MOTILAL OSWAL

12 June 2015
Update | Sector: Media

PVR

BSE SENSEX	S&P CNX
26,425	7,983

Bloomberg	PVRL IN
Equity Shares (m)	41.4
M.Cap. (INR b) / (USD b)	28.2/0.5
52-Week Range (INR)	751/465
1, 6, 12 Rel. Per (%)	6/-1/15
Avg Val (INRm)/Vol '000	69/104
Free float (%)	70.5

Financials & Valuation (INR b)

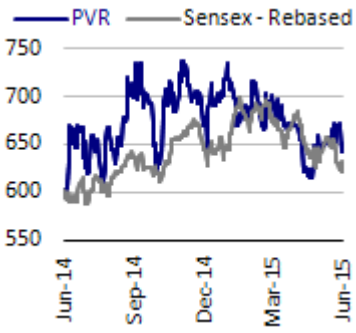
Y/E MAR	2015	2016E	2017E
Net Sales	14.8	17.6	22.9
EBITDA	2.1	2.7	3.8
Adj PAT	0.1	0.3	0.9
EPS (INR)	3.3	6.1	18.4
Gr.(%)	-77.7	81.9	203.3
BV/Sh INR	98.5	166.3	181.9
RoE (%)	3.4	4.8	10.6
RoCE (%)	8.9	9.0	12.7
P/E (x)	194.2	106.8	35.2
P/BV (X)	6.6	3.9	3.6

Shareholding pattern (%)

As on	Mar-15	Dec-14	Mar-14
Promoter	29.5	29.6	28.9
DII	7.7	4.7	4.4
FII	23.5	26.2	19.5
Others	39.3	39.5	47.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR650 TP: INR775 (+19%) Buy

DT to strengthen PVR's dominance in NCR

Synergies galore in F&B and advertising

- **To acquire DT Cinemas for INR5b; raise INR3.5b fresh equity to fund the deal:** PVR acquired DT Cinemas from DLF for INR5b. DT Cinemas currently has 29 operational screens (10 upcoming)—primarily in Delhi, Gurgaon and Chandigarh; its presence in DLF malls gives it a huge locational advantage, resulting in heavy footfalls. The acquisition gives PVR the right of first refusal in malls that DLF will develop in future. PVR has announced that it will raise (subject to shareholder approval) INR3.5b (INR700/share) in fresh equity from Multiples Private Equity to fund the deal. This preferential allotment will dilute PVR's equity by 10.7%.

- **Deal to strengthen PVR's dominance in NCR; synergies galore in F&B and advertising:** PVR's market share will increase to 21% NCR following the deal, thereby strengthening its dominance in the region. DT Cinemas' Average Ticket Price (ATP) and F&B spend per head (SPH)—at INR250 and INR95, respectively—are higher than PVR, owing to its presence in NCR and premium audience base. The management believes while ATP increase in DT properties will be similar to PVR's NCR properties going forward, F&B margins can improve significantly with PVR's scale and expertise coming into picture. With NCR being a high-advertising market, PVR's management believes it has strong room to improve ad revenue per screen in the DT properties going forward.

- **DT's long-term, revenue-sharing agreement for rentals provide growth and margin visibility:** DT Cinema's average circuit age of less than six years, long-term rental agreements (~18 year contracts) and advantage of being present in high-end malls made it an attractive asset from an acquisition perspective. Majority of DT's rental agreements are structured as ~15% revenue-sharing contacts (superior to PVR's current rental cost of 18.5%), resulting in savings on rentals. Another advantage for PVR is that refurbishing cost for DT properties will be insignificant (restricted to re-branding activities) as it already has a strong circuit with good finishes, technology and fit outs.

- **Valuation and view:** We believe the acquisition fits completely with PVR's business model, with full set of synergies in F&B and advertising likely to materialize over next the 12-18 months. With DT acquisition adding ~39 screens and PVR targeting to open 60 new screens annually over the next two years, we expect total screen count at ~608 by FY17 strengthening PVRs numero uno position in multiplex business in India. We expect 24% revenue CAGR and 37% EBTDA CAGR over FY15-17 on the back of better outlook for content in FY16 and expected revival in discretionary spends. We model DT Cinemas' acquisition and consequent dilution to fund the deal and, hence upgrade FY17 EBITDA by 13%, build higher debt (20% vs earlier forecast) and dilution (10.7%). We value PVR at 11x FY17E EV/EBITDA. Maintain **Buy** with a revised target price of INR775.

