Sharekhan by BNP PARIBAS

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Stock Update

Result Update

PVR Ltd

Weak Q2; Reasonable Valuation

Consumer Discretionary	Sharekhan code: PVR

Reco/View: Buy	↔	CMP: **Rs. 1,688**	Price Target: **Rs. 2,065**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score

NEW

ESG RISK RATING 16.40

Updated Jul 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

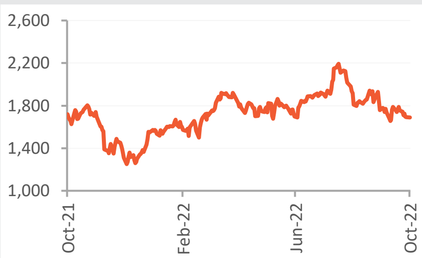
Company details

Market cap:	Rs. 10,311 cr
52-week high/low:	Rs. 2,212 / 1,225
NSE volume: (No of shares)	7.5 lakh
BSE code:	532689
NSE code:	PVR
Free float: (No of shares)	5.1 cr

Shareholding (%)

Promoters	17.0
FII	36.6
DII	26.2
Others	20.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.5	-11.6	-11.3	-1.7
Relative to Sensex	-5.9	-18.7	-11.5	3.7

Sharekhan Research, Bloomberg

Summary

- PVR reported weak numbers for 2QFY23 on the back of weak performance of Big Budget Bollywood movies. Consequently, Occupancy and admits suffered falling by 1380 bps and 40% with respect to pre-pandemic levels and by 960 bps and 28% on q-o-q basis.
- The weak performance was in line with subdued content for Q2FY23. However, for Q3FY23 the management is optimistic of achieving a robust performance on account of the decent and diverse content pipeline for Q3FY23.
- The Management indicated that it is on track to achieve the target of 110-125 screen additions by FY23. Further, the Management expects that they would see the recovery of ATP to Rs 250 and SPH of Rs 135-140 given the strong content pipeline for Q3FY23.
- We maintain a Buy on PVR with a revised PT of Rs. 2,065, on the back of decent content pipeline, reasonable valuation and the impending merger with INOX which can assist in extending the reach in newer markets and increase cost -optimisation opportunities.

PVR's revenue declined by 29% (down 30% q-o-q) from the pre-pandemic level (Q2FY2020) to Rs. 686.7 Crore, which was 4% above our estimate of Rs. 660 crore. The fall reflects lower occupancy at 24%, which declined 1380 bps as compared to 38% from pre-pandemic level and offset improvement of 11%/31% in ATP/SHP to Rs. 224/Rs. 129, however was down by 11%/4% q-o-q. The revenue from all business segment i.e. Movie tickets/F&B/Advertisement income/convenience fee declined sharply by 34%/16%/39%/11% when compared to pre-pandemic level. PVR had 18 million footfall (a decline of 28% q-o-q and 39% versus pre-pandemic level). The subdued performance was led by continued underperformance of Bollywood movies (except Brahmastra) and weakest quarter for Hollywood (only 1 movie released in Q2FY23 and book office collection down 47% as compared to pre-pandemic level). Net loss came in at Rs. 71 crore (versus net loss estimate of Rs. 67.7 crore) due to weak revenues, higher depreciation and rise in interest cost. PVR saw weak footfalls on the back of weak performance of Big Budget Bollywood movies like Laal Singh Chaddha, Raksha Bandhan, Liger. The reasons attributed to the lackluster performance were 1) Films released were conceptualized pre-pandemic & not in sync with current consumer tastes 2) Negative social media against some Bollywood movies / stars. 3) Quality of content driving performance as compared to super-star presence. Limited Hollywood movies barring Thor: Love and Thunder, was also responsible for weak admits for Q2FY23. However, Bollywood movie Brahmastra performed exceedingly well with net box office contribution of 19%. Regional movies such as Sita Ramam also delivered robust performance. The management reiterated that it is on track to achieve 110-125 screens for FY23. With a decent and diverse content pipeline for Q3FY23 Management is confident of achieving recovery in ATP and SPH in line with that seen for Q1FY23.

