

March 14, 2023

## Event Update

### Proforma financials of merged entity (pre-IND AS)

Y/e Mar	FY24E	FY25E
Sales	69,060	79,504
EBITDA*	13,583	16,706
EBITDA margin	19.7%	21.0%
PAT*	6,035	8,076
EPS*	61.6	82.4
PAT margin	8.7%	10.2%
EV/EBITDA	11.4	9.1
EV/Sales	2.3	1.9
P/E	24.8	18.5

\*Including synergy benefits

### Key Data PVRL.BO | PVRL IN

52-W High / Low	Rs.2,215 / Rs.1,483
Sensex / Nifty	57,900 / 17,043
Market Cap	Rs.150bn/ \$ 1,817m
Shares Outstanding	98m
3M Avg. Daily Value	Rs.1015.79m

### Shareholding Pattern (%)

Promoter's	27.46
Foreign	32.41
Domestic Institution	26.43
Public & Others	13.70
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(9.7)	(20.7)	(11.3)
Relative	(4.9)	(17.3)	(13.4)

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## Multiplex behemoth arrives

### Quick Pointers:

- Synergy benefits of Rs2.25bn to accrue over next 12-24 months at EBITDA level.
- Merged entity plans to open 180-200 screens per annum over next 2 years.

*We increase our pre-IND AS EBITDA estimates for merged entity by 7.0%/7.5% for FY24E/FY25E, as we expect synergy benefits of ~Rs2bn to accrue over next 2 years. The PVR-INOX merger is expected to 1) lend invincible size advantage to combined entity (18%/30% screen/BO share respectively) 2) enhance BS strength (Inox had net cash BS as of Jan end) enabling rapid expansion into new markets and 3) improve bargaining power with various stakeholders in the value chain like film distributors, real estate developers, ad-networks and ticket aggregators resulting in material revenue/cost synergies. Though there are concerns over Bollywood underperformance, we believe it is not a structural issue (NBOC of Pathaan stood at ~Rs5.4bn despite high decibel negative campaigns); but a problem of content, as OTT proliferation has raised the bar of audience expectations from big screen. We expect merged entity to report footfalls of 170mn/185mn and pre-IND AS EBITDA margin of 19.7%/21.0% in FY24E/FY25E respectively. Retain 'BUY' on the stock with a TP of Rs2,096 after assigning EV/EBITDA multiple of 15.5x (no change) to merged entity.*

**Synergy benefits to accrue in next 12-24 months:** Management has guided for synergy benefits of Rs2.25bn at EBITDA level over next 12-24 months. On revenue front, synergies would majorly accrue over 1) F&B 2) advertisement and 3) convenience income. On the other hand, cost synergies will arise from 1) scale advantage, 2) integration of supply chain, and 3) employee redundancies.

- **Revenue synergies of ~Rs1.5bn to accrue over 2 years:** Introduction of non-veg menu (Inox currently serves only veg food) and exploring pre-ticketing opportunity (selling F&B items to non-cinema patrons) will drive F&B sales while optimizing realization and focusing on off-screen advertising, events and sponsorships is expected to boost ad-revenue of the merged entity. In addition, improved bargaining power with ticket aggregators post-merger will drive convenience fee income. Overall, we expect revenue synergy benefits of ~Rs1.5bn to accrue over 2 years.
- **Cost synergies of ~Rs0.5bn to accrue over 2 years:** Integration of supply chain, improved bargaining power with film distributors, employee redundancies and vendor consolidation (savings in opex/capex from scale advantage) is likely to result in cost synergies of ~Rs0.5bn over 2 years.

On a conservative basis, we expect synergy benefits of ~Rs2bn to accrue (refer exhibit 1 for complete breakdown) over next 2 years (benefits of Rs0.9bn/Rs1.2bn in FY24E/FY25E respectively).

