

Inox Leisure (INOL IN)

Rating: BUY | CMP: Rs354 | TP: Rs416

October 23, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	416		394	
Sales (Rs. m)	23,888	27,484	22,295	25,653
% Chng.	7.1	7.1		
EBITDA (Rs. m)	7,448	8,675	7,188	8,421
% Chng.	3.6	3.0		
EPS (Rs.)	16.1	19.9	17.3	22.3
% Chng.	(7.1)	(10.9)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	16,922	20,721	23,888	27,484
EBITDA (Rs. m)	3,092	6,414	7,448	8,675
Margin (%)	18.3	31.0	31.2	31.6
PAT (Rs. m)	1,393	1,218	1,649	2,038
EPS (Rs.)	13.6	11.9	16.1	19.9
Gr. (%)	3.4	(12.6)	35.4	23.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	13.9	22.9	23.7	22.6
RoCE (%)	20.6	12.7	14.0	15.4
EV/Sales (x)	2.2	2.9	2.4	2.1
EV/EBITDA (x)	12.0	9.3	7.8	6.5
PE (x)	26.1	29.8	22.0	17.8
P/BV (x)	3.8	6.8	5.2	4.0

Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.383 / Rs.200
Sensex / Nifty	39,059 / 11,604
Market Cap	Rs.36bn / \$ 513m
Shares Outstanding	103m
3M Avg. Daily Value	Rs.148.85m

Shareholding Pattern (%)

Promoter's	52.10
Foreign	12.17
Domestic Institution	21.18
Public & Others	14.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.2	12.1	70.1
Relative	6.2	10.7	47.4

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Blockbuster quarter

Quick Pointers:

- Footfalls increased 39% YoY to 19mn (Highest ever quarterly footfalls witnessed since 1QFY15). Gross ATP was flat at Rs196. Gross SPH increased 8.2% YoY to Rs79.
- As of 30th Sep 2019, the right to use asset & liability capitalization figures were Rs18.2bn and Rs23.7bn respectively.
- During 1HFY20, 27 screens have been added while 44 more are expected to be added in 2HFY20.

We increase our revenue/EBITDA estimates by 7%/5% for FY20 and 7%/4% for FY21 given strong beat during the quarter & healthy movie pipe-line for 2HFY20 amid upcoming festivities. However, we cut our PAT estimates by 2%/7% for FY20/21 as Inox has decided to pay tax at a higher tax rate of ~35% to 1) avail benefits of section 80IA and 2) utilize unabsorbed MAT credit of Rs210mn. The decision to migrate to the new tax regime will be taken by end of March 2020 depending upon which option is more profitable. This was an excellent quarter for Inox with top-line increasing 42.3% YoY to Rs5,199mn (PL of Rs4,095mn) buoyed by strong content (4/5 movies crossed Rs1bn in box office collections). Ind-AS adjusted EBITDA margin expanded 750bps YoY to 19.8%. Given 1) strong number 2 position in film exhibition market (~21% screen market share) 2) renewed focus on premium format screens (~9% of screen mix; aim to take it to ~10-12%) and 3) aggressive screen addition plans (44 screens are expected to be opened in 2HFY20) we expect sales/Ind-AS adjusted EBITDA to grow at a CAGR of 19%/22% over FY19-21E. We assign EV/EBITDA multiple of 8.7x (earlier 8.5x) to our FY21E EBITDA of Rs7.4bn and arrive at a TP of Rs416 (earlier Rs394). Retain BUY.

Con-call highlights: 1) Target is to add 71 screens and end FY20 with a total of 642 screens 2) Ad revenue growth is expected to be in double digit in FY20. Growth was somber in 2QFY20 due to slowdown in auto, real estate and BFSI 3) Capex for FY21 is expected to be Rs2.5bn (Rs1bn has already been incurred till date) 4) Premium screen count stands at 52 5) In 2QFY20, Hindi genre contributed 68%, English contributed 13% while balance 19% was from regional languages 6) Globally, there is 12-week window before a movie gets released on any alternative platform. In India, the window is 8 weeks 7) Inox is considering to implement some loyalty program to get repeat footfalls (details will be out soon) 8) 55-60% of the 44 screens expected to be opened in 2HFY20 are awaiting license approvals 9) Declared a maiden interim dividend of Rs1 per share 10) Cash tax rate is ~30%.

