SMIFS LIMITED
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Initiating Coverage Report

11th May 2020

PVR

WOW
WOMEN ON WEDNESDAYS

CREATING MILESTONES THROUGH

INNOVATION

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Brief Overview

CMP (INR) (As on 8th May 2020)	894
Target (INR)	1376
Upside(%)	54%
Recommendation	**Strong Buy**

BSE Code	532689
NSE Code	PVR
Reuters Ticker	PVRL.BO
Bloomberg Ticker	PVRL IN

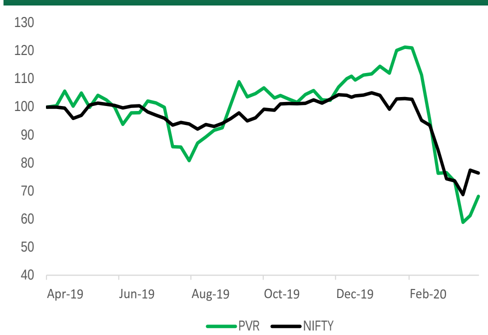
Stock Scan

Market cap (INR Cr.)	4591
Outstanding Shares (Cr.)	5.13
Face Value (INR)	10.00
Dividend Yield(%)	0.45
P/E (x)	31.30
P/B (x)	4.50
Debt/Equity (x)	3.9
Beta vs. Sensex	0.7
52 Week High/ Low (INR)	2121/870
Avg. Daily Volume (NSE)/1yr	638430

Shareholding Pattern (%)

	Mar 2020	Dec 2019	Sep 2019
Promoters	18.54	18.44	19.57
Institutions	73.04	72.99	69.09
Non-Institution	8.42	8.57	11.34

Stock vs. Nifty (Relative Returns)



Source: NSE

PVR Ltd.: Leading successfully

We initiate coverage on PVR Ltd. (PVR) with a Strong Buy rating. PVR is a chain of multiplexes with its headquarters in Gurugram, India. It was founded by Mr. Ajay Bijli in the year 1995. Over the years, PVR has become the largest multiplex operator in India by taking up organic and inorganic growth routes (acquisition of Cinemax in 2012, DT cinemas in 2016 and SPI cinemas in 2018) and ***as of January 2020, PVR had presence in 71 cities of India and Sri Lanka (Colombo) with 825 screens across 173 cinemas***. The key aspects which draw attention to PVR's business are:

- **Industry leader of movie exhibition business in India:** PVR is the market leader in terms of screen count in India. As of January 2019, PVR had a market share of 28% in the multiplex segment, based on the number of screens in India.
- **Further expansion of screen network:** PVR plans to further expand its screen network across India. For its expansion plans, PVR intends to organically pursue cinema and screen expansion opportunities, as well as look out for inorganic opportunities. We have assumed 60 and 90 screens addition for FY21E and FY22E respectively.
- **Cost control measures taken against Covid-19 situation:** PVR has taken adequate steps to control fixed costs, which normally amount to Rs 1400 mln per month. Rent and Common Area Maintenance have been reduced to zero for the shutdown period. Employee expenses have been reduced by 35%. Other major fixed expenses have been reduced by 60-65%.
- **Leadership position across key operating metrics:** PVR had the highest revenue per screen (Rs 40.4 million per screen) and EBITDA per screen (Rs 7.7 million per screen) among the top three multiplex operators in India, as of and for the year ended March 31, 2019. PVR's high revenue per screen is attributed to brand premiumisation and premium locations resulting in higher average ticket price and spend per head for F&B.

We have valued the stock at 25x FY22E EPS to arrive at a **Target Price of Rs 1,376**, which provides an upside of 54% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

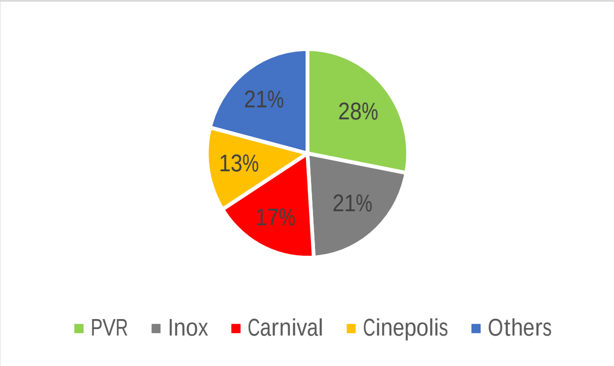
Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales from ops.	23341	30856	35726	16108	39046
Growth %	10%	32%	16%	-55%	142%
EBITDA	4018	5863	12848	1583	14269
EBITDA Margin (%)	17.2%	19.0%	36.0%	9.8%	36.5%
Net Profit (Adjusted)	1251	1833	1930	-6987	2825
Net Profit Margin (%)	5.4%	5.9%	5.4%	-43.4%	7.2%
EPS (Adjusted)	24.29	35.69	37.58	-136.07	55.02
BVPS	209.43	241.39	225.41	79.12	118.81
P/S (x)	2.0	1.5	1.3	2.8	1.2
P /E (x)	36.8	25.0	23.8	-6.6	16.2
P/B (x)	4.3	3.7	4.0	11.3	7.5
ROE (%)	11.6%	14.8%	16.7%	-172.0%	46.3%
ROCE(%)	15.1%	13.8%	12.9%	-5.7%	14.9%

Source: Company Data, SMIFS Research

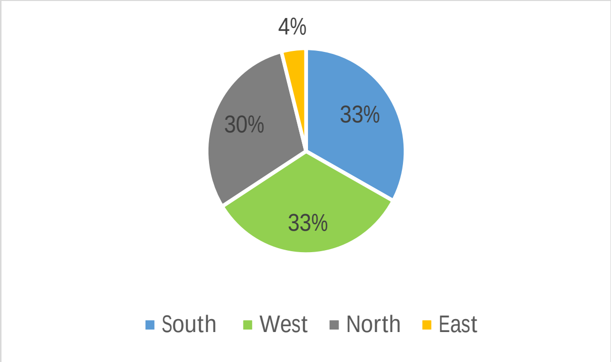
Investment Rationales

Multiplex Screen Operators Market Share



Source: Company Data

Screen distribution across regions



Source: Company Data

Industry leader of movie exhibition business in India

PVR is the market leader in terms of screen count in India. As of January 2019, PVR had a market share of 28% in the multiplex segment, based on the number of screens in India (Source: Company Data). PVR was also the leader among the multiplex operators in India in terms of admissions in FY 2018 (Source: Company Data). ***PVR has a pan-India presence and as of January 23, 2020 it had 825 screens in 173 cinemas in 71 cities across 21 States and Union Territories in India and Sri Lanka (1 cinema with 9 screens)***. PVR's leadership position has enabled it to capitalize on movie attendance trends, consolidation opportunities and ancillary businesses with relatively higher margins.

Further, PVR's large scale, brand equity and cinema experience has made it the preferred choice for movie exhibition for movie distributors, production houses and real estate developers in India. ***PVR is the leader in terms of screens in seven out of eight key cities in India, which include Ahmedabad, Bengaluru, Chennai, National Capital Territory of Delhi, Hyderabad, Mumbai and Pune*** (Source: Company Data). Further, ***PVR is the market leader in three out of the four regions in India, i.e., North, South and West regions of India, in terms of screens among the multiplex operators in India as of May 2019***(Source: Company Data). As per latest available data (FY2018), PVR was the leader in terms of Bollywood domestic box office revenues in India. (Source: Company Data). PVR's market share of Bollywood and Hollywood (including Hollywood dubbed) domestic box office collections in India was 22% and 29%, respectively, in FY2018 (Source: Company Data).

