

# Media & Entertainment

Refer to important disclosures at the end of this report

## 4Q to be Super Hit, but will VPF flop at CCI?

- Our interaction with Inox Leisure management reveals that Q4FY19 will be one of the best quarters in the recent past, driven by a strong run of Bollywood movies at the box office. QTD Q4FY19 box office collections are up 36%.
- Inox is expected to deliver on its screen addition guidance of 80 in FY19, while PVR is falling short on its 90+ screen addition guidance by ~20 as of now. We expect PVR and Inox to add 63/90/75 and 80/80/65 screens in total in FY19/FY20/FY21E.
- The strong quarter is getting overshadowed by the recent VPF issue, which seems to be getting noisier. Inox and PVR's VPF revenues, which flow completely into EBITDA, will be under threat if they face any adverse ruling from the CCI.
- Amid a robust 4Q so far, we are raising estimates for both the companies. We maintain Buy on Inox with a revised TP of Rs370 and Hold on PVR with a revised TP of Rs1643. The potential risk to VPF revenue should keep stock prices under check in the near term.

### Box office performance

- Bollywood:** Jan'19 and Feb'19 saw a 43% yoy increase in NBOC cumulatively, supported by more movie releases and a low base. Movies without big star cast but with compelling content, such as 'Uri: The Surgical Strike' and 'Manikarnika', performed well at the box office – which seems to be a consistent trend since the past few quarters.
- QTD Q4FY19 NBOC stands at Rs10.8bn vs. Rs7.9bn – a 36% increase yoy. Collections could have further upside with 'Kesari' releasing on 22<sup>nd</sup> March.
- Hollywood:** QTD Q4FY19 collections stand at Rs1bn vs. Rs0.6bn, up 52% yoy.
- Regional:** Limited data availability of regional movies restricts yoy comparison but we try to highlight the performance of a few big-ticket Tamil movies such as 'Petta' and 'Viswasam' that collected Rs2.2bn and Rs1.7bn, respectively, in Q4FY19.
- The movie line-up for Q1FY20 seems decent, with 1-2 big-ticket movies on top of a favorable base. However, a marginal impact to footfalls could arise from the ICC Cricket World Cup that falls in Q1FY20, provided the Indian team progresses well.

### Recent newsflow – are VPF revenues at risk?

- Ronnie Screwvala has filed a case with the CCI against the Top-4 multiplex chains alleging that Virtual Print Fee (VPF) is an anti-competitive charge. The VPF revenue of PVR and Inox – estimated at ~Rs270mn and Rs230mn for FY19E – could be at risk if the CCI rules in favor of Mr. Screwvala, resulting in an EBITDA reduction of the same amount as it has no costs attached to it, and a decline in FY20E EBITDA of 5/7% for PVR/Inox.

### Outlook

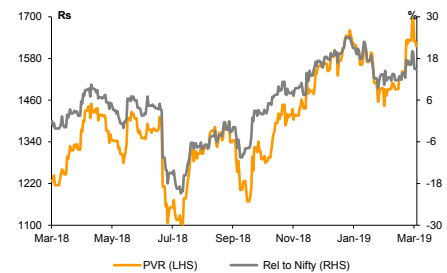
- Content is the 'King' remains the underlying trend as small budget/star movies have surpassed expectations. Despite the poor performance of big budget movies in FY19, small budget movies have added to the overall growth. FY19 is expected to see Bollywood NBOC rising by 11% from 9% in FY18 on strong performance of small/medium-budget movies. With the base increasing after two consecutive years of healthy footfalls, movie performance in FY20E is critical to beat the base of strong footfalls for PVR and Inox. Historically, a strong year is followed by suppressed footfalls while the change in performance for small budget movies is critical in delivering footfall growth on a high base. We remain conservative and factor in footfall growth of 6% (vs 8% earlier) each for PVR and Inox for FY20E as FY19E will have fairly heavy base. We continue to maintain our preference for Inox over PVR.

