PVR Inox (PVRINOX)

ICICI direct Research

CMP: ₹ 1,373 | Target: ₹ 1,640 (19%) | Target Period: 12 months | **BUY**

May 22, 2023

Result Update

Content performance consistency key ahead...

About the stock: PVR Inox is the market leader in terms of multiplex screen count in India. Currently, it operates 1689screens in 261 cinemas in 115 cities in India and Sri Lanka with an aggregate seating capacity of ~3.59 lakhs seats

- The company has spelt out EBITDA synergy target of ₹ 225 crore over 12-24 months, led by revenue synergies along with opex synergies on scale and supply chain integration

Q4FY23 Results: Weak quarter owing to muted content performance.

- Revenue came in at ₹ 1143 crore, (up 34% YoY, down 21% QoQ) on proforma basis. It reported box office revenue of ₹ 602 crore (up ~21% YoY and down ~18% QoQ on a proforma basis) with footfalls (up ~21% YoY and down ~18% QoQ) at 30.5 million and Average Ticket Prices (ATP)at ₹ 239 was up ~3% YoY, flat QoQ. Ad revenues was at ₹ 90.7 crore, down 21% QoQ, reflective of weak content. Food & beverage (F&B) revenues were ₹ 352 crore with spends per head (SPH) at ₹ 119, up 13% YoY
- EBITDA (without impact of Ind AS116) was at ₹ 5 crore, with margins at 0.5% given the weak box office performance
- Loss (ex- Ind AS-116) was at ₹ 285.7 crore, also impacted by one-offs

What should investors do? PVR's share price has been flat over the past five years.

- We believe that that with strong content pipeline, recovery will be seen, albeit timing is uncertain. Near term monitorable is big ticket content performance, which has seen inconsistency in performance, post Covid. For the medium term, key trigger will be fructification of synergy benefits. Maintain BUY with lower target price as we bake in a gradual recovery

Target Price and Valuation: We value PVR at ₹ 1640 i.e. 13x FY25E EV/EBITDA.

Key triggers for future price performance:

- Strong content slate line up to drive recovery in footfalls/revenues
- Merged entity will benefit from scale of expansion, faster growth trajectory and other revenues/cost synergy

Alternate Stock Idea: We also like Bharti Airtel in the telecom/media space.

- A play on industry consolidation benefits
- BUY with target price of ₹ 925

PVR INOX

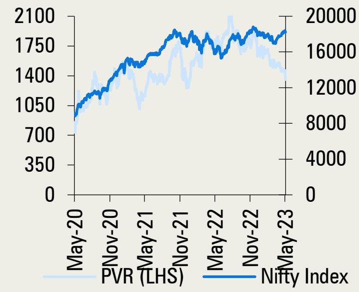
Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	13,447
Total Debt (₹ Crore)	1,793
Cash & Equi. (₹ Crore)	362
EV (₹ crore)	14,878
52 week H/L (₹)	2215 / 1336
Equity capital (₹ crore)	9.8
Face value (₹)	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	17.0	17.0	16.9	27.5
DII	18.0	26.0	23.9	30.2
FIIs	36.6	36.3	39.6	31.2
Other	28.4	20.7	19.6	11.2

Price Chart



Key risks

Key Risk: (i) Delay in ad revenues recovery; (ii) Continued volatility in content performance

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ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	5 yr CAGR (FY20-25)
Net Sales (₹ crore)	3,414.4	280.0	1,331.0	3,750.7	NA	5,957.4	7,048.5	NA
EBITDA (₹ crore)	1,076.6	(334.9)	105.7	1,047.7	NA	1,974.7	2,600.2	NA
Net Profit (₹ crore)	27.3	(747.8)	(488.2)	(335.1)	NA	56.1	384.6	NA
EPS (₹)	5.3	(76.3)	(49.8)	(34.2)		5.7	39.3	
P/E (x)	258.2	(18.0)	(27.5)	(40.1)		239.5	35.0	
Price / Book (x)	4.8	7.3	9.8	1.8		1.8	1.7	
EV/EBITDA (x)	16.9	(52.9)	170.9	20.3		10.8	5.5	
RoCE (%)	8.5	(6.3)	(2.8)	2.4		5.4	14.5	
RoE (%)	1.8	(40.8)	(35.6)	(4.3)		0.8	5.0	

