Media & Entertainment

Opportunity in adversity

August 2020

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MEDIA & ENTERTAINMENT

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India's multiplex industry is undergoing unprecedented hardships amid Covid-19 shutdowns. Though screen opening timelines remain uncertain, we believe movie halls will retain their appeal and attract patrons once pandemic concerns abate. Industry leaders PVRL and INOL are equipped to ride the storm due to access to liquidity and strong brand recall. Further, smaller chains may down shutters, consolidating the market in favour of the leaders. We initiate coverage on INOL with BUY (TP Rs 330) and PVRL with ADD (TP Rs 1,220).

Pandemic not an existential threat for leaders: Cinema exhibitors in India are staring at steep financial losses in FY21 following a pandemic-induced screen shutdown since Mar'20 and potentially weeks of sluggish occupancy once operations resume. However, access to capital (current liquidity sufficient for another few months), cost-cutting initiatives (fixed costs slashed 70-80% for the shutdown phase), and market leadership should hold industry leaders PVR (PVRL) and INOX Leisure (INOL) in good stead amidst the turmoil.

Opportunities amid challenges: We see long-term opportunities arising out of this tumultuous phase for the leaders. Liquidity pressure may compel some single screens or smaller multiplex chains to down shutters, ushering in a new wave of consolidation. Waning competitive intensity may also pave the way for industry leaders to have favourable rental negotiations with property owners.

Blockbuster story still playing out: In India, low screen density (7 vs. 40+ for China), large market share of single screens (~45%/~70% of net box office collection/footfall), and underpenetrated tier-II/III markets underpin the growth potential for multiplexes. Over-the-top platforms can coexist with cinema halls, in our view. Even if OTT constrains repeat footfalls, industry consolidation alone can fuel a 14-15% CAGR in NBOC over the next 5-7 years. Further, ancillary revenue streams (F&B, ads) have ample room to grow, especially for INOL.

Recommendations: We initiate coverage on INOL with a BUY rating and a Sep'21 TP of Rs 330, set at 10x Sep'22E TTM EBITDA. INOL is our preferred pick due to its financial flexibility (0.2x debt/EBITDA, Rs 4.5bn of monetisable assets as of date) and improving operating metrics that are fast closing in on the market leader. We initiate on PVRL with ADD and a Sep'21 TP of Rs 1,220, set at 13x Sep'22E TTM EBITDA. Though we like PVRL for its premium locations and industry leadership, near-term upside seems to be limited.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
INOL IN	235	330	BUY
PVRL IN	1,129	1,220	ADD

Price & Target in Rupees

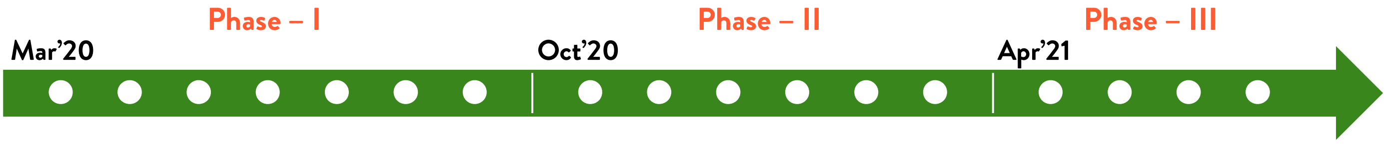
Contents

Companies

Investment summary

Pandemic impact analysis

FIG 1 – THREE PHASES ENVISAGED FOR EXHIBITION INDUSTRY



Screens closed; focus on liquidity management	Screens open; gradual and arduous recovery	Revival led by better content

Cost reduction measures

- Negotiation with developers to waive rent during shutdown
- Rationalised off-roll staff, cut salaries
- Reduced power and other fixed expenses

Liquidity enhancement measures

- Cash balance of Rs 1.4bn/Rs 0.4bn for PVRL/INOL (as of Jul'20)– adequate for next 2-3 months
- PVRL raised an additional Rs 3bn through rights issue
- INOL has Rs 1bn treasury shares, Rs 3.5bn of monetisable properties; approval to raise Rs 2.5bn of capital is in place

Assume resumption in Oct; depleted content to curb recovery

- Expect screens in India to open in October, at least in green zones, with strict social distancing
- Direct release to OTT has depleted content pipeline
- Content, pandemic apprehensions to affect footfalls

Content may pick up in festive season

- Big-ticket releases could prop up footfalls in Nov-Dec
- Consumer surveys, global markets hint at audience willingness to return to theatres
- Estimates hinge on future course of the pandemic

Bake in a sharp rebound in FY22

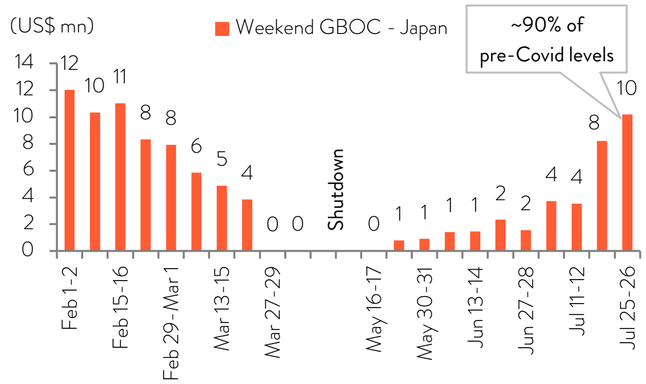
- Global examples suggest box offices have been resistant to past recessions
- Better content pipeline should attract movie enthusiasts back to screens
- F&B, advertising revenue to bounce back as well

Opportunity in adversity

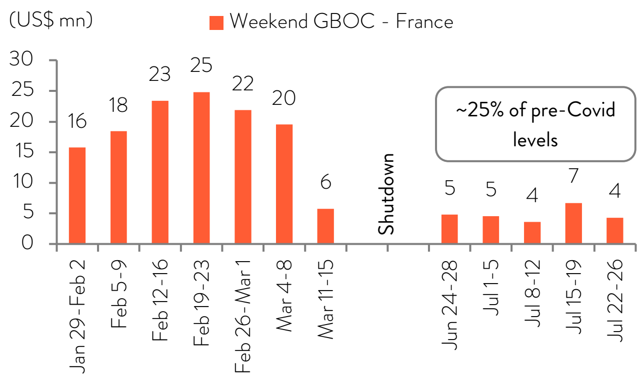
- PVRL/INOL stand a class apart vs. other multiplexes in financial strength
- Pandemic-induced liquidity crunch to be more acute for single screens, opening up consolidation opportunities

Source: BOBCAPS Research

FIG 2 – GLOBAL BOX OFFICES EXHIBIT MIXED TREND; BUT AUDIENCE RESPONSE TO FRESH CONTENT ENCOURAGING



Source: Box Office Mojo, BOBCAPS Research



Source: Box Office Mojo, BOBCAPS Research

FIG 3 – CONTENT PIPELINE SLATED TO IMPROVE FROM NOVEMBER

Movie	Language	Cast	Theatrical release
Tenet	English	Robert Pattinson	Aug 2020
Sooryavanshi	Hindi	Akshay Kumar, Katrina Kaif	Oct 2020
Radhe	Hindi	Salman Khan, Disha Patani	Nov 2020
Black Widow	English	Scarlett Johansson, Robert Downey Jr.	Nov 2020
No Time To Die	English	Daniel Craig, Naomi Harris	Nov 2020
Bhuj – The Pride Of India	Hindi	Ajay Devgan, Sonakshi Sinha	Dec 2020
83	Hindi	Ranvir Singh, Deepika Padukone	Dec 2020
Laal Singh Chaddha	Hindi	Aamir Khan, Kareena Kapoor Khan	Dec 2020

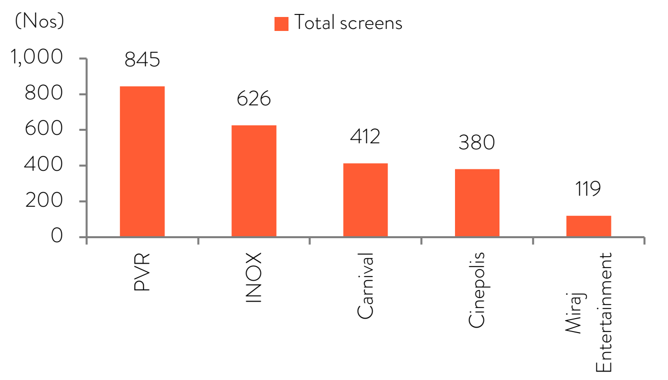
Source: Inox Leisure Q4FY20 earnings presentation, BOBCAPS Research

FIG 4 – FY21E TO BE A DISMAL YEAR FOR BOTH PVRL AND INOL; RECOVERY EXPECTED IN FY22E

(Rs mn)	PVRL						INOL					
	FY21E			FY22E			FY21E			FY22E		
	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear
Occupancy (%)	14.2%	18.6%	9.9%	30.5%	35.4%	21.4%	11.4%	15.0%	8.0%	23.9%	27.7%	16.7%
Footfall (mn)	44	57	31	98	114	69	28	37	20	65	75	45
Average ticket price (ATP)	184	194	173	206	209	194	180	190	170	202	205	190
Spends per head (SPH)	91	99	84	103	113	96	74	80	68	84	91	78
Ad revenue/screen	1.9	2.3	1.4	3.5	4.3	2.6	1.2	1.5	0.9	2.2	2.8	1.7
Revenue	**13,248**	**18,284**	**8,857**	**31,760**	**38,665**	**21,207**	**7,557**	**10,445**	**5,039**	**18,943**	**22,919**	**12,589**
EBITDA	**2,226**	**3,915**	**741**	**10,210**	**13,886**	**4,868**	**1,820**	**3,029**	**352**	**5,822**	**7,563**	**1,966**
EBITDA margin	16.8	21.4	8.4	32.1	35.9	23.0	24.1	29.0	7.0	30.7	33.0	25.0
Adj. EBITDA*	**(2,485)**	**(796)**	**(3,969)**	**4,970**	**8,646**	**(372)**	**(1,057)**	**152**	**(2,525)**	**2,908**	**4,650**	**(948)**
Adj. EBITDA margin	(18.8)	(4.4)	(44.8)	15.6	22.4	(1.8)	(14.0)	1.5	(50.1)	15.4	20.3	(7.5)

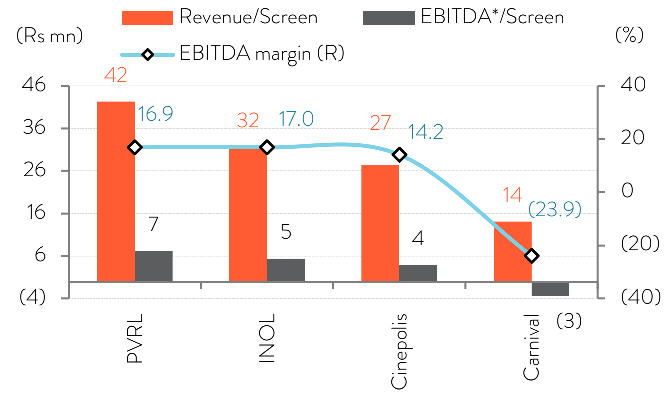
Source: BOBCAPS Research I * Note: EBITDA adjusted for IND-AS 116 impact

FIG 5 – PVRL, INOL HAVE GREATER SCALE…



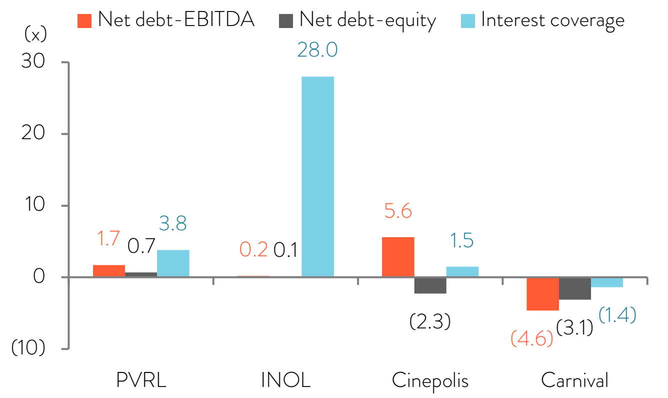
Source: Company, FICCI Media and Entertainment Report, BOBCAPS Research

FIG 6 – …AND BETTER PER SCREEN METRICS VS. PEERS



Source: Company, Ministry of Corporate Affairs, BOBCAPS Research | Note: As per latest financials available for each company I *Adj. for IND-AS 116

FIG 7 – BALANCE SHEET QUALITY ALSO FAR SUPERIOR



Source: Company, Ministry of Corporate Affairs, BOBCAPS Research | Note: As per latest financials available for each company | PVRL and INOL's debt and EBITDA figures excludes Ind-AS 116 impact

FIG 8 – OPPORTUNITY IN ADVERSITY FOR LEADERS

1. Higher financial flexibility will enable leaders to expand screen presence faster than other national chains over the next 2-3 years
2. Faster market consolidation towards multiplexes as single screens down shutters amidst severe profitability pressure
3. Inorganic growth opportunities as regional/smaller national chains look for buyers
4. Scope for more rational rental agreements as competition wanes

Source: BOBCAPS Research

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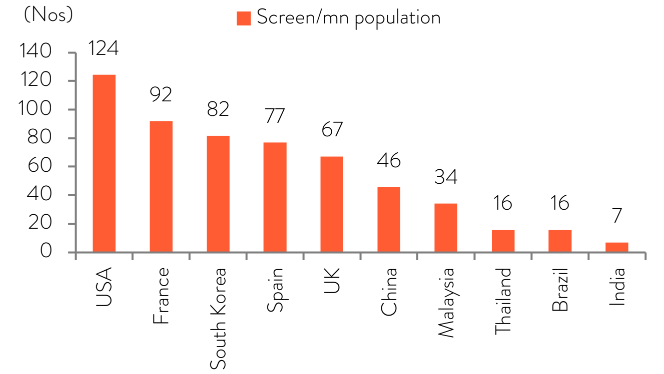
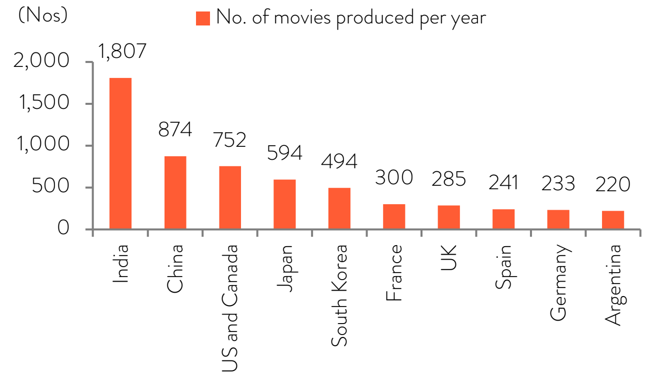
Conducive structural trends

FIG 9 – INDIA AN UNDER-SCREENED MARKET…



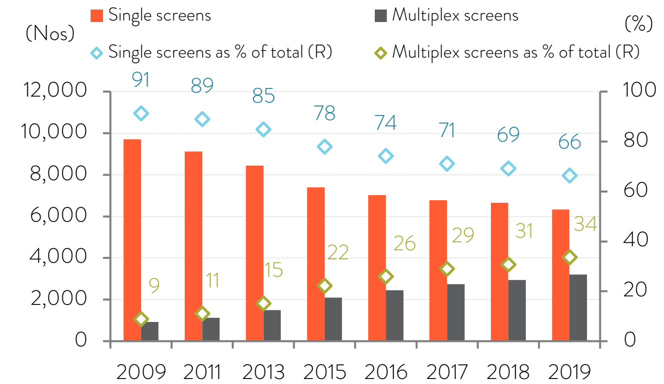
Source: Industry, BOBCAPS Research

FIG 10 – …DESPITE HAVING A VIBRANT BOX OFFICE



Source: Industry, BOBCAPS Research

FIG 11 – MULTIPLEXES STILL ACCOUNT FOR ONLY ~34% OF TOTAL SCREENS – POTENTIAL TO EXPAND



Source: Industry, BOBCAPS Research

FIG 12 – TOP THREE CHAINS IN INDIA ACCOUNT FOR LOWER NBOC SHARE VS. GLOBAL STANDARDS

Source: Industry, BOBCAPS Research

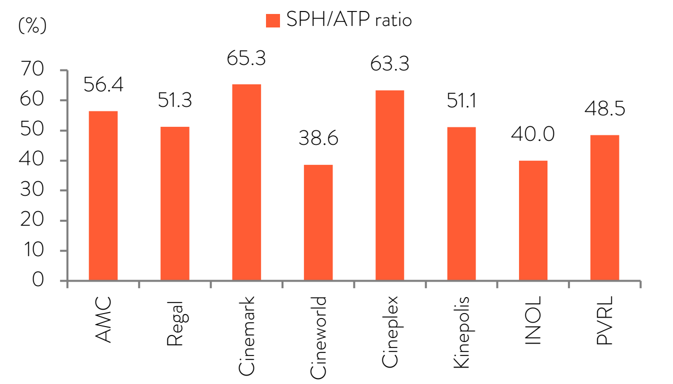
Market consolidation alone can aid ~10% footfall CAGR for multiplexes in next 5-6 years, even if industry footfall plateaus

FIG 13 – LONG-TERM GROWTH MODEL FOR MULTIPLEX – AN ILLUSTRATION

SN	Particulars	CY19	CY25E	CY30E	CY19-25E CAGR (%)	CY19-30E CAGR (%)
	Domestic total (multiplex + single screens)					
A1	NBOC (Rs bn) [B1+C1]	114	181	251	8.0	7.4
A2	Footfall (bn)	1.46	1.37	1.31	(1.0)	(1.0)
A4	ATP (Rs) [A1/A2]	78	131	192	9.1	8.5
	Multiplex					
B1	**NBOC (Rs bn) [B4 x B7]**	**61**	**143**	**224**	**15.3**	**12.6**
B3	Share of total domestic (%) [B1/A1]	53.5	79.4	89.3	-	-
B4	Footfall (bn) [A1 x B6]	0.41	0.71	0.87	9.8	7.2
B6	Share of total domestic footfall (%) [Est.]	28.0	52.0	67.0	-	-
B7	ATP (Rs)	150	201	257	5.0	5.0
	Single screens					
C1	NBOC (Rs bn) [C4 x C7]	53	37	27	(5.7)	(6.0)
C3	Share of total domestic (%) [C1/A1]	46.5	20.6	10.7	-	-
C4	Footfall (bn) [A1 x C6]	1.06	0.66	0.43	(7.6)	(7.8)
C6	Share of total domestic footfall (%) [100%-B6]	73	48	33	-	-
C7	ATP (Rs)	50	56	62	2.0	2.0

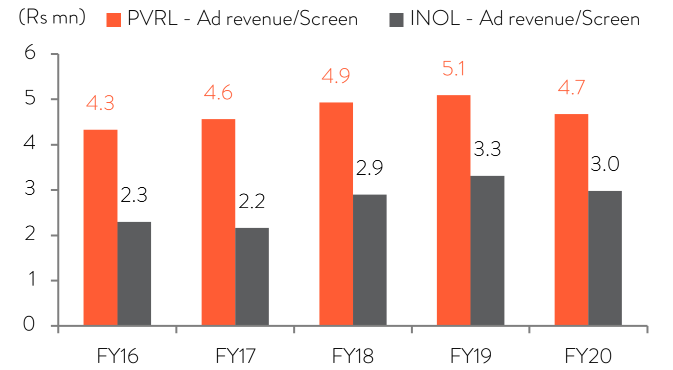
Source: FICCI Media and Entertainment Report, Industry, BOBCAPS Research

FIG 14 – SPH/ATP RATIO LOWER THAN GLOBAL PEERS – HEADROOM FOR EXPANSION



Source: Company, BOBCAPS Research I CY19 figures for global players, FY20 for PVRL and INOL

FIG 15 – AD REVENUE PER SCREEN GROWING STEADILY FOR INOL AND PVRL



Source: Company, BOBCAPS Research

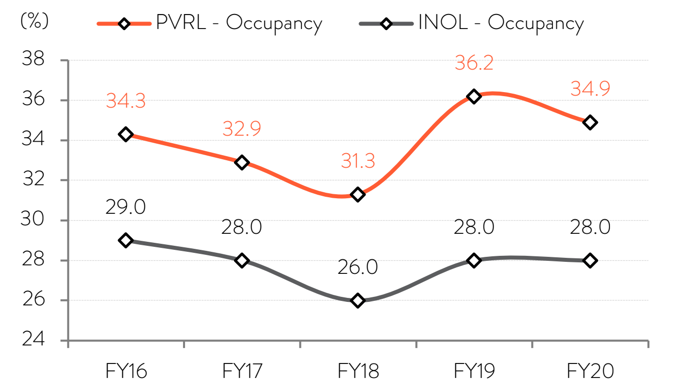
PVRL undisputed leader, INOL narrowing gap on key metrics

FIG 16 – PVRL HAS SCREEN LEADERSHIP IN KEY BOLLYWOOD MOVIE CIRCUITS

Movie circuit	% of Bollywood NBOC	PVRL screens (est.)	INOL screens (est.)
Mumbai	30	230	224
Delhi/UP	23	152	70
East Punjab	10	102	32
Rajasthan	5	10	47
CP Berar & Central India	9	35	36
Nizam/Andhra	5	71	52
Mysore	6	103	49
Tamil Nadu/Kerala	2	103	37
Bihar	3	7	4
West Bengal	5	16	59
Assam	1	7	2
Odisha	1	0	14
Total	**100**	**836**	**626**

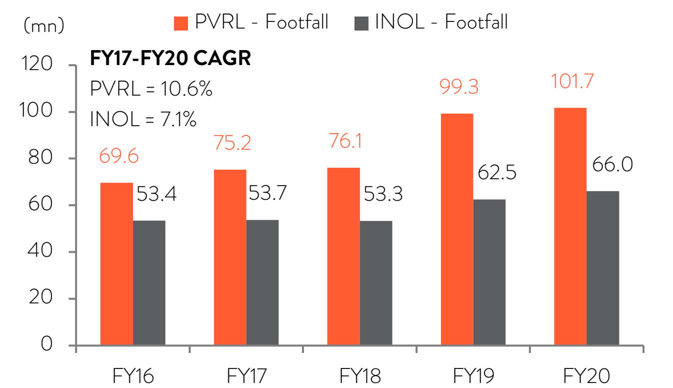
Source: Film trade websites, Company, BOBCAPS Research | Share in NBOC for the Top 10 Bollywood movies in 2019

FIG 17 – PREMIUM LOCATIONS RESULT IN BETTER OCCUPANCY FOR PVRL



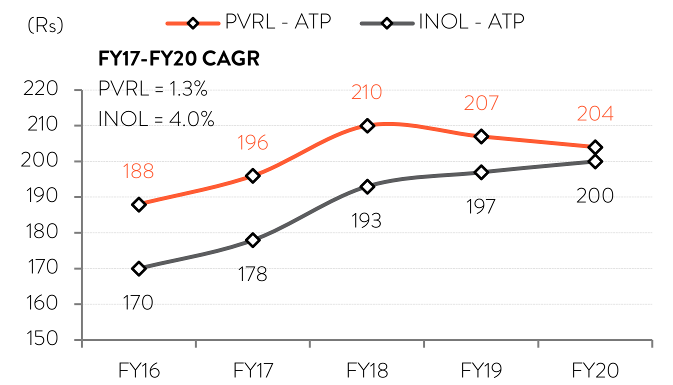
Source: Company, BOBCAPS Research

FIG 18 – AGGRESSIVE INORGANIC EXPANSION AIDED PVRL'S FASTER FOOTFALL GROWTH



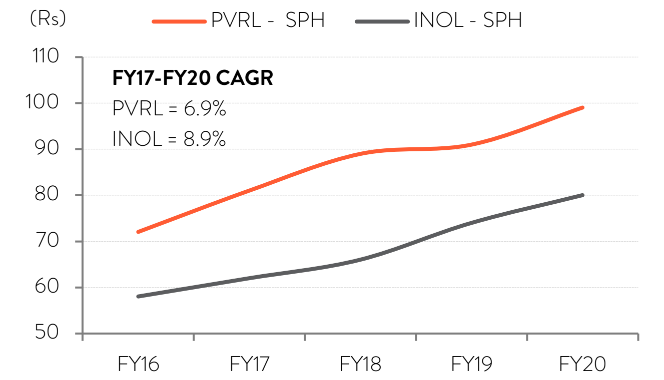
Source: Company, BOBCAPS Research

FIG 19 – INOL HAS BRIDGED THE GAP ON AVERAGE TICKET PRICES



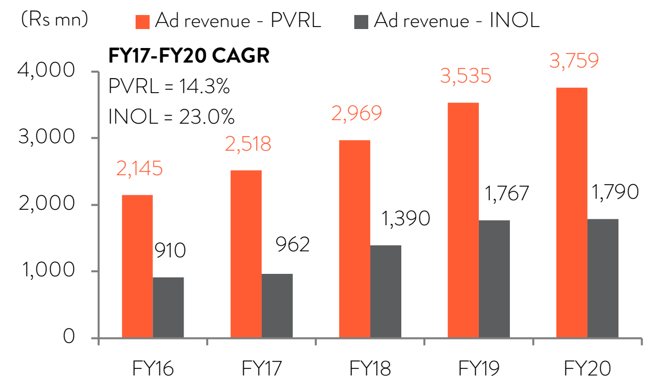
Source: Company, BOBCAPS Research

FIG 20 – INOL HAS GROWN FASTER IN SPH…



Source: Company, BOBCAPS Research

FIG 21 – …AS WELL AS IN AD REVENUE



Source: Company, BOBCAPS Research

Initiate coverage on INOL and PVRL

INOX Leisure (INOL) – Initiate with BUY

INOL – FINANCIAL ESTIMATES

(Rs mn)	FY21E	FY22E	FY23E
Consolidated revenue	7,557	18.943	23,241
EBITDA	1,820	5,822	7,609
EBITDA margin	24.1	30.7	32.7
Adj. EBITDA	(1,057)	2,908	4,100
Adj. EBITDA margin	(14.0)	(15.4)	(17.6)
PBT	(3,236)	839	2,376
PAT	(2,460)	627	1,777

Source: BOBCAPS Research I Adj. EBITDA pre IND-AS 116 impact

INOL is the second largest multiplex operator in India with 626 screens spread across 68 cities. About 40% of its screens are in West India, followed by the North (24%), South (22%), and East India (14%) where it is the market leader. We initiate coverage on INOL with a BUY rating and a Sep'21 TP of Rs 330/sh, set at 10x Sep'22E TTM EBITDA.

