PVR

INR 228

Edelweiss
Ideas create, values protect

Muted quarter, but outlook positive

BUY

February 2, 2007

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

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 Prioductions. 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 Prioductions, 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.

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
FIIs	:	28.4
Others	:	8.3

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

  - 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					(INR mn)
						Consolidated		
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
Shriram Iyer	-	2286 4256	Head – Research
Gautam Roy	-	2286 4305	Airlines, Textile
Ashutosh Goel	-	2286 4287	Automobiles, Auto Components
Vishal Goyal, CFA	-	2286 4370	Banking & Finance
Revathi Myneni	-	2286 4413	Cement
Sumeet Budhraja	-	2286 4430	FMCG
Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps
Priyanko Panja	-	2286 4300	Infrastructure, Engineering, Telecom
Hitesh Zaveri	-	2286 4424	Information Technology
Parul Inamdar	-	2286 4355	Information Technology
Priyank Singhal	-	2286 4302	Media, Retail
Prakash Kapadia	-	2286 4432	Mid Caps
Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals
Nimish Mehta	-	2286 4295	Pharmaceuticals, Agrochemicals
Manika Premsingh	-	4019 4847	Economist
Sunil Jain	-	2286 4308	Alternative & Quantitative
Yogesh Radke	-	2286 4328	Alternative & Quantitative

INSTITUTIONAL SALES		
Nischal Maheshwari	-	2286 4205
Rajesh Makharia	-	2286 4202
Shabnam Kapur	-	2286 4394
Amish Choksi	-	2286 4201
Balakumar V	-	(044) 4263 8283
Monil Bhala	-	2286 4363
Ashish Agrawal	-	2286 4301
Nikhil Garg	-	2286 4282
Swati Khemani	-	2286 4266
Neha Shahra	-	2286 4276
Priya Ramchandran	-	2286 4389
Anubhav Kanodia	-	2286 4361
Tushar Mahajan	-	2286 4439
Harsh Biyani	-	2286 4419
Nirmal Ajmera	-	2286 4258
Ankit Doshi	-	2286 4671
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