Sharekhan
by BNP PARIBAS

Inox Leisure

Growth outlook healthy despite short-term hiccups

Sector: Consumer Discretionary
Company Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 495**	
Price Target: **Rs. 575**	↑

↑ Upgrade ↔ No change ↓ Downgrade

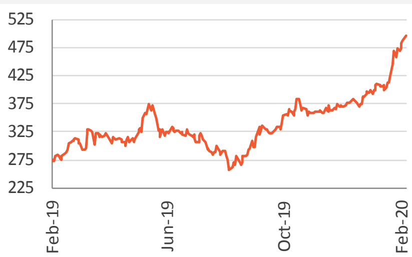
Company details

Market cap:	Rs. 5,085 cr
52-week high/low:	Rs. 509/249
NSE volume: (No of shares)	2.3 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
DII	22
FII	11
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.6	35.2	72.6	77.6
Relative to Sensex	24.7	33.5	56.2	52.6

Sharekhan Research, Bloomberg

We interacted with Mr. Kailash Gupta, Chief Financial Officer of Inox Leisure Limited (IIL) to discuss i) the outlook on average ticket price (ATP) and spend per head (SPH), ii) outlook on movement in advertising revenue growth, iii) pace of screen additions and lastly iv) the time frame by when the company will adopt the lower tax regime.

The management guided that though seasonal factors are no more visible during the last couple of quarters as quality of content drives footfalls and performance, Q4FY2020E performance is expected to be muted owing to weak content for most part of the quarter and one-time non cash hit on the tax front (adoption of new tax regime). The start of the quarter was encouraging owing to healthy content on display along with some spillover impact from December, which attracted footfalls. Though the situation is not the same in current month, as occupancy level has declined owing to dull content. However, the management expects a gradual pick-up in March. Q4FY2020 will be the first comparable quarter after the reduction in GST rates and a 6-7% increase in ATP is expected. Moreover, SPH is expected to increase moderately owing to a favourable alteration in food menu and lower food inflation. On the advertising front, moderate low- single digit growth is expected as there has been a slower recovery in demand offtake in customers' industries (taking longer time than anticipated). It also expects that the pace of screen addition is set to accelerate in FY2021E, as 80 screens (4-5 properties with ~20 screens to be added in Delhi NCR region) will be added as compared to expectation of 70 screen additions during FY2020E. However, we believe some of these planned new screen additions would spill over to Q1FY2021E owing to real-estate challenges and delays in regulatory approvals.

Our Call

Maintain Buy with a revised PT of Rs. 575: We re-work our estimates for FY2020E to factor in the expectation of soft Q4 performance coupled with adoption of lower tax regime from Q4FY2020E; hence numbers for FY2021E and FY2022E are adjusted for taxation accordingly. We remain Positive on Inox, as it has a strong balance sheet (net-debt free) along with healthy cash-flow generation profile. Moreover, a 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 coupled with improving operating metrics are expected to bode well for the company. At CMP, the stock is trading at 27.0x and 22.3x its FY2021E and FY2022E earnings respectively. Hence, we maintain our Buy rating on the stock with a revised PT of Rs. 575.

Key Risks

- Delay in screen additions and deterioration of content quality might affect footfalls and advertisement revenue growth rates.
- The inability to take adequate price hikes at the right time might affect 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	2,029.8	2,391.0	2,815.4
OPM (%)	15.6	18.3	32.0	32.1	32.3
Adjusted PAT	123.2	138.5	134.5	180.8	219.1
% y-o-y growth	302.5	12.4	-2.9	34.5	21.1
Adjusted EPS (Rs.)	12.8	14.1	13.6	18.4	22.2
P/E (x)	38.7	35.2	36.3	27.0	22.3
P/B (x)	6.8	4.7	6.0	4.9	3.9
EV/EBITDA (x)	23.9	16.6	7.6	6.0	4.6
RoNW (%)	18.4	14.4	17.8	19.3	19.0
RoCE (%)	13.4	20.9	22.7	15.1	17.0

Source: Company; Sharekhan estimates
**Treasury shares excluded while calculating EPS *FY2020E/FY2021E/FY2022E numbers are based on Ind AS 116 and lower corporate tax rate.*

Lower footfalls to impact occupancy levels in Q4FY2020E: The management highlighted that the start of the of the quarter was encouraging owing to healthy content on display such as i) Tanhaji – The Unsung Hero and ii) Darbar along with some spillover impact from December (Dabangg3 and Good Newwz) which attracted footfalls. However, the situation is not the same in current month as has occupancy level has seen a downtrend owing to dull content but at the same time expects a gradual pickup in the month of March led by movies such as i) Baaghi 3 and ii) Sooryavanshi. Overall management believes that Q4FY2020 would see a muted performance on y-o-y basis led by lower occupancy and slower pace of screen additions (base quarter was a one-off strong quarter owing to robust content and healthy screen addition). However, on sequential basis the company is likely to report moderate growth.

Average ticket price (ATP) and Spend per head (SPH) continues to remain healthy: Q4 will be the first comparable quarter posts the reduction in GST rates and a 6-7% increase in ATP is expected. Moreover, SPH is expected to see moderate increase owing favourable alteration in food menu coupled with lower food inflation. New initiatives such as tie-up with online delivery chain (currently Mumbai and Bengaluru, to expand pan-India gradually), experiment with introduction of new cuisine, addition of new order modes to lower delivery time, etc are not meaningful at this juncture, however, would help in higher conversions and improved profitability in the food & beverage (F&B) segment in the long run.

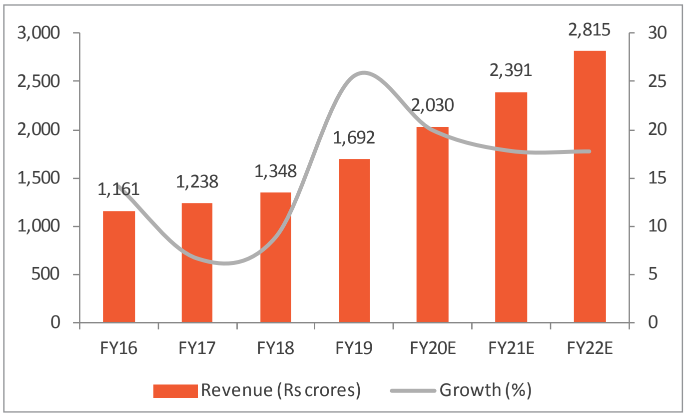
Pick-up in advertising taking longer than anticipated: Though advertising environment has not improved significantly owing to slower demand offtake in customers industries (taking longer time than anticipated), however we believe that the company will be able to deliver low single digit growth in advertising revenues during Q4FY2020E. The management guided that the advertising revenue growth rate in FY2020E should be near the 9MFY2020 average and expects a gradually recovery in FY2021E.

Onetime impact on profitability in Q4FY2020E owing to adoption of new tax regime: The management also guided that though the seasonal factor is no more visible during the last couple of quarters as quality of content drives footfalls and performance, however Q4FY2020E performance is expected to be muted owing to weak content in most part of the quarter coupled with one-time non cash hit on the taxation front (write-down of deferred tax asset of ~Rs. 60 crore and write-off of MAT credit entitlement of ~Rs. 20 crore). Moreover, adoption of the new tax rate will help the company to conserve cash of Rs. 25-30 crore from FY2021E onwards.

Management confident to meet screen addition guidance for FY2020: Though screen addition during the year remains 46 till date (similar number as at the close of Q3FY2020), the management is confident that the total screen addition during FY2020 will inch up to 70 (most of the screens which are expected to be added are almost at the handover stage and commercial operations would start soon). However, we believe some of these planned new screen additions would spill over to Q1FY2021E owing to real-estate challenges and delays in regulatory approvals. Moreover, the screens added during Q4FY2020 will contribute meaningfully from Q1FY2021E and onwards. It also expects that the pace of screen addition is set to accelerate in 2021E, as 80 screens (4-5 properties with ~20 screens to be added in the Delhi-NCR region) will be added as compared to expectation of 70 screen additions during FY2020E.

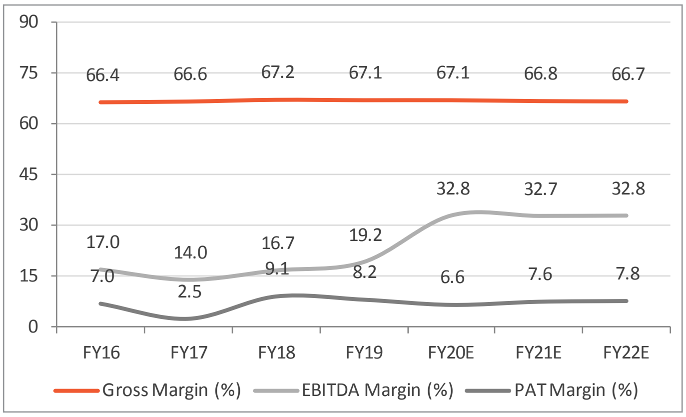
Financials in charts

Revenue growing at a healthy pace



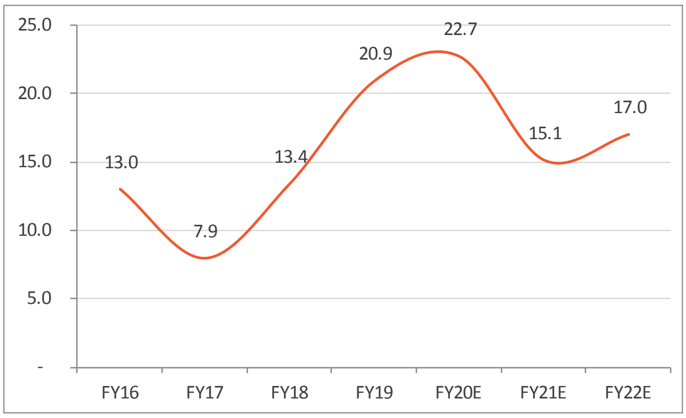
Source: Company, Sharekhan Research

Healthy margin profile (Ind AS impact from FY20E)



