

PVR

Challenging quarter; improving prospects

Exhibition business revenue up 19.2% Y-o-Y; ATP up 16%

PVR's exhibition business revenues for Q4FY10 jumped 19.2% Y-o-Y to INR 784 mn, largely driven by increase in average ticket prices (ATP). ATP in the quarter grew 16% over corresponding period of the previous year. Overall ATP for FY10 was INR 152 against INR 140 in FY09, a 9% Y-o-Y growth.

Occupancy at 30% in Q4FY10 and FY10

The company enjoyed 30% occupancy level in Q4FY10 against 33% in Q3FY10, fourth quarter usually being weak in terms of occupancy. Also, the number of movies released in March was less due to the IPL tournament during the month. Occupancy in FY10 was at 30% against 33% in FY09 and was significantly impacted due to the producers' strike in Q1FY10.

EBITDA margins decline sharply Q-o-Q

EBITDA margins for PVR's exhibition business stood at 12.4%, down from 22.9% in Q3FY10. Although direct cost as a percentage of sales declined 82bps, employee costs and SG&A expenses as a percentage of sales rose 199bps and 932bps, respectively. Net profit margin declined from 8.7% to 1.3% Q-o-Q.

Bowling business and PVR Pictures to expand operations

The company's bowling business generated a revenue of INR 139 mn and PAT of INR 19 mn in FY10. PVR plans to add 2-3 bowling centres in the next 12-18 months. PVR Pictures generated revenue of INR 285 mn with a PAT loss of INR 38 mn in FY10. It released no films during FY10 and also the distribution business was impacted by the strike in Q1FY10. PVR Pictures is investing in a few film projects which are expected to be released in 2010-11.

Outlook and valuations: Improving; maintain 'BUY'

PVR is planning to expand its exhibition business further and intends to add 49 screens during FY11. Further, new businesses such as movie production and distribution and alternative entertainment are expected to contribute positively to the company's overall performance in the future. The stock is currently trading at P/E of 15.6x FY11E and looks attractive. We maintain 'BUY' recommendation on the stock and rate it 'Sector Performer' on relative return basis (refer rating page for details).

Financials

Year to March	Q410*	Q409*	% change	Q310*	% change	FY10#	FY11E#
Revenues (INR mn)	784	658	19.2	985	(20.4)	3,386	5,389
EBITDA (INR mn)	98	63	54.0	226	(56.8)	447	870
Net profit (INR mn)	10	(28)	NM	86	(88.2)	74	236
Diluted EPS (INR)	0.4	(1.2)		3.7		0.6	9.2
Diluted P/E (x)						252.6	15.6
EV/EBITDA (x)						9.3	5.5
ROAE (%)						2.5	7.3

* Exhibition business # Consolidated financials

June 1, 2010

Reuters: PVRL.BO Bloomberg: PVRL IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:

Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 144
52-week range (INR)	:	205 / 87
Share in issue (mn)	:	23.0
M cap (INR bn/USD mn)	:	4 / 79
Avg. Daily Vol. BSE/NSE ('000):	:	182.3

SHARE HOLDING PATTERN (%)

Promoters*	:	37.3
MFs, FIs & Banks	:	20.6
FIIIs	:	10.1
Others	:	32.0
* Promoters pledged shares (% of share in issue)	:	2.2

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(18.4)	(3.6)	(5.3)
3 months	(15.5)	(0.0)	1.4
12 months	26.1	14.3	45.6

