

Stupendous performance!!!

Inox Leisure's Q2FY20 performance was ahead of expectations with higher-than-expected footfall driving the revenues beat, which percolated to superior EBITDA and bottomline. Footfalls grew 39% YoY to 19 million (mn) (also aided by relatively benign footfall base on account of BMS exit in Q2FY19) driving the net box office revenues growth of 50.7% YoY at ₹ 311 crore and F&B, which grew 48.6% to ₹ 141 crore with SPH at ₹ 79, up 8.2%. Ad revenues grew 5% to ₹ 40 crore, a tad better than our expectation of 2% YoY growth. EBITDA (without impact of Ind-AS 116) came in at ₹ 103 crore, ahead our estimates of ₹ 91 crore. Margins of 19.8% were also above our estimates of 18.7%, driven by operating leverage from superior topline growth. On a reported basis, EBITDA was at ₹ 167.8 crore, with margins of 32.3%, ahead of our estimates. PAT (without impact of Ind-AS 116) came in at ₹ 51 crore, a staggering growth of 326% YoY. Reported PAT at ₹ 35.1 crore was also higher than our expectations.

Content pipeline remains strong; screen adds to be lower

Q2 marked all-time highest box office collection quarter led by six films namely *Mission Mangal*, *The Lion King*, *Super 30*, *Chhichhore*, *Saaho* and *Dream Girl* collecting ₹ 100+ crore. The content slate, going forward, is also encouraging with movies such as *Housefull 4*, *Dabangg 3*, *Bala*, *Chhapaak*, *Tanhaji*, etc, which should drive healthy box office collections ahead. We highlight that given the delays in licenses, the company lowered its screen addition guidance to 71 screens vs. 80 screens earlier, while we bake in 65 and 70 screen addition for FY20E and FY21E, respectively. Consequently, we build in healthy footfalls growth of 13% CAGR in FY19-21E to 80 million coupled with and 2% CAGR in ATP (muted owing to effect of GST cut) to lead to 18.5% FY19-21E CAGR in the net box office revenues to ₹ 1370 crore. The F&B tracking strong footfall and improving SPH is likely to clock 21.9% CAGR in FY19-21E. We bake in conservative 11% CAGR in ad revenues over FY19-21E, on a healthy base.

MAT credit available; call on new tax transition by FY20 end

The management said that given that they have ₹ 21 crore MAT credit available, they have continued the old taxation regime wherein cash payout of tax is still lower (~30%) than full rate of 34.9%. The management also added that they continue to evaluate options and would take a decision to transition to new rate by the end of FY20. Correspondingly, we have made changes in our P&L estimates and revert to the old tax rate.

Valuation & Outlook

Inox continues to deliver industry leading growth across metrics. We remain constructive on Inox with multiplexes poised for strong growth ahead. We maintain our **BUY** recommendation and value it at 9.5x FY21E EV/EBITDA – ex-Ind-AS (~30% discount to PVR target multiple of 13.5x EV/EBITDA) to arrive at revised target price of ₹ 435/share.

Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Total Operating Income (₹ crore)	1,220.7	1,348.1	1,692.2	2,006.9	2,352.7	17.9
EBITDA (₹ crore)	144.8	209.2	308.3	617.1	759.5	56.9
Net Profit (₹ crore)	30.6	114.6	133.5	108.0	169.6	12.7
EPS (₹)	3.2	11.9	13.0	10.5	16.5	
P/E (x)	118.1	31.5	28.9	35.7	22.7	
Price / Book (x)	6.5	5.4	4.0	5.4	4.5	
EV/EBITDA (x)	28.7	19.7	12.8	10.1	8.3	
RoCE (%)	7.3	13.2	19.6	11.7	14.0	
RoE (%)	5.5	10.6	14.2	15.1	19.7	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization (₹ Crore)	3,856.6
Total Debt (FY19) (₹ Crore)	110.0
Cash (FY19) (₹ Crore)	13.7
EV (₹ Crore)	4,121.1
52 week H/L	385 / 190
Equity Capital (₹ crore)	96.2
Face value	10.0

Key Highlights

- Q2 marked all-time highest box office collection quarter led by six films viz. *Mission Mangal*, *The Lion King*, *Super 30*, *Chhichhore*, *Saaho* and *Dream Girl* collecting ₹ 100+ crore
- The content slate, going forward, is also encouraging with movies like *Housefull 4*, *Dabangg 3*, *Bala*, *Chhapaak*, *Tanhaji*, etc, which should drive healthy box office collections ahead
- Maintain BUY with revised target price of ₹ 435/share

