

June 3, 2008

Rating	BUY
Price	Rs174
Target Price	Rs318
Implied Upside	82.2%
Sensex	15,963

(Prices as on June 3, 2008)

Trading Data

Market Cap. (Rs bn)	4.0
Shares o/s (m)	23.0
Free Float	59.5%
3M Avg. Daily Vol ('000)	44.6
3M Avg. Daily Value (Rs m)	8.5

Major Shareholders

Promoters	40.5%
Foreign	31.0%
Domestic Inst.	9.3%
Public & Others	19.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(12.3)	(42.8)	(23.4)
Relative	(3.0)	(24.2)	(33.0)

Price Performance (RIC: PVRL.BO, BB: PVRL IN)



Source: Bloomberg

PVR

Results exceed expectations

- **Results:** PVR's Q4FY08 results exceeded our expectations. Revenue for the quarter grew by 32.9% YoY to Rs543m. Seasonally weak quarter coupled with poor box office performance by most of the movies released during the quarter resulted in below average occupancy of 31.9% (as against 36.2% in Q4FY07). However, hike in average ticket prices (ATP) and F&B supported operating profit margin (OPM). OPM for the quarter stood at 13% as against 16.5% in Q4FY07. Consequently, net profit for the quarter grew by 22.7% to Rs27m.

PVR reported impressive full year numbers. Its consolidated revenue for the year grew by 49.7% to Rs2659m. Operating profit margins expanded by 298 bps. Consequently, PAT grew by a whopping 112.2% to Rs216m.

- **Increasing screen counts:** Added 16 new screens in FY08. Plans to scale up total screen count to 125 by FY09.
- **Scaling up movie production business:** For FY09, PVR Pictures is expected to release four movies under co-production, viz. *Jaane Tu Ya Jaane Na*, *Contract*, *Mere Khwabon Mein Jo Aaye* and *Ghost Ghost Na Raha*.
- **Outlook & Valuations:** PVR is emerging as a strong entertainment conglomerate with complete integration across the entire film value chain and entry into exhibition related retail entertainment businesses. We expect its existing business' revenue and profit to grow at 48% and 70% CAGR respectively over FY07-10. At the CMP of Rs174, PVR is trading at 12.7x FY09 and 8.4x FY10 earnings. We expect the company's valuations to be re-rated as it aggressively scales-up its new ventures.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	1,777	2,659	3,823	5,752
Growth (%)	69.4	49.7	43.8	50.5
EBITDA (Rs m)	274	489	776	1,234
PAT (Rs m)	102	216	314	500
EPS (Rs)	4.4	9.4	13.6	20.7
Growth (%)	94.1	112.2	45.3	51.3
Net DPS (Rs)	1.0	1.5	2.0	2.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	15.4	18.4	20.3	21.5
RoE (%)	5.8	11.4	14.8	19.2
RoCE (%)	5.3	8.9	11.7	14.4
EV / sales (x)	2.4	1.6	1.4	1.0
EV / EBITDA (x)	15.8	8.9	6.9	4.7
PE (x)	39.3	18.5	12.7	8.4
P / BV (x)	2.2	2.0	1.8	1.4
Net dividend yield (%)	0.6	0.9	1.1	1.4

Source: Company Data; PL Research

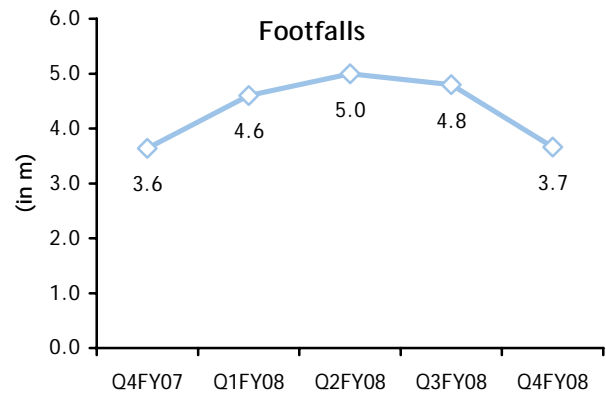
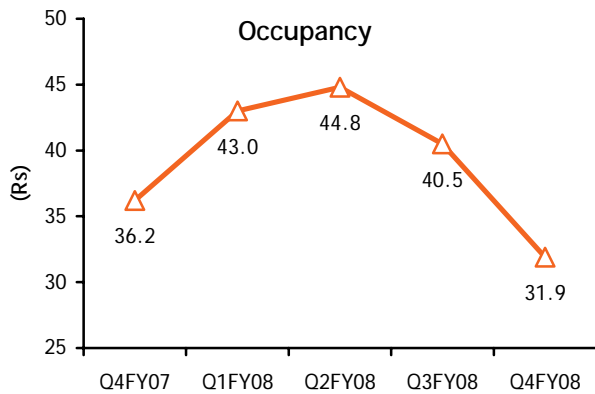
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Highlights