Abneesh Roy

+91 22 6620 3141

abneesh.roy@edelcap.com

Sameer Bahirat

+91 22 2286 7419

sameer.bahirat@edelcap.com

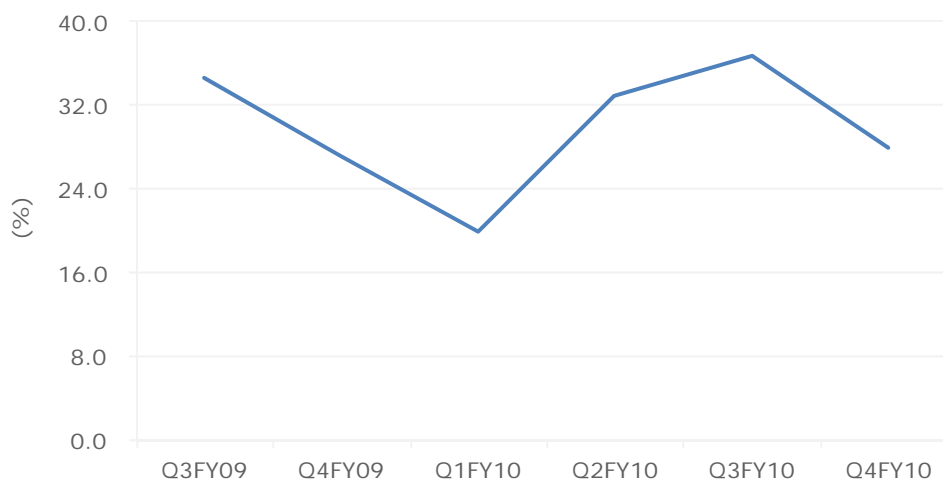
■ Q4FY10 conference call takeaways

- The Delhi High Court in its judgment in the case of Home Solutions Retail held levy of the service tax on renting of the immovable property to be 'ultra vires'. PVR has obtained a stay order on levy of the service tax on rentals. It expects this issue to take time to get resolved as the litigation may move to the Supreme Court. PVR has made no provision in this regard.
- PVR expects to add 49 screens in FY11 apart from two properties under management contracts. Currently, it has two managed properties with seven screens.
- The company plans to open 3 bowling centers (total 60-65 lanes) in FY11 in Delhi, Bengaluru, and Pune and three more in FY12. Capex per lane is ~INR 4 mn.
- FY11 capex of INR 800 mn is fully funded.
- PVR Pictures will keep a tight control on film production costs and stick to working with good directors. It will produce four movies in FY11 and four-six movies in FY12. It will look to do two-three large distribution deals. Typically, these deals have a gross margin of 10-12% and a net margin of 6-7%.
- 60% of movie production cost is amortized on first release and the balance 40% is amortised in the remaining years.
- Phoneix Mills property sale and lease back to happen in FY11.

■ Other highlights

The Board of Directors has approved merger of Leisure World, a promoter's closely held company (and owner of PVR Anupam Multiplex at Saket in New Delhi), in the meeting held on March 19, 2010. The company has filed a scheme of amalgamation entailing merger of Leisure World with Delhi High Court on April 30, 2010.

