Sharekhan
by BNP PARIBAS

Inox Leisure

Good show despite weak advertising

Sector: Consumer Discretionary
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 425**	
Price Target: **Rs. 500**	↑

↑ Upgrade ↔ No change ↓ Downgrade

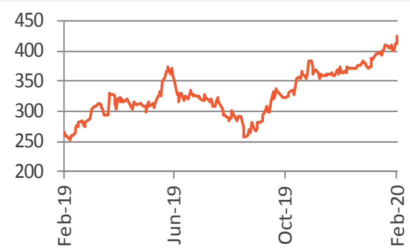
Company details

Market cap:	Rs. 4,372 cr
52-week high/low:	Rs. 430/249
NSE volume: (No of shares)	2.2 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
DII	24
FII	11
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	5.4	38.8	54.7
Relative to Sensex	11.5	6.2	28.9	40.0

Sharekhan Research, Bloomberg

Inox Leisure Limited (IIL) reported strong revenue growth because of robust footfalls in the challenging times and robust growth in Food & Beverage (F&B) revenue. However, advertisement revenue growth continued to remain weak owing to lower acceptance of its higher ad rates among advertisers. Management indicated that ad revenue growth would come back to normalcy from Q4FY2020. Revenue registered 18.4% y-o-y growth to Rs. 512.9 crore, in-line with our estimates, led by 10.5% y-o-y growth in footfalls, 22.3% y-o-y robust growth in F&B and higher revenue from convenience fees. On comparable basis, EBITDA margin improved by 90 BPS y-o-y to 20.2% in Q3FY2020. Though management remains confident on addition of 29 new screens during Q4FY2020E, we believe some of these planned new screen additions would spill over to Q1FY2021E owing to real-estate challenges and delays in regulatory approvals. Hence, we expect screen additions will be higher in FY2021E compared to FY2020E. Healthy content pipeline along with strategies to increase footfalls (loyalty program, non-movies contents, enhancing experience of cinema goers, etc.) and increasing footfall monetisation efforts are expected to bode well for the company.

Key positives

- Strong footfall growth in a challenging environment, registering 10.5% y-o-y growth
- Spends per head (SPH) growth accelerated to 9.5% from growth of 8.2/6.6% in Q2FY2020/Q1FY2020

Key negatives

- Weak growth in advertisement revenue owing to economic slowdown.

Our Call

Valuation: Maintain Buy with revised PT of Rs. 500: We have fine-tuned our estimates for FY2020E/FY2021E, factoring in higher-than-expected operating profitability. We introduce FY2022E numbers in this note. We remain Positive on ILL, as it has a strong balance sheet (net-debt free) along with healthy cash-flow generation profile. At the CMP, the stock is trading at 27x/23x its FY2021E/ FY2022E earnings. Given increasing footfall monetisation efforts and improving operating metrics, we maintain our Buy rating on the stock with a revised PT of Rs. 500.

Key Risks

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

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenues	1,348.1	1,692.2	2,050.5	2,334.8	2,737.5
OPM (%)	15.6	18.3	31.6	31.7	31.7
Adjusted PAT	123.2	138.5	127.9	155.1	181.4
% YoY growth	*302.5*	*12.4*	*-7.6*	*21.3*	*16.9*
Adjusted EPS (Rs.)	12.8	14.1	13.0	15.7	18.4
P/E (x)	33.2	30.2	32.7	27.0	23.1
P/B (x)	5.8	4.0	5.2	4.3	3.6
EV/EBITDA (x)	20.7	14.3	6.4	5.2	3.9
RoNW (%)	18.4	14.4	17.1	17.2	16.7
RoCE (%)	13.4	20.9	19.6	14.7	16.4

Source: Company; Sharekhan estimates
**Treasury shares excluded while calculating EPS*
**FY20E/FY21E/FY22E numbers are based on Ind AS 116*

In-line revenue, EBITDA ahead of our estimates: ILL reported strong revenue growth of 18.4% y-o-y to Rs. 512.9 crore, in-line with our estimates, led by 10.5% y-o-y growth in footfalls, strong growth in F&B (up 22.3% y-o-y) and higher revenue from convenience fees. However, advertisement revenue growth continued to remain weak at 3% y-o-y (up 5% y-o-y in Q2FY2020) owing to tough macro environment. Note that reported financials (except revenue) on a y-o-y basis are not comparable on account of the switch to IndAS-116, effective from April 1, 2019. Reported EBITDA stood at Rs. 169 crore, ahead of our estimates, due to lower-than-expected employee expenses. Reported net profit during the quarter was at Rs. 35 crore, beating our estimates, aided by lower-than-expected depreciation and interest expenses.