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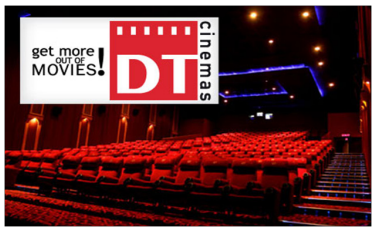


DT Cinemas acquired for INR5b; INR3.5b fresh equity raised to fund the deal

PVR has acquired DT Cinemas for an enterprise value of INR5b (debt-free) from DLF. DT Cinemas currently has 29 operational screens (10 upcoming screens) located primarily in Delhi, Gurgaon and Chandigarh regions and enjoys heavy footfalls led by locational advantage of being in DLF malls. Along with existing and upcoming 10 screens, his acquisition also gives PVR the right of first refusal in malls that DLF will develop in future. PVR has announced that it will raise (subject to shareholder approval) INR3.5b (INR700/share) in fresh equity from Multiple Private Equity to fund this deal. This preferential allotment will result in 10.7% dilution in PVR's equity. PVR management believes the deal is done at 11-12x FY17E EV/EBITDA.

The payout for the transaction is partly conditional. While payout for the 29 operational screens of INR3.5b is immediate; the cost for 10 screens under development amounting to INR1.5b will be paid in a phased manner when milestones are achieved (screens are ready for operations). Management highlighted that INR1b will be paid when 7 screens in Noida (The Mall of India), get operational (which is expected in 4-6 months) while balance INR0.5b will be paid when 3 screens in New Delhi (Chanakyapuri) get operational (expected in 4QFY16).

DT Cinemas in FY15 attracted 4m footfalls and occupancy of ~30%. Once this deal gets through, PVR will further its market leadership based on number of screens from existing 467 to 506. PVR will be making the necessary regulatory applications in the next 30 days and expects the deal to be consummated over next 4-6 months. Management expects this deal the go through CCI approval without any difficulty as even post the deal, due to high number of single screens in Delhi NCR region the combined seats market share for PVR and DT combined will be ~21%.

Exhibit 1: Multiples PE (through three distinct funds) invests INR3.5b for 10.7% stake

Fund	Shares (m)	Value (INR b)
Plenty PE Fund I Ltd	4.1	2.9
Multiples PE fund II LLP	0.4	0.3
Plenty CI Fund I Limited	0.4	0.3
Total	**5.0**	**3.5**

Source: Company, MOSL

Exhibit 2: DT Cinemas has strong presence in NCR region with 39 screens

City	Location	Screens
New Delhi	DLF Promenade Mall, Vasant Kunj	7
New Delhi	DLF Place Mall, Saket	6
Gurgaon	DLF Mega Mall	3
Gurgaon	DLF City Centre	3
New Delhi	DLF City Centre, Shalimar Bagh	4
Chandigarh	DLF City Centre	3
Gurgaon	DLF Star Mall	2
New Delhi	Greater Kailash II	1
Noida (Upcoming)	The Mall of India	7
New Delhi (Upcoming)	Chanakyapuri	3
Total		**39**

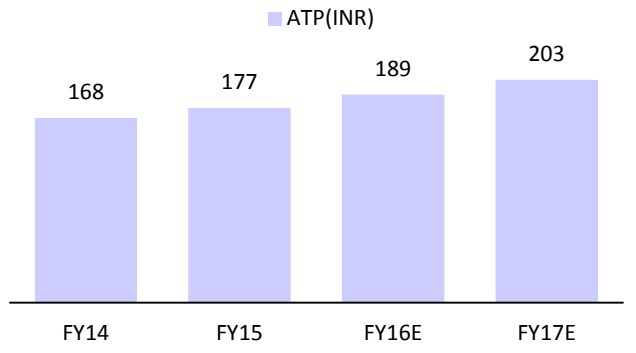
Source: Company, MOSL

Deal to further strengthen PVR's dominance in the NCR region, synergies galore in F&B and advertising

Post DT Cinemas acquisition, PVR's market share will stand at 21% in the NCR region, thus further strengthening its dominance in NCR. DT Cinemas reports superior ATPs and F&B SPH at INR250 and INR95 respectively because of predominantly being in the NCR region and catering to premium audiences. Management believes while ATP increase in DT properties will be similar to PVR's NCR properties going forward, margin improvement on F&B can be significant with PVR's scale and expertise coming into picture. Further, with NCR being a high advertising market, PVR's management believes it has strong room to improve ad revenue per screen in the DT properties going forward. Management believes emphasis on advertising under DLF's ownership was limited, however with PVR's dedicated clientele and market leadership ad revenues per screen for DT properties will improve significantly.

