

Sector: Consumer Discretionary
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 354	
Price Target: Rs. 415	↑
↑ Upgrade	↔ No change
↓ Downgrade	

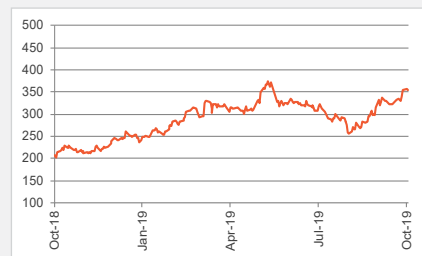
Company details

Market cap:	Rs. 3,643 cr
52-week high/low:	Rs. 383/200
NSE volume: (No of shares)	2.7 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
DII	21
FII	12
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.0	15.7	16.6	64.1
Relative to Sensex	10.3	12.7	14.7	42.0

Sharekhan Research, Bloomberg

Inox Leisure (IL) reported a strong set of performance during Q2FY2020 in-line with our expectation of strong footfalls owing to healthy content despite softness in ad revenues amid ongoing slowdown in discretionary spending. Revenue registered a growth of 42.3% y-o-y to Rs 519.9 crores (ahead of our expectation of 492.1 crores by 5.7%) led by 51% and 48% y-o-y growth net box office collection (NBOC) and Food & Beverage (F&B) revenues as advertising revenues grew at a soft pace of 5% y-o-y. IIL reported operating margin stood at 32.3% resulting in reported operating profit of Rs 167.8 crores (ahead of our expectation of Rs 150.3 crores by 11.6%). Similarly IIL adjusted PAT stood at Rs 35.1 crores (ahead of our expectation of Rs 33.5 crores by 4.9%). The management highlighted that H2FY2020 to see bulk of the screen additions (44 out of 71 envisaged for FY2020), as Q2FY2020 saw just 6 screen additions owing regulatory hurdles (licence awaited). The Board has declared an interim dividend of Rs 1 per equity share. Dividend has been declared after a gap of almost 11 years (dividend of Re 1 was declared in Sep 2008).

Key positives

- ◆ Strong content pipeline drives footfalls up by 39% y-o-y to 19 mn
- ◆ Spends Per head (SPH) registers a y-o-y growth of 7% to Rs 79.

Key negatives

- ◆ Pace of screen addition moderates, added just 6 screens during Q2FY2020.
- ◆ Moderate growth of 5% in advertisement revenues owing to ongoing slowdown in discretionary spends

Our Call

Valuation: Maintain Buy with revised PT of Rs 415: We have fine tuned our numbers for FY2020E/FY2021E to factor in the strong performance during H1FY2020. 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 150 crores at CMP) along with non-core assets (valued at Rs 350 crores) represent around 15% of its current market capitalisation. At CMP, the stock is trading at 32.4x/25.8x FY2020E/ FY2021E earnings. Hence, we maintain our BUY rating on the stock with revised PT of Rs 415.

Key Risks

- ◆ Delay in screen additions and a deterioration of the quality of content might impact the foot falls and advertisement revenue growth rates.
- ◆ Inability to take adequate price hikes at the right time might impact the margins in the F&B segment on account of rising input cost.

Valuation

Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenues	1,238	1,348	1,692	2,070	2,406
OPM (%)	13.2	15.6	18.3	29.8	29.5
Adjusted PAT	31	123	138	108	135
% YoY growth	(62.2)	302.5	12.4	(22.2)	25.3
Adjusted EPS (Rs.)	3.3	12.8	14.1	10.9	13.7
P/E (x)	106.3	27.7	25.2	32.4	25.8
P/B (x)	5.9	4.9	3.4	4.5	3.8
EV/EBITDA (x)	22.6	17.4	11.9	5.6	4.4
RoNW (%)	5.5%	18.4	14.4	14.8	15.7
RoCE (%)	7.9%	13.4	20.9	17.6	13.4

Source: Company; Sharekhan estimates

*Treasury shares excluded while calculating EPS

*FY20E/FY21E numbers are based on Ind AS 116

Strong performance, ahead of expectation: Inox Leisure (IIL) reported a strong set of numbers during Q2FY2020 led by strong footfalls owing to healthy content despite softness in ad revenues amid ongoing slowdown in discretionary spending. Revenue registered a growth of 42.3% y-o-y to Rs 519.9 crores (ahead of our expectation of 492.1 crores by 5.7%) led by 51% y-o-y and 48% y-o-y growth net box office collection (NBOC) and Food & Beverage (F&B) revenues as advertising revenues grew at a soft pace of 5% y-o-y. Reported operating profit was up by 274.5% y-o-y to Rs 167.8 crores, (ahead of our expectation of Rs 150.3 crores by 11.6%), due to economies of scale (lower other expenses) and Ind AS 116 adjustment (hence not comparable). Higher depreciation and interest expense (up by 2.8x and 8.0x respectively) largely due to Ind AS 116 adjustment (hence not comparable) restricted the adjusted net profit growth to 193.5% y-o-y at Rs 35.1 crores (ahead of our expectation of Rs 33.5 crores by 4.9%).