Key positives

- Gross box office contribution of regional movies increased to 44% in Q2FY23 from 28% in Q2FY20
- Strong and diverse movie pipeline for 3QFY23 across Hindi, English and Regional genres

Key negatives

- Admits for Q2FY23 stood at 18 million Vs 29 million pre-pandemic Q2FY20 while Occupancy was at 24% for Q2FY23 Vs 38% during pre-pandemic Q2FY20.
- Lower number of screens added during H1FY23 builds in a tough ask rate for H2FY23 as management continues to be focused to towards addition of 110-125 screens for FY23.

Management Commentary

- With the slate of Big-Ticket movies lined up for Q3FY21 the management expects to achieve SPH at Rs. 135-140 and ATP at Rs. 250 in line with that achieved in Q1FY23.
- The management stated they are looking at diverse sources of income such as exhibition of T20 matches, musical concerts, standup comedy if they are low on content but reiterated that they are primarily focused on film exhibitions.

Revision in estimates – We have lowered our FY23-24 earnings estimate to factor in Q2FY23 earnings performance.

Our Call

Valuation – Reasonable Valuation: The strong net box office collections seen for Brahmastra and success of industry wide drive during National Cinema Day highlights the thirst for OOH entertainment. PVR is well poised achieve greater traction based on quality content pipeline, strong consumer demand, and success of dubbed Southern and regional movies across the country. Presence in premium locations and ability to maintain industry-leading pricing are likely to aid its growth momentum. the proposed PVR-INOX Leisure merger is expected to bring in enhanced productivity, deeper reach in newer markets, and cost-optimisation opportunities. We maintain our Buy rating on reasonable valuation and have revised our PT to Rs. 2,065 to reflect cut in earnings estimate and moderation in our target EV/EBITDA multiple of 10x FY24E EBITDA.

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) delay in return to normalcy.

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Total Revenue	280.0	1,331.0	3,849.8	4,988.7
EBITDA margin %	NM	7.9	33.6	33.6
Adjusted Net Profit	-747.8	-488.2	160.0	367.6
% YoY growth	*NM*	*NM*	*NM*	*129.7*
EPS (Rs.)	-135.6	-80.2	26.2	60.3
PER (x)	NM	NM	64.4	28.0
P/BV (x)	5.6	7.5	6.8	5.5
EV/EBITDA	NM	NM	11.2	8.6
ROE (%)	NM	NM	11.1	21.6
ROCE (%)	NM	NM	23.6	33.3

