Stock Update

GST cut to accelerate growth

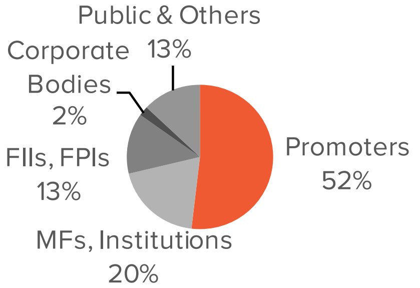
INOX Leisure

Reco: Buy | CMP: Rs244

Company details

Price target:	Rs270
Market cap:	Rs2,513 cr
52-week high/low:	Rs326/190
NSE volume: (No of shares)	2.31 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	17.9	7.8	-5.6	-14.8
Relative to Sensex	16.3	10.1	-5.6	-19.5

Key points

- **GST cut on movie tickets likely to give impetus to industry:** In the Goods and Services Tax (GST) Council meeting held on December 22, 2018, the government has reduced the GST rate on cinema tickets costing more than Rs. 100 to 18% from 28% and for tickets below Rs. 100 to 12% from 18%. The new GST rates are likely to be implemented from January 1, 2019. With the pass on the benefits of the reduced GST rates on cinema tickets to customers, the net ATP (average ticket prices) would be reduced by 7-9%. Effectively, this would provide the flexibility to the exhibitors to take higher ticket price hikes based on the performance of the content.

- **Likely to provide flexibility in pricing mechanism:** INOX Leisure's (ILL) management mentioned that the company would fully pass-on the benefits of lower GST to customers. Lower ticket price would attract more footfalls along with the growth of its F&B revenues (increased conversion rate) and advertisement revenues (led by higher eyeballs). Importantly, the management highlighted that the lower ATP (owing to new GST rate) would provide the elasticity to take higher annual hike (around 8-10%) in the ticket price in April 2019 against the usual annual rate hike of 4-5%.

- **Q3FY19 preview: expect strong revenue growth:** During Q3FY2019E, we expect ILL to deliver strong revenue growth of 15.3% y-o-y to Rs. 376 crore, led by 20% y-o-y increase in net box office revenues (led by 17% y-o-y increase in footfalls and 2.9% y-o-y increase in ATPs) and 18% y-o-y increase in advertisement revenues. Though big starrer movies like "Thugs Of Hindostan" and "Zero" did not perform well in the box office during the quarter, "2.0" and small budget movies like "Badhaai Ho" suppressed the expectation in terms of box office collection. Operating profit margins is expected to decline 100bps y-o-y and improve 90bps q-o-q to 13.2% in Q3FY2019E. The company has recently raised Rs 160 crores from the promoters with the objective to reduce the debt level of the company. Effectively, this would reduce the interest expenses (Rs. 16 crore per annum) going ahead. We expect net profit of the company to grow by 12% y-o-y to Rs. 14.7 crore in Q3FY2019.

- **Retain Buy with an unchanged PT of Rs. 270:** The reduction of GST on cinema tickets is expected to have a positive impact on ILL given the anticipated pick-up in footfalls on account of lower ticket price and the room for taking higher annual hike in ticket prices (during April 2019). We have considered the usual inflation-linked hike for FY2020, as we are uncertain on the quantum of additional price hike given possibilities of marginal increase in footfalls (despite lower ticket price). However, we believe potential monetization of real estate (Rs350 crore) and treasury shares (around Rs 90 crore) provides the company enough fire power to go for bigger acquisitions. Given anticipated strong revenue growth in Q3FY2019 along with the accelerated expansion plan (a robust pipeline of 800 screens), we maintain our BUY rating on the stock with an unchanged PT of Rs. 270.

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)	27.7	73.3	36.8	28.0	21.8
P/BV (x)	4.3	4.1	3.3	3.0	2.6
EV/EBITDA (x)	13.6	16.0	12.6	11.0	8.8
ROE (%)	15.5	5.5	9.1	10.7	12.1
ROCE (%)	13.0	8.1	12.6	13.0	14.8

Q3FY2019E preview

Quarter Ended	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	
Net Sales	375.8	325.9	15.3	365.3	2.9	• The revenue growth would be driven by 17% y-o-y increase in footfalls and 18% y-o-y growth in ad revenues.
Operating Profit	49.6	46.3	7.1	44.8	10.7	
Adjusted net profit	14.7	13.2	11.6	12.0	23.1	
EPS (Rs.)	1.4	1.4	4.3	1.2	15.1	• Occupancy rate likely to be at 26%
			bps		bps	
OPM (%)	13.2	14.2	(101)	12.3	94	• Small budget movies beat the expectations in terms of box office collection
NPM(%)	3.9	4.1	(13)	3.3	65	• Net profit is expected to grow 12% y-o-y

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