24 July 2023

Update | Sector: Media

PVR-Inox

BSE SENSEX	S&P CNX
66,385	19,672

Stock Info

Bloomberg	PVRINOX IN
Equity Shares (m)	98
M.Cap.(INRb)/(USDb)	146.4 / 1.8
52-Week Range (INR)	2212 / 1337
1, 6, 12 Rel. Per (%)	3/-20/-41
12M Avg Val (INR M)	1237
Free float (%)	72.4

Financials Snapshot (INR b)

Y/E March	2023	2024E	2025E
Sales	37.5	66.5	82.3
EBITDA	3.2	10.8	15.3
Adj. PAT	-2.4	3.8	6.6
EBITDA Margin (%)	8.5	16.2	18.6
Adj. EPS (INR)	-24.8	38.9	67.3
EPS Gr. (%)	LP	-257.0	72.9
BV/Sh. (INR)	748.2	787.1	854.4
Ratios			
Net D:E	1.0	1.0	0.8
RoE (%)	-5.6	5.1	8.2
RoCE (%)	4.1	5.7	8.3
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	-60.3	38.4	22.2
P/BV (x)	2.0	1.9	1.7
EV/EBITDA (x)	50.2	14.6	10.0
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	27.6	27.5	17.0
DII	33.1	30.2	26.2
FII	26.8	31.2	36.6
Others	12.4	11.2	20.3

FII Includes depository receipts

CMP: INR1,494 TP: INR1,495 Neutral

A dominant force in the cinema space

Growing scale of OTT platforms could dilute footfalls

The merger of PVR-Inox has created a dominant player in the film exhibition space. The merged entity, with a strong presence of ~1,700 screens, commands a momentous screen/market share of 20%/30%. However, we believe the slower recovery in occupancy, possibly due to a changing ecosystem and the prevalence of OTT platforms, could remain a headwind for the sector.

Focus on revenue optimization to drive profitable growth

The merged entity expects synergy benefits of INR2.3b over the next two years, which would entail a margin improvement of ~4-5% on the current base. Further, the merged company will seek to expand its footprint to strengthen its market leadership. It plans to add 150-175 screens, which may require INR6-6.5b in capex. The company would fund the capex through internal accrual, provided that occupancy recovers to the normal level, which implies~10% growth on the current base of ~1,680 screens.

Changing dynamics in the entertainment industry

Multiplexes have attributed the slower recovery in occupancy to weak content, which was conceptualized in the pre-Covid period. The historic content ratings indicate that low-rated content had also generated healthy occupancy. Further, OTT platforms have recorded sizable growth in subscription and ad revenue to >INR100-110b and are reaching closer to exhibition revenues. This may increase their bargaining power and wherewithal to further invest in original content, along with top star cast to attract consumers.

Business remains highly sensitive to occupancy

The experience of watching movies in big-screen theatres should continue to drive footfalls to cinemas, but the provenance of OTT platforms could still dilute the number of cinema goers. Given high sensitivity to occupancy, this is a key risk to the profitability of multiplex operators, in our view. In the last 4-5 quarters after Covid, average occupancy recovered to 80%, which was partly cushioned by an 18% increase in ticket prices, but the inherent fixed cost nature of the business pulled down EBITDA margins to ~11.5% in FY23 vs. normalized 19% in FY19. Our workings indicate that every 3% change in occupancy could impact ROCE by 3.5%, thereby making it imperative for a recovery in occupancy from the current level.

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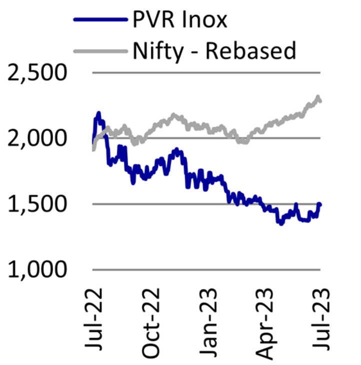
Stock Performance (1-year)



Valuation and View

- The merged entity, with a revenue scale of INR82.3b as of FY25E and expected EBITDA margins of 18.6%, is currently trading at 10x FY25E EV/EBITDA, which is lower than its historical average.
- However, weak occupancy poses risk to earnings. Moreover, the lack of visibility in occupancy improvement, increasing threat from the digital (OTT) segment and the lower ROCE profile may keep valuations inexpensive.
- We believe key factors that could drive profitability include: 1) a strong release pipeline from Jun'23 onward; and 2) recent initiatives like increasing ATPs and optimizing revenue through SPH and ad revenues.
- We value the merged entity at 10x FY25E EV/EBITDA to arrive at a target price of INR1,495. Maintain Neutral.

Exhibit 1: Valuation based on FY25E

Particulars	Valuation
EBITDA FY25E (INR b)	15.3
Multiple	10
EV (INR b)	161
Net Debt (INR b)	14
Target Market cap (INR b)	147
No. of shares	0.1
Target Price	**1,495**
CMP	**1,495**
Upside	0%

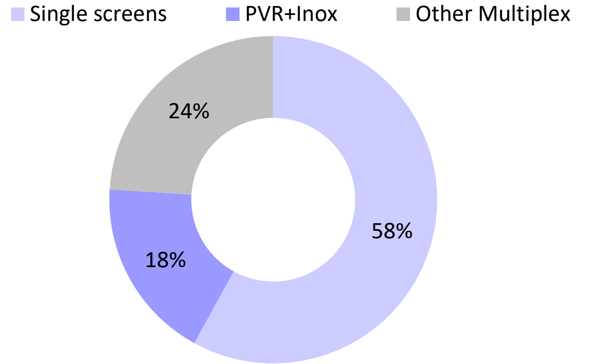
Source: MOFSL, Company

Dominant player in the movie exhibition space

Merged entity to command a prominent position

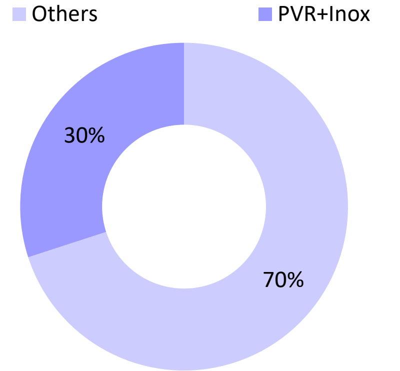
The merger of PVR-Inox has created the largest multiplex chain in India. With ~1,700 screens and gross ticketing revenue of ~INR26b (FY23 combined basis), the merged entity commands a leading position and garners a momentous 18% screen share and 30% revenue share in the box office collection.

Exhibit 2: Merged entity to hold 18% share in total screens…



Source: MOFSL, Company

Exhibit 3: ….with 30% share in box office collection



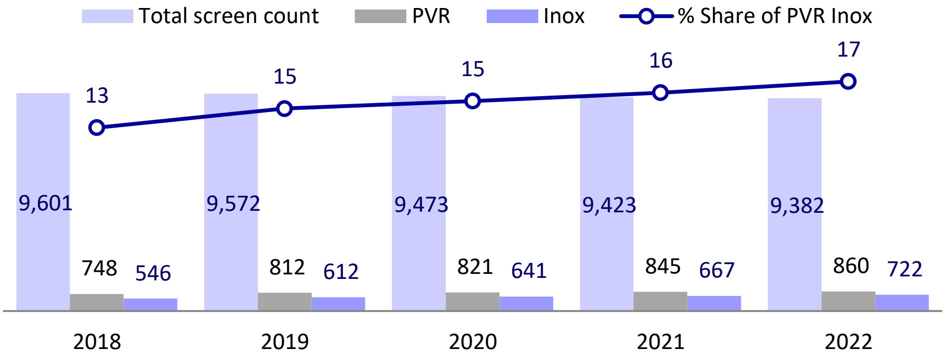
Source: MOFSL, Company

Exhibit 4: Revenue share in box office collection

INR b	1QFY23	2QFY23	4QFY23
Total Gross box office collection	54.0	24.2	25.0
Combined collection	10.4	6.5	7.3
(% share)	19.3	26.8	29.1

Source: MOFSL, Company

Exhibit 5: Improved its share in total screens over the years (No of screens)