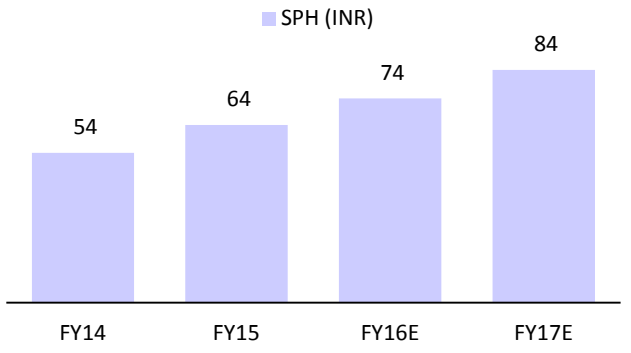
In DT Cinemas upcoming properties, 'The Mall of India' will be a popular attraction as it will be the largest mall in India (~2 million sq ft). It is expected attract popular brands (with anchor tenants like GAP and H&M), and will thus attract premium footfalls. Management believes other existing malls and multiplexes around that are may be impacted by cannibalization with consumers preferring 'The Mall of India'.

Exhibit 3: ATP to post 7% CAGR over FY15-17



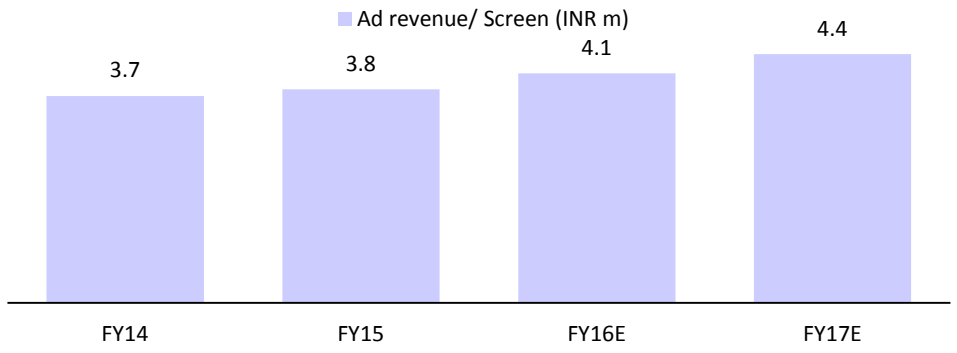
Source: Company, MOSL

Exhibit 4: SPH to post 14% CAGR over FY15-17



Source: Company, MOSL

Exhibit 5: Ad revenue/screen to post 8% CAGR over FY15-17



Source: Company, MOSL

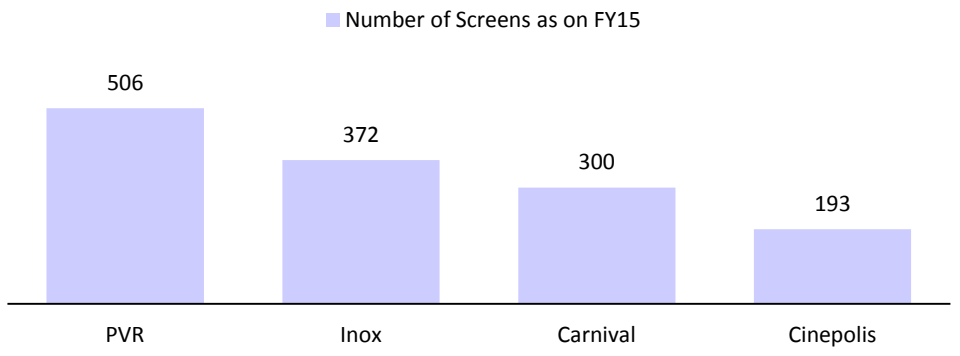
Long tenure, revenue sharing agreement for rentals drive growth visibility

DT Cinema's average circuit age of less than 6 years, long tenured rental agreements (~18 year contracts), along with its locational advantage of being in high-end malls made it an attractive asset from an acquisition perspective. Further, majority of DT Cinemas properties' rental agreements are structured as ~15% revenue sharing contacts which is superior to PVR's current rental cost of 18.5%, thus resulting in savings in rentals. Further, refurbishing cost for DT Cinemas properties will be insignificant (restricted to re-branding activities only) as it already has a strong circuit with good finishes, technology and fit outs.

