

Inconsistent supply results in another muted quarter

Media & Entertainment ▶ Result Update ▶ May 14, 2024

TARGET PRICE (Rs): 1,650

PVR Inox's Q4 results reflect the subpar performance of a weak movie lineup, sans any tentpole films. Footfalls, ATP, and SPH also saw a sequential decline owing to weak performance of movies and promotional offers. Management is now taking multiple steps to improve performance of current properties on both, driving revenues higher through innovations and optimizing costs. Near-term performance should continue to be muted as the current pipeline for Q1/early Q2 is unexciting with the ongoing general elections, IPL, and the upcoming T20 world cup. We reduce our target multiple to 11.5x (from 12.5x) to factor in inconsistent content delivery and volatility in the movies' supply, as structural issues persist resulting in lower occupancies. We have also cut our FY25-26E EBITDA by 5-10% factoring in the Q4 performance, weaker near-term pipeline, and a more calibrated screen opening guidance (and screen closures). Given favorable valuations, we maintain BUY with a revised TP of Rs1,650/share (roll over to Mar-26E, 11.5x pre-IND AS EBITDA).

| PVR INOX: Financial Snapshot (Consolidated) | | | | | |
|---|---------|---------|---------|--------|--------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
| Revenue | 13,310 | 37,507 | 61,071 | 66,976 | 77,785 |
| EBITDA | 1,057 | 10,473 | 18,101 | 22,478 | 26,975 |
| Adj. PAT | (4,882) | (3,273) | (334) | 2,510 | 5,628 |
| Adj. EPS (Rs) | (80.4) | (52.0) | (3.4) | 25.6 | 57.4 |
| EBITDA margin (%) | 7.9 | 27.9 | 29.6 | 33.6 | 34.7 |
| EBITDA growth (%) | 0.0 | 890.4 | 72.8 | 24.2 | 20.0 |
| Adj. EPS growth (%) | 0.0 | 0.0 | 0.0 | 0.0 | 124.2 |
| RoE (%) | (30.5) | (7.5) | (0.5) | 3.4 | 7.2 |
| RoIC (%) | (6.7) | 5.0 | 3.1 | 5.0 | 6.9 |
| P/E (x) | (16.1) | (25.8) | (380.6) | 50.6 | 22.6 |
| EV/EBITDA (x) | 118.2 | 15.4 | 11.4 | 9.2 | 7.6 |
| P/B (x) | 5.8 | 1.2 | 1.7 | 1.7 | 1.6 |
| FCFF yield (%) | 0.3 | 1.4 | 6.6 | 3.7 | 5.3 |

Source: Company, Emkay Research

Result Summary

PVR Inox's revenue declined 18.7% QoQ to Rs12.6bn, marginally higher than our estimate of Rs12.1bn. ATP fell sharply to Rs233 (our estimate of Rs234) from Rs271 in Q3, due to the lack of big-budget movies and promotional offers for several movies. SPH also declined to Rs129 (our estimate of Rs128) from Rs132 in Q3. Occupancy for Q4 stood at 22.6%, compared to 25.2% in Q3. Advertisement revenue declined 25.6% QoQ to Rs1bn, due to limited big-budget movies and inconsistent performance. Reported EBITDA fell 41.1% QoQ to Rs2.8bn, lower than both, our/ consensus estimates. Adjusted for IND-AS, EBITDA managed to only just break even. The company reported a net loss of Rs1.3bn. The multiplex chain opened 33 new screens during the quarter, while shutting down another 23 screens as part of its screen rationalization process. PVR Inox's gross debt increased to Rs17.2bn in Q4 from Rs16.1bn in Q3FY24, and net debt increased to Rs12.9bn from Rs12.1bn in Q3FY24.