Source: MOFSL, FICCI EY Report

Exhibit 6: Financial snapshot of the merged entity

	PVR-Inox merged entity						
Particulars (INR m)	**FY19***	**FY20***	**FY21***	**FY22***	**FY23**	**FY24E**	**FY25E**
Income Statement							
Ticketing revenue	26,103	28,421	1,583	12,879	27,514	35,891	45,344
YoY Growth (%)	27%	9%	-94%	714%	114%	30%	26%
Total screens	1,346	1,471	1,490	1,535	1,680	1,855	2,030
ATP (Net)	161	169	149	228	198	210	222
revenue/screen	19.4	19.3	1.1	8.4	16.4	19	22
revenue/patron	161.3	169.5	149.3	228.0	196.2	210	222
Food & Beverage	12,833	14,465	979	5,952	16,180	22,204	27,654
YoY Growth (%)						37%	25%
revenue/screen	10	9.8	0.7	3.9	9.6	12	14
SPH	79	86.3	92.3	105.3	115.4	130	136
Advertising	5,295	5,482	208	1,206	3,818	4,599	5,464
YoY Growth (%)					2	20%	19%
revenue/screen	3.9	3.7	0.1	0.8	2.3	2.5	2.7
revenue/patron	33	32.7	19.6	21.3		27	27
Convenience and other	3,546	4,922	1,481	314	5,595	3,455	3,412
YoY Growth (%)					1,680	-38.2	-1.3
revenue/screen	3	3.3	1.0	0.2	3.3		
revenue/patron	22	29.4	139.7	5.6	39.9	20.2	16.7
Other						400	400
Total revenues	**47,777**	**53,291**	**4,251**	**20,352**	**53,105**	**66,549**	**82,275**
YoY Growth (%)	30	12	-92	379	161	25	24
Costs:							
Movie exhibition/production cost	**11,461**	**12,299**	**1,162**	**4,862**	**12,745**	**15,681**	**19,335**
YoY Growth (%)			-91	318	162	23	23
% of Rev	24	23	27	23.9	24.0	23.6	23.5
Food and Beverage	**3,512**	**3,884**	**336**	**1,542**	**3,646**	**4,342.1**	**5,095.0**
YoY Growth (%)			-91	358	136	19.1	17.3
% of Rev	7.4	7.3	7.9	7.6	6.9	6.5	6.2
Cost/screen	3	3	0	1	2	2	3
Cost/patron	22	23	32	27	26	25	25
Rent	**8,278**	**9,339**	**2,426**	**5,763**	**11,303**	**12,179**	**14,398**
YoY Growth (%)			-74	138	96	7.7	18.2
% of Rev	17	18	57	28	21	18.3	17.5
Cost/screen	6	6	2	4	7	7	7
Cost/patron	51	56	229	102	81	71.2	70.6
Personnel Expenses	**4,524**	**5,359**	**3,038**	**3,598**	**4,389**	**5,989**	**7,158**
YoY Growth (%)			-43	18	22	36	0
% of Rev	9	10	71	18	8	9	9
Cost/screen	3	4	2	2	3	3	4
Cost/patron	28	32	287	64	31	35	35
Selling & Distribution Expenses	**11,047**	**13,165**	**4,339**	**7,789**	**13,684**	**17,558**	**20,959**
YoY Growth (%)	22	19	-67	80	76	28	19
% of Rev	23	25	102	38	26	26	25
Total Cost	**38,823**	**44,045**	**11,301**	**23,554**	**47,012**	**55,749**	**66,944**
YoY Growth (%)	26	13	-74	108	100	19	20
EBITDA	**8,955**	**9,245**	**-7,050**	**-3,202**	**6,093**	**10,800**	**15,330**
% margin	18.7	17.3	-165.9	-15.7	11.5	16.2	18.6

*pro-forma numbers from individual company report; Source: MOFSL, Company

Exhibit 7: Ticketing revenue for the merged company

Particulars (INR m)	FY18*	FY19*	FY20*	FY21*	FY22*	FY23
Gross revenue	**24,192**	**30,802**	**33,537**	**1,868**	**15,198**	**25,828**
Gross ATP	**187**	**190**	**200**	**176**	**269**	**236**
Ticketing revenue	**20,502**	**26,103**	**28,421**	**1,583**	**12,879**	**27,514**
YoY Growth (%)		**27%**	**9%**	**-94%**	**714%**	**114%**
Total screens	1,117	1,346	1,471	1,490	1,535	1,680
Total capacity	2,61,082	3,07,341	3,26,384	3,31,885	3,40,142	3,40,790
seats Per screen	234	250	232	224	225	212
Occupancy	27.9%	29.8%	31.0%	2.3%	12.0%	25.2%
Patrons ('000)	1,29,400	1,61,800	1,67,700	10,600	56,500	1,09,440
ATP (Net)	158	161	169	149	228	198
revenue/screen	18.4	19.4	19.3	1.1	8.4	16.4
revenue/patron	158.4	161.3	169.5	149.3	228.0	251.4

*pro-forma numbers from individual company report; Source: MOFSL, Company

Strong management profile

The merged entity is led by a combination of top management from both the companies. While Mr. Ajay Bijli will continue as Managing Director, Mr. Pavan Kumar Jain would take over as Chairperson of the board. Mr. Gautam Dutta (PVR), will oversee the North and South markets along with Mr. Alok Tandon (INOX), who will manage the West and East markets as Co-CEO.

Exhibit 8: Strong management profile for the merged entity

Name	Designation
Mr. Ajay Bijli	Managing Director
Mr. Pavan Kumar Jain	Chairman & Non-Executive Director
Mr. Siddharth Jain	Non-Executive Director
Mr. Sanjeev Kumar	Executive Director
Mr. Alok Tandon	Co-CEO
Mr. Gautam Dutta	Co-CEO
Mr. Nitin Sood	Group CFO
Mr. Kamal Gianchandani	Chief Business Planning & Strategy

Source: MOFSL, Company

Focus on growth and margin improvement

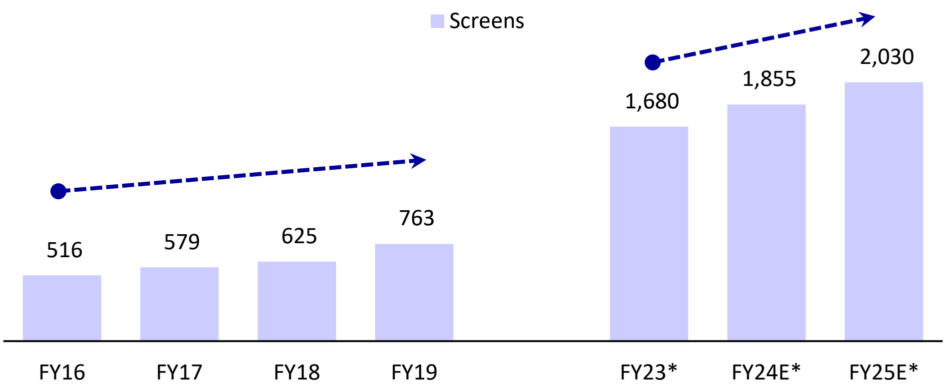
With the successful completion of merger process, the company's focus will now be on 1) expanding footprint, 2) integrating the business operations and 3) realizing the synergistic benefits.

Footprint expansion

The merged company plans to further improve its position as a market leader by adding 150-175 screens annually, with an emphasis on the strongly performing Southern region (40% of new screens to be opened in the South). This entails 10-12% growth in footprint on the current base of ~1,680 screens. The screen addition target has been reduced from earlier 200 screens annually, as the company looks to monitor the recovery in occupancy.

In addition, it targets to open ~82% of the screens in metro and tier-1 cities and aims to explore fresh markets like Patna, Ajmer and Tripura. We expect the company to add 175 screens in FY24/FY25 each, which would mean an annual capex of ~INR6.5b. The company also plans to close ~50 unprofitable screens in six months, which could lead to cost savings of INR100m. With expected EBITDA generation capability of ~INR13-15b annually, we anticipate growth to be funded internally without burdening the balance sheet. However, this is subject to the recovery in occupancy, which has languished in the last few quarters even after Covid. Given its weak screen addition trends historically, achieving these targets looks a bit challenging.

Exhibit 9: Expect screen addition to continue



*Merged entity screens; Source: MOFSL, Company

Realization of synergy benefits for margin improvement

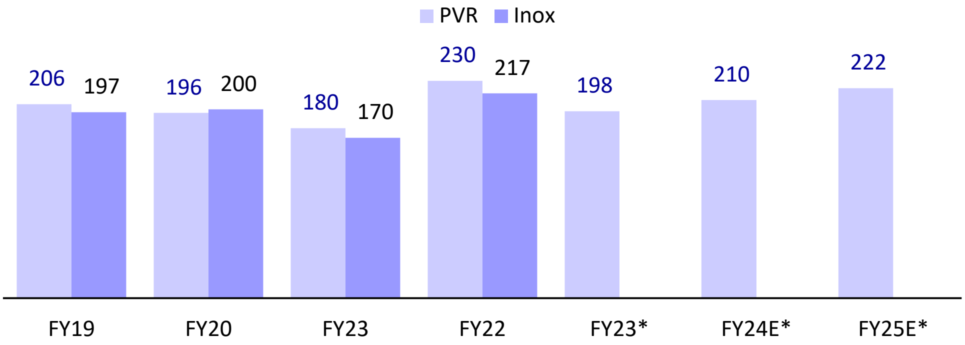
The merged entity's focus is on driving revenue optimization. PVR's key revenue metrics historically indicate that it has garnered higher screen level revenue through a higher number of shows, better pricing, high SPH, and other monetization opportunities, like advertisement and convenience fees. These factors should help improve revenue synergies for the merged entity, with improving metrics.

It will further look to leverage the scale benefits to tap the synergy benefits, which can improve margins. The company has identified synergy benefits to accrue across revenue and cost items. The company expects synergy to accrue from:

- Synchronization of ATP and SPH for both the brands: While PVR operated at a higher net ATP of INR230 (FY22) vs. INR217 for Inox. The company, moving ahead, will look to synchronize the pricing, thereby improving the ATP.
- Realizing synergies in the box office through enhanced consumer interaction and an efficient programming approach.
- Maximizing the scale and reach to increase ad income and rationalizing F&B costs.
- Eliminating duplicate overheads.

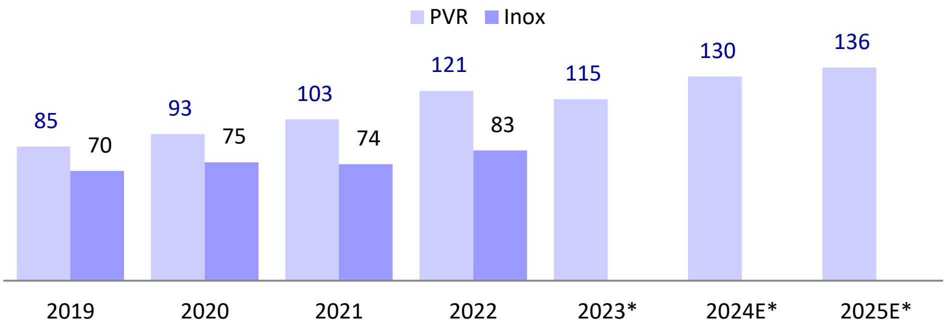
The company has stated that it will realize synergy benefits of INR2.3b over the next 12-24 months, which entails a margin improvement to ~5%. The company in FY23 reported EBITDA margins of 11.5% on combined basis. We expect the merged entity to garner operating margins of 16.2%/18.6% in FY24/FY25 (Pre-Ind AS).