Please see our sector EAP (Page 6): [Emkay Alpha Portfolio – Media & Entertainment](#)

<b>PVR</b>	HOLD
CMP	Target Price
1,595	1,643

Price Performance				
(%)	1M	3M	6M	12M
Absolute	8	3	20	31
Rel. to Nifty	2	(3)	17	16

### Relative price chart

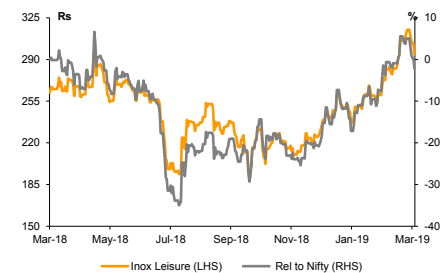


Source: Bloomberg

<b>Inox Leisure</b>	BUY
CMP	Target Price
304	370

Price Performance				
(%)	1M	3M	6M	12M
Absolute	5	23	24	11
Rel. to Nifty	(2)	15	21	(1)

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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## Exhibit 1: Box office collections for Q4FY19 on a yoy basis

Q4FY18			Q4FY19			
Movie	Release date	Box office Collection (Rs mn)	Movie	Release date	Box office Collection (Rs mn)	yoy
<b>Tiger Zinda Hain</b>	<b>22-Dec-17</b>	<b>853</b>	<b>Simba</b>	<b>28-Dec-18</b>	<b>1501</b>	
Mukkabaaz	12-Jan-18	100	<b>Uri: The Surgical Strike</b>	<b>11-Jan-19</b>	<b>2428</b>	
1921	12-Jan-18	157	The Accidental Prime Minister	11-Jan-19	250	
Kaalakaandi	12-Jan-18	75	Cheat India	18-Jan-19	78	
<b>Padmaavat</b>	<b>25-Jan-18</b>	<b>2862</b>	Thackeray	25-Jan-19	316	
			<b>Manikarnika: The Queen of Jhansi</b>	<b>25-Jan-19</b>	<b>949</b>	
<b>Total</b>	<b>October</b>	<b>4047</b>	<b>Total</b>	<b>October</b>	<b>5523</b>	<b>36.4%</b>
Padman	09-Feb-18	790	Ek Ladki Ko Dekha Toh Aisa Laga	01-Feb-19	200	
Aiyaary	09-Feb-18	170	<b>Gully Boy</b>	<b>14-Feb-19</b>	<b>1394</b>	
<b>Sonu Ke Titu Ki Sweety</b>	<b>23-Feb-18</b>	<b>1068</b>	<b>Total Dhamaal</b>	<b>22-Feb-19</b>	<b>1508</b>	
Welcome to New York	23-Feb-18	30	Sonchariya	01-Mar-19	66	
	<b>November</b>	<b>2057</b>		<b>November</b>	<b>3196</b>	<b>54.5%</b>
Pari	02-Mar-18	247	Luka Chuppi	01-Mar-19	876	
Hate Story 4	09-Mar-18	200	<b>Badla</b>	<b>08-Mar-19</b>	<b>694</b>	
Dil Juunglee	09-Mar-18	11	<b>Kesari</b>	<b>22-Mar-19</b>	<b>565</b>	
<b>Raid</b>	<b>16-Mar-18</b>	<b>1001</b>	Mental Hai Kya	29-Mar-19		
Hichki	23-Mar-18	389				
Baaghi 2	30-Mar-18	451				
<b>Total</b>	<b>December</b>	<b>2321</b>	<b>Total</b>	<b>December</b>	<b>2135</b>	
<b>Total</b>		<b>8425</b>	<b>Total</b>		<b>10854</b>	<b>28.8%</b>

