

## PVR Ltd



Show must go on

Sharekhan

by BNP PARIBAS





## 3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

## Reco/View

Reco:	Buy
CMP:	Rs. 1,510
Price Target:	Rs. 1,900

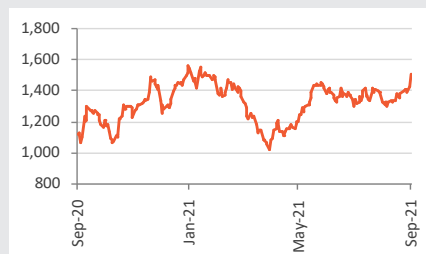
## Company details

Market cap:	Rs. 9,177 cr
52-week high/low:	Rs. 1,592/961
NSE volume: (No of shares)	10.7 lakh
BSE code:	532689
NSE code:	PVR
Free float: (No of shares)	5 cr

## Shareholding (%)

Promoters	17.1
FII	46.8
DII	19.6
Others	16.6

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	15.3	7.2	13.7	35.4
Relative to Sensex	9.0	5.0	4.9	19.8

Sharekhan Research, Bloomberg

## Summary

- ♦ We initiate coverage on PVR Limited with a Buy rating and PT of Rs. 1,900. Stock trades at 9x/8x its FY2023E/FY2024E EV/EBITDA and 36x/26x its FY2023E/FY2024E EPS.
- ♦ PVR is India's premier multiplex player that leads with the most number of screens, clocks higher revenue per screen and has a premium screen portfolio. It has 98 luxury screens (12% of total) and is expected to grow going ahead.
- ♦ PVR is well-placed to capitalise on strong pent-up demand and is expected to report strong revenue growth over FY2023E-FY2024E. Further, PVR is expected to add screens aggressively post normalisation, which would aid revenue growth.
- ♦ With permanent savings of 10-15% on select pre-COVID fixed costs, we expect EBITDA margins to remain above pre-COVID operating profitability in FY2023E and FY2024E.

**Being an early mover, PVR Limited (PVR) is India's largest multiplex player in terms of screen counts, which stand at 9% and 27% of its total screens in India and total multiplex screens, respectively and has the strong brand equity value. Further, PVR enjoys a leadership position among its peers in terms of revenue per screen, and premium screen portfolio. We believe PVR is well-poised to capture opportunities from closure of single-screen theatres during the pandemic by penetrating into tier-2/3 cities post normalisation.**

- ♦ **Structural story remains intact:** Growth in the Indian multiplex market can be attributed to increasing youth population, growing urbanization and hence, rising demand for better infrastructure, permanent closure of single screens and enhanced facilities in the cinemas across the country. Multiplexes would continue to pull audience because of a) lack of any alternative to out-of-home entertainment, b) a superior movie-viewing experience than other platforms, and c) penetration to small cities.
- ♦ **Long wait likely to end soon:** Except a few states including Maharashtra, Kerala, etc., many states have permitted resumption of operations in cinema halls from July 30, 2021. As we expect Maharashtra government would allow re-opening of cinema halls in the next 1-2 weeks and other states would lift capacity restrictions in the absence of a third wave of COVID-19, there will be a sharp increase in announcement of movie release dates by large movie studios. Given a huge content line-up, we believe PVR is well-placed to capitalise on strong pent-up demand and is expected to report strong revenue growth in FY2023E.
- ♦ **Expect better profitability with cost efficiency:** PVR has done a commendable job in curtailing fixed expenses by 63% y-o-y in FY2021, amid closure of cinema halls due to the pandemic. The management cited that reduction in fixed costs (especially in employee expenses and other fixed costs) would sustain going ahead and it expects permanent savings of 10-15% on its selected pre-COVID fixed costs. As monthly cash burn rate would remain below pre-COVID level even after the return of normalcy, we expect EBITDA margins would improve to 35.3% and 35.6% in FY2023E and FY2024E from 31.5% in FY2020.

## Our Call

**Valuation: Leading successfully:** PVR's aggressive expansion strategy helped PVR to maintain a leadership position in terms of screen counts consistently. Further, first mover advantage has helped the company to expand at the right location, which also helped it to gain market share at faster rate. Post normalisation, we believe the company would resume its aggressive screen additions, given huge opportunities in the tier-2/3 cities. At CMP, the stock is trading at 35.6x/25.8x its FY2023E/FY2024E EPS and on EV/EBITDA metrics, the stock is trading at 9.1x/8.0x its FY2023E/FY2024E EBITDA. Further, the strong recovery of occupancy rate with the release of big-starrer movies and anticipated improvement in its profitability and return ratios are expected to re-rate its multiples going ahead. We also believe the multiplex business is going to be a sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. Hence, we initiate Buy rating on PVR with a price target (PT) of Rs. 1,900.

## Key risk

(1) Third wave of COVID-19; (2) Inability to take adequate price hikes at the right time would impact the margins in the F&B segment due to rising input cost; (3) delay in lifting restrictions (occupancy cap) and (4) more movie releases on OTT

## Valuation (Consolidated)

	Rs cr			
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	280.0	1,837.0	4,147.8	4,715.3
OPM (%)	NM	24.6	35.3	35.6
Adjusted PAT	(747.8)	(373.7)	257.7	355.5
% y-o-y growth	NM	NM	NM	38.0
Adjusted EPS (Rs.)	(135.6)	(61.5)	42.4	58.5
P/E (x)	NM	NM	35.6	25.8
P/B (x)	5.0	6.3	5.4	4.5
EV/EBITDA (x)	NM	29.9	9.1	8.0
RoNW (%)	NM	NM	16.3	18.9
RoCE (%)	NM	NM	13.2	14.6

Source: Company; Sharekhan Research

## Executive Summary

### 3R Research Positioning Summary

#### ■ Right Sector

The Indian multiplex industry growth would be driven by market share gains from shutdown of single screens & lack of alternatives for family outings.

#### ■ Right Quality

PVR is a premium theatre chain in India with a strong brand value. It is the market leader across many metrics.

#### ■ Right Valuation

Stock trades at EV/EBITDA multiple of 9.1x/8.0x its FY2023E/FY2024E estimates (implied FY2023E/FY2024E P/E of 36x/26x).

### Valuation and return potential

- Expect strong revenue growth over FY2023E-FY2024E on the back of pent-up demand.
- Stock trades at 36x/26x its FY2023E/FY2024E earnings and at 9.1x/8.0x its FY2023E/FY2024E EV/EBITDA.
- We initiate coverage on PVR Limited with a Buy rating and price target of Rs. 1900 (based on 11x FY2023E EV/EBITDA).

### Key Catalysts for growth

#### Long-term triggers

- Entering into areas beyond tier-I/II cities
- Higher contribution from non-ticketing revenue
- Strong free cash flow generation

#### Medium Term Triggers

- Improving occupancy
- Sustained cost efficiencies
- Big movie releases

#### Key Risks

- Third wave of COVID-19
- Delay in mall construction
- Higher competition from OTT

### Earnings and Balance sheet highlights

- Revenue has grown 10x over FY2010-FY2020, while EBITDA (excluding the impact of IND AS in FY2020) grew 17x over the same period.
- Rising revenue contribution from F&B would boost PVR's profitability. SPH to ATP ratio increased to 53% in FY2021 from 36% in FY2015.
- The company had a total liquidity of Rs. 850 crores. We expect FCF would improve to Rs. 250-260 crore in FY2023E and FY2024E.

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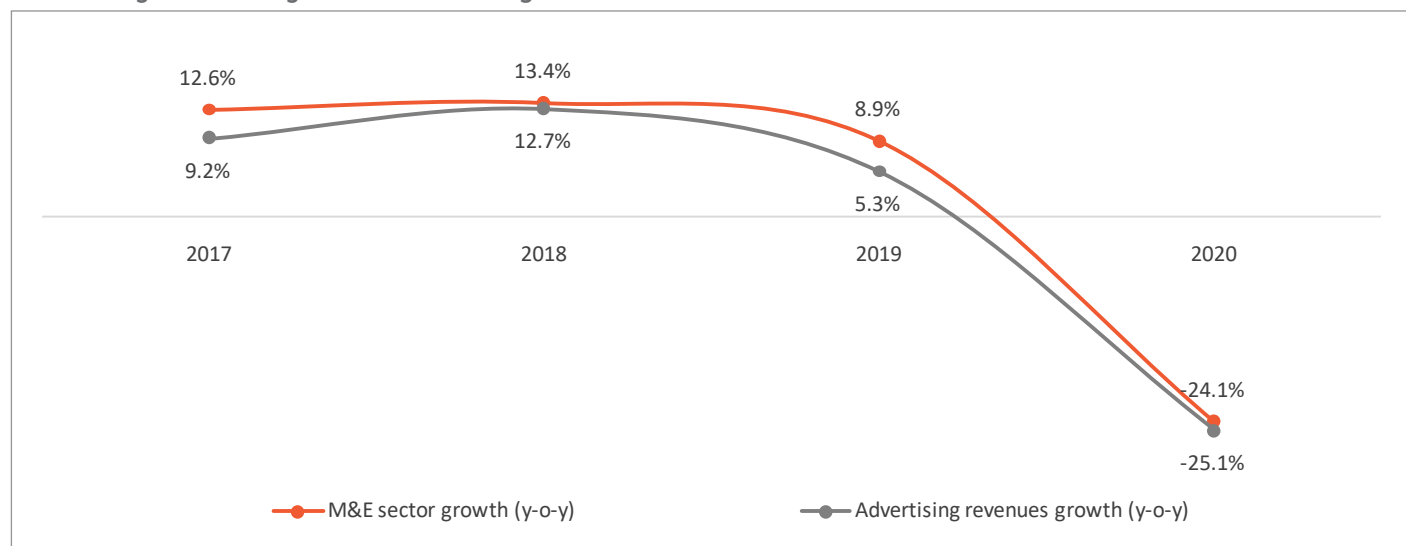
## Why we like multiplex space: Structural demand drivers intact

The movie exhibition business is highly under-penetrated in India as compared to other developed and developing nations. Also the favourable demographic mix and increase in discretionary spending bodes well for the multiplex industry's robust growth.

## Indian Media and Entertainment (M&E) sector to grow strongly going ahead

India's media and entertainment (M&E) sector is expected to recover in FY2022 on the back of strong growth in advertisement and subscription revenue, after a washout year in FY2021. Sub-segments such as digital, and television would recover to pre-COVID levels faster compared to print, films, outdoor entertainment format, and radio as people stay at home and advertising spends pick up slowly. In FY2021, industry operations were disrupted by COVID-led lockdowns and social distancing norms. The Indian M&E industry's revenues were down by 24% y-o-y to Rs. 1.38 trillion in 2020 as major segments like TV, film and print all seeing major declines. The M&E sector is expected to bounce back in 2021 with a growth of 25% over 2020 to reach a size of Rs. 1.73 trillion.

### Sector hit by discretionary nature of advertising



Source: E&Y, Sharekhan Research

The Indian multiplex industry has been one of the worst impacted sectors during the pandemic for FY2021. Multiplexes were first to shut down even before the government imposed a lockdown and was the last amongst few other sectors to resume operations with restrictions such as social distancing measures and capped seating capacity. The central government allowed multiplex players to re-open cinema halls effective from October 15, 2020, with a 50% occupancy cap, while some state governments including Maharashtra allowed to cinema halls to resume operations after 3-4 weeks of the central government's permission. In January 30, 2021, the Ministry of Home Affairs (MHA) allowed 100% occupancy in cinemas and theatres from February 1 throughout the country. Post MHA's relaxation on occupancy restriction, many states such as Delhi, Gujarat, Andhra Pradesh, Tamil Nadu, Telangana, Karnataka, Telangana, Uttar Pradesh, West Bengal and among others permitted 100% occupancy for cinema halls. However, night curfews and fresh restrictions on mobility by many state governments once again affected footfalls to the halls with the onset of second wave of COVID-19. Some states (including Maharashtra, Tamil Nadu and others) have ordered complete shutdown of cinema halls, while others have implemented onerous operating restrictions such as limited seating capacity, limited timings or night / weekend curfews etc. These restrictions have hit operations of multiplexes along with limited content availability and low consumer confidence. Hence, multiplexes decided to remain completely shut down from mid-April 2021 because of rapid rise in infections due to COVID-19 second wave and again re-opened from July 30, 2021. Except Maharashtra (that contributes 25-30% of a Hindi film's box office collection), most states have permitted the resumption of operations in cinema halls after a drop in COVID-19 cases. We expect Maharashtra would allow cinema halls to start operation in the state over next 1-2 weeks given pace in the pick-up of vaccination rollout.

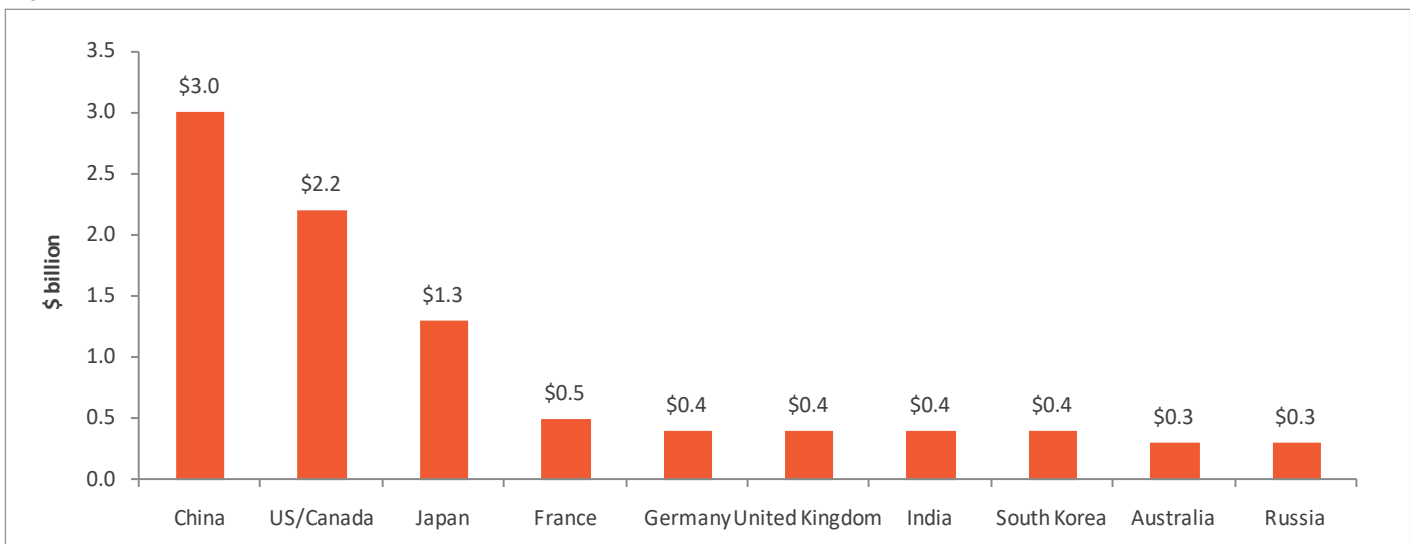
#### Timeline of key events

Timeline	Events
March, 2020	Pan-India closure of theatres
October, 2020	Central government allows opening of theatres with 50% capacity
November, 2020	Maharashtra, Tamil Nadu and Telangana reopen theatres
January, 2021	Release of the first big-budget regional movie 'Master'
February, 2021	Central Government allows 100% occupancy
April, 2021	Restrictions were imposed and theatres in many states had to be closed due to the second wave of the virus
July, 2021	Various state governments allow reopening of cinemas with varying restrictions around social distancing and vaccinations.

Source: Sharekhan Research

India is the world's largest producer of films and has held on to this position since 2007. India is also the leading film market in terms of tickets sold, while it is the fifth-largest box office market in terms of revenues (shares this position with the UK, Germany, and South Korea), generating revenues of \$0.4 billion in 2020. China was the leading global box office market in 2020 (led by its sharp-paced recovery from the pandemic) followed by the US/Canada market, with respective revenues of \$3 billion and \$2.2 billion.

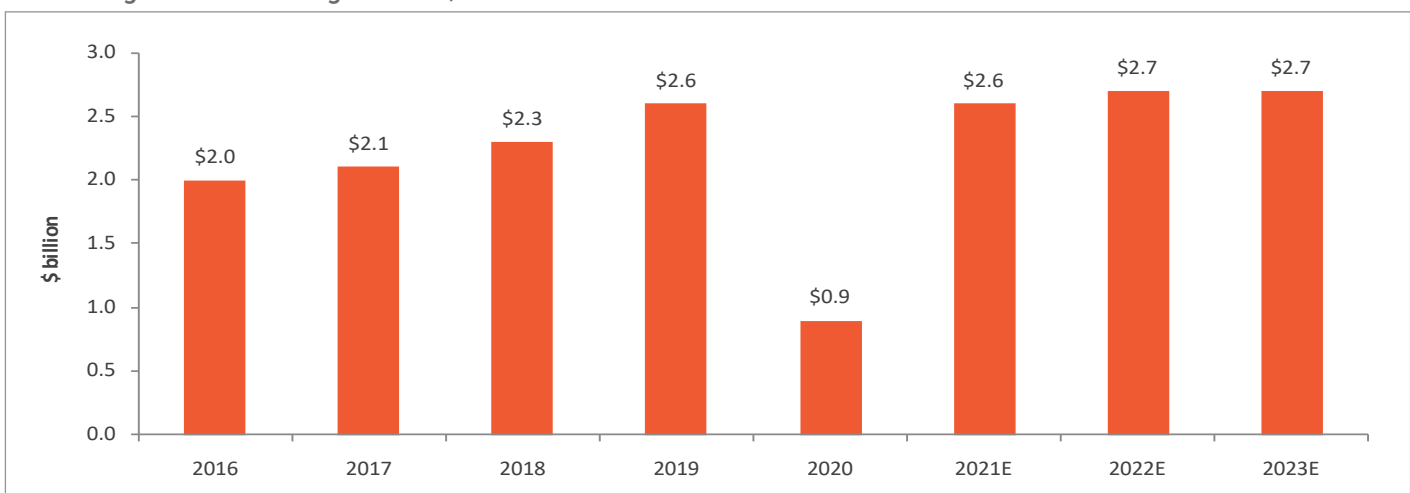
#### Top 10 box-office markets in 2020



Source: Statista, Sharekhan Research

The Indian Bollywood film industry, valued at \$2 billion in 2016, is projected to reach a size of \$2.7 billion by 2023.

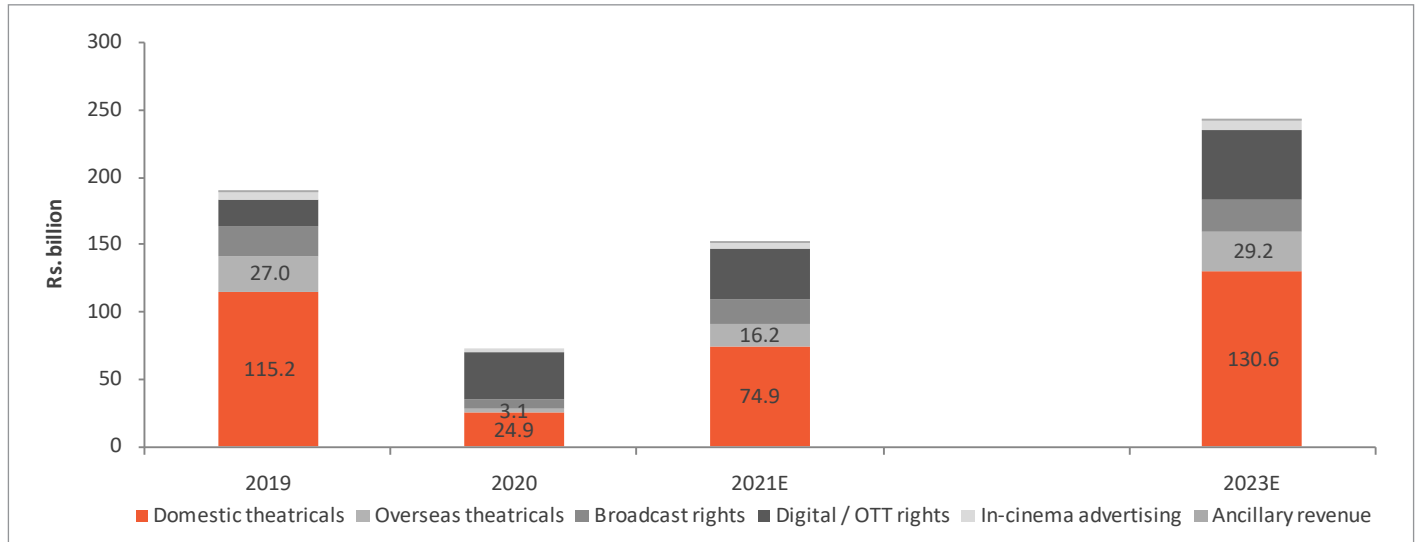
#### Indian Bollywood film industry to reach \$2.7 billion in 2023



Source: Frost & Sullivan Analysis, Sharekhan Research

The Indian box office reported flat growth in FY2020 as box office collection of Hindi films remained stable and collection of regional cinema declined. However, cinema halls remained shut for nearly seven months in FY2021 owing to lockdown mandates. Around 441 films were released in 2020, as compared to 1,833 releases in 2019. Box office collections are expected to decline ~70% in FY2021 due to lockdown-induced lower occupancies, footfall and movie releases, it is expected to grow in FY2022.

#### India exhibitor revenue likely to recover in FY2022E and report strong growth in FY2023E



Source: EY, Sharekhan Research

As per CRISIL research, the multiplex industry has clocked a CAGR of 18% from Rs. 55 billion in FY2015 to Rs. 126 billion in FY2020. However, the revenue from this segment is projected to decline by 93-97% to Rs. 6-7 billion in FY2021. The resurgence of the virus has further delayed the release of big-ticket movies that were expected to hit screens in Q1FY2022, which delayed the recovery of multiplex industry.

#### Multiplex exhibition industry revenues FY2015-FY2025E

Rs. in billion	FY15	FY20E	FY21P	FY25P	CAGR FY15-FY20	Y-O-Y FY20-FY21	CAGR FY20-FY25
Domestic theatrical revenues	37	75	2-3	90-110	16%	(95)-(97)%	5-6%
F&B revenues	11	32	1-2	40-45	24%	(93)-(95)%	6-7%
Domestic Ad revenues	5	13	1-2	18-22	21%	(85)-(90)%	7-8%
Other Income	2	6	0-1	10-15	21%	(90)-(95)%	11-12%
Total	55	126	6-7	170-180	18%	(93)-(97)%	6-7%

Source: CRISIL Research, Sharekhan Research

With an increase in COVID-19 infections due to the second wave of COVID-19, restrictions were imposed and theatres in many states had to be closed in April 2021. In July 2021, many state governments allowed reopening of cinemas with varying restrictions around social distancing and vaccinations.



#### Reopening approval status

State/UT/Country	Conditional Approval
Telangana	100% capacity
Punjab	50% capacity.
Chhattisgarh	50% capacity. Open till 10 pm.
Gujarat	60% capacity. Open till 10pm / Only Vaccinated Staff.
Jharkhand	50% capacity. Open till 8pm
Uttar Pradesh	50% capacity.
Andhra Pradesh	50% capacity. Open till 10 pm.
Rajasthan	100% capacity
Haryana	50% capacity
Madhya Pradesh	50% capacity. Open till 11 pm.
Karnataka	50% capacity
Uttarakhand	50% capacity. Open till 9 pm.
Tamil Nadu	50% capacity.
Delhi - UT	50% capacity.
Chandigarh – UT	50% capacity.
Colombo, Sri Lanka	50% capacity.

Source: Industry, Sharekhan Research

#### Multiplex: Structural story remain intact

Though cinemas were operational in many states (with capacity constraints) from October 15, 2020, FY2021 was a wash-out year for the multiplex industry given nationwide lockdown mandates owing to pandemic, staggered opening of cinema halls, absence of new movie releases and fear of COVID-19 among audiences. Further, some movies (small to mid-budget) have opted the route for direct release on OTT given delay in re-opening of cinema, which have raised a concern that streaming platforms could be a threat to the multiplexes. With the success of Tamil movie “Master” despite COVID-19, it has provided hopes for good box-office performance of movies with good content. Besides this, films such as ‘Krack’, ‘Red’, ‘Uppena’ and ‘Godzilla vs Kong’ performed strongly at the box office. Following the example set by the South Indian movie market, the Hindi film industry also witnessed initial successes, with movies like ‘Roohi’ performing well at the box office.

#### Master’s strong box-office (BO) collections despite 50% occupancy cap in many states

	BO collections (Rs. Cr)
<b>Domestic</b>	
Tamil Nadu	145.5
Andhra Pradesh & Telangana	31.0
Karnataka	18.0
Kerala	13.5
Rest of India (including Hindi Dubbed)	9.0
<b>Total domestic BO collection</b>	<b>217.0</b>
<b>Overseas</b>	
UAE & GCC	14.4
Australia	3.9
New Zealand	0.6
US	2.4
Singapore	7.0
Sri Lanka	4.0
Rest of the World	1.7
<b>Total overseas collections</b>	<b>33.9</b>
<b>Total BO collections</b>	<b>250.9</b>

Source: Industry, Sharekhan Research



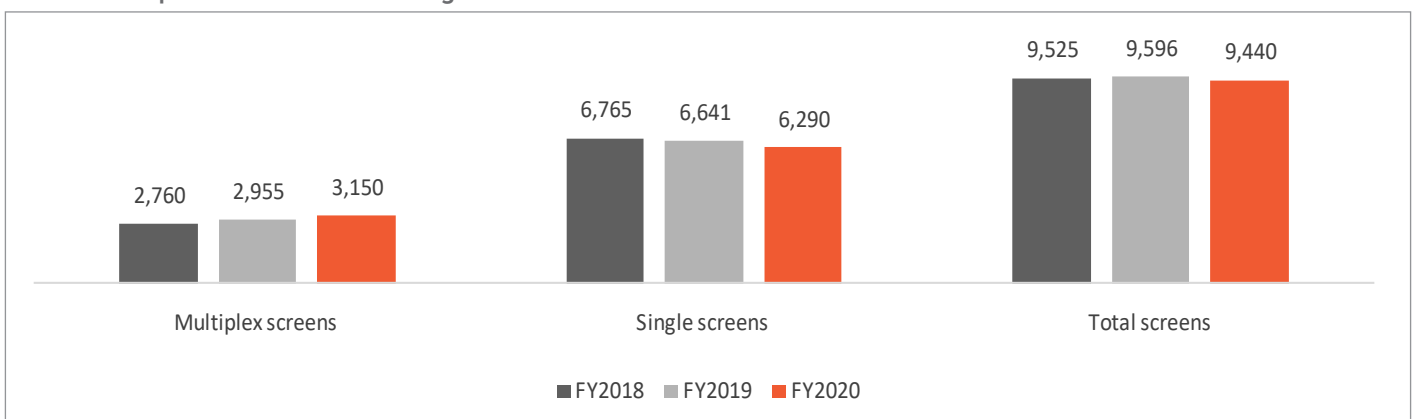
#### Strong box office collections of recently released large Hollywood/regional films

Movie	Released date	Language	Domestic BO collections (Rs. Cr)
Wonder Woman 1984	Dec-20	English	13.8
Indoo Ki Jawani	Dec-20	Hindi	2.0
Tenet	Dec-20	English	10.6
Suraj Pe Mangal Bhari	Nov-20	Hindi	3.8
Krack	Jan-21	Telugu	60.0
Master	Jan-21	Tamil (Dubbed)	217
Eeswaran	Jan-21	Tamil	9.5
Red	Jan-21	Telugu	30.0
Alludu Adhurs	Jan-21	Telugu	12.5
Vellam	Jan-21	Malayalam	1.0
Kabadadaari	Jan-21	Tamil	1.0
Rochu Preminchadam Ela	Jan-21	Telugu	7.0
Roohi	Mar-21	Hindi	23.2
Chehre	Aug-21	Hindi	3.2
Bell Bottom	Aug-21	Hindi	30.4

Source: Industry, Sharekhan Research

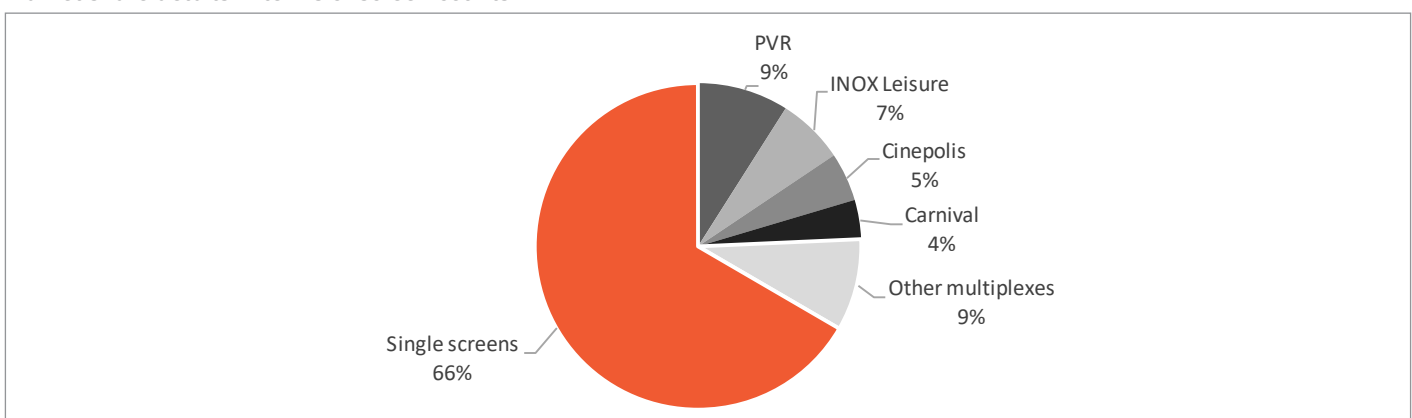
Indian cinema theatres are a highly fragmented sector with a total of 9,440 screens of which 3,150 are multiplex screens. Multiplexes accounted for 33% of total screen counts in Indian and 55% of total box office collections. Post the lockdown, few screens are being added during FY2021 as those screens were ready. Though COVID-19 delayed the pace of screens additions, PVR and Inox Leisure have started adding the new screens over last 3-4 weeks. Multiplex screens are expected to clock a CAGR of over 9% to surpass 4,500 screens by 2024. Growth in India multiplex market can be attributed to a rising youth population, growing urbanization and hence, rising demand for better infrastructure, permanent closure of single screens and enhanced facilities in the cinemas across the country.

