

Inox Leisure (INOX)

Strong content ahead to aid profitability...

- Revenues came in at ₹ 288.5 crore, up 14.8% YoY, with better than usual content in the seasonally weak quarter. The footfall increased 13.0% YoY to 13.0 million (vs. 12.5 million estimated) owing to better than usual movie releases in the otherwise seasonally weak quarter. Some of the movies such as *Dangal*, *Badrinath Ki Dulhania*, *Raees*, etc performed well. Net box office collections came in at ₹ 178.8 crore, up 7.7% YoY, aided by 4.2% YoY average ticket price (ATP) growth to ₹ 174. F&B revenues came in at ₹ 65.6 crore, aided by 1.7% YoY growth in spends per head to ₹ 59. Advertising revenues came in at ₹ 20.9 crore (up 7.7% YoY), slightly lower than estimate of ₹ 22.5 crore
- EBITDA came in at ₹ 23.8 crore vs. our expectation of ₹ 22.7 crore while margins came in at 8.3% vs. estimated 8.0%. The company has been able to exercise strict control on most of the cost items
- PAT came in at ₹ 0.3 crore (against expected PAT loss of ₹ 1.1 crore) owing to in-line operating performance and tax credits

Better content fast tracks recovery from demonetisation woes

Footfalls in an otherwise seasonally weak quarter were up 13.0% YoY to 13.0 million (vs. 12.5 million estimated) owing to better than usual movie releases such as *Dangal*, *Badrinath Ki Dulhania*, *Raees*, etc, which performed well. The coming year's performance will be buoyed by a strong Q1, which is heavy with superhits such as *Baahubali 2*, *Fast and Furious 8* and upcoming releases such as *Tubelight*, *Sarkar 3*, *Raabta*, etc. Though the ruling of the Karnataka price cap of ₹ 260 (₹ 200 + taxes) will slightly impact ATPs, the Imax screens and gold class screens being exempt from the ruling comes in as a positive. Higher footfalls growth of 9.9% in FY17-19E to 64.9 million coupled with an increase in the number of screens and ATP growth will lead to 15.2% CAGR in FY17-19E in the net box office revenues to ₹ 993.5 crore.

Ad revenue improvement shows signs of improvement

Inox is the second largest multiplex player with 468 screens as on Q4FY17, has a 19% share of multiplex screens in India and ~8% share of domestic box office collections. Inox is aiming at 517 screens by FY18E end, which would drive ad revenues for the company. Inox had taken a hike in its ad rates a few quarters back, which has begun to gain acceptance as visible from the 7.7% YoY ad revenue growth in the quarter. The management remains bullish on the improvement in ad revenues and expects the same to witness strong double digit growth with an increase in ad revenue per screen and realisation per minute. We have revised our ad revenue assumptions to 15.0% CAGR in FY17-19E to ₹ 127.2 crore from ₹ 96.2 crore in FY17.

Superior content to drive footfalls; recommend BUY

Inox has been a laggard vs. its peers in terms of growth in its advertisement revenues, which has been the key reason for the valuation discount vis-à-vis PVR. The rebound in advertisement revenues coupled with positive management commentary guiding strong double digit advertisement revenue growth ahead is indeed heartening. We note that Inox has superior levers of growth in advertisement and F&B revenues (that are at a discount to PVR), going ahead. Moreover, a strong content slate ahead would lead to an overall improvement in profitability. Going ahead, with levers such as GST implementation, which could be margin accretive, we maintain **BUY** and value Inox at 12.6x FY19E EV/EBITDA (~10% discount to PVR) to arrive at target price of ₹ 325/share.

