DAWNAY DAY AV

PVR Limited

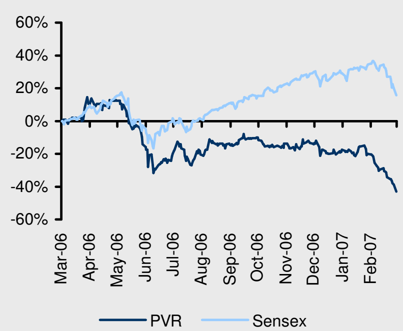
March 06, 2007

Media and Entertainment

‘Multiplex’

Recommendation	Buy
Current Price (Rs)	164
Target Price (Rs)	230

Market Data	
Bloomberg / Reuters Code	PVRL IN
Share Outstanding (mn)	22.9
52 week High / Low	337 / 163
Market Capitalisation (Rs bn)	3.8



Shareholding Pattern (%)	
Promoters	40.4
FI / Mutual Fund	29.9
FII	19.7
Public & Others	10.0

*As on March 31, 2006

Analyst
Shyam Agarwal
shyam.agarwal@ddavanalytics.com
022 6617 2153

Investment update

- The stock of PVR Limited (PVRL) has underperformed over the last few months due to the performance suppressing factors beyond the control of the management.
- PVRL had set forth ambitious growth plans in the number of multiplexes across the country. However, prolonged delay in receiving government approvals, handover of properties from developers have slowed down the roll-out of theatres, which has hit the growth plans. These delays in some cases were as long as 12-15 months.
- Also, there has been a time lag between commencement of the operation of a multiplex and grant of the entertainment tax exemption by the government, which took 6-12 months in some cases. Prolonged delay in receiving the exemption has hit the cash flow and hence, the profitability adversely. Considering the hassles involved in obtaining entertainment tax exemption, supported by viable commercial reasons, the company and other multiplex operators have decided not to claim the benefit, which has an adverse impact on the operating margins.
- Added to these problems, the government imposed service tax on lease rentals paid for the commercial premises. The multiplex operators including PVRL operate most of their multiplexes on lease models. Lease rentals for the multiplex operators form 11-12% of the net revenues. Imposing service tax of 12.36% on these rentals would steal away the operating margin of another 1.5%.
- We had initiated coverage on PVRL with a ‘Buy’ rating on 29 April, 2006 at Rs318, with a price target of Rs425. Currently, the shares of PVRL are trading at Rs164, which means they have corrected by approximately 94%.
- Considering the problems faced by the company, we have downgraded the EPS estimate of FY07 from Rs12.2 to Rs4.5 and FY08 estimate from Rs25.4 to Rs7.2. Based on our conservative estimates, the stock is trading at 15.8 times FY07 cash earnings and 10.4 times FY08 cash earnings.
- Considering the business leadership of the company and expectation of future roll out of business plans in time and attractive valuations at the current price levels, we strongly recommend a ‘Buy’ with a price target of Rs230 to be achieved in 12 months representing an upside of 40%.

Financials:

PVR (INRMn)	FY2005	FY2006	FY2007E	FY2008E
Net Revenues	686	1,030	1,813	2,568
Operating Profit	113	149	289	466
Net Profit	38	50	102	165
Operating Margin (%)	16.5	14.5	15.9	18.2
EPS (Rs)	2.2	2.2	4.5	7.2
PER (x)	74.4	75.3	36.8	22.9
EV/EBIDTA (x)	27.9	24.3	13.3	8.1
ROCE (%)	6.2	4.7	7.9	13.1
ROE (%)	7.2	3.2	6.1	8.8