#### Share of multiplexes has been increasing



Source: KPMG media report, Sharekhan Research

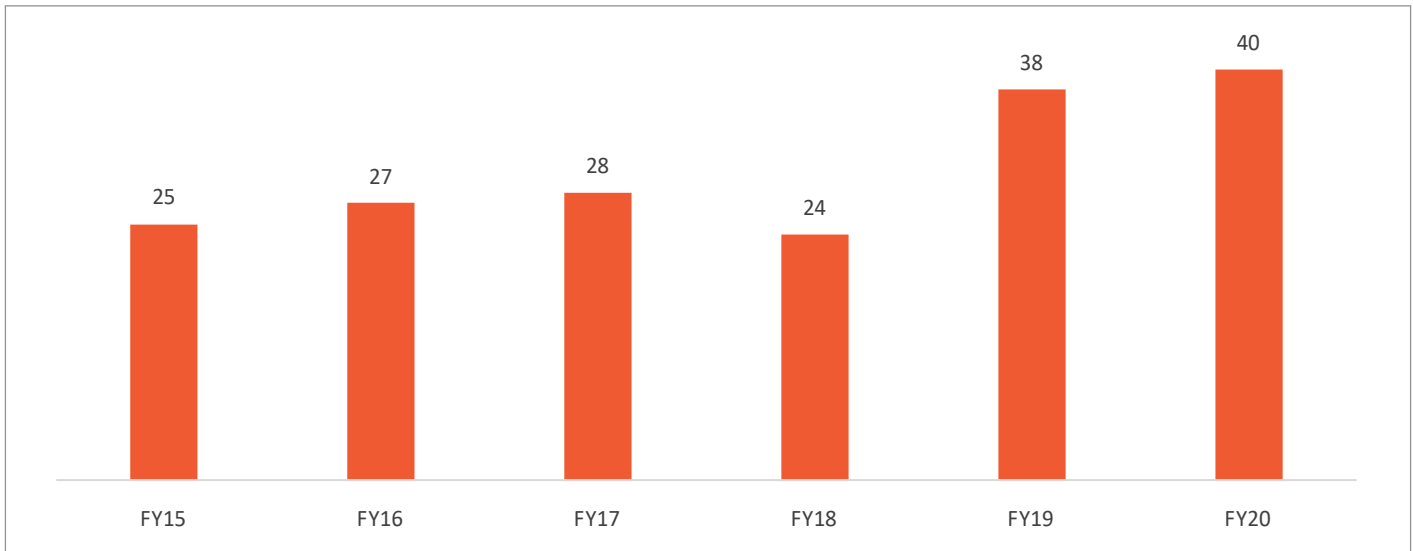
#### Market share details in terms of screen counts



Source: KPMG media report, Sharekhan Research

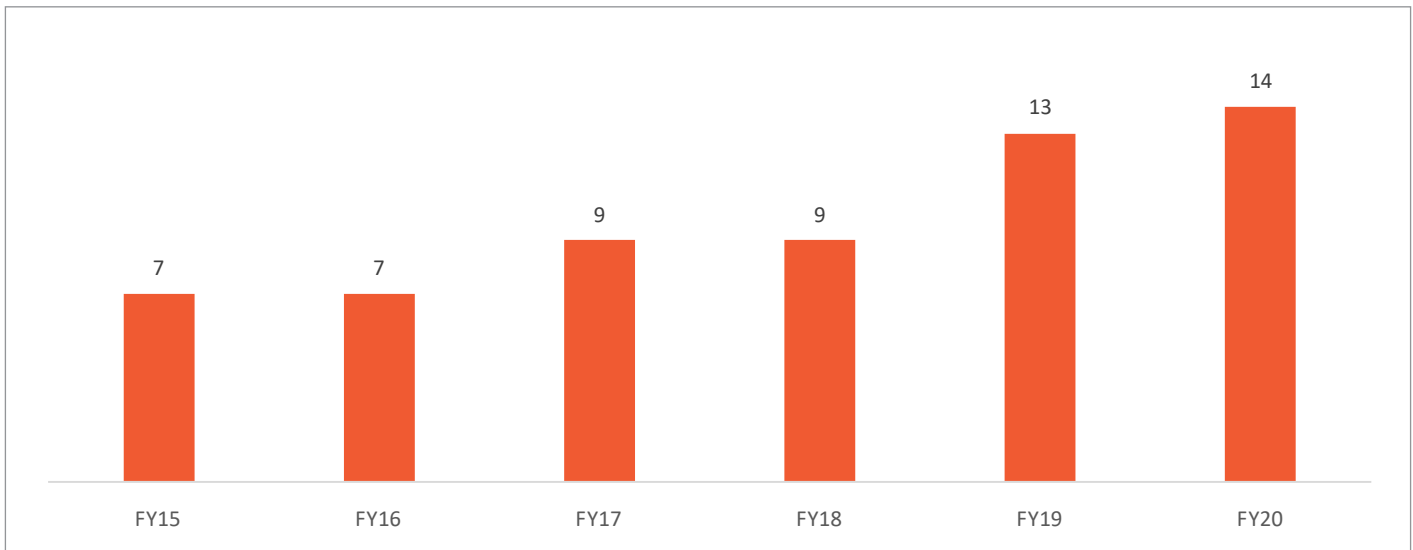
FY2019 was largely content-driven with small budget movies performing well at the box office. However, big-budget movies such as 'War', 'Tanhaji: The Unsung Warrior', 'Kabir Singh', 'Housefull 4', 'Bharat', 'Mission Mangal', 'Good Newz' delivered strong box office performance in FY2020. Nearly 14 movies crossed the Rs. 100-crore mark in terms of domestic NBOC, higher than previous years. Further, domestic NBOC of top 50 movies increased from Rs. 3,800 crore in FY2019 to Rs. 4,000 crore in FY2020.

#### Net BO collection of top 50 Hindi movies (Rs. Bn)



Source: KPMG Media report; Sharekhan Research

#### The '1-billion' club

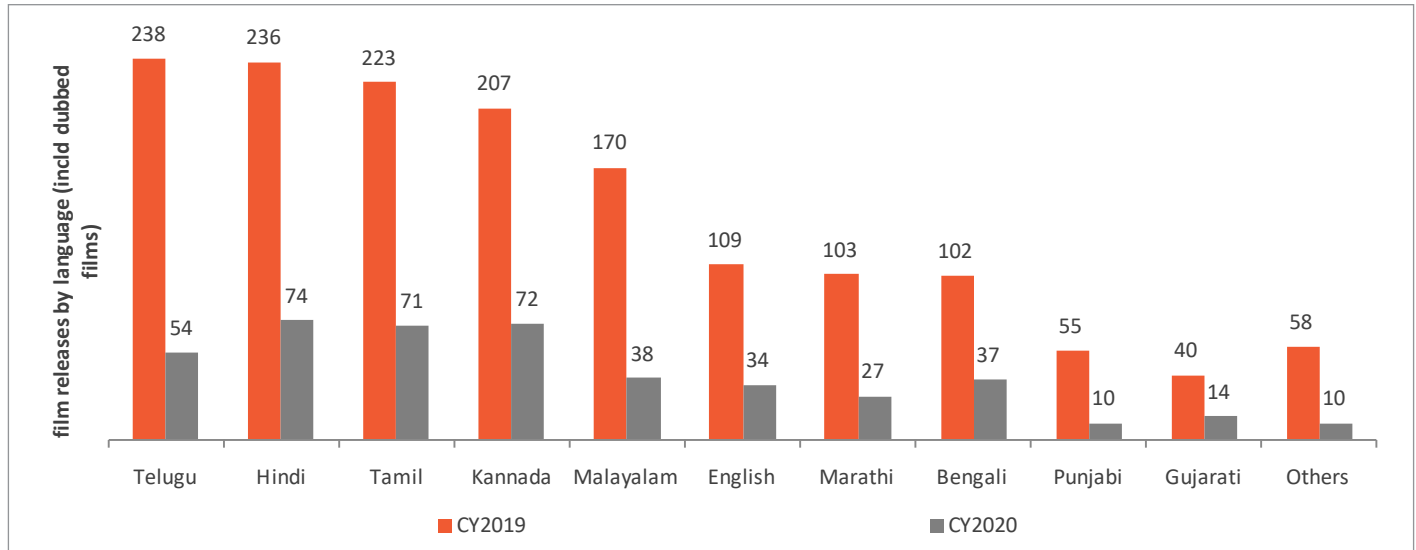


Source: Deloitte; Sharekhan Research

As cinema halls remained shut between mid-March to mid-October 2020, some Bollywood films (across small to mid-budget) were opted for an 'OTT-first' release. Post the permission for opening the cinema halls (with seating constraints) on October 15, 2020, there has been absence of big-budgeted movies given COVID-fear, restricted seating capacity in major states and "chicken-and-egg" problem (producers wait for packed halls and audiences wait for good content). Since October 2020, few Hollywood movies (Tenet and Wonder Woman 1984), Bollywood movies (Indoo ki Jawani and Suraj Pe Mangal Bhari) and regional movies (Master) were released, which saw improving traction among customers. However, the increase in number of COVID-19 cases starting from April 2021 delayed the release of big-ticket movies that were expected to hit the screens in Q1FY2022. With a decline in infections after the second wave of COVID-19, multiplexes were allowed to operate in many states from July 30, 2021. Despite shut down of cinema halls in certain states (including

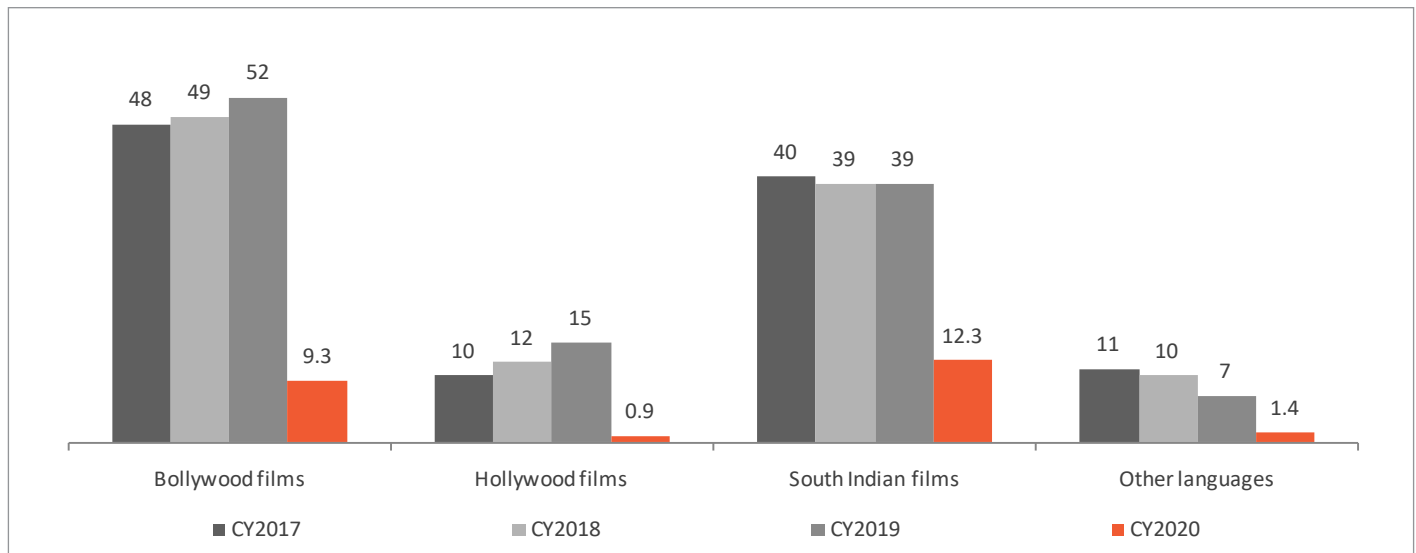
Maharashtra, Kerala and among others) some big budget Hindi movies (including Bell Bottom), a number of English movies and regional movies got released. With the re-opening of cinema halls in Maharashtra, we believe that Hindi movies are expected to be released very shortly as the industry has a strong pent-up demand and a lot of good content that producers are waiting to release once situation normalises. The next good window for movie releases is expected to be during the upcoming festivals in Q3FY2022, unless we see another spike in COVID-19 infections.

#### Fewer movies released in 2020 due to pandemic-induced lockdowns and restrictions



Source: E&Y report; Sharekhan Research

#### Gross box office collections (Rs. billion)



Source: E&Y report; Sharekhan Research

Bollywood movies are likely to release once the Maharashtra state government allows re-opening cinema halls in the state. Movie pipeline is strong and the list shows release of movies should commence from October 2021.

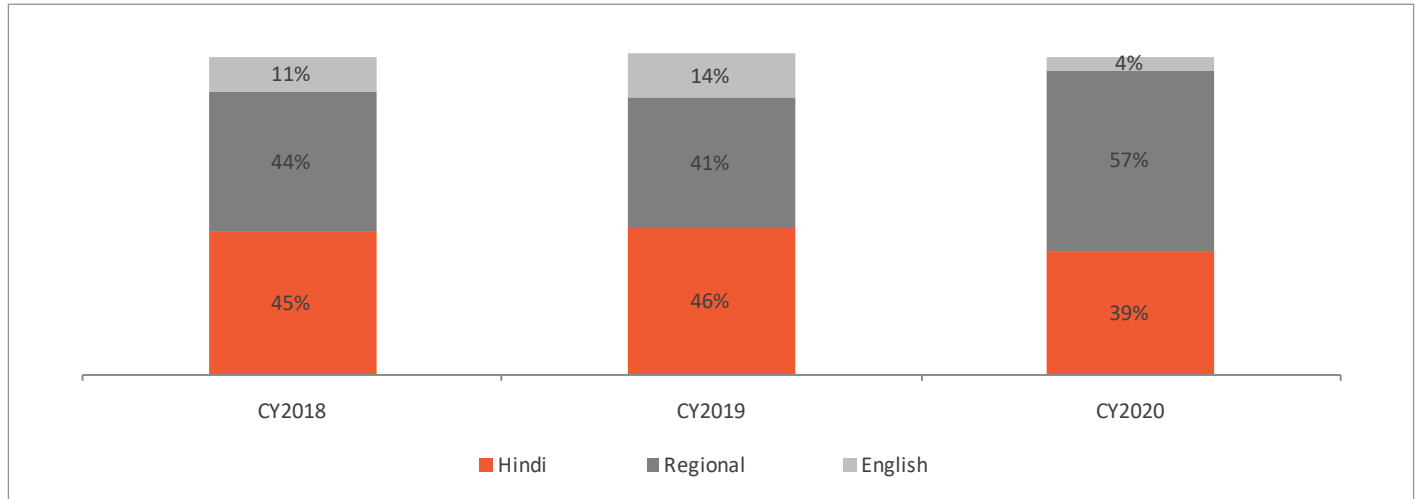
**List of upcoming movie releases (not exhaustive) across languages till December 2021**

Movie	Language	Distributor	Release date
PALM SPRINGS	ENGLISH	PVR PICTURES	24-Sep-21
JUNGLE CRUISE IMAX DBOX 3D 4DX	ENGLISH	DISNEY	24-Sep-21
SIVAKUMARIN SABADHAM	TAMIL	SATHYA JYOTHI FILMS	30-Sep-21
BHAVAI	HINDI	PEN MARUDHAR ENTERTAINMENT	1-Oct-21
RUDRA THANDAVAM	TAMIL	GM FILM PRODUCTION	1-Oct-21
REPUBLIC	TELUGU	ZEE STUDIOS	1-Oct-21
THE BOSS BABY : FAMILY BUSINESS - DBOX	ENGLISH	UNIVERSAL STUDIOS	8-Oct-21
MOST ELIGIBLE BACHELOR	TELUGU	NA	8-Oct-21
A QUIET PLACE II - IMAX - DBOX 4DX	ENGLISH	VIACOM 18	8-Oct-21
KONDA POLAM	TELUGU	NA	8-Oct-21
DOCTOR	TAMIL	NA	13-Oct-21
AKANDA	TELUGU	NA	13-Oct-21
ARANMANAI 3	TAMIL	NA	14-Oct-21
MAHA SAMUDRAM	TELUGU	NA	14-Oct-21
ENEMY	TAMIL	NA	14-Oct-21
ROWDY BOYS	TELUGU	NA	15-Oct-21
ANTIM: THE FINAL TRUTH	HINDI	SALMAN KHAN FILMS	15-Oct-21
VENOM: LET THERE BE CARNAGE IMAX DBOX 4DX	ENGLISH	SONY PICTURES	15-Oct-21
THE LAST DUEL	ENGLISH	DISNEY	15-Oct-21
DUNE - IMAX- 3D 4DX	ENGLISH	WARNER BROS.	15-Oct-21
HALLOWEEN KILLS - IMAX DBOX	ENGLISH	UNIVERSAL STUDIOS	22-Oct-21
RON'S GONE WRONG	ENGLISH	DISNEY	22-Oct-21
THE FRENCH DISPATCH	ENGLISH	DISNEY	22-Oct-21
ANTLERS	ENGLISH	DISNEY	29-Oct-21
GHANI	TELUGU	NA	4-Nov-21
MAANAADU	TAMIL	NA	4-Nov-21
ANNAATTHE	TAMIL	SUN PICTURES	4-Nov-21
SPENCER	ENGLISH	PVR PICTURES	5-Nov-21
THE ETERNALS- IMAX 3D	ENGLISH	DISNEY	5-Nov-21
UNTITLED ELVIS FILM	ENGLISH	WARNER BROS.	5-Nov-21
LAST NIGHT IN SOHO	ENGLISH	UNIVERSAL STUDIOS	12-Nov-21
GHOSTBUSTERS AFTER LIFE - 4DX - DBOX- IMAX	ENGLISH	SONY PICTURES	19-Nov-21
ENCANTO 3D	ENGLISH	DISNEY	24-Nov-21
KING RICHARD	ENGLISH	WARNER BROS.	26-Nov-21
GANGUBAI KATHIAWADI	HINDI	PEN MARUDHAR ENTERTAINMENT	1-Dec-21
TADAP	HINDI	FOXSTAR STUDIOS	3-Dec-21
NIGHTMARE ALLEY	ENGLISH	DISNEY	3-Dec-21
HOUSE OF GUCCI	ENGLISH	UNIVERSAL STUDIOS	3-Dec-21
THE CONTRACTOR	ENGLISH	PVR PICTURES	10-Dec-21
WEST SIDE STORY	ENGLISH	DISNEY	10-Dec-21
UNTITLED DISNEY LIVE ACTION	ENGLISH	DISNEY	17-Dec-21
SPIDER MAN NO WAY HOME - IMAX	ENGLISH	SONY PICTURES	17-Dec-21
THE MATRIX RESURRECTION - UNTITLED IMAX	ENGLISH	WARNER BROS.	22-Dec-21
THE KING'S MAN (IMAX) -DBOX - 4DX 3D	ENGLISH	DISNEY	24-Dec-21
ETHARKKUM THUNINDHAVAN	TAMIL	NA	24-Dec-21
AGENT	TELUGU	NA	24-Dec-21
NAANE VARUVEN	TAMIL	NA	24-Dec-21
AYALAAN	TAMIL	NA	24-Dec-21
PUSHPA THE RISE PART 1	TELUGU	MYTHRI MOVIES MAKERS	25-Dec-21
SING 2	ENGLISH	UNIVERSAL STUDIOS	31-Dec-21

Source: Industry, Sharekhan Research

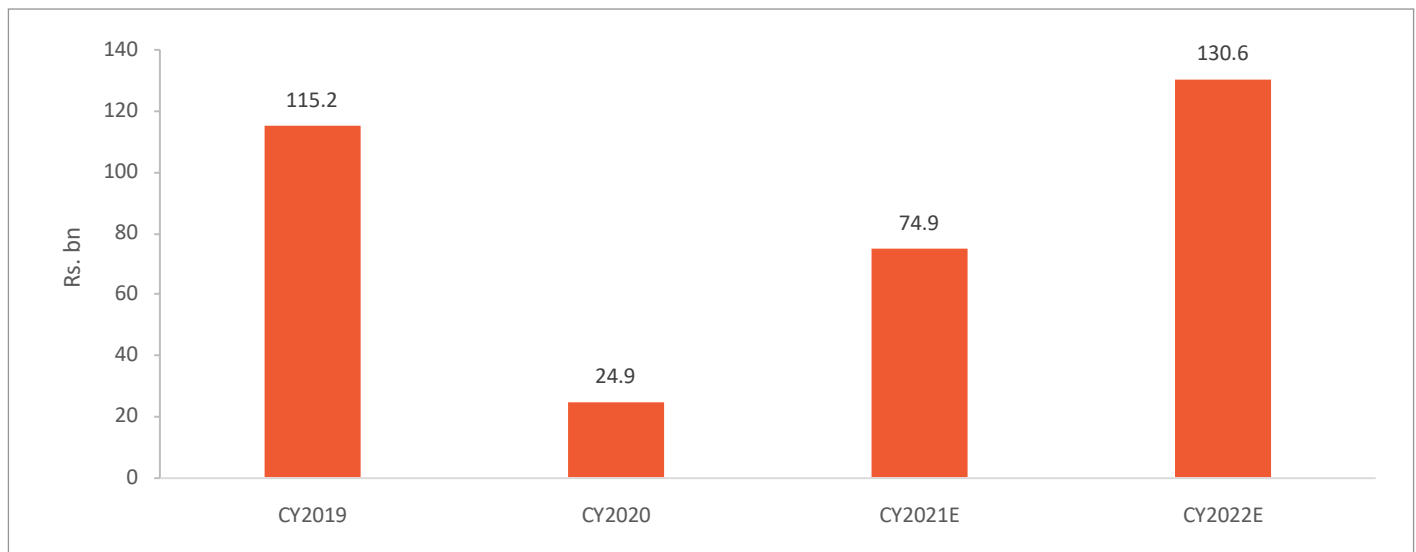
We believe that the multiplex industry will report strong growth in coming years on the back of 1) strong demographics, rising disposable incomes and discretionary spends, 2) superior location, destination and parking facilities, 3) multiple screens in one location offer a wider variety of content to patrons, 4) programming flexibility allows system to be reconfigured easily as desired. This would lead to higher occupancy ratios.

#### Contribution of box-office by language (%)



Source: EY estimates, Deloitte, Sharekhan Research

#### Domestic theatricals to recover in FY22E



Source: EY; Sharekhan Research

The Indian film industry would continue to pull audience because of a) lack of any alternative to out-of-home entertainment, b) a superior movie-viewing experience than other platforms, and c) penetration to small cities.

#### Rising discretionary spends would provide huge growth potential opportunities to Multiplex players

Rising incomes, higher urbanisation, rising discretionary spends, good contents, improved movie-viewing experience and greater family outings are key drivers for the growth of multiplex industry in India. Though discretionary spends among households were impacted during pandemic, there has been gradual recovery in discretionary spending by urban India consumers with the easing of lockdown restrictions, roll-out of COVID-19 vaccine and extra net-saving by white-collar employees during the pandemic. In the medium to long term, the growth in discretionary spends would be driven by 1) rising per capita income, 2) increase in urban population, 3) high youth population, 4) change in family structure and 4) higher aspiring and affluent households. Rise in discretionary spend would be beneficiary for multiplex players. A rise in discretionary spends would be beneficial to the Multiplex industry in terms of both ticketing and non-ticketing revenue given their strong presence in metros, tier-I and tier-II cities.

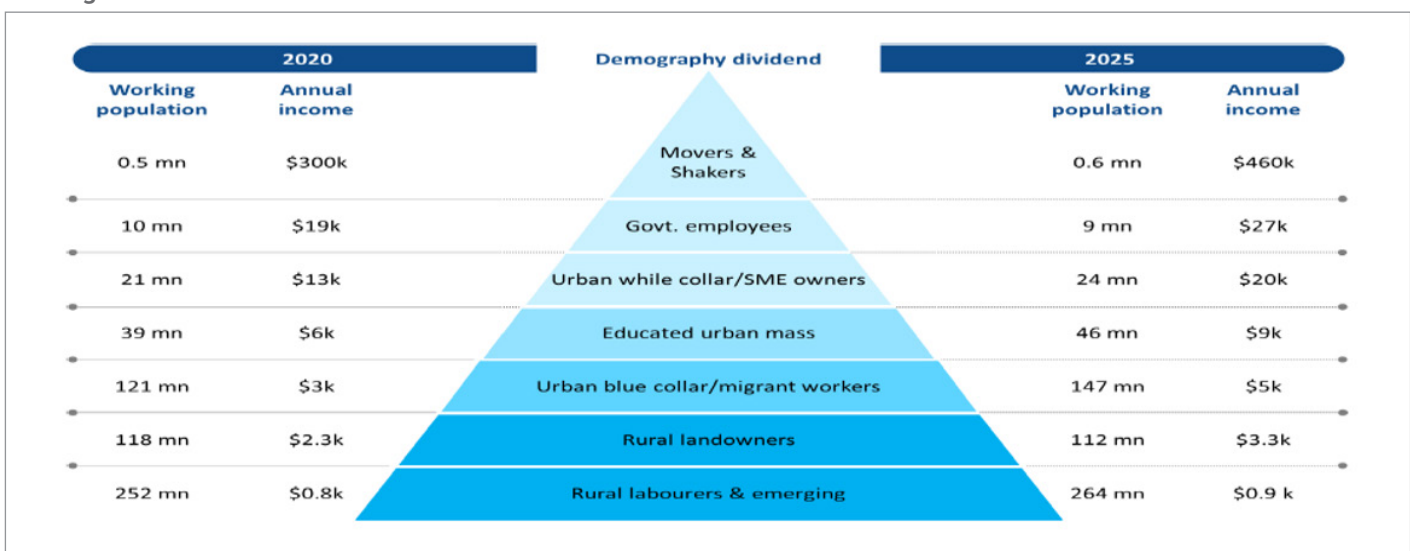
### Favourable demographics for discretionary spend

Particular	Augurs well for increase in discretionary spends
Average income	<ul style="list-style-type: none"> <li>Increased per capita income gives more disposable income in the hands of people, which eventually raises the standard of living.</li> <li>Per capita income is expected to grow atleast 2x by 2025</li> </ul>
Increase in urban population	<ul style="list-style-type: none"> <li>India will become the most populous country in coming years, surpassing China</li> <li>The implementation of a "smart city" initiative would accelerate the growth of urban development in India</li> <li>Only 34.5% of India's population is classified as urban compared to a global average of 54%</li> <li>Expect 650 million people in urban areas by 2034.</li> </ul>
Youth population	<ul style="list-style-type: none"> <li>Young independent Indians have high disposable incomes</li> <li>The median age in India in 2020 is estimated to be 28.7 years</li> <li>The median age in India is expected to remain under 30 years until 2030</li> <li>Decline in dependence ratio, which has decreased from 64% in 2000 to 50% in 2018 and is expected to further decline in coming years</li> </ul>
Household spending	<ul style="list-style-type: none"> <li>Standard deduction for salaried employees has been raised from Rs. 40,000 to Rs. 50,000, which would increase disposable incomes.</li> <li>Household spends in India grew 13% CAGR to reach Rs. 120 trillion in 2019 and are expected to reach Rs. 290-300 trillion by 2030</li> <li>Substantial rise in the working age population of India would increase the discretionary spends</li> <li>An increase in nuclearisation in India, 74% of urban households have five or less members, as compared to 65% in 2001</li> <li>Share of women workforce in the services sector has increased from 16.8% in 2010 to 24.2% in 2018</li> </ul>
GDP growth & per capita consumption	<ul style="list-style-type: none"> <li>India could become the world's third largest economy by 2030</li> <li>India's GDP growth rate will resume to its pre-COVID-19 levels by FY22</li> <li>India's per capita consumption to grow at a CAGR 6% to reach \$2,991 by 2025</li> </ul>

Source: Industry, Sharekhan Research

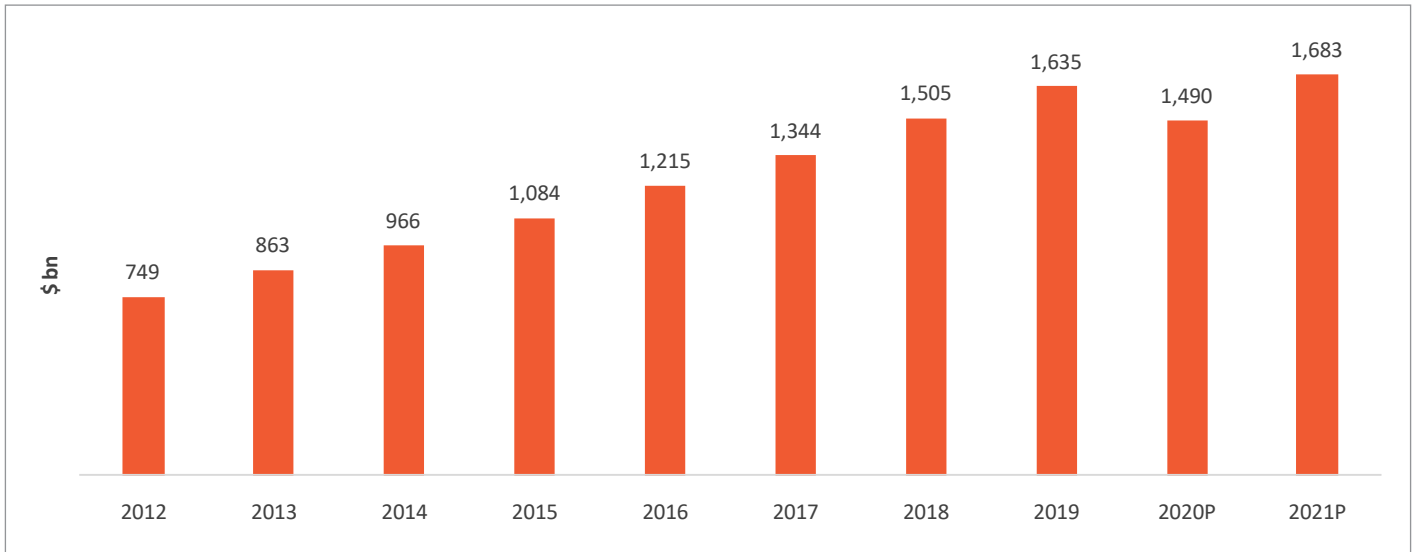
India is expected to see a significant growth in incomes by 2025, particularly among urban consumers. Growth in income levels leads to an increase in the available personal disposable incomes. As income levels and disposable incomes increase, movie-goers are expected to spend more, thereby leading to an increase in the multiplex industry in India. Another key driver is the rise of the Gen Z and Millennials in India that currently comprise of approximately 65% of the total population.

### Growing annual income over 2020-2025



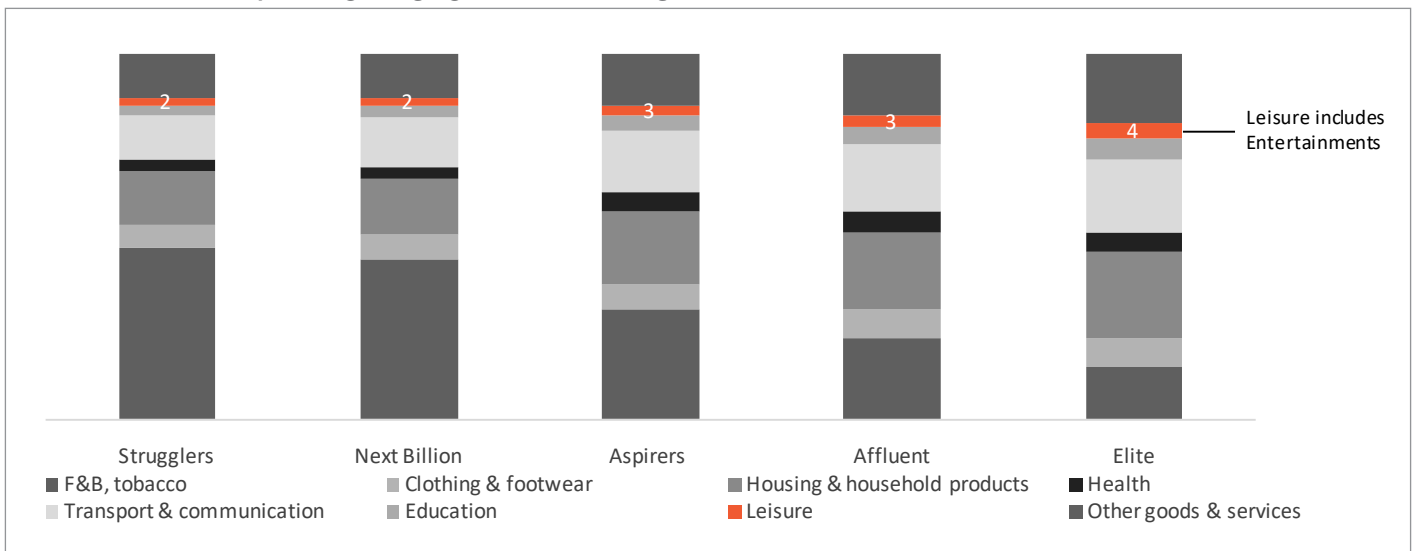
Source: Frost & Sullivan Analysis, Sharekhan Research

### India's total private consumption expenditure in current prices (\$ bn)



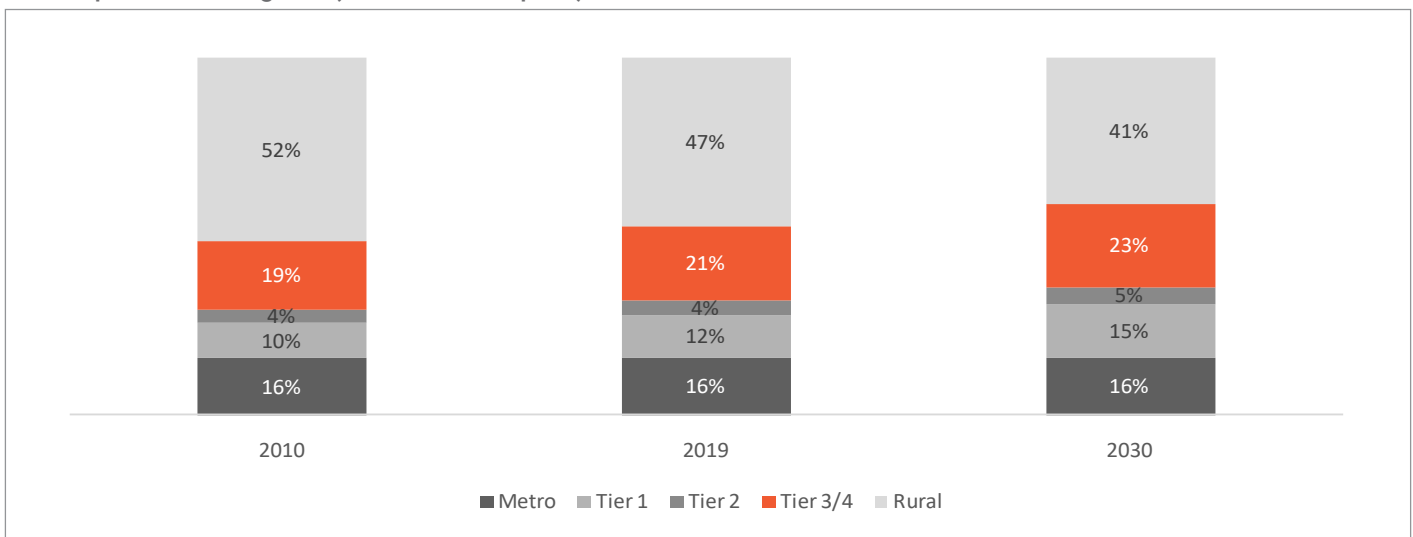
Source: World Bank, RBI, Sharekhan Research