Investment Rationales

Location of cinemas in strategically advantageous areas

Locations of PVR's cinemas in marquee malls provides it with wide visibility and enables recurring admits and high occupancy.

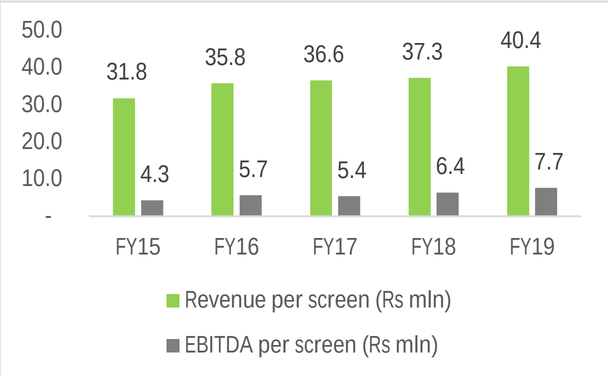
PVR is typically the anchor tenant in various malls across India where its cinemas are located.

PVR was present in 60% of the 20 largest operational malls, in terms of property size, in India as of March 2019. The malls include LuLu International Shopping Mall in Kochi, DLF Mall of India in Noida, VR Mall in Chennai, Ambience Mall in Gurgaon, Phoenix Market City in Bengaluru, Select Citywalk in Delhi and Elante Mall in Chandigarh. Locations of PVR's cinemas in such malls provides it with wide visibility and enables recurring admits and high occupancy percentages.

Established relationships with various mall developers over the years along with PVR's ability to attract footfalls, has enabled PVR to obtain prime locations at competitive terms. ***PVR operates on an asset light model and accordingly all its cinemas are located on leased premises. The tenure of PVR's leases is typically for a period of 10 to 20 years*** which, in many instances, are renewable subject to mutual agreement. PVR is typically the anchor tenant in various malls across India where its cinemas are located.

Based on PVR's relationship with mall developers and status as anchor tenants, PVR should be able to secure further strategic locations that are proposed to be developed by the mall developers. ***PVR's strategy of being present in prime retail locations that generate significant admits, has helped in building its leadership position in terms of revenue per screen and EBITDA per screen.***

Revenue and EBITDA per screen

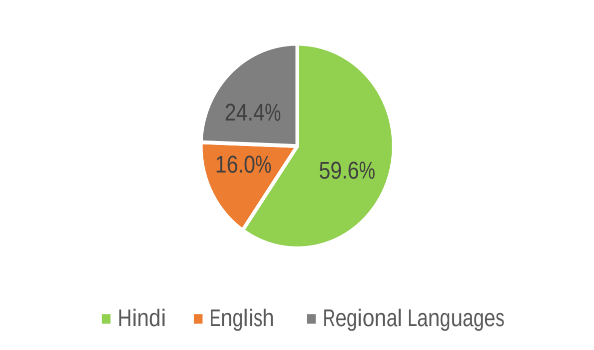


Source: Company Data, SMIFS Research

Investment Rationales

Diversified product offerings

Gross Box Office Collections



Source: Company Data,

PVR has been able to become an integral part of customers' movie viewing experience by offering multiple products and a premium experience. ***PVR offers a diversified cinema viewing experience through its different formats, including PVR Director's Cut, PVR Gold Class, PVR IMAX, PVR Superplex, PVR 4DX, PVR P[XL], PVR Playhouse, PVR Onyx, PVR ECX, PVR Premiere, PVR ICON, PVR Luxe, PVR Cinemas and PVR Utsav, and pursuant to its acquisition and amalgamation of SPI Cinemas, Escape, Sathyam and Palazzo***. PVR had the highest number of premium screens among multiplex operators in India, as of March 31, 2018 (Source: Company Data). Premium screen formats include IMAX, 4DX, Playhouse, Gold, P[XL], Onyx and Director's Cut, and serve different customer segments. As of December 31, 2019, PVR had 88 premium screen formats, respectively. Further, PVR exhibits diversified content to serve different regional customer segments across India. In FY2017, Hindi, English and regional languages accounted for 64.1%, 18.5% and 17.3%, respectively, of PVR's Gross Box Office Collections, while ***in FY2019, Hindi, English and regional languages accounted for 59.6%, 16.0% and 24.4%, respectively, of PVR's Gross Box Office Collections***.

Premium guest experience

PVR provides premium seating, quality visual and sound experience, enhanced F&B offerings and technology led innovation through its website and mobile application.

PVR aims to improve customer experience by providing premium seating, quality visual and sound experience, convenient ticketing experience, diversified content and plush interiors. To cater to the diverse eating habits and dietary needs, PVR has enhanced its food and beverages ("F&B") offerings and also appointed a celebrity chef to render culinary/ cooking services at its cinemas. PVR offers several seating options through its various premium formats, including loungers, recliners, beanbags and double armrest seats. In addition, ***PVR has recently introduced D-Box enabled motion seats in some of its cinemas***. Further, PVR's technology based product offerings include its own website and mobile application which allows customers to browse movies and trailers, select and reserve seats, pre-order F&B that can be served at their seat, make bulk bookings, book a cab, purchase gift cards and, have access to various offers and deals.

Investment Rationales

PVR has introduced quick tix machines, quick response code based paperless ticketing, movie calendar and an interactive online magazine. It has also introduced pre-paid gift cards and a loyalty programme, PVR Privilege.

PVR has also introduced 'quick tix machines', a digital instant and upcoming ticketing solution which promotes cashless transactions, along with 'quick response code based paperless ticketing' for admission into its cinemas. In order to update PVR's customers about upcoming releases, PVR has created 'Movie Calendar' which provides updates on PVR's mobile application to users regularly. PVR also has an interactive online magazine, 'PVR Movies First' that includes box office news, latest and upcoming movie releases and interviews with actors.

PVR also provides its customers the option of purchasing pre-paid gift cards, both physical and digital, which can be redeemed against purchase of tickets, and F&B at PVR cinemas and on PVR's website and mobile application. ***PVR offers its customers deals, rewards, cashbacks and offers for which it has collaborated with various banks, payment banks, digital wallet companies and online aggregator platforms***. Further, PVR has introduced a loyalty programme, 'PVR Privilege', which provides its customers with a range of benefits, personalised offers and services, including reward points on each purchase of tickets or F&B, bonus points during special occasions, and an automated conversion of reward points into vouchers that can be used to pay for tickets and F&B. ***As of December 31, 2019, PVR had approximately 1 crore 'PVR Privilege' members***.

Further expansion of screen network

PVR continues to work with commercial real estate developers to organically pursue screen expansions. It also selectively expands and upgrades existing operational properties and increases its screens through acquisitions.

PVR plans to further expand its screen network across India. For its expansion plans, PVR intends to organically pursue cinema and screen expansion opportunities, continue to work with the commercial real estate developers, and focus on premium screen formats. PVR also aims to enhance its operations by selectively expanding and upgrading existing operational properties in prime locations. Further, PVR has experience in identifying and integrating acquisitions/amalgamations of cinemas and continue to intend to expand its screen network through strategic investments, amalgamations and acquisitions. ***PVR has, in the past, made certain acquisitions/amalgamations and has been able to successfully integrate such acquisitions/amalgamations, such as, Cinemax Cinemas in November 2012, DT Cinemas in May 2016 and SPI Cinemas in August 2018. These acquisitions added 138 screens, 32 screens and 76 screens, respectively, to PVR's screen network***.

