Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

PVR Ltd

Strong Q3; Reasonable Valuation

Stock Update | Result Update

Consumer Discretionary	Sharekhan code: PVR

Reco/View: Buy	↔	CMP: Rs. 1,679	Price Target: Rs. 2,020	↓

↑ 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 Updated Oct 08, 2022				16.40
Low Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

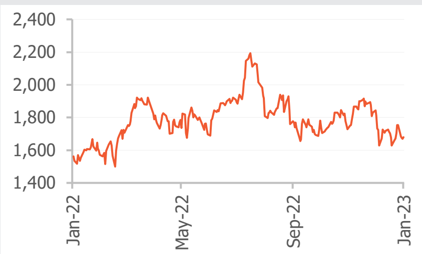
Company details

Market cap:	Rs. 10,282 cr
52-week high/low:	Rs. 2,212 / 1,478
NSE volume: (No of shares)	7.3 lakh
BSE code:	532689
NSE code:	PVR
Free float: (No of shares)	5.1 cr

Shareholding (%)

Promoters	16.9
FII	42.0
DII	25.0
Others	16.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.4	-3.4	-10.9	7.5
Relative to Sensex	-6.1	-6.2	-20.8	5.1

Sharekhan Research, Bloomberg

Summary

- PVR reported strong numbers for 3QFY23 on the back of robust performance of films across genres. High ATP/SPH at Rs. 244/133 were up 16%/33% from pre-pandemic levels of Q3FY20.
- For CY2023, the management is confident of achieving a robust performance due to the release of several films of Bollywood superstars.
- PVR will open 47 additional screens in Q4FY23 and is on track to open 100-110 screens in FY2023. The management guided that the merged entity would add 150-200 screens per annum.
- PVR and Inox merger got NCLT's verbal approval on 12th Jan 2023, and management expects the new shares to trade in 45 days from the verbal order. The effective date of merger is the day PVR files the order with the RoC.
- We maintain a Buy on PVR with a revised PT of Rs. 2,020, on the back of robust 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. At CMP the stock trades at 8.7x/7.7x of FY24E/FY25E EPS.

PVR's revenue at Rs. 940.7 crores was (up 2.7% from the pre-pandemic level of Q3FY2020) 7% above our estimate of Rs. 879.5 crores on the back of higher ATP/SPH at Rs.244/Rs.133 (up 16%/33% from Q3FY20). Occupancy level at 29% was 440 bps below Q3FY20 but improved by 500 bps q-o-q. Revenues from F&B and convenience fees increased by 17%/37% from Q3FY20 but were partially offset by 4%/35% decline in revenues from movie tickets and advertising income. PVR had footfall of 22 million which was up 22% q-o-q but down 15% from Q3FY20. The dominance of regional cinema continued in the 3rd quarter with blockbusters like 'Ponniyin Selvan 1 and Kantara. 'Drishyam 2' from Bollywood was the 2nd biggest movie of the quarter and was supported by content like 'Vikram Vedha. Q3 also saw a resurgence in Hollywood films (Avatar 2 and Black Panther). Net profit at Rs. 16.1 crores came 263.3% above our estimate of Rs. 4.4 crores due to strong revenue performance and better NPM due to lower depreciation and finance cost as a % of sales partially offset by higher tax rate of 39%.

Key positives

- ATP/SPH at Rs.244/Rs.133 were up 16%/33% from Q3FY20
- PVR's average gross collection per film for the top 5 movies increased by 75% q-o-q from 33.8 crores to Rs. 59 crores in Q3FY23. The gross box office collection increased by 18%/11%/120% q-o-q in Regional, Hindi and English films, respectively.
- Strong movie content lined up in CY2023 riding on the star power of Bollywood Key negatives
- Advertising income at Rs. 79.2 crore is down 35% from Q3FY20 as retail and FMCG clients are cautious regarding their ad budgets.
- Admits for Q2FY23 stood at 22 million vs 25 million in Q2FY20 while Occupancy was at 29% for Q2FY23 Vs 33% during Q2FY20.

Management Commentary

- Strong revenue beat due to sharp q-o-q bounce back in gross box office collections across all genres and high operating metrics of ATP/SPH at 244/133 in Q3FY23.
- Ad revenues are down 35% from Q3FY20 because retail and FMCG clients are cautious w.r.t their ad budgets due to the inconsistent performance of big Bollywood films.
- Strong movie pipeline for CY2023 on the back of several big films of Bollywood megastars.
- PVR will open 47 additional screens in Q4 and is on track to open 100-110 screens in FY2023.
- PVR and Inox merger got NCLT verbal approval on 12th Jan 2023 and management expects the new shares to trade in 45 days from the verbal order.

Revision in estimates – We have lowered our FY23-24 earnings estimate to factor in 9MFY23 earnings performance. We have also introduced FY25 earnings estimate.