Strong revenue & margin performance: Top-line increased 42.3% YoY to Rs5,199mn. Revenues from NBOC, F&B and advertising were up 50.7% YoY, 48.6% YoY and 5.8% YoY respectively. As of 2QFY20, number of properties, screens and seats stood at 144, 598 and 140,244 respectively. Ind-AS adjusted EBITDA increased 129.8% YoY to Rs1,029.3mn (Ind-AS adjusted margin of 19.8%). Ind-AS adjusted PAT increased 327.5% YoY to Rs511.7mn (Ind-AS adjusted margin of 9.8%).

Exhibit 1: Consolidated result overview (Rs mn)

Y/e March	2QFY20	2QFY19	YoY gr.	1QFY20	QoQ gr.
Net sales	5,199.4	3,653.1	42.3%	4,930.1	5.5%
Movie exhibition cost	1,391.4	951.4	46.2%	1,298.9	7.1%
<i>As a % of sales</i>	<i>26.8%</i>	<i>26.0%</i>		<i>26.3%</i>	
Consumption of F&B	345.4	253.2	36.4%	332.9	3.8%
<i>As a % of sales</i>	<i>6.6%</i>	<i>6.9%</i>		<i>6.8%</i>	
Employee expenses	373.2	278.7	33.9%	350.9	6.4%
<i>As a % of sales</i>	<i>7.2%</i>	<i>7.6%</i>		<i>7.1%</i>	
Other expenses	1,411.8	1,721.9	-18.0%	1,446.4	-2.4%
<i>As a % of sales</i>	<i>27.2%</i>	<i>47.1%</i>		<i>29.3%</i>	
EBITDA	1,677.6	447.9	274.5%	1,501.0	11.8%
<i>EBITDA margin</i>	<i>32.3%</i>	<i>12.3%</i>		<i>30.4%</i>	
Depreciation	645.1	234.0	175.7%	608.0	6.1%
EBIT	1,032.5	213.9	382.7%	893.0	15.6%
<i>EBIT margin</i>	<i>19.9%</i>	<i>5.9%</i>		<i>18.1%</i>	
Interest cost	542.2	67.7	700.9%	508.8	6.6%
Other income	44.0	37.6	17.0%	31.2	41.0%
PBT	534.3	183.8	190.7%	415.4	28.6%
Tax expenses	183.0	64.1	185.5%	145.3	25.9%
<i>Tax rate</i>	<i>34.3%</i>	<i>34.9%</i>		<i>35.0%</i>	
PAT	351.3	119.7	193.5%	270.1	30.1%
<i>PAT margin</i>	<i>6.8%</i>	<i>3.3%</i>		<i>5.5%</i>	
Non-controlling interest	-	-	NM	-	NM
Other comprehensive income (OCI)	0.1	1.4	-92.9%	(11.2)	NM
PAT inclusive of OCI	351.4	121.1	190.2%	258.9	35.7%
EPS (Rs)	3.6	1.3	174.6%	2.8	29.8%

Source: Company, PL

Exhibit 2: Revenue Mix (Rs mn)

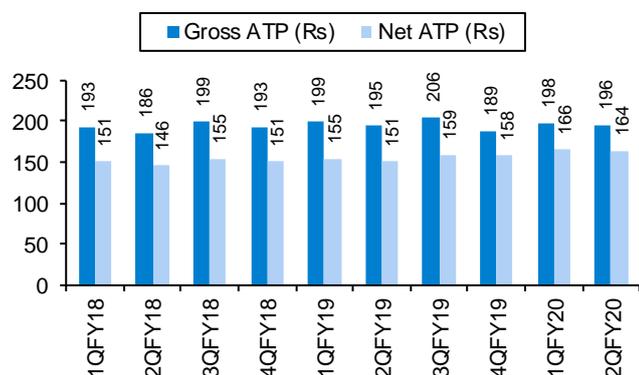
Particulars	2QFY20	2QFY19	YoY gr.	1QFY20	QoQ gr.
NBOC	3,110	2,064	50.7%	2,870	8.4%
<i>As a % of sales</i>	<i>59.2%</i>	<i>56.5%</i>		<i>58.2%</i>	
Net F&B	1,410	949	48.6%	1,320	6.8%
<i>As a % of sales</i>	<i>26.9%</i>	<i>26.0%</i>		<i>26.8%</i>	
Advertisement revenue	400	378	5.8%	470	-14.9%
<i>As a % of sales</i>	<i>7.6%</i>	<i>10.3%</i>		<i>9.5%</i>	
Other operating income	330	262	26.0%	270	22.2%
<i>As a % of sales</i>	<i>6.3%</i>	<i>7.2%</i>		<i>5.5%</i>	
Total sales	5,250	3,653	43.7%	4,930	6.5%

