

The South offers huge growth opportunity**Media & Entertainment** ▶ **Company Update** ▶ **July 25, 2023****TARGET PRICE (Rs): 1,700**

Over the last decade, PVR Inox has grown into an undisputed leader of the film exhibition segment, now commanding ~30% of the overall revenue market share, and thus displacing legacy single-screens. As per our analysis, PVR Inox currently has market share of 35-40% in Bollywood and of 45-50% in Hollywood, both seeing an uptick from pre-Covid market-share levels. However, Company's market share in southern India remains woefully low (10-15%, as per our estimates, for movies not dubbed in *Hindi*) and hence presents a huge opportunity, given market attractiveness. We believe the trend of market-share gains should continue for PVR Inox, at least for the next few years, led by: i) accelerated closure of single screens; and ii) faster expansion in the southern region. After subdued box-office collections in the last couple of quarters, courtesy subpar content quality and delay in movie releases, Company boasts of a strong pipeline of movies in Q2FY24. We cut our FY24E EBITDA by 14%, factoring-in the potential weaker Q1FY24 performance; we marginally tweak our FY25 estimates and maintain BUY, with unchanged target price of Rs1,700/share (rolled forward to Jun-25E, 11.5x Pro-forma EBITDA).

PVR INOX: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13,310	37,507	62,338	75,583	84,990
EBITDA	1,057	10,473	19,382	26,137	29,549
Adj. PAT	(4,882)	(3,273)	1,461	5,198	7,488
Adj. EPS (Rs)	(80.4)	(52.0)	14.9	53.1	76.4
EBITDA margin (%)	7.9	27.9	31.1	34.6	34.8
EBITDA growth (%)	0.0	890.4	85.1	34.9	13.1
Adj. EPS growth (%)	0.0	0.0	0.0	255.8	44.1
RoE (%)	(30.5)	(7.5)	2.0	6.7	8.9
RoIC (%)	(6.7)	5.0	4.8	7.0	8.1
P/E (x)	(18.5)	(29.5)	99.5	28.0	19.4
EV/EBITDA (x)	128.9	16.6	11.6	8.6	7.6
P/B (x)	6.6	1.3	1.9	1.8	1.7
FCFF yield (%)	0.3	1.3	2.5	3.6	4.4

Source: Company, Emkay Research

The vast Southern opportunity: The rage for cinema remains unparalleled across South India. At a time when Bollywood was not faring well, the four regional languages in the South contributed to almost two-thirds of the country's entire cinema footfalls during 2022. Even prior to Covid, contribution by the four languages was more than half of the footfalls. Movie mania in the South is also visible in the sizable number of screens — the region is home to ~48% of the country's screens. However, PVR Inox's market share in the South is relatively lower, at ~10-15% for regional movies not dubbed in *Hindi* (15-20% for regional movies dubbed in *Hindi*) compared with its overall share of ~30%. South India has been historically dominated by single screens, and where action movies are the preferred genre. Lack of strong developers in the area have restricted the expansion of larger multiplexes. However, with developers now turning their attention to the South, PVR Inox stands to become a major beneficiary of this change. In FY24, PVR Inox is set to add 38% of its screens in the region. Caps on ticket prices in the southern states might have a small impact on the company's ATP, though overall revenue benefit should outweigh any other negative aspects.

Gaining at the expense of single screens: Single screens have been the backbone of the film exhibition industry over the last couple of decades. Given the rise of multiplexes, single screens had already started to falter, with Covid sounding the second death knell. The total number of single screens have fallen, from ~8,500 in 2018-19 to 5,400 at present. Majority of these screens are currently in South India (i.e. 3,300 screens), and continue to be the region's mainstay. With theatres closed during Covid, followed by a period of slower recovery, single screens have seen accelerated shutdowns and we believe that this trend is likely to persist. While some screens did see revival during the period, such a development will not sustain in our view, as screen owners find it increasingly difficult to manage expenses. In Metro and Tier 1 cities, PVR Inox is likely to further edge-out single screens, with the chain adding ~75% of its incremental screens in the country's top cities.

Outlook: The post-Covid period has been challenging for PVR Inox, with very few movies firing at the box office. Subpar content quality has been the key culprit, leading to subdued occupancies. The last couple of quarters have also seen movie releases being delayed, as film makers have gone back to the drawing board to bring out a more polished product. With muted trends, the focus of PVR Inox has also shifted, from rapid screen expansion to greater thrust on profitability. Q2FY24 is off to a good start and offers an interesting mix of Bollywood, Hollywood and regional movies, even as audience acceptance remains crucial.