Our Call

Valuation: Reasonable Valuation: PVR is well poised to achieve greater traction based on quality content pipeline, strong consumer demand, and success of dubbed Southern and regional movies across the country. The presence in premium locations and the 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. 2,020 to reflect the cut in earnings estimate. At CMP the stock trades at 8.7x/7.7x of FY24E/25E EPS

Key Risks

(1) Emerging competition from OTT players. (2) Deterioration of content quality might affect footfalls and advertisement revenue growth. (3) Inability to take adequate price hikes at the right time would impact margins in the F&B segment on account of rising input costs and (4) Rise in COVID-19 infections

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Total Revenue	1,331.0	3,763.8	4,928.0	5,511.6
EBITDA margin %	7.9	32.2	33.7	34.6
Adjusted Net Profit	-488.2	109.9	323.1	437.4
% YoY growth	*NM*	*NM*	*194.0*	*35.4*
EPS (Rs)	-80.2	18.0	53.0	71.7
PER (x)	NM	93.2	31.7	23.4
P/BV (x)	7.5	6.9	5.7	4.6
EV/EBITDA	NM	12.0	8.7	7.7
ROE (%)	NM	7.7	19.8	21.9
ROCE (%)	NM	21.0	32.9	35.7

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

PVR Q3FY2023 Concall Highlights

- **Strong revenue beat:** PVR's revenue at Rs. 940.7 crores were (up 2.7% from the pre-pandemic level of Q3FY2020) 7% above our estimate of Rs. 879.5 crores. The robust performance was due to strong performance of films and improvement in operating metrics. ATP/SPH at Rs.244/Rs.133 were up 16%/33% from Q3FY20. Occupancy level at 29% was 440 bps below Q3FY20 but improved by 500 bps q-o-q.
- **Solid sequential performance of films:** PVR's average gross collection per film for the top 5 movies increased by 75% q-o-q to Rs. 59 crores in Q3FY23. The dominance of regional cinema continued in Q3 with blockbusters like Ponniyin Selvan 1 and Love Today. Kantara, which turned out to be a sleeper hit, was the biggest regional release during the quarter. Drishyam 2 from Bollywood turned out to be 2nd biggest movie of the quarter and was supported by content like Vikram Vedha and Bhediya. Q3 saw Hollywood's resurgence with the highest-grossing movie of the quarter Avatar 2 and was supported by movies like Black Panther: Wakanda Forever and Black Adam. The gross box office collection increased by 18%/11%/120% q-o-q in Regional, Hindi and English films, respectively.
- **Business segment commentary:** Revenues from F&B and convenience fees increased by 17%/37% from Q3FY20 but were partially offset by 4%/35% decline in revenues from movie tickets and advertising income. Footfalls at 22 million have improved by 22% q-o-q but are still down 15% from Q3FY20. The management said big films need to deliver consistently for ad revenues to improve. At present, retail and FMCG clients are cautious regarding their ad spends. Management believes ad revenues will improve going forward with South ad revenues being only marginally below pre-covid levels.
- **Strong content pipeline:** Management remains confident of a strong movie pipeline in CY2023 on the back of 3 films by Shah Rukh Khan and 2 films each by Salman Khan, Ranbir Kapoor, Karthik Aryan and Ajay Devgn. Management said indications for Pathaan are good as the advance collections are great.
- **Company on track to open 100-110 screens in FY23:** As on 19th Jan 2023, the company has a screen portfolio of 903 screens in 181 cinemas across 78 cities in India and Srilanka. PVR has opened 63 screens till date and will open 47 additional screens till 31st March 2023. All the new screens will be value and business accretive. After merger, the company will open 150-200 screens per annum.
- **Merger update:** PVR and Inox got NCLT verbal approval on 12th Jan 2023 and management expects the new shares to trade in 45 days from the verbal order. The day on which the company files the order with the RoC, will be the effective date of the merger.
- **Decline in gross debt:** Gross debt decreased by Rs. 462 million (down 3% q-o-q) to Rs. 15,080 million as on December 31, 2022.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	% YoY	% QoQ
Net sales	**940.7**	**614.2**	**686.7**	**53.2**	**37.0**
Movie Exhibition Cost	167.7	118.2	146.2	41.9	14.6
Consumption of Food & Beverage	77.8	47.0	62.9	65.6	23.6
Gross Profit	**695.3**	**449.0**	**477.6**	**54.8**	**45.6**
Employee Benefit Expenses	94.3	78.8	94.7	19.7	-0.5
Other Expenses	312.2	205.4	229.2	52.0	36.2
EBITDA	**288.8**	**164.9**	**153.7**	**-**	**87.9**
Depreciation & amortisation	155.2	154.0	152.5	0.8	1.8
EBIT	**133.5**	**10.9**	**1.1**	**-**	**11,823.2**
Other income	20.1	95.6	16.4	-79.0	22.2
Finance cost	127.5	125.7	127.7	1.4	-0.2
PBT	**26.2**	**-19.2**	**-110.2**	**-**	**-123.7**
Tax provision	10.2	-9.0	-38.7	-213.4	-126.4
Minority Interest	0.2	0.0	0.3	1,050.0	-11.5
Net profit	**16.2**	**-10.2**	**-71.2**	**-**	**-122.7**
EPS (Rs)	**2.6**	**-1.6**	**-11.7**	**-**	**-122.7**
Margin (%)					
GMP	73.9	73.1	69.5	80	437
EBITDA	30.7	26.9	22.4	385	832
EBIT	14.2	1.8	0.2	-	1,403
NPM	1.7	-1.7	-10.4	-	1,209
Tax rate	39.1	46.9	35.1	-779	399

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.