Investment rationale

- Shutdown impact on the company to be cushioned by lower fixed cost per screen and wider financial flexibility
- Pandemic may reveal consolidation opportunities; leaner balance sheet will put INOL at an advantage once business begins normalising
- Aggressive expansion plans – 1,000 new screens planned over 5-7 years – will help the company capitalise on India's under-screened market potential
- Scope for F&B and advertising revenue to continue growing faster than industry over the next few years
- INOL closing the gap with PVRL on key operating metrics which should eventually bridge the valuation differential between the two as well

PVR (PVRL) – Initiate with ADD

PVRL – FINANCIAL ESTIMATES

(Rs mn)	FY21E	FY22E	FY23E
Consolidated revenue	13,248	31,760	38,204
EBITDA	2,226	10,210	13,213
EBITDA margin (%)	16.8	32.1	34.6
Adj. EBITDA	(2,485)	4,970	6,986
Adj. EBITDA margin	(18.8)	15.6	18.3
PBT	(7,645)	759	3,574
PAT	(5,810)	567	2,673

Source: BOBCAPS Research I Adj. EBITDA pre IND-AS 116 impact

With 836 screens in India and 9 in Sri Lanka, PVRL is the undisputed leader in the Indian multiplex space. The company is the market leader in screen count across three geographical regions – South India (30% of PVRL's screens), West (34%) and North India (30%). We initiate coverage with ADD and a Sep'21 TP of Rs 1,220/sh, set at 13x Sep'22E TTM EBITDA.

Investment rationale

- Screen leadership in major movie circuits and presence in superior catchment areas offer sustainable edge
- Aggressive expansion plans would help capitalise on long-term industry growth potential but tight liquidity may constrain FY22 capex
- Rights issue addresses immediate liquidity concerns, but liquidity to remain tight due to higher fixed costs per screen and debt repayment obligations
- Expected to report steeper losses in FY21 due to higher operating leverage, though EBITDA rebound also likely to be sharper
- Near-term upside is limited after the ~60% rally since the lows of May'20 and growth challenges

Prefer INOL over PVRL

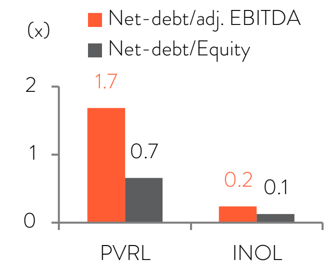
Having begun the decade neck-to-neck – PVRL/INOL had 123/119 screens in FY10 – PVRL went on to outstrip INOL on all conceivable parameters, viz. screen expansion, footfall, average ticket price (ATP), F&B spend per head (SPH), and advertising revenue, for the better part of the past decade. Aggressive expansion through organic and inorganic routes, acquisition of premium locations in metro cities, and conscious efforts to boost F&B and ad revenue have spearheaded PVRL's advantage over INOL. Going forward, however, we see more growth levers for INOL as it fast closes in on the leader and benefits from a leaner balance sheet.

INOL VS. PVRL – FORECAST OF KEY PARAMETERS

(%)	FY20-FY23E CAGR	
	PVRL	INOL
Screens	5.8	7.9
Footfall	2.5	3.8
ATP	2.2	2.4
NBOC	4.8	6.2
SPH	3.6	4.2
F&B rev.	6.2	8.2
Ad rev.	2.5	4.0

Source: Company, BOBCAPS Research

INOL HAS A LEANER BALANCE SHEET



Source: Company, BOBCAPS Research

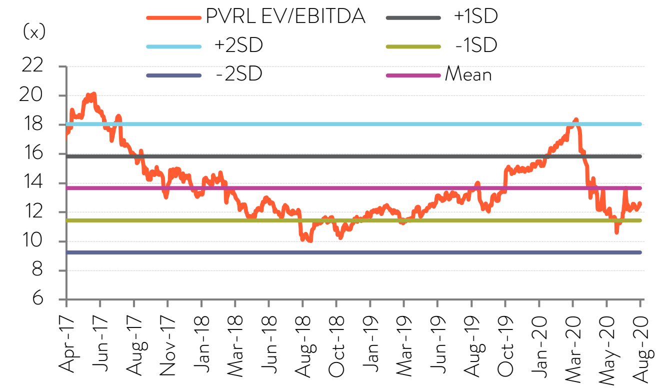
- **Gaining ground on the leader:** After trailing PVRL for several years, INOL has grown faster on several key operating parameters, over FY17-FY20 – ATP (4% vs. 1% CAGR for PVRL), F&B revenue (21% vs. 18%), and ad revenue (23% vs. 14%). While the gap on other parameters is still substantial – SPH/ATP ratio of 40% vs. 49% for PVRL and ad revenue/screen of Rs 3mn vs. Rs 4.7mn – we believe focused initiatives towards premiumisation of screens, aggressive marketing and F&B menu revamp will help INOL further narrow the gap.

- **Higher financial flexibility:** INOL's lower leverage – 0.2x FY20 net debt/ EBITDA vis-à-vis PVRL's 1.7x – lends it a crucial competitive edge in these uncertain times, in our view. Further, monetisable assets worth Rs 4.5bn (Rs 1bn of treasury shares and Rs 3.5bn of properties which can be sold and leased back) add to its financial flexibility. INOL should be able to raise bank funding, if needed, at favourable terms thanks to its balance sheet strength.

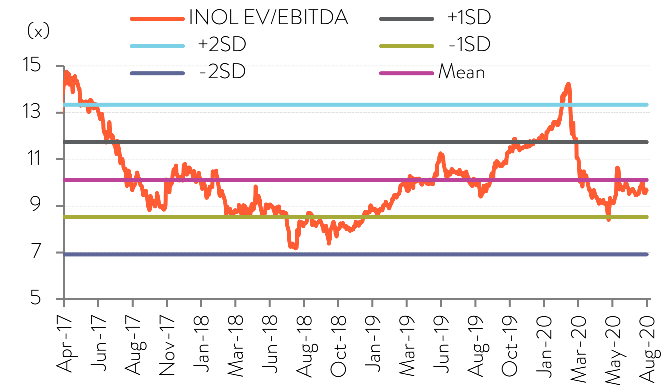
  PVRL's higher leverage stems from two inorganic acquisitions since FY17 and higher per screen capex, as reflected in ~25% higher gross block per screen vs. INOL due to more premium properties. Though the rights issue of Rs 3bn will alleviate PVRL's near-term liquidity concerns, it still has a principal repayment obligation of Rs 2bn/Rs 2.3bn in FY21E/FY22E. The rights issue also comes at 7% dilution.

- **Lower cash burn:** We expect INOL's cash losses to be lower than PVRL in FY21. During the shutdown phase, PVRL is incurring a monthly fixed cost of Rs 400mn-450mn/month vs. Rs 120mn for INOL. Higher fixed cost per screen – Rs 23mn per operating screen as of FY20 vs. Rs 16mn on average for INOL – indicates that even after resuming movie screenings, PVRL may continue to burn cash at a faster rate till occupancies achieve normalcy.

FIG 22 – PVRL HAS TRADED AT 25-30% PREMIUM OVER INOL IN PAST THREE YEARS; EXPECT GAP TO NARROW



Source: Bloomberg, BOBCAPS Research



Source: Bloomberg, BOBCAPS Research

Pandemic not an existential threat to multiplexes

Being a 'first to close, last to open' business, the multiplex industry has been among the worst hit by the Covid-19 outbreak. Nevertheless, we do not view the pandemic as an existential threat to industry leaders PVRL and INOL as several cost control initiatives (fixed costs down 70-80%) and adequate access to liquidity should help them tide over the crisis.

Though cinema halls have not been permitted to open as part of India's latest unlock guidelines, the reopening of malls in major consumption centres and our interactions with industry incumbents suggest the imminent resumption of cinema halls, at least in green zones, over the next few weeks. Our base scenario assumes screens opening in October, followed by tepid footfalls for few months, and a return to normal in FY22 as apprehensions over the pandemic wane.

Phase I (Mar-Aug): Remedial measures to soften closure impact

Multiplex operators have embarked on a cost-cutting drive to deal with the absence of cash inflows during the lockdown. A sharp reduction in fixed costs, especially rentals, coupled with healthy near-term liquidity should cushion operations of larger players for at least six months.

Reduction in fixed costs

"We have cut our monthly fixed costs (e.g. rent) from Rs 80mn to Rs 20mn post screen closures" – MD of a prominent multiplex chain

Invocation of the force majeure clause in rental agreements would substantially reduce the rent outgo for the shutdown period – this is a key cost item for both PVRL and INOL (17% and 19% of respective FY20 consolidated revenue adj. for Ind-AS 116). During the lockdown, monthly average fixed cost for PVRL has declined to Rs 400mn-450mn, a two-third reduction from Rs 1.4bn-1.5bn in Q3FY20 (pre-Covid). For INOL, cost is down to Rs 120mn vs. Rs 800mn-850mn.

Cost savings have been led by rental renegotiations coupled with other steps such as salary cuts for staff, rationalisation of off-roll workforce, and a sharp reduction in maintenance and other expenses.

Adequate access to liquidity in the near term

Current liquidity can sustain operations for few months for both PVRL and INOL

India's top two multiplex chains have access to sufficient liquidity, at least in the near term. PVRL and INOL have adequate liquidity in cash and bank balance, undrawn bank lines and other liquid investments to sustain operations for the next few months. INOL has monetisable assets – treasury shares worth Rs 1bn and owned properties – worth Rs 4.5bn. PVRL, on the other hand, has already raised Rs 3bn via a rights issue.

FIG 23 – BOTH PVRL AND INOL HAVE ADEQUATE ACCESS TO LIQUIDITY

Particulars	PVRL	INOL
Monthly cash burn during shutdown	Rs 400mn	Rs 110mn-120mn
Cash holdings (incl. undrawn committed bank lines)	Rs 2,270mn (as of June, latest details not available)	Rs 360mn (as of 31st July)
Debt raising plans	Already raised	Already raised
Equity issuance	Raised Rs 3bn through rights issue	Board approval in place for Rs 2.5bn of equity capital raising
Others	–	Treasury shares of Rs 1bn (as of 5 August); sale and leaseback of six owned properties can fetch Rs 3.5bn

Source: Company, BOBCAPS Research

Phase II (Oct-Mar): Expect a gradual, arduous recovery

Industry sources see possible restart of Indian multiplexes by October

Industry participants expect movie theatres in India to reopen from October. Screens may resume operations in a staggered manner, with green zones or areas that have fewer active Covid-19 cases opening first. However, several lingering difficulties – content availability, consumer comfort with safety measures and reduced capacity – will determine the pace of recovery.

Theatres across the globe have begun opening up

After being shut down for a few months, theatres across the world have gradually started opening up from June equipped with social distancing and other preventive measures. The National Association of Theatre Owners, an industry body for US exhibitors, estimated that 90-95% of the global theatrical marketplace will reopen by August. Big-ticket Hollywood movies are scheduled for release in August as well, including the Christopher Nolan directed 'Tenet' on 26th August (in 70 countries ex. USA), Unhinged (Russell Crowe starrer) on 21st August, and The New Mutants (X-Men series) on 28th August.

Opening up of movie screens across the globe, even in countries such as the US and Russia where Covid is yet to be fully contained, hints at a possible resumption of screens before the pandemic is fully controlled in India too. Additionally, the availability of Hollywood offerings should boost the content pipeline of Indian exhibitors, even if Bollywood and regional offerings stay away for a while.

US theatre body expects 90% of global movie screens to open before release of Tenet

FIG 24 – MOVIE THEATRES ACROSS THE GLOBE RESUMING OPERATIONS

Country	Date of theatre opening	Country	Date of theatre opening
US and Canada	AMC Entertainment – Mid-to-late Aug	South Korea	29 Apr
	Regal – 21 Aug	Italy	15 Jun
	Cinemark – 3rd week of Jul	France	22 Jun
China	20 Jul	Spain	May 25-8 Jun
UK	4-27 Jul	Russia	15 Jul-1 Aug
Germany	15 May-30 Jun	Japan	15 May

Source: Screendaily.com accessed on 4 August 2020, Industry, BOBCAPS Research

Content backlog depleted by direct-to-digital releases

With multiplexes closed, several prominent movies have been released directly on over-the-top (OTT) platforms such as Amazon Prime and Netflix in recent weeks. This has dried up the content available for screening once theatres reopen. Per our industry interactions, 20-25 movies are currently in post-production, of which over 10 have opted for OTT release and release dates for several others have been delayed ('Sooryavanshi' to Nov'20 from Mar'20, '83' from Apr'20 to Dec'20).

Leading multiplexes have indicated that they are unlikely to screen movies already released on digital platforms. Thus, we expect content availability to be weak for 8-12 weeks after screens resume, till the festive season openings arrive in Nov'20.

FIG 25 – MOVIES RELEASED DIRECTLY ON DIGITAL PLATFORMS

Movie	Language	Cast	OTT Platform
Gulabo Sitabo	Hindi	Ayushmann Khurrana Amitabh Bachchan	Amazon Prime Video
Shakuntala Devi	Hindi	Vidya Balan	Amazon Prime Video
Ponmagal Vandhal	Tamil	Jyothika R Parthiban	Amazon Prime Video
Penguin	Tamil and Telegu	Keerthy Suresh	Amazon Prime Video
Sufiyum Sujatayum	Malayalam	Jayasurya, Aditi Rao Hydari	Amazon Prime Video
Law	Kannada	Ragini Chandran	Amazon Prime Video
Laxmmi Bomb	Hindi	Akshay Kumar	Disney + Hotstar
Ghoomketu	Hindi	Nawazuddin Siddiqui	ZEE5
Gunjan Saxena	Hindi	Janhvi Kapoor, Pankaj Tripathi	Netflix

Source: Company, BOBCAPS Research

Consumer confidence in safety measures to determine footfall

54% of respondents in recent survey keen to visit theatres within 15-90 days of reopening

Once operations recommence, multiplexes across the country will have to undertake several steps to attract patrons back to theatres. The Multiplex Association of India has submitted a safety plan to authorities outlining the measures to be taken for two months after screens reopen.

Key measures include regular disinfection of theatres, thermal screening of the audience, emphasis on digital transaction to avoid queues, and a gap of one seat after every family/group. Still, it remains uncertain whether consumers will opt to pursue entertainment options outside the home, if the pandemic is not largely contained.

A recent survey conducted by leading online ticketing platform BookMyShow found that a majority of respondents are keen to return to theatres if safety measures are in place. The company conducted a 'Back to Out-of-Home Entertainment' survey across 235 Indian cities and towns, with 4,000 respondents (70% from major cities). As many as 54% of respondents expect to visit theatres within 15-90 days of screen opening, a third are open to buying F&B at vending machines or online, and 98% expects multiplexes to adopt safety and sanitisation measures.

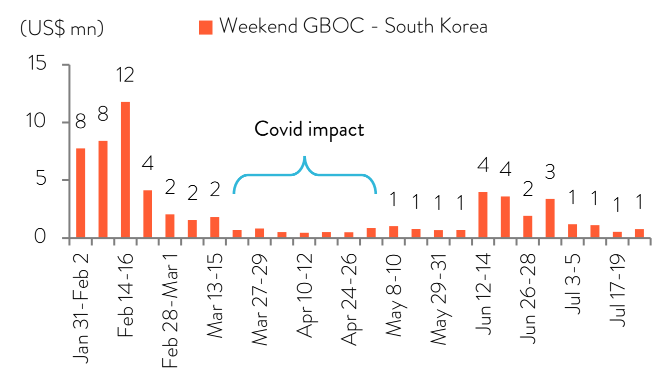
Global box office markets exhibit mixed trends

China, France, Japan GBOCs encouraging, other major markets await content boost

We have analysed the box office trends of countries that have had theatres open for a few weeks. Our analysis suggests an arduous path to recovery – even after a few weeks, movie admissions in most markets are sluggish due to a dearth of big-ticket releases and consumer apprehensions. We note a few exceptions such as Japan, France, and China where the recovery has been sharper and/or faster. Due to a depleted content pipeline, we expect the Indian exhibition industry to take a few months before returning to normal.

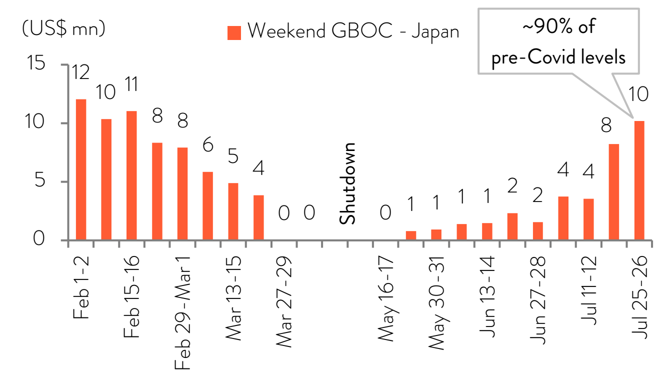
Theatres in China were allowed to open in low-risk areas from mid-July, with screens in Beijing recommencing from 24 July. Attendance is capped at 30% and sales of F&B items are not permitted. Despite a lack of fresh content, the audience response has been encouraging – collections have reached ~25% of pre-shutdown levels and ~16% of the busiest weekend of Dec'19 though only 45-50% of screens are open. This indicates pent-up demand among moviegoers due to the prolonged lack of out-of-home entertainment options.

FIG 26 – SOUTH KOREA GBOC SUBDUED (15-20% OF NORMAL) DUE TO LACK OF QUALITY CONTENT



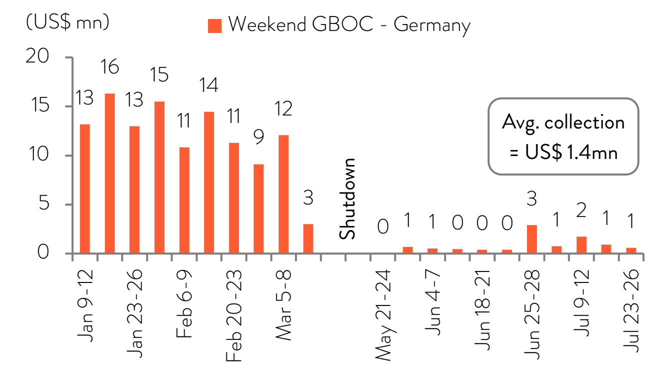
Source: Box Office Mojo, NATO, BOBCAPS Research

FIG 27 – JAPAN BOX OFFICE HAS RECOVERED TO ~90% OF NORMAL BY END JULY



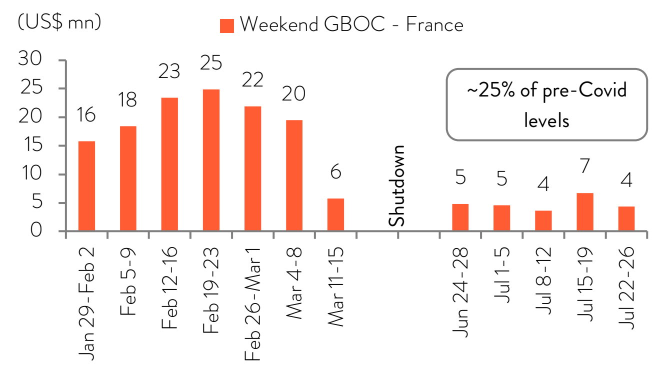
Source: Box Office Mojo, NATO, BOBCAPS Research

FIG 28 – ~80% SCREENS OPEN IN GERMANY, BUT GBOC ~10% OF PRE-COVID LEVELS



Source: Box Office Mojo, NATO, BOBCAPS Research

FIG 29 – FRANCE REACHED ~25% OF PRE-COVID GBOC WITHIN WEEKS OF OPENING



Source: Box Office Mojo, NATO, BOBCAPS Research

Content to be weak initially, festive releases may prop up footfall

14 Bollywood movies and 53 regional movies are ready for release - INOL

Subpar content during the immediate weeks after screen resumption may not suffice to attract audiences in large numbers, as evident in international markets. As per INOL, 14 Hindi and 53 regional language movies are ready for release and several are in the post-production stage. Despite this, we expect content to remain tepid for the first 4-6 weeks after reopening.

Some big-ticket releases slated for the festive season (Sooryavanshi) may prop up footfalls from late November-December onwards. Exhibitors are also likely to offer deep discounts to attract customers. Advertising revenues would be subdued as well, in an uncertain environment. Overall, we expect FY21 to be a sombre year for the industry.

FIG 30 – CONTENT PIPELINE TO IMPROVE FROM NOVEMBER

Movie	Language	Cast/Director	Theatrical release
Tenet	English	Robert Pattinson, Christopher Nolan (D)	Aug 2020
Sooryavanshi	Hindi	Akshay Kumar, Katrina Kaif	Oct 2020
Radhe	Hindi	Salman Khan, Disha Patani	Nov 2020
Black Widow	English	Scarlett Johansson, Robert Downey Jr.	Nov 2020
No Time To Die	English	Daniel Craig, Naomi Harris	Nov 2020
Bhuj – The Pride Of India	Hindi	Ajay Devgan, Sonakshi Sinha	Dec 2020
83	Hindi	Ranvir Singh, Deepika Padukone	Dec 2020
Laal Singh Chaddha	Hindi	Aamir Khan, Kareena Kapoor Khan	Dec 2020

Source: Inox Leisure Q4 earnings presentation, BOBCAPS Research I Release dates may change

Extended delays in screen reopening a risk to our forecast

Covid cases in India still on an uptrend – may further delay restart of multiplexes

Based on our industry interactions and cues from global theatrical markets, we assume multiplexes in India will resume operations by October this year. Though Covid cases in India are still on the rise, economic concerns are likely to dictate future regulations and hence multiplex and other entertainment options may be permitted with social distancing stipulations. That said, a prolonged ban on cinema halls and other forms of public gathering remains a key downside risk to our investment thesis and company forecasts.

Phase III (Apr'21 onwards): Strong revival forecast for FY22

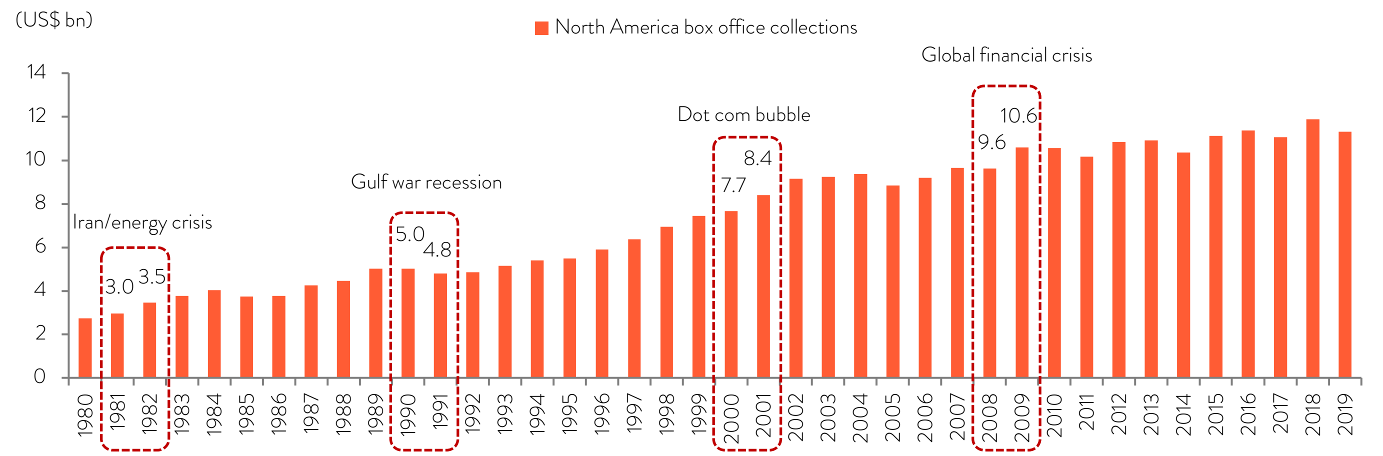
We expect FY22 to be a strong year for the industry, assuming the pandemic stabilises, aided by robust content and a favourable base.

Theatrical exhibition resilient to previous economic downturns

Box office collections have grown during three of the past four recessions in N. America

Historically, movie screenings in mature markets have been fairly resilient to economic slowdowns. For example, in North America, box office collections have increased in three of the four past recessions (Fig 9). This suggests the exhibition industry could pick up next year if supported by content, even if discretionary spends take longer to rebound.

