

April 28, 2020

Pain to be prolonged...

We had come out with an update on the multiplex sector on March 27, 2020 titled *"Assessing Covid-19 impact"* wherein we had analysed our initial take on the Covid-19 impact. Now, given the magnitude of Covid-19 impact so far in India (especially in key zone of MMR, NCR where extension of lockdown is imminent) and overall commentary of management, we now revisit our estimates as we bake in six months of impact (three months closure followed by three months of limited operation with "social distancing" norms). This implies a washout H1FY20 coupled with possibility of box office clash of big movies. We continue to believe that multiplexes are going to invoke *Force Majeure* to shield themselves from critical costs of rentals (albeit some sharing of rental burden between lessor and lessee cannot be ruled out) while closure will also mean savings in other fixed costs such as manpower (through wage cut as well as contracted component), maintenance and power costs. We now incorporate the impact of extended pain in our FY21 assumptions as well as its percolation to FY22 and cut the target multiples. We now assign **HOLD** rating on PVR and Inox Leisure with a target price of ₹ 1060/share and ₹ 235/share, respectively.

"Social distancing" norms - new normal in near term

The management of both PVR and Inox Leisure, through their media interactions, hinted that a few changes will be incorporated to ensure social distancing post lockdown. Strict social distancing measures are likely to keep audience away in earlier phase of resumption. Changes like cross-allocation of seats, change in intermission timing and limited F&B menu will impact revenue when cinemas reopen. Postponement of movies from H1FY21E will pose a risk of box office clashes in short window in FY22E. Media reports suggest that some films have been offered a direct digital release at a lucrative price by OTT platforms, albeit big budget movies may skip this option given the higher monetisation potential that theatrical release would provide.

Expect FY21 to be washout

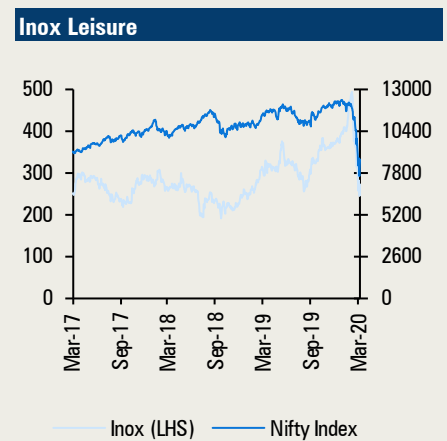
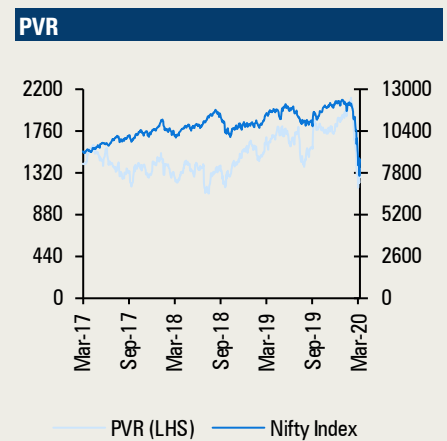
We note that the closure impact will be felt through Q4FY20 (closure started from mid-March) to H1FY21. We now cut PVR's (ex-Ind-AS) EBITDA estimates by 64% and 13.9% for FY21E and FY22, respectively. For Inox, (ex-Ind-AS) EBITDA estimates are cut by 67% and 8.2% for FY21E and FY22, respectively. The screen addition momentum will be low in FY21 and we expect capex deployment in FY22. We also note that multiplexes, under the umbrella of Multiplex Association of India, have sought government support in the form of salary subsidies, interest free loans for three years, tax exemptions, waiver on electricity charges for a year and auto renewal of licenses and permits. **We would also monitor how government responds to the same. Pent up demand post the lockdown in case "curve flattening" is attained quickly, remains an upside risk to our estimates.**

Valuation & Outlook

We highlight that notwithstanding the recent Covid-19 scare, the structural story of multiplexes as a proxy play on urban discretionary remains. However, leisure activities and discretionary spend will take a backseat during stressed macroeconomic setup in the near term. Hence, we value PVR at 9x FY22E (ex-Ind-AS) EV/EBITDA and arrive at a target price of ₹ 1060/share with a **HOLD** rating. We value Inox Leisure at 6x FY22E (ex-Ind-AS) EV/EBITDA and arrive at a target price of ₹ 235/share with a **HOLD** rating.

