

Ad. growth outperformance drives profitability

Inox reported healthy revenue growth YoY on back of good ad and F&B revenue. EBITDA margin improved 470bps YoY to 13.0% due to healthy ad/SPH growth. Hindi Box office collection is estimated to decline 19%YoY in Q1FY19 due to a high base of Bahubali-2; further, we continue to prefer Inox over PVR in anticipation of better ad/SPH growth. Inox is trading at fair valuations of 11.6/9.5 based on FY19/FY20 EV/EBITDA. We maintain our ACCUMULATE recommendation and rollover to Jun'19 TP of ₹ 330.

Healthy revenue growth; margin surprise led by ad. growth

Inox reported revenue strong revenue growth of 12%YoY to ₹3,236mn (DCMe: ₹3,148mn) above our estimate led by increase in ATP and ad revenue. EBITDA margin improved 470bps YoY to 13.0% (DCMe: 11.0%) due to healthy ad. growth. PAT was at ₹ 577mn in the quarter due to tax reversal of ₹ 537mn; excluding the one time reversal, PAT was Rs 40mn.

Muted growth in Box Office revenue

Net box office revenue improved 6%YoY primarily due to increase in ATP. Footfalls declined 3% YoY to 12.6mn due to ban of Padmaavat in some states and the strike in southern states; this in turn impacted occupancy rates which declined 100bps YoY to 26%. Top 5 movies contributed 53% to the GBO vs 51% in Q4FY17.

Healthy growth in SPH and ad. segment

F&B spend per head reported growth of 14%YoY to ₹ 67 and F&B revenue grew 18.1%YoY to ₹ 777mn despite a decline in footfalls and occupancy. ATP reported healthy growth of 11%YoY to ₹ 193 supported by positive impact of GST; advertisement revenue grew 60%YoY to ₹333mn on a low base as ad. revenue had declined 31%QoQ in Q4FY17 due to DeMo.

View

Inox has added 4 new screens for Q4FY18; count of 25 new screens in FY18; we have estimated addition of 55 new screens in FY19 in line with management's guidance. BO collections in Q4FY18 was healthy due to better performance of films (Padmaavat, Padman, Sonu Ke Titu Ki Sweetie & Raid); however, we expect Q1FY19 to be subdued due to release of only one big Hindi movie - Race -3. Hindi BO revenue is estimated to decline 19% YoY in Q1FY19 due to the high base of Bahubali 2 in Q1FY18. Inox is estimated to report EBITDA CAGR of 22% helped by consistent improvement in ad. growth which continues to be ahead of peers; we believe higher SPH will further support EBITDA growth and may drive upgrades in the near term. We continue to prefer Inox over PVR in anticipation of better ad/SPH growth; we marginally upgrade our EBITDA and maintain Accumulate rating; rollover to Jun'19 TP of ₹ 330 based on 10.5x Ev/EBITDA.

Q4FY18 Result (₹ Mn)

Particulars	Q4FY18	Q3FY18	Q4FY17	QoQ(%)	YoY(%)
Revenue	3,236	3,259	2,885	(0.7)	12.2
EBITDA	421	463	238	(9.2)	76.6
Pre-Tax Profit	107	203	(27)	(47.0)	NA
Net Profit	577	132	3	NA	NA
EPS (₹)	5.1	1.4	0.0	NA	NA
Margins (%)					
EBITDA Margin	13.0	14.2	8.3	(121)	474
PBT Margin	3.3	6.2	(0.9)	(290)	NA
Net Margin	17.8	4.0	0.1	1379	NA

CMP	₹ 283
Target / Upside	₹ 330/17%
BSE Sensex	35,208
NSE Nifty	10,716

Script Details

Equity / FV	₹ 962mn/₹ 10/-
Market Cap	₹ 27bn
	USD 420mn
52 week High/Low	₹ 290/268
Avg. Volume (no)	39,260
NSE Symbol	INOXLEISUR
Bloomberg Code	INOL IN

Shareholding Pattern Mar'18 (%)

Promoters	48.7
MF/Banks/FIs	17.1
FIIIs	18.6
Public / Others	15.6

Valuation (x)