FIG 31 – NORTH AMERICAN EXHIBITION INDUSTRY HAS SUCCESSFULLY WEATHERED PAST RECESSIONS



Source: North American Theatre Owners Association, Cinemark Holdings, BOBCAPS Research

Robust content pipeline, ancillary revenue streams to rev up growth

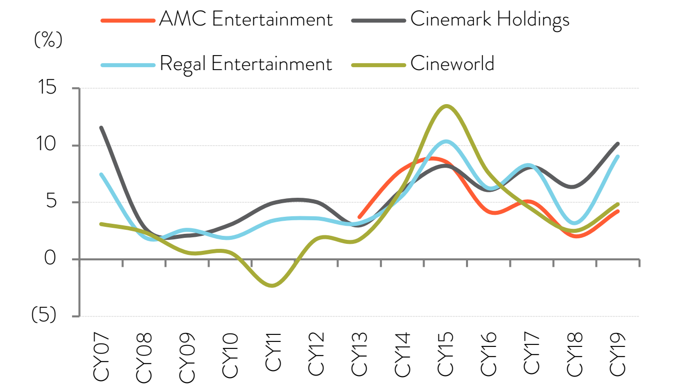
Pandemic-related production delays have pushed many movie releases to next year, both in India and globally. Accordingly, content is expected to be stronger in FY22. This combined with pent-up demand for out-of-home entertainment should provide impetus to footfall growth next year. We expect PVRL/INOL's same-screen footfalls to increase 90% each in FY22 off a low base in FY21 (but still below FY20 levels).

F&B spends/SPH have been stable for global theatre chains across economic cycles

Ancillary revenue streams – F&B and advertising – are also likely to see a strong rebound in FY22. Past trends suggest F&B spend per head is not vulnerable to economic vagaries – our analysis of SPH for four leading global cinema exhibition chains since CY07 depicts secular growth trends and only one instance of YoY decline (Cineworld in CY11), indicating that spends are resilient to both economic shocks and content volatility.

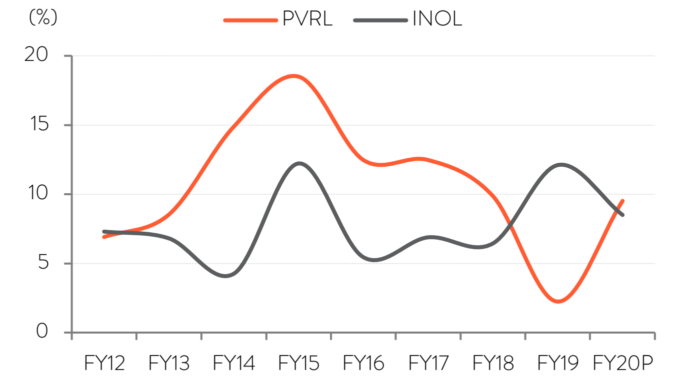
In India too, PVR and INOX have posted stable increases in this metric. These past trends make a solid case for robust revival in SPH in FY22 which combined with footfall growth should aid a sturdy uptick in F&B revenue.

FIG 32 – SPH OF GLOBAL EXHIBITION CHAINS HAS BEEN IMMUNE TO ECONOMIC VAGARIES



Source: Company, BOBCAPS Research

FIG 33 – INDIAN MULTIPLEX OPERATORS HAVE ALSO RECORDED STEADY INCREASE IN SPH

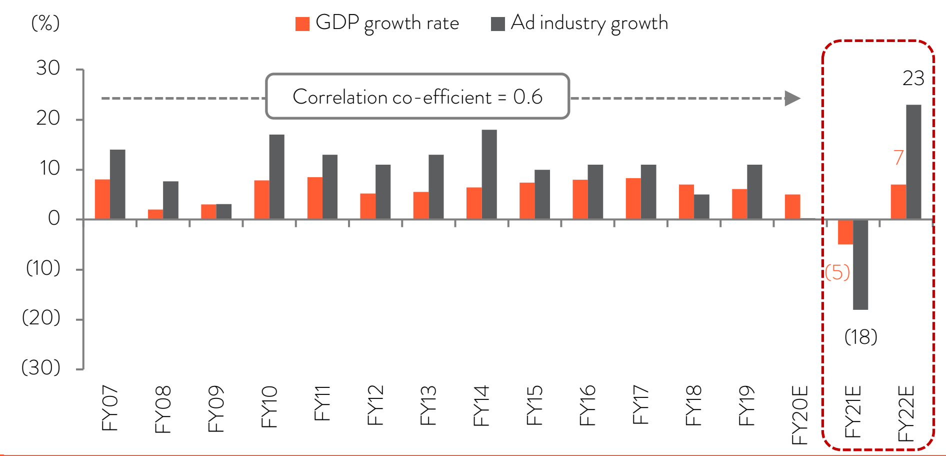


Source: Company, BOBCAPS Research

Ad spends to rise sharply following expected economic recovery in FY22

Advertisement spend, however, is far more closely linked with economic activity. Our analysis of the past 13 years of data indicates a positive correlation of ~0.6 between GDP growth and advertisement industry growth. Thus, after a steep fall in FY21 (18-20% per industry sources), advertising industry revenue is likely to rebound if the economy recovers in FY22 as expected. We anticipate heathy growth for in-cinema advertising as well, supported by strong content.

FIG 34 – ADVERTISEMENT INDUSTRY ESTIMATED TO RECOVER IN FY22E, IN-CINEMA ADVERTISING TO ALSO BENEFIT



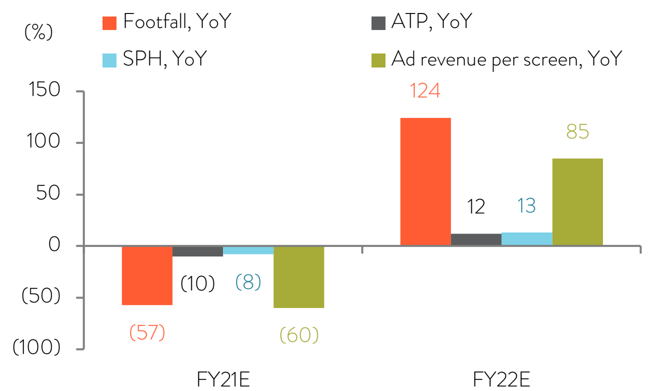
Source: CRISIL (estimates of May'20), BOBCAPS Research

Expect PVRL, INOL to bounce back in FY22

PVRL/INOL to record revenue growth of 113%/122% in FY22E

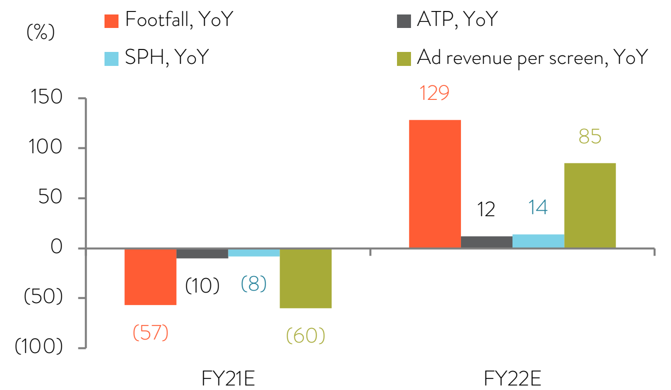
Led by the factors mentioned above, we expect PVRL and INOL to stage a strong recovery in FY22 as all operating parameters likely exhibit a robust turnaround. We model for revenue growth of 113%/122% for PVRL/INOL in FY22, following steep declines of 57%/55% in the current fiscal.

FIG 35 – PVRL TO REBOUND AFTER A DISMAL FY21E…



Source: BOBCAPS Research

FIG 36 – …AS WILL INOL



Source: BOBCAPS Research

Opportunity in adversity for industry leaders

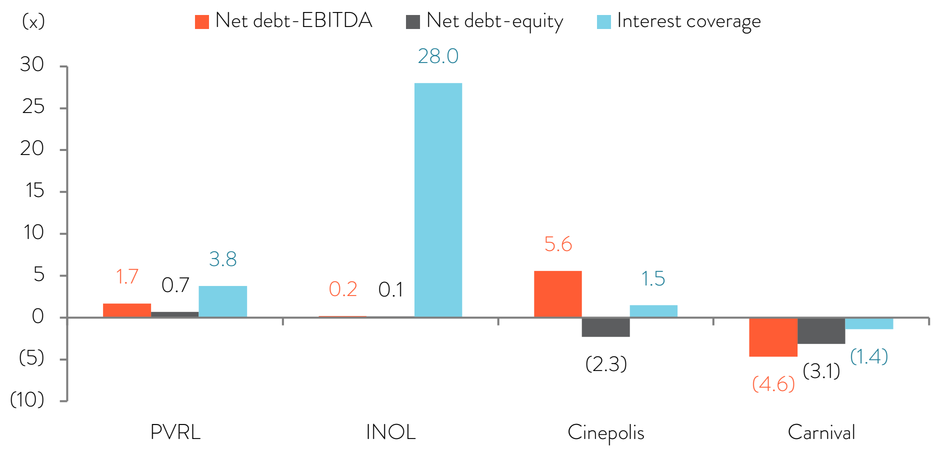
Though the multiplex industry is going through the most uncertain phase in its history, we see opportunities emerging from the turmoil, especially for larger players. In our view, PVRL and INOL are slated to gain market share in the near-to-medium term as the trend of single-screen closures may accelerate in the Covid-19 era and the weak balance sheets of other Indian multiplex chains could restrict their expansion plans for a few years to come.

Media reports suggest a prominent multiplex chain is scouting for buyers

A number of single-screen properties have already downed shutters over the past decade while multiplexes have proliferated. Amid Covid-19, the pace of closure of these properties is likely to accelerate as (1) single screens struggle to manage liquidity (wages, etc.) during the lockdown without much access to external credit, (2) poor hygiene and maintenance standards put them at a disadvantage to multiplexes, and (3) their liquidity profile may worsen in the intermediate period when occupancies remain muted but sanitisation and maintenance costs rise.

Closure of single screens can further shift footfalls to multiplexes. Some smaller multiplexes may close down too – media reports suggest that a prominent chain is already scouting for prospective buyers. In addition, industry leaders PVRL and INOL have far stronger balance sheets than other multiplexes. Though liquidity mismatch in the near term may take a toll on all companies, a stronger balance sheet gives these two companies (especially INOL) more pricing flexibility. Moreover, both may be able to expand much faster once the business climate settles.

FIG 37 – INOL AND PVRL HAVE STRONGER BALANCE SHEETS THAN PEERS



Source: Company, Ministry of Corporate Affairs, BOBCAPS Research | Note: FY20 financials for PVRL and INOL, FY19 for Cinepolis and FY18 for Carnival Films

Conducive long-term structural trends

Low screen density (15 per addressable million), underpenetrated tier-II/III cities, and substantial share of single-screen properties (~65% of screens, ~45% of box office collections) all translate to a long growth runway for multiplexes in India. Given that only 80%/25% of tier-II/III cities have multiplexes, leading operators are focusing most of their screen openings in these areas, which will consolidate the market further in favour of large exhibitors. In addition, unit dynamics for standalone multiplexes remain strong – per our calculations, a standalone property can generate 20%+ ROCE after maturing in 3-4 years.

Expanding screen reach to enable further share gains

Despite consolidation, single screens still account for 65% of screens & ~45% of GBOC

The top theatre chains have registered strong growth in exhibition revenue since the turn of the decade (25%/17% CAGR for PVRL/INOL over FY11-FY20). This can be attributed to large-scale industry consolidation ushered in by (1) organic screen expansion at large multiplex chains which showcased their superior offerings (better comfort & experience, wider F&B options) and drew footfalls away from single-screen properties, and (2) a series of inorganic acquisitions by the leaders.

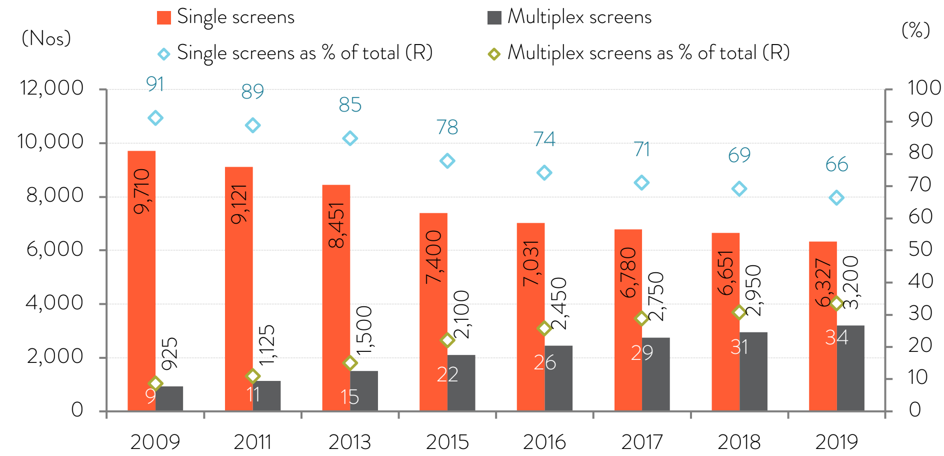
Though the exhibition industry has already consolidated to a large degree over the past few years, we believe it still has a long way to go on this front, representing a key growth catalyst for large operators. Despite a spate of screen openings, multiplexes still account for only a 35% of India's total screens (though up from a paltry 9% a decade ago), indicating room for a further shift from single screens.

Top 3 exhibitors in India have ~32% share of total NBOC, vs. ~50% in the US

Moreover, aggregate market share of the top three exhibitors in India is far below that of those in some developed markets, at ~32% vs. >50% in the US – this too supports the case for greater consolidation in favour of multiplexes.

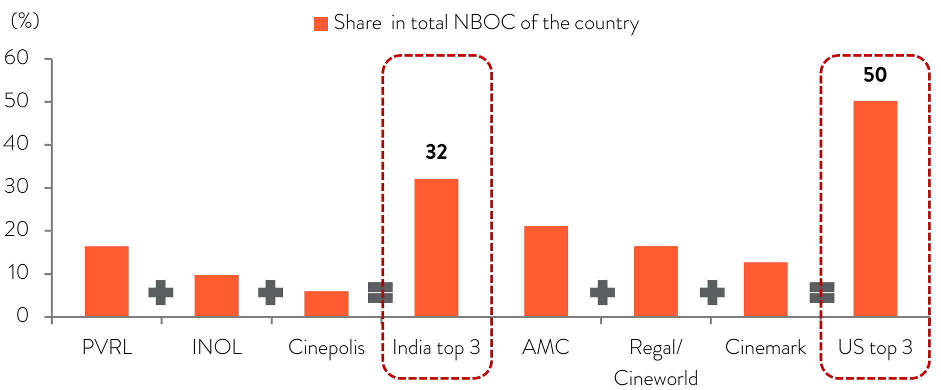
With limited opportunities left for quality acquisitions, we expect the next leg of consolidation to be fuelled by migration of audiences away from single screens, especially as multiplexes further penetrate tier-II and tier-III markets. Accordingly, the share of multiplexes in total number of screens and box office revenue is set to increase from current levels of ~35% and ~55% respectively.

FIG 38 – SHARE OF MULTIPLEXES HAS INCREASED BUT SINGLE SCREENS STILL DOMINATE



Source: FICCI M&E reports, BOBCAPS Research

FIG 39 – SHARE OF TOP 3 MULTIPLEX OPERATORS IN INDIA NBOC MUCH BELOW THAT OF THE US



Source: Company, BOBCAPS Research | Note: NBOC – Net Box Office Collections

Low screen density offers penetration potential

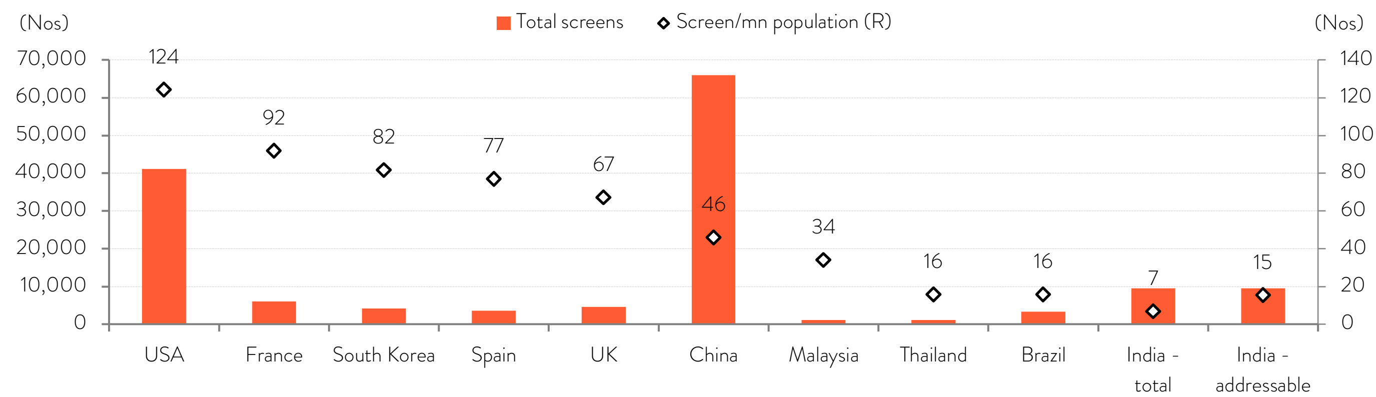
India's multiplex screen density is only 9 per million addressable population

Lower screen density versus global standards underpins the future expansion potential of the Indian exhibition industry. India has a vibrant box office, reflected in the abundance of movies produced (~1,900/year, 2x of China) and booming cinema admissions (~1.5bn, second after China). But with only 7 screens per million population (and 15 per million addressable population), India lags behind other countries with large box office markets.

We acknowledge that a large portion of India's populace falls under a very low household income bracket with minimal discretionary spending power, which results in optically low penetration levels for many consumer products. To offset this imbalance, we estimate screen density after adjusting the total population to include addressable households only.

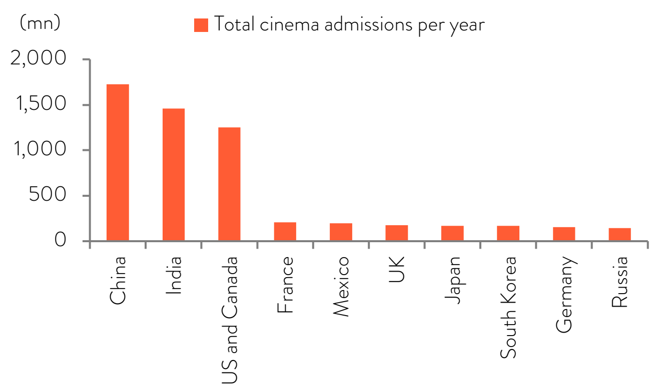
We have used BCG's income distribution levels (Fig 21) and categorised the addressable population as follows: (1) all cinemagoers – households with annual income of ~Rs 0.3mn (affluent and elite categories plus ~50% of aspirers), and (2) multiplex goers – households with annual income of over Rs 0.5mn (affluent and elite). India's screen density is low even on an addressable population basis, as the following exhibit depicts.

FIG 40 – INDIA'S SCREEN DENSITY REMAINS LOW DESPITE A VIBRANT BOX OFFICE



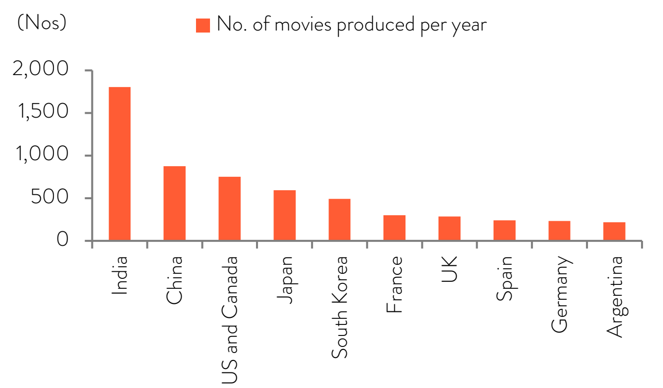
Source: Industry, BOBCAPS Research

FIG 41 – FOOTFALLS IN INDIA AMONG THE HIGHEST GLOBALLY



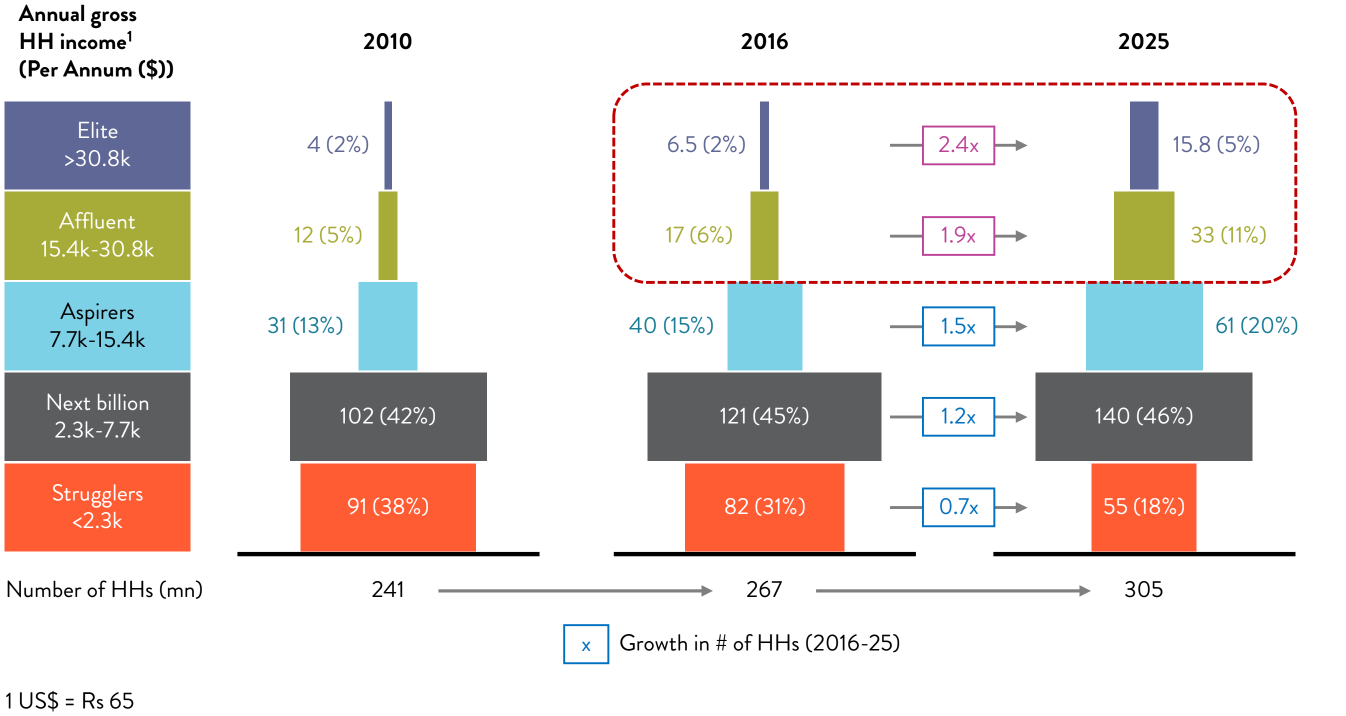
Source: Industry, BOBCAPS Research

FIG 42 – INDIA PRODUCES THE HIGHEST NUMBER OF MOVIES IN THE WORLD



Source: Industry, BOBCAPS Research

FIG 43 – ADDRESSABLE POPULATION FOR MULTIPLEXES EXPANDING THE FASTEST



Source: BCG Publications, BOBCAPS Research | [1]HH income = Household income, distribution based on 2015 prices

Non-metro cities represent mega opportunity

Just 80%/25% of tier-II/III cities have multiplexes

Smaller tier-II and tier-III cities in India are set to become the next growth markets for the multiplex industry. Large metro cities are fairly saturated (33 multiplex screens per city), whereas non-metro towns remain highly underpenetrated (4 screens per tier-II and 1 per tier-III city). Consequently, leading multiplex operators have focused most of their screen openings in non-metro cities – ~45%/~70% of openings for PVRL/INOL over FY15-FY20.

Over the next decade, we expect the multiplex screen density in these regions to gradually increase, capturing share from standalone cinema properties and spurring growth in overall footfalls for the industry.

FIG 44 – TIER-II & TIER-III CITIES TO DRIVE FUTURE SCREEN EXPANSION

City category	No. of cities	Cities with multiplex	% penetration	Multiplex screens per city
Metro	8	8	100	33
Tier-II	88	78	89	4
Tier-III	372	94	25	1

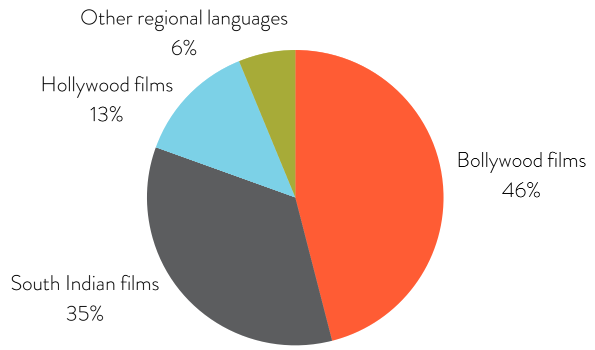
Source: FICCI, Mukta Arts Investor Presentation, BOBCAPS Research

Content diversification augurs well for occupancies

Over the past five years, two key trends have shaped the availability of movie content in India, in turn proving favourable to theatre chain operators. Firstly, there has been a spurt of content-driven rather than star power-oriented movies aimed at the urban populace – the core target audience for multiplexes. Secondly, regional and Hollywood movies have started garnering a larger share of revenue for multiplexes over the past few years. Top studios have also started producing and distributing regional movies.