Buoyancy in operating metrics: Footfalls during the quarter grew at a strong pace of 39% y-o-y to 19 million coupled with enhanced (589 bps) occupancy level at 30% (25% in Q2FY19). Average ticket price was marginally up by 0.4% y-o-y to Rs 195 (largely due to pass on of benefits on account of a reduction in GST rates w.e.f 1st Jan 2019) whereas spends per head witnessed a growth of 7% y-o-y to Rs 79. The top 5 films accounted for 46% of the Gross Box office collection (as compared to 47% in Q2FY19) at Rs 172 crores with foot falls of 84 lakhs. Strong content such as Mission Mangal, Super 30, The Lion King, Chhichhore, Saaho and Dream Girl attracted viewers to the cinema theaters during the quarter.

Screen addition moderates in Q2FY2020, expected to pick pace in H2FY2020: Pace of screen additions moderated in Q2FY2020 owing regulatory hurdles (licence awaited) as IIL just added 2 properties with 6 screen and 1515 seating capacity during the quarter. The total screen addition for the H1FY2020 stood at 27 taking the overall screen count to 598 across 144 properties. Hence the company is expected to see a bulk of the screen additions i.e. 44 out of 71 envisaged for FY2020 in H2FY2020. The management has guided for a capex of Rs 250 crores for FY2020 of which Rs 100 crores have already been incurred in H1FY2020. Strong operating cash coupled with healthy balance sheet (net debt free status) would help the company to add screens without relying much on external borrowings.

To enhance customer experience, IIL during the quarter launched Megaplex – The world's first multiplex with maximum formats under one roof at Inorbit Mall Malad, Mumbai and it also launched India's first 270-degree multi-projection technology, ScreenX at Inorbit Mall Malad, Mumbai and Quest Mall, Kolkata

Strong growth on like-to-like basis (i.e. ex Ind AS 116 implementation): The company would have incurred higher lease rental at Rs 97.0 crores instead of reported lease rental of Rs 32.2 crores, if the Ind AS 116 would have not been implemented. Hence on comparable basis the operating profit would have increased by 129.8% y-o-y to Rs 102.9 crores. Similarly the depreciation and interest expense would have been lower at Rs26.8 crores and Rs 2.5 crores as against reported depreciation and interest expense of Rs 64.5 crores and Rs 54.2 crores respectively. Though tax rate would not have changed much but on comparable basis the adjusted net profit would have increased by 327.6% to Rs 51.2 crores. Under Ind AS 116 lease rental is capitalised, resulting lower rent with corresponding impact by increase in depreciation and interest expense.

Like to Like comparison

Particulars	Rs cr				
	Q2FY20		Q2FY19	YoY (%)	
	Reported	Excl. Ind AS 116	Reported	Reported	Excl. Ind AS 116
Rent & common facilities charges	32.17	97.00	75.69	(57.5)	28.2
EBITDA	167.76	102.93	44.79	274.5	129.8
Depreciation & amortisation	64.51	26.76	23.4	175.7	14.4
Finance Cost	54.22	2.48	6.77	700.9	(63.4)
PBT	53.43	78.08	18.38	190.7	324.8
Tax	18.30	26.91	6.41	185.5	319.8
PAT	35.13	51.17	11.97	193.5	327.5
EPS (Rs)	3.6	5.2	1.3	174.6	300.8