	FY19E	FY20E	FY21E
P/E	26.9	20.5	16.4
EV/EBITDA	11.6	9.5	8.0
ROE (%)	13.4	15.3	16.3
ROCE (%)	9.0	11.8	13.5

Estimates (₹ Mn)

	FY19E	FY20E	FY21E
Net Sales	15,626	18,565	21,757
EBITDA	2,567	3,152	3,755
PAT	1,011	1,329	1,657
EPS (₹)	10.5	13.8	17.2

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Exhibit 1: Revenue Analysis

(₹ Mn)	Q4FY17	Q3FY18	Q4FY18	QoQ(%)	YoY(%)
Gross Box Office	1789	1877	1896	1.0	6.0
Food & Beverages	658	730	777	6.4	18.1
Advertising	208	404	333	(17.5)	60.5
Other Operating Revenue	231	248	233	(5.9)	1.0
% Share of Revenue					
Gross Box Office	62.0	57.6	58.6		
Food & Beverages	22.8	22.4	24.0		
Advertising	7.2	12.4	10.3		
Other Operating Revenue	8.0	7.6	7.2		

Source: Company, Dolat Research

Exhibit 2: Estimate Revision

(₹ mn)	New		Old		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	15,626	18,565	16,412	19,359	(4.8)	(4.1)
EBITDA	2,567	3,152	2,490	2,992	3.1	5.3
Pre Tax Profit	1,509	1,984	1,424	1,837	6.0	8.0
Net Profit	1,011	1,329	954	1,230	6.0	8.0
EPS (₹)	10.5	13.8	9.9	12.8	6.2	8.0
Margins (%)						
EBITDA Margin	16.4	17.0	15.2	15.5		
Net margin	6.5	7.2	5.8	6.4		

Source: Company, Dolat Research

Income Statement

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Net Sales	13,481	15,626	18,565	21,757
Total Expenditure	11,408	13,058	15,414	18,002
COGS	4,417	4,906	5,689	6,496
Employee Expenses	964	1,117	1,327	1,555
Other Expenses	6,027	7,036	8,398	9,951
Gross Profit	9,064	10,720	12,876	15,261
EBIDTA	2,074	2,567	3,152	3,755
Depreciation	867	860	970	1,084
EBIT	1,207	1,707	2,181	2,671
Other Income	145	109	109	109
Interest	289	307	307	307
Profit Before Tax & EO	1,062	1,509	1,984	2,473
Extra Ordinary Exps/(Inc)	85	0	0	0
Profit Before Tax	977	1,509	1,984	2,473
Tax	(170)	498	655	816
Net Profit	1,147	1,011	1,329	1,657

Balance Sheet

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Sources of Funds				
Equity Capital	962	962	962	962
Other Reserves	6,061	7,073	8,403	10,060
Net Worth	7,023	8,035	9,365	11,022
Minority Interest	(327)	(327)	(327)	(327)
Secured Loans	3,413	2,672	2,695	2,718
Loan Funds	3,413	2,672	2,695	2,718
Deferred Tax Liability	(790)	(790)	(790)	(790)
Total Capital Employed	9,319	9,591	10,943	12,624
Applications of Funds				
Net Block	8,082	9,335	10,560	11,629
Goodwill on consolidation	175	175	175	175
Investments	136	136	136	136
Current Assets, Loans & Advances				
Inventories	94	64	76	89
Sundry Debtors	761	428	509	596
Cash and Bank Balance	150	(0)	86	(73)
Other Current Assets	305	347	413	483
<i>sub total</i>	1,311	839	1,084	1,096
Less: Current Liabilities & Provisions				
Current Liabilities	2,720	3,082	3,611	3,457
<i>sub total</i>	2,720	3,082	3,611	3,457
Net Current Assets	(1,409)	(2,243)	(2,528)	(2,362)
Total Assets	9,319	9,591	10,943	12,624