Acquisition further strengthens PVR's leadership position as No.1 player

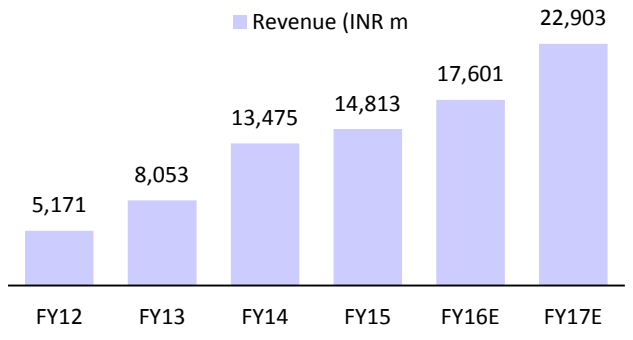
We believe DT Cinemas acquisition is highly synergistic with PVR's business model, with full set of synergies in F&B and advertising likely to materialize over next 12-18 months. With DT acquisition adding ~39 screens and PVR targeting to open 60 new screens annually over the next two years, we expect total screen count at ~608 by FY17 thus strengthening PVRs No.1 position in multiplex business in India. With better outlook for content in FY16, coupled with expected revival in discretionary spends, we expect 24% revenue CAGR and 37% EBTDA CAGR over FY15-17. We model DT Cinemas' acquisition, and consequent dilution to fund the deal, and hence upgrade FY17 EBITDA by 13%, build higher debt (20% vs earlier) and dilution (10.7%). While we model for equity dilution in FY16, we model DT Cinemas revenues in FY17 as it will be its first full year of operations post acquisition by PVR). We value PVR at 11x FY17E EV/EBITDA. Maintain **Buy** with a revised target price of INR775.

Exhibit 6: PVR leads the multiplex market with 506 screens



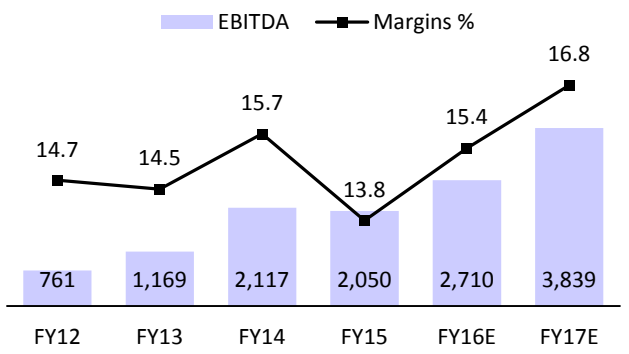
Source: Company, MOSL

Exhibit 7: Revenues to post 24% CAGR over FY15-17



Source: Company, MOSL

Exhibit 8: EBITDA to post 37% CAGR over FY15-17



Source: Company, MOSL

Valuations and view – Maintain 'Buy'

We value PVRL at 11x FY17E EV/EBITDA with a target price of INR775 justified by:

- Continued leadership in film exhibition business in India.
- Significant screen additions in the pipeline.
- Strong content outlook going forward.
- GST rollout which can result in 200-300bp margin expansion.

We believe the following factors pose risks to our assumptions:

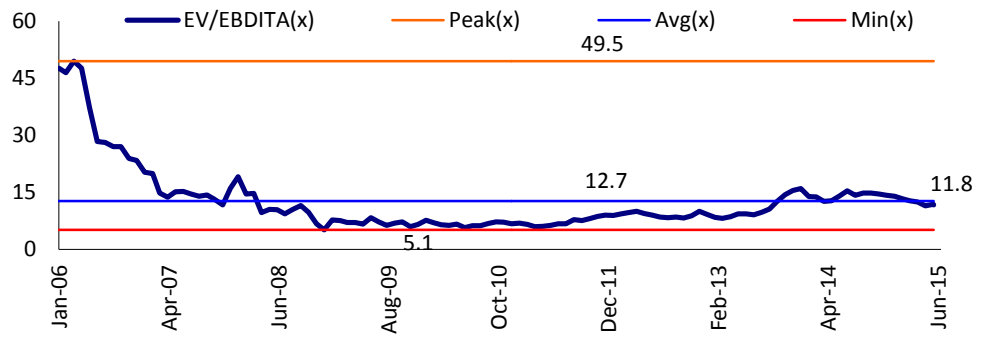
- Weaker content which can reduce footfall growth.
- Slower than expected roll out of GST which can delay margin expansion.
- Escalating rental costs which can put pressure on margins.
- Continued price controls by state governments in several states like TN and AP.

