



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 Mar 08, 2023

20.04

Low Risk

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

Source: Morningstar

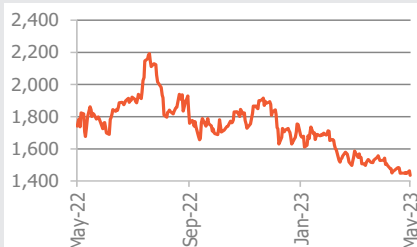
Company details

Market cap:	Rs. 14,060 cr
52-week high/low:	Rs. 2,212 / 1,404
NSE volume: (No of shares)	5.6 lakh
BSE code:	532689
NSE code:	PVRINOX
Free float: (No of shares)	5.6 cr

Shareholding (%)

Promoters	55.6
FII	17.7
DII	21.0
Others	5.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	(6.1)	(16.1)	(19.3)	(17.6)
Relative to Sensex	(8.5)	(17.1)	(19.2)	(34.5)

Sharekhan Research, Bloomberg

PVR Inox Ltd

Mixed Q4; Maintain Buy

Consumer Discretionary

Sharekhan code: PVRINOX

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,435

Price Target: Rs. 1,800

Summary

- PVR reported Revenue at Rs 1143 crore, which missed our estimates of Rs. 1171 crore as admissions for February and March 23 were disappointing due to the lacklustre performance of other Hindi films, which offset blockbuster success of Pathan and impressive box office collections of few Hollywood and regional movies.
- On a y-o-y basis, sales of movie tickets, F&B, Advertisement income and Convenience fees was up 21%/37%/162% and 55% while on operating metrics front the Occupancy stood at 22.2% /down 290 bps, Average ticket price at Rs. 239/ up 3% and SPH at Rs 119/ up 13% compared to proforma numbers.
- For FY24, the company expects revenue of Rs 6000 crores to Rs 7000 crores, driven by a strong movie lineup and the expansion of cinema screens. The company plans to open 150-175 new screens in FY24.
- We maintain a Buy on PVR with unchanged PT of Rs. 1800, on the back of robust content pipeline, focused expansion of cinema screens and revenue synergies that is expected flow post the merger, At CMP the stock trades at 24.5x/17.7x of FY24E/FY25E EPS.

PVR reported Revenue at Rs 1143 crore, that missed our estimates of 1171 crore. EBITDA margin for PVR Inox stood at 23.1 % beating our estimates of 15.6%. The company reported a loss of Rs. 333.4 crore for Q4FY23. After adjusting for the impact of Ind AS 116 relating to lease accounting, the company reported the following financial figures for the Q4FY23, total revenue of Rs. 1,165 crores, EBITDA of Rs. 27 crores, and a PAT loss of Rs. 286 crores. These numbers include one-time exceptional write-offs of Rs. 21 crores for cinema assets and merger-related expenses of Rs. 5.5 crores. Additionally, there was a one-time accounting write-off of Rs. 134 crore due to the restatement of deferred tax assets following the transition to the new tax regime, effective FY23. On a y-o-y basis, sales of movie tickets, F&B, Advertisement Income and Convenience Fees were up 21%/37%/162% and 55% respectively compared to Proforma numbers. On a y-o-y basis, the Occupancy stood at 22.2% /down 290 bps, ATP at Rs 239/ up 3% and SPH at Rs 119/ up 13% compared to proforma numbers. Despite the blockbuster success of "Pathaan" in January and the sustained strong performance of "Avatar: Way of Water" released in December 2022, the admissions for February and March 2023 were disappointing due to the lacklustre performance of other Hindi films. Hollywood movies delivered a decent performance at the box office along with some Regional films. For FY24, the company expects revenue of Rs 6000-7000 crore, driven by a strong movie line-up and the expansion of cinema screens. The management is optimistic on the robust content line-up across languages, including big releases from Bollywood and Hollywood. They expect the box office volatility to settle down in the coming quarters. The company plans to open 150 to 175 new screens in FY24. We maintain a Buy on PVR with unchanged PT of Rs. 1800, on the back of robust content pipeline, focused expansion of cinema screens and revenue synergies that is expected flow post the merger, At CMP the stock trades at 24.5x/17.7x of FY24E/FY25E EPS.

