Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Inox Leisure Ltd

Bleak Q2; showtime to shine soon

Consumer Discretionary	Sharekhan code: INOXLEISUR	Result 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. 420**	
Price Target: **Rs. 470**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 5,139 cr
52-week high/low:	Rs. 436/242
NSE volume: (No of shares)	7.1 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	6.90 cr

Shareholding (%)

Promoters	43.6
DII	26.0
FII	16.9
Others	13.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	17	41	55	60
Relative to Sensex	3	15	27	50

Sharekhan Research, Bloomberg

Summary

- Staggered re-opening of cinema halls after July 2021 and absence of big releases resulted in a washout Q2; Inox successfully negotiated rent and CAM for 86% of properties.
- We expect a gradual recovery in H2FY2022 as Maharashtra allowed re-opening of cinema halls, new content pipeline remains strong and as the festive season lies ahead.
- Partnership with ITC to introduce a re-defined innovative F&B experience and associations with food-delivery and table reservation platforms would help boost revenue growth.
- We maintain Buy on Inox Leisure Limited with an unchanged PT of Rs. 470, given strong pent-up consumer demand, a strong line-up of fresh content, and re-opening of cinema halls in Maharashtra.

Inox Leisure Limited (Inox Leisure) reported another weak quarter, as cinema halls across the country were re-opened in a phased manner post July 2021 and a few good movies were released in Q2FY2022. Average ticket price (ATP) remained below pre-COVID level owing to the lack of good content and higher regional releases in states that allowed to re-open cinema halls post July 2021. EBITDA stood at Rs. 15.6 crore in Q2FY2022, led by successful negotiation of rent and CAM in 86% of the properties. As of date, 64% of seats are permitted to be opened across the country. We believe Inox Leisure's business would see a gradual recovery in 2HFY2022 as Maharashtra state government has allowed to re-open cinema halls, new content pipeline remains strong, and the festive season lies ahead.

Key positives

- A strong line-up of content
- Strong bookings for the upcoming ICC Men's T20 Cricket World Cup match
- SPH remained strong at Rs. 92, led by higher shows during prime time

Key negatives

- Ad revenue recovery likely to be delayed

Management commentary

- The multiplex industry will be back to normal in the next couple of months
- Non-movie content and non-cinema F&B likely to drive its growth going ahead
- Expect savings of 8-10% on its pre-COVID fixed costs

Revision in estimates - We have tweaked our earnings estimates for FY22E/FY23E/FY24E factoring in strong demand for ICC T20 Cricket match and strong pent-up demand.

Our Call

Valuation: Expect a meaningful recovery going ahead: We expect strong recovery for Inox Leisure in FY2023E, led by strong movie pipeline, anticipated relaxation of COVID-19 restrictions by many state governments, pent-up demand, and higher occupancy because of a larger portion of fully vaccinated eligible population. Further, the company's partnership with ITC to introduce a re-defined innovative F&B experience to patrons and associations with food-delivery platforms would drive its revenue growth going ahead. We believe savings of 8-10% on its pre-COVID fixed costs would help the company report better operating margin compared to pre-COVID levels. The multiplex business is going to be a sustainable model in the long term as fundamentals of the business remain intact despite closure of operations for more than 18 months. Given balance sheet strength and potential for a sharp recovery in FY2023E, we have maintained our Buy rating on Inox Leisure with an unchanged 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	851.5	2,402.9	2,870.3
OPM (%)	47.0	25.1	32.5	34.2
Adjusted PAT	-337.7	-232.6	171.1	305.5
% y-o-y growth	*n.m.*	*n.m.*	*n.m.*	*78.6*
Adjusted EPS (Rs.)	-32.2	-19.0	14.0	25.0
P/E (x)	n.m.	n.m.	30.0	16.8
P/B (x)	6.1	9.6	6.8	4.4
EV/EBITDA (x)	94.7	21.8	5.9	4.9
RoNW (%)	n.m.	n.m.	35.2	42.2
RoCE (%)	n.m.	-1.7	21.4	22.5

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

Another quarter of washout performance

Shut down of cinema halls due to the second wave of COVID-19, staggered opening of cinema post July 2021, and absence of any major releases of Hindi movies adversely impacted operations and financial performance of Inox Leisure in Q2FY2022. Inox Leisure reported revenue of Rs. 47.4 crore below our estimates, owing to lower-than-expected footfalls and ATP. EBITDA stood at Rs. 15.6 crore in Q2FY2022, led by successful negotiation of rent and CAM in 86% of properties.Net loss came at Rs. 87.7 crore and was below our expectations.