Exhibit 10: ATP differential between PVR and Inox (ATP net of taxes; INR)



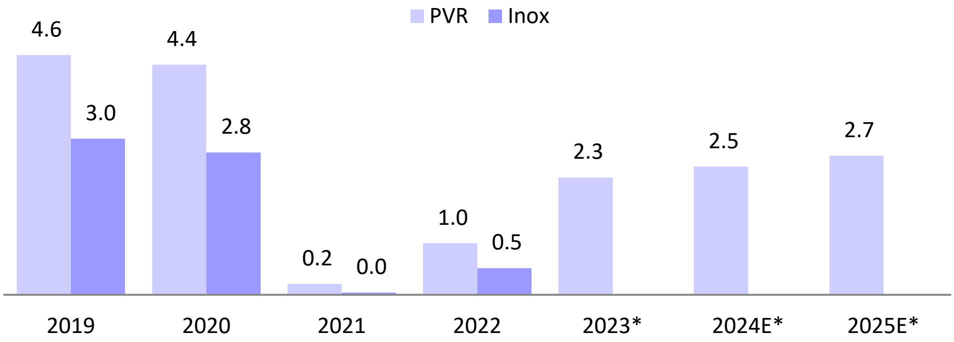
*merged entity number; Source: MOFSL, Company

Exhibit 11: SPH differential between PVR and Inox (ATP net of taxes; INR)



*merged entity number; Source: MOFSL, Company

Exhibit 12: Ad-revenue per screen could improve gradually (INR m)

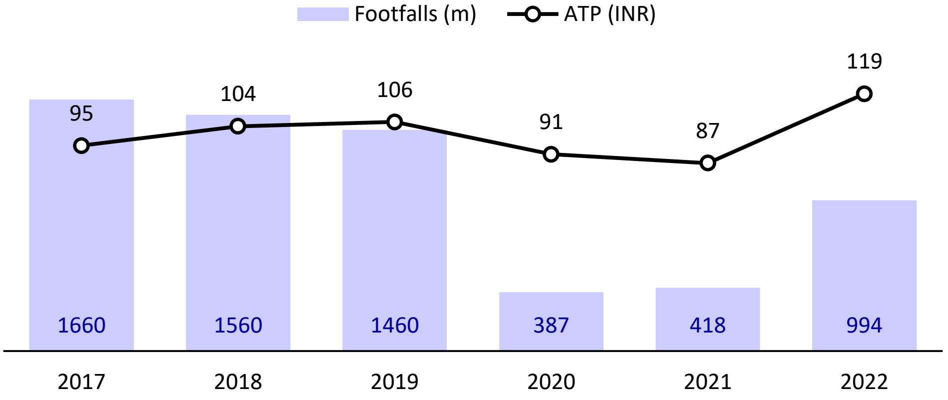


*merged entity number; Source: MOFSL, Company

Changing dynamics within the entertainment industry

The multiplex industry has recently witnessed a shift in dynamics. While ATP improvement has supported a recovery in ticket revenue growth, occupancy remained below the pre-Covid level. Industry data released by FICCI-EY suggested footfalls, at 994m in CY22, remained ~30% below the pre-Covid level. ATP, on the other hand, grew 12% to INR119 in CY22.

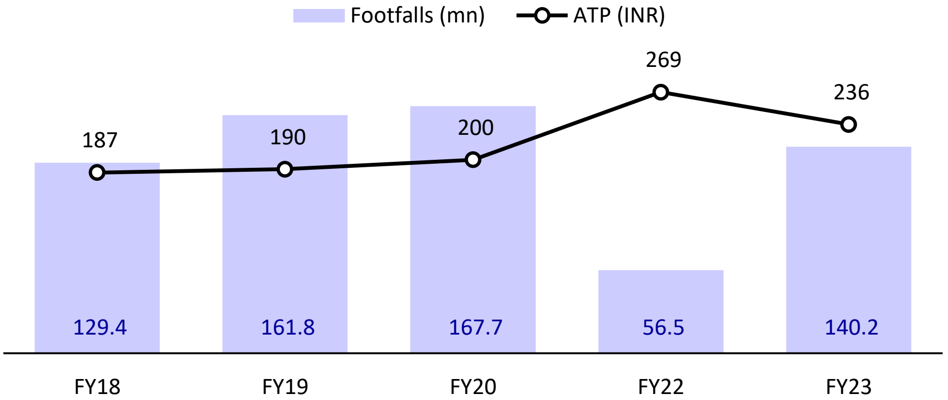
Exhibit 13: Industry footfalls remain below the pre-Covid level, offset by improved pricing



Source: MOFSL, FICCI EY media report

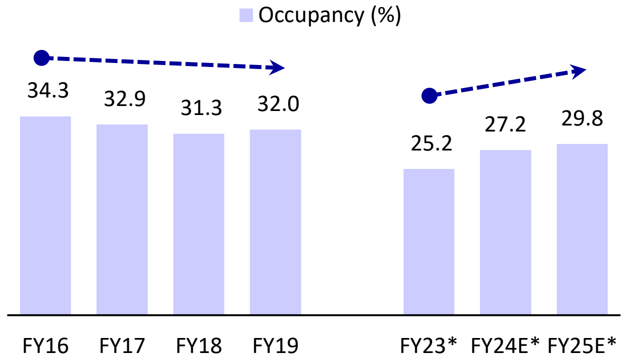
For PVR-Inox, the occupancy level in 4QFY23 stood at merely 22.2% vs. 25.1% in 4QFY22 as the quarter witnessed lower footfalls in Feb-Mar'23. FY23 occupancy for the merged entity stood at ~25%, which was below the pre-Covid level of 32%.

Exhibit 14: Lower footfalls for PVR-Inox offset by improved ATP (merged entity)



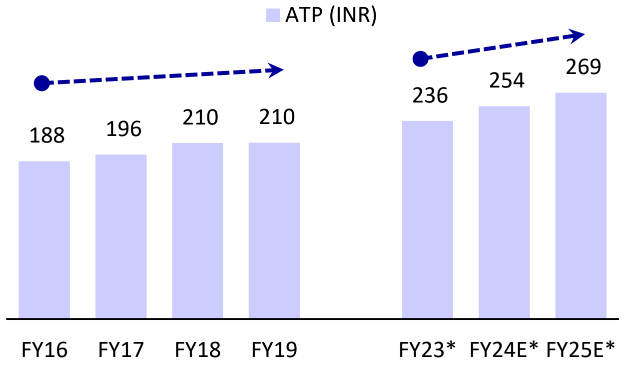
Source: MOFSL, Company

Exhibit 15: PVR occupancy growth remains sluggish…



*merged entity numbers; Source: MOFSL, Company

Exhibit 16: …while ATP continues to drive growth



*merged entity numbers; Source: MOFSL, Company

While multiplexes have attributed the slower recovery in occupancy to content being conceptualized in the pre-Covid period and a dry pipeline of big-ticket movies, we believe there is more to this, which can influence the bargaining power of multiplexes in the long run. We believe that there is a possible structural shift in consumer behaviour that could impact the performance of multiplexes on the back of:

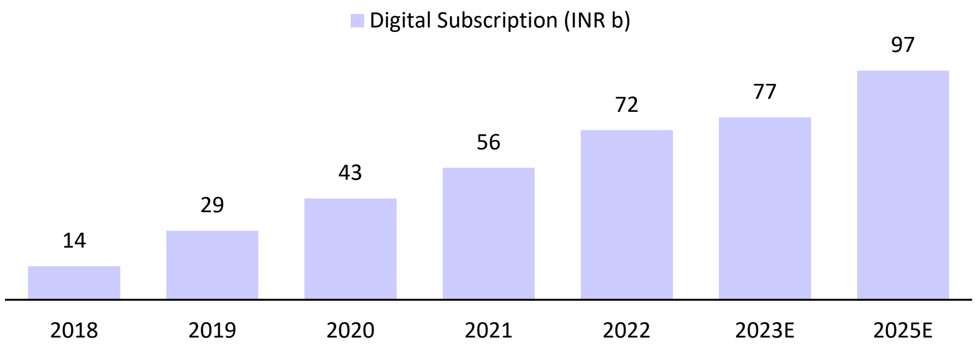
- Strong growth in digital subscription
- Improved share of OTT segment in film collection
- Aggressive investments by OTT players to acquire and create content
- Shift in consumer preferences with respect to movie content

Improving might and share of OTT platforms to threaten bargaining power of multiplexes

Strong demand in the digital segment

During the pandemic, OTT platforms have seen a surge in size and preference, which is evident from the significant rise in their share in film revenue. The digital subscription market, which stood at merely INR14b in CY18, grew to INR72b by CY22. It is expected to grow exponentially and reach ~INR100b by CY25, as per the FICCI-EY report.