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Exhibit 1: Variance Analysis

	Q2FY20E	Q2FY20E	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Comments
Revenue	519.9	484.0	365.3	493.0	42.3	5.5	Topline beat led by superior footfalls driving net box office and F&B revenues
Other Income	4.4	4.0	3.8	3.1	17.0	41.9	
Employee Expenses	37.3	33.4	27.9	35.1	33.9	6.4	
Exhibition Cost	139.1	128.6	95.1	129.9	46.2	7.1	
Cost of F&B	34.5	33.4	25.3	33.3	36.4	3.8	
Rent	32.2	31.4	75.7	30.2	-57.5	6.6	
Other Expenses	109.0	108.5	96.5	114.5	13.0	-4.8	
EBITDA	167.8	148.7	44.8	150.1	274.6	11.8	EBITDA beat led by operating leverage of higher topline
EBITDA Margin (%)	32.3	30.7	12.3	30.4	2000 bps	182 bps	
Depreciation	64.5	61.0	23.4	60.8	175.7	6.1	
Interest	54.2	51.7	6.8	50.9	700.9	6.6	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	18.3	14.0	6.4	14.5	185.3	25.9	
PAT	35.1	26.0	12.0	27.0	193.7	30.2	
Key Metrics							
Footfalls	19.0	17.8	15.6	18.0	21.6	5.6	
Occupancy	30.0	29.0	29.0	31.0	3.5	-3.3	
SPH	79.0	80.0	76.0	73.0	3.9	8.2	
ATP	196.0	195.0	199.0	189.0	-1.5	3.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,975.6	2,006.9	1.6	2,305.5	2,352.7	2.0	Realign estimates after H1FY20 performance
EBITDA	605.4	617.1	1.9	732.4	759.5	3.7	
EBITDA Margin (%)	30.6	30.7	15 bps	31.8	32.3	48 bps	
PAT	122.8	108.0	-12.0	182.0	169.6	-6.8	We now revert back to old tax rate
EPS (₹)	12.0	10.5	-12.0	17.7	16.5	-6.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			
	FY17	FY18E	FY19E	FY20E	FY21E	FY20E	FY21E	
Footfalls (mn)	53.7	53.3	62.6	70.8	80.0	68.1	76.6	
Occupancy (%)	28.0	26.6	28.4	29.3	31.0	28.4	29.1	
SPH (₹)	61.9	66.6	74.0	80.9	86.1	82.4	85.8	
ATP (₹)	172.4	192.7	197.0	197.1	205.0	196.4	204.3	

