

## PVR Ltd

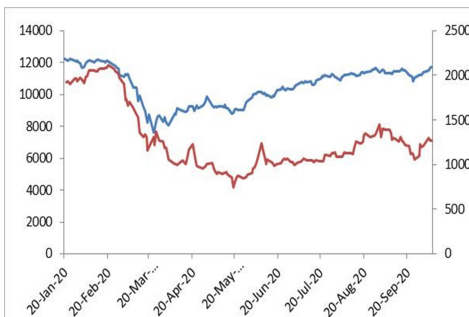
Analyst Recommendation: **SELL**

BSE Code: 532689 NSE: PVR Reuters Code: PVRL.NS Bloomberg Code: PVRL:NatI

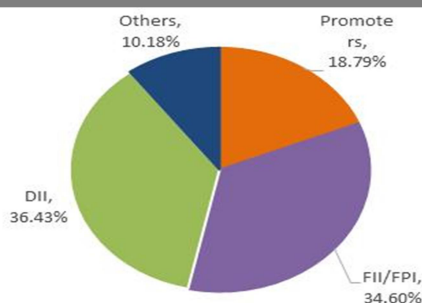
**CMP:** Rs 1533  
**2 Year Target:** Rs 1430

|                           |          |
|---------------------------|----------|
| Face Value                | 10.0     |
| Market Cap (Rs cr)        | 8,480    |
| 52 week high/low          | 2086/705 |
| Beta                      | 0.83     |
| Shares O/S (Cr)           | 5.53     |
| Book Value per Share (Rs) | 320      |
| Sensex                    | 49,587   |
| Nifty                     | 14,584   |

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 31st Dec 2020.



### Investor's Rationale

#### ➤ 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..

#### ➤ 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.

#### ➤ Valuations

Factoring in the muted Q3 topline, we cut our FY21 revenue estimates but maintain FY22-FY23 forecasts. As rich valuations cap near-term upside we Keep our target price to Rs 1430

|                     | FY20    | FY21   | FY22E   | FY23E   |
|---------------------|---------|--------|---------|---------|
| Revenue (Rs.Cr)     | 3,414.4 | 505.6  | 3,079.0 | 3,709.8 |
| EBITDA (Rs. cr)     | 1,076.6 | -227.2 | 961.7   | 1,243.5 |
| Adj. profit (Rs.Cr) | 27.4    | -537.3 | 44.6    | 234.0   |
| Adj. EPS (Rs.)      | 5.3     | -97.4  | 8.1     | 42.4    |
| P/E (x)             | 277.4   | -15.1  | 182.0   | 34.8    |
| EV/Net Sales        | 2.7     | 18.3   | 3.0     | 2.5     |
| EV/EBITDA (x)       | 8.5     | -40.7  | 9.6     | 7.5     |
| ROE (%)             | 1.8%    | -43.2% | 3.5%    | 16.0%   |
| ROIC (%)            | 11.2%   | -12.6% | 6.7%    | 10.1%   |

**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**

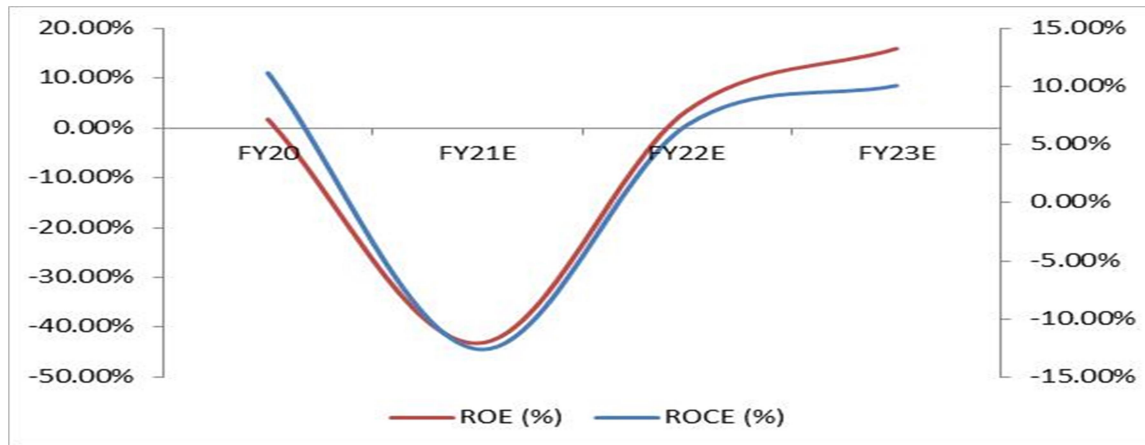
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**Cost control measures**