Exhibit 17: Digital subscription revenue seeing consistent growth (INR b)



Source: FICCI EY media report

Improving share of digital in the movie revenue segment

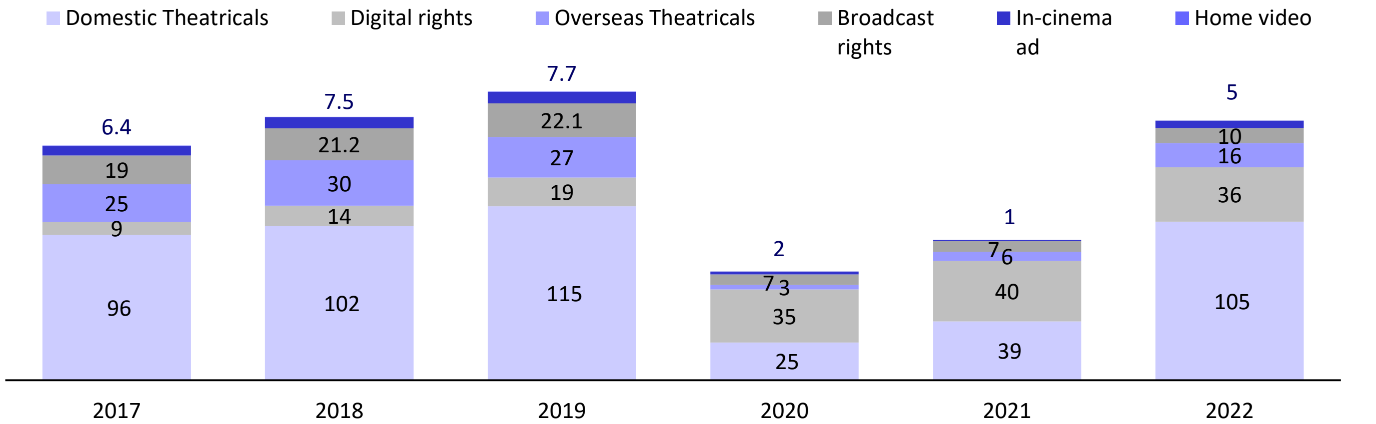
In line with global trends, the revenue share of Digital (incl. Music rights) in the Indian domestic movie segment has seen a significant improvement. It improved from merely 5% in CY17 to 43% in CY21, gaining market share from the domestic theatre segment (42% in CY21 vs. 62% in CY17). It, however, moderated in CY22 to 21%. Furthermore, unlike theatres, OTT platforms have exclusivity and control over the content, along with offering content on demand. The growing share and size of OTT platforms can put pressure on exclusive theatrical window from the current eight weeks.

Exhibit 18: Improved share of digital in movie collection (%)

India share of total film revenue	2017	2018	2019	2020	2021	2022
Domestic theatrical	62	59	60	35	42	61
Overseas theatrical	16	17	14	4	6	9
Digital	5	8	10	49	43	21
Broadcasting, music rights & others	17	17	16	13	9	9

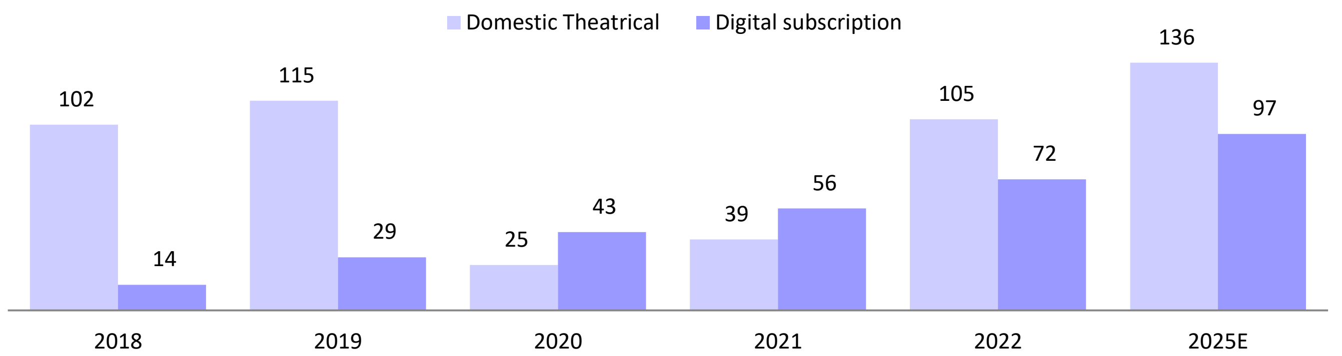
Source: FICCI EY media report

Exhibit 19: Digital remains significant in film revenues (INR b)



Source: FICCI EY media report

Exhibit 20: Digital subscription segment is now gaining scale and competing with domestic theatrical segment (INR b)



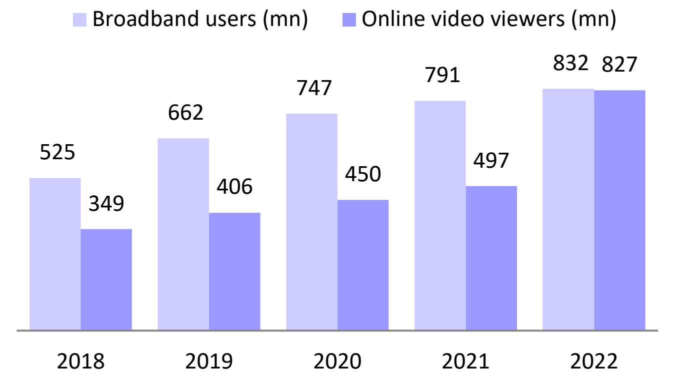
Source: FICCI EY media report

OTT platforms investing significantly on content creation and acquisition

The notable surge in internet users and the growing acceptance of the OTT segment have resulted in a substantial increase in the number of subscribers for these platforms. Digital subscription reported strong growth of 28% YoY to INR72b in CY22, as the segment recorded 99m paid video subscriptions across 45m Indian households. As per the latest report by FICCI & EY, owing to the greater acceptance of digital platforms, paid video subscriptions are expected to increase to 114m across 52m households by CY25, with the availability of a strong library of content

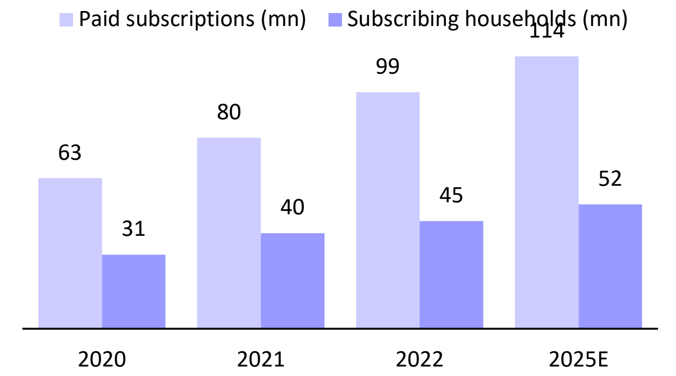
Moreover, well-funded OTT companies are making significant investments in content creation and acquiring movies through competitive bidding processes, with the aim of expanding their subscriber base. The recent instances of underwhelming responses to Bollywood movies and a potential shift in consumer preferences toward digital platforms during the pandemic have prompted many high-profile movies to opt for direct releases on OTT platforms. In addition to acquiring established or pre-released content, digital platforms are also making substantial investments in developing a robust library of original content in order to enhance their subscriber base.

Exhibit 21: Surge in online video viewers



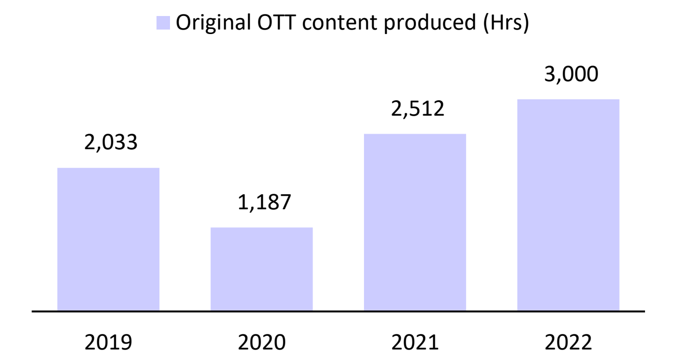
Source: FICCI EY media report, TRAI

Exhibit 22: Rise in paid subscriptions



Source: FICCI EY media reports

Exhibit 23: Strong growth in OTT content production



Source: FICCI EY media report

Exhibit 24: OTT platforms investing heavily in original content

OTT app	No of originals shows	No of originals movies
Original content CY22		
Netflix	16	9
Disney+ Hotstar	19	9
Amazon Prime	16	12
SonyLIV	21	17
Zee5	23	7
Voot select	13	1

Source: MOFSL, media reports

Exhibit 25: OTT platforms continue to spend aggressively to acquire content

Movie	Date	Amount (in INR b)	OTT
Pathaan	Apr'23	1	Amazon Prime
Tu Jhoothi Main Makkar	May'23	0.5	Netflix
Gehraiyaan	Feb'22	1	Amazon Prime
Atrangi Re	Dec'21	0.8	Disney+ Hotstar
Govinda Naam Mera	Dec'22	0.6	Disney+ Hotstar
Laal Singh Chadda	Oct'22	0.9	Netflix
KGF 2	May'22	3.2	Amazon Prime
Pushpa: The Rise	Jan'22	0.3	Amazon Prime
Bhool Bhulaiya 2	Jun'22	0.3	Netflix
Gangubai Kathiyawadi	Apr'22	0.7	Netflix
Jhund	May'22	0.3	Zee5