**Exhibit 1: Merged Entity Financials (pre-IND AS)**

Particulars (Rs mn)	PVR		Inox		Synergy Benefits		Merged Entity		Comments
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	
NBOC	21,908	24,962	13,487	15,652	-	-	35,395	40,614	
F&B revenue	13,295	15,436	6,969	8,203	201	468	20,465	24,107	Menu optimization and introduction of non-veg food
Ad-revenue	4,754	5,396	2,362	2,789	132	289	7,248	8,474	Realization optimization and increased focus on off-screen ads
Convenience fee	1,800	1,800	680	720	130	320	2,610	2,840	Better bargaining power with ticket aggregators
Other operating income	2,372	2,207	969	1,263	-	-	3,341	3,470	
<b>Revenues</b>	<b>44,130</b>	<b>49,801</b>	<b>24,467</b>	<b>28,626</b>	<b>-</b>	<b>-</b>	<b>69,060</b>	<b>79,504</b>	
<b>Operating expenses</b>	<b>28,964</b>	<b>32,716</b>	<b>16,147</b>	<b>18,666</b>	<b>-</b>	<b>-</b>	<b>44,685</b>	<b>51,300</b>	
Film hire cost	9,797	11,138	6,069	7,043	79	82	15,787	18,100	Better bargaining power with film distributors
F&B cost	3,340	3,845	1,603	1,887	124	-	4,819	5,732	Vendor consolidation
Employee cost	4,773	5,300	1,590	1,947	223	-	6,141	7,247	Employee redundancies
Rent	6,930	7,276	3,862	4,222	-	-	10,792	11,498	
Other expenses	4,123	5,156	3,023	3,568	-	-	7,147	8,724	
<b>Pre-IND AS EBITDA</b>	<b>8,237</b>	<b>9,809</b>	<b>4,459</b>	<b>5,739</b>	<b>-</b>	<b>-</b>	<b>13,583</b>	<b>16,706</b>	
<i>Pre-IND AS EBITDA margin</i>	<i>18.7%</i>	<i>19.7%</i>	<i>18.2%</i>	<i>20.0%</i>	<i>-</i>	<i>-</i>	<i>19.7%</i>	<i>21.0%</i>	
Depreciation	2,700	2,750	1,300	1,350	-	-	4,000	4,100	
Interest	1,700	1,750	120	120	-	-	1,820	1,870	
Other income	750	750	294	315	-	-	1,044	1,065	
<b>Pre-IND AS PBT</b>	<b>4,587</b>	<b>6,059</b>	<b>3,332</b>	<b>4,584</b>	<b>-</b>	<b>-</b>	<b>8,807</b>	<b>11,801</b>	
Tax	1,605	2,121	840	1,155	327	449	2,772	3,725	Merge Co tax will be higher at 35%
<b>Pre-IND AS PAT</b>	<b>2,981</b>	<b>3,938</b>	<b>2,492</b>	<b>3,429</b>	<b>-</b>	<b>-</b>	<b>6,035</b>	<b>8,076</b>	
<i>Pre-IND AS PAT margin</i>	<i>6.8%</i>	<i>7.9%</i>	<i>10.2%</i>	<i>12.0%</i>	<i>-</i>	<i>-</i>	<i>8.7%</i>	<i>10.2%</i>	

Source: Company, PL

**Top management roles get redefined after merger:** PVR's current MD and CEO, Mr Ajay Bijli will continue as the MD of merged entity, while the Joint MD, Sanjeev Kumar Bijli will be appointed as Executive Director.

Post-merger, Gautam Dutta, CEO of PVR, will oversee North and South markets while Alok Tandon, CEO of INOX, will manage markets of West and East. Nitin Sood, CFO of PVR, will continue as CFO of the merged entity while Kailash Gupta, CFO of INOX, will act as deputy CFO.

**Plans to open 180-200 screens annually post-merger:** Management envisages to open 180-200 screens per annum for next 2 years after merger. Roughly, >40% of screen openings will be in South, ~38% in tier-1 markets, ~17-18% in tier-2 markets. The plan is to also expand in new cities like Patna, Ajmer and small cities down South. However, on a conservative basis, we expect merged entity to open 155 screens each in FY24E/FY25E.

