PVR-Inox merger: Blockbuster opening with rave reviews

Analysts see only limited threat from OTTs, but roadblocks in CCI nod

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New Delhi, 28 March

The proposed merger of PVR and Inox Leisure received a blockbuster response from investors as their share prices soared up to 12 per cent on the bourses on Monday. The shares of PVR jumped 3 per cent to close at ₹1,883.5 apiece, while those of Inox Leisure ended 12 per cent higher at ₹535.5 per share. In comparison, the benchmark S&P BSE Sensex edged 0.4 per cent up.

Analysts now see up to 31 per cent upside in Inox Leisure's stock and 26.5 per cent in PVR as the two firms eye operational synergies, better cash flows, and stranglehold over real estate.

On Sunday, PVR and Inox Leisure announced an all-stock merger where investors would receive three shares of PVR for every 10 shares of Inox.

After the merger, the Inox promoters will have a 16.66 per cent stake, while their PVR counterparts will have a 10.62 per cent stake in the combined entity. The amalgamation is subject to approval from shareholders and regulators. Both groups will hold two board seats in a reconstituted 10-member board, with PVR represented by Ajay Bijli and Sanjeev Kumar as managing director and executive director, respectively, and Inox by Pavan Kumar and Siddharth Jain as non-executive chairman and non-executive director, respectively.

According to analysts, the merger of the two biggest multiplex players offers access to markets across geographies, substantial bargaining power across the value chain, the scope for 'premiumisation', and likely cost synergies. The new entity can further strengthen existing operations and will look to expand into tier 2 and 3 markets. Besides, the merged entity can command a premium, given possibilities of synergies driving earnings upgrade," said Manish Agarwal and Sumanyu Saraf of JM Financial.

Currently, PVR is operating 871 screens across 181 properties in 73 cities and Inox has 675 screens across 160 properties in 72 cities. After the merger, the combined entity of PVR Inox shall account for nearly 50 per cent of total Indian multiplex screens at the end of FY22. This share, Girish Pai of Nirmal Bang said, will only rise as the merged entity has tied up a large part of the retail real estate pipeline, with each having over 1,000 screens lined up to open over the next 5-10 years. "We think this will be the biggest competitive advantage of the merged entity," he said.

Around 70 per cent of the market consists of single-screen cinemas, whereas multiplexes, with a 30 per cent share, are seeing strong growth. Given the large movie market, healthy box office collections, lower number of screens/cinemas, and a concentrated multiplex market, there is a healthy room to add new screens.

BIG-TICKET MOVE

(Post-merger in ₹mn)

Consolidated metrics	Pre-synergies FY23E	Pre-synergies FY24E	Post-synergies FY23E	Post-synergies FY24E
Net box office collections	37,880	45,486	37,880	45,486
Net F&B revenue	21,552	26,133	21,552	26,133
Advertising revenue	6,320	8,205	6,320	9,750
Other revenue	4,794	5,048	4,794	5,048
Net revenue	70,545	84,872	70,545	86,416
Ebitda	13,739	16,641	13,739	18,186
Ebita margin (%)	**19.5**	**19.6**	**19.5**	**21.0**

Source: Company, Nirmal Bang Institutional Equities Research

BOOKED BY BROKERAGES

Brokerage	Recommendation PVR/INOX	Target price (₹) PVR/INOX
CLSA	Buy / Buy	Not Provided
Goldman Sachs	Buy / N.A	2,000 / N.A
Nirmal Bang	Buy / Buy	2,383 / 594
Motilal Oswal	Neutral / N.A	1,600 / N.A
JM Financial	Buy / Buy	2,300 / 690

JM Finanical Mar 2023 TP is based on 15x EV/Ebitda after merger

Source: Brokerages

Pai is of the view that the merger is significantly value-accretive for various stakeholders, such as advertisers, consumers, film producers, and ticketing players. On the cost front, analysts expect corporate office-related costs to fall along with sharper negotiations on rentals with mall operators. This can be another source of savings in the long run and incrementally positive for free cash flow of the merged entity.

OTT and CCI overhang

While announcing the merger, Ajay Bijli of PVR said creating scale to achieve efficiencies is critical for long-term survival of the business and fight the onslaught of digital (over-the-top) OTT platforms.

But analysts at CLSA believe the threat from OTTs remains limited because even during the Covid-19 pandemic only 40 movies were released directly on OTT. Moreover, PVR and Inox have bounced back, led by compelling movie content, rise in average ticket prices, and food and beverage (F&B) revenue per head surpassing pre-pandemic levels, they added.

"The combined entity would have sufficient scale and balance sheet strength to counter any possible near-term threats from OTT platforms," said an analyst at JM Financial.

Yet, Motilal Oswal Financial Services cautions that though the screen addition opportunity does provide an ability to the merged entity to continue its strong growth, OTT platforms pose the risk of shrinking the exclusive period, softening occupancies, and lower screen economics.

