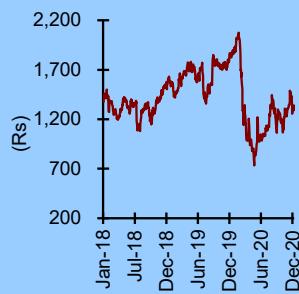


Sector update

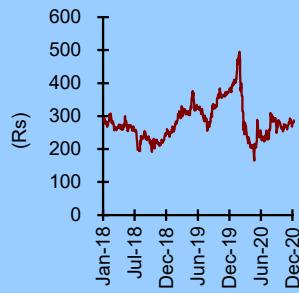
Media

PVR Ltd (BUY)
Target price Rs1,679

Price chart

INOX Leisure Ltd (BUY)
Target price Rs424

Price chart



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INDIA

Multiplex

Upside risk from consolidation

'History shows fans want consolidation; you see it across the web every place. The big players are people like Google, Amazon, eBay, Facebook.' Irving Azoff, CEO of Azoff MSG Entertainment

Everyone knows that most new industries are fragmented, and consolidate as they mature. Indian cinema theatres, though not a new industry, but is highly fragmented. We see Covid-19 as a catalyst to accelerate consolidation in Indian theatre chain business. Though large screen shut down is likely in single screens, it may drive multiplexes' occupancy higher. Our working shows 100bps higher occupancy will drive EBITDA higher by 9.1% and 11.7% for PVR and INOX, respectively. Our FY23E occupancy estimate for PVR and INOX is at 35% and 28%, same as FY20; we see an upside risk to these numbers. We maintain our BUY rating on PVR (TP: Rs1,679); and INOX (TP: Rs424).

► **Understanding the India multiplexes industry.** India multiplexes' industry is highly fragmented, and top four operators control only 24% of screens share in FY20. Domestic box office collection was Rs122bn, and we estimate industry average ticket price (ATP) to be Rs130, and admits at 939mn. In CY19, Ormax stated admits (or footfalls) was ~1bn, and we estimate this to have decline in FY20 due to under performance of regional box office, which drives higher admits but lower ATP, and impact of Covid pandemic. Total industry seat capacity is seen at 2.8bn, thus, occupancy was 34%.

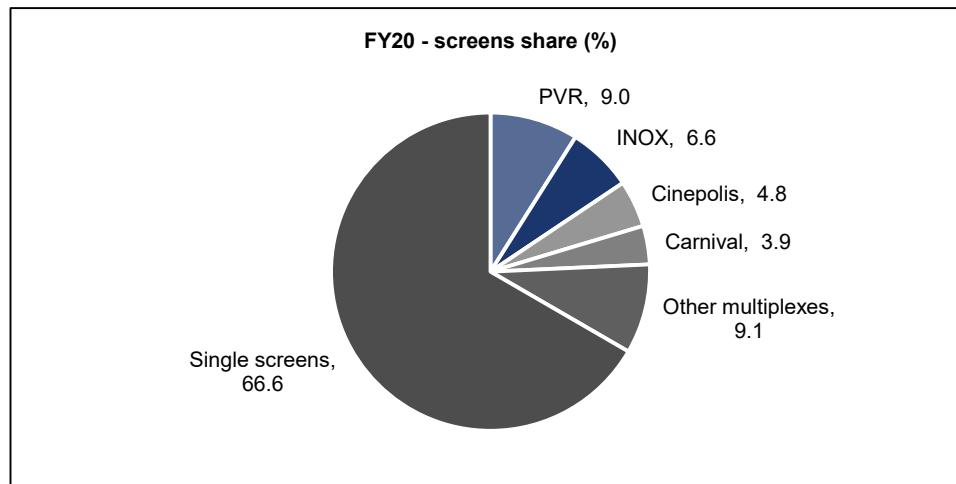
Multiplexes' box office revenue is estimated at Rs58bn (47% of industry box office revenue) driven by 320mn admits (34% of industry admits) and ATP of Rs180. Multiplexes' occupancy was 30%, which is lower compared to industry due to lower presence in South India which enjoys higher occupancy.

Single screen cinema theatres' box office revenue was Rs65bn, and controls 53% of industry revenue; but have higher admit at 620mn (66% of industry admits). They enjoy higher occupancy at 36.5%, but lower ATP of Rs104.