Investment Rationales

In 2017, India was the largest in terms of movies certified/ released in a country among key countries and was amongst the top five countries in terms of box office collections internationally, and exhibited the maximum cinema attendance among the key countries

In 2017, among key international countries (such as United States and Canada, United Kingdom and Ireland, South Korea, China, Japan and India), India remained an under-penetrated country with a significantly lower movie screens per capita ,which presents a significant opportunity for expansion across India including in the key cities in India. However, in 2017, India was the largest in terms of movies certified/ released in a country among key countries and was amongst the top five countries in terms of box office collections internationally, and exhibited the maximum cinema attendance among the key countries. ***PVR's growth is also supported by the trend of increasing middle and high income groups, rising per capita income, growth in working population and increase in median age in India***. In addition, approximately 13 million square feet of retail mall space is currently operational in the market and malls with gross leasable area of approximately 43 million square feet are planned across the key cities of India, which can be effectively utilized for the growth of multiplexes.

PVR intends to selectively pursue opportunities that will consolidate its market position and enhance its financial position, expand its existing product offerings and increase its sales and marketing network, customers and geographical reach.

The share of single screens in India in terms of overall screen count is expected to reduce from 74% as of March 31, 2018 to 60% as of March 31, 2023, which also provides considerable expansion scope for multiplex operators. Further, ***PVR believes significant opportunities exist in international markets as well, that offer incremental attendance-generating and revenue-generating prospects***. PVR has recently ventured in Sri Lanka. PVR intends to selectively pursue opportunities that will consolidate its market position and enhance its financial position, expand its existing product offerings and increase its sales and marketing network, customers and geographical reach, enhance its customer experience and help it in technological advancements. These opportunities could be by way of strategic acquisitions, joint ventures, technical collaborations, new partner tie-ups and asset purchases.

Investment Rationales

PVR has and further intends to expand its menu of F&B to include more options for meals, mixed drinks, organic food and other gourmet products. PVR also intends to focus on offers on F&B, 'combo' products, sale of F&B along with movie tickets which will help it in increasing the average value of transaction.

PVR intends to grow revenues from its advertising offerings through deepening advertiser engagement, attracting new advertisers to its platform, expanding its on-screen and off-screen advertising offerings and growing its advertising spot rates.

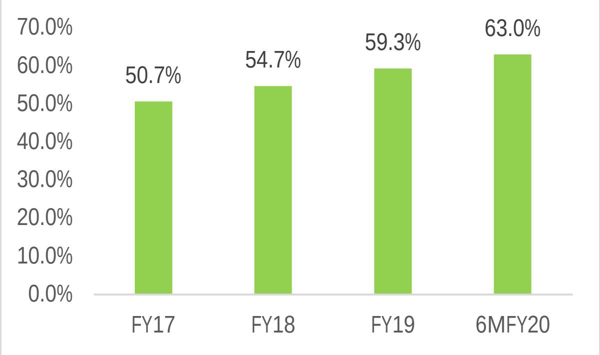
Focus on increasing non-box office revenue

PVR intends to increase its non-box office revenues particularly in F&B, advertising and convenience fees. ***The F&B segment is a high margin business with approximately 70% to 75% gross margin. The F&B revenue has increased at a CAGR of 20% during FY2015 and 2018, and accounted for approximately 22% of the total movie exhibition industry revenues in FY2018***. However, the ratio of spend per head/ average ticket price for certain Indian multiplexes is lower in comparison with certain international counterparts. As a result, PVR has and further intends to expand its menu of F&B products to include more options for meals, healthy snacks, mixed drinks, organic food and other gourmet products. PVR also intends to focus on offers on F&B, 'combo' products, sale of F&B along with movie tickets which will help it in increasing the average value of transaction. Further, the launch of premium properties will increase the average spend per head on F&B, resulting in the growth of the cinema exhibition industry.

As a percentage of total advertising revenue, in-cinema advertising has increased its share and is further expected to increase at a CAGR of approximately 10% from Rs 11 billion in FY2019 to Rs 16 billion in FY2023. However, as of December 2018, Indian multiplex operators'advertisement revenues were lower in comparison with international counterparts. The key drivers for growth of in-cinema advertising in India include the increase in number of multiplex screens and number of advertisers selecting cinemas as a mode of advertising, and the presence of digital panels in multiplex lobbies. Accordingly, PVR intends to capitalize on this opportunity and grow revenues from its advertising offerings through deepening advertiser engagement, attracting new advertisers to its platform, expanding its on-screen and off-screen advertising offerings and growing its advertising spot rates. In addition, ***PVR is exploring innovative mechanisms for advertisements such as advertisements on seat covers, ticketing windows and other publicly accessible places in cinema***.

Investment Rationales

Online Gross Box Office Collections



Source: Company Data,

PVR's online Gross Box Office Collection contribution (as a percentage of Gross Box Office Collection) has been steadily increasing and was 50.7%, 54.7%, 59.3% and 63.0% in FY2017, 2018, 2019 and in the six months ended September 30, 2019, respectively. PVR has and further intends to increase the share of online Gross Box Office Collection through its partnerships with Paytm and BookMyShow and its website and mobile application by offering various offers and services including ticket cancellation, booking a cab, loyalty rewards, redemption of coupons, pre-paid cards and discounts and cashbacks. In addition, the information collected through such platforms will help PVR in determining the customers' behaviour and preferences, which will consequently enable it to improve its customer experience.

- **Leadership position across key operating metrics and stable financial performance**

PVR had the highest revenue per screen (Rs 40.4 million per screen) and EBITDA per screen (Rs 7.7 million per screen) among the top three multiplex operators in India, as of and for the year ended March 31, 2019. ***PVR's high revenue per screen is attributed to brand premiumisation and premium locations resulting in higher average ticket price and spend per head, and certain key factors, such as, premium and innovative screen formats, including Director's Cut, Gold Class, 4DX, Playhouse, Onyx, P[XL], and a differentiated F&B menu***.

PVR had the highest revenue per screen and EBITDA per screen among the top 3 multiplex operators in India in FY19. In FY18, PVR had the highest average ticket price and spend per head among the top 4 multiplex operators in India.

PVR has diversified revenue streams and generate revenues primarily from: (i) income from sale of movie tickets (ii) sale of food and beverages (iii) advertisement income; and (iv) other operating revenue which includes income from movie production/ distribution, convenience fees, virtual print fees, food court rental income, gaming income and management fees. PVR's income from sale of movie tickets increased from Rs 11,249 mln in FY2017 to Rs 16,354 mln in FY2019. Further, PVR's income from sale of movie tickets was Rs 14,016 mln in the nine months ended December 31, 2019. In FY2018, PVR had the highest average ticket price and spend per head among the top four multiplex operators in India. PVR's Average Ticket Price increased from Rs 196 in FY2017 to Rs 207 in FY2019 and was Rs 204 in the nine months ended December 31, 2019. PVR's Spend Per Head increased from Rs 81 in FY2017 to Rs 91 in FY2019 and was Rs 100 in the nine months ended December 31, 2019. PVR's revenue from sale of food and beverages has also been steadily increasing

Investment Rationales

In FY18, PVR also had the highest share of advertising income to total operating income among the multiplex operators in India and had a market share of approximately 33% in the in-cinema advertising segment for multiplex operators in India.