Exhibit 9: Target Price Methodology

Valuations	(INR m)
EBITDA- FY17E	3,839
Target Multiple	11.0
Target Enterprise Value	**42,224**
Less:- Debt	6,898
Add:- Cash	704
Target Mcap	**36,049**
No of shares	46.5
Value per share	**775**

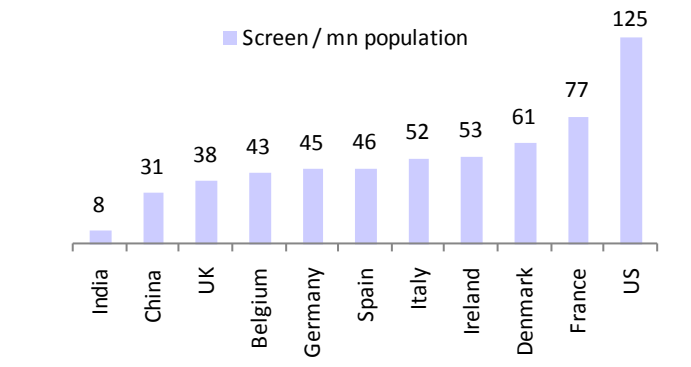
Source: MOSL

Exhibit 10: Historic EV/EBITDA band for PVR



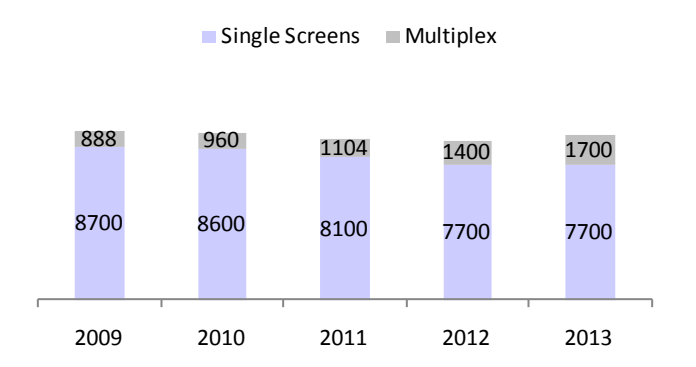
Story in charts

Exhibit 11: India has the lowest screen density



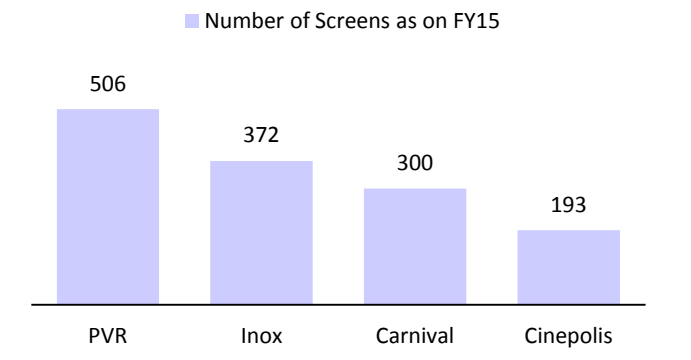
Source: Company, MOSL

Exhibit 12: Multiplex penetration still quite low



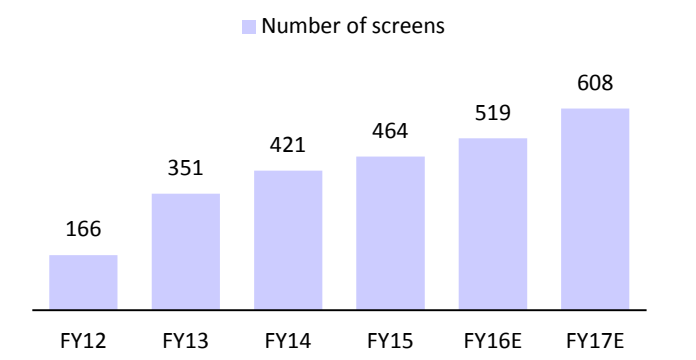
Source: Company, MOSL

Exhibit 13: PVR is India's largest multiplex chain



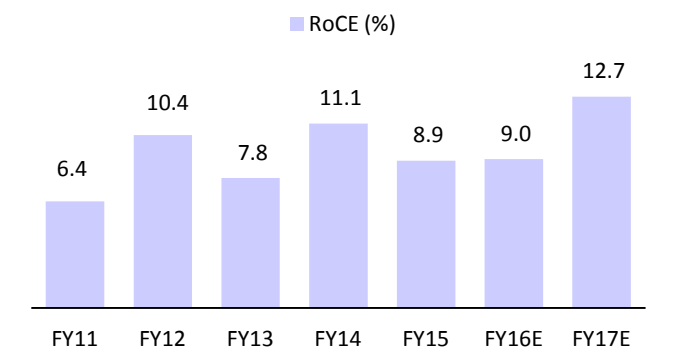
Source: Company, MOSL

Exhibit 14: PVR - most aggressive screen additions



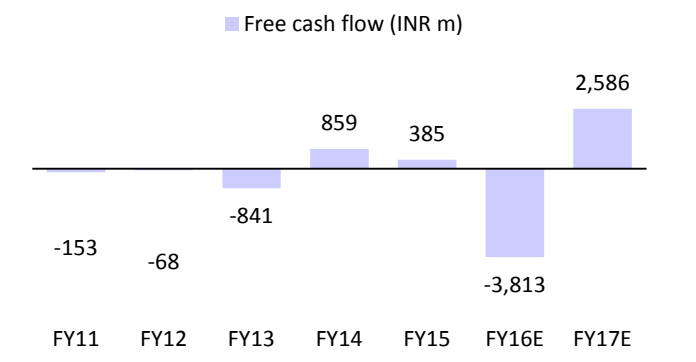
Source: Company, MOSL

Exhibit 15: RoCE to improve



Source: Company, MOSL

Exhibit 16: Free cash to improve in FY17



Source: Company, MOSL

Exhibit 17: Content for June 2015

Dil Dhadakne Do
Release Date: 5th Jun 2015
Cast: Farhan Akhtar, Ranveer Singh, Priyanka Chopra, Anushka Sharma, Anil Kapoor
Director: Zoya Akhtar
Banner: Excel Entertainment
Junglee Pictures
Mirchi Movies Limited

Hamari Adhuri Kahani
Release Date: 12th Jun 2015
Cast: Emran Hashmi, Vidya Balan, Raj Kumar Yadav
Director: Mohit Suri
Banner: Vishesh Films
