Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

PVR Ltd

Focus on unlocking synergies, Maintain Buy

Consumer Discretionary	Sharekhan code: PVR
Reco/View: Buy ↔	CMP: Rs. 1,528 / Price Target: Rs. 1,800 ↓

↑ 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 20.04

Updated Feb 08, 2023

Medium Risk

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

Source: Morningstar

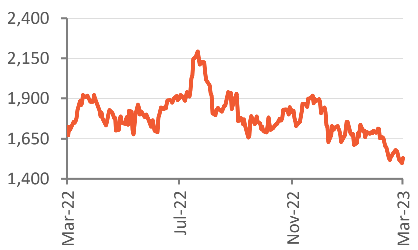
Company details

Market cap:	Rs. 14,964 cr
52-week high/low:	Rs. 2,212 / 1,484
NSE volume: (No of shares)	6.6 lakh
BSE code:	532689
NSE code:	PVR
Free float: (No of shares)	7.1 cr

Shareholding (%)

Promoters	27.5
FII	32.4
DII	26.4
Others	13.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.9	-18.6	-20.8	-11.4
Relative to Sensex	-4.8	-11.0	-16.8	-13.9

Sharekhan Research, Bloomberg

Summary

- PVR-Inox merger is expected to provide significant benefits from market share gains from better ability to penetrate tier 2-3 regions to synergies that would offer substantial bargaining power over the entire ecosystem including content producers, technology service providers, real estate developers and customers.
- PVR's management had guided for annual synergies of Rs. 225 crores merged entity over the next 12-24 months. In terms of revenue synergy, F&B would to be key focus area post-merger together with box office synergy and programming synchronisation, while on the cost front, the company will be focussing on supply chain synergy and reduction in F&B costs.
- After a dismal show in 2022 due to poor performance of Hindi film and fewer Hollywood releases, the movie line-up for 2023 is promising across Hindi, English and other Regional language films. Greater acceptance of multilanguage content with Pan India releases is also expected to aid sales and drive footfalls and occupancy levels.
- We maintain a Buy on PVR with a revised PT of Rs. 1800 (based on FY25E EV/EBITDA of 11x on merged entity EBITDA estimate of ~Rs. 1700 crore) given the likelihood of synergy benefits on revenues and cost front over the medium term, promising content pipeline and potential market share gains from penetration in tier 2-3 regions.

The merger between PVR and Inox has created a multiplex giant with 358 properties and 1674 screens in 114 cities with aggregate seating capacity of 3.56 lakh seats. The management has guided for annual synergies of Rs. 225 crores over the next 12-24 months. In terms of revenue synergies, the management cited that post-merger F&B to be a key focus area. With respect to revenue synergy, Box office synergy and programming synchronisation would be some steps taken to avoid competing with other. On the cost front, the company will be focussing on supply chains synergy and reduction in F&B costs. After a dismal show in 2022 due to poor Hindi film performance and lower Hollywood releases, the movie line-up for 2023 is promising across Hindi, English and Regional films. Greater acceptance of multilanguage content with Pan India releases is also expected to aid sales and drive footfalls and occupancy levels. The company is looking at opening 180 to 200 screens every year over the next two years across strategic locations in key markets. The company will report merged financials from Q4FY23. We maintain a Buy on PVR with a revised PT of Rs. 1800 (based on FY25E EV/EBITDA of 11x on merged entity EBITDA estimate of ~Rs. 1700 crore) given the likelihood of synergy benefits on revenues and costs over the medium term, promising content pipeline and potential market share gains from penetration in tier 2-3 regions.

- **Focus on synergies:** The merged entity could see benefits such as markets share gains from penetration into tier 2-3 regions and synergies would offer substantial bargaining power over the entire ecosystem including content producers, technology service providers, real estate developers and customers. In terms of revenue synergies , the management cited that post-merger F&B to be key focus area post-merger. The company is also setting target of at least 5% of spend per head (SPH) to come from home delivery. Also driving up advertisement revenue which had been impacted due to dismal show is another focus area. Box office synergy and programming synchronisation would be steps taken to avoid competing with each other. On the cost front, the company will be focussing on supply chains synergies and reduction in F&B costs.
- **Strong movie pipeline in 2023:** The management stated that while 2022 was impacted due to underperformance of Hindi films and lower number of Hollywood films, the line-up for 2023 is promising across Hindi, English and regional language films. Compared to earlier times when there was higher reliance on the presence of stars, there is now a greater acceptance of multilanguage content with Pan India releases and multiple languages becoming the norm. This trend is a positive development for the industry as it opens up new markets and audiences, while also encouraging filmmakers to prioritize content quality.
- **Improvement in footfalls and occupancy level to drive growth:** Post-pandemic footfalls and occupancy rates have shown gradual improvement but are yet to cross pre pandemic levels. For 9MFY23 footfalls stood at 65 million and 45.3 million for PVR and Inox Leisure compared to 102 million and 66 million for FY20. Similarly occupancy rates at end of 9MFY23 stood at 29% and 23% for PVR and Inox compared to 35% and 28% in FY20. The other metrics such ATP and SPH have shown significant uptick for PVR (9mFY23 ATP at 241 Vs 204 in FY20, SPH at Rs. 132 Vs Rs. 99) and Inox (9mFY23 ATP at 226 Vs 200 in FY20, SPH at Rs. 101 Vs 80). The current admits and occupancy rates highlight the existence of sufficient headroom. Strong movie line-up and quality multilanguage content can re-ignite the unparalleled movie going experience, resulting in higher footfalls/occupancy rates.