Performance review

PVRL (Rs million)	Q3FY06	Q3FY07	% Change	9MFY06	9MFY07	% Change
Net Revenues	240.8	395.4	64.2	784.0	1,234.6	57.5
Operating profit	32.0	53.2	66.2	133.6	183.8	37.6
Interest	7.4	14.4	94.6	23.6	40.4	71.2
Depreciation	16.9	35.1	107.7	50.3	89.2	77.3
Other Income	4.1	20.4	397.6	14.4	63.6	341.7
Tax	4.7	7.5	59.6	28.4	34.3	20.8
Recurring Profit After Tax (PAT)	7.1	16.6	133.8	45.7	83.5	82.7
Preference dividend	2.8	2.8		8.4	8.4	
PAT for equity shareholders	4.3	13.8		37.3	75.1	
Number of shares	23.0	23.0		23.0	23.0	
EPS (Rs)	0.19	0.60		1.62	3.26	
Operating profit margin	13.3%	13.5%		17.0%	14.9%	

Source: Dawnay Day AV Research, Company

During the quarter, the company started operations at Latur and Aligarh. The multiplex at Latur and Aurangabad received exemption from entertainment tax for 5 years effective from 01January, 2007

During 9MFY07, the company also received entertainment tax exemption approvals for its multiplexes at Sahara Ganj Mall - Lucknow, Treasure Island Mall - Indore and Nirmal Lifestyle Mumbai

During Q3FY07, the company did not exhibit the blockbuster movies *Dhoom 2* and *Kabul Express* across its cinema circuit. The above movies were not exhibited on account of failure to reach an agreement on the terms of playing of the movies with the producer - Yash Raj Films. This has impacted the revenues adversely.

Taking the new additions into consideration, the company currently manages 21 cinemas with a total of 80 screens spread across Delhi, Gurgaon, Faridabad, Noida, Mumbai, Bangalore, Hyderabad, Indore, Lucknow, Aurangabad, Latur and Aligarh.

Footfalls (million)

	Q3FY06	Q3FY07	9MFY06	9MFY07
Comparable properties	2.0	1.9	6.5	6.7
Non Comparable properties	-	1.7	-	4.4
Total	2.0	3.6	6.5	11.1

Source: Company

Average occupancy (%)

	Q3FY06	Q3FY07	9MFY06	9MFY07
Comparable properties	41.0%	45.0%	47.5%	51.0%
Non Comparable properties	0.0%	36.0%	0.0%	39.0%
Average Occupancy	41.0%	40.0%	47.5%	45.5%

Source: Company

During the quarter, the average occupancy at the new properties has been improving and the occupancy in comparable old properties has improved.

Average ticket price (Rs)

	Q3FY06	Q3FY07	9MFY06	9MFY07
Comparable properties	119	129	119	125
Non Comparable properties	-	96	-	107
Average Ticket price	119	120	119	118

Source: Company

The average ticket price at the new properties in Hyderabad, Lucknow, Indore, Aurangabad, Latur and Aligarh is lower than the existing average ticket price.

Spend per head (Rs)

	Q3FY06	Q3FY07	9MFY06	9MFY07
Comparable properties	30.0	32.9	30.8	33.1
Non Comparable properties	-	22.2	-	25.3
Average Spend per head	30.0	28.1	30.8	30.4

Source: Company

Average spend on food and beverages per head at non comparable new properties is lower due to lower spend per head in markets outside the metros of Delhi, Mumbai and Bangalore where the tickets are not highly priced.

The net revenues excluding the other income grew by 64%. The existing cinemas contributed 8% of the growth, while rest came on the back of new cinema halls which were added by the company after 31 December, 2005.

Cinema wise revenue growth (Q3FY07)

Existing Cinemas	% Increase
Anupam	8%
Priya	15%
Naraina	-19%
Vikaspuri	-15%
Plaza	21%
Gurgaon	25%
Faridabad	32%
EDM	-11%
Bangalore	14%
	8%

Source: Company

During the quarter, the revenue collected from the existing cinemas grew moderately by 8%. Whereas, the revenue declined incase of multiplexes in Naraina, Vikaspuri and EDM. While EDM multiplex is located in a mall, the other two are standalone properties.

The malls attract more footfalls and hence achieving higher occupancy is easier. Lack of adequate Hindi content is one reason sited by the company for the dismal performance of these cinemas. We believe non exhibition of *Dhoom2* and *Kabul Express* as one of the major reason for the fall in overall footfalls, occupancy and dismal performance not only for these cinemas but on the whole company.