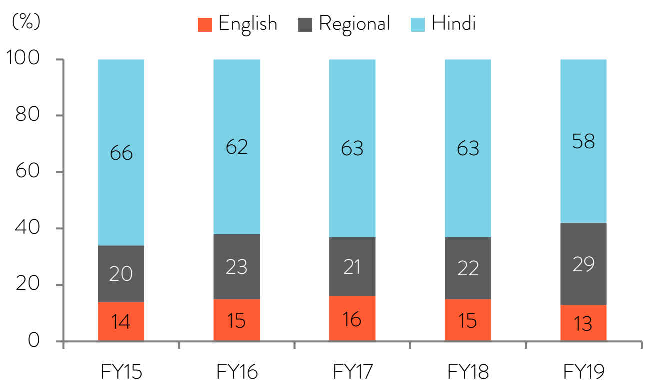
Quality regional content is likely to bolster operators' offerings as they further penetrate into tier-II/III markets. Consumer acceptance of diverse content has reduced occupancy volatility, as reflected in a strong Q4 in both FY18 and FY19 – this has traditionally been a weak quarter marked by low footfalls and fewer releases.

FIG 45 – REGIONAL AND HOLLYWOOD FILMS ACCOUNT FOR 50%+ OF GBOC



Source: FICCI Media and Entertainment Report 2019, BOBCAPS Research

FIG 46 – SHARE OF HINDI MOVIES DECLINING FOR PVRL (% CONTRIBUTION TO NBOC)



Source: Company, BOBCAPS Research

Unit dynamics of standalone multiplex attractive

Standalone multiplex can generate 15-20%+ ROCE after maturing in 3-4 years

Though setting up a multi-screen property is capital-intensive in nature – as low ROIC in the pre-maturity years suggests – unit dynamics improve materially once the property reaches 25-30% occupancy. This is a scalable business model that does not require invested capital to grow at a rate commensurate with revenue, due to negative working capital and moderate capex for refurbishment (once in 6-7 years) and annual maintenance.

For our analysis, we assume a standalone five-screen property will attain 28% occupancy, Rs 216 in ATP, Rs 100 in SPH, and 90% ad inventory utilisation in the third year. Such a property generates 15-20% ROCE – higher than its cost of capital – and has healthy operating and free cash flows (FCF/EBITDA >50%).

FIG 47 – UNIT DYNAMICS OF A STANDALONE MULTIPLEX PROPERTY

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Operating parameters					
Footfall (mn)	0.3	0.4	0.6	0.6	0.7
Gross ATP (Rs)	200	208	216	225	234
Gross SPH (Rs)	90	95	101	107	114
Utilised ad inventory ('000 mins)	73	110	164	183	183
Ad rates (Rs/min)	90	100	120	124	127
Revenue (Rs mn)					
Net box office collections	50	70	102	113	126
F&B revenue	26	37	55	63	71
Advertisement revenue	7	11	20	23	23
Other operating income	4	6	9	10	11
Total revenue	**87**	**124**	**186**	**209**	**231**
Expense analysis (Rs mn)					
Film hire cost	23	31	46	51	57
F&B COGS	8	10	14	16	18
Employee costs	17	18	19	20	21
Other expenses	11	16	24	27	30
Lease rental	35	36	38	40	42
Power costs	11	12	12	12	13
Total expenses	**105**	**124**	**152**	**166**	**180**
EBITDA (Rs mn)	**(17)**	**0**	**33**	**43**	**51**
EBITDA margin (%)	(19.7)	0.2	17.8	20.6	22.2
Depreciation	1.5	1.5	1.6	1.7	1.8
EBIT (Rs mn)	**(18.7)**	**(1.2)**	**31.5**	**41.2**	**49.6**
Net block (Rs mn)	178	183	190	199	209
Security deposit (Rs mn)	8.6	8.6	8.6	8.6	8.6
Working capital (Rs mn)	3.8	1.8	(1.5)	(2.8)	(4.0)
Total capital employed (Rs mn)	**182**	**184**	**189**	**196**	**205**
ROCE (pre-tax) (%)	**(10.3)**	**(0.6)**	**16.7**	**21.0**	**24.2**
Operating cash flow (Rs mn)	**(9)**	**3**	**28**	**34**	**40**
Free cash flow (Rs mn)	**(13)**	**(4)**	**19**	**23**	**28**

Source: Company, BOBCAPS Research

FIG 48 – KEY ASSUMPTIONS

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
No. of screens in the property	5	5	5	5	5
No. of daily shows	5	5	5	5	5
Occupancy (%)	15.0	20.0	28.0	30.0	32.0
ATP growth (%)	-	4.0	4.0	4.0	4.0
SPH growth (%)	-	6.0	6.0	6.0	6.0
F&B margin	70.0	72.0	75.0	75.0	75.0
Ad inventory (mins/show)	20	20	20	20	20
Ad inventory utilisation (%)	40.0	60.0	90.0	100.0	100.0
Other operating income (% of operating income)	5.0	5.0	5.0	5.0	5.0
Distributor's share (%)	45.0	45.0	45.0	45.0	45.0
Total employee per screen	17	17	17	17	17
Power and fuel expenses (Rs mn)	2.3	2.3	2.3	2.3	2.3
Other expenses as % of sales (%)	13.0	13.0	13.0	13.0	13.0
Yearly escalation in rental (%)	-	5.0	5.0	5.0	5.0
Total capex/screen (Rs mn)	35.0				
Maintenance capex (% of sales)	3.0	3.0	3.0	3.0	3.0
Depreciation as % of gross block	5.0	5.0	5.0	5.0	5.0
Receivable days	20	20	20	20	20
Inventory days	5	5	5	5	5
Creditor days	45	45	45	45	45

Source: Industry, BOBCAPS Research

Blockbuster success story to play on

Multiplex NBOC can potentially grow at ~15% CAGR for 5-7 years

Notwithstanding the pandemic impact, we expect multiplexes to grow led by structural drivers. Cinema viewership has been under pressure globally even before the pandemic hit, in part due to the OTT boom. In our view, OTT and theatres can coexist – our calculations indicate that even if cinema admissions in India exhibit a decline similar to that seen in major box office markets (US/UK), multiplexes can still manage 9-10% footfall growth for the next 5-7 years by expanding screen footprint and gaining share from single screens. Assuming a ~5% rise in ATP over this period, box office collections can grow at ~15%.

Rise of OTT platforms may constrain repeat footfalls

Since the rapid rise of over-the-top (OTT) platforms a few years ago, the impact on the theatrical exhibition industry has been a debated topic. Though we believe both will coexist, the advent of digital streaming/OTT options could constrain overall footfall growth for theatres.

OTT and theatres not mutually exclusive…

Affordable entertainment option, large-scale viewing experience keep multiplexes relevant

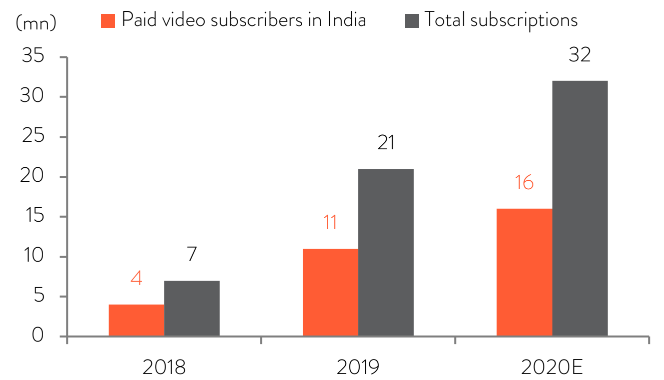
Over the past few years, digital video platforms such as Netflix, Prime Videos, and Hotstar have proliferated in India. Industry sources estimate that currently there are 40 streaming platforms with 16mn paid subscribers. Given the insatiable appetite for content and rising internet/mobile penetration, demand for OTT platforms will continue to surge – some estimates peg OTT industry revenue CAGR at 35-40% over the next five years. These platforms have been aggressively purchasing digital rights of movies in recent years, stoking apprehensions of a large decline in theatre audiences.

We believe OTT and theatrical exhibition can coexist as quality content will continue to attract patrons to the big screen. Multiplexes provide an affordable, out-of-home entertainment experience to patrons that cannot be matched by digital platforms. We are also not unduly concerned by the recent spate of direct-to-digital releases and expect most movies to opt for theatrical release in future as this remains the most lucrative option.

…but repeat cinema hall visits to reduce

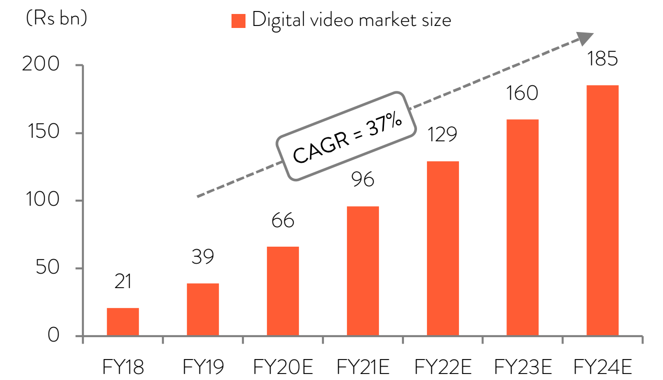
We do expect lower repeat visits to theatres for a particular movie in future (one viewing instead of many), as the digital release occurs within just 8 weeks of the theatrical window. As large exhibitors penetrate further into non-metro markets, their exposure to price-sensitive customers, whose visit to movie halls are typically less frequent than metro audiences, will also rise. Hence, we expect overall footfall growth in India to be sluggish in the long term. Footfall trends in global markets and for Indian exhibitors (on a per screen basis) also support this.

FIG 49 – OTT SUBSCRIBER BASE TO CONTINUE TO GROW AT A STAGGERING PACE IN INDIA…



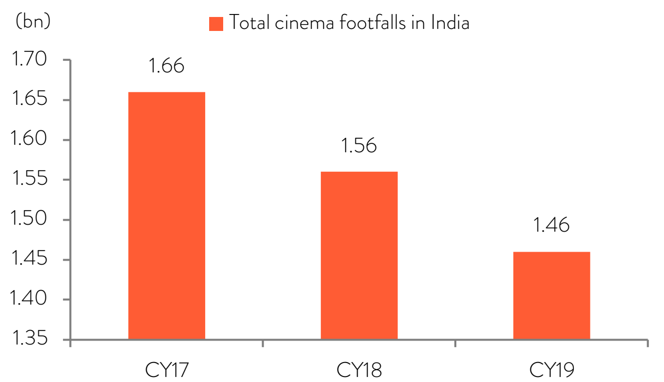
Source: FICCI-EY M&E Report 2020 (pre-Covid estimates), BOBCAPS Research

FIG 50 – …DRIVING DIGITAL VIDEO INDUSTRY REVENUE UPTREND



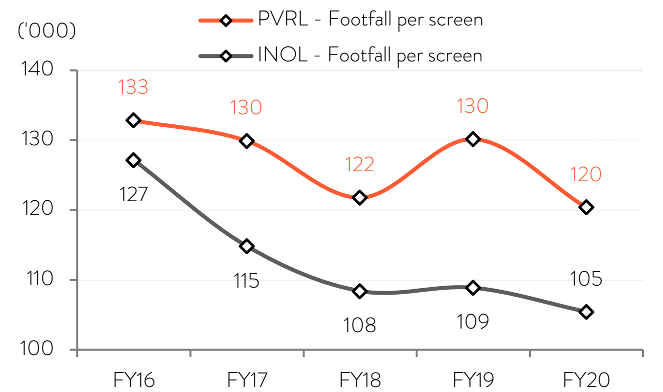
Source: KPMG M&E Report 2019, BOBCAPS Research

FIG 51 – INDUSTRY SOURCES ESTIMATE THAT INDIA'S FOOTFALLS HAVE FALLEN IN 2018 AND 2019



Source: Comscore, FICCI-EY M&E Report 2020, BOBCAPS Research

FIG 52 – FOOTFALLS PER SCREEN HAVE DECLINED FOR PVRL AND INOL OVER THE PAST FIVE YEARS



Source: Company, BOBCAPS Research

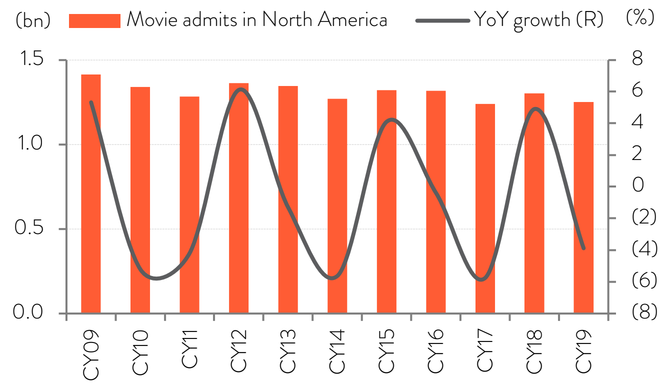
Footfall decline in developed markets coincides with rise of OTT

Footfall in US/UK/EU has logged –1%/+0.1%/+0.3% CAGR over CY09-CY19

To understand the movie consumption pattern in developed markets, we have analysed the footfalls in North America (US and Canada), the UK and European markets. Over the past 10-15 years, cinema admissions in these markets have remained stagnant – North American movie admissions have declined by 1% CAGR over CY09-CY19, whereas the Europe/UK markets have grown at a meagre 0.3%/0.1% CAGR.

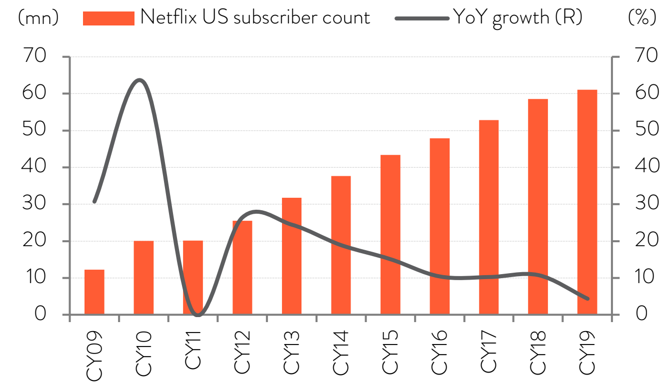
While it is difficult to pinpoint OTT platforms as the sole reason for this decline – for example, some studies suggest a disenchantment among European youth regarding theatrical consumption – this stagnancy has undoubtedly coincided with a rapid rise in subscription base of digital platforms. Netflix, for instance, has grown its subscriber base in the US by a staggering 17% CAGR over the same period.

FIG 53 – MOVIE ADMISSIONS IN US AND CANADA DECLINED AT 1.2% CAGR OVER CY09-CY19…



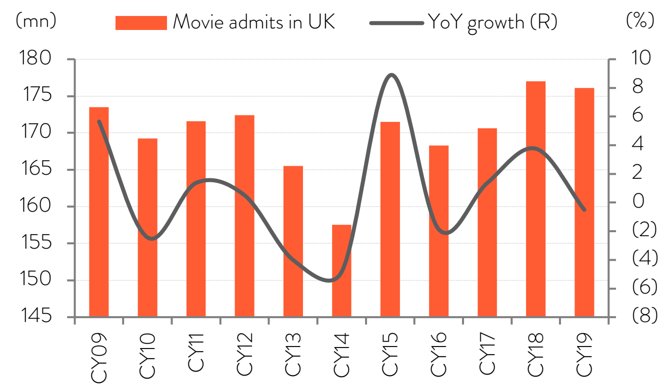
Source: Company, BOBCAPS Research

FIG 54 – …COINCIDING WITH RAPID GROWTH IN NETFLIX US SUBSCRIBER BASE



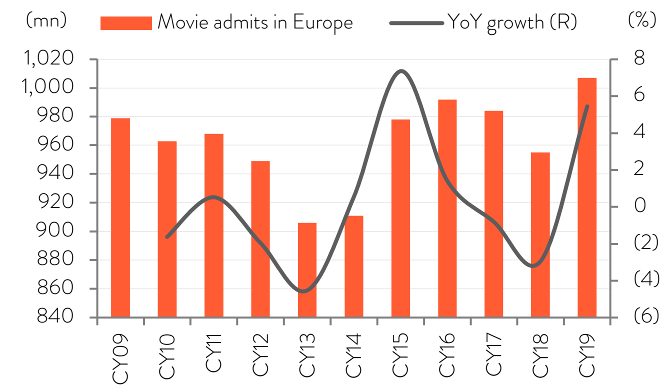
Source: Company, BOBCAPS Research

FIG 55 – UK CINEMA FOOTFALL HAS GROWN BY MEAGRE 0.1% CAGR…



Source: Company, BOBCAPS Research

FIG 56 – …EUROPE MOVIE ADMISSIONS ALSO EXHIBITED SIMILAR TREND



Source: Company, BOBCAPS Research

Multiplexes can thrive even amid slowing industry footfalls

Though Indian cinema footfalls may be under pressure, admissions at multiplexes could continue on a steady growth path aided by screen expansion.

Potential 15% CAGR in NBOC – an illustrative calculation

Per industry estimates, single screens still have ~70% of footfall share in India. As mentioned earlier in this report, we expect (1) the pandemic to usher in a new leg of consolidation in the industry, and (2) multiplexes to expand into hitherto underpenetrated markets. In our view, these two trends could aid 9-10% growth in multiplex footfalls over the next 5-6 years. This coupled with an estimated 4-5% increase in ATP can drive healthy 14-15% growth in total box office collections during the same period.

In Fig 57 below, we present an indicative estimation of how multi-screen operators can thrive for the next 5-7 years largely by expanding their reach.

FIG 57 – ILLUSTRATIVE LONG-TERM GROWTH TRAJECTORY FOR MULTIPLEXES – 15% CAGR IN NBOC OVER CY19-CY25E POSSIBLE THROUGH SCREEN EXPANSION AND ATP GROWTH, EVEN IF FOOTFALL GROWTH TEPID

SN	Particulars	CY18	CY19	CY22E	CY24E	CY25E	CY26E	CY28E	CY30E	CY19-25E CAGR (%)	CY19-30E CAGR (%)
		Past trends		High growth phase			Moderate growth phase				
	Domestic total (multiplex + single screens)										
A1	**NBOC (Rs bn) [B1+C1]**	**110**	**114**	**143**	**167**	**181**	**193**	**220**	**251**	**8.0**	**7.4**
A2	Footfall (bn)	1.56	1.46	1.42	1.39	1.37	1.36	1.33	1.31	**(1.0)**	**(1.0)**
A3	YoY footfall (%) [Est.]	(6.0)	(6.4)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	-	-
A4	ATP (Rs) [A1/A2]	71	78	101	120	131	142	165	192	**9.1**	**8.5**
	Multiplex										
B1	**NBOC (Rs bn) [B4 x B7]**	**51**	**61**	**98**	**127**	**143**	**158**	**189**	**224**	**15.3**	**12.6**
B2	YoY (%)	6.3	19.6	15.5	13.4	12.6	10.0	9.3	8.8	-	-
B3	Share of total domestic (%) [B1/A1]	46.4	53.5	68.4	76.1	79.4	81.7	85.8	89.3	-	-
B4	Footfall (bn) [A1 x B6]	0.34	0.41	0.56	0.66	0.71	0.75	0.81	0.87	**9.8**	**7.2**
B5	YoY footfall (%)	11.2	18.8	10.0	8.0	7.3	4.7	4.1	3.7	-	
B6	Share of total domestic footfall (%) [Est.]	22.0	28.0	40.0	48.0	52.0	55.0	61.0	67.0	-	-
B7	ATP (Rs)	149	150	174	191	201	211	233	257	**5.0**	**5.0**
B8	ATP - YoY (%) [Est.]	(4.5)	0.7	5.0	5.0	5.0	5.0	5.0	5.0	-	-
	Single screens										
C1	**NBOC (Rs bn) [C4 x C7]**	**60**	**53**	**45**	**40**	**37**	**35**	**31**	**27**	**(5.7)**	**(6.0)**
C2	YoY (%)	(1.6)	(11.7)	(5.3)	(6.2)	(6.8)	(5.3)	(6.2)	(7.4)	-	-
C3	Share of total domestic (%) [C1/A1]	53.6	46.5	31.6	23.9	20.6	18.3	14.2	10.7	-	-
C4	Footfall (bn) [A1 x C6]	1.22	1.06	0.85	0.72	0.66	0.61	0.52	0.43	**(7.6)**	**(7.8)**
C5	YoY footfall (%)	(7.7)	(13.4)	(7.2)	(8.1)	(8.6)	(7.2)	(8.0)	(9.2)	-	-
C6	Share of total domestic footfall (%) [100%-B6]	78	73	60	52	48	45	39	33	-	-
C7	ATP (Rs)	49	50	53	55	56	57	60	62	**2.0**	**2.0**
C8	ATP - YoY (%) [Est.]	6.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	-	-

Source: FICCI Media and Entertainment Report, industry, BOBCAPS Research I Note: We assume box office collections can recover from Covid-related disruptions in FY21E, and can gain lost ground over the next 2-3 years

FIG 58 – KEY ASSUMPTIONS

Particulars	CY19-25E	CY26E-30E
Core footfall CAGR (%)	(1)	(1)
Avg. annual footfall share shift (%)	4	3
Annual ATP growth – Multiplex (%)	5	5
Annual ATP growth – Single screens (%)	2	2

Source: BOBCAPS Research

Ancillary revenue streams have scope for further growth

Even after a period of accelerated growth in ancillary revenue streams (F&B, ad revenue) for both PVRL and INOL over the past 7-8 years, we believe levers for further growth still exist.

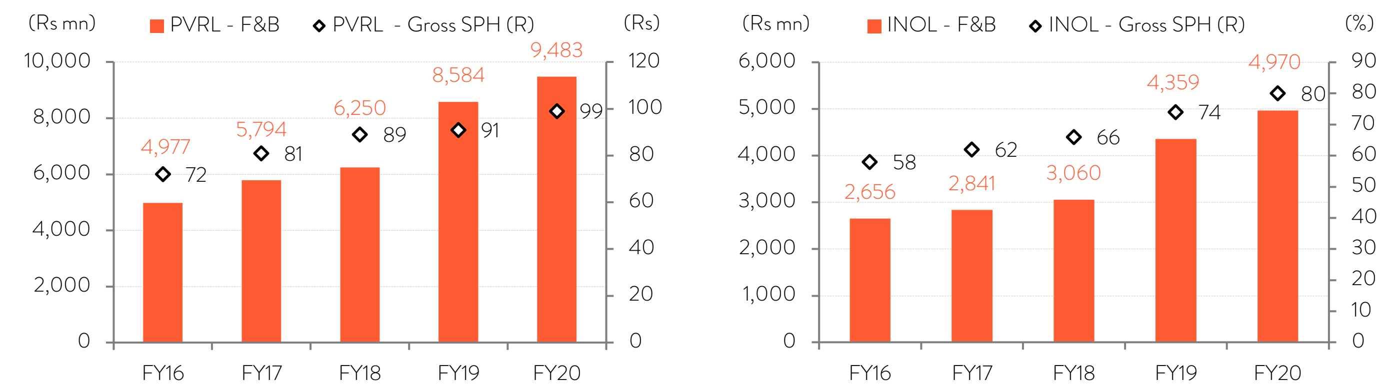
F&B – ample scope to grow

SPH-to-ATP ratio of PVRL/ INOL at 49%/40% is lower vs. 50%+ for global exhibitors

The high-margin (~75%+ gross margin) F&B segment has emerged as a key revenue stream for multiplex operators. F&B revenue is a function of screen expansion, footfalls and spend per head. The latter, in turn, depends on higher conversion of patrons into F&B purchasers (strike rate) as well as price hikes. To increase their strike rates, both PVRL and INOL have taken several steps in the past – wider choice of foods, premium and gourmet cuisine options (often curated by celebrity chefs), and easier ordering options (mobile apps, delivery at seats).

Concerted efforts have helped PVRL/INOL to increase F&B revenue at 17.8%/ 20.5% CAGR and SPH at 6.9%/8.9% over FY17-FY20. The cut in GST rate from 12% to 5% in FY19 has also aided growth. Still, the SPH/ATP ratio for PVRL and INOL remains lower than most global counterparts. This implies further scope for growth in both SPH and strike rate for Indian multiplexes. Rising discretionary spends coupled with innovative F&B offerings should augment SPH going ahead.

