ICICI direct Research

June 28, 2022

Multiplexes – resilient segment…

Multiplexes remain our preferred space in the media segment while broadcasters continue to see near term growth challenges. On the multiplexes front, the box office collection continues to be healthy, albeit Hindi big budget/starrer movies have disappointed sans "*Bhool Bhulaiyaa 2*". We see continued healthy traction in box office collection led by strong content line up and also see combined entity of top two multiplexes a key beneficiary of scale – in terms of expansion, revenues and margins profile. Our top bets in media are in the multiplex space viz. **PVR (BUY rating; target price: ₹ 2,240)** and **Inox Leisure (BUY rating; target price: ₹ 670).**

Broadcasting – ad challenges amid inflationary trend

We note that broadcasting segment saw ad growth challenges in Q4FY22 as FMCG companies – a key advertiser, had cut back on ad volumes owing to input price pressure. Furthermore, some near term headwinds in ad revenue is likely due to pull out of free to air channels from DD Free Dish. On the subscription front, NTO 2 implementation push continued to keep subscription revenues muted. With Trai working on consultation around NTO 2.0, the industry is expecting some easing of norms around pricing of channels. While commodity cooling off has been seen, FMCG segment ad will hold key for growth ahead. Similarly, broadcasters also continue to juggle on building OTT platform as well as spending big on movie production. While we see eventual consolidation, OTT scale up to drive growth ahead, the near term challenges remain.

Multiplexes - Hindi movies yet to fire!

One of the major concerns for multiplex industry has been relative underperformance by big budget/starrer Hindi movies post-Covid resumption. We highlight that in Q4FY22, major big budget/starrer Hindi movies like *Samrat Prithviraj, Dhaakad, Jayeshbhai Jordaar, Runway 34, Jersey* flopped. While failures are attributed to "Boycott" sentiments in social media, we believe logical attribution is content quality as viewers' expectations, amid huge OTT consumption in last two years, have increased. We also note that on the other hand content of movies like *Bhool Bhulaiyaa 2 (₹ 184+ crore collection), Gangubai, Kashmir Files* have driven their success. Nonetheless, Q4 top contributor to collections were *KGF 2 (~₹ 435 crore – Hindi), Bhool Bhulaiyaa 2 (₹ 184+ crore collection), Doctor Strange* & residual collections of *RRR* in April. Also, *Vikram* (in Tamil) did stupendous business. Thus, we expect net box office collections in Q1FY22 to be only marginally lower than pre Covid (Q1FY20) despite strong movies like *Avengers: Endgame, Kabir Singh, Bharat, De De Pyar De* like hits in the base. With strong content line-up in H2CY22, we expect strong collection momentum to continue and believe pre-Covid run rate will be attained quicker than expected.

Prefer Inox, PVR as top picks…

We expect combined entity of PVR, Inox to have superior bargaining power across the value chain given the scale boosting the revenues, costs and expansion pace (looking to add 2000+ screens in next seven years as combined entity) with bigger balance sheet. On revenues, the low hanging segment would be advertisement as well as wider F&B offering ramping up SPH for combined entity. Furthermore, they would have higher leverage in convenience fee deals (when it comes for renewal in FY24) and distribution revenues opportunities. The box office recovery to pre-Covid levels also seems visible. Thus, we remain constructive on both PVR and Inox Leisure in the multiplex space.

Sector View: Neutral

Top Picks in the Media Space

	Rating	CMP	Target price	Upside
PVR	BUY	1839	2240	22%
Inox Leisure	BUY	505	670	33%

Key risks to our call

- Any further Covid wave impacting Multiplexes operation
- Any hurdle to merger between Inox and PVR

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Sector Update

ICICI Securities – Retail Equity Research

Top bets in Media Universe

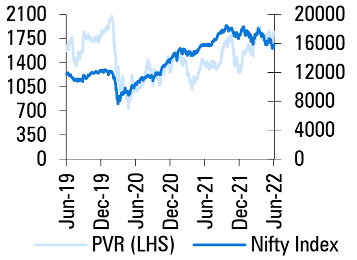
PVR Ltd (PVRLIM)

PVR Ltd is the market leader in terms of multiplex screen count in India. Currently, it operates 854 screens in 173 cinemas in 74 cities in India and Sri Lanka with an aggregate seating capacity of ~1.79 lakhs seats as on FY22. With leadership in the high realisation key markets of Maharashtra/NCR, it enjoys superior ATP, SPH and advertisement compared to peers.

