

REDUCE

TP: Rs 1,430 | ▼ 3%

PVR

| Media

| 16 January 2021

Improving content pipeline, cost control measures key positives

PVR (PVRL) reported paltry revenue of Rs 454mn (-95% YoY) in Q3FY21 as a lack of content and the 50% capacity cap weighed on footfalls. Stringent control on fixed costs (-63% YoY) moderated the EBITDA loss to Rs 781mn. The content slate is set to improve as the strong audience response to 'Master' and Covid vaccination drive could encourage pending big-ticket movies to opt for theatrical release. Given the improving outlook, we raise our target EV/EBITDA multiple to 14x (vs. 13x). On rollover, we move to a new Mar'22 TP of Rs 1,430 (vs. Rs 1,160).

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Content slate set to improve: Though most of PVRL's screens were operational in Q3, a lack of new content and strict operating guidelines dented footfalls (-96% YoY). However, a strong response to new movie 'Master' could mark a turnaround for the industry. The movie netted Rs 200mn on the first day of release in Tamil Nadu alone (Rs 500mn after three days) – the second-best ever for the state. This coupled with the vaccination drive and waning virus apprehensions (evident in strong footfalls in malls and restaurants) could usher in theatrical release of pending big-ticket movies, boosting the content slate.

Ticker/Price	PVRL IN/Rs 1,475
Market cap	US\$ 1.1bn
Shares o/s	55mn
3M ADV	US\$ 34.6mn
52wk high/low	Rs 2,125/Rs 718
Promoter/FPI/DII	19%/27%/39%

Source: NSE

Cost control measures augur well: PVRL has reached a settlement with 88% of its landlords for a discount/rebate in rent liability for FY21, translating into a 70% YoY decline in rent and maintenance charges in Q3. This together with a tight leash on other costs (-58% YoY) yielded an impressive 63% YoY (+59% QoQ) decline in total fixed costs, even though screens resumed operations. While rent will revert to pre-Covid levels from FY22, PVRL expects 10-15% of achieved staff cost and overhead reduction to continue post pandemic.

STOCK PERFORMANCE

Source: NSE

TP raised: Factoring in the muted Q3 topline, we cut our FY21 revenue estimates but maintain FY22-FY23 forecasts. We roll over to a revised Mar'22 TP of Rs 1,430 and retain REDUCE as rich valuations cap near-term upside.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,856	34,144	5,056	30,790	37,098
EBITDA (Rs mn)	5,863	10,766	(2,272)	9,617	12,435
Adj. net profit (Rs mn)	1,898	273	(5,373)	447	2,341
Adj. EPS (Rs)	40.6	5.3	(97.4)	8.1	42.4
Adj. EPS growth (%)	51.5	(85.6)	(2068.1)	(108.3)	423.7
Adj. ROAE (%)	12.7	1.8	(43.2)	3.5	16.0
Adj. P/E (x)	36.3	277.4	(15.1)	182.0	34.8
EV/EBITDA (x)	15.2	8.5	(40.7)	9.6	7.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED (AS REPORTED)

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	454	9,157	(95.0)	405	12.2	986	27,693	(96.4)
Movie exhibition costs	62	1,927	(96.8)	3	1,956.7	65	5,899	(98.9)
% of sales	13.6	21.0	(746bps)	0.7	(1,285bps)	6.6	21.3	(1,473bps)
Consumption of F&B	57	682	(91.6)	17	237.6	82	2,125	(96.2)
% of sales	12.6	7.4	520bps	4.2	844bps	8.3	7.7	60bps
Employee expenses	486	1,067	(54.5)	407	19.4	1,574	3,173	(50.4)
% of sales	107.0	11.7	9,535bps	100.6	641bps	159.8	11.5	14,830bps
Other expenses	630	2,408	(73.8)	819	(23.1)	2,047	7,457	(72.6)
% of sales	138.8	26.3	11,253bps	202.5	(6,369bps)	207.7	26.9	18,077bps
Total expenditure	1,235	6,085	(79.7)	1,246	(0.9)	3,767	18,654	(79.8)
EBITDA	(781)	3,073	NM	(842)	NM	(2,782)	9,039	NM
EBITDA margin (%)	(172.1)	33.6	(20,563bps)	(208.1)	3,599bps	(282.3)	32.6	(31,492bps)
Depreciation	1,425	1,349	5.6	1,419	0.4	4,289	4,002	7.2
EBIT	(2,206)	1,724	NM	(2,260)	NM	(4,865)	3,313	NM
Interest expense	1,271	1,221	4.1	1,229	3.4	3,739	3,647	2.5
Other income*	2,747	82	3,270.9	702	291.6	3,875	211	1,733.2
PBT	(729)	585	NM	(2,788)	NM	(6,934)	1,602	NM
PBT margin (%)	(160.6)	6.4	(16,698bps)	(689.1)	(52,855bps)	(703.6)	5.8	(70,943bps)
Exceptional/extra-ordinary items	-	-	-	-	-	-	-	-
Income tax	(237)	221	NM	(951)	NM	(2,350)	583	NM
Effective tax rate (%)	32.5	37.7	(523bps)	34.1	(162bps)	33.9	36.4	(251bps)
Reported PAT	(492)	364	NM	(1,836)	NM	(4,584)	1,019	NM
Profit/(loss) from JVs/Minority/Associates	1	(1)	NM	(3)	NM	(3)	(1)	NM
Reported PAT – after profit/(loss) from JVs/Minority/Associates	(491)	363	NM	(1,840)	NM	(4,587)	1,018	NM
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	(491)	363	NM	(1,840)	NM	(4,587)	1,018	NM
Adjusted PAT margin (%)	(108.1)	4.0	(11,212bps)	(454.8)	34,661bps	(465.4)	3.7	(46,909bps)
Adjusted EPS	(8.9)	7.1	NM	(33.3)	NM	(83.1)	19.8	NM