*Source: Company, ICICI Direct Research * Merged entity numbers since Q4FY23. For comparable metric refer to page 4*

Key performance highlight and outlook

Box office recovery important for footfalls ahead…

Q4 saw muted performance as post strong responses to 'Pathaan' and residual collections of 'Avatar', February and March were a washout. The pipeline of big movies in Q1 include Fast X*, Maidan, Spider Man: Multiverse, Transformers, Flash, Adipurush*, *Indiana Jones*. Thus, a good response could drive recovery*. **The company has guided for overall revenues of ₹ 6000-7000 crore, with wider range depending on box office performance. It expects to exceed pre-Covid margins and reach 19-20% led by content improvement ahead.*** We bake in 110, 160 net screens addition each in FY24E and FY25E, respectively**. We build in footfalls to be flattish over FY20-25E to 165 mn coupled with 5% CAGR in ATP to lead to 4.6% FY20-25E CAGR in net box office revenues to ₹ 3555 crore. F&B revenue CAGR is estimated at 9.5% over FY20-25E leading to a total of ₹ 2278 crore. Ad revenue is expected to recover gradually. We expect ad revenue of ₹ 550 crore in FY25E (similar to FY20).**

Synergy benefits – Another key monitorable…

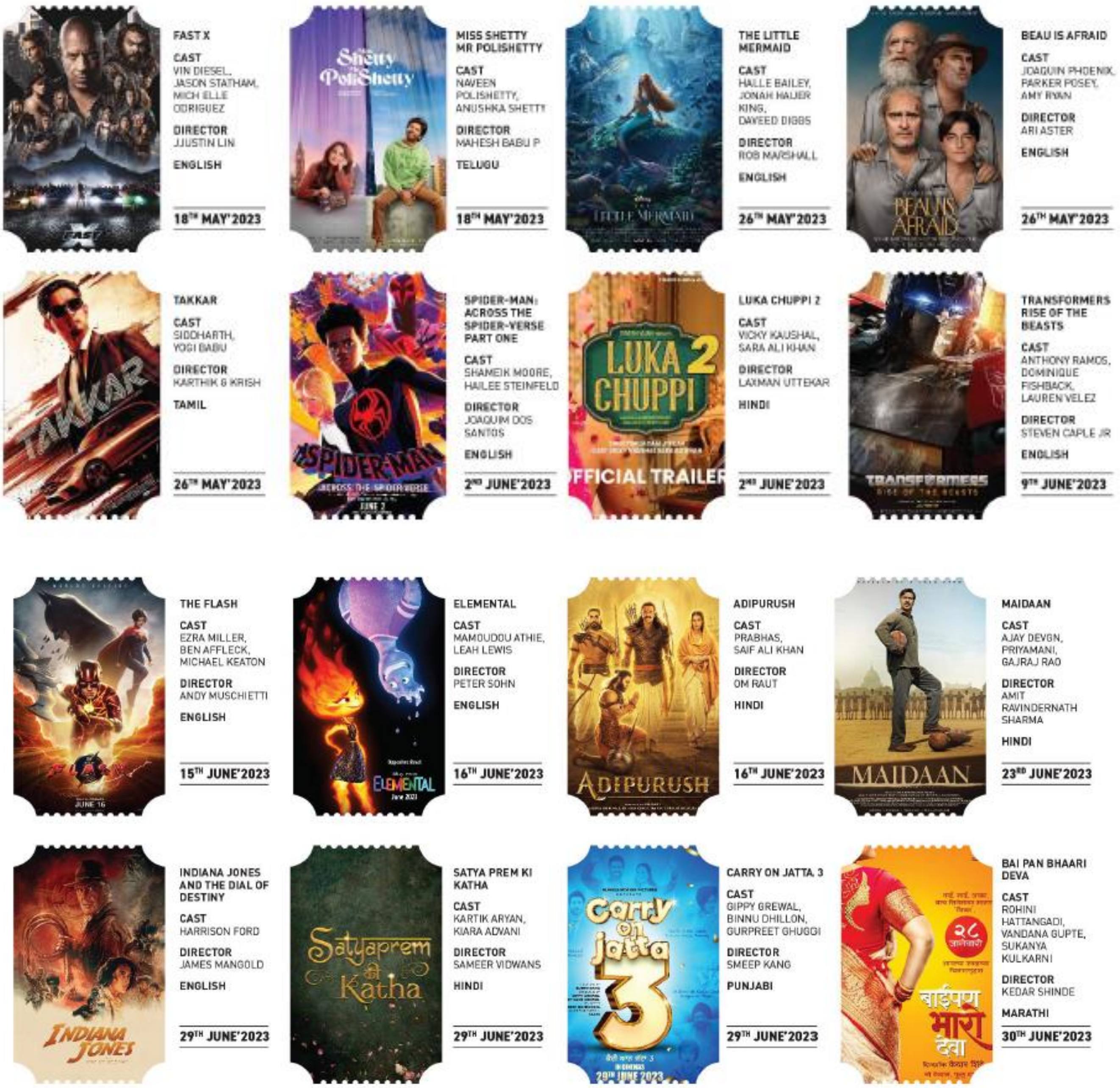
We highlight that the company has spelt out EBITDA synergy target of ₹ 225 crore over 12-24 months, led by revenue synergies (F&B, advertising, and distribution – being majority portion) along with opex synergies on scale and supply chain integration. It also expects capex synergies of ~10-15% led by scale economies. Nonetheless, most revenue synergies are also directly linked to footfall traction and thus, will hinge on overall content performance and footfalls. We have not incorporated the same in our estimates as we have baked in gradual recovery.

