

Inox Leisure (INOL IN)

Rating: BUY | CMP: Rs424 | TP: Rs476

February 7, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	476		437	
Sales (Rs. m)	23,932	27,515	24,356	28,021
% Chng.	(1.7)	(1.8)		
EBITDA (Rs. m)	7,680	8,754	7,645	8,898
% Chng.	0.5	(1.6)		
EPS (Rs.)	19.3	23.1	16.8	20.6
% Chng.	15.4	11.9		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	16,922	20,776	23,932	27,515
EBITDA (Rs. m)	3,092	6,712	7,680	8,754
Margin (%)	18.3	32.3	32.1	31.8
PAT (Rs. m)	1,393	1,435	1,985	2,370
EPS (Rs.)	13.6	14.0	19.3	23.1
Gr. (%)	3.4	3.0	38.4	19.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	13.9	25.9	26.4	24.0
RoCE (%)	20.6	13.6	14.4	15.2
EV/Sales (x)	2.6	3.2	2.7	2.3
EV/EBITDA (x)	14.3	9.9	8.5	7.2
PE (x)	31.2	30.3	21.9	18.4
P/BV (x)	4.5	7.9	5.8	4.4

Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.430 / Rs.249
Sensex / Nifty	41,142 / 12,098
Market Cap	Rs.44bn / \$ 611m
Shares Outstanding	103m
3M Avg. Daily Value	Rs.151.94m

Shareholding Pattern (%)

Promoter's	52.10
Foreign	10.96
Domestic Institution	22.39
Public & Others	14.55
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.8	46.4	63.6
Relative	12.1	30.6	47.0

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On track to achieve screen addition guidance

Quick Pointers:

- Footfalls increased 10.5% YoY to 16.9mn.
- Gross ATP was flat at Rs204. However, gross SPH increased 9.5% YoY to Rs81 due to improved product mix & increasing quantum on F&B spends.
- 46 screens have been opened YTD and the target to open 70 screens for FY20E remains intact.

We keep our EBITDA estimates broadly unchanged but raise our target EV/EBITDA multiple to 9.2x (earlier 8.7x) as 1) footfalls are showing resilience to weakness in regional film market (evident in case of PVR) due to low screen exposure in South (22% of the portfolio is in South versus 34% for PVR) 2) diversity arising from screening of non-movie based content (music concerts, sports leagues etc) which is boosting occupancy in lean periods (weekdays) 3) strong response to the newly launched loyalty program (~4mn patrons have already signed up in 2 months) which will result in consumer stickiness with no material impact on margins even in the near term and 4) strong screen addition pipeline (~1,018 screens are in fray to be opened post FY20E; as of 2QFY20 the figure was ~914 screens) which provides long term revenue visibility. While the stock has already appreciated by ~26% since our initiation report, we believe INOL's premiumisation approach and strategic initiatives to boost advertisement and F&B sales is expected to yield rich dividends and further re-rating is on the cards (market leader PVR trades at a 21%/18% premium over our FY20/FY21 EBITDA estimates respectively). Maintain BUY with a revised TP of Rs476 (earlier Rs437).

Con-call highlights: 1) As 46 screens have already been opened YTD, and balance 24 screens are already constructed (only license approval is pending) spill-over in FY21E is unlikely and the target to open 70 screens for FY20E remains intact 2) Ad growth was impacted (4% YoY growth) as Inox held on to the rates (pressure on yields due to weak environment) resulting in loss of business 3) During 9MFY20, Rs1.8bn has been incurred towards capex. Target for FY20E is Rs2.5-2.6bn. 4) Bollywood contributed 67%, Hollywood 15%, and regional languages 18% towards NBOC in 3QFY20 5) The new loyalty program has been received well (~4mn patrons have signed up) and has limited cost attached to it (no impact on margins seen even in the near term). 6) SPH growth of 9.5% was driven by better product mix and higher F&B spends. There was no impact of price hikes 7) Screen additions for FY21E is likely to be higher than FY20E. 8) ~50% of the tickets were booked online in 3QFY20 9) F&B revenue contribution from Swiggy was immaterial during the 3QFY20.

Strong revenue & margin performance: Top-line increased 18.4% YoY to Rs5,129.1mn. Revenues from NBOC, F&B and advertising were up 18.6% YoY, 22.3% YoY and 4.1% YoY respectively. As of 3QFY20, number of properties, screens and seats stood at 146, 614 and 142,684 respectively. Ind-AS adjusted EBITDA increased 24.0% YoY to Rs1,035.3mn (Ind-AS adjusted margin of 20.2%). Ind-AS adjusted PAT increased 40.2% YoY to Rs511.1mn (Ind-AS adjusted margin of 10.0%).

Exhibit 1: Consolidated result overview (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr.	Q2FY20	QoQ gr.	9MFY20	9MFY19	YoY gr.
Net sales	5,129.1	4,330.9	18.4%	5,199.4	-1.4%	15,258.6	12,133.4	25.8%
Movie exhibition cost	1,337.0	1,121.6	19.2%	1,391.4	-3.9%	4,027.3	3,169.9	27.0%
<i>As a % of sales</i>	<i>26.1%</i>	<i>25.9%</i>		<i>26.8%</i>		<i>26.4%</i>	<i>26.1%</i>	
Consumption of F&B	320.0	283.1	13.0%	345.4	-7.4%	998.3	808.2	23.5%
<i>As a % of sales</i>	<i>6.2%</i>	<i>6.5%</i>		<i>6.6%</i>		<i>6.5%</i>	<i>6.7%</i>	
Employee expenses	369.1	301.7	22.3%	373.2	-1.1%	1,093.3	843.2	29.7%
<i>As a % of sales</i>	<i>7.2%</i>	<i>7.0%</i>		<i>7.2%</i>		<i>7.2%</i>	<i>6.9%</i>	
Other expenses	1,413.5	1,789.4	-21.0%	1,411.8	0.1%	3,331.3	2,876.3	15.8%
<i>As a % of sales</i>	<i>27.6%</i>	<i>41.3%</i>		<i>27.2%</i>		<i>21.8%</i>	<i>23.7%</i>	
EBITDA	1,689.5	835.1	102.3%	1,677.6	0.7%	5,808.4	4,435.8	30.9%
<i>EBITDA margin</i>	<i>32.9%</i>	<i>19.3%</i>		<i>32.3%</i>		<i>38.1%</i>	<i>36.6%</i>	
Depreciation	648.4	245.3	164.3%	645.1	0.5%	1,901.5	706.4	169.2%
EBIT	1,041.1	589.8	76.5%	1,032.5	0.8%	3,906.9	3,729.4	4.8%
<i>EBIT margin</i>	<i>20.3%</i>	<i>13.6%</i>		<i>19.9%</i>		<i>25.6%</i>	<i>30.7%</i>	
Interest cost	547.4	62.0	782.9%	542.2	1.0%	1,598.3	198.9	703.6%
Other income	48.5	31.0	56.5%	44.0	10.2%	123.8	96.7	28.0%
PBT	542.2	558.8	-3.0%	534.3	1.5%	1,491.9	1,309.4	13.9%
Tax expenses	192.1	194.2	-1.1%	183.0	5.0%	520.4	455.3	14.3%
Tax rate	35.4%	34.8%		34.3%		34.9%	34.8%	
PAT	350.1	364.6	-4.0%	351.3	-0.3%	971.5	854.1	13.7%
<i>PAT margin</i>	<i>6.8%</i>	<i>8.4%</i>		<i>6.8%</i>		<i>6.4%</i>	<i>7.0%</i>	
Non-controlling interest	-	-	NM	-	NM	-	-	NM
Other comprehensive income (OCI)	1.9	(2.0)	NM	0.1	NM	(9.1)	0.1	NM
PAT inclusive of OCI	352.0	362.6	-2.9%	351.4	0.2%	962.4	854.2	12.7%
EPS (Rs)	3.6	3.9	-8.7%	3.6	-0.3%	9.9	9.2	7.2%

Source: Company, PL

Exhibit 2: Revenue Mix (Rs mn)

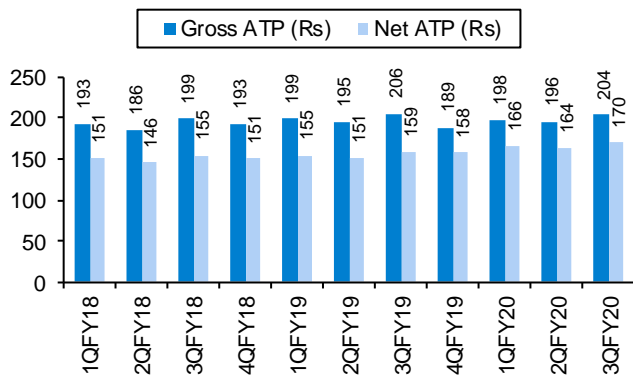
Particulars	Q3FY20	Q3FY19	YoY gr.	Q2FY20	QoQ gr.
NBOC	2,880	2,429	18.6%	3,110	-7.4%
<i>As a % of sales</i>	<i>55.6%</i>	<i>56.1%</i>		<i>59.2%</i>	
Net F&B	1,300	1,063	22.3%	1,410	-7.8%
<i>As a % of sales</i>	<i>25.1%</i>	<i>24.5%</i>		<i>26.9%</i>	
Advertisement revenue	580	557	4.1%	400	45.0%
<i>As a % of sales</i>	<i>11.2%</i>	<i>12.9%</i>		<i>7.6%</i>	
Other operating income	420	283	48.4%	330	27.3%
<i>As a % of sales</i>	<i>8.1%</i>	<i>6.5%</i>		<i>6.3%</i>	
Total sales	5,180	4,332	19.6%	5,250	-1.3%

Source: Company, PL

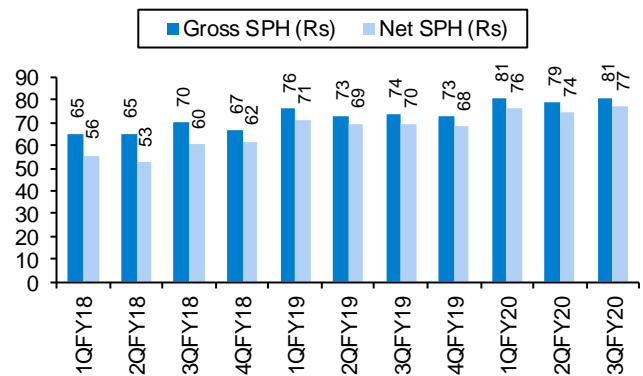
Exhibit 3: Ind AS adjusted financials

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY gr.	Q2FY20	QoQ gr.
Sales	5,129	4,331	18.4%	5,199	-1.4%
Ind-AS Adjusted EBITDA	1,035	835	24.0%	1,029	0.6%
<i>Ind-AS Adjusted EBITDA margin</i>	<i>20.2%</i>	<i>19.3%</i>		<i>19.8%</i>	
Ind-AS Adjusted PAT	511	365	40.2%	512	-0.1%
<i>Ind-AS Adjusted PAT margin</i>	<i>10.0%</i>	<i>8.4%</i>		<i>9.8%</i>	

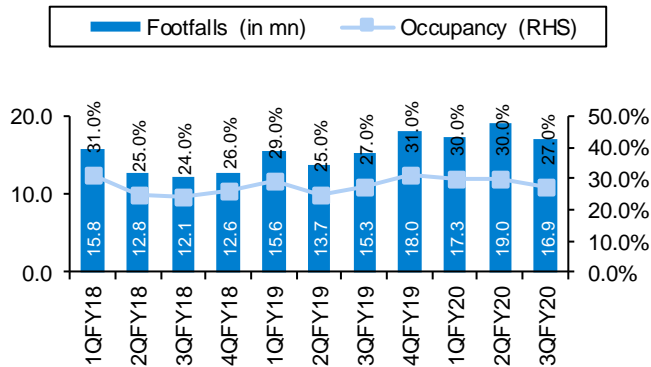
Source: Company, PL

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


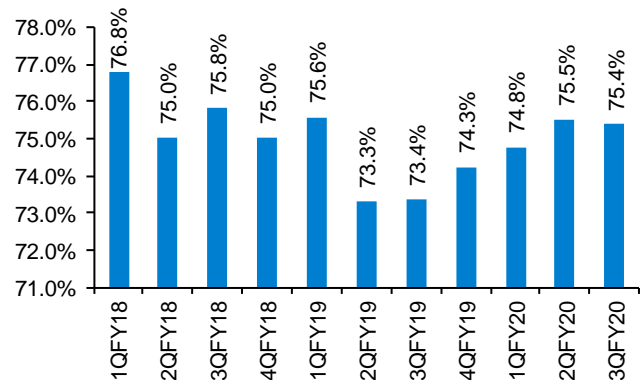
Source: Company, PL

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

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	16,922	20,776	23,932	27,515
YoY gr. (%)	25.5	22.8	15.2	15.0
Cost of Goods Sold	5,567	6,828	7,836	8,955
Gross Profit	11,355	13,949	16,097	18,560
Margin (%)	67.1	67.1	67.3	67.5
Employee Cost	1,152	1,494	1,771	2,064
Other Expenses	7,112	5,743	6,646	7,742
EBITDA	3,092	6,712	7,680	8,754
YoY gr. (%)	46.9	117.1	14.4	14.0
Margin (%)	18.3	32.3	32.1	31.8
Depreciation and Amortization	955	2,584	2,944	3,329
EBIT	2,137	4,128	4,736	5,425
Margin (%)	12.6	19.9	19.8	19.7
Net Interest	237	2,145	2,274	2,476
Other Income	149	167	191	220
Profit Before Tax	1,991	2,150	2,654	3,168
Margin (%)	11.8	10.3	11.1	11.5
Total Tax	656	715	669	798
Effective tax rate (%)	33.0	33.3	25.2	25.2
Profit after tax	1,335	1,435	1,985	2,370
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,393	1,435	1,985	2,370
YoY gr. (%)	10.3	3.0	38.4	19.4
Margin (%)	8.2	6.9	8.3	8.6
Extra Ord. Income / (Exp)	(58)	-	-	-
Reported PAT	1,335	1,435	1,985	2,370
YoY gr. (%)	16.5	7.5	38.4	19.4
Margin (%)	7.9	6.9	8.3	8.6
Other Comprehensive Income	1	(9)	-	-
Total Comprehensive Income	1,336	1,425	1,985	2,370
Equity Shares O/s (m)	103	103	103	103
EPS (Rs)	13.6	14.0	19.3	23.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	12,158	32,927	35,900	39,070
Tangibles	11,947	32,710	35,678	38,844
Intangibles	211	216	221	226
Acc: Dep / Amortization	3,109	5,693	8,637	11,966
Tangibles	3,009	5,593	8,536	11,866
Intangibles	101	101	101	101
Net fixed assets	9,049	27,233	27,263	27,104
Tangibles	8,939	27,118	27,142	26,978
Intangibles	111	116	121	126
Capital Work In Progress	637	637	637	637
Goodwill	175	175	175	175
Non-Current Investments	1,758	2,146	2,471	2,813
Net Deferred tax assets	529	580	717	855
Other Non-Current Assets	1,127	1,364	1,606	1,879
Current Assets				
Investments	6	6	6	6
Inventories	122	171	197	226
Trade receivables	882	1,138	1,377	1,658
Cash & Bank Balance	137	1,653	3,674	6,326
Other Current Assets	312	382	420	431
Total Assets	14,788	35,551	38,617	42,196
Equity				
Equity Share Capital	1,026	1,026	1,026	1,026
Other Equity	8,612	4,507	6,492	8,862
Total Networkth	9,638	5,533	7,518	9,888
Non-Current Liabilities				
Long Term borrowings	550	24,691	25,137	25,612
Provisions	127	145	168	193
Other non current liabilities	690	852	957	1,073
Current Liabilities				
ST Debt / Current of LT Debt	200	200	200	200
Trade payables	1,596	1,821	2,098	2,412
Other current liabilities	1,897	2,214	2,441	2,715
Total Equity & Liabilities	14,788	35,551	38,617	42,197

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,335	2,150	2,654	3,168
Add. Depreciation	955	2,584	2,944	3,329
Add. Interest	237	2,145	2,274	2,476
Less Financial Other Income	149	167	191	220
Add. Other	551	(197)	(311)	(307)
Op. profit before WC changes	3,077	6,682	7,561	8,667
Net Changes-WC	88	(137)	(69)	(45)
Direct tax	(369)	(715)	(669)	(798)
Net cash from Op. activities	2,797	5,829	6,822	7,824
Capital expenditures	(2,492)	(20,768)	(2,973)	(3,170)
Interest / Dividend Income	32	-	-	-
Others	104	-	-	-
Net Cash from Inv. activities	(2,356)	(20,768)	(2,973)	(3,170)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,819)	18,601	445	475
Dividend paid	-	-	-	-
Interest paid	(231)	(2,145)	(2,274)	(2,476)
Others	1,594	-	-	-
Net cash from Fin. activities	(456)	16,456	(1,828)	(2,002)
Net change in cash	(16)	1,517	2,021	2,652
Free Cash Flow	301	(14,939)	3,850	4,653

Source: Company Data, PL Research

Key Financial Metrics

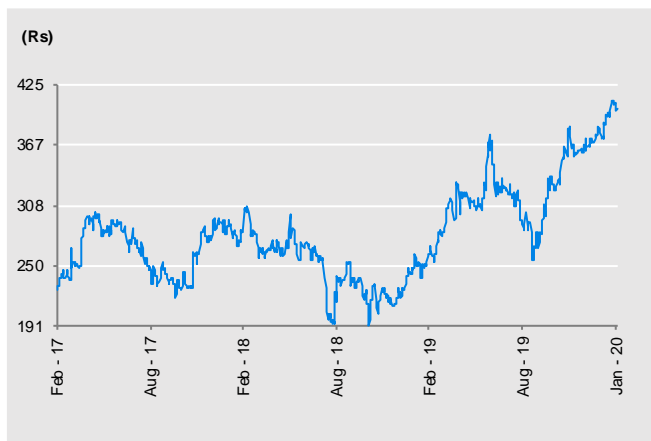
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	13.6	14.0	19.3	23.1
CEPS	22.9	39.2	48.0	55.5
BVPS	93.9	53.9	73.3	96.4
FCF	2.9	(145.6)	37.5	45.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	20.6	13.6	14.4	15.2
ROIC	20.9	18.9	19.9	20.7
RoE	13.9	25.9	26.4	24.0
Balance Sheet				
Net Debt : Equity (x)	0.1	4.2	2.9	2.0
Net Working Capital (Days)	(13)	(9)	(8)	(7)
Valuation(x)				
PER	31.2	30.3	21.9	18.4
P/B	4.5	7.9	5.8	4.4
P/CEPS	18.5	10.8	8.8	7.6
EV/EBITDA	14.3	9.9	8.5	7.2
EV/Sales	2.6	3.2	2.7	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	4,788	4,930	5,199	5,129
YoY gr. (%)	48.0	18.8	42.3	18.4
Raw Material Expenses	1,589	1,632	1,737	1,657
Gross Profit	3,200	3,298	3,463	3,472
Margin (%)	66.8	66.9	66.6	67.7
EBITDA	974	1,501	1,678	1,690
YoY gr. (%)	121.9	79.8	274.5	102.3
Margin (%)	20.3	30.4	32.3	32.9
Depreciation / Depletion	249	608	645	648
EBIT	725	893	1,033	1,041
Margin (%)	15.1	18.1	19.9	20.3
Net Interest	38	509	542	547
Other Income	53	31	44	49
Profit before Tax	682	415	534	542
Margin (%)	14.2	8.4	10.3	10.6
Total Tax	201	145	183	192
Effective tax rate (%)	29.5	35.0	34.3	35.4
Profit after Tax	481	270	351	350
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	539	270	351	350
YoY gr. (%)	(20.8)	(27.0)	193.5	(4.0)
Margin (%)	11.3	5.5	6.8	6.8
Extra Ord. Income / (Exp)	(58)	-	-	-
Reported PAT	481	270	351	350
YoY gr. (%)	31.9	(43.8)	30.1	(0.3)
Margin (%)	10.0	5.5	6.8	6.8
Other Comprehensive Income	1	(11)	-	2
Total Comprehensive Income	481	259	351	352
Avg. Shares O/s (m)	103	103	103	103
EPS (Rs)	5.0	2.8	3.6	3.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	437	376
2	7-Dec-19	BUY	416	365
3	23-Oct-19	BUY	416	354
4	3-Oct-19	BUY	394	324
5	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	287	260
3	Indian Railway Catering and Tourism Corporation	BUY	1,339	1,004
4	Inox Leisure	BUY	437	376
5	Music Broadcast	Hold	39	27
6	Navneet Education	BUY	108	91
7	PVR	Accumulate	2,053	1,900
8	S Chand and Company	Accumulate	92	75
9	V.I.P. Industries	BUY	501	440
10	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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