Sharekhan
by BNP PARIBAS

Inox Leisure

Screens blank; Costs bring silver lining

Sector: Consumer Discretionary
Result Update

	Change
Reco: **Hold**	↔
CMP: **Rs. 235**	
Price Target: **Rs. 270**	↔

↑ Upgrade ↔ No change ↓ Downgrade

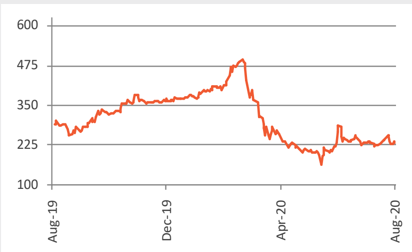
Company details

Market cap:	Rs. 2,414 cr
52-week high/low:	Rs. 510/158
NSE volume: (No of shares)	7.2 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
DII	22
FII	10
Others	16

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1	11	-43	-19
Relative to Sensex	-5	-10	-35	-23

Sharekhan Research, Bloomberg

INOX Leisure Limited (ILL) reported better-than-expected EBITDA performance on the back of better cost control measures (25% reduction in monthly cash burn versus at the starting of Q1FY2021). As expected, Q1FY2021 was a wash-out quarter with revenue decline of 99.9% y-o-y to Rs. 0.3 crore as theaters were shut throughout the quarter. Management was able to restrict EBITDA loss at Rs. 37.8 crore, exceeding our estimates, on the back of rigorous cost optimization initiatives during the quarter. Management remains confident of being able to convince landlords to waive off rent for the lockdown period and shit to a revenue sharing model instead of fixed rental after re-opening of cinema for the remaining quarters of FY2021. The board has approved the enabling resolution for fund raising up to Rs 250 Cr through the issuance of equity Shares/other securities after the re-opening of cinema. The management reiterated its earlier screen additions of 41 screens in FY2021 where 86% of the work is already completed, which seems challenging given the delay in getting permission from government for re-opening of cinema. Extended lockdown restrictions, anticipated for a few more months of limited operation with social distancing norms post allowing cinema to operate, subdued occupancy in the initial days of operations and risk of box office clashes in short window would impact the performance of FY2021 severely. However, we model a strong bounce back of revenue in FY2022E.

Key positives

- Strong cost management (monthly cash burn down 25%)
- Strong liquidity position - cash position stood at Rs. 38 crore as of July 31, 2020

Key negatives

- Delay in re-opening of cinemas
- Rise in release of big ticket movies directly on OTT platform

Our Call

Valuation: Long trek to back normalcy: We tweaked our earnings estimates FY2021E due to a delay in re-opening of cinemas and anticipated subdued occupancy rate in 2HFY2021, while we largely maintained our earnings estimates for FY2022E. However, in the long term, we remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth considering India's movie-goers appetite for movies. Further, the company has strong liquidity position (treasury stock, real estate, etc) will help Inox Leisure ride over the current crisis and lower cash burn. Given multiple headwinds in short-term, we maintain our Hold rating on ILL with a PT of Rs. 270.

Key Risks

(1) Deterioration of content quality might affect footfalls and advertisement revenue growth rates, (2) The inability to take adequate price hikes at the right time might affect the given rising input cost, and (3) delay in return of normalcy

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E
Revenue	1,692.2	1,897.4	744.2	1,985.2
OPM (%)	18.3	31.5	27.2	31.1
Adjusted PAT	138.5	83.9	-150.7	172.0
% y-o-y growth	*12.4*	*-39.4*	*n.m*	*n.m*
Adjusted EPS (Rs.)	14.1	8.5	-15.3	17.5
P/E (x)	16.7	27.6	n.m	13.5
P/B (x)	2.2	3.5	4.6	3.4
EV/EBITDA (x)	8.0	4.2	12.9	3.5
RoNW (%)	14.4	13.5	n.m	26.7
RoCE (%)	20.9	18.1	n.m	10.7

Source: Company; Sharekhan estimates; n.m - not meaningful
**Treasury shares excluded while calculating EPS; *FY2021E/FY2022E numbers are based on Ind AS 116 and lower corporate tax rate.*

