

Better profitability coupled with healthy screen addition to drive growth prospects; Maintain Buy

Inox reported healthy revenue growth YoY supported by better spend per head along with growth in BO and ad. revenue. EBITDA margin declined 180bps YoY at 12.3% due to higher direct cost and other expenses (higher F&B input cost and legal expenses due to the F&B case being contested); box office collection is expected to be strong led by release of big movies like Robot 2.0 and Thugs of Hindostan in Q3FY9. Inox is currently trading at valuations of 7.6x/6.7x based on our FY20/FY21 EV/EBITDA estimates. Maintain our BUY rating with a Sep'19 target price of ₹ 280 at 9.0x EV/EBITDA.

Healthy revenue growth; F&B and Ad. revenue continues to grow

INOX reported Q2FY19 with revenue growth of 17.4% YoY to ₹ 3,653mn (DCMe: ₹ 3,488mn) tad above our estimate supported by better spend per head along with growth in BO and ad. revenue. EBITDA margin declined 180bps YoY at 12.3% (DCMe: 11.2%) due to higher direct cost and other expenses. PAT improved 2.4% YoY to ₹ 120mn (DCMe: ₹ 95mn) supported by growth in F&B revenue and lower finance cost.

Box Office revenue aids growth

Net Box office revenue grew 11.3% YoY to ₹ 2,064mn led by ATP growth of 4.8% YoY along with footfall improvement of 7.2% YoY to 13.7mn as the number of properties went up, while the occupancy rates remained flat YoY at 25%, this was due to poor regional and Hollywood content during the quarter as compared to that in Q2FY18. Top 5 films accounted for 63% of Q2FY19 GBOC of ₹ 1,266.9mn. revenues vs 39% in Q2FY18 and footfall of 6.2mn in Q2FY19 vs 3.6mn in Q2FY18.

Healthy growth in SPH led higher F&B revenue

F&B spend per head reported growth of 12.3% YoY to ₹ 73 and F&B revenue grew 41.9% YoY to ₹ 950mn due to increased footfall and benefit of lower GST rate (cur from 18% to 5%). ATP reported a marginal growth of 4.8% YoY to ₹ 195; advertisement revenue grew 18.5% YoY to ₹ 380mn despite high base as ad. revenue had increased 35% YoY in Q2FY18.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	3,653	3,113	17.4	4,149	(12.0)
Total Expense	3,205	2,675	19.8	3,314	(3.3)
EBITDA	448	438	2.4	835	(46.4)
Depreciation	234	215	8.9	227	3.0
EBIT	214	223	(4.0)	608	(64.8)
Other Income	38	29	30.1	28	33.3
Interest	68	73	(7.5)	69	(2.2)
EBT	184	178	(4.0)	567	(67.6)
Tax	64	62	4.2	197	(67.5)
RPAT	120	117	2.4	370	(67.6)
APAT	120	117	2.4	370	(67.6)
			(bps)		(bps)
Gross Margin (%)	67.0	66.2	83	67.0	1
EBITDA Margin (%)	12.3	14.1	(180)	20.1	(786)
NPM (%)	3.3	3.8	(48)	8.9	(564)
Tax Rate (%)	34.9	34.5	40	34.8	12
EBIT Margin (%)	5.9	7.2	(130)	14.7	(880)

CMP	₹ 217
Target / Upside	₹ 280 / 29%
BSE Sensex	34,134
NSE Nifty	10,245

Script Details

Equity / FV	₹ 962mn / ₹ 10
Market Cap	₹ 20.9bn
	US\$ 284mn
52-week High/Low	₹ 326/₹ 188
Avg. Volume (no)	173,716
NSE Symbol	INOXLEISUR
Bloomberg Code	INOL IN

Shareholding Pattern Sep'18(%)

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

Valuation (x)

	FY19A	FY20E	FY21E
P/E	21.1	16.2	13.8
EV/EBITDA	9.2	7.6	6.7
ROE (%)	13.2	14.9	15.1
RoACE (%)	11.9	13.9	11.8

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	15,564	18,433	21,316
EBITDA	2,537	3,089	3,546
PAT	991	1,287	1,517
EPS (₹)	10.3	13.4	15.8

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View

Inox has added 44 screens upto date and has provided a guidance of 77 screens to be added in FY19 which we believe is very healthy. Hindi box office collection is expected to be strong led by release of big movies like Robot 2.0 and Thugs of Hindostan in Q3FY9. Footfall growth should come back on track due to the renewal of contract with BookMyShow; we expect a positive impact on the convenience fee due to the new deal. SPH growth remains to be healthy in line with expectations for FY19; traction in ad. revenue too remains as we have estimated a growth of 28% in FY19 led by pricing growth. We expect valuation multiple to converge vs PVR in the near term led by better ad/SPH growth which will drive higher profitability. (Currently at a discount of 30% vs PVR EV/EBITDA based on FY20). Maintain our BUY rating with a Sep'19 TP of ₹ 280 based on 9.0x EV/EBITDA (8.5x EV/EBITDA earlier).