Chart 1: Q-o-Q Occupancy level trend



Source: Company, Edelweiss research

Chart 2: Q-o-Q footfalls trend



Chart 3: Q-o-Q average ticket prices trend

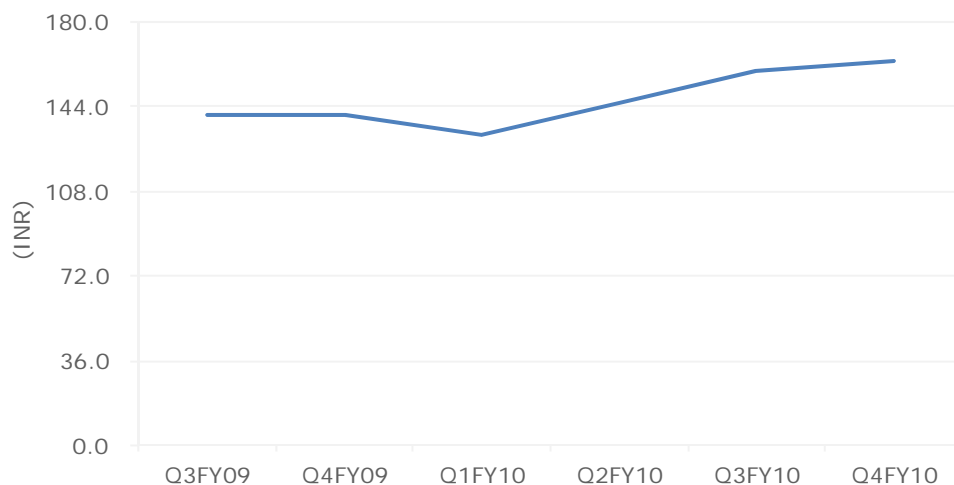
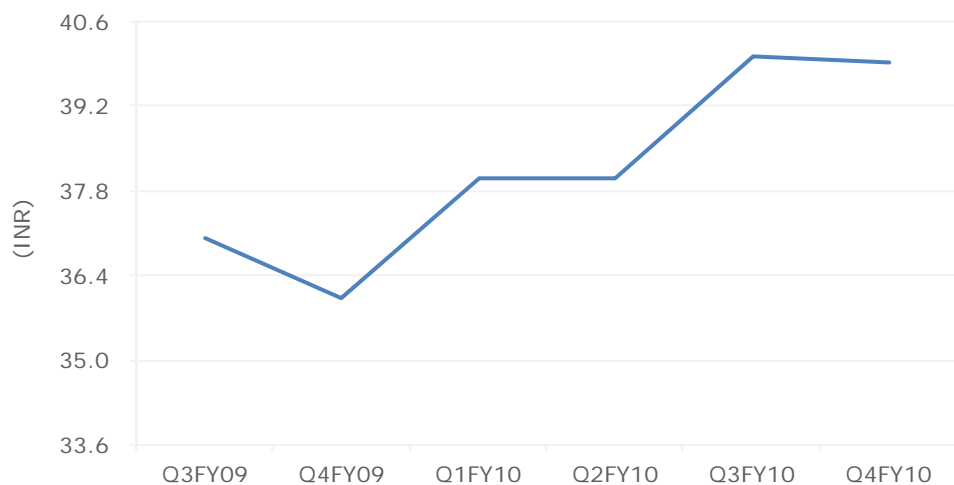


Chart 4: Q-o-Q spending per head (on food and beverages) trend



Source: Company, Edelweiss research

Table 1: New properties added in Q4FY10

New properties	Screens	Seats	Opening date
Raipur	4	1,202	Mar-10
Allahabad	4	923	Mar-10
Mahagun-Ghaziabad	3	1,028	Mar-10
Oppulent-Ghaziabad	4	1,045	Mar-10
Chennai	7	1,794	Apr-10
Ahmedabad	6	1,382	Apr-10
Total	28	7,374	

Source: Company, Edelweiss research

Table 2: New properties scheduled to be added in FY11

Location	Screens	Expected opening
LDA, Lucknow	6	Q2, FY11
Ambience Mall, Delhi	4	Q3, FY11
Mysore	4	Q4, FY11
Ripples Mall, Vijaywada	4	Q4, FY11
Orion Mall, Bangalore	11	Q4, FY11
Aura Mall, Bhopal	3	Q4, FY11
Avani Mall, Kolkata	4	Q4, FY11
Koregaon, Pune	7	Q4, FY11
Raja Garden, Delhi	6	Q4, FY11
Total	49	

Source: Company, Edelweiss research

Table 3: PVR Pictures' movies slated for release in 2010-11

Film	Production company	Tentative star cast	Genre	Expected release date
Aisha	Anil Kapoor Films Company	Sonam Kapoor, Abhay Deol	Romantic comedy	Aug-10
Khele Hum Jee Jaan Se	Ashutosh Gowarikar Films	Abhishek Bachchan, Deepika Padukone	Thriller	Dec-10
Mad Madder Maddest	Rakesh Omprakash Mehra Films	Om Puri, Deepak Dubriyal and Shreyas Talpade	Comedy	Feb-10
Ghost Ghost Na Raha	PVR Pictures	Rahul Bose, Esha Deol, Om Puri	Romantic comedy	Feb-10