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

PVR Q1FY2023 Concall Highlights

- **Weak revenue performance on expected lines:** PVR revenues at Rs. 687 crores came 4% above our estimate of Rs. 660 crore but was 30% down sequentially. The subdued performance was due to poor content of films, negative social media against some Bollywood stars and only 1 Hollywood tentpole released in Q2. Total gross box office collections were down by 15% q-o-q in Q2FY23.
- **Sequential decline in ATP & SPH metrics:** Weak performance of anticipated films like Lal Singh Chaddha, Raksha Bandhan and Liger led to 11% q-o-q decline in average ticket price (ATP) to Rs. 224. Management is confident of increasing ATP back to Rs. 250 as in Q1FY23. The spending per head (SPH) declined by 4% q-o-q to Rs. 224. Management said SPH will be 135-140 going forward.
- **Occupancy levels and advertising revenues:** Average occupancy level was down 960 bps q-o-q to 24% in Q2FY23. South India occupancy levels are 30-35% vs 22% in West and North India. Advertising income fell by 9% q-o-q to Rs. 572 million and was below the management's expectation due to the weak performance of films.
- **Regional movies holding the fort:** Gross box office contribution of regional movies increased to 44% in Q2FY23 from 28% in Q2FY20 due to strong regional films like Sita Ramam, Karthikeya, Thiruchitrambalam and Rocketry.
- **Management confident on strong content pipeline:** Management remains confident of reporting strong Q3FY23 as content pipeline looks promising. There are several anticipated films like Ram Setu, Thank God, Drishyam 2, Black Adam and Black Panther.
- **Company on track to open 110-125 screens in FY23:** Though the company has opened only 24 screens across 5 cinemas in H1FY23, the management said they are confident of opening 110-125 screens in FY23.
- **Merger update:** PVR and Inox have got their shareholders' approval for the merger and final NCLT approval is expected in the next three months.
- **National Cinema Day:** It was an industry-wide initiative to drive admissions back to cinemas. Low ticket pricing of Rs. 75 across cinemas & deeply discounted F&B offerings led to 0.65 million footfalls which was the 2nd highest daily admits and occupancy levels exceeded 80% across North, West and East India.
- **Theatrical window:** PVR mentioned that the theatrical window for Hindi films as returned back to 8 weeks before they are release on OTT.
- **Gross debt increases q-o-q:** Gross debt increased by Rs. 1,401 million (9% q-o-q) to Rs. 15,542 million as on September 30, 2022.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Q1FY23	Y-o-Y %	Q-o-Q %
Net sales	**686.7**	**120.3**	**981.4**	**470.7**	**-30.0**
Movie Exhibition Cost	146.2	26.3	238.9	457.1	-38.8
Consumption of Food & Beverage	62.9	13.8	76.5	357.3	-17.7
Gross Profit	**477.6**	**80.3**	**666.0**	**494.7**	**-28.3**
Employee Benefit Expenses	94.7	56.0	104.0	69.3	-8.9
Other Expenses	229.2	92.5	220.4	147.9	4.0
EBITDA	**153.7**	**-68.1**	**341.6**	-	**-55.0**
Depreciation & amortisation	152.5	148.7	149.4	2.6	2.1
EBIT	**1.1**	**-216.8**	**192.2**	-	**-99.4**
Other income	16.4	154.9	20.9	-89.4	-21.3
Finance cost	127.7	123.5	128.0	3.4	-0.2
PBT	**-110.2**	**-185.5**	**85.1**	-	**-229.5**
Tax provision	-38.7	-32.2	31.9	20.2	-221.3
Minority Interest	0.3	0.1	0.2	85.7	18.2
Net profit	**-71.2**	**-153.1**	**53.4**	-	**-233.4**
EPS (Rs)	**-11.7**	**-25.2**	**8.6**	-	**-235.3**
Margin (%)					
GMP	69.5	66.7	67.9	280	168
EBITDA	22.4	-56.6	34.8	7,900	-1,243
EBIT	0.2	-180.2	19.6	-	-1,942
NPM	-10.4	-127.3	5.4	-	-1,581
Tax rate	35.1	17.4	37.5	1,777	-238

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Long-term structural story intact:**