Fox Star Studios

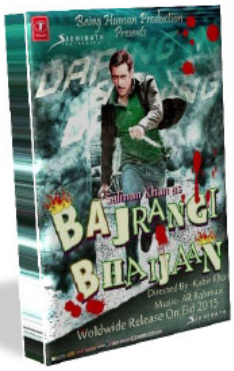
Jurrasic World (3D)
Release Date: 12th Jun 2015
Cast: Chris Pratt, Judy Greer, Bryce Dallas Howard, Irfan Khan
Director: Colin Trevorrow
Banner: Legendary Pictures
Amblin Entertainment

ABCD 2
Release Date: 19th Jun 2015
Cast: Varun Dhavan, Shraddha Kapoor, Prabhu Deva, Lauren Goutlieb
Director: Remo Dsouza
Banner: Utv Motion Pictures
Walt Disney Pictures

Source: Company, MOSL

Exhibit 18: Content for July 2015

Terminator Genisys
Release Date: 3rd Jul 2015
Cast: Emilia Cameron, Arnold Schwarzenegger, Jai Courtney
Director: Alan Taylor
Banner: Skydance Productions



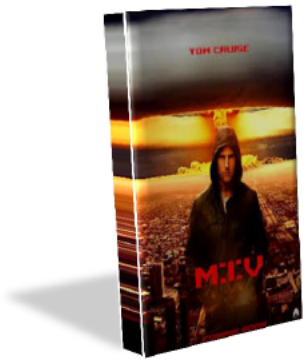
Bajrangi Bhaijaan
Release Date: 16th Jul 2015
Cast: Salman Khan
Director: Kabeer Khan
Banner: Vishesh Films
Eros International

Ant Man (3D)
Release Date: 24th Jul 2015
Cast: Evangeline Lilly, Paul Rudd, Corey Stoll
Director: Peyton Reed
Banner: Marvel Studios

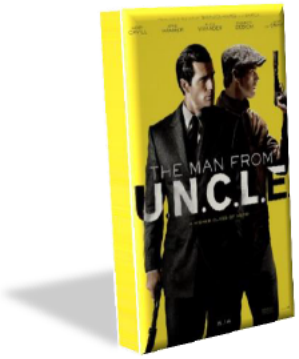
The Fantastic Four (3D)
Release Date: 31st Jul 2015
Cast: Kate Mara, Jamie Bell, Miles Teller
Director: Josh Trank
Banner: 20th Century Fox
Marvel Entertainment

Source: Company, MOSL

Exhibit 19: Content for August 2015



Mission Impossible 5
Release Date: 7th Aug 2015
Cast: Tom Cruise, Jeremy Renner, Jessica Chastain
Director: Christofer Mc Quarrie
Banner: Skydance Productions
Bad Robot Productions



