Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Inox Leisure Ltd

A silvery streak of growth

Consumer Discretionary	Sharekhan code: INOXLEISUR	Company Update

Stock Update

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. 393**	
Price Target: **Rs. 470**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

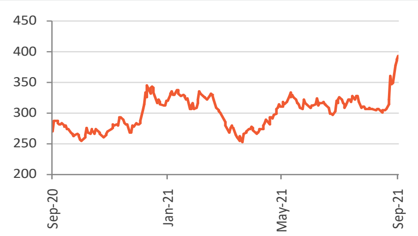
Company details

Market cap:	Rs. 4,802 cr
52-week high/low:	Rs. 412/242
NSE volume: (No of shares)	6.8 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	6.90 cr

Shareholding (%)

Promoters	43.6
DII	26.4
FII	17.0
Others	13.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	27	25	41	45
Relative to Sensex	3	13	18	55

Sharekhan Research, Bloomberg

Summary

- We expect Inox Leisure's business to recover in H2FY2022 as quality content has lined-up for festive season and COVID-19 restrictions to ease across many states. Expect a larger portion of eligible population will be vaccinated by end of December 2021.
- As new movies failed to excite OTT audiences during the pandemic, we believe most of movie producers will continue to depend on theatrical releases, which would drive occupancy rates of multiplexes going ahead.
- We expect both footfalls and occupancy rate would be around 26 lakh and 12% in Q2FY2022 compared to 8 lakh and 12%, respectively, in Q1FY2022. We estimate net loss to be at Rs. 71 crore in Q2FY2022 versus a net loss of Rs.122 crore in Q1.
- We maintain a Buy on Inox Leisure with a revised PT of Rs. 470, given meaningful recovery in 2HFY22, healthy pent-up demand and lower structural risk from the OTT segment.

The film exhibition industry has finally been witnessing a major relief as Maharashtra state government announced the re-opening of cinema halls from October 22, new content pipeline remains strong, and festive season ahead. We expect a good recovery in Inox Leisure's business in Q3FY2022 given release of Hindi and regional films in the upcoming festive seasons and a strong recovery from Q4FY2022 because of strong content pipeline, pent-up demand and anticipated relaxation of COVID-19 restrictions as a larger portion of eligible population will be vaccinated.

- **And the reel rolls on:** Filmmakers have started announcing release dates of their big-banner movies (including *"Sooryavanshi", "83", "Satyameva Jayate 2"*, etc, which were initially scheduled for release in CY2020), following the Maharashtra government's decision to open up theaters from October 22. There are around 15 Bollywood movies to be released by December 2021. Further, around 68%/25% of the estimated adult population (over 18 years) in India is partially/fully vaccinated and it is estimated around 80% of India's eligible population could be fully vaccinated by 2021-end. We expect Inox Leisure's business to recover in H2FY2022 as quality content has lined-up and COVID-19 restrictions would ease across many states.
- **Structural story remains intact:** Disney announced the discontinuation of the simultaneous theatrical and digital release of movies and there will be an exclusive theatrical window for 45 days. This indicates the relevance of theatrical releases and also reduces concerns around the potential structural threat from OTT. As most of new movies (including some big-starrer movies) fail to excite OTT audience, we believe most of movie producers will continue to depend on theatrical releases, which would help to increase the occupancy rate of multiplexes going ahead.
- **Expect trend to improve in Q2:** With availability of new English content and release of regional movies after the second wave of COVID-19, we believe Inox Leisure would able to report slightly better revenue performance and a reduction in net loss in Q2FY2022. We expect both footfalls and occupancy rate would be at ~26 lakh and 12% in Q2FY2022 as compared to 8 lakh and 12% in Q1FY2022. We estimate that the net loss would be at ~Rs. 71 crore (versus net loss of 122 crore in Q1FY2022) because of increase in revenue on the back of operations of cinema halls across many states.