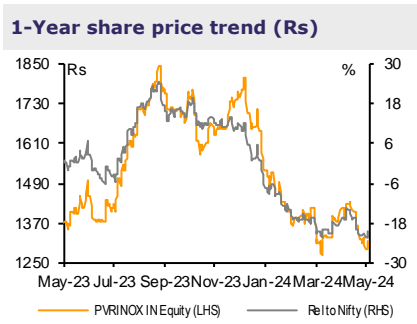
Earnings Call KTAs

1) Merger synergies: The combined entity has achieved EBITDA-level merger synergies of Rs1.85-2.08bn of the total Rs2.25bn in expected synergies. This includes synergies related to the box office (Rs890-970mn), F&B (Rs340-400mn), manpower (Rs330-370mn), and other overheads (Rs290-340mn). Full impact of synergies will be visible as occupancies improve. 2) Screen addition: In the current year, the chain closed down 85 underperforming screens, while opening another 130. In FY25, PVR Inox is looking to add 120 new screens and close ~70 screens, with screen addition prioritization in South India. 3) The management's key strategic priorities will be to enhance ROCE and drive FCF. As part of this, the management has undertaken multiple steps such as introduction of movie passport, Cinema Lovers Day (flash sales at frequent intervals), screening of alternate content, and special F&B promotions. For cost reduction, the company will focus on closing underperforming screens, leaner organization structure, and controlling other overhead costs. 4) Over the medium term, the aim would be a transition to a capital-light model. For FY25, the management will target reduction of capex by 25%. PVR Inox will jointly partner with developers to invest in new screen capex. 5) Over the medium-to long-term, the company aims to be net-debt free. 6) Ongoing elections has impacted the near-term pipeline, which is expected to stabilize by mid-June.

| | |
|-------------------------|---------------|
| Target Price – 12M | Mar-25 |
| Change in TP (%) | (13.2) |
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Upside/(Downside) (%) | 27.2 |
| CMP (14-May-24) (Rs) | 1,297.5 |

| Stock Data | Ticker |
|-----------------------------|-----------|
| 52-week High (Rs) | 1,880 |
| 52-week Low (Rs) | 1,248 |
| Shares outstanding (mn) | 98.1 |
| Market-cap (Rs bn) | 127 |
| Market-cap (USD mn) | 1,525 |
| Net-debt, FY25E (Rs mn) | 79,370 |
| ADTV-3M (mn shares) | 1 |
| ADTV-3M (Rs mn) | 804.1 |
| ADTV-3M (USD mn) | 9.6 |
| Free float (%) | 72.5 |
| Nifty-50 | 22,218 |
| INR/USD | 83.5 |
| Shareholding, Mar-24 | |
| Promoters (%) | 27.8 |
| FPIs/MFs (%) | 16.8/40.2 |

| Price Performance | | | |
|-------------------|-------|-------|--------|
| (%) | 1M | 3M | 12M |
| Absolute | (8.2) | (5.2) | (10.3) |
| Rel. to Nifty | (7.0) | (6.8) | (26.1) |



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Other key highlights

- Partnership with Devyani: PVR Inox has entered into a strategic partnership with Devyani International for the purpose of development and operation of food courts within shopping malls. This will allow the company to pivot to a pre-ticketing F&B business and gain more wallet share of customers. The investment plans regarding the partnership will be shared in due course.
- PVR Passport: There are currently 180,000 subscribers, of which 35% is contributed by the South, followed by 32-33% in the North. Passport can be a game changer once the pipeline of movies improve.
- The company is working on a FOCO (Franchisee owned, Company operated) model, partnering with developers for jointly investing in new screen capex. Substantial management fee will only come over the medium term, once the model scales.
- Screen closures is an ongoing process. The screen closures is largely in cases where they have come to the end of their life cycles, in malls that have been built 10-15 years ago.
- The ad-free campaign is currently being done on a trial basis and being introduced in premium formats. The customers for these formats are not very price sensitive and prefer a better movie experience.