► **Consolidation is inevitable.** As per KPMG India's Media and Entertainment report 2020, *'Post the lockdown in Mar'20, no new screens are expected to be added during FY21 other than those already under progress. Also, many single screens may be permanently closed.'* Our working of single screen shows the business model is very fragile, and has been surviving due to depreciated asset, owned property, and low operational cost. In comparison to multiplexes, single screens suffer from low F&B and ad contribution, which make highest money for multiplexes. Though single screens have been shutting down for the past five years, we see stepdown post-Covid.

The strength of multiplexes' business model can be explained from rise in F&B and ad contribution in revenue; they are contributing significantly to EBITDA and FCF.

► **Stronger theatres' chain may gain most.** We have put out a scenario analysis to measure the impact of industry occupancy on assuming decline in seats availability by 5%, 10% and 20%. We also estimate admits to fall (from FY20 base) by half of seat reduction due to affordability (higher ticket price of surviving screens), change in distance to nearest theatres etc. Based on our working, occupancy for the industry will improve by 100bps, 200bps and 440bps, respectively, in the three scenarios. The maximum reduction in seat availability may happen in single screen, and benefit of consolidation (via higher occupancy) can be higher for surviving single screens; but we expect good spell over benefit for multiplexes as well. Our working shows, 100bps higher occupancy for PVR / INOX to improve EBITDA by 9.1% and 11.7%, respectively. The EBITDA benefit could be lower if these admits spend lower on F&B.

Chart 1: Indian cinema theatre is a highly fragmented sector

Source: I-Sec research, FICCI, KPMG media report

Table 1: Industry occupancy seen at 34% in FY20

	FY20	Remarks
Box office revenue	1,22,100	Rs mn
Average ticket price (ATP, Rs)	130	Assumption
Admits (mn)	939	Per Ormax, admits were 1.03bn in FY19
Screens	9,440	
Seats/screen	200	Assumption
Total seats (mn)	1.89	
Shows/day	4.0	Assumption
Seats capacity (mn)	2,764	
Occupancy (%)	34.0	

Source: I-Sec research, FICCI, KPMG media report, Ormax

Table 2: Multiplexes contribute only 34% of industry admits (footfalls)

FY20	Multiplexes	% of industry	Single screens	% of industry	Remarks
Screens	3,150	33.4	6,290	66.6	
Seats/screen	220		190		Assumption
Total seats (mn)	0.69	36.7	1.20	63.3	
Shows/day	4.2		3.9		Assumption
Seats capacity (mn)	1,065	38.5	1,699	61.5	
Occupancy (%)	30.0		36.5		Assumption
Admits (mn)	320	34.0	620	66.0	
Average ticket price (ATP, Rs)	180		104		Assumption
Box office revenue	57,525	47.1	64,575	52.9	Rs mn

Source: I-Sec research, FICCI, KPMG media report

Table 3: Single screen economics shows for breakeven it needs owned property & very low operating cost

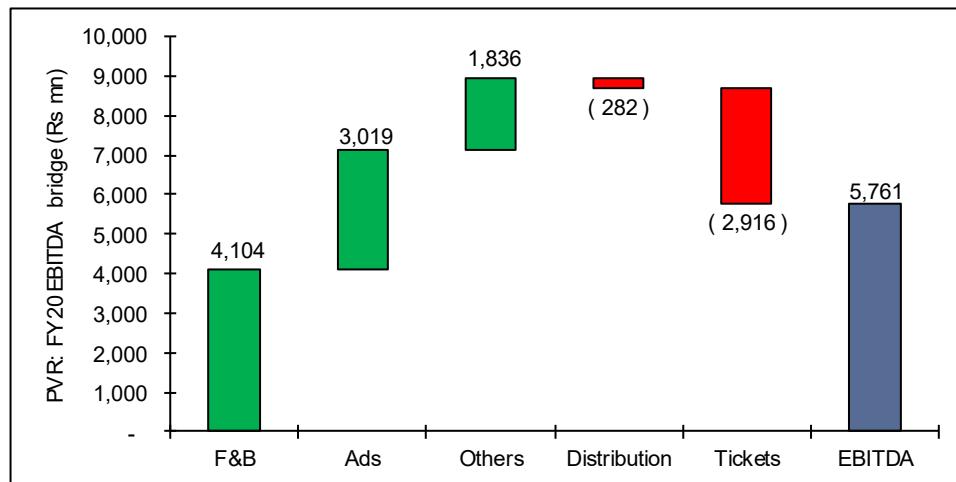
Rs	Single screen			Remarks
	Ticket	F&B	Total	
Screen	1			
Seats	190			
Total seats	69,344			
Occupancy (%)	36.5			
Admits	25,294	25,294		
ATP / SPH (Rs)	104	31		SPH at 30% of ATP
Revenue	23,53,563	7,53,140	31,06,703	
COGS	10,59,103	2,63,599	13,22,702	
Gross profit	12,94,459	4,89,541	17,84,001	
<i>GPM (%)</i>	55.0	65.0	57.4	Low GPM due to inferior F&B mix; and low bargaining power
Employee cost	4,48,449	1,43,504	5,91,952	25% of INOX cost/screen
P&F	8,62,705	95,856	9,58,561	50% of INOX cost/screen
Rent & CAM				No rental cost due to owned property
R&M	31,032	3,448	34,480	5% of INOX cost/screen
Others	2,08,384	23,154	2,31,537	5% of INOX cost/screen
Total	15,50,569	2,65,961	18,16,530	
EBITDA (cash)	(2,56,109)	2,23,580	(32,529)	
<i>EBITDA margin (%)</i>	(10.9)	29.7	(1.0)	