The Man from U.N.C.L.E.
Release Date: 14th Aug 2015
Cast: Henry Cavill, Hugh Grant, David Beckham
Director: Guy Ritchie
Banner: Davis Entertainment
Wigram Productions

Brothers
Release Date: 14th Aug 2015
Cast: Akshay Kumar, Siddharth Malhotra, Jackie Shroff, Jackqline Fernandez
Director: Karan Malhotra
Banner: Drarma Productions

Phantom
Release Date: 28th Aug 2015
Cast: Saif Ali Khan Katrina Kaif
Director: Kabir Khan
Banner: Nadiadwala Grandson Entertainment

Source: Company, MOSL

Key operating metrics

Operating matrices	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15
Location	88	92	94	97	101	102	104	105
Screens	382	398	404	421	445	454	462	467
Screens additions during the quarter	22	16	6	17	24	9	8	5
Seats	93,074	96,735	98,019	101,095	105,668	107,809	109,762	110,524
Footfalls (m)	15.2	16.6	14.3	13.9	15.2	15.7	16.0	12.2
ATP (INR)	169	169	175	160	172	180	184	168
SPH (INR)	54	54	54	56	64	64	67	62
Consolidated revenues (INR m)								
Ticket sales (INR m)	2,026	2,224	1,965	1,742	2,078	2,281	2,307	1,579
Sale of Food and beverages (INR m)	742	795	731	713	890	908	988	692
Advertisement and royalty income (INR m)	313	355	420	328	358	407	539	381
Other income	97	110	91	107	106	129	148	83
Total revenues (INR m)								
Revenue mix								
Ticket sales	64%	64%	61%	60%	61%	61%	58%	58%
Sale of Food and beverages	23%	23%	23%	25%	26%	24%	25%	25%
Advertisement and royalty income	10%	10%	13%	11%	10%	11%	14%	14%
Other income	3%	3%	3%	4%	3%	3%	4%	3%
Total revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Key Assumptions	FY14	FY15	FY16E	FY17E
Number of Screens	421	464	519	608
Screen additions	70	43	55	50
Number of seats	101,095	110,524	121,799	132,049
Occupancy rate	31%	30%	32%	32%
Number of shows per day	5.4	5.0	5.2	5.1
Total footfalls (m)	60	59	65	75
Average ticket price (INR)	168	177	189	203
ATP growth (YoY)	3%	5%	7%	7%
Spend per head (INR)	54	64	74	84
SPH growth (YoY)	15%	19%	15%	14%
Ad revenue per screen (NR/m)	3.7	3.8	4.1	4.4

Financials and valuations

Consolidated - Income Statement (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Sales	**5,171**	**8,053**	**13,475**	**14,813**	**17,601**	**22,903**
Change (%)	12.6	55.7	67.3	9.9	18.8	30.1
Total Expenditure	4,410	6,884	11,358	12,763	14,890	19,065
EBITDA	**761**	**1,169**	**2,117**	**2,050**	**2,710**	**3,839**
Margin (%)	14.7	14.5	15.7	13.8	15.4	16.8
Depreciation	365	560	944	1,168	1,570	1,916
EBIT	**396**	**609**	**1,173**	**882**	**1,141**	**1,922**
Int. and Finance Charges	185	368	795	783	854	903
Other Income - Rec.	120	91	113	46	46	53
PBT bef. EO Exp.	**331**	**332**	**491**	**146**	**333**	**1,073**
EO Expense/(Income)	-22	-12	32	22	0	0
PBT after EO Exp.	**310**	**320**	**523**	**124**	**333**	**1,073**
Current Tax	-5	94	140	8	50	215
Deferred Tax	62	-218	-121	0	0	0
Tax Rate (%)	18.5	-38.7	3.7	6.5	15.0	20.0
Less: Minority Interest	1	2	57	11	0.0	0.0
Reported PAT	**254**	**445**	**560**	**128**	**283**	**858**
PAT Adj for EO items	**272**	**463**	**530**	**148**	**283**	**858**
Change (%)	232.1	70.3	14.5	-72.1	91.3	203.3
Margin (%)	5.3	5.7	3.9	1.0	1.6	3.7

