accumulate	1,425	1,302
May-17	Reduce	Under review	1446
Jul-17	Accumulate	1,475	1,354
Aug-17	Sell	1,100	1,281
Oct-17	Sell	1,100	1,421
Jan-18	Sell	1,300	1,461
May-18	Sell	1,375	1,425

\* As on Recommended Dated

## DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

## CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705
Hardik Mehta	Sales Trader	hardikm@dolatcapital.com	+9122 4096 9703

**Dolat Capital Market Private Limited.**

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

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**Analyst(s) Certification**

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatcapital.com](http://www.dolatcapital.com)

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