Our Call

Valuation: Expect a meaningful recovery from H2FY2022 unless COVID wave-3 hits: We tweaked our earnings estimates for FY2022E/FY2023E factoring the delay in opening of theaters versus our earlier expectations, huge line-up of movies for release, anticipated ease of COVID restrictions, and pent-up demand. The management cited that screen additions would pick-up to 70-80 screens per year once things settles down. The multiplex business is going to be a sustainable model in the long term as the fundamentals of the business remains intact despite closure of operations for more than 18 months and of Indian movie-goers' have strong appetite for the silver screen. We introduced FY2024 number in this note. Given the company's balance sheet strength, strong earnings growth potential and anticipated permanent reduction of fixed cost even after normalisation post COVID-19, we maintain Buy on Inox Leisure with a revised price target (PT) of Rs. 470.

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 to normalcy.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	105.9	848.6	2,364.2	2,763.5
OPM (%)	47.0	27.5	32.8	32.3
Adjusted PAT	-337.7	-148.7	244.8	305.8
% y-o-y growth	*n.m.*	*n.m.*	*n.m.*	*24.9*
Adjusted EPS (Rs.)	-32.2	-12.2	20.0	25.0
P/E (x)	n.m.	n.m.	19.6	15.7
P/B (x)	5.7	7.4	4.9	3.5
EV/EBITDA (x)	88.5	18.4	5.3	4.7
RoNW (%)	n.m.	n.m.	40.4	34.7
RoCE (%)	n.m.	0.3	20.9	19.9

Source: Company; Sharekhan estimates
**numbers are based on Ind AS 116.*

It's showtime again

After remaining a lull of almost 18 months due to pandemic-induced disruptions, the film exhibition industry has finally been witnessing a major relief as Maharashtra state government announced opening of cinema halls from October 22, 2021, new content pipeline remains strong, and festive season ahead. We note that Maharashtra contributes around 25-30% to a Bollywood movies' total domestic box office collections and around 40% of total domestic box office collection for English movies in a normal year. Further, barring Kerala and Assam, state governments across the country have allowed the cinema halls to operate with a restricted seating capacity (Maharashtra would allow to re-open theaters from October 22), although Telangana, Rajasthan and Karnataka have allowed operation at 100% capacity. Contrary to the re-opening of cinema halls post the first wave of COVID-19, filmmakers have started announcing the release dates of their big banner movies (including those movies such as *"Sooryavanshi", "83", "Satyameva Jayate 2"* and among others, initially scheduled for release in CY2020) following the Maharashtra government's decision to open up theaters. Given the rush to book a release date by movie producers, there are some big budgeted-movies sharing release dates and the gap between the release date of two big-budgeted movies remain a week for many. With the announcement of release date of *"Sooryavanshi"* on November 5 (Diwali weekend), *"83"* on December 24 (Christmas weekend), there are around 15 Bollywood movie to be released by December 2021. Managements of both PVR and Inox Leisure remain confident that impactful movie content would pull audiences back to cinemas. We note that both Hollywood movies and regional movies are able to attract audiences to multiplexes post reopening of cinema halls in certain states post COVID-19 second wave, despite absence of any big Hindi movies (though *"Bell Bottom"* released on August 19, 2021). Hence, we assume steady improvement in occupancy rate in Q3FY2022 given the festive season ahead unless we see another spike in COVID-19 infections and strong recovery from Q4FY2022 onward attributed to strong movies pipeline, anticipated relaxation of COVID-19 restrictions, pent-up demand and a larger portion of fully-vaccinated eligible population.

List of Bollywood movies (not exhaustive) to be released by December 2021

Movies	Cast	Release Date
BHAVAI	PRATIK GANDHI, ARINDITA RAY	OCT 1, 2021
SOORYAVANSHI	AKSHAY KUMAR, KATRINA KAIF,RANVEER SINGH	NOV 5 (Diwali)
NO MEANS NO	DHRUV VERMA, GULSHAN GROVER	NOV 5 (Diwali)
BUNTY AUR BABLI 2	RANI MUKHERJI, SAIF ALI KHAN, SIDDHANT CHATURVEDI	NOV 19, 2021
SATYAMEVA JAYATE 2	JOHN ABRAHAM, MANOJ BAJPAYEE	NOV 26, 2021
TADAP	AHAN SHETTY, TARA SUTARIA	NOV 3, 2021
CHANDIGARH KARE AASHIQUI	AYUSHMANN KHURRANA , VAANI KAPOOR	DEC 10, 2021
83	RANVEER SINGH, DEEPIKA PADUKONE	DEC 24, 2021
PUSPA	ALLU ARJUN	DEC 24, 2021
JERSEY	SHAHID KAPOOR; PANKAJ KAPUR	DEC 31, 2021