Source: Sharekhan Research, Company

Q2FY2020 Results key concall highlights

- ◆ **Healthy performance likely in Q3FY2020 as well:** Management guided for strong performance in the forthcoming quarter on the back of a healthy content pipeline with key movies such as War, Joker and Housefull 3 released in October, Marjaavaan, Pagalpanti slated to be released in November and Maardani2 and Dabangg3 to be released in December.
- ◆ **SPH and ad revenue growth guidance:** Management continues to aspire for high single-digit growth in SPH during FY2020E owing to introduction of new menu lists and anticipated higher conversion rate, while believes that ad revenue growth momentum will be back in H2 and the company will be able to clock growth in double.
- ◆ **Occupancy level to enhance:** Refurbishment and upgradation of properties usually enhances the occupancy level. Premium screens counts will be increased in a gradual manner at the current pace. Also refurbishment of a property is usually taken up post completion of 5 years of commercial operations.
- ◆ **Return on Investment similar for across cities:** The property mix currently stands at 55% for metro and tier 1 cities whereas 45% for the remaining cities. Though the ATP and SPH for tier 2, 3 and 4 cities are comparatively on the lower side as compared to metro and tier 1 cities the return on investment is the same.
- ◆ **New initiatives for stickiness in customer base:** The management highlighted that they are expected to come out with some reward or loyalty program in order to have stickiness in customer base. With the help of these initiatives the management aims to improve the occupancy level, enhance F&B conversion and maximize profitability through economies of scale.
- ◆ **Pros & cons of availing lower corporate tax rate being assessed:** The management stated that the company currently has a MAT credit of Rs 21 crores and is availing deduction under 80IA in respect of certain incomes. In case the company opts for lower corporate tax at the rate of 25.17%, it will have to forego both the MAT credit as well as the deduction under 80IA. Hence the management stated that they are evaluating the options and will take a final decision before the end of the financial year i.e. FY2020.

Results (Consolidated)

Particulars	Q2FY20	Q2FY19	Q1FY20	YoY (%)	Rs cr
					QoQ (%)
Net sales	519.9	365.3	493.0	42.3	5.5
Exhibition costs	139.1	95.1	129.9	46.2	7.1
Cost of F&B	34.5	25.3	33.3	36.4	3.8
Gross Profit	346.3	244.9	329.8	41.4	5.0
Employee Expenses	37.3	27.9	35.1	33.9	6.4
Property Rent	32.2	75.7	30.2	(57.5)	6.6
Other Expenses	109.0	96.5	114.5	13.0	(4.8)
Operating Profit	167.8	44.8	150.1	274.5	11.8
Depreciation	64.5	23.4	60.8	175.7	6.1
Finance Cost	54.2	6.8	50.9	700.9	6.6
Other Income	4.4	3.8	3.1	17.0	41.0
PBT	53.4	18.4	41.5	190.7	28.6
Tax Provision	18.3	6.4	14.5	185.5	25.9
Adjusted Net Profit	35.1	12.0	27.0	193.5	30.1
Reported Net Income	35.1	12.0	27.0	193.5	30.1
EPS (Rs.)	3.6	1.3	2.7	174.3	30.1
Margin (%)				BPS	BPS
Gross profit margin	66.6	67.0	66.9	(42.9)	(30.5)
Operating profit margin	32.3	12.3	30.4	-	182.0
Net profit margin	6.8	3.3	5.5	348.0	127.8

Source: Sharekhan research, company

*Treasury shares excluded while calculating EPS

*Q2FY19 numbers not comparable with Q2FY20 and Q1FY20 due to Ind AS 116 implementation from 1st April 2019.