Exhibit 1: Actual vs Estimates (Q4FY24)

| (Rs mn) | Actual | Estimate | | Variation | | Comment |
|----------------|--------|----------|-----------|-----------|-----------|--|
| | | Emkay | Consensus | Emkay | Consensus | |
| Revenue | 12,564 | 12,060 | 13,042 | 4% | -4% | Marginally higher than our estimates due to better footfalls |
| EBITDA | 2,784 | 2,909 | 3,527 | -4% | -21% | Higher other expenses |
| EBITDA, margin | 22.2% | 24.1% | 27.0% | -196 bps | -488 bps | |
| PAT | -1,295 | -1,181 | -1,115 | 10% | 16% | |

Source: Company, Emkay Research

Exhibit 2: Quarterly financial snapshot

| (Rs mn) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | YoY (%) | QoQ (%) |
|----------------------------|---------|---------|--------|--------|---------|---------|----------|
| Total Sales | 11,432 | 13,049 | 19,999 | 15,459 | 12,564 | 9.9 | -18.7 |
| Film exhibition cost | 2597 | 2980 | 4954 | 3710 | 2469 | -4.9 | -33.5 |
| as % of sales | 22.7 | 22.8 | 24.8 | 24.0 | 19.7 | | |
| Cost of materials consumed | 930 | 1071 | 1544 | 1248 | 1131 | 21.6 | -9.4 |
| as % of sales | 8.1 | 8.2 | 7.7 | 8.1 | 9.0 | | |
| Employee costs | 1514 | 1559 | 1679 | 1629 | 1706 | 12.7 | 4.7 |
| as % of sales | 13.2 | 11.9 | 8.4 | 10.5 | 13.6 | | |
| Repairs & maintenance | 3752 | 3914 | 4754 | 4148 | 4474 | 19.3 | 7.9 |
| as % of sales | 32.8 | 30.0 | 23.8 | 26.8 | 35.6 | | |
| Total Expenditure | 8,793 | 9,524 | 12,931 | 10,735 | 9,780 | 11.2 | -8.9 |
| EBITDA | 2,639 | 3,525 | 7,068 | 4,724 | 2,784 | 5.5 | -41.1 |
| Depreciation | 2,962 | 2,908 | 3,086 | 3,171 | 3,028 | 2.2 | -4.5 |
| EBIT | (323) | 617 | 3,982 | 1,553 | (244) | -24.5 | -115.7 |
| Other Income | 218 | 249 | 238 | 588 | 491 | 125.7 | -16.5 |
| Interest | 1,886 | 1,945 | 2,003 | 1,966 | 1,999 | 6.0 | 1.7 |
| Exceptional item | (108) | - | - | - | - | | |
| PBT | (2,100) | (1,079) | 2,217 | 175 | (1,752) | -16.6 | -1,101.1 |
| Tax | 1,240 | (259) | 555 | 47 | (455) | -136.7 | -1,068.1 |
| PAT before MI | (3,340) | (820) | 1,662 | 128 | (1,297) | -61.2 | -1,113.3 |
| Minority interest | (6) | (4) | (1) | (2) | (2) | -71.8 | 0.0 |
| PAT | (3,334) | (816) | 1,663 | 130 | (1,295) | (61) | (1,098) |

| Margins (%) | | | | | | (bps) | (bps) |
|--------------------|-------|------|------|------|-------|-------|--------|
| EBIDTA | 23.1 | 27.0 | 35.3 | 30.6 | 22.2 | -92 | -840 |
| EBIT | -2.8 | 4.7 | 19.9 | 10.0 | -1.9 | 88 | -1,199 |
| PBT | -18.4 | -8.3 | 11.1 | 1.1 | -13.9 | 443 | -1,508 |
| PAT | -29.2 | -6.3 | 8.3 | 0.8 | -10.3 | 1,885 | -1,115 |
| Effective Tax rate | -59.0 | 24.0 | 25.0 | 26.9 | 26.0 | 8,501 | -89 |