Source: Industry

Vaccine rollout picks up strongly; expect easing of restrictions across states soon

Around 68%/25% of the estimated adult population (above 18 years) in India is partially/fully vaccinated. Though India aims to vaccinate all eligible Indians by the end of 2021, it is estimated that ~80% of India's eligible population could be fully vaccinated by the end of 2021. Though most states have allowed theaters to operate at 50% seating capacity, states such as Telangana, Rajasthan and Karnataka have allowed to operate at 100% capacity after July 30, 2021. The Maharashtra state government is yet to announce SOPs for multiplexes and movie theatres. We expect most of the state governments would allow 100% seating capacity or provide relaxation in COVID-19 restrictions with the acceleration in vaccine roll out and decline in COVID-19 infections. As the year ahead is all set to see a long line up of big-starrer Hindi movies, we believe Inox Leisure would see strong recovery in footfalls, Average ticket prices and the food & beverage (F&B) conversion rate, which would lead to strong revenue growth in FY2023E and beyond.

Theatrical experience likely to remain unparalleled in medium term

With the absence of theatrical release, few movies (across small to mid-budget) opted for a direct-to-OTT release as it provided movie producers an option to monetize their inventory at a reasonable return on their investment. We believe there is a limit on potential revenue earning for a good content/big-starrer movies on streaming platforms – for instance, movie like "Radhe" could have done well in the first weekend if it had been released in theatres. Further, Disney announced that the remainder of its 2021 films will be released exclusively in theaters before on any other streaming platform and discontinued the simultaneous theatrical and digital release of movies. Further, it cited that there will be an exclusive theatrical window for 45 days, which validates relevance of a theatrical release and reduces the concerns around the potential structural threat from OTT. As most new movies (including some big-starrers) fail to excite OTT audience, we believe most of movie producers will continue to prefer theatrical releases of their movies, which would help to increase the occupancy rate of Inox Leisure going ahead.

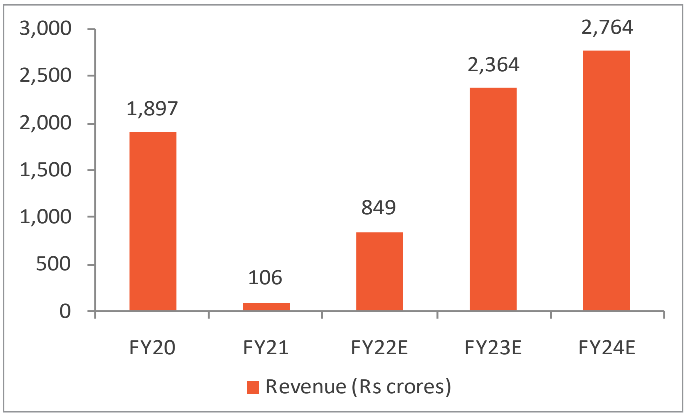
Expect trend to improve in Q2; but a strong recovery in H2FY2022

With re-opening of cinema halls post second wave of COVID-19 from July 30, 2021, available of new English content and release of regional movies, we believe Inox Leisure would able to report slightly better revenue performance and reduce operating losses in Q2FY2022. We expect both footfalls and occupancy rate would be around to 25 lakh-27 lakh and 10-12% in Q2FY2022 compared to 8 lakh and 12% in Q1FY2022. Though we expect average ticket price (ATP) would decline sequentially in Q2FY2022 owing to the lack of good content, food and beverage (F&B) spend per head (SPH) to ATP is expected to sustain in Q2FY2021. We believe net loss would be around Rs. 71 crore (versus net loss of 122 crore in Q1FY2022) because of increase in revenue on the back of operation of cinema halls across many states and higher rent concessions of closure all cinema halls during July 2021 and continued shut down of around 25% of its total cinema halls during August and September.