Target Price – 12M	Jun-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.6
CMP (25-Jul-23) (Rs)	1,483.9

Stock Data	Ticker
52-week High (Rs)	2,215
52-week Low (Rs)	1,336
Shares outstanding (mn)	98.0
Market-cap (Rs bn)	145
Market-cap (USD mn)	1,776
Net-debt, FY24E (Rs mn)	79,277
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,011.5
ADTV-3M (USD mn)	12.4
Free float (%)	72.5
Nifty-50	19,681
INR/USD	81.9
Shareholding, Jun-23	
Promoters (%)	27.6
FPIs/MFs (%)	26.8/33.1

Price Performance

(%)	1M	3M	12M
Absolute	7.4	0.4	(22.5)
Rel. to Nifty	1.9	(9.4)	(34.5)

1-Year share price trend (Rs)**Pulkit Chawla**pulkit.chawla@emkayglobal.com
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Exhibit 1: Revenue market share – PVR Inox

(Rs bn)	2015	2016	2017	2018	2019	2022
Gross Box Office Collections	83.2	86.5	96.3	98.1	109.5	106.4
YoY Growth		4.0%	11.3%	1.9%	11.6%	-2.8%
Net Box Office Collections	66.5	69.2	73.2	74.6	93.1	90.4
YoY Growth		4.0%	5.8%	1.9%	24.8%	-2.8%
Ticketing Revenue						
PVR	9.4	10.7	12.0	15.0	18.5	15.9
Inox	6.8	7.3	7.9	8.8	11.7	10.6
Total	16.3	18.0	19.9	23.8	30.2	26.5
Market Share	24.5%	25.9%	27.2%	31.9%	32.5%	29.3%

Source: Ormax, Company, Emkay Research; For Calendar Year

Exhibit 2: Footfall market share – PVR Inox

(mn)	2015	2016	2017	2018	2019	2022
Industry Footfalls	903	901	1010	945	1030	892
YoY Growth		-0.2%	12.1%	-6.4%	9.0%	-13.4%
PVR	67	72	75	91	110	79
Inox	50	52	54	57	71	56
Total	116.5	124.4	129.3	147.8	180.7	135.3
Market Share	12.9%	13.8%	12.8%	15.6%	17.5%	15.2%

Source: Ormax, Company, Emkay Research. For Calendar Year

Exhibit 3: PVR Inox's market share in Bollywood has improved from pre-Covid levels

Name of movie	Release period	PVR Inox Collections (Rs bn)	NBOC (Rs bn)	Market Share
(Post-Covid)				
The Kerala Story	May-23	0.9	2.4	36.0%
Tu Jhoothi Main Makkar	Mar-23	0.6	1.5	40.8%
Pathaan	Jan-23	1.9	5.4	34.6%
Drishyam 2	Nov-22	1.0	2.4	42.3%
Brahmastra	Sep-22	1.1	2.6	43.2%
Pre Covid				
Tanhaji	Jan-20	1.0	2.8	35.2%
War	Oct-19	0.9	3.2	29.6%
Housefull 4	Oct-19	0.6	1.9	33.4%
Bharat	Jun-19	0.6	2.1	30.4%

Source: Bollywood Hungama, Company, Emkay Research

Exhibit 4: Hollywood market share has also improved for PVR Inox

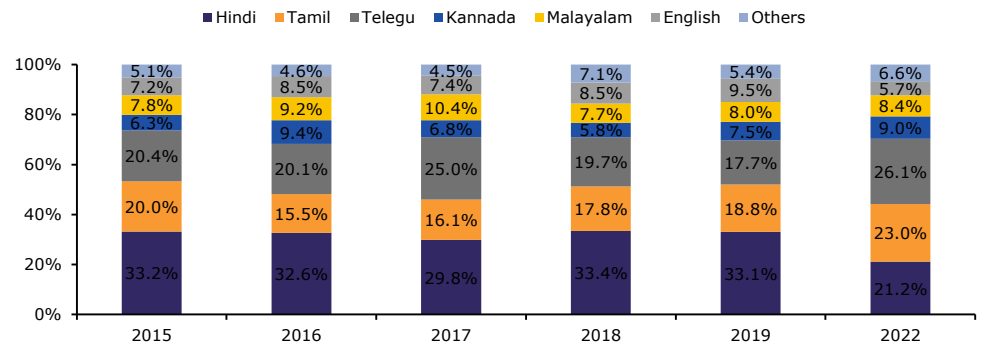
Name of movie	Release period	PVR Inox Collections (Rs bn)	NBOC (Rs bn)	Market Share
(Post-Covid)				
Avatar: Way of Water	Dec-22	1.6	3.8	42.9%
Doctor Strange in the Multiverse of Madness	May-22	0.7	1.3	52.0%
Fast X	May-23	0.4	1.1	40.8%
Thor: Love and Thunder	Jul-22	0.4	1.0	41.7%
Spider Man: No Way Home	Dec-21	1.0	2.2	46.1%
Pre-Covid				
The Lion King	Jul-19	0.5	1.6	31.9%
Avengers: Endgame	Apr-19	1.5	3.7	40.3%