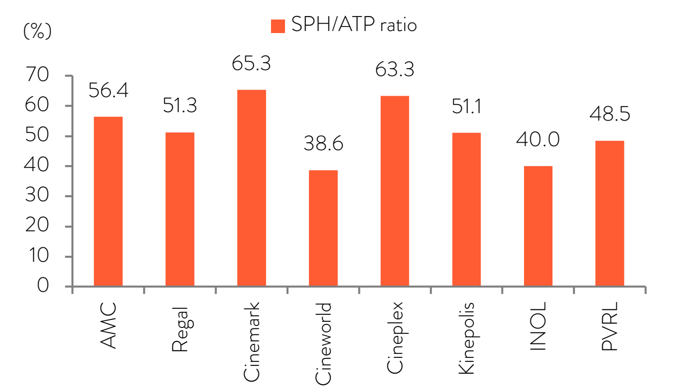
FIG 59 – PVRL/INOL HAVE POSTED STRONG 18%/21% CAGR IN F&B REVENUE OVER FY17-FY20



Source: Company, BOBCAPS Research

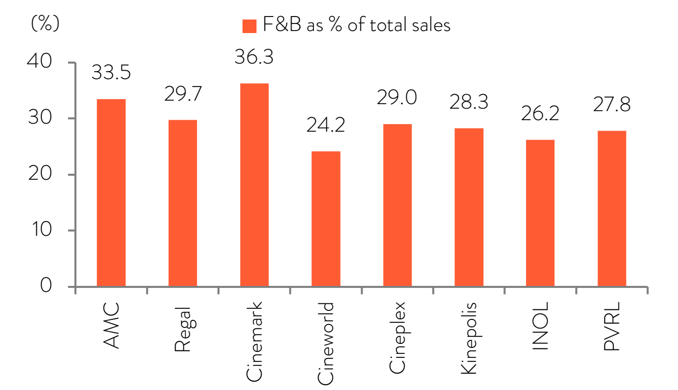
Source: Company, BOBCAPS Research

FIG 60 – SPH/ATP RATIO LOWER FOR PVRL AND INOL



Source: Company, BOBCAPS Research

FIG 61 – F&B AS % OF SALES IS SLIGHTLY BELOW TOO



Source: Company, BOBCAPS Research

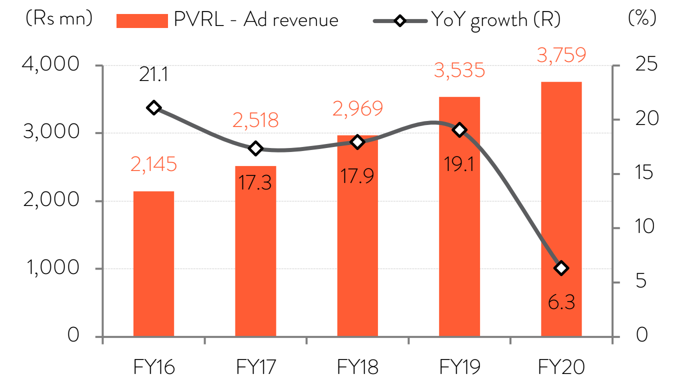
Ad inventory utilisation has ramped up; ad growth hinges on rate hike, screen expansion

Advertising revenue to grow in-line with increase in screens

The two industry leaders have witnessed a rapid increase in advertising revenue in recent years due to focused efforts to boost ad inventory utilisation and improve the pricing mix. Over FY17-FY20, PVRL/INOL have registered a strong ad revenue CAGR of 14.3%/23%.

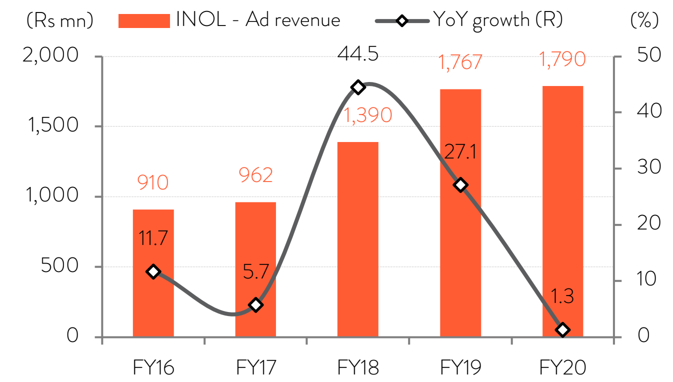
Going ahead, sound marketing initiatives by both players along with innovative measures (such as ads on lobbies, pillars) should help them post healthy revenue growth. That said, we expect both companies to grow slightly slower than their past track record as inventory utilisation levels are fairly high. Hereafter, ad revenue growth would be a function of screen expansion and advertising rates.

FIG 62 – AD REVENUE GROWTH STRONG FOR PVRL…



Source: Company, BOBCAPS Research

FIG 63 – …AND ALSO FOR INOL



Source: Company, BOBCAPS Research

ROCE profile of multiplexes to improve in long run

Indian multiplex companies typically generate low to mid-teen ROCE (adj. for Ind-AS 116 changes). In our view, this is due to large-scale expansion in the last few years, both organically and inorganically. Overall ROCE is also impacted by other factors: treasury shares and some owned properties for INOL, and premium paid by PVRL for acquiring SPI Cinemas and DT Cinemas in recent years. As the share of mature screens in PVRL/INOL's portfolio increases, we expect their core ROIC/ROCE to also inch upwards.

FIG 64 – MATURE PROPERTIES GENERATE SUBSTANTIALLY HIGHER ROCE – PVRL IS AN EXAMPLE

PVRL's consolidated financials (FY19) [Rs mn]		Screens	Net capital employed	Total Income	Adjusted EBIT	ROCE
Screen Operational > 2 years [G=E-F]	G	576	14,255	25,394	3,317	23.3
Screen Operational < 2 years	F	115	3,754	2,805	459	12.2
PVR Screens Total	E	691	18,008	28,199	3,776	21.0
Capital Employed - proposed screens	D	-	2,821	-	-	-
Grand total (C=A-B)	C	691	20,829	28,199	3,776	18.1
SPI Cinemas	B	72	9,708	2,988	506	5.2
Consolidated Screens Total	**A**	**763**	**30,536**	**31,187**	**4,282**	**14.0**

Source: Company, BOBCAPS Research

Competitive landscape

Multiplex an oligopolistic industry: two leaders far ahead of peers

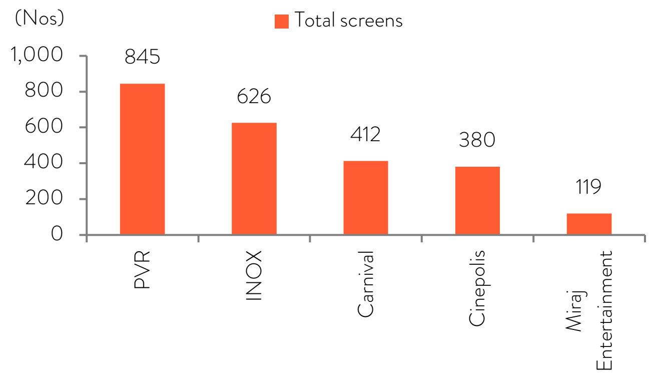
Our analysis of per-screen dynamics of the top four multiplex operators in India shows that the two leading operators – PVRL and INOL – are a class apart. Through judicious organic and inorganic acquisitions, PVRL has cemented its place as the undisputed leader in the Indian multiplex industry. It is ahead of peers on all conceivable parameters – screen portfolio, footfalls, SPH and advertising revenue. Over the past three years, however, INOL has narrowed the gap with PVRL on some parameters.

PVRL the undisputed leader…

PVRL has better occupancy, SPH and ad revenue due to premium catchment presence

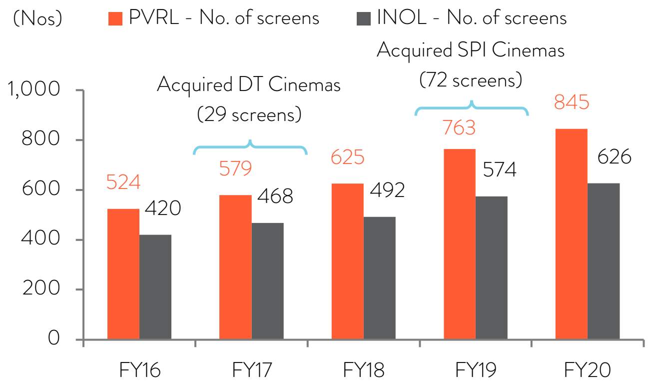
With 845 screens as of FY20, PVRL is the largest multiplex operator in India, comfortably ahead of peers. Two sizable acquisitions – DT Cinemas (29 screens) in FY17 and SPI Cinemas (72 screens) in FY19 – helped the company increase screen count at a CAGR of 13.4% over FY17-FY20 vs. a 10.2% CAGR for INOL, despite a higher base.

FIG 65 – PVRL LEADS OTHER MULTIPLEX PLAYERS IN TERMS OF NUMBER OF SCREENS



Source: Company, BOBCAPS Research

FIG 66 – PRUDENT INORGANIC EXPANSION HELPED PVRL GROW SCREEN COUNT FASTER THAN INOL

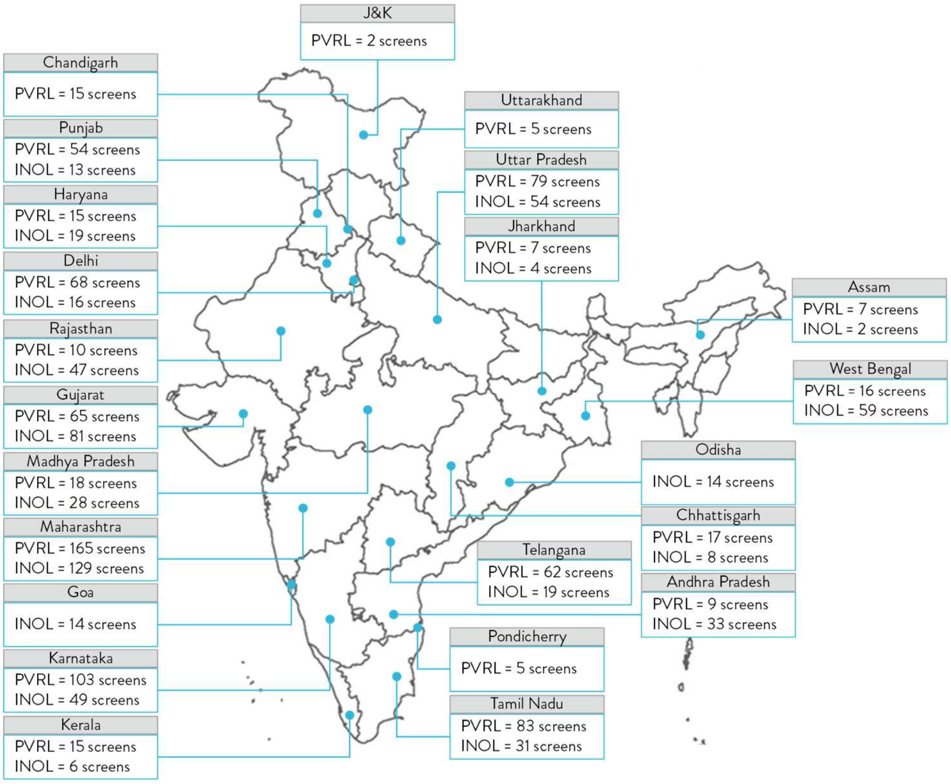


Source: Company, BOBCAPS Research

We believe PVRL's superior standing across operating parameters also stems from its presence in comparatively premium locations vis-à-vis competitors. It is present across the top retail malls in key movie circuits and premium catchment areas such as Delhi NCR and Mumbai. Additionally, our analysis of the screen spread of leading operators suggests that PVRL has a denser presence in the leading movie circuits, both Bollywood and regional. Premium locations enable the company to generate industry-leading occupancies, ATP and F&B SPH as well.

- **PVRL has more screens in top circuits for Hindi movies**
- **PVRL and INOL have similar screen count in largest Mumbai (~30%) circuit**
- **PVRL leads in Delhi (~23%), Punjab (~10%) and southern (~13%) circuits**
- **INOL is ahead in Rajasthan (~5%) and West Bengal (~5%)**
- **Denser screen presence in South enables PVRL to tap into large regional market (~40% of Indian box office)**

FIG 67 – PVRL LEADS IN SCREEN PRESENCE IN KEY STATES (MAHARASHTRA, DELHI) AND IN SOUTHERN STATES



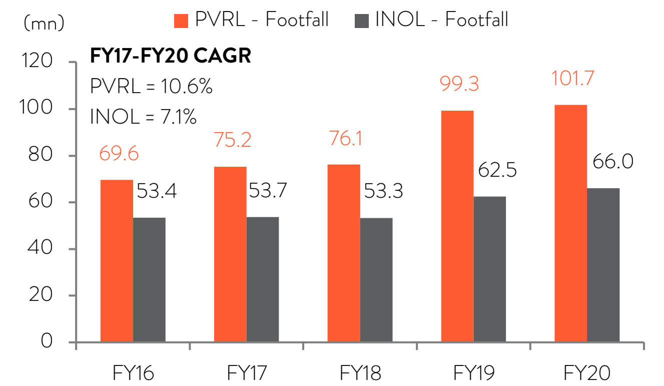
Source: Company, BOBCAPS Research

FIG 68 – PVRL IS AHEAD ON MOST LEADING CIRCUITS FOR BOLLYWOOD MOVIES

Movie circuits	Regions	Share in Bollywood NBOC* (%)	Est. screens of PVRL	Est. screens of INOL
Mumbai	Mumbai, Parts of Maharashtra, Gujarat, Goa	30	230**	224**
Delhi/UP	Delhi, Uttar Pradesh and Uttarakhand	23	152	70
East Punjab	Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Ladakh and Punjab	10	102	32
Rajasthan	Rajasthan	5	10	47
CP Berar + Central India	Vidarbha region of Maharashtra, Madhya Pradesh and Chhattisgarh	9	35	36
Nizam/Andhra	Telangana, Andhra Pradesh	5	71	52
Mysore	Bengaluru, Karnataka	6	103	49
Tamil Nadu/Kerala	Lakshadweep, Kerala, Puducherry and Tamil Nadu	2	103	37
Bihar	Bihar, Jharkhand	3	7	4
West Bengal	West Bengal	5	16	59
Assam	Assam	1	7	2
Odisha	Odisha	1	0	14
Total		**100**	**836+**	**626**

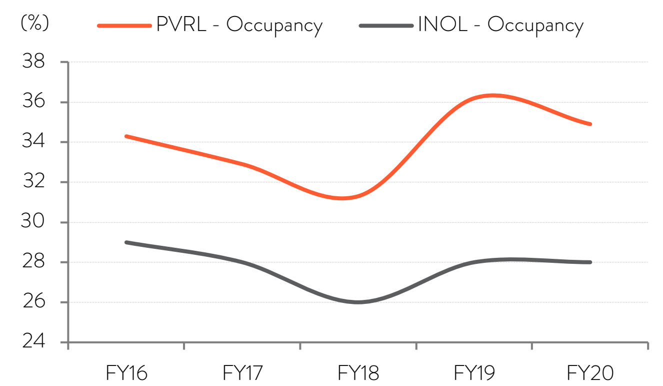
Source: Film trade websites, BOBCAPS Research | *Share in NBOC for the Top 10 Bollywood movies in 2019 | **Entire Maharashtra region considered in Mumbai circuit, instead of some in CP Berar circuit | + PVRL's 9 screens in Colombo, Sri Lanka are not included

FIG 69 – PVRL POSTED FASTER 11% CAGR IN FOOTFALL OVER FY17-FY20 VS. INOL'S 7%...



Source: Company, BOBCAPS Research

FIG 70 – ...AND ALSO EXPANDED ITS LEAD IN OCCUPANCY LEVELS



Source: Company, BOBCAPS Research

...but INOL catching up on key parameters

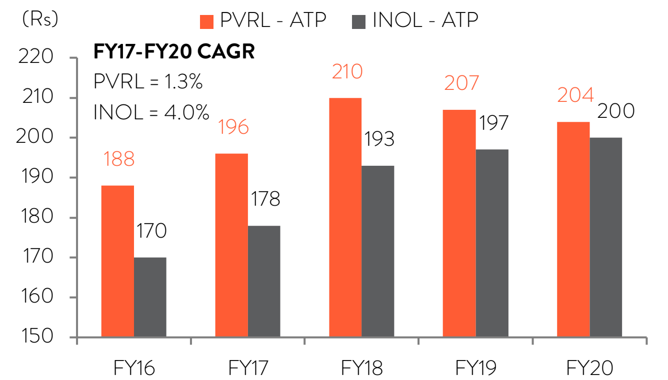
INOL has edged closer to PVRL, especially on F&B and ad revenue per screen

Though PVRL remains in the lead across operating and financial parameters, INOL has been gradually narrowing the gap on most key aspects. Acquisitions of DT Cinemas and SPI Cinemas have aided PVRL's higher screen growth and occupancy (SPI Cinemas has >50% occupancy), but INOL has grown faster on key operating parameters – ATP, SPH, F&B/screen and ad revenue/screen over FY17-FY20.

INOL's progress has been especially impressive on the ancillary revenue front. Over FY17-FY20, the company grew its F&B revenue/screen and SPH at 9.0% and 8.9% CAGR vs. 3.9% and 6.9%, respectively, for PVRL - albeit off a relatively lower base - supported by its revamped menu, diversified F&B offerings and fresh cooked meals in premium formats (PVRL's SPH already reflects the best of these initiatives). INOL has also bridged the ad revenue disparity through its marketing initiatives, driving an ad revenue per screen CAGR of 11.3% vs. 0.8% for PVRL.

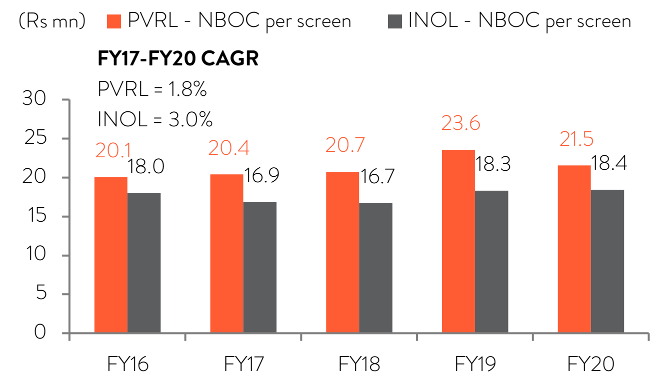
Though PVRL should maintain its lead on operating parameters due to its presence in premium catchment areas, we expect INOL to continue to grow faster in the near future, especially on ancillary revenue streams, aided by its focused initiatives and lower base.

FIG 71 – INOL HAS BRIDGED THE GAP ON GROSS ATP…



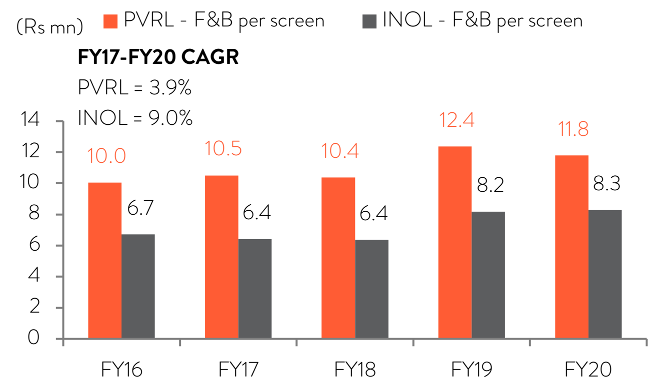
Source: Company, BOBCAPS Research

FIG 72 – …AND SLIGHTLY OUTPACED PVRL ON NBOC



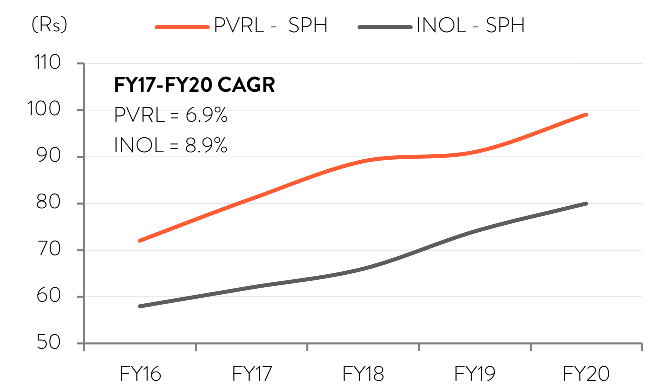
Source: Company, BOBCAPS Research

FIG 73 – F&B PER SCREEN GREW FASTER FOR INOL…



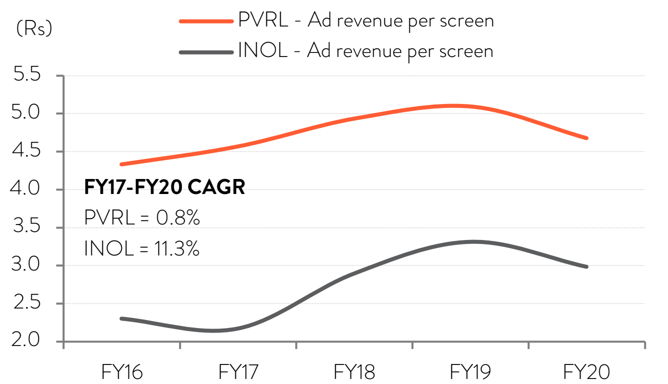
Source: Company, BOBCAPS Research

FIG 74 – …AS DID SPH



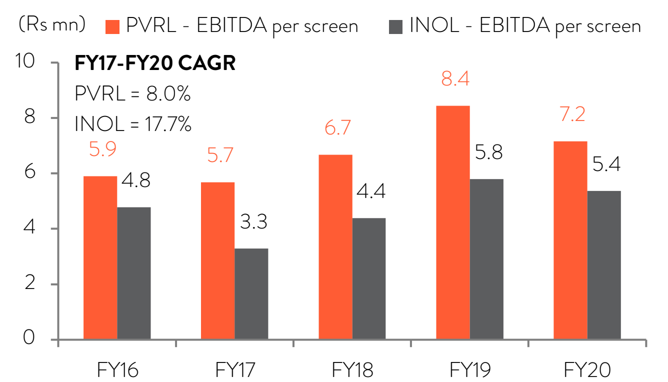
Source: Company, BOBCAPS Research

FIG 75 – INOL HAS SEEN SUBSTANTIALLY HIGHER GROWTH IN AD REVENUE PER SCREEN…



Source: Company, BOBCAPS Research

FIG 76 – …AND ALSO IN EBITDA PER SCREEN



Source: Company, BOBCAPS Research | FY20 EBITDA adj. for Ind-AS 116

Annexure A: Views from industry experts

Leading pan-India multiplex chain

- Screens should be operational in a staggered manner by mid-to-late August (our discussion was in mid-July), starting in green/orange zones.
- Due to social distancing measures, capacity may reduce to ~50% for a couple of months after reopening. The number of shows would drop to four per day from five in normal times as sanitisation measures will necessitate longer gaps between shows.
- As many as 40-45% of malls have agreed to waive rentals during the lockdown period, while some are still in negotiations. Some multiplexes are looking to transition to a revenue-sharing model with developers post resumption of operations.
- No discussions are underway to change the revenue-sharing structure with distributors.
- All multiplexes have some screens in the pipeline, which will be pushed to FY22. Mall development has also been delayed by a few months and hence screen opening plans for the next 2-3 years will be deferred.
- Large and mid-sized movies will not shift to OTT platforms as it is difficult to generate the same box office collections as a theatrical release. Also, audiences prefer to enjoy big-ticket movies on large screens, rather than streaming platforms.
- ATP hikes in the near term will be capped due to lower occupancy. Over the longer term, ATP could rise 3-5% annually.
- Ad revenues should start to recover from Q1FY22. Longer movie intervals may increase the ad inventory available with exhibitors in the near term.
- Multiplexes are focused on returning to normalcy at present, but could look at inorganic growth opportunities after 9-12 months.

Regional multiplex chain

- Screens are expected to open in October, with 4-6 weeks of muted footfall as content will take time to ramp up. Thereafter, if content is supportive, the industry can witness a V-shaped recovery within the next couple of months.
- FY22 should be a strong year as production of several big-ticket movies has shifted to next year.

- The operator has invoked the force majeure clause across all properties. ~70% of the agreements have pandemic as a force majeure clause, rest 30% have government order as a clause.
- Part rentals may have to be paid for critical screens in premium locations. Refundable deposits may be converted to non-refundable to avoid cash outgo this year.
- New deals with mall developers would be at a more rationale pricing – rentals may go down 25-30% for some screens.
- Screen expansion over the next 12-18 months would be difficult due to cash flow concerns. Larger players would recover faster given higher financial flexibility.
- Key movies are unlikely to be released directly to digital platforms as (1) exhibition platforms provide the best opportunity for value discovery for smaller movies as well as big-budget films, and (2) typical OTT deals have per screen release criteria in the agreement.

Companies

BUY
TP: Rs 330 | ⮝ 41%

INOX LEISURE

| Media & Entertainment | 07 August 2020

Gaining ground on the leader – initiate with BUY

With 626 screens spread across 68 cities, INOX Leisure (INOL) is India's second largest multiplex operator. Though the Covid-induced shutdown casts a shadow on near-term prospects, our positive bias for INOL stems from its strong balance sheet, low cash burn, narrowing operational gap with the market leader, and sound long-term fundamentals. We expect INOL to script a growth rebound in FY22 alongside stronger competitive footing in the post-Covid era due to its financial flexibility. Our Sep'21 TP of Rs 330 is at 10x Sep'22E TTM EBITDA. Initiate with BUY.

Sayan Das Sharma
research@bobcaps.in

Catching up with the leader: Over FY17-FY20, INOL has outpaced PVRL on key operating parameters – ATP (4% CAGR vs. 1%), F&B/screen (9% vs. 4%), and ad/screen (11% vs. 1%) – through a focus on premium screens, F&B menu revamp, and aggressive marketing. Though PVRL will remain ahead on some parameters (occupancy, ad revenue) due to its premium locations, we believe INOL can close the gap further, eventually narrowing the valuation differential.

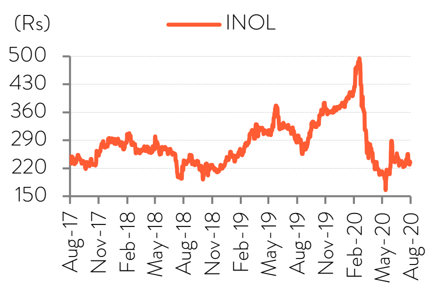
Financial flexibility a key advantage: Low leverage (0.2x FY20 debt/EBITDA) and ~Rs 4.5bn of monetisable assets give INOL an edge in these tumultuous times. A lower fixed cost burden (Rs 120mn/month) should limit cash burn as well. Financial flexibility would put INOL on a stronger footing than peers in a post-Covid era, opening up organic and inorganic growth avenues.

