

CMP: ₹ 380

Target: ₹ 495 (30%)

Target Period: 12 months

BUY

January 24, 2022

Quarter marked by recovery...

About the stock: Inox Leisure is the second largest player in terms of multiplex screen count in India. Currently, the company operates 667 screens in 158 cinemas in 70 cities in India with an aggregate seating capacity of ~1.51 lakhs seats.

- It is the only national multiplex, which enjoys a net debt free balance sheet

Q3FY22 Results: Q3FY22 saw a strong recovery led by healthy content slate.

- Reported revenue was ₹ 296.5 crore (up by ~5x QoQ). The box office revenue was ₹ 177 crore while F&B revenue was ₹ 84 crore with ad revenues at ₹ 20 crore. In Q3FY22, ATP was at ₹ 226, up ~27% QoQ, while SPH was at ₹ 97, up ~5.4% QoQ. Footfall was at 9.4 million (mn) (4x QoQ)
- EBITDA (ex- Ind AS116) came in at ~₹ 49.6 crore (margin of 16.7%). On reported basis, EBITDA was ₹ 84 crore
- Inox recognised ₹ 47.8 crore as rent concessions. On reported basis, PAT loss was lower at ₹ 1.3 crore, largely due to rent concession recognition. Ex-Ind AS116 basis, PAT was ₹ 17.4 crore

What should investors do? Inox' share price has grown by ~67% over the past five years (from ~₹ 227 in January, 2017 to ~₹ 380 levels in January, 2022).

- We maintain BUY rating on the company

Target Price and Valuation: We value Inox at ₹ 495 i.e. 11.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- Reopening of theatres post Omicron restriction to drive recovery in footfalls/revenues with strong content slate lined up
- Consolidation (10-15% single screens may be shut permanently), which will drive increased market share of multiplexes
- Benefits of permanent saving in costs (ex-rental) by 8-10%, given the rationalisation measures

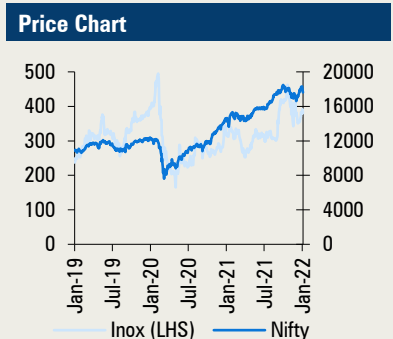
Alternate Stock Idea: Apart from Inox Leisure, we like PVR in the multiplex space.

- A play on recovery of earnings of multiplexes
- BUY with target price of ₹ 1870



Particulars	
Particulars	Amount
Market Capitalization (₹ Crore)	4,652
Total Debt (FY21) (₹ Crore)	104
Cash (FY21) (₹ Crore)	77
EV (₹ Crore)	4,748
52 week H/L (₹)	466/ 244
Equity Capital (₹ crore)	122.3
Face value (₹)	10.0

Shareholding pattern				
	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	47.4	43.6	43.6	43.6
DII	20.4	23.1	22.2	23.4
FII	15.9	16.4	16.5	16.9
Other	16.3	16.8	17.7	16.1



Key risks

Key Risk: (i) Sustained smaller window between OTT and cinema release (ii) Longer than expected tail of pandemic

Research Analyst

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Key Financial Summary

(Year-end March)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	4 yr CAGR (FY20-24E)
Total Operating Income (₹ crore)	1,897.4	105.9	(38.0)	458.8	2,119.5	2,499.2	7.1
EBITDA (₹ crore)	596.8	(172.3)	PL	(47.6)	706.2	847.7	9.2
Net Profit (₹ crore)	15.0	(337.7)	PL	(337.3)	109.7	181.9	86.7
EPS (₹)	1.5	(30.0)		(27.6)	9.0	14.9	
P/E (x)	260.4	(12.7)		(13.8)	42.4	25.6	
Price / Book (x)	6.3	6.8		8.2	7.2	5.8	
EV/EBITDA (x)	12.4	(43.0)		(154.5)	10.7	8.9	
RoCE (%)	9.9	(11.7)		(8.7)	10.8	12.8	
RoE (%)	2.4	(62.5)		(76.0)	17.0	22.8	

