

Second wave delays recovery...

Inox Leisure continued to report losses as footfalls and revenues remained well below pre-Covid numbers owing to lack of steady flow of new releases (especially in Hindi language). Revenue was at 90.4%, down 75.7% YoY. EBITDA loss (ex-Ind AS116) came in at ~₹ 89 crore. Inox recognised ₹ 26.3 crore as rent concessions and other income of ₹ 23.8 crore from settlement of old claims. Subsequently, the company reported net loss (ex-Ind AS116) at ₹ 74 crore. On a reported basis, net loss was at ₹ 93.7 crore.

Only 108 screens operational out of total 648 screen

Q4 started on a promising note with a release like *Master* in southern market. However, desired flow of releases in Hindi languages was absent. ATP during the quarter was ₹ 172, down 15% YoY while SPH was flat YoY at ₹ 78. Inox opened 17 new screens during the quarter. The management said 19 screens are nearly complete and it expects to add 44 screens, if the situation normalises. We note that the second wave of Covid-19 has dampened recovery prospects in the near term. Currently, only 108 screens out of 648 are operational and business in the key areas of Maharashtra and Delhi has been affected due to closure/restrictions. Occupancy revival has been delayed with postponement of some movies. Accordingly, we revise our estimates down and build in 30, 65 screens addition in FY22E, FY23E, respectively. Our estimates now assume recovery from H2FY22 and pre-Covid number only in FY23E.

Fund raising, re-negotiation of rent on the anvil

Inox' monthly cash burn increased QoQ as the company incurred higher expenses on all fronts. **As April saw shutdown in many states, the company has started re-negotiating rent & CAM deals with landlords and received a positive response. We, however, feel that generous concessions as seen in FY21, may be difficult to receive.** The company has a relatively stronger balance sheet with liquidity of more than ₹ 130 crore. The board of Inox has also passed enabling resolution to raise ₹ 300 crore, which, it believed, will be enough in the worst case scenario i.e. full year closure with monthly cash burn of ~₹ 25 crore.

Valuation & Outlook

While a few successful releases in regional languages along with vaccination drive was expected to initiate recovery, absence of Hindi releases delayed the same. Considering the prevailing Covid-19 second wave, we believe cinemas will see normalised scenario only from H2FY22 onwards. Long term benefit of some single screen closure is also possible (management expects ~8-10% of the overall screen base of 8600-8700 screen to shut down due to Covid pain). However, uncertainty of post Covid behaviour remains. We maintain **HOLD** rating on the stock considering the delayed recovery prospects. We value the stock at 10x FY23E (ex-Ind-AS) EV/EBITDA with a target price of ₹ 275/share (earlier TP: ₹ 350/share).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income (₹ crore)	1,692.2	1,897.4	105.9	1,258.2	2,008.8	1.9
EBITDA (₹ crore)	308.3	596.8	(172.3)	248.8	653.9	3.1
Net Profit (₹ crore)	133.5	15.0	(337.7)	(235.7)	47.2	46.6
EPS (₹)	13.0	1.5	(30.0)	(21.0)	4.2	
P/E (x)	21.2	189.0	(9.2)	(13.2)	65.8	
Price / Book (x)	2.9	4.6	4.9	8.4	8.0	
EV/EBITDA (x)	10.4	9.9	(34.1)	24.4	9.4	
RoCE (%)	19.6	9.9	(11.7)	(1.3)	9.7	
RoE (%)	14.2	2.4	(62.5)	(63.7)	12.1	

Source: Company, ICICI Direct Research *FY20, FY21E and FY22E EBITDA and PAT are not comparable to earlier year numbers owing to IND AS 116 implementation



Particulars	
Particulars	Amount
Market Capitalization (₹ Crore)	3,105.3
Total Debt (FY21) (₹ Crore)	104.0
Cash (FY21) (₹ Crore)	77.4
EV (₹ Crore)	3,201.0
52 week H/L	359/ 158
Equity Capital (₹ crore)	112.5
Face value	10.0

Key Highlights

- Occupancy below pre-Covid level due to lack of fresh content
- Maintain HOLD with revised target price of ₹ 275/share

Key risks to our call

- Quicker than expected reopening in major states and higher footfalls, thereby higher earnings
- Further delay in new releases and higher cash loss to impact performance