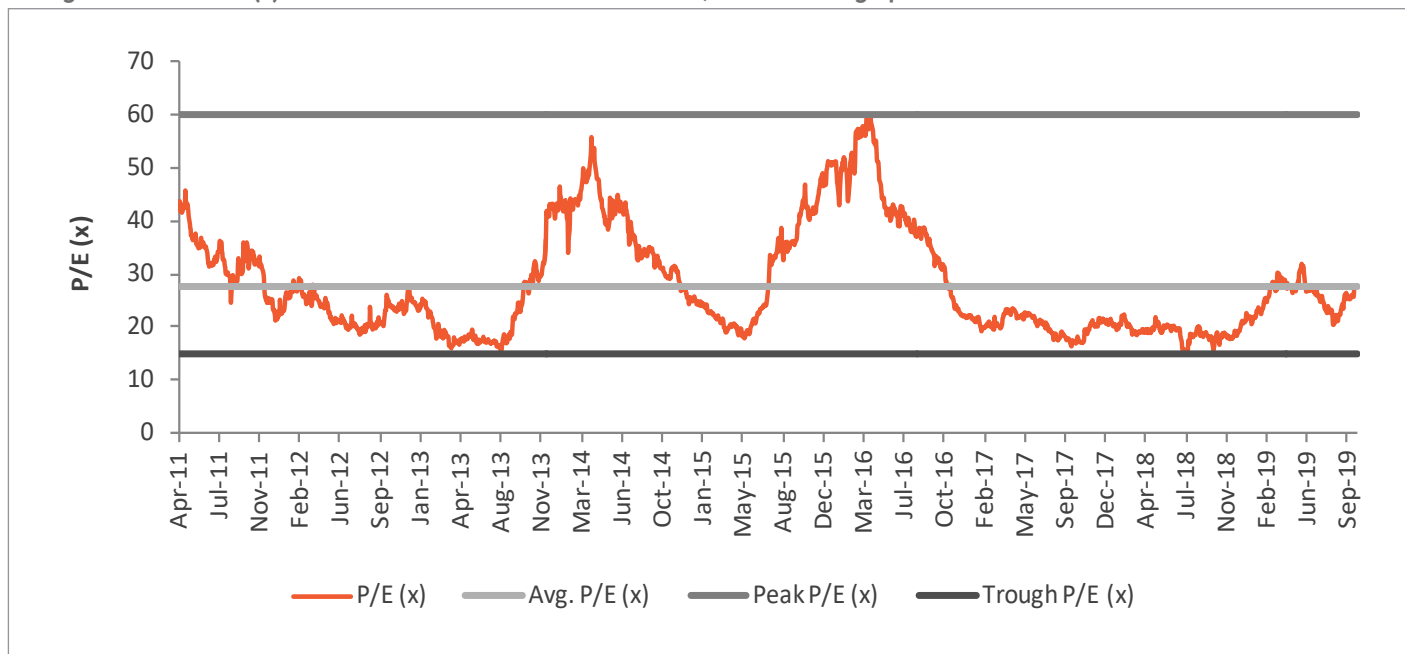
Outlook

Strong Balance sheet, growing at healthy pace: A healthy content pipeline is expected to help in generating robust footfalls. However, a slowdown in economic activity is expected to put pressure on ad revenue stream. Also the pace of screen additions is expected to moderate owing regulatory hurdles (licence awaited). Healthy pace of screen additions in H2FY2020 along with increasing footfalls monetisation efforts is expected to bode well for the company and expect revenue CAGR of 19.2% over FY19-21E.

Valuation

Maintain Buy with revised PT of Rs 415: We remain positive on Inox Leisure as it has a strong balance sheet (net-debt free) along with healthy cash-flow generation profile and maintain our BUY rating on the stock with revised PT of Rs 415. We have fine-tuned our numbers for FY2020E/FY2021E to factor in the strong performance during H1FY2020. Further, ILL's treasury shares (Rs 150 crores at CMP) along with non-core assets (valued at Rs 350 crores) represent around 15% of its current market capitalisation. At CMP, the stock is trading at 32.4x/25.8x FY2020E/ FY2021E earnings.

One-year forward P/E (x) band – Trades at attractive valuations, offers healthy upside



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Inox Leisure	354	10.3	3,643	32.4	25.8	5.6	4.4	4.5	3.8	14.8	15.7
PVR*	1,771	4.8	8,568	44.2	33.9	13.2	11.5	6.8	5.7	15.9	19.1

Source: Sharekhan Research, * denotes Bloomberg estimates

About company

Inox Leisure Limited (ILL), incorporated in 1999, is one of the largest multiplex operators in India. ILL currently operates 144 properties (598 screens and over 1.40 lakhs seats) located in 68 cities across India. ILL is the only multiplex operator having such a diverse presence across India. The company accounts for 20% share of multiplex screens in India and ~11% share of domestic box office collections.

Investment theme

The company has aggressively scaled up through organic and inorganic expansion over the past decade, growing from two properties – eight screens – in FY2003 to 144 properties – 598 screens – at present, on an average adding eight screens every quarter since inception. The ILL mega show is supported by improving content quality in the Indian mainstream and regional cinema, with its movies regularly hitting the Rs. 100 crore or Rs. 200 crore box-office collection mark. Management expects to deliver a strong performance going forward based on healthy footfalls due to property additions coupled with passing on of reduction of GST rates and a strong content pipeline.

Key Risks

Delay in screen additions and quality of content not being encouraging might impact the foot falls and advertisement revenue growth rates. In ability to take adequate price hikes at the right time might impact the margins in the F&B segment on account of rising input cost.

Additional Data

Key management personnel

Pavan Jain	Non-Executive - Non Independent Chairperson
Vivek Jain	Non-Executive - Non Independent Director
Siddharth Jain	Non-Executive - Non Independent Director
Deepak Asher	Non-Executive - Non Independent Director
Kailash B Gupta	Chief Financial Officer
Parthasarathy Iyengar	Company Secretary & Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	GFL Ltd	51.32
2	HDFC Asset Management Co Ltd	7.86
3	JAIN PAVAN KUMAR	4.23
4	Sundaram Asset Management Co Ltd	4.12
5	Aditya Birla Sun Life Trustee Co P	2.62
6	DSP Investment Managers Pvt Ltd	2.03
7	Aditya Birla Sun Life Asset Manage	2.03
8	TAIYO GREATER IN FUND LTD	1.66
9	Dimensional Fund Advisors LP	1.61
10	BNP Paribas Asset Management India	1.50

Source: Bloomberg

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