PVR renewed arrangements with Paytm and BookMyShow, for booking and selling the ticketing inventory through their digital platforms for a period of three years commencing from July 2018.

from Rs 5794 mln in FY2017 to Rs 8584 mln in FY2019. Further, PVR's revenue from sale of food and beverages was Rs 7,737 mln in the nine months ended December 31, 2019. PVR's occupancy rates were 31.3% and 36.2% in FY2018 and FY2019, respectively.

In FY2018, PVR also had the highest share of advertising income to total operating income among the multiplex operators in India and had a market share of approximately 33% in the in-cinema advertising segment for multiplex operators in India. PVR has proven the advertising monetization potential of its platform by increasing advertisement income from Rs 2,518 mln in FY2017 to Rs 3,535 mln in FY2019. Further, the advertisement income was Rs 3,073 mln in the nine months ended December 31, 2019. ***The premium associated with PVR's brand has helped it in charging high in-cinema advertising rates from advertisers. PVR has a relatively higher gross margin on advertisement revenue as its costs are limited to the extent of the manpower hired.***

In addition, PVR's revenue from convenience fees has also increased from Rs 582 mln in FY2017 to Rs 1,304 mln in FY2019. PVR's revenue from convenience fees was Rs 1,338 mln in the nine months ended December 31, 2019. PVR renewed arrangements with Paytm and BookMyShow, for booking and selling the ticketing inventory through their digital platforms for a period of three years commencing from July 2018.

- **Cost control measures taken against Covid-19 situation**

PVR has taken adequate steps to control fixed costs, which normally amount to Rs 1400 mln per month. Rent and Common Area Maintenance have been reduced to zero for the shutdown period. Employee expenses have been reduced by 35%. Electricity and Water charges have been reduced by 80%. Other major fixed expenses have been reduced by 60-65%. It is expected that PVR should be able to maintain the cost reductions throughout the current and proposed shutdown period.

Screen Portfolio of PVR

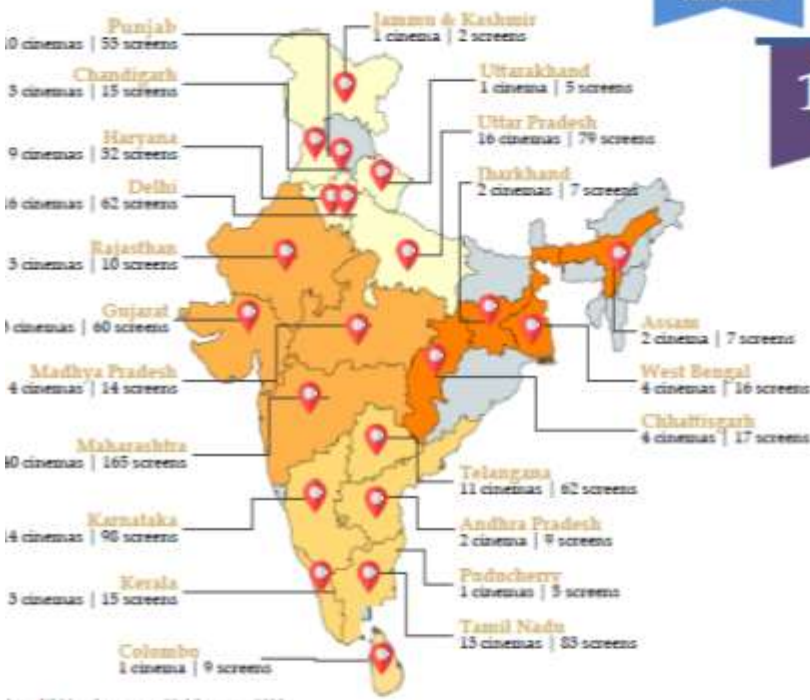
Screen Portfolio[1]

173 cinemas

825 screens

179k seats

71 cities



Format	Screens
Gold Class / Luxe	41
4DX	17
Playhouse	12
IMAX	9
P[XL]	8
Onyx	1
Total	88

11% of our screen portfolio is premium

Screens by Region

Region	Current	% of total
South	281	34%
West	249	30%
North	248	30%
East	47	6%
Total	825	

Note: [1] Numbers as on 23rd January, 2020

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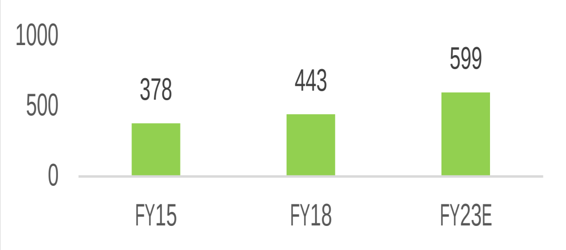
Source: Company Data

Industry Overview

Average spending per household on movies (Rs)



Source: Industry Data

Average spending on movies per household in India is expected to be in the range of Rs 589 to Rs 609 by Fiscal 2023

The Indian media and entertainment industry is an evolving industry and exercises influence on a large segment of the population. The experience of going to watch a movie in a movie theatre with family is still considered as one of the most popular options for entertainment in rural and urban households in India. The spend on media and entertainment is primarily a discretionary expense and generally, it is dependent on the middle and upper income households for its growth. The average spending per household on movies in India has grown from the range of approximately Rs 368 to Rs 388 per household in FY2015 to the range of approximately Rs 433 to Rs 453 per household in FY2018. The average spending on movies is expected to reach the range of Rs 589 to Rs 609 per household in FY2023.

While the content of movies remains the key factor, certain other key factors, such as, the trend of increasing middle and high income groups, rising per capita income, growth in working population and increase in median age are expected to further increase the average spending on movies per household in India. In addition, an increase in the average ticket prices and spend per head on account of increasing premiumisation of cinema halls is also contributing to the increase in movie spends per household in India. At the same time, factors, such as increase in other entertainment options, including, live shows particularity in urban areas, and growth of digital content on account of increased penetration of smart phones and internet connectivity, are expected to weigh down on the overall spend on movies per household in India.

Factors such as increase in other entertainment options, including, live shows particularity in urban areas, and growth of digital content on account of increased penetration of smart phones and internet connectivity, are expected to weigh down on the overall spend on movies per household in India.

Approximately 75% of the cinema screens in India are single-screen cinemas. Multiplex cinemas are gaining prominence because of their better ambience, quality viewing with high-end sound systems, comfortable seating arrangements, good quality service as well as food and beverages.

The share of multiplex screens in overall screens is expected to increase from 26% in FY2018 to approximately 40% in FY2023. The share of single screens in overall screens is expected to reduce from 74% in FY2018 to 60% in FY2023.

Multiplex cinemas are quickly gaining prominence

The film exhibition sector can be broadly divided into two segments, namely, single screen cinemas and multiplex cinemas. Approximately ***75% of the cinema screens in India are single-screen cinemas owned by individual entrepreneurs***, operating in a mostly unorganised market. In comparison, ***in most of the developed countries, multiplexes account for approximately 70% to 80% of the total screens***. However, this situation is quickly changing in India with the emergence and spread of multiplexes.