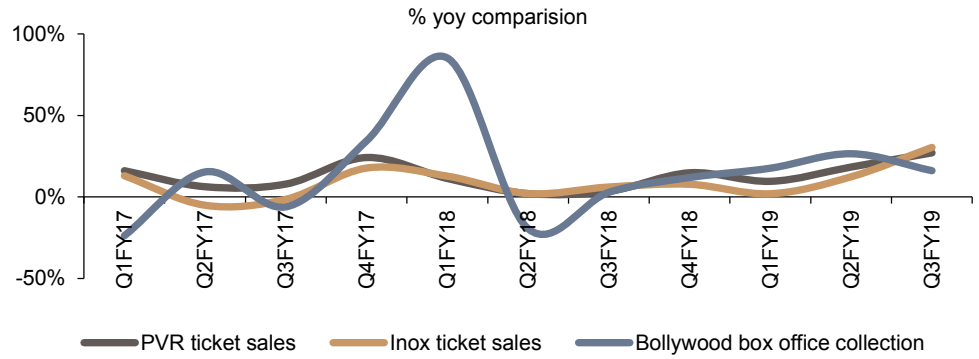
## Hollywood movie collections

Hollywood Movie	Release date	Box office Collection (Rs mn)	Hollywood Movies	Release date	Box office Collection (Rs mn)
The Post	12-Jan-18	41	Bumblebee	04-Jan-19	70
Maze Runner : The Death Cure	09-Feb-18	20	Alita: Battle Angels	08-Feb-19	96
<b>Black Panther</b>	<b>16-Feb-18</b>	<b>573</b>	<b>Captain Marvel</b>	<b>08-Mar-19</b>	<b>741</b>
<b>Total</b>		<b>633</b>	<b>Total</b>		<b>907</b>

## Regional movie collections

Regional Movies	Release date	Box office Collection (Rsmn)	Regional Movies	Release date	Box office Collection (Rsmn)
Thaana Serndha Kootam	12-Jan-18	700	<b>Petta</b>	<b>10-Jan-19</b>	<b>2170</b>
Laavan Phera	09-Feb-18	60	<b>Viswasam</b>	<b>10-Jan-19</b>	<b>1700</b>
Aapla Manus	09-Feb-18	250	Yatra	08-Feb-19	155
Gulab Jamun	16-Feb-18	52			
<b>Total</b>		<b>1062</b>	<b>Total</b>		<b>4025</b>

Note: Box office collection data is updated as on 23<sup>rd</sup> March '19. Source: Industry, Emkay Research

**Exhibit 2: PVR and Inox ticket sales compared with box office collections**

Source: Industry, Emkay Research

### Content pipeline for Q1FY20 looks encouraging and base of last year is also favorable

The content pipeline for Q1FY20 seems strong, with a few big-ticket movies getting released. In addition, Q1FY19 has a favorable base as Bollywood content performance was sub-par and had even recorded a 19% decline yoy. However, the progress of the Indian team in the ICC Cricket World Cup (scheduled for 30<sup>th</sup> May-14<sup>th</sup> July) could potentially delay some movie releases and marginally impact the footfalls.

**Exhibit 3: Movie line-up for Q1FY20**

Date of release	Title	Director	Cast
05-04-2019	Romeo Akbar Walter	Robbie Garewal	John Abraham, Mouni Roy
05-04-2019	PM Narendra Modi	Omung Kumar	Vivek Oberoi, Boman Irani
17-04-2019	Kalank	Abhishek Varman	Sanjay Dutt, Madhuri Dixit, Varun Dhawan, Alia Bhatt, Aditya Roy Kapoor
10-05-2019	Student of the Year 2	Punit Malhotra	Tiger Shroff
17-04-2019	De De Pyaar De	Akiv Ali	Ajay Devgn, Tabu
<b>24-05-2019</b>	<b>India's Most Wanted</b>	<b>Rajkumar Gupta</b>	<b>Arjun Kapoor</b>
24-05-2019	Avengers: Endgame	Anthony Russo, Joe Russo	Various Hollywood artists
05-06-2019	Bharat	Ali Abbas Zafar	Salman Khan, Tabu, Katrina Kaif
01-06-2019	Sandeep aur pinky faraar	Dibakar Banerjee	Arjun Kapoor, Parineeti Chopra
21-06-2019	Kabir Singh	Sandeep Vanga	Shahid Kapoor
28-06-2019	Drive	Tarun Mansukhani	Sushant Singh Rajput, Jacqueline Fernandez

Source: Industry, Emkay Research

### Estimate revision

Driven by robust box office collections, we have upped our footfall assumption for Q4FY19 for both the companies. This is resulting to strong operating leveraging with yoy EBITDA growth of 69%/101% for PVR/Inox in Q4FY19. Although there is flow through of footfall increase to FY20 while we have moderated our growth assumption to 6% vs 8% earlier, due to high base of FY19. Our conservative assumptions are leading to higher upgrades for Inox as compared to PVR.