Source: Company, ICICI Direct Research

Key performance highlight and outlook

Strong recovery in Q3

The company indicated that Q3 saw a strong recovery led by consistent and healthy performance of some of the movies such as *Suryavanshi*, *Spiderman*, *Annathe*, *Pushpa* and *'83*. Notably Q3 revenues were 42% below pre-pandemics levels with footfalls down 44% but ATP up 11%, likely a function of content slate and footfalls driven by big releases wherein ticket prices are higher. We highlight that recovery was strong considering delayed reopening of theatres in Maharashtra and occupancy restrictions in some states. December revenues were 89% of pre-Covid levels, which is relatively a robust performance. The management indicated that while producers and distributors have deferred their releases currently, big budget releases are expected from March onwards, when Omicron ebbs led by complete reopening of screens. **We bake in 75 screens addition in FY23E and FY24E. Consequently, we build in footfall growth of 3.9% CAGR in FY20-24E to 77 million coupled with 4% CAGR in ATP to lead to 8.2% FY20-24E CAGR in net box office revenues to ₹ 1511 crore. F&B revenue CAGR is estimated at 10% over FY20-24E leading to total ₹ 728 crore. Ad revenue is expected to take longer to recover. We expect ad revenue of ₹ 160 crore in FY24E (similar to FY20). We expect a strong recovery from FY23 with all variables back to pre-Covid levels.**

Rent negotiations done; liquidity strong

The company indicated that they have negotiated rent and CAM all the properties and the impact has been incorporated in Q3FY22, 9MFY22. As cinema operations are currently affected due to the third wave, the company is approaching landlords for renegotiations of rent & CAM for Q4FY22. The liquidity position is strong and the company is net debt free, post the QIP fund raise. As on date, the company has close to ₹ 300 crore, including undrawn limit. Gross debt is ₹ 86 crore as on date and net cash is ~₹ 180 crore.

Other highlights

- **Screen opening:** The company added 24 screens in 9MFY22. The work on 17 upcoming screens for Q4 is 80% completed and the management has guided for incremental capex of ₹ 10 crore during Q4FY22
- **Food & beverage (F&B) segment:** The contribution from F&B to overall revenue has increased to 28% in Q3FY22, 9MFY22 (vs. 15%, 11% in Q3FY21, 9MFY21), respectively. This is mainly aided by a) stronger push, b) more menus to offer and c) higher point of sales via app, LED kiosk and delivery partners
- **State-wise permission:** Out of its 667 screens, 47, 572 screens are allowed to operate at 100%, 50% capacity, respectively, whereas 48 screens are under complete shutdown as per the respective state guidelines. It plans to add ~ 80-90 screens annually in a normalised scenario
- **Price hikes:** Inox has not undertaken any price hikes for foods/tickets during the quarter and ATP rise was a function of content slate. However, the company endeavours to increase ticket prices by 3-5% (rate of inflation) and 8-10% on food prices annually on a normalised basis

We believe that the recovery with wider vaccination coverage, relatively lower impact of Omicron and strong line-up will be sharp. Long term benefit of some single screen closure is also possible with ~8-10% of the overall screen to be shut down due to Covid pain. Inox with strong balance sheet is poised to grow at superior rate. We maintain **BUY** and assign FY24E EV/EBITDA multiple of 11.5x, with a target price of ₹ 495/share.

Exhibit 1: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	Q2FY22	YoY (%)	QoQ (%)	Comments
Revenue	296.5	284.0	14.9	47.4	1,892.4	524.9	
Other Income	4.9	6.0	6.6	6.0	-26.2	-18.9	
Employee Expenses	24.0	27.7	21.2	23.6	13.1	1.8	
Exhibition Cost	84.6	80.6	2.9	13.8	NA	512.7	
Cost of F&B	18.3	19.5	1.1	3.4	1,578.0	437.9	
Rent	0.0	0.0	0.0	0.0	NA	NA	
Other Expenses	85.6	65.1	54.2	45.2	58.0	89.3	
EBITDA	84.0	91.2	-64.5	-38.6	-230.1	-317.7	
EBITDA Margin (%)	NM	NM	-433.7	-81	NM	NM	
Depreciation	73.8	73.6	70.9	73.6	4.0	0.2	
Interest	64.5	65.6	62.0	64.8	4.0	-0.5	
Exceptional Items	-47.8	0.0	-54.1	-54.3	NA	NA	Company recognised the amount of ₹ 47.8 crore towards rent concession
Total Tax	-0.3	-10.6	-34.3	-29.1	-99.2	-99.0	
PAT	-1.3	-31.4	-102.5	-87.6	-98.7	-98.5	

