Stock Update

Soft Q1, long-term outlook remains intact

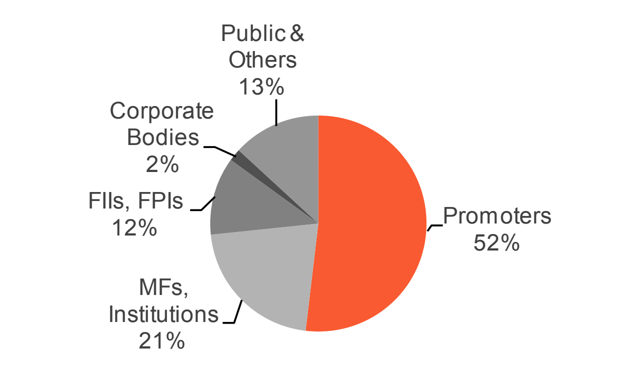
Inox Leisure

Reco: Buy | CMP: Rs329

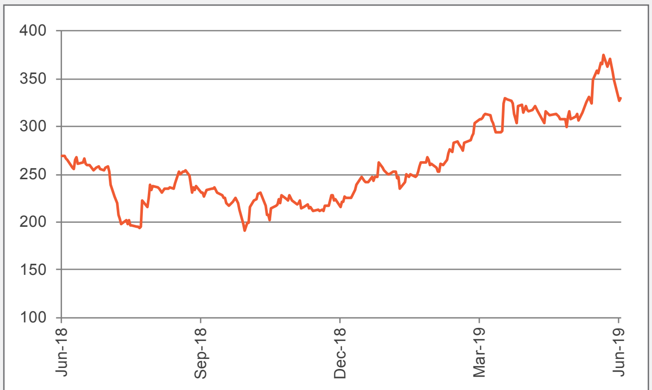
Company details

Price target:	Rs390
Market cap:	Rs3,388
52-week high/low:	Rs383/190
NSE volume: (No of shares)	2.6 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	7.4	7.8	50.5	20.9
Relative to Sensex	0.9	-0.9	31.7	6.5

Key points

We met INOX Leisure Limited's (ILL) CFO Mr. Kailash B Gupta on its screen expansion strategy and the management outlook on growth rates in average ticket price (ATP), F&B and advertisement revenues in FY2020E. We also discussed the impact on lease accounting due to the implementation of AS 116, effective from April 2019.

- **Growth momentum to be moderated in Q1FY2020E:** ILL's revenue growth on y-o-y basis is expected to moderated in Q1FY2020E compared to both Q1FY2019 and Q4FY2019 despite Q1 being a seasonally strong quarter, owing to lower number of quality contents (Avenger End Game, Maharshi, Bharat) during the quarter and higher revenue base of Q1FY2019 (owing to movies like Avengers: Infinity War, Raazi, Race3, Baaghi 2, and Jurassic World: Fallen Kingdom, etc). Initiatives like cricket world cup screening during the quarter would aid the revenue growth to some extent considering its ticket price is 3x of the normal ticket price, though it is being exhibited only in 25 screens.
- **Pace of screen addition to continue:** The management indicated that the pace of screen addition would continue in FY2020E, expect addition of 80 screens (85 screens added in FY2019) with a capex of Rs. 300-330 crore. The capex would be funded through internal accruals. The company plans to add 25, 10, 25 and 20 screens in Q1FY2020E, Q2FY2020E, Q3FY2020E and Q4FY2020E respectively. The ILL management focuses on adding more screens in the premium segment along with lower seating capacity per screen and prime locations, which would help in improving the blended ATP and occupancy rate. The management believes that an addition of 100 screens per year with an average occupancy rate in the range of 26-29% for next 2-3 years can be possible.
- **Operating metrics are expected to improve going ahead:** ILL added 85 screens (highest screen opening for the industry in a year) during FY2019 and also reported highest ad-revenue growth rate for the industry for eight consecutive quarters. The management guided that FY2020E ATP growth is expected to be at high single-digit (no price hike taken in last six months, likely to take price hike of 6-7% post Q2FY2020E), while the SPH growth is expected to accelerate on account of introduction of new menu lists and anticipation of higher conversion. Ad revenue growth rates

will be driven by new screen addition, increase in volume and annual rate hike of 5-6%. However, we expect the ad revenue growth momentum in FY2020E to taper off against the ad revenue growth in FY2019 (27% y-o-y) and FY2018 (45% y-o-y).

- **AS 116 lease accounting, to enhance EBITDA, however to have an adverse impact at PAT level:** The management highlighted that the company will be adopting AS 116 from the current financial year (AS 116 to have a bearing on the entire industry). Under AS 116, operating leases will now be classified as financial leases, hence the entire rent of properties upto the agreement tenure will be accounted as an under gross block on the asset side with corresponding impact as debt on the liabilities side of the balance sheet. Hence the rent earlier charged to P&L will now be charged to P&L as depreciation & amortisation and interest. This will result in higher profitability at EBITDA level and have an adverse impact at the PAT level. The management has stated that had the AS116 been implemented in FY2019 the impact on EBITDA would be ~Rs 250 crore favourable and adverse ~Rs 50 crore at PAT level, also the asset and liability side would have increased by ~ Rs 2000 crores. The company will provide comparable figures for the next four quarters.

- **Maintain Buy with a revised PT of Rs 390:** We have fine-tuned our earnings estimates for FY2020E and FY2021E given the management's confidence on number of screens addition and its guidance on growth rate in ATPs in FY2020E. We remain positive on Inox Leisure as it has a strong balance sheet (net-debt free) along with healthy cash-flow generation profile. Further, ILL's treasury shares (Rs 142 crores at CMP) along with non-core assets (valued at Rs 350 crores) represent around 15% of its current market capitalisation. Given the increasing footfalls monetisation efforts and higher screen openings, we expect the company to report healthy revenue and earnings CAGR of 18% and 16% respectively over FY19-21E. Hence, we maintain our BUY rating on the stock with a revised PT of Rs 390.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E
Total revenue	1,348	1,692	1,977	2,343
EBITDA margin (%)	15.6	18.3	17.2	17.6
Adjusted net profit	123	138	147	186
Adjusted EPS* (Rs.)	12.8	14.1	14.9	18.9
PER (x)	25.7	23.4	22.1	17.4
P/BV (x)	4.5	3.1	2.7	2.3
EV/EBITDA	16.3	11.1	9.7	7.4
ROE (%)	18.4	14.4	13.2	14.3
ROCE (%)	13.4	20.9	19.7	21.2

*Treasury shares excluded while calculating EPS
Source: Company, Sharekhan Research

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