Key assumptions

- The valuation has been arrived based on the standalone performance of PVRL, which includes performance of its 100% subsidiary CR Retail for multiplex property in Phoenix Mills, Mumbai. The contribution from the production and distribution business has been ignored completely.
- We have also changed the presentation format for arriving at operating margin by showing entertainment tax and other sales and service tax paid as a deduction from the gross revenues to arrive at net revenue, rather than showing it as expenditure.
- PVRL has given the projected schedule of the upcoming properties. Wherever the company has projected the opening of any multiplex in any quarter we have considered it to open only on the last day of that quarter.
- The property of Aligarh is a takeover of single screen cinema hall, which was not shown in our earlier projections. We expect similar such takeover projects to happen which would scale up the operations of the company.
- We have not factored in the plans of the company to enter into no frill cinema business in smaller towns and cities, which would strengthen the revenue base once it materialises.
- Due to the imposition of service tax on the lease rentals, we have expected the margins to take a hit of approximately 1.5%. The industry is opposing such move of government and if the service tax provision gets reversed the operating margin of the company would improve and hence the profitability.
- Also, there has been a time lag between commencement of the operation of a multiplex and grant of the entertainment tax exemption by the government. Prolonged delay in receiving the exemption has hit the cash flows and hence the profitability adversely. Taking this factor into consideration we have assumed that the company would be entering into territories where it would end up paying 20% entertainment tax on an average, which would adversely impact the operating margins. Venturing into more territories with entertainment tax benefit would improve the operating margins immensely.

Income Statement (Rs mn)	FY05	FY06	FY07E	FY08E
Net Revenues	686.4	1,030.3	1,813.0	2,567.5
Operating Profit (EBIDTA)	113.2	149.0	289.1	466.2
Depreciation	55	71	136	198
Gross Profit (EBIT)	58	78	153	269
Interest and Finance Charges	26	32	63	63
Other Income	21	44	80	60
PBT	**53**	**90**	**170**	**266**
Tax	15	35	58	90
Net Profit	**38**	**55**	**112**	**175**
Preference dividend		5	10	10
Profit to Equity shareholders	**38**	**50**	**102**	**165**
Share Data (Rs)				
EPS (Rs)	2.2	2.2	4.5	7.2
CEPS (Rs)	5.4	5.3	10.4	15.7
Book Value per share (BV)	31.1	75.6	79.6	86.7
No of shares (mn)	17.1	22.9	23.0	23.0
Valuation Ratios				
Market Price (Rs)	164.0	164.0	164.0	164.0
P/E (x)	74.4	75.3	36.8	22.9
P/CEPS (x)	30.2	31.1	15.8	10.4
P/BV (x)	5.3	2.2	2.1	1.9
Mcap/Sales (x)	3.3	2.9	1.8	1.3
EV/Sales (x)	3.7	2.8	1.8	1.3
EV/EBITDA (x)	27.9	24.3	13.3	8.1
Key Ratios and Statistics				
Growth (%)				
Net Income	42.5	50.1	76.0	41.6
Operating Profit	66.2	31.6	94.0	61.3
Gross Profit	95.5	34.8	95.7	75.3
PBT	101.9	69.6	89.0	56.1
Net Profit	141.3	32.2	105.6	61.5
EPS	87.9	(1.2)	104.5	61.2
Margins (%)				
Operating Margin (EBIDTA)	16.5	14.5	15.9	18.2
Net Profit Margin	5.5	5.3	6.2	6.8
ROIC %	6.2	5.4	8.8	14.6
RONW %	7.2	2.9	5.6	8.3
Interest cover (x)	4.4	4.6	4.6	7.4
Balance Sheet Ratios				
Current Ratio	2.1	4.1	2.0	2.0
Average Collection Period	10.4	8.8	5.9	4.7
Average Payment Period (Days)	99.4	121.8	82.8	70.7

