AMBIT
Acumen at work

DISRUPTION SERIES (VOL 6)

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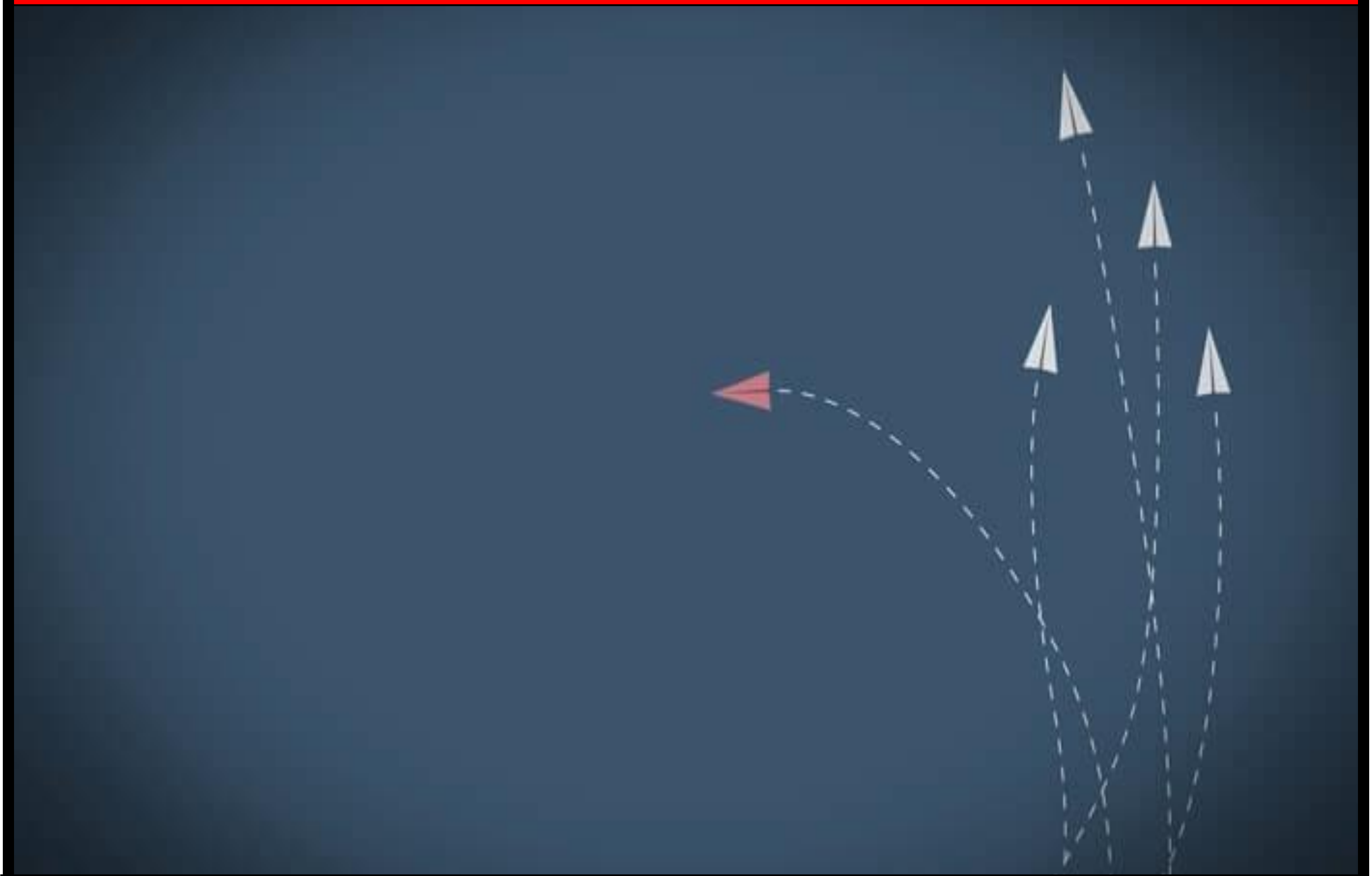

AMBIT
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Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the sixth write up of this series we have chosen PVR.

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing conventional wisdom or technology. This note takes a closer look at PVR with a focus on (1) What are the challenges the industry faces in the near term (2) Why PVR is best placed to survive through those

From Priya Village Roadshow to PVR…

Ajay Bijli's journey from Transport business to Show business

Ajay Bijli, the founder of PVR Group, started his business journey at the age of 22 when he joined his father's transport business, Amritsar Transport Company in 1988. Bijli was not too enthusiastic about the transport business and so after he got married in 1990, he spoke to his father about doing something on his own.

"I didn't have much of an education, but common sense told me that maybe English movies would do well since the demographics of the area-RK Puram, Vasant Vihar and Som Vihar-pointed to that. I also managed to get a lucky break with some Hollywood studios." – **Ajay Bijli in an interview**

Initially over and above the transport business, Bijli decided to focus on Priya Cinemas (originally called Priya Love Vikas Cinema) which his father had acquired in 1978. The property had lost its reputation and ceded ground to rivals as it was unable to launch popular movies. Ajay started the cinema's turnaround by targeting a niche audience, playing Hollywood movies and refurbishing the interiors. Taking inspiration from Sterling Cinema Mumbai, he renovated Priya by installing a Dolby Sound System, adding life and color to the grey interiors, renovating the toilets and providing uniforms to the staff. Coinciding with these changes, the Indian government partially decontrolled movie ticket prices as well, propelling Priya's quick ascent.

The first multiplex in India

After his father passed away in 1992, Ajay juggled between the family's transport business in the day and Priya Cinemas (with his wife's help) at night. A devastating fire at the transport business facility pushed him to make a choice between the transport and cinema, he picked the latter, of course. Priya, by then, had become a hub where people met in the city (Delhi), it also successfully attracted outlets like McDonald's, Archie's and Nirula's – "Potentially our answer to Times Square or Leicester Square?" Bijli wondered. Bijli now wanted to introduce a western style Multiplex, but the problem was the lack of expertise. At that time, a Hollywood distributor who was in touch with, asked him to contact Village Roadshow in Australia, a company looking to enter India. Ajay met Village Roadshow's Asia MD John Crawford and they worked out a 60:40 JV (60% being Priya's) and thus "Priya Village Roadshow" was born which later went on to become PVR. The venture set-up India's 1st Multiplex with 4 screens after leasing Anupam Cinema at Saket–Delhi with the name **Priya Village Roadshow Anupam 4**.

Tough companies last…tough times don't!