Multiplex cinemas are quickly changing the manner in which movies are viewed, particularly in big cities in India. Historically, most movie theatres in India were set up as single screen theatres with large seating capacities, ranging between 750 and 1,500 seats per screen. However, due to the lack of adequate maintenance and upgradation on account of less investments, the overall experience for cinema viewers at single screen theatres was impacted. In comparison, ***multiplex cinemas, characterised by limited seating capacity of 250 to 400 seats per screen, better ambience, quality viewing with high-end sound systems, comfortable seating arrangements, good quality service as well as food and beverages, have succeeded in attracting family audiences back to movie theatres***. There has been a consolidation in the multiplex industry over the past few years, with PVR Limited acquiring Cinemax, DT Cinemas and SPI Cinemas, INOX Leisure Limited acquiring Fame and Satyam Cineplexes, and Carnival Cinemas acquiring BIG cinemas, Glitz Cinemas and Broadway Cinemas. This trend is expected to continue as multiplex players are aiming to grow both organically and inorganically in order to increase their market share.

Multiplex cinemas are quickly changing the manner in which movies are viewed, particularly in big cities in India. The number of multiplex screens have grown approximately 16% year-on-year to approximately 2,450 in FY2018. ***The number of screens was approximately 2,676 as of February 2019. The number of screens is expected to grow at approximately 6% CAGR between FY2019 and FY2023 to reach approximately 3,420 screens***. As a result, the share of multiplex screens in overall screens is expected to increase from 26% in FY2018 to approximately 40% in FY2023. In India, the number of single screens is estimated to approximately be 7,000 as of March 31, 2018. The share of single screens in overall screens is expected to reduce from 74% in FY2018 to 60% in FY2023.

The growth will increasingly be driven by Tier II and III cities, as metro cities are generally more competitive in terms of out-of home entertainment options, such as live events and plays. In addition, rising disposable incomes, uniqueness of multiplexes and digital technology incentivize the opening of more screens in Tier II and III cities.

- **Multiplexes are projected to be the key growth drivers for the film industry in India**

The industry is expected to increase its screen count in the multiplex cinemas due to the following reasons:

a) *Revenue-earning potential:* Multiplex cinemas can shift a movie across various screens, depending upon the response to the movie. For example, multiplexes often exhibit a movie in multiple screens in the first week of its release and subsequently, the movie is then shifted to the screen with the largest capacity and thereafter to smaller capacity screens. As a result, the maximum revenue earning potential of a movie is achieved.

b) *Higher occupancy rates and better realisations:* Multiplex operators have better occupancy levels and realisations in comparison with single screen cinemas. At an industry level, the average occupancy of multiplexes is estimated to be between 25% and 30%, while for single-screen cinemas it is estimated to be between 20% and 25%. However, multiplex ticket prices are also higher than single-screen tickets.

c) *Sharing facilities reduces the overhead costs and improves profitability:* All screens of a multiplex are able to equally share its facilities, such as, ticketing window, food and beverage outlets and manpower, which results in lower overheads and thereby, improving profitability.

d) *Diversified revenue stream:* Multiplexes have a diversified revenue model and typically, multiplexes account for 65% to 70% of their revenue from the sale of tickets, 15% to 20% from food and beverages, and the remaining from advertising, sponsorship and renting out retail space. Single-screen cinemas typically earn a large share of their revenues from the sale of movie tickets.

Multiplexes are projected to be the key growth drivers for the film industry in India because of their revenue earning potential, higher occupancy rates and better realisations, sharing facilities and diversified revenue streams.

Multiplexes are beneficial to all stakeholders across the value chain, i.e., consumers, exhibitors, distributors, producers and mall developers.

Multiplexes are beneficial to all stakeholders across the value chain

Every stakeholder across the film industry value chain benefits from a multiplex in the following manner:

a) Consumer: Consumers are provided with a relatively improved movie-watching experience vis-a-vis single screen cinemas with a wider option of movies to choose from.

b) Exhibitors: Multiplex theatre owners are able to maximize a film's commercial value in a relatively superior manner, as occupancy rates are higher in multiplex cinemas.

c) Distributor: Typically, all sales are reported in a multiplex on account of computerised ticketing system, which results in less scope for any revenue leakage on account of under-reporting. This would potentially help the distributors in increasing their revenues.

d) Producers: Higher revenue collections would result in improved returns for the producer as well. Multiplexes also provide producers with increased scope for producing unique and low-budget films.

e) Mall developers: Multiplex operators share an important relationship with mall developers as they act as anchor tenants in malls due to their ability to attract more footfalls.

Occupancy levels are projected to stabilise in next four to five fiscals

Occupancy levels (i.e. ratio of number of footfalls per screen per annum to total capacity per screen) primarily depend upon the film content. Overall occupancy levels for multiplexes was approximately 29% in FY2019, and is projected to reach approximately 30% by FY2023. ***Reduction in GST rates, from 28% to 18% for tickets priced above Rs 100, is also expected to have a positive impact on admits and consequently, the cinema exhibition industry.***

ATPs are expected to grow at a CAGR of 4% to 5% because of the increase in the number of premium properties, advent of on-demand services and increase in rental costs. Change in property mix would also influence the ATPs.

ATPs for multiplexes are expected to grow at a CAGR of 4% to 5% over the next four to five fiscals

ATPs for multiplexes are expected to increase at a CAGR of 4% to 5% from FY2018 to FY2023, due to:

a) the increase in the number of premium properties, such as 'PVR Directors Cut, 'PVR Gold Class', 'Inox Insignia', which have the latest technology, by multiplex operators with the aim of providing a luxurious experience to movie viewers.

b) the advent of on-demand services with diverse content choices by top multiplex players. For example,'Vkaao' by PVR allows consumers to choose the content of their own choice.

c) the increase in rental cost for multiplex operators. The rental expense for the top multiplex players account for approximately 15% to 20% of their respective revenues, which could result in multiplexes passing on such costs to the customers.

The extent of increase in the average ticket price will also depend on the change in property mix resulting from expansion in Tier II and Tier III cities.

Key Risks

- **Poor performance of movies or a lack of movie production** can result in a decline in movie attendance. This could adversely affect PVR's business, financial condition and results of operations.

- **PVR's success is dependent on its ability to successfully identify and secure strategic locations for its cinemas** and timely develop and expand its operations in existing and new markets. Any downturn in the commercial real estate market in India may adversely affect the growth of PVR's business.

- **An increase in the use of alternative content and movie distribution channels,** including over-the-top ("OTT") content and home-videos, movie DVDs, and other competing forms of entertainment may result in a decline in cinema attendance and limit ticket pricing.

- **PVR has entered into lease agreements** with various mall developers for use of the premises on which its cinemas are operated. **In the event of termination or non-renewal of such agreements or renewal on non-favourable terms,** PVR's business, financial condition and results of operations would be adversely affected.

- **PVR derives a significant portion of its revenue from the sale of F&B in its cinemas.** If PVR is unable to enhance its menu or if outside F&B are permitted in PVR's cinemas pursuant to judicial proceedings or if PVR fails to timely respond to changes in customer tastes and preferences or if PVR is unable to maintain high food quality standards, PVR's reputation, business and results of operations would be adversely affected.

- **PVR's advertisement income is dependent on maintaining or establishing relationships with advertisers along with certain factors, such as, content, number of screenings of movies and inventory.** If any of these factors disappoint, advertising income would suffer.

- **PVR's inability to enter into or renew agreements, or maintain or establish new relationships, with its online aggregator platforms (Book My Show and PayTM),** could have an adverse impact on its business, prospects, financial condition and results of operations.