Source: MOFSL, media reports

Exhibit 26: Big ticket stars making debuts on OTT platforms

OTT shows/movies	OTT app	Star cast
Untitled (adoption of 'Devotion of Suspect')	N.A	Kareena Kapoor Khan
The Night Manager	Disney+ Hotstar	Aditya Roy Kapoor & Anil Kapoor
The Good Wife (web Series)	Disney+ Hotstar	Kajol
Tiwari (web Series)	N.A	Urmila Matondkar
Indian Police Force	Amazon Prime	Siddharth Malhotra, Shilpa Shetty
Untitled (Indian version of 'Citadel')	Amazon Prime	Varun Dhawan
Dahaad (web series)	Amazon Prime	Sonakshi Sinha
Farzi (Web series)	Amazon Prime	Shahid Kapoor
Call me BAE (web series)	N.A	Ananya Panday

Source: MOFSL, media reports

Exhibit 27: Movies with strong star cast see direct OTT release

OTT Movies released	Date	OTT app	Star cast
Bloody Daddy	Jun'23	Jio Cinemas	Shahid Kapoor
Sirf Ek Bandaa Kaafi Hai	May'23	Zee5	Manoj Bajpayee
Kanjoos Makhichoos	Mar'23	Zee5	Kunal Khemu
Mission Majnu	Jan'23	Netflix	Siddharth Malhotra
Govinda Naam Mera	Dec'22	Disney+ Hotstar	Vicky Kaushal, Kiara Advani
Gehraiyaan	Feb'22	Amazon Prime	Deepika Padukone, Ananya Pandey
Bob Biswas	Dec'21	Zee5	Abhishek Bacchan
Atrangi Re	Dec'21	Disney+ Hotstar	Akshay Kumar, Dhanush
Sardar Udham Singh	Oct'21	Amazon Prime	Vicky Kaushal
Shershah	Aug'21	Amazon Prime	Siddharth Malhotra
Bhuj: The pride of India	Aug'21	Disney+ Hotstar	Ajay Devgn, Sanjay Dutt
Toofan	Jul'21	Amazon Prime	Farhan Akhtar, Paresh Rawal

Source: MOFSL, media reports

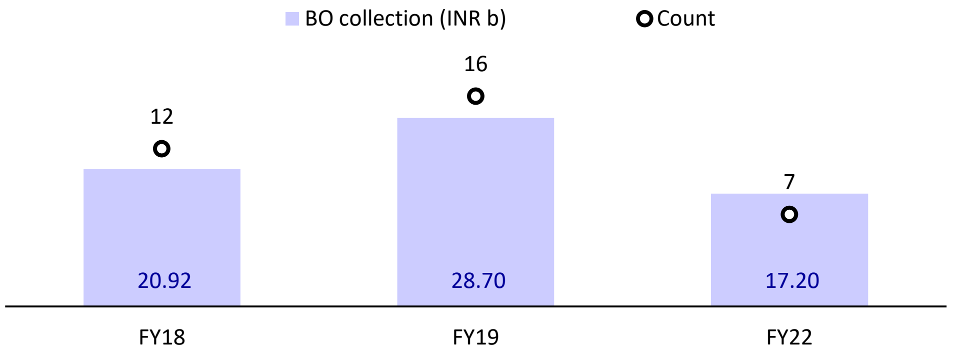
A possible structural shift in consumer preference

Closure of cinemas due to the pandemic led to a shift in consumers toward digital channels. While theatre players have attributed lower occupancy to the unavailability of good content post re-opening, a deep-dive into the box office data revealed a possibility of shift in consumer preference.

Is it a problem of low-quality content? Lower tolerance for sub-par content:

Box office collection comparison with pre-Covid levels indicates a decline in the number of movies crossing the INR1b mark. While the total collection for movies crossing INR1b mark declined 40% YoY to INR17.2b in FY22, the average collection per movie improved to ~INR2.5b, indicating that movies with better content were rewarded appropriately.

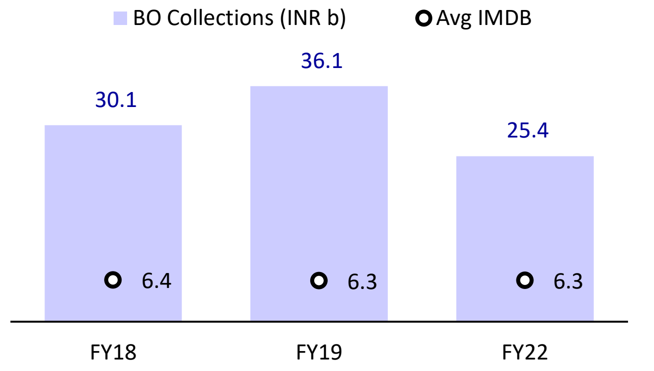
Exhibit 28: No of films crossing INR1b declined significantly



Source: MOFSL, Box-office India

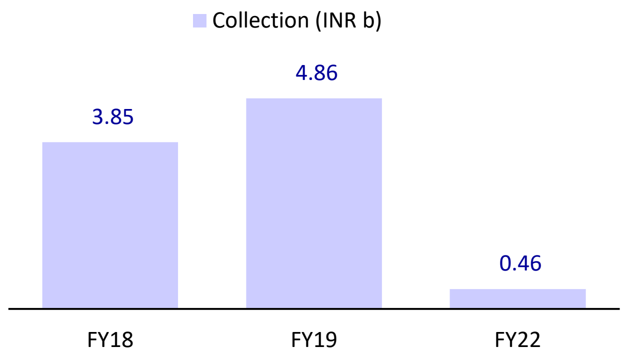
There is a shift in consumer preference toward cinema, which was observed in FY19 (pre-pandemic) and FY22. While the average rating for the top-25 movies remained stable in FY19 and FY22, overall collections slumped ~30%. Further, the collection for movies with IMDB ratings of '<5' declined by 90% in FY22, thus signalling lower tolerance for sub-par content.

Exhibit 29: Top-25 Hindi BO collection down despite flat ratings



Source: Box-office India, media report

Exhibit 30: Annual collection for lower rated movies (IMDB <5) saw a significant decline in FY22



Source: Box-office India, media report

On the other hand, a detailed analysis of good content (movies with IMDB rating 7 and above) indicated the following:

- The higher number of movies with 7 or more ratings released in 2018 vs. 2022 indicated that content quality might have deteriorated over the period.
- Overall collection for good movies remained fairly stable in 2022 vs. 2018, despite a higher number of releases. This could be attributed to high ticket prices.
- Average collection per movie, however, improved in 2022 vs. 2019 and 2018, indicating that better content was well rewarded.

- The share of regional movies in 2022 improved significantly. Average box office collection (excluding regional) for 2022 declined significantly by 22% vs. 2018 levels. This indicated lower acceptance of Bollywood movies and improved acceptability of regional content.

Exhibit 31: Comparative performances for better rated movies

	2022			2019			2018		
Sr. No	Movie name	Collection (INR m)	IMDB ratings	Movie name	Collection (INR m)	IMDB ratings	Movie name	Collection (INR m)	IMDB ratings
1	Rocketry – The Nambi Effect	225	8.8	Chhichhore	1,473	8.3	Mukkabaaz	106	8.4
2	The Kashmir Files	2,469	8.7	Uri – The Surgical Strike	2,440	8.2	Andhadhun	734	8.2
3	KGF Chapter 2	4,275	8.4	Article 15	653	8.1	Tumbbad	121	8.2
4	Drishyam 2	2,325	8.2	The Tashkent Files	170	8.1	Badhaai Ho	1,345	7.9
5	Major	125	8.1	Section 375	109	8.1	Pad Man	782	7.9
6	RRR	2,750	7.8	Super 30	1,470	7.9	Raazi	1,224	7.7
7	Gangubai Kathiawadi	1,263	7.8	Sonchiriya	56	7.9	Sanju	3,346	7.6
8	Chup!	100	7.6	Badla	876	7.8	Parmanu – The Story Of Pokhran	648	7.6
9	Khuda Haafiz Chapter 2 – Agni Pariksha	126	7.5	Saand Ki Aankh	234	7.6	Karwaan	202	7.6
10	Jhund	143	7.4	The Sky Is Pink	201	7.6	Stree	1,246	7.5
11	Jersey	205	7.3	Kesari	1,519	7.4	Hichki	462	7.5
12	Vikram Vedha	795	7.1	Gully Boy	1,342	7.4	October	371	7.5
13	Uunchai	287	7.1	Bala	1,110	7.3	Raid	980	7.4
14	Bhediya	604	7	Mardaani 2	463	7.3	102 Not Out	518	7.4
15	Runway 34	335	7	Batla House	850	7.2	Gold	1,020	7.3
16	Badhaai Do	190	7	Kabir Singh	2,763	7	Soorma	321	7.3
17	An Action Hero	113	7	Dream Girl	1,394	7	Mulk	219	7.2
18							Pataakha	80	7.2
19							Sonu Ke Titu Ki Sweety	1,008	7.1
20							Blackmail	195	7.1
21							Padmaavat	2,823	7
	Total collection	**16,329**			**17,122**			**17,751**	
	Average collection	**961**	**7.6**		**1,007**	**7.7**		**845**	**7.7**