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Exhibition business					Consolidated		
	Q410	Q409	% change	Q310	% change	FY10	FY11E	FY12E
Net revenues	784	658	19.2	985	(20.4)	3,386	5,389	6,371
Direct costs	268	210	27.5	345	(22.3)	1,192	1,840	2,090
Employee cost	92	96	(3.9)	96	(4.3)	360	540	618
SG&A expenses	326	288	13.1	318	2.5	1,386	2,140	2,468
Total expenditure	686	594	15.5	759	(9.6)	2,939	4,519	5,175
EBITDA	98	63	54.0	226	(56.8)	447	870	1,196
Depreciation	63	60	4.5	62	0.5	274	534	678
Interest	35	46	(25.0)	38	(8.7)	159	149	166
Other income	12	4	238.9	4	183.7	54	124	147
Profit before tax	13	(39)	NM	130	(90.3)	68	310	498
Provision for taxation	3	(11)	NM	44	(94.4)	(1)	75	119
Reported profit	10	(28)	NM	86	(88.2)	69	236	378
Minority interest	-	-	-	-	-	(6)	-	-
Profit after minority interest	10	(28)	NM	86	(88.2)	74	236	378
Equity capital (FV INR 10)	256	230		230		256	256	256
No. of shares (mn)	26	23		23		26	26	26
Diluted EPS	0.4	(1.2)		3.7		0.6	9.2	14.8
as % of net revenues								
Direct costs	34.2	32.0		35.0		35.2	34.1	32.8
Employee cost	11.8	14.6		9.8		10.6	10.0	9.7
SG&A expenses	41.6	43.8		32.3		40.9	39.7	38.7
EBITDA	12.4	9.6		22.9		13.2	16.1	18.8
Net profit	1.3	(4.3)		8.7		2.0	4.4	5.9

- **Company Description**

PVR was incorporated in 1995 pursuant to a JV with Village Roadshows, one of the largest cinema exhibition companies in the world. It opened its first multiplex in Delhi in 1997. In November 2002, Village Roadshows divested its stake in PVR as part of an overall strategy to rationalise its operations across 18 countries. Since then, PVR has come a long way and is presently one of the leading multiplex players in India with 136 screens across 32 properties. PVR is also present in the movie distribution and production business through its 60% subsidiary PVR Pictures (post stake-sale). It is also venturing into retail entertainment and management of food courts to diversify its revenue stream.

- **Investment Theme**

PVR has an aggressive expansion plan to increase the number of screens in operation and we expect it to have ~185 screens by FY11 end. Even though PVR will have multiplexes across the country, it will have a significant presence in Delhi, Maharashtra, Uttar Pradesh, Punjab, Haryana, Karnataka, and Andhra Pradesh. This strategy will help it in bargaining better terms for movie rights with distributors. It will also put PVR Pictures in a better position to vie for movie rights for these territories. Since most of PVR's operational properties were based in Delhi, Haryana, and Karnataka, they did not enjoy entertainment tax exemptions. This had an adverse impact on the Company's margins. However, a majority of the new multiplexes are coming up in states that have announced entertainment tax exemptions. Therefore, the effective entertainment tax for PVR is expected to come down.