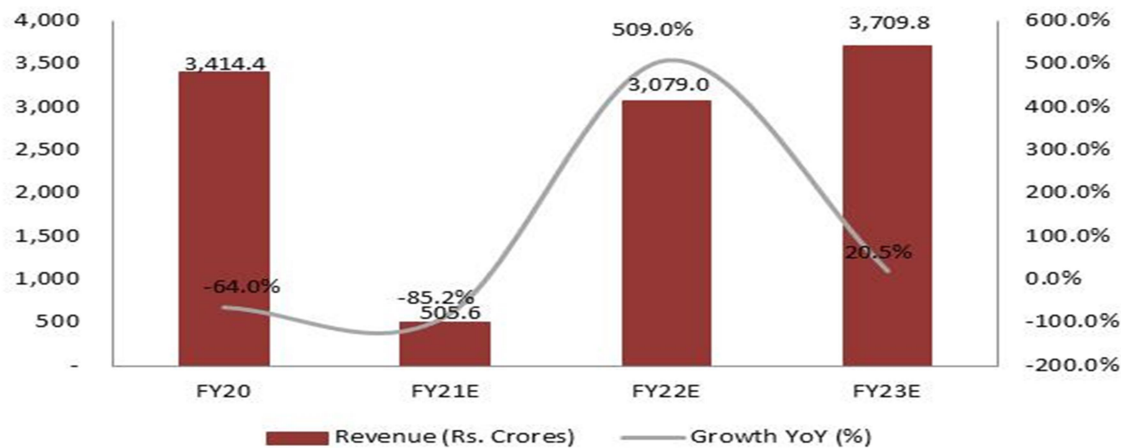
- PVRL continues to target stringent cost control and has achieved a 63% YoY reduction in total fixed costs in Q3FY21 even though most of its screens have reopened across the country. Its monthly fixed expense has reduced to Rs 530mn vs. Rs 1,450mn in Q3FY20.
  - The company has reached settlements with 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.
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## Return ratios to show growth in future

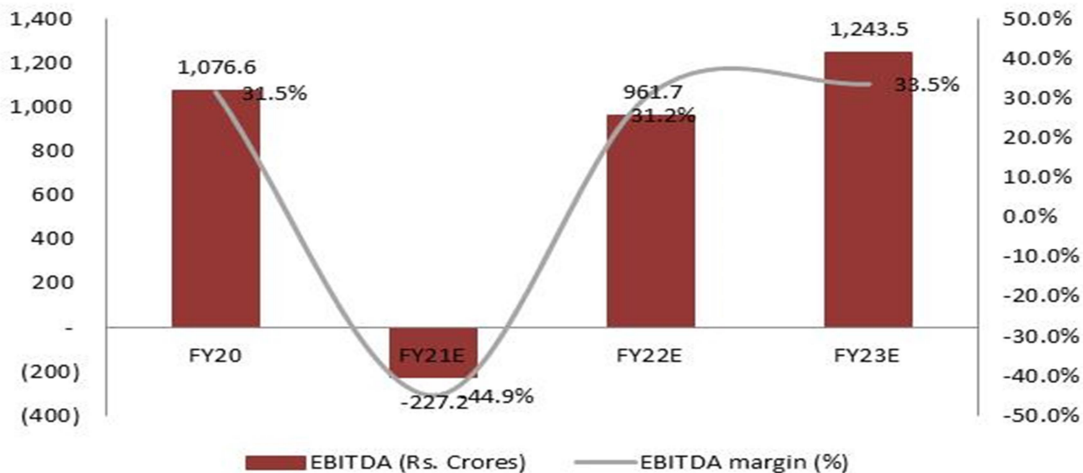
We expect return ratios to Experience growth from FY20 Levels in FY23.



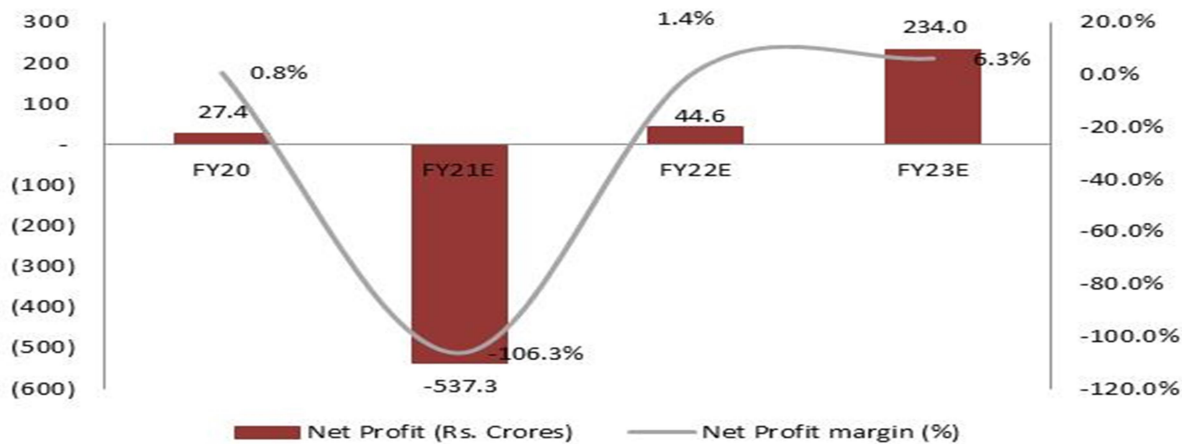
## Revenue will experience growth to FY20 levels by FY23



## EBITDA will experience growth to FY20 levels by FY23



## Net profit will experience a growth trajectory FY22 onwards



## Outlook and Valuation

We value the company at 14x EV/EBITDA to arrive at a target price of INR 1,430.

## PVR Ltd - Company Overview

- PVR Cinemas is a film entertainment company in India. The company started as a joint venture agreement between Priya Exhibitors Private Limited and Village Roadshow Limited in 1995 with 60:40 ratio. It began its commercial operations in June 1997. The company is founded by Ajay Bijli who is the chairman and managing director of PVR Cinemas. Ajay Bijli's brother Sanjeev Kumar Bijli is the Joint Managing Director of PVR Ltd.
- In 2003, ICICI Ventures invested ₹40 crore in PVR when Priya Village Roadshow decided to pull out of the partnership. In 2012, Kanakia group owned CinEMAX cinema chain was bought by Cine Hospitality Private Ltd, a subsidiary of PVR Cinemas for ₹395 crore (US\$55 million), making PVR the largest cinema chain in India
- .In May 2016, DLF group owned DT Cinemas was bought by PVR Cinemas for ₹433 crore (US\$61 million). Recently PVR Cinemas ventured into a new cinema concept- Superplex in Noida. The cinema has 15 screens with IMAX, 4DX, Gold Class, a playhouse and mainstream auditoriums. PVR Cinemas has invested ₹48 crores in this new venture.
- PVR's first "Gold Screen" was launched in Indore in 2007. Recently, PVR Cinemas in association with HP India has launched Asia's first Virtual Reality (VR) Lounge at PVR ECX, Mall of India, Noida.
- In August 2018, PVR Cinemas announced their acquisition of Chennai-based Sathyam Cinemas for ₹850 crore in a cash and stock deal.
- In August 2019 PVR Cinemas crossed its 800 screens milestone count in India.

## Key Risks

Key upside risks to our assumptions are

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



## Balance sheet (Consolidated)

| (Rs crore)                     | FY20        | FY21        | FY22E       | FY23E       |
|--------------------------------|-------------|-------------|-------------|-------------|
| <b>Liabilities</b>             |             |             |             |             |
| Paid up capital                | 51          | 55          | 55          | 55          |
| Reserves and Surplus           | 1429        | 1188        | 1233        | 1408        |
| <b>Net worth</b>               | <b>1481</b> | <b>1243</b> | <b>1288</b> | <b>1463</b> |
| Minority interest              |             |             |             |             |
| Total Debt                     | 1,295       | 1,395       | 1,321       | 1,201       |
| Other non- current liabilities | 3932        | 3591        | 3585        | 3719        |
| <b>Total Liabilities</b>       | <b>6707</b> | <b>6229</b> | <b>6194</b> | <b>6383</b> |
| <b>Assets</b>                  |             |             |             |             |
| Total fixed assets             | 1636        | 1624        | 1653        | 1753        |
| Investments                    | 1           | 1           | 1           | 1           |
| CWIP                           | 154.70      | -           | -           | -           |
| Other non- current assets      | 3,432.20    | 2,987.60    | 3,155.00    | 3,290.30    |
| Goodwill                       | -           | -           | -           | -           |
| Net Current Assets             | 1484        | 1616        | 1384        | 1339        |
| <b>Total Assets</b>            | <b>6708</b> | <b>6228</b> | <b>6194</b> | <b>6383</b> |