Impressive operating metrics: Footfalls during the quarter grew by 10.5% y-o-y, better than its nearest competitors. Despite economic slowdown, better footfall growth was driven by local marketing, higher awareness about release of new movies and focus on monetising real estate through non-movie content during weekdays. Occupancy level stayed at 27% (flat y-o-y) during the quarter. Average ticket price (ATP) was down by 1% y-o-y to Rs. 204, largely due to pass on of benefits on account of reduction in GST rates. Interestingly, growth in spends per head (SPH) has been accelerating for the past three quarters, registering growth of 9.5% y-o-y to Rs. 81. Advertisement revenue growth was weak at 3% y-o-y, as the company did not succumb to the pressure in rates from advertisers.

Screen additions set to accelerate in 2021E, hope ad revenue growth to pick-up in Q4: Total screen additions for 9MFY2020 stood at 41 versus 57 screen additions during 9MFY2019. Management has retained its guidance on screen additions of 70 in FY2020, implies 29 screen additions during Q4FY2020. Though management highlighted that it is just waiting for regulatory approvals for 29 new screen additions in Q4FY2020E, we believe some new screen additions would spill over to Q1FY2021E owing to macro challenges and regulatory delays. Hence, we believe screen additions will be higher in FY2021E compared to FY2020E. Management has guided for capex of Rs. 250 crore-260 crore for FY2020, of which Rs. 180 crore has already been incurred in 9MFY2020. Advertisement revenue growth was weak as the company restricted itself to take any ad rate cut during the challenging environment. With continued strong growth in footfalls, management hopes ad revenue growth to pick-up in Q4FY2020E.

Strong growth on like-to-like basis (i.e. ex IND AS 116 implementation): The company would have incurred higher lease rental at Rs. 97.1 crore instead of reported lease rental of Rs. 31.7 crore, if Ind AS 116 would not been implemented. Hence, on comparable basis, operating profit would have increased by 24% y-o-y to Rs. 103.5 crore. Similarly, depreciation and interest expense would have been lower at Rs. 27.3 crore and Rs. 2.1 crore as against reported depreciation and interest expense of Rs. 64.8 crore and Rs. 54.7 crore, respectively. On comparable basis, adjusted net profit would have increased by 40% to Rs. 51.1 crore. Under Ind AS 116, lease rental is capitalised, resulting in lower rent with corresponding impact by increased depreciation and interest expense.

Like to Like comparison Rs cr

Particulars	Q3FY20 Reported	Q3FY20 Excl. Ind AS 116	Q3FY19 Reported	YoY (%) Reported	YoY (%) Excl Ind AS 116
Rent & common facilities charges	31.7	97.1	82.0	-61.4	18.4
EBITDA	169.0	103.5	83.5	102.3	24.0
Depreciation & amortisation	64.8	27.3	24.5	164.3	11.3
Finance Cost	54.7	2.1	6.2	782.9	-65.8
PBT	54.2	79.0	55.9	-3.0	41.3
Tax	19.2	27.9	19.4	-1.1	43.5
PAT	35.0	51.1	36.5	-4.0	40.2
EPS (Rs)	3.6	5.2	3.6	-0.4	45.4