Key positives

- ATP/SPH at Rs.239/Rs.119 were up 3%/13% on y-o-y basis in comparison to proforma financials.
- On a y-o-y basis, sales of movie tickets, F&B, Advertisement income and Convenience fees were up 21%/37%/162% and 55% respectively in comparison to proforma financials.

Key negatives

- Occupancy at 22.2% was down 290 bps y-o-y in comparison to proforma financials.
- Gross box office for PVR-Inox for Q4FY23 stood at Rs 726.3 crore compared to Rs 879 crore in Q3FY23.

Management Commentary

- For FY24, the company expects revenue of Rs 6000-7000 crore, driven by a strong movie line-up and the expansion of cinema screens. The management indicated confidence in the upcoming movie releases and the opening of iconic destination cinemas.
- The management is optimistic on the robust content line-up across languages, including big releases from Bollywood and Hollywood. They expect the box office volatility to settle down in the coming quarters. The company plans to open 150 to 175 new screens in FY24.

Revision in estimates – We have revised our FY24-25 earnings estimate to incorporate financials of the merged company.

Our Call

Valuation: Mixed Q4; Maintain Buy - PVRInox merger is expected to increase bargaining power which can lead to gains in market share and also bring about focussed investments based on the strengths of the combined entity. We maintain a Buy on PVR with unchanged PT of Rs. 1800, on the back of robust content pipeline, focused expansion of cinema screens and revenue synergies that is expected flow post the merger. At CMP the stock trades at 24.5x/17.7x of FY24E/FY25E 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 affect margins in the F&B segment on account of rising input costs and
- (4) Rise in COVID-19 infections

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Total Revenue	1329	3751	6603	7506
EBITDA margin %	-18%	9%	18%	20%
Adjusted Net Profit	-419	-98	573	796
% YoY growth	-42.8	-10.0	58.5	81.2
EPS (Rs)	NA	NA	NA	39.0
PER (x)	NA	NA	24.5	17.7
P/BV (x)	10.3	1.9	1.8	1.6
EV/EBITDA	NA	48.4	12.9	10.1
ROE (%)	NA	NA	7.5	9.6
ROCE (%)	NA	1.8	19.0	24.1

Source: Company; Sharekhan estimates; * Numbers are based on Ind AS 116. FY24-25 estimates are for merged company. # Financials of FY22 and FY23 are not comparable

Key result highlights

- ♦ **Box office performance:** Despite the blockbuster success of “Pathaan” in January and sustained strong performance of “Avatar: Way of Water” released in December 2022, the admissions for February and March 2023 were disappointing due to the lackluster performance of other Hindi films. Movies like Tu Jhoothi Main Makkar and Bhola from Bollywood garnered average box office collections while Selfie and Shehzada failed to make any impact. Hollywood movies like John Wick Chapter 4, Antman and the Wasp, Quantumania, Shazam 2 and Creed 3 delivered a decent performances at the box office. Regional films continued their strong performance with movies like Vaarisu in Tamil, Waltair Veerayya and Thunivu in Telugu and Ved in Marathi, all registering impressive box office collections. Pro forma Gross box office for PVRInox for Q4FY23 stood at Rs 726.3 crore compared to Rs 879 crore in Q3FY23.
- ♦ **Business segment commentary:** For PVRInox, on a y-o-y basis, the Sales of Movie Tickets, F&B, Advertisement Income and convenience fees was up 21%/37%/162% and 55% respectively compared to Proforma numbers. On a y-o-y basis, occupancy stood at 22.2% /down 290 bps, ATP at Rs 239/ up 3% and SPH at Rs 119/ up 13% compared to proforma numbers.
- ♦ **Strong content pipeline for FY24:** The management is optimistic on the robust content line-up across languages, including big releases from Bollywood and Hollywood. They expect the box office volatility to settle down in the coming quarters. The company plans to open 150-175 new screens in FY24, with some already opened, some awaiting licenses, and others in the fit-out stage. They have adjusted their strategy to defer handovers until there is a strong recovery in the box office. PVR and INOX together added 79 screens in Q4FY23 and plan to add more screens in the upcoming fiscal year.
- ♦ **Screen additions:** In FY24, the company plans to open an additional 150 to 175 screens. Currently, 9 screens have already opened, 15 are awaiting licenses or commercial openings, and 152 screens are in various stages of fit-out. The company has adjusted its strategy to defer the handover of new sites until the next calendar year, anticipating a stronger recovery in the box office. The company expects 40-50% screen additions in Southern India. The company wants to fund bulk of the growth from operating earnings. The company has decided to close approximately 50 underperforming screens within the next six months. These screens are in malls and have reached the end of their life cycle without prospects for revival. This decision aligns with the company’s strategy to prioritize profitable growth and enhance unit-level economics. Currently, the company operates a screen portfolio of 1,689 screens across 361 cinemas in 115 cities in India and Sri Lanka, including 38 management screens.
- ♦ **Advertising revenues:** On an average, the company plays around 19 minutes of advertising in movie screenings, divided into two slots: before the start of the film and during the intermission. Currently, they are playing about 12-12.5 minutes of advertising, but they anticipate this duration to increase in the future. The company experiences a boost in advertising revenue during the release of big films like Pathaan, and they expect this trend to continue and grow as they move forward. They anticipate strong numbers on advertising by Q2 and the beginning of the festive quarter (Q3).
- ♦ **Gross debt:** Gross debt stood at Rs. 1792.6 crore while Cash & Cash Equivalents stood at Rs 361.8 crore as on March 31, 2023.
- ♦ **Capex:** The company expects its overall capital expenditure (Capex) for the year to be around INR700 crore. This includes investments in new screens, existing screens, technology, IT, maintenance, and other related expenses. The projected capex would be towards addition of 175 screens.