New movies have lined up for release in cinema halls from October 2021, which is expected to drive ATP and conversion rate in F&B segment from Q3FY2022. However, the management expects occupancy and ATP to reach pre-COVID levels during Q4FY2022. We expect good recovery in H2FY2022 with the release of much-awaited big-budget movies, quality content, pent-up demand and anticipated higher occupancy due to closure of single screens across India (especially in South India).

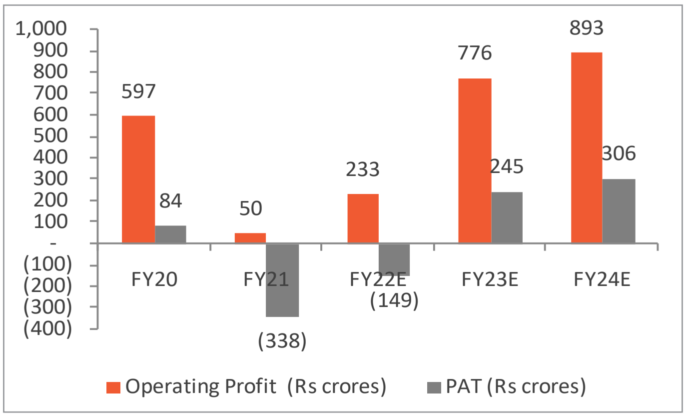
Financials in charts

Revenue (Rs. cr) trend



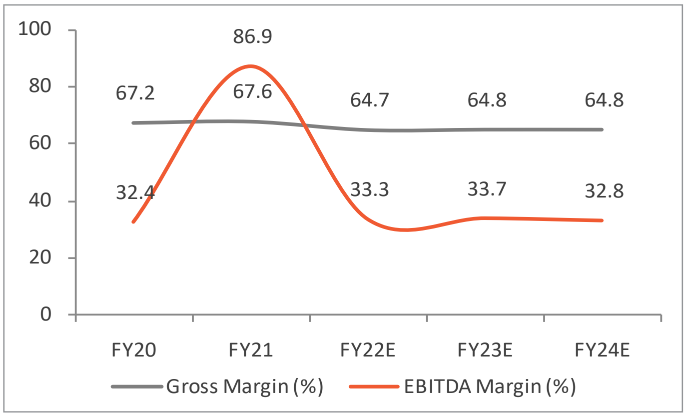
Source: Company, Sharekhan Research

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



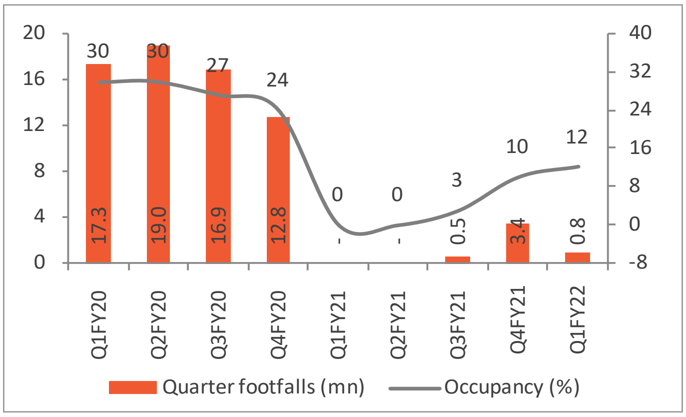
Source: Company, Sharekhan Research

Gross margin (%) and EBITDA margin (%)



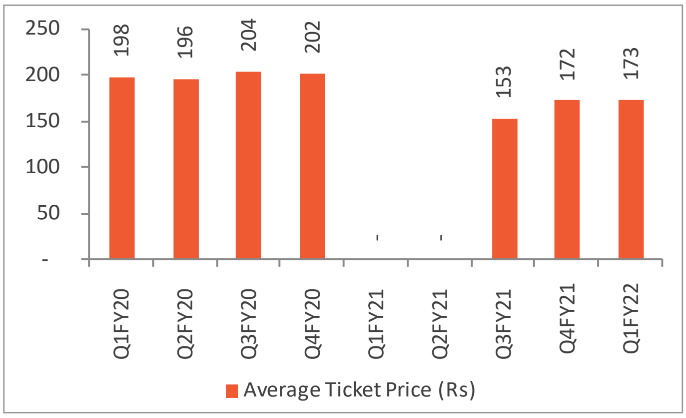
Source: Company, Sharekhan Research

Footfall (mn) and occupancy rate (%)



