Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

PVR INOX Ltd

Strong Q2; Maintain Buy

Consumer Discretionary	Sharekhan code: PVRINOX
Reco/View: Buy ↔	CMP: Rs. 1,694
	Price Target: Rs. 2,200 ↔

↑ 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 Aug 08, 2023

Medium Risk

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

Source: Morningstar

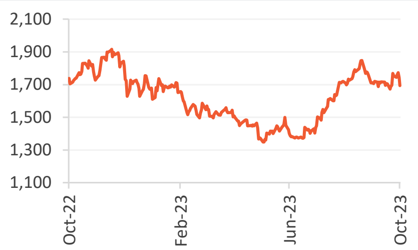
Company details

Market cap:	Rs. 16,622 cr
52-week high/low:	Rs. 1,925/1,337
NSE volume: (No of shares)	5.2 lakh
BSE code:	532689
NSE code:	PVRINOX
Free float: (No of shares)	7.1 cr

Shareholding (%)

Promoters	27.8
FII	23.3
DII	37.2
Others	11.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.0	17.0	12.2	-2.6
Relative to Sensex	1.1	20.2	2.6	-13.0

Sharekhan Research, Bloomberg

Summary

- PVR INOX reported revenues of Rs 1999.9 crore, up 53.3% q-o-q, beating our estimate of Rs. 1,904 crore driven by robust box office collections (BO), up 109% y-o-y from strong Bollywood, Hollywood and regional performances.
- EBITDA margin (Ind-AS 116 adjusted) improved to 21.4%, beating our estimates of 20.8%, driven by strong operational performance. Average ticket prices (ATP) /SPH grew by 25%/15% y-o-y respectively. PVR INOX realized a total of Rs. 1240-1430 million in merger synergies in H1FY24.
- Management is optimistic on the robust content line-up across languages. The company expects greater traction and momentum in Advertising income, especially with the release of significant blockbuster films in the upcoming two quarters.
- With a strong content pipeline across all languages and benefits of merger synergies, the uptick in operational metrics is expected to gain further traction. Hence, we maintain a Buy on PVR with unchanged PT of Rs. 2,200. At CMP, the stock trades at 21.4x FY26E EPS and 10.6x FY26E EV/ EBITDTA.

PVR INOX reported revenues of Rs 1999.9 crore, up 53.3% q-o-q beating our estimate of Rs. 1,904 crore driven by strong box office collections (BO), due to sharp uptick in Admits and ATP. Average ticket prices (ATP) grew by 25% y-o-y to Rs. 276 while spend per head (SPH) grew by 15% y-o-y to Rs. 136. Driven by strong operating performance, ticket sales increased by 109% and Food & Beverage sales increased by 89% q-o-q. EBITDA margin (Ind-AS 116 adjusted) improved to 21.4% beating our estimates of 20.8%. Company reported a profit of Rs. 207.4 crore beating our estimates of Rs. 156.8 crore driven by all-round performance. Admits improved sharply by 64% y-o-y with Occupancy at 32.3%. PVR INOX realised a total of Rs. 1240-1430 million in merger synergies in H1FY24. The management is optimistic on the robust content line-up across languages, including big releases from Bollywood, Hollywood and regional movies. The company expects greater traction and momentum in advertising income, especially with the release of significant blockbuster films in the upcoming two quarters. With strong content pipeline across all languages and benefits of merger synergies, the uptick in operational metrics is expected to gain further traction. Hence, we maintain a Buy on PVR INOX with an unchanged PT of Rs. 2200, in anticipation of strong BO collections led by robust content pipeline and increased benefits of revenue & cost synergies going forward. At CMP the stock trades at 21.4x FY26E EPS and 10.6x FY26E EV/EBITDTA.

Key positives

- ATP/SPH at Rs.276/Rs.136 were up 25%/15% on y-o-y basis.
- Sales of movie tickets and F&B were up 109%/89% on y-o-y basis, respectively.
- Admits improved by 64% y-o-y to 48.4 million.

