ICICI direct Research

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Assessing Covid-19 impact…

Multiplexes were the first casualty of the Covid-19 led lockdown. The gradual closure of theatres from mid-March onwards and further till April 14 has meant that Q4FY20 as well as Q1FY21 will be hit badly. We expect the lockdown (albeit region specific) to continue at least till May and resumption of optimum operation only from June, 2020 onwards in our base case assumptions. Our interaction with the management and their disclosures through conference call transcripts, reveals that multiplexes are going to invoke *Force Majeure* to shield themselves from critical costs of rentals (that form 44-45% of fixed costs), 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 shutdown of two months in our FY21 assumptions as well as its percolation to FY22 and cut the target multiples. Post the sharp correction of 40% and 45%, respectively, last month, we now maintain **BUY** rating on PVR and Inox Leisure with a target price of ₹ 1650/share and ₹ 360/share, respectively.

Force majeure ensures savings in rental costs…

Both Inox and PVR have indicated that they now intend to rein in critical fixed costs under present conditions. They have now written to mall developers and property owners to invoke *Force majeure*. The closure will also result in subsequent cut in other costs such as manpower (through wage cut as well as contracted component), maintenance and power costs (through minimum charges only to be paid). As a result, PVR's monthly fixed costs are expected to come down from ₹ 140-145 crore to ₹ 40-45 crore (refer exhibit 1). Similarly, Inox' monthly fixed costs are expected to come down from ₹ 75-80 crore to ₹ 24-25 crore.

Expect Q1FY21 to be washout quarter in base case

We note that the closure impact will be felt through Q4FY20 (closure started from mid-March) and Q1FY21, in our base case assumption wherein we expect optimum operations only from June, 2020 onwards. We also assess the sensitivity to the numbers in case the overall closure is for six months (refer exhibit 2). In our base case, we cut PVR's ex-IND-As EBITDA estimates by 19% and 5% for FY21E and FY22, respectively. For Inox, EBITDA estimates are expected to be cut by 33% and 15% for FY21E and FY22, respectively. Pent up demand post the lockdown, remains an upside risk to our estimates while a prolonged lockout would impact FY21 numbers sharply (as seen in bear case) but revenues would likely bump up in FY22.

Valuation & Outlook

We highlight that notwithstanding the recent Covid-19 scare, the structural story of multiplexes as a proxy play on urban discretionary remains. With cinemas being postponed, we also see it mostly as revenues deferred rather than revenues lost. Despite incorporating the closure till May and cutting the target multiples, both PVR and Inox present decent upsides from current levels. We now value PVR at 11x (vs. 13.5x earlier) FY22E EV/EBITDA (ex-Ind-AS 116) and arrive at a target price of ₹ 1650 with a **BUY** rating. We value Inox at 8x (vs. 9.5x earlier) FY22E (ex-Ind-AS 116) EV/EBITDA (~25% discount to target EV/EBITDA multiple of PVR) to arrive at a target price of ₹ 360/share and maintain **BUY** rating.

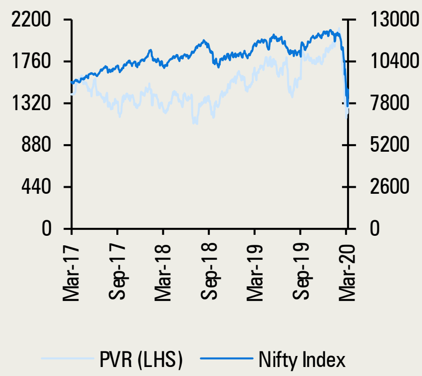
Rating Matrix

	Rating	
	Old	New
PVR	Buy	Buy
Inox Leisure	Buy	Buy

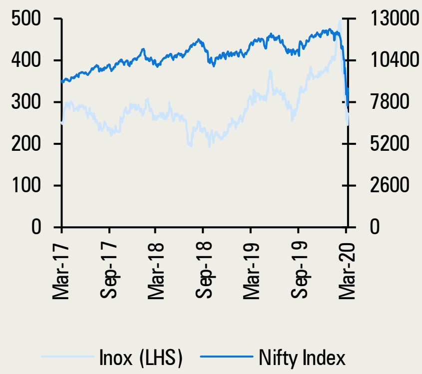
Target price (₹)

	CMP	Target price	
		Old	New
PVR	1270	2200	1650
Inox Leisure	280	510	360

PVR



Inox Leisure



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Impact analysis on monthly fixed costs

Exhibit 1: Monthly fixed cost impact analysis

₹ crore	PVR		Inox		Comments
Monthly fixed costs	**Current**	**Under complete closure**	**Current**	**Under complete closure**	
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

Sensitivity under different scenarios

Exhibit 2: Assumptions under different scenario

	PVR		Inox	
Rs. Crore	**FY21E**	**FY22E**	**FY21**	**FY22**
Base Case: Complete Closure till May				
Revenues	3434	4381	1815	2374
EBITDA	617	815	300	443
Margins(%)	18.0	18.6	16.5	18.6
PAT (ex- IND AS)	209	314	143	220
Screen Addition	65	85	60	70
Occupancy	31.4%	34.3%	25.5%	28.1%
Footfalls (mn)	102	125	63	78
ATP (growth)	4.0%	4.0%	4.0%	4.0%
Bear Case : Closure for 6 months beginning March 15th				
Revenues	2388	4469	1282	2455
EBITDA	164	883	131	512
Margins (%)	6.9	19.7	10.3	20.9
PAT	-61	350	36	262
Screen Addition	55	100	50	80
Occupancy	21.0%	35.0%	18.0%	29.0%
Footfalls (mn)	68	127	44	80
ATP (growth)	4.0%	4.0%	4.0%	4.0%

Source: Company, ICICI Direct Research

Change in Estimates

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

	FY20E			FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,682.6	3,425.5	-7.0	4,136.8	3,433.7	-17.0	4,621.4	4,380.7	-5.2
EBITDA	691.6	593.2	-14.2	764.1	616.5	-19.3	859.1	815.1	-5.1
EBITDA Margin (%)	18.8	17.3	-146 bps	18.5	18.0	-52 bps	18.6	18.6	2 bps
PAT	218.3	164.7	-24.6	274.0	209.4	-23.6	331.3	313.7	-5.3
EPS (₹)	42.5	32.1	-24.5	53.4	40.8	-23.6	64.6	60.7	

Source: Company, ICICI Direct Research

Exhibit 4: Inox – Base case change in estimates - Ex-Ind-AS

	FY20E			FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	2,020.9	1,894.0	-6.3	2,339.1	1,815.0	-22.4	2,663.6	2,374.5	-10.9
EBITDA	389.5	309.0	-20.7	450.5	299.9	-33.4	521.2	442.6	-15.1
EBITDA Margin (%)	19.3	16.3	-296 bps	19.3	16.5	-274 bps	19.6	18.6	-93 bps
PAT	186.8	139.2	-25.5	224.7	142.6	-36.5	259.7	220.0	-15.3
EPS (₹)	18.2	13.6	-25.5	21.9	13.9	-36.5	25.3	21.4	-15.3

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%

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