#### Exhibit 4: PVR estimate revision

Particulars	FY19			FY20			FY21		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	30,637	31,631	3.2	36,223	37,103	2.4	40,122	41,453	3.3
EBITDA	5,521	5,969	8.1	6,700	6,704	0.1	7,862	7,865	0.0
EBITDA Margin %	18.02	18.9	85 bps	18.5	18.1	-43 bps	19.6	19.0	-62 bps
PAT	1,708	2,025	18.6	2,197	2,222	1.1	2,781	2,796	0.6
EPS	35.3	41.9	18.6	45.5	46.0	1.1	57.5	57.8	0.6

Source: Company, Emkay Research

#### Exhibit 5: Inox estimate revision

Particulars	FY19			FY20			FY21		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	15462	16788	8.6	17580	18807	7.0	20696	21347	3.1
EBITDA	2439	2962	21.5	2769	3232	16.7	3211	3671	14.3
EBITDA Margin %	15.8	17.6	187 bps	15.8	17.2	143 bps	15.5	17.2	168 bps
PAT	882	1257	42.6	1026	1357	32.3	1330	1627	22.3
EPS	9.2	12.3	33.7	10.7	13.2	24.0	13.0	15.9	22.0

Source: Company, Emkay Research

We have assumed that VPF fees would be nil for PVR and Inox, calculate the impact on their financials and arrive at a bear case target price for both the companies.

#### Exhibit 6: Assuming VPF revenues would be nil from FY20 onwards for PVR

Rs mn	FY20E	FY21E
EBITDA	6,704	7,865
Impact of VCF	299	299
EBITDA	6,405	7,566
Multiple		12
EV		90,790
<b>Bear case TP</b>		<b>1,566</b>

Source: Company, Emkay Research

#### Exhibit 7: Assuming VPF revenues would be nil from FY20 onwards for Inox

Rs mn	FY20E	FY21E
EBITDA	3,232	3,671
Impact of VCF	229	229
EBITDA	3,003	3,442
Multiple		10.8
EV		37,178
<b>Bear case TP</b>		<b>343</b>

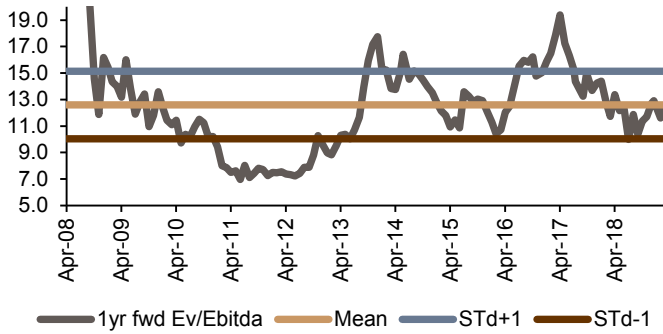
Source: Company, Emkay Research

### Recent newsflow - are VPF revenues at risk?

- Ronnie Screwvala has filed a case with the CCI against the Top-4 multiplex chains alleging that Virtual Print Fee (VPF) is an anti-competitive charge. The VPF revenue of PVR and Inox could be at risk if the CCI rules in favor of Mr. Screwvala, resulting in an EBITDA reduction of the same amount as it has no costs attached to it, and a decline in FY20E EBITDA of 5/7% for PVR/Inox.
- What is VPF revenue and why it exists** – Virtual Print Fee (VPF) is a charge in the form of a subsidy paid by film distributors for purchasing digital cinema projection equipment to be used by film exhibitors in the presentation of motion pictures. Historically, producers have encouraged theatre owners to install digital projectors at the halls and had agreed to bear the VPF ever since. The VPF constitutes 'cost of projector,' mastering, and delivery of the movie. With substantial period passed after the introduction of the VPF, producers are reluctant to pay it anymore while the fact that the agreement between them and exhibitors is a verbal one lends ambiguity to the entire issue. Currently, Hollywood producers do not pay VPF, and revenues come solely from Bollywood and Regional movie distributors.