Balance Sheet (Rs mn)	FY05	FY06	FY07E	FY08E
Sources of funds				
Equity Share Capital	171	229	230	230
Reserves and surplus	361	1,500	1,600	1,767
Net worth	**532**	**1,728**	**1,830**	**1,998**
Preference share capital (5% redeemable & non cumulative PS)		200	200	200
Total Debt	**465**	**614**	**900**	**700**
Advance against share capital	-	-	-	-
Deferred Tax Liability: |Asset| (NET)	43	47	47	47
Total Liabilities	**1,040**	**2,589**	**2,977**	**2,944**
Application of funds				
Gross Block	829	1,010	1,710	2,310
Less: Accumulated Depreciation	159	227	363	561
Net Fixed assets	670	782	1,346	1,749
Capital Work in Progress	138	440	300	
Expenditure during construction period pending allocation	38	141	-	-
Net Fixed assets including CWIP	**845**	**1,363**	**1,646**	**1,749**
Intagible assets	3	3	3	3
Investments	12	309	967	794
Current Assets	**331**	**1,207**	**706**	**806**
Cash & Bank	95	629	70	107
Accounts Receivable	25	31	34	38
Inventory	7	9	10	11
Other current assets	1	10	10	11
Loans and Advances	203	528	581	639
Interest Accrued on Long term investments	0	1	1	1
Current liabilities and provisions	**156**	**294**	**346**	**407**
Current liabilities	146	223	268	321
Provisions	11	71	78	86
Net Current Assets	**175**	**913**	**361**	**399**
Miscellaneous expenditure not written off	5	-	-	-
Capital Employed	**1,040**	**2,588**	**2,977**	**2,944**

Annexure

Changes in project implementation schedule

Projects	Location	Date of opening as projected	Revised date	Delay (months)
Lease Model				
PVR Anupam	Delhi	Jun-97	Jun-97	
PVR Priya	Delhi	Jan-00	Jan-00	
PVR Naraina	Delhi	Aug-01	Aug-01	
PVR Vikaspuri	Delhi	Nov-01	Nov-01	
PVR Gurgaon	Gurgaon, Haryana	May-03	May-03	
PVR Plaza	Delhi	May-04	May-04	
PVR Faridabad	Faridabad, Haryana	May-04	May-04	
PVR Bangalore	Bangalore	Nov-04	Nov-04	
PVR EDM	Delhi	Mar-05	Mar-05	
Central Mall[1]	Hyderabad	Feb-06	Feb-06	
Rivoli	Delhi	Mar-06	Mar-06	
Dynamix Mall[2]	Juhu, Mumbai	Jun-06	Feb-07	8[1]
Treasure Island	Indore	Apr-06	Apr-06	
Sahara Ganj	Lucknow	Apr-06	Apr-06	
Nirmal LifeStyle	Mulund, Mumbai	Jun-06	Jun-06	
Fun City	Prashant Vihar Delhi	Jun-06	Mar-07	9
Sahara Mall	Gurgaon, Haryana	Sep-06	Jun-06	9
Latur	Latur	Sep-06	Oct-06	1
Aurangabad	Aurangabad	Sep-06	Sep-06	0
Goregaon	Mumbai	Apr-07	Sep-07	6
DDA Saket Place	Delhi	Sep-06	Jun-07	9
Phoenix[3]	Mumbai	Apr-07	Sep-07	6
Odeon	Mumbai	Sep-06	No visibility	
Ampa	Chennai	Sep-06	Dec-07	15
Flamez	Ludhiana	Sep-06	Dec-07	15
Rajouri Garden	Delhi	Sep-07	No visibility	
Silver Arc	Ludhiana	Sep-07	No visibility	
Central Mall	Chandigarh	Sep-07	Dec-07	3
Moradabad	Moradabad, UP	Sep-07	No visibility	
Fun City	Panipat, Haryana	Sep-07	No visibility	
Jalandhar	Jalandhar	Sep-07	No visibility	
Bhatinda	Civil Lines, Bhatinda	Sep-07	No visibility	
Lucknow	Hazratganj, Lucknow	Sep-07	No visibility	
Lucknow	Virajkhand,Lucknow	Sep-08	No visibility	
Maiden Mall	Amritsar	Sep-07	No visibility	
Management model				
PVR SRS	Faridabad, Haryana	Nov-04	Nov-04	
PVR Spice	Noida, Uttar Pradesh	Dec-05	Dec-05	