Source: Company, PL

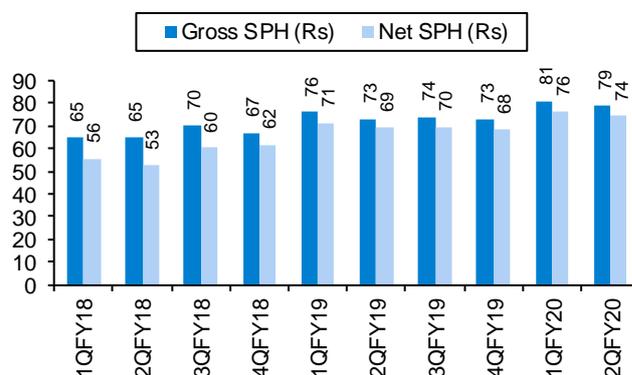
Exhibit 3: Ind AS adjusted financials

Particulars (Rs mn)	2QFY20	2QFY19	YoY gr.	1QFY20	QoQ gr.
Sales	5,199	3,653	42.3%	4,930	5.5%
Ind-AS Adjusted EBITDA	1,029	448	129.8%	888	16.0%
<i>Ind-AS Adjusted EBITDA margin</i>	<i>19.8%</i>	<i>12.3%</i>		<i>18.0%</i>	
Ind-AS Adjusted PAT	512	120	327.5%	412	24.2%
<i>Ind-AS Adjusted PAT margin</i>	<i>9.8%</i>	<i>3.3%</i>		<i>8.4%</i>	