### % share of household spends by category across income segments



Source: BCG, Sharekhan Research

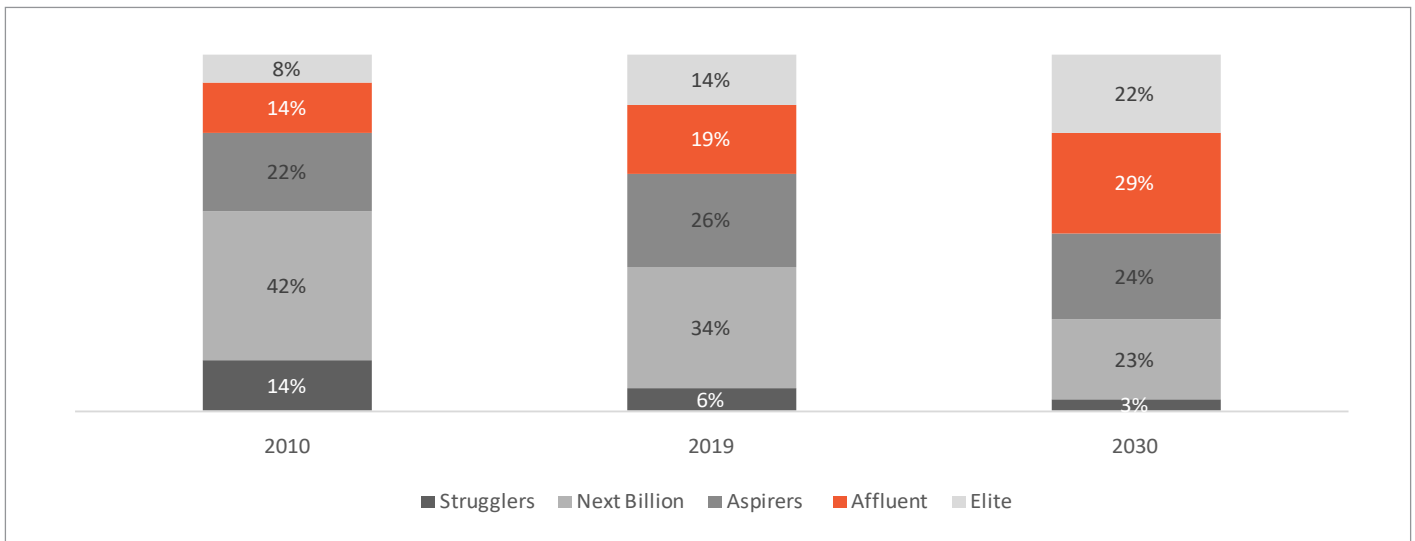
### Consumption across city tiers (% of HH consumption)



Source: BCG, Sharekhan Research HH - household

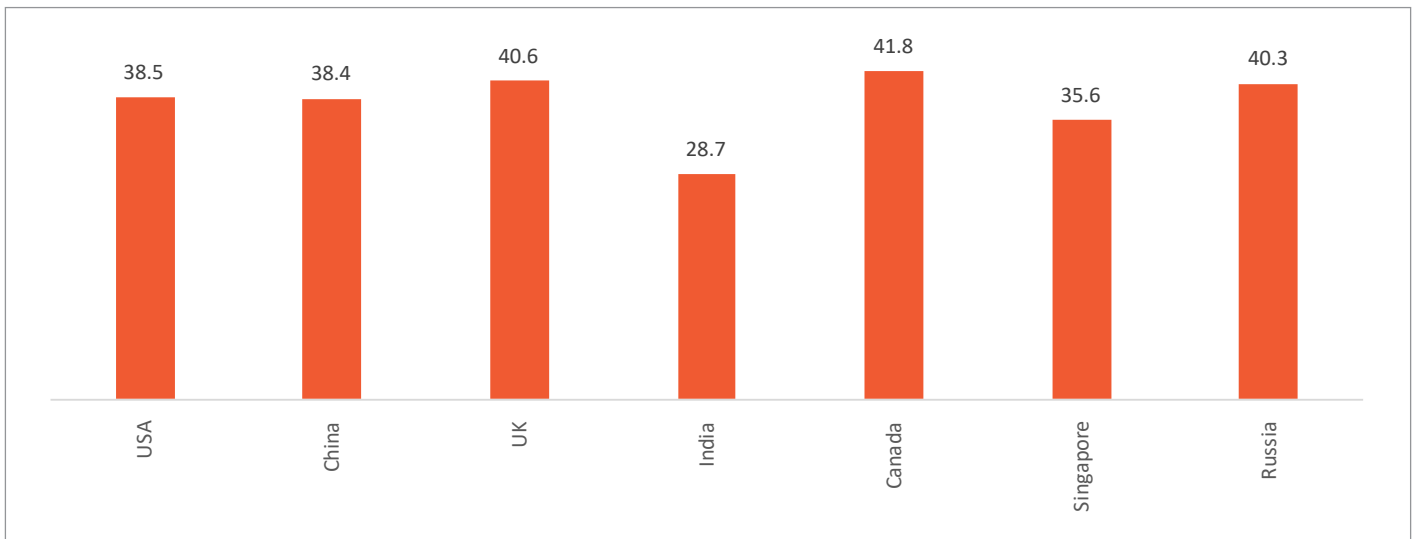


#### Consumption across income group (% of HH consumption)



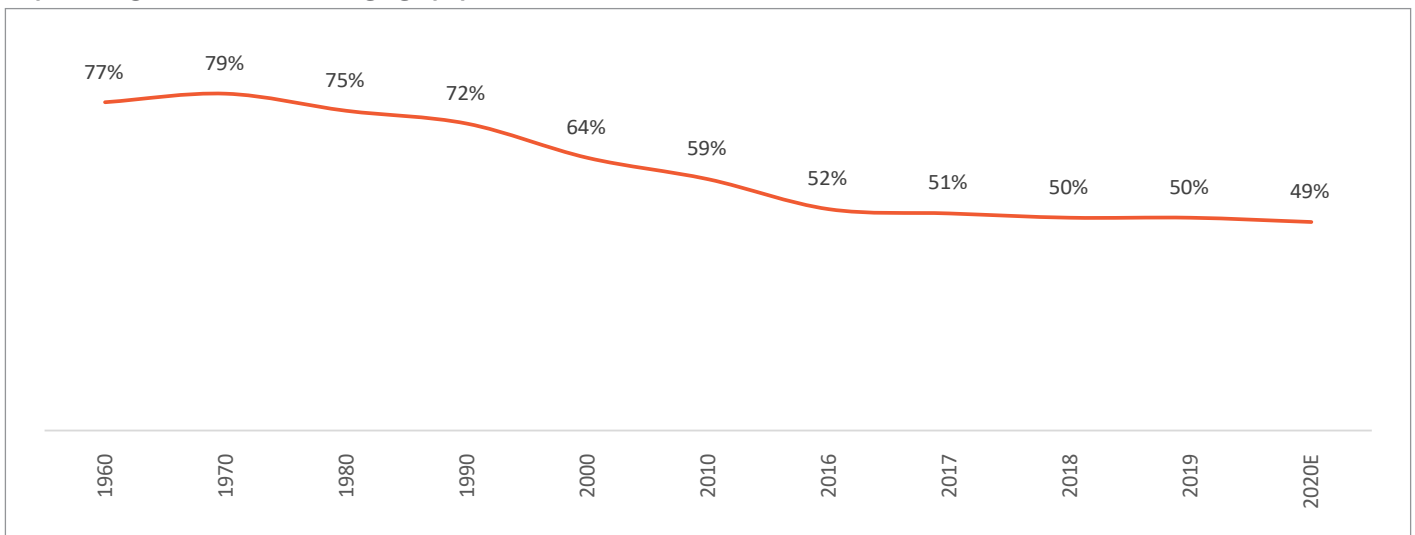
Source: BCG, Sharekhan Research

#### Estimated median age for 2020



Source: CIA.gov, Technopak Analysis, Sharekhan Research

#### Dependency ratio as % of working age population



Source: Census of India, Sharekhan Research

#### Multiplexes are cheapest out-of-home leisure activity among others

Out of home leisure activities	Accessibility	Orientation	Frequency	Time required	Price per person
Multiplexes	High	Family	High	3-4 hours	Rs. 150-500
Theme park	Low (Limited and far from city)	Family	Occasional	Whole day	Rs. 1000-1500
Dining out	High	Family	High	1-2 hours	Rs. 700+
Trekking/Camping	Low/seasonal (Out of city)	Family/non-family	Occasional	Whole day	Rs. 1000+

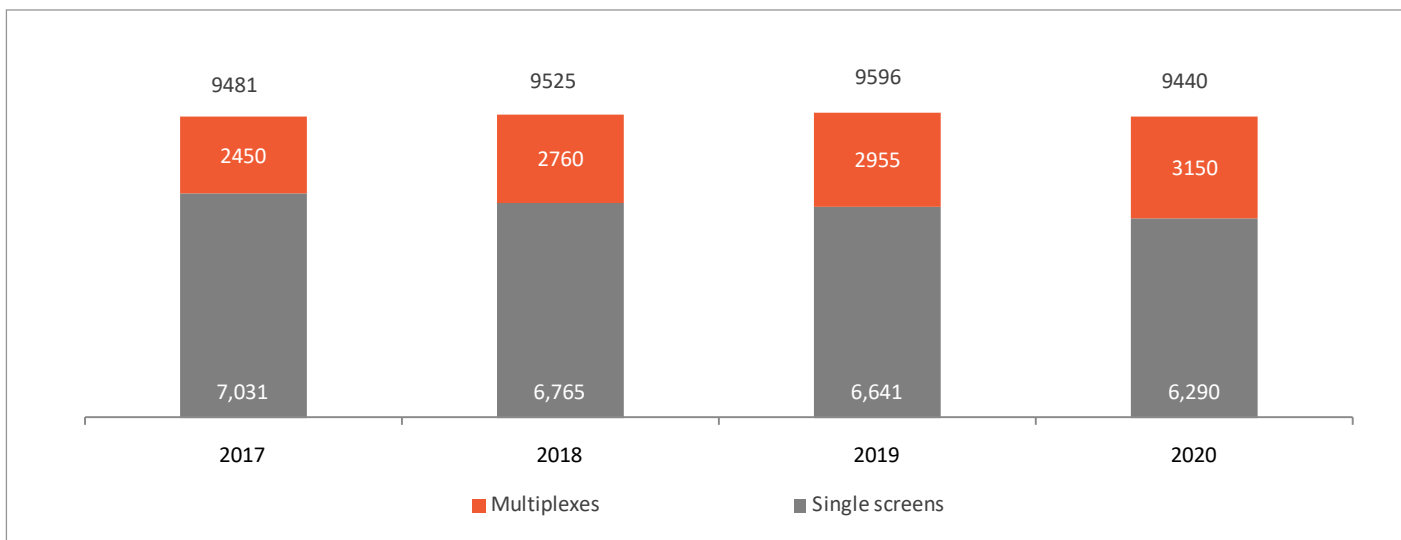
Source: Industry, Sharekhan Research

#### Under-screened markets will help multiplex sector expand

India, which remains an under-penetrated market for the multiplex industry, has been severely hit during the pandemic with push forward of screen addition and closure of single screens owing to liquidity challenges. Total screen counts continue to fall given closure of single-screen theatres, though the share of multiplex screens have been inching up. There are 400-450 towns with theatres across India and many of these towns lack other outdoor leisure options. Out of which, leading multiplex chains are currently present in 65-70 cities. India used to add around 200 multiplex screens every year, while nearly 100 single screens shut down. Contrary to earlier years, we believe around 1500-2000 single screens would have shut down across India owing to COVID pandemic in last 12-18 months, while nearly 40-50 multiplexes will be added.

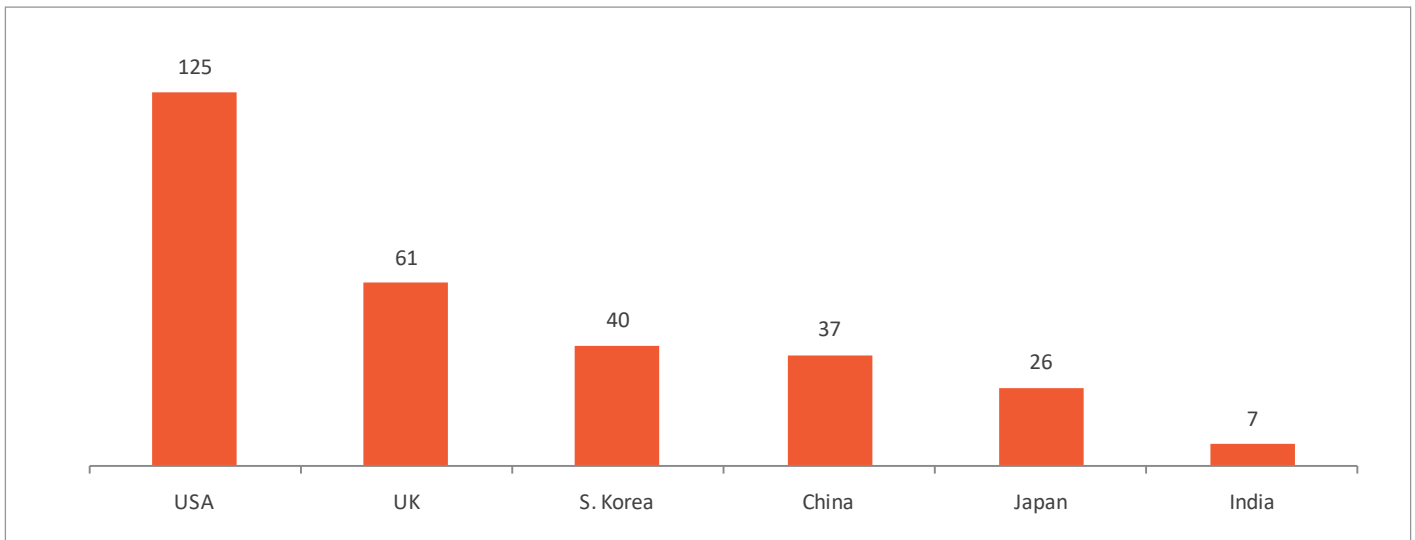
India is one of the most under penetrated nations in the world in terms of screen density. India continues to be an under-screened market with just 6 screens/million (population) vs. 26 in case of Japan and 30 in case of China. We believe that low penetration provides a strong growth opportunity for multiplexes as does the replacement of single screens in the industry. PVR and INOX Leisure presence in 72 and 69 cities respectively. Further, multiplex players will be beneficiary from the permanent closure of single screens during the pandemic as this will increase the share of multiplexes in overall movie exhibition business and rise in occupancy after the normalisation of situation.

#### Screen count continued to fall



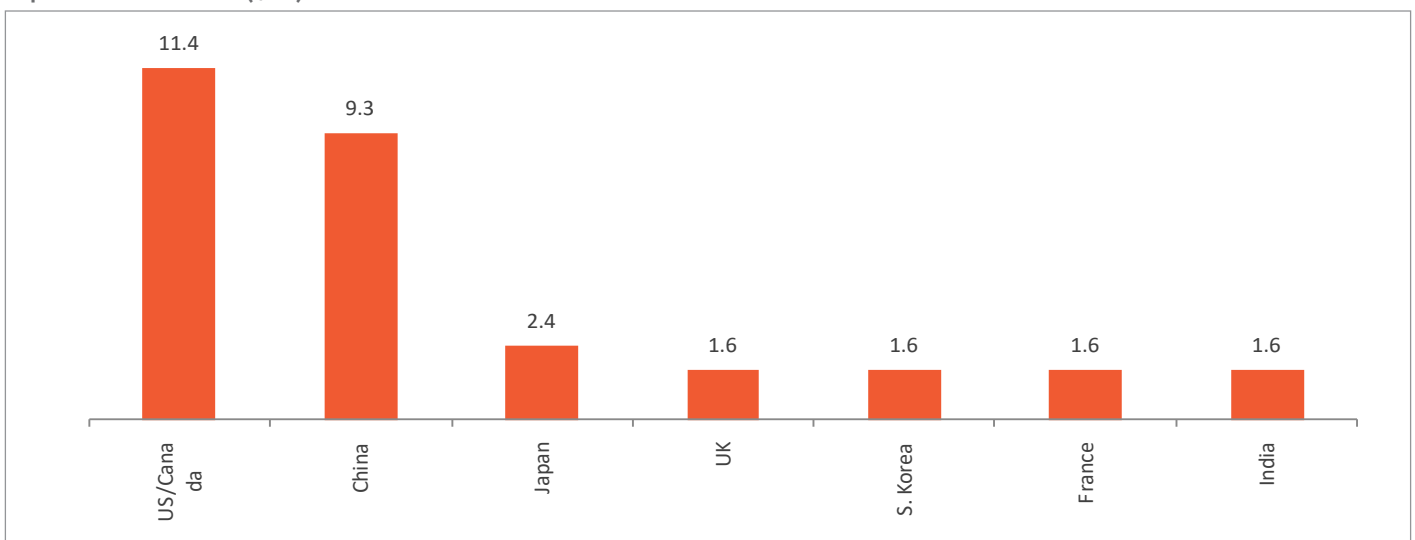
Source: KPMG Media report; Sharekhan Research

#### Low screen density in India (screens per mn)



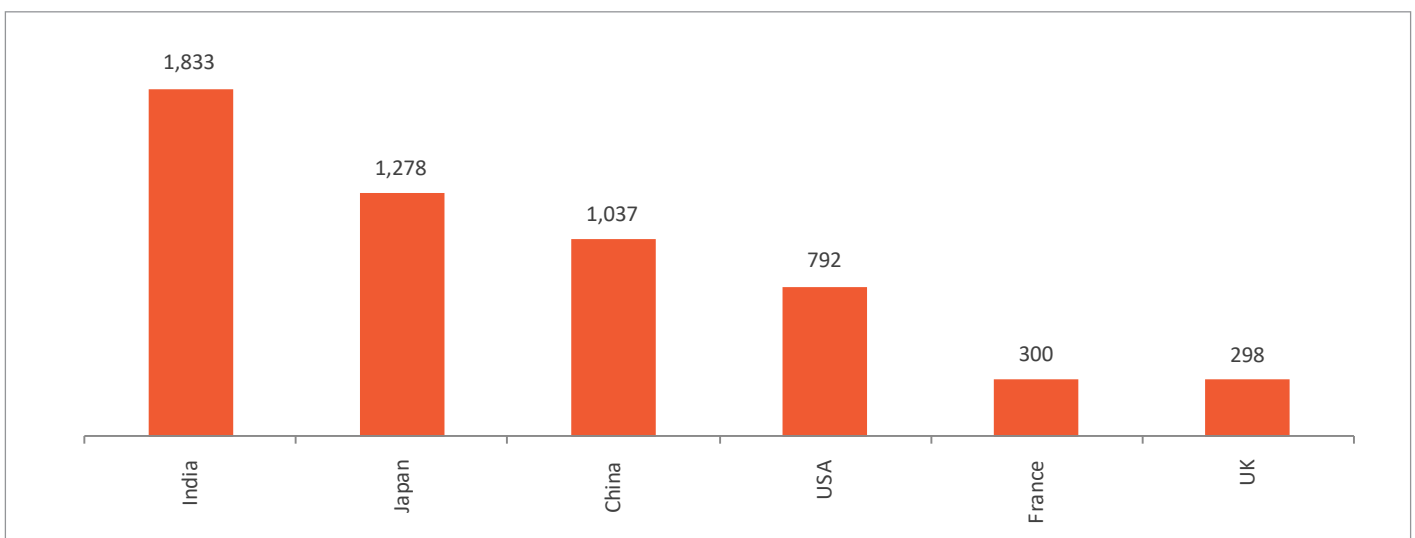
Source: Deloitte; Sharekhan Research

#### Top box office market (\$bn) in 2019



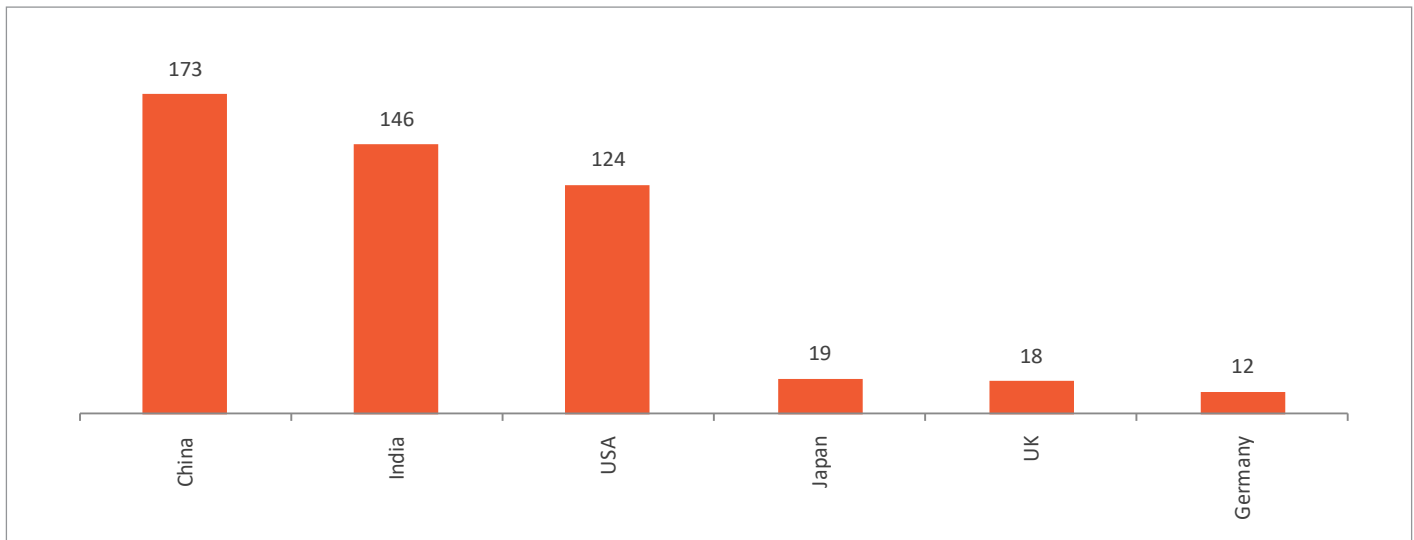
Source: Statista.com; Sharekhan Research

#### Ranked #1 in number of movies released in FY2020



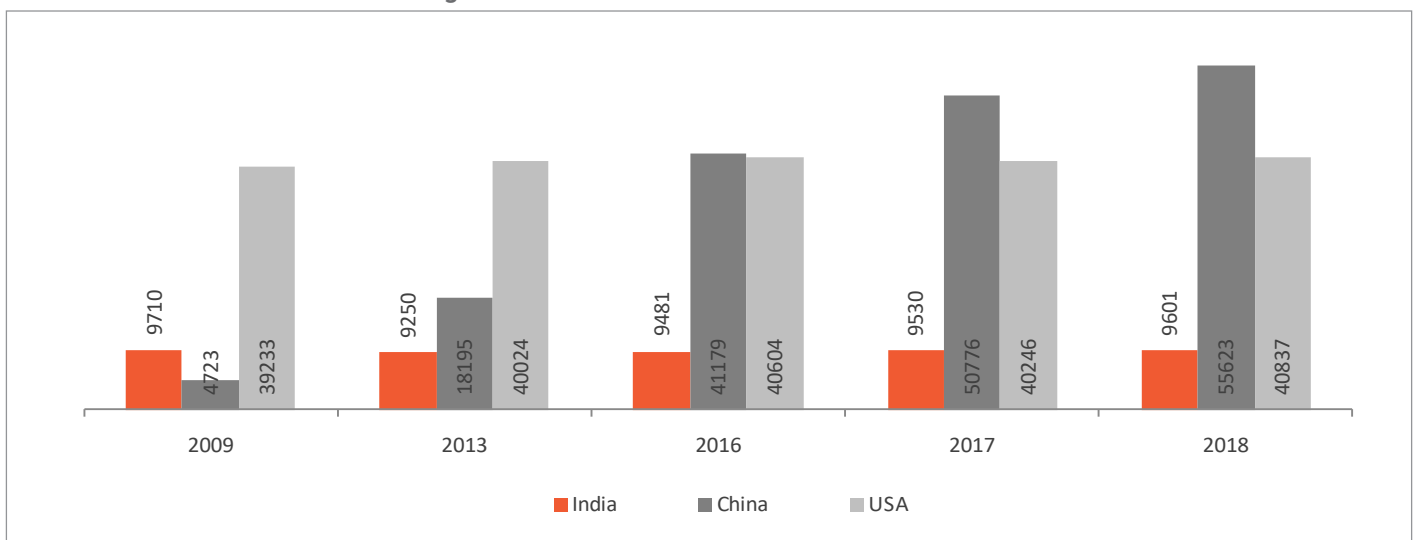
Source: Industry; Sharekhan Research

#### Second highest footfalls (mn) in the world in 2019



Source: Industry; Sharekhan Research

#### China's screen addition have been stronger than India



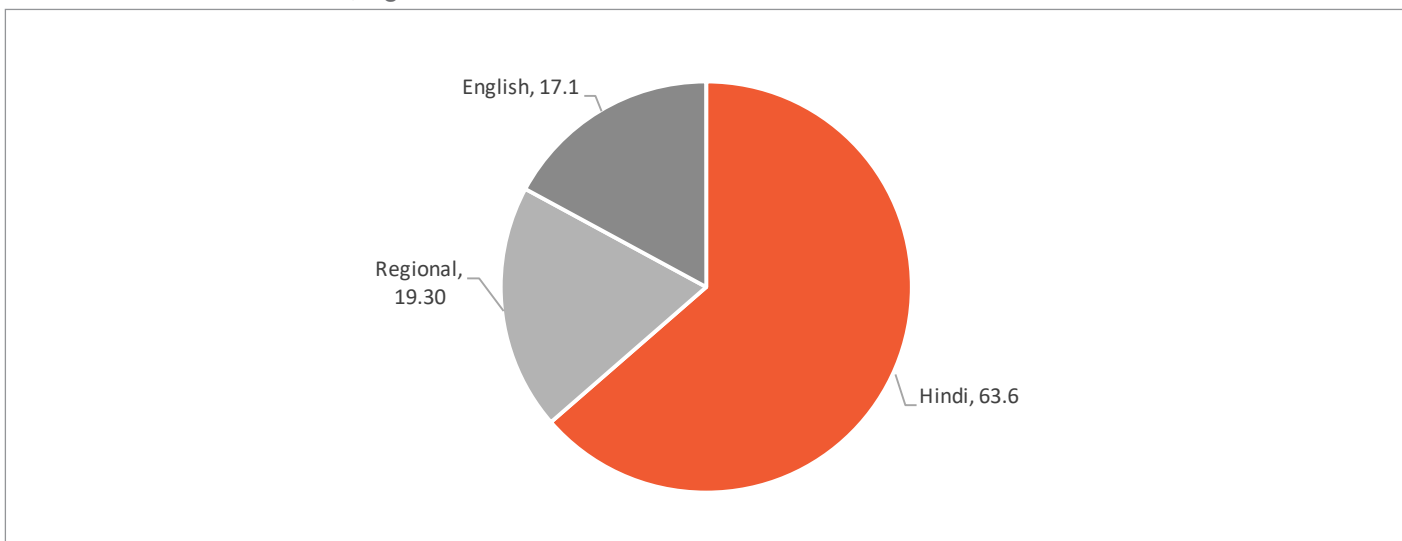
Source: Industry; Sharekhan Research

#### Exploring the sub-sectors

Earlier, Hindi movies used to be the significant contributor to total box office collections, however in recent times regional and English movies have gained momentum. As a result, Hollywood and regional cinemas' revenues have been on the rise for the past few years. Further, big budgeted films with big-starrer were being produced under prominent movie production houses, but currently many producers are focusing on low budget movies with strong content. As audiences are increasingly watching regional and Hollywood movies along with Hindi movies, multiplexes could consider expanding beyond metros and tier-I cities to aid growth in footfalls. However, we think that these leading multiplex players would remain selective in terms of entering into new markets as this could dilute their average ticket prices.

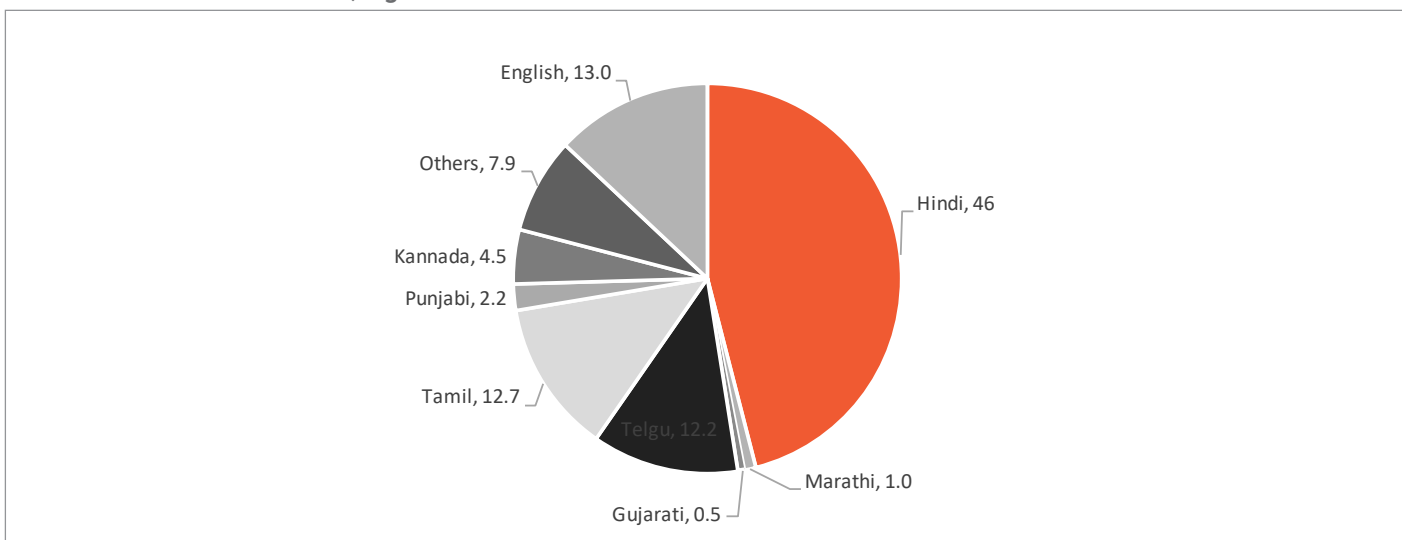
Hindi films contributed approximately 46% of the box office collections in CY2019, despite comprising only 14% of total films released (including regional movies). Films in other regional languages, which accounted 80% of films released in 2019, contributed nearly 44% to the total box office collections. During CY2020, regional movies recorded gross box office collections of \$153 million as compared to \$619 million in CY2019. A decline in regional GBOC in CY2020 was still lower than Hindi or Hollywood segments, implied regional movies' share in total GBOC at 54% in CY2020 as compared to 41% in CY2019.