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 has announced opening of cinema halls from October 22, 2021, new content pipeline remains strong, and festive season ahead. We note that Maharashtra contributes 25-30% to Bollywood movies' total domestic box office collections and around 40% of total domestic box office collection for English movies in a normal year. Though ATP remained below pre-COVID level owing to the lack of good content and higher regional releases in states (Ex. Punjab, Telangana, Gujarat, among others) that allowed re-opening of cinemas post July 2021, we believe it would bounce back strongly because of a long line up of big-starrer Hindi movies. With the announcement of release date of 'Sooryavanshi' on November 5 (Diwali weekend), '83' on December 24 (Christmas weekend), there are around 15 Bollywood movies to be released by December 2021. Management has cited that it has been witnessing strong footfalls in states where 100% seating capacity is allowed (ex. Rajasthan, Karnataka, Telangana, Andhra Pradesh, and Odisha). We believe the company's sharp focus on non-cinema activities (including screening LIVE matches of the ICC Men's T20 Cricket World Cup, AGMs, School meetings, and Seminars, among others) in its properties would help drive its revenue growth going ahead. We expect a steady improvement in occupancy rate in 2HFY2022, given release of much-awaited big-budget movies and upcoming festive seasons and a strong recovery in FY2023E, led by a strong movie pipeline, anticipated relaxation of COVID-19 restrictions by many state governments, pent-up demand, and higher occupancy because of a larger portion of fully vaccinated eligible population.

Inox Leisure Q2FY2022 concall highlights

- **Screen additions:** The company added six screens during Q2FY2022. Management highlighted that 19 screens were carried forward from FY2020 pipeline and 10 screens of those have already opened. Management cited that 95% of the work has been completed on the remaining 9 screens and, hence, the company requires additional Rs. 4 crore – Rs. 5 crore. Opening of the remaining 25 screens will be decided once the situation normalises and would require capex of Rs. 65 crore. Management stated the company would continue to add 70-90 screens per year going ahead once the situation normalises.
- **Successfully renegotiated rent and CAM contracts:** The second wave of COVID-19 in India has affected cinema operations severely. As a result, the company has again approached the landlords and started re-negotiating rent and CAM. The company has negotiated rent and CAM in 86% of the properties, whereas the remaining properties are under discussion. Management remains hopeful of getting concession in the remaining properties. Management expects some relief in rent and CAM in Q3FY2022. However, management guided that rent and CAM expenses agreement would be back to normal as per agreement from April 1, 2023.
- **Managed fixed cash burn efficiently, expect cost savings post normalcy:** Management highlighted that it has kept fixed expenses under control. Employee expenses declined by 3.6% q-o-q to Rs. 23.6 crore. Power and fuel and repair and maintenance expenses increased on a sequential basis because of a higher number of days of operations during the quarter. Management has confirmed that reduction in fixed costs (lean manpower and reduction in repair and maintenance) would sustain going ahead, and it expects savings of 8-10% on its pre-COVID fixed costs.

- **A huge line-up of content:** Management highlighted that there is a strong line-up of good content from all genres. We expect a number of high-profile releases during the second half of FY2022. Management indicated that movies such as *Sooryavanshi, Annaatthe, ENEMY, The Eternals, Bunty Aur Babli 2, Satyameva Jayate 2*, and *Antim*, among others, would be released in November 2021, while movies such as *Chandigarh Kare Aashiqui, Pushpa – Part 1, Spiderman – No Way Home, THE MATRIX 4, '83*, and *Jersey* among others would be released in December 2021. With a massive line-up of great quality content in Hindi, English, and other Indian languages, management expects robust recovery in coming quarters.
- **Screening of ICC Men's T20 Cricket World Cup:** Inox Leisure will screen LIVE matches of the ICC Men's T20 Cricket World Cup 2021 at its multiplexes in all major cities across the country. Management indicated that there are strong bookings for the upcoming India versus Pakistan match and it expects house-full given strong demand for cricket in India. This initiative is expected to attract audience to its properties.
- **Revamped F&B approach:** Management highlighted that the revamped F&B approach would drive its growth going ahead. The company partnered with ITC for its in-cinema food and beverage offering. Further, the company's association with food-delivery platforms and table reservation platform such as Eazydiner would help the company to position Inox Leisure as a restaurant. Management stated that it will also serve food to those who are not even watching movies at their cinema halls.
- **All state governments allowed cinema operations:** All state governments across the country are allowed operations of cinema halls with certain restrictions. We note that cinema will be allowed in Kerala with 50% seating capacity from October 25, 2021. As of date, 64% of seats are permitted to be open across the country.
- **Incentivise customers to bring back to its properties:** Management indicated that guests would come back to its cinema halls given (1) incentives/offers to customers and 2) keeping premises/properties hygiene/sanitised/following safety protocols. Management believes there has been pent-up demand to watch movies on big screens as it witnessed strong footfalls in Rajasthan post permission for 100% seating capacity.
- **Constantly in dialogues with movie producers and distributors:** Management indicated that it has been constantly in touch with movie producers and distributors. Most producers and distributors are in favour of releasing their movies on the big screen and management convinced them to defer their movie releases.
- **Windowing gap for theatrical release:** Pre-COVID, there were eight-week window between digital and theatrical release. Management stated that currently the window has reduced to 4-6 weeks for a short-term period. Management believes the window would again reverse to eight-week in the long term.
- **Strong liquidity position:** As of October 18, 2021, the company had liquidity of more than Rs. 300 crore (including undrawn limits of Rs. 120 crore).
- **Net debt free:** The company had gross debt of Rs. 93 crore as of October 18, 2021. The company was net debt free as of October 18, 2021.

