WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

PVR-INOX Merger: Consolidation Decoded

Kajal Khetwani[1], *Shubham Jain*[2]

[1]Assistant Professor,Prestige Institute of management, Dewas
[2]Faculty,Central India Academy, Dewas

ABSTRACT

The merger of India's leading multiplex chain INOX Leisure Ltd. (INOX) with PVR Ltd. is discussed in this article. INOX has merged with PVR, and its shareholders will receive three PVR shares for every ten INOX shares they own. With the current multiplexes PVR and INOX, the amalgamated entity will be known as PVR INOX Ltd. PVR INOX will be the name of the new theatres that open as a result of the merger. The combined firm will have 1,546 screens, with a market share of 16-17 percent in total screens (including single screens) and 44 percent -50 percent in multiplex screens in India. INOX promoters will hold 16.7% of the combined entity after the merger, while PVR promoters would own 10.6%. Because the National Company Law Tribunal (NCLT), Securities and Exchange Board of India (SEBI), Competition Commission of India (CCI), stock exchanges, and shareholders must all approve the merger, experts predict it will take more than six months. It remains to be seen whether the largest ever merger in Indian multiplex history will prove to be a game changer.

Keywords: Monopoly, Multiplex, entertainment, Mergers and Acquisitions, Consolidation, Companies act 2013

INTRODUCTION

Mergers occur as a result of intense market competition, recent technological advancements, critical business scandals, and rising stock market volatility, which put pressure on corporations to deliver more profits for their shareholders. The Companies Act revolutionized the merger and acquisition process. For such a long period of time, the Act of 1956 was in effect. However, the 1956 Companies Act's M&A strategy was ineffective. Several new elements were introduced to the Act, as well as existing requirements, to increase transparency and make the merger and acquisition process easier and smoother.
.

Meaning of Merger: A merger is an arrangement that brings two or more firms together to form a new entity. There are various sorts of mergers, as well as various reasons why companies merge. Mergers and acquisitions are frequently used to broaden a company's reach, enter new markets, lessen competition, and increase market share. All of this is done in order to boost shareholder and market value. During a merger, corporations frequently have a no-shop provision in place to prevent further companies from buying or merging.
.

Meaning of Monopoly: In a monopoly market, factors such as government licensing, resource control, copyright and patent ownership, and a high entry cost make a business a single seller of commodities. All of these characteristics make it difficult for additional sellers to enter the market. Monopolies also have access to information that other merchants do not.

Literature Review

Raj Nayak - Founder & CEO, House of Cheer Networks said on an article in BloombergQuint "The PVR-INOX merger is a huge development in the media & entertainment business and wonderful news for the film industry,". With the volatility that the film industry has experienced throughout the epidemic, and both companies' revenues at rock bottom, there has never been a better time for them to join, as the combination will be below the threshold limit and may not require clearance from India's Competition Commission. Two years ago, it might have been a different scenario."

Hari Viswanath , on Business Line Quoted "With the combined entity having many positives and hardly any negatives, whether other stakeholders like Bollywood view it the same way needs a wait and watch.
United we stand, divided we fall! That seems to be the message coming across from the country's top two multiplexes – PVR and Inox, as they announced plans for an all-stock merger on Sunday. The pandemic dealt a double blow to the multiplex industry – besides crippling operations for almost two years, it also catapulted OTT as a significant long-term competitive threat to multiplexes."

MotitalOswal, "Given the large movie market (over 2,000), healthy box office collections, lower number of screens/cinemas, and a concentrated multiplex market (PVR/Inox command over 40 per cent market share), the multiplex market has healthy room to add new screens. The combined entity plans to deepen their network in Tier II and III markets,around 70 per cent of the market consists of single-screen cinemas, which are facing a shutdown, whereas multiplexes, with 30 per cent share and 2,700 screens, are seeing strong growth"

Ajay Bijli, Chairman and Managing Director of PVR, said, "The film exhibition sector has been one of the worst impacted sectors on account of the pandemic and creating scale to achieve efficiencies is critical for the long-term survival of the business and fight the onslaught of digital OTT platforms."

Siddharth Jain, Director, INOX Leisure, said, "As we head into the industry's revival amidst headwinds, this decisive partnership would bring in enhanced productivity through scale, a deeper reach in newer markets and numerous cost optimization opportunities, and continue to delight cinema fans with world-class experiences and landmark innovations."

NDTV, in its Business Profit article quoted that "Although the merger is confirmed as far as companies are concerned, it's yet to be approved by the competition commission of India (CCI). The CCI's decision could be a roadblock for this deal. So, keep a check on that. If everything goes smoothly, you could keep an eye on GFL, especially if you want dividend income. However, tread cautiously. Go through the fundamentals of the company thoroughly, especially the balance sheet.

NAINI THAKER, Forbes India Staff Said, the merger of the two giants of the exhibition sector might help them recover from the pandemic. But things could also get better for other stakeholders—including distributors, producers, smaller exhibitors and consumers.

Emkay Global, PVR INOX will have revenue synergies from advertisements and convenience fees. As a merged entity they are likely to have better negotiating power with aggregators such as BookMyShow and PayTM.

