PVR Ltd (PVRLIM)

ICICI direct Research

CMP: ₹ 1087 | Target: ₹ 1085 (0%) | Target Period: 12 months | HOLD

June 10, 2020

Result Update

Weak performance; Reopening key ahead…

PVR's Q4FY20 performance was impacted by Covid-19 and further aggravated by ordinary box office collections in February. Footfalls came in at 19.5 mn, down 29.1% YoY, leading to box office revenues at ₹ 330 crore, down 26.9% YoY. F&B revenues fell 24.6% to ₹ 174.6 crore with SPH at ₹ 96, up 5.5% YoY. Advertisement revenues declined ~22% YoY to ₹ 68.5 crore. EBITDA (without impact of Ind-AS 116) came in at ₹ 42.8 crore, down 73% YoY with margins of 6.6% (down 1260 bps YoY). Given the write-off of ₹ 31.7 crore in net deferred tax asset while shifting to a new tax rate, the company reported net loss (without impact of Ind-AS 116) at ₹ 47.8 crore.

Weak quarter; Reopening, customer response to be key…

The company expects theatres to open by mid to end-July. We highlight that the management has indicated that committed capex plans have been put on hold currently and will be reviewed when the situation normalises. They indicated 20-50 screens are in pre-/advanced fit out phase with remaining capex of ₹ 50-100 crore. We bake in 40 screen addition for FY21E and 75 screens addition in FY22. Consequently, we build in footfalls growth of 3.9% CAGR in FY20-22E to 110 mn (40% decline in FY21 followed by sharp growth thereafter) coupled with 4.5% CAGR in net ATP to lead to 8.4% FY20-22E CAGR (37% decline in FY21, followed by sharp recovery) in net box office revenues to ₹ 2034 crore. F&B revenues CAGR of 8% over FY20-22 implies 39% decline in FY21 followed by a recovery in FY22. Ad is likely to witness -8% CAGR, with 35% decline expected in FY21. We expect a washout H1FY20 (with modest occupancy in the first phase post reopening) coupled with possibility of box office clash of big movies.

Covid -19 led measures

The management has invoked Force Majeure during closure of cinemas and expects to achieve reduction of 70-75% in fixed costs. They have requested developers to reduce rentals post reopening for the rest of FY21. The industry body has proposed safety measure to the government. With the implementation of social distancing measure like keeping one seat vacant between two customer groups, capacity loss will not be more than 25%. On the F&B front, entire process from ordering to receiving will be digitised with minimum human interaction.

Valuation & Outlook

We continue to believe PVR is a proxy play on urban/semi urban discretionary spends. However, leisure activities and discretionary spend will take a backseat during a stressed macroeconomic setup in the near term. Current cash of ₹ 227 crore raising of ₹ 300 crore via rights issue is likely to ensure liquidity in near term. We will closely track the reopening of cinemas amid Covid-19 and turn buyer only when we witness footfall revival and stability. We maintain **HOLD** rating and value the stock at 10x FY22E (ex-Ind-AS) EV/EBITDA with a target price of ₹ 1085/share.

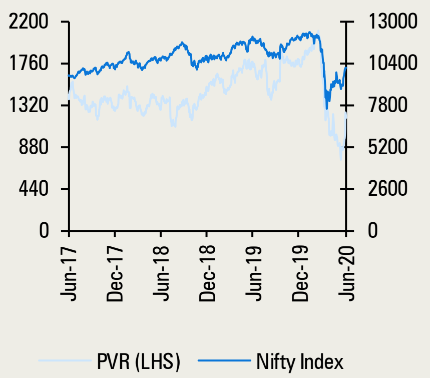
Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	5,584.1
Total Debt (FY20) (₹ Crore)	1,294.7
Cash (FY20) (₹ Crore)	322.3
EV	6,380.7
52 week H/L	2121 / 720
Equity capital	5.1
Face value	10.0

Key Highlights

- Q4FY20 performance marred by Covid-19 impact along with weak box office collections in February
- Maintain HOLD with revised target price of ₹ 1085/share

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹ crore)	2,334.1	3,085.6	3,414.4	2,148.8	3,764.9	5.0
EBITDA (₹ crore)	401.8	586.3	1,076.6	541.3	1,202.5	5.7
Net Profit (₹ crore)	123.3	183.2	27.3	(317.6)	106.2	97.2
EPS (₹)	26.4	39.2	5.3	(61.9)	20.7	
P/E (x)	41.2	27.7	204.5	(17.6)	52.6	
Price / Book (x)	4.7	4.1	3.8	4.9	4.5	
EV/EBITDA (x)	15.9	11.7	9.6	19.6	8.8	
RoCE (%)	14.7	13.8	8.5	1.1	9.9	
RoE (%)	11.5	14.8	1.8	(27.6)	8.5	