- **PVR's operations may get adversely affected by strikes, work stoppages or increased wage demands or any other such kind of events, such as the current Covid-19 lockdown along with social distancing.**

SWOT Analysis

Strengths

- Largest theatre network.
- Strategically located cinemas.
- Diversified product offerings.
- Leadership position across key metrics.

Weaknesses

- Dependency on malls for growth.
- Continuous technology evolution.
- Dependency on movie performance.

Opportunities

- Large untapped Indian market.
- Growing discretionary spending.
- Diversified content (Bollywood, Hollywood and Regional).

Threats

- Piracy and live-streaming videos.
- Competition from OTT platforms.
- Termination/non-renewal of lease agreements.
- Allowing outside food within cinemas.

Company Overview

PVR is the leading multiplex operator in India. It is the market leader in terms of screen count in India, as of January 2019, with a market share of 28% in total multiplexes based on the number of screens in India. It has a pan-India presence and as of January 23, 2020 it had 825 screens in 173 cinemas in 71 cities across 21 States and Union Territories in India and Sri Lanka (1 cinema with 9 screens).

PVR is the leading multiplex operator in India. It is the market leader in terms of screen count in India, as of January 2019, with a market share of 28% in the multiplex segment based on the number of screens in India. It has a pan-India presence and as of January 23, 2020 it had 825 screens in 173 cinemas in 71 cities across 21 States and Union Territories in India and Sri Lanka (1 cinema with 9 screens). ***PVR's leadership position has enabled it to capitalize on movie attendance trends, consolidation opportunities and ancillary businesses with relatively higher margins***.

Further, PVR's large scale, brand equity and cinema experience has made it the preferred choice for movie exhibition for movie distributors, production houses and real estate developers in India. ***PVR is the leader in terms of screens in seven out of eight key cities in India, which include Ahmedabad, Bengaluru, Chennai, National Capital Territory of Delhi, Hyderabad, Mumbai and Pune. Further, PVR is the market leader in three out of the four regions in India, i.e. North, South and West regions of India, in terms of screens among the multiplex operators in India***. PVR has over the years, acquired and successfully integrated strategic acquisitions into its operations, such as its acquisitions of 'Cinemax Cinemas' for Rs 5,354 mln in November 2012 and 'DT Cinemas' for Rs 4,330 mln in May 2016, which added 138 screens and 32 screens, respectively, to its screen network. Following PVR's acquisition and amalgamation of SPI Cinemas in August 2018 for Rs 8,856 mln in a cash cum stock deal, it added 76 screens to its screen network. ***Further, consequent to its acquisition and amalgamation of SPI Cinemas, it became the leader in terms of screens in Chennai and further consolidated its leadership position in terms of screens in Bengaluru and Hyderabad***.

In addition, brand and reputation are important for customers and PVR's history, market leadership position, and quality cinema experience have led to wide recognition of the PVR brand in India, which has enabled it to effectively target new customers, increase the scale of its operations and enter into new geographical areas. PVR entered Sri Lanka in Q3FY20 by opening a nine screen theatre in Colombo.

PVR did a QIP of Rs 500 crores in October 2019 by allotting 29.08 lakhs shares at a price of Rs 1719.05 per share. The proceeds will generally be used for increasing the screen count.

Key Milestones of PVR

Source: Company Data

Key Management Team

- **Mr. Ajay Bijli**

  Mr. Ajay Bijli is the Chairman cum Managing Director. He established PVR in 1995 and has over two decades of experience in the movie exhibition industry. He was awarded the 'E&Y Entrepreneurial Award 2013 for Business Transformation', among others.

- **Mr. Sanjeev Kumar Bijli**

  Mr. Sanjeev Kumar Bijli is the Joint Managing Director. He has over two decades of experience in the movie exhibition industry and manages the film acquisition and distribution business and programming activities of PVR. He is also involved in the development and growth strategy of PVR.

- **Mr. Gautam Dutta**

  Mr. Gautam Dutta is the Chief Executive Officer. He has worked in PVR for over thirteen years and is responsible for managing the entire day to day operations of the business to ensure the effective management of resources and delivery of the P&L.

- **Mr. Kamal Gianchandani**

  Mr. Kamal Gianchandani is the Chief Executive Officer of PVR Pictures and Chief of Business Planning and Strategy of PVR Ltd. He has worked in PVR for over nineteen years. He handles film financing, distribution, syndication, licensing and cinema exhibition for both Indian and foreign language films in India and also oversees business planning and strategy at PVR.

- **Mr. Nitin Sood**

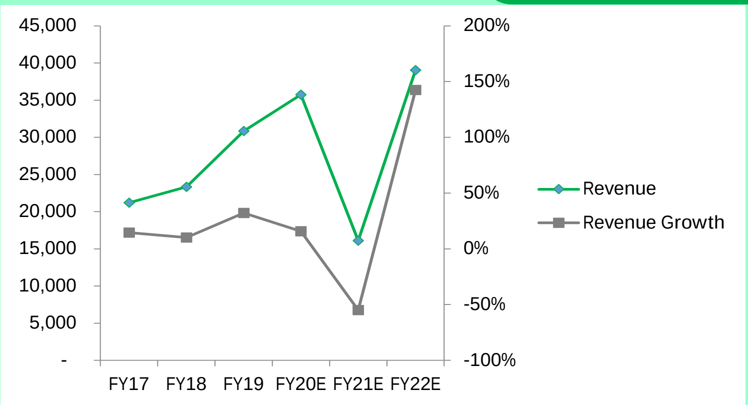
  Mr. Nitin Sood is the Group Chief Financial Officer. He has worked in PVR for over seventeen years and oversees Accounting and Finance, Legal and Compliance for the group & is responsible for managing business and funding strategy for the group including M&A, Equity and Debt raise, and strategic business expansion opportunities .

- **Mr. Pramod Arora**

  Mr. Pramod Arora is the Chief Officer—Growth and Development. He has worked in PVR for over twenty years and oversees growth and development of new screen portfolio and execution and fit outs of new screens.

Key Performance Indicators

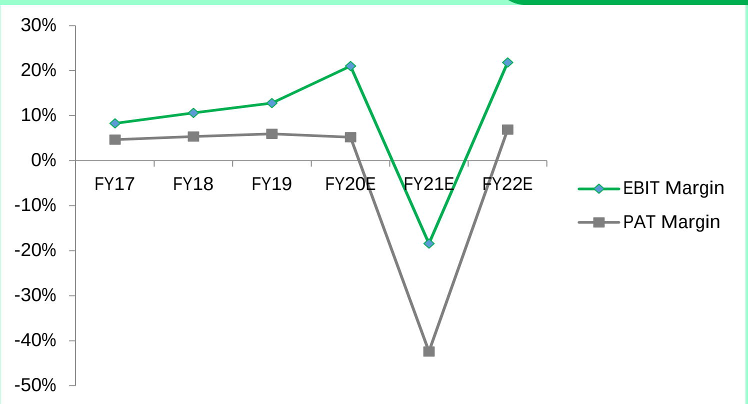
Revenue & Revenue Growth



Source: Company Data, SMIFS Research

Revenue from operations is expected to grow at a CAGR of 8% between FY19 and FY22E.

