

Overhang of F&B impact largely factored into inexpensive valuations

Inox reported healthy revenue growth YoY supported by better spend per head despite muted growth in BO revenue. EBITDA margin improved 70bps YoY to 20.1% due to healthy ad/SPH growth. Hindi Box office revenue is estimated to grow 27% and 53% YoY basis for Q2 and Q3 of FY19 respectively and scope of go downside from current levels is limited. Inox is currently trading at inexpensive valuations of 6.9x/5.8x based on our FY20/FY21 EV/EBITDA estimates. Maintain our BUY rating with a Sep'19 target price of ₹ 280 (₹ 330 earlier).

Healthy revenue growth; F&B revenue continues to grow

INOX reported Q1FY19 with revenue growth of 7.1% YoY to ₹ 4,149mn (DCMe: ₹ 4,082mn) tad above our estimate supported by better ad revenue and spend per head despite muted growth in BO revenue. EBITDA margin improved 70bps YoY at 20.1% (DCMe: 19.4%) helped operational efficiencies. PAT improved 15.3% YoY to ₹ 370mn (DCMe: ₹ 352mn) supported by growth in F&B revenue and lower finance cost.

Subdued Box Office revenue growth

Net box office revenue marginally improved 1.1% YoY primarily due to increase in ATP. Footfalls declined 1% YoY to 15.6mn as a blockbuster movie like Bahubali-The Conclusion was released in Q1FY18; this in turn impacted occupancy rates which declined 200bps YoY to 29%. Top 5 films accounted for 46% of Q1FY19 GBOC of ₹.1,416.3mn. revenues vs 63% in Q1FY18.

Healthy growth in SPH led higher F&B revenue

F&B spend per head reported growth of 17% YoY to ₹ 76 and F&B revenue grew 25.9% YoY to ₹ 1112mn despite a decline in footfalls and occupancy. ATP reported a marginal growth of 3% YoY to ₹ 199; advertisement revenue grew 19.6% YoY to ₹ 398mn despite high base as ad. revenue had increased 57% YoY in Q1FY18.

View

Inox has added 20 screens until date in FY19 and has guided for a total screen addition of 55 in FY19. We expect occupancy levels to improve over the next two quarter helped by a strong hindi content pipeline; we estimate Hindi Box Office revenue to grow 27% and 53% YoY basis for Q2 and Q3 of FY19 respectively. This is primarily led by some major releases like Thugs of Hindustan (Aamir Khan & Amitabh Bachchan), Zero (ShahRukh Khan), Student of the Year 2 (Tiger Shroff), Gold (Akshay Kumar), Satyamav Jayate (John Abraham), Sui Dhaaga (Varun Dhawan), Robot 2.0 (Rajnikanth and Akshay Kumar) and Simmba (Ranveer Singh). Inox is currently trading at inexpensive valuations of 6.9x/5.8x based on our FY20/FY21 EV/EBITDA estimates and there is limited scope of downside from current levels; however, we believe it will continue to trade at lower multiples vs avg (13.4x of 3 year avg. EV/EBITDA multiple) in the near term until full clarity emerges on the F&B ruling for reducing prices of products/allowing outside food, whose PIL hearing is tomorrow in Mumbai High Court.

Q1FY19 Result (₹ Mn)

Particular	Q1FY19	Q4FY18	Q1FY18	QoQ(%)	YoY(%)
Revenue	4,149	3,236	3,874	28.2	7.1
EBITDA	835	421	753	98.5	10.9
Pre-Tax Profit	567	107	489	429.8	16.0
Net Profit	370	577	321	(35.9)	15.3
EPS (₹)	3.8	5.1	3.3	(35.9)	15.3
Margins (%)					
EBITDA Margin	20.1	13.0	19.4	713	70
PBT Margin	13.7	3.3	12.6	1036	105
Net Margin	8.9	17.8	8.3	(892)	63

CMP	₹ 198
Target / Upside	₹ 280/41%
BSE Sensex	36,825
NSE Nifty	11,134

Scrp Details

Equity / FV	₹ 962mn/₹ 10/-
Market Cap	₹ 19bn
	USD 279mn
52 week High/Low	₹ 326/195
Avg. Volume (no)	281,067
NSE Symbol	INOXLEISUR
Bloomberg Code	INOL IN

Shareholding Pattern Jun'18 (%)