Key negatives

- Rent increased 26% y-o-y to Rs 312.9 crore
- Movie distribution, Print Charges increased 166% y-o-y to Rs 54.7 crore.

Management Commentary

- Operating earnings and cash flows are projected to increase steadily, providing adequate resources to support its growth. The surplus funds will be utilized to reduce the net debt levels on the company's balance sheet. The primary objective for this year is to achieve a net-debt-to-EBITDA ratio of 1:1, and then reduce the debt in the coming years.
- The company expects greater traction and momentum in Advertising income, especially with the release of significant blockbuster films in the upcoming two quarters. The management is optimistic that by next year, they will reach and surpass the revenue numbers from 2019-2020, indicating a positive trajectory.

Revision in estimates – We have revised the estimates to factor Q2FY24 performance

Our Call

Valuation: Maintain Buy with unchanged PT of Rs 2,200: The quarter witnessed a significant improvement in performance with audiences embracing content from various genres and languages, following a prolonged period of inconsistency. A strong content pipeline across all languages is expected in coming quarters and benefits of merger synergies is expected to provide a further uptick to the operational metrics. Hence, we maintain a Buy on PVR INOX with unchanged PT of Rs. 2,200 in anticipation of strong box office collections led by robust content pipeline and increased benefits of revenue & cost synergies going forward. At CMP, the stock trades at 21.4x FY26E EPS and 10.6x FY26E EV/ EBITDTA.

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) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Total Revenue	3,751	6,822	7,686	8,334
EBITDA margin %	9%	15%	20%	20%
Adjusted Net Profit	-98	337	659	778
% YoY growth	NA	NA	95.6	18.0
EPS (Rs)	-10.0	34.3	67.2	79.2
PER (x)	NA	49.3	25.2	21.4
P/BV (x)	2.3	2.2	2.0	1.8
EV/EBITDA	56.4	18.1	11.8	10.6
ROE (%)	NA	4.5	8.2	8.9
ROCE (%)	1.8	12.5	20.7	23.5

Source: Company; Sharekhan estimates

PVR INOX Q2FY24 Highlights

- **BO performance:** The highlight was the record-breaking performance of Hindi movies such as Jawaan and Gadar 2, which were released during the quarter and emerged as two of the biggest-grossing Hindi films of all times, recording over Rs 750 crores and Rs 620 crores at the box office respectively. Mid-scale movies like Rocky Aur Rani Kii Prem Kahaani and OMG2 each grossed over Rs 150 crores, while Dream Girl 2 and Fukrey 3 comfortably exceeded the Rs 100 crore mark. Blockbusters like Oppenheimer and Mission Impossible, Dead Reckoning Part 1 grossed over Rs 150 crores and Rs 130 crores. Barbie and Nun II also performed well and crossed the Rs 50 crore-mark at the box office. Regional movies across languages continue to demonstrate stable performance. Jailer (Tamil), was the highest grossing regional movie with Rs 390 crores plus of box office collections. Baipan Bhari Deva became the second highest grossing Marathi movie at box office of Rs 90 crore-plus.
- **Segmental performance:** For Q2FY24, movie tickets and F&B were up 109%/89% y-o-y respectively. Advertisement Income grew 41% y-o-y aided by blockbuster films while Convenience fees grew 23% y-o-y respectively . Occupancy was sharply up at 32.3% while ATP and SPH improved to Rs. 276/ Rs. 136 up 25% and 15% y-o-y, respectively.
- **Merger synergies:** PVR INOX realized a total of Rs1240-1430 million in merger synergies in H1FY24. Synergies can be categorised as 1) Box Office (BO) revenue synergy: PVR INOX achieved a revenue synergy of Rs. 750-840 million. The growth in Average Ticket Price (ATP) can be attributed to factors such as inflation contributing to 3.5-4.5% and better programming 2) Food and Beverage (F&B) revenue synergy: PVR INOX integrated the best menus, including the introduction of non-veg options at INOX properties. This resulted in a revenue synergy of Rs. 310-380 million in the F&B segment.3)Overhead cost synergy: PVR INOX achieved a cost synergy of Rs. 170-210 million in overhead costs. PVR expects an impact of at least 200 bps on operating margin once full synergy benefits are realized. The company stated that it is on course to deliver a significant portion of merger synergies in FY24.
- **Strong content pipeline:** The management is optimistic on the robust content line-up across languages. The management believes that volatility in Hindi box office box office has reduced considerably with a marked improvement in the average collection of Hindi films, particularly in the case of mid-scale movies, which have been making a strong impact at the box office. From Hindi, there are Ganapath and Tejas in October, Tiger 3 in November, and Animal, Sam Bahadur, Merry Christmas, Yodha, Dunki, and Salaar in December. From Hollywood, there are Killers of the Flower Moon; in October, The Marvels, Taylor Swift, The Tour Movie, Napoleon in November, Wonka, and Aquaman and Lost Kingdom in December. On the regional genre, Leo, Maujaan Hi Maujaan, and Tiger, Nageswara Rao in October, Naal 2 and Japan in November, Captain Miller, and Hi Nanna in December are expected to be released in the current quarter.
- **Screen additions:** For Q2FY24, the company added 68 screens and exited 33 underperforming screens. The company is on track to open 150 -160 new screens and expects to exit a total of 60 screens in FY24 . The company's screen portfolio stands at 1,702 screens across 358 cinemas in 115 cities in India and Sri Lanka.
- **Gross debt:** Gross debt stood at Rs. 1684.8 crore while cash & cash equivalents stood at Rs 581.5 crore as on September 30, 2023. The company reduced debt by Rs. 327.6 crores. The company stated that it is on track to be Free Cash Flow Positive for FY24.
- **PVR Inox passport:** The company intends to launch the program on a trial basis to approximately 20,000 users in order to analyze their consumption patterns. However, they have decided not to launch the program in the South due to the region already experiencing robust consumer consumption.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	Q1FY24	% YoY	% QoQ
Net sales	**1,999.9**	**1,060.1**	**1,304.9**	**88.7**	**53.3**
Movie Exhibition Cost	495.4	243.4	298.0	103.5	66.2
Consumption of Food and Beverages	154.4	88.8	107.1	73.9	44.2
Employee benefit expenses	167.9	138.5	155.9	21.2	7.7
Rent	312.9	247.5	280.1	26.4	11.7
CAM	83.6	71.9	79.5	16.3	5.2
Electricity & Water Utilities	111.7	87.5	105.8	27.7	5.6
Other Expenses ex Movie Dist Print	191.7	167.3	164.6	14.6	16.5
Movie distribution	54.7	20.6	33.1	165.5	65.3
Total Expenditure	**1,572.3**	**1,065.5**	**1,224.1**	**47.6**	**28.4**
EBITDA	**427.6**	**-5.4**	**80.8**	**NA**	**429.2**
Deprecitaion	122.0	90.6	111.1	34.7	9.8
EBIT	305.6	-96.0	-30.3	NA	NA
Other Income	19.7	21.7	19.5	-9.2	1.0
Finance Costs	48.6	41.7	46.4	16.5	4.7
PBT	**276.7**	**-116.0**	**-57.2**	**NA**	**NA**
Tax provision	69.3	-37.6	-13.1	NA	NA
Net profit	**207.4**	**-78.4**	**-44.1**	**NA**	**NA**
EPS (Rs)	21.2	NA	-4.5	NA	NA
Margin (%)					
EBITDA	21.4	-0.5	6.2	2,189	1,519
EBIT	15.3	-9.1	-2.3	2,434	1,760
NPM	10.4	-7.4	-3.4	1,777	1,375
Tax rate	25.0	32.4	22.9	737	214