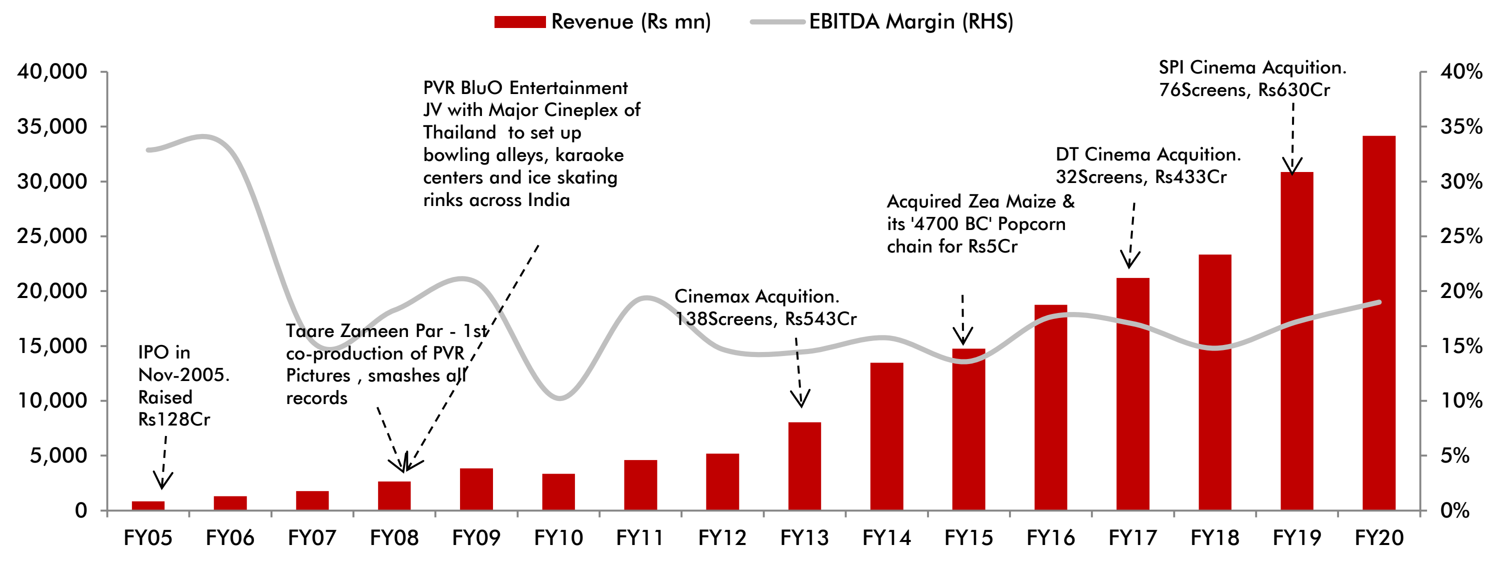
PVR continued to expand its reach in Delhi with Sonia (theatre) being converted to PVR Vikaspuri and Payal to PVR Narayana. However, adversity struck again in 2001 when the global business environment changed post the 9/11 attacks and Village Roadshow (PVR's JV partner) looked to desperately exit India. The problem was that Rs100Cr worth of projects totaling 50 screens, were already committed by the JV but now Bijli had to fund the pending projects as well as Village Roadshow's stake all by himself. After consulting with his friend Sunil Mittal (Bharti Airtel), he spoke to some PE investors and eventually was able to secure funding from ICICI Ventures led by Renuka Ramanathan (Rs40Cr equity/40 Cr Debt) thereby raising Rs80Cr. Bijli too sold

According to Bijli, "There were kilometer-long queues when we opened. And our campaign was very explicit: ***Four cinemas under one roof, 24 shows a day, multiple cinema complex."***

some of his personal property to raise money. It was an amicable exit and thus PVR came into being.

What followed then was PVR's aggressive expansion outside North India in metros like Bangalore, Mumbai, Hyderabad and Chennai. The company's IPO in 2006 provided ICICI ventures part-exit and refilled the company coffers with up to Rs128Cr. PVR thus embarked on a journey of strong Organic and Inorganic growth visible in its rapid screen expansion ***(Ref to Exhibit 1)*** and has now become the biggest multiplex chain. As a result, PVR today boasts a pan India presence across 71 cities covering 845 screens, making it the largest multiplex player in the country.

Exhibit 1: PVR's journey over the years



Source: Ambit Asset Management, Company

Indian film exhibition industry: Built to last

1) **Contribution to the Indian Media & Entertainment (M&E) industry:** The M&E sector in India grew by ~9% YoY in 2019 to reach Rs1.82tn (US$25.7bn). Of this, the film segment constituted ~10% or Rs191bn growing 9.5% YoY mainly led by domestic theatricals and overseas theatricals (Movies released abroad).

   When it comes to outdoor entertainment activities, filmed entertainment remains the largest industry and provides options for all across genres and languages. ***(Ref to Exhibit: 2)***

2) **Hindi movies are the highest grossing, Regionals offer more variety:** What makes the Indian market unique is the number of languages and the wide array of releases. While Regional cinemas lead in terms of number of movies released ***(Ref to Exhibit 3)***, their contribution to Gross Box Office Collections (GBOC) is similar to Hindi Movies at 43% (indicated by the bubble size below). The share of Rs100Cr+ movies (Blockbusters) have been increasing over the years and so is the contribution of Top-50 Domestic films to the GBOC ***(Ref to Exhibit: 4,5)***

3) **Screens not growing but multiplex share rising:** The total number of screens in India has not grown over the past decade. The decline in single screens (due to unviable business model) over the years has been slightly offset by addition from Multiplexes. There are ~450 towns with theatres across India housing ~9,500 screens in total. Of these, multiplexes (34% screen share) are currently present in 65-70 cities and slowly expanding their reach. ***(Ref to Exhibit: 6)***

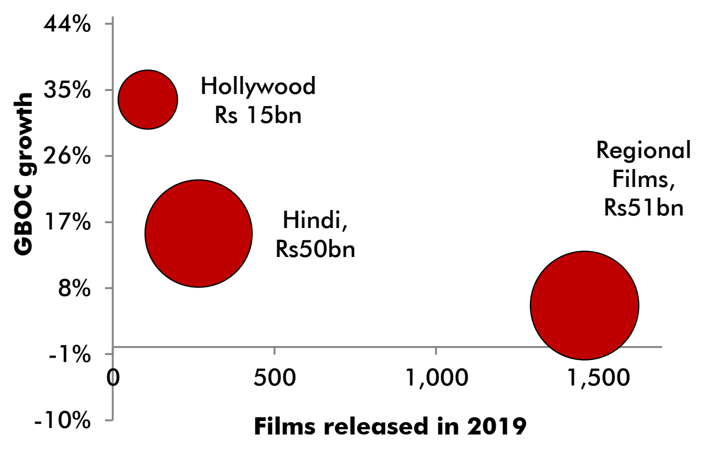
4) **A recession-proof industry held back by regulatory and infrastructure challenges:** Multiplex is a recession proof industry which operates on a negative working capital – it first collects money and then pays to the distributors / producers. However, the domestic industry lags global players in a number of parameters, which can be attributed to our low GDP Per Capita (India ranks 140), Infrastructure challenges and government regulations. The domestic collection of Dangal, for eg, was Rs500Cr in India, while in China itself the movie did a business of >Rs1,000Cr. This shows the great potential of the industry which can go far if right incentives and policies are administered.