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	90.4	72.3	371.6	14.9	-75.7	507.8	Lack of content led to low revenues
Other Income	28.6	6.0	4.8	6.6	497.3	331.5	
Employee Expenses	25.9	26.9	32.7	21.2	-20.8	22.3	
Exhibition Cost	23.5	18.0	93.7	2.9	-74.9	706.9	
Cost of F&B	6.8	7.1	26.4	1.1	-74.3	522.9	
Rent	0.0	14.9	7.6	0.0	-100.0	NA	
Other Expenses	74.3	80.0	101.1	54.2	-26.5	37.1	
EBITDA	-40.1	-74.6	110.0	-64.5	-136.4	-37.9	
EBITDA Margin (%)	NM	NM	29.6	-434	NM	NM	
Depreciation	70.1	70.2	74.0	70.9	-5.3	-1.2	
Interest	61.7	61.0	61.4	62.0	0.5	-0.5	
Exceptional Items	-22.3	0.0	0.0	-54.1	NA	NA	Company recognised the amount towards reduction of rental expense following invocation of Force Majeure
Total Tax	-27.4	-50.4	61.5	-34.3	-144.4	-20.2	
PAT	-93.7	-149.5	-82.2	-102.5	14.0	-8.6	

Key Metrics

Footfalls	3.4	2.9	12.8	0.5	-73.4	580.0
Occupancy	10.1	6.1	24.3	0.9	-58.3	974.7
SPH	78.0	74.5	78.0	73.0	0.0	6.8
ATP	172.0	165.6	202.0	153.0	-14.9	12.4

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,818.3	1,258.2	-30.8	2,220.1	2,008.8	-9.5	Cut down estimates given the second wave
EBITDA	571.1	248.8	-56.4	755.0	653.9	-13.4	
EBITDA Margin (%)	31.4	19.8	-1163 bps	34.0	32.6	-146 bps	
PAT	26.1	-235.7	NA	129.1	47.2	-63.5	
EPS (₹)	2.3	-21.0		11.5	4.2		

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates (ex- IND AS 116)

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,818.3	1,258.2	-30.8	2,220.1	2,008.8	-9.5	
EBITDA	267.7	-8.8	-103.3	420.0	338.2	-19.5	
EBITDA Margin (%)	14.7	-0.7	-1542 bps	18.9	16.8	-209 bps	
PAT	134.0	-86.8	NA	225.5	167.3	-25.8	
EPS (₹)	11.9	-7.7	NA	20.0	14.9		

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E
Footfalls (mn)	63	66	4	43	66	63	75
Occupancy (%)	28.4	28.2	4.5	17.2	25.3	24.7	27.0
SPH (₹)	74	80	77	91	88	91	88
ATP (₹)	197	200	170	208	213	207	213

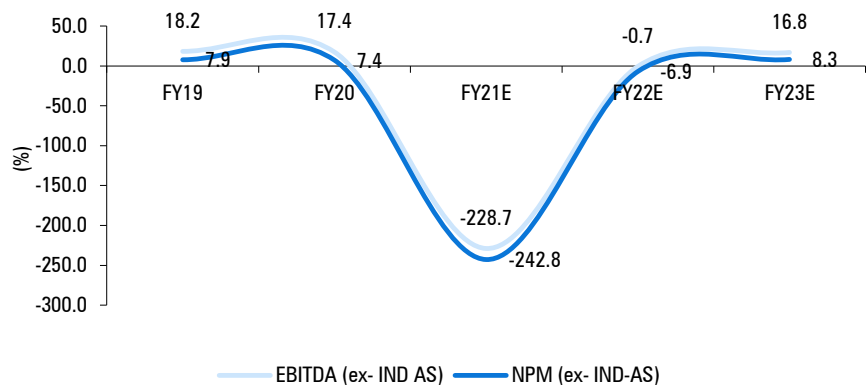
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Enabling resolution to take care of future cash burn:** The management indicated their liquidity position is strong with liquidity of ₹ 130 crore. They also have an enabling resolution in place to raise further ₹ 300 crore. The operational cash burn for FY21 was ₹ 220 crore with ₹ 50 crore spent on capex in FY21. They added that ₹ 300 crore fund raising has been considered assuming ₹ 25 crore cash burn per month for the entire period of FY22, if theatres are not operational. They also indicated that if things become normal in between, the remaining amount could be used for capex
- **Guided for 44 screen openings in FY22:** Currently 97 properties, 424 screens are shut due to Covid related restrictions while further 33 properties, 116 screens have been shut down voluntarily by the management itself due to unavailability of fresh content. Currently, only 23 properties and 108 screens are operational. They already had initiated discussion with landlords to waive off rentals and they have received positive response). They also indicated that they are looking to open 44 screens in FY22. It has so far opened five screen and 19 screens are carried forward from FY21 for which 90% of the work is already complete. The company is looking to spend ₹ 50 crore capex in FY22 for the screen openings
- **Distributor share higher in Q4:** The management indicated that distributor share for the quarter was higher at 47% vs. normal run-rate of ~44% due to i) as goodwill gesture to incentivise the distributor to release the films due to shortage of content and ii) films which were released during the quarter had a short run of three to four weeks and, hence, distributor earned higher share. However, the management reiterated that this is a temporary phenomenon and distributor share will return to normal level in FY22
- **Multiple platform simultaneous release:** The management indicated that on account of second wave and subsequent shutdown of theatres, it was obvious choice for the producer to take the OTT route considering the large investment. However, they believe that due to development of vaccination for 18+ age, the situation would normalise gradually. They expect the eight-week window to be to be honoured by producers of large films
- **Pricing strategy:** The management indicated that they were enthused by the response for films, which were released during pandemic. As per the management, there was no pricing discount offered by them for the fresh content, albeit some discount in ATP was offered for library content. They reiterated that they would like to keep ATP at the pre-Covid level whenever theatres are opened and fresh content is being played

Financial story in charts

Exhibit 5: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 6: P&L (excl. Ind-AS 116)

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	1,897.4	105.9	1,258.2	2,008.8
Growth (%)	12.1	-94.4	1,087.8	59.7
Employee Expenses	142.1	86.7	116.1	156.4
Exhibition Cost	496.5	26.4	333.2	531.9
Cost of F&B	126.2	7.9	102.4	153.7
Rent	368.0	70.0	380.3	448.7
Other Expenses	434.2	157.2	335.0	380.0
Total Operating Expenditure	1,567.0	348.2	1,267.0	1,670.7
EBITDA	330.5	-242.3	-8.8	338.2
Margin (%)	17.4	-228.7	-0.7	16.8
Depreciation	108.1	113.0	113.2	114.5
Interest	11.7	17.0	18.0	24.0
Other Income	17.1	42.3	24.0	24.0
Exceptional Items	0.0	4.0	0.0	0.0
PBT	227.7	-339.0	-116.0	223.6
Total Tax	86.7	-81.8	-29.2	56.4
PAT	141.0	-257.2	-86.8	167.3
Adjusted PAT	141.0	-257.2	-86.8	167.3
Growth (%)	3.0	-282.4	-66.3	-292.7
Adj EPS (₹)	13.7	-22.9	-7.7	14.9

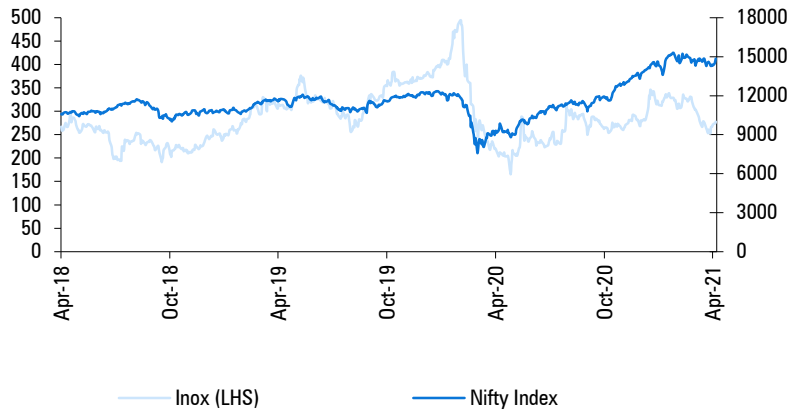
Source: Company, ICICI Direct Research

Exhibit 7: KPI

(Year-end March)	FY20	FY21E	FY22E	FY23E
Box office Revenues	1,104	56	740	1,182
YoY	13%	-95%	1228%	60%
F&B	497	29	366	549
YoY	14%	-94%	1177%	50%
Ad	179	3	85	168
YoY	1%	-99%	3140%	98%
Others	117	19	67	110
Footfalls (mn)	66	4	43	66
	5%	-94%	992%	56%
Screens	626	643	673	738
Net Debt	78	(10)	352	277
RoCE (post tax)	19.9	(17.7)	2.9	26.5
RoE	12.8	(30.3)	(11.4)	18.0

Source: Company, ICICI Direct Research

Exhibit 8: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	1,897.4	105.9	1,258.2	2,008.8
Growth (%)	12.1	-94.4	1,087.8	59.7
Employee Expenses	142.1	86.7	116.1	156.4
Exhibition Cost	496.5	26.4	333.2	531.9
Cost of F&B	126.2	7.9	102.4	153.7
Rent	101.6	0.0	122.7	133.0
Other Expenses	434.2	157.2	335.0	380.0
Total Operating Expenditure	1,300.6	278.2	1,009.4	1,354.9
EBITDA	596.8	-172.3	248.8	653.9
Growth (%)	93.6	-128.9	-244.4	162.8
Depreciation	264.2	283.2	316.3	331.9
Interest	221.3	251.1	271.4	283.0
Other Income	17.1	42.3	24.0	24.0
Exceptional Items	0.0	-217.9	0.0	0.0
PBT	128.6	-446.4	-315.0	63.0
Total Tax	113.6	-108.7	-79.2	15.9
PAT	15.0	-337.7	-235.7	47.2
Adjusted PAT	15.0	-395.4	-147.9	-86.0
Growth (%)	-89.1	NM	NM	NM
Adj EPS (₹)	1.5	-35.2	-21.0	4.2