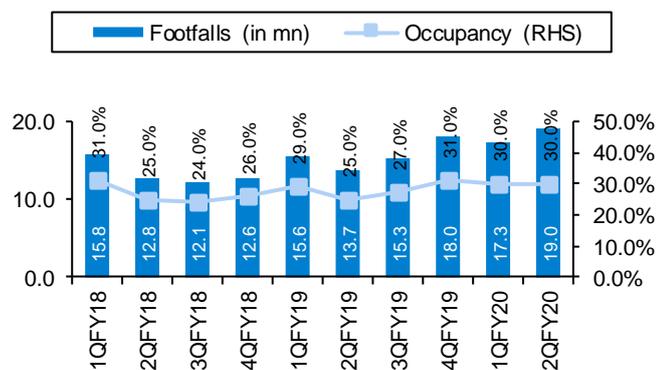
Source: Company, PL

Exhibit 4: Gross/Net ATP trend over the last 10 quarters


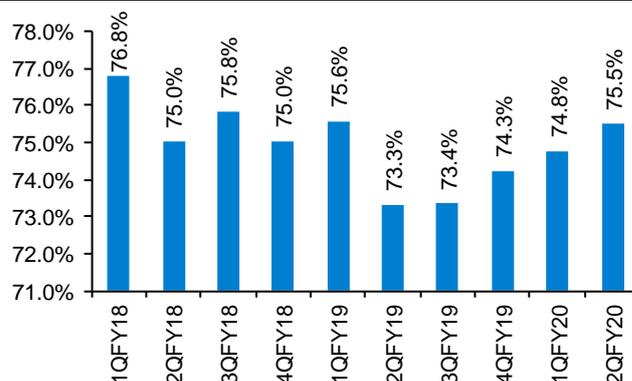
Source: Company, PL

Exhibit 5: Gross/Net SPH trend over the last 10 quarters


Source: Company, PL

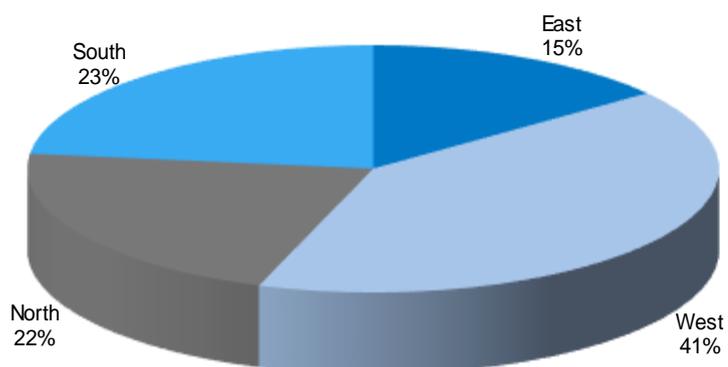
Exhibit 6: Footfalls are volatile, driven by content


Source: Company, PL

Exhibit 7: F&B GM has remained in the steady range of ~73-76%


Source: Company, PL

Exhibit 8: Screen Mix 2QFY20



Source: Company, PL

Exhibit 9: Relative valuation EV/EBITDA

Particulars	FY21*
EV/EBITDA	8.7
EBITDA	7,448
EV	64,799
Less: Debt	25,327
Add: Cash	3,292
Equity Value	42,763
No of shares	103
Per share value (Rs)	416

Source: PL

*IndAS 116 compliant projections

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	16,922	20,721	23,888	27,484
YoY gr. (%)	25.5	22.5	15.3	15.1
Cost of Goods Sold	5,567	6,820	7,855	8,978
Gross Profit	11,355	13,901	16,033	18,507
Margin (%)	67.1	67.1	67.1	67.3
Employee Cost	1,152	1,531	1,792	2,089
Other Expenses	7,112	5,956	6,793	7,743
EBITDA	3,092	6,414	7,448	8,675
YoY gr. (%)	46.9	107.5	16.1	16.5
Margin (%)	18.3	31.0	31.2	31.6
Depreciation and Amortization	955	2,571	2,938	3,326
EBIT	2,137	3,843	4,510	5,349
Margin (%)	12.6	18.5	18.9	19.5
Net Interest	237	2,147	2,460	2,803
Other Income	149	144	155	179
Profit Before Tax	1,991	1,840	2,205	2,725
Margin (%)	11.8	8.9	9.2	9.9
Total Tax	656	622	556	687
Effective tax rate (%)	33.0	33.8	25.2	25.2
Profit after tax	1,335	1,218	1,649	2,038
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,393	1,218	1,649	2,038
YoY gr. (%)	10.3	(12.6)	35.4	23.6
Margin (%)	8.2	5.9	6.9	7.4
Extra Ord. Income / (Exp)	(58)	-	-	-
Reported PAT	1,335	1,218	1,649	2,038
YoY gr. (%)	16.5	(8.8)	35.4	23.6
Margin (%)	7.9	5.9	6.9	7.4
Other Comprehensive Income	1	(11)	-	-
Total Comprehensive Income	1,336	1,207	1,649	2,038
Equity Shares O/s (m)	103	103	103	103
EPS (Rs)	13.6	11.9	16.1	19.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	12,158	32,865	35,837	39,006
Tangibles	11,947	32,649	35,615	38,780
Intangibles	211	216	221	226
Acc: Dep / Amortization	3,109	5,680	8,618	11,944
Tangibles	3,009	5,579	8,518	11,843
Intangibles	101	101	101	101
Net fixed assets	9,049	27,185	27,218	27,062
Tangibles	8,939	27,069	27,098	26,937
Intangibles	111	116	121	126
Capital Work In Progress	637	637	637	637
Goodwill	175	175	175	175
Non-Current Investments	1,758	2,140	2,467	2,810
Net Deferred tax assets	529	497	595	736
Other Non-Current Assets	1,127	1,347	1,582	1,857
Current Assets				
Investments	6	6	6	6
Inventories	122	170	196	226
Trade receivables	882	1,135	1,374	1,657
Cash & Bank Balance	137	1,582	3,310	5,625
Other Current Assets	312	374	409	420
Total Assets	14,788	35,313	38,045	41,295
Equity				
Equity Share Capital	1,026	1,026	1,026	1,026
Other Equity	8,612	4,290	5,939	7,977
Total Networth	9,638	5,316	6,965	9,003
Non-Current Liabilities				
Long Term borrowings	550	24,682	25,127	25,602
Provisions	127	145	167	192
Other non current liabilities	690	850	956	1,072
Current Liabilities				
ST Debt / Current of LT Debt	200	200	200	200
Trade payables	1,596	1,817	2,094	2,410
Other current liabilities	1,897	2,210	2,437	2,713
Total Equity & Liabilities	14,788	35,313	38,045	41,296