Source: Dawnay Day AV Research, Company

[1] 2 screens were started in April 2006 and rest 3 screens in February 2007

Properties under operation

	Property	Location	Screens	Seats	E Tax %exemption on net	E Tax exemption	Opening date	E Tax exemption date
1	Delhi	Anupam	4	1,000	30%	No	Jun-97	
2	Delhi	Priya	1	944	30%	No	Jan-00	
3	Delhi	Naraina	4	830	30%	No	Aug-01	
4	Delhi	Vikaspuri	3	921	30%	No	Nov-01	
5	Gurgaon	Metropolitan Mall	7	1,310	30%	No	May-03	
6	Faridabad	Crown Plaza	2	504	30%	No	May-04	
7	Delhi	Plaza	1	300	30%	No	May-04	
8	Bangalore	Forum Mall	11	2,011	40%	No	Nov-04	
9	Ghaziabad	EDM	3	726	60%	Yes	Mar-05	Apr-05
10	Hyderabad	Central Mall	3	926	20%	No	Feb-06	Not yet received
11	Delhi	Rivoli	1	329	30%	No	Mar-06	Not yet received
12	Indore	Treasure Island	5	1,140	50%	Yes	Apr-06	Apr-06
13	Lucknow	Sahara Mall	4	874	60%	Yes	Apr-06	Apr-06
14	Mumbai	Juhu	3	580	45%	Yes	Apr-06	Not yet received
15	Mumbai	Nirmal Lifestyle, Mumlund	6	1,815	45%	Yes	Jun-06	Sep-06
16	Gurgaon	Sahara Mall	2	528	30%	No	Jun-06	Not yet received
17	Aurangabad	Aurangabad	3	1,156	40%	Yes	Sep-06	Jan-07
18	Latur	Latur	3	1,136	40%	Yes	Oct-06	Jan-07
19	Aligarh	Aligarh	1	1,275	60%	Yes	Oct-06	No
		Management / Franchisee						
20	Noida	Spice Mall	8	1,821	60%	No	Dec-05	
21	Faridabad	SRS Mall	3	776	30%	No	Nov-04	
			78	20,902				

Source: Dawnay Day AV Research, Company

Properties handed over or under construction

	Property	Location	Screens	Seats	Status	Likely opening data*	E Tax exemption
1	Mumbai	Juhu	3	668	Recently, got the license to start operations	Already opened	Yes
2	Delhi	Prashant Vihar	3	786	Multiplex ready, licensing under progress	Q4 FY07	No
3	Baroda	Baroda	3	1,094	Handed Over, fit out in progress	Q1 FY08	No
4	Delhi	Select Mall, Saket	6	1,269	Handed Over, fit out in progress	Q1 FY08	No
5	Mumbai	Phoenix Mills, Lower Parel	7	1,800	Handed Over, fit out in progress	Q2 FY08	Yes
6	Mumbai	Oberoi Mall, Goregaon	6	1,600	Mall under construction. Expected handover by developer for fitouts Q4 FY07	Q2 FY08	Yes
7	Gurgaon	Ambi Mall	7	1,500	Mall under construction. Expected handover by developer for fitouts Q4 FY07	Q2 FY08	No
8	Ludhiana	Flamez Mall	4	1,025	Mall under construction. Expected handover by developer for fitouts Q4 FY07	Q3 FY08	Yes
9	Chennai	Ampa Mall	7	1,600	Mall under construction. Expected handover by developer for fitouts Q1 FY08	Q3 FY08	No
10	Chandigarh	Centra Mall	4	1,013	Mall under construction. Expected handover by developer for fitouts Q1 FY08	Q3 FY08	Yes
			50	12,355			

Source: Dawnay Day AV Research, Company

Disclaimer: