PVR Inox Ltd. (PVRLIM)

ICICI direct Research

CMP: ₹ 1627 | Target: ₹ 1960 (20%) | Target Period: 12 months | **BUY**

October 16, 2024

Strong content pipeline to drive recovery ahead...

About the stock: PVR Inox is the market leader in multiplex space in India. Currently, it operates 1,747 screens in 111 cities across India and Sri Lanka

- Q3FY25 is marked with strong content pipeline such *Pushpa 2*, *Singham Again*, *Gladiator II* etc, which should drive footfall recovery

Q2FY25 Performance: Revenues at ₹ 1,622 crore, was up 36.2% QoQ but down 18.9% YoY, with box office revenue of ₹ 838 crore (up 41.1% QoQ, down 25.2% YoY). The footfalls were up 28% QoQ, down 20% YoY at 38.8 million and (Average Ticket Prices) ATP at ₹ 257 was up 9% QoQ, down 6.9% YoY. Ad revenues were up 17% QoQ, down 7% YoY at ₹ 109 crore. F&B spends per head was flattish YoY at ₹ 136. EBITDA (without impact of Ind AS116) was at ₹ 187 crore (margins of 11.5%) vs. loss of ₹ 38 crore in Q1 and EBITDA of ₹ 428 crore (21.4% margin) in Q2FY24

Investment Rationale:

- **Q3FY25 content pipeline looks strong; to drive footfall recovery:** Q2FY25 *has marked erratic content performance with Stree 2, Deadpool & Wolverine, only standing out.* **With strong big budget release pipeline lined up (incl. *Pushpa 2, Singham Again, Baby John, Bhool Bhulaiyaa 3, Gladiator II* etc) in Q3FY25, we expect footfalls to witness a recovery**. We expect footfalls of 189 mn in FY27 vs. likely 151 million in FY24, driving 9%/13% CAGR in box office/Food & Beverages (F&B) revenues over FY24-27E to ₹ 4257 crore/₹ 2846 crore, respectively in FY27.
- **Footfall recovery to boost margins expansion:** We note that with reduced costs post integration, the company managed to report ex-INDAS EBITDA margins of 11.5%, despite underwhelming occupancy of 25.7% in Q2. The upcoming festive quarter and strong content pipeline will also lead to an increased advertisement revenue. We have baked in ad revenues of ₹ 670 crore in FY27 (vs. ₹ 452 crore in FY24). Thus, we expect EBITDA margins (ex- IND AS) of 18% in FY27 vs. 11.6% in FY24.
- **Deleveraging and other capex sharing measures in the offing:** Despite relatively weak H1FY25, PVR managed to reduce net debt by ₹ 141 crore. De-leveraging is likely to be key focus area for PVR ahead. The company also intends to enter into Franchisee Owned, Company Operated (FOCO) model alongwith capex sharing contracts with landlords with an objective to bring down the overall capex by ~35-40%. Furthermore, it also has non-core assets (real estate space), which may be liquidated to reduce debt.

Rating and Target Price

- With strong content pipeline, a sharp recovery will be seen ahead.
- We assign a target of ₹**1960**, valuing it at 13x FY27 ex-IND AS EBITDA. Maintain **BUY**.

PVR INOX

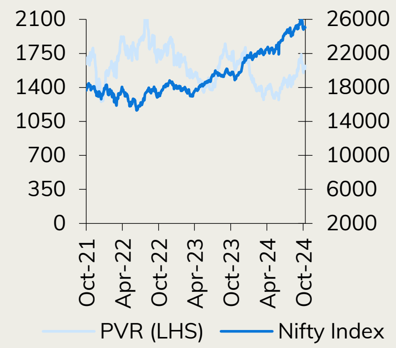
Particulars

Particulars	Amount
Market Cap (₹ Crore)	15,965
Total Debt (₹ Crore)	1,721
Cash & Equi. (₹ Crore)	568
EV (₹ crore)	17,118
52 week H/L (₹)	1830 / 1204
Equity capital (₹ crore)	9.8
Face value (₹)	10.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	27.8	27.8	27.8	27.8
DII	37.2	39.2	40.2	38.8
FIIs	23.3	21.8	16.8	18.1
Other	11.7	11.1	15.2	15.3