Source: I-Sec research

Table 4: PVR benefiting from better monetisation of footfalls

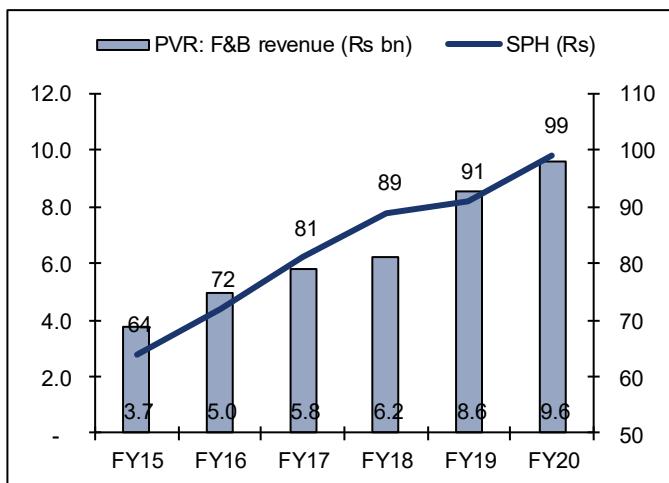
Rs mn	FY20					
	Tickets	F&B	Ads	Distribution	Others	Total
Revenue	17,312	9,605	3,759	1,215	2,255	34,144
COGS	7,335	2,637				9,971
Gross profit	9,977	6,968	3,759	1,215	2,255	24,173
<i>GPM (%)</i>	57.6	72.5	100.0	100.0	100.0	70.8
Less expenses						
Employee cost	1,997	1,108	434	140	260	3,938
P&F	1,809	206	41			2,056
Rent & CAM (adj Ind AS)	6,590	732				7,323
R&M	1,278	142				1,420
Production/distribution				1,271		1,271
Others	1,219	676	265	86	159	2,405
Total	12,893	2,864	739	1,496	419	18,412
EBITDA (cash)	(2,916)	4,104	3,019	(282)	1,836	5,761
<i>EBITDA margin (%)</i>	(29.2)	58.9	80.3	(23.2)	81.4	23.8
<i>EBITDA mix (%)</i>	(50.6)	71.2	52.4	(4.9)	31.9	100.0

Source: Company data, I-Sec research

Chart 2: PVR: F&B and ads contribute significantly to profitability

Source: Company data, I-Sec research

Chart 3: PVR F&B revenue grew at CAGR of 20.8% over FY15-20 driven by 9.1% growth in spend-per-head