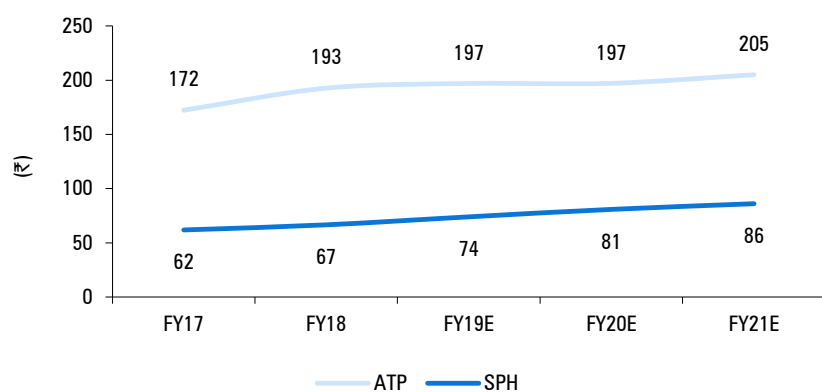
Source: Company, ICICI Direct Research

Conference Call Highlights

- **MAT credit available; call on new tax transition by FY20 end:** The management said that given that they have ₹ 21 crore MAT credit available, they have continued the old taxation regime wherein cash payout of tax is still lower (~30%) than full rate of 34.9%. The management also added that they continue to evaluate options and would take a decision to transition to new rate by the end of FY20
- **Delay in license leads to lower screen addition guidance; capex guidance at ₹ 250 crore in FY20;** We highlight that the company has now lowered its screen guidance to 71 screens vs. 80 screens earlier, as delay in licences have led to some deferral in screen addition. Consequently, the company lowered its capex guidance to ₹ 250 crore (vs. ₹ 275 crore, earlier). The capex for H1FY20 was at ₹ 100 crore. They also maintained that they have a clear visibility of 80+ screen addition ahead for the next two years, thereafter, as most of those properties are in fitment/completion stages. In terms of geographical spread, ~50-55% of the screen portfolio is in Metro and Tier one cities, while remaining are in Tier II/III cities
- **Macroeconomic slowdown impacts ad growth; guides for double digit growth in FY20:** The management indicated that muted ad growth was due to challenging macroeconomic conditions, which impacted key verticals like auto, real estate and BFSI wherein lower ad volumes were demanded by advertisers. The management, however, remained hopeful of ad recovery led by festivities and strong content slate. They guided for double digit growth in FY20
- **To add properties across premium formats, going ahead:** As per the management, 52 out of 598 screens (~8.7% of total screens) are premium in nature. Going ahead also, they would maintain the similar ratio of premium screen portfolio. The company recently converted an existing property in Mumbai into a Megaplex. The next Megaplex is slated to be launched in Lucknow. The company would also continue to add screens in premium formats such as Insignia, IMAX, MX4D, ScreenX, etc.
- **Other highlights:**
 - Inox declared its maiden Interim dividend of ₹ 1/share. The company also guided for continued dividend payouts on the back of debt free balance sheet and FCF generation
 - The company is planning to launch a loyalty programme for its customers soon. The detail/structure of the same was not shared in the call
 - The company guided that enough room remains on key metrics such as SPH, ad and, therefore, margin expansion, going ahead. They guided for SPH growth of 9-10% in the medium term
 - IRR target of new property is ~15%
 - In terms of language breakup: Q2 films slate collection was in the ratio of 68:13:19 for Hindi/English/regional movies, respectively
 - The distributor share was lower (44.7% vs. 46.1% in Q2FY19) given the longer run of the hit movies

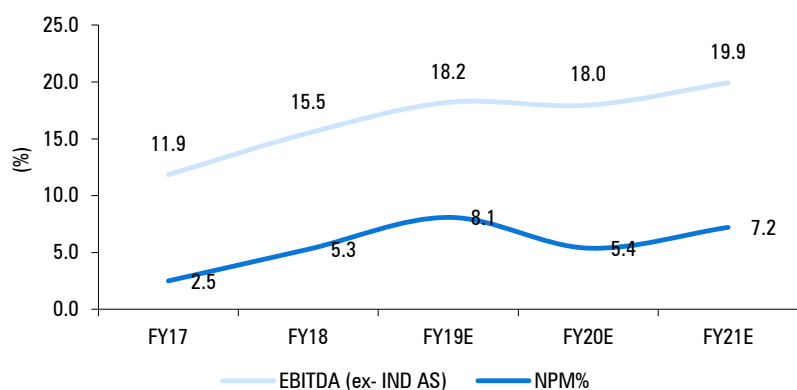
Financial story in charts

Exhibit 4: ATP and SPH trend



Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and PAT margin trend



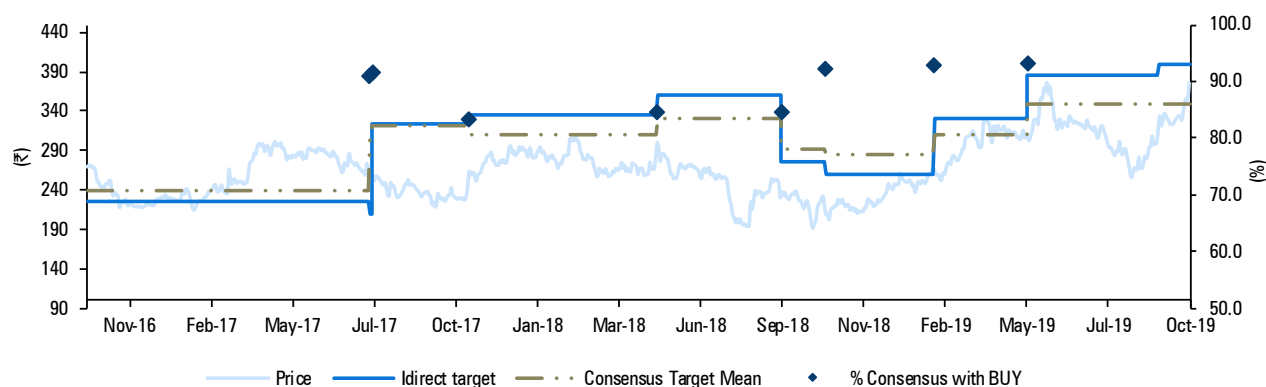
Source: Company, ICICI Direct Research

Exhibit 6: Excerpt of P&L (excluding Ind-AS 116)

