Sharekhan by BNP PARIBAS

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Inox Leisure Limited

Show set to resume, despite dim Q3

Consumer Discretionary	Sharekhan code: INOXLEISUR	Result Update

Summary

- We maintain a Buy on Inox Leisure Limited (Inox) with a revised price target (PT) of Rs. 400 as approvals to resume operations with 100% capacity and expected new releases offer better visibility.
- Q3 was weak owing to dismal occupancies, absence of new film releases and as operations resumed with 50% seating capacity in phases. Company kept purse-strings tight by optimising costs.
- Management expects occupancy levels to revert to normal by H2FY2022 as big-starrer movies are lined up for release. Expect big releases from April 2021 onwards.
- We expect viewers to return to the silver screen, hence we do not see any material change in consumer behaviour after normalcy; hence we model strong recovery in FY2022E.

Inox Leisure Limited (Inox) reported another weak quarter owing to dismal occupancy rates, absence of new releases and a staggered resumption of operations, though cinema halls were allowed to reopen from October 15, 2020 onwards with 50% occupancy. Inox Leisure reported better-than-expected EBITDA performance led by rent concessions. The company was also able to restrict EBITDA losses (Ind-AS adjusted) to Rs. 10.5 crore, on rental concessions of Rs. 54.1 crore and better cost-control measures. Employee costs were significantly reduced (down 43% y-o-y) and other expenses fell 51% y-o-y even with just a partial re-opening of cinema halls. Net loss came in at Rs. 102.5 crore, largely in-line with our expectations. Inox successfully raised Rs. 250 crore through a QIP in November 2020 and some portion of this was utilised to repay Debt and meet operating expenses. The company had a cash balance of Rs. 230 crore (including undrawn limits of Rs. 93 crore) as on January 31, 2021, which provides comfort on operations. The management confirmed that a reduction in fixed costs (lean manpower, reduction in repair and maintenance, etc) would continue even after restart of operations. As per the Ministry of Home Affairs' Notification dated January 31, 2021, cinemas/theatres/multiplexes have been permitted to open at full seating capacity with effect from February 1, 2021. Given the availability of fresh content, the management expects new movies to release in cinema halls from April 2021 onwards. It also expects that occupancy levels to revert to normal in H2FY2022 as movies like Atrangi Re, Maidaan, Shamshera, Prithviraj are lined up for release.

Key positives

- Strong cost management continued
- Cash position stood at Rs. 230 crore as of January 31, 2021
- Cinemas have been allowed to operate at 100% capacity from February 1, 2021

Key negatives

- Occupancy was at a dismal 3%
- 100% occupancy is currently allowed in 56 properties (37% of total properties)

Our Call

Valuation: Expect gradual recovery: We have raised our earnings estimates for FY2021E/FY2022E/FY2023E on the back of the approval to open cinema halls with 100% of seating capacity, good response for library contents and the movie 'Master', expectations of release of big starrer movies from April onwards. Though the management expects occupancy rate to revert to normal H2FY2021, a robust business model gives us comfort that it is going to be sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. We remain positive on the stock, given a strong debt-free balance sheet and potential for healthy earnings growth over FY2021-23E. Given improvement in visibility, we maintain a Buy rating on Inox Leisure with a revised PT of Rs. 400.

Key risk

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

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,692.2	1,897.4	165.5	1,885.0	2,285.7
OPM (%)	18.3	31.5	45.9	29.8	32.9
Adjusted PAT	138.5	83.9	-330.3	87.3	210.3
% y-o-y growth	12.4	-39.4	n.m.	n.m.	140.8
Adjusted EPS (Rs.)	14.1	8.5	-32.1	8.5	20.5
P/E (x)	23.5	38.7	n.m.	38.8	16.1
P/B (x)	3.1	4.9	10.4	8.0	5.1
EV/EBITDA (x)	11.1	5.8	49.8	5.9	3.9
RoNW (%)	14.4	13.5	n.m.	23.1	35.7
RoCE (%)	20.9	18.1	n.m.	10.3	14.6

Source: Company; Sharekhan estimates
**FY2021E/FY2022E/FY2023E numbers are based on Ind AS 116.*

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 330**	
Price Target: **Rs. 400**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 3,716 cr
52-week high/low:	Rs. 510/158
NSE volume: (No of shares)	10.1 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	5.41 cr

Shareholding (%)

Promoters	47
DII	24
FII	13
Others	16

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.7	19.6	40.6	(19.9)
Relative to Sensex	4.5	22.4	33.1	23.0

Sharekhan Research, Bloomberg

Revenue missed, rent concession helped to limit net profit losses

Though cinema halls were allowed to reopen from October 15, 2020 onwards with a 50% occupancy level, it was dismal and the absence of any new releases and opening of cinema halls in a staggered way impacted Q3FY2021 numbers. Yet, Inox Leisure reported better-than-expected EBITDA performance led by rent concessions and/or revenue sharing arrangements with most of its landlords. The company could able to restrict the EBITDA loss (Ind-AS adjusted) at Rs. 10.5 crore even with the partial resumption in operation of cinema halls from October 15, 2020, led by rental concessions of Rs. 54.1 crore and better cost-control measures. There was a significant fall of employee costs (down 43% y-o-y) and other expenses (down 51% y-o-y) even partial opening of cinema halls. The company has successfully closed negotiations with zero rentals with most landlords, and CAM charges were negotiated at negligible levels for the lockdown period. The management also negotiated revenue share model/discounted rent & CAM after opening of cinema halls for the remainder of FY2021. Net loss came in at Rs. 102.5 crore, largely in line with our expectations.

Better cost management

Inox Leisure was able to limit EBITDA loss at ~Rs. 10.5 crore despite partial resumption of operations from October 2020, led by rent concession received after successful negotiations with the landlords. Despite opening of cinema halls with a 50% seating capacity, the company stayed cost efficient with a monthly cash burn of Rs. 25-30 crore (versus Rs. 10-12 crore during the strict nationwide lockdown). The management highlighted that most of the landlords have agreed for zero rentals and negligible CAM charges post the re-opening up to March 31, 2021. Inox Leisure has been able to reduce employee expenses by 43% y-o-y and other overheads by 51% y-o-y in Q3FY2021. Further, company reduced its power and fuel and R&M expenses to Rs. 12.8 crore from Rs. 38.6 crore in Q3FY2020. Inox has successfully raised Rs. 250 crore through QIP in November 2020 and some portion of this was utilised to repay debt and meet operating expenses. The company had a cash balance of Rs. 230 crore (including undrawn limits of Rs. 93 crore) as of January 31, 2021, which provides comfort for the company to operate. The management confirmed that the reduction in fixed costs (lean manpower, reduction in repair and maintenance, etc) would continue even after the restart of operations. Notably, cinemas halls are allowed to operate at a 100% capacity as per Ministry of Home Affairs Notification dated January 31, 2021. As on January 31, 2021, Inox Leisure was net debt-free and its gross debt stood at Rs. 115 crore.

Expect gradual return to normalcy in coming months

Inox Leisure continued with its good cost management during Q3FY2021 and we believe fixed cost component would move up in coming quarters as it has got approval to resume operations (at a 100% capacity utilisation). Given the availability of fresh content, the management expects new movies would be released in cinema halls from April 2021 onwards. It expects occupancy levels to normalise in H2FY2022 as movies like Atrangi Re, Maidaan, Shamshera, Prithviraj are lined up for release. Further, the average ticket price (ATP) for new movies would back to pre-COVID level. Management highlighted that it has been getting good response from moviegoers for its library contents and the movie ‘Master’. The management expects a similar kind of response when new blockbuster movies will be released.