Source: Company data, I-Sec research

Chart 4: Ad advertisement revenue grew at CAGR of 16.2% in same period

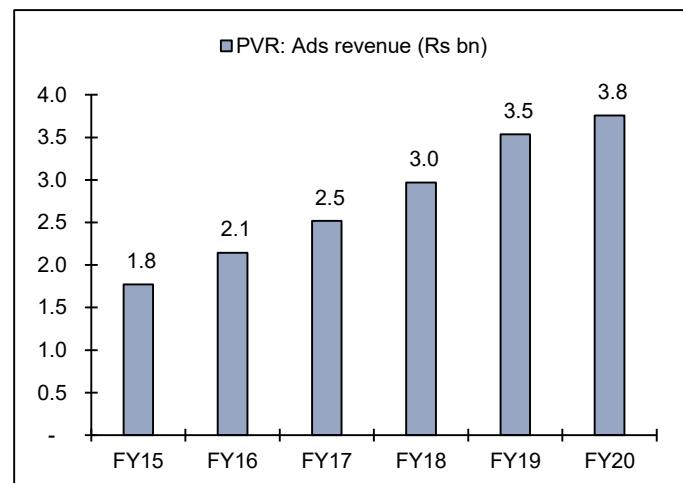
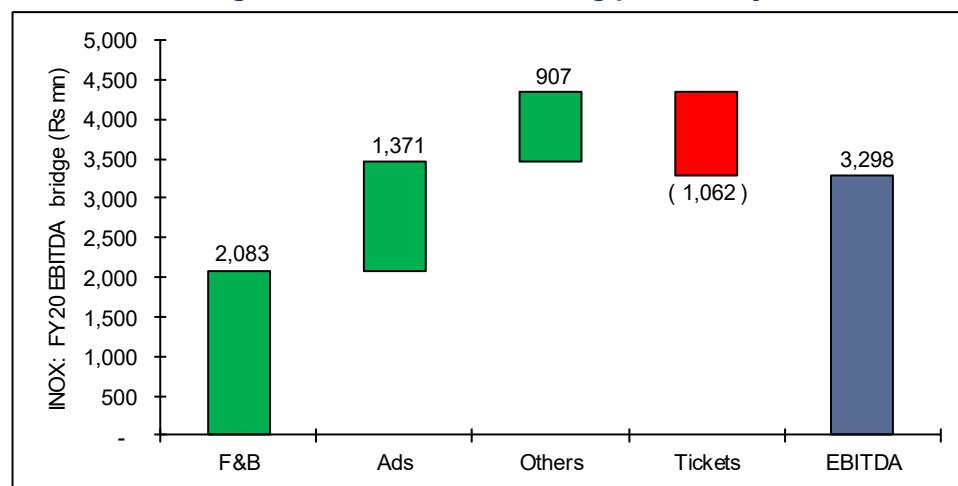


Table 5: INOX has lean cost structure, but relatively low monetisation of footfalls

Rs mn	FY20				
	Tickets	F&B	Ads	Others	Total
Revenue	11,050	4,970	1,790	1,164	18,974
COGS	4,965	1,262			6,227
Gross profit	6,085	3,708	1,790	1,164	12,748
GPM (%)	55.1	74.6	100.0	100.0	67.2
Less expenses					
Employee cost	827	372	134	87	1,421
P&F	1,012	115	23		1,150
Rent & CAM (adj Ind AS)	3,317	369			3,686
R&M	372	41			414
Others	1,618	728	262	171	2,778
Total	7,148	1,625	419	258	9,449
EBITDA (cash)	(1,062)	2,083	1,371	907	3,298
EBITDA margin (%)	(9.6)	41.9	76.6	77.9	17.4
EBITDA mix (%)	(32.2)	63.1	41.6	27.5	100.0

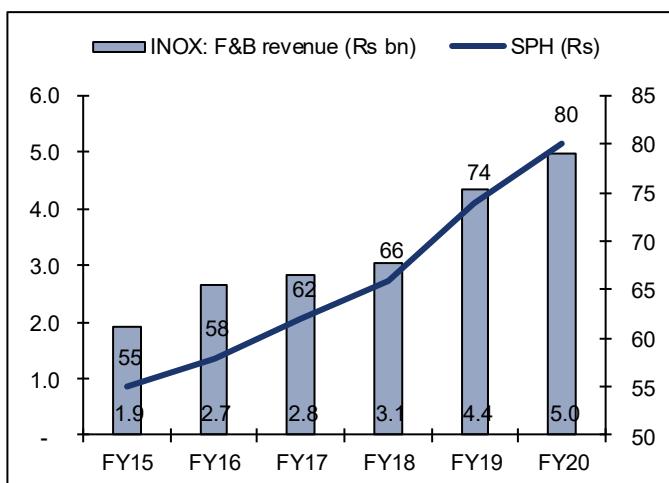
Source: Company data, I-Sec research

Chart 5: INOX: Again F&B and ads are aiding profitability



Source: Company data, I-Sec research

Chart 6: INOX F&B revenue grew at CAGR of 21.1% over FY15-20 driven by 7.8% growth in spend-per-head