Exhibit 2: Key constituents of India's Media & Entertainment industry, filmed entertainment constitutes 10%

(IN Rs bn)	2016	2017	2018	2019	3Yr CAGR)
Television	594	660	740	787	9.8%
Print	296	303	305	296	0.0%
Digital Media	92	119	169	221	33.9%
Filmed Entertainment	122	156	175	191	16.1%
Animation & VFX	54	67	79	95	20.7%
Live events	56	65	75	83	14.0%
Online gaming	26	30	46	65	35.7%
Out of Home media	32	34	37	39	6.8%
Radio	24	26	34	31	8.9%
Music	12	13	14	15	7.7%
Total	**1,308**	**1,473**	**1,674**	**1,823**	**11.7%**

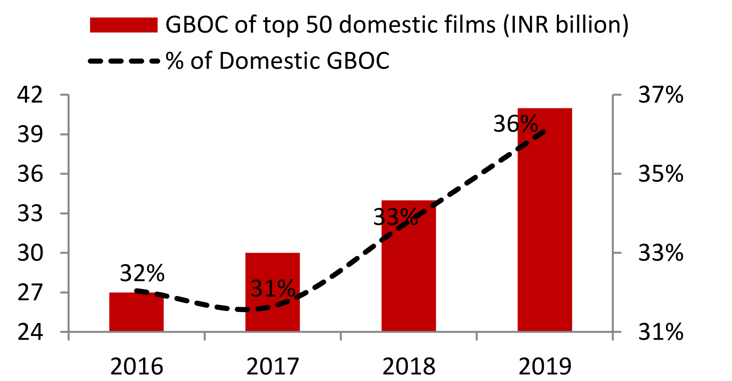
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 3: Contribution of each category to GBOC, their growth and movies released in 2019



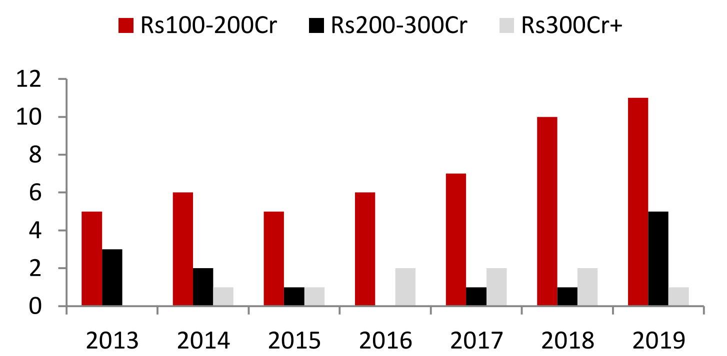
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 4: Increasing share of Top-50 films to GBOC...



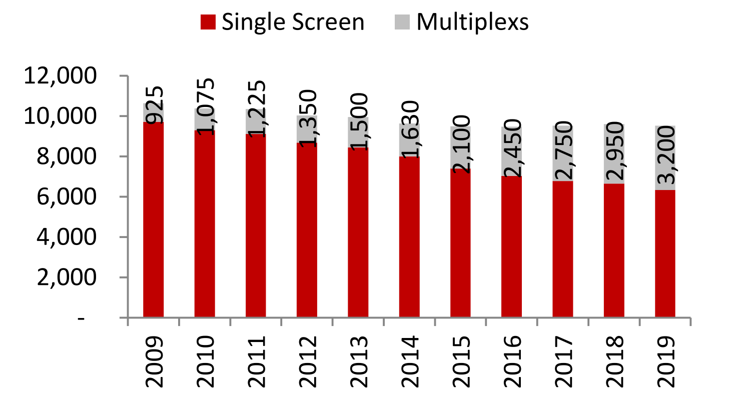
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 5: ... with rising no of Rs100cr+ movies



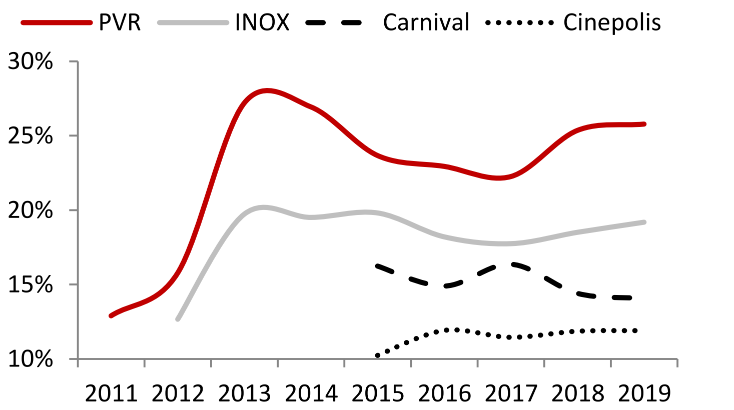
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 6: Single screen losing share to Multiplex…



Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 7: …with the Top-4 gaining multiplex screen share



Source: Ambit Asset Management, EY- FICCI M&E report

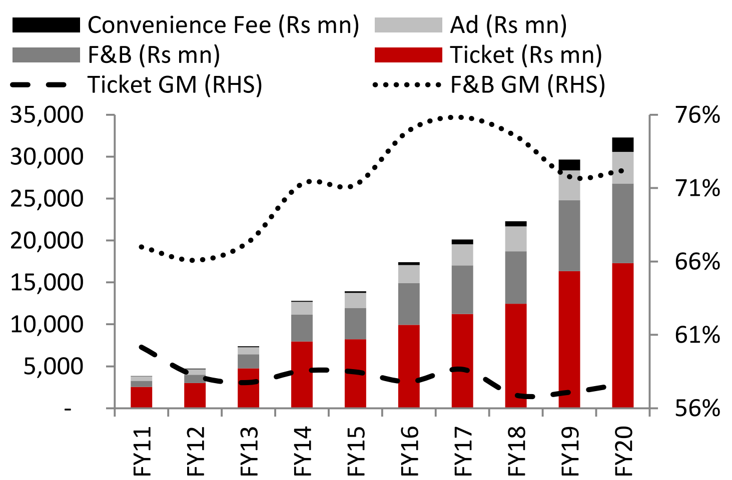
First to Largest: PVR created advantages along the way

Prime location: Selecting the right location is a key MOAT in this business. It is the key driver for occupancy, F&B spends and Advertisement revenue, and therefore 80% of the success in this business depends on it. Most of PVR's mature screens are in prime location, which has made it difficult for competitors to come up with new screens in the vicinity thus giving PVR an early mover advantage.