Rating matrix	
Rating	: Buy
Target	: ₹ 325
Target Period	: 12 months
Potential Upside	: 11%

What's changed?	
Target	Changed from ₹ 270 to ₹ 325
EPS FY18E	Changed from ₹ 7.6 to ₹ 7.3
EPS FY19E	Introduced at ₹ 9.8
Rating	Unchanged

Quarterly performance					
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	288.5	251.3	14.8	298.0	-3.2
EBITDA	23.8	15.1	58.1	31.7	-24.9
EBITDA(%)	8.3	6.0	226 bps	10.6	-238 bps
PAT	0.3	16.1	(97.9)	3.8	-90.9

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	1,158.9	1,220.7	1,420.3	1,592.0
EBITDA	189.9	144.8	216.2	262.3
Net Profit	77.5	30.5	70.1	93.8
EPS (₹)	8.1	3.2	7.3	9.8

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	36.2	91.7	40.1	29.9
Target P/E	40.3	102.1	44.6	33.3
EV / EBITDA	16.0	21.4	14.1	11.4
P/BV	5.4	5.1	4.5	3.9
RoNW	15.7	5.5	11.3	13.1
RoCE	12.9	7.3	13.4	15.9

Stock data	
Particulars	Amount
Market Capitalization	2,807.9
Total Debt (FY17) in crore	317.0
Cash (FY17) in crore	13.2
EV	3,032.4
52 week H/L	309 / 190
Equity capital	96.2
Face value	10.0

Peer Comparison				
	1M	3M	6M	12M
PVR	11.8	28.2	32.5	93.7
INOX	2.0	32.8	20.0	42.2

Research Analyst	
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Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	Q3FY17	YoY (%)	QoQ (%)	Comments
Revenue	288.5	284.3	251.3	298.0	14.8	-3.2	The revenues were aided by better-than-expected footfalls growth, which came in at 13 million vs. expected 12.5 million
Other Income	2.3	1.5	1.6	2.2	50.3	6.9	
Employee Expenses	21.6	21.9	18.3	21.3	18.6	1.6	
Exhibition Cost	79.8	78.6	68.9	83.5	15.7	-4.4	
Cost of F&B	15.2	15.4	14.2	16.2	7.4	-5.7	
Rent	48.4	63.7	54.1	60.6	-10.5	-20.2	Some portion of rental expenses have been reclassified to other expenses and are, hence, incomparable
Other Expenses	99.6	82.0	80.8	84.7	23.3	17.6	
EBITDA	23.8	22.7	15.1	31.7	58.1	-24.9	
EBITDA Margin (%)	8.3	8.0	6.0	10.6	226 bps	-238 bps	
Depreciation	21.6	21.5	20.7	21.4	4.3	1.0	
Interest	7.2	6.5	5.9	6.5	21.3	10.6	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	-3.0	-1.1	-26.2	2.3	-88.6	-228.9	There have been some tax credits owing to a reduction in tax liability from earlier years
PAT	0.3	-2.7	16.1	3.8	-97.9	-90.9	
Key Metrics							
Footfalls	12.5	13.4	12.9	12.7	-3.1	-1.6	Footfalls came in better as movies like <i>Dangal</i> , <i>Badrinath Ki Dulhania</i> , etc, had a decent run-up in the box-office
Occupancy	26.0	26.0	28.0	26.0	-7.1	0.0	
SPH	63.0	62.1	59.0	65.0	6.8	-3.1	
ATP	182.0	182.6	179.0	183.0	1.7	-0.5	

Source: Company, ICICIdirect.com Research

Change in estimates

(` Crоре)	FY18E			FY19E		Comments
	Old	New	% Change	Introduced		
Revenue	1,405.8	1,420.3	1.0	1,592.0		We have revised our ad revenue estimates in-line with the management commentary and also built in higher footfalls (incremental growth to be partly offset by the Karnataka ticket cap ruling) leading to better revenue growth
EBITDA	220.2	216.2	-1.8	262.3		
EBITDA Margin (%)	15.7	15.2	-44 bps	16.5		The impact of the Karnataka ticket cap will have some bearing on ticket prices, hence impacting the EBITDA margin
PAT	72.9	70.1	-3.9	93.8		
EPS (`)	7.6	7.3	-3.9	9.8		

Source: Company, ICICIdirect.com Research

Assumptions

	FY18E		Current		Earlier		Comments
	FY16	FY17	FY18E	FY19E	FY17E	FY18E	
Footfalls	53.4	53.7	60.8	64.9	53.2	58.4	We have revised our footfall assumptions upwards owing to a strong content slate in H1FY18 and robust performance by movies such as <i>Bahubali</i> , <i>Fast and Furious</i> , etc, already driving the footfalls for the year
Occupancy	29.0	28.0	28.0	27.0	26.7	26.3	
SPH	58.0	61.9	62.9	65.9	62.2	64.5	
ATP	169.5	177.6	185.1	192.6	177.9	187.3	

