Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

PVR Ltd

Time to roll the reels again

Consumer Discretionary	Sharekhan code: PVR	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,628**	
Price Target: **Rs. 1,900**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

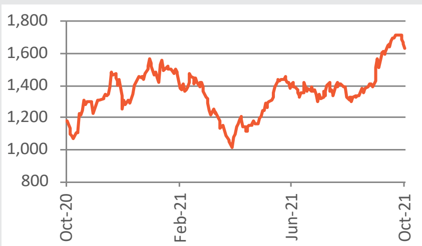
Company details

Market cap:	Rs. 9,902 cr
52-week high/low:	Rs. 1,797/961
NSE volume: (No of shares)	10.1 lakh
BSE code:	532689
NSE code:	PVR
Free float: (No of shares)	5 cr

Shareholding (%)

Promoters	17.0
FII	38.2
DII	27.5
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.8	23.5	48.8	38.2
Relative to Sensex	0.6	8.6	22.3	(11.7)

Sharekhan Research, Bloomberg

Summary

- As theaters were closed for part of the quarter in most states (and fully in Maharashtra), Q2 numbers remained weak. However, PVR successfully re-negotiated rent and CAM contracts for 80% of its properties.
- PVR is well-placed to capitalise on strong pent-up demand and report strong revenue growth over FY2023E-FY2024E. Management indicated green shoots in demand recovery.
- With permanent savings of over 10% on select pre-COVID fixed costs, we expect EBITDA margins to remain above pre-pandemic operating profitability in FY2023E and FY2024E.
- We maintain a Buy on PVR Limited with a PT of Rs. 1,900, given strong pent-up consumer demand, robust content line-up and anticipated permanent reduction in fixed expenses.

PVR Limited (PVR) managed to restrict Q2FY22 EBITDA losses at Rs. 68 crore because of its successful re-negotiation of rent and CAM contracts with developers in 80% of properties and strict control of fixed costs. Employee expenses increased marginally q-o-q in Q2FY2022 despite just two months of operations. A sharp recovery in consumer demand during the last two months (July'21 to Oct'21) of Q2FY2022 provides comfort for re-emergence of PVR's business with respect to its close peers as a huge content line-up for release over next few quarters. Further, an over 10% reduction in fixed costs (especially in employee expenses and other fixed costs) on a sustainable basis would boost PVR's profitability once things settle down.

Key positives

- Strong content line-up from November 2021
- Expect sustainable savings of over 10% in fixed costs going forward

Key negatives

- Advertising revenue recovery will take some more time

Management Commentary

- The company negotiated discounts on rentals on certain properties for Q3 and Q4 of FY2022.
- PVR will continue to add 80-100 screens a year once situation normalises
- PVR wants to bring e-sports into cinema as it sees huge opportunities in this space.

Revision in estimates – We broadly maintain our earnings estimates for FY22E/FY23E/FY24E.

Our Call

Valuation – Well-poised to emerge stronger going ahead: PVR is well-poised to capitalise market opportunities given its advantage of premium locations, pent-up demand, a strong movie pipeline and anticipated relaxation of COVID-19 restrictions by many state governments. Post normalisation, we believe the company would resume aggressive screen additions, given huge opportunities mostly in tier-2/3 cities. Further, the strong recovery of occupancy rate with the release of big-starrer movies and an anticipated improvement in its profitability and return ratios are expected to re-rate its multiples going ahead. We maintained a Buy rating on PVR with an unchanged price target (PT) of Rs. 1900.

Key Risks

(1) Deterioration of content quality might affect footfalls and advertisement revenue growth, (2) inability to take adequate price hikes at the right time might affect earnings given rising input costs and (3) a delay in return to normalcy.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	280.0	1,776.7	4,226.6	4,702.3
OPM (%)	NM	24.0	35.3	35.5
Adjusted PAT	-747.8	-188.5	258.3	338.6
% y-o-y growth	NM	NM	NM	31.1
Adjusted EPS (Rs.)	-135.6	-31.0	42.5	55.7
P/E (x)	NM	NM	38.3	29.2
P/B (x)	5.4	6.0	5.2	4.5
EV/EBITDA (x)	NM	32.9	9.3	8.4
RoNW (%)	NM	NM	14.6	16.5
RoCE (%)	NM	NM	13.0	14.3

