

PVR

INR 228

Muted quarter, but outlook positive

BUY



PVR's results were subdued as the company did not exhibit *Dhoom 2* and *Kabul Express* on account of failure to reach revenue sharing agreement with Yashraj Priductions. This resulted in lower occupancy rates and impacted the Q-o-Q growth in revenues. However, driven by an increase in seats in operation, net revenues grew 64.2% on a Y-o-Y basis. During the quarter, PVR operated 77 screens across 21 properties. It received approval for entertainment tax exemption for its multiplexes in Aurangabad and Latur. With this, 24 out of 77 screens are now exempted from paying entertainment tax. As a result, e-tax payout as percentage of gross ticket revenues came down to 23.6% in Q3FY07 compared to 25.3% in Q2FY07 and 26.0% in Q3FY06. This helped in a 156 bps Y-o-Y improvement in EBITDA margins as EBITDA grew 86.1% to INR 52 mn. There was, however, a decline of 160 bps Q-o-Q because of lower occupancies.

There have been delays in opening of some of the proposed multiplexes because of delay in handover of properties by developers. Therefore, as against our earlier expectation of 112 screens and 170 screens by end of FY07 and FY08, respectively, we expect that PVR will now have 83 screens and 140 screens, respectively. Consequently, we have revised our FY08 PAT estimates downwards by 24.9%. Despite the delays, we remain positive on the outlook for PVR. While new multiplexes will drive growth in revenues, we expect EBITDA and PAT margins to improve due to entertainment tax exemptions on majority of new properties and operating leverage. The stock currently trades at P/E 17.8x FY08E. We maintain our 'BUY' recommendation on the stock.

Key highlights:

- PVR's Q3FY07 results despite being disappointing were in line with our expectations. During the current quarter, the company did not exhibit *Dhoom 2* and *Kabul Express* on account of failure to reach revenue sharing agreement with Yashraj Priductions, the producer and distributor of these movies. This resulted in lower footfalls in its multiplexes and therefore, a de-growth in revenues on a sequential basis
- Net revenues grew 64.2% Y-o-Y but declined 9.1% Q-o-Q to INR 395 mn, in line with our expectations.
 - The key reason for growth in revenues on a Y-o-Y basis was the increase in average number of seats in operation during the quarter as compared to last year.
 - However, as stated above, revenues fell sequentially on account of lower occupancy resulting from not showing *Dhoom 2* and *Kabul Express*. Occupancy rates fell to 40% compared to 47% in the previous quarter. Consequently, footfalls also dropped to 3.63 mn compared to 3.78 mn in the previous quarter.

Financials

Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY07E	FY08E
Revenues (INR mn)	395	241	64.2	435	(9.1)	1,697	3,015
EBITDA (INR mn)	52	28	86.1	65	(18.9)	260	679
Net profit (INR mn)	17	7	135.2	34	(50.3)	110	304
EPS (INR)	0.6	0.3		1.3		4.3	12.8
PE (x)						52.9	17.8

February 2, 2007

Priyank Singhal
+91-22-2286 4302
priyank.singhal@edelcap.com

Reuters : PVRL.BO
Bloomberg : PVRL IN

Market Data

52-week range (INR) : 337 / 190
Share in issue (mn) : 22.8
M cap (INR bn/USD mn) : 5.2 / 117.6
Avg. Daily Vol. BSE/NSE ('000) : 82.5

Share Holding Pattern (%)

Promoters : 40.5
MFs, FIs & Banks : 22.8
FII's : 28.4
Others : 8.3

- During the quarter, PVR operated 77 screens across 21 properties. In addition, the company received approval for entertainment tax exemption for its multiplexes in Aurangabad and Latur. This exemption will be available for a period of five years w.e.f. January 1, 2007.
 - With this, 24 out of 77 screens are exempted from paying entertainment tax. As a result, the entertainment tax payout as percentage of gross ticket revenues has come down to 23.6% in Q3FY07 compared to 25.3% in Q2FY07 and 26.0% in Q3FY06.
 - ◆ EBITDA grew 86.1% Y-o-Y to INR 52 mn. EBITDA margins improved Y-o-Y by 156 bps to 13.2%. There was, however, a decline of 160 bps Q-o-Q.
 - The improvement in margins on a yearly basis was largely on account of operating leverage and benefit of lower entertainment tax flowing to the bottomline.
 - The decline on Q-o-Q basis was because of decline in revenues on account of low occupancy.
 - ◆ PAT for the quarter more than doubled to INR 17 mn on a Y-o-Y basis. PAT margins improved by 128 bps Y-o-Y but there was a decline of 350 bps on a sequential basis.
 - ◆ Since the company has declared only standalone results, the numbers of its wholly owned subsidiary, PVR Pictures, have not been included in the financials. The recent movies distributed by PVR Pictures include Don and Omkara in a few territories. In addition, it has also entered into a co-production tie-up with Aamir Khan Productions for producing two movies titled 'Taare Zameen Par' and 'Jaane Tu Ya Jaane Na'. As per the arrangement, PVR Pictures will make investments on a fixed budget basis and will earn distributor's commission on ticket collections besides interest on investment and a share in profits.
 - ◆ There have been delays in opening of some of the proposed multiplexes because of delay in handover of properties by developers. Therefore, as against our earlier expectation of 112 screens and 170 screens by end of FY07 and FY08, respectively, we expect that PVR will now have 83 screens and 140 screens, respectively. There is little impact of delay on FY07 PAT numbers as some of the shortfall will be made up by higher other income. But we will have to revise our FY08 PAT estimates downwards by 24.9% to INR 304 mn.
- * **Maintain 'BUY'**

Despite the delay in rollout, we remain positive on the outlook for PVR. While new multiplexes will drive growth in revenues, we expect EBITDA and PAT margins to improve due to entertainment tax exemptions on majority of new properties and operating leverage. The stock currently trades at P/E of 17.8x FY08E. We maintain our **'BUY'** recommendation on the stock.