Source: Company, ICICIdirect.com Research

Company Analysis

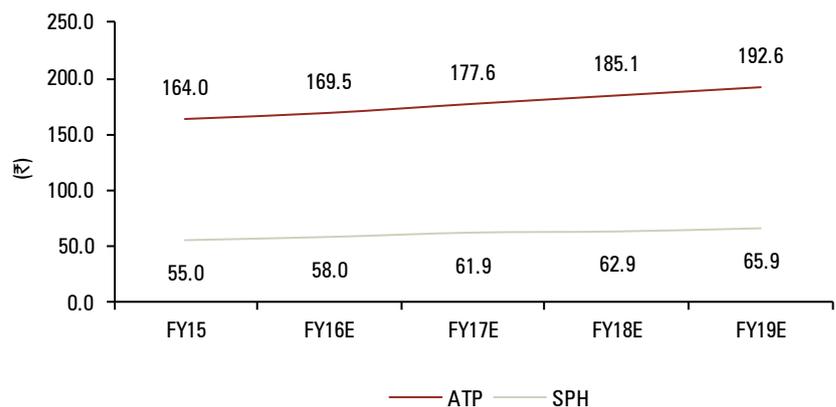
Superior content to be driver of footfalls

Footfalls in an otherwise seasonally weak quarter were up 13.0% YoY to 13.0 million (vs. 12.5 million estimated) owing to better than usual movie releases such as *Dangal*, *Badrinath Ki Dulhania*, *Raees*, etc, which performed well.

The coming year's performance will be buoyed by a strong Q1, which is heavy with superhits like *Baahubali 2*, *Fast and Furious 8* and upcoming releases such as *Tubelight*, *Sarkar 3*, *Raabta*, etc.

There has been an improvement in digital bookings at 40% of their overall bookings in FY17 from 30% in FY16. The trend is expected to continue. We expect Inox to exhibit footfall growth of 9.9% CAGR in FY17-19E to 64.9 million aided by new screen additions and good content. ATPs are expected to grow at 4.1% CAGR in FY17-19E to ₹ 193 leading to net ticketing revenue growth of 15.2% to ₹ 993.5 crore over the same period. The company is continuously upgrading its menu offerings in terms of food & beverage (F&B), which will lead to an increase in spends per head (SPH). We expect SPH to grow at a 3.1% CAGR in FY17-19E leading to 13.1% CAGR in F&B revenues to ₹ 363.3 crore over the same period.

Exhibit 1: ATP, SPH trends



Source: Company, ICICIdirect.com Research

Advertisement revenues to grow at 15.0% CAGR in FY17-19E

Advertising revenues and other operating revenues remain a key focus area for the management owing to its high EBITDA accretive nature. The advertisement income has already grown at 32.9% CAGR in FY12-16 from ₹ 29.2 crore to ₹ 91 crore in the same period.

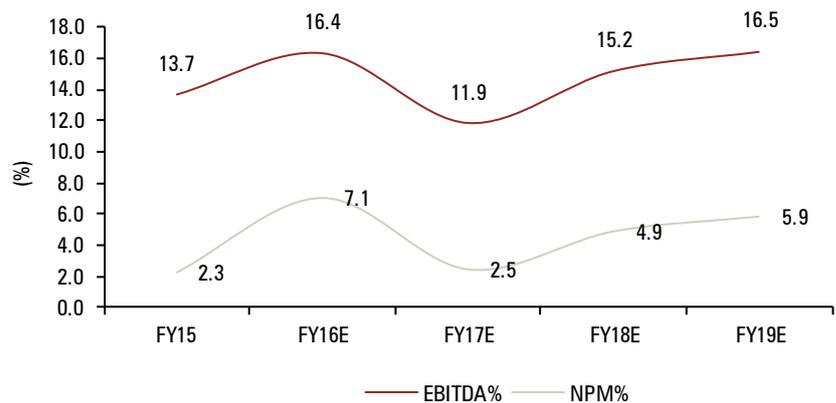
Inox had taken a hike in its ad rates few quarters back, which has begun to gain acceptance as visible from the 7.7% YoY ad revenue growth in the quarter. The management remains bullish on the improvement in ad revenues and expects the same to grow at strong double digits with an increase in ad revenue per screen and realisation per minute. We note Inox' ad revenues per screen are at a discount to that of market leader PVR and, thus, have a huge scope of improvement. We believe ad revenues should recover once the rate hike is absorbed fully. We have revised our ad revenue assumptions to 15.0% CAGR in FY17-19E to ₹ 127.2 crore from ₹ 96.2 crore in FY17.