Source: Company data, I-Sec research

Chart 7: Ad advertisement revenue grew at CAGR of 17% in same period

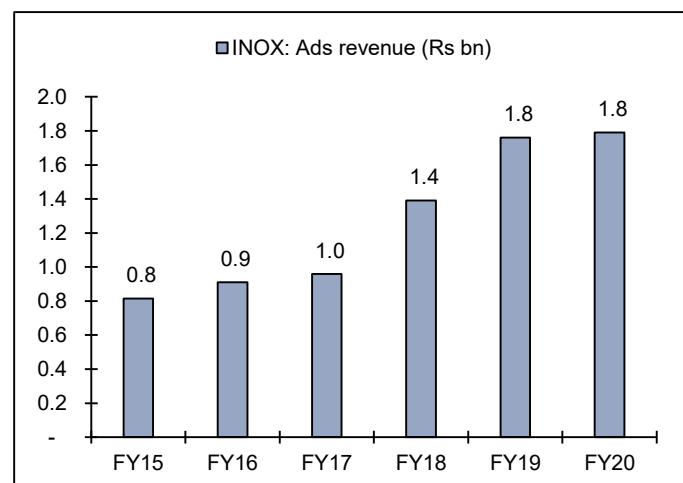
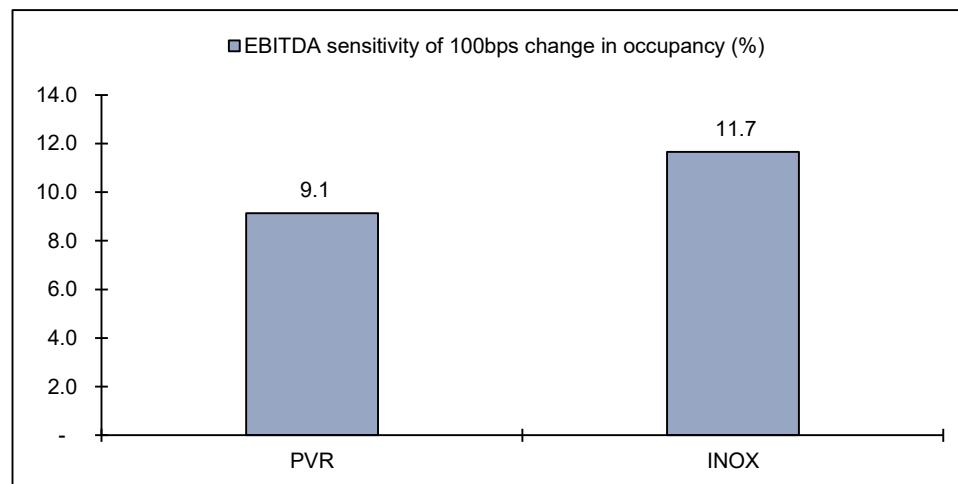


Table 6: Our scenario analysis shows 100bps to 440bps rise in occupancy for surviving theatres

	FY20	FY23E		
		5%	10%	20%
Admits	939	939	939	939
Admit slippage (50% of shut capacity)	23	47	94	94
Actual admits	916	892	845	
Total seats (mn)	1.89	1.89	1.89	1.89
Shut down (scenarios)	0.09	0.19	0.38	0.38
Actual seats available	1.79	1.70	1.51	
Shows/day	4.0	4.0	4.0	4.0
Capacity (mn)	2,764	2,619	2,481	2,205
Occupancy (%)	34.0	35.0	36.0	38.3
Change in occupancy (pps)		1.0	2.0	4.4

Source: I-Sec research, FICCI, KPMG media report

Chart 8: EBITDA sensitivity of 100bps change in occupancy



Source: Company data, I-Sec research

Maintain BUY rating on PVR and INOX

We maintain our **BUY** rating on PVR and INOX and target price of Rs1,679 and Rs424, respectively, valuing PVR at 13x FY23E EBITDA and INOX at 12x FY23E EBITDA. INOX is our top pick in media sector.