Promoters	48.7
MF/Banks/FIs	17.7
FIIIs	17.6
Public / Others	16.0

Valuation (x)

	FY19E	FY20E	FY21E
P/E	18.9	14.4	11.5
EV/EBITDA	8.4	6.9	5.8
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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Valuation

We have not made any change to our earnings estimates as we await clarity on the F & B issue; however, due to the overhang we have cut our target EV/EBITDA multiple by 20% to 8.5x (10.5x earlier) for Inox. As mentioned below, we have also highlighted various scenarios under which there would be an EBITDA downgrade for Inox which would lead to a cut in the target prices; as per our view and our channel checks, we believe allowance of outside food seems highly unlikely due to the subjectivity issue (which and what type of food to be allowed), whereas there may be a high likelihood of reduction/rationalization in the F&B prices; in that case there may be a further ~15% downgrade to our current target price as SPH which is currently estimated to grow at ~12%-14% would become zero or report single digit decline YoY for the next two years. Apart from F&B, other risks pertaining to exhibition segment remain in our view – uncertainty over LBT, converging growth in ATP, threat from VoD (increased consumption of short films); however, trigger remains in the form of a strong Hindi movie content pipeline in the near term which will support valuations. Maintain our BUY rating with a Sep'19 target price of ₹ 280 (₹ 330 earlier).

Various scenarios regarding the F&B announcement –

Scenario 1 – Outside food is allowed only for patients, children and special patrons

Impact – This will have minimal negative impact on the F&B revenue for multiplexes (~1%-2% negative impact on EBITDA)

Scenario -2 – Outside food allowed in the state of Maharashtra only

Impact – Maharashtra contributes ~22%-24% of the F&B revenue for PVR/Inox; this will have a huge negative impact on the F&B revenue growth and could pare our EBITDA estimates by ~4%-5%

Scenario – 3 – Outside food allowed in all states

Impact – F&B revenue contributes ~23%-25% for PVR/Inox; allowance of outside food in all states will have a further larger negative impact on EBITDA by ~10%-12%. However, the likelihood of this scenario is not much as there are security issues, particularly in the state of Delhi where outside food is banned for this reason

Scenario -4 – Lowering prices of all food items across all states

Impact – Lowering prices of key food items like Popcorn, Samosa, Coke etc will have a further larger negative impact on the F&B revenue, which could even decline YoY by almost 20%; this will have a negative impact of ~15-17% on our EBITDA estimates. This scenario is also unlikely as the provision currently mentions of products being sold on MRP; bottled water and other beverages are already sold on MRP. However, there could be a ruling, or an order imposed to reduce/rationalize the prices

Concall KTA's –

- Opened 3 properties in Q1FY19, 12 screens and 2554 seats, from the end of Q1FY19 to today they opened 2 properties 8 screens and 1400 seats, which makes it a total of 5 properties, 20 screens and 4036 seats for the year. Beyond the 5 properties, the company targets to have 7 properties 39 screens and 6543 seats to be commissioned by the end of FY19
- The company is now present in 19 states, 64 cities with 128 multiplexes, 512 screens and a total seating capacity of 1,25,508 seats across India.
- Management indicated box office performance to be flattish due to the sluggish occupancy rate as they remain 29-30%
- Ad revenue which grew 20% from ₹.33.4cr. in Q1FY18 to ₹.40cr. in Q1FY19 has been a key driver in the good performance. Ad revenue has gone up from 4-5 lakhs per screen/qtr from last year to 8.42 lakhs per screen per quarter. Management indicated that there was an absolute ad. growth rate of 20% and 15% per screen growth rate on this operating matrix
- Management indicated that the ad revenue growth was driven with a mix of both volume and yield
- The management expects an ATP growth of 5-6% for the full year, the result could appear to be subdued this quarter as Bahubali-the conclusion released last year same quarter which had a very high ATP
- Management indicated capex of ₹.160cr. (55 screens) for greenfield screens and ₹.30cr. for renovations, which is a total of ₹.190cr for FY19
- Management has refrained to comment on the F&B issue until there is any clarity by the government or any order passed by the HC on the issue. They feel the decision should be taken considering security concerns
- The MRP law which is for pre-packaged food, constitutes a very small part of the food sold in multiplexes; Inox has always been complied to it and will continue to comply with it
- Management stated that three reasons contributed in the sharp growth of SPH of 17% which are 1) Greater conversion rate, 2) Product mix changes & 3) Price increase
- The management indicated that the decline in the other operating income was due to two reasons, 1) Sunset Clause on Hollywood movies and the entertainment tax which was exempt before GST was ruled in.
- The management stated that the Hindi, English and Regional breakdown for the quarter was 61%, 20% and 19% respectively as compared to Q1FY18 breakdown of 66%,14% and 20%
- The management stated that the net debt was around ₹.140cr.