Analysis

The Merge of INOX – PVR

The combination of Inox and PVR could be beneficial to both companies. However, because this combination will create a monopoly in the multiplex industry, it must receive final clearance from CCI. PVR might become a greater participant, and its diverse geographies could aid Inox's expansion. PVR has a debt problem, whereas Inox Leisure may be cash-rich, therefore the combined organization will have a better track record. Because both businesses' stock values have already risen, there is a possibility of profit taking, but the future prognosis is bright. Given their dominance, CCI clearance may be the most important component of the merger. The company has stated that CCI permission is not necessary, probably because the combined entity's income is less than Rs10 billion (CCI in 2017 had notified that merged entities with but Rs10bn revenue would be exempted). There will be several markets where the combined company could potentially exceed the stated market share threshold or become a monopoly. If CCI becomes a stumbling block, the merged company may produce low-yielding characteristics. Organizational culture differences and major delays in the approval process are the opposing difficulties.

Synergies:

The combined corporation would have a 44 percent box office revenue market share. Advertisement revenue, convenience fees, F&B sourcing with vendor consolidation, and cost reductions are all advantages. "We believe the combined business might use its clout to negotiate a smaller income share with movie distributors, although this will be difficult. We predict revenue and price synergies of Rs1.1 billion for each, resulting in EBITDA growth of Rs2.1 billion. We haven't factored in any rental or film distributor savings ". While PVR has a stronghold in the north and south, with 871 screens spread across 181 properties in 73 cities, INOX is more focused on the east and west. It owns 675 screens across 160 properties in 72 cities, implying that the two can expand more quickly in their respective markets due to their size, which could provide "substantial bargaining power over the entire ecosystem, including customers, assets developers, content producers, technology service providers, the state exchequer, and employees," according to JM Financial in a report. The number of screens in the cinema industry has decreased over the last five years. Single-screen cinemas account for roughly 70% of the industry, which are facing closures, whilst multiplexes, which account for 30% of the market and have a few thousand screens, are experiencing robust growth. "The multiplex market has good room to feature new screens, given the vast movie market (over 2,000), healthy box office collections, lesser number of screens/cinemas, and a concentrated multiplex industry (PVR/Inox hold over 40% market share)." "The combined firm intends to expand its network in Tier II and III markets," says the press release. However, because of the stock's historically high values, the brokerage has given it a neutral rating.

Defensive move to drive cost efficiencies?

Business in the multiplex is exceedingly difficult, with high costs and fixed expenses. Multiplexes are challenging to achieve free cash flows even in a rapidly rising market like India. The present business model resembles that of a glorified QSR, with over 80% of earnings coming from the sale of high-priced food and beverages. At best, the Movie Screen business is breakeven. Local advertisers and a few conventional government adverts account for the majority of advertising revenue. Footfalls are overwhelmingly delighted about the quality of recent releases, and multiplexes have no control over this. Most importantly, they've been losing ground to overseas OTT behemoths in terms of new content release. As a result, the merging of PVR and INOX should be viewed as a last-ditch defensive measure to produce cost savings."

Was the rally a knee-jerk reaction?

Any relatively unexpected M&A transaction, particularly by consumer brands, is frequently met with cheers from market players and a surge in purchasing enthusiasm."

However, we believe that in this scenario, the amalgamated firm should make every effort to rehabilitate its reputation and persuade lenders that it can create adequate free cash flows to pay off the debt incurred during the Covid lockdowns. Our view is that the market valuation will remain within a restricted range for the first year after the merger takes effect. Those who believe the united organization will generate a strong business should invest in the stock now. However, short-term traders looking for a quick profit are likewise disappointed ".

Conclusion

PVR, Inox, Carnival, and Cinepolis are the four biggest multiplex chains in India. With 800 screens throughout India, PVR's merger with Inox is making multiplex history. Because the multiplex sector was struck hard by closures owing to the epidemic, wiping off 80 percent of India's film earnings, these long-time adversaries have now become best friends. The rise of digital connectivity and cellphones has aided Netflix, Amazon Prime, and Hotstar in gaining members at frightening rates. There is significant competition between multiplexes and OTT services in India, with 45 OTT platforms. The merging of PVR and INOX is likely to assist combat this. PVR has a commanding position in the North, West, and South, while Inox is strong in the East, giving the new company far more bargaining and survival power. If the purchase goes through, it will transform the country's film exhibition business, which has been consolidating for the previous decade and a half. It will be fascinating to see how the merged firm plans to raise cash, given a greater Debt to Equity ratio is not sustainable for the company. Furthermore, this merger decision is subject to approval by the relevant authorities and parties, so it will be interesting to observe how things progress over time. It might, however, constitute a monopoly, making it vulnerable to CCI scrutiny.

References

[1] Money Control - https://www.moneycontrol.com/
[2] Economic Times - https://economictimes.indiatimes.com/
[3] Zee Business - https://www.zeebiz.com/
[4] https://www.thehindubusinessline.com/portfolio/news-analysis/is-the-pvr-inox-merger-a-blockbuster/article65267739.ece
[5] https://www.bloombergquint.com/business/how-the-pvr-inox-merger-could-reshape-indias-film-sector
[6] https://www.ndtv.com/business/pvr-inox-merger-an-opportunity-you-may-not-know-of-2854531
[7] https://indianexpress.com/article/explained/explained-pvr-inox-merger-impact-entertainment-industry-7838927/
[8] In.investing.com