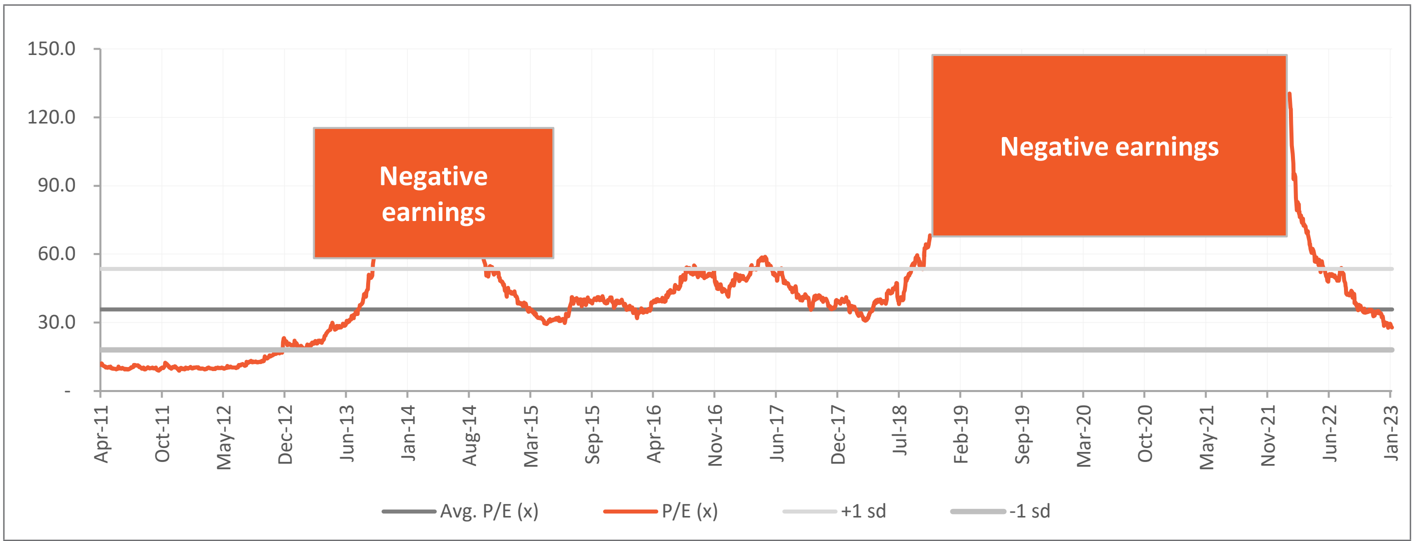
■ Company Outlook – Premium player

PVR is a strong premium theatre chain in Idia, which provides enhanced movie-watching experience to its customers. The company has 903 screens and the count is expected to increase going ahead. Aggressive expansion plans, a robust content line up and increasing ATP and SPH are expected to result in healthy revenue and earnings CAGR of 10.2% and 14.9% over FY2019-FY2025E, respectively.

■ Valuation – Reasonable Valuation

PVR is well poised to achieve greater traction based on quality content pipeline, strong consumer demand, and success of dubbed Southern and regional movies across the country. The presence in premium locations and the 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. 2,020 to reflect the cut in earnings estimate. At CMP the stock trades at 8.7x/7.7x of FY24E/25E EPS

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 903 screens (in different formats) at 181 properties across 78 cities (India and Sri Lanka).

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) Emerging competition from OTT players. (2) Deterioration of content quality might affect footfalls and advertisement revenue growth. (3) Inability to take adequate price hikes at the right time would impact margins in the F&B segment on account of rising input costs and (4) Rise in COVID-19 infections

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
Mukesh Kumar	Company Secretary cum Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	8.89
2	SBI Life Insurance	5.04
3	Blackrock Inc.	4.99
4	Berry Creek Investment Ltd.	3.98
5	Nippon Life India Asset Management	3.95
6	Vanguard Group Inc	3.10
7	FMR LLC	3.07
8	ICICI Prudential Asset Management	2.79
9	ICICI Prudential Life Insurance	2.65
10	Plenty Private Equity Fii I Ltd.	1.76

Source: Bloomberg (Data as on 17th Jan 2023)

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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