Key Metrics

Footfalls	9.4	9.0	0.5	1.8	1,780.0	422.2
Occupancy	19	15	3	3	NM	NM
SPH	97.0	96.0	73.0	92.0	32.9	5.4
ATP	226.0	222.0	153.0	178.0	47.7	27.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E	
	Old	New	% Change	Old	New	% Change	New	
Revenue	905.8	458.8	-49.4	2,078.1	2,119.5	2.0	2,499.2	Realign estimates
EBITDA	108.2	-47.6	-144.0	722.6	706.2	-2.3	847.7	
EBITDA Margin (%)	11.9	-10.4	-2233 bps	34.8	33.3	-146 bps	33.9	
PAT	-319.9	-337.3	NA	108.0	109.7	1.6	181.9	
EPS (₹)	-26.1	-27.6		8.8	9.0		14.9	

Source: Company, ICICI Direct Research

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

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	New
Revenue	905.8	458.8	-49.4	2,078.1	2,119.5	2.0	2,499.2
EBITDA	-125.3	-198.4	58.3	416.1	393.7	-5.4	502.0
EBITDA Margin (%)	-13.8	-43.2	-2940 bps	20.0	18.6	-145 bps	20.1
PAT	-155.3	-229.4	NA	221.1	211.3	-4.4	287.6
EPS (₹)	-12.7	-18.7	NA	18.1	17.3		23.5

Source: Company, ICICI Direct Research

Exhibit 1: Monthly revenues recovery status

CLOSING REVENUE GAPS WITH PRE-COVID LEVELS



Net Box Office + Net F&B Revenues Month-wise Trend (₹Cr)

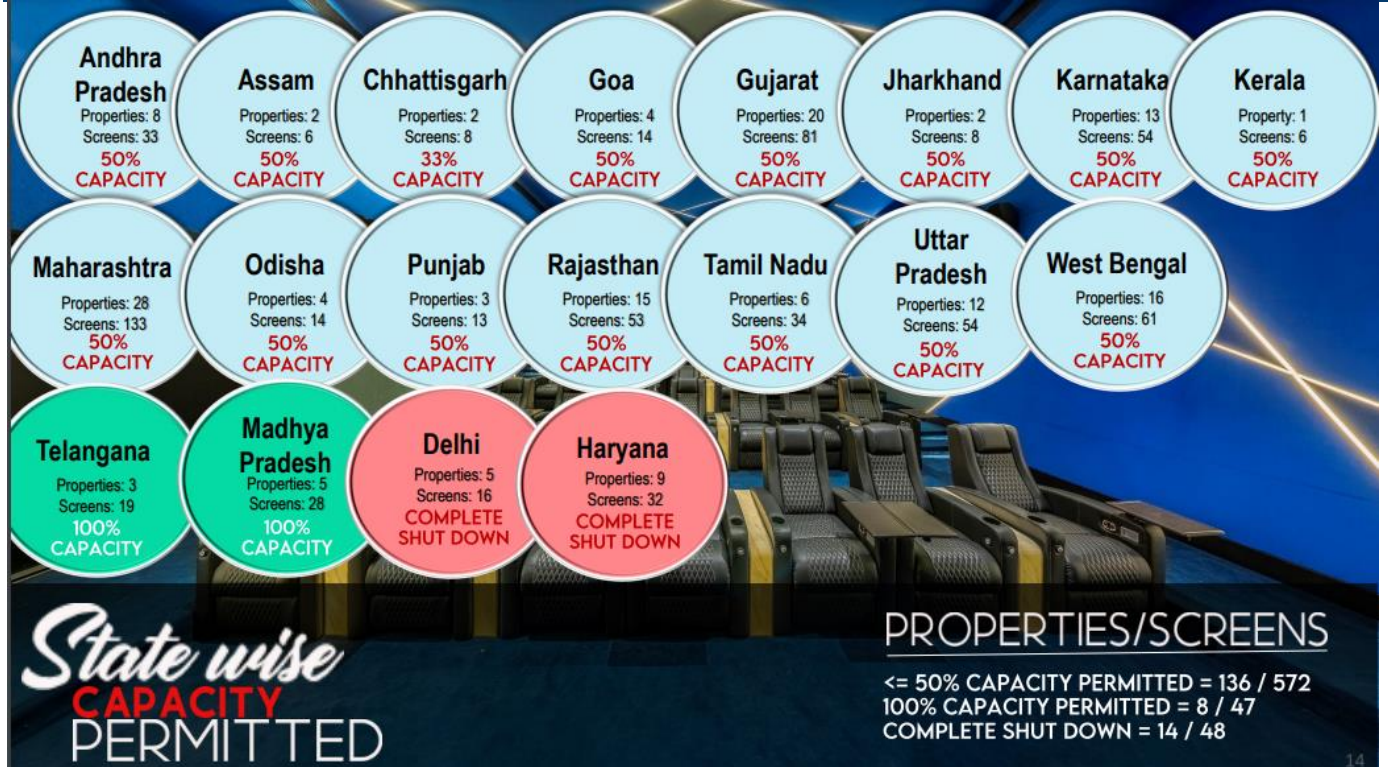
In spite of Capacity Restriction, there is reduction in Revenue Gaps with Pre-COVID levels

In Dec 2021, achieved **89%** of Dec 2019 Revenue (Net Box Office + Net F&B)



Source: Company, ICICI Direct Research

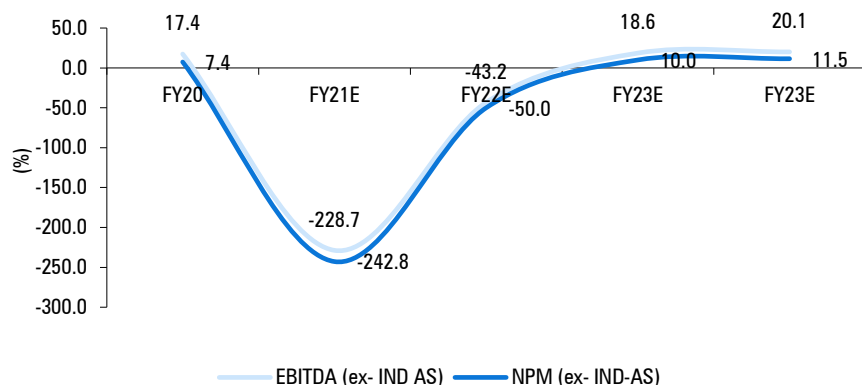
Exhibit 2: Screen restriction and capacity status



Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 4: P&L (excl. Ind-AS 116)

(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	105.9	458.8	2,119.5	2,499.2
Growth (%)	-94.4	333.1	362.0	17.9
Employee Expenses	86.7	96.2	140.1	160.9
Exhibition Cost	26.4	132.5	593.7	702.6
Cost of F&B	7.9	29.8	165.4	205.3
Rent	70.0	150.7	447.6	495.3
Other Expenses	157.2	247.9	379.0	433.0
Total Operating Expenditure	348.2	657.1	1,725.8	1,997.2
EBITDA	-242.3	-198.4	393.7	502.0
Margin (%)	-228.7	-43.2	18.6	20.1
Depreciation	113.0	116.0	127.2	137.5
Interest	17.0	10.0	8.0	8.0
Other Income	42.3	19.1	24.0	28.0
Exceptional Items	4.0	0.0	0.0	0.0
PBT	-339.0	-305.3	282.5	384.5
Total Tax	-81.8	-75.9	71.2	96.9
PAT	-257.2	-229.4	211.3	287.6
Adjusted PAT	-257.2	-229.4	211.3	287.6
Growth (%)	-282.4	-10.8	-192.1	36.1
Adj EPS (₹)	-22.9	-18.7	17.3	23.5

