Equity Research

April 20, 2021

BSE Sensex: 47949

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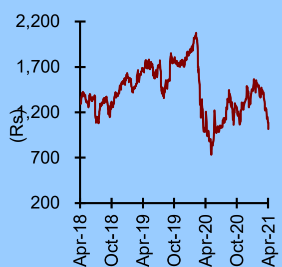
Sector update

Media

PVR Ltd (BUY)

Target price Rs1,679

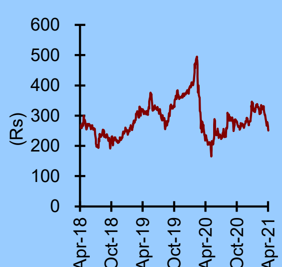
Price chart



INOX Leisure Ltd (BUY)

Target price Rs424

Price chart



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INDIA

Multiplex

Business disruption again – learnings and better cash position to help

PVR and INOX Leisure (INOX) stocks have corrected significantly on Covid second wave. We estimate >50% of screens are shut due to lockdown or low demand and the worst case scenario of 100% screen shutdown for a few weeks looks possible. *However, faster-than expected vaccination (on new liberalised and accelerated phase 3 Covid vaccination), and decline in Covid cases would be hugely positive.* Cost continues to remain the key lever in absence of revenues for multiplexes, which previously were curtailed by ~70%. Rent and CAM waivers / concessions are critical to restrict cash burn and the possibility remains that relief may come as in the first wave. PVR and INOX however have enough funding arrangements to sail through this situation. Unlike earlier, multiplexes are equipped with learnings from the previous shutdown and are better prepared this time, in our view. Industry consolidation remains the key theme on normalisation, and strong players such as PVR and INOX are expected to capitalise on the situation. Reiterate BUY on both PVR and INOX.

- **Business disruption again on Covid second wave.** Restrictions / curfews are returning in tandem with rise in Covid cases. The key states of Maharashtra, Delhi and Rajasthan have implemented curfew, thus shutting down cinema theatres mandatorily while multiplexes have voluntarily shut many screens on low demand. We understand key listed multiplexes are running at probably less than 50% of screens and the situation may only worsen as Covid continues to rise in other geographies. We don't rule out the worst situation of complete shutdown of all screens for a few weeks, even months. However, multiplexes are now equipped with learnings from the previous shutdown, hence they are prepared to handle the situation more prudently, in our view.

  Government of India has announced a liberalized and accelerated phase 3 Covid vaccination from 1st May'21. In phase 3, everyone above 18 years' age are eligible to get Covid vaccine. We keep our faith on vaccination, as it may help in restricting Covid case, and open economy earlier than expected.

- **Costs remain the key lever to restrict cash burn.** In absence of no material revenues, companies will continue to control / optimise costs to restrict cash burn. In H1FY21, PVR had cut monthly expenses (excluding rent and CAM) to Rs283mn, down 67% YoY. Similarly, in Q2FY21, INOX cut its employee cost and other overheads (excluding power & fuel, rent and CAM) by 72% to Rs100mn/month. Multiplexes have also secured complete waivers on rents during the lockdown period and concessions till Mar'21 on low occupancies.

  Rent and CAM are major costs for multiplexes. On normalised basis, PVR's rent + CAM cost (per quarter) is Rs1.5bn and that of INOX is Rs1bn. The evolving situation may warrant multiplexes to renegotiate again with mall owners for waivers or concessions as applicable. Any concession or waiver on rents would bring significant relief to multiplexes, and we assign a high probability on the concession front.

- **Healthy balance sheet would help.** At Q3FY21-end, PVR had gross borrowing of Rs15bn and cash of Rs3.7bn; it raised additional equity of Rs8bn in Feb'21. Even in the worst case scenario, where PVR is expected to pay entire rent + CAM, its cash will last more than three quarters. As at Jan'21-end (post fund raising of Rs2.5bn in Nov'20), INOX had gross debt of Rs1.15bn and cash of Rs1.4bn. It has taken Board approval to raise another Rs3bn in equity and, post fund raising, INOX too would have enough cash to sail through this challenging situation.

- **New movie releases may be postponed.** The Hindi segment did not see any major release of movie(s) even in Q4FY21 when the situation was improving. It is likely that producers / production houses were waiting for complete lifting of restrictions. However, South Indian language segments saw a few blockbuster releases such as *Master*. A few Hindi movies were expected to be released in April'21 (e.g. *Sooryavanshi*), but we think it will now be postponed. We now expect major releases only in H2FY22, hence the next two quarters may be washout for multiplexes. This may also force a few producers to evaluate selling their movie rights to OTT players as the latter continue to invest aggressively (this could affect near-term content supply for multiplexes, but it would be a transient impact).

- **Industry consolidation may accelerate further.** In our earlier report (refer), we highlighted Covid as a catalyst to accelerate consolidation in the India theatre chain business – and now the second wave will only put more pressure on weak players. Though large shutdowns are likely in the single-screen segment, it may drive multiplexes' occupancy higher. Our working shows 100bps higher occupancy boost EBITDA by 9.1% and 11.7% for PVR and INOX respectively, on normalisation. In FY20, single-screen cinema theatres' box office revenues were Rs65bn (53% of industry revenues), but they had higher admits at 620mn (66% of industry admits). They enjoyed higher occupancy at 36.5%, but lower ATP of Rs104.

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