Source: Company, Sharekhan Research;
*Q2 FY24 and Q1 FY24 results for the company are reported on a merged basis for PVR INOX and are not comparable with earlier periods
#Adjusted for Ind AS 116

PVRINOX Operational metrics

Particulars	Units	Q2, FY'24	Q2, FY'23		H1, FY'24	H1, FY'23	
Operating Numbers		*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*	*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*
Cinemas		360	340	6%	360	340	6%
Screens*		1,708	1,569	9%	1,708	1,569	9%
Seats	'000s	359k	339k	6%	359k	339k	6%
Admits	Mns	48.4	29.6	64%	82.3	72.9	13%
Occupancy	%	32.3%	21.0%	1135 bps	27.3%	26.1%	118 bps
Avg. Ticket Price (ATP)	INR	276	221	25%	264	233	13%
F&B Spend per Head (SPH)	INR	136	118	15%	134	118	13%

Source: Company

PVRINOX Revenue analysis

Particulars (INR Mn)	Q2, FY'24	Q2, FY'23		H1, FY'24	H1, FY'23	
*Screens**	1,708	1,569	9%	1,708	1,569	9%
Financials	*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*	*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*
Sale of Movie Tickets	11,193	5,361	109%	18,138	14,189	28%
Sale of Food & Beverages	6,412	3,389	89%	10,689	8,268	29%
Advertisement Income	1,176	836	41%	2,069	1,767	17%
Convenience Fees	685	558	23%	1,217	1,251	-3%
Other Operating Income	533	457	17%	935	762	23%
Other Income	197	217	-9%	392	476	-18%
Total Income	**20,196**	**10,818**	**87%**	**33,440**	**26,714**	**25%**

*Includes 38 management screens across 11 cinemas which are managed under a 'Management fee' model. The above table excludes Operating KPIs of management properties
Note: Above financial numbers are after excluding the impact of Ind AS 116 – 'Leases'