### Conference Call Highlights:

- Korn Ferry, a leading HR consultancy firm, has been engaged to assist with HR and cultural integration.
- Pre-ticketing F&B opportunities (home delivery or buying food from concessionaire without having to buy a movie ticket) are likely to contribute ~5% of F&B revenues.
- Contract of PVR and INOX with online aggregators like BMS and PayTM ends in April'23 and March'24 respectively.
- Windowing gap for Bollywood & regional films is at 8 weeks and 4-6 weeks respectively (target for regional films is to move back to 8 weeks).
- New cities like Patna, Ajmer and several small areas in South are on radar for screen expansion.
- New screens opening in next 6 months will be under existing brands of PVR & INOX respectively. Post that, rebranding of new cinemas as PVR-INOX will be considered.

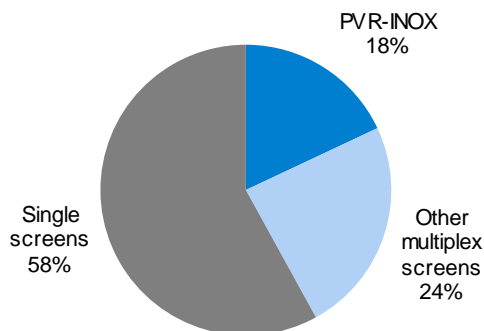
#### Exhibit 2: Merged entity valuation - FY24E

Particulars (Rs mn)	FY24E
EV/EBITDA	15.5
EBITDA*	13,583
EV	2,10,542
Less: Debt*	14,417
Add: Cash	8,570
Equity Value	2,04,696
No of shares	98
Per share value of merged entity (Rs)	2,096

Source: PL

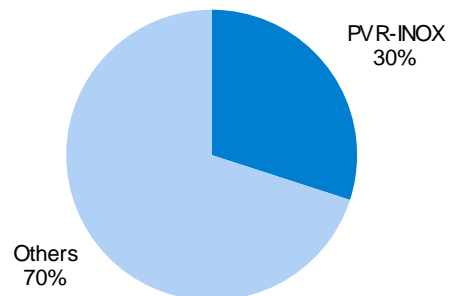
\*Pre-Ind AS 116 projections including synergy benefits