Source: Sacnilk, boxofficeindia

Exhibit 32: Average collecion (ex Regional) goes down in CY22

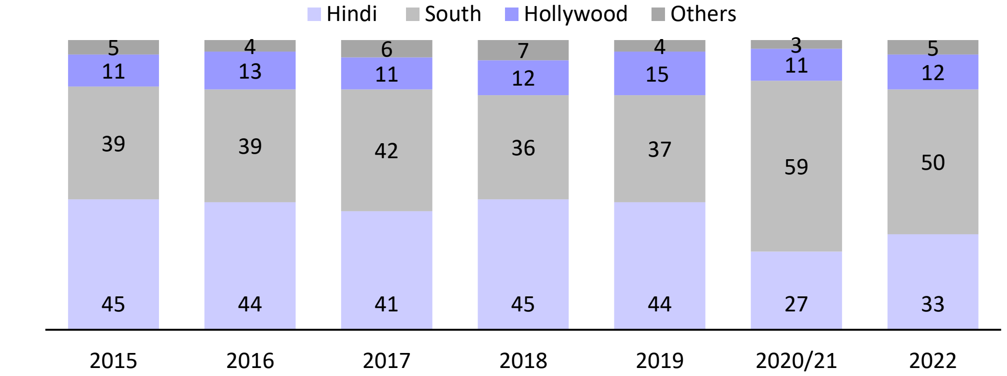
Particulars (INR m)	2022	2019	Growth 22 v/s 18 (%)
Total Collection	16,329	17,122	-8
No of movies	17	17	-19
Average Collection (Total)	961	1,007	14
Total Collection (Excl. Regional)	9,179	17,122	-48
Average Collection (Excl. Regional)	656	1,007	-22

Source: MOFSL, Sacnilk, boxofficeindia

Improved share of regional movies

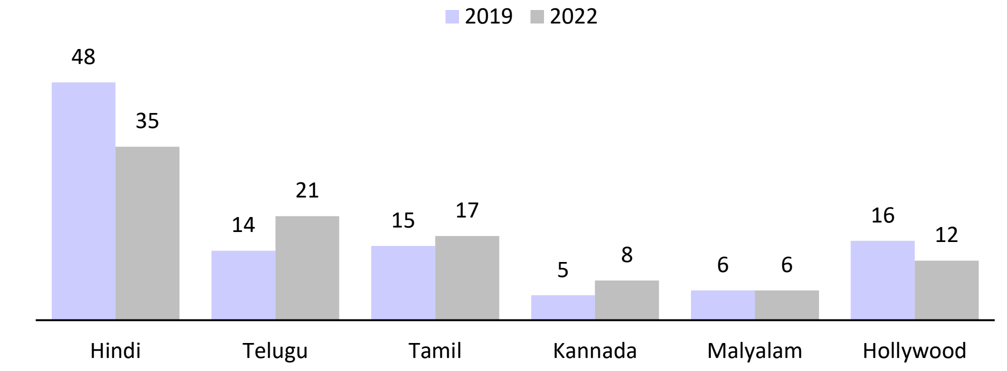
A further analysis of box office collection data indicated that the acceptability of content across languages and the release of regional movies in multiple languages have led to improved share of such movies, thereby reducing the dependence on Bollywood movies. An industry-wide study of collection and viewership data indicated that the share of regional language content surged significantly to 50% in CY22. Apart from theatrical releases, there is a strong surge in the share of regional movies on OTT platforms as well. This can alternatively be seen as positive, with an improved audience base for regional movies.

Exhibit 33: South Indian films contributed 50% to total box office collection in 2022 (%)



Source: FICCI EY media report

Exhibit 34: South Indian box office collection exceeded its pre-pandemic levels (INR b)



Source: FICCI EY media report

Exhibit 35: Share of regional movies in BO collection (2022)

2022		
Movie	**INR b**	**% of total**
KGF Chapter 2	10.0	22.5
RRR	9.0	20.3
Avatar: The Way of Water	4.7	10.5
Kantara	3.6	8.2
Brahmastra Part One: Shiva	3.2	7.1
Ponniyin Selvan - Part 1	3.1	7.0
The Kashmir Files	3.0	6.6
Vikram	2.9	6.5
Drishyam 2	2.8	6.4
Bhool Bhulaiyaa 2	2.2	4.9
Total collection	**44.5**	**35.5**
Share of non-Bollywood	**33.4**	**64.5**

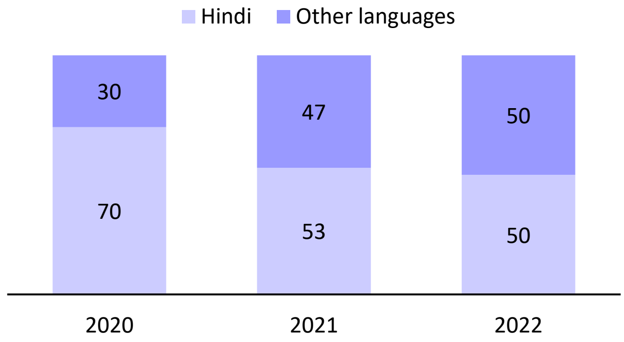
Source: Sacnilk.com, media report

Exhibit 36: Share of regional movies in BO collection (2018)

2018		
Movie	**INR b**	**% of total**
Sanju	4.4	15.6
Padmaavat	4.0	14.2
Simmba	3.0	10.5
2.0	5.5	19.6
Race 3	2.2	7.7
Baaghi 2	2.1	7.5
Thugs Of Hindostan	1.9	6.9
Badhaai Ho	1.8	6.3
Stree	1.7	5.9
Raazi	1.6	5.6
	28.1	**80.4**
	5.5	**19.6**

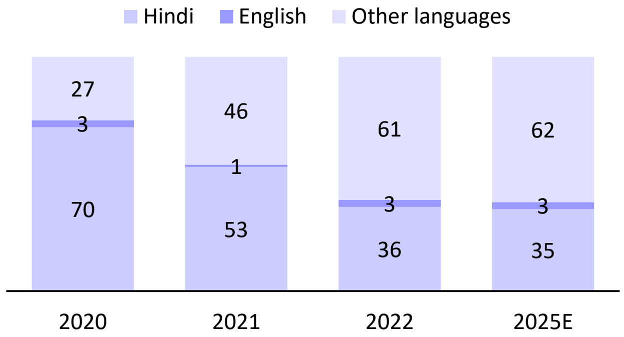
Source: Sacnilk.com, media report

Exhibit 37: Lower share of Hindi content creation in OTT…



Source: FICCI EY media report

Exhibit 38: …together with consumption

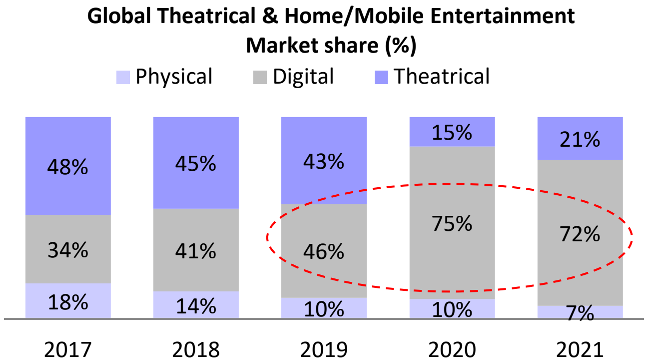


Source: FICCI EY media report

Global multiplex situation

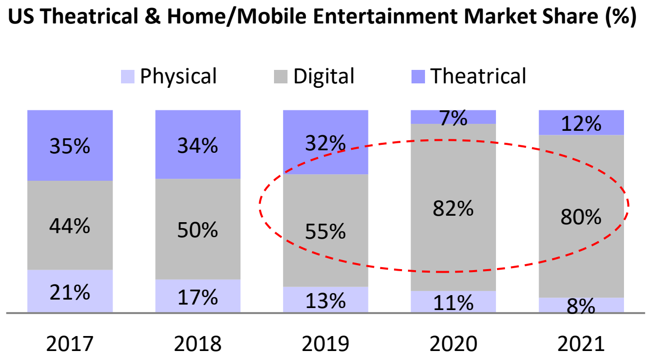
A comparison with global multiplex players and entertainment industry indicates a shift in market share from the theatrical segment to the digital segment. As indicated in Motion Picture Association Report, the share of theatrical, which stood at 48% in CY17, has declined to 21% in CY21.

Exhibit 39: Improved share of digital in global markets…



Source: Motion Picture Association Report

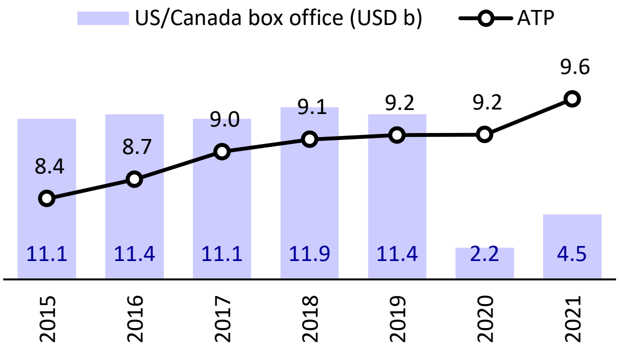
Exhibit 40: ….and US market



Source: Motion Picture Association Report

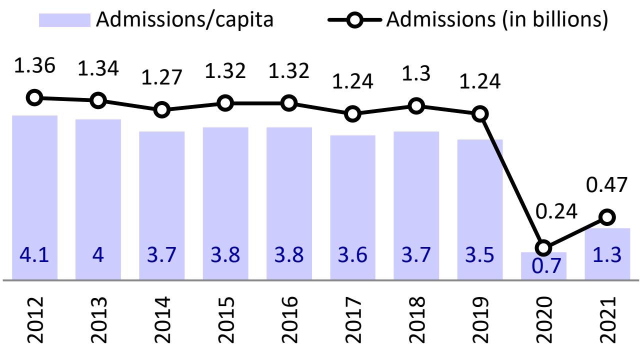
Similarly, revenue has mainly been sustained by increased pricing to compensate for declining footfalls in mature markets like USA and Canada. A similar trend is being witnessed in India as improved pricing has mainly driven revenue growth after the pandemic, while occupancy continues to see a lag. Further, earnings estimates across players have seen a declining trend, indicating lower visibility of business growth in the segment, with market cap for global players remaining below the pre-Covid levels.