## Profit & Loss Account (Consolidated)

| (Rs crore)                         | FY20        | FY21        | FY22E       | FY23E       |
|------------------------------------|-------------|-------------|-------------|-------------|
| <b>Total operating Income</b>      |             |             |             |             |
|                                    | <b>3414</b> | <b>506</b>  | <b>3079</b> | <b>3710</b> |
| Operating Expenses                 |             |             |             |             |
|                                    | 2338        | 733         | 2117        | 2466        |
| <b>EBITDA</b>                      | <b>1077</b> | <b>-227</b> | <b>962</b>  | <b>1244</b> |
| Depreciation                       | 543         | 577         | 549         | 606         |
| <b>EBIT</b>                        | <b>534</b>  | <b>-804</b> | <b>413</b>  | <b>638</b>  |
| Interest cost                      | 482         | 470         | 404         | 375         |
| Other Income & Extraordinary Items | 38          | 506         | 50          | 50          |
| <b>Profit before tax</b>           | <b>90</b>   | <b>-768</b> | <b>60</b>   | <b>313</b>  |
| Tax                                | 63          | -230        | 15          | 79          |
| <b>Profit after tax</b>            | <b>27</b>   | <b>-537</b> | <b>45</b>   | <b>234</b>  |
| Minority Interests                 |             |             |             |             |
| P/L from Associates                |             |             |             |             |
| <b>Adjusted PAT</b>                | <b>27</b>   | <b>-537</b> | <b>45</b>   | <b>234</b>  |



# Equity Research

## Cash Flow (Consolidated)

| Y.E March (Rs crore)                       | FY20        | FY21        | FY22E       | FY23E       |
|--|-------------|-------------|-------------|-------------|
| <b>Pretax profit + Depreciation</b>        | <b>570</b>  | <b>39</b>   | <b>593</b>  | <b>840</b>  |
| Interest Expense                           | 482         | 470         | 404         | 375         |
| Chg in Working Capital                     | 274         | -13         | -71         | -69         |
| Others                                     | -619        | -85         | 48          | 34          |
| <b>Cash flow from operating activities</b> | <b>707</b>  | <b>411</b>  | <b>973</b>  | <b>1180</b> |
| Capex                                      | -305        | -110        | -285        | -386        |
| Other Investment (Net of Exp)              | 9           |             |             |             |
| <b>Cash flow from investing activities</b> | <b>-296</b> | <b>-110</b> | <b>-285</b> | <b>-386</b> |
| Equities Issued                            | 5           | 4           | 0           | 0           |
| Debt                                       | 12          | 100         | -74         | -120        |
| Others                                     | -139        | -544        | -631        | -672        |
| <b>Cash flow from financing activities</b> | <b>-122</b> | <b>-441</b> | <b>-704</b> | <b>-792</b> |
| Net chg in cash                            | 288         | -140        | -16         | 2           |
| Opening Cash                               | 35          | 323         | 184         | 168         |
| Closing Cash                               | 324         | 184         | 168         | 170         |

## Key Ratios & Valuations (Consolidated)

| Y.E March (Rs crore)          | FY20  | FY21    | FY22E | FY23E |
|-------------------------------|-------|---------|-------|-------|
| <b>Working Capital Ratios</b> |       |         |       |       |
| Receivable Days               | 20.00 | 25.00   | 22.00 | 22.00 |
| Inventory Days                | 3.00  | 3.00    | 3.00  | 3.00  |
| Payable Days                  | 33.00 | 33.00   | 35.00 | 35.00 |
| <b>Margin (%)</b>             |       |         |       |       |
| EBITDA                        | 31.5% | -44.9%  | 31.2% | 33.5% |
| NPM                           | 0.8%  | -106.3% | 1.4%  | 6.3%  |
| <b>Return Ratios (%)</b>      |       |         |       |       |
| RoE                           | 1.8%  | -43.2%  | 3.5%  | 16.0% |
| RoIC                          | 11.2% | -12.6%  | 6.7%  | 10.1% |
| <b>Valuation(x)</b>           |       |         |       |       |
| P/E                           | 277.4 | -15.1   | 182.0 | 34.8  |
| EV/EBITDA                     | 8.5   | -40.7   | 9.6   | 7.5   |
| EV/Net Sales                  | 2.7   | 18.3    | 3.0   | 2.5   |
| <b>Per share data (Rs.)</b>   |       |         |       |       |
| EPS                           | 5.3   | -97.4   | 8.1   | 42.4  |



# Equity Research

| Large Cap.    | Return                 | Mid/Small Cap.     | Return                   |
|---------------|------------------------|--------------------|--------------------------|
| <b>Buy</b>    | More than equal to 10% | <b>Buy</b>         | More than equal to 15%   |
| <b>Hold</b>   | Between 10% & -5%      | <b>Accumulate*</b> | Upside between 10% & 15% |
| <b>Reduce</b> | Less than -5%          | <b>Hold</b>        | Between 0% & 10%         |
|               |                        | <b>Reduce/sell</b> | Less than 0%             |

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



**Member: BSE, NSE, MCX, MCX-SX, CDSL**

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