Concall KTA's

- Significant release like Sanju, GOLD, Stree during the quarter helped BO revenue growth
- Overall footfall increased as the number of properties increased, though the occupancy remained flat for the quarter. The footfall for comparable properties however declined 1.3% while the occupancy remained flat this was due to larger screens.
- Content pipeline in the quarter was not as good as that in Q2FY18
- Inox is expected to continue to maintain growth momentum in Advertising.
- During the quarter 6 new properties and 24 screens were opened.
- By the end of FY19 company expects to have a total of 569 screens which converts into addition of 77 screens in FY19.
- Performance was basically content flow driven.
- Q2 results are always a little weaker than Q1 results.
- The F&B growth momentum to be maintained due to improved conversion ratio and improvement of average F&B price by 4-5% of ATP. SPH is the main growth driver for F&B revenue.
- New agreement with BMS is already operational only documentation is remaining. Q3FY19 also to witness slight effect of BMS contract issue.
- H2FY19 is expected to be better since the content pipeline is better.
- Signed some long-term contracts during the quarter and expect some small contracts to come in by the advertisers.
- We can assume Q2FY19 gross margin as the stable margins.
- There is no input tax credit on F&B now since GST rate has gone down, this coupled with inflation and one-off costs like the legal costs for F&B issue led to higher costs.
- Screen addition is healthy while footfall growth is slower as compared to screens which is related to poor content, this is expected to improve going ahead to 30%.
- Expect 60-80 screens in FY20-21.
- Premium screens as of date is 32-35 screens and 5 Imax screens.
- Legal matter on F&B was filed in the court of J&K, MP, Hyderabad & other 5-7 states. Exhibitors have filed a petition in Supreme court (J&K & Mumbai). Supreme court hearing on 29 Oct 2018.
- Share of online booking 44% in Q2FY18 and 45% Q2FY19(of which 40% came from ticketing aggregators) and 47% in Q1FY19.

Exhibit 1: Q2FY19 Performance

(₹ mn)	Q2FY19	DCMe	Diff (%)	Q1FY19	QoQ(%)	Q2FY18	YoY (%)
Revenue	3,653	3,488	4.7	4,149	(12.0)	3,113	17.4
EBITDA	448	390	14.8	835	(46.4)	438	2.4
Pre-Tax Profit	184	136	35.2	567	(67.6)	178	3.0
Net Profit	120	95	25.8	370	(67.6)	117	2.4
EPS (₹)	1.2	1.0	25.8	3.8	(67.6)	1.2	2.4
Margins (%)							
EBITDA Margin	12.3	11.2		20.1		14.1	
Net Margin	3.3	2.7		8.9		3.8	

Source: Company, DART

Exhibit 2: Revenue Analysis

(₹ Mn)	Q2FY18	Q1FY19	Q2FY19	QoQ(%)	YoY(%)
Gross Box Office	1855	2419	2064	(14.7)	11.3
Food & Beverages	669	1112	950	(14.6)	41.9
Advertising	321	398	380	(4.6)	18.5
Other Operating Revenue	265	216	263	21.9	(0.6)

% Share of Revenue

Gross Box Office	59.6	58.3	56.5
Food & Beverages	21.5	26.8	26.0
Advertising	10.3	9.6	10.4
Other Operating Revenue	8.5	5.2	7.2

Source: Company, DART

Exhibit 3: Operational Metrix

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Footfalls (₹ Mn)	12.8	12.1	12.6	15.6	13.7
YoY growth (%)	0.4	(2.7)	(2.8)	(1.3)	7.2
Occupancy Rate (%)	25	24	26	29	25
YoY growth		(200bps)	(100bps)	(200bps)	0bps
Average Ticket Price (₹)	186	199	193	199	195
YoY growth (%)	2	9	11	3	5
No of Screens	481	488	492	512	536
YoY growth (%)	9	9	5	8	11

Source: Company, DART

Exhibit 4: Estimate Revision

(₹ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	15,564	18,433	21,316	15,626	18,565	21,757	(0.4)	(0.7)	(2.0)
EBITDA	2,537	3,089	3,546	2,567	3,152	3,755	(1.2)	(2.0)	(5.6)
Pre-Tax Profit	1,479	1,920	2,264	1,509	1,984	2,473	(2.0)	(3.2)	(8.4)
Net Profit	991	1,287	1,517	1,011	1,329	1,657	(2.0)	(3.2)	(8.4)
EPS (₹)	10.3	13.4	15.8	10.5	13.8	17.2	(2.0)	(3.2)	(8.4)
Margins (%)									
EBITDA Margin	16.3	16.8	16.6	16.4	17.0	17.3			
Net margin	6.4	7.0	7.1	6.5	7.2	7.6			

Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	12,207	13,481	15,564	18,433
Total Expense	10,759	11,408	13,026	15,345
COGS	4,134	4,417	4,906	5,689
Employees Cost	864	964	1,112	1,318
Other expenses	5,761	6,027	7,008	8,338
EBIDTA	1,448	2,074	2,537	3,089
Depreciation	841	867	860	970
EBIT	607	1,207	1,677	2,118
Interest	253	289	307	307
Other Income	91	145	109	109
Exc. / E.O. items	0	(85)	0	0
EBT	446	977	1,479	1,920
Tax	140	(170)	488	634
RPAT	305	1,147	991	1,287
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	305	1,147	991	1,287