- Strong content slate line up to drive recovery in footfalls/revenues
- The company is likely to have ~8-10% permanent saving in costs (ex-rental) given the rationalisation measures
- Merged entity (PVR Inox) will benefit from scale of expansion, faster growth trajectory and other revenues/cost synergy

We continue to believe PVR is a proxy play on urban/semi urban discretionary spends. We believe that with strong content pipeline recovery trend will continue ahead. We maintain BUY with an unchanged target price of ₹ 2240/share, at 15x FY24 EV/EBITDA.

Price Chart



Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	11,218
Total Debt (FY22) (₹ Crore)	1,505
Cash & Equi. (FY22) (₹ Crore)	579
EV (₹ crore)	12,144
52 week H/L (₹)	2004 / 1224
Equity capital (₹ crore)	6.1
Face value (₹)	10.0

Exhibit 1: Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	4 yr CAGR (FY20-24)
Net Sales (₹ crore)	3,085.6	3,414.4	280.0	1,331.0	(8.2)	3,953.4	4,643.7	8.0
EBITDA (₹ crore)	586.3	1,076.6	(334.9)	105.7	(21.6)	1,355.2	1,601.2	10.4
Net Profit (₹ crore)	183.2	27.3	(747.8)	(488.2)	PL	170.6	267.1	76.9
EPS (₹)	39.2	5.3	(122.6)	(80.0)		28.0	43.8	
P/E (x)	46.9	345.9	(15.0)	(23.0)		65.8	42.0	
Price / Book (x)	5.7	6.4	6.1	8.2		7.3	6.3	
EV/EBITDA (x)	21.3	14.8	(46.2)	149.8		11.8	7.2	
RoCE (%)	14.1	8.5	(6.3)	(2.8)		10.3	30.3	
RoE (%)	12.2	1.8	(40.8)	(35.6)		11.2	15.0	

Source: Company, ICICI Direct Research

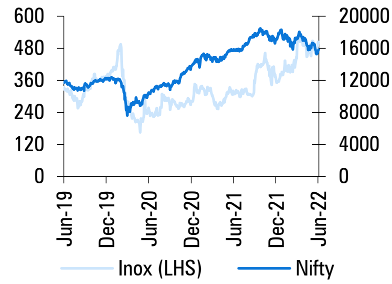
Inox Leisure (INOX)

Inox Leisure is the second largest player in terms of multiplex screen count in India. Currently, the company operates 681 screens in 161 cinemas in 72 cities in India with an aggregate seating capacity of ~1.53 lakhs seats as on FY22. It is the only national multiplex, which enjoys a net debt free balance sheet.

- Merged entity (PVR Inox) will benefit from scale of expansion, faster growth trajectory and other revenues/cost synergy
- Benefits of permanent saving in costs (ex-rental) by 8-10%, given the rationalisation measures
- We expect strong recovery in FY23 with all variables (except ad) back to pre-Covid levels for the full year

We believe that with strong content pipeline recovery trend will continue ahead. Inox with strong balance sheet is poised to grow at robust rate. We maintain BUY with an unchanged target price of ₹ 670/share, at 15x FY24 EV/EBITDA.

Price Chart



Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	6,171
Total Debt (FY21) (₹ Crore)	86
Cash (FY21) (₹ Crore)	252
EV (₹ Crore)	6,266
52 week H/L (₹)	564/ 291
Equity Capital (₹ crore)	122.2
Face value (₹)	10.0

Exhibit 2: Financial summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	4 yr CAGR (FY20-24E)
Total Operating Income (₹ crore)	1,692.2	1,897.4	105.9	683.9	(10.9)	2,062.4	2,492.9	7.1
EBITDA (₹ crore)	308.3	596.8	(172.3)	71.7	(13.1)	675.3	863.4	9.7
Net Profit (₹ crore)	133.5	15.0	(337.7)	(239.4)	PL	87.2	188.9	88.4
EPS (₹)	13.0	1.5	(30.0)	(19.6)		7.1	15.5	
P/E (x)	38.8	345.8	(16.8)	(25.8)		70.8	32.7	
Price / Book (x)	5.4	8.3	9.0	8.9		8.2	6.8	
EV/EBITDA (x)	20.3	15.0	(51.9)	124.1		13.1	10.3	
RoCE (%)	19.6	9.9	(11.7)	(5.4)		10.2	13.2	
RoE (%)	14.2	2.4	(62.5)	(50.6)		11.6	20.8	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

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