#### Hindi contributed 64% to NBOC, regional 19% in 2016



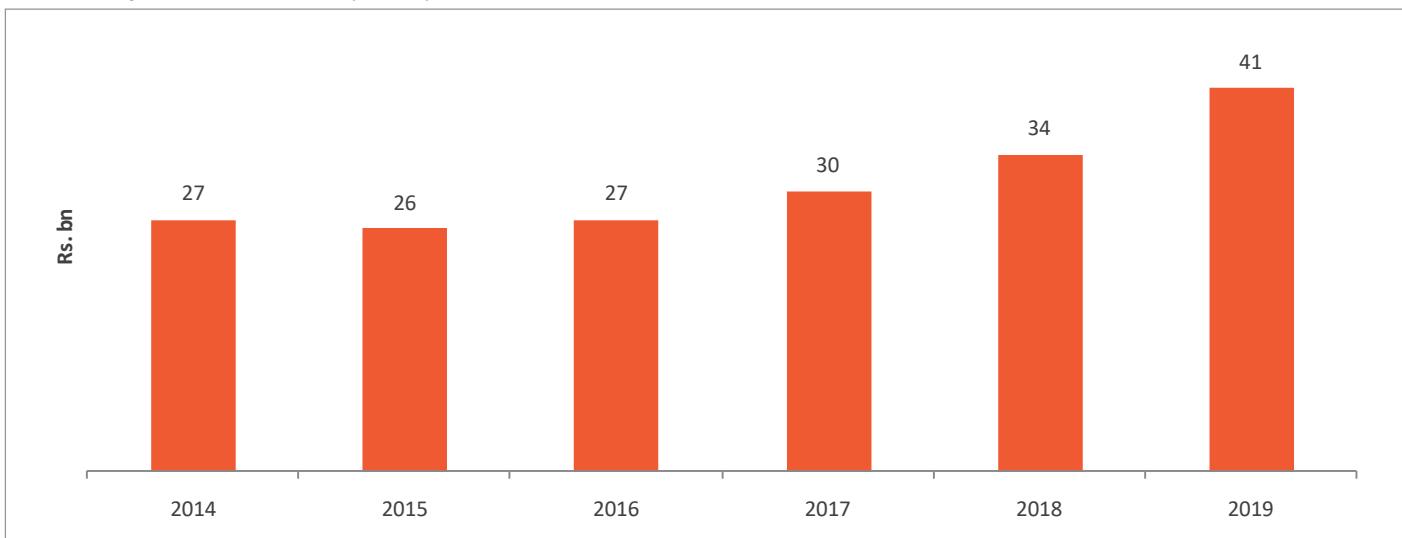
Source: CRISIL; Sharekhan Research

#### Hindi contributed 46% to NBOC, regional 41% in 2019



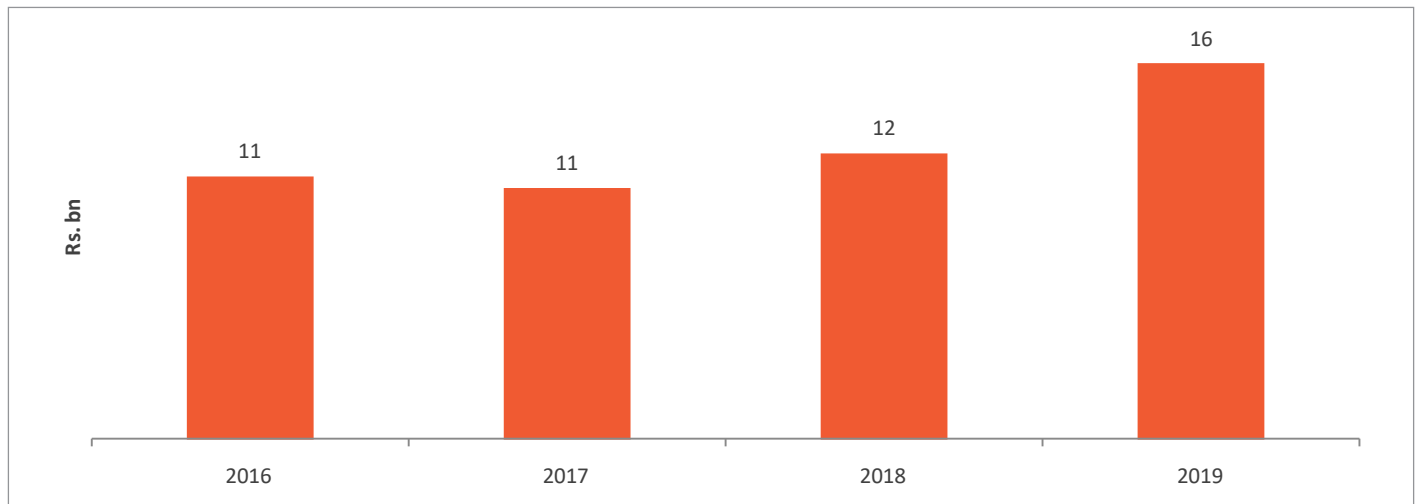
Source: FICCI EY report, Sharekhan Research

#### GBOC of top 50 domestic films (Rs. Bn)



Source: Industry; Sharekhan Research

#### GBOC of top 50 Hollywood films (Rs. Bn)



Source: FICCI EY report, Sharekhan Research

Six Bengali movies released in West Bengal during last Durga Puja and witnessed a healthy average occupancy of 40%. Hence, the demand for regional movies has been strong. This was aided by packed cinema halls with the release of Tamil movie Master in January 2021 amid online leak, stringent 50% occupancy rule in some states, and COVID-19 scare, which crossed Rs. 250 crore in worldwide collections. While Hindi films were not available for many weeks, regional films performed strongly at the box office, which is a positive trend for multiplex business in India.

#### Encouraging supply of content; temporary support to selective producers by raising distribution share

With closure of cinema halls and uncertainty around opening of cinema halls owing to pandemic, prominent movie producers/filmmakers shifted the release date of movies around the calendar (with a new release date in 2021), while some small-to-mid-budgeted movies released on streaming platforms during the lockdown. However, with the resumption of economic activities, permission for 100% occupancy in cinema halls at many states and rolling out of vaccines across the country, movies producers and studios started announcing the release dates for movies during March 2021, including the much-awaited big-budgeted ones. However, the release dates of these movies was once again shifted owing to localised lockdown restrictions starting from April 2021 because of a rise in COVID-19 infections amid the second wave. There is an aggressive content pipeline comprising big-ticket Bollywood movies which producers are waiting to declare release date once Maharashtra allow re-opening of cinema halls in the state.

Big-starrer movies usually contribute 30-40% of total net box office collection in the past. Hence, it is expected that the release of the big-starrer movies would help to attract audiences back to cinema halls. We believe some selected big-budgeted movies being released in the next 1-3 months will have higher distributor shares (by 2-4%). Similarly, there could be a temporary reduction in the release window period on video streaming platform for big-budgeted movies given delay in permission for 100% occupancy in some major states, lower overseas collection and additional support for generating higher revenue from OTT platform given shorter window period (fetches a 25-30% premium on usual digital rights).

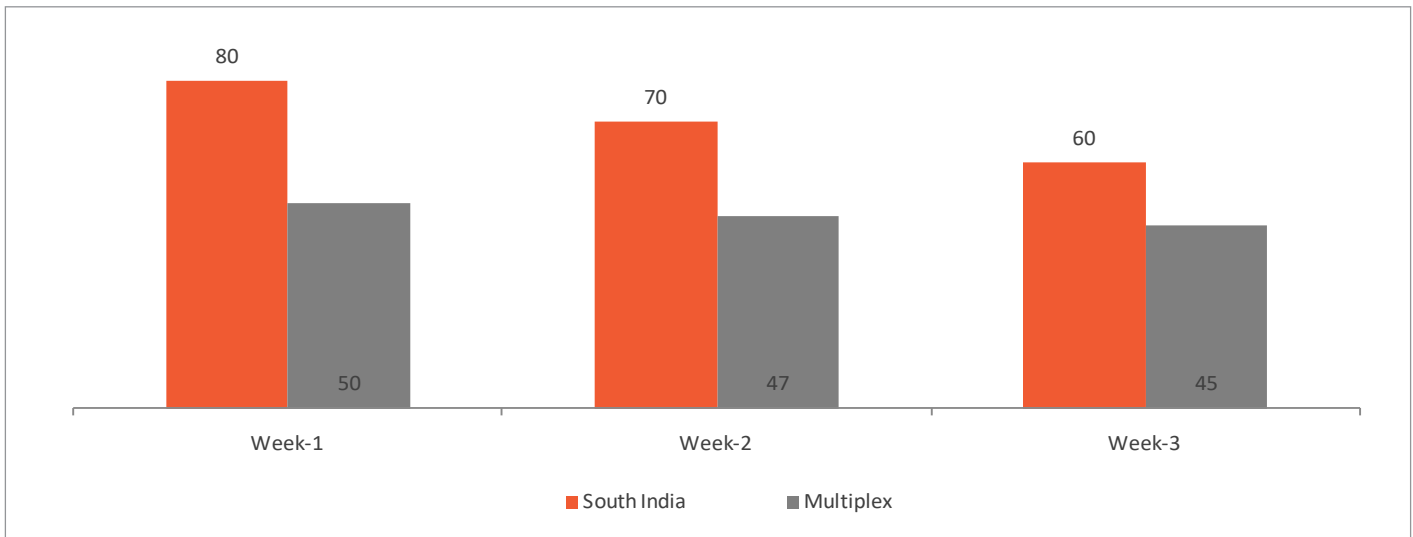
#### Leading stars contributes nearly 30-40% of NBOC

Actor	Net box office collections (Rs cr)			
	CY17	CY18	CY19	CY20
Akshay Kumar	288	376	756	-
Salman Khan	458	166	357	-
Ayushmann Khurrana	87	212	325	61
Raveer Singh	-	542	140	-
Ranbir Kapoor	54	342	-	-
Varun Dhawan	255	118	80	68
<b>Total</b>	<b>1,142</b>	<b>1,756</b>	<b>1,658</b>	<b>129</b>
% of NBOC	29	40	30	15
<b>NBOC</b>	<b>3,901</b>	<b>4,422</b>	<b>5,617</b>	<b>860</b>

Source: Industry, Sharekhan research

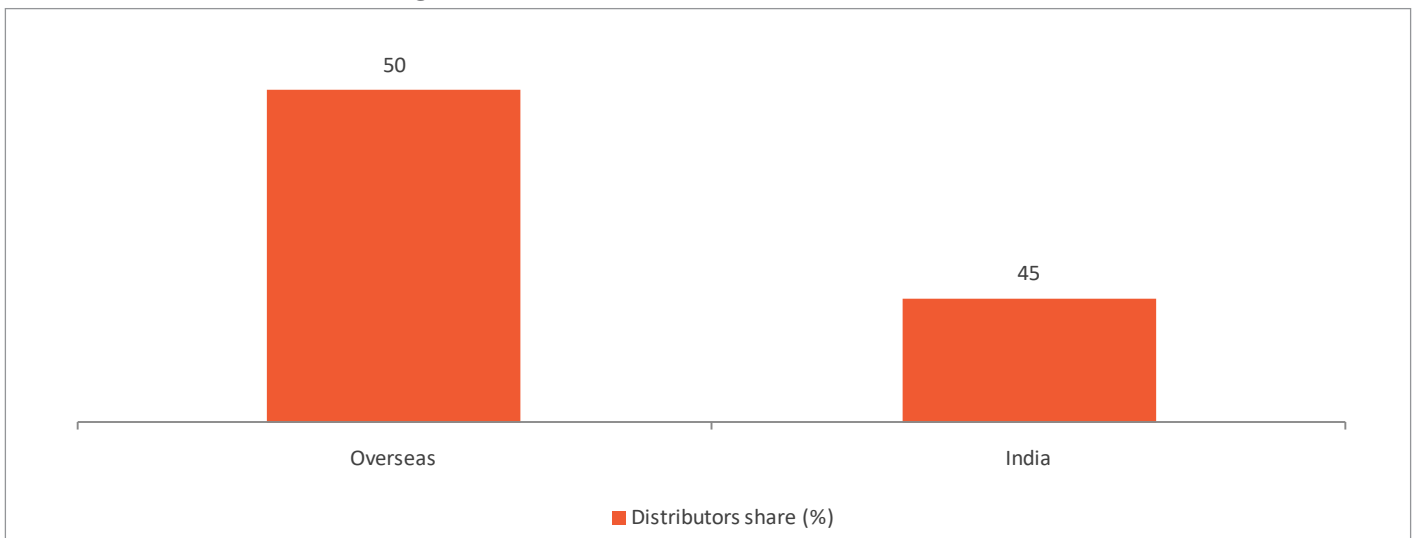
Media reports also indicate that producers of Sooryavanshi, which is scheduled to release on April 2, have asked for a higher revenue share from multiplexes. As per the earlier arrangement, the producers used to get a 47-50% share from the multiplexes. Distributor shares have been significantly higher in South India at 80% for the first week, 70% for the second and 60% for the third for Hindi films. The distributors share in overseas have been slightly on the higher side, given the tax implications.

#### Distributor share remains high in South India



Source: FICCI EY report; Sharekhan Research

#### Overseas distributor share remains higher



Source: Industry, Sharekhan Research

We believe that the multiplex industry would agree for a higher distributor's share (by 2%-4%) and reduce theatrical windows by four weeks in the near term to minimise the risk of producers as they are releasing big-budget movies during the uncertain times. However, we believe that the standard eight-week window between theatrical and digital premieres is likely to be followed in the medium-to-long term once the situation normalises.



**List of Bollywood movies to be released over next six months**

Movie	Language	Distributor	Tentative release date	Cast
BHAVAII	HINDI	PEN MARUDHAR ENTERTAINMENT	1-Oct-21	PRATIK GANDHI, ARINDITA RAY
ANTIM: THE FINAL TRUTH	HINDI	SALMAN KHAN FILMS	15-Oct-21	SALMAN KHAN,AAYUSH SHARMA
GANGUBAI KATHIAWADI	HINDI	PEN MARUDHAR ENTERTAINMENT	1-Dec-21	ALIA BHATT
TADAP	HINDI	FOXSTAR STUDIOS	3-Dec-21	AHAN SHETTY, TARA SUTARIA
ATTACK	HINDI	PEN MARUDHAR ENTERTAINMENT	21-Jan-22	JOHN ABRAHAM, RAKUL PREET SINGH
BLUR	HINDI	NA	1-Feb-22	NA
SHAKUN - UNTITLED	HINDI	NA	14-Feb-22	DEEPIKA PADUKONE
SOORYAVANSHI - DBOX	HINDI	RELIANCE ENTERTAINMENT	TBD OCT 2021	AKSHAY KUMAR, KATRINA KAIF,RANVEER SINGH
JHUND	HINDI	T-SERIES	TBD OCT 2021	AMITABH BACHCHAN
CHANDIGARH KARE AASHIQUEI	HINDI	T- SERIES	TBD OCT 2021	AYUSHMANN KHURRANA , VAANI KAPOOR
BUNTY AUR BABLI 2	HINDI	YASH RAJ FILMS	TBD OCT 2021	RANI MUKHERJI, SAIF ALI KHAN, SIDDHANT CHATURVEDI
BADNAAM	HINDI	PEN MARUDHAR ENTERTAINMENT	TBD OCT 2021	MOHIT SEHGAL, PRIYANKA GHOR
BAD BOYS	HINDI	PEN MARUDHAR ENTERTAINMENT	TBD OCT 2021	NAMASHI CHAKRABORTY, AMRIN QUERSHI
SATYAMEVA JAYATE 2	HINDI	T- SERIES	TBD OCT 2021	JOHN ABRAHAM, MANOJ BAJPAYEE
PRITHVIRAJ	HINDI	YASH RAJ FILMS	TBD NOV 2021	AKSHAY KUMAR, MANUSHI CHHILLAR
JERSEY	HINDI	ALLU ARVIND PRODUCTION	TBD NOV 2021	SHAHID KAPOOR; PANKAJ KAPUR
LOOOP LAPETA	HINDI	NA	TBD NOV 2021	TAAPSEE PANNU,
AANKH MICHOLI	HINDI	SONY PICTURES	TBD NOV 2021	ABHIMANYU DASSANI, PARESH RAWAL,
SHAMSHERA	HINDI	YASH RAJ FILMS	TBD DEC 2021	RANBIR KAPOOR,SANJAY DUTT
ATRANGI RE	HINDI	T- SERIES	TBD DEC 2021	AKSHAY KUMAR, DHANUSH,SARA ALI
JAYESHBHAI JORDAAR	HINDI	YASH RAJ FILMS	TBD DEC 2021	RANVEER SINGH, BOMAN IRANI
JUNAID KHAN- UNTITLED	HINDI	YASH RAJ FILMS	TBD JAN 2022	JUNAID KHAN
BACHCHAN PANDEY - FEB 22/ MAR 22	HINDI	SAJID NADIADWALA	TBD JAN 2022	AKSHAY KUMAR, KRITI SANON
BADHAAI DO	HINDI	JUNGLEE FILMS	TBD JAN 2022	RAJKUMMAR RAO, BHUMI PEDNEKAR
THE GREAT INDIAN FAMILY	HINDI	YASH RAJ FILMS	TBD FEB 2022	VICKY KAUSHAL, MANUSHI CHILLAR
83 - DBOX	HINDI	RELIANCE ENTERTAINMENT	TBD FEB 2022	RANVEER SINGH, DEEPIKA PADUKONE
DHAAKAD	HINDI	NA	TBD FEB 2022	KANGANA RANAUT, MANOJ TIWARI
BHOOL BHULAIYAA 2	HINDI	T- SERIES	TBD FEB 2022	KARTIK AARYAN, KIARA ADVANI,TABU
EK VILLAIN RETURNS	HINDI	BALAJI TELEFILMS	TBD FEB 2022	JOHN ABRAHAM , DISHA PATANI
ANEK	HINDI	BHUSHAN KUMAR PROD	TBD MAR 2022	AYUSHMANN KHURRANA
DO AUR DO CHAAR	HINDI	MADDOCK FILMS	TBD MAR 2022	RAJKUMMAR RAO
SHABAASH MITHU	HINDI	VIACOM 18	TBD MAR 2022	TAAPSEE PANNU
SHARMAJI NAMKEEN	HINDI	NA	TBD 2021	RISHI KAPOOR, JUHI CHAWLA
PEEPAL TREE (tentative)	HINDI	KANADE FILMS	TBD	NA

Source: Industry

## OTT is not a threat for cinema in near-to-medium term

The exhibition industry was affected significantly with the shutdown for over seven months, staggered opening of cinema halls with occupancy cap of 50%, delay in permission for 100% occupancy in certain major states and absence of quality content. As a result, some movies (across small to mid-budget) have opted for direct-to-OTT release as it provided movie producers an option to monetize their inventory at a reasonable return on their investment. Though a few small and mid-budget movies took direct-to-OTT release approach instead of waiting indefinitely for theatres to reopen, big starrer movies (even scheduled to release in 2020) have been still awaiting for theatrical release. The release dates of these big-budget (around ~Rs150-200 crore) movies including Sooryavanshi and '83 have been getting postponed owing to nationwide lockdowns (for seven months), restriction on seating capacity in some key states and continued shutdown of cinema halls post second wave of COVID-19.

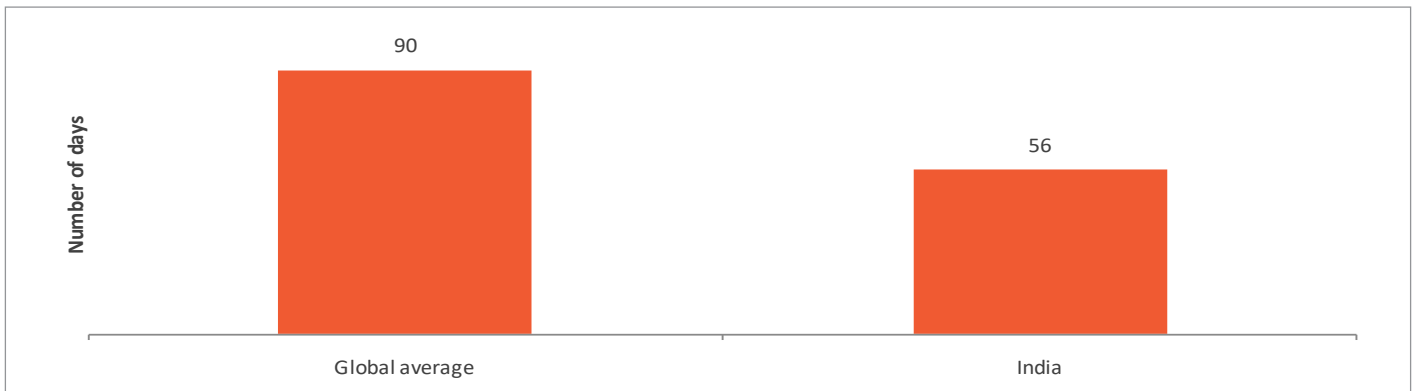
As there has been an adequate supply of content in terms of number of Hindi films made every year, we believe that some movies may continue to opt direct-to-OTT release route in coming years. However, the return on investment (RoI) of releasing movies on the OTT-first route is lower compared to film which goes through an entire film life cycle from theatrical release to release on TV and OTT platforms. Further, there is also a limit on potential revenue earning for a good content – for instance, movie like Uri could not have collected over Rs. 200 crore if it had been released direct on OTT. However, we believe that these medium of cinema exhibition will co-exist in India given the success of regional movies like Master, Uppena and Jathi Ratnalu released in Q4FY2021.

Due to the uncertainty of fully operational of cinema halls after the breakout of COVID-19, the digital rights became the largest portion of the theatrical segment in 2020 and grew 86% y-o-y to reach Rs. 35.4 billion. Amitabh Bachchan's Gulabo Sitabo was first released on OTT platform. It is estimated that ~15 Bollywood movies originally scheduled for theatrical release were released directly on OTT platforms during 2020. We note that China saw phenomenal numbers at the Box Office after controlling the pandemic early. The Chinese New Year brought an all-time high of \$1.2 billion with a staggering 160 Million viewers, which is the first time that the Chinese Box Office earned more than \$ 155 Million for 5 straight days. Detective China Town 3 (released in February 2021) earned a record-breaking \$ 393 Million, which is the highest-ever opening weekend earned by a film in a single market. Demon Slayer: Mugen Train, which released in October 2020 became the all-time biggest Japanese film with \$368 Million Box Office collections in Japan. In addition, the box-office collections of Hollywood tentpoles like F9: The Fast Saga (\$620 Million), A Quiet Place 2 (\$290 Million+), Conjuring: The Devil made me do it (\$190 Million+) indicate that the growth prospects of the cinema exhibition industry remain intact.

A direct-to-OTT release could be suited to small-to-medium budgeted movies, but could be a concern for big-ticket movies that have big budgets and stars given irreplaceable theatrical viewing experience, lower subscription rates, lower RoI compared to a theatrical release, limited alternatives for recreation in India and lack of interest of big actors in favour of direct OTT release as small screen negatively impacts their brand value. Further, Disney's decision to discontinue simultaneous theatrical and digital release of movies alleviates concerns around the potential threat from OTT.

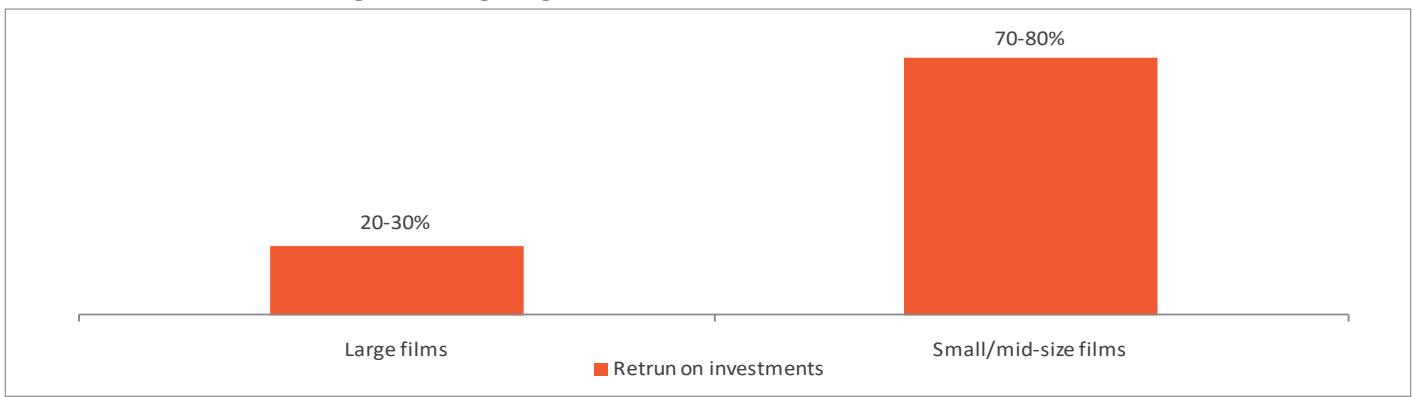
There is an exclusive theatrical window for 6-8 weeks in the Indian film industry, and only then the film is made available on OTT platforms like Amazon/ Hotstar, television and Pay Per View (PPV). However, theatre chains globally mandate an exclusivity window of 90 days before the release on physical home video, and 74-76 days before digital, which is higher compared to Indian exhibitors. Domestic cinema theatres contribute 50-55% of total film producers' revenue and overseas cinemas contribute around 17-19%, while digital rights/ OTT rights and satellite and music rights share is 10-12% and 10-17% respectively. Producers may demand a higher distributor's share (by 2-4%) or ask for a reducing theatrical window from six/four weeks as a shorter window fetches a 25-30% premium on digital rights, to minimize its risk by releasing big-budget movies during these challenging times.

#### Indian theatrical window remains low



Source: Sharekhan Research

#### Direct OTT release of small-budget movies get higher Rol



Source: Sharekhan Research

#### Key movies released on OTT platforms since the beginning of COVID-19 outbreak

Movies	OTT
Gulabo Sitabo	Amazon Prime
Dil Bechara	Disney + Hotstar
Raat Akeli Hai	Netflix
Gunjan Saxena: The Kargil Girl	Netflix
Shakuntala Devi	Amazon Prime
Ghoomketu	Zee5
Class Of '83	Netflix
Cargo	Netflix
Coolie No. 1	Amazon Prime
Chhalaang	Amazon Prime
Dhamaka	Netflix
Radhe: Your Most Wanted Bhai	ZEE5
Toofaan	Amazon Prime
Laxmii	Disney + Hotstar
Sadak 2	Disney+ Hotstar
Bhuj: The Pride Of India	Disney+ Hotstar
Shershaah	Amazon Prime
Mimi	Jio Cinemas and Netflix
Haseen Dillruba	Netflix
Hungama 2	Disney+ Hotstar

Source: Sharekhan Research

**Medium term catalyst:** 100% occupancy rate across India, re-opening of cinema halls in Maharashtra, Big-budget and star movies release, improvement in operating matrices, recovery in advertising revenue

**Long-term triggers:** Occupancy rate higher than pre-COVID level, growth in footfalls, higher screen penetration

## Why we like PVR: leading successfully over the years

**We believe that PVR with its strong brand and extended reach is well poised to leverage the opportunity in India's under penetrated multiplex sector and continue in its leadership position.**

### Pan India presence with first mover advantage; expect strong screens additions in FY2023E

PVR Limited has been maintained its leadership position among the multiplex players, with the highest number of screen counts (9% of total screens in India) and revenues (20% in gross box office collection) as well. Over last decade, the company has been a pioneer in the multiplex business in India, led by aggressive expansion of screens from 123 in FY2010 to 842/849 in FY2021/QTD Q2FY22 through both organic and inorganic route. PVR has a pan India presence with almost equal distribution of screens across North, West and South India, while it is under-penetrated in the Eastern India. Out of its total 849 screen, nearly 80% of its total screens are located in only 8 states (including 18% in Maharashtra). Further, the company's occupancy rate continues to remain highest among its peers and it has expanded from 30-31% in FY2010 to 35-36% in FY2019/FY2020. Apart from strong screen addition, the company's revenue has been driven by improvement in occupancy, higher conversion of patrons in the food & beverage (F&B) segment (contribution increased from ~34% in FY2010 to 55% of exhibition revenues in FY2020) and premiumisation efforts. The company has invested in improving luxury cinema experiences of customers, which constitutes 12% of total screens. The company plans to keep up the momentum of expanding its presence in Tier 2 and Tier 3 cities with the calibrated approach because of rapid urbanisation, growing aspirations and need for quality entertainment. Further, the shutdown of single screens due to pandemic provide greater opportunity to PVR given its dominant market share. PVR indicated to add around 19 screens (of which seven screens were already added) in H2CY2021, most of which were capitalized pre-pandemic and post then. However, the company would remain aggressive in number of screen addition in FY2023E and FY2024E. We expect the company would deliver strong revenue growth in coming years on the back of screen expansion, higher spends on F&B and increasing ticket price.

PVR has been innovative by providing a diversified viewing experience to its audiences through its various formats such as 'PVR Director's Cut', 'PVR Gold Class', 'PVR IMAX', 'PVR Onyx', 'PVR P[XL]', 'PVR Playhouse', 'PVR Luxe', 'PVR Sapphire' and 'PVR 4DX'. We believe the premium format would gain traction by delivering a unique movie-going experience to consumers in theatres as these are equipped with the necessary technology. Further, watching movies in the premier format will continue to remain to be the most affordable form of entertainment as compared to other leisure activities. Given increased consumerism, brand awareness and higher discretionary income and limited out-of-home entertainment options, PVR would diversify its portfolio's premium offering by expanding its luxury format in Tier 2 and Tier 3 towns. With offering luxury experience to customers, the company would be able to charge higher ticket prices and generate higher spends per head in F&B category from this luxury segment.

#### Around 12% of total screens are in the luxury segment; expect to expand going ahead

Type of screens	No of screens
Gold class/Luxe	37
Director's Cut	8
4DX	18
Playhouse	13
IMAX	9
P[XL]	8
Onyx	1
Sapphire	4
Total	98

Source: Company, Sharekhan Research

### A long wait is likely to come to an end

The Indian multiplex industry was one of the hardest hit owing to the shutdown of cinema halls for seven months after the first wave of COVID-19, but it has gradually started resuming operations in a staggered manner following the Ministry of Home Affairs' (MHA) permission to allow 50% occupancies effective from October 15, 2020. Owing to lack of new content, PVR tried to attract viewers through playing old movies, while keeping ticket prices lower than usual. Further, the company offered patrons the option to book an entire auditorium for a private and exclusive screening on a date and time of their choice. During October and

December 2020, a few new regional movies including Bengali and South Indian languages released during festivals and witnessed huge admissions in theatres in the opening week. This brought back the confidence among multiplex owners that impactful movie content will pull audiences back to cinemas. This was aided by packed cinema halls with the release of Tamil movie Master in January 2021 amid online leak, stringent 50% occupancy rule in some states, and COVID-19 scare, which crossed Rs. 250 crore in worldwide collections. A revised standard operating procedure was issued by MHA, which allowed multiplexes to open with up to 100% of their seating capacity on January 30, 2021. During January and March 2021, the release of movies, such as Tenet, Wonder Woman 1984, Master (Tamil), Uppena (Telugu), Vakeel Saab (Telugu), Godzilla vs Kong, saw encouraging response given pent-up demand. the central government's permission to theatres to operate cinema halls at 100% seating capacity from February 1, 2021 and success of South Indian Movies, filmmakers have started announcing the release dates for movies as most states (except few major states such as Maharashtra and Kerala) permitted cinema halls to operate at full capacity.

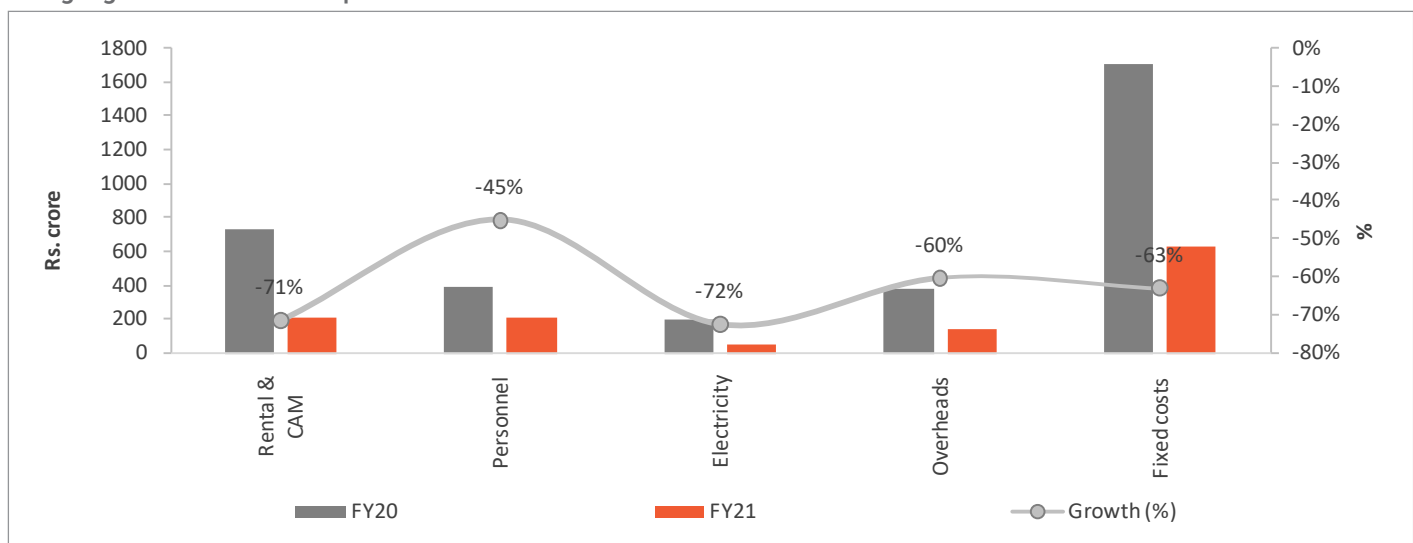
However, with the severity of second wave of COVID-19 in India, many state governments imposed mobility restrictions in the beginning of April 2021, which stalled the revival of multiplex and the big budget movies postponed their release dates, which were scheduled in April 2021. Multiplexes have started to reopen cinemas from July 30, 2021 onwards. Except Maharashtra (contributes 25-30% of a Hindi film's box office collection), most states including Madhya Pradesh, Rajasthan, Punjab, Haryana, Gujarat, Andhra Pradesh, Tamil Nadu and Telangana have permitted the resumption of operations in cinema halls after the drop in number of cases. Bell Bottom was the first Hindi movie released theatrically on August 19, 2021 in the aftermath of the second wave of COVID-19, where cinema halls were allowed to resume operations.

We note that there is an aggressive content pipeline comprising big ticket Bollywood movies, regional films and Hollywood films. We expect there will be three/four big-starrer movies being released in every month starting from October 2021. Fresh content will start releasing in cinema halls from October 2021, we believe ATP could return to pre-COVID level in Q4FY2022. As we expect Maharashtra would allow to re-open cinema halls in next 1-2 weeks, there will be sharp increase in announcement of movie release dates by movie studios. Hence, we expect a gradual recovery in Q4FY2022 as COVID fears ease with the roll out of vaccination, release of much-awaited big-budget movies and higher occupancy given closure of single screens across India.