Our Call

Valuation – Focus on unlocking synergies, Maintain Buy: We maintain a Buy on PVR with a revised PT of Rs. 1800 (based on FY25E EV/EBITDA of 11x on merged entity EBITDA estimate of ~Rs. 1700 crore) given the likelihood of synergy benefits on revenues and cost front over the medium term, promising content pipeline and potential market share gains from penetration in tier 2-3 regions.

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 cost.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Total Revenue	1331	3764	4928	5512
EBITDA margin %	-18%	11%	13%	15%
Adjusted Net Profit	-431	34	184	281
% YoY growth	-70.6	5.5	30.2	46.0
EPS (Rs.)	NA	NA	446	52
PER (x)	NA	276.0	50.6	33.2
P/BV (x)	3.9	3.9	3.6	3.2
EV/EBITDA	NA	38.4	24.8	19.9
ROE (%)	NA	1.4	7.3	10.2
ROCE (%)	NA	4.0	7.7	9.9

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

PVR-Inox Merger

The merger of PVR and Inox Leisure became effective February 6, 2023. Post the merger, the merged entity will be called PVR INOX Ltd. The merged entity will be led by Ajay Bijli as Managing Director (current chairman and MD of PVR). The board will be reconstituted post the merger, and it will have 10 members with both promoter families having two seats. PVR's promoters will have a 10.6% stake in the merged entity while promoters of INOX will have 16.6% holding. For the next six months, the new screens currently in the pipeline would be branded as it is with the existing branding while post that new cinemas will be branded as PVR-Inox.

Key Management concall highlights

Quality content: The management stated that while 2022 was impacted due to underperformance of Hindi films and lower number of Hollywood films, the line-up for 2023 is promising across Hindi, English and Regional films. Compared to earlier times when there was higher reliance on the presence of stars, there is now a greater acceptance of multilanguage content with Pan India releases and multiple languages becoming the norm.

F&B to be a key focus area

The management is looking at F&B as key focus area with merger giving them a larger footprint with more locations giving opportunities for higher deliveries. The company is targeting at least 5% of the SPH from home delivery from every cinema. Various measures will be taken such as improving variety of offerings including ticketless entry into premises to buy F&B even when customers have no plans to watch a movie. Some box offices are getting converted to F&B outlets since of most of the tickets are being bought online.

Revenue and cost Synergies

In terms of revenue synergies, the management cited that post-merger F&B to be key focus area post-merger. Box office synergy and programming synchronisation would be steps taken to avoid competing with each other. On the cost front, the company will be focussing on supply chains synergies and reduction in F&B costs.

Expansion in South India

The multiplex penetration in South India is very low hence the company will be looking at increasing their presence there. The new screens currently in the pipeline in the coming 6 months would be branded as it is with the existing branding but will be looking at rebranding post 6 months.

Increasing window for good films

The current window for Hindi films is 8 weeks which is the same as pre-covid. Similar window applies to Hollywood films. The window for regional films varies from 4-6 weeks. The company intends to increase the window for the non-Hindi Indian films which would benefit content creators as well as PVR.

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 bodes 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 merger between PVR and Inox has created a multiplex giant with 358 properties and 1674 screens in 114 cities. Aggressive expansion plans, robust line-up of content and increasing average ticket prices (ATP) and spend per head (SPH) are expected to result in healthy revenue and earnings CAGR of 10.2% and 14.9% over FY2019-FY2025E, respectively.

■ Valuation – Focus on unlocking synergies, Maintain Buy

We maintain a Buy on PVR with a revised PT of Rs. 1800 (based on FY25E EV/EBITDA of 11x on merged entity EBITDA estimate of ~Rs. 1700 crore) given the likelihood of synergy benefits on revenues and cost front over the medium term, promising content pipeline and potential market share gains from penetration in tier 2-3 regions.

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.The merger between PVR and Inox has created a multiplex giant with 358 properties and 1674 screens in 114 cities.

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 cost.

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 (Old data)

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Fund Management	5.56
2	ICICI Prudential Asset Management	4.97
3	SBI Life Insurance	3.15
4	Nippon Life India Asset Management	2.80
5	Berry Creek Investment Ltd.	2.49
6	Blackrock Inc.	1.88
7	Plenty Private Equity FII I Ltd.	1.88
8	HDFC Asset Management Co Ltd	1.80
9	Vanguard Group Inc	1.68
10	ICICI Prudential Life Insurance	1.53

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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.