Source: Company, BOBCAPS Research | *Note: Other income includes rent concession of Rs 2,668mn in Q3 and Rs 3,589mn in 9MFY21

FIG 2 – REVENUE BREAKUP (ADJ. FOR IND-AS 116 IMPACT)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income from sale of movie tickets	134	4,528	(97.1)	6	NM	140	14,012	(99.0)
Sale of F&B	140	2,474	(94.3)	37	275.9	191	7,836	(97.6)
Advertisement income	42	1,220	(96.5)	-	NM	42	3,073	(98.6)
Income from movie production and distribution	14	316	(95.4)	275	(94.8)	319	1,051	(69.6)
Other income*	304	701	(56.7)	117	159.0	504	1,932	(73.9)
Total income	634	9,239	(93.1)	436	45.4	1,196	27,905	(95.7)

Source: Company, BOBCAPS Research | *Includes both other operating income and non-operating income

Earnings call takeaways

Screen reopening

- Based on the Ministry of Home Affairs' (MHA) Unlock 5.0 guidelines, cinema screens have been allowed to reopen with a 50% cap on seating capacity from 15 October. PVRL's screens have accordingly opened across states in a staggered manner, barring in Rajasthan and Jharkhand which are likely to provide permission for theatres to operate by the end of this month. Currently, 56 of its screens across 13 cinemas are yet to be reopened.
- The company expects MHA to provide some relaxation on the seating cap within the next couple of months.

Content performance and pipeline

- Staggered screen opening resulted in limited content availability. A majority of the footfalls for Q3 were for fresh content such as 'Tenet' and 'Wonder Woman 1984'. The South Indian film industry is leading the way in terms of releasing new content on big screens.
- The recent release of the much anticipated 'Master' is expected to be a game changer for the industry. It has garnered net box office collections of Rs 200mn on the opening day in Tamil Nadu, which is the second best in the state's history.
- Uncertainty regarding consumer willingness to visit theatres during the pandemic has been a major deterrent for new releases. PVRL believes the success of 'Master' can potentially spur big-ticket Bollywood content to also opt for theatrical release soon.
- Audience response to new content has been encouraging in countries that have dealt with Covid-19 effectively. Fresh releases such as 'Demon Slayer' in Japan and 'The Eight Hundred' in China have created new box office records.

Operating aspects

- Due to the lack of fresh releases, PVRL has mostly displayed library content in Q3. This has compelled the company to offer discounts on ticket prices, leading to a 22% YoY decline in ATP. For fresh releases, the ATP has been near pre-Covid levels. Once the content pipeline improves, management expects ATP to be 4-5% higher than pre-pandemic levels.
- F&B services have also resumed across screens with some restrictions, such as Maharashtra's ban on carrying food inside theatres. Despite the challenges, spend per head (SPH) was down only 5% YoY in Q3.

