13 July 2020

# Inox Leisure

Rating: **Buy**
Target Price: ₹292
Share Price: ₹233

*The best place in multiplexes; initiating coverage with a Buy*

**While movie exhibitors will suffer in the short term and the pace of recovery will be slower, we believe they will rebound and gain from pent-up demand as home-sheltering subsides and people seek a communal experience on return of normalcy. We are structurally positive on multiplexes, though wary of their re-opening. With that in mind, we assume a lockdown in H1 FY21 and subdued H2 occupancy. Hence, we initiate coverage on Inox Leisure with a Buy rating, at a TP of ₹292 (valuing it at 9x FY22e EBITDA). With significantly reduced fixed costs (monthly ₹150m-170m cash-burn; pre-Covid-19: ₹700m-750m) and capital spending needed, Inox' cash balance ₹720m and credit available (₹750m) would suffice for nearly 8-10 months without any revenue coming in. Also, it had Treasury shares of ₹1bn market value, which could be liquidated for exigencies and to acquire attractive distressed assets.**

**The charm of big screens will never fade; OTT, though, will co-exist.** OTT cannot afford all films, or films at every price level. The prices it pays will always be lower. Small/mid budget films will not mind opening in OTT; and OTT requires content. A time will come when quality won't matter for OTT, only content. Hence, content will have to be churned out. Such a situation, more or less, can be seen for quite a while in these uncertain times, as nobody knows how consumers will react. We believe that theatrical releases provide better opportunities to producers to generate RoIs, especially in case of big-budget movies.

**Crisis can lead to further consolidation in the sector.** While movie exhibitors will suffer in the short term and the pace of recovery will be slower, the crisis can lead to further consolidation in the sector, as some single screens would close due to the financial stress and uncertainty, and multiplexes would gain market share.

**Valuation**. We initiate coverage on Inox Leisure with a Buy rating, at a TP of ₹292. **Risks**: High contingent liabilities (company-specific), poor content, gradual mall development, and closed cinemas.

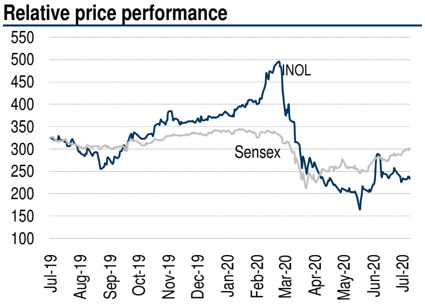
| Key financials (YE Mar) | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|
| Sales (₹ m) | 13,482 | 16,922 | 18,974 | 8,158 | 21,161 |
| Net profit (₹ m) | 1,146 | 1,335 | 1,410 | -2,384 | 1,635 |
| EPS (₹) | 11.9 | 13.0 | 13.7 | -23.2 | 15.9 |
| PE (x) | 19.3 | 17.7 | 16.7 | NA | 14.4 |
| EVEBITDA (x) | 12.7 | 7.9 | 7.5 | NA | 7.1 |
| PBV (x) | 3.4 | 2.4 | 3.6 | 2.7 | 2.3 |
| RoE (%) | 16.3 | 13.4 | 21.5 | NA | 16.0 |
| RoCE (%) | 13.2 | 20.7 | 30.7 | NA | 20.4 |
| Dividend yield (%) | - | - | 0.4 | - | - |
| Net debt / equity (x) | 0.4 | 0.1 | 0.2 | 0.2 | 0.0 |

*Source: Company, Anand Rathi Research* **Notes: No's are pre IND AS*

| Key data | INOL IN / INOL.BO |
|---|---|
| 52-week high / low | ₹512 / 158 |
| Sensex / Nifty | 36738 / 10813 |
| 3-m average volume | $2.8m |
| Market cap | ₹24bn / $320.6m |
| Shares outstanding | 103m |

| Shareholding pattern (%) | Mar'20 | Dec'19 | Sep'19 |
|---|---|---|---|
| Promoters | 51.9 | 51.9 | 51.9 |
| - *of which, Pledged* | - | - | - |
| Free float | 48.1 | 48.1 | 48.1 |
| - Foreign institutions | 9.3 | 11.0 | 12.2 |
| - Domestic institutions | 22.3 | 22.0 | 20.7 |
| - Public | 16.5 | 15.1 | 15.2 |

**Relative price performance**




*Source: Bloomberg*

**Shobit Singhal**
**Research Analyst**

# Quick Glance – Financials and Valuations

## Fig 1 – Income statement (₹ m)

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|
| Net revenues (₹ m) | **13,482.0** | **16,922.0** | **18,974.4** | **8,157.7** | **21,160.8** |
| *Growth (%)* | *10.4* | *25.5* | *12.1* | *-57.0* | *159.4* |
| *Occupancy (%)* | *26.0* | *29.5* | *27.8* | *11.6* | *27.8* |
| Direct costs | 4,416.7 | 5,567.1 | 6,226.7 | 2,610.2 | 7,052.9 |
| Gross profit | **9,065** | **11,355** | **12,748** | **5,547** | **14,108** |
| *Gross margins (%)* | ***67.2*** | ***67.1*** | ***67.2*** | ***68.0*** | ***66.7*** |
| SG&A | 6,985 | 8,263 | 9,447 | 6,771 | 10,764 |
| **EBITDA** | **2,081** | **3,092** | **3,301** | **-1,223** | **3,344** |
| *EBITDA margins (%)* | *15.4* | *18.3* | *17.4* | *-15.0* | *15.8* |
| Depreciation | 867 | 955 | 1,078 | 1,130 | 1,201 |
| Other income | 145 | 149 | 172 | 160 | 200 |
| Interest expenses | 289 | 237 | 116 | 191 | 158 |
| PBT | 1,058 | 2,043 | 2,279 | -2,384 | 2,186 |
| *Effective tax rate (%)* | *-17.4* | *33.0* | *38.1* | *0.0* | *25.2* |
| + Associates/(Minorities) | | | | | |
| Net income | 1,146 | 1,335 | 1,410 | -2,384 | 1,635 |
| WANS | 96 | 103 | 103 | 103 | 103 |
| FDEPS (₹ / sh) | 11.9 | 13.0 | 13.7 | -23.2 | 15.9 |

## Fig 2 – Balance sheet (₹ m)

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|
| Share capital | 962 | 1,026 | 1,026 | 1,026 | 1,026 |
| Net worth | 7,024 | 9,965 | 6,545 | 8,724 | 10,236 |
| Debt | 2,920 | 1,100 | 1,576 | 2,326 | 1,576 |
| Inox Benefit Trust | -327 | -327 | -327 | -327 | -327 |
| Lease liability | - | - | 26,619 | 26,619 | 26,619 |
| DTL / (Assets) | -811 | -529 | -1,773 | -1,473 | -1,173 |
| **Capital employed** | **8,806** | **10,210** | **32,640** | **35,869** | **36,931** |
| Net tangible assets | 7,427 | 8,938 | 9,761 | 9,921 | 10,664 |
| Net intangible assets | 115 | 111 | 84 | 70 | 55 |
| Goodwill | 175 | 175 | 175 | 175 | 175 |
| CWIP (tang. & intang.) | 539 | 637 | 854 | 854 | 854 |
| Right of use assets | - | - | 21,41.8 | 21,41.8 | 21,41.8 |
| Investments (strategic) | 136 | 11 | 12 | 12 | 12 |
| Investments (financial) | - | - | - | - | - |
| Current assets (ex cash) | 3,492 | 4,251 | 3,636 | 3,999 | 6,752 |
| Cash | 155 | 136 | 446 | 832 | 1,404 |
| Current liabilities | 3,235 | 4,050 | 3,738 | 1,403 | 4,395 |
| **Capital deployed** | **8,806** | **10,210** | **32,640** | **35,869** | **36,931** |

## Fig 3 – Cash-flow statement (₹ m)

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|
| PBT | 1,058 | 2,043 | 2,279 | -2,384 | 2,186 |
| + Non-cash items | 1,125 | 1,034 | 3,703 | 1,430 | 950 |
| Oper. prof. before WC | 2,183 | 3,077 | 5,981 | -954 | 3,136 |
| - Incr. / (decr.) in WC | 105 | 88 | -726 | -1,200 | 738 |
| Others incl. taxes | -177 | -369 | -513 | -298 | -500 |
| Operating cash-flow | 2,111 | 2,797 | 4,742 | -2,452 | 3,374 |
| - Capex (tang. + intang.) | -1,586 | -2,465 | -2,062 | -1,290 | -1,944 |
| Free cash-flow | 525 | 332 | 2,680 | -3,742 | 1,430 |
| - Div. (incl. buyback & taxes) | - | - | -119 | - | - |
| + Equity raised | - | 1,593 | 0 | - | - |
| + Debt raised | -540 | -2,050 | 366 | 750 | -750 |
| - Fin investments | 21 | 127 | 7 | - | - |
| - Misc. (CFI + CFF) | 26 | -19 | -75 | 1,997 | -3,996 |
| Net cash-flow | 1 | -20 | 310 | 386 | 572 |

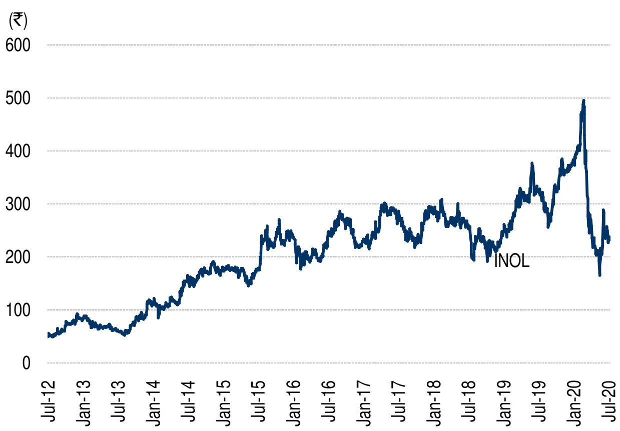
*Source: Company, Anand Rathi Research*

## Fig 4 – Ratio analysis

| Year-end: Mar | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|
| P/E (x) | 19.3 | 17.7 | 16.7 | NA | 14.4 |
| EV / EBITDA (x) | 12.7 | 7.9 | 7.5 | NA | 7.1 |
| EV / Sales (x) | 2.0 | 1.5 | 1.3 | 3.1 | 1.1 |
| P/B (x) | 3.4 | 2.4 | 3.6 | 2.7 | 2.3 |
| RoE (%) | 16.3 | 13.4 | 21.5 | NA | 16.0 |
| RoCE (%) - after tax | 13.2 | 20.7 | 30.7 | NA | 20.4 |
| DPS (₹ / sh) | | | 1.0 | - | |
| Dividend yield (%) | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Dividend payout (%) - incl. DDT | - | - | 8 | - | - |
| Net debt / equity (x) | 0.4 | 0.1 | 0.2 | 0.2 | 0.0 |
| Receivables (days) | 17 | 18 | 15 | 28 | 28 |
| Inventory (days) | 9.4 | 12.2 | 13.7 | 5.9 | 11.0 |
| Payables (days) | 81 | 79 | 75 | 115 | 50 |
| CFO : EBITDA % | 82.4 | 85.0 | 46.9 | NA | 100.9 |

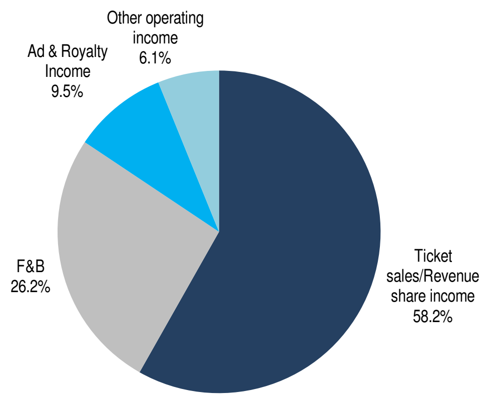
*Source: Company, Anand Rathi Research*

## Fig 5 – Price movement




*Source: Bloomberg*

## Fig 6 – Revenue break-up (FY20)




*Source: Company*

# Multiplexes to gain market share as finance constraints shut single screen

Scores of single-screen theatres across India, which have been braving the onslaught of large multiplex operators for years, are now fighting a new demon, Covid-19. According to the Ficci-EY Media and Entertainment Report 2020, the number of single screens in India has been steadily declining, from 7,031 in 2016 to 6,327 in 2019. Now, with salaries and fixed expenses mounting amid the lockdown, an epic battle for survival is playing out.

**Fig 7 – Single-screen count continued to fall**

| Particulars | 2016 | 2017 | 2018 | 2019 | CAGR 16-19) |
|---|---|---|---|---|---|
| Single screens | 7,031 | 6,780 | 6,651 | 6,327 | -3.5 |
| Multiplexes | 2,450 | 2,750 | 2,950 | 3,200 | 9.3 |
| Total number of screens | 9,481 | 9,530 | 9,601 | 9,527 | 0.2 |
| Multiplexes as % total screens in India | *25.8* | *28.9* | *30.7* | *33.6* | |
| Single screens as % of total screens in India | *74.2* | *71.1* | *69.3* | *66.4* | |

*Source: Ficci-EY M&E Report, 2019*

**Fig 8 – Net screen count of leading multiplex chains**

| | 2018 | 2019 | As of Mar'20 |
|---|---|---|---|
| PVR | 748 | 812 | 845 |
| INOX | 546 | 612 | 626 |
| Carnival | 425 | 450 | |
| Cinepolis India | 350 | 381 | |
| Miraj | 100 | 125 | |

*Source: Company, Anand Rathi Research*

While movie exhibitors will suffer in the short term and the pace of recovery will be slower, the crisis could lead to further consolidation in the sector, as single screens would close due to the financial strain and uncertainty, and multiplexes gain market share.

**Fig 9 – M&A transactions in the past decade**

| Year | Acquirer | Target | No. of screens | Target EV | EV/Screen |
|---|---|---|---|---|---|
| 2010 | Inox | Fame Cinemas | 95 | 2,415 | 25 |
| 2012 | PVR | Cinemax | 138 | 5,675 | 41 |
| 2014 | Carnival Films | HDIL | 33 | 1,100 | 33 |
| 2014 | Inox | Satyam Cineplexes | 38 | 2,400 | 63 |
| 2014 | Cinepolis | Fun Cinemas | 83 | 4,800 | 58 |
| 2014 | Carnival Films | Big Cinemas | 242 | 7,100 | 29 |
| 2016 | PVR | DT Cinemas | 32 | 4,330 | 135 |
| 2018 | PVR | SPI Cinema | 76 | 10,037 | 132 |

*Source: Company, Anand Rathi Research*

# Charm of big screens will never fade away and OTT will co-exist

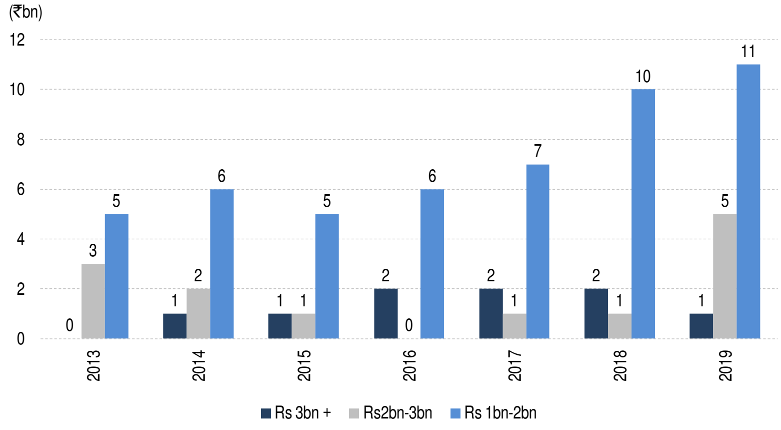
We did a call with Mr Agnihotri (film director, script-writer and member on the Board of Film Certification) to discuss the impact of Covid-19 on the film industry and on cinema theatres. He is of the view that the present situation is a great opportunity for the film industry to re-invent, reformulate and innovate, not only in terms of conducting "shoots" but also how films will now be viewed (in theatres or at home), and how finance for them will need to be structured. Hence, it will not be returning to the old ways. The film industry will have to do much re-thinking and re-invention. Artificial intelligence, digital technology, remote viewing, all these will gradually turn out to be drivers of the industry.

**Pre-Covid situation mindset.** What has been noticed so far in the pre-Covid context is that people are not very enthusiastic to view movies on the OTT platform if they haven't been released in theatres. Many and varied films are available in OTT (over ~50 small & low budget films released directly on OTT in 2019), but people don't see them. 'Drive' (a Dharma production) was released directly on OTT, but people don't even know much about it, or when such films are available. Advertising and cinema-hype help.

### Category of films and biggest beneficiary of the present situation

- Huge films (event films once a year like those released at Eid, Diwali, Christmas, etc., which usually do ~₹2bn-3bn+ business). In a year a family watches 5-6 such films in theatres. Such films are liquidity drivers and anchors of the film industry. Event films/big budget/big-star films cannot survive on just OTT or without GBOC. OTT would not be able to pay ₹1.5bn for movies such as 'Sooryavanshi', '83'.

Fig 10 – Number of releases by box office revenue



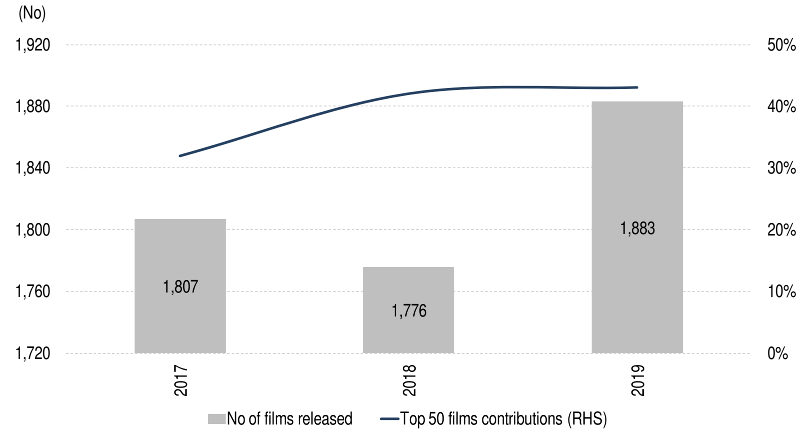

*Source: Ficci EY-M&E report 2019*

- Mid-budget films (the real eyeballs of the film industry usually in the range of ₹0.20bn-0.6bn). These films actually oil the entire industry. Investors keep investing in such.
- Small films are safe and constitute the outlying sector of the film industry. Many people lose money in such films. Of late, what has happened is because of the digital medium. Many such small films have been appreciated by families due to interesting content.

- Mid-size and small films will benefit much as footfalls for such films are fewer. Viewing these kinds of films in theatres will be easier. Big-budget movie will be faced with problems for some time. The largest beneficiaries will be small-budget films because OTT cannot afford to buy films at every cost level. The price it pays will always be lower. Small budget films will not mind opening in OTT.

  Also, OTT will not mind as it requires content. A time will come when quality won't matter for OTT—and content will. Hence, it will have to churn out content. More or less this kind of situation can be seen for quite a while in these uncertain times, as nobody knows how consumers will take to the altered circumstances.

**Fig 11 – Number of films**




*Source: Ficci EY-M&E report 2019*

**Importance of success at theatres in establishing movie brands.** Film shows in theatres have long been the primary distribution channel for new major motion picture releases. In addition to representing a significant share of a film's overall revenues, a successful theatre release "brands" a film and is one of the major contributors to a film's success in "downstream" markets, such as digital downloads, video-on-demand, DVDs, pay television, network and syndicated television, and streaming video on demand, as well as branded retail merchandise. OTT monetisation generally has been ~20-30% of the GBOC, pre-Covid'19.

**Fig 12 – Exhibition format primarily recovers cost of the movie, while broadcast and digital rights boost margins**

| Particulars (₹ bn) | 2016 | 2017 | 2018 | 2019 | 2022e | CAGR 2016-19, % |
|---|---|---|---|---|---|---|
| Domestic theatres | 85.6 | 96.3 | 102.1 | 115.2 | 146.4 | 10.4 |
| Overseas theatres | 8.5 | 25 | 30 | 27 | 30 | 47.0 |
| Broadcast rights | 16 | 19 | 21.2 | 22.1 | 25.5 | 11.4 |
| Digital / OTT rights | 6 | 8.5 | 13.5 | 19 | 32.8 | 46.8 |
| In-cinema advertising | 5.9 | 6.4 | 7.5 | 7.7 | 8.9 | 9.3 |
| Home video | 0.4 | 0.3 | 0.2 | 0.1 | 0 | -37.0 |
| **Total** | **122.4** | **155.5** | **174.5** | **191.1** | **243.6** | 16.0 |

*Source: Ficci EY-M&E report 2019*

**Expanded concepts, products to enhance movie-going experience.** The exhibition industry develops movie theatre platforms and concepts to respond to varying and changing consumer preferences and differentiate the movie-going experience from other out-of-home entertainment and from watching at home. Some examples: changing overall styles and amenities of theatres; expansion of concession products that provide more variety to traditional popcorn, fountain drinks and samosas. Many locations now offer hot food and/or healthier snacks. Enhanced projection and sound equipment and motion seats are offered at some locations to further enhance the movie-viewing experience. New and enhanced programming expands the industry's entertainment to attract a broader customer base.

Inox has diversified offerings such as Insignia, IMAX, MX4D, Kiddles, Big Pix, Onyx Diner and Screen X, and serves different customer categories. In FY20, it had 57 premium screen formats (constituting ~9% of the overall number of its screens). Such a diversified offering allows flexible pricing based on location and spending capability of patrons.

**Fig 13 – Inox Leisure property formats ( FY20)**

| Format | Screens |
|---|---|
| Insignia | 37 |
| IMAX | 11 |
| Kiddles | 3 |
| MX4D | 2 |
| Onyx Diner | 1 |
| Big Pix | 1 |
| Screen X | 2 |
| **Total** | **57** |

*Source: Company*

PVR has diversified offerings such as IMAX, 4DX, Playhouse, Gold, P[XL], Onyx and Director's Cut, and serves different customer categories. In Q3 FY20, it had 88 premium screen formats (constituting ~11% of the overall number of its screens).

**Fig 14 – PVR property formats (FY20)**

| Format | Screens |
|---|---|
| Gold class/ Luxe | 41 |
| 4DX | 17 |
| Playhouse | 12 |
| IMAX | 9 |
| P[XL] | 8 |
| Onyx | 1 |
| **Total** | **88** |

*Source: Company*

**Fig 15 – Strong backlog of film content (some key movies)**

| Release date | Movie | Cast |
|---|---|---|
| | | **Bollywood** |
| Oct'20 | Sooryavanshi | Akshay Kumar, Katrina Kaif |
| Nov'20 | Radhe: The Most Wanted Bhai | Salman Khan, Disha Patani, Randeep Hooda |
| Dec'20 | '83 | Ranveer Singh, Deepika Padukone |
| Dec'20 | Laal Singh Chaddha | Aamir Khan, Kareena Kapoor khan |
| Dec'20 | Coolie No. 1 | Sara Ali Khan, Varun Dhawan |
| Dec'20 | Brahmasatra | Ranbir Kapoor, Alia Bhatt and Amitabh Bachchan |
| Jan'21 | Sardar Udham Singh | Vicky Kaushal, Stephen Hogan |
| Jan'21 | Prithviraaj | Akshay Kumar, Sanjay dutt and Ashutosh Rana |
| Feb'21 | Jersey | Shahid Kapoor, Pankaj Kapur and Mrunal thakur |
| Feb'21 | Bhool Bhullaiya 2 | Kartik Aaryan, Tabu and Kiara Advani |
| TBD | Thalaivi | Kangana Ranaut |
| TBD | Satyamev Jayate 2 | John Abrahim |
| TBD | Jayesh Bhai Jordaar | Ranveer Singh & Boman Irani |
| | | **Hollywood** |
| Aug'20 | Tenet | John David Washington, Robert Pattinson |
| Aug'20 | Mulan | Liu Yifei, Donnie Yen |
| Nov'20 | No Time to Die | Daniel Crai, Rami Malek |
| TBD | Conjuring 2 | Vera Farmiga & Patrick Wilson |
| TBD | The Kings Man | Ralph Fiennes & Daniel Bruhl |
| TBD | The Witches | Anne Hathway |
| TBD | Tom & Jerry | CChloe Grace, Moretz, Michael & Colin Jost |
| TBD | West side story | Ansel Elgort, Rita Moreno & Corey stoll |
| TBD | Top Gun: Maverack | Tom Cruise, Miles teller & Jennifer Connelly |
| | | **Regional** |
| TBD | KGF 2-Kannada | Sanjay Dutt, Srinidhi Shetty & Raveena Tondon |
| TBD | Master-Tamil | Vijay & Vijay Sethupathi |
| TBD | Wild Dog-Telugu | Dia Mirza, Nagarjuna Akkineni & Atul Kulkarni |
| TBD | Annathee-Tamil | Rajnikanth, Keerthi & Suresh |
| TBD | Ponniyin Selvan-Tamil | Aishwariya Rai, Trisha Krishnan & Vikram |
| TBD | VakeelSaab-Telugu | Prakash Raj, Nivetha Thomas & Pawan Kalyan |
| TBD | Valimai-Telugu | Ajith Kumar & Janhvi Kapoor |

*Source: Inox Presentation, Book My show*

## We attended the session on "Living with Covid –19: The Challenges Facing the Cinema Industry", organized by FICCI frames.

**Key discussion**

Social distancing might continue to be the norm even when the lockdown is lifted completely. How are exhibitors preparing for the new viewing experience? What are the changes and impact to distribution economics by virtue of anticipated lower occupancy in halls, lack of content and challenges from OTT?

**Keynote Speaker, Moderator Mr. Kapil Agarwal, Joint Managing Director - UFO Moviez**

**Panellists**

### Mr Devang Sampat, Chief Executive Officer, Cinépolis India

25 leisure markets in the world started operating cinemas. In India, cinema can be part of unlock-3, in August. ~80 films are ready, 95% production complete, content available and we need to use properly. Most mall owners and content developers have been supportive. Case studies: South Korea movie "Alive", the biggest blockbuster post-Covid'19, handled ~1.7m "admits". After OTT coming to India, cinema footfalls have increased, so

we think theatres and OTT can co-exist. Consumers come to cinema halls for an overall experience.

**Mr Daggubati Suresh Babu, Leading Telugu Film Producer, Distributor, Exhibitor, Studio Owner**

We went to different governments, which allowed permission for shooting. Except for TV shows and daily series, film shootings have not yet started. Some actors don't feel safe to start shooting. When I finished a film, will enough people come to theatres? We are discussing these matters. Waiting for what international films (Tenet, Mulan) will do. In Korea corona cases have been flattening. Post-production will start few months before when we start shootings. Let's wait for shooting to start and after 2-3 months let theatres open, so that there will not be shortage of content. In the long run, we don't care it will be six months or a year. Much content will be available. In the long term cinema will come back to theatres stronger and better. Sorting out the economic decisions of the producers. Government should give some benefits at least on GST and power.

**Mr Alok Tandon, Chief Executive Officer, Inox Leisure**

Every challenge we have faced, the cinema industry has come out stronger and better. We expect revenue to start from Q3 FY21. Things should get back normal sooner than later. We are one blockbuster away from bringing back audiences. Some movies are made only for OTT. If exclusivity windows are followed properly, both can co-exist in the long term.

**Mr Shibasish Sarkar, Group Chief Executive Officer, Content, Digital & Gaming, Reliance Entertainment**

We believe that if we have made a film for big screens, we would like to hold on and wait for movies like "Suryavanshi and 83" to release in theatres and wait for them to reopen. ~60-70% of a film's cost is recovered from theatres. If some films want to go directly to OTT, there is nothing wrong. Till yesterday South Korea movie "Alive" touched ~1.7m footfalls and was released on 1,045 screens. Last week German cinemas opened up. A survey showed ~87% said that they were satisfied with the safety precautions at movie theatres. At the same time French cinemas opened up in the first week, with 1m footfalls watching old films.

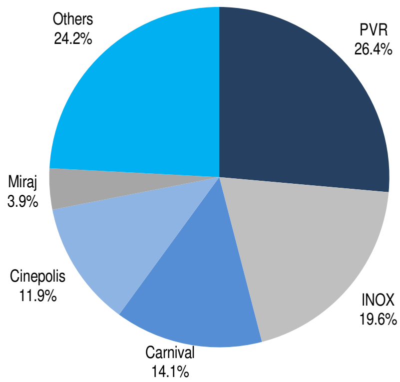
**Mr Akshaye Rathi, Film Exhibitor & Distributor, Rathi Cinema**

If we can release movies in different languages across India, it will be a sound way to provide content and box office revenues at this time. Multi use of property at this time will help the sector return to normal.

# Second-largest multiplex operator

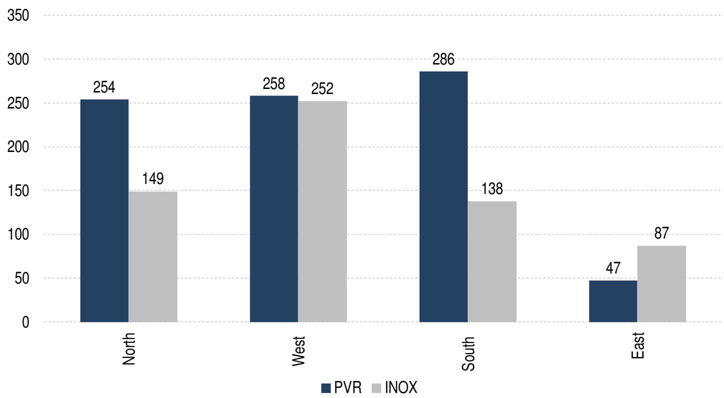
With 626 screens at 147 multiplexes in 68 cities, Inox is the second-largest multiplex operator. Its strong market position is reflected in its ability to maintain ticket prices (averaging ₹200 in FY20, against ₹197 the year prior). Plans to add screens have temporarily been put on hold given the current uncertainties regarding the continuing spread of Covid-19. However, once the situation normalises, earlier plans to add 70-80 screens a year in the medium term should help the company maintain a healthy business risk profile.

Fig 16 – Market segmentation of the top five




*Source: Company, Anand Rathi Research*

Fig 17 – Number of screens – PVR and Inox




*Source: Company, Anand Rathi Research.*

## Portfolio of own properties

Inox owns six cinema properties and a head office. On its current market valuation, if required it can raise ₹3.5bn by a 'sale-lease back' of these properties

Fig 18 – Portfolio of owned properties

| City / Property | Screens | Seats |
|---|---|---|
| Pune | 4 | 1,316 |
| Vadodara | 4 | 1,318 |
| Mumbai (Nariman Point) | 5 | 1,323 |
| Jaipur | 2 | 787 |
| Kolkata (Swabhumi) | 4 | 1,022 |
| Anand | 3 | 624 |

*Source: Company*

## Inox screen outlook for FY21

At present, 41 screens are to open. On average, 86% of the work has been completed and company would require additional capex of ₹280m-300m to complete them.

### Fig 19 – Inox screen outlook for FY21

| Particulars | Properties | Screens | seats |
|---|---|---|---|
| FY20 | 147 | 626 | 144,467 |
| expected openings | 11 | 41 | 6,374 |
| At the end of FY21 | 158 | 667 | 150,841 |
| Additions post FY21 | 142 | 989 | 184,642 |
| Leading to | 300 | 1,656 | 335,483 |

*Source: Company*

### Fig 20 – FY21 pipeline

| | FY21 Pipeline | | | |
|---|---|---|---|---|
| Properties | % complete | Properties | Screens | Seats |
| Kolkatta | 95 | 1 | 2 | 422 |
| Gurugram | 90 | 2 | 8 | 872 |
| Mumbai | 90 | 1 | 4 | 235 |
| Salem | 90 | 1 | 3 | 801 |
| Bengaluru | 85 | 1 | 5 | 694 |
| Bhilwara | 85 | 1 | 3 | 625 |
| Dhanbad | 85 | 1 | 4 | 888 |
| Tumkur | 85 | 1 | 5 | 1069 |
| Guwahati | 75 | 1 | 4 | 183 |
| Jaipur | 75 | 1 | 3 | 585 |
| **Total** | **86** | **11** | **41** | **6374** |

*Source: Company*

## Measures implemented to combat Covid-19 risk

The multiplex segment has been hard hit by the recent global Covid-19 outbreak. Subsequently, Inox shut down all its screens in the country. It responded with a slew of measures to sharply lower costs and conserve liquidity. During the lockdown, its average monthly cash-burn was ₹0.15bn-0.16nn (pre-Covid-19: ₹0.7bn-0.75bn).

We believe that a significant part of its operating cost is variable. This would enable it to reduce costs to a large extent during this period of screen closures. Of the fixed expenses, rental is one of the key items. Regarding this, Inox is in discussions with developers for a waiver during the lockdown period, as well as a reduction during the ramp-up period, post-resumption. A decision however, has yet to be arrived at.

### Fig 21 – Actions to enhance liquidity

| Cost items | Actions to enhance liquidity | % of revenue (FY20) |
|---|---|---|
| Film rental | Film rental is 100% variable | ~25-26 |
| Food & Beverages cost | Concession supplies are 100% variable | ~6-7 |
| Salaries and wages | Salaries and wages have been reduced ~33-35% | ~7 |
| Facility lease expense | Negotiating with landlords for waiver during the lockdown period, as well as a reduction during the ramp-up period, post-resumption | ~19-20 |
| Utilities and other G&A | Highly reduced utilities and G&A costs | ~23 |
| Working capital | Working with suppliers and vendors to negotiate alternative payment agreements | |
| Capex | New theatres: capex plans to add screens have been postponed to H2 FY21.<br>Maintenance: Suspended all non-essential maintenance capex | |
| Liquidity position | Current cash holding is ~₹0.72bn (incl. undrawn limits) and in final stages of raising additional debt of ~₹0.75bn.<br>Also, it has Treasury shares of ₹1.25bn market value on 30th Jun'20, which can be liquidated for exigencies.<br>Inox owns six cinema properties and a head office. On its current market valuation, if required it can raise ₹3.5bn by a 'sale/lease-back' of these properties | |

*Source: Anand Rathi Research*

We assume the lockdown to continue through H1 FY21, and subdued occupancy in H2. We reckon that, post-resumption of operations, cinema-goers may continue to harbour reservations, thus delaying visits to theatres, resulting in lower occupancy. In H1 FY21, Inox Leisure would suffer a ₹1.6bn EBITDA loss, with a small profit of ₹0.37bn in H2 FY21 because of constrained occupancy.

**Fig 22 – We assume a lockdown in H1 FY21 and subdued occupancy in H2**

| Key assumptions | FY17 | FY18 | FY19 | FY20 | FY21e | FY22e |
|---|---|---|---|---|---|---|
| **Inox Leisure** | | | | | | |
| Occupancy (%) | 27.5 | 26.0 | 29.5 | 27.8 | 11.6 | 27.8 |
| Footfalls (m) | 53.7 | 53.3 | 62.6 | 66.0 | 28.0 | 70.2 |
| Total screens (including managed properties) | 468 | 492 | 574 | 626 | 656 | 696 |
| Screens added | 48 | 24 | 82 | 58 | 30 | 40 |
| ATP (₹) | 178 | 193 | 197 | 200 | 200 | 212 |
| SPH (₹) | 62 | 66 | 74 | 80 | 67 | 85 |
| | | | | | | |
| **Revenue mix (consolidated) (₹ m)** | | | | | | |
| Ticket sales / Revenue share income | 7,481 | 8,022 | 9,752 | 11,040 | 4,735 | 12,439 |
| % of overall revenue | *61* | *60* | *58* | *58.2* | *58* | *59* |
| F&B | 2,841 | 3,061 | 4,356 | 4,970 | 1,752 | 5,639 |
| % of overall revenue | *23* | *23* | *26* | *26.2* | *21* | *27* |
| Ad & Royalty Income | 962 | 1,390 | 1,765 | 1,800 | 720 | 1,800 |
| % of overall revenue | *8* | *10* | *10* | *9.5* | *9* | *9* |
| Other operating income | 924 | 1,009 | 1,049 | 1,164 | 950 | 1,283 |
| % of overall revenue | *8* | *7* | *6* | *6.1* | *12* | *6* |
| Total revenue | 12,208 | 13,482 | 16,922 | 18,974 | 8,158 | 21,161 |
| Y/Y change (%) | *5.2* | *10.4* | *25.5* | *12.1* | *-57.0* | *159.4* |
| | | | | | | |
| **Cost elements (₹ m)** | | | | | | |
| **Variable costs** | | | | | | |
| Films distributors' shares | 3,453 | 3,674 | 4,442 | 4,965 | 2,155 | 5,643 |
| As % of ticket sales | *46* | *46* | *46* | *45* | *46* | *45* |
| F&B cost | 681 | 744 | 1,125 | 1,262 | 456 | 1,410 |
| As % F&B income | *24* | *24* | *26* | *25* | *26* | *25* |
| | | | | | | |
| **Semi-variable / fixed costs** | | | | | | |
| Employee cost | 864 | 964 | 1,152 | 1,421 | 1,075 | 1,340 |
| % of revenue | *7* | *7* | *7* | *7* | *13* | *6* |
| Rent | 2,402 | 2,642 | 3,186 | 3,684 | 3,201 | 4,663 |
| % of revenue | *20* | *20* | *19* | *19* | *39* | *22* |
| Other expenses | 3,346 | 3,355 | 3,925 | 4,343 | 2,495 | 4,761 |
| % of revenue | *27* | *25* | *23* | *23* | *31* | *23* |
| Total expenditure | 10,746 | 11,378 | 13,830 | 15,674 | 9,381 | 17,817 |
| | | | | | | |
| EBITDA | 1,462 | 2,104 | 3,092 | 3,301 | (1,223) | 3,344 |
| EBITDA margins (%) | *12.0* | *15.6* | *18.3* | *17.4* | *-15.0* | *15.8* |
| EBITDA Y/Y change (%) | *-23* | *44* | *47* | *7* | *NA* | *NA* |

*Source: Anand Rathi Research*

## Fig 23 – Inox vs PVR

| Key parameters | Inox Leisure | | | | PVR | | | | Comments |
|---|---|---|---|---|---|---|---|---|---|
| | FY17 | FY18 | FY19 | FY20 | FY17 | FY18 | FY19 | FY20 | |
| No of screens | 468 | 492 | 574 | 626 | 579 | 625 | 763 | 845 | PVR used both organic & inorganic route to expand screen count. Inox has been more conservative in this aspect |
| Occupancy (%) | 27% | 26% | 29% | 28% | 33% | 31% | 35% | 34% | High in case of PVR because of its recent acquisition of SPI cinema which enjoys higher occupancy due to its dominance in south India |
| Average ticket price (₹) | 178 | 193 | 197 | 200 | 197 | 210 | 207 | 204 | Inox narrowed the gap with PVR in terms of ad revenue, ticket prices and F&B sales as it started focusing on upgrading its screens to premium |
| Spend per head (₹) | 62 | 66 | 74 | 80 | 81 | 89 | 91 | 99 | |
| Ad revenue/scree (₹ m) | 2.2 | 2.9 | 3.3 | 3 | 4.4 | 4.9 | 5.1 | 5.2 | |
| EBITDA Margin (%) | 12% | 15% | 18% | 17% | 15% | 17% | 19% | 17% | |
| Debt/EBITDA (x) | 2.2 | 1.4 | 0.4 | 0.5 | 2.6 | 2.1 | 2.2 | 1.9 | |

*Source: Company, Anand Rathi Research*

## Fig 24 – Per-screen analysis of Inox and PVR

| (₹ m) | FY18 | | | | FY19 | | | | FY20 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **PVRL** | | | | | | | | | | | | |
| Net box office | 5.9 | 5.1 | 4.9 | 5.0 | 6.1 | 5.5 | 5.7 | 6.0 | 5.8 | 6.1 | 5.4 | 4.3 |
| Net F&B revenue | 2.8 | 2.4 | 2.4 | 2.5 | 3.2 | 2.8 | 2.7 | 2.9 | 3.2 | 3.2 | 2.8 | 2.3 |
| Ad revenue | 1.2 | 1.2 | 1.4 | 1.2 | 1.1 | 1.2 | 1.5 | 1.2 | 1.2 | 1.3 | 1.6 | 1.2 |
| Other operating revenue | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Total | 10.3 | 9.0 | 9.1 | 9.1 | 10.9 | 10.2 | 10.7 | 10.7 | 10.7 | 11.1 | 10.5 | 8.5 |
| **INOL** | | | | | | | | | | | | |
| Net box office | 5.1 | 3.9 | 3.8 | 3.9 | 4.8 | 3.9 | 4.4 | 4.9 | 4.8 | 5.2 | 4.7 | 3.5 |
| Net F&B revenue | 1.9 | 1.4 | 1.5 | 1.6 | 2.2 | 1.8 | 1.9 | 2.1 | 2.2 | 2.3 | 2.1 | 1.5 |
| Ad revenue | 0.7 | 0.7 | 0.8 | 0.7 | 0.8 | 0.7 | 1.0 | 0.7 | 0.8 | 0.7 | 0.9 | 0.6 |
| Other operating revenue | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.4 |
| Total | 8.2 | 6.5 | 6.7 | 6.6 | 8.2 | 6.9 | 7.9 | 8.3 | 8.3 | 8.7 | 8.3 | 5.9 |
| **Difference (%)** | | | | | | | | | | | | |
| Net Box office | 16.9% | 29.8% | 27.1% | 31.0% | 28.3% | 42.4% | 28.5% | 20.5% | 20.1% | 17.2% | 15.8% | 24.0% |
| Net F&B revenue | 51.9% | 70.7% | 60.3% | 60.6% | 46.8% | 56.7% | 41.8% | 36.8% | 42.2% | 36.1% | 31.9% | 52.2% |
| Ad revenue | 64.4% | 72.5% | 75.3% | 72.3% | 44.7% | 72.2% | 52.5% | 55.9% | 48.7% | 88.0% | 67.8% | 114.1% |
| Other operating revenue | -25.4% | -32.2% | -19.2% | -16.2% | -21.5% | 28.6% | 41.0% | 27.7% | 30.4% | 33.4% | 21.5% | 83.3% |
| Total | 26.0% | 37.8% | 37.0% | 38.9% | 32.3% | 48.2% | 35.7% | 28.3% | 29.3% | 28.6% | 26.2% | 43.6% |

*Source: Company, Anand Rathi Research*

# Case study (US / Canada exhibition industry trends over the years)

In 2019, the US/Canada box-office market was $11.4bn (source: MPA report 2019), down 4% from the record high of $11.9bn in 2018 and matching the previous high in 2016. Admissions/tickets sold (1.24bn), were down 5% from 2018. Over the past 10 years, industry statistics have shown slight increases and decreases in attendance from one year to another; however domestic box-office revenues have been relatively stable during this period.

**Fig 25 – US / Canada trends over the last 10 years**

| Year | US Box office revenues ($ bn) | Attendance (in bn) | Average ticket prices ($) | No of Screens | Spend per head ($) |
|---|---|---|---|---|---|
| 2008 | 9.6 | | | | |
| 2009 | 10.6 | 1.42 | 7.50 | | 2.94 |
| 2010 | 10.6 | 1.34 | 7.89 | 38,902 | |
| 2011 | 10.2 | 1.28 | 7.93 | 38,974 | |
| 2012 | 10.8 | 1.36 | 7.96 | 39,056 | |
| 2013 | 10.9 | 1.34 | 8.13 | 39,368 | |
| 2014 | 10.4 | 1.27 | 8.17 | 39,356 | 3.65 |
| 2015 | 11.1 | 1.32 | 8.43 | 39,411 | |
| 2016 | 11.4 | 1.32 | 8.65 | 40,009 | |
| 2017 | 11.1 | 1.24 | 8.97 | 39,651 | |
| 2018 | 11.9 | 1.30 | 9.11 | 40,313 | |
| 2019 | 11.4 | 1.24 | 9.16 | 40,613 | 5.31 |
| **CAGR (2009-2019)** | **0.7%** | **-1.3%** | **2.0%** | **0.5%** | **6.1%** |

*Source: Motion picture association of America*

**Fig 26 – Recession-proof industry**


*Source: Cinemark presentation*

Even with significant technological advances and through various economic cycles, the exhibition industry in the US/Canada has not been highly volatile. This showcases its stability, its continuing ability to attract consumers and the fact that box-office performance primarily depends on quality, quantity and timing of film products rather than economic cycles.

Box-office admissions peaked in 2002 and have since declined steadily.

While we blame the decline on better pay-TV/live-streaming content and the ease of on-demand video, we believe it is also due to Hollywood's sharp focus on larger-budget blockbusters (especially popular franchises and sequels) and customers' preferences for such movies This change has led avid and variety-seeking movie goers to reduce their frequency of watching movies.

Large studios have responded by cutting their movie slates in favour of blockbuster movies. The six largest distributors in the US (Disney, Warner Bros., Universal, Sony, Lionsgate, Paramount), accounting for ~80% of U.S. gross box-office revenues, have cut their releases ~20% since 2000, with their share of films released having fallen from 24% in 2000 to 12% in 2018.

These studios have also been focusing on producing high-quality content in these genres and have been marketing them heavily. As a result, watchers have preferred to spend on such movies in theatres instead of waiting for their TV/video streaming app releases, thereby limiting the decline to some extent.

The three largest exhibitors, in terms of U.S./Canada box-office revenue (AMC, Cineplex Inc. and Cinemark Holdings, Inc.) generated ~60% of box-office revenue in 2019. This is up from 35% in 2000 and is evidence that the theatrical exhibition business in the U.S./Canada has been consolidating. (source: Comscore)

### The US' largest exhibitor, AMC's theatre re-opening plans

- AMC will resume theatre operations at ~450 US locations on Thursday, $30^{th}$ Jul, and at ~150 other locations the following week, in time for a theatrical slate commencing in Aug.
- The new reopening date aligns with updated release timings for major theatrical blockbusters, Warner Bros' Tenet ($12^{th}$ Aug) and Disney's Mulan ($21^{st}$ Aug).

  AMC is also excited to offer movie-goers a broad selection of other releases in Jul and Aug: Solstice's action thriller, Unhinged ($31^{st}$ Jul); Sony's romantic comedy, The Broken Hearts Gallery ($7^{th}$ Aug); A24's psychological horror film, Saint Maud; Disney/Marvel's action fantasy film, New Mutants ($28^{th}$ Aug); Picture House's inspirational drama, Fatima ($28^{th}$ Aug); Orion's comedy, Bill and Ted Face the Music, ($28^{th}$ Aug), and others.
- Besides, Warner Bros. will celebrate the 10th anniversary of Christopher Nolan's Inception with a re-release on $31^{st}$ Jul. Once the US re-opening commences, AMC will have theatres open in all 15 countries in which AMC operates. Theatres in all 14 countries AMC serves in Europe and the Middle East either opened in Jun or are planned to be opened in July. Barring further complications from the coronavirus outbreak, AMC expects to be open at essentially its full complement of ~1,000 theatres globally by early Aug.
- Consulting with current and former faculty from the prestigious Harvard University School of Public Health to seek guidance from the best scientists and experts on how best to create a safe environment patrons, personal protection equipment, cleaning protocols, limited theatre capacity, blocked seating and other strategies are all being planned. Also, the company is especially looking at high-tech solutions to aid in sanitisation techniques, including the use of electrostatic sprayers, HEPA vacuums and, where possible, upgraded MERV-13 air

ventilation filters.

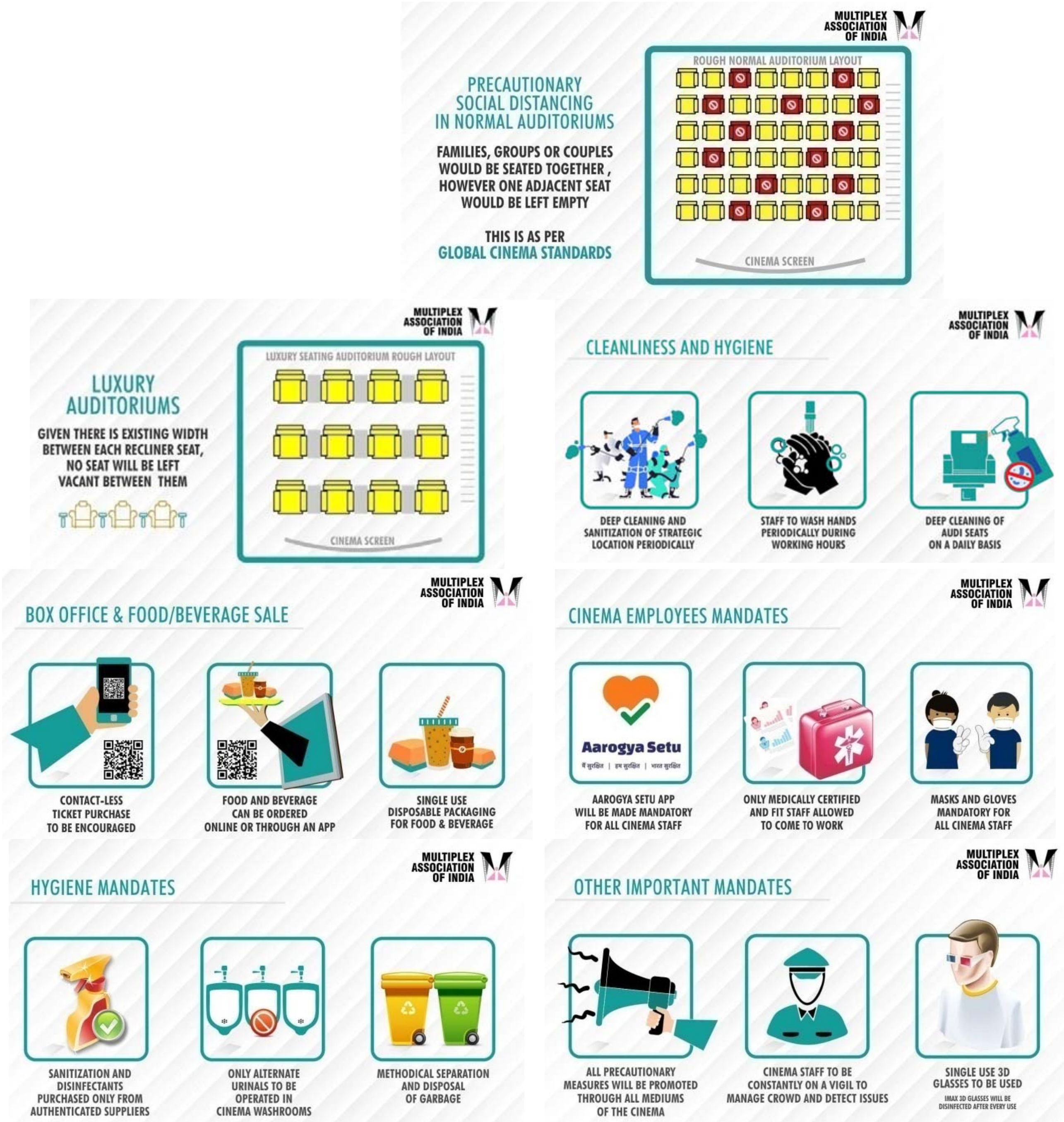
- Implementing vigorous marketing communications and promotions aimed at jumpstarting consumer demand.
- Reducing cost structures, intensely examining every category of expenditure to lower spending where possible.

### How Cinemark (the US' second-largest exhibitor) plans to re-open its theatres and what steps it is taking

- Cinemark has conducted five theatre test phases in and around its headquarters and service centre in Dallas, to ensure it has all systems in place and everything is working fine technically. All itseir health and safety protocols are operating as planned.
- Cinemark theatres will be showcasing some of Hollywood's favourite classic films beginning Friday 24th Jul, with additional theatres reopening in subsequent weeks. All theatres will reopen with elevated cleaning and safety standards.
- Shortly after reopening, guests will once again enjoy Hollywood's newest releases on the big screen as the box office gets into full swing with Unhinged on 31st Jul, and The Broken Hearts Gallery on 7th Aug., followed by Tenet on 12th Aug, Mulan on 21st Aug, Bill & Ted Face the Music on 28th Aug, and A Quiet Place Part II on 4th Sep.
- Initially upon reopening, the company will be exhibiting classic repertory content at very attractive, welcome back promotional pricing, not only on tickets but also on concessions. Tickets will be priced at $5 for adults and $3 for children (usual ATP in FY19 was $6.46).

  Also, in concessions, the company will focus on the core, which will take the least amount of labour and where spoilage is low. Welcome-back prices will be reduced in June, leading up to Tenet's opening to encourage people to return.
- Initially, the company will re-start operations with 50% seating capacity (stating that it can operate profitably at 50% seating capacity).

## The Multiplex Association of India has recommended safety and precaution plans for cinemas across India



# Valuation

We are structurally positive on multiplexes, though wary of their re-opening. We believe they will rebound and gain from pent-up demand as home-sheltering subsides and people seek a communal experience on return of normalcy. With that in mind, we assume a lockdown in H1 FY21 and subdued H2 occupancy. Hence, we initiate coverage on Inox Leisure with a Buy rating, at a TP of ₹292 (valuing it at 9x FY22e EBITDA).

With significantly reduced fixed costs (monthly ₹150m-170m cash-burn; pre-Covid-19: ₹700m-750m) and ~₹280m-300m capital spending needed (₹2bn in FY20), Inox' cash balance (₹720m and credit available (₹750m) would suffice for nearly 8-10 months without any revenue coming in. Also, it had Treasury shares of ₹1bn market value, which could be liquidated for exigencies and to acquire attractive distressed assets.

**Fig 27 – Valued at 9x FY22e EV/EBITDA**

| | |
|---|---|
| Target EV/EBITDA (x) | 9 |
| EBITDA (₹m) | 3,344 |
| Target EV (₹ m) | 30,096 |
| Net debt (₹ m) | (1,118) |
| Market cap (₹ m) | 28,978 |
| Shares o/s (m) | 98.25 |
| Expected share price (₹) | **292** |
| CMP (₹) | **233** |
| Upside % | **25** |

*Source: Anand Rathi Research*

## Risks

- High contingent liabilities (company-specific).
- Under-performance of "content".
- Prolonged impact of Covid-19.
- Escalating rental costs and slow development of malls.
- Price control by state governments.
- Fewer footfalls at sports and other entertainment events.

# Company Background & Management

## Company Background

Incorporated in 1999 and headquartered in Mumbai, Inox is the second-largest multiplex operator in India (after PVR) with 626 screens at 147 multiplexes in 68 cities. A subsidiary of GFL, a part of the Inox group, it has a 19.6% share of multiplex screens in India.

Since the launch of its multiplex in Goa in CY04, that venue has been the scene of the prestigious International Film Festival of India every year. It has insistently scaled up through organic and inorganic expansion in the last decade, from two properties (eight screens) in FY03 to 147 (626 screens) in FY20.

**Fig 28 – Promoter group, Management and Board**

| | |
|---|---|
| Pavan Jain - Chairman, Inox group | A chemical engineer from IIT, New Delhi, and industrialist with over 45 years' experience<br>More than 40 years' experience as managing director of Inox Air Products, which grew from a single-plant business to one of the leading industrial gas operators in India. Has been the driving force behind the group's diversification to various industries such as refrigerant gases, chemicals, cryogenic engineering, entertainment and renewable energy |
| Siddharth Jain - Director | Graduated from the University of Michigan, Ann Arbor, with a B.Sc. in Mechanical Engineering, has an MBA from INSEAD, France, and has more than ten years' work experience in various management positions |
| Deepak Asher - Director | A commerce and law graduate, and Fellow of the Institute of Chartered Accountants of India and an Associate Member of the Institute of Cost and Works Accountants of India. Has more than 30 years' experience in corporate finance and business strategy. Is president of the Multiplex Association of India and member of the FICCI Entertainment Committee. In 2002, he won the Theatre World Newsmaker of the Year Award for contribution to the multiplex sector |
| Alok Tandon - Chief Executive Officer | Has been associated with the company since its inception in 2001. A qualified engineer, he has more than 31 years' varied work experience in companies such as Hoechst, and ITC – Hotel division and the Oberoi group. Has been instrumental in executing company's expansion plans and strengthening the Inox brand on a national scale, making it the first choice in the business of cinema exhibition in India |

*Source: Company*

## Appendix

### Analyst Certification

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| Ratings Guide (12 months) | Buy | Hold | Sell |
|---|---|---|---|
| Large Caps (>US$1bn) | >15% | 5-15% | <5% |
| Mid/Small Caps (<US$1bn) | >25% | 5-25% | <5% |

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