Source: Company; Sharekhan estimates
**Numbers are based on Ind AS 116.*

Net loss meets estimates, successfully renegotiated rental waivers

Cinemas were shut for part of Q2FY22 in most states (while they were shut for the whole \quarter in Maharashtra, Kerala and Assam) owing to lockdown restrictions amid the second wave of COVID-19. We note that overall performance of PVR was weak as movie releases were limited due to COVID-related restrictions in many states including Maharashtra.PVR has successfully renegotiated rental waivers/discounts in respect of ~80% of its properties.PVR reported revenue of Rs. 120.3 crore, ahead of our estimates of Rs. 103.7 crore, led by better-than-expected footfalls and higher average ticket price (ATP). PVR managed to restrict EBITDA losses (including Ind-AS impact) at Rs. 68 crore, led by rent concessions, discounts and strict control of fixed costs.Net loss came at Rs. 153.1 crore and was in line with our expectations of net loss of Rs. 152.7 crore.

PVR Q2FY2022 Concall Highlights

- **Operational screens:** The Company got permission to reopen cinema halls from July 30, 2021 post lifting the restrictions from the state governments. As on September 30, 2021, the company had 588 operational screens. The company launched four Director's Cut screens in Ambience Mall, Gurgaon and three screens inJamnagar, Gujarat. Additionally, PVR also re-launched the revamped Praia Cinema and PVR Anup in Delhi during the quarter.
- **Screen additions to pick up post normalisation:** The Company added seven screens in both existing and new locations during Q2FY2022. The company forayed into Jamnagar, Gujarat by opening new screens. The management stated the company would continue to add 80-100 screens per year going ahead once situation normalises.
- **Re-negotiated rent and CAM contracts; PVR will avail rental discount for some properties in H2FY22:** The second wave of COVID-19 in India has affected cinema operations severely. As a result, the company has again approached the landlords and started re-negotiating rent and CAM. The company has negotiated rent and CAM in 80% of the properties, whereas management expects the negotiations for the remaining properties will get completed soon. The company achieved rental discount of 75% in H1FY2022. Further, the company has negotiated discounts on rentals on certain cases for Q3 and Q4 of FY2022. CAM expenses dropped 17% q-o-q during Q2FY2022. Further, CAM expenses for 1HFY2022 declined by 22% as compared to H1FY2020 (pre-pandemic).
- **Managed fixed cash burn efficiently:** The management highlighted that it has kept the fixed expenses under control. The company's employee expenses increased marginally q-o-q in Q2FY2022 despite two months of operations. Other expenses during 1HFY2022 declined 59% as compared to H1FY2020 (pre-pandemic).
- **Green shoots in demand recovery:** PVR provided a comparison of weekly footfalls from July 2021 to October 2021 with average weekly footfall during FY2020 for properties that were operational during both periods. The footfall remained 68% of pre-pandemic level despite COVID related restrictions and lack of any big movie releases. Further, the footfall recovery in Punjab, Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and NCR during October 15 to October 21 was impressive, remained 51% - 114% compared to pre-pandemic period. Management highlighted that the sharp recovery in consumer demand during the past two months provides confidence for a sharp bounce-back in its business as a huge content line-up for release over next few quarters.
- **Huge content line-up:** With Maharashtra allowing cinemas to restart operations, strong line up of movie releases has been announced. We expect a number of high-profile releases during the second half of FY2022. The management indicated that movies such as Sooryavanshi, Annaatthe, ENEMY, The Eternals, Bunty Aur Babli 2, Satyameva Jayate 2, Antim and among others would be released in November 2021, while movies such as Chandigarh Kare Aashiqui, Pushpa - Part 1, Spiderman – No Way Home, THE MATRIX 4, '83, Jersey and among others would be released in December 2021.