Source: Company, Emkay Research

Exhibit 3: Change in estimates

| Particulars | FY25E | | | FY26E | | |
|--------------------------|--------|--------|----------|--------|--------|----------|
| | Old | New | % Change | Old | New | % Change |
| Revenue | 74,032 | 66,976 | -9.5 | 82,645 | 77,785 | -5.9 |
| EBITDA | 24,989 | 22,478 | -10.0 | 28,429 | 26,975 | -5.1 |
| EBITDA Margin % | 33.8 | 33.6 | -24 bps | 34.4 | 34.7 | 28 bps |
| EBITDA (Adj. for IND AS) | 13,977 | 11,169 | -20.1 | 16,866 | 15,213 | -9.8 |
| PAT | 4,178 | 2,510 | -39.9 | 6,475 | 5,628 | -13.1 |
| EPS | 42.6 | 25.6 | -39.9 | 66.1 | 57.4 | -13.1 |

Source: Emkay Research

PVR INOX: Consolidated Financials and Valuations

| Profit & Loss | | | | | |
|-----------------------------|----------------|----------------|---------------|---------------|---------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
| Revenue | 13,310 | 37,507 | 61,071 | 66,976 | 77,785 |
| Revenue growth (%) | 375.3 | 181.8 | 62.8 | 9.7 | 16.1 |
| EBITDA | 1,057 | 10,473 | 18,101 | 22,478 | 26,975 |
| EBITDA growth (%) | 0.0 | 890.4 | 72.8 | 24.2 | 20.0 |
| Depreciation & Amortization | 6,144 | 7,533 | 12,193 | 12,700 | 13,200 |
| EBIT | (5,087) | 2,940 | 5,908 | 9,778 | 13,775 |
| EBIT growth (%) | 0.0 | 0.0 | 101.0 | 65.5 | 40.9 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| Other income | 3,261 | 791 | 1,566 | 1,600 | 1,700 |
| Financial expense | 4,982 | 5,716 | 7,913 | 8,025 | 7,955 |
| PBT | (6,807) | (1,986) | (439) | 3,354 | 7,521 |
| Extraordinary items | 0 | (108) | 0 | 0 | 0 |
| Taxes | (1,922) | 1,274 | (112) | 844 | 1,893 |
| Minority interest | (3) | 13 | 7 | 0 | 0 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | (4,882) | (3,381) | (334) | 2,510 | 5,628 |
| PAT growth (%) | 0.0 | 0.0 | 0.0 | 0.0 | 124.2 |
| Adjusted PAT | (4,882) | (3,273) | (334) | 2,510 | 5,628 |
| Diluted EPS (Rs) | (80.4) | (52.0) | (3.4) | 25.6 | 57.4 |
| Diluted EPS growth (%) | 0.0 | 0.0 | 0.0 | 0.0 | 124.2 |
| DPS (Rs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBITDA margin (%) | 7.9 | 27.9 | 29.6 | 33.6 | 34.7 |
| EBIT margin (%) | (38.2) | 7.8 | 9.7 | 14.6 | 17.7 |
| Effective tax rate (%) | 28.2 | (64.2) | 25.5 | 25.2 | 25.2 |
| NOPLAT (pre-IndAS) | (3,650) | 4,826 | 4,401 | 7,317 | 10,308 |
| Shares outstanding (mn) | 60.8 | 65.0 | 98.0 | 98.0 | 98.0 |