Source: Bollywood Hungama, Company, Emkay Research

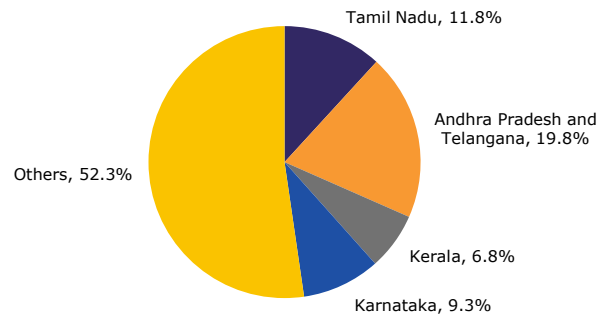
Exhibit 5: PVR Inox's market share in South India is low

Name of movie	Release period	PVR Inox Collections (Rs bn)	NBOC (Rs bn)	Market Share
Varisu (Tamil)	Jan-23	273	2,085	13.1%
Ved (Marathi)	Dec-22	227	655	34.7%
Thunivu (Tamil)	Jan-23	195	1,441	13.5%
Waltair Veerayya (Telugu)	Jan-23	189	1,900	9.9%
Veera Simha Reddy (Telugu)	Jan-23	92	1,150	8.0%

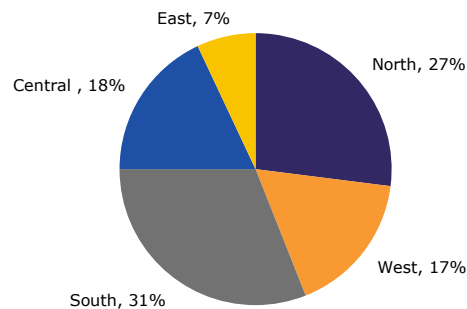
Source: Company, Emkay Research

Exhibit 6: Southern languages accounted for almost 2/3rds of the footfalls in 2022

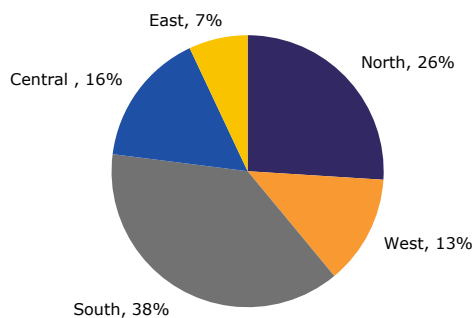
Source: Ormax, Company, Emkay Research

Exhibit 7: 48% of the country's total screens are in South India

Source: Bureau of Outreach and Communications, Emkay Research

Exhibit 8: Only 31% of PVR Inox's screens are in the South

Source: Company, Emkay Research

Exhibit 9: PVR Inox — 38% of the screen additions in FY24 are in the South

Source: Company, Emkay Research

Exhibit 10: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	66,887	62,338	-6.8	76,168	75,583	-0.8	84,990
EBITDA	22,642	19,382	-14.4	26,677	26,137	-2.0	29,549
EBITDA Margin (%)	33.9	31.1	-276 bps	35.0	34.6	-44 bps	34.8
EBITDA (Adj. for IndAS)	11,992	8,938	-25.5	15,388	15,067	-2.1	17,814
PAT	4,225	1,461	-65.4	5,901	5,198	-11.9	7,488
EPS (Rs)	43.1	14.9	-65.4	60.2	53.1	-11.9	76.4