- **Recovery in advertising revenue:** The management indicated that it will take some time for recovery. However, it believes that advertisers would come back after few blockbuster movies. Further, the market is huge and the company works around 1,000-1,500 brands across the country. As a lot of brands have been looking to have a direct correlation with consumers, the management believes that cinema is well poised to capture opportunities. Hence, the company sees traction from F&B, electronic brand and among others. With a recovery in footfalls, the advertising revenue is expected to bounce back in coming quarters.
- **Screening of ICC Men's T20 Cricket World Cup:** PVR will screen LIVE matches of the ICC Men's T20 Cricket World Cup 2021 at its multiplexes to attract audiences. This is a profitable business as the company has been giving shows to corporates. Management believes it is one of good ways to get audience back to cinemas.
- **Gaming experiment:** PVR is partnering with Nazara's Nodwin to bring e-sports to the big screen. As gaming has been growing rapidly in India, PVR wants to decide to run experiments and pilots to figure out the product. PVR wants to bring e-sports into cinema as it sees huge opportunities in this space.
- **Some state governments lifted capacity restrictions, expect others to follow:** PVR received permission for all state governments to operate all its screens across all states and union territories in India and Sri Lanka, including Kerala, which has allowed cinema hall operations to start from October 25, 2021 onwards. Though there are restrictions including capacity caps, timing of operations and vaccination requirements, we believe these restrictions will be lifted in coming quarters as COVID cases have been declining and vaccination coverage remains robust. States such as Telangana, Rajasthan, Karnataka, Andhra Pradesh, Punjab and Gujarat have already relaxed capacityrestrictions.
- **Maintained liquidity:** PVR continued with its strategy for keepingoperating costs low and maintain adequate liquidity despite re-opening of cinema post July 2021. The total available liquidity was at over Rs. 700 crore as on September 30, 2021.
- **Debt:** The company had a gross debt of Rs. 1,594 crore as of September 30, 2021, implies gross debt to equity of 1.08x. The company's net debt remained at Rs. 914 crore as on September 30, 2021.

Results (Consolidated) Rs. cr

Particulars	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	**120.3**	**40.5**	**59.4**	**197.5**	**102.6**
Exhibition costs	26.3	0.3	9.4	-	179.3
Cost of F&B	13.8	1.7	6.0	-	130.9
Gross Profit	**80.3**	**38.5**	**44.0**	**108.9**	**82.4**
Employee Expenses	56.0	40.7	53.1	37.6	5.4
Other Expenses	92.5	81.9	81.9	12.9	13.0
Operating Profit	**-68.1**	**-84.2**	**-90.9**	-	-
Depreciation	148.7	141.9	143.0	4.8	4.0
EBIT	-216.8	-226.0	-234.0	-	-
Finance Cost	154.9	69.7	33.2	122.2	367.1
Other Income	123.5	122.9	123.7	0.5	-0.1
PBT	**-185.5**	**-279.2**	**-324.5**	-	-
Tax Provision	-32.2	-95.1	-105.0	-	-
Adjusted net profit	**-153.1**	**-184.0**	**-219.4**	-	-
EPS (Rs.)	-25.2	-33.8	-36.1	-	-
Margin (%)				**BPS**	**BPS**
EBITDA margin	-56.6	-208.1	-153.1	-	-
NPM	-180.2	-558.8	-394.0	-	-
Tax	-127.3	-454.8	-369.5	-	-

*Source: Company; *Includes Ind AS 116*

State-wise restrictions

States	Conditional Approval	Properties	Screens
Telangana	100% capacity	11	62
Rajasthan	100% capacity. Open till 10pm. Guests vaccinated with atleast 1 dose	3	10
Karnataka	100% capacity. Open till 10 pm.	16	109
Andhra Pradesh	100% capacity. Open till 12 am.	2	9
Punjab	66% capacity. Staff with atleast 1 dose of vaccination	10	53
Gujarat	60% capacity. Open till 10pm / Only Vaccinated Staff.	15	68
Maharashtra	50% capacity. No F&B inside auditorium. Fully vaccinated staff.	38	157
Tamil Nadu	50% capacity. Only Vaccinated Staff.	13	83
Uttar Pradesh	50% capacity. Open till 11 pm.	18	83
Haryana	50% capacity.	10	39
Madhya Pradesh	50% capacity. Open till 11 pm.	4	18
Chhattisgarh	50% capacity. Open till 10 pm.	4	17
West Bengal	50% capacity. Open till 9 pm.	4	16
Kerala	25th Oct onwards : 50% capacity. Fully vaccinated guests & staff only	3	15
Jharkhand	50% capacity. Open till 8pm / Sunday Closed	2	7
Assam	50% capacity. Open till 9pm. Fully vaccinated guests only	1	5
Uttarakhand	50% capacity. Open till 9 pm.	1	5
Delhi, Chandigarh, Puducherry - UT	50% capacity.	21	88
Jammu & Kashmir - UT	25% capacity. Open till 10 pm.	1	2
Colombo, SriLanka	25% capacity.	1	9

Source: Company

Outlook and Valuation

■ Sector outlook – Long term structural story intact:

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

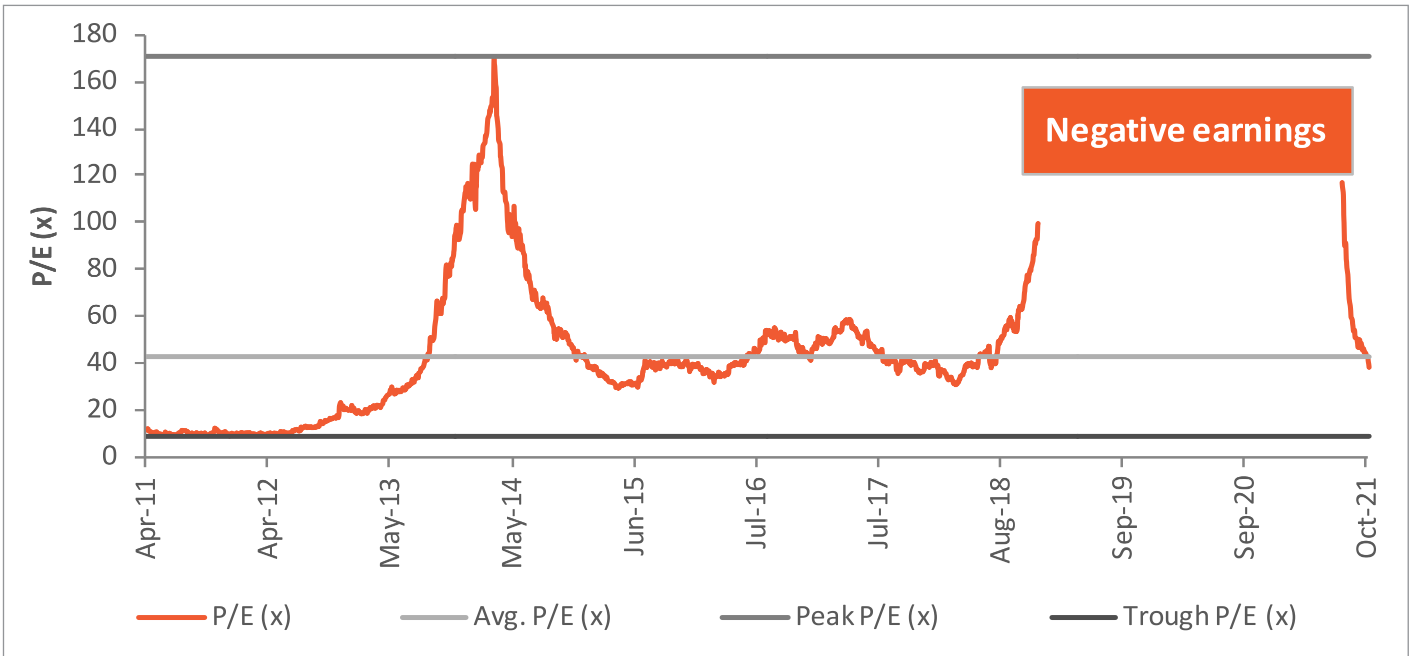
■ Company outlook – Premium player

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 expansions, a robust line-up of content coupled with increasing average ticket prices and spend per head 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 is well-poised to capitalise market opportunities given its advantage of premium locations, pent-up demand, a strong movie pipeline and anticipated relaxation of COVID-19 restrictions by many state governments. Post normalisation, we believe the company would resume aggressive screen additions, given huge opportunities mostly in tier-2/3 cities. Further, the strong recovery of occupancy rate with the release of big-starrer movies and an anticipated improvement in its profitability and return ratios are expected to re-rate its multiples going ahead. We maintained a Buy rating on PVR with an unchanged price target (PT) of Rs. 1900.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP Rs./share	O/S Crore	Mcap Rs crore	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Inox Leisure	420	12	5,139	NM	30.0	21.8	5.9	9.6	6.8	NM	35.2
PVR	1,628	6	9,902	NM	38.3	32.9	9.3	6.0	5.2	NM	14.6

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 855 screens (in different formats) at 178 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 coststructure, iv) enhanced bargaining power with advertisers owing to increased adverting space and v) higher spends in food & beverage space to provide additional delta. Further, Disney's decision todiscontinue simultaneous theatrical and digital release of moviesalleviates 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	6.04
2	ICICI Prudential Asset Management	5.26
3	Berry Creek Investment Ltd	4.39
4	Matthews International Capital Management LLC	4.27
5	Nippon Life India Asset Management	3.88
6	Gray Birch Investment Ltd	3.63
7	ICICI Prudential Life Insurance	3.54
8	Vanguard Group inc	2.90
9	Aditya Birla Sun Life Asset Management	2.62
10	SBI Fund Management	2.25

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 detoriating 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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