Results (Consolidated) Rs cr

Particulars	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	**47.4**	**0.4**	**22.3**	**-**	**112.6**
Exhibition costs	13.8	-	5.8	-	137.7
Cost of F&B	3.4	-	1.4	-	141.1
Gross Profit	**30.2**	**0.4**	**15.1**	**-**	**100.3**
Employee Expenses	23.6	15.2	24.6	55.2	-3.9
Property Rent	-54.3	-72.3	-22.6	-	-
Other Expenses	45.2	16.9	42.1	167.6	7.4
Operating Profit	**15.6**	**40.6**	**-29.0**	**-61.5**	**-**
Depreciation	73.6	71.4	72.9	3.1	1.0
Finance Cost	64.8	64.1	64.5	1.1	0.5
Other Income	6.1	4.3	3.2	40.7	89.7
PBT	**-116.7**	**-90.6**	**-163.1**	**-**	**-**
Tax Provision	-29.1	-22.8	-40.9	-	-
Adjusted net profit	**-87.7**	**-67.8**	**-122.3**	**-**	**-**
EPS (Rs.)	-7.8	-6.9	-10.9	-	-
Margin (%)				**BPS**	**BPS**
EBITDA margin	32.9	-	-	-	-
NPM	-	-	-	-	-
Tax	24.9	25.2	25.1	-25.4	-15.2

*Source: Company; *Includes Ind AS 116*

Capacity utilisation allowed in each state; 64% of seats are permitted to be opened.

States	Capacity Allowed	Properties	Screens	Seats
Andhra Pradesh	100%	8	33	7,935
Karnataka	100%	13	54	11,500
Odisha	100%	4	14	3,161
Rajasthan	100%	15	53	11,655
Telangana	100%	3	19	3,969
Punjab	66%	3	13	2,963
Gujarat	60%	20	81	17,969
Assam	50%	2	6	460
Chhattisgarh	50%	2	8	2,305
Delhi	50%	5	16	3,660
Goa	50%	4	14	3,283
Haryana	50%	8	27	5,205
Jharkhand	50%	1	4	996
Kerala (Opens from 25th Oct'21)	50%	1	6	1,368
Madhya Pradesh	50%	5	28	5,989
Maharashtra (Opens from 22nd Oct'21)	50%	28	133	30,302
Tamil Nadu	50%	6	34	8,216
Uttar Pradesh	50%	12	54	12,508
West Bengal	50%	16	61	15,385
Total	**64%**	**156**	**658**	**148,829**

Source: Company

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 1,000-1,500 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 the 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.

