Stock Update

Big growth plans

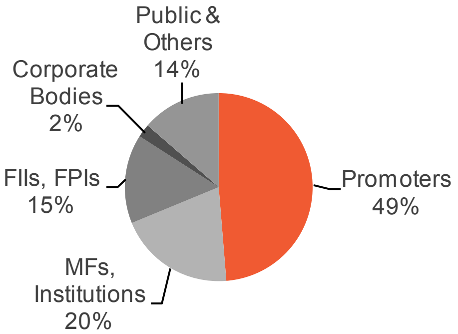
INOX Leisure

Reco: Buy | CMP: Rs222

Company details

Price target:	Rs270
Market cap:	Rs2,143 cr
52-week high/low:	Rs326/190
NSE volume: (No of shares)	2.23 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	5.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	-4.1	-15.5	-17.1
Relative to Sensex	-0.7	1.3	-18.5	-25.1

Key points

We recently met INOX Leisure Limited's (ILL) CFO Mr. Kailash B Gupta to discuss the company's expansion strategy and the management outlook on F&B and advertisement revenues going forward. We also discussed on the objective of recent fund raising (Rs. 160 crore) from its promoters.

- **Screen addition set to accelerate further:** INOX Leisure Limited's (ILL) new screen addition picked-up during YTD FY2019 with the addition of 53 screens compared to slower new screen addition (48/24 in FY2017/FY2018) over last couple of years citing on the regulatory hurdles. The management believes that total new screen addition would cross 60+ by 9MFY2019 and would reach around 80 by the end of FY2019. The management also remains optimistic that the company would add around 100 new screens per annum for next five years considering a robust pipeline of 800 screens which it has signed across the country. Around 45-50% of upcoming new screens will be located at top eight cities of India and will have the pricing power, while the remaining new screen addition will be in tier-I and tier-II cities. Given Rs. 3 crore cost per screen, the company expects to incur a capex of around Rs 2,400 – Rs. 2,500 crore for the addition of screens lined-up over the next few years. The capex would be funded through the combination of debt (net debt to equity stood at 0.38x, which would reduce to 0.15x post fund raising and retirement of inter corporate deposit) and internal accruals.

- **Expects an uptrend in SPH in FY19, while overall F&B margins likely to decline marginally:** The spend per head (SPH) in F&B segment increased 15.4% y-o-y in 1HFY19 and the management expects double digit growth in SPH to continue in the second half of 2019. For FY2019, the growth in SPH is expected at around 10% y-o-y. The management does not see any material impact on the growth of F&B segment in medium-to-long term given its initiatives like extended menu at its cinema halls and higher conversion rate, though the matter relating to preventing outside food in cinema halls is sub-judice in Supreme Court. However, the company slashed its rates on food items only in Maharashtra during Q2FY19. The management also highlighted that the overall F&B margins would decline to the extent of 200bps in FY2019 considering low-margin food items introduced in the menu.

- **Fund raising neutral for earnings, gives comfort on promoters increasing stake:** The ILL board recently approved issuance of 64 lakh equity shares at Rs 250 each aggregating to Rs 160 crores to its promoter at a decent premium to current market price. Effectively, the promoters' stake in the company will increase to 51.32% from the existing stake of 48.09%. The objective of the fund raising is to square off 10% interest bearing inter corporate deposit (ICD), which will result in mitigating the investors' community concerns on higher interest outgo to promoter entity. We believe that this equity infusion would have a neutral impact on the earnings in FY2020E, post 6.6% dilution of equity.

- **Advertisements growth momentum to continue**: For the last six consecutive quarters, ILL has been delivering double digit growth in its advertisement segment. The management sounded confident that the growth momentum in ad revenue would continue going forward on account of a) rate revision of 3-5% every year, b) addition of new properties (8-10%) and c) traction in new advertisement avenues (offline, LED, lobby space, TV, etc). ILL's management aims to increase the contribution of new advertisement avenues from 10% of total ad revenues to 20% to total ad revenues in coming years. The company primarily focuses on high-end local and regional advertisers with a conscious intention to restrict its volumes around 14-15 minutes.

- **Retain Buy with a revised PT of Rs. 270:** ILL fund raising program from its promoters to retire high cost debt, provides ample scope for further leverage to cost the accelerated expansion plans. Additionally, monetization of real estate (Rs350 crore) and treasury shares (around Rs 90 crore) , gives the company enough fire power to go for bigger acquisitions. We derive comfort from increase in promoters' stake via equity infusion and expect ILL to continue its earnings momentum. With F&B issues subsides and increase promoter's stake, we are increasing our target multiple and arrive at a revised TP of Rs270. We maintain our BUY rating on the stock.

Valuation Rs cr

Particulars	FY16	FY17	FY18	FY19E	FY20E
Revenue	1,161	1,238	1,348	1,537	1,790
EBITDA Margin (%)	16.3	13.2	15.6	15.0	15.5
Net Profit	81	31	61	80	103
EPS (Rs)	8.8	3.3	6.6	8.7	11.2
PER (x)	25.2	66.7	33.5	25.5	19.9
P/BV (x)	3.9	3.7	3.0	2.7	2.4
EV/EBITDA (x)	12.5	14.7	11.6	10.1	8.0
ROE (%)	15.5	5.5	9.1	10.7	12.1
ROCE (%)	13.0	8.1	12.6	13.0	14.8

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