### **Expect better profitability with cost efficiency**

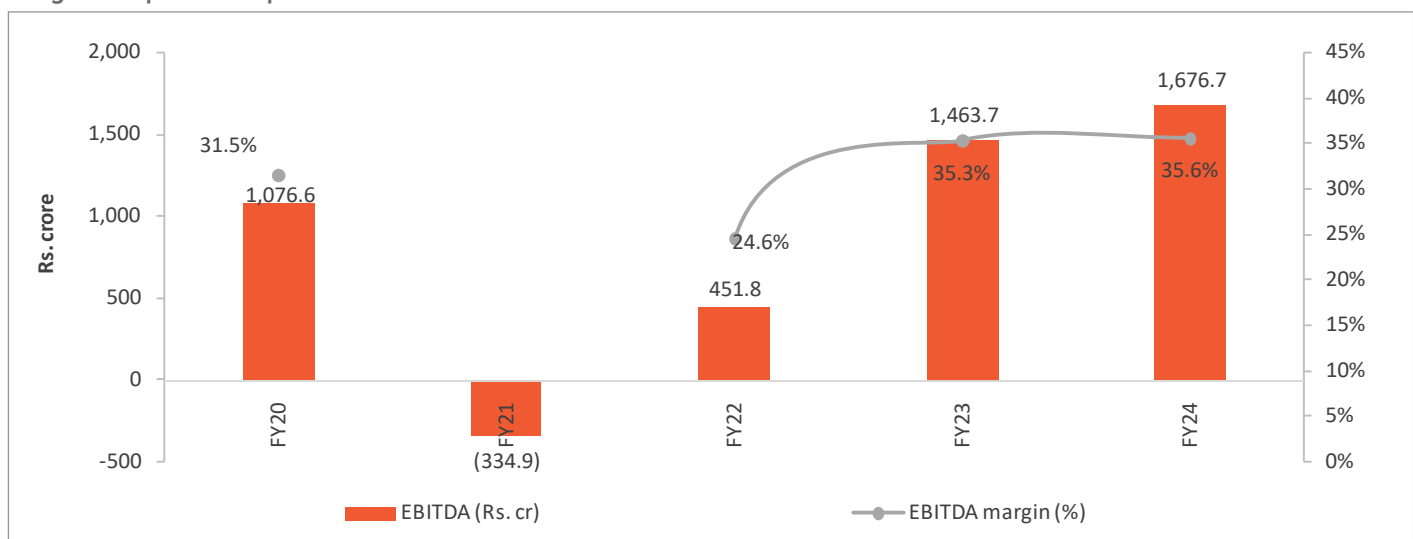
PVR has done a commendable job in curtailing fixed expenses by 63% y-o-y in FY2021, owing to closure of cinema halls amid the pandemic. The shutdown of cinema halls owing to COVID-19 enforced multiplexes to sharply reduces operating expenses. The company used the force majeure clause with the majority of developers/landlords to secure significant rent and CAM discounts for FY2021. As a result, rent and CAM expenses reduced 71% y-o-y to Rs. 210 crore during FY2021. The management also undertook compensation reduction on a temporary basis at various levels of the organisation and downsized its workforce in order to preserve liquidity. We note that electricity and water charges were reduced during the lockdowns. In addition, housekeeping and security contracts renegotiated with new terms and conditions. Hence, employee expenses, electricity expenses and other overhead expenses declined by 45%, 72% and 60% respectively. Though expenses would move up post the fully resumption of activities, we believe it may not go up to again at pre-COVID levels. Further, management confirmed that reduction in fixed costs (especially in employee expenses and other fixed costs) would sustain going ahead and it expects permanent savings 10%-15% on its selected pre-COVID fixed costs. The management highlighted that it has invested in re-skilling its employees to perform more than one task depending on the need of the hour. As monthly cash burn rate would remain below pre-COVID level even after return of normalcy, we expect improvement in margins going forward. We expect EBITDA margins to improve to 35.3% and 35.6% in FY2023E and FY2024E from 31.5% in FY2020.

### 63% y-o-y reduction in fixed expenses in FY21



Source: Sharekhan Research

### Margin to improve with permanent reduction in fixed costs

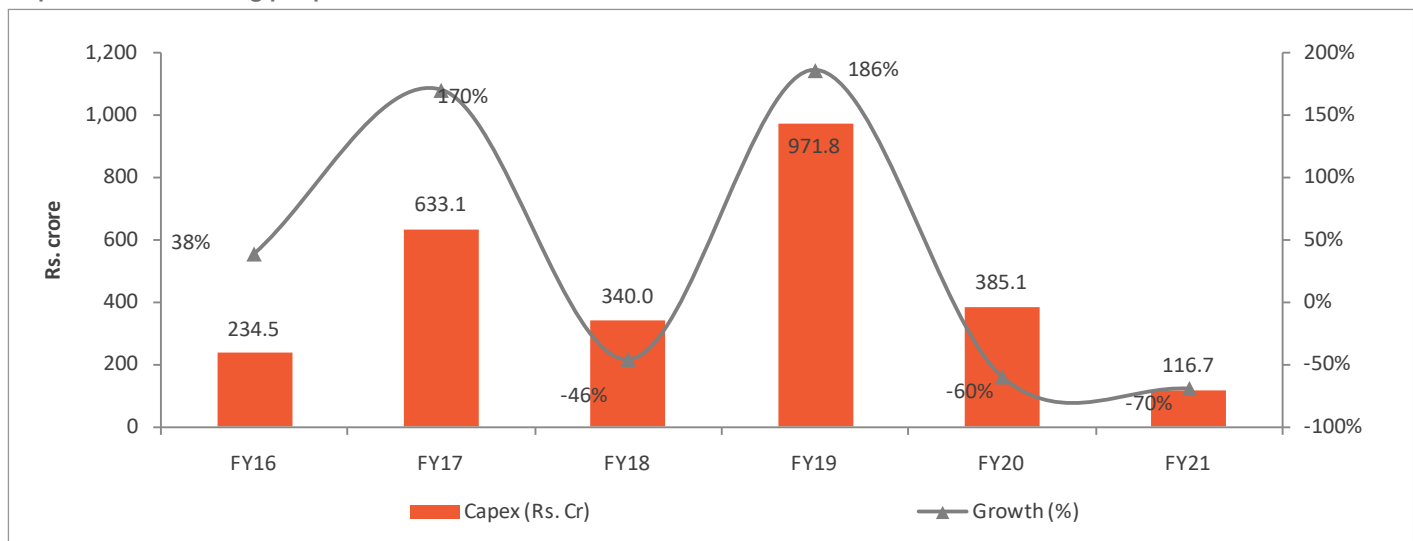


Source: Sharekhan Research

### Expect strong screen addition in FY2023E

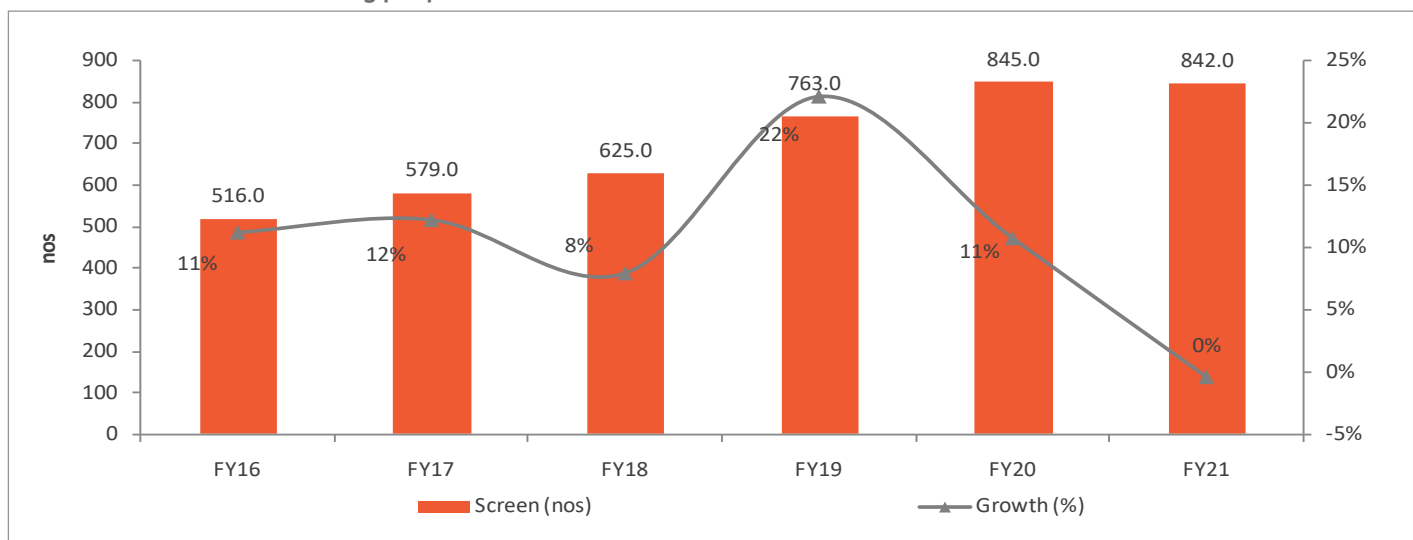
PVR has witnessed the fastest growth among multiplexes given strong screen additions in the last five years though both organic and inorganic route. The company also benefited from the low screen penetration in India and value-migration from single-screen theatres to multiplexes. The company's annual capex has been remained in the range of Rs. 235–972 crore/year over last five years. The company deferred all new project handovers since the start of the pandemic and all capex for new properties were put on hold. During FY2021, PVR added 13 additional screens as these screens were in advanced stages of construction. Management indicated that the company would add 19 screens in FY2022 as these are in advanced stage of development. The management indicated that a large number of screens are in pipeline and will re-commence once the situation normalises. Hence, we believe that PVR would add screens aggressively from FY2023E onwards given expansion opportunities in the tier-2 and tier-3 cities. We estimate the FCF would improve to Rs. 250-Rs.260 crore in FY2023E and FY2024E. This along with improved profitability is likely to help ROIC improve to 10% during FY2023 and 12% in FY2024.

### Capex remained strong pre-pandemic



Source: Company; Sharekhan Research

### Screen additions remained strong pre-pandemic



Source: Company; Sharekhan Research

### Aggressive acquisition strategy helped PVR to gain market share at a faster rate

Lower multiplex screen penetration level and PVR's aggressive expansion strategy helped the company stay market leader in terms of screen counts consistently. Further, first mover advantage has helped the company to expand at the right location, which has resulted in enhanced footfall coupled with realising higher average ticket price and spend per head on the organic growth side. Also with successful completion of acquired entities such as i) Cinemax (in 2012), ii) DT Cinemas (in 2016) and iii) SPI cinemas (in 2018) has helped the company to report growth at a faster pace. However, the valuation of its previous acquisitions remained expensive (at Rs. 13.9/Rs. 13.5 crore per screen for SPI/DT cinemas) as compared to Rs. 2.5-3 crore per screen for expansion organically. Though the acquisitions with an expensive route for expansion could create limited value creation potential, it provided an edge to PVR to gain market share in prominent locations. Acquisition of DT cinemas in 2016 helped the company to improve its presence in northern India along with enhancement of overall average ticket price as (DT Cinemas fetched a higher ATP due to its properties located in prominent locations), while acquisition of SPI Cinemas, South India's largest cinema chain with presence in key markets of Tamil Nadu, Telangana, Andhra Pradesh, Karnataka, Kerala and Mumbai helped the company to strengthened its position in Southern India.



#### Acquisitions by PVR

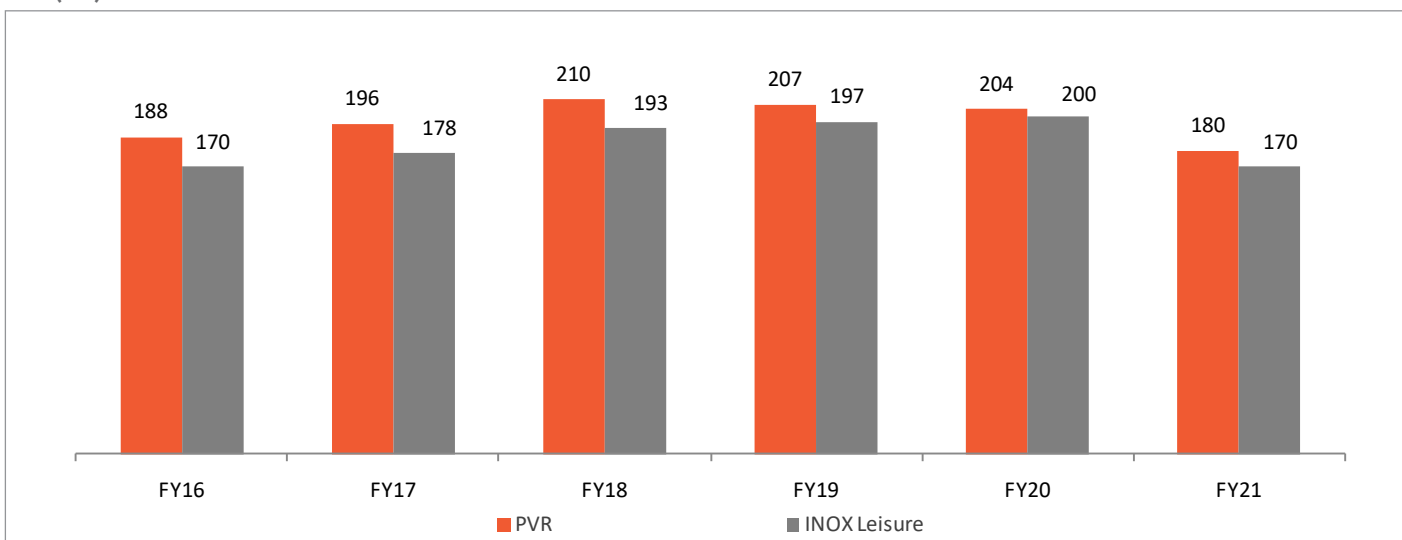
Company	Consideration (Rs. cr)	No of Screens	EV/screen (Rs. Cr)
Cinemax	570	138	4.1
DT Cinema	433	29	14.9
SPI	886	72	12.3

Source: Company, Sharekhan Research

#### Leading operating metrics among peers

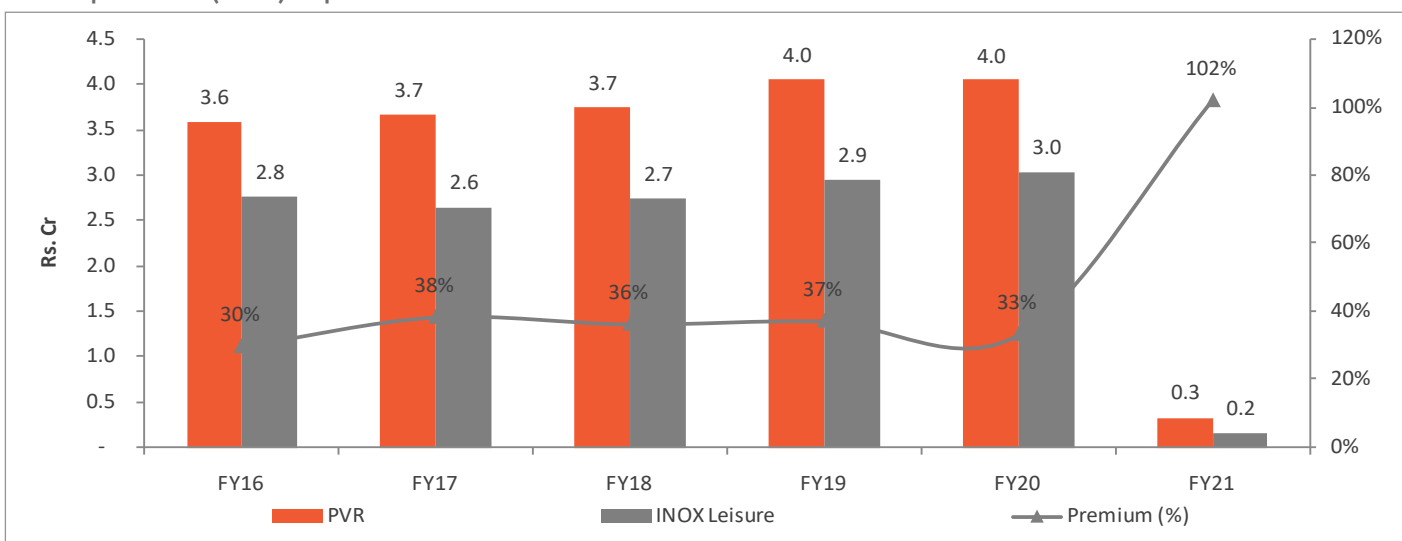
PVR's operating metrics are better than Inox Leisure on many fronts, though Inox Leisure has been progressing well in terms of narrowing the gap in all parameters over last few years. Though Inox Leisure has able to match with PVR in terms of ATP, PVR's income per screen remains much higher than Inox Leisure. PVR's industry leading income per screen was driven by a higher occupancy rate (34-36% versus 26-28% of Inox Leisure) and higher conversions of patrons with increasing spends in F&B segment. However, the occupancy level scales higher with integration of acquired entities and new added properties achieving maturity.