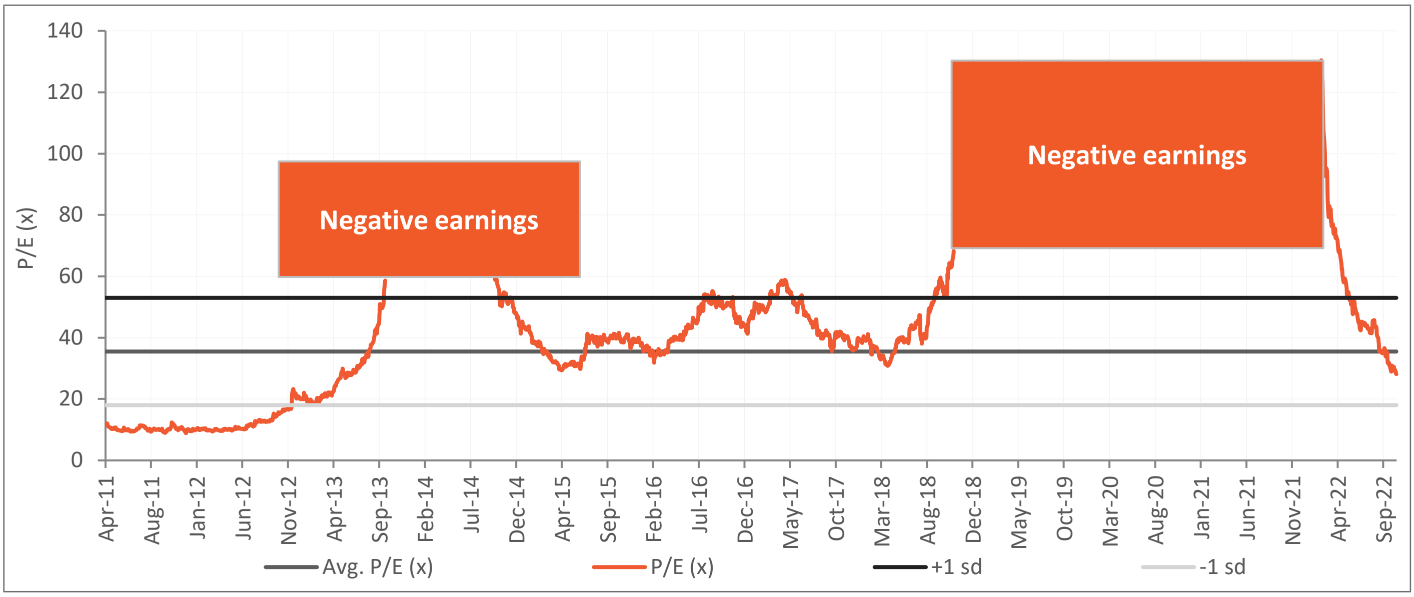
The movie exhibition business is highly under-penetrated in India as compared to the other developed and developing countries. In addition, a favourable demographic mix and increased discretionary spending bode well for robust growth in the multiplex industry.

■ **Company Outlook – Premium player**

PVR is a strong premium theatre chain in India, which provides enhanced movie-watching experience to its customers. The company has 98 luxury screens (12% of its total screens) and the count is expected to increase going ahead. Aggressive expansion plans, robust line-up of content and increasing ATP and SPH are expected to result in healthy revenue and earnings CAGR of 10.1% and 10.3% over FY2019-FY2024E, respectively.

■ **Valuation – Reasonable Valuation:** The strong net box office collections seen for Brahmastra and success of industry wide drive during National Cinema Day highlights the thirst for OOH entertainment. PVR is well poised achieve greater traction based on quality content pipeline, strong consumer demand, and success of dubbed Southern and regional movies across the country. Presence in premium locations and ability to maintain industry-leading pricing are likely to aid its growth momentum. the proposed PVR-INOX Leisure merger is expected to bring in enhanced productivity, deeper reach in newer markets, and cost-optimisation opportunities. We maintain our Buy rating on reasonable valuation and have revised our PT to Rs. 2,065 to reflect cut in earnings estimate and moderation in our target EV/EBITDA multiple of 10x FY24E EBITDA.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

About company

PVR was 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 854 screens (in different formats) at 173 properties across 74 cities (India and Sri Lanka), representing 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. Moreover, we believe PVR's 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 adverting space, and v) higher spends in the food and 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) Rise in COVID-19 infections; (2) inability to take adequate price hikes at the right time would impact margins in the F&B segment on account of rising input cost; and (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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	6.72
2	SBI Life Insurance	5.06
3	Blackrock Inc.	5.00
4	ICICI Prudential Life Insurance	4.66
5	Nippon Life India Asset Management	4.42
6	Berry Creek Investment Ltd.	4.38
7	Gray Birch Investment Ltd.	3.61
8	Plenty PE Fund I Ltd.	3.52
9	ICICI Prudential Asset Management	3.37
10	FMR LLC	3.05

Source: Bloomberg

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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