Price Chart



Key risks

(i) Continued weakness in content

(ii) Delay in ad revenues recovery

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY22	FY23	FY24E	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY24-27)
Net Sales (₹ crore)	1,331.0	3,750.7	6,107.1	NA	6,513.6	7,589.6	8,313.7	11%
EBITDA (₹ crore)	105.7	1,047.7	1,810.1	NA	1,977.2	2,535.9	2,829.7	16%
Net Profit (₹ crore)	(488.2)	(335.1)	(32.0)	NA	(48.5)	264.4	398.2	LP
EPS (₹)	(49.8)	(34.2)	(3.3)		(4.9)	26.9	40.6	
P/E (x)	NM	NM	NM		NM	60.4	40.1	
Price / Book (x)	11.6	2.2	2.2		2.2	2.1	2.0	
EV/EBITDA (x)	194.7	74.9	33.4		29.6	18.1	10.8	
RoCE (%)	(2.8)	2.4	4.8		5.2	8.1	16.3	
RoE (%)	(35.6)	(4.3)	(0.4)		(0.7)	3.5	5.1	

*Source: Company, ICICI Direct Research   * Merged entity numbers since Q4FY23. Thus, prior numbers are not comparable*

Performance highlights and Outlook

- **Revenue Performance**: The company reported a revenue of ₹1,622 crore (up 36.2%, QoQ down 18.9% YoY). The box office revenue was at ₹838 crore (up 41.1% QoQ, down 25.2% YoY). **The recovery in the box office revenues was aided by the bounce back in footfalls, led by the mega success of Stree 2, Deadpool & Wolverine, Kalki (spillover).**
- **Segment Performance**: Average Ticket Prices (ATP) stood at ₹257 crore, (up 9% QoQ, down 6.9% YoY). Advertisement revenues stood at ₹109 crore (up 17% QoQ, down 7% YoY). F&B spends per head was flattish YoY at ₹ 136. Convenience fee stood at ₹65 crore and saw a decline of (48% QoQ & 5.1% on a YoY basis). Sales of movie tickets reported a revenue of ₹837.6 crore, (up 41% QoQ, down 25% YoY). **Management remained confident that Q3 will be the best quarter of FY25, led by a strong content pipeline as there is significant room for growth in occupancy levels in CY25**.
- **Margin Performance**: The company reported an EBITDA margin (without impact of Ind AS116) of 11.5%, down ~990 bps YoY and up ~830 bps sequentially. On reported basis, EBITDA margin was 29.5%, down ~580 bps YoY and ~830 bps QoQ. **The EBITDA Margins are expected to improve further, with increased occupancy levels and operating leverage**. The management continues to take proactive measures to control its fixed costs, particularly rentals. Additionally, it is also renegotiating rental agreements with developers of poor performing malls.
- **F&B Business: F&B spends per head (SPH) was flattish YoY at ₹ 136 crore due to Cinema Lovers Day, which caused ~10% of the month's total footfall (with lower consumption propensity) to concentrate on a single day** The management mentioned that they plan to open a food court in partnership with Devyani international by December 2024, and is working with Zomato and Swiggy on improving the food delivery business model, following which they're even considering opening a dark kitchen to reduce their delivery time.
- **Screen additions in H1 and Capex Guidance**: In H1FY25, the company has opened 71 new screens and closed 42 underperforming screens, resulting in net addition of 29 screens during the year. Its current screen portfolio includes 1,747 screens in 356 cinemas across 111 cities in India and Sri Lanka. **For FY25, it expects to open 110-120 new screens in FY25, with net screen addition of ~50 screens. The company plans to open 80-120 screens in FY26 with approximately 15% of these screens under the FOCO model, 35-50% under asset light model and the remainder under the structured lease agreements. In terms of capex, the capex in H1FY25 stood at ₹ 205 crore and company guided for capex of ~₹ 400 crore in FY25. It expects capex of ₹ 500 crore in FY26**, with a focus on allocating more capital for renovating high value high performing properties.
- **Re-releasing strategy**: This initiative remained profitable for the company on a variable cost basis, **helping it to recover some fixed costs and drive footfalls during lean periods (~6% of Q2FY25 admissions).** This move resulted in higher gross margins as screen hire charges for re-releases are lower compared to the new films, and the average ticketing prices is also lower
- **Other Highlights**
  - The convenience revenue was boosted by integration related fees on *Paytm*'s ticketing business sale to *Zomato*, during the quarter. The company has renewed its contract with *BookMyShow* for another 4 years, during last year
  - PVR Inox managed to reduce net debt by ₹ 141 crore in H1FY25 to ₹ 1153 crore.