Results exceed expectations

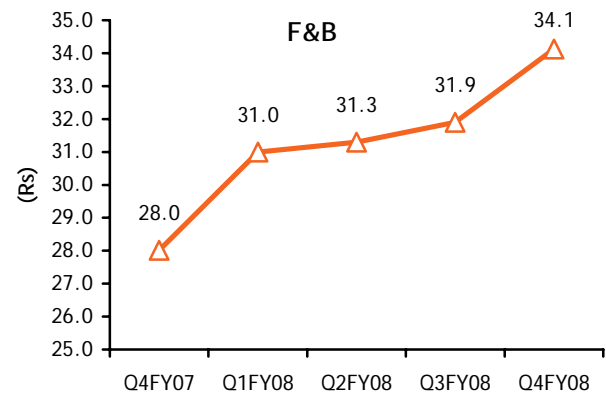
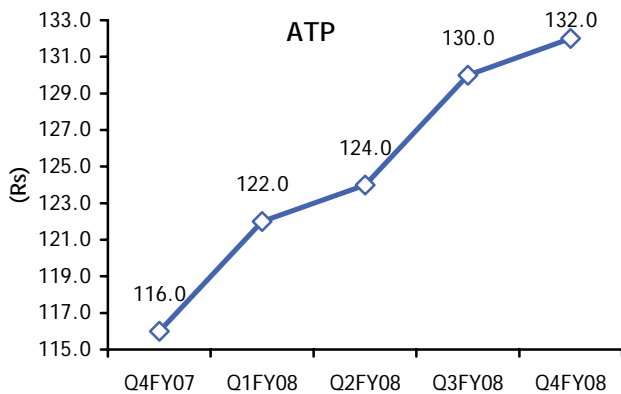
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Seasonally lower occupancy and footfalls...



Source: Company Data, PL Research

...along with rising ATP and F&B



Source: Company Data, PL Research



Impressive full year numbers

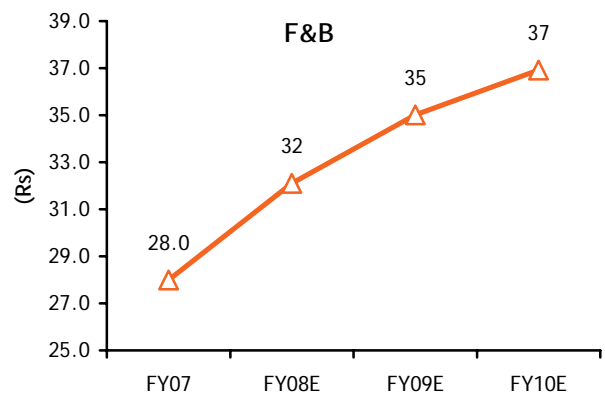
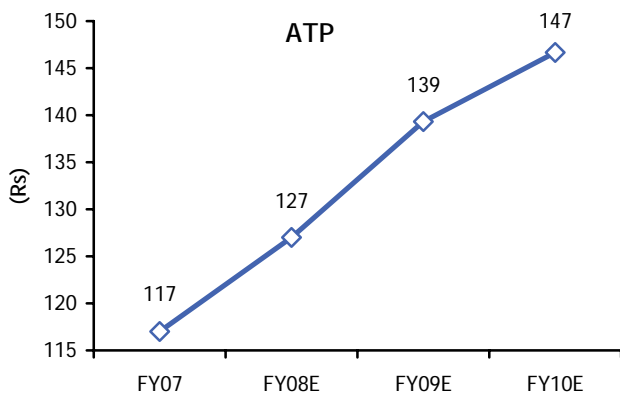
Standalone results and performance

PVR reported impressive full year numbers. On standalone basis, the company reported 43.3% YoY growth in revenue to Rs2361m. Operating profit margin expanded by 334bps. Consequently, net profit for the year grew by 99.4% to Rs211m.

During the year the company added 16 new screens, taking its total screen count to 84 (PVR discontinued the franchise agreement for providing its services in respect of 11 screens). The company plans to add 41 new screens during the current fiscal, taking its total screen count to 125. PVR has already added 13 new screens last month, taking its total screen count to 97. We have built in for a total screen count of 120 and 155 for FY09 and FY10 respectively.

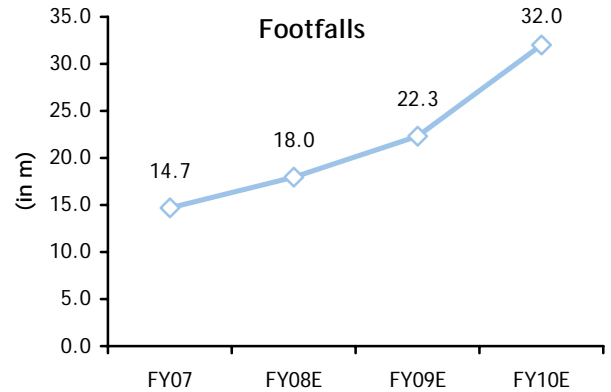
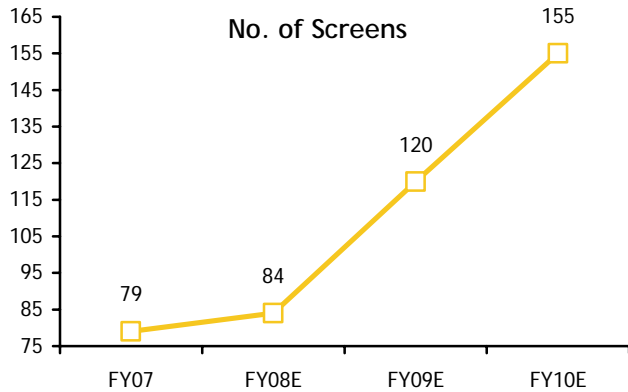
Increasing screen count, stable occupancy and increasing number of shows per day have resulted in rise in total number of footfalls. Total footfalls for FY08 stood at 17.9 million, up from 14.3 million last year. The company has been able to monetise these footfalls by way of increase in advertisement revenue from various corporate alliances and sponsorship revenues.