According to ICICI Securities, there can be roadblocks in receiving the Competition Commission of India's (CCI) clearance if the merger is assessed on a screen market share basis (as they have more than 50 per cent share in multiplex screens in most states) or normalised situation revenues. "But it may get de minimis exemption from CCI approval given that Inox's turnover is less than ₹1,000 crore," it said.

ELSS, PPF can be good last-minute tax-savers

NPS and medical insurance are sound non-Section 80C options

BINDISHA SARANG

Only two days remain until March 31, the deadline for making tax-saving investments for FY22. It is important that in their last-minute rush, taxpayers don't make mistakes.

Gopal Bohra, partner, NA Shah Associates, says, "Taxpayers should first take into account their Employees' Provident Fund (EPF) contribution, principal repaid on housing loan, insurance premiums, and children's tuition."

This will give them an idea on how much more they need to invest in Section 80C instruments.

Section 80C

If you are falling short, choose an instrument that is right for you. You can contribute up to ₹1.5 lakh in a given financial year under Section 80C.

Rishad Manekia, founder and managing director, Kairos Capital, says, "For those who operate under the old tax regime, many tax-saving options qualify for deduction under Section 80C."

Vishal Dhawan, board member, Association of Registered Investment Advisors (ARIA), says, "Under Section 80C, look at equity-linked saving schemes (ELSS), Public Provident Fund (PPF), and tax-saving fixed deposits if you have a long-investment horizon."

High expected returns from equities and low lock-in (of three years only) make ELSS a desirable option for people who want equity exposure. Insurance-cum-investment products should be avoided. They offer low coverage and mediocre returns, besides demanding a multi-year commitment. Dhawan says, "It is best to separate investments from insurance."

TIPS FOR INVESTORS

- Do not take a personal loan to make Section 80C tax-saving investments as interest cost may exceed tax saving
- Do not peg tax-saving investments to short-term financial goals as most of these investments come with a three-to 15-year lock-in period
- Do not dump your entire corpus in a single asset class due to the last-minute rush, diversify instead
- Stay away from the insurance-cum-investment products, which are sold aggressively during the tax-saving season

The Section 80C option you choose must not only get you a tax deduction but also fit into your current portfolio's asset allocation. The product must also match your risk profile.


YOUR MONEY

Speed is of the essence. M Barve, MB Wealth Financial Solutions says, "Since you will be in a hurry, choose something that is simple to understand and quick to execute, like ELSS or even a National Savings Certificate (NSC), depending on your financial needs and risk profile."

Non-Section 80C options

Besides Section 80C, there are other options as well. You could invest in the National Pension System (NPS) for an additional deduction of up to ₹50,000 under Section 80CCD(1b).

NPS offers the advantage of a very low-fund management fee and the ability to choose an allocation (between equity and debt) that suits the investor's risk profile.

Manekia says, "However, it has a long lock-in period and you are mandatorily required to purchase an annuity for a part of the corpus at retirement."

The tax benefit of ₹50,000 under Section 80CCD (1b) is over and above the deduction of ₹1.5 lakh available under Section 80C.

Buying a personal medical cover is important, even if you are covered under your office policy.

Bohra says, "Mediclaim gives twin benefits. First, it provides financial help in case of health-related emergencies in the family. Second, under Section 80D, taxpayers can claim a deduction of up to ₹25,000 if the taxpayer is below 60 years and ₹50,000 if the taxpayer is above 60 years."

Things to keep in mind

Experts offered a few additional tips to last-minute investors. Barve says, "Since only two days are left, pay online and not via cheque." You must also link your Aadhaar with PAN by March 31, 2022. Bohra says, "Doing so is mandatory for all resident taxpayers. Non-compliance may attract penal consequences and your PAN will become inoperative."

The tax-saving instrument that you choose must fit into your asset allocation, financial goals and risk appetite. Manekia adds, "Don't buy a product just for the purpose of tax saving. For instance, those who don't have financial dependents should not buy life insurance just to save tax. They can choose alternatives that suit their needs better."

Finally, Dhawan says, "Be aware that investment in tax-saving instruments typically comes with lock-ins."

He adds that taxpayers should begin their tax-saving investments right from April next year to avoid last-minute stresses.

Business Standard
MUMBAI EDITION

Printed and Published by Sangita Kheora on behalf of Business Standard Private Limited and Printed at M/s. Dangat Media Private Limited, 22 Digha M.I.D.C., TTC Industrial Area, Vishnu Nagar, Digha, Navi Mumbai, 400708 and M/s. Dainik Bhaskar, Plot no. 10.11, Sector B, Industrial Area, Govindpura, Bhopal (M.P.)-462023. & Published at H/4 & I/3, Building H, Paragon Centre, Opp. Birla Centurion, P.B.Marg, Worli, Mumbai- 400013

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RNI NO: 66308/1996

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Overseas subscription: (Mumbai Edition Only)

One year subscription rate by air mail
INR 51765 : USD 725