*Source: Company, ICICI Direct Research *FY20, FY21 and FY22 EBITDA and PAT estimates are not comparable to earlier year numbers owing to IND AS 116 implementation*

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Comments
Revenue	645.1	625.9	837.6	915.7	-23.0	-29.6	Covid-19 and weak box office performance in February led to steep decline in revenues
Other Income	16.7	6.0	8.5	8.2	95.4	104.3	
Employee Expenses	76.5	102.7	90.4	106.7	-15.4	-28.3	
Film Distributors share	143.6	146.2	185.6	192.7	-22.6	-25.5	
F&B Cost	51.2	47.7	67.9	68.2	-24.6	-24.9	
Rent	0.0	0.0	135.8	0.0	-100.0	NA	
Repairs and Maintenance	201.2	156.5	197.2	240.8	2.1	-16.4	
EBITDA	172.7	172.8	160.8	307.3	7.4	-43.8	EBITDA decline largely led by negative operating leverage
EBITDA Margin (%)	26.8	27.6	19.2	33.6	757 bps	-679 bps	
Depreciation	142.2	120.5	54.9	134.9	158.9	5.5	
Interest	117.1	112.2	39.5	122.1	196.5	-4.1	
Less: Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	4.4	-18.9	26.5	22.1	-83.3	-80.0	Company re-measured its deferred tax assets and has taken a write-off of ₹ 31.7 crore while shifting to new tax rate
PAT	-74.5	-35.1	46.4	36.3	-260.5	-305.0	
Key Metrics							
Footfalls (mn)	19.5	19.9	27.5	25.9	-29.1	-24.7	
Occupancy (%)	31.0	28.6	37.0	33.4	-16.3	-7.3	
SPH (₹)	96.0	96.2	91.0	100.0	5.5	-4.0	
ATP (₹)	204.0	204.8	195.0	210.0	4.6	-2.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	2,379.9	2,148.8	-9.7	4,012.4	3,764.9	-6.2	Realign our estimates post Q4
EBITDA	582.4	541.3	-7.1	1,265.4	1,202.5	-5.0	
EBITDA Margin (%)	24.5	25.2	72 bps	31.5	31.9	40 bps	
PAT	-216.5	-317.6	NA	127.1	106.2	-16.5	
EPS (₹)	-42.2	-61.9	NA	24.8	20.7	-16.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates - ex- IND AS 116

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	2,379.9	2,148.8	-9.7	4,012.4	3,764.9	-6.2	Realign our estimates post Q4
EBITDA	225.5	203.0	-9.9	701.3	627.9	-10.5	
EBITDA Margin (%)	9.5	9.4	-2 bps	17.5	16.7	-80 bps	
PAT	-53.4	-107.5	NA	226.4	164.4	-27.4	
EPS (₹)	-10.4	-20.9	NA	44.1	32.0	-27.4	

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

				Current		Earlier	
	FY18	FY19E	FY20	FY21E	FY22E	FY21E	FY22E
Footfalls (mn)	76.1	99.3	101.7	61.4	109.8	69.6	119.3
SPH (₹)	88	90	98	99	106	100	106
ATP (₹)	210	207	204	214	223	214	224