Other highlights

- **KPIs**
  - **Content Performance:** The company said that while Q4FY23 started on a good note with strong responses to *Pathaan* and residual collections *Avatar*, February and March, 2023 witnessed lower occupancy due to lacklustre performance in the Bollywood segment. In Q1, April content performance was weak, *Kerala Story* in May has had decent collection momentum
  - **Footfalls** increased 20% YoY to 30.5 mn, ~33% below 4QFY19 levels. Occupancy was at 22.2%, down 290 bps YoY. The company indicated that while footfalls in April 2023 were below expectations, **May 2023 surprised positively with *The Kerala Story***
  - **Advertisement:** The company **expects to reach pre-Covid levels with recovery likely from Q2, Q3 onwards**. The company is currently running ad slots of 12-12.5 mins (vs. 19 minutes of standard slot) Thus, growth in ad revenue is expected to come from both volume recovery first and pricing thereafter
  - **Screen optimisation and expansion plan**: The combined entity added 79 screens across 13 properties during the quarter. The company plans to **open 150-175 screens (gross) in FY24 with annual capex of ~₹ 700 crore** (including maintenance capex). The company also **plans to shut down 50 underperforming screens in the next six months, in line with its strategy to improve unit level economics and focus on profitable growth**. It expects cost savings of ₹ 10 crore on EBITDA led by these closures
  - There were one-off charges like a) impairment of WIP ~₹ 11 crore, b) Accelerated dep ~₹ 11 crore c) Merger expenses ₹ 5.5 crore and d) Deferred tax write off ₹ 134 crore

We continue to believe PVR is a proxy play on urban/semi urban discretionary spends. We believe that that with strong content pipeline, recovery will be seen albeit timing is uncertain. Near term monitorable is big ticket content performance, which has seen inconsistency in performance, post covid. For the medium term, key trigger will be fructification of synergy benefits. We maintain BUY. We assign 13x FY24 EV/EBITDA with a target price of ₹ 1640/share.

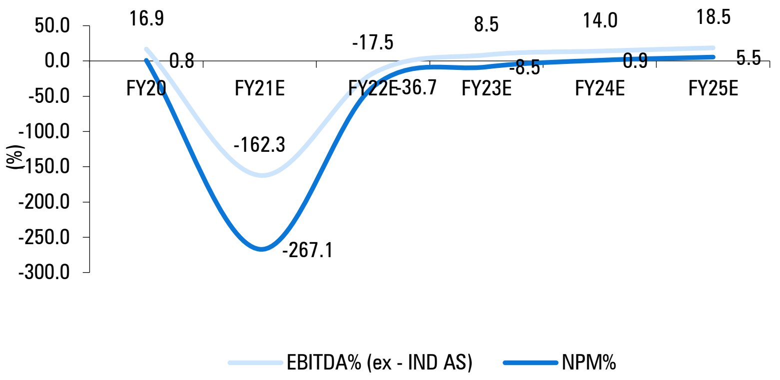
Exhibit 1: Q4 Content pipeline



Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 2: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 3: Proforma combined entity numbers and metrics