PVR is a premium theatre chain in India, and its strong business of F&B (which was 62% Westlife Development and 25% Jubilant FoodWorks revenues in FY20), and advertising is under-appreciated in our view. PVR will continue to grab higher market share over the next decade as well with its ability to raise funds in crucial periods, and likely vacuum in system with many theatres struggling to reopen post Covid. At current price, PVR is trading at 11.1x FY23E EBITDA (adj. Ind-AS 116) and 23.2x FY23E EPS.

Table 7: PVR valuation

Rs mn	FY23E
EBITDA (adj. Ind-AS 116)	8,044
<i>Multiple (x)</i>	13.0
Enterprise value	104,568
Net debt	11,935
Equity value	92,633
Shares (mn)	55.2
Fair value (Rs/sh)	1,679

Source: I-Sec research, Company

INOX is strongly positioned to grow faster ahead of competition on account of narrowing gaps in F&B and advertising revenues vs PVR. It is still at only 81% and 64% of PVR on spend-per-head and ad revenue/screen, respectively, and has huge headroom for growth, which indeed will also boost profitability. Further, INOX has stronger balance sheet vis-à-vis PVR, which on normalisation should allow INOX to grow its screen market share. In the past two years, its incremental multiplex screen market share was strong at 42% and 27% (vs total screen market share of 19.9%). At current price, INOX is trading at 8.6x FY23E EBITDA (adj. Ind-AS 116) and 17.1x FY23E EPS.

Table 8: INOX valuation

Rs mn	FY23E
EBITDA (adj. Ind-AS 116)	3,931
<i>Multiple (x)</i>	12.0
Enterprise value	47,174
Net debt	(510)
Equity value	47,685
Shares (mn)	112
Fair value (Rs/sh)	424

Source: I-Sec research, Company

Financial summary - PVR

Table 9: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	34,144	2,246	32,306	39,798
of which box office collection	17,312	937	17,238	20,927
of which F&B	9,605	549	9,424	11,778
of which Advertising income	3,759	376	2,255	3,383
Cost of goods sold	9,971	562	9,891	12,100
Gross Profit	24,173	1,685	22,415	27,699
Operating Expenses	13,407	4,629	11,511	13,488
EBITDA	10,766	(2,944)	10,904	14,211
% margins	31.5	(131.1)	33.8	35.7
Depreciation & Amortisation	5,425	3,198	5,858	6,430
Gross Interest	4,818	1,929	3,436	3,577
Other Income	378	113	227	249
Recurring PBT	901	(7,958)	1,837	4,453
Add: Extraordinaries				
Less: Taxes	627	(2,005)	463	1,122
Share of profit/loss from associate	(5)	(5)	(5)	(5)
Less: Minority Interest	5	5	5	5
Net Income (Reported)	273	(5,953)	1,373	3,330
Recurring Net Income	273	(5,953)	1,373	3,330

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	7,536	5,593	5,855	6,516
of which cash & cash eqv.	3,223	2,234	1,643	1,221
Total Current Liabilities & Provisions	12,905	11,621	12,558	14,144
Net Current Assets	(5,369)	(6,028)	(6,703)	(7,628)
Investments				
of which Strategic/Group	5	5	5	5
Net Fixed Assets	49,887	49,028	50,800	52,255
of which				
Capital Work-in-Progress	1,547	1,392	1,547	1,547
Right of use of assets	30,047	30,047	30,047	30,047
Non-current assets	6,344	5,994	6,113	7,052
Goodwill	10,520	10,520	10,520	10,520
Total Assets	61,387	59,521	60,735	62,205
Liabilities				
Borrowings	9,134	10,134	10,134	8,134
Deferred Tax Liability	14	14	14	14
Lease liabilities	35,691	35,691	35,691	35,691
Other non-current liabilities	1,742	1,828	1,670	2,030
Minority Interest	3	3	3	3
Equity Share Capital	514	552	552	552
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	14,289	11,298	12,671	15,781
Net Worth	14,802	11,850	13,223	16,332
Total Liabilities	61,387	59,521	60,735	62,205