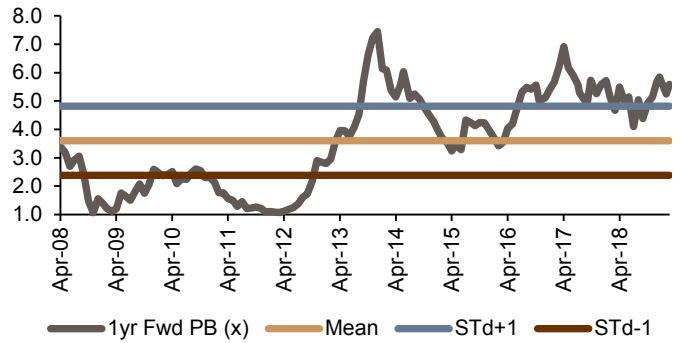
## Valuation charts

**Exhibit 8: PVR P/B band**



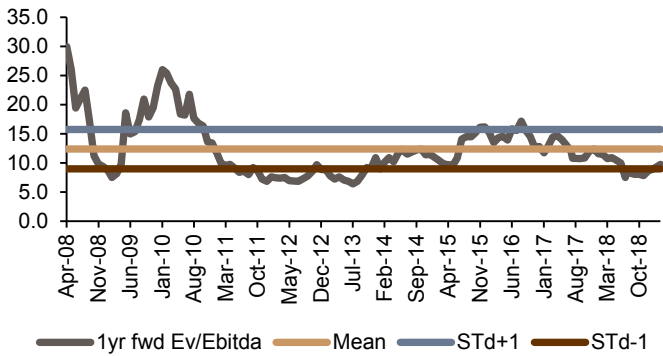
Source: Company, Emkay Research

**Exhibit 9: PVR EV/EBITDA band**



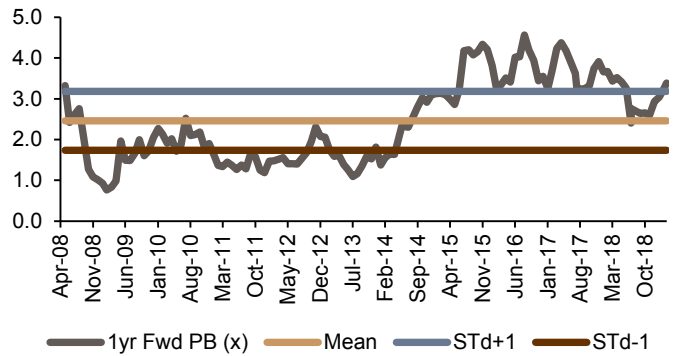
Source: Company, Emkay Research

**Exhibit 10: INOX P/B band**



Source: Company, Emkay Research

**Exhibit 11: INOX EV/EBITDA band**



Source: Company, Emkay Research

**PVR**  
**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Mar-19	1,543	1,637	12m	Hold	Naval Seth
28-Oct-18	1,295	1,637	12m	Hold	Naval Seth
26-Oct-18	1,295	1,417	12m	Hold	Naval Seth
13-Aug-18	1,284	1,449	12m	Accumulate	Naval Seth
03-Aug-18	1,177	1,348	12m	Accumulate	Naval Seth
26-Jul-18	1,119	1,114	12m	Hold	Naval Seth
04-May-18	1,425	1,356	12m	Hold	Naval Seth
31-Jan-18	1,461	1,340	12m	Hold	Naval Seth
27-Oct-17	1,421	1,294	12m	Hold	Naval Seth
16-Aug-17	1,329	1,247	12m	Hold	Naval Seth
26-Jul-17	1,354	1,443	12m	Hold	Naval Seth
30-May-17	1,448	1,598	12m	Hold	Naval Seth
22-May-17	1,481	1,598	12m	Hold	Naval Seth
06-Feb-17	1,259	1,293	12m	Hold	Naval Seth
27-Oct-16	1,214	1,268	12m	Accumulate	Naval Seth
01-Aug-16	1,123	1,279	12m	Buy	Naval Seth
31-May-16	884	1,073	12m	Buy	Naval Seth