₹ crore	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY20-25 CAGR
Box Office Revenues	*2,611*	*2,836*	*157*	*1,088*	*2,751*	*3,064*	*3,555*	*4.6%*
F&B	*1,282*	*1,446*	*103*	*605*	*1,618*	*1,877*	*2,278*	*9.5%*
Advertisement	*530*	*555*	*20*	*106*	*382*	*460*	*550*	*-0.2%*
Convenience & Others	*355*	*476*	*106*	*216*	*247*	*556*	*665*	*6.9%*
Net Revenues	**4778**	**5312**	**386**	**2015**	**4998**	**5957**	**7049**	*5.8%*
Growth (%)		11%	-93%	422%	148%	19%	18%	
Employee Expenses	452	536	304	364	526	635	682	
Exhibition Cost	1,146	1,230	74	482	1,204	1,333	1,546	
Cost of F&B	351	390	34	154	407	497	615	
Rent and Other	1,933	2,250	672	1,355	2,564	2,659	2,898	
Total Opex	**3,883**	**4,405**	**1,083**	**2,356**	**4,701**	**5,124**	**5,741**	
EBITDA	**894.7**	**906.6**	**-696.7**	**-340.6**	**297.0**	**833.3**	**1,307.5**	*7.6%*
Margin (%)	18.7	17.1	-180.5	-16.9	5.9	14.0	18.5	
Screens	**1,337**	**1,471**	**1,485**	**1,527**	**1,680**	**1,790**	**1,950**	*5.8%*
Footfalls (mn)	**161.9**	**167.7**	**10.7**	**56.5**	**140**	**148**	**165**	*-0.3%*
ATP (₹)	**194**	**203**	**176**	**231**	**236**	**249**	**259**	*5.0%*
SPH (₹)	**79**	**86**	**96**	**107**	**116**	**128**	**139**	*10.0%*
F&B Cost %	27%	27%	33%	25%	25%	27%	27%	
Ad per screen (₹ crore)	0.40	0.38	0.01	0.07	0.23	0.26	0.28	
F&B as % to Box Office	49%	51%	66%	56%	59%	61%	64%	
Screen Addition		134	14	42	153	110	160	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY22E	FY23E	FY24E	FY25E
Total operating Income	**1,331.0**	**3,750.7**	**5,957.4**	**7,048.5**
Growth (%)	375.3	181.8	NA	18.3
Film Distributors Cost	286.0	818.4	1,333.0	1,546.3
F&B Cost	111.5	310.2	497.3	615.2
Employee Expenses	269.3	438.9	635.1	681.9
Other Expenses	558.5	1,135.5	1,517.3	1,604.9
Total Operating Expenditure	1,225.3	2,703.0	3,982.7	4,448.3
EBITDA	**105.7**	**1,047.7**	**1,974.7**	**2,600.2**
Growth (%)	-131.6	890.9	NA	31.7
Depreciation	614.4	753.3	1,226.9	1,361.9
Interest	498.2	571.6	764.8	824.1
Other Income	326.1	79.1	92.0	100.0
Exceptional Items	0.0	10.8	0.0	0.0
PBT	-680.7	-209.0	75.1	514.2
MI/PAT from associates	-0.3	-1.3	0.0	0.0
Total Tax	-192.2	127.4	18.9	129.6
PAT	**-488.2**	**-335.1**	**56.1**	**384.6**
Growth (%)	-34.7	-31.4	NA	584.9
EPS (₹)	**-49.8**	**-34.2**	**5.7**	**39.3**