EBITDA margin expansion to be function of occupancies...

With Inox being a dominant market player in the multiplex space with 19% share of multiplex screens in India and ~8% share of domestic box office collections, it is in a position to take price hikes. Moreover, the company is also able to see an uptrend in SPH in the food & beverage (F&B) segment. However, the margins are highly susceptible to changes in occupancies.

We expect margins at 15.2% and 16.5% in FY18E & FY19E, respectively, buoyed by superior content in the offing, vs. 11.9% in FY17, which was hit by the perils of demonetisation.

Exhibit 2: EBITDA, PAT margin trend



Source: Company, ICICIdirect.com Research

GST implementation to boost margins

While the management indicated that GST (assuming 18% rate) is likely to boost EBITDA margin by ~250 bps, it refrained from committing owing to lack of complete clarity. We note that the company would also be eligible for input tax credit (tax on housekeeping, property rentals, etc) post GST. In contrast, the distributor share would go up along with VAT on F&B, which is at ~12% currently. We highlight that we have not incorporated the same as the final GST rate is still awaited.

Valuation

Inox has been a laggard vs. its peers in terms of growth in its advertisement revenues, which has been the key reason for the valuation discount vis-à-vis PVR. The rebound in advertisement revenues coupled with positive management commentary guiding strong double digit advertisement revenue growth ahead is indeed heartening. We note that Inox has superior levers of growth in advertisement and F&B revenues (that are at a discount to PVR), going ahead. Moreover, a strong content slate ahead would lead to an overall improvement in profitability. Going ahead, with levers such as GST implementation, which could be margin accretive, we maintain **BUY** and value the stock at 12.6x FY19E EV/EBITDA (~10% discount to PVR) to arrive at a target price of ₹ 325/share.

Exhibit 3: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1158.9	29.4	8.1	286.7	36.2	16.0	15.7	12.9
FY17	1220.7	5.3	3.2	-60.5	91.7	21.4	5.5	7.3
FY18E	1420.3	16.4	7.3	129.0	40.1	14.1	11.3	13.4
FY19E	1592.0	12.1	9.8	33.8	29.9	11.4	13.1	15.9

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus Estimates



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Mar-10	Ends year with about 32 properties with a total of about 119 screens. The property additions were made in Hyderabad, Siliguri, Kolkata, Indore, Thane and Vizag
Mar-11	Ends year with about 63 properties with a total of about 239 screens
Mar-12	Ends year with about 68 properties with a total of about 257 screens
May-13	Concludes acquisition of Fame India Ltd, another multiplex cinema theatre company with nationwide presence in May 2013
Sep-14	Acquires ~38 screens of Satyam Cineplexes for ~₹ 182 crore. Apart from 38 operational screens, Inox also gained access to three to four screens, which were fully funded and ready for operations. In addition, gained access to 30 screens that were lined up to open in the coming 12-18 months
Mar-15	Ends year with about 372 screens
Mar-16	Ends FY16 with 420 screens
Mar-17	Ends FY17 with 468 screens