Financial snapshot	Standalone					Consolidated			(INR mn)
	Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY06	FY07E	FY08E
Net revenues	395	241	64.2	435	(9.1)	1,049	1,697	3,015	
Direct costs	132	76	73.5	152	(13.1)	339	593	1,026	
Employee cost	52	35	48.4	49	5.7	133	202	288	
Other expenses	159	102	56.6	169	(6.1)	419	643	1,021	
Total expenditure	343	213	61.3	371	(7.4)	890	1,438	2,336	
EBITDA	52	28	86.1	65	(18.9)	159	260	679	
Depreciation	35	17	107.7	26	36.6	83	125	198	
Interest	14	7	94.6	14	3.6	31	55	67	
Other income	20	8	155.0	19	10.3	43	84	50	
Profit before tax	24	12	105.1	43	(44.2)	88	163	464	
Provision for taxation	8	5	59.6	10	(23.5)	35	54	160	
Reported profit	17	7	135.2	34	(50.3)	53	110	304	
Equity capital (FV INR 10)	229	229		229		229	229	229	
No. of shares (mn)	22.9	22.9		22.9		22.9	22.9	22.9	
EPS	0.6	0.3		1.3		2.1	4.3	12.8	
PE (x)						109.2	52.9	17.8	
Market cap / revenues						5.0	3.1	1.7	
as % of net revenues									
Direct costs	33.5	31.7		35.0		32.3	34.9	34.0	
Employee cost	13.1	14.5		11.3		12.6	11.9	9.6	
Other expenses	40.2	42.2		38.9		39.9	37.9	33.9	
EBITDA	13.2	11.7		14.8		15.1	15.3	22.5	
Net profit	4.2	2.9		7.7		5.0	6.5	10.1	

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 the first multiplex in India in Delhi in 1997. In November 2002, Village Roadshows divested its stake in PVR as part of an overall strategy to rationalize its operations across 18 countries. Since then, PVR has come a long way and is presently the largest multiplex player in India with 77 screens across 21 properties. PVR is also present in the movie distribution business through its 100% subsidiary PVR Pictures.

Investment Thesis

PVR has an aggressive expansion plan to increase the number of screens in operation to xx over the next 15 months. It has, in fact, already signed up a far higher number of properties that will take care of its growth well beyond FY08. Even though PVR will have multiplexes all across the country, it will have a very significant presence in the states of 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 the movie rights for these territories. Since most of PVR's properties in FY06 were based in Delhi, Haryana and Karnataka, they did not enjoy entertainment tax exemptions. This had an adverse impact on PVR's margins. However, majority of the new multiplexes are coming up in states that have announced entertainment tax exemptions. Therefore, the effective entertainment tax for PVR is going to come down, leading to an improvement in margins. We expect net revenues and PAT to grow at CAGR of xx and xx over FY06-08E.

Risks to Recommendation

Delay in rollout of proposed multiplexes, higher share of the 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.

Edelweiss Securities

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



Naresh Kothari – 2286 4246

Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

INDIA RESEARCH

SECTOR

INSTITUTIONAL SALES

Shriram Iyer - 2286 4256	Head – Research	Nischal Maheshwari - 2286 4205
Gautam Roy - 2286 4305	Airlines, Textile	Rajesh Makharia - 2286 4202
Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Shabnam Kapur - 2286 4394
Vishal Goyal, CFA - 2286 4370	Banking & Finance	Amish Choksi - 2286 4201
Revathi Myneni - 2286 4413	Cement	Balakumar V - (044) 4263 8283
Sumeet Budhraj - 2286 4430	FMCG	Monil Bhala - 2286 4363
Harish Sharma - 2286 4307	Infrastructure, Auto Components, Mid Caps	Ashish Agrawal - 2286 4301
Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg - 2286 4282
Hitesh Zaveri - 2286 4424	Information Technology	Swati Khemani - 2286 4266
Parul Inamdar - 2286 4355	Information Technology	Neha Shahra - 2286 4276
Priyank Singhal - 2286 4302	Media, Retail	Priya Ramchandran - 2286 4389
Prakash Kapadia - 2286 4432	Mid Caps	Anubhav Kanodia - 2286 4361
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan - 2286 4439
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani - 2286 4419
Manika Premsingh - 4019 4847	Economist	Nirmal Ajmera - 2286 4258
Sunil Jain - 2286 4308	Alternative & Quantitative	Ankit Doshi - 2286 4671
Yogesh Radke - 2286 4328	Alternative & Quantitative	Ravi Pilani - 4009 4533
		Dipesh Shah - 2286 4434

Email addresses: firstname.lastname@edelcap.com

e.g. naresh.kothari@edelcap.com

unless otherwise specified

RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

This document has been prepared by Edelweiss Securities Private Limited (Edelweiss). Edelweiss and its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in stock: no.