Source: Company, Emkay Research

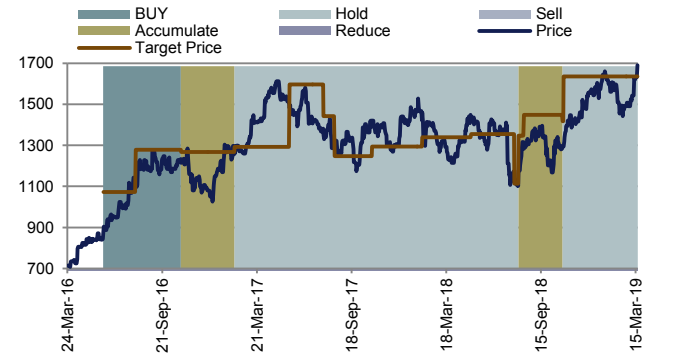
**Inox Leisure**  
**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Mar-19	307	322	12m	Buy	Naval Seth
08-Feb-19	260	322	12m	Buy	Naval Seth
23-Oct-18	208	279	12m	Buy	Naval Seth
03-Aug-18	224	279	12m	Buy	Naval Seth
24-Jul-18	198	244	12m	Hold	Naval Seth
07-May-18	282	320	12m	Buy	Naval Seth
29-Jan-18	274	313	12m	Buy	Naval Seth
11-Jan-18	289	255	12m	Buy	Naval Seth
01-Nov-17	263	304	12m	Buy	Naval Seth
16-Aug-17	244	276	12m	Hold	Naval Seth
26-Jul-17	261	296	12m	Hold	Naval Seth
22-May-17	279	326	12m	Hold	Naval Seth
02-May-17	292	300	12m	Hold	Naval Seth
25-Jan-17	235	225	12m	Hold	Naval Seth
27-Oct-16	263	257	12m	Hold	Naval Seth
10-Aug-16	251	278	12m	Accumulate	Naval Seth
28-Apr-16	208	240	12m	Accumulate	Naval Seth

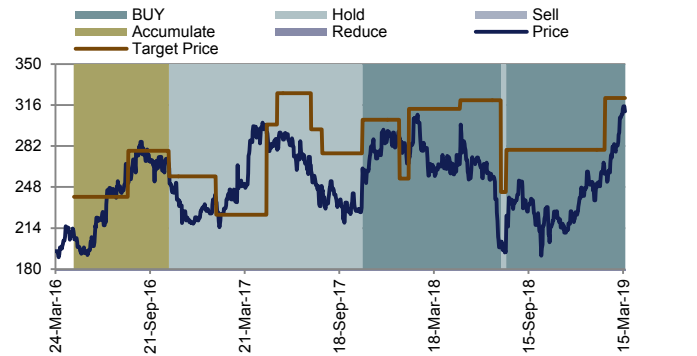
Source: Company, Emkay Research

**Note:**

We have updated our Rating Distribution with effect from **March 20, 2019** – [Kindly refer the Disclaimer page](#), however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

**RECOMMENDATION HISTORY CHART**


Source: Bloomberg, Company, Emkay Research

**RECOMMENDATION HISTORY CHART**


Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Media & Entertainment



### Analyst: Naval Seth

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#### Sector

Media, Telecom, Consumer Durables

#### Analyst bio

Naval holds an MBA in Finance and has more than 10 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

#### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalized)
<b>Media &amp; Entertainment</b>	<b>0.56</b>	<b>0.04</b>	<b>-93%</b>	<b>-52</b>	<b>100</b>
DB Corp	0.00	0.00	NA	0	0
Dish TV	0.00	0.00	NA	0	0
Entertainment Network	0.00	0.00	NA	0	0
Inox Leisure	0.00	0.03	NA	3	5
Jagran Prakashan	0.00	0.00	NA	0	0
PVR	0.00	0.01	NA	1	3
Sun TV Network	0.09	0.00	-100%	-9	0
Zee Entertainment	0.47	0.00	-100%	-47	0

Source: Emkay Research

\* Not under coverage: Equal Weight

#### Sector portfolio NAV (for future addition)

##### Returns by EAP on rolling basis

Performance	NAV	3M	6M	12M
EAP - Media & Entertainment	100			
BSE 200 weighted portfolio	100			

\*Formal performance measurement of EAP starts on 1<sup>st</sup> April 2019

Source: Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Mar 2019 13:42:15 (SGT)  
Dissemination Date: 25 Mar 2019 13:43:15 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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