Sharekhan by BNP PARIBAS

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Stock Update

Inox Leisure Limited

Curtains lift slowly, growth story to begin again

Consumer Discretionary	Sharekhan code: INOXLEISUR	Company Update

Summary

- We maintain Buy on Inox Leisure Limited (Inox) with an unchanged price target (PT) of Rs. 400, given encouraging content pipeline and anticipated benefit from the closure of single screens.
- Management remains confident that impactful movie content would pull audiences back to cinemas. The box-office success of *Master* amid COVID-19 has provided the hope among film producers to release big-ticket movies.
- Selected big-budgeted movies being released in next 2-3 months will have higher distributor revenue shares and lower window period restriction to release in OTT platforms. At least two big-starrer movies are being released in coming month of 2021.
- Though near-term challenges are likely to persist amid COVID-19, we do not see any material structural impact including change in consumer behavior from COVID-19. Hence, we model strong recovery in FY2022E.

The film exhibition industry has been one of the worst impacted industries during the pandemic, owing to shut down of cinema halls, a staggered resumption of operations, absence of new releases, and weak consumer demand even post opening of theatres due to COVID-19. Most states (except few states, including Maharashtra) have permitted cinema halls to operate at full capacity. Management remains confident that impactful movie content would pull audiences back to cinemas. This was aided by packed cinema halls with the release of Tamil movie, *Master*, in January 2021 amid online leak, stringent 50% occupancy rule in some states, and COVID-19 scare, which crossed Rs. 250 crore in worldwide collections. The box-office success of *Master* has provided hope among film producers and exhibitors to release big-ticket movies. With the permission for 100% occupancy in cinema halls and success of South Indian Movies, filmmakers have started announcing the release dates for movies, which were shifted owing to the pandemic. Given the rush to book a release date by movie producers, we believe there will be at least two big-starrer movies being released in every month of 2021 and it looks there is going to be clashes on the release dates of big-ticket movies, which could impact collections. Management indicated that some selected big-budgeted movies (including *Sooryavanshi*) being released in next 2-3 months will have higher distributor revenue share (by 2%-3%) and lower window period restriction to release in OTT platforms. Inox has done a commendable job in curtailing fixed expenses. Management confirmed that reduction in fixed costs (lean manpower, reduction in repair and maintenance, etc.) would sustain going ahead and it expects saving 10%-12% on its pre-COVID fixed costs. New big-budgeted movies would be released in cinema halls from April 2021, which is expected to drive ATP to pre-COVID level in Q1FY2022. However, management expects occupancy would reach pre-COVID level during Q4FY2022. We expect strong recovery in FY2022 with the anticipated release of much-awaited big-budget movies and closure of single screens across India.

Our Call

Valuation: Getting back on track: Though near-term challenges are likely to persist amid COVID-19, we do not see any material structural impact, including change in consumer behaviour from COVID-19. We expect gradual recovery over the next 1-2 quarters as COVID vaccination is catching pace, anticipated faster-than-expected increase in occupancy rate owing to closure of single screens, and release of fresh content. Management expects occupancy rate to revert to normal levels Q4FY2022. We believe the multiplex business is going to be a sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. The stock price of Inox has corrected around 11% from the peak of last one month, owing to the recent rise in COVID-19 cases. However, we continue to remain Positive on the stock, given net debt-free balance sheet and potential for healthy earnings growth over FY2021-FY2023E. We maintain Buy on Inox with an unchanged PT of Rs. 400.

Key Risks

(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	89.5	1,841.4	2,227.8
OPM (%)	18.3	31.5	65.2	30.0	33.2
Adjusted PAT	138.5	83.9	-343.1	87.9	211.1
% y-o-y growth	*12.4*	*-39.4*	*n.m.*	*n.m.*	*140.1*
Adjusted EPS (Rs.)	14.1	8.5	-33.4	8.5	20.5
P/E (x)	21.9	36.1	n.m.	35.9	15.0
P/B (x)	2.9	4.5	10.1	7.7	4.9
EV/EBITDA (x)	10.4	5.4	61.3	5.6	3.7
RoNW (%)	14.4	13.5	n.m.	24.0	36.5
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. 307**	
Price Target: **Rs. 400**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