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	1,348.1	1,692.2	2,006.9	2,352.7
Growth (%)	10.4	25.5	18.6	17.2
Employee Expenses	96.4	115.2	147.5	171.7
Exhibition Cost	367.3	444.2	524.4	616.3
Cost of F&B	74.4	112.5	136.7	174.8
Rent	203.9	302.3	389.4	450.8
Other Expenses	397.0	409.7	448.5	470.0
Total Operating Expenditure	1,138.9	1,383.8	1,646.4	1,883.6
EBITDA	209.2	308.3	360.5	469.2
Margin (%)	15.5	18.2	18.0	19.9

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

S No.	Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1	Inox Group of Companies	30-09-2019	51.4	52.79M	0.0
2	HDFC Asset Management Co., Ltd.	30-09-2019	7.9	8.08M	+1.72M
3	Inox Benefit Trust	30-09-2019	4.2	4.35M	0.0
4	Sundaram Asset Management Company L	30-09-2019	4.1	4.20M	+0.98M
5	DSP Investment Managers Pvt. Ltd.	30-09-2019	2.0	2.09M	0.0
6	Aditya Birla Sun Life AMC Limited	30-09-2019	2.0	2.07M	-0.62M
7	Taiyo Pacific Partners LP	30-06-2019	1.7	1.71M	-0.08M
8	BNP Paribas Asset Management India Pvt	30-09-2019	1.5	1.54M	+0.33M
9	Reliance Nippon Life Asset Management I	30-09-2019	1.4	1.45M	-1.49M
10	Dimensional Fund Advisors, L.P.	31-08-2019	1.2	1.24M	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
HDFC Asset Management Co., Ltd.	+8.03M	+1.72M	Reliance Nippon Life Asset Management Limited	-6.97M	-1.49M
Sundaram Asset Management Company Limited	+4.59M	+0.98M	Aditya Birla Sun Life AMC Limited	-2.90M	-0.62M
Mackenzie Financial Corporation	+1.58M	+0.33M	AllianceBernstein L.P.	-0.74M	-0.19M
BNP Paribas Asset Management India Pvt. Ltd.	+1.55M	+0.33M	Taiyo Pacific Partners LP	-0.38M	-0.08M
HSBC Global Asset Management (India) Private Limited	+0.73M	+0.16M	Essel Finance AMC Limited	-0.36M	-0.08M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	48.70	51.89	51.89	51.89	51.89
FII	14.99	12.06	11.27	12.19	12.17
DII	20.07	20.96	21.36	21.32	20.72
Others	16.24	15.09	15.48	14.60	15.22

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	1,348.1	1,692.2	2,006.9	2,352.7
Growth (%)	10.4	25.5	18.6	17.2
Employee Expenses	96.4	115.2	147.5	171.7
Exhibition Cost	367.3	444.2	524.4	616.3
Cost of F&B	74.4	112.5	136.7	174.8
Rent	203.9	302.3	132.8	160.4
Other Expenses	397.0	409.7	448.5	470.0
Total Operating Expenditure	1,138.9	1,383.8	1,389.8	1,593.3
EBITDA	209.2	308.3	617.1	759.5
Growth (%)	44.5	47.4	100.1	23.1
Depreciation	86.7	95.5	253.1	284.4
Interest	28.9	23.7	213.9	232.5
Other Income	14.5	14.9	15.5	16.0
Exceptional Items	10.4	5.0	0.0	0.0
PBT	97.7	199.1	165.6	258.5
Total Tax	-17.0	65.6	57.6	88.9
PAT	114.7	133.5	108.0	169.6
Adjusted PAT	71.3	136.8	108.0	169.6
Growth (%)	132.9	92.0	-21.0	57.0
Adj EPS (₹)	7.4	13.3	10.5	16.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	96.2	102.6	102.6	102.6
Reserve and Surplus	606.1	893.9	646.0	791.8
Interest in benefit trust	(32.7)	(32.7)	(32.7)	(32.7)
Total Shareholders funds	669.6	963.8	715.9	861.7
Total Debt	291.9	110.0	80.0	80.0
Others	77.8	85.4	2,461.1	2,574.8
Total Liabilities	1,039.3	1,159.2	3,257.0	3,516.5
Assets				
Total Fixed Assets	825.6	986.2	1,142.8	1,302.8
Investments	13.6	1.2	1.2	1.2
Rights of Use Assets	0.0	0.0	1,706.6	1,745.0
Debtors	76.1	88.2	104.5	122.5
Inventory	9.4	12.2	14.5	16.9
Loans and Advances	80.1	94.4	112.0	131.3
Other Current Assets	24.6	26.9	31.9	37.4
Cash	15.0	13.7	71.9	153.0
Total Current Assets	205.2	235.4	334.7	461.0
Total Current Liabilities	245.5	319.5	378.8	444.1
Net Current Assets	-40.2	-84.2	-44.1	17.0
Other Non Current Assets	240.4	256.1	450.5	450.5
Application of Funds	1,039.3	1,159.2	3,257.0	3,516.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
PAT	114.7	133.5	108.0	169.6
Add: Depreciation	86.7	95.5	253.1	284.4
Add: Interest Paid	28.9	23.7	213.9	232.5
(Inc)/dec in Current Assets	-39.8	-31.5	-41.1	-45.3
Inc/(dec) in CL and Provisions	57.0	74.1	59.3	65.3
CF from operating activities	247.4	295.2	593.3	706.5
(Inc)/dec in Investments	-1.7	11.8	0.0	0.0
(Inc)/dec in Fixed Assets	-147.0	-256.0	-265.0	-280.0
Others	-45.3	-7.5	329.8	-89.1
CF from investing activities	(194.0)	(251.7)	64.8	(369.1)
Issue/(Buy back) of Equity	0.0	6.4	0.0	0.0
Inc/(dec) in loan funds	-25.1	-181.9	-30.0	0.0
Less: Interest Paid	28.9	23.7	213.9	232.5
Others	-55.3	106.9	-783.7	-488.9
CF from financing activities	(51.5)	(44.9)	(599.8)	(256.4)
Net Cash flow	1.9	-1.4	58.3	81.1
Opening Cash	13.2	15.0	13.6	71.9
Closing Cash	15.0	13.6	71.9	153.0