Source: Company, ICICI Direct Research

FY20 Performance

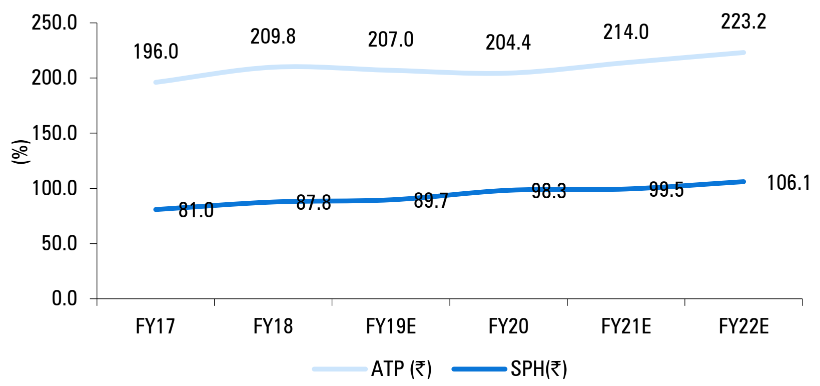
Reported revenue increased 10.7% YoY to ₹ 3414.4 crore. Box office revenue was at ₹ 1731.6 crore, up 6% YoY, driven by footfall growth of 2% at 101.7 million. ATP marginally declined 1% to ₹ 204 while occupancy was at 34.9% against 36.2% in FY19. F&B revenue was ₹ 948.3 crore, up 12% YoY on account of SPH growth of 10% to ₹ 99. Ad income was at ₹ 375.9 crore, up 6% YoY. The company added 85 screens during the year. EBITDA (ex-Ind-AS) was at ₹ 576 crore with margins of 16.9%. PAT (ex-Ind-AS) came in at ₹ 131 crore, down 31% YoY, owing to loss of ₹ 47.8 crore loss in Covid-19 impacted Q4FY20.

Conference call highlights

- **Theatrical release still a priority for producers:** The management expect cinemas to open from mid-July following the international markets and will bounce back post reopening. Only three Hindi & five regional films have released on OTT in a span of three months, which is a very small number. This shows majority of producers will prefer a theatrical release first, as per management. Bypassing cinemas is also not favourable for producers as they will lose out on music and overseas revenue. The management added they are in constructive dialogue with producers and distributors. While some filmmakers will wait to gauge the initial response, a few mid to big size films are targeting a July release. The management said PVR does not rely on any one language and are fine with staggered opening as many films are ready to release in all languages
- **Rights issue to augment liquidity; capex suspended:** The company currently has cash of ₹ 227 crore. It will raise ₹ 300 crore via rights issue, which will further augment the liquidity position of the company to support fixed costs. The management said committed capex plans of ₹ 50-100 crore have been put on hold currently and will be reviewed when the situation normalises. They indicated 20-50 screens are in a development phase
- **Interim Covid-19 impact on opex:** The management has invoked Force Majeure during closure of cinemas and expects to achieve reduction of 70-75% in fixed costs. They have requested developers to reduce rentals post reopening for rest of FY21. They said they have rental agreements with developers in the form of minimum guarantee plus share of revenue, which will lead to lower payout in rentals even post openings this year. The management indicated the company has not received any credit back for advance rent paid in March while full rent has been provided for
- **Post reopening scenario:** The management said proposed safety measure have already been submitted to the government. There is enough capacity even after complying with restrictions. PVR's weekend occupancy is 50-55% while weekday occupancy is 20-25% leading to average occupancy of 35%. With implementation of safety measure like keeping one seat vacant between two customer groups, capacity loss will not be more than 25%. The management was of the view that more customers will visit cinemas on weekdays and capacity will not be an issue. The management also highlighted that ATP hike is a not a necessity to offset capacity loss. On the F&B front, the entire process from ordering to receiving will be digitised with minimum human interaction
- **F&B, ad revenue to pick up fast:** The management said some clients from retail, fashion industry will be eager to advertise to clear inventory. They added F&B and ad revenue will pick up in a couple of weeks once cinemas reopen while in two months, it is likely to return to normal levels

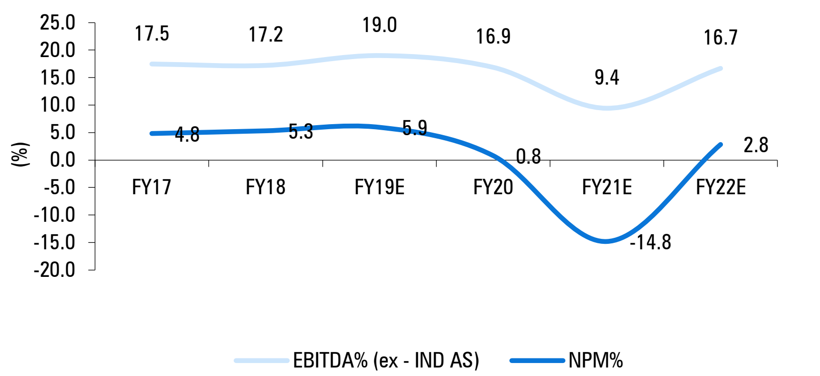
Financial story in charts

Exhibit 5: ATP and SPH trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Proforma P&L (ex- Ind-AS)