- **Key Risks**

Delay in rollout of proposed multiplexes, higher share of net box office collections to the distributor for movie rights, over-capacity in certain pockets leading to lower occupancies, unavailability of quality content, and competition from other forms of entertainment are some of the key risks to our recommendation. Start-up losses, if any, from new business ventures could also impact the company's profitability.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenue	2,659	3,554	3,386	5,389	6,371
Direct costs	972	1,336	1,192	1,840	2,090
Employee costs	255	384	360	540	618
Total SG&A expenses	944	1,330	1,386	2,140	2,468
Total operating expenses	2,171	3,049	2,939	4,519	5,175
EBITDA	489	505	447	870	1,196
Depreciation & Amortization	171	353	274	534	678
EBIT	318	152	173	336	518
Other income	64	83	54	124	147
Interest expenses	51	126	159	149	166
Profit before tax	330	110	68	310	498
Provision for tax	114	26	(1)	75	119
Core profit	216	83	69	236	378
Profit after tax	216	83	69	236	378
Minority interest	-	(4)	(6)	-	-
Profit after minority interest	216	87	74	236	378
Dividend on Preference shares	9	3	-	-	-
Basic shares outstanding (mn)	23	23	26	26	26
Basic EPS (INR)	9.0	3.7	0.6	9.2	14.8
Diluted equity shares (mn)	23	23	26	26	26
Diluted EPS (INR)	8.8	3.7	0.6	9.2	14.8
CEPS (INR)	16.9	19.5	13.6	30.1	41.3
Dividend per share (INR)	1.0	1.3	1.0	1.0	1.0
Dividend payout (%)	13.0	33.6	175.4	10.8	6.8

Common size metrics					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	81.6	85.8	86.8	83.9	81.2
Employee expenses	9.6	10.8	10.6	10.0	9.7
S G & A expenses	35.5	37.4	40.9	39.7	38.7
Direct Cost	36.5	37.6	35.2	34.1	32.8
Depreciation	6.4	9.9	8.1	9.9	10.6
Interest expenditure	1.9	3.5	4.7	2.8	2.6
EBITDA margins	18.4	14.2	13.2	16.1	18.8
EBIT margins	12.0	4.3	5.1	6.2	8.1
Net profit margins	8.1	2.3	2.0	4.4	5.9

Growth ratios (%)					
Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	49.6	33.6	(4.7)	59.2	18.2
EBITDA	78.6	3.4	(11.5)	94.6	37.5
PBT	119.6	(66.9)	(38.4)	359.9	60.4
Net profit	112.2	(61.5)	(17.8)	244.4	60.4
EPS	122.0	(57.6)	(84.7)	1,518.9	60.4

Balance sheet					(INR mn)
As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	230	230	256	256	256
Pref. Capital	100	-	-	-	-
Reserves & surplus	1,780	2,457	2,892	3,098	3,446
Shareholders funds	2,110	2,687	3,147	3,353	3,702
Minority interest (BS)	-	608	602	602	602
Secured loans	1,353	1,441	1,723	2,009	2,150
Borrowings	1,353	1,441	1,723	2,009	2,150
Deferred tax liability	68	160	160	160	160
Sources of funds	3,530	4,895	5,632	6,124	6,614
Gross block	2,092	3,662	4,362	5,562	7,062
Depreciation	493	696	1,114	1,648	2,326
Net block	1,599	2,967	3,248	3,914	4,736
Capital work in progress	1,115	96	101	106	111
Intangible assets	158	186	186	186	186
Investments	298	1,148	993	700	1,303
Inventories	21	32	28	49	58
Sundry debtors	207	185	232	406	481
Cash and equivalents	146	84	849	778	(243)
Loans and advances	519	844	508	888	1,053
Other current assets	16	14	6	6	6
Total current assets	910	1,159	1,623	2,126	1,354
Sundry creditors and others	457	494	519	908	1,077
Others current liabilities	44	123	-	-	-
Provisions	48	45	-	-	-
Total current liabilities & provisions	549	662	519	908	1,077
Net current assets	361	497	1,103	1,218	277
Miscellaneous expenditure	-	1	1	1	1
Uses of funds	3,530	4,895	5,632	6,124	6,614
Book value per share (INR)	91.7	116.7	123.1	131.1	144.8

Free cash flow					(INR mn)
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	216	87	74	236	378
Depreciation	171	353	274	534	678
Deferred tax	3	8	-	-	-
Others	(4)	(88)	(6)	-	-
Gross cash flow	386	360	343	770	1,056
Less: Changes in WC	93	5	(159)	186	80
Operating cash flow	293	355	502	584	976
Less: Capex	711	519	705	1,205	1,505
Free cash flow	(418)	(164)	(203)	(621)	(529)