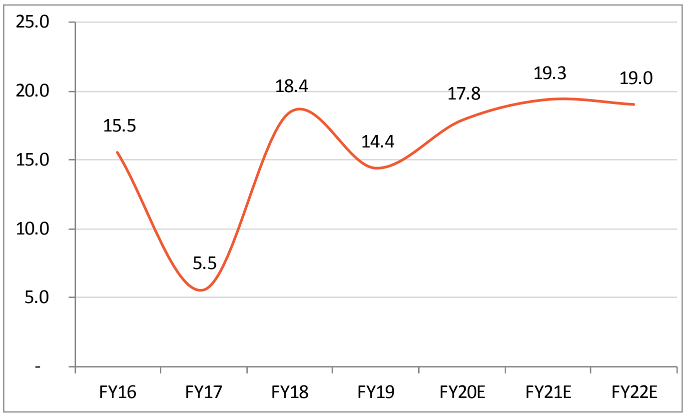
Source: Company, Sharekhan Research

RoCE to moderate due to Ind AS 116



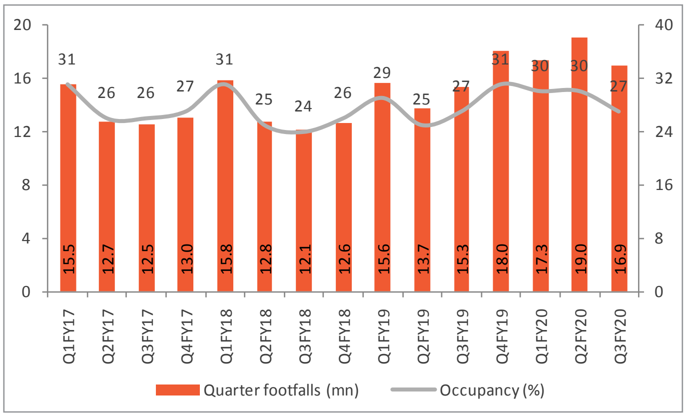
Source: Company, Sharekhan Research

RoE to improve marginally



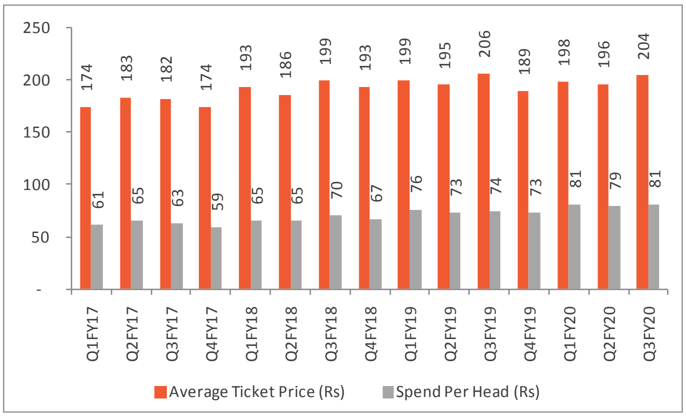
Source: Company, Sharekhan Research

Q1 seasonally strong quarter



Source: Company, Sharekhan Research

Price hikes usually seen in Q1



Source: Company, Sharekhan Research

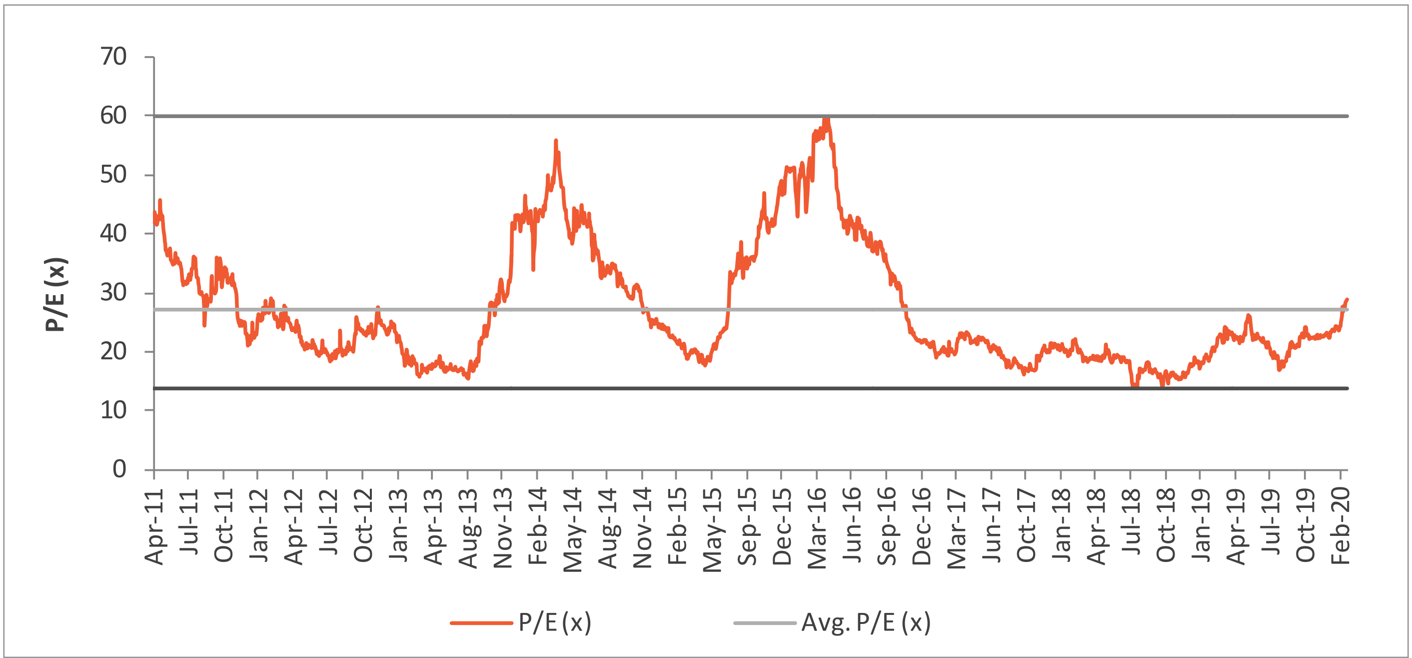
Outlook

Strong balance sheet, growing at a healthy pace: A 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 and better improving operating metrics are expected to bode well for the company. The management guided that the advertising growth rate in FY2020E should near the 9MFY2020 average and expects a gradually recovery in FY2021E. Moreover, the pace of screen addition is expected to accelerate in 2021E, as 80 screens (4-5 properties with ~20 screens to be added in Delhi-NCR region) will be added as compared to expectation of 70 screens during FY2020E. Moreover, adoption of a new tax regime will help the company to conserve cash amounting to Rs 25-30 crores from FY2021E and onwards. Hence, we expect the company to post a revenue and earnings CAGR of 18.5% and 16.5% over FY2019-2022E.

Valuation

Maintain Buy with revised PT of Rs. 575: We re-work our estimates for FY2020E to factor in the expectation of soft Q4 performance coupled with adoption of lower tax regime from Q4FY2020E; hence numbers for FY2021E and FY2022E are adjusted for taxation accordingly. We remain Positive on ILL, as it has a strong balance sheet (net-debt free) along with healthy cash-flow generation profile. At CMP, the stock is trading at 27.0x and 22.3x its FY2021E and FY2022E earnings respectively. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 575.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Companies	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	495	10.3	5,085	36.3	27.0	7.6	6.0	6.0	4.9	17.8	19.3
PVR*	2,046	5.1	10,504	53.4	38.5	14.6	12.7	6.9	5.9	13.0	15.9

*Source: Sharekhan Research, * denotes Bloomberg estimates*

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 a drop in 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.

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	7.51
2	JAIN PAVAN KUMAR	4.23
3	Sundaram Asset Management Co Ltd	4.11
4	Aditya Birla Sun Life Trustee Pvt Ltd	2.62
5	DSP Investment Managers Pvt Ltd	2.03
6	Aditya Birla Sun Life Asset Management	1.71
7	TAIYO GREATER IN FUND LTD	1.66
8	Franklin Resources Inc	1.45
9	Reliance Capital Trustee Co Ltd	1.37
10	BNP Paribas Asset Management India Pvt Ltd	1.35

Source: Bloomberg

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;