Exhibit 41: Developed markets focus on pricing…



Source: MOFSL, Company

Exhibit 42: …as footfalls continue to decline



Source: MOFSL, Company

Business remains highly sensitive to occupancies

- PVR's occupancy rate improved consistently from 30% to 36% over FY15-19, but it witnessed a slump during the pandemic period. It has now reached to ~25%. For FY20-23, revenue growth of the merged entity was mainly driven by a ~20% price increase, as occupancy remained below the pre-Covid level.
- The company's business model is highly sensitive to occupancy rates as a large portion of its costs remain fixed in nature. Our study on the sensitivity of return ratios to occupancy indicates that every 3% change in occupancy affected ROCE by ~3.5% (FY24 basis for merged entity).
- The business operates on high capex and heavy fixed costs, with rentals making up nearly 20% of costs. Thus, any softening of occupancy has a stronger impact on earnings and ROCE. The company's ROCE has remained lower historically. This, coupled with the slower recovery in occupancy, could impact the profitability of the company.

The company has increased prices to optimize revenue in a low occupancy situation; however, this may have a limited lever, and therefore recovery in occupancy is vital for profitable growth.

Exhibit 43: Sensitivity analysis of merged entity on valuations and profitability (FY24)

INR m	Bear case	Base case	Bull Case
Occupancy	24%	27%	30%
Seats (m)	0.4	0.4	0.4
ATP (INR)	210	210	210
Revenue from tickets	31,910	35,886	39,863
Total Revenue	60,105	66,542	72,979
Total expenses	53,840	55,747	57,745
EBITDA	6,265	10,795	15,234
Margins (%)	10.42%	16.22%	20.88%
PAT	420	3,808	7,129
ROE	1%	5%	9%
ROCE (Post Tax)	2%	6%	9%
Market Cap	1,39,803	1,39,803	1,39,803
EV	1,54,114	1,54,114	1,54,114
EV/EBITDA (x)	24.6	14.3	10.1
PE (X)	333.0	36.7	19.6

Source: MOFSL, company

Exhibit 44: Screen economics (INR m) of merged entity (FY24 basis)

INR m	Bear case	Base case	Bull Case
Capex	38	38	38
Asset turn	1.0	0.9	0.8
Occupancy	29%	27%	23%
Ticketing revenue	21	19	16
F&B Revenue	13	12	10
Other revenues	5	5	5
Total Revenues	**38**	**36**	**31**
Total cost	31	30	29
EBITDA	**7**	**6**	**3**
Margins (%)	**19.5**	**16.2**	**8.3**
EBIT	4.76	3.31	0.40
EBIT margin	12%	9%	1%
Payback	5.1	6.5	14.7
ROIC	13%	9%	1%

Source: MOFSL, company

Exhibit 45: Sensitivity analysis of occupancies and ATP to EBITDA (FY24 basis)

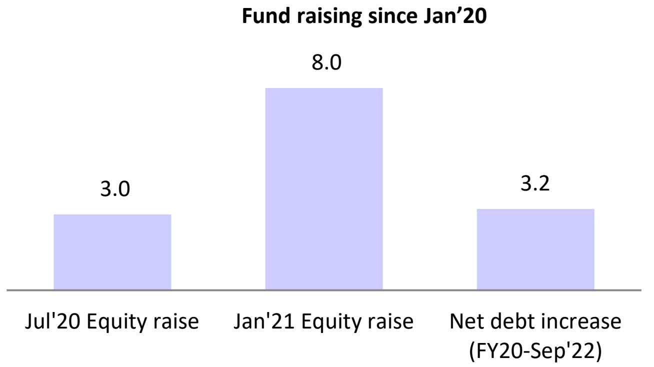
Sensitivity of FY24 EBITDA to Occupancy rates & Ticket Prices							
		Occupancy rates (%)					
		23%	25%	27%	31%	33%	35%
Average ticket prices (INR)	200	3,663	6,527	9,493	15,116	17,979	20,842
	205	4,218	7,130	10,146	15,864	18,775	21,687
	210	4,770	7,730	10,795	16,608	19,567	22,527
	215	5,328	8,336	11,452	17,360	20,368	23,376
	220	5,883	8,939	12,105	18,108	21,164	24,220
	230	6,993	10,146	13,412	19,604	22,757	25,909
	250	9,213	12,559	16,025	22,596	25,941	29,287

Source: Company, MOFSL

Valuation

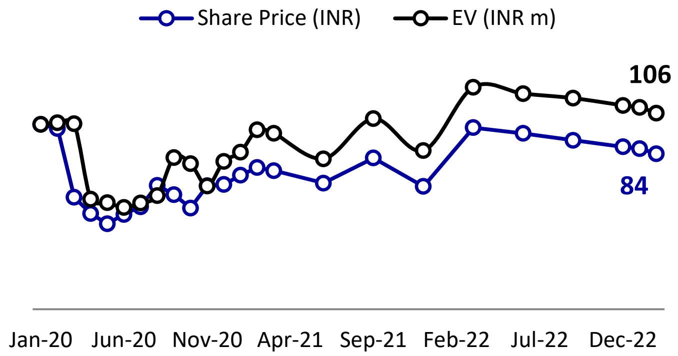
- The merged entity, with a revenue scale of INR82.3b as of FY25E and expected EBITDA margins of 18.6%, is currently trading at 10x FY25E EV/EBITDA, which is lower than its historical valuations.
- The lower valuation multiple is justified by the historically low ROCE, increased risk from OTT platforms and the lack of visibility in occupancy.
- While occupancy remained weak in Q4FY23 and 1QFY24 due to the lack of strong movie releases after 'Pathaan', the response to the company's marketing strategy of trailer screening to shore up footfalls and a strong release pipeline from Jun'23 onward would remain key monitorables.
- We value the merged entity at 10x FY25E EV/EBITDA to arrive at a target price of INR1,495. Maintain Neutral.
- Further, over FY10-19 the stock witnessed rerating due to high growth, while over FY19-22 the stock tracked earnings.
- The company, in order to support its operations, raised over INR14b through debt and equity insturments during the Covid period, which resulted in 6% growth in EV, despite a decline in the stock price.

Exhibit 46: The company raised INR14.2b over FY20-23 through debt and equity



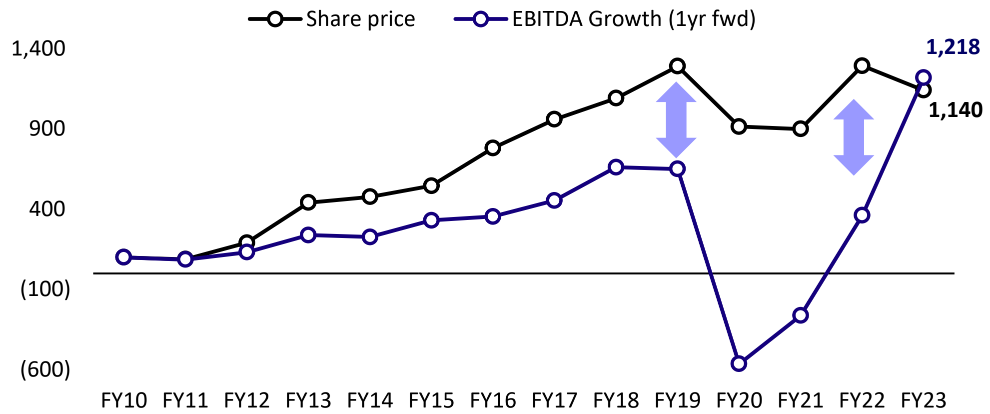
Source: MOFSL, Company

Exhibit 47: EV remains resistant despite the decline in share price aided by fund raised (Pre-merger).



Source: MOFSL, Company

Exhibit 48: Share price tracking earnings growth for FY23 onwards



Further, an analysis of the prformance of global multiplex players performance further indicates that earnings estimates across players have seen a declining trend, indicating lower visibility of business growth in the segment. EPS estimates (consensus) suggest that earnings for Global players may remain under pressure in CY23, due to lower footfalls after the pandemic.

Exhibit 49: Revenue recovery expected to slow down in CY23 (%)

Revenue Growth	CY20	CY21	CY22	CY23E
AMC Entertainment	-77	104	55	15
Cinemark Holdings	-79	120	63	18
Cineplex Inc	-74	63	86	22
Wanda Film Holding	-59	112	-26	38
Cineworld Group*	-81	112	114	15

*CY22 is expected number Source: Bloomberg, MOFSL

Exhibit 50: Valuation multiple comparison for global players over years

:V/EBITDA (x)	CY19	CY20	CY21	CY22	CY23E
\MC Entertainment	7	-84	61	14	43
:inemark Holdings	7	-100	16	7	10
:ineplex Inc	10	-47	37	9	7
Vanda Film Holding	25	-25	23	106	11
:ineworld Group	8	-63	19	7	6

Exhibit 51: Valuation based on FY25E

Particulars	Valuation
EBITDA FY25E (INR b)	15.3
Multiple	10
EV (INR b)	161
Net Debt (INR b)	14
Target Market cap (INR b)	147
No. of shares	0.1
Target Price	**1,495**
CMP	**1,495**
Upside	0%