Exhibit 1: Ex-IND AS P&L Estimates

(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating Income	**6,107.1**	**6,513.6**	**7,589.6**	**8,313.7**
Growth (%)	62.8	6.7	16.5	9.5
Film Distributors Cost	1,411.3	1,401.4	1,693.6	1,851.7
F&B Cost	499.4	553.7	722.6	791.2
Employee Expenses	657.3	700.5	740.1	771.0
Other Expenses	2,830.9	3,064.8	3,160.4	3,402.2
Total Operating Expenditure	5,398.9	5,720.5	6,316.8	6,816.1
EBITDA	**708.2**	**793.1**	**1,272.8**	**1,497.6**
Growth (%)	121.1	12.0	60.5	17.7
Margins (%)	**11.6**	**12.2**	**16.8**	**18.0**
Depreciation	470.7	521.1	607.2	665.1
Interest	185.4	185.9	162.9	162.9
Other Income	102.0	110.5	80.0	100.0
Exceptional Items	0.0	0.0	0.0	0.0
PBT	154.1	196.6	582.8	769.6
MI/PAT from associates	-0.7	-0.6	0.0	0.0
Total Tax	38.3	43.3	163.2	215.5
PAT	**114.3**	**153.3**	**419.6**	**554.1**
Growth (%)	NM	34.1	173.7	32.1
EPS (₹)	**11.6**	**15.6**	**42.8**	**56.5**

Source: Company, ICICI Direct Research

Exhibit 2: KPI Trends

(Year-end March)	FY24	FY25E	FY26E	FY27E	FY24-27 CAGR
Box office Revenues	3,280	3,363	3,893	4,257	9.1%
YoY	73%	3%	16%	9%	
F&B	1,958	2,157	2,599	2,846	13.3%
YoY	64%	10%	21%	9%	
Ad	452	503	600	670	14.0%
YoY	56%	11%	19%	12%	
Others	417	491	497	541	
YoY	12%	18%	1%	9%	
ATP	259	258	269	269	1.3%
YoY	8%	0%	4%	0%	
Footfalls (mn)	151	156	173	189	7.7%
YoY	59%	3%	11%	9%	
Screens	1,718	1,768	1,868	1,968	4.6%
Net Debt	1,298	1,162	755	182	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating Income	**6,107.1**	**6,513.6**	**7,589.6**	**8,313.7**
Growth (%)	NA	6.7	16.5	9.5
Film Distributors Cost	1,411.3	1,401.4	1,693.6	1,851.7
F&B Cost	499.4	553.7	722.6	791.2
Employee Expenses	657.3	700.5	740.1	771.0
Other Expenses	1,729.0	1,880.7	1,897.4	2,070.1
Total Operating Expenditure	4,297.0	4,536.4	5,053.7	5,484.0
EBITDA	**1,810.1**	**1,977.2**	**2,535.9**	**2,829.7**
Growth (%)	NA	9.2	28.3	11.6
Depreciation	1,219.3	1,304.5	1,421.3	1,520.1
Interest	791.3	846.1	841.1	877.1
Other Income	156.6	110.5	80.0	100.0
Exceptional Items	0.0	0.0	0.0	0.0
PBT	-43.9	-62.9	353.5	532.4
MI/PAT from associates	-0.7	-0.6	0.0	0.0
Total Tax	-11.2	-13.9	89.1	134.2
PAT	**-32.0**	**-48.5**	**264.4**	**398.2**
Growth (%)	NA	LP	-645.3	50.6
EPS (₹)	**-3.3**	**-4.9**	**26.9**	**40.6**