E – Estimates

Cash Flow

Particulars	Mar18	Mar19E	Mar20E	Mar21E
Net Income	1,147	1,011	1,329	1,657
Depreciation & w.o.	867	860	970	1,084
Change in Working Capital	30	683	371	(326)
Other	85	0	0	0
(A) CF from Opt. Activities	2,129	2,555	2,670	2,416
Capex	(1,471)	(2,113)	(2,196)	(2,153)
Free Cash Flow	658	442	475	263
Inc./ (Dec.) in Investments	(17)	0	0	0
Other	(96)	148	(412)	(447)
(B) CF from Invt. Activities	(1,583)	(1,965)	(2,607)	(2,600)
Issue of Equity/ Preference	24	1	1	1
Inc./ (Dec.) in Debt	(395)	0	0	0
Interest exp net	(85)	0	0	0
Other	(72)	(740)	22	24
(C) CF from Financing	(528)	(740)	23	25
Net Change in Cash	18	(150)	86	(160)
Opening Cash balances	132	150	(0)	86
Closing Cash balances	150	(0)	86	(73)

Important Ratios

Particulars	Mar18	Mar19E	Mar20E	Mar21E
(A) Measures of Performance (%)				
EBIDTA Margin	15.4	16.4	17.0	17.3
EBIT Margin	8.9	10.9	11.7	12.3
Interest / Sales	2.1	2.0	1.7	1.4
Gross Profit Margin	67.2	68.6	69.4	70.1
Tax/PBT	(17.4)	33.0	33.0	33.0
Net Profit Margin	8.5	6.5	7.2	7.6
(B) As Percentage of Net Sales				
COGS	32.8	31.4	30.6	29.9
Employee Expenses	7.1	7.1	7.1	7.1
Other Expenses	44.7	45.0	45.2	45.7
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.3	0.3	0.2
Interest Coverage (x)	4.2	5.6	7.1	8.7
Average Cost Of Debt (%)	7.9	10.1	11.4	11.3
Debtors Period (days)	20.6	10.0	10.0	10.0
Inventory Turnover Ratio (x)	143.4	243.3	243.3	243.3
WC Turnover (x)	(9.6)	(7.0)	(7.3)	(9.2)
Non Cash WC (₹ Mn)	(1,559)	(2,243)	(2,614)	(2,288)
(D) Measures of Investment				
EPS (₹.)	11.9	10.5	13.8	17.2
CEPS (₹.)	20.9	19.5	23.9	28.5
Book Value (₹.)	73.0	83.6	97.4	114.6
RoANW (%)	17.8	13.4	15.3	16.3
RoACE (%)	13.6	9.0	11.8	13.5
RoAIC (%)	12.7	11.4	13.4	14.4
(E) Valuation Ratios				
CMP (₹.)	283	283	283	283
P/E (x)	23.7	26.9	20.5	16.4
Market Cap. (₹. Mn.)	27,213	27,213	27,213	27,213
MCap/ Sales (x)	2.0	1.7	1.5	1.3
EV (₹. Mn.)	30,476	29,886	29,822	30,005
EV/Sales (x)	2.3	1.9	1.6	1.4
EV/EBDITA (x)	14.7	11.6	9.5	8.0
P/BV (x)	3.9	3.4	2.9	2.5
FCFE Yield (%)	0.7	1.6	1.7	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0

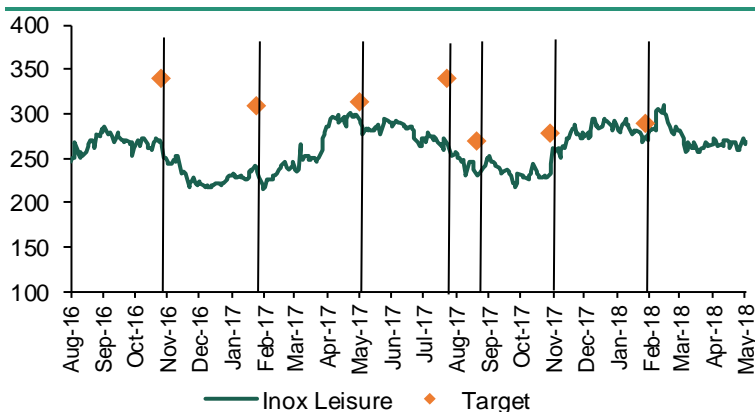
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Oct-16	Buy	340	263
Jan-17	Buy	310	238
May-17	Buy	315	292
Jul-17	Buy	340	261
Aug-17	Accumulate	270	232
Oct-17	Accumulate	280	244
Jan-18	Accumulate	290	274

* As on Recommendation Date

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