Cost control measures

- PVRL continues to target stringent cost control and has achieved a 63% YoY reduction in total fixed costs in Q3FY21 even though most of its screens have reopened across the country. Its monthly fixed expense has reduced to Rs 530mn vs. Rs 1,450mn in Q3FY20.
- The company has reached settlements with 88% of mall owners for either a complete or partial waiver of rent for the lockdown period. Discussions with the remaining landlords are expected to conclude soon. Rental expenses should revert to pre-Covid levels only from FY22 onwards.
- Additionally, management has negotiated discounts/rebates in rent in the form of revenue share or reduction in minimum guarantee post reopening until Mar'21.
- PVRL expects a 10-15% permanent reduction in personnel costs and some overheads post pandemic.
- The liquidity position remains healthy – Rs 3.7bn of liquidity was available on Dec'20.
- The board has approved an enabling resolution to raise Rs 8bn of equity capital. This fund raising is aimed at (1) shoring up liquidity in case of any prolonged disruption from Covid-19, (2) deleveraging the balance sheet, and (3) tapping any consolidation opportunities that may arise in the wake of the pandemic.

Valuation methodology

We reduce our FY21 revenue estimate by 37% to factor in the below-expected Q3 operating performance. Our EBITDA cut is milder as cost savings have been much better than forecast. Moreover, we project a lower net loss as PVRL has received higher rent concessions than expected (reported under other income). Our estimates for FY22/FY23 remain largely unchanged.

After almost a year of unprecedented challenges, Indian theatrical exhibitors are finally seeing some light at the end of the tunnel. The strong audience response to 'Master' coupled with waning virus apprehensions and the vaccination drive could help improve content availability, attract footfalls and take ticket prices and F&B sales back to pre-Covid levels. PVRL also expects seating capacity restrictions to be rolled back, at least partially, within the next couple of months.

Given the improving demand outlook, we raise our target EV/EBITDA multiple to 14x from 13x earlier. Rolling over valuations, we increase our Mar'22 TP to Rs 1,430 vs. Rs 1,160 earlier. We retain REDUCE as the stock has rallied 27% since our Q2FY21 result review and is now trading at 14.5x FY23E EBITDA, which offers limited near-term upside.

FIG 3 – REVISED ESTIMATES

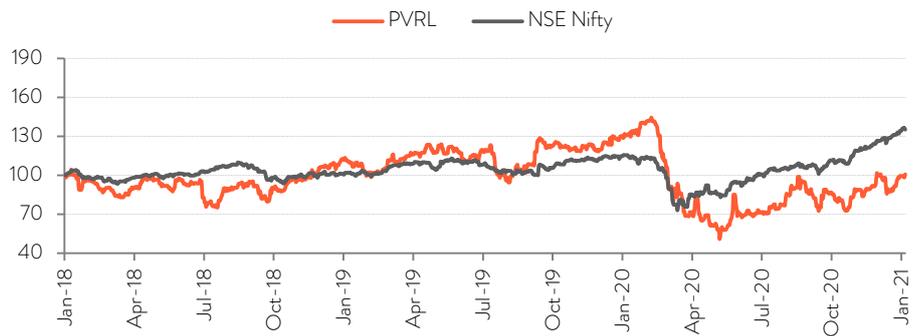
(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	7,997	5,056	(36.8)	30,816	30,790	(0.1)	37,129	37,098	(0.1)
EBITDA	(2,013)	(2,272)	NM	9,630	9,617	(0.1)	12,450	12,435	(0.1)
EBITDA Margin (%)	(25.2)	(44.9)	(1,977bps)	31.2	31.2	0bps	33.5	33.5	0bps
PAT	(7,414)	(5,373)	NM	456	447	(2.1)	2,352	2,341	(0.5)
PAT Margin (%)	(92.7)	(106.3)	(1,356bps)	1.5	1.5	3bps	6.3	6.3	1bps

Source: BOBCAPS Research

FIG 4 – VALUATION SUMMARY

(Rs mn)	
FY23E EBITDA	12,435
Ind-AS 116 adjusted EBITDA	6,380
EV/EBITDA multiple assigned (x)	14.0
Enterprise value	89,321
Net debt	10,310
Equity value	79,011
No. of shares (mn)	55.2
Target price per share (Rs)	1,430

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key upside risks to our assumptions are –

- faster-than-anticipated ramp-up in footfalls,
- sharp recovery in SPH and ad revenue, and
- faster-than-expected expansion of screen network

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	30,856	34,144	5,056	30,790	37,098
EBITDA	5,863	10,766	(2,272)	9,617	12,435
Depreciation	1,913	5,425	5,765	5,485	6,055
EBIT	3,951	5,341	(8,037)	4,132	6,380
Net interest income/(expenses)	(1,280)	(4,818)	(4,697)	(4,035)	(3,751)
Other income/(expenses)	331	378	5,058	500	500
Exceptional items	0	0	0	0	0
EBT	3,002	901	(7,676)	597	3,129
Income taxes	(1,097)	(627)	2,303	(151)	(789)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(7)	(1)	0	0	0
Reported net profit	1,898	273	(5,373)	447	2,341
Adjustments	0	0	0	0	0
Adjusted net profit	1,898	273	(5,373)	447	2,341