Washout quarter along the expected lines

ILL reported better-than-expected EBITDA performance, while net loss remained in-line with our expectations. The company could able to restrict the EBITDA loss (Ind-AS adjusted) at Rs. 37.8 crore as against our estimates of Rs. 51.2 crore of EBITDA loss, led by better cost control measures (25% reduction in monthly cash burn). Q1FY2021 was the wash-out quarter as Cinema halls were being shut throughout the quarter. The company reported revenue of Rs. 0.3 crore, down 99.9% y-o-y. EBITDA loss remained at Rs. 37.8 crore, exceeding our estimates, led by rigorous cost optimization initiatives during the quarter. The company has invoked the force majeure clause under various lease agreements for its multiplex premises, contending that rent and CAM charges for the shutdown period on account of COVID-19 pandemic are not payable. Management remains confident of being able to convince landlords to waive off rent for the lockdown period. Net loss came at Rs. 73.7 crore, which is in-line with our expectations.

Rigorous cost optimization initiatives amid challenging environment

ILL was able to limit the EBITDA loss at around Rs. 37.8 crore despite shut down of multiplexes in Q1FY2021 in the wake of the ongoing pandemic. The company has managed to reduce monthly cash burn to Rs. 11-12 crore from Rs. 15-16 crore at the beginning of Q1FY2021. Management indicated that it would not pay any rental and CAM expenses to landlords during the shut of cinemas as force majeure clause was invoked. ILL has been able to reduce other overheads by 74% y-o-y in Q1FY2021. The company had cash balance of Rs. 36 crore, which provide comforts to the company to operate for the next three months. Management confirmed that the reduction in fixed costs (lean manpower, reduction in repair and maintenance, etc) would continue even after the restart of operation. Further, the company would consider a revenue sharing model instead of fixed rent after re-opening of cinema for the remaining quarters of FY2021.

Expect slower recovery to normalcy

Multiplexes were the first to face a shut down in the wake of nationwide lockdowns and are expected to be last to resume operations. Extended lockdown restrictions, anticipated few more months of limited operation with social distancing norms post uplifting of lockdown and subdued occupancy during 2HFY2021 would lead FY2021 to be a wash-out year. Management further indicated that it would take all precautions or measures to ensure social distancing post lockdowns. Further, it would keep gaps between the groups during the seat allocation and keep limited food items in its menu post the resumption of operation. Though the management indicated content pipeline remains healthy with 14 Hindi and 53 regional language films ready for theatrical release, we believe that a surge in the release of movies directly on the OTT platform could disrupt audience consumption behavior even after normalcy resumes.

Enabling resolution to raise fund up to Rs 250 crore post opening of cinema

The board has approved the enabling resolution for fund raising up to Rs 250 Cr through the issuance of Equity Shares/other securities. The management confirmed that it would consider fund raising after the re-opening of cinema. Also, management stated that they would evaluate both options such as issuance of equity shares and monetization of treasury shares at the time of fund raising. The company has cash balance of Rs. 36 crore, which is sufficient for next three months of operation as the company's average monthly cash burn is Rs. 11 crore – Rs 12 crore. Net debt stood at Rs. 178 crore, implies net debt to equity at 0.17x. Hence, the company may consider to raise debt as well.

Inox Leisure Q1FY2021 Results Concall Highlights

- **Organic expansion strategy to continue, however pace to moderate in FY2021 owing to COVID-19:** The company is likely to add 11 properties consisting of 41 screens and comprising of 6,347 seats as 86% of the work is completed and related cost have also been incurred. An amount of Rs 28-30 crores will be required to for the completion of these projects.
- **Negotiating with landlord for revenue share agreement instead of fixed rent:** Management is confident that all the landlords would waive off the rent for the lock down period. Further, the management indicated that it would have a revenue-sharing model instead of fixed rent across all its properties post re-opening for the remaining quarters of FY2021.

- **Liquidity position remains healthy:** The company has a strong balance sheet with a net debt to equity ratio 0.17x. Also, the company has real estate (six owned cinema properties) and treasury shares worth ~Rs 350 crore and ~Rs 100 crore, respectively. The company's current cash position stood at Rs 36 crore (including the undrawn limits). As of July 31st, net debt for the quarter stood at Rs. 178 crore, implies that the net debt to equity ratio is 0.17x. The management stated that the monthly cash burn was down to Rs 11-12 crores from Rs. 15-16 crore earlier and hence considering the current liquidity position the company is comfortably place for the next three months if the current environment continues.
- **Content pipeline looks encouraging:** Though the exact timing of the reopening of film exhibition business is unknown, management highlighted that 14 Hindi films and 53 regional language films are ready for theatrical release post re-opening. Further, around 22 films are in post-production phase.
- **Windowing gap likely to sustain:** There has been an instance of reduction in windowing gap from 3 months to 17 days in some region. However, management believes that the 8 weeks of windowing gap is expected to sustain in India.

Results | Rs cr

Particulars	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Net sales	**0.3**	**493.0**	**371.6**	**-99.9**	**-99.9**
Exhibition costs	-	129.9	93.7	-	-
Cost of F&B	-	33.3	26.4	-	-
Gross Profit	**0.3**	**329.8**	**251.5**	**-99.9**	**-99.9**
Employee Expenses	24.3	35.1	32.7	-30.7	-25.8
Property Rent	-69.3	30.2	7.6	-	-
Other Expenses	11.8	114.5	101.1	-89.7	-88.3
Operating Profit	**33.4**	**150.1**	**110.0**	**-77.8**	**-69.7**
Depreciation	70.8	60.8	74.0	16.4	-4.4
Finance Cost	63.3	50.9	61.4	24.4	3.0
Other Income	2.7	3.1	4.8	-13.1	-43.4
PBT	**-97.9**	**41.5**	**-20.6**	**-**	**-**
Tax Provision	-24.3	14.5	61.5	-	-
Reported Net Profit	**-73.7**	**27.0**	**-82.2**	**-**	**-**
Exceptional Item	-	-	-68.9	-	-
Adjusted Net Income	**-73.7**	**27.0**	**-13.3**	**-**	**-**
EPS (Rs.)	-7.5	2.7	-1.4	-	-
Margin (%)					
EBITDA margins	-	30.4	29.6	-	-
NPM	-	5.5	-22.1	-	-

*Source: Company; *Includes Ind AS 116*

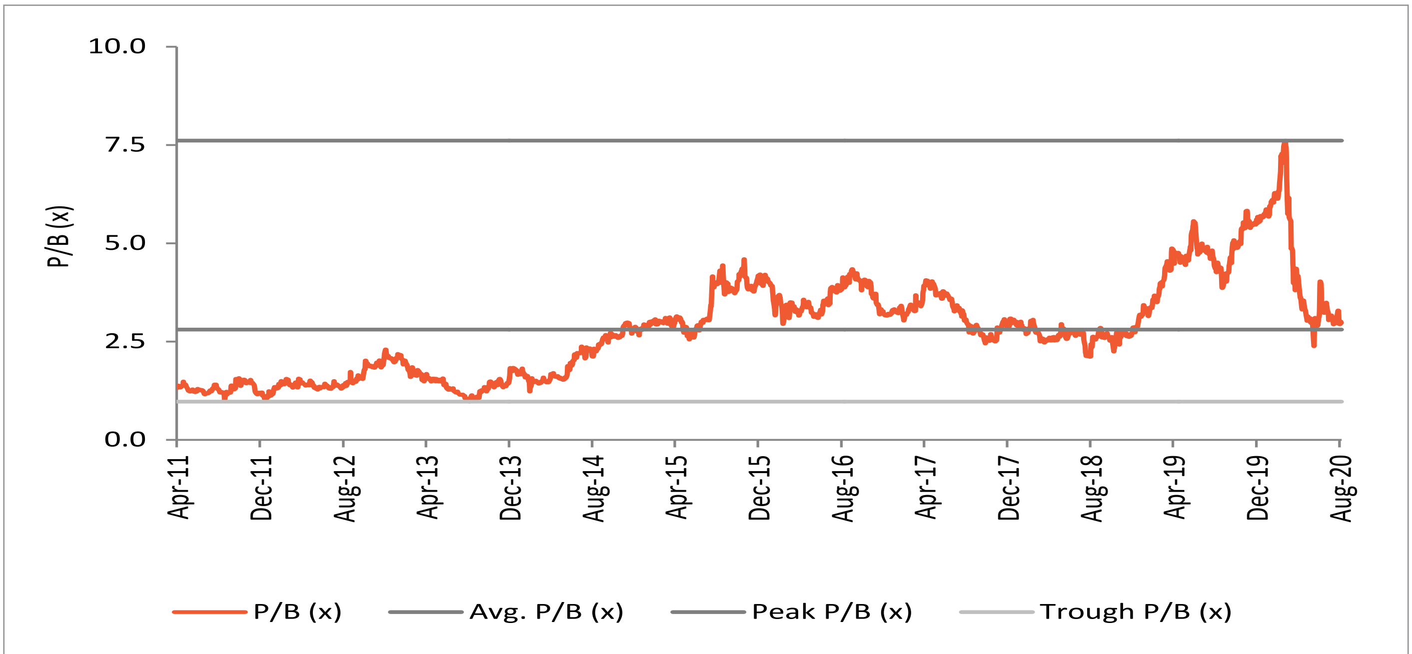
Outlook

Expect FY2021 to be a washout year, but structural story remains intact: The exact impact of the same on the multiplex business is uncertain given the lack of clarity on its magnitude and timeline when it would be contained. Further, the social distancing norm coupled with the, risk of box office clashes in short window, lower occupancy rate for initial days and staggered seating arrangement would impact revenues in the early phase of its operation post uplifting of lockdown. Hence, we believe the impact on the multiplex business would be severe in 1HFY2021E, in turn FY2021E would be a washout year. However, in the long term, the company's strategies to increase footfalls (loyalty programmes, non-movies content, enhancing experience of cinema goers, private film screenings, etc.), increasing footfall monetisation efforts and better improving operating metrics are expected to bode well for the company. Further, management guided screens addition plan of 41 screens in FY2021 despite limited cash inflow due to the closure of theaters.

Valuation

Long trek to back normalcy: We have tweaked our earnings estimates FY2021E due to a delay in re-opening of cinemas and anticipated subdued occupancy rate in 2HFY2021, while we largely maintained our earnings estimates for FY2022E. However, in the long term, we remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth considering India's movie-goers appetite for movies. Further, the company has strong liquidity position (treasury stock, real estate, etc) to ride over the current crisis and lower cash burn. Hence, we maintain our Hold rating on ILL with a PT of Rs. 270.

One-year forward P/B (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
PVR*	1,128	6	6,221	-	44.2	65.2	9.7	5.6	4.7	n.m	10.1
Inox Leisure	235	10	2,414	-	13.5	12.9	3.5	4.6	3.4	n.m	26.7

*Source: Company, Sharekhan estimates; *Bloomberg; n.m - not meaningful*

About company

Incorporated in 1999, ILL is one of the largest multiplex operators in India. The company currently operates 147 properties (626 screens and over 1.44 lakhs seats) located in 68 cities across India. ILL is the only multiplex operator having a diverse presence across India. The company accounts for 20% share of multiplex screens in India and ~11% share of domestic box office collections.

Investment theme

ILL has aggressively scaled up through organic and inorganic expansion over the past decade, growing from two properties to 147 properties – 626 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. Though FY2021 is going to be weak year due to pandemic crisis, we strong bounce back in FY2022 based on higher footfall monetisation efforts and a strong content pipeline.

Key Risks

Delay in screen additions and a drop in the quality of content 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. Delay in recovery would impact earnings.

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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	6.94
2	Sundaram Asset Management Co Ltd	4.23
3	ICICI Prudential Asset Management	3.16
4	Aditya Birla Sun Life Trustee Co P	2.62
5	DSP Investment Managers Pvt Ltd	2.09
6	TAIYO GREATER IN FUND LTD	1.66
7	Franklin India	1.61
8	Aditya Birla Sun Life Asset management	1.41
9	Dimensional Fund Advisors	1.17
10	Emirates of Abu Dhabi UAE	1.11

Source: Bloomberg

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