Source: Company, Emkay Research

| Cash flows | | | | | |
|------------------------------|----------------|----------------|-----------------|----------------|----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
| PBT | (6,807) | (1,986) | (439) | 3,354 | 7,521 |
| Others (non-cash items) | 7,943 | 12,589 | 19,013 | 8,025 | 7,955 |
| Taxes paid | 99 | 1 | 326 | (844) | (1,893) |
| Change in NWC | 434 | (1,969) | 890 | 1,940 | 1,361 |
| Operating cash flow | 1,668 | 8,635 | 19,790 | 12,474 | 14,943 |
| Capital expenditure | (1,298) | (6,339) | (6,269) | (4,822) | (4,236) |
| Acquisition of business | 0 | 0 | 0 | 0 | 0 |
| Interest & dividend income | 270 | 88 | 17 | 0 | 0 |
| Investing cash flow | (28) | (5,759) | (6,266) | (4,822) | (4,236) |
| Equity raised/(repaid) | 183 | 305 | 188 | 0 | 0 |
| Debt raised/(repaid) | 1,533 | 1,260 | (732) | (1,000) | (1,000) |
| Payment of lease liabilities | (2,638) | (7,059) | (10,589) | 659 | 1,330 |
| Interest paid | (1,246) | (1,442) | (1,792) | (8,025) | (7,955) |
| Dividend paid (incl tax) | 0 | 0 | 0 | 0 | 0 |
| Others | 802 | 301 | 285 | 285 | 285 |
| Financing cash flow | (1,366) | (6,634) | (12,640) | (8,081) | (7,339) |
| Net chg in Cash | 274 | (3,758) | 884 | (429) | 3,368 |
| OCF | 1,668 | 8,635 | 19,790 | 12,474 | 14,943 |
| Adj. OCF (w/o NWC chg.) | 2,102 | 6,666 | 20,680 | 14,415 | 16,304 |
| FCFF | 370 | 2,296 | 13,521 | 7,653 | 10,707 |
| FCFE | (4,342) | (3,333) | 5,625 | (372) | 2,752 |
| OCF/EBITDA (%) | 157.7 | 82.5 | 109.3 | 55.5 | 55.4 |
| FCFE/PAT (%) | 88.9 | 98.6 | (1,684.1) | (14.8) | 48.9 |
| FCFF/NOPLAT (%) | (10.1) | 47.6 | 307.2 | 104.6 | 103.9 |

Source: Company, Emkay Research

| Balance Sheet | | | | | |
|---------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
| Share capital | 610 | 980 | 980 | 980 | 980 |
| Reserves & Surplus | 13,093 | 72,319 | 72,254 | 74,764 | 80,391 |
| Net worth | 13,703 | 73,299 | 73,234 | 75,743 | 81,371 |
| Minority interests | (3) | (7) | (3) | (3) | (3) |
| Deferred tax liability (net) | (5,925) | (4,735) | (4,881) | (4,881) | (4,881) |
| Total debt | 51,959 | 80,519 | 83,035 | 82,694 | 83,024 |
| Total liabilities & equity | 59,734 | 1,49,076 | 1,51,385 | 1,53,553 | 1,59,511 |
| Net tangible fixed assets | 15,181 | 29,432 | 32,227 | 36,527 | 40,327 |
| Net intangible assets | 1,590 | 1,480 | 1,377 | 1,652 | 1,818 |
| Net ROU assets | 26,784 | 53,746 | 53,746 | 53,746 | 53,746 |
| Capital WIP | 645 | 2,473 | 2,464 | 2,710 | 2,981 |
| Goodwill | 10,520 | 57,428 | 57,431 | 57,431 | 57,431 |
| Investments [JV/Associates] | 5 | 2,312 | 161 | 161 | 161 |
| Cash & equivalents | 5,798 | 3,616 | 4,038 | 3,324 | 6,406 |
| Current assets (ex-cash) | 6,788 | 9,510 | 11,852 | 12,515 | 13,668 |
| Current Liab. & Prov. | 7,573 | 10,922 | 11,910 | 14,513 | 17,027 |
| NWC (ex-cash) | (785) | (1,411) | (58) | (1,998) | (3,359) |
| Total assets | 59,734 | 1,49,076 | 1,51,386 | 1,53,553 | 1,59,511 |
| Net debt | 46,161 | 76,903 | 78,997 | 79,370 | 76,618 |
| Capital employed | 59,734 | 1,49,076 | 1,51,385 | 1,53,553 | 1,59,511 |
| Invested capital | 53,290 | 1,40,674 | 1,44,723 | 1,47,358 | 1,49,963 |
| BVPS (Rs) | 225.5 | 1,127.2 | 747.5 | 773.1 | 830.6 |
| Net Debt/Equity (x) | 3.4 | 1.0 | 1.1 | 1.0 | 0.9 |
| Net Debt/EBITDA (x) | 43.7 | 7.3 | 4.4 | 3.5 | 2.8 |
| Interest coverage (x) | (2.7) | 1.5 | 1.1 | 0.7 | 0.5 |
| RoCE (%) | (2.9) | 3.6 | 5.0 | 7.5 | 9.9 |