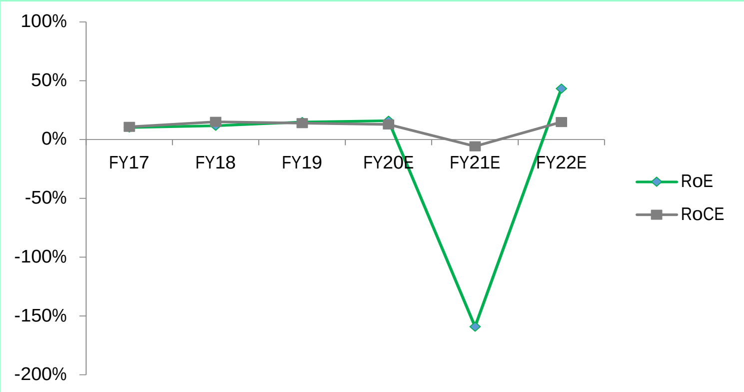
Profit Margins



Source: Company Data, SMIFS Research

EBIT Margin is expected to improve from 12.8% in FY19 to 21.9% in FY22E (Post IND AS 116 impact). PAT Margin is expected to improve from 5.9% in FY19 to 7.2% in FY22E.

RoE and RoCE



Source: Company Data, SMIFS Research

RoE and RoCE are expected to improve from 14.8% and 13.8% respectively in FY19 to 46.3% and 14.9% respectively in FY22E.

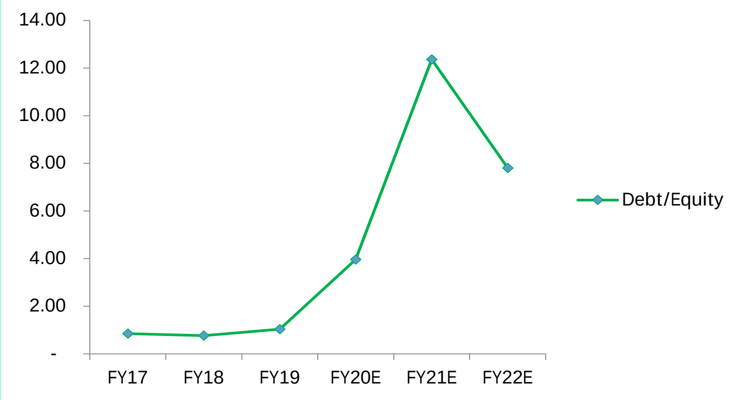
Key Performance Indicators

EPS Growth

Source: Company Data, SMIFS Research

EPS is expected to grow at a CAGR of 16% between FY19 and FY22E.

Debt/Equity Ratio



Source: Company Data, SMIFS Research

Debt/Equity ratio is increasing from 1.03 in FY19 to 7.80 in FY22E. It is peaking at 12.36 in FY21E. From FY20E onwards IND AS 116 impact has been considered.

Free Cash Flow Generation

Source: Company Data, SMIFS Research

Due to improvement in cash flow from operations, free cash flow is expected to improve from Rs (1,408) mln in FY19 to Rs 12,542 mln in FY22E. FY21E is expected to generate negative free cash flow of Rs 1,969 mln because of losses in that year.

Outlook and Valuation

PVR is an outstanding franchise and is the leader in operating and financial metrics across multiplex operators in India. PVR has a pan-India presence and as of January 23, 2020 it had 825 screens in 173 cinemas in 71 cities across 21 States and Union Territories in India and Sri Lanka (1 cinema with 9 screens). PVR's leadership position has enabled it to capitalize on movie attendance trends, consolidation opportunities and ancillary businesses with relatively higher margins.

PVR aims to improve customer experience by providing premium seating, quality visual and sound experience, convenient ticketing experience, diversified content and plush interiors. To cater to the diverse eating habits and dietary needs, PVR has enhanced its food and beverages ("F&B") offerings and also appointed a celebrity chef to render culinary/ cooking services at its cinemas.

PVR plans to further expand its screen network across India. For its expansion plans, PVR intends to organically pursue cinema and screen expansion opportunities, continue to work with the commercial real estate developers, and focus on premium screen formats. PVR also aims to enhance its operations by selectively expanding and upgrading existing operational properties in prime locations. Further, PVR has experience in identifying and integrating acquisitions/amalgamations of cinemas and continue to intend to expand its screen network through strategic investments, amalgamations and acquisitions.

The Covid-19 situation prevailing currently has resulted in the shutdown of PVR's operation at the time of writing (Nationwide lockdown started on 25th March, 2020) and we believe that shutdowns would continue for some more time after the nationwide lockdown is lifted. Further, hesitation of people to go to cinema theatres in order to maintain social distancing is expected to be prevalent even after normal operations in PVR are restored. ***Our base case assumes a shutdown period of 90 days for PVR in FY21E and hesitation of people to visit the theatres for remaining nine months, bringing down the overall occupancy level to 22% in FY21E***.

Further, in our base case, we have assumed 60 and 90 screens addition for FY21E and FY22E respectively. The capex assumptions for FY21E and FY22E are Rs 2,500 mln and Rs 4,000 mln respectively. Box office revenues, F&B revenue and Advertisement revenue are assumed to grow at a CAGR of 4.9%,2.4% and 5% respectively between FY20E and FY22E. Net Debt to Equity (after IND AS 116 impact) is supposed to increase from 3.5 in FY20E to 7.5 in FY22E. Occupancy level is assumed to increase to 32% in FY22E.

There may be tailwinds from reduction in movie exhibition cost (percentage of box office collections paid to producers) and GST rates of movie tickets in light of the Covid-19 situation, if movie producers and government respectively agree to alleviate the current situation of movie exhibitors, however, we have not factored these in our estimates.

We value PVR at 25x FY22E EPS of Rs 55.02 to arrive at a **Target Price of Rs 1,376**. This gives an upside of 54% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

Alternative Scenario analysis

Our base case has assumed a shutdown period of 3 months in FY21E for PVR on account of the Covid-19 crisis. This leads to EPS' of Rs (136.07) and Rs 55.02 in FY21E and FY22E respectively. As already stated, based on FY22E EPS, at a P/E of 25x , the target price works out to Rs 1,376.

We have also analysed an alternative scenario, in which we have assumed a shutdown period of 6 months in FY21E for PVR on account of the Covid-19 crisis, keeping all other assumptions same as in our base case. This leads to EPS' of Rs (122.13) and Rs 53.65 in FY21E and FY22E respectively— EPS of FY21E in the alternative scenario is higher than the base case because of the net effect of lower revenues and lower costs attributable to the higher shutdown period of 6 months. Based on FY22E EPS, at a P/E of 25x, the target price in the alternative scenario works out as Rs 1,341.