Solid long-term foundations: Akin to peers, we anticipate a dismal FY21 for INOL, followed by a return to normalcy from FY22 – we accordingly forecast a revenue/EBITDA CAGR of 7%/8% over FY20-FY23. Aggressive expansion plans (~1,000 screens in pipeline) will underpin long-term growth in box office collections. A lower SPH-ATP ratio than peers (40% vs. 49% for PVRL and 50%+ for global peers) and ad revenue/screen (Rs 3mn vs. PVRL's Rs 4.7mn in FY20) leave ample headroom for growth in ancillary revenue streams as well.

Ticker/Price	INOL IN/Rs 235
Market cap	US$ 321.5mn
Shares o/s	103mn
3M ADV	US$ 2.6mn
52wk high/low	Rs 512/Rs 158
Promoter/FPI/DII	52%/9%/23%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	16,922	18,974	7,557	18,943	23,241
EBITDA (Rs mn)	3,092	5,968	1,820	5,822	7,609
Adj. net profit (Rs mn)	1,385	144	(2,460)	627	1,777
Adj. EPS (Rs)	13.5	1.4	(24.0)	6.1	17.3
Adj. EPS growth (%)	5.4	(89.6)	(1806.9)	(125.5)	183.3
Adj. ROAE (%)	17.0	1.8	(49.3)	14.3	28.8
Adj. P/E (x)	17.4	167.2	(9.8)	38.4	13.6
EV/EBITDA (x)	8.7	4.3	13.7	4.4	3.4

Source: Company, BOBCAPS Research

FIG 1 – INOL'S CONSOLIDATED REVENUE ESTIMATED TO GROW AT 7% CAGR OVER FY20P-FY23E

Operating parameters	Revenue forecast – INOL							
	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Screens	420	468	492	574	626	667	707	787
Addition	48	48	24	82	52	41	40	80
Footfall (mn)	53	54	53	63	66	28	65	74
YoY (%)	29.9	0.6	(0.7)	17.2	5.6	(56.9)	128.5	14.2
Occupancy (%)	29.0	28.0	26.0	28.0	28.0	11.4	23.9	25.1
Avg. footfall per screen	1,34,848	1,21,014	1,11,104	1,17,261	1,10,000	44,000	94,600	99,330
YoY (%)	11.9	(10.3)	(8.2)	5.5	(6.2)	(60.0)	115.0	5.0
Gross ATP (Rs)	170	178	193	197	200	180	202	214
YoY (%)	3.7	4.7	8.4	2.1	1.5	(10.0)	12.0	6.0
Exhibition revenue (Rs mn)	**7,128**	**7,481**	**8,022**	**9,754**	**11,050**	**4,286**	**10,968**	**13,274**
YoY (%)	38.9	5.0	7.2	21.6	13.3	(61.2)	155.9	21.0
As % of consol. sales	61.4	61.3	59.5	57.6	58.2	56.7	57.9	57.1
Gross SPH (Rs)	58	62	66	74	80	74	84	91
YoY (%)	5.5	6.9	6.5	12.1	8.1	(8.0)	14.0	8.0
F&B revenue (Rs mn)	**2,656**	**2,841**	**3,060**	**4,359**	**4,970**	**1,971**	**5,133**	**6,329**
YoY (%)	39.0	7.0	7.7	42.4	14.0	(60.3)	160.5	23.3
SPH/ATP (%)	34.1	34.8	34.2	37.6	40.0	40.9	41.6	42.4
As % of consol. sales	22.9	23.3	22.7	25.8	26.2	26.1	27.1	27.2
Ad revenue/screen (Rs mn)	2.3	2.2	2.9	3.3	3.0	1.2	2.2	2.7
YoY (%)	(3.8)	(5.7)	33.7	14.5	(10.0)	(60.0)	85.0	22.0
Ad revenue (Rs mn)	**910**	**962**	**1,390**	**1,767**	**1,790**	**771**	**1,517**	**2,012**
YoY (%)	11.7	5.7	44.5	27.1	1.3	(56.9)	96.6	32.7
As % of consol. sales	7.8	7.9	10.3	10.4	9.4	10.2	8.0	8.7
Other operating income (Rs mn)	**911**	**923**	**1,009**	**1,042**	**1,164**	**529**	**1,326**	**1,626**
YoY (%)	(18.8)	1.2	9.3	3.3	11.7	(54.6)	150.7	22.7
As % of consol. sales	7.9	7.6	7.5	6.2	6.1	7.0	7.0	7.0
Consolidated revenue (Rs mn)	**11,606**	**12,207**	**13,481**	**16,922**	**18,974**	**7,557**	**18,943**	**23,241**
YoY (%)	30.5	5.2	10.4	25.5	12.1	(60.2)	150.7	22.7
NBOC per screen (Rs mn)	17.0	16.0	16.3	17.0	17.7	6.4	15.5	16.9
F&B per screen (Rs mn)	6.3	6.1	6.2	7.6	7.9	3.0	7.3	8.0
Ad revenue per screen (Rs mn)	2.2	2.1	2.8	3.1	2.9	1.2	2.1	2.6
Revenue per screen (Rs mn)	**27.6**	**26.1**	**27.4**	**29.5**	**30.3**	**11.3**	**26.8**	**29.5**
EBITDA* per screen (Rs mn)	**4.5**	**3.1**	**4.3**	**5.4**	**5.3**	**(1.6)**	**4.1**	**5.2**

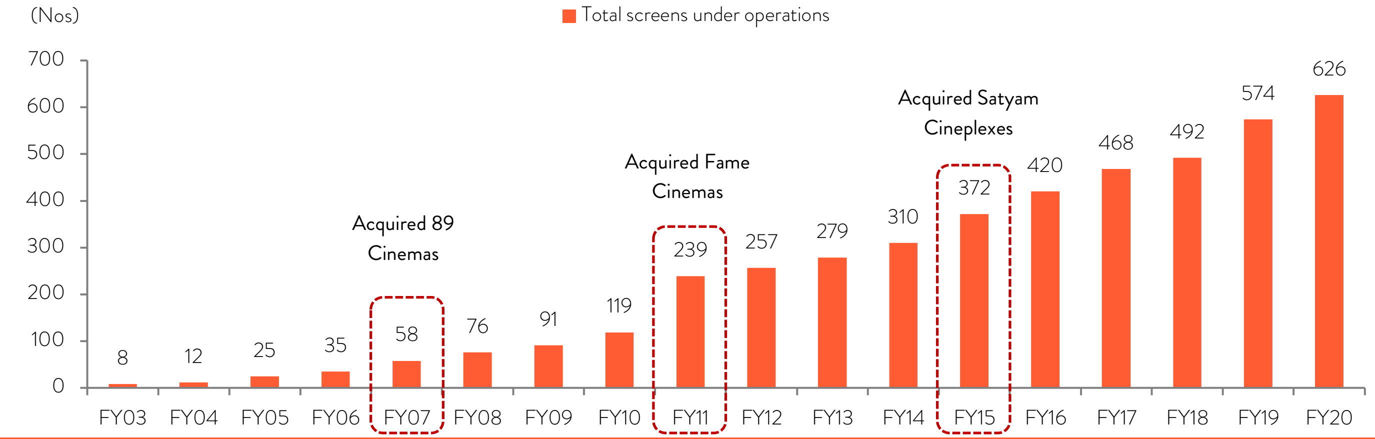
Source: Company, BOBCAPS Research | *EBITDA adjusted for Ind-AS 116

FIG 2 – KEY OPERATING ASSUMPTIONS

Key parameters	Assumptions
Screen addition	INOL will need Rs 280mn-300mn to complete the remaining 14% work on 41 new screens planned for FY21 – rollout should conclude in H2. We estimate only 40 screens in FY22 as liquidity crunch persists, with a return to normal adds of 80 screens in FY23. Per management, INOL has 1,000 screens in pipeline, to be commissioned over the next 5-7 years.
Footfalls	We assume a steep 60% decline in footfall per screen in FY21 followed by a more than doubling of admissions in FY22, supported by better content availability and a benign base.
Average Ticket Price	Expect an 10% decline in FY21 ATP as INOL is likely to dole out discounts to attract patrons. FY22 ATP is projected to bounce back to FY20 levels on better and diversified content.
Spend Per Head	SPH is likely to fall in FY21 due to discounts and a lower strike rate as patrons stay away from F&B.
Advertising revenue	Lack of big-ticket releases and lower ad budgets will hamper ad revenue in FY21. Though we project a rebound in FY22, economic slowdown will have a more pronounced on ad spends, keeping ad revenue/screen in FY22 below FY20 levels.

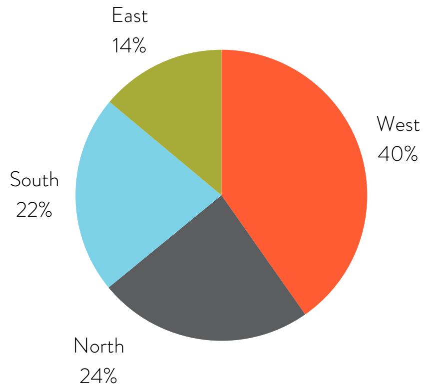
Source: BOBCAPS Research

FIG 3 – INOL HAS FOCUSED LARGELY ON ORGANIC EXPANSION, BOLSTERED BY BOLT-ON ACQUISITIONS



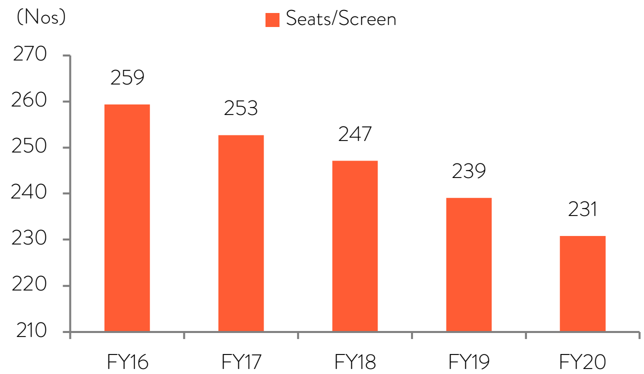
Source: Company, BOBCAPS Research

FIG 4 – WESTERN STATES DOMINATE THE GEOGRAPHIC MIX



Source: Company, BOBCAPS Research

FIG 5 – SMALLER SCREENS BEING ADDED TO OPTIMISE SCREEN DYNAMICS



Source: Company, BOBCAPS Research

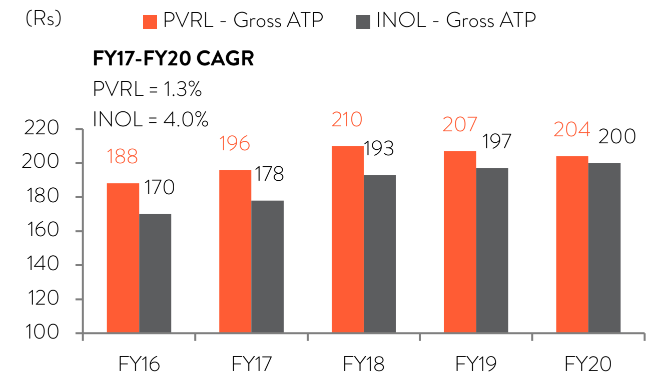
INOL has focused its expansion on the key Western India market and tier-II cities

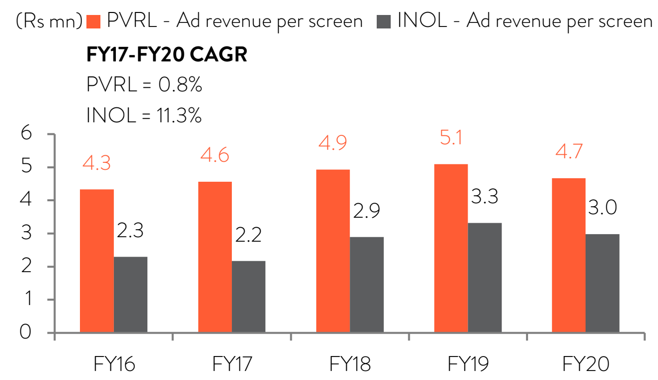
FIG 6 – DECIPHERING INOL'S PAST EXPANSION STRATEGY

Category of city	Geographic split of organic screens addition over FY15-FY20				
	Total screens added	As % of total (%)	Region	Total screens	As % of total (%)
X category/tier-I cities	88	28.0	West	140	45.4
Y category/tier-II cities	148	50.4	South	68	23.9
Z category/tier-III cities	58	21.6	North	66	23.8
			East	20	6.9
Total	**294**	**100**	**Total**	**294**	**100**

Source: Company, BOBCAPS Research | Categorisation of cities based on Ministry of Finance's classification

FIG 7 – INOL HAS NARROWED GAP WITH PVRL ON ATP & AD REVENUE/SCREEN

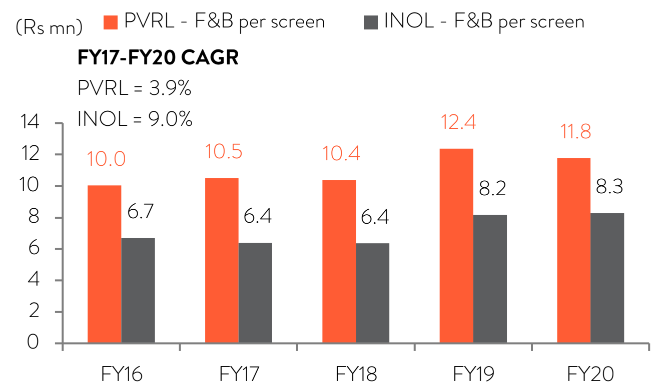




Source: Company, BOBCAPS Research

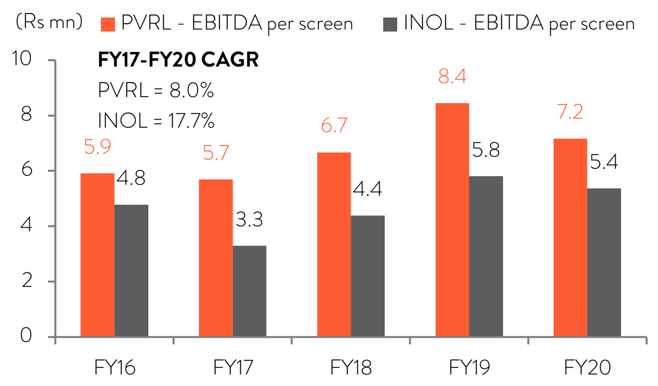
Source: Company, BOBCAPS Research

FIG 8 – F&B REVENUE PER SCREEN HAS ALSO GROWN FASTER FOR INOL…



Source: Company, BOBCAPS Research

FIG 9 – …SO HAS EBITDA PER SCREEN



Source: Company, BOBCAPS Research

FIG 10 – INOL HAS RELATIONSHIPS WITH STRONG, DIVERSIFIED BRANDS IN THE ADVERTISING BUSINESS

BFSI & Auto	FMCG	Consumer Durables	E-commerce & Telecom	Fashion & Lifestyle	Others
State Bank of India	Cadbury	Vijay Sales	Facebook	L'Oréal	Vedanta
Life Insurance Corporation	Coca Cola	Samsung	Amazon	Lux Innerwear	Joyalukkas
IDFC First Bank	Ghadi	Havells	Apple	Raymond	Kajaria
Yamaha	Haldiram's	Dyson	One Plus	Manyavar	Super Shakti
Tata Motors	Everest		Xiaomi	Max	Kidzania
5 paisa.com			Realme	Madura	Unacademy
			Just Dial	Sreeleathers	Vanesa
				Sivaram's	Primus Co-work
				Décor	Essel World
				Reid & Taylor	Municipal Corp. of Greater Mumbai

Source: Company, BOBCAPS Research

Opex burn during lockdown is Rs 120mnmonth; adequate liquidity to sustain operations for 3 months

FIG 11 – INOL'S COST REDUCTION & LIQUIDITY ENHANCEMENT MEASURES

Cost item	Initiative
Rent and Common Area Maintenance (CAM)	▪ Invoked the force majeure clause across most of its properties, asking mall owners to forego rent and CAM for the lockdown period ▪ In discussion with mall owners to reduce rent, or move to a revenue sharing model to reduce fixed cost burden
Employee costs	▪ Salary cut during lockdown; likely reduction in headcount post screen opening
Other overheads	▪ Reducing working hours post opening to lower electricity and other overheads
Liquidity measures	▪ Cash holdings of ~Rs 0.7bn in June (incl. undrawn limits); raising Rs 0.8bn from banks ▪ Treasury shares worth Rs 1bn (as of 5 August) can be monetised ▪ Sale and leaseback of 6 cinema properties and a head office can yield Rs 3.5bn ▪ Board approval for raising Rs 2.5bn of capital in place

Source: Company, BOBCAPS Research

FIG 12 – HOST OF INITIATIVES UNDERTAKEN TO ATTRACT PATRONS BACK TO THEATRES

Source: Company, BOBCAPS Research

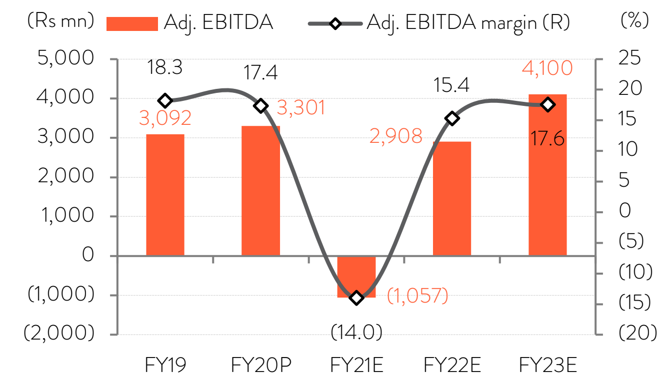
Rs 280mn-300mn required to complete the remaining 14% work across 41 screens

FIG 13 – PROPERTY OPENING OUTLOOK FOR FY21

	FY21 screen pipeline			
Location	% Complete	Properties	Screens	Seats
Kolkata	95	1	2	422
Gurugram	90	2	8	872
Mumbai	90	1	4	235
Salem	90	1	3	801
Bengaluru	85	1	5	694
Bhilwara	85	1	3	625
Dhanbad	85	1	4	888
Tumkur	85	1	5	1,069
Guwahati	75	1	4	183
Jaipur	75	1	3	585
Total	**86**	**11**	**41**	**6,374**

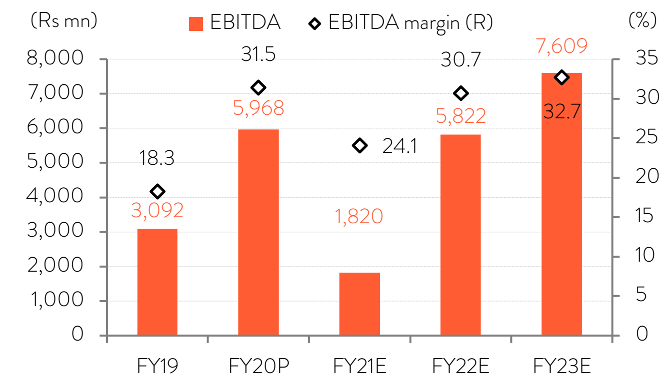
Source: Company, BOBCAPS Research

FIG 14 – CORE EBITDA (EX. IND-AS 116) FORECAST TO GROW AT 8% CAGR OVER FY20-FY23E



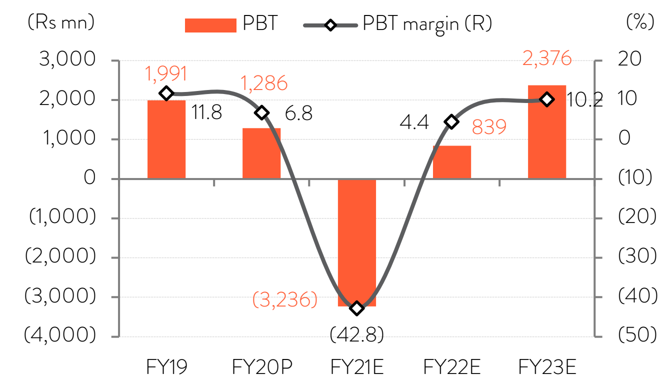
Source: Company, BOBCAPS Research

FIG 15 – ACCOUNTING CHANGES DUE TO IND-AS 116 BOOSTING EBITDA FROM FY20 ONWARDS



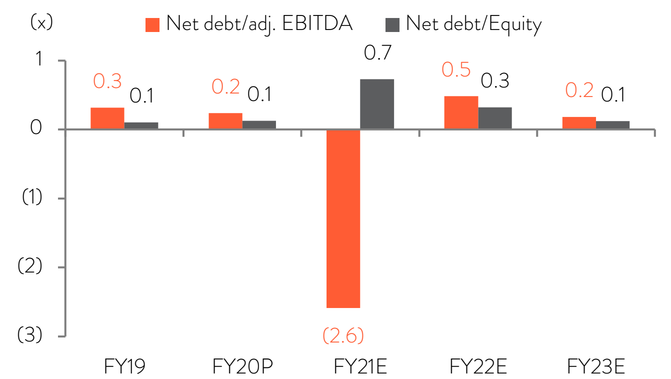
Source: Company, BOBCAPS Research

FIG 16 – PBT TO ALSO RECOVER IN FY22E



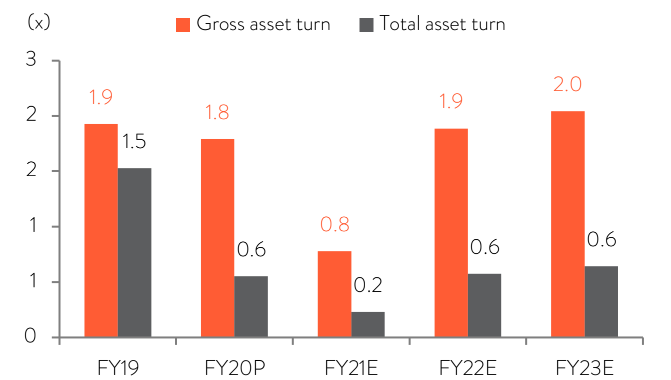
Source: Company, BOBCAPS Research

FIG 17 – LEVERAGE TO SPIKE IN FY21E BUT MODERATE IN FY22E



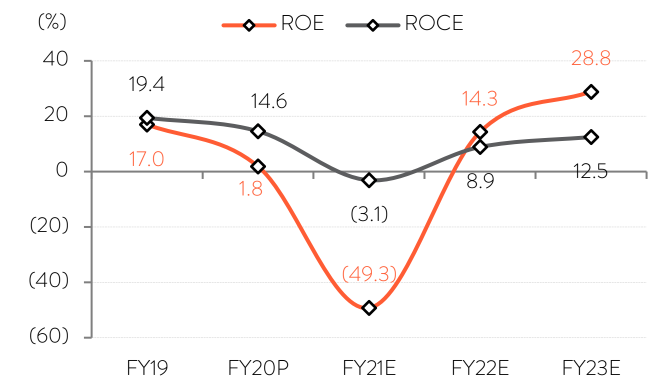
Source: Company, BOBCAPS Research

FIG 18 – GROSS ASSET TURN STEADY IN FY20-FY23E, IND-AS 116 IMPACT LOWERS TOTAL ASSET TURN



Source: Company, BOBCAPS Research

FIG 19 – ROCE TO RETURN TO DOUBLE DIGITS FROM FY23E, STRONG ROE ON ERODED NET WORTH



Source: Company, BOBCAPS Research

Valuation methodology

Initiate coverage on INOL with BUY and a Sep'22 TP of Rs 330

With 626 screens spread across the country, INOL is the second largest player in the Indian cinema exhibition industry after PVRL. Notwithstanding the grim near-term outlook, we expect INOL to benefit from the positive long-term prospects of the industry supported by its strong market positioning, unrelenting focus on enhancing consumer experience, and aggressive growth plans.

A robust balance sheet (0.2x FY20 net debt/EBITDA), lower fixed cost per screen (~Rs 16mn as of FY20), and treasury shares worth Rs 1bn (as of 5 Aug 2020) should help INOL tide over the Covid-19 crisis. A lean balance sheet also paves the way for the company to grow aggressively in future, both organically and through acquisitions.

We value INOL at Rs 330/sh using the EV/EBITDA method, assigning a 10x multiple to Sep'22E TTM EBITDA (adjusted for Ind-AS 116 impact), which is largely in line with its average trading multiple of the past three years. At the current market price of Rs 235, our Sep'21 target price implies 41% upside. Initiate with BUY.