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,335	1,840	2,205	2,725
Add. Depreciation	955	2,571	2,938	3,326
Add. Interest	237	2,147	2,460	2,803
Less Financial Other Income	149	144	155	179
Add. Other	551	(91)	(263)	(309)
Op. profit before WC changes	3,077	6,467	7,340	8,544
Net Changes-WC	88	(138)	(69)	(45)
Direct tax	(369)	(622)	(556)	(687)
Net cash from Op. activities	2,797	5,707	6,715	7,813
Capital expenditures	(2,492)	(20,707)	(2,972)	(3,170)
Interest / Dividend Income	32	-	-	-
Others	104	-	-	-
Net Cash from Inv. activities	(2,356)	(20,707)	(2,972)	(3,170)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,819)	18,592	445	475
Dividend paid	-	-	-	-
Interest paid	(231)	(2,147)	(2,460)	(2,803)
Others	1,594	-	-	-
Net cash from Fin. activities	(456)	16,445	(2,015)	(2,329)
Net change in cash	(16)	1,446	1,728	2,315
Free Cash Flow	301	(15,000)	3,744	4,643

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	13.6	11.9	16.1	19.9
CEPS	22.9	36.9	44.7	52.3
BVPS	93.9	51.8	67.9	87.7
FCF	2.9	(146.2)	36.5	45.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	20.6	12.7	14.0	15.4
ROIC	20.9	18.2	19.6	21.0
RoE	13.9	22.9	23.7	22.6
Balance Sheet				
Net Debt : Equity (x)	0.1	4.4	3.2	2.2
Net Working Capital (Days)	(13)	(9)	(8)	(7)
Valuation(x)				
PER	26.1	29.8	22.0	17.8
P/B	3.8	6.8	5.2	4.0
P/CEPS	15.5	9.6	7.9	6.8
EV/EBITDA	12.0	9.3	7.8	6.5
EV/Sales	2.2	2.9	2.4	2.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	4,331	4,788	4,930	5,199
YoY gr. (%)	32.9	48.0	18.8	42.3
Raw Material Expenses	1,405	1,589	1,632	1,737
Gross Profit	2,926	3,200	3,298	3,463
Margin (%)	67.6	66.8	66.9	66.6
EBITDA	835	974	1,501	1,678
YoY gr. (%)	80.4	121.9	79.8	274.5
Margin (%)	19.3	20.3	30.4	32.3
Depreciation / Depletion	245	249	608	645
EBIT	590	725	893	1,033
Margin (%)	13.6	15.1	18.1	19.9
Net Interest	62	38	509	542
Other Income	31	53	31	44
Profit before Tax	559	682	415	534
Margin (%)	12.9	14.2	8.4	10.3
Total Tax	194	201	145	183
Effective tax rate (%)	34.8	29.5	35.0	34.3
Profit after Tax	365	481	270	351
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	365	539	270	351
YoY gr. (%)	176.8	(20.8)	(27.0)	193.5
Margin (%)	8.4	11.3	5.5	6.8
Extra Ord. Income / (Exp)	-	(58)	-	-
Reported PAT	365	481	270	351
YoY gr. (%)	204.6	31.9	(43.8)	30.1
Margin (%)	8.4	10.0	5.5	6.8
Other Comprehensive Income	(2)	1	(11)	-
Total Comprehensive Income	363	481	259	351
Avg. Shares O/s (m)	103	103	103	103
EPS (Rs)	3.9	5.0	2.8	3.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	394	324
2	24-Sep-19	BUY	394	338

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	447	325
3	Inox Leisure	BUY	394	324
4	Music Broadcast	Hold	48	37
5	Navneet Education	BUY	153	106
6	PVR	Accumulate	2,131	1,835
7	S Chand and Company	Hold	71	63
8	V.I.P. Industries	BUY	540	465
9	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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