Consolidated - Balance Sheet (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Equity Share Capital	259	396	411	415	465	465
Total Reserves	2,571	6,031	3,582	3,677	7,275	7,998
Net Worth	**2,830**	**6,427**	**3,993**	**4,092**	**7,740**	**8,463**
Minority Interest	139	854	771	383	383	383
Deferred Liabilities	106	7	4	11	11	11
Total Loans	2,033	6,566	6,133	6,698	7,898	6,898
Capital Employed	**5,109**	**13,854**	**10,902**	**11,184**	**16,032**	**15,755**
Gross Block	4,271	7,955	11,889	14,267	20,617	21,967
Less: Accum. Deprn.	1,569	2,066	3,723	4,891	6,461	8,377
Intangible assets- Goodwill	27	4,072	31	31	31	31
Net Fixed Assets	**2,728**	**9,960**	**8,197**	**9,408**	**14,187**	**13,621**
Capital WIP	876	1,541	806	0	0	0
Total Investments	**6**	**380**	**235**	**19**	**19**	**19**
Curr. Assets, Loans&Adv.	**2,516**	**3,970**	**4,294**	**4,862**	**5,096**	**6,336**
Inventory	79	107	106	126	108	141
Account Receivables	270	425	523	767	723	941
Cash and Bank Balance	216	368	273	257	156	704
Loans and Advances	1,950	3,070	3,392	3,712	4,108	4,550
Curr. Liability & Prov.	**1,017**	**2,014**	**2,631**	**3,104**	**3,270**	**4,221**
Account Payables	918	1,888	2,392	2,933	2,929	3,812
Provisions	99	126	239	172	341	409
Net Current Assets	**1,498**	**1,957**	**1,663**	**1,758**	**1,826**	**2,115**
Appl. of Funds	**5,108**	**13,855**	**10,902**	**11,184**	**16,032**	**15,755**

Financials & valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Basic (INR)						
EPS	**9.9**	**11.3**	**15.0**	**3.3**	**6.1**	**18.4**
Cash EPS	24.6	25.8	35.8	31.7	39.8	59.6
BV/Share	109.3	162.2	97.1	98.5	166.3	181.9
DPS	6.0	1.5	4.0	1.6	4.5	4.5
Payout (%)	70.7	10.4	21.5	37.8	47.7	15.7
Valuation (x)						
P/E	65.9	57.5	43.2	194.2	106.8	35.2
Cash P/E	26.4	25.1	18.1	20.5	16.3	10.9
P/BV	5.9	4.0	6.7	6.6	3.9	3.6
EV/Sales	6.2	4.5	2.7	2.5	2.2	1.6
EV/EBITDA	42.1	31.1	17.0	17.9	14.0	9.5
Dividend Yield (%)	0.9	0.2	0.6	0.2	0.7	0.7
Return Ratios (%)						
RoE	8.2	9.7	11.8	3.4	4.8	10.6
RoCE	10.4	7.8	11.1	8.9	9.0	12.7
Working Capital Ratios						
Asset Turnover (x)	1.0	0.6	1.2	1.3	1.1	1.5
Inventory (Days)	6	5	3	3	2	2
Debtor (Days)	19	19	14	19	13	13
Creditor (Days)	65	86	65	72	61	61
Working Capital Turnover (Days)	90	72	38	37	35	22
Leverage Ratio (x)						
Current Ratio	2.5	2.0	1.6	1.6	1.6	1.5
Debt/Equity	0.7	1.0	1.5	1.6	1.0	0.8

Consolidated - Cash Flow Statement **(INR Million)**

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Profit / (Loss) Before Tax / Extraordinary	310	319	523	124	333	1,073
Depreciation	365	560	944	1,168	1,570	1,916
Interest & Finance Charges	159	326	743	783	854	903
Direct Taxes Paid	-108	-233	-154	-8	-50	-215
(Inc)/Dec in WC	-152	556	91	-110	-169	259
CF from Operations	**573**	**1,529**	**2,147**	**1,957**	**2,537**	**3,936**
(inc)/dec in FA	-560	-2,372	-1,273	-1,572	-6,350	-1,350
(Pur)/Sale of Investments	-502	-5,712	193	216	0	0
CF from Investments	**-1,031**	**-8,073**	**-1,065**	**-1,355**	**-6,350**	**-1,350**
Issue of Shares	-66	3,820	121	4	3,500	0
(Inc)/Dec in Debt	427	3,278	-434	565	1,200	-1,000
Interest Paid	-207	-425	-812	-783	-854	-903
Dividend Paid	-150	-60	-46	-48	-135	-135
Others	-38	82	9	-355	0	0
CF from Fin. Activity	**-34**	**6,695**	**-1,162**	**-616**	**3,711**	**-2,038**
Inc/Dec of Cash	**-574**	**151**	**-95**	**-15**	**-101**	**548**
Add: Beginning Balance	790	216	368	272	257	156
Closing Balance	**216**	**368**	**272**	**257**	**156**	**704**

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