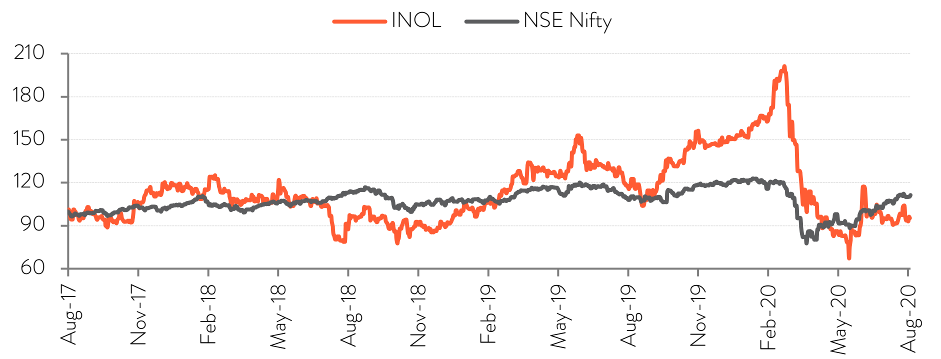
FIG 20 – VALUATION SUMMARY

(Rs mn)	
TTM Sep'22E EBITDA	6,715
Ind-AS 116 adjusted EBITDA	3,504
EV/EBITDA multiple assigned (x)	10
Enterprise value	**35,040**
Net debt (FY22E)	1,392
Equity value	33,648
Target price per share (Rs)	**330**

Source: BOBCAPS Research

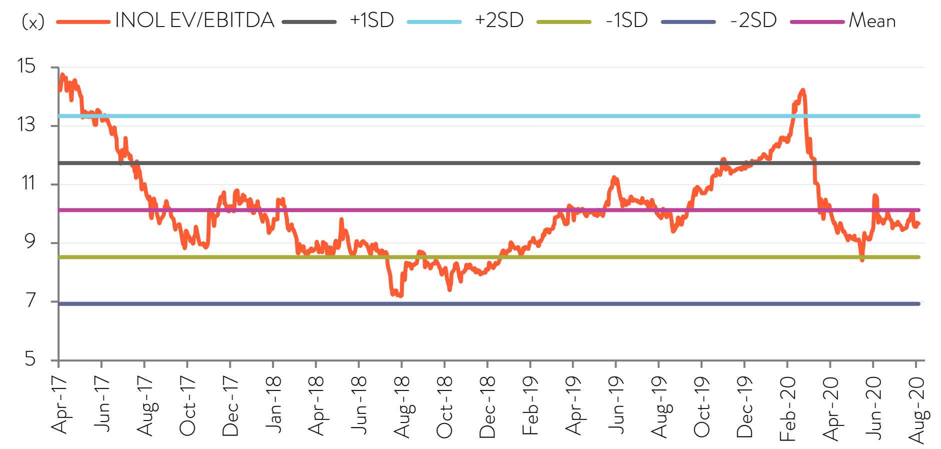
Historically, INOL has traded at 25-30% discount to PVRL's ~13.5x EV/EBITDA. On the back of its aggressive expansion plans (1,000 screens targeted to be opened over the next 5-7 years) and focus on ancillary revenue streams, INOL should continue to narrow the gap with PVRL across key operating parameters – this in turn should reduce the differential in trading multiple.

FIG 21 – RELATIVE STOCK PERFORMANCE



Source: NSE

FIG 22 – FORWARD EV/EBITDA TRADING MULTIPLE



Source: Bloomberg, BOBCAPS Research

Key risks

- Prolonged delays in opening up of cinema halls should Covid-19 cases continue to spike
- Weak content availability even after resuming operations owing to more movies being released directly on digital platforms
- Mall owners opting not to waive off rentals during the lockdown period; inability to negotiate better rentals post reopening
- Slowdown in retail mall development
- Any expensive acquisition of subpar properties

Management overview

FIG 23 – KEY MANAGEMENT PERSONNEL

Name	Brief profile
Mr Pavan Jain Chairman, INOX Group	Pavan Jain is Chairman of the INOX Group. He is a Chemical Engineer from IIT, New Delhi, and has over 45 years of professional experience. Under his leadership, the INOX Group has diversified into refrigerant gases, chemicals, cryogenic engineering, entertainment and renewable energy. With over 40 years of experience as the Managing Director of INOX Air Products, Mr Jain has steered the company's growth from a single plant business to one of the leading domestic players in the industrial gases business.
Mr Vivek Jain Director	Vivek Jain has over 35 years of business experience. He graduated in Economics from St. Stephens, New Delhi, and did his post-graduation in business administration from IIM, Ahmedabad, where he specialised in Finance. He is currently the Managing Director of Gujarat Fluorochemicals which has grown to be among the country's largest manufacturers and exporters of refrigerant gases.
Mr Siddharth Jain Director	Siddharth Jain is a member of the board of the INOX Group. Mr Jain joined the Group in 2001 and has been actively involved in the Groups' strategic planning & business development initiatives. He is directly responsible for the industrial gases, entertainment and cryogenics equipment manufacturing businesses. He is an alumnus of the University of Michigan Ann Arbor, with a degree in Mechanical Engineering and has an MBA from INSEAD. Mr Jain is a member of the World Economic Forum at Davos, a member of Young Presidents' Organization, and President of the Gas Industries Association of India.
Mr Deepak Asher Director	Deepak Asher is a graduate in Commerce and Law, and has Chartered Accountancy and Cost Accountancy as professional qualifications. He has been associated, in different capacities, with the Inox Group of companies for more than 30 years now. He is designated as Director and Group Head (Corporate Finance) for the Inox Group, sits on the board of most of the Group companies, and advises the Group on corporate finance, growth, diversification and other strategic initiatives.
Mr Alok Tandon Chief Executive Officer	Alok Tandon is a graduate in Mechanical Engineering and a senior management professional with over 31 years of experience across the entertainment, hospitality and pharmaceutical industries. Mr Tandon is responsible for the overall revenue and growth of INOL. He has been part of the start-up team of INOL and has played an active role in all the three merger & acquisitions made by the company.
Mr Kailash B Gupta Chief Financial Officer	Kailash B Gupta has over 21 years of experience in business strategy, fund raising, financial planning and analysis, budgeting, controlling, treasury and taxation. Prior to joining INOL, he has worked with Entertainment Network (India) since 2011 as Vice President where he was heading the overall finance, accounting, controlling and taxation practice. At INOL, he is responsible for strategic planning, finance & accounts, legal & compliances and investor relations.

Source: Company, BOBCAPS Research

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	**16,922**	**18,974**	**7,557**	**18,943**	**23,241**
EBITDA	3,092	5,968	1,820	5,822	7,609
Depreciation	963	2,642	2,847	2,933	3,294
EBIT	2,128	3,326	(1,028)	2,889	4,315
Net interest income/(expenses)	(237)	(2,212)	(2,309)	(2,210)	(2,119)
Other income/(expenses)	149	172	100	160	180
Exceptional items	(50)	0	0	0	0
EBT	1,991	1,286	(3,236)	839	2,376
Income taxes	(656)	(1,142)	777	(211)	(599)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**1,335**	**144**	**(2,460)**	**627**	**1,777**
Adjustments	50	0	0	0	0
Adjusted net profit	**1,385**	**144**	**(2,460)**	**627**	**1,777**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	1,596	1,295	518	1,557	1,910
Other current liabilities	1,400	1,682	670	1,816	2,229
Provisions	271	374	149	373	458
Debt funds	1,100	1,226	3,026	2,026	1,426
Other liabilities	780	27,358	26,336	27,065	29,143
Equity capital	1,026	1,027	1,027	1,027	1,027
Reserves & surplus	8,612	5,192	2,733	3,360	5,137
Shareholders' fund	9,638	6,219	3,759	4,387	6,164
Total liabilities and equities	**14,785**	**38,154**	**34,458**	**37,225**	**41,330**
Cash and cash eq.	137	447	291	634	698
Accounts receivables	882	628	311	623	764
Inventories	122	137	54	136	167
Other current assets	366	532	283	620	761
Investments	16	2	2	2	2
Net fixed assets	8,939	9,754	9,702	10,030	11,369
CWIP	637	854	0	0	0
Intangible assets	286	259	259	259	259
Deferred tax assets, net	529	1,773	1,773	1,773	1,773
Other assets	2,873	23,770	21,783	23,148	25,537
Total assets	**14,785**	**38,154**	**34,458**	**37,225**	**41,330**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	2,348	2,786	388	3,560	5,071
Interest expenses	237	2,212	2,309	2,210	2,119
Non-cash adjustments	283	(1,244)	0	0	0
Changes in working capital	72	678	(72)	389	4
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**2,939**	**4,432**	**2,624**	**6,159**	**7,195**
Capital expenditures	(2,567)	(2,083)	(300)	(1,650)	(2,850)
Change in investments	6	15	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(2,561)**	**(2,068)**	**(300)**	**(1,650)**	**(2,850)**
Equities issued/Others	64	0	0	0	0
Debt raised/repaid	(1,819)	126	1,800	(1,000)	(600)
Interest expenses	(237)	(116)	(212)	(252)	(172)
Dividends paid	0	(119)	0	0	0
Other financing cash flows	1,485	(1,945)	(4,068)	(2,914)	(3,509)
Cash flow from financing	**(507)**	**(2,053)**	**(2,480)**	**(4,166)**	**(4,281)**
Changes in cash and cash eq.	**(129)**	**310**	**(156)**	**343**	**64**
Closing cash and cash eq.	**137**	**447**	**291**	**634**	**698**

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	13.0	1.4	(24.0)	6.1	17.3
Adjusted EPS	13.5	1.4	(24.0)	6.1	17.3
Dividend per share	0.0	1.2	0.0	0.0	0.0
Book value per share	93.9	60.6	36.6	42.7	60.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.6	1.4	3.3	1.4	1.1
EV/EBITDA	8.7	4.3	13.7	4.4	3.4
Adjusted P/E	17.4	167.2	(9.8)	38.4	13.6
P/BV	2.5	3.9	6.4	5.5	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	69.6	11.2	76.0	74.8	74.8
Interest burden (PBT/EBIT)	93.5	38.7	314.9	29.0	55.1
EBIT margin (EBIT/Revenue)	12.6	17.5	(13.6)	15.3	18.6
Asset turnover (Revenue/Avg TA)	152.8	55.3	23.3	57.5	64.1
Leverage (Avg TA/Avg Equity)	1.4	2.9	6.7	8.0	6.6
Adjusted ROAE	17.0	1.8	(49.3)	14.3	28.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.5	12.1	(60.2)	150.7	22.7
EBITDA	46.9	93.1	(69.5)	219.9	30.7
Adjusted EPS	5.4	(89.6)	(1806.9)	(125.5)	183.3
Profitability & Return ratios (%)					
EBITDA margin	18.3	31.5	24.1	30.7	32.7
EBIT margin	12.6	17.5	(13.6)	15.3	18.6
Adjusted profit margin	8.2	0.8	(32.5)	3.3	7.6
Adjusted ROAE	17.0	1.8	(49.3)	14.3	28.8
ROCE	19.4	14.6	(3.1)	8.9	12.5
Working capital days (days)					
Receivables	19	12	15	12	12
Inventory	3	3	3	3	3
Payables	42	36	33	43	45
Ratios (x)					
Gross asset turnover	1.9	1.8	0.8	1.9	2.0
Current ratio	0.5	0.5	0.5	0.5	0.5
Net interest coverage ratio	9.0	1.5	(0.4)	1.3	2.0
Adjusted debt/equity	0.1	0.1	0.7	0.3	0.1

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 1,220 | ⮝ 8%

PVR | Media & Entertainment | 07 August 2020

Numero Uno in its own right – initiate with ADD

With 845 screens, PVR (PVRL) is the largest multiplex operator in India. A presence in premium locations and consequent lead on key parameters underpin its apex positioning. The shutdown is exacting a heavier toll on PVRL than peers due to its higher fixed cost per screen (~40% higher) and deeper leverage (1.7x debt/EBITDA), but the Rs 3bn rights issue alleviates near-term liquidity concerns. We assign a Sep'21 TP of Rs 1,220 set at 13x EV/EBITDA; initiate with ADD given limited near-term upside after a 60% rally since May.

Sayan Das Sharma
research@bobcaps.in

Numero uno multiplex chain: A large portfolio of 845 screens, leadership across key movie circuits (Delhi, Punjab, South India), and premium locations cement PVRL's apex position in the Indian multiplex industry. The company's superior standing vis-à-vis peers extends across most parameters (occupancy, footfall, SPH). Though closest challenger Inox Leisure (INOL) may narrow the gap, we expect PVRL to retain leadership in most operating aspects. It is also well poised to capitalise on the robust long-term exhibition industry prospects.

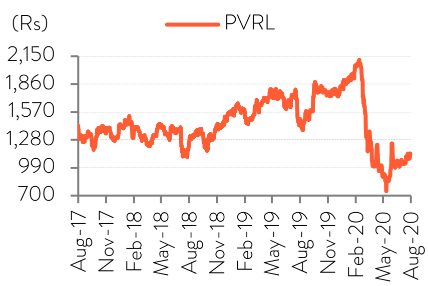
Liquidity to remain tight: Higher fixed cost/screen at Rs 23mn a year in FY20 vs. Rs 16mn for INOL implies that PVRL has to endure greater cash burn, not only during the shutdown (Rs 400mn-Rs 450/month, ~3x over INOL) but also till occupancies ramp up post resumption. Higher leverage (1.7x FY20 debt/EBITDA) equates to a larger interest burden and repayment obligations (Rs 4bn due in FY21E/FY22E). The Jul'20 Rs 3bn rights issue (at Rs 784/sh) will alleviate immediate cash flow concerns but comes at ~7% dilution.

Initiate with ADD: After a dismal FY21, we expect a return to normalcy in FY22 and forecast a revenue/EBITDA CAGR of 5%/7% over FY20-FY23. We value PVRL at 13x Sep'22E TTM EBITDA (Ind-AS 116 adjusted) for a TP of Rs 1,220. Current valuations of 14.6x FY22E EV/EBITDA cap upsides – ADD.

Ticker/Price	PVRL IN/Rs 1,129
Market cap	US$ 830.8mn
Shares o/s	55mn
3M ADV	US$ 38.0mn
52wk high/low	Rs 2,125/Rs 718
Promoter/FPI/DII	19%/37%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,856	34,144	13,248	31,760	38,204
EBITDA (Rs mn)	5,863	10,766	2,226	10,210	13,213
Adj. net profit (Rs mn)	1,898	273	(5,810)	567	2,673
Adj. EPS (Rs)	40.6	5.3	(105.3)	10.3	48.5
Adj. EPS growth (%)	51.5	(85.6)	(2228.2)	(109.8)	371.1
Adj. ROAE (%)	12.7	1.8	(48.4)	4.5	18.4
Adj. P/E (x)	27.8	212.3	(10.7)	109.7	23.3
EV/EBITDA (x)	12.0	6.7	32.9	7.2	5.6

Source: Company, BOBCAPS Research

FIG 1 – EXPECT PVRL TO CLOCK 4.8% TOPLINE CAGR OVER FY20P-FY23E

Operating parameters	Revenue forecast – PVRL consolidated							
	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Screens	524	579	625	763	845	880	920	1000
Addition	57	55	46	138	82	35	40	80
Footfall (mn)	70	75	76	99	102	44	98	110
YoY (%)	17.6	8.0	1.2	30.5	2.4	(57.1)	124.3	12.0
Occupancy (%)	34.3	32.9	31.3	36.2	34.9	14.2	30.5	32.0
Avg. footfall per screen ('000)	140	136	126	143	126	51	109	114
YoY (%)	5.3	(2.9)	(7.3)	13.2	(11.6)	(60.0)	115.0	5.0
Gross ATP (Rs)	188	196	210	207	204	184	206	218
YoY (%)	5.6	4.3	7.1	(1.4)	(1.4)	(10.0)	12.0	6.0
Exhibition revenue (Rs mn)	**9,948**	**11,249**	**12,471**	**16,354**	**17,316**	**6,687**	**16,804**	**19,949**
YoY (%)	20.7	13.1	10.9	31.1	5.9	(61.4)	151.3	18.7
As % of consol. sales	53.8	53.1	53.4	53.0	50.7	50.5	52.9	52.2
Gross SPH (Rs)	72	81	89	91	99	91	103	110
YoY (%)	12.5	12.5	9.9	2.2	8.8	(8.0)	13.0	7.0
F&B revenue (Rs mn)	**4,977**	**5,794**	**6,250**	**8,584**	**9,483**	**3,744**	**9,491**	**11,374**
YoY (%)	33.1	16.4	7.9	37.4	10.5	(60.5)	153.5	19.8
SPH/ATP (%)	38.3	41.3	42.4	44.0	48.5	49.6	50.1	50.5
As % of consol. sales	26.9	27.3	26.8	27.8	27.8	28.3	29.9	29.8
Ad revenue/screen (Rs mn)	4.3	4.6	4.9	5.1	4.7	1.9	3.5	4.2
YoY (%)	14.1	5.4	8.0	3.3	(8.2)	(60.0)	85.0	22.0
Ad revenue (Rs mn)	**2,145**	**2,518**	**2,969**	**3,535**	**3,759**	**1,613**	**3,114**	**4,052**
YoY (%)	21.1	17.3	17.9	19.1	6.3	(57.1)	93.0	30.1
As % of consol. sales	11.6	11.9	12.7	11.5	11.0	12.2	9.8	10.6
Other operating income (Rs mn)	**1,425**	**1,634**	**1,652**	**2,382**	**3,586**	**1,204**	**2,353**	**2,830**
YoY (%)	39.7	14.6	1.1	44.2	50.5	(66.4)	95.3	20.3
As % of consol. sales	7.7	7.7	7.1	7.7	10.5	9.1	7.4	7.4
Consolidated revenue (Rs mn)	**18,496**	**21,194**	**23,341**	**30,856**	**34,144**	**13,248**	**31,760**	**38,204**
YoY (%)	25.2	14.6	10.1	32.2	10.7	(61.2)	139.7	20.3
NBOC per screen (Rs mn)	19.0	19.4	20.0	21.4	20.5	7.6	18.3	19.9
F&B per screen (Rs mn)	9.5	10.0	10.0	11.3	11.2	4.3	10.3	11.4
Ad revenue per screen (Rs mn)	4.1	4.3	4.8	4.6	4.4	1.8	3.4	4.1
Revenue per screen (Rs mn)	**35.3**	**36.6**	**37.3**	**40.4**	**40.4**	**15.1**	**34.5**	**38.2**
EBITDA per screen (Rs mn)	**5.6**	**5.4**	**6.4**	**7.7**	**6.8**	**(2.8)**	**5.4**	**7.0**

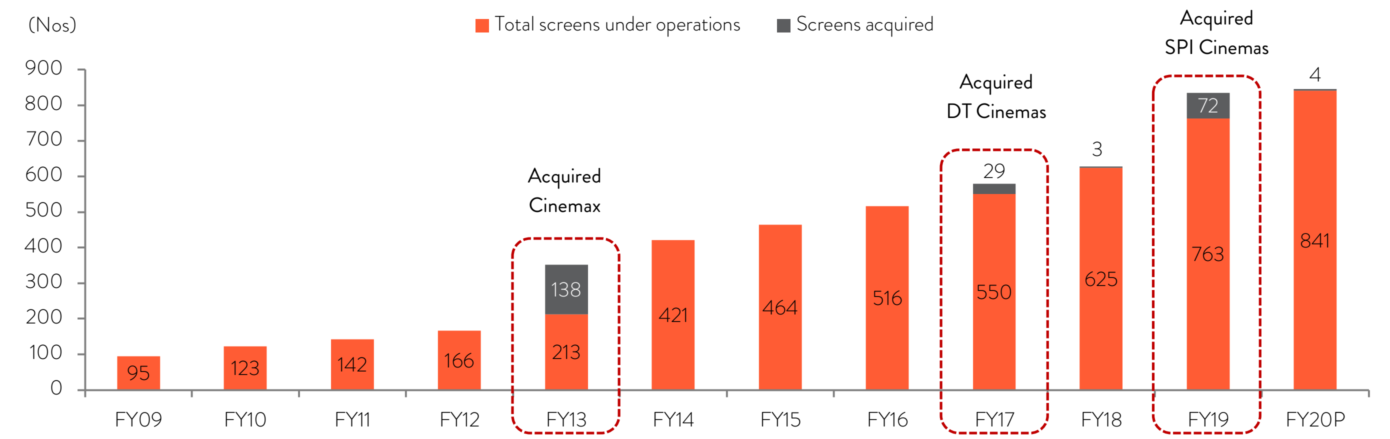
Source: Company, BOBCAPS Research

FIG 2 – KEY OPERATING ASSUMPTIONS

Key parameters	Assumptions
Screen addition	PVRL has 20-50 screens in the fitout stage. It will decide on the annual capex for FY21 once screens are open. We have assumed 35 screen launches in FY21, followed by 40 in FY22. FY23 should see a normal run-rate of 80 screens.
Footfall	Factoring in 6 months of shutdown, we expect a ~60% drop in footfall per screen this year. FY22 is likely to see a sharp increase of 115% driven by better content, pent-up demand and a lower base of FY21.
Average Ticket Price	We expect ATP to decline by 10% YoY in FY21 as PVRL will provide discounts to attract patrons back to theatres, in our view. FY22 ATP should bounce back to FY19 levels aided by better content.
Spend Per Head	SPH is likely to fall in FY21 due to discounts and a lower strike rate as patrons stay away from F&B.
Advertising revenue	Lack of big-ticket releases and lower advertising budgets will hamper ad revenue in FY21. Marquee releases should fuel a rebound in FY22, but economic slowdown is likely to restrict ad revenue/screen in FY22 to sub-FY20 levels.

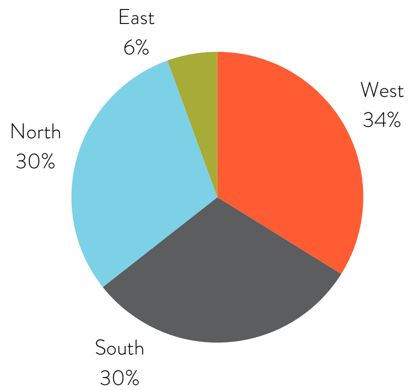
Source: Company, BOBCAPS Research

FIG 3 – SCREEN PORTFOLIO BOLSTERED BY METICULOUS ACQUISITIONS



Source: Company, BOBCAPS Research

FIG 4 – WELL BALANCED GEOGRAPHIC SPREAD



Source: Company, BOBCAPS Research

FIG 5 – 11% OF SCREENS ARE PREMIUM FORMAT

PVRL's premium format screens	No. of screens
Gold class/Luxe	37
DC	4
4DX	18
Playhouse	13
IMAX	9
P[XL]	8
Onyx	1
Sapphire	4
Total	**94**
% of total	11.1

Source: Company, BOBCAPS Research

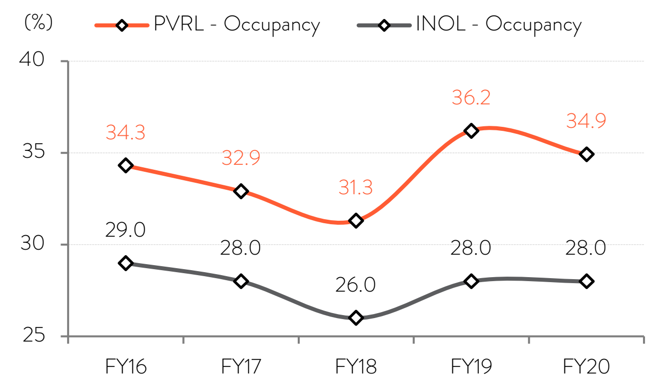
PVRL has prudently expanded its presence in South India and tier-I cities

FIG 6 – PVRL'S PAST SCREEN EXPANSION STRATEGY

Category of city	Geographic split of organic screens addition over FY15-FY20				
	Total screens added	As % of total (%)	Region	Total screens	As % of total (%)
X category/tier-I cities	191	57.7	West	86	26.0
Y category/tier-II cities	111	33.5	South	132	4.5
Z category/tier-III cities	29	8.8	North	98	29.6
			East	15	39.9
Total*	**331**	**100**	**Total**	**331**	**100**

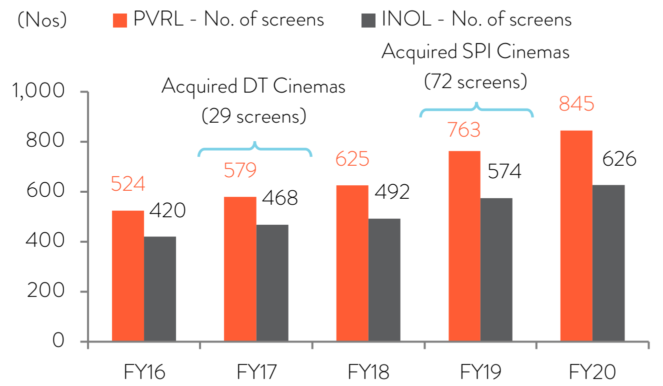
Source: Company, BOBCAPS Research | *Excludes international expansion (9 screens) and acquired properties | Categorisation of cities based on Ministry of Finance's classification