#### ATP (Rs.) - PVR leads



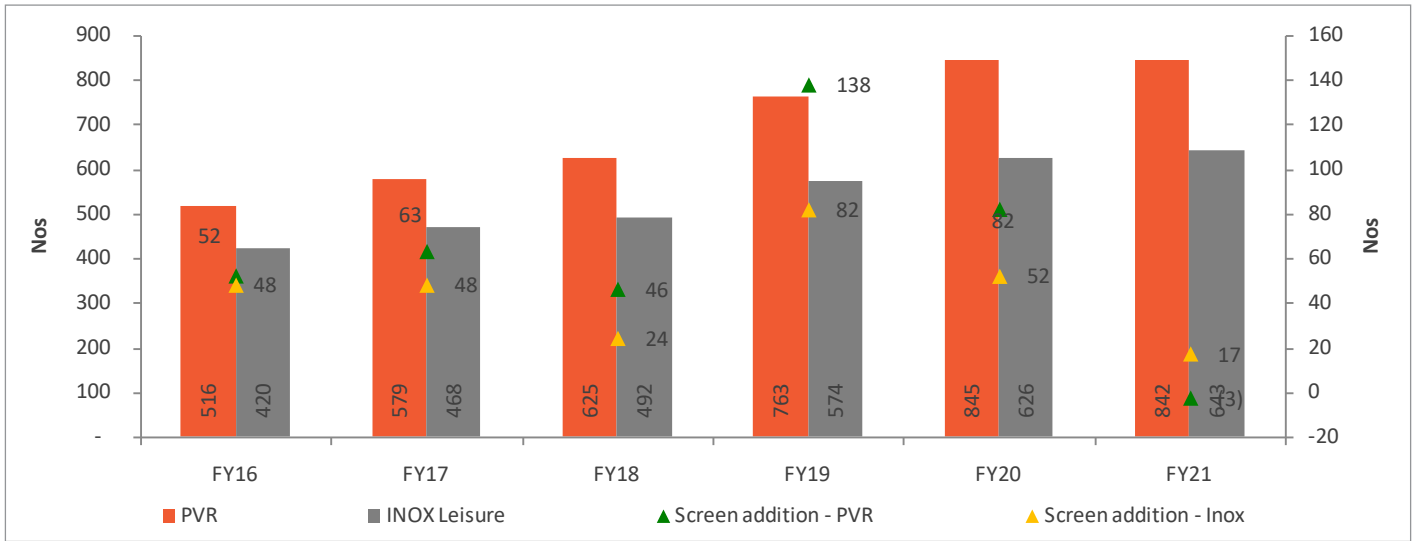
Source: Company, Sharekhan Research

#### Income per screen (Rs. cr): improvement continues



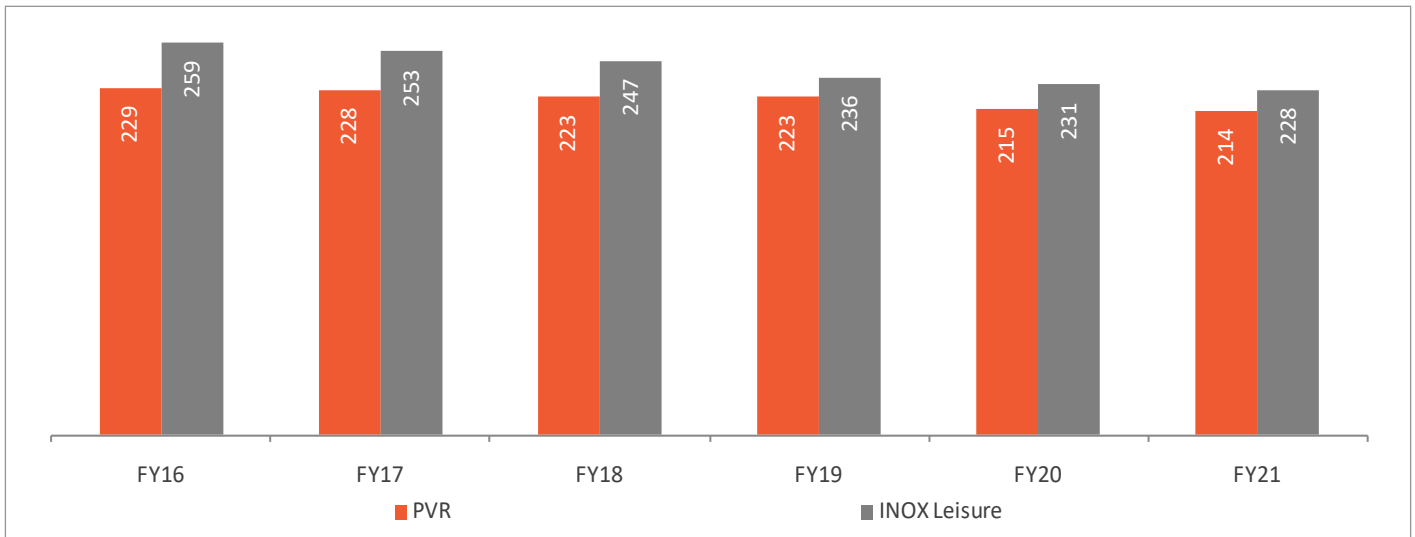
Source: Company, Sharekhan Research

### PVR continues its leadership in screen count



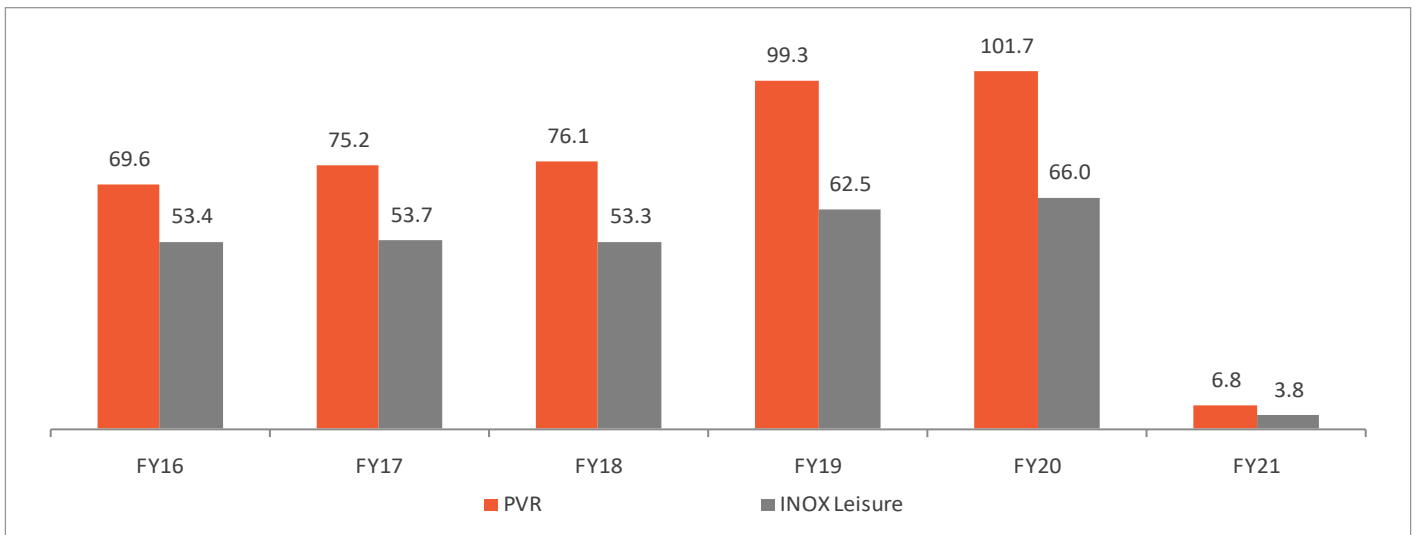
Source: Company; Sharekhan Research

### PVR has lower seats per screen



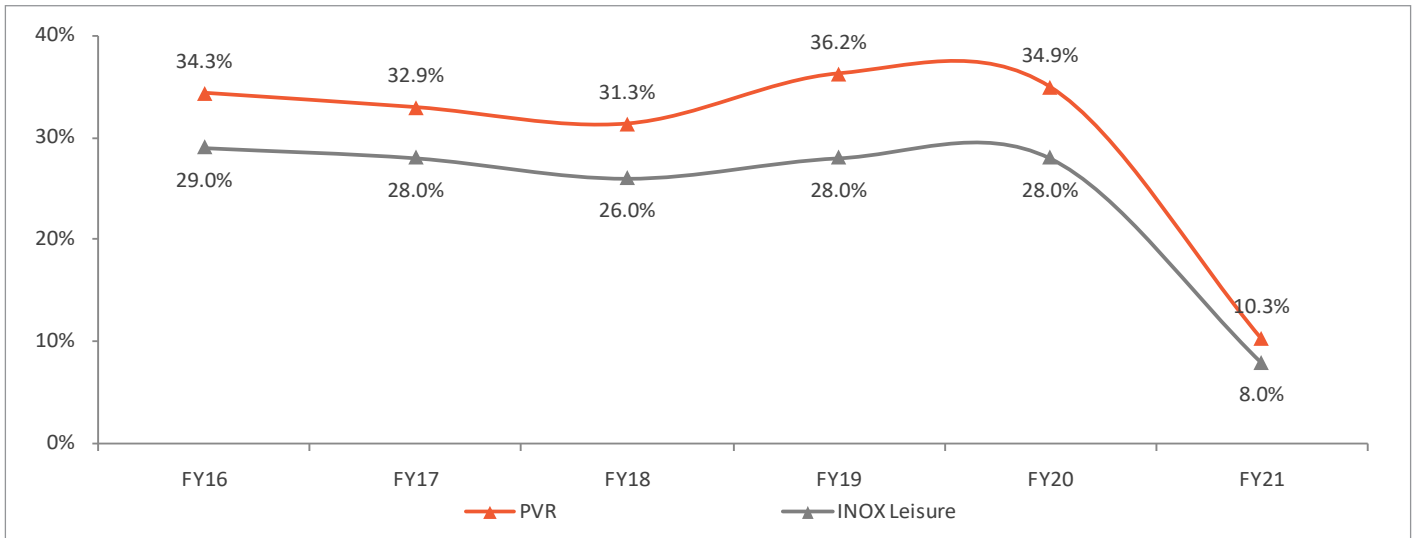
Source: Company; Sharekhan Research

### PVR's strong brand value attracts footfalls (mn)



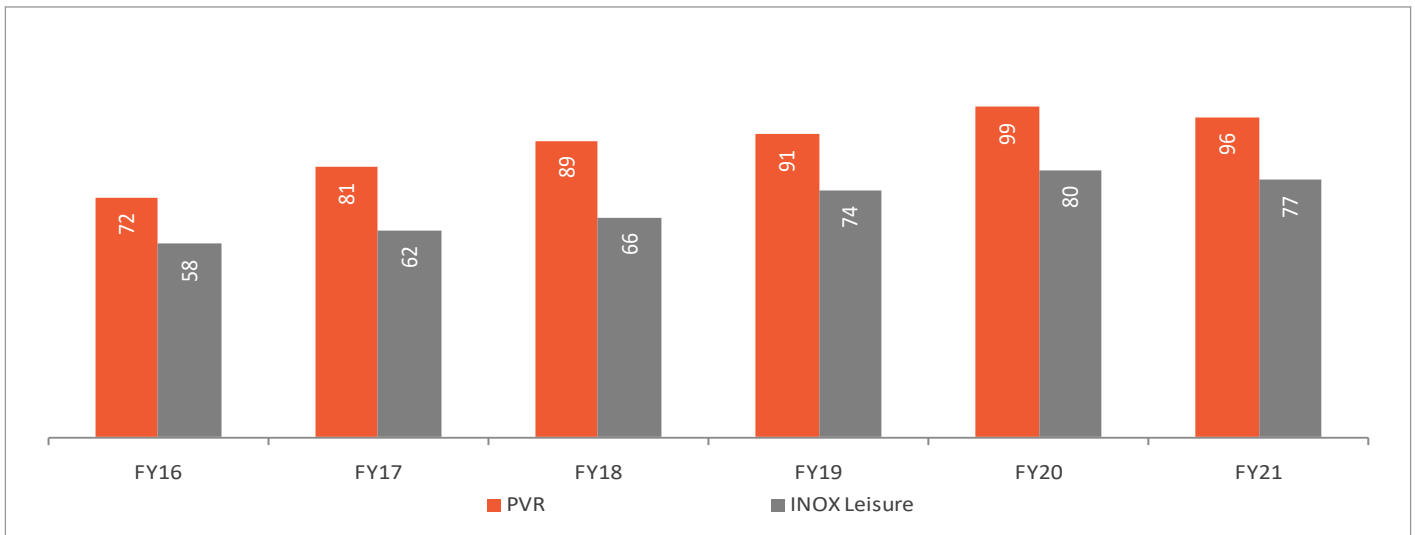
Source: Company; Sharekhan Research

### PVR managed to sustain leadership in occupancy



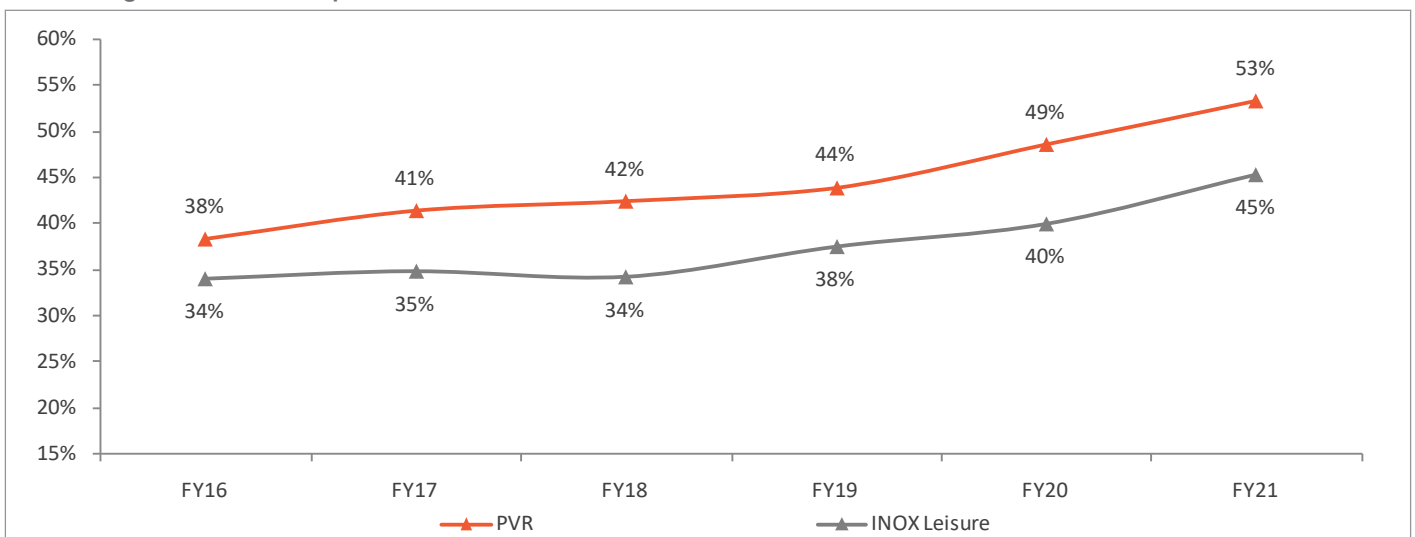
Source: Company; Sharekhan Research

### SPH (Rs.) on F&B showed resiliency



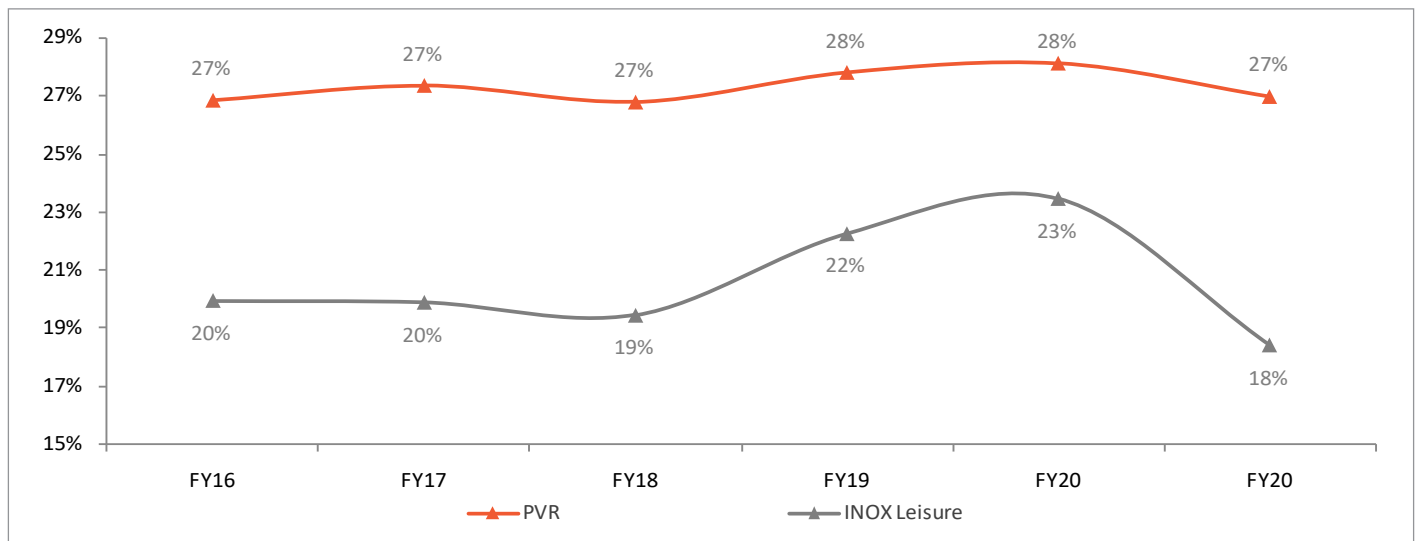
Source: Company; Sharekhan Research

### PVR has higher conversion of patron into F&B



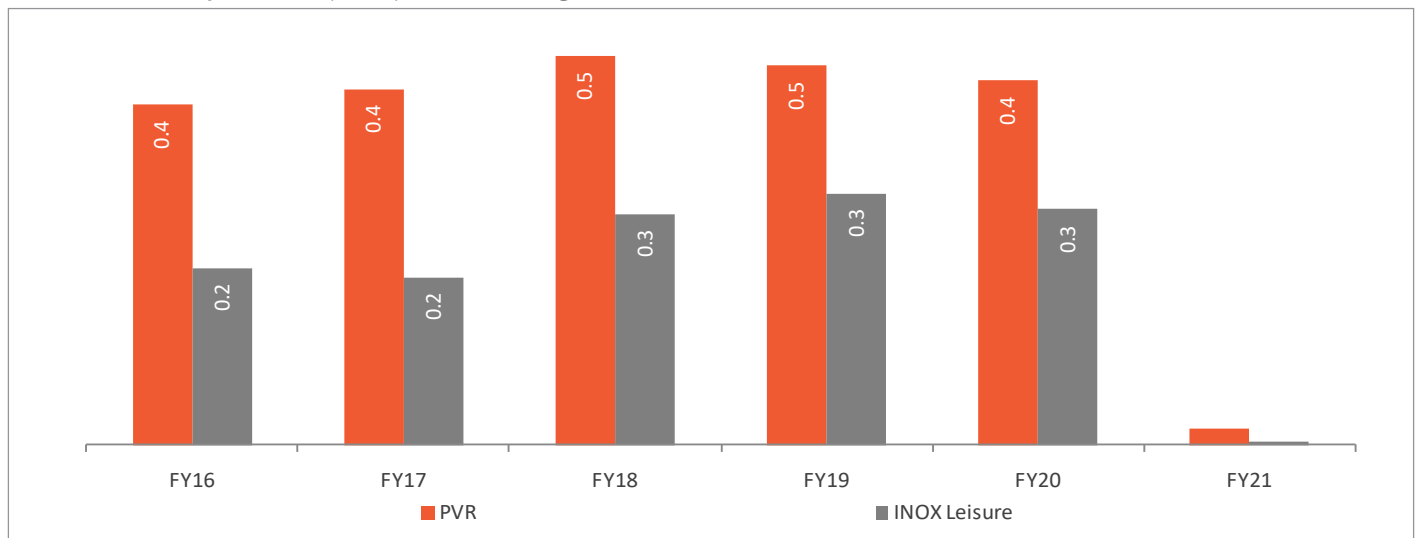
Source: Company; Sharekhan Research

#### F&B revenue as % of total revenue



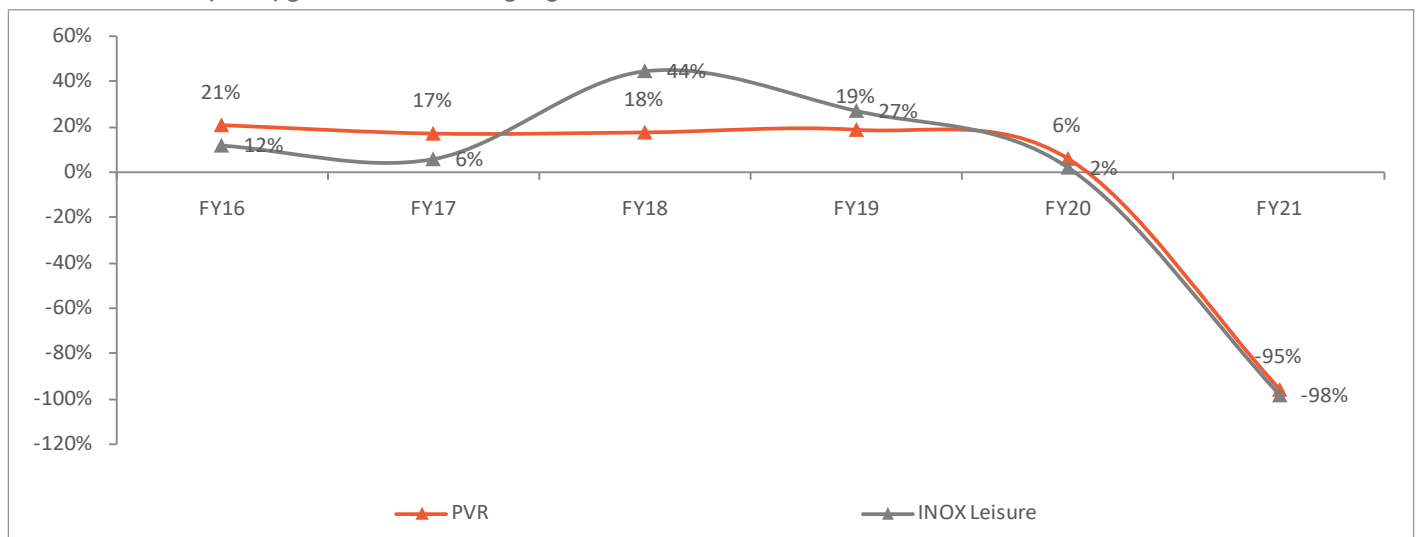
Source: Company; Sharekhan Research

#### PVR's ad revenue per screen (Rs. cr) remains strong



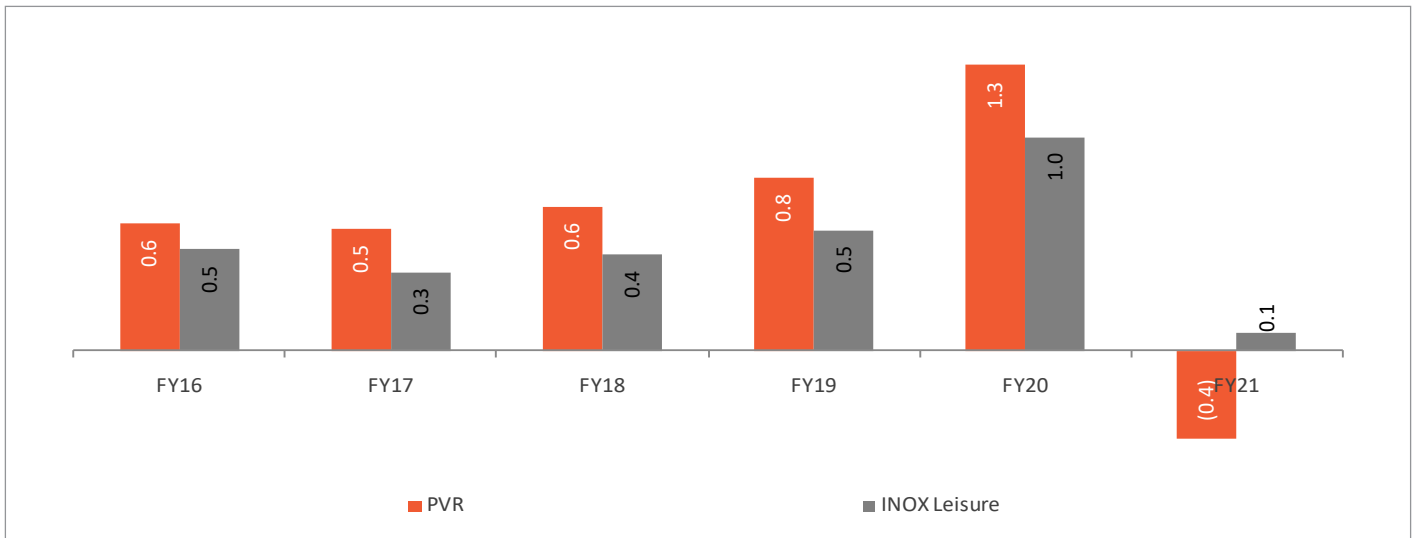
Source: Company; Sharekhan Research

#### PVR's ad revenue (Rs. cr) growth declined on y-o-y



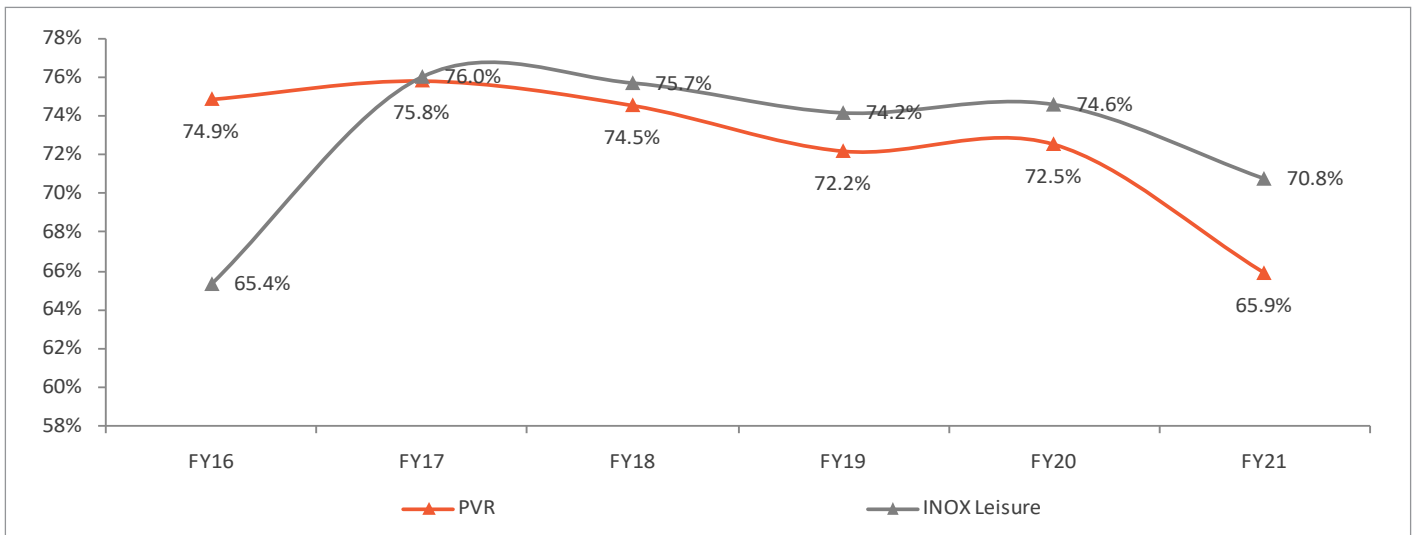
Source: Company; Sharekhan Research

### PVR's EBITDA per screen (Rs. cr) to recover strongly



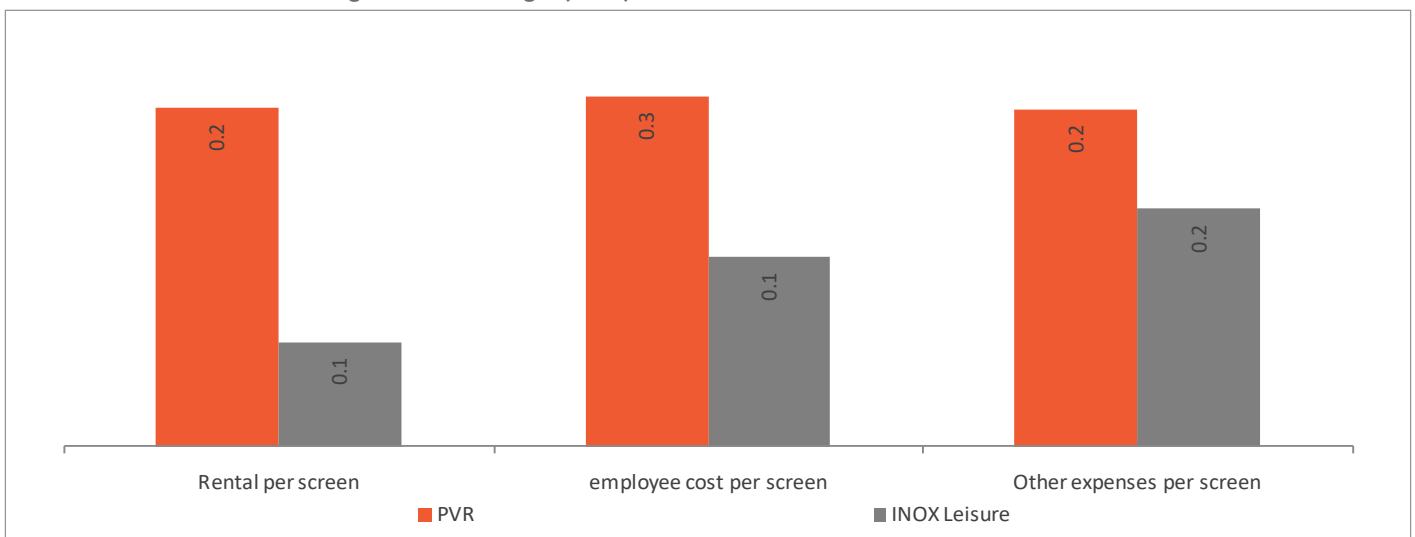
Source: Company, Sharekhan Research

### F&B gross profit margin trend



Source: Company, Sharekhan Research

### Lean cost structure delivered higher EBIDA margin (FY21)



Source: Company, Sharekhan Research

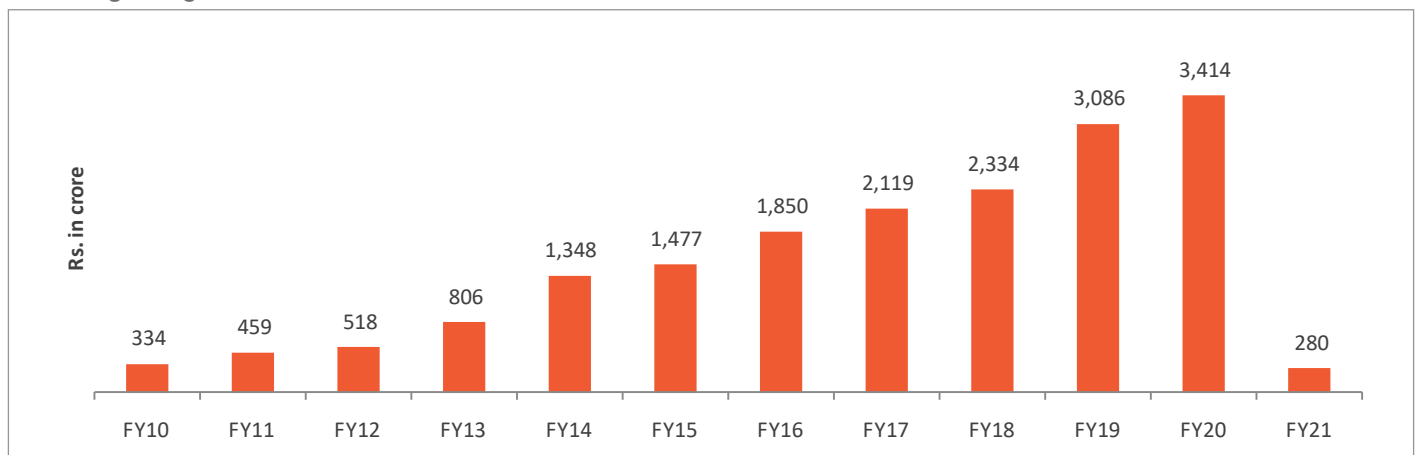
### Sufficient liquidity for next 6-9 months of operations

PVR raised Rs 300 crore in equity through a right issue, Rs. 800 crore in equity by issuing shares to a set of investors through qualified institutional placement (QIP) and Rs. 700 crore through debt during FY2021. The QIP witnessed an allotment of over 5.55 million equity shares to eligible qualified institutional buyers (QIBs) at a price of Rs 1,440 apiece. The company utilised Rs. 240 crores in accordance with the objects of the issue in FY2021 and balance amount of Rs. 560 crores is available for future purposes. Earlier in Q1FY2021, the company had raised Rs. 300 crore via right issues by the allotment of 3.82 million equity shares at Rs. 784 per share. As on June 30, 2021, the company had total liquidity of Rs. 850 crore including additional liquidity of Rs. 200 crore availed under ECLGS 3.0 scheme and the undrawn sanctioned credit lines of Rs. 140 crore. Gross debt stood at Rs. 1,425 crore and net debt was Rs. 750 crore as of June 30, 2021. Management has no further plans to raise further funds currently as the current liquidity position can take care of its business for next 6-9 months.

### Financial analysis

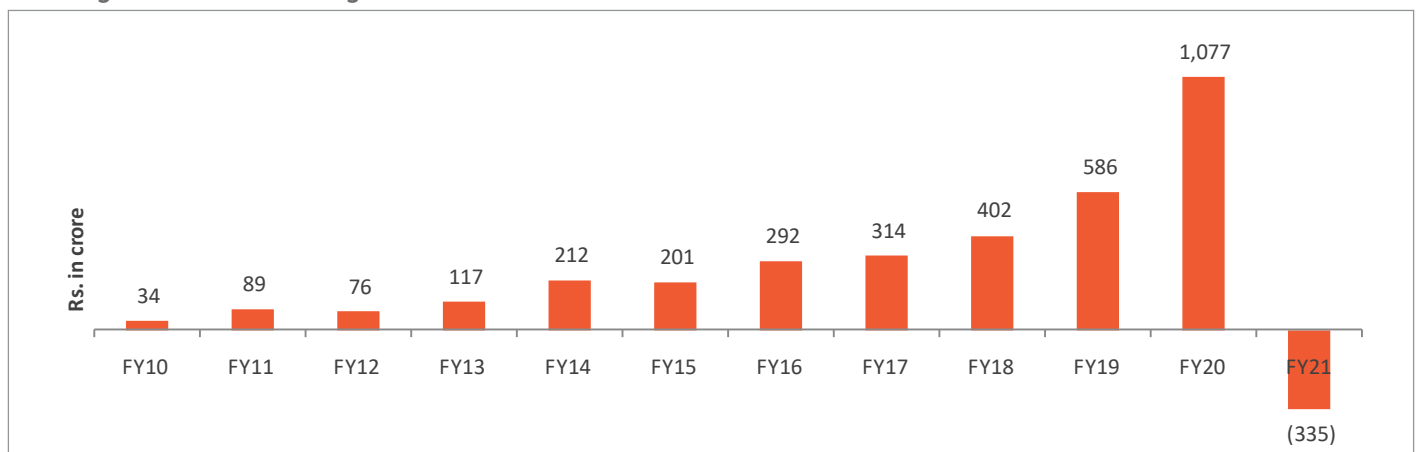
FY2021 was a washout year for the multiplex industry due to nationwide lockdowns and fear among people due to a surge in COVID-19 infections. Hence, the numbers were impacted in FY2021 and are not comparable with previous years. Revenue has increased around 10x over FY2010-20, The strong growth of EBITDA over the same period was driven by increase in F&B contribution to total exhibition revenue. Strong growth in revenue was aided by strong screen addition, improvement in occupancy rate, higher spends on F&B by the patrons and strong ad revenue growth.

#### Revenue grew by 10x over FY10-20



Source: Company, Sharekhan Research

#### EBITDA growth remained strong over FY10-20

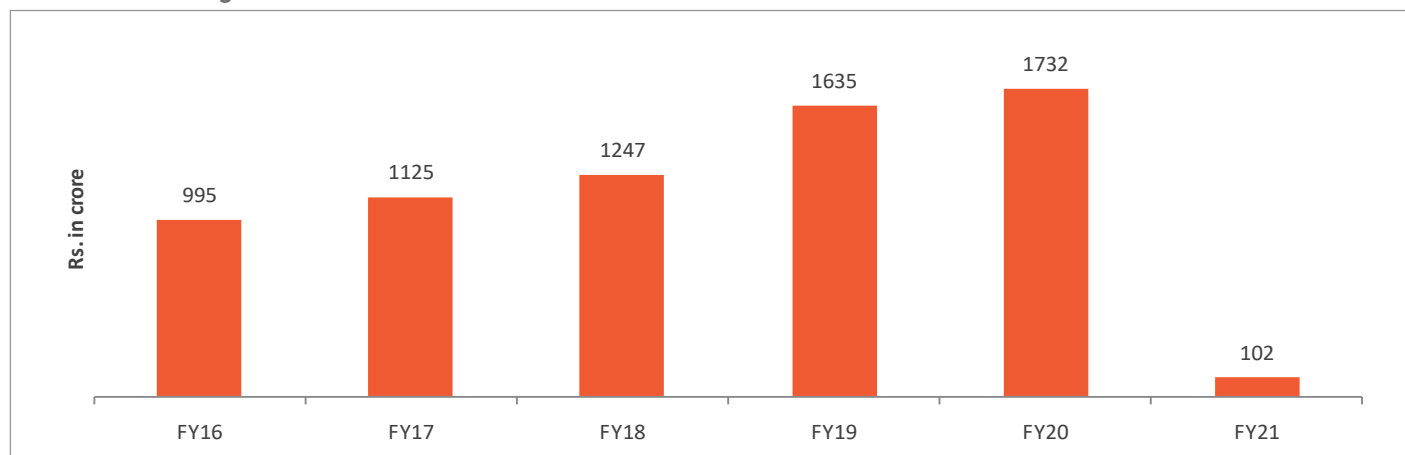


Source: Company, Sharekhan Research

\*FY20 and FY21 are based on Ind AS 116

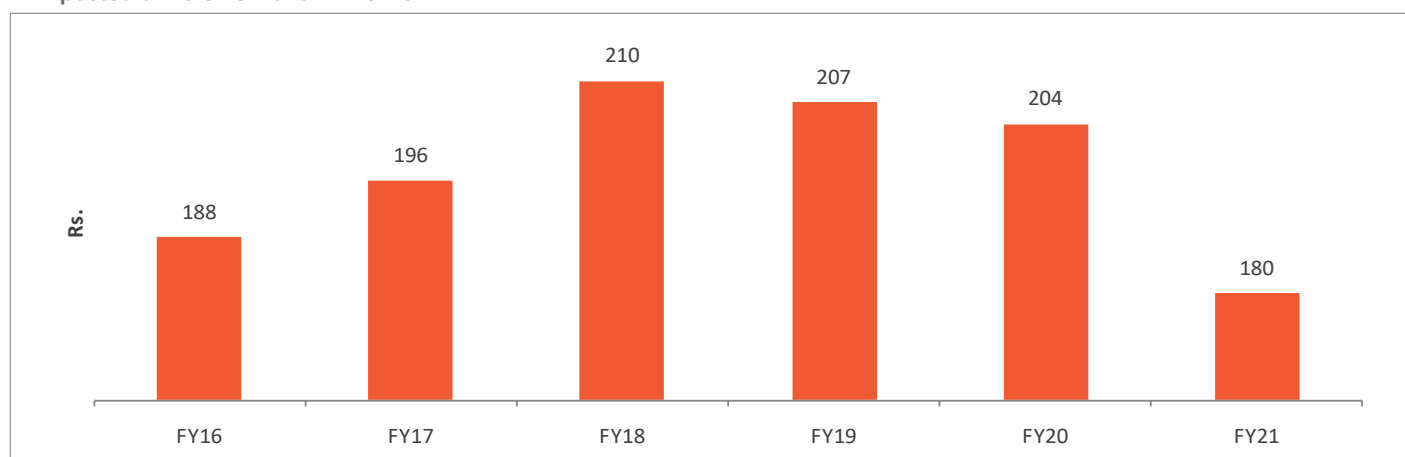
PVR delivered a strong revenue growth at a CAGR of 16.5% over FY16-20 on account of revenue contribution from the two acquisitions (DT Cinemas and SPI Cinemas), screens addition organically and strong revenue growth in other segments. Exhibition business, F&B and advertisement revenue reported revenue growth of 15%, 18% and 15% CAGR respectively. Income from the convenience fee has grown 5x over last five years given strong growth in online booking.

#### Box office revenue grew at 15% CAGR over FY16-20



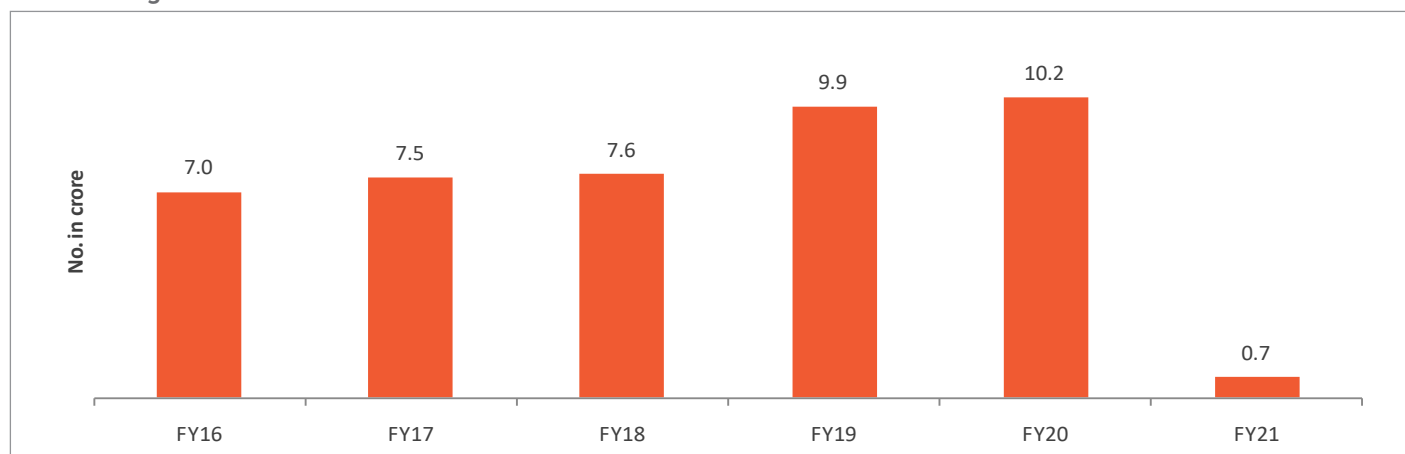
Source: Company, Sharekhan Research

#### ATP posted a 2% CAGR over FY16-20



Source: Company, Sharekhan Research

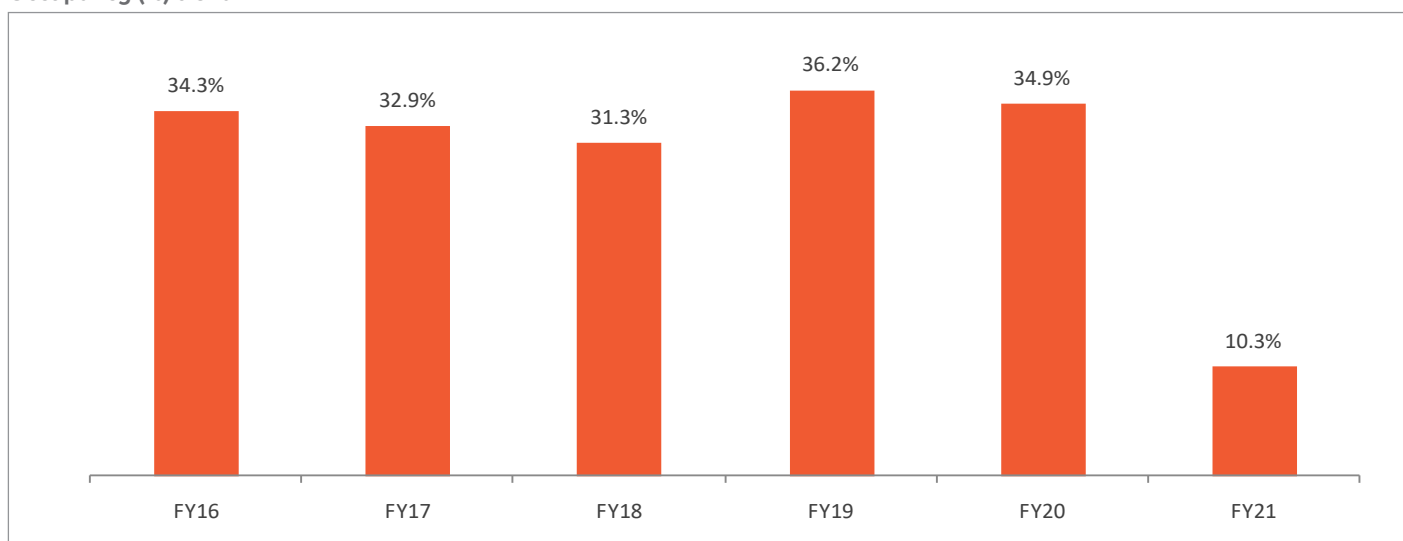
#### Admissions grew at 10% over FY16-20