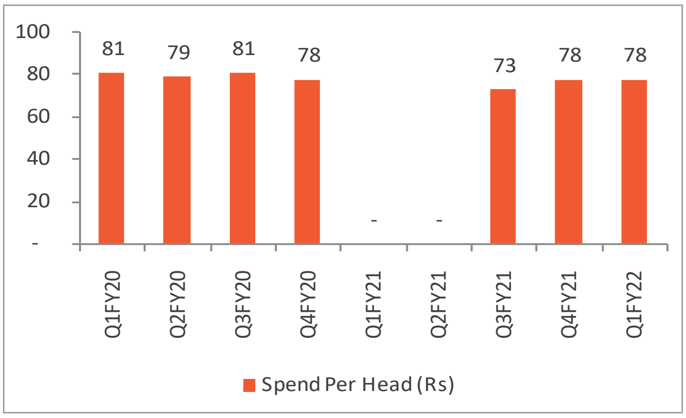
Source: Company, Sharekhan Research

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 2022, 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. It is estimated that around 1000-1500 single screens would have shut down in 2020, taking total screens to ~8,000. Hence, we believe multiplexes would gain market share given consolidation in Indian exhibition industry. We believe theatrical releases provide better opportunities to producers to generate RoI, especially in case of big-budget movies. Hence, the charm of big screens will not fade away in medium-term.

■ Company outlook - Second-largest multiplex operator

With 654 screens at 155 multiplexes in 69 cities, Inox Leisure is the second-largest multiplex operator. Its strong market position is reflected in its ability to reduce the gap in average ticket price with its large peers. Once the situation normalises, the company's strategies to increase footfalls (loyalty programs, non-movie content, enhancing experience of cinema goers, private film screenings, etc), increase footfall monetisation efforts, and better improving operating metrics are expected to bode well for the company.

■ Valuation - Expect strong recovery in FY2023E, maintain Buy

We tweaked our earnings estimates for FY2022E/FY2023E factoring the delay in opening of theaters versus our earlier expectations, huge line-up of movies for release, anticipated ease of COVID restrictions, and pent-up demand. The management cited that screen additions would pick-up to 70-80 screens per year once things settles down. The multiplex business is going to be a sustainable model in the long term as the fundamentals of the business remains intact despite closure of operations for more than 18 months and of Indian movie-goers' have strong appetite for the silver screen. We introduced FY2024 number in this note. Given the company's balance sheet strength, strong earnings growth potential and anticipated permanent reduction of fixed cost even after normalisation post COVID-19, we maintain Buy on Inox Leisure with a revised price target (PT) of Rs. 470.

One-year forward P/B (x) band

Source: Sharekhan Research

About company

Incorporated in 1999, Inox is one of the largest multiplex operators in India. The company currently operates 155 properties (654 screens and over 1.48 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 the organic and inorganic expansion over the past decade, growing from two properties to 155 properties – 654 screens – at present. The 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. We expect strong bounce back in H2FY2022 based on strong line-up of movies, higher pent-up demand, and anticipated relaxation of COVID-19 restrictions by state governments.

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

Siddharth Jain	Non-Executive - Non Independent Director
Alok Tandon	Chief Executive Officer
Kailash B Gupta	Chief Financial Officer
Parthasarathy Iyengar	Company Secretary and Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	9.45
2	HDFC Asset Management Co Ltd.	4.35
3	BNP Paribas Arbitrage	2.82
4	Aditya Birla Sun Life Asset Management Co. Ltd	2.74
5	Aditya Birla Sun Life Trustee Co. Pvt. Ltd.	2.58
6	DSP Investment Managers Pvt. Ltd.	2.46
7	Taiyo Greater In Fund Ltd.	2.37
8	Emirate of Abu Dhabi United Arab Emirates	2.34
9	Nippon Life India Asset Management	2.07
10	Pioneer Investment Fund	1.49

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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