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
PAT	**-32.0**	**-48.5**	**264.4**	**398.2**
Add: Depreciation	1,219.3	1,304.5	1,421.3	1,520.1
Add: Interest Paid	791.3	846.1	841.1	877.1
(Inc)/dec in Current Assets	-86.0	-144.8	-118.4	-151.8
Inc/(dec) in CL and Provisio	41.1	-1.4	11.7	6.8
Others	0.0	0.0	0.0	0.0
CF from operating activiti	**1,933.7**	**1,955.9**	**2,420.1**	**2,650.4**
(Inc)/dec in Investments	-15.9	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-211.7	-400.0	-550.0	-550.0
Others	-362.1	-550.8	-598.9	-627.2
CF from investing activitie	**-589.7**	**-950.8**	**-1148.9**	**-1177.2**
Issue/(Buy back) of Equity	0.2	0.0	0.0	0.0
Inc/(dec) in loan funds	-74.9	-360.3	-440.0	-200.0
Dividend paid & dividend t	-23.0	-23.0	-23.0	-23.0
Less: Interest Paid	791.3	846.1	841.1	877.1
Others	-1995.4	-1692.2	-1682.3	-1754.3
CF from financing activiti	**-1301.8**	**-1229.4**	**-1304.1**	**-1100.1**
Net Cash flow	42.2	-224.3	-33.0	373.1
Opening Cash	361.6	403.8	179.5	146.6
Closing Cash	**403.8**	**179.5**	**146.6**	**519.7**

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	98.1	98.1	98.1	98.1
Reserve and Surplus	7,225.4	7,153.9	7,395.4	7,770.7
Total Shareholders funds	7,323.5	7,252.1	7,493.5	7,868.8
Total Debt	1,717.7	1,357.4	917.4	717.4
Others	6,654.8	6,454.0	6,405.1	6,327.8
Total Liabilities	**15,696.0**	**15,063.5**	**14,816.0**	**14,914.0**
Assets				
Total Fixed Assets	3,489.7	3,368.6	3,311.4	3,196.3
Investments	16.1	16.1	16.1	16.1
Right of Use	5,491.7	4,908.3	4,494.2	4,039.2
Goodwill on Consolidatio	5,743.1	5,743.1	5,743.1	5,743.1
Debtors	234.6	356.9	415.9	455.5
Inventory	72.5	77.3	90.1	98.7
Loans and Advances	2.0	2.0	2.0	2.0
Other Current Assets	264.9	282.5	329.2	432.7
Cash	403.8	179.5	146.6	519.7
Total Current Assets	977.8	898.3	983.8	1,508.7
Total Current Liabilities	1,124.4	1,123.0	1,134.6	1,141.4
Net Current Assets	-146.6	-224.6	-150.9	367.3
Other Non Current Assets	1,102.0	1,252.0	1,402.0	1,552.0
Application of Funds	**15,696.0**	**15,063.5**	**14,816.0**	**14,914.0**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS (Diluted)	-3.3	-4.9	26.9	40.6
Cash EPS	121.0	128.0	171.8	195.5
BV	746.3	739.0	763.6	801.8
DPS	1.4	1.4	1.4	1.4
Cash Per Share	41.1	18.3	14.9	53.0
Operating Ratios (%)				
EBITDA Margin	29.6	30.4	33.4	34.0
EBIT / Net Sales	9.7	10.3	14.7	15.8
PAT Margin	-0.5	-0.7	3.5	4.8
Inventory days	4.3	4.3	4.3	4.3
Debtor days	14.0	20.0	20.0	20.0
Creditor days	38.9	35.0	31.0	31.0
Return Ratios (%)				
RoE	-0.4	-0.7	3.5	5.1
RoCE	4.8	5.2	8.1	16.3
RoIC	19.0	21.3	34.8	41.2
Valuation Ratios (x)				
P/E	-499.3	-329.5	60.4	40.1
EV / EBITDA	33.4	29.6	18.1	0.0
EV / Net Sales	3.9	3.6	3.0	1.9
Market Cap / Sales	2.6	2.5	2.1	1.9
Price to Book Value	2.2	2.2	2.1	2.0
Solvency Ratios				
Net Debt/EBITDA	0.7	0.6	0.3	0.1
Net Debt / Equity	0.2	0.2	0.1	0.0
Current Ratio	0.8	1.1	1.2	1.3
Quick Ratio	0.7	0.9	1.1	1.2

Source: Company, ICICI Direct Research

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