Exhibit 1: Revenue Analysis

(₹ Mn)	Q1FY18	Q4FY18	Q1FY19	QoQ(%)	YoY(%)
Gross Box Office	2390	1896	2419	27.6	1.2
Food & Beverages	883	777	1112	43.2	25.9
Advertising	333	333	398	19.5	19.6
Other Operating Revenue	267	233	216	(7.4)	(19.3)
% Share of Revenue					
Gross Box Office	61.7	58.6	58.3		
Food & Beverages	22.8	24.0	26.8		
Advertising	8.6	10.3	9.6		
Other Operating Revenue	6.9	7.2	5.2		

Source: Company, DART

Exhibit 2: Operational Metrix

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Footfalls (₹ Mn)	15.82	12.75	12.13	12.63	15.62
YoY growth (%)	2.1	0.4	(2.7)	(2.8)	(1.3)
Occupancy Rate (%)	31	25	24	26	29
YoY growth	0bps	(100bps)	(200bps)	(100bps)	(200bps)
Average Ticket Price (₹)	193	186	199	193	199
YoY growth (%)	11	2	9	11	3
No of Screens	476	481	488	492	512
YoY growth (%)	12	9	9	5	8

Source: Company, DART

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	124	127	154
Other Current Assets	305	223	371	435
sub total	1,311	839	1,084	1,274
Less: Current Liabilities & Provisions				
Current Liabilities	2,720	3,082	3,611	3,636
sub total	2,720	3,082	3,611	3,636
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	807	288	(140)
Other	85	0	0	0
(A) CF from Opt. Activities	2,129	2,679	2,588	2,601
Capex	(1,471)	(2,113)	(2,196)	(2,153)
Free Cash Flow	658	566	392	448
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	(26)	3	26
Opening Cash balances	132	150	124	127
Closing Cash balances	150	124	127	154

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)	(2,367)	(2,655)	(2,515)
(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	11.5	13.5	14.6
(E) Valuation Ratios				
CMP (₹.)	198	198	198	198
P/E (x)	16.6	18.9	14.4	11.5
Market Cap. (₹. Mn.)	19,083	19,083	19,083	19,083
MCap/ Sales (x)	1.4	1.2	1.0	0.9
EV (₹. Mn.)	22,346	21,632	21,650	21,648
EV/Sales (x)	1.7	1.4	1.2	1.0
EV/EBDITA (x)	10.8	8.4	6.9	5.8
P/BV (x)	2.7	2.4	2.0	1.7
FCFE Yield (%)	0.9	3.0	2.1	2.4
Dividend Yield (%)	0.0	0.0	0.0	0.0

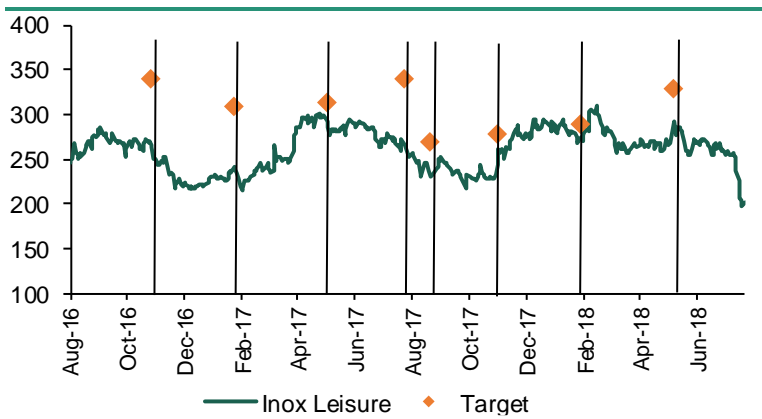
E – Estimates

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
May-18	Accumulate	330	283

* As on Recommendation Date

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