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	962	962	962	962
Minority Interest	0	0	0	0
Reserves & Surplus	4,891	6,061	7,053	8,341
Net Worth	5,852	7,023	8,015	9,302
Total Debt	3,880	3,413	2,672	2,694
Net Deferred Tax Liability	(483)	(790)	(790)	(790)
Total Capital Employed	8,922	9,319	9,570	10,879

Applications of Funds

Net Block	7,654	8,257	9,510	10,735
CWIP	0	0	0	0
Investments	119	136	136	136
Current Assets, Loans & Advances	3,185	3,646	2,994	3,594
Inventories	91	94	64	76
Receivables	466	761	426	505
Cash and Bank Balances	132	150	103	64
Loans and Advances	2,239	2,335	2,179	2,581
Other Current Assets	257	305	222	369
Less: Current Liabilities & Provisions	2,036	2,720	3,070	3,586
Payables	884	1,132	1,492	1,768
Other Current Liabilities	1,152	1,587	1,578	1,818
Net Current Assets	1,150	926	(76)	8
Total Assets	8,922	9,319	9,570	10,879

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	66.1	67.2	68.5	69.1
EBIDTA Margin	11.9	15.4	16.3	16.8
EBIT Margin	5.0	8.9	10.8	11.5
Tax rate	31.4	(17.4)	33.0	33.0
Net Profit Margin	2.5	8.5	6.4	7.0
(B) As Percentage of Net Sales (%)				
COGS	33.9	32.8	31.5	30.9
Employee	7.1	7.1	7.1	7.1
Other	47.2	44.7	45.0	45.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.5	0.3	0.3
Interest Coverage	2.4	4.2	5.5	6.9
Inventory days	3	3	2	2
Debtors days	14	21	10	10
Average Cost of Debt	7.9	7.9	10.1	11.4
Payable days	26	31	35	35
Working Capital days	34	25	(2)	0
FA T/O	1.6	1.6	1.6	1.7
(D) Measures of Investment				
AEPS (₹)	3.2	11.9	10.3	13.4
CEPS (₹)	11.9	20.9	19.2	23.5
DPS (₹)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (₹)	60.8	73.0	83.3	96.7
RoANW (%)	5.1	17.8	13.2	14.9
RoACE (%)	4.8	15.5	11.9	13.9
RoAIC (%)	7.1	13.4	18.0	20.9
(E) Valuation Ratios				
CMP (₹)	217	217	217	217
P/E	68.4	18.2	21.1	16.2
Mcap (₹ Mn)	20,885	20,885	20,885	20,885
MCap/ Sales	3.6	3.0	2.6	2.2
EV	24,633	24,148	23,454	23,515
EV/Sales	2.0	1.8	1.5	1.3
EV/EBITDA	17.0	11.6	9.2	7.6
P/BV	3.6	3.0	2.6	2.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	1.2	10.4	15.4	18.4
EBITDA	(23.9)	43.2	22.4	21.7
EBIT	(45.3)	98.7	39.0	26.3
PBT	(49.6)	119.3	51.5	29.8
APAT	(62.5)	275.4	(13.6)	29.8
EPS	(62.5)	275.4	(13.6)	29.8
Cash Flow				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	1,080	2,111	2,649	2,536
CFI	(1,453)	(1,539)	(1,957)	(2,597)
CFF	244	(540)	(740)	22
FCFF	(451)	519	536	340
Opening Cash	261	118	150	103
Closing Cash	132	150	103	64

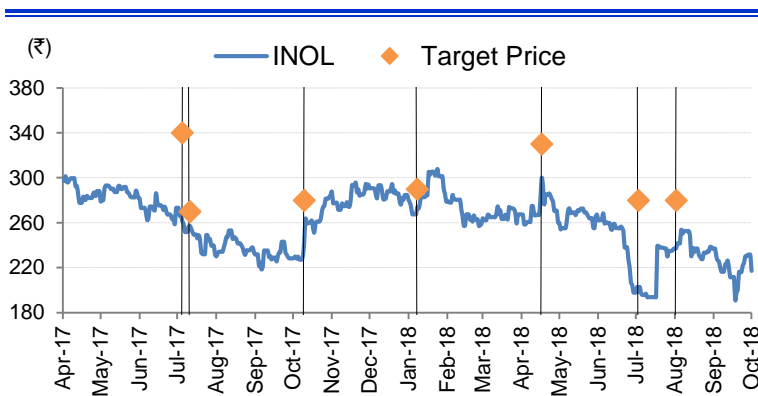
E – Estimates

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 (₹) *
Jul-17	Buy	340	261
Aug-17	Accumulate	270	257
Oct-17	Accumulate	280	244
Jan-18	Accumulate	290	274
May-18	Accumulate	330	300
Jul-18	Buy	280	198
Aug-18	Buy	280	237

* As a Recommended Dated

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