Geography: Courtesy the above moat, PVR has a stronger presence in Metro and Tier-1 cities which competitors are finding difficult to crack. Players like Inox and Carnival have a stronger presence in Tier-3 & 4 towns. ***(Ref to Exhibit: 9 & 12)***

F&B: PVR realized early on that the incremental profit was in F&B (***Ref Exhibit: 8)***. It was the 1st to implement dynamic pricing for F&B, just like ticketing. If ticket prices are dependent on show, day and timing then why should F&B prices be fixed.

Exhibit 8: Secret sauce>F&B Margins are much higher than ticketing making them a key profit contributor



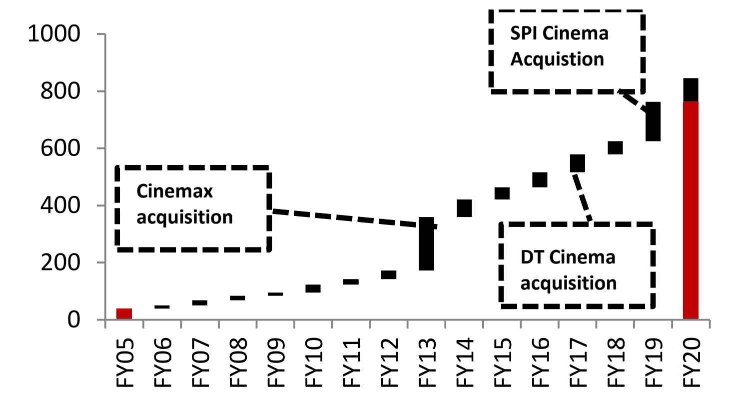
Source: Ambit Asset Management, Company

Exhibit 9: Prime Location is key differentiator, PVR has a higher share and number of screen in metros as compared to Inox

Cities wise distribution of screens	PVR	% of Screen	INOX	% of Screen
Delhi NCR	123	15%	33	6%
Bangalore	82	10%	27	5%
Mumbai + Thane	90	11%	51	9%
Chennai	70	9%	17	3%
Hyderabad	52	6%	11	2%
Kolkata	16	2%	38	7%
Pune	34	4%	26	5%
Top 5 cities	**384**	**47%**	**177**	**31%**
Top 10 cities	**498**	**61%**	**268**	**47%**
Top 20 cities	**617**	**75%**	**366**	**65%**
Total*	**821**	**100%**	**567**	**100%**

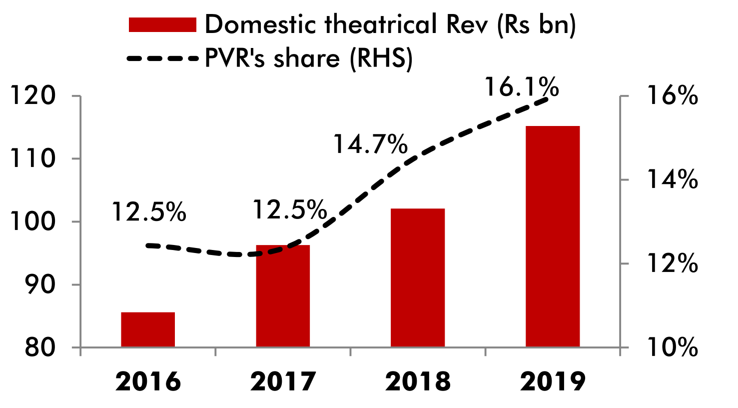
*Source: Ambit Asset Management, An Ad Agency website, *- Total screens for PVR as of Q3FY20*

Exhibit 10: PVR's Screen addition over the past 15 years – a mix of organic and inorganic foray…



Source: Ambit Asset Management, Company

Exhibit 11: …led to increasing % contribution to total industry revenue



Source: Ambit Asset Management, Company, EY- FICCI M&E report

Exhibit 12: PVR has a more diversified presence across the country compared to Inox

Company	PVR		INOX	
Region	**Current**	**% of Total**	**Current**	**% of Total**
South	286	34%	138	22%
West	258	31%	252	40%
North	254	30%	149	24%
East	47	6%	87	14%
TOTAL	**845**		**626**	

Source: Ambit Asset Management, Company

Exhibit 13: Industry M&A in the last 15years – It is the top-4 players which have been the acquirers

Name	Screens	Value (Rs Cr)	Year	Acquired from	Acquired by
SPI Cinemas	76	633	2018	SPI Group	PVR
DT Cinemas	7	64	2016	DLF	Cinepolis
DT Cinemas	32	433	2016	DLF	PVR
Big Cinema	254	700	2015	Reliance MediaWorks	Carnival
Glitz Cinema	27	90	2015	Network 18	Carnival
Broadway Cinema	10	110	2014	HDIL	Carnival
Satyam Cineplex	38	182	2014		Inox
Fun Cinemas	83	480	2014	Essel group	Cinepolis
Cinemax	138	543	2012	Kanakia Group	PVR
Fame Cinema	95	66.5	2010	Shringar Cinemas	Inox
89 Cinemas	7		2006	Calcutta Cine	Inox

Source: Ambit Asset Management

Winner takes it all: PVR stands tall!

1. **Disruption from exogenous events like COVID which may impact public gathering:** The sudden lockdown caught the multiplex industry off-guard. While normalcy might be restored for few in the coming months, multiplex players are yet to see light at the end of the tunnel. Regulatory confusion, strict social distancing norms and increased hygiene consciousness may limit people's inclination to go for movies.

   We tried to assess the impact it may have on **(a)** Long term behaviour / trend change **(b)** PVR's Balance sheet, **(c)** movie-goers preferences and the short answer is that movies and the cinema business may go out of favour in the near term but long term prospects look promising.

a. **Switch from theatrical release to OTT release by producers:** While the movie theatres remain shut across the country, OTT players (like Netflix, Hotstar, Amazon Prime Video) continue to gain traction. A few movies have in fact skipped their theatrical release and opted to release on OTT platform ***(Ref Exhibit 14)***. Unlike big producers, small producers and small budget films may not be able to wait a few months for theatres to open. This decision could be guided by leverage considerations by producers who are not backed by big studios or have weaker content which might have not had a huge upside potential through theatrical release.

   We believe big budget movies (which are also the top earners for movie exhibitors) are likely to continue to release in cinemas in the long run as release over OTT considerably limits upside to earnings. Premium usually paid by OTT platforms is ~15-20% over the production cost. This severely limits the upside potential for the movies.