Rating Matrix		
	Rating	
	Old	New
PVR	Buy	Hold
Inox Leisure	Buy	Hold

Target price (₹)				
	CMP	Target price		Upside
		Old	New	
PVR	981	1650	1060	8%
Inox Leisure	203	360	235	15%



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How multiplexes intend to save on costs

Exhibit 1: Monthly fixed cost savings plan by multiplexes

₹ crore	PVR		Inox		Comments
	Current	Under complete closure	Current	Under complete closure	
Monthly fixed costs					
Rentals & CAM charges	62-65	6-7	32-33	4-5	Force majeure to be invoked and ~90% and 95% rentals contracts for PVR and Inox, respectively have the clause
Manpower & Employee Costs	35	23	23-24	12-13	Led by cut in salary, incentives, welfare and contracted manpower costs
Electricity Costs	17	4-5	10	2	Only required to pay minimum charges for electricity & load
Repairs & Maintenance, Admin & Other	24-25	8	14-15	3-4	Residual expenses limited to minimum charge on existing AMC's, maintenance contracts & minimum admin costs
Total	140-145	40-45	75-80	24-25	

Source: Company, ICICI Direct Research

Change in Estimates

Exhibit 2: PVR – Base case change in estimates - Ex- Ind-AS

₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,395.2	3,395.2	0.0	3,415.2	2,379.9	-30.3	4,359.5	4,012.4	-8.0
EBITDA	589.9	589.9	0.0	625.4	225.5	-64.0	815.0	701.3	-13.9
EBITDA Margin (%)	17.4	17.4	0 bps	18.3	9.5	-884 bps	18.7	17.5	-122 bps
PAT	162.9	162.9	0.0	216.0	-53.4	NA	314.4	226.4	-28.0
EPS (₹)	31.7	31.7	0.0	42.1	-10.4	NA	61.3	44.1	-28.0

Source: Company, ICICI Direct Research

Exhibit 3: Inox – Base case change in estimates - Ex-Ind-AS

₹ Crore)	FY20E			FY21E			FY22E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	1,886.7	1,886.7	0.0	1,808.5	1,349.9	-25.4	2,366.9	2,315.0	-2.2
EBITDA	327.6	327.6	0.0	306.0	101.0	-67.0	442.5	406.2	-8.2
EBITDA Margin (%)	17.4	17.4	0 bps	16.9	7.5	-944 bps	18.7	17.5	-115 bps
PAT	151.4	151.4	0.0	146.8	6.6	-95.5	220.2	183.5	-16.7
EPS (₹)	14.8	14.8	0.0	14.3	0.6	-95.5	21.5	17.9	-16.7

Source: Company, ICICI Direct Research

Global trend

- AMC, the world's largest theatre chain, has raised its debt by US\$500 million due to lack of liquidity
- In the US, movie theatres are slated to open in the first week of July
- In China, some select cinemas reopened with screening of older movies in the last week of March (no major cinemas were reopened) but were shut after news of local transmission of Covid-19
- In European markets, lockdown is still in effect in major countries. Hence, reopening of cinemas is likely to be dependent on the situation in respective countries
- Going by the trend, cinemas across the globe could open with yesteryear hits as occupancy is expected to remain low at an early stage

Management commentary on *Covid-19*

PVR

Ajay Bijli, Chairman on cost cuts

"...my top management has given up 50% of their remuneration, till the cinemas are reopened. So that is a big relief. Cinemas are shut so there is no electricity cost. Travel, advertising and marketing, all expenses are down."

Ajay Bijli, Chairman on industry stimulus demand

"We have written to the Prime Minister and the Finance Minister through the multiplex association, cinema association and the film fraternity. We have requested a relief package. The industry has sought interest-free loans for three years with a one-year moratorium. It has asked for exemption on taxes and duties, including GST (goods and services tax). We have also asked the government to help in underwriting part of the employee cost."