Source: Company

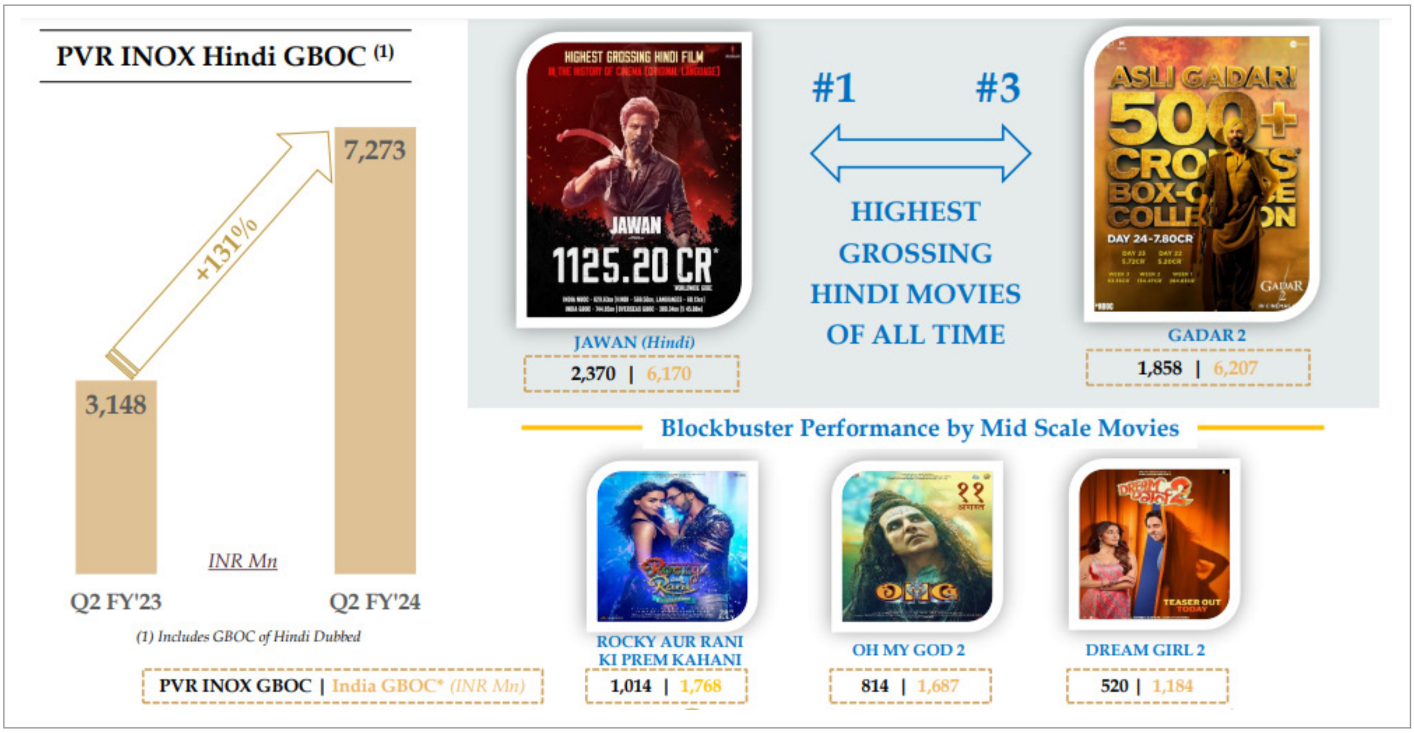
PVRINOX Expense analysis

Particulars (INR Mn)	Q2, FY'24	Q2, FY'23		H1, FY'24	H1, FY'23	
*Screens**	1,708	1,569	9%	1,708	1,569	9%
Variable Cost	*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*	*Reported (A)*	*PVR + INOX Proforma (B)*	*YoY Change (%) (A/B-1)*
FHC (%)	46.4%	45.4%	98 bps	46.1%	45.3%	78 bps
COGS (%)	24.1%	26.2%	-214 bps	24.5%	24.4%	5 bps
Fixed Cost						
Rent	3,129	2,475	26%	5,930	5,126	16%
CAM	836	719	16%	1,631	1,411	16%
Personnel	1,679	1,389	21%	3,238	2,857	13%
Electricity & Water / Utilities	1,117	875	28%	2,175	1,801	21%
Other Expenses ex Movie Dist., Print	1,917	1,673	15%	3,563	3,256	9%
Total Fixed Expenses ex Movie Dist.	**8,678**	**7,131**	**22%**	**16,537**	**14,450**	**14%**
Movie Dist., Print charges^	547	206	166%	878	271	224%
Total Fixed Expenses incl. Movie Dist.	**9,225**	**7,337**	**26%**	**17,415**	**14,721**	**18%**

*Includes 38 management screens across 11 cinemas which are managed under a 'Management fee' model. The above table excludes Operating KPIs of management properties
^Expenses relating to Distribution of movies
Note: Above financial numbers are after excluding the impact of Ind AS 116 – 'Leases'