Source: Company, Emkay Research

Exhibit 11: Upcoming pipeline looks strong

Release Date	Movie Name	Language	Cast
28-Jul-23	Rocky Aur Rani Ki Prem Kahani	Hindi	Ranveer Singh, Alia Bhatt
04-Aug-23	Meg 2: The Trench	English	Jason Statham, Melissanthi Mahut
10-Aug-23	Jailer	Tamil	Rajinikanth, Priyanka Mohan
11-Aug-23	Bhola Shankar	Telugu	Chiranjeevi, Keerthy Suresh
11-Aug-23	Gadar 2	Hindi	Sunny Deol, Ameesha Patel
11-Aug-23	Gran Turismo	English	Orlando Bloom, David Harbour
11-Aug-23	OMG 2	Hindi	Pankaj Tripathi, Akshay Kumar
25-Aug-23	Dream Girl 2	Hindi	Ayushmann Khurrana, Ananya Pandey
01-Sep-23	Kushi	Telugu	Vijay Deverakonda, Samantha
01-Sep-23	The Equalizer 3	English	Dakota Fanning, Denzel Washington
07-Sep-23	Jawan	Hindi	Shah Rukh Khan, Nayanthara
08-Sep-23	The Nun 2	English	Bonnie Aarons, Taissa Farmiga
15-Sep-23	Sri	Hindi	Rajkummar Rao, Alaya F
15-Sep-23	The Bricklayer	English	Nina Dobrev, Aaron Eckhart
28-Sep-23	Salaar	Telugu	Prabhas, Shruti Hassan
05-Oct-23	The Great Indian Rescue	Hindi	Akshay Kumar, Parineeti Chopra
06-Oct-23	Kraven- The Hunter	English	Aaron Taylor-Johnson, Ariana DeBose
20-Oct-23	Tejas	Hindi	Kangana Ranaut, Varun Mitra
20-Oct-23	Ganpath: Part 1	Hindi	Tiger Shroff, Kriti Sanon
20-Oct-23	Bhagavath Kesari	Telugu	Nandamuri Balakrishna, Kajal Aggarwal
24-Oct-23	The Vaccine War	Hindi	Anupam Kher, Nana Patekar

Source: Company, Emkay Research

PVR INOX: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13,310	37,507	62,338	75,583	84,990
Revenue growth (%)	375.3	181.8	66.2	21.2	12.4
EBITDA	1,057	10,473	19,382	26,137	29,549
EBITDA growth (%)	0.0	890.4	85.1	34.9	13.1
Depreciation & Amortization	6,144	7,533	11,000	12,500	13,000
EBIT	(5,087)	2,940	8,382	13,637	16,549
EBIT growth (%)	0.0	0.0	185.1	62.7	21.3
Other operating income	0	0	0	0	0
Other income	3,261	791	1,400	1,600	1,700
Financial expense	4,982	5,716	8,008	8,291	8,241
PBT	(6,807)	(1,986)	1,774	6,946	10,007
Extraordinary items	0	(108)	0	0	0
Taxes	(1,922)	1,274	313	1,748	2,519
Minority interest	(3)	13	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(4,882)	(3,381)	1,461	5,198	7,488
PAT growth (%)	0.0	0.0	0.0	255.8	44.1
Adjusted PAT	(4,882)	(3,273)	1,461	5,198	7,488
Diluted EPS (Rs)	(80.4)	(52.0)	14.9	53.1	76.4
Diluted EPS growth (%)	0.0	0.0	0.0	255.8	44.1
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	7.9	27.9	31.1	34.6	34.8
EBIT margin (%)	(38.2)	7.8	13.4	18.0	19.5
Effective tax rate (%)	28.2	(64.2)	17.7	25.2	25.2
NOPLAT (pre-IndAS)	(3,650)	4,826	6,902	10,205	12,383
Shares outstanding (mn)	60.8	65.0	98.0	98.0	98.0

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(6,807)	(1,986)	1,774	6,946	10,007
Others (non-cash items)	7,943	12,589	8,008	8,291	8,241
Taxes paid	99	1	(313)	(1,748)	(2,519)
Change in NWC	434	(1,969)	3,708	565	(479)
Operating cash flow	1,668	8,635	13,177	14,054	15,251
Capital expenditure	(1,298)	(6,339)	(7,543)	(5,861)	(5,393)
Acquisition of business	0	0	0	0	0
Interest & dividend income	270	88	0	0	0
Investing cash flow	(28)	(5,759)	(7,543)	(5,861)	(5,393)
Equity raised/(repaid)	183	305	0	0	0
Debt raised/(repaid)	1,533	1,260	(500)	(500)	(1,000)
Payment of lease liabilities	(2,638)	(7,059)	626	632	639
Interest paid	(1,246)	(1,442)	(8,008)	(8,291)	(8,241)
Dividend paid (incl tax)	0	0	0	0	0
Others	802	301	285	285	285
Financing cash flow	(1,366)	(6,634)	(7,597)	(7,874)	(8,318)
Net chg in Cash	274	(3,758)	(1,963)	319	1,541
OCF	1,668	8,635	13,177	14,054	15,251
Adj. OCF (w/o NWC chg.)	2,102	6,666	16,885	14,619	14,773
FCFF	370	2,296	5,634	8,193	9,859
FCFE	(4,342)	(3,333)	(2,374)	(98)	1,617
OCF/EBITDA (%)	157.7	82.5	68.0	53.8	51.6
FCFE/PAT (%)	88.9	98.6	(162.5)	(1.9)	21.6
FCFF/NOPLAT (%)	(10.1)	47.6	81.6	80.3	79.6