Results (Consolidated)

Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	% YoY	% QoQ
Net sales	1,143.2	537.1	940.3	112.8	21.6
Movie Exhibition Cost	259.7	132.2	169.9	96.4	52.9
Consumption of Food & Beverage	93.0	44.8	77.8	107.6	19.6
Gross Profit	790.4	360.1	692.7	119.5	14.1
Employee Benefit Expenses	151.4	81.4	92.3	86.0	64.1
Other Expenses	375.2	178.8	311.7	109.8	20.4
EBITDA	263.9	99.9	288.7	-	-8.6
Depreciation & amortisation	296.2	168.7	155.2	75.6	90.8
EBIT	-32.3	-68.8	133.5	-	-124.2
Other income	21.8	42.5	20.1	-48.8	8.4
Finance cost	188.6	125.2	127.5	50.6	48.0
PBT	-199.2	-151.5	26.1	-	-
Tax provision	124.0	-46.0	10.2	-	-
Minority Interest	0.6	0.0	0.2		-
Net profit	-322.6	-105.5	16.1	-	-
EPS (Rs)	-51.3	-17.3	2.6	-	-
Margin (%)					
GMP	69.1	67.0	73.7	210	-452
EBITDA	23.1	18.6	30.7	449	-762
EBIT	-2.8	-12.8	14.2	-	-
NPM	-28.2	-19.6	1.7	-	-
Tax rate	-59.0	30.4	39.2	--	-

* Q4 FY'23 results for the company are reported on a merged basis for PVR and INOX and are not comparable with Q4 FY22 and Q3FY23 reported results

Source: Company; Sharekhan estimates

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 merger between PVR and Inox has created a multiplex giant with 359 properties and 1680 screens in 115 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 for the merged entity.

■ Valuation – Mixed Q4; Maintain Buy

PVRInox merger is expected to increase bargaining power which can lead to gains in market share and also bring about focussed investments based on the strengths of the combined entity. We maintain a Buy on PVR with unchanged PT of Rs. 1800, on the back of robust content pipeline, focused expansion of cinema screens and revenue synergies that is expected flow post the merger. At CMP the stock trades at 24.5x/17.7x of FY24E/FY25E EPS.

About the 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 359 properties and 1680 screens in 115 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 advertising 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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	7.6
2	ICICI Prudential Asset Management	7.4
3	SBI Life Insurance Co Ltd	3.2
4	Nippon Life India Asset Management	3.1
5	Vanguard Group Inc/The	2.7
6	Berry Creek Investment Ltd	2.5
7	State of Kuwait	2.3
8	HDFC Asset Management Co Ltd	2.0
9	BlackRock Inc	1.9
10	Prudential PLC	1.9

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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