Inox Leisure Q3FY2021 Concall Highlights

- **Way ahead:** As per the Ministry of Home Affairs’ Notification dated January 31, 2021, Cinemas/Theatres/ Multiplexes have been permitted to open with 100% of their seating capacity with effect from February 1, 2021. The management believes that the multiplex industry is in the middle of revival path. Inox added 15 screens in January 2021 and expects to add 14 more in the remainder of FY2021, wherein, on an average, 86% of the work has been completed. The management highlighted that it believes audiences would come to the cinemas if there is good content. Note that Tamil Movie Master has crossed Rs. 250 crore in worldwide collections during the ongoing tough period. Inox remains hopeful that states will allow multiplexes to operate with 100% capacity very soon. Further, management expects that occupancy level would back to normal in 2HFY2022.

- **QIP status:** The company completed a QIP and raised Rs. 250 crore at Rs. 255/share in November 2020, which was oversubscribed nearly 3.5x. The management stated that some portion of this was utilised for paying off debt and towards operating expenses. The company is net debt-free as on January 31, 2021 and has liquidity of more than Rs. 230 crore (including undrawn limits of Rs. 93 crore).
- **Content pipeline looks encouraging:** Despite partial operations, the management highlighted that some movies (such as Dracula Sir, Suraj Pe Mangal Bhari, Biskoth, Irandam Kuththu, Tenet, Wonder Woman 1984, Solo Brathuke) released in Q3FY2021. The management expects an improvement in footfalls when new movies will release. The management expect new movies (such as Sooryavanshi, '83, Bell Bottom, Maidaan, RRR, Valimai, Puspha, Cobra) will be released from April 2021 onwards. It also expects a continued release of Hollywood movies given pent-up demand. The management indicated that company has received notices from Chhattisgarh, Delhi, Gujarat, Madhya Pradesh, Punjab, Tamil Nadu, West Bengal, and Karnataka, with permission to operate at a 100% capacity. Meanwhile, Jharkhand, where Inox Leisure has 4 screens, has not yet given Inox permission to open screens.
- **Combo discounts in F&B likely to be reversed:** The company is running multiple promotional offers (movie based combos and among others) for its F&B segment. The company has curtailed menu in its F&B segment. The management highlighted that it will roll out its entire menu in next couple of weeks and price would back to normal.

Results Rs cr

Particulars	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)
Net sales	**14.9**	**512.9**	**0.4**	**-97.1**	-
Exhibition costs	2.9	133.7	-	-	-
Cost of F&B	1.1	32.0	-	-	-
Gross Profit	**10.9**	**347.2**	**0.4**	**-96.9**	-
Employee Expenses	21.2	36.9	15.2	-42.5	39.3
Property Rent	-54.1	31.7	-72.3	-	-
Other Expenses	54.2	109.7	16.9	-50.6	220.7
Operating Profit	**-10.5**	**169.0**	**40.6**	-	-
Depreciation	70.9	64.8	71.4	9.4	-0.7
Finance Cost	62.0	54.7	64.1	13.3	-3.2
Other Income	6.6	4.9	4.3	36.7	54.2
PBT	**-136.8**	**54.2**	**-90.6**	-	-
Tax Provision	-34.3	19.2	-22.8	-	-
Reported Net Profit	**-102.5**	**35.0**	**-67.8**	-	-
EPS (Rs.)	-9.1	3.6	-6.9	-	-
Margin (%)				**BPS**	**BPS**
EBITDA margins	-	32.9	-	-	-
NPM	-	6.8	-	-	-

Source: Company; Sharekhan Research
**Includes Ind AS 116*

Outlook and Valuation

■ Sector View – Multiplexes to gain market share

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. As the recovery remains slow, the pandemic could lead to further consolidation in the sector given financial strain for single screens. As a result, multiplexes would gain market share. We believe that theatrical releases provide better opportunities to producers to generate RoIs, especially in case of big-budget movies. Hence, the charm of big screens will not fade away.

