PVR Inox

Media

CXO 1x1: Nitin Sood, Chief Financial Officer

We met Mr Nitin Sood, Chief Financial Officer, PVR Inox. Takeaways: 1) Rental cost may come down to 16-17% of revenue (from 19-20% at present) over the next 12-18 months. 2) Company is entering capex sharing contracts with landlords to increase RoCE. Overall, capex in FY25 will be 35-40% lower than FY24. 3) De-leveraging is becoming company's key focus. Non-core assets (real estate space) may be liquidated to reduce debt. 4) Management to focus on trimming screen portfolio to ensure optimal footprint and brand premium retention. 5) Ad revenues may return to pre-covid levels on an absolute basis by FY25. 6) To achieve additional post-merger synergies of INR 1.2-1.3bn in FY25. 7) Piloting a feature to allow movie goers to order from PVR food menu through Zomato app. Maintain **BUY**.

On operating performance improvement

Mr Sood stated PVR Inox's near-term focus (next 12-18 months) will be on lifting the operational performance of the business. This will be done by shutting down non-performing screens, renegotiating rental contracts with landlords, reducing capex intensity and becoming free cash flow positive.

The proportion of minimum guarantee rental contracts has gone down giving way to revenue sharing rental agreements. He added the objective is to reduce the rental cost to pre-covid levels (16-17% of revenue) from current 19-20% (of revenues) level. PVR Inox is also moving towards an asset-light model, wherein it plans to reduce its capex by 30-40% over the previous year to INR 4-4.5bn by entering into partnership with landlords for investment purposes. This will help the company improve RoCE.

Mr Sood expects occupancy to at least increase to 29-30% from the current level of 25%, which can lead to 18-20% operating margins. Management will focus on trimming screen portfolio to ensure optimal footprint and brand premium retention. They will continue to add screens which are already in pipeline.

On deleveraging

Mr Sood stated that another big focus for PVR Inox in the coming year will be to reduce debt and turn free cash flow positive. He added QoQ volatility in gross box office performance has increased post pandemic due to which deleveraging has become a top priority. PVR Inox has real estate assets in prime locations of Mumbai, Pune and Vadodra and it may be liquidating these assets to pare debt.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	37,507	64,888	76,220	87,306
EBITDA	10,477	19,759	24,055	27,612
EBITDA Margin (%)	27.9	30.5	31.6	31.6
Net Profit	(3,351)	1,436	5,713	7,416
EPS (INR)	(51.3)	14.7	58.3	75.7
EPS % Chg YoY	(35.9)	-	297.9	29.8
P/E (x)	(25.8)	90.5	22.7	17.5
EV/EBITDA (x)	55.3	17.0	12.1	9.9
RoCE (%)	(1.7)	3.0	8.7	10.2
RoE (%)	(7.7)	1.9	7.3	8.6

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Market Data

Market Cap (INR)	130bn
Market Cap (USD)	1,561mn
Bloomberg Code	PVRINOX IN
Reuters Code	PVRL.BO
52-week Range (INR)	1,880 /1,248
Free Float (%)	72.0
ADTV-3M (mn) (USD)	12.3

Price Performance (%)	3m	6m	12m
Absolute	(19.8)	(22.3)	(11.3)
Relative to Sensex	(21.5)	(34.8)	(39.1)

Previous Reports

01-02-2024: Company Update
07-12-2023: Company Update

On post-merger synergies

PVR Inox has moved to a common ERP and now has common backend for web and mobile application. Integration of screens and rationalisation in pricing have been completed, too. PVR Inox expects INR 300-350mn worth of 'Food and Beverages' synergies to be achieved due to revised menu and portfolio mix (renegotiating contracts with major soft drink manufacturers). PVR had guided for INR 2.25bn worth of synergies before merger and believes that INR 1.4-1.5bn of synergies will be achieved in FY24 given the muted box office performance of content released in the second half. Management expects at least an additional INR 1.2-1.3bn of synergies to flow to the EBITDA by FY25. Mr Sood added advertising revenue will reach pre-covid level on an absolute basis by FY25 but on a per screen basis it will take more time. Increase in advertisement revenue will be led mostly by an increase in ad minutes and partially by improvement in realisation.