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	102.7	112.5	112.5	112.5
Reserve and Surplus	551.9	520.5	257.7	277.9
Interest in benefit trust	(32.7)	-	-	-
Total Shareholders funds	621.9	632.9	370.2	390.4
Total Debt	158.0	104.0	374.0	324.0
Others	2,738.5	2,804.7	2,683.1	2,839.2
Total Liabilities	3,518.4	3,541.6	3,427.3	3,553.6
Assets				
Total Fixed Assets	1,086.7	1,021.5	1,108.2	1,243.7
Investments	1.2	0.5	0.5	0.5
Rights of Use Assets	2,141.8	2,116.4	1,936.5	1,951.4
Debtors	62.8	4.3	55.2	88.1
Inventory	13.7	10.3	9.1	14.5
Loans and Advances	110.5	105.1	80.6	117.0
Other Current Assets	43.3	49.3	28.7	39.0
Cash	44.7	77.4	20.7	44.9
Total Current Assets	274.9	246.3	194.2	303.4
Total Current Liabilities	297.0	242.6	211.7	345.1
Net Current Assets	-22.1	3.7	-17.5	-41.7
Other Non Current Assets	310.9	399.5	399.5	399.5
Application of Funds	3,518.4	3,541.6	3,427.3	3,553.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
PAT	15.0	-337.7	-235.7	47.2
Add: Depreciation	264.2	283.2	316.3	331.9
Add: Interest Paid	221.3	251.1	271.4	283.0
(Inc)/dec in Current Assets	-8.5	61.2	-4.6	-84.9
Inc/(dec) in CL and Provisions	-22.5	-54.4	-30.9	133.3
CF from operating activities	469.4	203.5	316.6	710.5
(Inc)/dec in Investments	-0.4	0.6	0.0	0.0
(Inc)/dec in Fixed Assets	-208.6	-47.8	-200.0	-250.0
Others	300.8	-167.2	-144.8	-76.2
CF from investing activities	91.8	(214.4)	(344.8)	(326.2)
Issue/(Buy back) of Equity	0.0	9.8	0.0	0.0
Inc/(dec) in loan funds	48.0	-54.0	270.0	-50.0
Less: Interest Paid	221.3	251.1	271.4	283.0
Others	-799.4	-163.3	-569.9	-593.0
CF from financing activities	(530.2)	43.6	(28.4)	(360.0)
Net Cash flow	31.1	32.7	-56.7	24.3
Opening Cash	13.6	44.7	77.3	20.7
Closing Cash	44.7	77.4	20.7	44.9

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	1.5	-30.0	-21.0	4.2
Adj EPS	1.5	-35.2	-21.0	4.2
BV	60.6	56.3	32.9	34.7
DPS	1.2	0.0	2.4	2.4
Cash Per Share	4.4	6.9	1.8	4.0
Operating Ratios (%)				
EBITDA Margin	31.5	-162.6	19.8	32.6
PBT / Net Sales	17.5	-430.0	-5.4	16.0
PAT Margin	0.8	-373.3	-18.7	2.3
Inventory days	2.6	35.6	2.6	2.6
Debtor days	12.1	14.8	16.0	16.0
Creditor days	24.9	363.1	25.0	25.0
Return Ratios (%)				
RoE	2.4	-62.5	-63.7	12.1
RoCE	9.9	-11.7	-1.3	9.7
RoIC	31.2	-45.9	-6.1	25.5
Valuation Ratios (x)				
P/E	189.0	-9.2	-13.2	65.8
EV / EBITDA	9.9	-34.1	24.4	9.4
EV / Net Sales	3.1	55.4	4.8	3.1
Market Cap / Sales	1.6	29.3	2.5	1.5
Price to Book Value	4.6	4.9	8.4	8.0
Solvency Ratios				
Debt/EBITDA	0.3	-0.6	1.5	0.5
Net Debt / Equity	0.3	0.2	1.0	0.8
Current Ratio	1.4	1.2	1.6	1.4
Quick Ratio	1.3	1.1	1.5	1.3

Source: Company, ICICI Direct Research

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