Peer Comparison

Peers	P/E			P/B			P/CF			RoE(%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
PVR	27.1	-7.4	18.8	4.3	11.8	8.2	4.7	69.1	3.0	15.9%	-159.0%	43.3%
INOX Leisure	16.3	42.4	12.7	2.8	2.6	2.2	5.7	6.6	4.8	14.5%	8.9%	17.3%

Source: SMIFS Research, Bloomberg Consensus Estimates

PVR's Common Size Revenue Matrix (Consolidated)

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Income from sale of movie tickets	56%	54%	53%	53%	53%	52%	52%	53%
Advertisement income	12%	12%	12%	13%	11%	11%	8%	11%
Sale of food and beverages	25%	27%	27%	27%	28%	28%	20%	27%
Others	7%	8%	8%	7%	8%	9%	19%	9%
Revenue from operations	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company Data, SMIFS Research

Financial Details

Income Statement (Consolidated)					
Particulars (INR mln.)	FY18	FY19	FY20E	FY21E	FY22E
Revenue from operations	23341	30856	35726	16108	39046
Revenue Growth	10%	32%	16%	-55%	142%
Cost of goods sold	7459	9847	11201	4957	12160
Employee benefits expenses	2541	3373	4169	3861	4256
Other expenses	9323	11772	7507	5707	8361
EBITDA	4018	5863	12848	1583	14269
EBITDA Margin	17.2%	19.0%	36.0%	9.8%	36.5%
EBITDA Growth	28%	46%	119%	-88%	801%
Depreciation & Amortisation	1537	1913	5336	4486	5700
EBIT	2482	3951	7512	-2903	8570
Interest Cost	837	1280	4862	4418	5140
Other Income	313	331	322	327	325
PBT (Adjusted)	1951	2990	2962	-6992	3759
Minority Interest	7	-61	4	5	6
Tax expense	704	1097	1037	0	940
PAT (Adjusted)	1251	1833	1930	-6987	2825
PAT Margin	5.4%	5.9%	5.4%	-43.4%	7.2%
PAT Growth (Adjusted)	27%	47%	5%	-462%	-140%

Balance Sheet (Consolidated)					
Particulars (INR mln.)	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	467	467	513	513	513
Reserves & Surplus	10294	14494	13623	6106	8138
Networth	10762	14961	14136	6619	8652
Long term Borrowings	5616	10188	42781	43036	45177
Other Non-Current Liabilities	106	3409	1518	1538	3528
Short term Borrowings	998	852	852	4978	852
Other Current Liabilities	6007	9681	10734	6451	10615
Total Equity & Liabilities	23488	39090	70020	62622	68824
Net Tangibile Asset	12286	17108	43176	43358	44799
Other Non Current Assets	8224	18048	17943	16939	18139
Inventories	198	303	330	138	365
Trade Receivables	1556	1839	2073	698	2283
Cash and Cash Equivalents	278	282	5038	561	1620
Other Current assets	946	1510	1460	927	1618
Total Assets	23488	39090	70020	62622	68824

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement Extract (Consolidated)					
Particulars (INR mln.)	FY18	FY19	FY20E	FY21E	FY22E
PBT	1945	2990	2962	(6992)	3759
Depreciation & Amortisation	1537	1913	5336	4486	5700
Interest expense	758	1198	4862	4418	5140
(Increase)/Decrease in CA	(330)	(735)	(145)	3084	(3717)
Increase/(Decrease) in CL	912	3720	492	(2413)	6805
Taxes Paid	(417)	(834)	(1037)	0	(940)
Cash Flow from Operating Activities	4463	8296	10719	731	16742
Capital Expenditure	(3671)	(9705)	(3960)	(2700)	(4200)
Cash Flow Investing Activities	(4,054)	(10,154)	(3,955)	(2,699)	(4,201)
Increase/(Decrease) in Borrowings	255	2,570	(1,785)	1,910	(6,343)
Dividend payments including tax	(113)	(113)	(360)	0	0
Cash Flow from Financing Activities	(660)	1424	(2007)	(2509)	(11483)
Net Cash Flow	(251)	(434)	4756	(4477)	1059
Closing Balance	268	282	5038	561	1620

Key Ratios (Consolidated)					
Particulars	FY18	FY19	FY20E	FY21E	FY22E
Margins					
Gross Margin	68.0%	68.1%	68.6%	69.2%	68.9%
EBITDA Margin	17.2%	19.0%	36.0%	9.8%	36.5%
PBT Margin (Adjusted)	8.4%	9.7%	8.3%	-43.4%	9.6%
PAT Margin (Adjusted)	5.4%	5.9%	5.4%	-43.4%	7.2%
DPS (INR)	2.00	2.00	4.00	0.00	4.00
Solvency Ratios					
Current Ratio	0.4	0.4	0.8	0.2	0.5
Debt/Equity	0.8	1.0	4.0	12.4	7.8
Net Debt/Equity	0.7	1.0	3.5	12.2	7.5
Interest Coverage	3.0	3.1	1.5	-0.7	1.7
Profitability Ratios					
RoE	11.6%	14.8%	16.7%	-172.0%	46.3%
RoCE	15.1%	13.8%	12.9%	-5.7%	14.9%
Valuation Ratios(x)					
P/S	2.0	1.5	1.3	2.8	1.2
P/CF	10.3	5.5	4.3	62.8	2.7
P/E	36.8	25.0	23.8	-6.6	16.2
P/B	4.3	3.7	4.0	11.3	7.5

Source: Company Data, SMIFS Research

Content Pipeline (Ignore the Dates of Releases)

Baaghi 3

Release Date: 6th March 2020
Cast: Tiger Shroff, Shraddha Kapoor
Director: Ahmed Khan
Banner: Nadiadwala Grandson Entertainment

Chhalaang

Release Date: 13th March 2020
Cast: Rajkummar Rao, Nushrat Bharucha
Director: Hansal Mehta
Banner: Ajay Devgn Ffilms, Luv Films, TSeries Super Cassettes Industries Ltd.

Gunjan Saxena – The Kargil Girl

Release Date: 13th March 2020
Cast: Janhvi Kapoor
Director: Sharan Sharma
Banner: Dharma Productions, Zee Studios

Angrezi Medium

Release Date: 20th March 2020
Cast: Irrfan Khan, Kareena Kapoor Khan
Director: Homi Adajania
Banner: T-Series Super Cassettes Industries Ltd., Maddock Films

Sooryavanshi

Release Date: 27th March 2020
Cast: Akshay Kumar, Katrina Kaif
Director: Rohit Shetty
Banner: Rohit Shetty Picturez, Dharma Productions, Cape of Good Films, Reliance Entertainment

Mulan

Release Date: 27th March 2020
Cast: Liu Yifei, Donnie Yen
Director: Niki Caro
Banner: Walt Disney Pictures

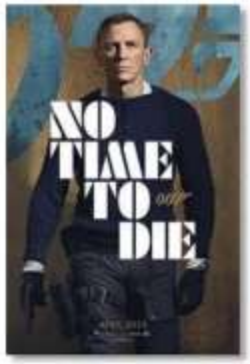
22

Source: Industry Data. Baaghi 3 and Angrezi Medium have already released

Content Pipeline Continued (Ignore the Dates of Releases)

The New Mutants

Release Date:
3rd April 2020
Cast: Maisie Williams, Anya Taylor-Joy, Charlie Heaton
Director: Josh Boone
Banner: 20th Century Studios, Marvel Entertainment Genre Films



No Time to Die

Release Date:
8th April 2020
Cast: Daniel Crai, Rami Malek
Director: Cary Joji Fukunaga
Banner: Metro-Goldwyn-Mayer (MGM), Universal Pictures, Eon Productions

'83

Release Date:
10th April 2020
Cast: Ranveer Singh, Deepika Padukone
Director: Kabir Khan
Banner: Phantom Films, Reliance Entertainment, Phantom Productions

Roohi Afzana

Release Date:
17th April 2020
Cast: Rajkummar Rao, Janhvi Kapoor
Director: Hardik Mehta
Banner: Maddock Films

Gulabo Sitabo

Release Date:
17th April 2020
Cast: Amitabh Bachchan, Ayushmann Khurrana
Director: Shoojit Sircar
Banner: Rising Sun Films Production, Kino Works

Ludo

Release Date:
24th April 2020
Cast: Abhishek Bachchan, Fatima Sana Shaikh, Rajkummar Rao
Director: Anurag Basu
Banner: T-Series Super Cassettes Industries Ltd.

Source: Industry Data

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