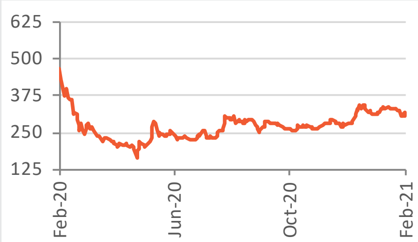
Company details

Market cap:	Rs. 3,462 cr
52-week high/low:	Rs. 481 / 158
NSE volume: (No of shares)	8.9 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	5.41 cr

Shareholding (%)

Promoters	47.4
FII	23.8
DII	12.7
Others	16.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2	14	1	-34
Relative to Sensex	4	11	24	24

Sharekhan Research, Bloomberg

Set to resume the show

The film exhibition industry has been one of the worst impacted industries during the pandemic, owing to shut down of cinema halls during nationwide lockdowns, a staggered resumption of operations for the past 4-5 months, absence of new releases, and weak consumer demand even post opening of theatres due to social distancing norms and fear of second wave of COVID-19. With the central government's permission to theatres to operate cinema halls at 100% seating capacity from February 1, 2021, most states (except few major states such as Maharashtra and Kerala) have permitted cinema halls to operate at full capacity. Management remains confident that impactful movie content would pull audiences back to cinemas. This was evident from packed cinema halls with the release of South Indian movie, *Master*, in January 2021 amid online leak, stringent 50% occupancy rule in some states, and COVID-19 scare; the movie which crossed Rs. 250 crore in worldwide collections. The box-office success of *Master* has provided hope among film producers and exhibitors to release big-ticket size movies despite COVID-19. Further, there has been strong recovery in footfalls in countries such as China, Japan, and South Korea, where Coronavirus cases dropped significantly. We expect a gradual recovery over the next 1-2 quarters as COVID vaccination is catching pace and producers release movies.

Encouraging content pipeline; Tweaked revenue sharing and window period for selected big-ticket films

With the closure of cinema halls and uncertainty around opening of cinema halls at 100% seat capacity, some producers/filmmakers shifted the release date of movies, while some movies released on streaming platforms during the lockdown. However, with the resumption of economic activities and permission for 100% occupancy in cinema halls, producers and studios have started announcing the release dates for movies. Management expects new movies (such as *Sooryavanshi, '83, Bell Bottom, Maidaan, RRR, Valimai, Puspha*, and *Cobra*) will be released from April 2021. For instance, Yash Raj Films recently announced the release dates of *Sandeep Aur Pinky Faraar, Bunty Aur Babli 2, Shamshera, Jayeshbhai Jordaar*, and *Prithviraj* between March 2021 and November 2021. In addition, other big-budgeted films such as *Sooryavanshi, Jersey, Maidaan, RRR, Radhe, Satyameva Jayate 2, KGF Chapter 2*, and *Heropanti 2* will be released in 2021. Apart from Hindi movies, several Hollywood movies are set to release in 2021. Though there will be two big-starrer movies being released in every month of 2021, it looks there is going to be clashes on the release dates of big-ticket movies that could impact collections. Management highlighted that selected big-budgeted movies (including *Sooryavanshi*) being released in the next 2-3 months will have higher distributor revenue shares (by 2%-3%) and lower window period restriction for films to release on OTT platforms.

Expect savings of 10%-12% on its pre-COVID fixed costs even after return of normalcy

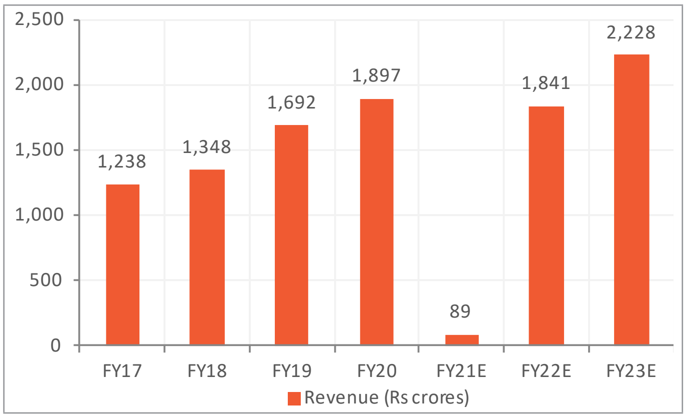
Inox has done a commendable job in curtailing fixed expenses. The company has sharply reduced its monthly cash burn to Rs. 10 crore-12 crore during the lockdown from around Rs. 80 crore during pre-COVID level and it has increased to Rs. 25 crore-30 crore in Q3FY2021 with the opening of cinema halls. Management expects month cash burn rate would remain below pre-COVID level even after return of normalcy. Management confirmed that reduction in fixed costs (lean manpower and reduction in repair and maintenance) would sustain going ahead, and it expects savings of 10%-12% on its pre-COVID fixed costs. 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 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. As on January 31, 2021, Inox was net debt-free and its gross debt stood at Rs. 115 crore.

Expect an improving trend in Q4; Sharp recovery in FY2021

With the release of Tamil movie, Master, release of at least one South Indian movie in each week, and government's permission to open cinema halls at full seating capacity, we believe Q4FY2021 would be better in each metrics for Inox from the last three quarters of FY2021. We expect both footfalls and occupancy rate would increase significantly to 12 lakh-15 lakh and 8%-10% in Q4FY2021 compared to 5 lakh and 3% in Q3FY2021. Though we expect average ticket price (ATP) would increase sequentially in Q4FY2021, food and beverage (F&B) spend per head (SPH) to ATP is expected to sustain in Q4FY2021. Management indicated that advertisement revenue would remain muted owing to absence of fresh content and lower occupancy level. New big-budgeted movies would be released in cinema halls from April 2021, which is expected to drive ATP to pre-COVID level in Q1FY2022. However, management expects occupancy to reach pre-COVID level during Q4FY2022. We expect strong recovery in FY2022 with the anticipated release of much-awaited big-budget movies and closure of single screens across India.

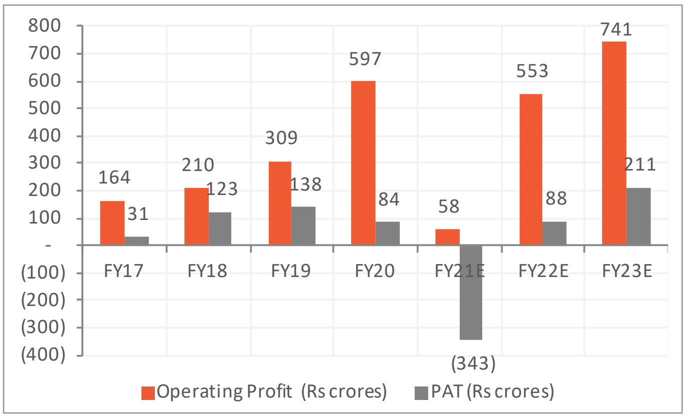
Financials in charts

Revenue (Rs. Cr) trend



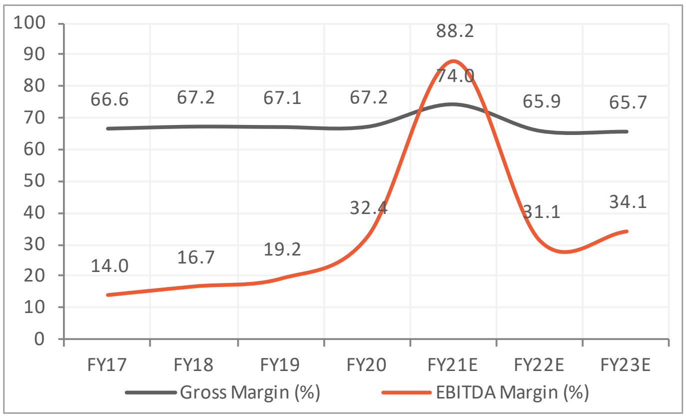
Source: Company, Sharekhan Research

EBITDA (Rs. Cr) and Net profit (Rs. Cr)