Source: Company

PVRINOX Hindi Box Office Performance

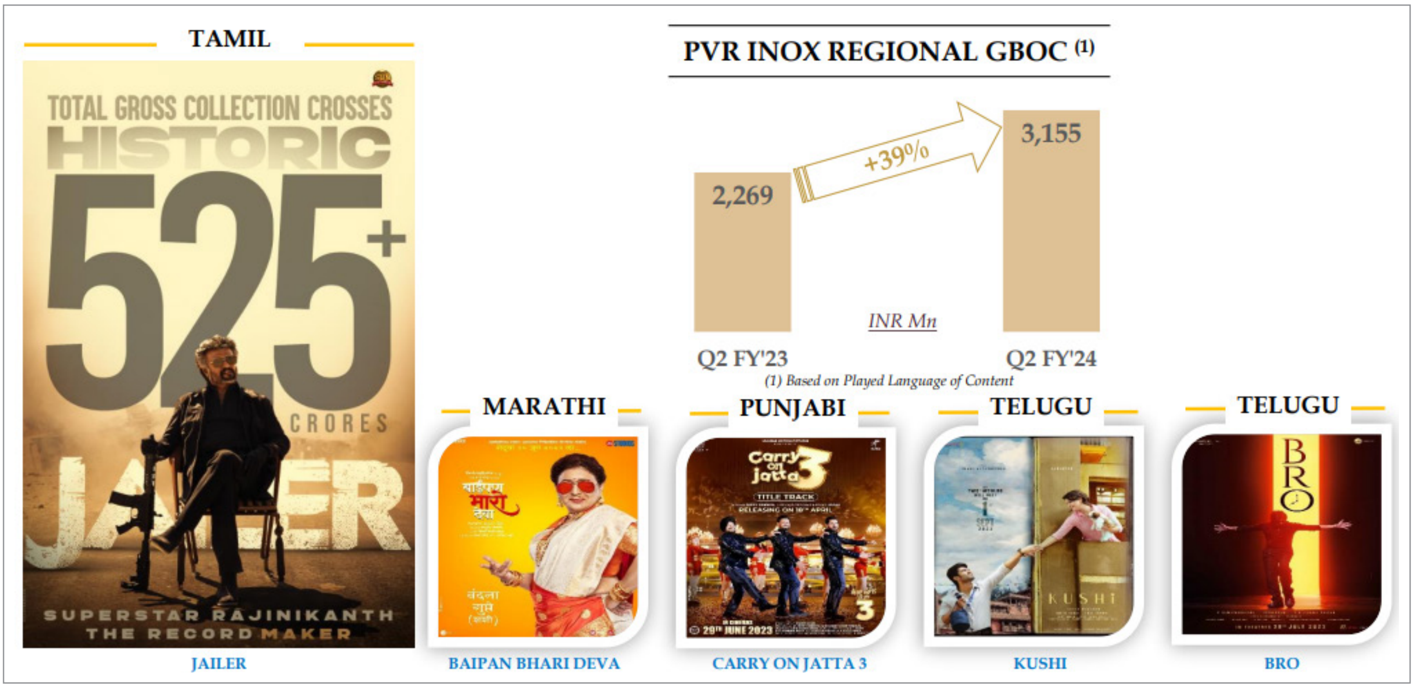


Source: Company

PVRINOX Hollywood Box Office Performance

Source: Company

PVRINOX Regional Box Office Performance



Source: Company

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 INOX 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 - Maintain Buy with unchanged PT of Rs 2,200

The quarter witnessed a significant improvement in performance with audiences embracing content from various genres and languages, following a prolonged period of inconsistency. The strong content pipeline across all languages is expected in coming quarters and benefits of merger synergies is expected to provide further uptick to the operational metrics. Hence, we maintain a Buy on PVR INOX with unchanged PT of Rs. 2200 in anticipation of strong BO collections led by robust content pipeline and increased benefits of revenue & cost synergies going forward. At CMP the stock trades at 21.4x FY26E EPS and 10.6x FY26E EV/ EBITDTA.

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 359 properties and 1680 screens in 115 cities.

Investment theme

We believe PVR INOX, 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 INOX 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. .

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	7.99
2	Nippon Life India Asset Management	7.05
3	ICICI Prudential Asset Management	5.49
4	HDFC Asset Management Co Ltd	4.00
5	SBI Life Insurance Co Ltd	3.15
6	Prudential PLC	3.08
7	Vanguard Group Inc/The	2.95
8	Berry Creek Investment Ltd	2.49
9	KUWAIT INVESTMENT AUTHORITY 238	2.25
10	BlackRock Inc	1.87

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

Sharekhan

by BNP PARIBAS

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Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022 - 41523200/022 - 69920600