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

S No.	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Inox Group of Companies	31-Dec-16	48.1	46.4	0.0
2	Goldman Sachs Asset Management International	31-Dec-16	4.7	4.6	0.0
3	DSP BlackRock Investment Managers Pvt. Ltd.	31-Dec-16	4.6	4.5	1.1
4	Inox Benefit Trust	31-Dec-16	4.5	4.4	0.0
5	Kuwait Investment Authority	31-Dec-16	3.6	3.5	0.0
6	Birla Sun Life Asset Management Company Ltd.	31-Dec-16	3.3	3.2	2.0
7	Reliance Nippon Life Asset Management Limited	31-Dec-16	2.1	2.0	0.2
8	ICICI Prudential Asset Management Co. Ltd.	31-Dec-16	2.0	1.9	0.3
9	Morgan Stanley Investment Management Inc. (US)	31-Dec-16	1.7	1.7	0.7
10	Adi Financial Advisors, L.L.P.	31-Dec-16	1.5	1.4	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	48.70	48.70	48.70	48.70	48.70
FII	22.47	16.83	13.78	16.66	17.45
DII	8.21	13.68	16.83	14.93	14.88
Others	20.62	20.79	20.69	19.71	18.97

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Birla Sun Life Asset Management Company Ltd.	+6.91M	+2.03M	Jain (Pavan Kumar)	-18.25M	-4.13M
DSP BlackRock Investment Managers Pvt. Ltd.	+3.60M	+1.06M	Norges Bank Investment Management (NBIM)	-8.16M	-2.40M
Morgan Stanley Investment Management Inc. (US)	+2.28M	+0.67M	Lazard Asset Management, L.L.C.	-0.65M	-0.17M
Jain (Vivek Kumar)	+2.83M	+0.64M	Fidelity Management & Research Company	-0.28M	-0.09M
Jain (Siddharth)	+2.74M	+0.62M	J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.26M	-0.08M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total operating Income	1,158.9	1,220.7	1,420.3	1,592.0	
Growth (%)	29.4	5.3	16.4	12.1	
Employee Expenses	74.7	86.4	101.1	118.1	
Exhibition Cost	325.3	345.3	400.2	447.1	
Cost of F&B	66.1	68.1	78.1	87.2	
Rent	207.1	185.8	215.7	251.9	
Other Expenses	295.8	390.3	409.0	425.4	
Total Operating Expenditure	969.0	1,075.9	1,204.1	1,329.7	
EBITDA	189.9	144.8	216.2	262.3	
Growth (%)	54.7	-23.8	49.4	21.3	
Depreciation	80.3	84.1	92.3	103.5	
Interest	24.4	25.3	30.8	30.7	
Other Income	4.3	9.1	8.8	8.8	
Exceptional Items	5.0	0.0	0.0	0.0	
PBT	84.6	44.6	101.9	136.9	
Total Tax	7.1	14.0	31.8	43.2	
PAT	77.5	30.5	70.1	93.8	
Growth (%)	286.7	-60.6	129.6	33.8	
EPS (₹) (based on ordinary shares e:	8.1	3.2	7.3	9.8	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	96.2	96.2	96.2	96.2	
Reserve and Surplus	458.8	489.0	559.1	652.9	
Interest in benefit trust	(32.7)	(32.7)	(32.7)	(32.7)	
Total Shareholders funds	522.3	552.5	622.6	716.4	
Total Debt	267.0	317.0	282.0	252.0	
Others	93.7	86.0	86.0	86.0	
Total Liabilities	883.0	955.6	990.7	1,054.4	
Assets					
Total Fixed Assets	704.2	765.3	803.0	849.5	
Investments	16.5	12.0	22.0	32.0	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	
Debtors	51.6	46.6	54.5	61.1	
Inventory	6.9	9.1	9.7	10.9	
Loans and Advances	58.9	73.4	85.4	87.6	
Other Current Assets	16.0	21.3	24.7	27.7	
Cash	27.2	13.2	18.0	40.2	
Total Current Assets	160.6	163.6	192.4	227.5	
Total Current Liabilities	169.1	188.5	229.9	257.7	
Net Current Assets	-8.5	-24.9	-37.5	-30.3	
Other Non Current Assets	170.7	203.2	203.2	203.2	
Application of Funds	883.0	955.6	990.6	1,054.4	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
PAT	77.5	30.5	70.1	93.8	
Add: Depreciation	80.3	84.1	92.3	103.5	
Add: Interest Paid	24.4	25.3	30.8	30.7	
(Inc)/dec in Current Assets	130.3	-17.0	-24.0	-12.9	
Inc/(dec) in CL and Provisions	-32.4	19.5	41.4	27.8	
CF from operating activities	280.1	142.3	210.6	242.9	
(Inc)/dec in Investments	-8.8	4.5	-10.0	-10.0	
(Inc)/dec in Fixed Assets	-116.4	-145.2	-130.0	-150.0	
Others	62.9	-40.1	0.0	0.0	
CF from investing activities	(62.3)	(180.8)	(140.0)	(160.0)	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	51.8	50.0	-35.0	-30.0	
Less: Interest Paid	24.4	25.3	30.8	30.7	
Others	-280.3	-50.9	-61.6	-61.4	
CF from financing activities	(204.1)	24.4	(65.8)	(60.7)	
Net Cash flow	13.7	-14.1	4.9	22.2	
Opening Cash	13.5	27.2	13.2	18.0	
Closing Cash	27.2	13.1	18.0	40.2	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS	8.1	3.2	7.3	9.8	
Cash EPS	16.4	11.9	16.9	20.5	
BV	54.3	57.5	64.7	74.5	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share	2.8	1.4	1.9	4.2	
Operating Ratios (%)					
EBITDA Margin	16.4	11.9	15.2	16.5	
PBT / Net Sales	9.5	5.0	8.7	10.0	
PAT Margin	7.1	2.5	4.9	5.9	
Inventory days	2.2	2.7	2.5	2.5	
Debtor days	16.3	13.9	14.0	14.0	
Creditor days	23.1	26.4	27.0	27.0	
Return Ratios (%)					
RoE	15.7	5.5	11.3	13.1	
RoCE	12.9	7.3	13.4	15.9	
RoIC	15.9	8.2	15.8	19.2	
Valuation Ratios (x)					
P/E	36.2	91.7	40.1	29.9	
EV / EBITDA	16.0	21.4	14.1	11.4	
EV / Net Sales	2.6	2.5	2.1	1.9	
Market Cap / Sales	2.4	2.3	2.0	1.8	
Price to Book Value	5.4	5.1	4.5	3.9	
Solvency Ratios					
Debt/EBITDA	1.4	2.2	1.3	1.0	
Debt / Equity	0.5	0.6	0.5	0.4	
Current Ratio	1.4	1.3	1.3	1.3	
Quick Ratio	1.3	1.3	1.3	1.2	