Source: Company, ICICI Direct Research

**Merged entity numbers since Q4FY23. For comparable metric refer to page 4*

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY22E	FY23E	FY24E	FY25E
PAT	**-488.2**	**-335.1**	**56.1**	**384.6**
Add: Depreciation	614.4	753.3	1,226.9	1,361.9
Add: Interest Paid	498.2	571.6	764.8	824.1
(Inc)/dec in Current Assets	-19.0	-199.0	-289.1	-141.7
Inc/(dec) in CL and Provisions	160.5	387.8	281.2	164.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	**765.9**	**1,178.7**	**2,040.0**	**2,593.3**
(Inc)/dec in Investments	0.7	0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-120.8	-1,657.5	-700.0	-750.0
Others	-479.4	-5,425.4	-480.9	-568.8
CF from investing activities	**-599.4**	**-7082.6**	**-1180.9**	**-1318.8**
Issue/(Buy back) of Equity	0.2	37.0	0.0	0.0
Inc/(dec) in loan funds	153.2	287.5	-150.0	-150.0
Dividend paid & dividend tax	0.0	-22.9	-22.9	-22.9
Less: Interest Paid	498.2	571.6	764.8	824.1
Others	-971.4	4814.4	-1529.5	-1648.3
CF from financing activities	**-319.7**	**5687.5**	**-937.7**	**-997.1**
Net Cash flow	-153.3	-216.5	-78.6	277.4
Opening Cash	731.4	578.1	361.6	283.0
Closing Cash	**578.1**	**361.6**	**283.0**	**560.4**

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet ₹ crore

(Year-end March)	FY22E	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	61.0	98.0	98.0	98.0
Reserve and Surplus	1,309.4	7,231.9	7,265.1	7,626.8
Total Shareholders funds	1,370.4	7,329.9	7,363.1	7,724.7
Total Debt	1,505.2	1,792.6	1,642.6	1,492.6
Others	3,754.8	6,270.6	6,449.7	6,580.9
Total Liabilities	**6,630.3**	**15,393.1**	**15,455.4**	**15,798.3**
Assets				
Total Fixed Assets	1,741.5	3,338.5	3,532.1	3,704.2
Investments	0.5	0.2	0.2	0.2
Right of Use	2,678.3	5,374.6	5,254.1	5,110.1
Goodwill on Consolidation	1,052.0	5,742.8	5,742.8	5,742.8
Debtors	70.7	182.5	293.8	347.6
Inventory	34.2	66.4	105.4	124.7
Loans and Advances	3.3	3.4	3.4	3.4
Other Current Assets	180.7	235.7	374.4	443.0
Cash	578.1	361.6	283.0	560.4
Total Current Assets	867.1	849.6	1,060.0	1,479.1
Total Current Liabilities	695.5	1,083.3	1,364.5	1,528.9
Net Current Assets	171.6	-233.7	-304.5	-49.7
Other Non Current Assets	986.4	1,170.8	1,230.8	1,290.8
Application of Funds	**6,630.3**	**15,393.1**	**15,455.4**	**15,798.3**

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY22E	FY23E	FY24E	FY25E
Per share data (₹)				
EPS (Diluted)	-49.8	-34.2	5.7	39.3
Cash EPS	12.9	42.7	131.0	178.3
BV	139.9	748.2	751.6	788.5
DPS	1.4	1.4	1.4	1.4
Cash Per Share	59.0	36.9	28.9	57.2
Operating Ratios (%)				
EBITDA Margin	7.9	27.9	33.1	36.9
EBIT / Net Sales	-38.2	7.8	12.6	17.6
PAT Margin	-36.7	-8.5	0.9	5.5
Inventory days	9.4	6.5	6.5	6.5
Debtor days	19.4	17.8	18.0	18.0
Creditor days	82.3	50.1	35.0	35.0
Return Ratios (%)				
RoE	-35.6	-4.3	0.8	5.0
RoCE	-2.8	2.4	5.4	14.5
RoIC	-30.8	9.8	21.9	34.2
Valuation Ratios (x)				
P/E	-27.5	-40.1	239.5	35.0
EV / EBITDA	170.9	20.3	10.8	5.5
EV / Net Sales	13.6	5.7	3.6	2.0
Market Cap / Sales	10.1	3.6	2.3	1.9
Price to Book Value	9.8	1.8	1.8	1.7
Solvency Ratios				
Net Debt/EBITDA	8.8	1.4	0.7	0.4
Net Debt / Equity	0.7	0.2	0.2	0.1
Current Ratio	0.9	0.8	1.2	1.2
Quick Ratio	0.8	0.7	1.0	1.0

Source: Company, ICICI Direct Research

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