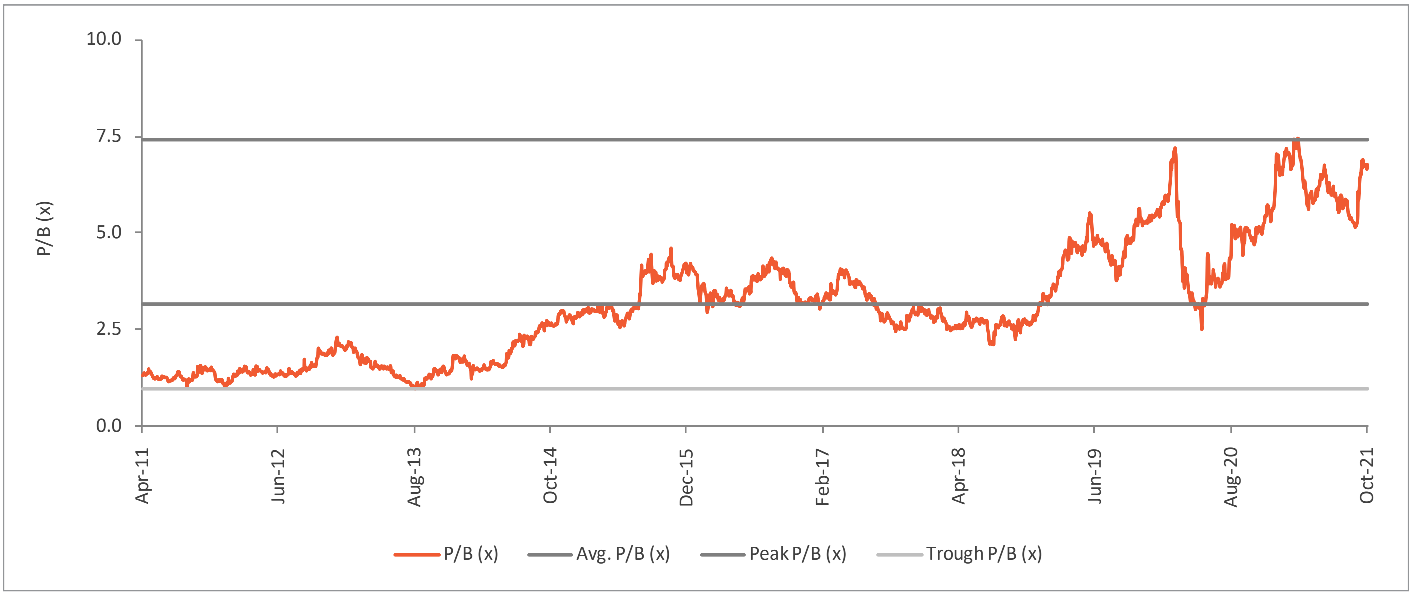
■ Company outlook - Second-largest multiplex operator

With 658 screens at 156 multiplexes in 70 cities, Inox Leisure is the second-largest multiplex operator. The company's strong market position is reflected in its ability to reduce the gap in ATP 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. Further, the company's revamped F&B approach for those who are not even watching movies and non-movie content would drive its growth going ahead.

■ Valuation - Expect strong recovery in FY2023E, maintain Buy

We expect strong recovery for Inox Leisure in FY2023E, led by strong movie pipeline, anticipated relaxation of COVID-19 restrictions by many state governments, pent-up demand, and higher occupancy because of a larger portion of fully vaccinated eligible population. Further, the company's partnership with ITC to introduce a re-defined innovative F&B experience to patrons and associations with food-delivery platforms would drive its revenue growth going ahead. We believe savings of 8-10% on its pre-COVID fixed costs would help the company report better operating margin compared to pre-COVID levels. The multiplex business is going to be a sustainable model in the long term as fundamentals of the business remain intact despite closure of operations for more than 18 months. Given balance sheet strength and potential for a sharp recovery in FY2023E, we have maintained our Buy rating on Inox Leisure with an unchanged price target (PT) of Rs. 470.

One-year forward P/B (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP Rs./share	O/S Crore	Mcap Rs crore	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PVR	1,628	6	9,902	NM	38.3	32.9	9.3	6.0	5.2	NM	14.6
Inox Leisure	420	12	5,139	NM	30.0	21.8	5.9	9.6	6.8	NM	35.2

Source: Company; Sharekhan Research

About company

Incorporated in 1999, Inox is one of the largest multiplex operators in India. The company currently operates 156 properties (658 screens and over 1.49 lakhs seats) located in 70 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 Leisure has aggressively scaled up through the organic and inorganic expansion over the past decade, growing from two properties to 156 properties – 658 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

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 andCompliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	8.44
2	HDFC Asset Management Co Ltd.	4.81
3	Aditya Birla Sun Life Asset Management Co. Ltd	2.82
4	Aditya Birla Sun Life Trustee Co. Pvt. Ltd.	2.82
5	Taiyo Greater In Fund Ltd.	2.44
6	BNP Paribas Arbitrage	2.40
7	Emirate of Abu Dhabi United Arab Emirates	2.34
8	DSP Investment Managers Pvt. Ltd.	1.76
9	Nippon Life India Asset Management	1.68
10	Pioneer Investment Fund	1.62

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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