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	11.9	13.0	10.5	16.5
Adj EPS	7.4	13.3	10.5	16.5
BV	69.6	94.0	69.8	84.0
DPS	0.0	0.0	1.2	2.3
Cash Per Share	1.6	1.3	7.0	14.9
Operating Ratios (%)				
EBITDA Margin	15.5	18.2	30.7	32.3
PBT / Net Sales	9.1	12.6	18.1	20.2
PAT Margin	5.3	8.1	5.4	7.2
Inventory days	2.5	2.6	2.6	2.6
Debtor days	20.6	19.0	19.0	19.0
Creditor days	30.7	34.4	34.4	34.4
Return Ratios (%)				
RoE	10.6	14.2	15.1	19.7
RoCE	13.2	19.6	11.7	14.0
RoIC	14.8	22.2	32.5	36.9
Valuation Ratios (x)				
P/E	31.5	28.9	35.7	22.7
EV / EBITDA	19.7	12.8	10.1	8.3
EV / Net Sales	3.1	2.3	3.1	2.7
Market Cap / Sales	2.9	2.3	1.9	1.6
Price to Book Value	5.4	4.0	5.4	4.5
Solvency Ratios				
Debt/EBITDA	1.4	0.4	0.1	0.1
Net Debt / Equity	0.4	0.1	0.1	0.1
Current Ratio	1.4	1.2	1.2	1.2
Quick Ratio	1.3	1.1	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
ENIL (ENTNET)	270	445	Hold	1,287	11.3	10.7	14.5	23.9	25.3	18.7	8.1	5.7	4.3	6.2	9.0	8.3	3.5	5.8	5.4
Inox Leisure (INOX)	376	435	Buy	3,857	13.0	10.5	16.5	28.9	35.7	22.7	12.8	6.3	5.0	13.2	19.6	11.7	10.6	14.2	15.1
Music Broadcast (MUS)	32	53	Hold	885	2.2	2.0	2.4	14.4	16.3	13.5	5.7	5.4	4.6	16.5	14.0	16.6	10.2	8.2	9.9
PVR (PVRLIM)	1,820	2,100	Buy	8,503	39.2	25.8	42.8	46.4	70.5	42.5	16.6	8.0	6.9	14.7	13.8	9.8	11.5	14.8	14.7
Sun TV (SUNTV)	520	520	Hold	20,492	36.4	40.7	43.3	14.3	12.8	12.0	6.8	6.8	5.8	35.5	38.5	32.1	24.2	25.9	24.5
TV Today (TVTNET)	316	380	Buy	1,885	22.0	24.1	31.7	14.4	13.1	10.0	8.0	7.4	5.9	30.4	26.2	28.7	19.3	16.9	18.4
ZEE Ent. (ZEEENT)	242	220	Reduce	23,242	16.1	19.5	22.0	15.0	12.4	11.0	8.2	7.8	6.6	25.6	25.7	24.5	15.3	15.7	17.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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