Source: Company data, I-Sec research

Table 11: Quarterly trends

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	9,157	6,451	127	405
% growth (YoY)	8.6	(23.0)	(98.6)	(95.8)
EBITDA	3,073	1,727	(1,159)	(842)
Margin (%)	33.6	26.8	-	-
Other income	82	167	427	702
Net profit	363	(745)	(2,256)	(1,840)

Source: Company data

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cash flow	10,518	(940)	10,440	13,088
Working Capital Changes	(2,647)	105	(193)	(76)
Capital Commitments	(3,851)	(1,345)	(4,155)	(4,000)
Free Cash Flow	4,020	(2,180)	6,092	9,012
Cash flow from Investing Activities				
Issue of Share Capital	5,041	3,001	-	-
Buyback of shares				
Inc (Dec) in Borrowings	(674)	1,000	-	(2,000)
Dividend paid	(360)	-	-	(221)
Interest paid	(1,151)	(1,929)	(3,436)	(3,577)
Repayment of lease liabilities	(4,965)	(994)	(3,475)	(3,885)
Chg. in Cash & Bank balance	1,857	(989)	(591)	(422)

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Recurring EPS	5.3	(107.9)	24.9	60.4
Reported EPS	5.3	(107.9)	24.9	60.4
Recurring Cash EPS	111.0	(49.9)	131.1	176.9
Dividend per share (DPS)	4.0	-	-	4.0
Book Value per share (BV)	288.3	214.8	239.7	296.0
Growth Ratios (%)				
Operating Income	10.7	(93.4)	1,338.1	23.2
EBITDA	83.6	(127.3)	(470.3)	30.3
Recurring Net Income	(85.1)	(2,280.7)	(123.1)	142.6
Diluted Recurring EPS	(86.5)	(2,129.6)	(123.1)	142.6
Diluted Recurring CEPS	38.3	(145.0)	(362.5)	35.0
Valuation Ratios (x)				
P/E	263.3	(13.0)	56.3	23.2
P/CEPS	12.6	(28.0)	10.7	7.9
P/BV	4.9	6.5	5.8	4.7
EV / EBITDA (adj for AS116)	14.2	(19.7)	16.9	11.1
EV / Operating Income	2.4	39.6	2.8	2.2
EV / Operating FCF	20.2	(40.8)	15.0	9.9
Operating Ratio				
Cost of revenues / Revenues (%)	29.2	25.0	30.6	30.4
Other expenses/ Sales (%)	27.7	135.9	25.4	24.6
Other Income / PBT (%)	41.9	(1.4)	12.3	5.6
Effective Tax Rate (%)	69.6	25.2	25.2	25.2
NWC / Total Assets (%)	(82.6)	(129.5)	(52.0)	(23.0)
Receivables (days)	20	200	21	22
Payables (days)	33	350	33	33
D/E Ratio (x)	0.7	1.0	1.1	0.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins	0.8	(265.0)	4.2	8.4
RoCE (Pre-tax)	2.3	(18.8)	8.5	14.8
RoNW	2.0	(44.7)	11.0	22.5
Dividend Payout Ratio	75.2	-	-	6.6
Dividend Yield	0.3	-	-	0.3
EBITDA Margins	31.5	(131.1)	33.8	35.7

Source: Company data, I-Sec research

Financial summary - INOX

Table 14: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	18,974	1,716	17,996	22,118
of which box office collection	11,050	958	10,913	13,424
of which F&B	4,970	462	4,719	5,976
of which Advertising income	1,790	179	1,432	1,647
Cost of goods sold	6,227	555	6,170	7,634
Gross Profit	12,748	1,160	11,825	14,484
Operating Expenses	6,779	2,725	6,431	7,152
EBITDA	5,968	(1,564)	5,394	7,333
% margins	31.5	(91.2)	30.0	33.2
Depreciation & Amortisation	2,642	1,403	2,424	2,758
Gross Interest	2,212	615	1,881	2,030
Other Income	172	86	120	132
Recurring PBT	1,286	(3,497)	1,210	2,676
Add: Extraordinaries	-	-	-	-
Less: Taxes	1,136	(881)	305	674
Share of profit/loss from associate	-	-	-	-
Less: Minority Interest	-	-	-	-
Recurring Net Income	150	(2,616)	905	2,002