#### Exhibit 3: PVR-Inox screen share at 18%



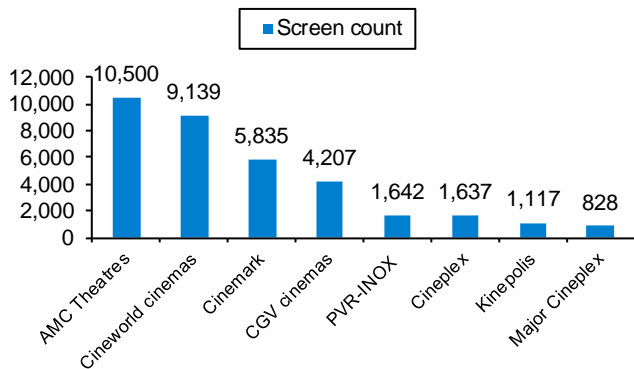
Source: Company, PL

#### Exhibit 4: PVR-Inox BO share at 30%



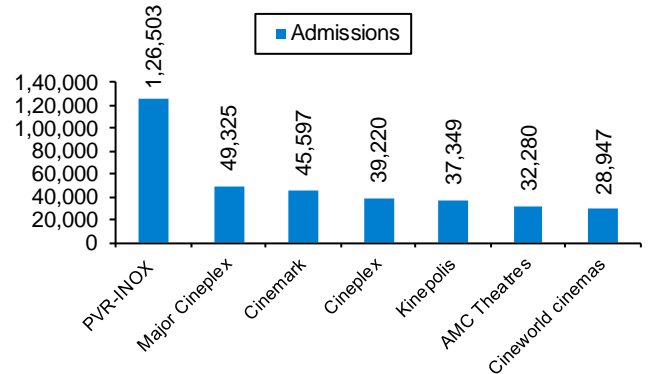
Source: Company, PL

**Exhibit 5: PVR-INOX currently ranks 5th in screen count amongst the top listed global multiplex operators**



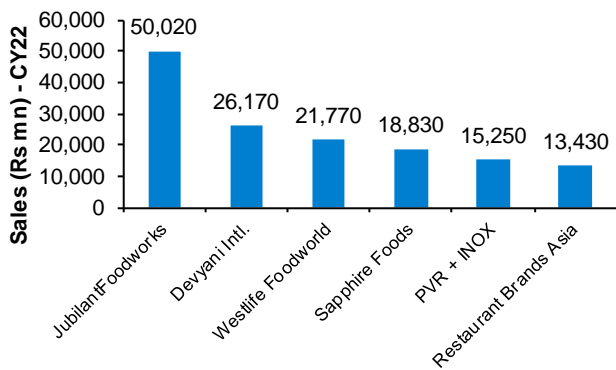
Source: Company, PL

**Exhibit 6: PVR-INOX has the highest admissions among the top listed global multiplex operators**



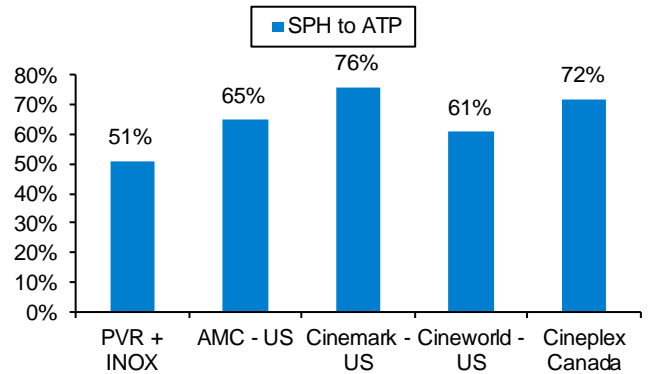
Source: Company, PL

**Exhibit 7: F&B scale amongst the leading QSR brands**



Source: Company, PL

**Exhibit 8: PVR-INOX's SPH to ATP is below global average**



Source: Company, PL

**Exhibit 9: Big Bollywood movies in pipeline**

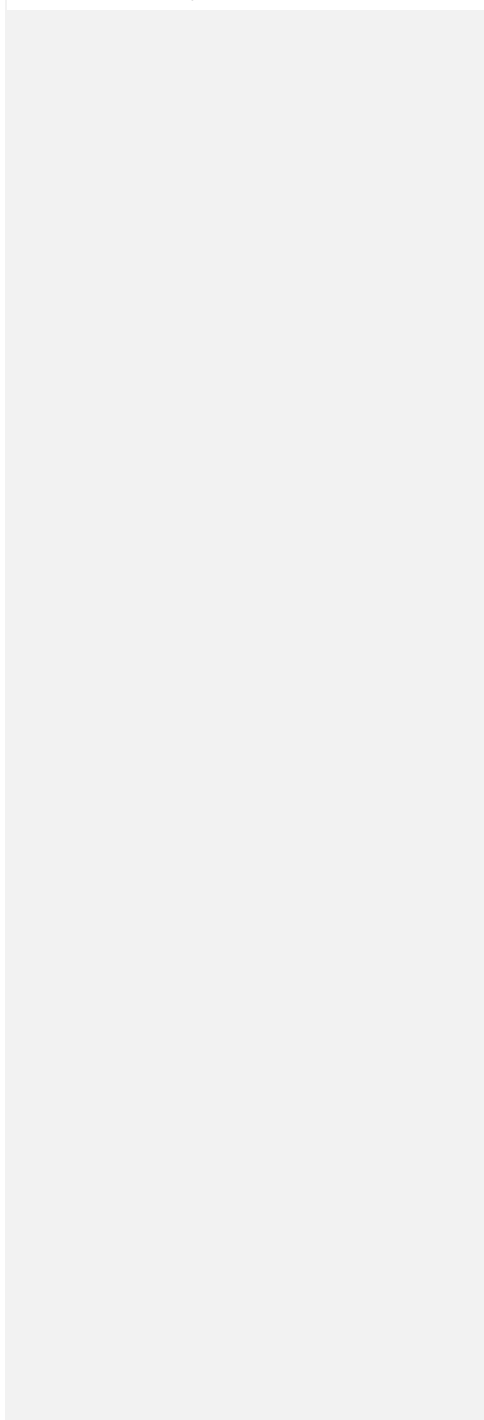
Movie name	Release date	Cast
Jawan	02-Jun-23	Shahrukh Khan
Dunki	22-Dec-23	Shah Rukh Khan, Taapsee Pannu
Kisi Ka Bhai Kisi Ki Jaan	21-Apr-23	Salman Khan, Pooja Hedge
Tiger 3	17-Nov-23	Salman Khan, Katrina Kaif
Bholaa	30-Mar-23	Ajay Devgn, Tabu
Maidaan	12-May-23	Ajay Devgn, Priyamani, Gajraj Rao, Rudranil Ghosh
Bawaal	07-Apr-23	Varun Dhawan, Janhvi Kapoor
Adipurush	16-Jun-23	Prabhas, Saif Ali Khan
Satya Prem Ki Katha	29-Jun-23	Kartik Aryan, Kiara Advani
Dream Girl 2	23-Jun-23	Ayushmann Khurrana, Ananya Pandey
Yodha	07-Jul-23	Sidharth Malhotra, Disha Patani, Raashi Khanna
Animal	11-Aug-23	Ranbir Kapoor