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	**3,085.6**	**3,414.4**	**2,148.8**	**3,764.9**
Growth (%)	32.2	10.7	-37.1	75.2
Film Distributors Cost	701.9	733.5	469.3	884.7
F&B Cost	238.7	263.7	162.6	309.7
Employee Expenses	337.3	393.8	316.5	377.9
Other Expenses	1,221.3	1,447.4	997.4	1,564.8
Total Operating Expenditure	2,499.2	2,838.3	1,945.8	3,137.0
EBITDA	**586.3**	**576.1**	**203.0**	**627.9**
Growth (%)	45.9	-1.7	-64.8	209.2
Margins (%)	**19.0**	**16.9**	**9.4**	**16.7**
Depreciation	191.3	232.4	193.4	248.5
Interest	128.0	152.1	181.3	191.7
Other Income	33.1	37.8	28.0	32.0
Exceptional Items	0.0	0.0	0.0	0.0
PBT	300.2	229.3	-143.7	219.8
MI/PAT from associates	7.3	0.1	0.0	0.0
Total Tax	109.7	97.8	-36.2	55.4
PAT	**183.2**	**131.0**	**(107.5)**	**164.4**
Growth (%)	48.5	-28.5	-182.0	-253.0
EPS (₹)	**39.2**	**25.5**	**(20.9)**	**32.0**

Source: Company, ICICI Direct Research

Exhibit 8: KPI

(Year-end March)	FY19	FY20	FY21E	FY22E
Box office Revenues	1,636	1,732	1,091	2,034
YoY		6%	-37%	86%
F&B	847	949	581	1,106
YoY		12%	-39%	90%
Ad	354	376	243	318
YoY		6%	-35%	31%
Others	250	358	234	307
YoY		43%	-35%	31%
ATP	207	204	214	223
YoY		-1%	5%	4%
Footfalls (mn)	99	102	61	110
YoY		2%	-40%	79%
Screens	763	845	885	960
Net Debt	1,247	971	1,141	1,021
RoCE (post tax)	11.4	12.0	6.0	11.4
RoE	14.8	8.9	(8.6)	11.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	**3,085.6**	**3,414.4**	**2,148.8**	**3,764.9**
Growth (%)	32.2	10.7	-37.1	75.2
Film Distributors Cost	701.9	733.5	469.3	884.7
F&B Cost	238.7	263.7	162.6	309.7
Employee Expenses	337.3	393.8	316.5	377.9
Other Expenses	1,221.3	946.9	659.2	990.2
Total Operating Expenditure	2,499.2	2,337.9	1,607.6	2,562.3
EBITDA	**586.3**	**1,076.6**	**541.3**	**1,202.5**
Growth (%)	45.9	83.6	-49.7	122.2
Depreciation	191.3	542.5	495.5	571.1
Interest	128.0	481.8	498.4	521.5
Other Income	33.1	37.8	28.0	32.0
Exceptional Items	0.0	0.0	0.0	0.0
PBT	300.2	90.1	-424.6	141.9
MI/PAT from associates	7.3	0.1	0.0	0.0
Total Tax	109.7	62.7	-107.0	35.8
PAT	**183.2**	**27.3**	**(317.6)**	**106.2**
Growth (%)	48.5	-85.1	-1,263.4	-133.4
EPS (₹)	**39.2**	**5.3**	**(61.9)**	**20.7**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
PAT	**183.2**	**27.3**	**-317.6**	**106.2**
Add: Depreciation	191.3	542.5	495.5	571.1
Add: Interest Paid	128.0	481.8	498.4	521.5
(Inc)/dec in Current Assets	-95.4	-70.8	85.3	-144.0
Inc/(dec) in CL and Provisions	366.2	-87.2	-226.0	410.1
Others	0.0	0.0	0.0	0.0
CF from operating activities	**773.2**	**893.5**	**535.6**	**1,464.9**
(Inc)/dec in Investments	8.7	8.3	0.0	0.0
(Inc)/dec in Fixed Assets	-844.2	-246.8	-100.0	-500.0
Others	-241.2	-110.7	-94.9	-312.0
CF from investing activities	**-1076.7**	**-349.3**	**-194.9**	**-812.0**
Issue/(Buy back) of Equity	0.0	4.6	0.0	0.0
Inc/(dec) in loan funds	451.9	12.3	200.0	-150.0
Dividend paid & dividend tax	-13.3	-36.0	-12.0	-12.0
Less: Interest Paid	128.0	481.8	498.4	521.5
Others	-261.7	-718.8	-996.7	-1043.0
CF from financing activities	**304.9**	**-256.2**	**-310.4**	**-683.5**
Net Cash flow	1.5	288.1	30.4	-30.7
Opening Cash	32.8	34.2	322.3	352.7
Closing Cash	**34.2**	**322.3**	**352.7**	**322.0**