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	3,677	3,124	457	2,952	3,557
Other current liabilities	4,187	3,901	582	3,543	4,269
Provisions	215	180	27	162	195
Debt funds	12,824	12,947	13,947	13,208	12,008
Other liabilities	2,272	39,321	35,910	35,853	37,188
Equity capital	467	514	552	552	552
Reserves & surplus	14,494	14,292	11,878	12,325	14,081
Shareholders' fund	14,962	14,805	12,430	12,877	14,632
Total liabilities and equities	38,136	74,278	63,353	68,595	71,850
Cash and cash eq.	352	3,235	1,836	1,677	1,698
Accounts receivables	1,839	1,893	346	1,856	2,236
Inventories	303	307	45	277	333
Other current assets	1,439	2,102	498	2,187	2,635
Investments	100	11	11	11	11
Net fixed assets	14,900	16,358	16,237	16,534	17,530
CWIP	2,208	1,547	0	0	0
Intangible assets	12,525	12,455	12,455	12,455	12,455
Deferred tax assets, net	(266)	2,049	2,049	2,049	2,049
Other assets	4,736	34,322	29,876	31,550	32,903
Total assets	38,135	74,278	63,353	68,596	71,850

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	3,811	5,698	392	5,932	8,396
Interest expenses	1,280	4,818	4,697	4,035	3,751
Non-cash adjustments	416	(2,315)	0	0	0
Changes in working capital	1,226	(1,133)	(981)	(237)	(345)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	6,733	7,068	4,108	9,730	11,802
Capital expenditures	(14,630)	(3,052)	(1,100)	(2,845)	(3,862)
Change in investments	99	89	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(14,531)	(2,963)	(1,100)	(2,845)	(3,862)
Equities issued/Others	0	46	38	0	0
Debt raised/repaid	4,519	123	1,000	(739)	(1,200)
Interest expenses	(1,280)	(1,521)	(1,479)	(1,154)	(1,009)
Dividends paid	(112)	(205)	0	0	(585)
Other financing cash flows	4,686	336	(3,966)	(5,151)	(5,125)
Cash flow from financing	7,812	(1,222)	(4,406)	(7,044)	(7,919)
Changes in cash and cash eq.	14	2,883	(1,399)	(159)	20
Closing cash and cash eq.	352	3,235	1,836	1,677	1,698

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	40.6	5.3	(97.4)	8.1	42.4
Adjusted EPS	40.6	5.3	(97.4)	8.1	42.4
Dividend per share	2.0	4.0	0.0	0.0	10.6
Book value per share	320.1	288.3	225.3	233.4	265.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.9	2.7	18.3	3.0	2.5
EV/EBITDA	15.2	8.5	(40.7)	9.6	7.5
Adjusted P/E	36.3	277.4	(15.1)	182.0	34.8
P/BV	4.6	5.1	6.5	6.3	5.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	63.2	30.3	70.0	74.8	74.8
Interest burden (PBT/EBIT)	76.0	16.9	95.5	14.5	49.0
EBIT margin (EBIT/Revenue)	12.8	15.6	(159.0)	13.4	17.2
Asset turnover (Revenue/Avg TA)	100.2	60.7	7.3	46.7	52.8
Leverage (Avg TA/Avg Equity)	3.0	5.0	4.7	5.4	5.2
Adjusted ROAE	12.7	1.8	(43.2)	3.5	16.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	32.2	10.7	(85.2)	509.0	20.5
EBITDA	45.9	83.6	(121.1)	(523.3)	29.3
Adjusted EPS	51.5	(85.6)	(2068.1)	(108.3)	423.7
Profitability & Return ratios (%)					
EBITDA margin	19.0	31.5	(44.9)	31.2	33.5
EBIT margin	12.8	15.6	(159.0)	13.4	17.2
Adjusted profit margin	6.2	0.8	(106.3)	1.5	6.3
Adjusted ROAE	12.7	1.8	(43.2)	3.5	16.0
ROCE	16.1	11.2	(12.6)	6.7	10.1
Working capital days (days)					
Receivables	22	20	25	22	22
Inventory	4	3	3	3	3
Payables	43	33	33	35	35
Ratios (x)					
Gross asset turnover	1.8	1.6	0.2	1.1	1.2
Current ratio	0.5	0.8	2.6	0.9	0.9
Net interest coverage ratio	3.1	1.1	(1.7)	1.0	1.7
Adjusted debt/equity	0.9	0.7	1.0	0.9	0.7

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): PVR (PVRL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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