Cash flow metrics					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	293	355	502	584	976
Investing cash flow	(628)	(1,576)	(405)	(912)	(2,108)
Financing cash flow	357	1,127	669	256	111
Net cash flow	22	(94)	765	(71)	(1,021)
Capex	(711)	(519)	(705)	(1,205)	(1,505)
Dividends paid	(36)	(40)	(30)	(30)	(30)
Share issuance/(buyback)	(100)	1,129	422	-	-

Profitability & efficiency ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	10.9	3.6	2.5	7.3	10.7
ROACE (%)	11.1	4.3	4.1	6.7	9.6
Inventory day	7	7	9	8	9
Debtors days	19	20	22	22	25
Payable days	140	130	155	142	173
Current ratio	1.7	1.8	3.1	2.3	1.3
Debt/EBITDA	2.8	2.9	3.9	2.3	1.8
Debt/Equity	0.6	0.5	0.5	0.6	0.6
Adjusted debt/equity	0.6	0.5	0.5	0.6	0.6
Interest coverage	6.2	1.2	1.1	2.2	3.1

Operating ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.8	0.8	0.6	0.9	1.0
Fixed asset turnover	1.8	1.6	1.1	1.5	1.5
Equity turnover	1.3	1.5	1.2	1.7	1.8

Du pont analysis

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	7.8	2.4	2.2	4.4	5.9
Total assets turnover	0.8	0.8	0.6	0.9	1.0
Leverage multiplier	1.7	1.8	1.8	1.8	1.8
ROAE (%)	10.9	3.6	2.5	7.3	10.7

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	8.8	3.7	0.6	9.2	14.8
Y-o-Y growth (%)	122.0	(57.6)	(84.7)	1,518.9	60.4
CEPS (INR)	16.9	19.3	13.4	30.1	41.3
Diluted PE (x)	16.5	38.8	253.5	15.7	9.8
Price/BV (x)	1.6	1.2	1.2	1.1	1.0
EV/Sales (x)	1.6	1.2	1.3	0.9	0.9
EV/EBITDA (x)	8.9	8.2	9.3	5.6	4.5
Dividend yield (%)	0.7	0.8	0.7	0.7	0.7



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Jagran Prakashan	BUY	SP	M	PVR	BUY	SP	M
Television Eighteen India Ltd	Hold	SP	H	Zee Entertainment Enterprise	BUY	SO	M
Zee News	BUY	SP	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani Head Institutional Equities vikas.khemani@edelcap.com +91 22 2286 4206
Nischal Maheshwari Head Research nischal.maheshwari@edelcap.com +91 22 6623 3411

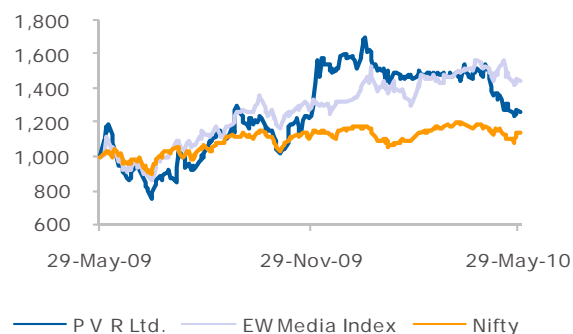
Coverage group(s) of stocks by primary analyst(s): Media

Jagran Prakashan, PVR, Television Eighteen India Ltd, Zee Entertainment Enterprise, Zee News

PVR



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
31-May-10	Television Eighteen	Encouraging performance; improving outlook; <i>Result Update</i>	82	Hold
28-May-10	Jagran Prakashan	Ad revenue growth ahead of DB Corp; <i>Result Update</i>	106	Buy
05-May-10	Media	Print: Beyond the fineprint– IRS Q1CY10 analysis; <i>Sector Update</i>		

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