Rising spend per head



Source: Company Data, PL Research

Increasing volumes from new screen addition and rising footfalls



Source: Company Data, PL Research

Consolidated results and performance

PVR’s consolidated results include revenue from film production and distribution businesses. Consolidated revenue for the year grew by 49.7% to Rs2659 m. Operating profit margins expanded by 298 bps. Consequently, PAT grew by a whopping 112.2% to Rs216m.

The management is keen on scaling up its film production business. For this the company is looking at an investment of approximately Rs800-1,000m for the current fiscal. For FY09, PVR Pictures is expected to release four movies under co-production, viz. *Jaane Tu Ya Jaane Na*, *Contract*, *Mere Khwabon Mein Jo Aaye* and *Ghost Ghost Na Raha*. We expect the company to scale-up this business from the current slate of six movies to about 15-20 movies by FY10.

New business ventures

PVR is now in a position to leverage its patron loyalty (17.9 million) into other high margin businesses. In yet another move towards diversifying itself into a lifestyle retail entertainment player, PVR entered into a 51:49 JV with Major Cineplex Group, a leading film exhibition and retail entertainment company based in Thailand, during the quarter. The JV would set-up bowling alleys, karaoke centres, ice skating rinks and gaming zones. The JV partners would make an initial investment of Rs100m each for setting up initial projects - a 24-lane Bowling Alley Center at Ambience Mall in Gurgaon and a 10-lane Bowling Alley Center at Oberoi Mall in Goregaon.

Outlook & valuation

PVR is emerging as a strong entertainment conglomerate with complete integration across the entire film value chain and entry into exhibition related retail entertainment businesses. We expect PVR's existing business to report revenue and profit to grow at 48% and 70% CAGR respectively over FY07-10. At the current market price of Rs174, PVR is trading at 12.7x FY09 and 8.4x FY10 earnings. We expect the company's valuations to be re-rated as it aggressively scales-up its new ventures. We maintain BUY rating on the stock.

Q4 FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07*	FY08*	YoY gr. (%)
Net sales	543	409	32.9	648	1,777	2,659	49.7
Expenditure							
Film distributor's share	130	106	22.2	170	438	549	25.4
<i>% of sales</i>	<i>23.9</i>	<i>26.0</i>		<i>26.2</i>	<i>24.6</i>	<i>20.6</i>	
Movie distribution & print charges					88	265	201.0
<i>% of sales</i>					<i>5</i>	<i>10</i>	
Consumption of food & beverages	35	29	21.1	43	115	158	37.8
<i>% of sales</i>	<i>6.4</i>	<i>7.0</i>		<i>6.6</i>	<i>6.4</i>	<i>5.9</i>	
Personnel expenses	63	48	30.5	68	196	255	30.1
<i>% of sales</i>	<i>11.6</i>	<i>11.8</i>		<i>10.5</i>	<i>11.0</i>	<i>9.6</i>	
Employee compensation expenses	-	1		-	3	-	
<i>% of sales</i>	<i>-</i>	<i>0.1</i>		<i>-</i>	<i>0.2</i>	<i>-</i>	
Operating and other expenses	245	158	55.4	238	664	944	42.1
<i>% of sales</i>	<i>45.2</i>	<i>38.6</i>		<i>36.7</i>	<i>37.4</i>	<i>35.5</i>	
Total expenditure	472	341	38.4	518	1,503	2,171	44.4
<i>% of sales</i>	<i>87.0</i>	<i>83.5</i>		<i>80.0</i>	<i>84.6</i>	<i>81.6</i>	
EBIDTA	71	67	4.9	130	274	489	78.6
<i>% of sales</i>	<i>13.0</i>	<i>16.5</i>		<i>20.0</i>	<i>15.4</i>	<i>18.4</i>	
Other income	25	17	50.0	26	54	64	17.7
Depreciation/amortisation	37	35	6.3	42	133	171	27.8
Interest	18	15	21.2	21	44	51	17.1
PBT	41	35	18.5	92	150	330	119.7
Total tax	14	13	11.1	31	49	114	135.5
<i>Tax rate (%)</i>	<i>34.1</i>	<i>36.4</i>		<i>33.7</i>	<i>32.2</i>	<i>34.6</i>	
PAT	27	22	22.7	61	102	216	112.2

* Consolidated



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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