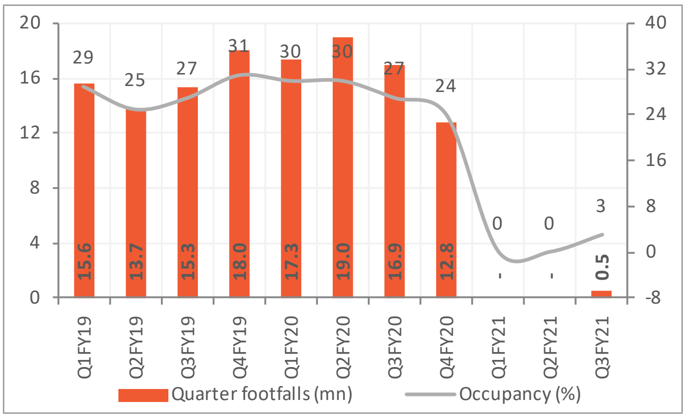
Source: Company, Sharekhan Research

Gross margin (%) and EBITDA margin (%)



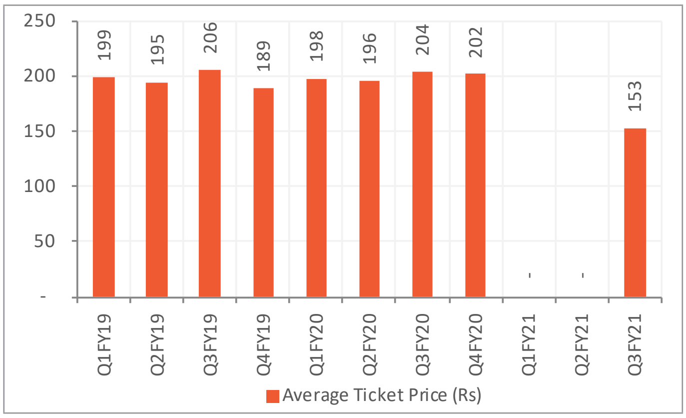
Source: Company, Sharekhan Research

Footfall (mn) and occupancy rate (%)



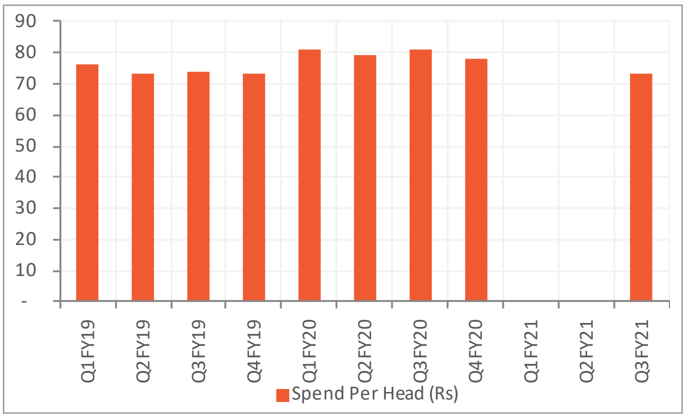
Source: Company, Sharekhan Research

ATP (Rs.) trend



Source: Company, Sharekhan Research

SPH (Rs.) trend



Source: Company, Sharekhan Research

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 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 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.