On use of analytics and other innovations

PVR Inox uses Salesforce analytics for profiling and marketing of customers. Mr Sood said analytics helps the company in figuring out consumer behaviour. PVR Inox's focus is on digitising the entire customer experience to provide a seamless experience. Nearly 75% of PVR Inox's customer is below 45 years and according to Mr Sood, is more attuned to try newer things. The 2nd edition of 'Passport' was a huge success and 50k 'Passport' were sold in <10 days of launch. Through data analysis, PVR Inox is focused on tweaking this product and addressing consumer pain points. Going ahead, 3rd and 4th edition of 'Passport' could be launched taking into consideration the feedback received from users. There are other product innovations in line with 'Passport' in the pipeline such as 'All Week Pass'. PVR Inox is currently piloting a feature in collaboration with Zomato in Gurugram, wherein a customer can order from PVR Inox's food menu on Zomato app to get an in-cinema delivery. This is aimed to allow users to skip long queues formed at food kiosks during breaks and improve user experience.

On changes in media industry and movie pipeline

According to Mr Sood, during covid, filmmakers would hedge their revenues by selling to OTTs and due to availability of liquidity, these projects would be picked up at an inflated price. Now, it has become difficult for filmmakers to command those prices and most OTTs are insisting on theatrical release to gauge interest before buying the rights of movies at higher prices. Therefore, focus has gone back to delivering quality content. Apart from this, film stars are more attuned to sign revenue sharing contracts to keep the movie budget in check. For FY25, regional cinema is likely to do well with high profile pan-India releases such as 'Pushpa 2', 'Kalki AD' and 'Kantara 2'. There are many mid-budget movies in Hindi that are lined up for release in FY25, apart from 2-3 big releases such as 'War 2', 'Singham Again' and 'Sitare Zameen Par'. Some big budget English movies are also slated to release such as 'Ghostbusters: Frozen Empire', 'Deadpool and Wolverine', 'Avatar 3', 'Furiosa', 'Kingdom of the Planet of Apes', among others.

Valuation

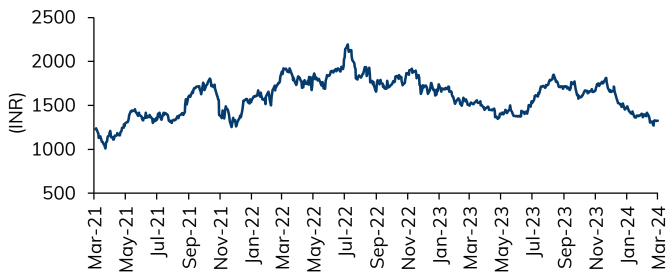
Our target price remains unchanged at INR 2,240 with a multiple of 16x FY26E adj. EBITDA. **Key risks:** Lower-than-expected performance of upcoming movies and merger synergies not playing out as expected.

Exhibit 1: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	27.6	27.8	27.8
Institutional investors	60.0	60.5	61.1
MFs and others	28.3	32.0	33.9
FIs/Banks	0.0	1.1	0.5
Insurance	3.9	4.1	4.3
FIIs	27.8	23.3	22.4
Others	12.4	11.7	11.1

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**37,507**	**64,888**	**76,220**	**87,306**
Operating Expenses	15,744	24,837	28,254	32,348
EBITDA	**10,477**	**19,759**	**24,055**	**27,612**
EBITDA Margin (%)	27.9	30.5	31.6	31.6
Depreciation & Amortization	7,533	11,500	9,908	10,927
EBIT	2,944	8,259	14,147	16,685
Interest expenditure	5,716	7,355	7,624	7,996
Other Non-operating Income	791	998	1,097	1,207
Recurring PBT	**(1,982)**	**1,901**	**7,619**	**9,896**
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,274	479	1,920	2,494
PAT	(3,256)	1,422	5,699	7,402
Less: Minority Interest	13	13	13	13
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**(3,364)**	**1,422**	**5,699**	**7,402**
Net Income (Adjusted)	**(3,351)**	**1,436**	**5,713**	**7,416**