Source: MOFSL, Company

Financials and Valuation

Consolidated - Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Net Sales	**23,341**	**30,856**	**34,144**	**2,769**	**13,294**	**37,506**	**66,549**	**82,275**
Change (%)	10.1	32.2	10.7	-91.9	380.2	182.1	77.4	23.6
Total Production Expenses	6,967	9,407	9,971	1,156	4,013	11,286	20,023	24,430
% of Sales	29.8	30.5	29.2	41.8	30.2	30.1	30.1	29.7
Personnel Expenses	2,541	3,373	3,938	2,171	2,651	4,389	5,989	7,158
% of Sales	10.9	10.9	11.5	78.4	19.9	11.7	9.0	8.7
Rent	4,111	5,091	5,659	1,196	3,213	7,654	12,179	14,398
% of Sales	17.6	16.5	16.6	43.2	24.2	20.4	18.3	17.5
Administrative & Other Expenses	5,703	7,122	8,815	3,249	5,749	10,975	17,558	20,959
% of Sales	24.4	23.1	25.8	117.4	43.2	29.3	26.4	25.5
Total Expenditure	**19,323**	**24,992**	**28,383**	**7,771**	**15,625**	**34,304**	**55,749**	**66,944**
% of Sales	82.8	81.0	83.1	280.7	117.5	91.5	83.8	81.4
EBITDA	**4,018**	**5,863**	**5,762**	**-5,003**	**-2,331**	**3,202**	**10,800**	**15,330**
Margin (%)	17.2	19.0	16.9	-180.7	-17.5	8.5	16.2	18.6
Depreciation	1,537	1,913	2,324	2,383	2,642	3,029	4,507	5,411
EBIT	**2,481**	**3,951**	**3,437**	**-7,386**	**-4,973**	**173**	**6,293**	**9,920**
Int. and Finance Charges	837	1,280	1,521	1,490	1,542	1,589	1,881	1,791
Other Income	313	331	378	336	777	684	684	684
PBT bef. EO Exp.	**1,958**	**3,002**	**2,294**	**-8,540**	**-5,738**	**-732**	**5,096**	**8,812**
EO Expense/(Income)	6	0	5	0	0	108	0	0
PBT after EO Exp.	**1,952**	**3,002**	**2,288**	**-8,540**	**-5,738**	**-840**	**5,096**	**8,812**
Current Tax	489	1,017	627	-2,539	-1,548	1,589	1,283	2,218
Deferred Tax	216	79	0	0	0	0	0	0
Tax Rate (%)	36.1	36.5	27.4	29.7	27.0	-189.2	25.2	25.2
Less: Minority Interest	0	-68	-5	3	0	0	0	0
Reported PAT	**1,247**	**1,838**	**1,656**	**-5,998**	**-4,190**	**-2,429**	**3,813**	**6,594**
Adj. PAT	**1,250**	**1,838**	**1,708**	**-6,010**	**-4,190**	**-1,090**	**3,813**	**6,594**
Change (%)	27.1	47.0	-7.1	-451.9	-30.3	-74.0	-449.8	72.9
Margin (%)	5.4	6.0	5.0	-217.1	-31.5	-2.9	5.7	8.0

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	467	467	514	608	610	980	980	980
Total Reserves	10,286	14,490	14,289	17,726	13,094	72,319	76,132	82,727
Net Worth	**10,754**	**14,957**	**14,802**	**18,334**	**13,704**	**73,299**	**77,112**	**83,706**
Minority Interest	8	5	3	0	-3	-7	-7	-7
Deferred Liabilities (net)	-150	266	-2,049	-3,987	-5,926	-4,735	-4,735	-4,735
Total Loans	6,614	11,039	48,723	47,524	51,959	80,519	78,519	76,519
Lease Liabilities			37,715	36,512	36,907	62,593	62,593	62,593
Capital Employed	**17,226**	**26,267**	**61,479**	**61,871**	**59,734**	**1,49,076**	**1,50,889**	**1,55,483**
Gross Block	24,676	38,193	71,953	70,227	72,192	1,63,232	1,69,732	1,76,232
Less: Accum. Deprn.	8,856	10,769	13,093	15,476	18,118	21,147	25,654	31,064
Intangible assets- Goodwill	79	0	0	0	0	0	0	0
Net Fixed Assets	**15,899**	**27,425**	**58,860**	**54,751**	**54,074**	**1,42,086**	**1,44,079**	**1,45,168**
Right to use Assets			**30,047**	**27,554**	**26,783**	**26,783**	**26,783**	**26,783**
Capital WIP	1,017	2,208	1,547	2,172	645	2,473	2,473	2,473
Total Investments	**209**	**111**	**23**	**3**	**5**	**2**	**2**	**2**
Curr. Assets, Loans & Adv.	**6,208**	**8,659**	**11,799**	**14,106**	**12,584**	**15,436**	**19,663**	**26,518**
Inventory	198	303	307	250	342	664	559	689
Account Receivables	1,556	1,839	1,893	307	707	1,825	3,647	4,508
Cash and Bank Balance	328	341	3,223	7,314	5,781	3,616	4,518	7,797
Loans and Advances	4,126	6,175	6,377	6,235	5,754	9,332	10,940	13,525
Curr. Liability & Prov.	**6,107**	**12,135**	**10,750**	**9,161**	**7,573**	**10,922**	**15,328**	**18,678**
Account Payables	5,980	11,920	10,571	8,909	7,448	10,291	14,981	18,500
Provisions	127	215	180	252	126	631	346	178
Net Current Assets	**101**	**-3,477**	**1,049**	**4,945**	**5,011**	**4,515**	**4,335**	**7,840**
Appl. of Funds	**17,226**	**26,267**	**61,479**	**61,872**	**59,734**	**1,49,076**	**1,50,889**	**1,55,483**
E: MOFSL Estimates							0	0

Financials and Valuation

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	**26.7**	**37.9**	**32.2**	**-98.7**	**-68.7**	**-24.8**	**38.9**	**67.3**
Cash EPS	59.6	80.2	78.5	-59.7	-25.4	19.8	84.9	122.5
BV/Share	230.1	320.0	288.3	301.7	224.7	748.2	787.1	854.4
DPS	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	9.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	56.0	39.5	46.5	NM	-21.8	-60.3	38.4	22.2
Cash P/E	25.1	18.6	19.0	NM	-58.9	75.5	17.6	12.2
P/BV	6.5	4.7	5.2	5.0	6.7	2.0	1.9	1.7
EV/Sales	6.5	5.1	5.6	67.4	14.5	6.0	3.3	2.6
EV/EBITDA	38.0	26.8	33.3	NM	-66.8	50.2	14.6	10.0
Dividend Yield (%)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	12.2	13.8	11.1	-36.2	-26.2	-5.6	5.1	8.2
RoCE	10.4	12.5	10.7	-10.7	-10.5	4.1	5.7	8.3
RoIC	10.2	12.8	11.7	-14.3	-22.5	1.0	5.8	9.1
Working Capital Ratios								
Asset Turnover (x)	1.4	1.2	0.6	0.0	0.2	0.3	0.4	0.5
Inventory (Days)	3	4	3	33	9	6	3	3
Debtor (Days)	24	22	20	40	19	18	20	20
Creditor (Days)	94	141	113	1,175	204	100	82	82
Working Capital Turnover (Days)	-4	-45	-23	-312	-21	9	-1	0
Leverage Ratio (x)								
Current Ratio	1.0	0.7	1.1	1.5	1.7	1.4	1.3	1.4
Debt/Equity	0.6	0.7	3.3	2.6	3.8	1.1	1.0	0.9

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Profit / (Loss) Before Tax / EO	1,952	3,002	896	-9,388	-6,807	-2,089	5,096	8,812
Depreciation	1,537	1,913	5,425	5,748	6,144	3,010	4,507	5,411
Interest & Finance Charges	837	1,280	4,730	4,949	4,938	5,600	1,881	1,791
Direct Taxes Paid	-704	-1,097	-295	72	99	1	-1,283	-2,218
(Inc)/Dec in WC	699	4,007	-2,647	-803	434	-1,969	1,082	-226
CF from Operations	**4,320**	**9,105**	**8,108**	**578**	**4,808**	**4,553**	**11,283**	**13,570**
Others	-163	-331	-238	-4,705	-3,140	4,086	-684	-684
CF from Operating incl EO	**4,157**	**8,774**	**7,870**	**-4,127**	**1,668**	**8,639**	**10,599**	**12,886**
(inc)/dec in FA	-2,302	-14,630	-3,838	-1,166	-1,245	-6,339	-6,500	-6,500
Free Cash Flow	**1,856**	**-5,856**	**4,033**	**-5,293**	**423**	**2,300**	**4,099**	**6,386**
(Pur)/Sale of Investments	-190	99	0	0	0	0	0	0
Others	0	2,739	-66	-1,720	1,217	581	684	684
CF from Investments	**-2,491**	**-11,793**	**-3,903**	**-2,886**	**-28**	**-5,759**	**-5,816**	**-5,816**
Issue of Shares	0	0	5,041	10,931	183	305	0	0
(Inc)/Dec in Debt	-687	4,425	-674	1,768	1,553	1,260	-2,000	-2,000
Interest Paid	-837	-1,280	-1,151	-982	-1,246	-1,442	-1,881	-1,791
Dividend Paid	-113	-113	-360	0	0	0	0	0
Others	0	0	-4,965	-962	-2,658	-7,059	0	0
CF from Fin. Activity	**-1,637**	**3,033**	**-2,110**	**10,755**	**-2,168**	**-6,935**	**-3,881**	**-3,791**
Inc/Dec of Cash	**29**	**14**	**1,857**	**3,742**	**-528**	**-4,055**	**902**	**3,279**
Add: Beginning Balance	299	328	-74	1,783	5,524	4,996	941	1,843
Closing Balance	**328**	**341**	**1,783**	**5,524**	**4,996**	**941**	**1,843**	**5,122**
Other balances	0		1,441	1,790	785	2,675	2,675	2,675
Net Closing Balance	**328**	**341**	**3,223**	**7,314**	**5,781**	**3,616**	**4,518**	**7,797**

E: MOFSL Estimates

NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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