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	46.7	51.4	51.4	51.4
Reserve and Surplus	1,192.8	1,428.9	1,099.2	1,193.4
Total Shareholders funds	1,239.5	1,480.2	1,150.6	1,244.7
Total Debt	1,282.4	1,294.7	1,494.7	1,344.7
Others	579.2	3,933.8	4,058.9	4,106.9
Total Liabilities	**3,101.1**	**6,708.7**	**6,704.2**	**6,696.3**
Assets				
Total Fixed Assets	2,336.6	2,351.0	2,257.6	2,509.1
Investments	9.9	1.7	1.7	1.7
Right of Use	-	3,004.7	2,862.6	2,840.0
Goodwill on Consolidation	685.0	685.0	685.0	685.0
Debtors	183.9	189.3	126.6	221.8
Inventory	30.3	30.7	19.3	36.1
Loans and Advances	1.2	8.7	8.7	8.7
Other Current Assets	143.9	201.5	190.3	222.2
Cash	34.1	322.3	352.7	322.0
Total Current Assets	393.5	752.4	697.5	810.8
Total Current Liabilities	807.7	720.5	494.5	904.6
Net Current Assets	-414.3	31.9	203.0	-93.8
Other Non Current Assets	483.9	634.4	694.4	754.4
Application of Funds	**3,101.1**	**6,708.7**	**6,704.2**	**6,696.3**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS (Diluted)	39.2	5.3	-61.9	20.7
Cash EPS	80.2	111.0	34.6	131.9
BV	265.3	288.3	224.1	242.4
DPS	2.8	2.6	2.6	2.6
Cash Per Share	7.3	62.8	68.7	62.7
Operating Ratios (%)				
EBITDA Margin	19.0	31.5	25.2	31.9
EBIT / Net Sales	12.8	15.6	2.1	16.8
PAT Margin	5.9	0.8	-14.8	2.8
Inventory days	3.6	3.3	3.3	3.5
Debtor days	21.7	20.2	21.5	21.5
Creditor days	43.5	33.4	40.0	43.5
Return Ratios (%)				
RoE	14.8	1.8	-27.6	8.5
RoCE	13.8	8.5	1.1	9.9
RoIC	18.9	23.3	2.1	26.7
Valuation Ratios (x)				
P/E	27.7	204.5	-17.6	52.6
EV / EBITDA	11.7	9.6	19.6	8.8
EV / Net Sales	2.2	3.0	4.9	2.8
Market Cap / Sales	1.8	1.6	2.6	1.5
Price to Book Value	4.1	3.8	4.9	4.5
Solvency Ratios				
Net Debt/EBITDA	2.1	0.9	2.1	0.8
Net Debt / Equity	1.0	0.7	1.0	0.8
Current Ratio	0.9	1.3	1.4	1.0
Quick Ratio	0.8	1.2	1.3	1.0

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Inox Leisure	254	255	Hold	2,607	13.0	1.5	-17.8	19.5	174.0	NM	8.8	4.5	13.0	13.2	19.6	10.0	10.6	14.2	2.4
Music Broadca	14	15	Hold	491	2.2	0.8	0.7	6.4	17.4	19.3	2.8	4.7	3.8	15.0	6.2	6.8	10.2	4.5	4.0
PVR	1,087	1,085	Hold	5,080	39.2	5.3	-61.9	27.7	204.5	NM	10.8	5.6	11.5	14.7	13.8	8.5	11.5	14.8	1.8
Sun TV	389	410	Buy	15,340	36.4	36.3	34.7	10.7	10.7	11.2	4.9	5.3	5.2	35.5	38.5	30.0	24.2	25.9	22.9
TV Today	188	240	Buy	1,124	22.0	23.4	22.6	8.6	8.1	8.3	4.2	4.6	4.4	30.4	22.7	24.7	19.3	14.6	16.0
ZEE Ent.	192	150	Hold	18,473	16.1	15.9	15.1	12.0	12.1	12.8	6.4	7.1	6.8	25.6	25.7	21.4	15.3	15.7	14.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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