Source: Sharekhan Research, Company

Key result highlights from earnings call

- **Expect better ad revenue growth in Q4FY2020:** Management highlighted that ad revenue growth would come back to normal in Q4FY2020 after two consecutive quarters of weak growth.
- **Ties up with Swiggy:** The company has entered into Swiggy to increase the sale of its F&B items. The company started delivering food through Swiggy platform during the last week of December.
- **Industry-leading growth in footfalls:** Management highlighted that its strategies started reaping benefits for the company in terms of higher growth in footfalls despite a challenging environment. Initiatives include non-movie content during weekdays (Monday to Thursday), introduction of loyalty programs and adding premium screen portfolio.
- **New initiatives for stickiness in customer base:** Management highlighted that it is expected to come out with some reward or loyalty program to have stickiness in customer base. With the help of these initiatives, management aims to improve the occupancy level, enhance F&B conversion and maximise profitability through economies of scale.
- **Mix of contents:** Hindi movies contributed 63% to its net box office revenue, while English movies contributed 15% to the total net box office revenue during the quarter.
- **Pros and cons of availing lower corporate tax rate being assessed:** Management stated that the company currently has MAT credit of Rs. 21 crore 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 MAT credit as well as the deduction under 80IA. Hence, management stated that it is evaluating the options and will take a final decision before the end of the financial year i.e. FY2020.

Results (Consolidated) Rs cr

Particulars	Q3FY20	Q3FY19	Q2FY20	YoY (%)	QoQ (%)
Net sales	**512.9**	**433.1**	**519.9**	**18.4**	**-1.4**
Exhibition costs	133.7	112.2	139.1	19.2	-3.9
Cost of F&B	32.0	28.3	34.5	13.0	-7.4
Gross Profit	**347.2**	**292.6**	**346.3**	**18.7**	**0.3**
Employee Expenses	36.9	30.2	37.3	22.3	-1.1
Property Rent	31.7	82.0	32.2	-61.4	-1.5
Other Expenses	109.7	96.9	109.0	13.1	0.6
Operating Profit	**169.0**	**83.5**	**167.8**	**102.3**	**0.7**
Depreciation	64.8	24.5	64.5	164.3	0.5
Finance Cost	54.7	6.2	54.2	782.9	1.0
Other Income	4.9	3.1	4.4	56.5	10.2
PBT	**54.2**	**55.9**	**53.4**	**-3.0**	**1.5**
Tax Provision	19.2	19.4	18.3	-1.1	5.0
Adjusted Net Profit	**35.0**	**36.5**	**35.1**	**-4.0**	**-0.3**
Reported Net Income	**35.0**	**36.5**	**35.1**	**-4.0**	**-0.3**
EPS (Rs.)	3.6	3.7	3.6	-4.0	-0.3
Margin (%)				**BPS**	**BPS**
Gross profit margin	67.7	67.6	66.6	12.9	109.8
Operating profit margin	32.9	19.3	32.3	1365.7	67.4
Net profit margin	6.8	8.4	6.8	-159.3	6.9

Source: Sharekhan research, company
**Treasury shares excluded while calculating EPS*
**Q3FY19 numbers not comparable with Q3FY20 and Q2FY20 due to Ind AS 116 implementation from 1st April 2019.*