FIG 7 – PREMIUM CATCHMENT AREAS ENABLE PVRL TO GENERATE HIGHER OCCUPANCIES



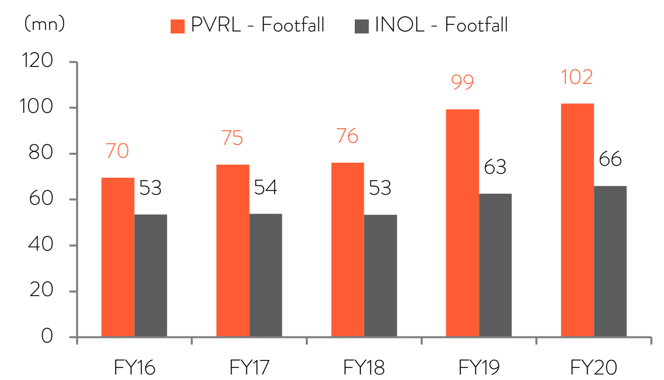
Source: Company, BOBCAPS Research

FIG 8 – SCREEN COUNT EXPANDED AT A MUCH FASTER PACE THROUGH ACQUISITIONS VS. INOL…



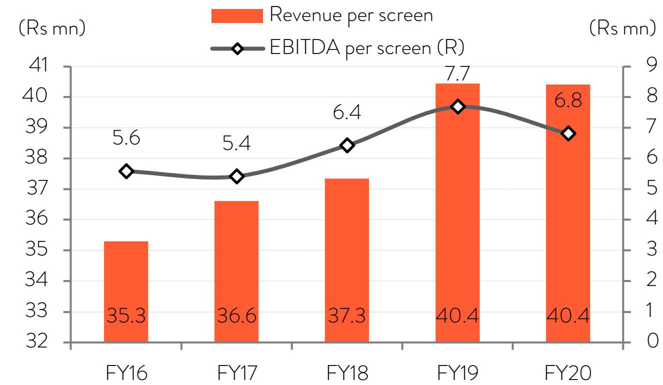
Source: Company, BOBCAPS Research

FIG 9 – …AND FOOTFALLS ALSO GREW AT A MUCH FASTER PACE OF 11% VS. 7% CAGR OVER FY17-FY20



Source: Company, BOBCAPS Research

FIG 10 – REVENUE & EBITDA PER SCREEN INCREASED AT 3% & 8% CAGR OVER FY17-FY20



Source: Company, BOBCAPS Research | Note: FY20 EBITDA adjusted for Ind-AS 116 impact

Fixed costs cut ~75% to Rs 400mn-450mn/month during the shutdown

FIG 11 – PVRL IMPLEMENTED STRICT COST-CUTTING MEASURES SINCE MAR'20

Cost items	Measures taken
Rental and Common Area Maintenance (CAM)	▪ Invoked force majeure clause across properties ▪ Negotiating with developers to forego rental & CAM during lockdown ▪ In discussions to reduce rental post reopening of screens
Personnel costs	▪ Salary cuts across various levels during the screen shutdown period ▪ Reduced employee count through retrenchment
Electricity charges	▪ Screen closures have slashed electricity costs ▪ Some state governments have waived off minimum load charges
Other overheads	▪ Discretionary spends such as advertisement put on hold ▪ Security and housekeeping contracts suspended during shutdown

Source: Company, BOBCAPS Research

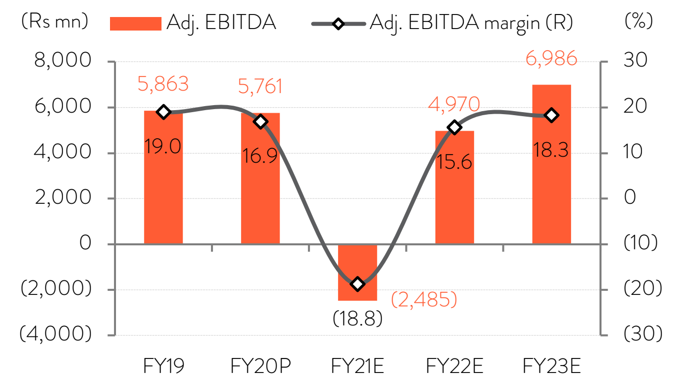
Raised Rs 3bn through a rights issue at Rs 784/sh

FIG 12 – RIGHTS ISSUE ADDRESSES NEAR-TERM CASH FLOW CONCERNS

Liquidity enhancement measures	
Liquidity position as of 7 Jun 2020	Cash balance of Rs 2.3bn, including undrawn committed bank lines, adequate for next 5-6 months at Rs 400mn-450mn/month cash outflow
Rights issue in Jul 2020	Issuing 3.8mn new shares at Rs 784/sh to raise Rs 3bn capital, implying ~7% dilution. This will meet near-term cash flow requirements
Additional borrowings	Raised additional borrowings from existing lenders

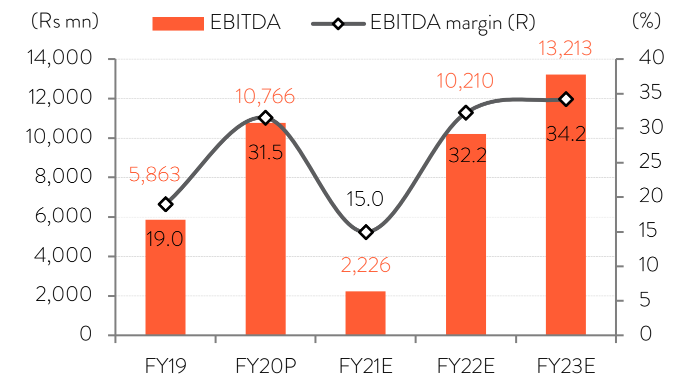
Source: Company, BOBCAPS Research

FIG 13 – EXPECT CORE EBITDA (PRE IND-AS 116) TO LOG 7% CAGR OVER FY20-FY23E



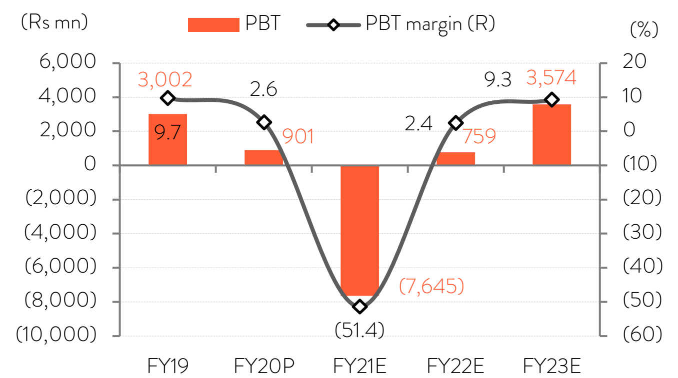
Source: Company, BOBCAPS Research | Note: FY20 EBITDA adjusted for Ind-AS 116 impact

FIG 14 – IND-AS 116 ACCOUNTING CHANGES HAVE BOOSTED EBITDA FROM FY20 ONWARDS



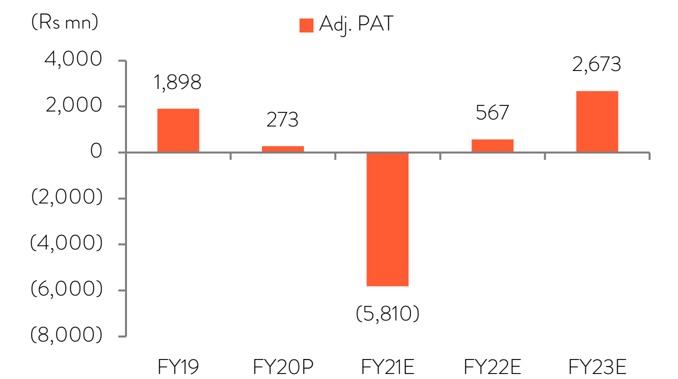
Source: Company, BOBCAPS Research

FIG 15 – FY21E PBT LOSS DUE TO SHUTDOWN, FY22E REFLECTS IND-AS 116 IMPACT



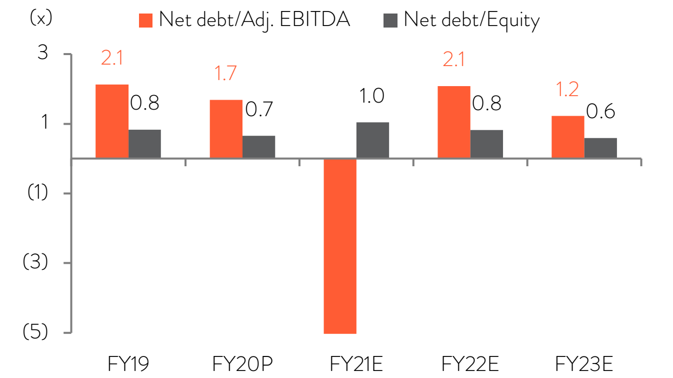
Source: Company, BOBCAPS Research

FIG 16 – EXPECTED TO RETURN TO PROFITS AT NET LEVEL IN FY22



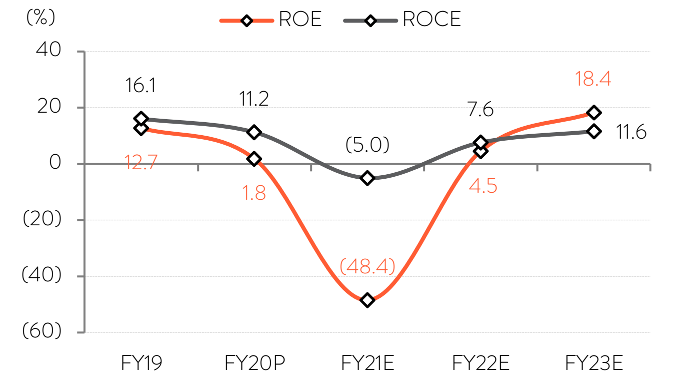
Source: Company, BOBCAPS Research

FIG 17 – DEBT LEVELS TO REMAIN ELEVATED FOR THE NEXT COUPLE OF YEARS



Source: Company, BOBCAPS Research

FIG 18 – ROE TO REBOUND IN FY23E



Source: Company, BOBCAPS Research

Valuation methodology

Initiate coverage on PVRL with an ADD rating and a Sep'21 TP of Rs 1,220

PVRL is the undisputed leader in the Indian multiplex industry, with 836 screens in the country and 9 in Sri Lanka. Though the company is experiencing its toughest phase since inception owing to the pandemic, we expect it to ride the storm on the back of a wide screen presence, strong relationships with distributors, developers and advertisers, and brand recall among moviegoers in India. We remain constructive on long-term prospects but are mindful of the near-term challenges. Also, the recent rally in the stock leaves little scope for immediate upside.

We value PVRL at Rs 1,220/sh using the EV/EBITDA method, assigning a 13x multiple to Sep'22E TTM EBITDA (adjusted for Ind-AS 116 impact), which is in line with its average trading multiple of the past three years. At the current market price of Rs 1,129, our Sep'21 target price implies 8% upside.

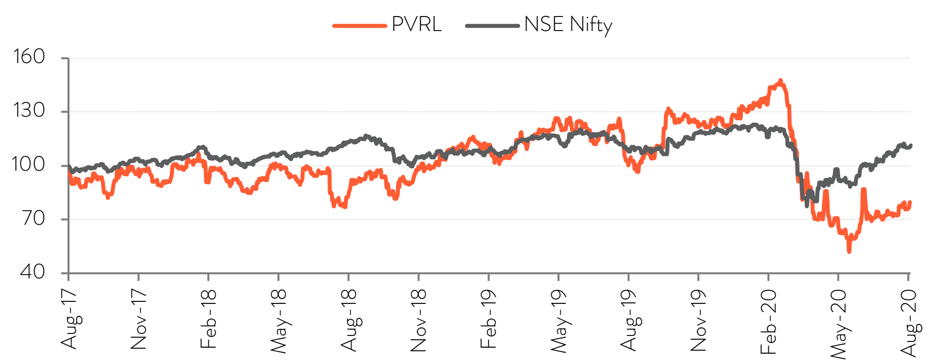
The stock reached a high of Rs 2,125 in Feb'20. However, with the escalating threat of the pandemic, screens began shutting down from mid-March and the stock soon plunged to a 52-week low of Rs 718 in mid-May, a 66% drop from the peak. Since then, it has rallied ~60% though uncertainty still prevails and is currently trading at 14.6x/10.4x FY22E/FY23E EV/EBITDA (adj.). We see limited upside in the near future and hence initiate coverage with an ADD rating.

FIG 19 – VALUATION SUMMARY

(Rs mn)	
Sep'22 TTM EBITDA	11,712
Ind-AS 116 adjusted EBITDA	5,978
EV/EBITDA multiple assigned (x)	13
Enterprise value	**77,716**
Net debt (FY22E)	10,317
Equity value	67,398
Target price per share (Rs)	**1,220**

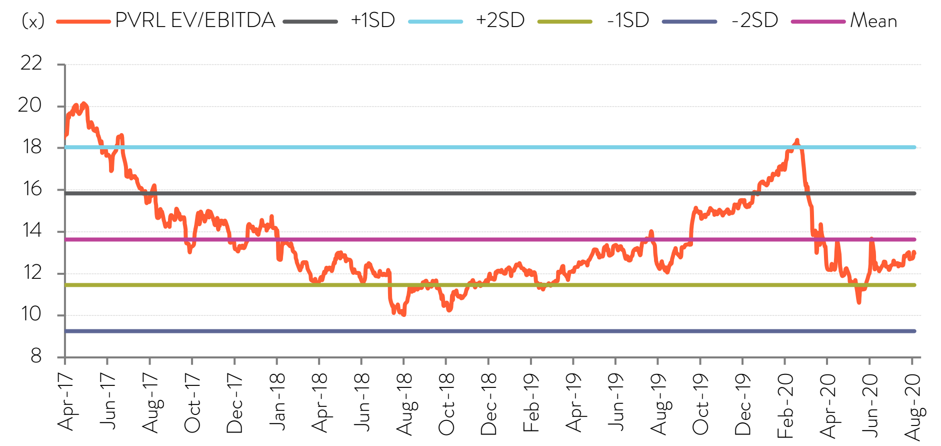
Source: BOBCAPS Research

FIG 20 – RELATIVE STOCK PERFORMANCE



Source: NSE

FIG 21 – FORWARD EV/EBITDA MULTIPLE CHART



Source: Bloomberg, BOBCAPS Research

Key risks

- Prolonged delays in opening up of cinema halls should Covid-19 cases continue to spike
- Weak content availability even after resuming operations owing to more movies being released directly on digital platforms
- Mall owners opting not to waive off rentals during the lockdown period; inability to negotiate better rentals or a transitioning to a revenue sharing model post reopening
- Slowdown in retail mall development
- Any expensive acquisition of subpar properties

Management overview

FIG 22 – KEY MANAGEMENT PERSONNEL

Name	Brief profile
Mr Ajay Bijli Chairman and Managing Director	Ajay Bijli, the Chairman and MD of PVRL, founded PVR Cinemas in 1997 and has 25 years of experience in the industry. He is on the Board of Trustees of the Mumbai Academy of the Moving Image (MAMI) and is the founding member of FICCI Multiplex Association (India). He is also a member of The Film and TV Producers Guild (India), Young Presidents' Organization, and is associated with the Central Board of Film Certification, Government of India. Mr Bijli has completed the Owners/President Management program from Harvard Business School.
Mr Sanjeev Kumar Joint Managing Director	Sanjeev Kumar is the Joint Managing Director of PVRL and has been involved with the company since its inception in 1997. In his current role, he manages the cinema acquisition and distribution business. He holds a Bachelor's degree in Finance and Accounting from Salford University, Manchester, and a Master's degree in Business Administration from Imperial College, London University.
Mr Gautam Dutta Chief Executive Officer	Gautam Dutta, CEO of PVRL, has 28 years of professional experience. He joined PVRL in 2006 as the Chief Marketing Officer and has handled various portfolios within the company since then. Mr Dutta graduated from Delhi University and started his career with Lowe Lintas, the advertising division of Mullen Lowe Lintas Group, where he spent 8 years. Prior to joining PVRL, Gautam was the Vice President-Brand Services for 3 years at Rediffusion DY & R.
Mr Kamal Gianchandani Chief Executive Officer, PVR Pictures and Chief of Strategy, PVR Ltd	Kamal Gianchandani is the CEO of PVR Pictures and Chief of Strategy at PVRL. He has over 24 years of experience in the film industry and has been associated with PVRL since 1995. He holds a Bachelor's degree in Commerce (Hons) from Delhi University, an MBA from Institute of Management Education (IME) Pune, and is an alumnus of Indian School of Business (PGPMAX).
Mr Nitin Sood Chief Financial Officer	Nitin Sood is the CFO of PVRL and has over 20 years of experience in consulting and operating roles. He has been associated with the company since 2001 and assumed the role of CFO in 2008. Mr Sood is a graduate from Delhi University, India, and a qualified Chartered Accountant. He oversees finance, accounting, legal and compliance for the company and is also responsible for M&A, fund raising and strategic business expansion opportunities.
Mr Pramod Arora Chief Growth and Strategy Officer	Pramod Arora is the Chief Growth and Strategy Officer of PVRL. He has a career spanning across retail, commercial & industrial real estate and entertainment for more than 25 years. Mr Arora has been associated with the company since 1996. He has served as Director on various boards such as Burger King India and Star Centres Pvt Ltd and is currently serving as an Independent Director on the board of Future Market Networks. He is an Electrical Engineering graduate.

Source: Company, BOBCAPS Research

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	**30,856**	**34,144**	**13,248**	**31,760**	**38,204**
EBITDA	5,863	10,766	2,226	10,210	13,213
Depreciation	1,913	5,425	5,400	5,581	6,154
EBIT	3,951	5,341	(3,173)	4,629	7,060
Net interest income/(expenses)	(1,280)	(4,818)	(4,642)	(4,221)	(3,886)
Other income/(expenses)	331	378	170	350	400
Exceptional items	0	0	0	0	0
EBT	3,002	901	(7,645)	759	3,574
Income taxes	(1,097)	(627)	1,835	(191)	(901)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(7)	(1)	0	0	0
Reported net profit	**1,898**	**273**	**(5,810)**	**567**	**2,673**
Adjustments	0	0	0	0	0
Adjusted net profit	**1,898**	**273**	**(5,810)**	**567**	**2,673**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	3,677	3,124	1,198	3,046	3,663
Other current liabilities	4,187	3,901	1,524	3,655	4,396
Provisions	215	180	70	167	201
Debt funds	12,824	12,947	12,947	10,947	8,947
Other liabilities	2,272	39,321	36,559	36,438	38,470
Equity capital	467	514	552	552	552
Reserves & surplus	14,494	14,292	11,441	12,009	14,014
Shareholders' fund	14,962	14,805	11,993	12,560	14,566
Total liabilities and equities	**38,136**	**74,278**	**64,290**	**66,812**	**70,243**
Cash and cash eq.	352	3,235	464	630	374
Accounts receivables	1,839	1,893	907	1,914	2,303
Inventories	303	307	119	285	343
Other current assets	1,439	2,102	1,123	2,256	2,714
Investments	100	11	11	11	11
Net fixed assets	14,900	16,358	16,281	16,151	17,326
CWIP	2,208	1,547	0	0	0
Intangible assets	12,525	12,455	12,455	12,455	12,455
Deferred tax assets, net	(266)	2,049	2,049	2,049	2,049
Other assets	4,736	34,322	30,882	31,061	32,668
Total assets	**38,136**	**74,278**	**64,290**	**66,812**	**70,243**

Source: Company, BOBCAPS Research

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Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	3,811	5,698	(410)	6,148	8,827
Interest expenses	1,280	4,818	4,642	4,221	3,886
Non-cash adjustments	416	(2,315)	0	0	0
Changes in working capital	1,225	(1,132)	(901)	554	(157)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**6,732**	**7,068**	**3,330**	**10,923**	**12,555**
Capital expenditures	(14,630)	(3,052)	(750)	(2,470)	(4,087)
Change in investments	99	89	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(14,531)**	**(2,963)**	**(750)**	**(2,470)**	**(4,087)**
Equities issued/Others	0	46	38	0	0
Debt raised/repaid	4,519	123	0	(2,000)	(2,000)
Interest expenses	(1,280)	(1,521)	(1,424)	(1,314)	(1,094)
Dividends paid	(112)	(205)	0	0	(668)
Other financing cash flows	4,686	336	(3,966)	(4,973)	(4,961)
Cash flow from financing	**7,812**	**(1,222)**	**(5,351)**	**(8,287)**	**(8,724)**
Changes in cash and cash eq.	**14**	**2,883**	**(2,771)**	**166**	**(256)**
Closing cash and cash eq.	**352**	**3,235**	**464**	**630**	**374**

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	40.6	5.3	(105.3)	10.3	48.5
Adjusted EPS	40.6	5.3	(105.3)	10.3	48.5
Dividend per share	2.0	4.0	0.0	0.0	12.1
Book value per share	320.1	288.3	217.4	227.7	264.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	2.3	2.1	5.5	2.3	1.9
EV/EBITDA	12.0	6.7	32.9	7.2	5.6
Adjusted P/E	27.8	212.3	(10.7)	109.7	23.3
P/BV	3.5	3.9	5.2	5.0	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	63.2	30.3	76.0	74.8	74.8
Interest burden (PBT/EBIT)	76.0	16.9	240.9	16.4	50.6
EBIT margin (EBIT/Revenue)	12.8	15.6	(24.0)	14.6	18.5
Asset turnover (Revenue/Avg TA)	100.2	60.7	19.1	48.5	55.8
Leverage (Avg TA/Avg Equity)	3.0	5.0	4.8	5.4	5.2
Adjusted ROAE	12.7	1.8	(48.4)	4.5	18.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	32.2	10.7	(61.2)	139.7	20.3
EBITDA	45.9	83.6	(79.3)	358.6	29.4
Adjusted EPS	51.5	(85.6)	(2228.2)	(109.8)	371.1
Profitability & Return ratios (%)					
EBITDA margin	19.0	31.5	16.8	32.1	34.6
EBIT margin	12.8	15.6	(24.0)	14.6	18.5
Adjusted profit margin	6.2	0.8	(43.9)	1.8	7.0
Adjusted ROAE	12.7	1.8	(48.4)	4.5	18.4
ROCE	16.1	11.2	(5.0)	7.6	11.6
Working capital days (days)					
Receivables	22	20	25	22	22
Inventory	4	3	3	3	3
Payables	43	33	33	35	35
Ratios (x)					
Gross asset turnover	1.8	1.6	0.5	1.2	1.2
Current ratio	0.5	0.8	1.0	0.8	0.7
Net interest coverage ratio	3.1	1.1	(0.7)	1.1	1.8
Adjusted debt/equity	0.9	0.7	1.1	0.9	0.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

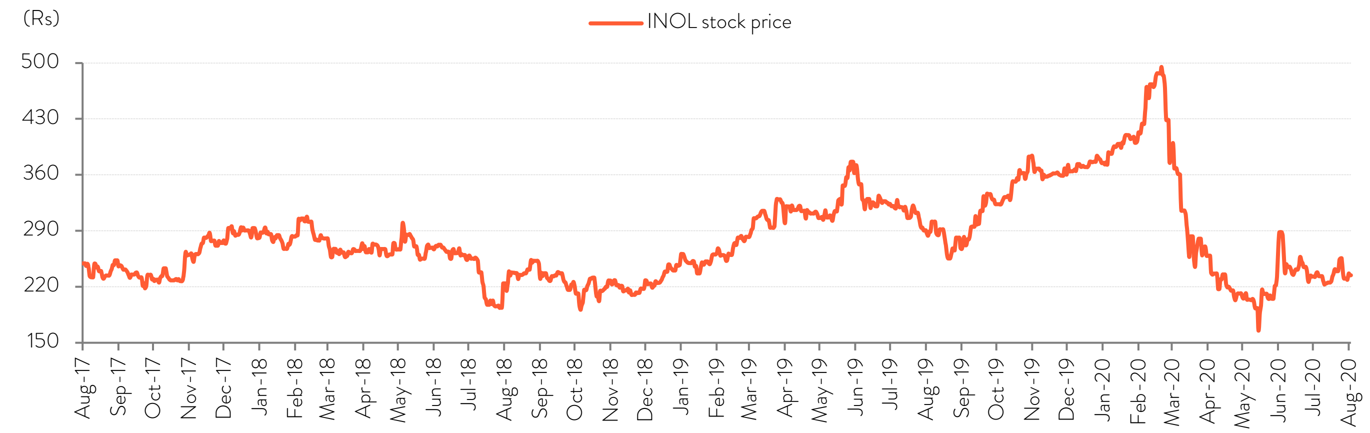
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

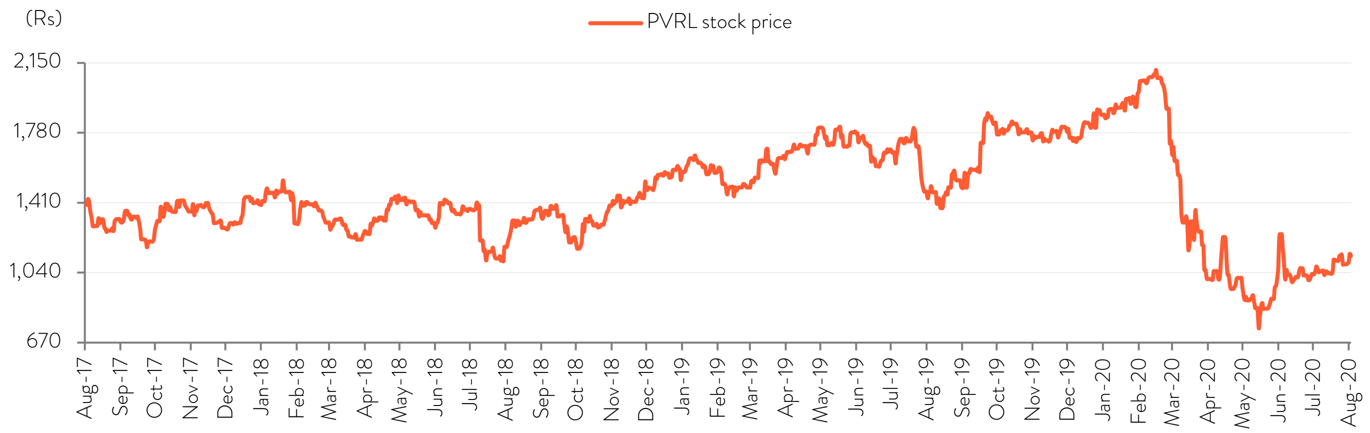
SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INOX LEISURE (INOL IN)



RATINGS AND TARGET PRICE (3-YEAR HISTORY): PVR (PVRL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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