Source: Company, PL

**Exhibit 10: Big Hollywood movies in pipeline**

Movie name	Release date	Cast
Guardians Of The Galaxy Vol 3	05-May-23	Chris Pratt, Zoe Saldana, Dave Bautista, Vin Diesel, Sylvester Stallone
The Marvels	28-Jul-23	Brie Larson, Iman Vellani, Teyonah Parris, Samuel L Jackson
Shazam : The Fury Of Gods	17-Mar-23	Zachary Levi, Asher Angel, Jack Dylan Grazer
The Flash	16-Jun-23	Ezra Miller, Ben Affleck, Michael Keaton,
Aquaman And The Lost Kingdom!	21-Dec-23	Amber Heard, Jason Momoa, Patrick Wilson
Fast And Furious 10	19-May-23	Vin Diesel, Jason Statham, Michelle Rodriguez, Tyrese Gibson
Transformers Rise Of The Beasts	09-Jun-23	Anthony Ramos, Dominique Fishback, Lauren Velez
Indiana Jones And The Dial Of Destiny	30-Jun-23	Harrison Ford
Mission Impossible Dead Reckoning Part One	14-Jul-23	Tom Cruise, Hayley Atwell, Rebecca Ferguson, Ving Rhames, Simon Pegg
Dune 2	03-Nov-23	Rebecca Ferguson, Timothy Chalamet , Zendaya
Oppenheimer	21-Jul-23	Cillian Murphy