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	610	980	980	980	980
Reserves & Surplus	13,093	72,319	73,780	78,977	86,466
Net worth	13,703	73,299	74,759	79,957	87,445
Minority interests	(3)	(7)	(7)	(7)	(7)
Deferred tax liability (net)	(5,925)	(4,735)	(4,735)	(4,735)	(4,735)
Total debt	51,959	80,519	80,645	80,777	80,416
Total liabilities & equity	59,734	1,49,076	1,50,662	1,55,992	1,63,119
Net tangible fixed assets	15,181	29,431	36,431	41,931	46,931
Net intangible assets	1,590	1,480	1,776	1,865	1,959
Net ROU assets	26,784	53,746	53,746	53,746	53,746
Capital WIP	645	2,473	2,721	2,993	3,292
Goodwill	10,520	57,428	57,428	57,428	57,428
Investments	5	2,312	2,312	2,312	2,312
Cash & equivalents	5,798	3,616	1,368	1,402	2,658
Current assets (ex-cash)	6,788	9,510	15,726	16,956	21,052
Current Liab. & Prov.	7,573	10,922	20,845	22,640	26,258
NWC (ex-cash)	(785)	(1,411)	(5,120)	(5,685)	(5,206)
Total assets	59,738	1,49,076	1,50,662	1,55,992	1,63,119
Net debt	46,161	76,903	79,277	79,375	77,758
Capital employed	59,734	1,49,076	1,50,662	1,55,992	1,63,119
Invested capital	53,290	1,40,674	1,44,262	1,49,286	1,54,858
BVPS (Rs)	225.5	1,127.2	763.1	816.1	892.6
Net Debt/Equity (x)	3.4	1.0	1.1	1.0	0.9
Net Debt/EBITDA (x)	43.7	7.3	4.1	3.0	2.6
Interest coverage (x)	(2.7)	1.5	0.8	0.5	0.5
RoCE (%)	(2.9)	3.6	6.5	9.9	11.4

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(18.5)	(29.5)	99.5	28.0	19.4
P/CE(x)	71.5	22.6	11.7	8.2	7.1
P/B (x)	6.6	1.3	1.9	1.8	1.7
EV/Sales (x)	10.2	4.6	3.6	3.0	2.6
EV/EBITDA (x)	128.9	16.6	11.6	8.6	7.6
EV/EBIT(x)	(26.8)	59.0	26.8	16.5	13.5
EV/IC (x)	2.6	1.2	1.6	1.5	1.4
FCFF yield (%)	0.3	1.3	2.5	3.6	4.4
FCFE yield (%)	(4.8)	(3.5)	(1.6)	(0.1)	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	(36.7)	(8.7)	2.3	6.9	8.8
Total asset turnover (x)	0.2	0.4	0.4	0.5	0.5
Assets/Equity (x)	3.9	2.4	2.0	2.0	1.9
RoE (%)	(30.5)	(7.5)	2.0	6.7	8.9
DuPont-RoIC					
NOPLAT margin (%)	(27.4)	12.9	11.1	13.5	14.6
IC turnover (x)	0.2	0.4	0.4	0.5	0.6
RoIC (%)	(6.7)	5.0	4.8	7.0	8.1
Operating metrics					
Core NWC days	(21.5)	(13.7)	(30.0)	(27.5)	(22.4)
Total NWC days	(21.5)	(13.7)	(30.0)	(27.5)	(22.4)
Fixed asset turnover	0.2	0.3	0.3	0.4	0.4
Opex-to-revenue (%)	70.6	50.2	46.1	42.6	42.2

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
16-May-23	1,435	1,700	Buy	Pulkit Chawla
19-Jan-23	1,678	2,050	Buy	Pulkit Chawla

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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