Source: Company, Sharekhan Research

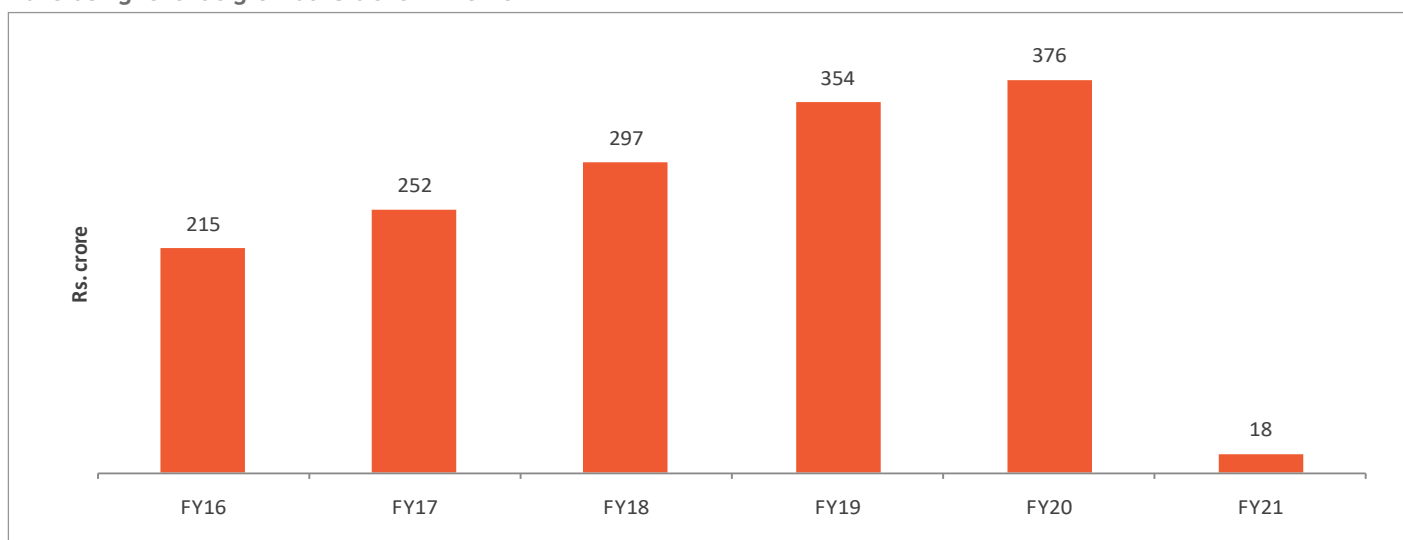


### Occupancy (%) trend



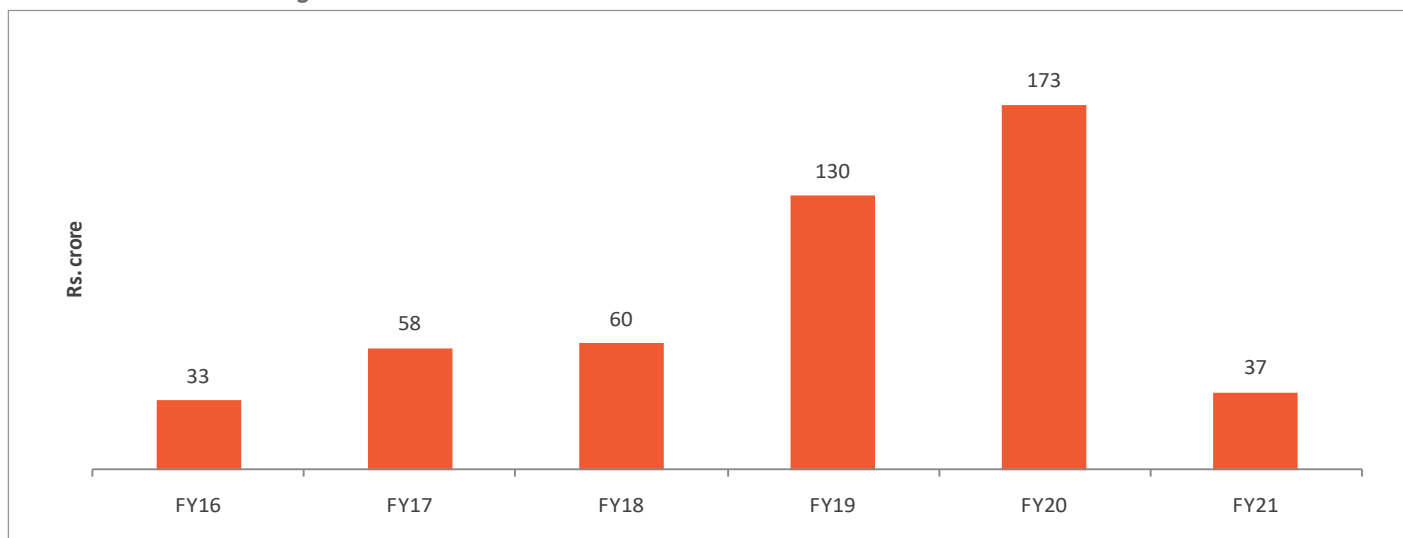
Source: Company, Sharekhan Research

### Advertising revenue grew at 15% over FY16-20



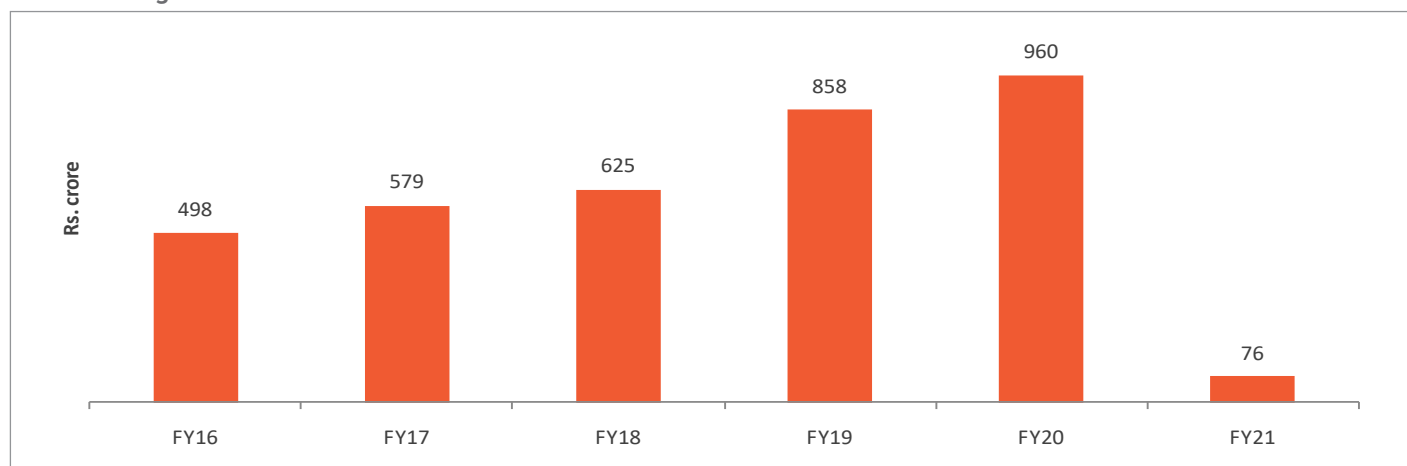
Source: Company, Sharekhan Research

### Convenience fee income grew at 51% over FY16-20



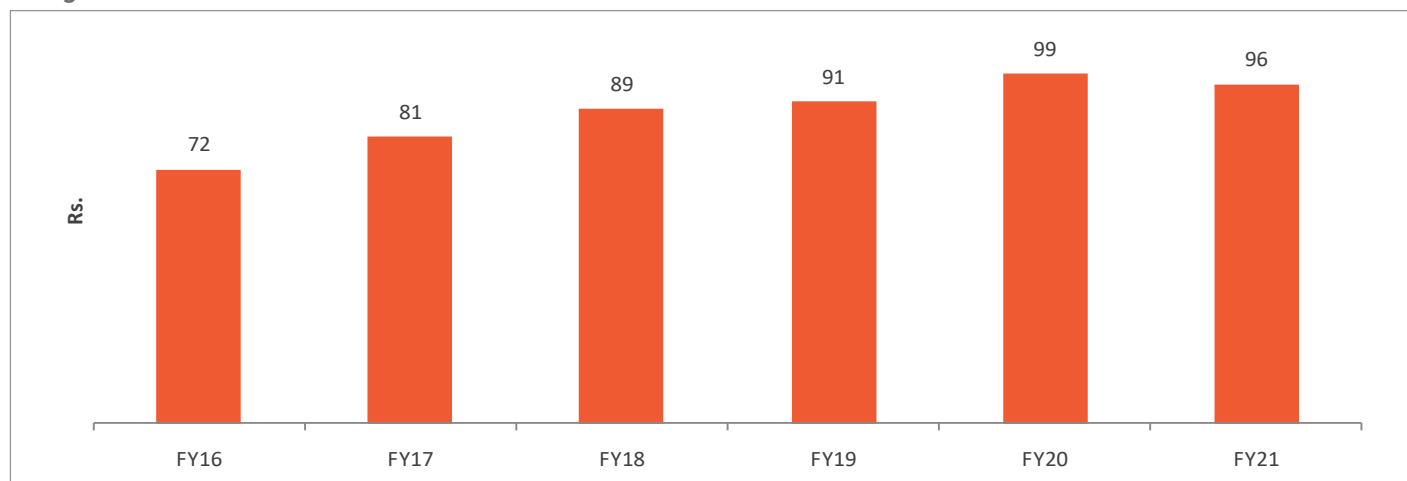
Source: Company, Sharekhan Research

#### F&B revenue grew at 18% over FY16-20



Source: Company, Sharekhan Research

#### SPH grew at 8% over FY16-20



Source: Company, Sharekhan Research

Assessing the challenging situation at the beginning of FY2021, PVR created five task forces for liquidity management, government relations, the film industry, customer engagement, and operations. While the company worked on cost optimisation measures with its partners, its employees took a pay cut to bring down operating costs. PVR employs around 7,763 (including off roll) staff, all of whom are vaccinated with at least a single dose of vaccination as of July 31, 2021.

PVR did a commendable job in restricting EBITDA loss at Rs. 334.9 crore in FY2021 because of rigorous cost cutting initiatives. The fixed cost reduced by 63% y-o-y in FY2021, led by lesser headcount, salary cuts and negotiated rent/CAM expenses. Rent and CAM, personnel, electricity, other overheads reduced by 71%, 45%, 72%, and 60% respectively y-o-y in FY2021. PVR's management also indicated that it expects permanent savings of 10-15% on selected fixed costs. Revenue was affected despite getting permission (with constrained capacity) to operate cinema halls since October 15 2020, owing to absence of any new content and staggered opening of cinema halls.

FY2021 would be a washout year as the central government delayed to permit cinema halls to operate at a 100% occupancy rate (effective from February 1, 2020). Revenue declined 91.8% y-o-y to Rs. 280 crore from Rs. 3,414 crore in FY2020. The company reported EBITDA loss of Rs. 334.9 crore in FY2021 from EBITDA of Rs. 1076.6 crore.

We expect a strong recovery in revenue in Q4FY2022 with the release of big-starrer movies, ease of COVID-19 fears due to roll out of vaccination and growth in advertisement and convenience fee. We expect FY2023 EBITDA margins would improve above pre-pandemic level on the back of cost efficiencies and sustained cost saving. We expect adjusted net profit is expected to grow strongly on account of strong revenue growth and improvement in OPM.

## Valuation – Stock trades at discount to pre-COVID valuation

**Strong recovery of occupancy rate with release of big-starrer movies and expected improvement in its profitability and return ratios would trigger re-rating.**

### ■ Sector View - Long term structural story intact

The movie exhibition business is highly under-penetrated in India as compared to the other developed and developing nations. In addition, the favourable demographic mix and increase in discretionary spending bodes well for the robust growth in the multiplex industry.

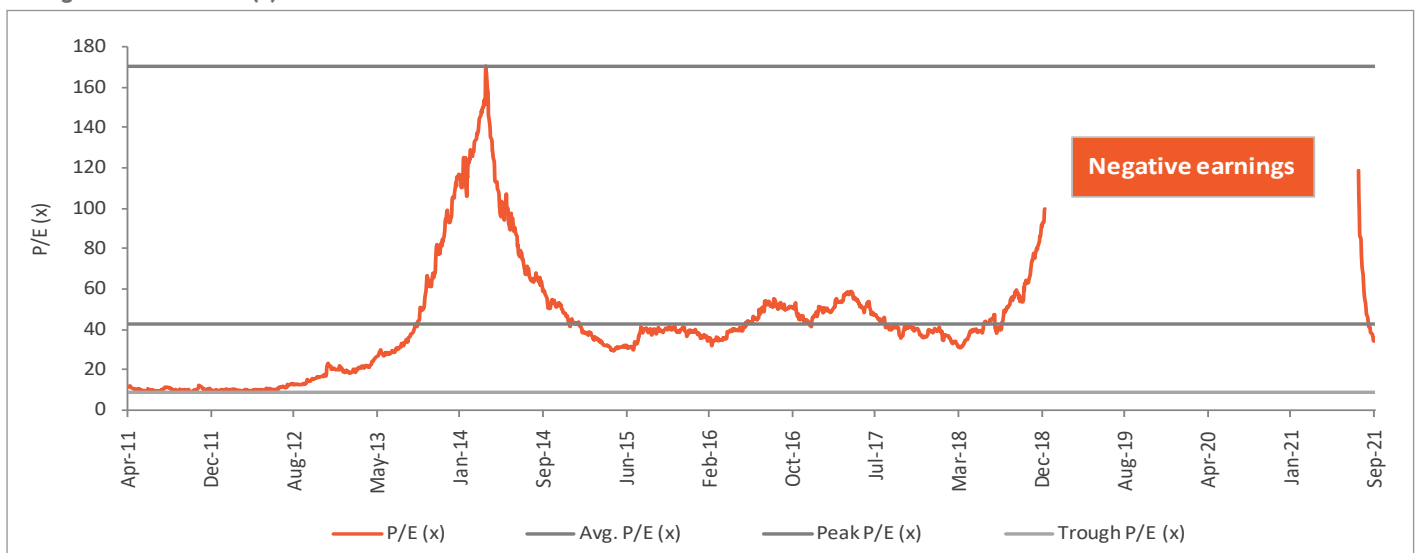
### ■ Company Outlook - Premium player

PVR is a strong premium theatre chain in India, which provides enhanced movie-watching experience to its customers. It has 98 luxury screens (12% of its total screens) and the count is expected to increase going ahead. Aggressive expansion plans along with line-up of content pipeline coupled with increasing average ticket price and spend per head (SPH) are expected to result in healthy revenue and earnings CAGR of 8% and 12% over FY2020-24E, respectively.

### ■ Valuation - well-poised to gain market share going ahead

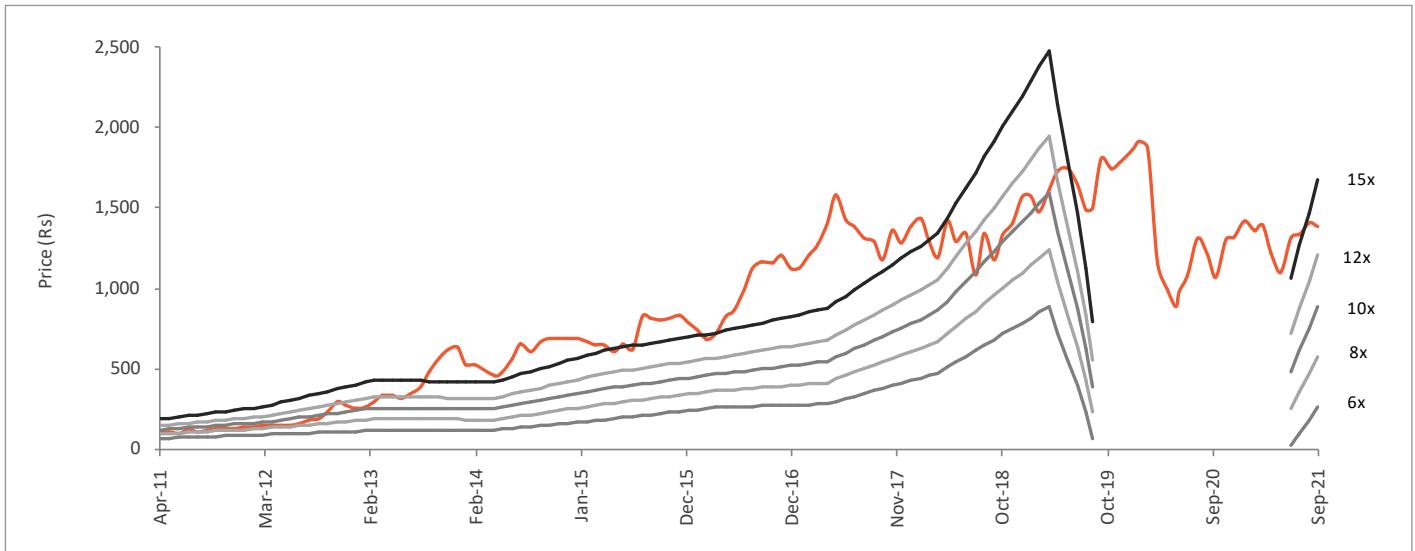
PVR's aggressive expansion strategy helped it maintain its leadership position in terms of screen counts consistently. Further, first mover advantage has helped the company to expand at the right location, which also helped it to gain market share at faster rate. Post normalisation, we believe the company would resume aggressive screen addition given huge opportunities in the tier-2/3 cities. At CMP, the stock is trading at 25.8x its FY2024E EPS and on EV/EBITDA metrics, the stock is trading at 8.0x its FY2024E EBITDA. Further, the strong recovery of occupancy rate with release of big-starrer movies and anticipated improvement in its profitability and return ratios are expected to re-rate its multiples going ahead. We also believe the multiplex business is going to be a sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. Hence, we initiate Buy rating on PVR with a price target (PT) of Rs. 1,900

#### One-year forward P/E (x) band



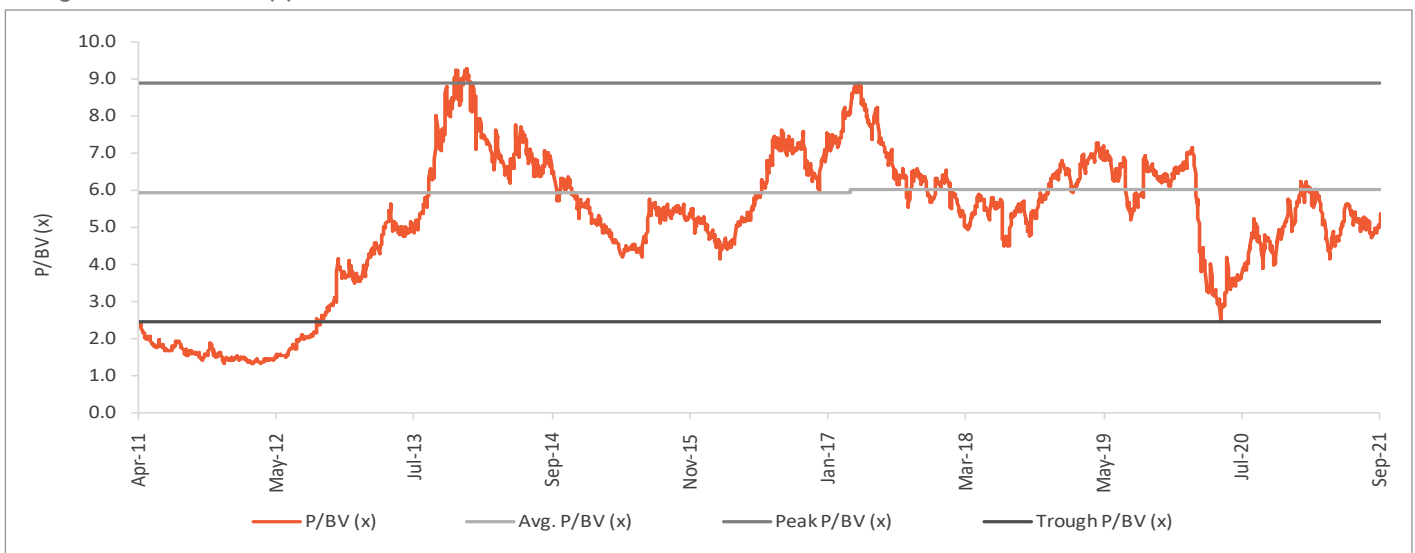
Source: Company; Sharekhan Research

### One-year forward EV/EBITDA (x) band



Source: Company; Sharekhan Research

### One-year forward P/BV (x) band



Source: Company; Sharekhan Research

### Peer Comparison

Companies	CMP	O/S	Mcap	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	Rs./Share	Crore	Rs crore	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Inox Leisure	322	12	3,945	-	20.7	10.3	4.3	5.2	3.9	n.m.	24.8
PVR	1,510	6	9,177	-	35.6	29.9	9.1	6.3	5.4	n.m.	16.3

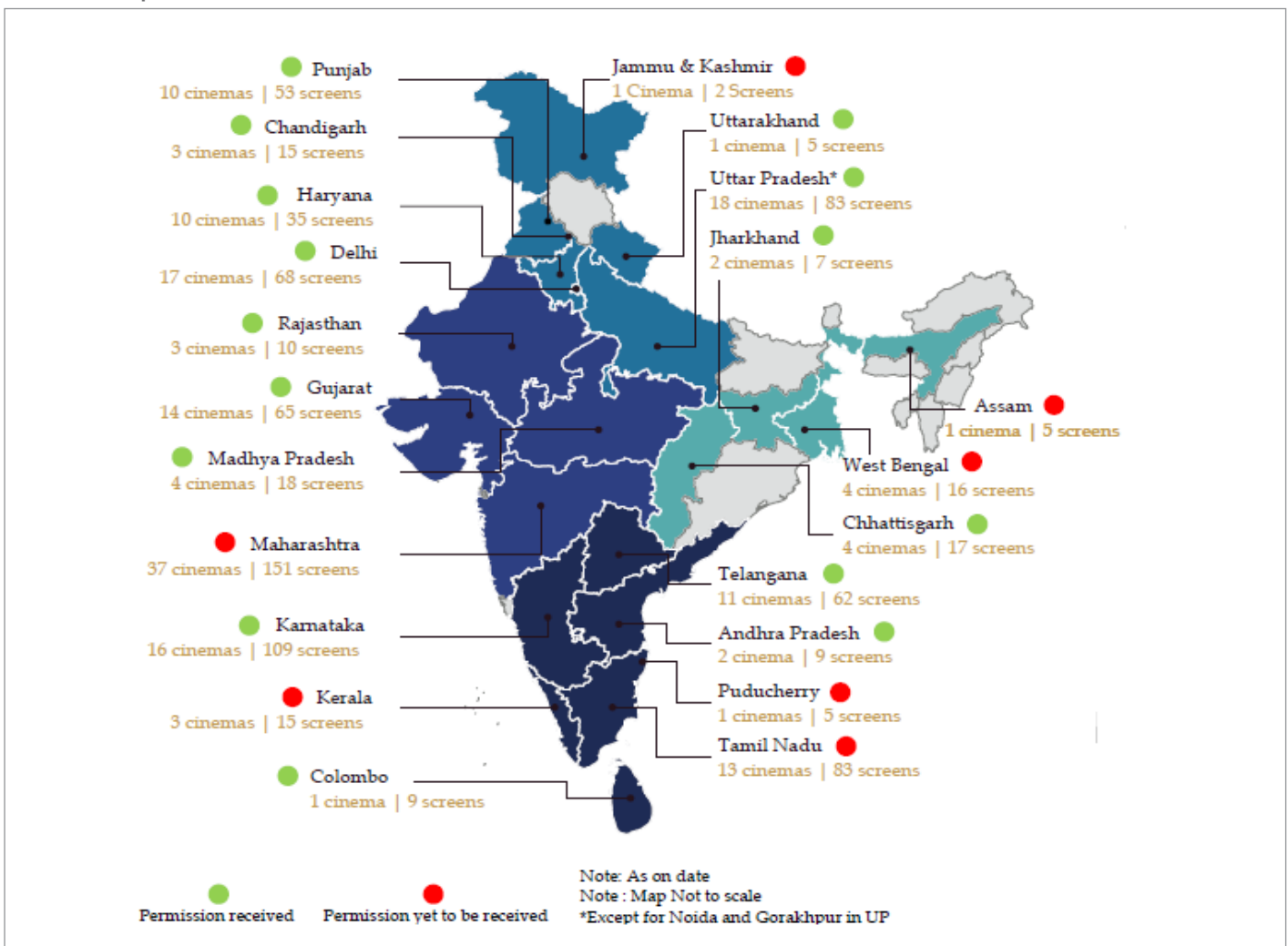
Source: Company; Sharekhan Research

## Company overview

PVR began operations as 'Priya Village Roadshow' in 1995 as a JV with Village Roadshow Ltd and launched the first multiplex in India – a four-screen cinema in New Delhi (at Saket) in 1997. This was later renamed PVR Ltd after the exit of Village Roadshow in 2002. PVR reached ~39 screens by FY2005 and grew by 3x to 123 screens by FY2010 and increased the count ~7x to 842 screens by FY2021. PVR is the market leader in terms of screen count, admission in a year (10.2 crore in FY2020) and screens added during a single year (87 screen in FY2020) in India. PVR Limited is the country's largest and most premium multiplex company, with a diverse portfolio of premium formats across the country. The pace of screen expansion has accelerated to 70-80 in FY2019-2020 from 45-50 in FY2015-2016. In FY2020, the company crossed borders and expanded to Colombo, Sri Lanka with a nine-screened premium property. The total number screens declined by 3 during FY2021, while the screen additions have picked up in FY2022 with addition of 7 screens in QTD Q2FY2022.

Over the years, the company has consistently added screens though both organically and inorganically. The company's strategic investments and acquisitions includes 1) Cinemax Cinemas in November 2012, 2) DT Cinemas in May 2016 and 3) SPI Cinemas in August 2018, which added 138 screens, 32 screens and 76 screens respectively to their screen network. Currently, the company operates 849 screens (Includes 4 screens of Director's Cut at Ambience Mall, Gurugram on August 5, 2021 and 3 new screens in Jamnagar on September 3, 2021) in 176 cinemas in 71 cities in India and Sri Lanka with an aggregate seating capacity of approximately 1.80 lakhs seats. PVR's overall market share in gross box office collections stands at ~20%. It enjoys a ~32% market share in Hollywood GBOC and ~24% in Hindi segment. PVR's share in Hollywood content is higher than the industry rate.

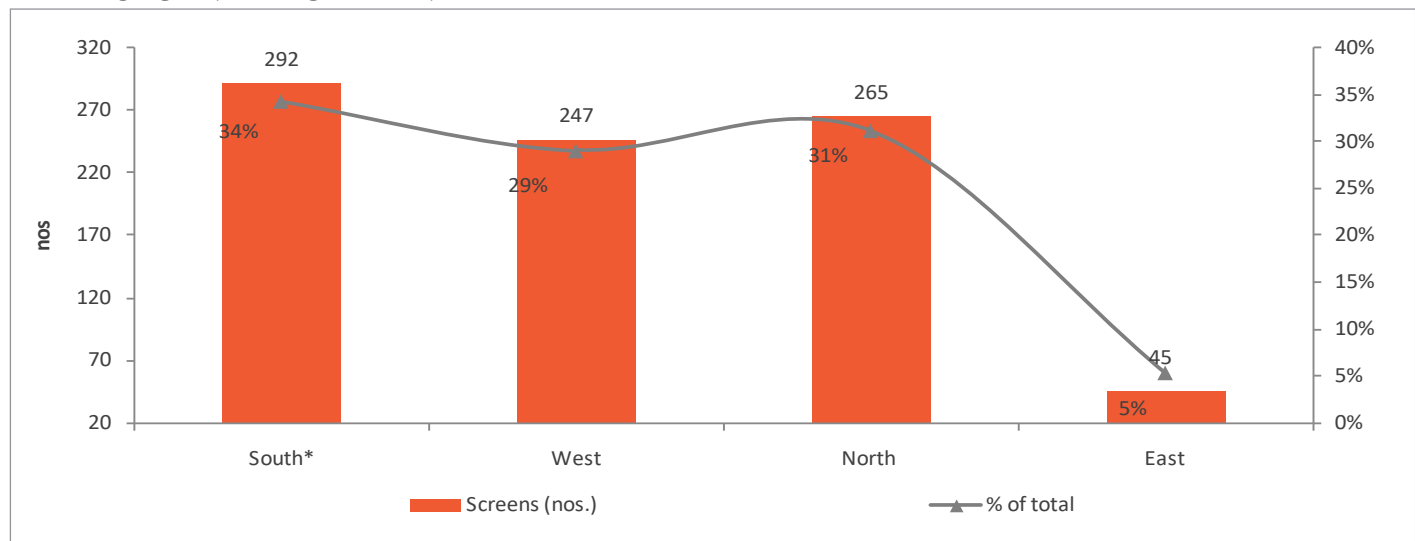
## PVR's screen portfolio



Source: Company, Sharekhan Research

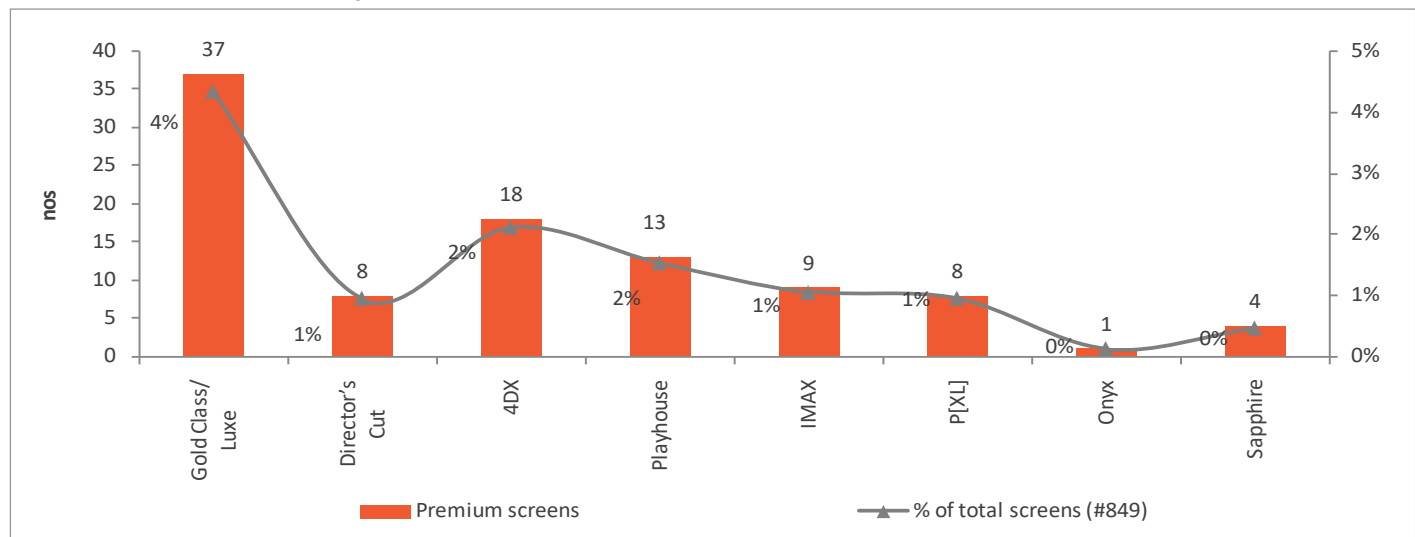
\*added 3 screens in Jamnagar, Gujarat on September 3, 2021

### Screens by region (including Sri Lanka)



Source: Company; Sharekhan Research \* South includes Sri Lanka

### Premium screen format break-up














Source: Company, Sharekhan Research

The company has been quite innovative in offering diversified cinema viewing experience to its customers through various formats such as PVR Director's Cut, 'PVR Gold Class', 'PVR IMAX', 'PVR Onyx', 'PVR P[XL]', 'PVR Playhouse', 'PVR Luxe', 'PVR Sapphire', 'PVR ICON', 'PVR Superflex', 'PVR Cinemas', 'PVR 4DX', 'PVR Utsav', and 'PVR D-box'. The company's premium offerings comprise 12% of the total screens. In 2007, the company launched a new brand of cinema called 'PVR Talkies' to cater the demand of the cinema viewing public in class B & C cities at a lower price range for an enhanced movie viewing experience. Further, the company leverages robust technologies to offer its consumers an unparalleled movie-watching experience and differentiated service. The company focuses on driving growth by catering to the demands of all types of consumers.

Innovation has been its cornerstone to building a more delightful, cinematic atmosphere and delivering an exceptional experience to patrons.

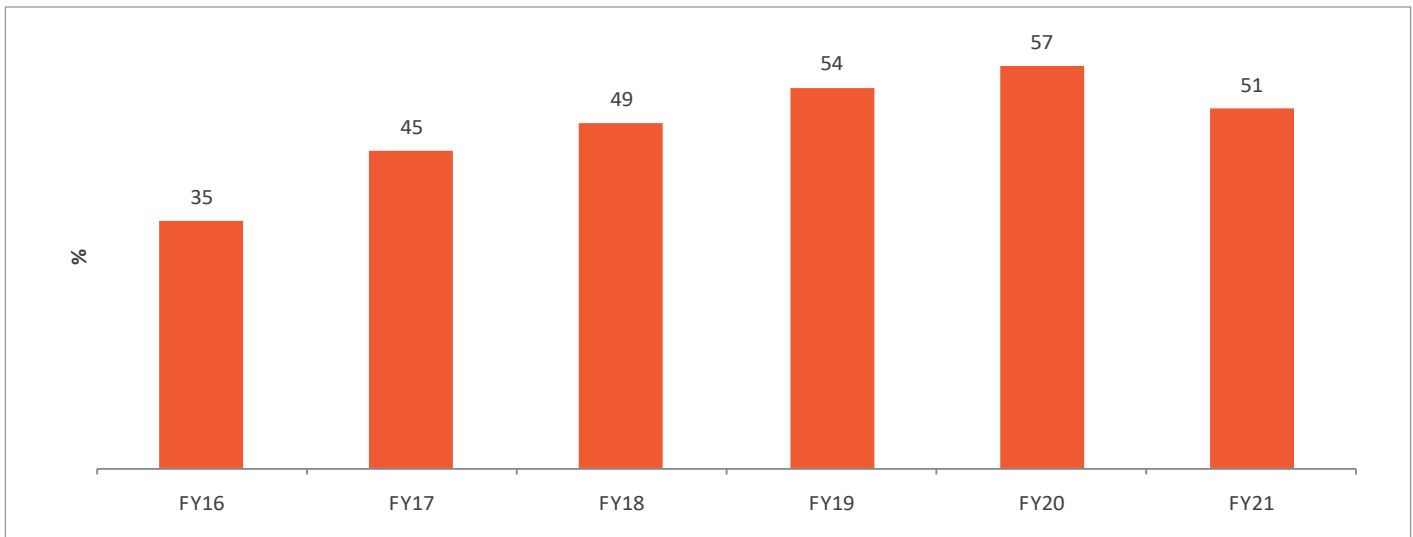
## Brands

Theme	Brand	Description
THE ICON OF CINEMA		With a value proposition that combines beauty, magnificence and comfort, PVR ICON is a phenomenon suited for cinema connoisseurs. Soothing design and exquisite architecture reflect opulence and innovation, ensuring unmatched moments of luxury and entertainment.
A DREAM DESTINATION FOR MOVIE LOVERS		Superplex as a concept pre-empts all possible needs of cinema-goers with a 12 or more screen cinema offering, as well as cherry-picked cinema formats from across the world under one roof. Superplex is designed to wow customers with its sheer space, technology, aesthetics and functionality. The project is destined to attract massive footfalls from cinema lovers and non-cinema-goers alike.
ABSOLUTE CINEMA EXPERIENCE		4DX changes the cinematic paradigm from just 'watching' to 'experiencing'. The realistic effects stimulate the consumers' senses with high-tech motion seats and special effects, including wind, fog, lightning, bubbles, water, rain and scents, in both 2D and 3D formats. Movies are no longer confined to the screen, 4DX draws you into the movie in a way that makes ones feel like they are living inside its world.
PVR'S UNIQUE KIDS AUDITORIUM		PVR Playhouse is a dream world created for kids. An auditorium designed to trigger excitement among children through colourful interiors, characters on walls, in-audio slide, playful seating and a special kids menu that all combine to create the ultimate movie watching destination for children. Playhouse also serves as a perfect venue for birthday parties and other events hosted for children.
LUXURIOUS CINEMA EXPERIENCE		The luxury arm of PVR, this blends the best in high-end hospitality with entertainment. It comes with ultra-plush auditoriums, featuring 3D-enabled projection technology, world-class surround sound, fully reclaimable armchairs configured with pillow and blankets, personal attendant call system and an exciting in-seat food and beverage menu. It also has a live kitchen serving gourmet food, complemented by Simply Sushi, a Japanese specialty haunt that serves an eclectic range of sushi and japa dogs.
LED SCREEN CINEMA		Ushering in the next generation in cinema technology, it offers a projector-less movie-going experience by bringing the visual power of LED-picture quality to the big screen. The sensation of watching a movie on the backlit cinema LED screen, with its High Dynamic Range (HDR) picture quality and infinite contrast ratio offers the audience a detail-rich cinema experience.
A GAME CHANGER IN LUXURY CINEMA		PVR LUXE indulges the customers' senses by pushing the boundaries of a superlative cinema experience, with a selection of gourmet food, well-designed interiors and premium amenities that set a new benchmark for luxury cinema.
PREMIUM LARGE SCREEN CINEMA FOR AN UNPARALLELED EXPERIENCE		With this, consumers can experience a world of heightened realism with auditoriums equipped with extra-large screens, state-of-the-art Dual 4K or RGB laser projection systems and advanced Dolby Atmos sound to bring alive every little detail.
THE WORLD'S MOST IMMERSIVE MOVIE EXPERIENCE		Every element in the IMAX theatre is planned, designed and positioned to create an immersive atmosphere. IMAX draws one into an experience that appears very close to the reality. The IMAX with Laser experience is set apart by its next-generation, 4K laser projection system, which features a new optical engine and a suite of proprietary IMAX technologies that deliver increased resolution, sharper and brighter images, deeper contrast as well as the most distinct, and exotic colours on screen.
DESIGNED FOR COMFORT		This is a new cinema format that serves as a bridge to luxury for a smarter movie watching experience. It fits between premium mainstream and luxury format, with comfort and exclusivity at the core. The Sapphire experience is designed to offer more comfort with new seating and extra leg room between seats. A selection of exclusive offerings and a dedicated staff helps deliver a personalised experience.
LETTING MOTION TECH TAKEOVER		D-Box creates hyper-realistic, immersive entertainment experiences by sparking imagination using motion. Its technology applies an algorithm or a code to sounds and motion in a film, which translates into the haptic feedback offered by D-Box motion seats. The D-Box seats move in sync with the film and its sounds.