Source: Company, PL



## Financials – PVR

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>13,310</b>	<b>35,299</b>	<b>44,130</b>	<b>49,801</b>
YoY gr. (%)	375.3	165.2	25.0	12.8
Cost of Goods Sold	3,975	10,187	13,137	14,983
Gross Profit	9,335	25,112	30,993	34,817
Margin (%)	70.1	71.1	70.2	69.9
Employee Cost	2,693	3,940	4,773	5,300
Other Expenses	5,585	10,019	11,053	12,432
<b>EBITDA</b>	<b>1,057</b>	<b>11,153</b>	<b>15,167</b>	<b>17,085</b>
YoY gr. (%)	(131.6)	954.8	36.0	12.6
Margin (%)	7.9	31.6	34.4	34.3
Depreciation and Amortization	6,144	6,300	6,500	6,550
<b>EBIT</b>	<b>(5,087)</b>	<b>4,853</b>	<b>8,667</b>	<b>10,535</b>
Margin (%)	(38.2)	13.7	19.6	21.2
Net Interest	4,982	5,100	5,300	5,450
Other Income	3,261	700	750	750
<b>Profit Before Tax</b>	<b>(6,807)</b>	<b>453</b>	<b>4,117</b>	<b>5,835</b>
Margin (%)	(51.1)	1.3	9.3	11.7
Total Tax	(1,922)	158	1,441	2,042
Effective tax rate (%)	28.2	35.0	35.0	35.0
<b>Profit after tax</b>	<b>(4,885)</b>	<b>294</b>	<b>2,676</b>	<b>3,793</b>
Minority interest	(3)	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(4,882)</b>	<b>294</b>	<b>2,676</b>	<b>3,793</b>
YoY gr. (%)	(34.7)	(106.0)	809.1	41.7
Margin (%)	(36.7)	0.8	6.1	7.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(4,882)</b>	<b>294</b>	<b>2,676</b>	<b>3,793</b>
YoY gr. (%)	(34.7)	(106.0)	809.1	41.7
Margin (%)	(36.7)	0.8	6.1	7.6
Other Comprehensive Income	(22)	-	-	-
Total Comprehensive Income	(4,904)	294	2,676	3,793
<b>Equity Shares O/s (m)</b>	<b>61</b>	<b>61</b>	<b>61</b>	<b>61</b>
<b>EPS (Rs)</b>	<b>(80.1)</b>	<b>4.8</b>	<b>43.9</b>	<b>62.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>55,386</b>	<b>60,464</b>	<b>66,105</b>	<b>72,376</b>
Tangibles	52,611	57,689	63,330	69,601
Intangibles	2,775	2,775	2,775	2,775
<b>Acc: Dep / Amortization</b>	<b>11,833</b>	<b>18,133</b>	<b>24,633</b>	<b>31,183</b>
Tangibles	10,648	16,948	23,448	29,998
Intangibles	1,185	1,185	1,185	1,185
<b>Net fixed assets</b>	<b>43,553</b>	<b>42,331</b>	<b>41,472</b>	<b>41,193</b>
Tangibles	41,963	40,741	39,882	39,603
Intangibles	1,590	1,590	1,590	1,590
Capital Work In Progress	645	645	645	645
Goodwill	10,520	10,520	10,520	10,520
Non-Current Investments	2,586	3,018	3,773	4,258
Net Deferred tax assets	5,926	5,926	5,033	5,033
Other Non-Current Assets	1,342	1,041	1,721	2,311
<b>Current Assets</b>				
Investments	5	5	5	5
Inventories	342	290	363	409
Trade receivables	707	2,418	3,023	3,411
Cash & Bank Balance	5,781	4,485	5,084	5,425
Other Current Assets	1,447	1,941	3,089	3,984
<b>Total Assets</b>	<b>73,258</b>	<b>73,104</b>	<b>75,327</b>	<b>77,867</b>
<b>Equity</b>				
Equity Share Capital	610	610	610	610
Other Equity	13,094	13,266	15,790	19,430
<b>Total Networkth</b>	<b>13,704</b>	<b>13,876</b>	<b>16,400</b>	<b>20,040</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	47,240	47,240	45,740	44,240
Provisions	97	176	177	199
Other non current liabilities	121	176	221	249
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	4,718	4,718	4,718	4,718
Trade payables	3,001	3,191	3,990	4,230
Other current liabilities	3,856	3,205	3,561	3,670
<b>Total Equity &amp; Liabilities</b>	<b>73,258</b>	<b>73,104</b>	<b>75,327</b>	<b>77,867</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

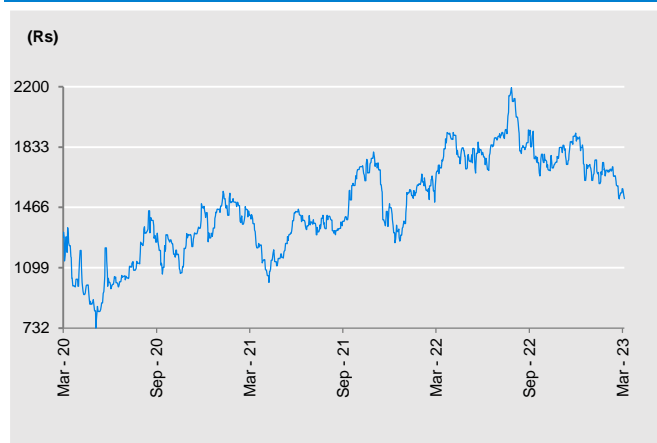
Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(6,807)	453	4,117	5,835
Add. Depreciation	2,605	6,300	6,500	6,550
Add. Interest	4,938	5,100	5,300	5,450
Less Financial Other Income	3,261	700	750	750
Add. Other	399	(607)	(799)	(1,396)
Op. profit before WC changes	1,136	11,246	15,117	16,440
Net Changes-WC	434	(1,469)	121	(195)
Direct tax	99	(158)	(1,441)	(2,042)
<b>Net cash from Op. activities</b>	<b>1,668</b>	<b>9,619</b>	<b>13,797</b>	<b>14,202</b>
Capital expenditures	(1,245)	(5,078)	(5,641)	(6,271)
Interest / Dividend Income	270	-	-	-
Others	947	(512)	(870)	(559)
<b>Net Cash from Inv. activities</b>	<b>(28)</b>	<b>(5,589)</b>	<b>(6,511)</b>	<b>(6,829)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,553	-	(1,500)	(1,500)
Dividend paid	-	(122)	(152)	(152)
Interest paid	(1,246)	(5,100)	(5,300)	(5,450)
Others	(2,475)	(103)	265	71
<b>Net cash from Fin. activities</b>	<b>(2,168)</b>	<b>(5,325)</b>	<b>(6,687)</b>	<b>(7,032)</b>
<b>Net change in cash</b>	<b>(528)</b>	<b>(1,296)</b>	<b>599</b>	<b>341</b>
Free Cash Flow	419	4,541	8,156	7,931