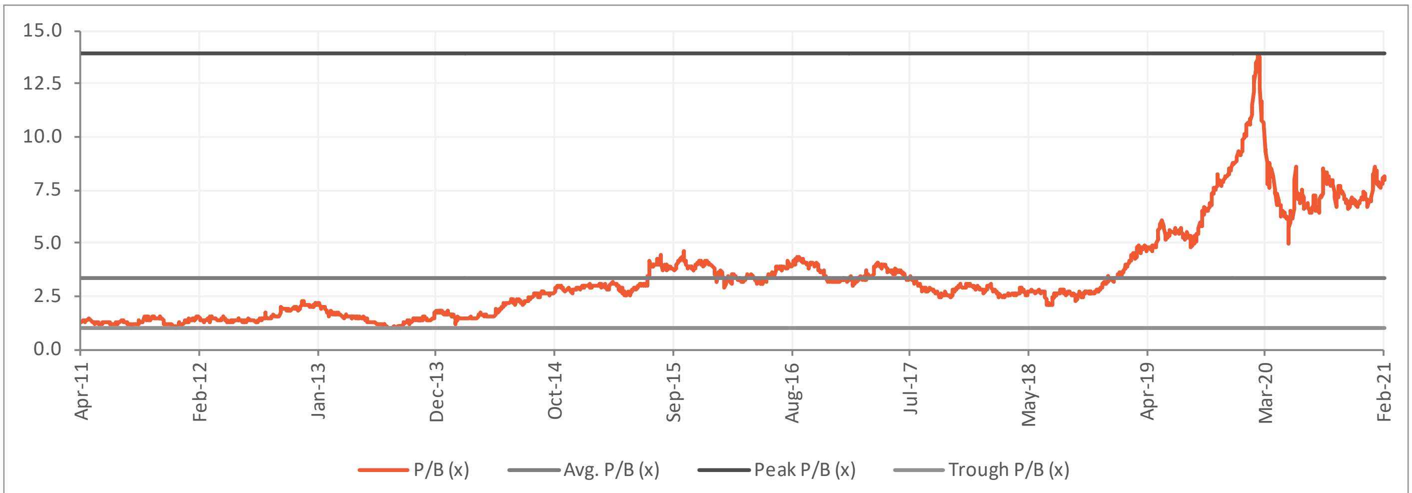
■ Company Outlook – Second-largest multiplex operator

With 645 screens at 151 multiplexes in 68 cities, Inox is the second-largest multiplex operator. Its strong market position is reflected in its ability to maintain ticket prices. Once the situation normalises, 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.

■ Valuation – Expect strong recovery in FY2022E, maintain Buy

We have raised our earnings estimates for FY2021E/FY2022E/FY2023E on the back of the approval to open cinema halls with 100% of seating capacity, good response for library contents and the movie 'Master', expectations of release of big starrer movies from April onwards. Though the management expects occupancy rate to revert to normal H2FY2021, a robust business model gives us comfort that it is going to be sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. We remain positive on the stock, given a strong debt-free balance sheet and potential for healthy earnings growth over FY2021-23E. Given improvement in visibility, we maintain a Buy rating on Inox Leisure with a revised PT of Rs. 400.

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
Inox Leisure	1,492	6	9,063	-	80.7	-	9.9	7.7	7.1	n.m.	11.0
PVR*	330	11	3,716	-	38.8	49.8	5.9	10.4	8.0	n.m.	23.1

*Source: Company, Sharekhan Research *Bloomberg*

About company

Incorporated in 1999, Inox 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. Inox 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

Inox 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 Inox 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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	8.23
2	HDFC Trustee	7.33
3	HDFC Asset Management Co Ltd	2.96
4	DSP Investment Managers Pvt Ltd	2.81
5	Emirate of Abu Dhabi	2.01
6	TAIYO GREATER IN FUND LTD	1.88
7	Sundaram Asset Management Co Ltd	1.82
8	Aditya Birla Sun Life Trustee Co P	1.56
9	Skale Master Fund	1.49
10	Caisse de Depot	1.33

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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