Exhibit 14: Mostly films with <Rs50Cr budget have been released on OTT during this lockdown …

Movies	Platform	Digital Release	Est. Budget (Rs Cr)
Gulabo Sitabo	Prime Video	Released	40-45
Shakuntala Devi	Prime Video	Confirmed	25-30
Dil Bechara	Hotstar	Confirmed	20-25
Lootcase	Hotstar	Confirmed	15-20
Ghoomketu	ZEE5	Released	10-12
Ponmagal Vandhan	Prime Video	Released	8
Khuda Hafiz	Hotstar	Planned	20

Source: Ambit Asset Management

Exhibit 15: …while high budget and big name films have postponed their release as of now

Movies	Initial release date	Months delayed**	Est. Budget (Rs Cr)*
Sandeep Aur Pinky Faraar	20-Mar-20	4	25
Sooryavanshi	24-Mar-20	4	125-135
Radhe	22-May-20	2	100-130
'83	10-Apr-20	3	100-115
Coolie No.1	01-May-20	3	~65
Laal Singh Chadda	25-Dec-20	1	NA
The Girl On The Train	08-May-20	2	NA

*Source: Ambit Asset Management, *- Via various Google search, **- till date*

b. **Financial strain on Balance sheet:** Although one may question the ability of a Net Debt company such as PVR to meet costs while not generating revenue, we take comfort in the company's ability to raise money and cut costs effectively.
   PVR has opted for interest moratorium and reduced its monthly fixed cost to Rs45-50Cr compared to Rs150-200Cr pre-lockdown, by taking salary cuts, invoking force majeure clauses in their rental agreements and not renewing or renegotiating a lot of their vendor contracts.
   It has also raised Rs500Cr capital in late 2019 which well capitalized it to navigate through 5-6 months without generating any revenue. Recently, the company has also come out with a Rights Issue for Rs300Cr which will further help it to sustain for 3-4 quarters without generating any revenue.

c. **Hygiene concern for patrons when visiting once theatres open up:** Patrons may be hesitant to visit the theatres even when they open up post lock down. The company has addressed these issues in detail ***(Ref to Exhibit: 16)***. We feel that while initially there may be some resistance from customers, things will get back to normal eventually. High safety standards will inspire confidence.

Exhibit16: Steps that will be taken by PVR once multiplexes are allowed to operate to inspire confidence

Area	Measures
Ticketing	▪ Safety gear and face shield for cashiers. ▪ Contactless transactions with sale of PPE kits and single use 3D glasses
Entry	▪ Social distancing floor markers to maintain 1meter gap. ▪ No frisk checking. Temperature checks. Arogya Setu app status check. ▪ Entry restricted for patrons with symptoms and their money refunded
Cinema Area	▪ Sanitization using electrostatic spray guns ▪ Door handles coded with micro shield films ▪ Cleaning of high touch areas at regular intervals using recommended sanitizing agents
Screens	▪ One seat booking gap between each transaction ▪ Disinfection of auditorium before the start of every show
F&B	▪ Disposable food packaging, crockery and covering are disinfected using UV technology ▪ Cashless food transactions while facilitating mobile based ordering and digital billing ▪ Separate counter for ordering and food pick-up ▪ Truncated menu and introduction of pre-packed products
Facilities	▪ Only 50% facilities will be functional at any time to adhere to social distancing norms
Employees	▪ Daily health monitoring and fortnightly health checks by certified doctor ▪ Training of cinema staff on safety and hygiene practice with compulsory wearing of PPE kits

Source: Ambit Asset Management, Company

2. **Will OTTs disrupt movie theatres forever:** As binge watching and 'Netflix & Chill' become the new buzz trends, especially during the lockdown when most of the world was confined to their homes, people started writing the Obituary of multiplex industry. Pre-COVID, OTT was (and, still is) believed to be the main threat to movie theatres world over and main disruptor for the film industry.

Will Movie theatres be able to tackle these challenges?

Movie Theatres in India are important because – **(a)** traditionally they've been the most vital distribution channel for filmmakers while also acting as the main barometer to test the success / failure of a movie; **b)** Box Office collections helps benchmark the price for selling Digital rights; **c)** There are not many out-of-home entertainment options in our country ***(Ref to Exhibit 17)***. This is reflected in the fact that there were 10cr movie-goers in 2019 with 11.6% increase in repeat footfalls.

While releasing on OTT provides a fixed return, it limits the upside potential for a movie. Interestingly, even during COVID period while some movies opted for OTT release, large filmmakers and studios postponed their releases ***(Ref to Exhibit 14 &15)***. Going ahead, we believe that big budget movies will stick to theatrical release while low budget films or those targeting a niche audience are more likely to opt for OTT. We believe that eventually 10% to 20% of the content will find its way on to OTT platforms, however that will not disrupt the exhibition business, as movie watching is becoming more of an experience now.

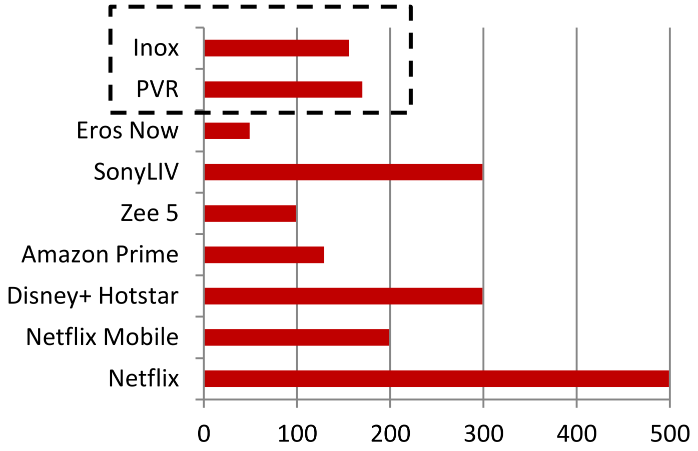
Exhibit 17: A look at some Out-Of-Home leisure activity choices available to us in India

Activity	Price (Rs)/ person	Frequency of Visit	Time Spent
Multiplexes	150-400	High - As there is more content diversity depending on frequent releases	2-3 hrs
Sporting Events (IPL, ISL, IHL, etc.)	800-8,000	Low- Seasonal events with high ticket price and spend per head	8-10 hrs
Plays/Drama	200-1,500	Low - Depending of shows, artist and seat availability	2-3 hrs
Events (Music Concerts)	300-3,500	Low - Depends on the artist and cost. It is seldom a family event	3-5 hrs
Night Clubs & Entertainment arcades	1,000+	Medium- Lack of content variety and high discretionary event limits repeat footfalls	3-5 hrs

Theme parks	500-1,200	Low – Seasonal nature of visits with low repeat footfalls	Whole Day
Dining Out	250-2,000	High - Lots of options available depending on the Cuisine	1-2 hrs
Trekking/Camping	1,000-5,000	Low – Mostly on holidays. Less chances of repeat visit to one particular site	Whole Day