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>5,371</b>	<b>9,814</b>	<b>6,867</b>	<b>9,407</b>
YoY gr. (%)	196.0	1,552.5	470.7	53.2
Raw Material Expenses	1,770	3,154	2,092	2,454
Gross Profit	3,601	6,660	4,776	6,953
Margin (%)	67.0	67.9	69.5	73.9
<b>EBITDA</b>	<b>999</b>	<b>3,416</b>	<b>1,537</b>	<b>2,888</b>
YoY gr. (%)	NA	NA	NA	75.1
Margin (%)	18.6	34.8	22.4	30.7
Depreciation / Depletion	1,687	1,494	1,525	1,552
<b>EBIT</b>	<b>(688)</b>	<b>1,922</b>	<b>11</b>	<b>1,335</b>
Margin (%)	(12.8)	19.6	0.2	14.2
Net Interest	1,252	1,280	1,277	1,275
Other Income	425	209	164	201
<b>Profit before Tax</b>	<b>(1,515)</b>	<b>851</b>	<b>(1,102)</b>	<b>261</b>
Margin (%)	(28.2)	8.7	(16.0)	2.8
Total Tax	(460)	319	(387)	102
Effective tax rate (%)	30.4	37.5	35.1	39.1
<b>Profit after Tax</b>	<b>(1,055)</b>	<b>532</b>	<b>(715)</b>	<b>159</b>
Minority interest	-	(2)	(3)	(2)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(1,055)</b>	<b>534</b>	<b>(712)</b>	<b>161</b>
YoY gr. (%)	(63.5)	NA	(53.5)	NA
Margin (%)	(19.6)	5.4	(10.4)	1.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(1,055)</b>	<b>534</b>	<b>(712)</b>	<b>161</b>
YoY gr. (%)	(63.5)	NA	(53.5)	NA
Margin (%)	(19.6)	5.4	(10.4)	1.7
Other Comprehensive Income	(19)	5	(4)	4
<b>Total Comprehensive Income</b>	<b>(1,074)</b>	<b>539</b>	<b>(716)</b>	<b>165</b>
Avg. Shares O/s (m)	61	61	61	61
<b>EPS (Rs)</b>	<b>(17.3)</b>	<b>8.7</b>	<b>(11.7)</b>	<b>2.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	19-Jan-23	BUY	1,983	1,678
2	06-Jan-23	BUY	2,005	1,633
3	17-Oct-22	BUY	2,119	1,689
4	06-Oct-22	BUY	2,153	1,786
5	22-Jul-22	BUY	2,330	1,915
6	07-Jul-22	BUY	2,227	1,886
7	10-May-22	BUY	2,227	1,706
8	08-Apr-22	BUY	2,272	1,882

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	694	644
4	Inox Leisure	BUY	587	502
5	Music Broadcast	Hold	23	27
6	Navneet Education	Accumulate	148	105
7	Nazara Technologies	BUY	898	592
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	228	175
10	Safari Industries (India)	BUY	2,553	1,889
11	V.I.P. Industries	BUY	1,014	700
12	Zee Entertainment Enterprises	BUY	277	218

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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