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	8,496	10,569	13,951	18,349
of which cash & cash eqv.	3,616	1,949	3,826	6,751
Total Current Liabilities & Provisions	10,557	18,452	21,711	24,898
Net Current Assets	**(2,062)**	**(7,883)**	**(7,759)**	**(6,549)**
Investments	2	2	2	2
Net Fixed Assets	29,431	23,762	26,070	28,682
ROU Assets	53,746	64,806	64,806	64,806
Capital Work-in-Progress	2,473	2,473	2,473	2,473
Total Intangible Assets	58,908	57,428	57,428	57,428
Other assets	2,312	4,000	4,698	5,382
Deferred Tax Assets	4,767	4,767	4,767	4,767
Total Assets	**1,54,207**	**1,54,355**	**1,57,805**	**1,67,765**
Liabilities				
Borrowings	**17,926**	**15,926**	**12,926**	**9,926**
Deferred Tax Liability	**32**	**32**	**32**	**32**
provisions	276	290	304	319
other Liabilities	88	153	179	206
Equity Share Capital	980	980	980	980
Reserves & Surplus	72,312	74,382	80,791	88,984
Total Net Worth	**73,292**	**75,361**	**81,770**	**89,964**
Minority Interest	-	-	-	-
Total Liabilities	**1,54,207**	**1,54,355**	**1,57,805**	**1,67,765**

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	11,433	13,049	19,999	15,459
% growth (YOY)	113	33	113	64
EBITDA	2,640	3,525	7,068	4,724
Margin %	23.1	27	35.3	30.6
Other Income	218	249	238	588
Net Profit	(3,333)	(816)	1,663	128

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**8,639**	**18,460**	**21,846**	**24,835**
Working Capital Changes	(1,969)	(834)	(303)	(296)
Capital Commitments	(6,339)	(6,995)	(5,946)	(6,541)
Free Cashflow	**14,978**	**25,455**	**27,792**	**31,376**
Other investing cashflow	**581**	**998**	**1,097**	**1,207**
Cashflow from Investing Activities	(5,759)	(5,998)	(4,849)	(5,334)
Issue of Share Capital	305	-	-	-
Interest Cost	(1,442)	(1,862)	(1,587)	(1,257)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	1,260	(2,000)	(3,000)	(3,000)
Cash flow from Financing Activities	(6,935)	(14,426)	(16,198)	(17,216)
Chg. in Cash & Bank balance	**(4,055)**	**(1,965)**	**799**	**2,285**
Closing cash & balance	3,319	1,354	2,154	4,439

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	(51.3)	14.7	58.3	75.7
Adjusted EPS (Diluted)	(51.3)	14.7	58.3	75.7
Cash EPS	42.7	132.0	159.4	187.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	748.2	769.3	834.7	918.3
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	181.8	73.0	17.5	14.5
EBITDA	890.9	88.6	21.7	14.8
EPS (INR)	(35.9)	-	297.9	29.8
Valuation Ratios (x)				
P/E	(25.8)	90.5	22.7	17.5
P/CEPS	31.1	10.0	8.3	7.1
P/BV	1.8	1.7	1.6	1.4
EV / EBITDA	55.3	17.0	12.1	9.9
P / Sales	3.5	2.0	1.7	1.5
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	69.9	68.7	68.6	68.7
EBITDA Margins (%)	27.9	30.5	31.6	31.6
Effective Tax Rate (%)	(64.3)	25.2	25.2	25.2
Net Profit Margins (%)	(8.7)	2.2	7.5	8.5
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	5.1	5.7	7.3	10.1
Net Debt / EBITDA (x)	12.1	7.9	9.6	9.1
Profitability Ratios				
RoCE (%)	(1.7)	3.0	8.7	10.2
RoE (%)	(7.7)	1.9	7.3	8.6
RoIC (%)	(3.1)	2.3	6.7	8.1
Fixed Asset Turnover (x)	1.6	2.2	2.8	2.9
Inventory Turnover Days	26	24	20	20
Receivables Days	52	14	20	30
Payables Days	73	62	53	53

Source Company data, I-Sec research

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