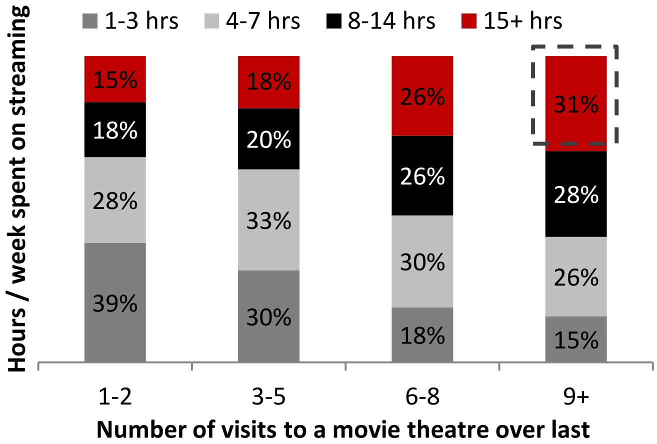
Source: Ambit Asset Management, Company,

Exhibit 18: Comparison of OTT monthly pricing & multiplex ATP



Source: Ambit Asset Management, OTT websites

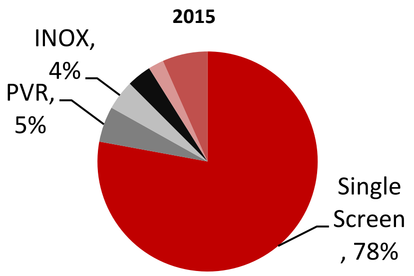
Exhibit 19: People who spend more time streaming are more likely to visit theatres



Source: Ambit Asset Management, EY study

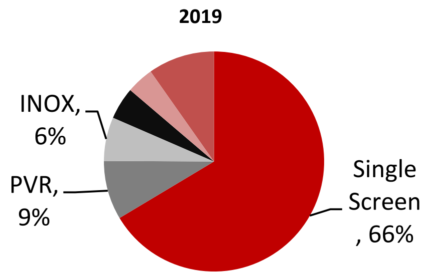
3. **Consolidators will win:** PVR currently faces competition from other Multiplex operators and single screen operators – which have 66% screen share and better reach and affordability. As business model evolves ***(Ref to Exhibit 28 in Appendix),*** single screen operators are finding it increasingly difficult to survive and ceding share to Multiplex operators such as PVR. They are selecting populous towns with a catchment of >300,000-400,000 and entering with formats like PVR Utsav. Among Multiplexes too, it is the Top-4 ***(Ref to Exhibit: 29 in Appendix)***, that have significant national presence. Here too, we expect the consolidation theme to play out, which will be accelerated by the COVID led uncertainties, as smaller players with limited scale look (in vain) to raise capital and try to contain losses thus exiting or merging with bigger players ***(Ref to Exhibit 23)***.
However, the **possible entry of large global multiplex chain in India** like AMC (USA), Cineworld (UK), Cinemark, Major Cinema (Thailand), etc. may pose another risk. While a direct entry (Organically) will require a lot of time, capital and patience to disrupt PVR, entry via M&A followed by aggressive pricing could pose a challenge for established players. Till now, Cinepolis is the only global player to enter and *'survive'* in the Indian market.

Exhibit 20: Total screen share is slowly shifting...



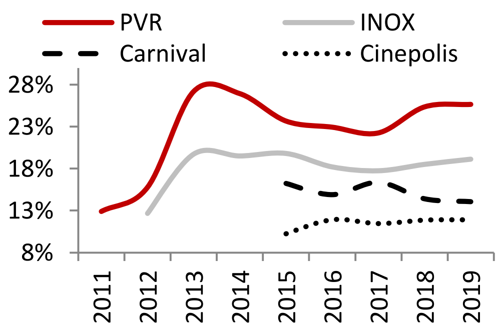
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 21: ... from single screen to multiplex operators...



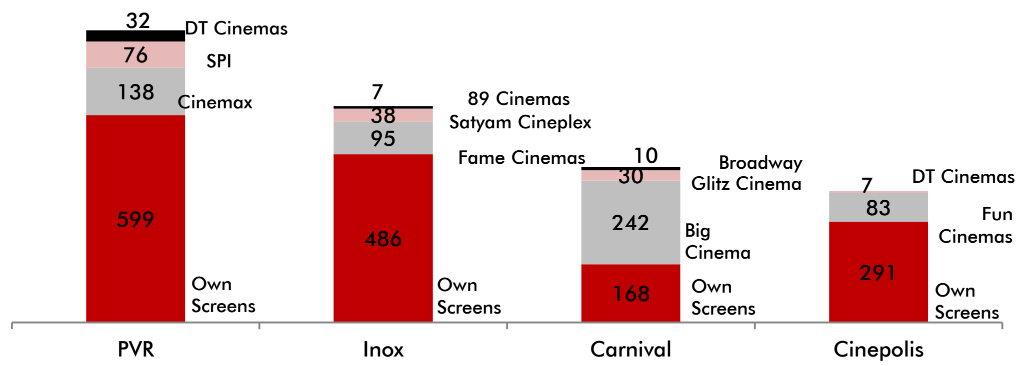
Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 22: ...and among multiplex the top players are gaining share



Source: Ambit Asset Management, EY- FICCI M&E report

Exhibit 23: Top players acquiring screens to consolidate and win over weaker ones has been a time tested strategy and post COVID might play out favourably in case of PVR



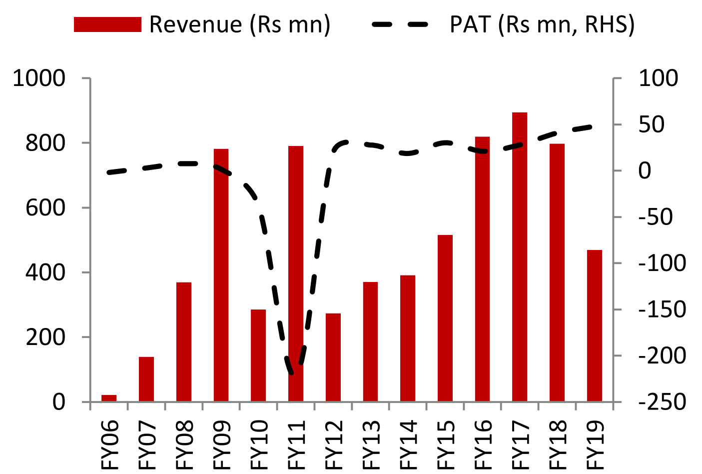
Source: Ambit Asset Management, Company

4. **Threat from Capital guzzling activities by PVR itself:**

a. **Entry into Non-core services:** PVR entered into film production and distribution business via its wholly owned subsidiary PVR Pictures and came up with hits such as Taare Zameen Par, Jaane Tu Ya Jaane Na, Ghajini, Don, Omkara, to name a few. It could not maintain the same feat and gave out some flops leading to huge losses, post which it switched to Distribution. Similarly, PVR has entered into a few other ancillary businesses over the years – **1)** Zea Maize and its gourmet popcorn brand '4700BC'. **2)** PVR BluO Entertainment JV with Major Cineplex of Thailand (exited in FY18 for Rs86Cr) to set up bowling alleys, karaoke centers and ice skating rinks across India. These avenues may dilute the management's focus and create strain on the Balance sheet if not executed properly – for eg, the loss suffered by PVR Pictures in FY11 (***Ref to Exhibit 24***).