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Media)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
DB Corp (DBCORP)	379	395	Buy	6,977	16.1	20.9	23.3	23.5	18.2	16.3	13.1	10.2	9.0	29.9	31.3	30.6	22.0	23.4	22.6
DISH TV (DISHTV)	95	87	Hold	10,142	6.5	1.6	2.7	14.6	61.2	34.9	10.6	10.7	9.1	31.1	27.3	34.7	181.9	30.4	34.8
ENIL (ENTNET)	806	850	Hold	3,841	21.0	12.2	17.5	38.4	66.2	46.0	24.6	29.3	21.2	14.5	10.3	13.4	13.0	7.1	9.3
HT Media (HTMED)	82	80	Hold	1,913	7.2	8.3	7.1	11.4	9.9	11.6	7.2	5.1	4.3	10.7	12.3	11.0	8.2	8.6	6.9
Inox Leisure (INOX)	292	325	Buy	2,808	8.1	3.2	7.3	36.2	91.7	40.1	16.0	21.4	14.1	12.9	7.3	13.4	15.7	5.5	11.3
PVR (PVRLIM)	1,600	1,475	Buy	7,478	25.4	20.3	29.1	62.9	78.9	54.9	23.3	23.2	18.0	15.6	13.2	15.9	14.3	10.0	12.5
Sun TV (SUNTV)	924	930	Buy	36,411	23.2	26.7	29.7	39.9	34.6	31.1	19.8	18.6	16.3	36.1	39.1	41.0	24.9	27.3	28.5
TV Today (TVTNET)	272	315	Buy	1,621	15.8	17.0	21.2	17.2	16.0	12.8	10.0	9.1	7.3	27.6	25.1	26.9	17.7	16.6	17.8
ZEE Ent. (ZEEENT)	534	530	Buy	51,305	10.7	10.6	16.9	50.0	50.6	31.6	32.9	26.3	21.3	25.9	24.3	28.8	16.8	14.2	19.1

FY17 numbers are actual for Inox Leisure.

Source: Company, ICICIdirect.com Research

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