Source: Company, Emkay Research

| Valuations and key Ratios | | | | | |
|---------------------------|---------------|---------------|--------------|---------------|---------------|
| Y/E Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
| P/E (x) | (16.1) | (25.8) | (380.6) | 50.6 | 22.6 |
| P/CE(x) | 62.5 | 19.8 | 10.7 | 8.4 | 6.8 |
| P/B (x) | 5.8 | 1.2 | 1.7 | 1.7 | 1.6 |
| EV/Sales (x) | 9.4 | 4.3 | 3.4 | 3.1 | 2.6 |
| EV/EBITDA (x) | 118.2 | 15.4 | 11.4 | 9.2 | 7.6 |
| EV/EBIT(x) | (24.6) | 54.9 | 34.9 | 21.1 | 14.8 |
| EV/IC (x) | 2.3 | 1.1 | 1.4 | 1.4 | 1.4 |
| FCFF yield (%) | 0.3 | 1.4 | 6.6 | 3.7 | 5.3 |
| FCFE yield (%) | (5.5) | (4.0) | 4.4 | (0.3) | 2.2 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | (36.7) | (8.7) | (0.5) | 3.7 | 7.2 |
| Total asset turnover (x) | 0.2 | 0.4 | 0.4 | 0.4 | 0.5 |
| Assets/Equity (x) | 3.9 | 2.4 | 2.1 | 2.0 | 2.0 |
| RoE (%) | (30.5) | (7.5) | (0.5) | 3.4 | 7.2 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | (27.4) | 12.9 | 7.2 | 10.9 | 13.3 |
| IC turnover (x) | 0.2 | 0.4 | 0.4 | 0.5 | 0.5 |
| RoIC (%) | (6.7) | 5.0 | 3.1 | 5.0 | 6.9 |
| Operating metrics | | | | | |
| Core NWC days | (21.5) | (13.7) | (0.3) | (10.9) | (15.8) |
| Total NWC days | (21.5) | (13.7) | (0.3) | (10.9) | (15.8) |
| Fixed asset turnover | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 |
| Opex-to-revenue (%) | 70.6 | 50.2 | 47.3 | 43.2 | 42.1 |

Source: Company, Emkay Research

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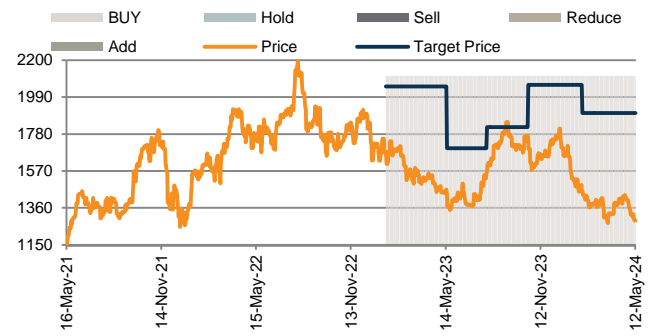
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RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|---------------|
| 31-Jan-24 | 1,455 | 1,900 | Buy | Pulkit Chawla |
| 30-Nov-23 | 1,718 | 2,060 | Buy | Pulkit Chawla |
| 19-Oct-23 | 1,745 | 2,060 | Buy | Pulkit Chawla |
| 01-Aug-23 | 1,565 | 1,820 | Buy | Pulkit Chawla |
| 25-Jul-23 | 1,484 | 1,700 | Buy | Pulkit Chawla |
| 16-May-23 | 1,435 | 1,700 | Buy | Pulkit Chawla |
| 19-Jan-23 | 1,678 | 2,050 | Buy | Pulkit Chawla |

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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|---------------|---|
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| REDUCE | 5% upside to 15% downside |
| SELL | <15% downside |

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