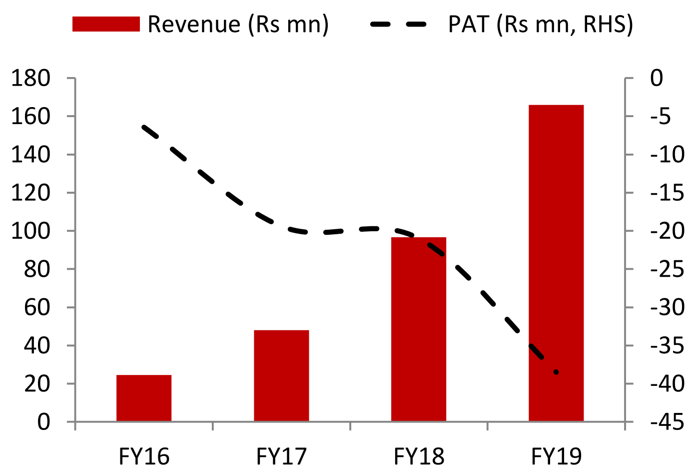
However, so far PVR has been careful to identify incremental avenues to increase revenue. Some areas the company can target without guzzling extra capital could be – **1)** Creating space for retail shopping inside the multiplex like Toys, Keychain, Movie related memorabilia / totems; **2)** Providing packaged food post movies as there is a common trend on eating out post movies; **3)** Tie ups with other outlets / vendors to sell F&B items currently not offered by them.

Exhibit 24: PVR Pictures' financials over the years



Source: Ambit Asset Management, Company

Exhibit 25: Zea Maize financials since its acquisition by PVR



Source: Ambit Asset Management, Company

b. Inorganic Expansion, 3 big acquisitions till date: These are – Cinemax in 2012 for Rs543Cr, DT Cinemas in 2016 for Rs433Cr and SPI Cinemas in 2018 for Rs633Cr. Although shareholder equity capital was diluted these transactions gave the company much needed expansion and reach in markets where they were not present. We feel the management is capable to carry out similar other M&A activities, however, any unsuccessful M&A might add strain on the Balance Sheet, thus impacting return ratios.

c. Global expansion: PVR had earlier planned to expand in Middle East and North-Africa (MENA) region, especially Dubai and Saudi Arabia, which was later called off. Currently, its only presence outside India is in Colombo, Sri Lanka where it has 9 screens at 1 cinema. We believe that any aggressive global expansion without proper understanding of the business and demographics of that region and partnership with not a like-minded partner poses a risk.

5. Availability of Funding: Setting up a multiplex theatre is a capital intensive endeavour. The average Capex / screen for PVR is ~Rs2.5cr while in the smaller town it's between Rs1-1.5cr with a payback period of 5yrs (6-7 years in smaller towns). Add to this a maintenance capex every year of ~1-2% of sales, and a refurbishment capex every 6-7yrs of 25-30% of original capex.
While the capex for domestic players is the same as global players, the Cost of Capital in our country is higher. As a result, a company's ability to raise quick capital may be vital in ensuring it's survivability in tough times. At the same time, the reducing promoter stake in the company (18.6% from ~40% in FY07), if the trend continues, may make it a likely hostile takeover / acquisition target like seen in the case of a mid-sized IT Company (MindTree).
This makes PVR's relationships with its PE investors and bankers and its ability to raise quick capital – like we've seen in the last one year – all the more important and compliments its tag of the **largest** and **strongest** player in the industry.

Ajay Bijli admitted that "The backing of the PE investors clearly added muscle to PVR's ability to do the [Cinemax] deal." "It would have been very difficult for us to pull off the acquisition on our current balance sheet. We are fortunate to have big investors who have always backed us."

Exhibit 26: Fresh Equity raise by PVR over the years not ideal but ready availability of funding unquestionable

Date	Price (Rs)	Amount (Rs Cr)	Shares (Lakhs)	Type	Major Entrant
July-20	784	300	38.3	Rights Issue	
Oct-19	1,719	500	29.1	QIP	
Jul-15	700	350	50.0	Preferential	▪ Multiple Alternate Asset Management (10.7%)
Jan-13	245	260	106.3	Preferential	▪ L Capital Eco, Sanjiv Kumar, Ajay Bijli, Multiples PE
Sep-12	200	58	28.9	Preferential	▪ L Capital Eco
Jan-10	165	42	25.6	Preferential	▪ Major Cineplex
Nov-05	225	128	57.0	IPO	

Source: Ambit Asset Management, Company

6. **Government Regulations and lack of infrastructure:** Movie theatres, especially, multiplex operator remain highly vulnerable to changing Government policy and regulations in the industry. ***(Ref to Exhibit: 27)***

Exhibit 27: Key Government regulations to look out for which may impact PVR

Regulation	Details
Price caps on F&B or ticketing	▪ Ticket prices are currently capped in South Indian states of Telangana, Andhra Pradesh, Karnataka and Tamil Nadu in the range of Rs120-250. This has however pushed up occupancy rates to ~50% in these states. ▪ Apart from ticket pricing, F&B pricing and the permission to allow outside food has been a topic of great contention and debate between authorities and multiplex owners. (F&B significantly contributes to profits for cinemas)
Change in taxation regime and Entertainment tax	▪ In the Pre-GST era, entertainment tax was levied on movie tickets on a state level (range 0-110%, average 30%) while a VAT of 20.5% was levied on F&B. ▪ Under GST, movie tickets were initially kept in the highest slab of 28% and later brought down to 18% slab (12% for <Rs100). ▪ Some local bodies in states like Madhya Pradesh and Tamil Nadu levied an Entertainment Tax in the range of 5-20% over and above the GST rate which was a negative move for cinema operators.
Infrastructure Challenges	▪ Setting up a multiplex requires a slew of regulatory approvals and proper infrastructure availability – like land and malls. ▪ *Malls are quintessential for Multiplexes* and since mall development in Tier-3 cities is a big challenge, often single screens are converted into multi-screen or a Tie-up with local developer is required.

