# Film Exhibition Sector

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## F&B Controversy Overshadow Reasonable Performance

**In 2QFY19, Inox Leisure and PVR stock prices were down ~16%/~12%, respectively. We believe the weak performance can be largely attributed to: (1) Broader weakness in BSE Small Cap Index which was down ~10%. (2) Adverse investor perception of the F&B controversy. The latter relates to a clutch of Public Interest Litigations (PILs) filed in High Courts in various states asking them to favour consumers who want to bring in their own food into cinema halls. Indirectly, the PILs are hinting at expensive pricing of F&B in multiplexes. F&B constituted ~27%/~30% and ~23%/26% of PVR's and Inox Leisure's revenues/gross margin in FY18, respectively and the fear amongst investors is that this lucrative revenue stream would be adversely impacted. The atmosphere has been vitiated by populist posturing of political parties and looks ominous when juxtaposed with the upcoming general elections in 2019. To assuage consumers incensed by what seems like prohibitive pricing of F&B, companies have reduced the prices of popular food items by as much as 40%-50% during non-peak hours (all weekdays until 6pm on Fridays). We understand this is being done in certain pockets in the country currently. We believe this move will likely have 100bps-200bps impact on gross margin of F&B (which is at a high of 75%) and may lead to SPH growth slowing down in FY19, but is unlikely to materially impact the financials. On the litigation front, industry indicates consolidation and transfer of state-level PILs to the Supreme Court so that the matter can be addressed at the national level and a closure achieved. The other notable events that happened during the quarter are: (1) Acquisition by PVR of SPI Cinemas, a Chennai-based multiplex chain, for an EV of ~Rs10bn. This brings in ~76 screens and agreements with mall operators to open another 100 plus screens over the next few years. SPI is the leader in Chennai with a very high occupancy rate (>55%) and EBITDA margin higher than that of PVR. (2) Convenience fee tie-up by PVR with both Bookmyshow (BMS) and PayTM (cinema ticket aggregators) which will result in 2.3x increase over the next three years. PVR has also got upfront the money that is due to it from both the players, indicating the kind of bargaining power it has got. We understand that Inox Leisure has got into a convenience fee tie-up with PayTM, which is pretty similar to that of PVR's but without the upfront payment. Inox Leisure broke off with BMS towards the end of 2QFY19, but continues to be engaged with it and a deal is likely in the coming days. However, the break-up with BMS did impact the occupancy rate and financial performance for the quarter, as seen in our estimates.**

**2QFY19 operational details:** Bollywood had content successes like 'Sanju', 'Gold' and 'Satyameva Jayate'. 'Mission Impossible – Fallout' was a notable movie from the Hollywood stable. Specifically for 2QFY19, we expect a reasonable performance from PVR (ex SPI) and a muted performance from Inox Leisure because of snapping of the BMS tie-up (BMS used to account for a quarter of the tickets sold by Inox Leisure). The growth in revenues is expected to be largely because of new screen addition - ~8% YoY for PVR and ~10% for Inox Leisure. Occupancy was up modestly for PVR, while it was flat for Inox Leisure on YoY basis. In terms of ticket prices, low single-digit increase was witnessed by both PVR and Inox Leisure. On F&B side, high single-digit SPH growth was witnessed by Inox Leisure, but it was flat to declining for PVR. PVR and Inox Leisure's advertisement revenues were up - in low to mid-teens. While upcoming quarterly results are important, investors will also focus on: (1) Screen roll-out plan. (2) Industry moves on the F&B-related controversy. (3) Details of performance and integration of SPI Cinema with PVR. (4) Details of break-up between Inox Leisure and BMS and the terms of a potential new tie-up. (5) Future content to be released in 3QFY19 and beyond. (6) Competition from OTT.

**Screen roll-out – PVR seems to be slow while Inox Leisure races ahead:** In 1HFY19, PVR has likely opened only 18 screens against the planned 90 screens for the full year. It did indicate that about 15-20 screens are ready for roll-out, but is constrained by licencing problems. Inox Leisure, on the other hand, has opened about 40 screens in 1HFY19 and is likely to overshoot its roll-out guidance of 55 screens for FY19. We believe Inox Leisure will raise its organic screen roll-out number and PVR will cut back. One thing to be noted here is that PVR with its acquisition of SPI Cinema adds ~76 screens through that route in one shot.

**Estimates for the quarter:** In the numbers given below, we have given both the standalone and consolidated estimates for PVR post acquisition of SPI (effective 18 August 2018). We have refrained from giving the consolidated PAT number as we do not have balance sheet-related details of the merger.

| | 2QFY19E | | 2QFY19E | | *EBITDA margin (%)* | | 2QFY19E | |
|---|---|---|---|---|---|---|---|---|
| (Rsmn) | Revenues | *YoY growth (%)* | EBITDA | *YoY growth (%)* | *2QFY19E* | *2QFY18* | PAT | *YoY growth (%)* |
| PVR | 6,406 | *15.4* | 1,054 | *16.4* | *16.4* | *16.3* | 348 | *38.4* |
| PVR** | 6,974 | *25.6* | 1,213 | *34.0* | *17.4* | *16.3* | - | - |
| Inox Leisure | 3,624 | *16.5* | 464 | *4.6* | *12.8* | *14.3* | 98 | *20.7* |

*** PVR numbers consolidated along with that of SPI. Projected only till the EBITDA line; Source: Companies, Nirmal Bang Institutional Equities Research*

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