Gautam Dutta, CEO on Post Lockdown plan

"We are planning a number of things, from sanitising our cinemas to coming up with a feature where we will do social distancing within the cinema. For example, if you have booked two tickets, we will leave one seat and book the next one."

"We are planning many small and big things, from training to sanitisation. We are talking to Pepsi whether we can sell only cans,"

Inox Leisure

Alok Tandon, CEO on cost cuts

"In a situation like this, wherein revenues have plummeted to zero, the first thing which comes to mind is reducing expenditures, and with rental being one of our major expense items in profit and loss, it was imperative upon us to take this route. We have already communicated our objectives of invoking the 'force majeure' clause to all developer."

Alok Tandon, CEO on industry stimulus demand

"Support from the government is also much-needed for us to come out of this situation. The Multiplex Association of India has written to the relevant ministries and sought support on various fronts. We have requested for financial support in the form of salary subsidies, interest-free loans for three years, exemptions from various taxes and duties like GST, show tax, LBETs and property taxes for a period of one year, waiver on electricity minimum demand charges for one year and auto renewal of licences and permits for the next one year."

Alok Tandon, CEO on Post Lockdown plan

"From an operations perspective, we plan to deploy various measures to ensure social distancing. We will execute cross-allocation of seats to our guests, we will programme our shows in such a manner that no two movie intermissions occur at the same time, so that the food counters and restrooms do not get crowded. We will have to sell fewer seats in a show as an investment of inventory for gaining customer confidence."

"Hand sanitisers will remain available across the floor. Deep cleaning and disinfecting processes will continue to remain intense."

Alok Tandon, CEO on Screen addition

"There could be a delay in opening screens where the work is going on and properties where we were supposed to get a handover has come to a stop. This could be a phenomenon for a quarter or two but Inox' expansion plans are well on track."

Exhibit 4: CY20 Big star cast release pipeline

Film	Release Date	Starcast
Sooryavanshi	Postponed	Akshay Kumar, Katrina Kaif
83 the film	Postponed	Ranveer Singh, Deepika Padukone
Gulabo Sitabo	Postponed	Ayushmann Khurrana, Amitabh Bachchan
Coolie No 1	1-May-20	Varun Dhawan, Sara Ali Khan
Laxmmi Bomb	22-May-20 (Eid)	Akshay Kumar, Kiara Advani
Radhe	22-May-20 (Eid)	Salman Khan, Disha Patni
Bunty Aur Babli 2	26-Jun-20	Saif Ali Khan, Rani Mukherji
Shershaah	3-Jul-20	Sidharth Malhora, Kiara Advani
Sadak 2	10-Jul-20	Alia Bhatt, Sanjay Dutt
Bhool Bhulaiyaa 2	31-Jul-20	Kartik Aryan, Kiara Advani
Bhuj: The Pride of India	14-Aug-20 (Independence Day)	Ajay Devgn, Sanjay Dutt, Sonakshi Sinha
Attack	14-Aug-20 (Independence Day)	John Abraham, Jacqueline Fernandez
Jersey	28-Aug-20	Shahid Kapoor, Mrunal Thakur
Gangubai Kathiawadi	11-Sep-20	Alia Bhatt
Toofan	18-Sep-20	Farhan Akhtar, Mrunal Thakur,
Satyameva Jayate 2	02-Oct-20 (Gandhi Jayanti)	John Abraham, Manoj Bajapayee
Jayeshbhai Jordaar	02-Oct-20 (Gandhi Jayanti)	Ranveer Singh, Shalini Pandey
Prithviraj	13-Nov-20 (Diwali)	Akshay Kumar, Manushi Chhillar
Brahmastra	4-Dec-20	Ranbir Kapoor, Alia Bhatt
Maidaan	11-Dec-20	Ajay Devgn, Keerthy Suresh
Laal Singh Chaddha	25-Dec-20 (Christmas)	Aamir Khan, Kareena Kapoor

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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