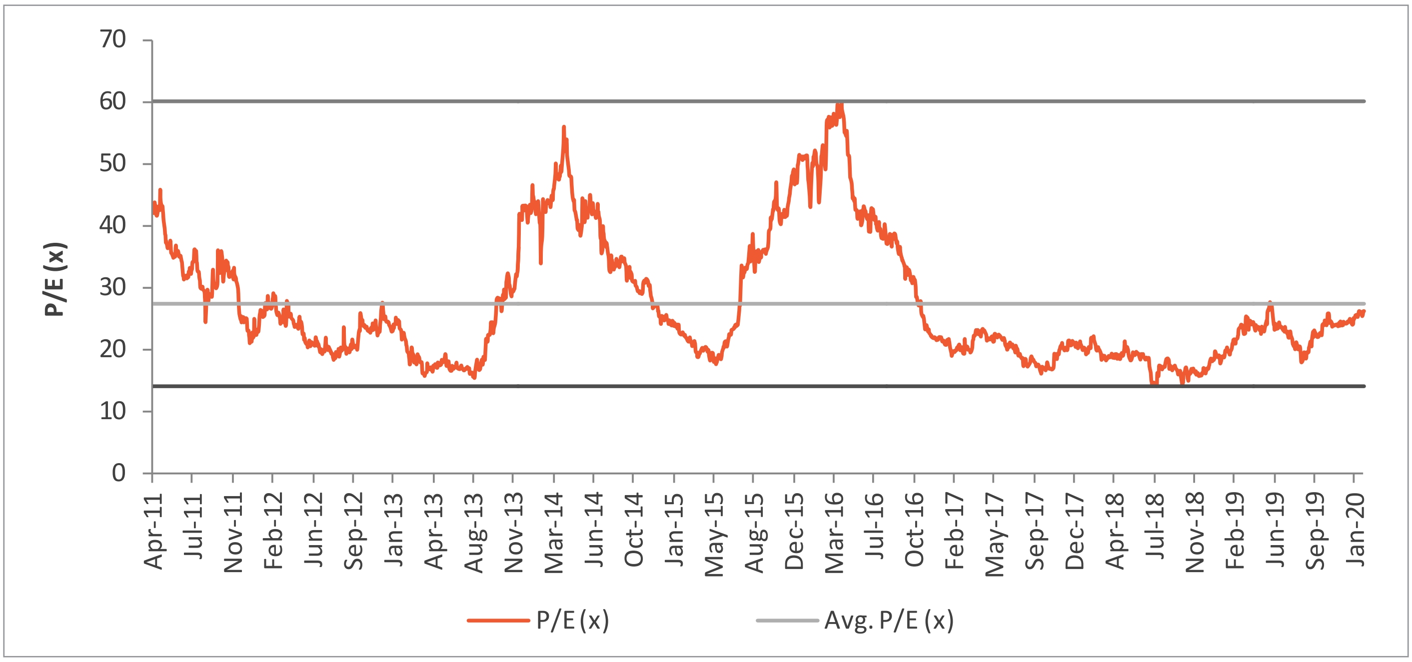
Outlook

Strong balance sheet, growing at a healthy pace: A healthy content pipeline is expected to help in generating robust footfalls. Further, management expects ad revenue growth to be back to normalcy from Q4FY2020. Moreover, the pace of screen additions is expected to pick up in FY2021E. Healthy pace of screen additions along with increasing footfall monetisation efforts is expected to bode well for the company and expect revenue CAGR of 17.4% over FY2019-FY2022E.

Valuation

Maintain Buy with a revised PT of Rs. 500: We have fine-tuned our estimates for FY2020E/FY2021E, factoring in higher-than-expected operating profitability. We introduce FY2022E numbers in this note. We remain Positive on ILL as it has a strong balance sheet (net-debt free) along with healthy cash flow generation profile. At the CMP, the stock is trading at 27x/23x its FY2021E/FY2022E earnings. Given increasing footfall monetisation efforts and improving operating metrics, we maintain our Buy rating on the stock with a revised PT of Rs. 500.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Incorporated in 1999, ILL is one of the largest multiplex operators in India. The company currently operates 146 properties (614 screens and over 1.42 lakhs seats) located in 68 cities across India. ILL is the only multiplex operator having 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

ILL has aggressively scaled up through organic and inorganic expansion over the past decade, growing from two properties – eight screens – in FY2003 to 146 properties – 614 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 footfalls and advertisement revenue growth rates. Inability to take adequate price hikes at the right time might impact 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
Alok Tandon	Chief Executive Officer
Kailash B Gupta	Chief Financial Officer
Parthasarathy Iyengar	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.66
2	JAIN PAVAN KUMAR	4.23
3	Sundaram Asset Management Co Ltd	4.11
4	Aditya Birla Sun Life Trustee Co P	2.62
5	DSP Investment Managers Pvt Ltd	2.03
6	Aditya Birla Sun Life Asset Manage	1.71
7	TAIYO GREATER IN FUND LTD	1.66
8	Franklin Resources Inc	1.45
9	Reliance Capital Trustee Co Ltd	1.38
10	BNP Paribas Asset Management India	1.35

Source: Bloomberg

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