Source: Ambit Asset Management

7. **Some other likely disruption points we pondered upon:** Apart from the points discussed above, some other factors which we feel may impact footfalls for Multiplex (and, PVR in general) are – **1)** Lower footfall at malls due to the success of e-commerce platforms post COVID, leading to lower footfall for multiplex operators. **2)** Development of other entertainment options like Amusement Parks, Water Parks, Fun Arcades, etc. which have not worked thus far in India. **3)** Compact cinema halls focusing on VR/AR/4D which may require lower capex relatively.

At Ambit we believe in wealth creation by long term equity investment and through the power of compounding. We constantly try and stay ahead of the curve on what may possibly impede the growth our portfolio companies. While PVR has been the top player in Indian multiplex, we do a long/medium term scenario analysis on what could be the possible disruptions to the company and the industry. In our view: (1) Film makers and multiplexes need each other to grow and (2) Single screens will increasingly be replaced by multiplex, and (3) Among multiplex players, PVR remains the undisputed leader in terms of Screen count, geographical mix, premium screen contribution, F&B offering, brand & quality of experience

Appendix

Exhibit 28: Comparison of single screen and multiplex operator's business models

Single-Screen Operators	Multiplex Chains
▪ High rental costs and subsequent capital constraints	▪ Offer exhibition cum hospitality experience with premium cinema formats
▪ Lower Occupancy	▪ Content plurality and better audio/video quality leading to higher occupancy
▪ Higher movie exhibition cost	▪ Ease of online ticketing and cancellation option
▪ Lower advertising income due to limited bargaining power with advertisers viz-a-viz multiplex	▪ Superior location (malls with high footfall and parking facilities) help attract footfalls
▪ High dependence on a single movie	▪ Top-3 multiplexes have better market share in Hollywood films which most single screen/ Tier-2 cities don't attract
▪ Lower ATP and F&B Spending per head	▪ Rising disposable income & discretionary spends, especially in Metros and Tier-1 cities

Source: Ambit Asset Management

Exhibit 29: Other major Multiplex operators in India apart from

Name	Screens	Started	Owner	Comments
PVR	845	1997	▪ Promoted by founder Ajay Bijli ▪ Includes several marquee PE investors on the board	▪ First and the largest Multiplex player in India. It has a strong presence in Tier-1 cities where there is an increased focus on premium offerings. It is expanding in Tier-3 &4 cities using the PVR Utsav model. It currently constitutes 26% of total Multiplex screens in the country and 16% of Domestic Theatrical revenues.
Inox Leisure	626	2002	▪ It is a part of Inox Group which is involved in chemicals, refrigerants, renewable energy and entertainment business	▪ INOX has become more aggressive in eyeing prime properties backed by technology and pricing power with sharpening focus on revamping and promoting the F&B portfolio. ▪ There is also a renewed focus on premium format screens (~9% of screen mix; aim to take it to ~10-12%)
Carnival Cinemas	450	2010	▪ Part of Carnival Group, a diversified corporate group with interests in multiplex, media, entertainment, hospitality and real estate	▪ Carnival is saddled with low quality screens acquired from BIG cinemas, leaving Inox/PVR as the sole quality players. While PVR and INOX would continue to focus on Metros and Tier 1 cities for majority of the growth, Carnival Cinemas has an aggressive focus on Tier-2 & 3 cities. It has also signed MoUs with state governments like Jharkhand and Orissa to set-up 75 cinema-cum recreation zones and 150 screens.
Cin□polis	381	2009	▪ It is the largest Mexican movie theater chain and 4th largest in the world with presence in Middle East, England, Spain and US	▪ Cinepolis is the only foreign player, which entered India in 2009 with a single screen in Amritsar and has ~381 screens. It acquired 83 screens of Fun Cinemas from Essel Group in 2014.
Miraj Cinemas	125	2012	▪ The chain is owned by Rajasthan-based diversified business group Miraj, established in 1987 with multiple business verticals	▪ Media reports claim that the group is looking for an exit from film exhibition after selling off a couple of properties with plans to completely exit over the next two years.

Source: Ambit Asset Management, Company

Exhibit 30: Per screen P&L comparison of Indian player with Global players

Rs mn / screen	PVR	Inox	AMC Theatres*
No. Of Screens (in no's)	**804**	**526**	**10,669**
Net Ticketing	21.5	21.0	23.2
F&B	11.8	9.4	12.1
Advertising	4.7	3.4	
Others	4.5	2.2	3.2
Total Revenue	**42.5**	**36.1**	**38.5**
Exhibition cost	9.1	9.4	11.9
F&B Cost	3.3	2.4	2.0
Rent	6.2	6.1	6.8
Employee Expenses	4.9	2.7	
Other Expenses	11.8	9.1	13.0
Total Expenses	**35.3**	**29.8**	**33.7**
EBITDA	**7.2**	**6.3**	**4.7**
Depreciation	2.9	2.0	3.8
EBIT	**4.3**	**4.2**	**1.0**
Capital Employed	42.9	22.8	42.0
RoCE	**10.0%**	**18.6%**	**2.3%**

*Source: Ambit Asset Management, Company, *1US$=Rs75*

Our read-through from an in-house survey we conducted Post COVID-19…

1) Indian's are movie buffs with majority visiting multiplex either 2-3 times a month or 5-6 times a year

Q. Frequency of Multiplex visit pre-lockdown:
Depends on the content - once in 2-3 months (46%)
I am a movie buff - twice a month (38%)
Only on some occasions: 2-3 times in a year (14%)
Others (Prefer to stream, No interest in movies) (2%)

2) Impact of streaming apps (OTT) up until now has not been much and both can co-exist

Q. Impact of streaming apps on your movie-going experience (pre-lockdown)
Multiplex are a different experience all together & can't be compared to streaming apps (44%)
Frequency of visits has decreased due to convenience of streaming apps (36%)
OTTs have not impacted frequency of multiplex visits (20%)

3) Post lockdown, movie-going frequency will be impacted in the short run (4-6 months) but movies still form a very prominent source of entertainment for Indians.

Q. Change in movie-going experience immediately post lockdown?
Will avoid multiplex at least for the next 3-4 months (41%)
Will wait for 30-40 days after the lockdown to see how things pan-out (39%)
Will certainly visit if there is a good content (11%)
Switched completely to Streaming apps and will reduce visit frequency (9%)

4) Multiplex spend is likely to reduce in the near term, especially spending on F&B due to safety concerns

Q. How will your multiplex spending habits be impacted after COVID given the slowdown in earning and safety precaution?
Will start avoiding high priced shows and discretionary purchases (37%)
Will avoid purchasing Food & Beverage at Cinema Halls (28%)
It won't impact purchasing habits (34%)

5) MOVIE VIEWING AT MULTIPLEX IS WORTH THE MONEY (70%+ response) and is a superior alternative to OTT mainly because of – **a)** Superior viewing quality over OTT; **b)** Superior viewing experience altogether **c)** Delayed release of content on OTT. OTT we feel is more likely to impact TV viewership than multiplex.

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