Source: Company

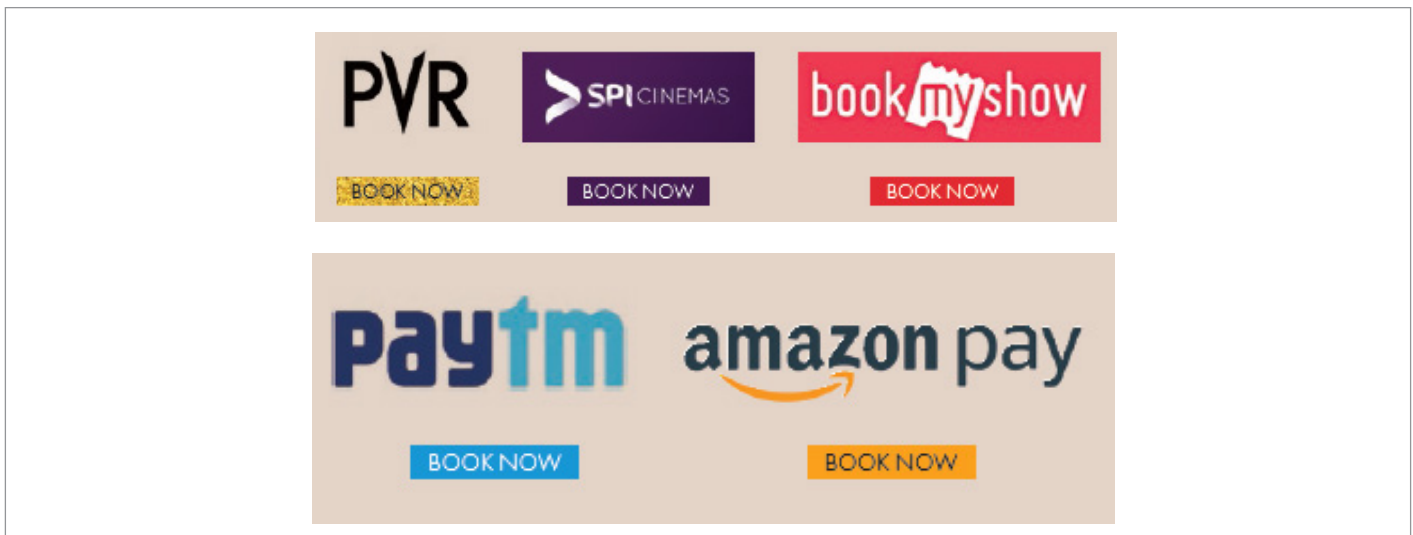
Apart from generating revenues from the box office, PVR also derives a chunk of its revenues from non-box office streams which primarily include sale of food and beverages, advertisement income, convenience fees and income from movie production/distribution. F&B spends has seen a phenomenal growth over the years. The company's convenience fees revenue has grown strongly over the years, led by shift of customers' preference to online platforms for booking tickets. PVR has introduced its own platform as well as partnered with aggregators to capture this market. PVR Pictures aims to be the preferred distributor for Hollywood production houses that do not have a base in India for distributing movies. Additionally, the company started increasing its foray into distribution of Hindi and regional language movies.

#### Online admits as % of total admissions



Source: Company; Sharekhan Research

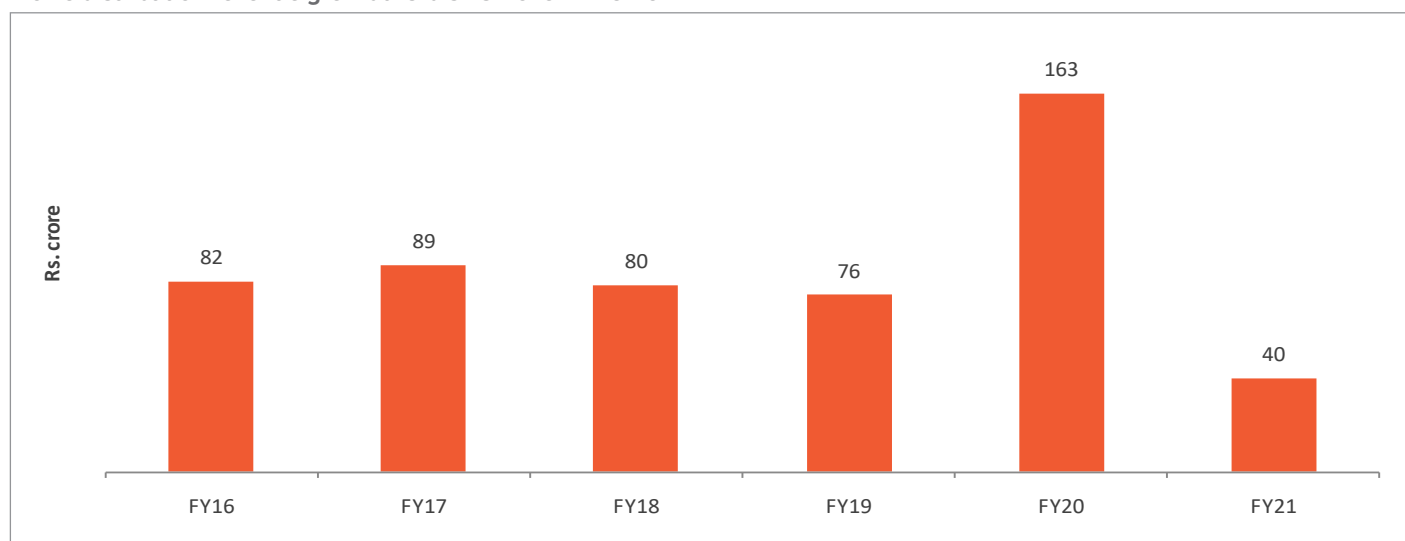
#### Book tickets with online aggregators



Source: Company; Sharekhan Research

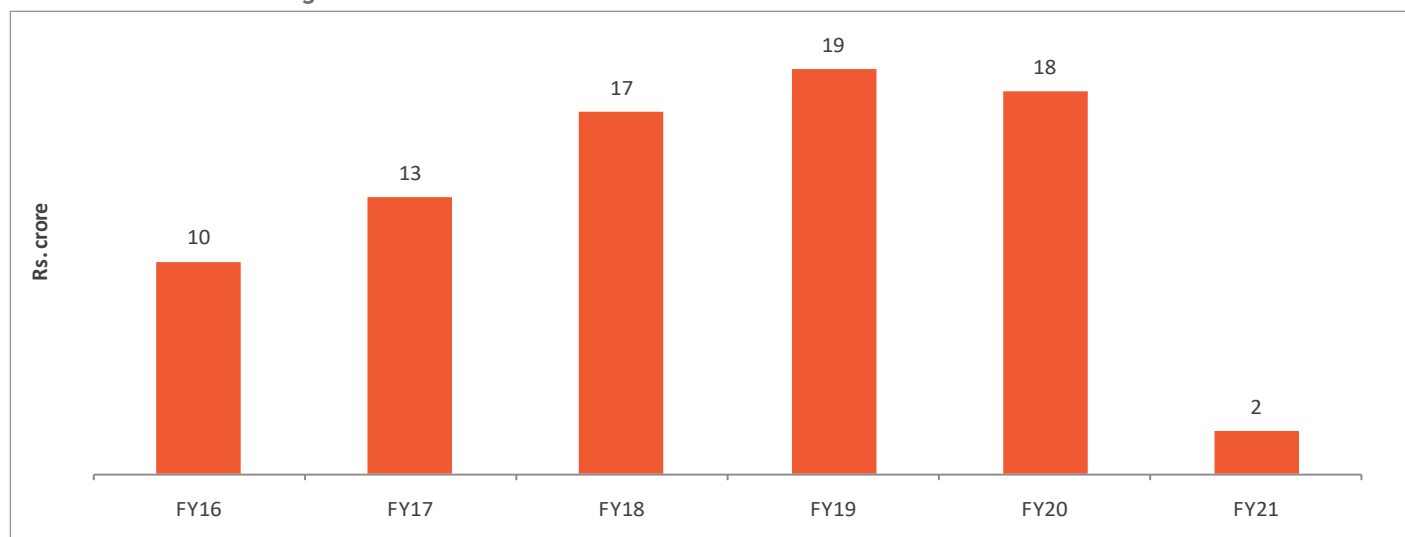


**Movie distribution revenue grew at 19% CAGR over FY16-20**



Source: Company; Sharekhan Research

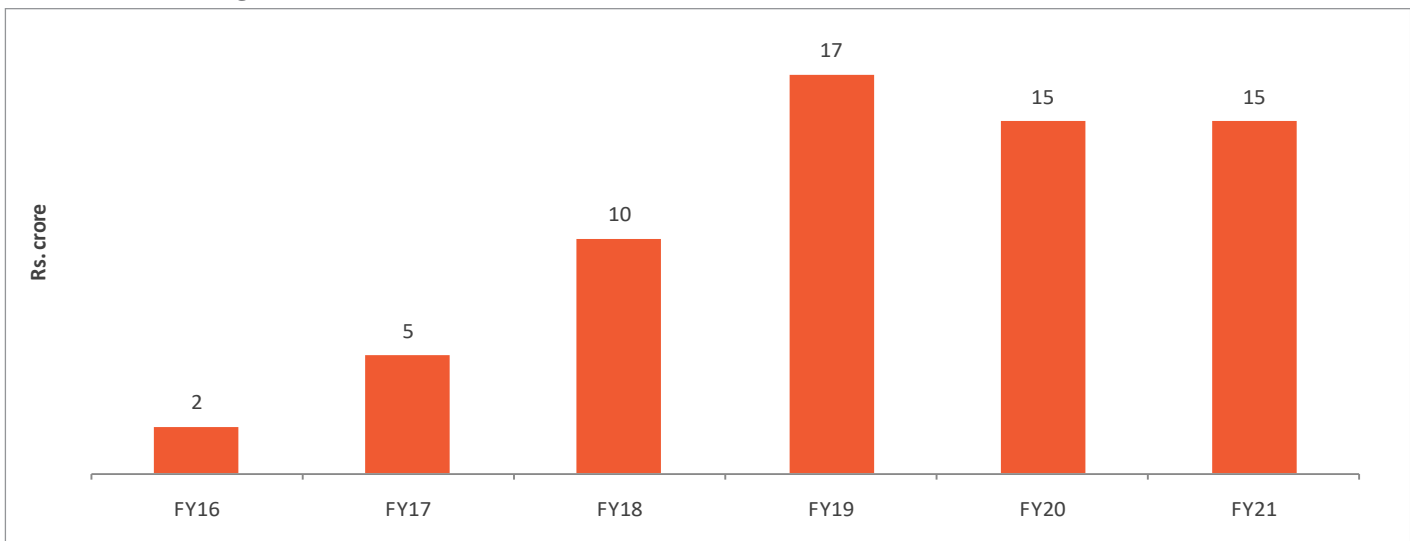
**Movie distribution EBITDA grew at 16% CAGR over FY16-20**



Source: Company; Sharekhan Research

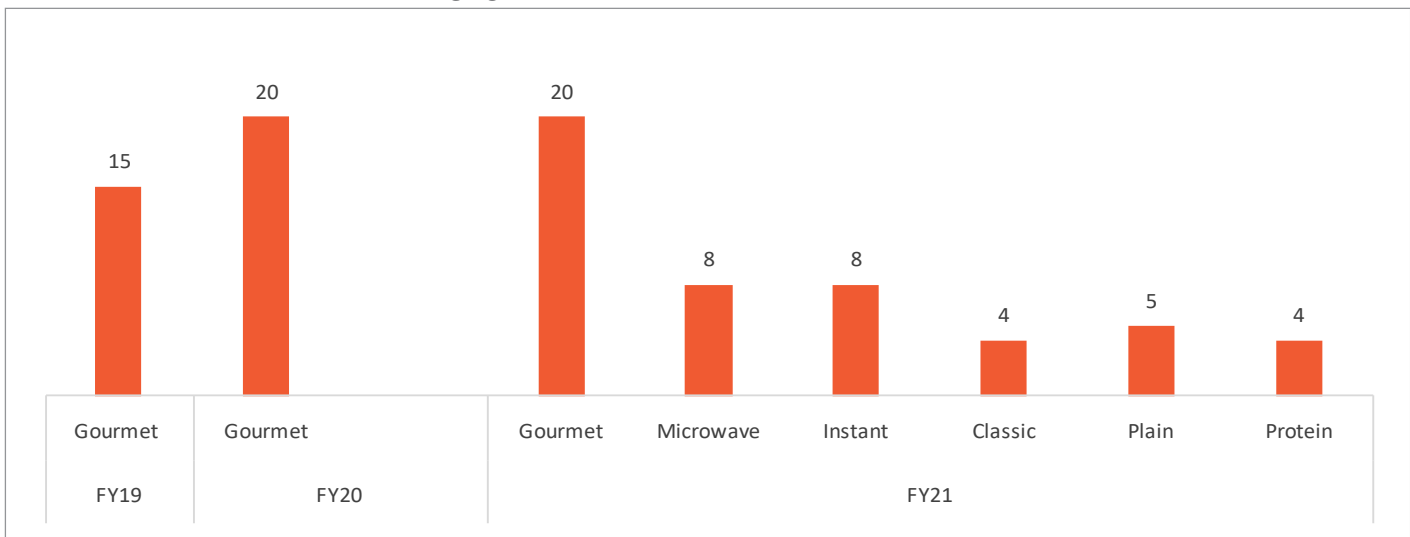
PVR has also forayed into non-cinema space by acquiring Zea Maize Private Limited in 2015, which is engaged in manufacturing, packaging and selling gourmet popcorn under the brand '4700 BC'. The company started with gourmet popcorn, forayed into the complete popcorn category, introducing products like microwave popcorn, instant popcorn (pan based), raw corn and many more. It has the highest assortment of SKUs (>50) in this category and has started exports into 9+ countries from India. The brand is built on highly innovative products with unique flavours under both sweet and savoury category. Their wide range of products are available on e-commerce portals such as Flipkart, Amazon, and avenues like Indian Railways, Airlines, cinemas and in malls. The company sells through retail, e-commerce, institutional and stores. This business has shown 200%+ growth in retail & e-commerce, while institutional and stores were majorly impacted due to the pandemic.

#### Zea Maize's revenue grew at 65% over FY16-20



Source: Company; Sharekhan Research

#### Zea Maize: Number of SKUs in each category



Source: Company; Sharekhan Research

PVR has tied up with Swiggy and Zomato for online food delivery. PVR beta tested the same during 2HFY2021 from its select cinema kitchens. The company plans to launch the same in FY2022 from ~90 cinema kitchens across India once the pandemic subsidies and cinemas are allowed to operate.

PVR started the PVR Privilege program as a paid membership in September 2017 and transitioned to a free-tier programme a year later. The company's premier loyalty programme allows customers to earn points when they transact with PVR, which may then be redeemed for products and services in the future. Members may get transactional perks, such as a Privilege Popcorn Voucher after their first transaction and loyalty points for every transaction. The PVR Privilege programme has more than 11.7 Million members, having grown by 4% since its inception.

#### Key Milestones: The journey from single to India's largest multiplex operator

Year	Key Milestone
1995	Incorporated as Joint Venture between Priya Exhibitors Private Limited, India and Village Roadshow Limited, Australia
1997	Opened first Cinema, PVR Anupam in Saket, New Delhi
2003	Raised funds from PE investors for the first time
2004	Launched India's largest multiplex (Forum Mall, Bengaluru) and India's first Gold class cinema
2006	Got listed on Indian Stock Exchanges
2007	Forayed in film production with release of Taare Zameen Par
2008	Launched PVR premier cinema and Crossed 100 screens,
	PVR cinemas goes fully 2K digital,
	Established a JV PVR blu-O in tie-up with Thailand based Major Cineplex Group
	Raised funds from PE players in PVR pictures to fund film production
2011	Launched PVR Director's cut, a 7 star movie viewing experience; reached 150-screens milestone
2012	Launched PVR IMAX and Included ECX technology
	L Capital Markets makes strategic investment in PVR and PVR Leisure
2013	Acquired Cinemax and became India's largest multiplex operator with screens in excess of 350
2014	Planned to launch a 15 screen Superplex with Kidzania
	Operates 6 bowling centers with 135 lanes across 5 cities
2016	Acquired 36 screens of DT Cinemas (29 operational and 3 under construction), crossed 500 screens
	Launched North India's largest 15 screen superplex
2017	Completes 20 years and crossed 600 screens
2018	Acquired SPI Cinemas and crossed 700 screens
2019	Crossed over 800 screens; expanded footprint in Sri Lanka
	Raised Rs. 500 Crores through QIP
2020	Raised Rs. 300 Crores through Rights issue (Subscribed more than 2.24 times, highest in last 15 years for a Rights Issue)
2021	Raised Rs. 800 Crores through QIP; oversubscribed by over 6.3 times

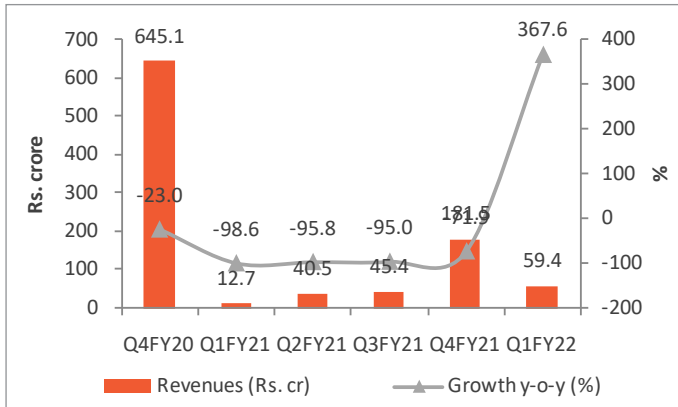
Source: Company. Sharekhan Research

### Business Overview

PVR operates in the film exhibition industry and has emerged as undisputed leader in the multiplex industry. The company's revenue mix consist largely of i) revenue from sale of movie tickets (box office collections), followed by ii) revenue from Food & Beverage (F&B) and thereafter iii) revenue from advertising, iv) Convenience Fee and v) Other Operating Income. On the cost front the company incurs expenditure largely on movie exhibition cost, cost of goods sold (in F&B), Employee Cost, Rent & CAMS, Repair & Maintenance Charges and Other operating expenses.

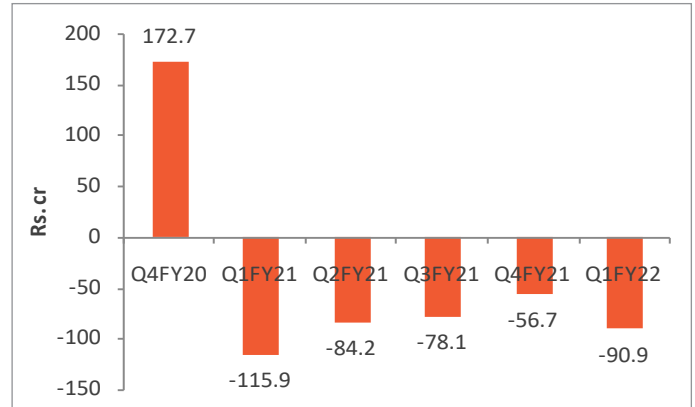
## Financials in charts

Revenue (Rs. cr) and growth (%)



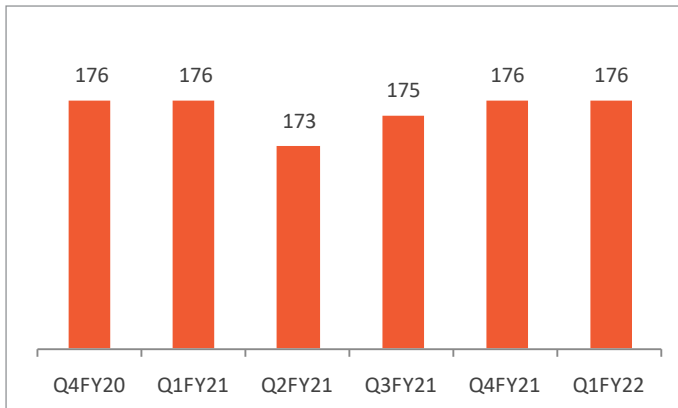
Source: Company, Sharekhan Research

EBITDA loss due to pandemic (including IND AS)



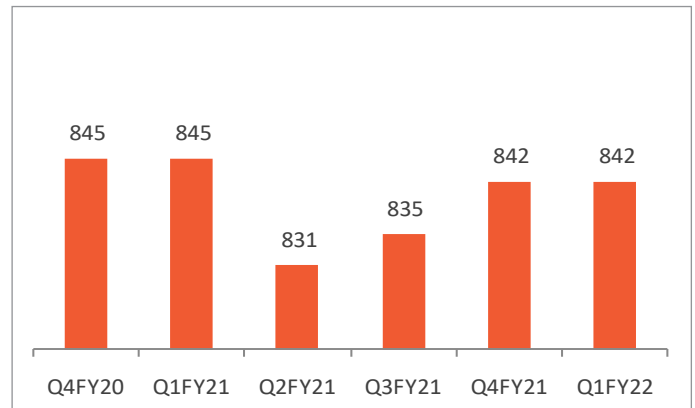
Source: Company, Sharekhan Research

Cinema property additions trend



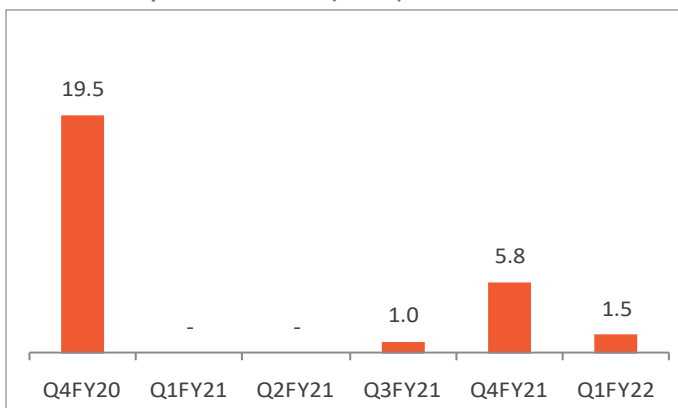
Source: Company, Sharekhan Research

Screen additions trends



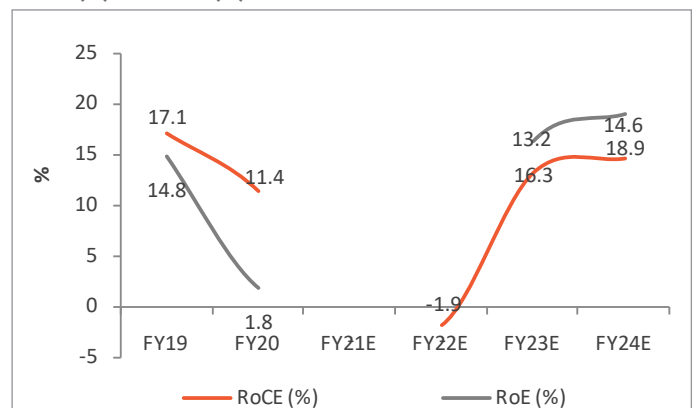
Source: Company, Sharekhan Research

Lockdown impacted footfalls (in mn)



Source: Company, Sharekhan Research

RoCE (%) and RoE (%) trends



Source: Company, Sharekhan Research

## Financials

### Profit & Loss Account

(Rs. crore)

Year-end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>3,414</b>	<b>280</b>	<b>1,837</b>	<b>4,148</b>	<b>4,715</b>
Movie exhibition cost	733	47	435	897	1,013
Other expenses	1,211	351	672	1,364	1,532
Total Operating Expense	2,338	615	1,385	2,684	3,039
<b>EBITDA</b>	<b>1,077</b>	<b>-335</b>	<b>452</b>	<b>1,464</b>	<b>1,677</b>
Depreciation	542	575	578	583	664
<b>EBIT</b>	<b>534</b>	<b>-910</b>	<b>-126</b>	<b>881</b>	<b>1,012</b>
Other income	37	469	72	16	29
Interest	445	29	424	502	490
<b>PBT</b>	<b>90</b>	<b>-939</b>	<b>-551</b>	<b>378</b>	<b>522</b>
Tax expenses	63	-191	-177	121	167
<b>Adjusted net profit</b>	<b>27</b>	<b>-748</b>	<b>-374</b>	<b>258</b>	<b>356</b>

Source: Company, Sharekhan Research

### Balance sheet

(Rs. crore)

Year-end March	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of fund</b>					
Equity capital	51	61	61	61	61
Reserves & surplus	1,429	1,773	1,399	1,646	1,988
<b>Total Shareholders funds</b>	<b>1,480</b>	<b>1,833</b>	<b>1,460</b>	<b>1,707</b>	<b>2,048</b>
Total debt	1,101	1,101	1,128	1,026	913
Others	3,745	3,558	3,737	3,824	3,882
<b>Total capital employed</b>	<b>6,326</b>	<b>6,493</b>	<b>6,325</b>	<b>6,558</b>	<b>6,843</b>
<b>Application of Funds</b>					
Net block	4,657	4,234	3,808	3,655	3,668
CWIP	332	407	414	414	217
Investments	1,687	1,860	2,080	2,245	2,586
<b>Current assets</b>					
Inventory	31	25	15	35	39
Receivables	189	31	102	230	262
Cash & bank balances	316	556	482	619	531
Loans & advances	9	8	8	8	8
Other current assets	209	383	393	466	643
<b>Total current assets</b>	<b>754</b>	<b>1,002</b>	<b>1,000</b>	<b>1,357</b>	<b>1,483</b>
<b>Less: current liabilities</b>					
Payables	515	445	436	626	671
Other current liabilities	588	564	541	487	439
<b>Total current liabilities</b>	<b>1,103</b>	<b>1,010</b>	<b>977</b>	<b>1,113</b>	<b>1,110</b>
Net current assets	-350	-7	23	244	373
<b>Total assets</b>	<b>6,326</b>	<b>6,493</b>	<b>6,325</b>	<b>6,558</b>	<b>6,843</b>

Source: Company, Sharekhan Research

### Cash flow statement

(Rs. crore)

Year-end March	FY20	FY21	FY22E	FY23E	FY24E
Cash flow from operating activities	787	-421	306	1,099	968
Cash flow from investing activities	-390	-225	-162	-435	-496
Cash flow from financing activities	-211	887	-218	-527	-560
Free Cash Flow	402	-529	-119	261	252
Opening Cash	28	316	556	482	619
Closing Cash	316	556	482	619	531

Source: Company, Sharekhan Research

### Key ratios

(Rs. crore)

Margins (%)	FY19	FY20	FY21E	FY22E	FY23E
Gross profit margin	70.8	73.9	66.9	71.0	71.5
EBITDA margin	31.5	-	24.6	35.3	35.6
EBIT margin	15.6	-	(6.9)	21.2	21.5
Net profit margin	0.8	-	(20.3)	6.2	7.5
Tax rate	70.0	20.3	32.1	32.0	32.0
<b>As a % of net sales</b>					
COGS	29.2	26.1	33.1	29.0	28.5
Employee expense	11.5	77.5	15.1	10.2	10.5
Other expense	27.7	116.0	27.2	25.5	25.5
<b>Measure of financial status</b>					
Debt/ Equity (x)	0.7	0.6	0.8	0.6	0.4
Inventory days	3.2	32.1	3.0	3.0	3.0
Debtor days	20.0	39.5	20.0	20.0	20.0
Payable days	113	1,002	115	115	115
Working capital days	-89.6	-930.9	-92.0	-92.0	-92.0
<b>Measure of investment</b>					
Adjusted EPS (Rs)	5.5	-123.1	-61.5	42.4	58.5
Cash EPS (Rs)	114.2	-28.5	33.7	138.4	167.8
DPS (Rs)	6.0	-	-	1.7	2.3
Dividend payout (%)	132.0	-	-	4.0	4.0
BVPS (Rs)	243.6	301.7	240.2	281.0	337.1
RoE (%)	1.8	NM	NM	16.3	18.9
RoCE (%)	11.4	NM	NM	13.2	14.6
RoIC (%)	3.6	NM	NM	10.5	11.6
<b>Valuation ratio</b>					
P/E (x)	276.1	NM	NM	35.6	25.8
EV/Sales (x)	4.0	47.1	7.4	3.2	2.8
EV/EBITDA (x)	12.7	NM	29.9	9.1	8.0
P/BV (x)	6.2	5.0	6.3	5.4	4.5
Dividend yield (%)	0.4	0.0	0.0	0.1	0.2
<b>Growth rate (%)</b>					
Revenue	10.7	-	556.0	125.8	13.7
EBITDA	83.6	-	-	223.9	14.6
EBIT	35.2	-	-	-	14.9
Adjusted PAT	(85.6)	-	-	-	38.0
EPS	(86.2)	-	-	-	38.0

Source: Company, Sharekhan Research

## About company

Incorporated in April 1995 pursuant to a Joint Venture agreement between Priya Exhibitors Private Limited, India and Village Roadshow Limited, Australia, PVR is India's largest film exhibition company that pioneered the multiplex revolution by establishing the first multiplex in New Delhi, in 1997. PVR currently operates a network of 849 screens (in different formats) at 172 properties across 72 cities (India and Sri Lanka) represents a market share of 27% of total multiplexes.

## Investment theme

We believe, PVR with its strong brand and extended reach is well poised to leverage the opportunity in India's under penetrated multiplex sector. Also we believe PVR leadership position will remain, as it continues to gain from its i) first mover advantage (in terms of properties location), ii) aggressive screen additions post normalisation, iii) permanent downward reset in cost structure, iv) enhanced bargaining power with advertisers owing to increased advertising space and v) higher spends in food & beverage space to provide additional delta. Further, Disney's decision to discontinue simultaneous theatrical and digital release of movies alleviates concerns around the potential threat from OTT.

## Key Risks

(1) Third wave of COVID-19; (2) Inability to take adequate price hikes at the right time would impact the margins in the F&B segment on account of rising input cost; (3) emerging competition from OTT players

## Additional Data

### Key management personnel

Ajay Bijli	Executive Chairman cum Managing Director
Gautam Dutta	Chief Executive Officer
Nitin Sood	Chief Financial Officer
Rahul Singh	Chief Operating Officer
Pankaj Dhawan	Company Secretary cum Compliance Officer

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Plenty PE Fund I Ltd	6.05
2	ICICI Prudential Asset Management	5.56
3	Berry Creek Investment Ltd	4.40
4	Matthews International Capital Management	4.23
5	SBI Funds management	3.81
6	Gray Birch Investment Ltd	3.63
7	Nippon Life India Asset Management	3.59
8	ICICI Prudential Life Insurance	3.03
9	FIL Ltd	2.92
10	Aditya Birla Sun Life Asset Management	2.82

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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