Source: Company data, I-Sec research

Table 15: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	1,743	2,789	3,220	2,707
of which cash & cash equiv.	447	1,874	1,941	1,077
Total Current Liabilities & Provisions	4,895	4,369	4,722	4,364
Net Current Assets	(3,152)	(1,580)	(1,502)	(1,657)
Investments				
of which Strategic/Group	2	2	2	2
Net Fixed Assets	32,110	31,684	32,364	34,068
Capital Work-in-Progress	854	768	854	854
Right of use of assets	21,418	21,418	21,418	21,418
Non-current assets	4,125	3,917	4,004	4,515
Goodwill	175	175	175	175
Total Assets	33,259	34,199	35,042	37,103
Liabilities				
Borrowings	200	200	200	200
Deferred Tax Liability	-	-	-	-
Lease liabilities	25,922	25,922	25,922	25,922
Other non-current liabilities	919	960	899	1,069
Minority Interest	-	-	-	-
Equity Share Capital	1,027	1,125	1,125	1,125
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	5,192	5,992	6,897	8,787
Net Worth	6,219	7,117	8,022	9,911
Total Liabilities	33,259	34,199	35,042	37,103

Source: Company data, I-Sec research

Table 16: Quarterly trends

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	5,129	3,716	3	4
% growth (YoY)	18.4	(22.4)	(99.9)	(99.9)
EBITDA	1,690	1,100	334	406
Margin (%)	32.9	29.6		
Other income	49	48	27	43
Net profit	350	(822)	(736)	(678)

Source: Company data

Table 17: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cash flow	5,468	(683)	5,089	6,658
Working Capital Changes	(726)	104	(158)	(50)
Capital Commitments	(2,062)	(615)	(1,785)	(3,000)
Free Cash Flow	2,680	(1,194)	3,145	3,609
Cash flow from Investing Activities				
Issue of Share Capital	(68)	1,099	120	132
Buyback of shares	1	2,500	-	-
Inc (Dec) in Borrowings	476	-	-	(1,000)
Dividend paid	(119)	-	-	(112)
Interest paid	(111)	(615)	(1,881)	(2,030)
Repayment of lease liabilities	(2,575)	(363)	(1,318)	(1,463)
Chg. in Cash & Bank balance	284	1,427	67	(865)

Source: Company data, I-Sec research

Table 18: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Recurring EPS	1.5	(23.3)	8.0	17.8
Reported EPS	1.5	(23.3)	8.0	17.8
Recurring Cash EPS	12.0	(14.0)	17.9	29.3
Dividend per share (DPS)	1.0	-	-	1.0
Book Value per share (BV)	60.6	63.3	71.3	88.1
Growth Ratios (%)				
Operating Income	12.1	(91.0)	948.9	22.9
EBITDA	93.6	(126.2)	(444.8)	35.9
Recurring Net Income	(88.8)	(1,843.1)	(134.6)	121.2
Diluted Recurring EPS	(88.8)	(1,691.2)	(134.6)	121.2
Diluted Recurring CEPS	(46.4)	(217.1)	(227.6)	64.0
Valuation Ratios (x)				
P/E	208.6	(13.1)	37.9	17.1
P/CEPS	25.5	(21.8)	17.1	10.4
P/BV	5.0	4.8	4.3	3.5
EV / EBITDA	9.8	(14.1)	14.6	8.6
EV / Operating Income	1.7	19.8	1.9	1.5
EV / Operating FCF	12.1	(28.5)	10.8	9.4
Operating Ratio				
Cost of revenues / Revenues (%)	35.7	158.8	35.7	32.3
Other expenses/ Sales (%)	28.2	105.8	28.7	25.9
Other Income / PBT (%)	13.4	(2.5)	9.9	4.9
Effective Tax Rate (%)	88.3	25.2	25.2	25.2
NWC / Total Assets (%)	(131.7)	(237.4)	(50.1)	1.4
Receivables (days)	12	80	13	14
Payables (days)	25	200	25	25
D/E Ratio (x)	0.2	(0.0)	(0.0)	(0.1)
Return/Profitability Ratio (%)				
Recurring Net Income Margins	0.8	(152.5)	5.0	9.1
RoCE	1.5	(31.3)	10.0	19.6
RoNW	1.9	(39.2)	12.0	22.3
Dividend Payout Ratio	68.4	-	-	5.6
Dividend Yield	0.3	-	-	0.3
EBITDA Margins	31.5	(91.2)	30.0	33.2

Source: Company data, I-Sec research

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