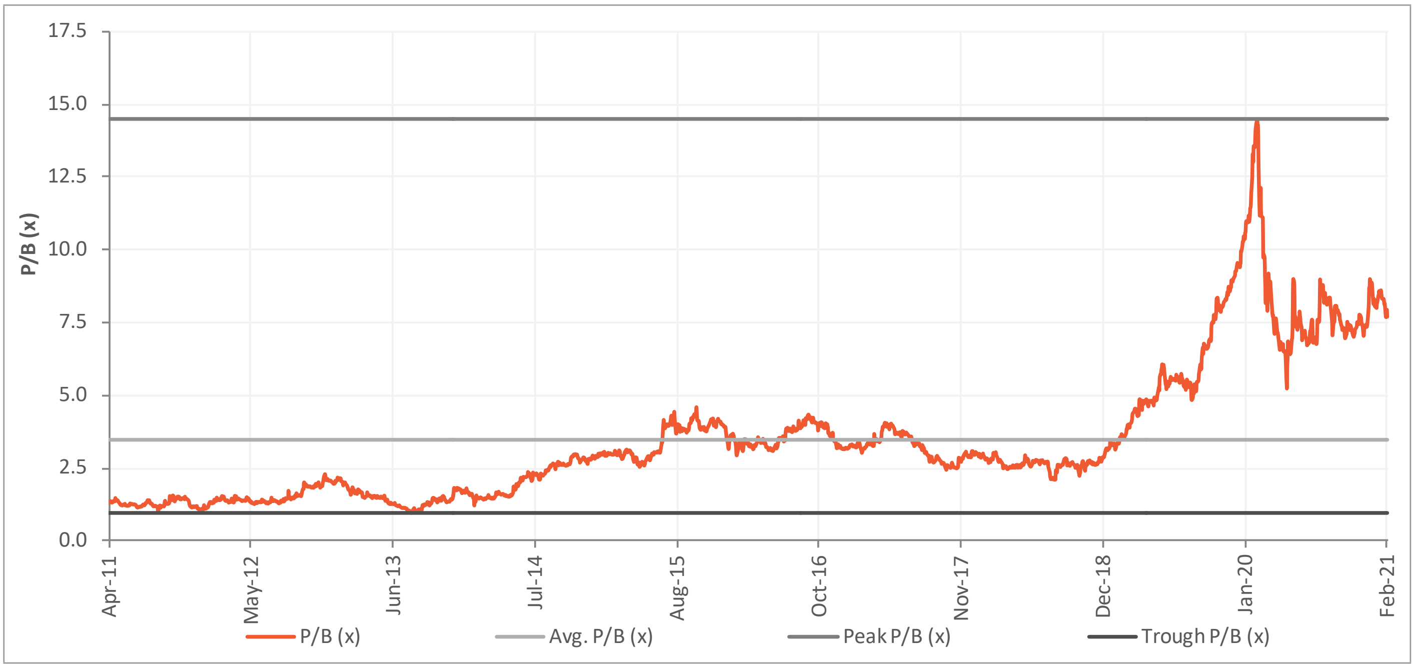
■ Company outlook - Second-largest multiplex operator

Inox is the second-largest multiplex operator. The company's 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, and private film screenings) and footfall monetisation efforts along with better improving operating metrics are expected to bode well for the company.

■ Valuation - Expect strong recovery in FY2022E, maintain Buy

Though near-term challenges are likely to persist amid COVID-19, we do not see any material structural impact, including change in consumer behaviour from COVID-19. We expect gradual recovery over the next 1-2 quarters with COVID-19 vaccination catching pace, anticipated faster-than-expected increase in occupancy rate owing to closure of single screens, and release of fresh content. Management expects occupancy rate to revert to normal levels in Q4FY2022. We believe the multiplex business is going to be a sustainable model in the long term, given Indian movie-goers' strong appetite for the silver screen. The stock price of Inox has corrected by around 11% from the peak of YTD 2021 owing to the recent rise in COVID-19 cases. However, we continue to remain positive on the stock, given net debt-free balance sheet and potential for healthy earnings growth over FY2021-FY2023E. We maintain our Buy rating on Inox with an unchanged 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/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
PVR*	1,361	6	8,266	-	85.7	-	9.4	6.3	6.0	n.m.	1.0
Inox Leisure	307	11	3,462	-	35.9	61.3	5.6	10.1	7.7	n.m.	24.0

Source: Company, Sharekhan estimates

About company

Incorporated in 1999, Inox is one of the largest multiplex operators in India. The company currently operates 151 properties (641 screens and over 1.46 lakhs seats) located in 69 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 a weak year due to pandemic crisis, we expect 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	8.77
2	DSP Investment Managers Pvt Ltd	2.68
3	Emirate of Abu Dhabi United Arab	2.54
4	KUWAIT INVESTMENT	2.28
5	BNP Paribas	1.93
6	Aditya Birla Sun Life Trustee Co P	1.56
7	HDFC Asset Management Co Ltd	1.53
8	TAIYO GREATER IN FUND LTD	1.46
9	Nippon Life India Asset Management	1.45
10	Sundaram Asset Management Co Ltd	1.44

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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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