Source: Company, ICICI Direct Research

Exhibit 5: KPI

(Year-end March)	FY21	FY22E	FY23E	FY24E
Box office Revenues	55	272	1,277	1,511
YoY	-95%	396%	369%	18%
F&B	27	133	613	728
YoY	-95%	388%	360%	19%
Ad	3	25	140	160
YoY	-99%	838%	469%	14%
ATP	170	212	225	234
YoY	-15%	25%	6%	4%
Footfalls (mn)	4	15	68	77
	-94%	295%	338%	14%
Screens	643	678	753	828
Net Debt	(10)	(168)	(188)	(318)
RoCE (post tax)	(19.0)	(19.7)	31.8	30.8
RoE	(30.3)	(37.1)	25.5	25.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	105.9	458.8	2,119.5	2,499.2
Growth (%)	-94.4	333.1	362.0	17.9
Employee Expenses	86.7	96.2	140.1	160.9
Exhibition Cost	26.4	132.5	593.7	702.6
Cost of F&B	7.9	29.8	165.4	205.3
Rent	0.0	0.0	135.1	149.5
Other Expenses	157.2	247.9	379.0	433.0
Total Operating Expenditure	278.2	506.4	1,413.4	1,651.4
EBITDA	-172.3	-47.6	706.2	847.7
Growth (%)	NM	NM	LP	20.0
Depreciation	283.2	284.7	313.4	339.4
Interest	251.1	261.3	270.2	293.3
Other Income	42.3	19.1	24.0	28.0
Exceptional Items	-217.9	-124.7	0.0	0.0
PBT	-446.4	-449.9	146.7	243.0
Total Tax	-108.7	-112.7	36.9	61.2
PAT	-337.7	-337.3	109.7	181.9
Adjusted PAT	-395.4	-430.7	109.7	181.9
Growth (%)	NM	NM	NM	65.7
EPS (₹)	-30.0	-27.6	9.0	14.9

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	112.5	122.3	122.3	122.3
Reserve and Surplus	520.5	444.2	524.5	677.0
Interest in benefit trust	-	-	-	-
Total Shareholders funds	632.9	566.5	646.9	799.4
Total Debt	104.0	95.0	95.0	95.0
Others	2,804.7	2,939.8	3,125.7	3,301.6
Total Liabilities	3,541.6	3,601.3	3,867.6	4,195.9
Assets				
Total Fixed Assets	1,021.5	961.4	1,134.2	1,296.8
Investments	0.5	0.5	0.5	0.5
Rights of Use Assets	2,116.4	2,046.8	2,085.6	2,108.6
Debtors	4.3	12.6	58.1	68.5
Inventory	10.3	9.9	11.4	13.5
Loans and Advances	105.1	101.5	123.4	145.5
Other Current Assets	49.3	48.2	55.6	65.6
Cash	77.4	258.0	278.4	407.7
Total Current Assets	246.3	430.2	527.0	700.8
Total Current Liabilities	242.6	237.1	279.2	310.3
Net Current Assets	3.7	193.1	247.8	390.5
Other Non Current Assets	399.5	399.5	399.5	399.5
Application of Funds	3,541.6	3,601.3	3,867.6	4,196.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
PAT	-337.7	-337.3	109.7	181.9
Add: Depreciation	283.2	284.7	313.4	339.4
Add: Interest Paid	251.1	261.3	270.2	293.3
(Inc)/dec in Current Assets	61.2	-3.2	-76.4	-44.5
Inc/(dec) in CL and Provisions	-54.4	-5.5	42.0	31.1
CF from operating activities	203.5	200.1	658.9	801.2
(Inc)/dec in Investments	0.6	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-50.6	-50.0	-300.0	-300.0
Others	-164.4	30.1	-39.0	-49.2
CF from investing activities	(214.4)	(19.9)	(339.0)	(349.2)
Issue/(Buy back) of Equity	9.8	9.8	0.0	0.0
Inc/(dec) in loan funds	-54.0	-9.0	0.0	0.0
Less: Interest Paid	251.1	261.3	270.2	293.3
Others	-163.3	-261.7	-569.7	-616.0
CF from financing activities	43.6	0.4	(299.5)	(322.7)
Net Cash flow	32.7	180.7	20.4	129.3
Opening Cash	44.7	77.4	258.0	278.4
Closing Cash	77.4	258.0	278.4	407.7

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-30.0	-27.6	9.0	14.9
Adj EPS	-35.2	-35.2	9.0	14.9
BV	56.3	46.3	52.9	65.3
DPS	0.0	2.4	2.4	2.4
Cash Per Share	6.9	21.1	22.8	33.3
Operating Ratios (%)				
EBITDA Margin	-162.6	-10.4	33.3	33.9
PBT / Net Sales	-430.0	-72.4	18.5	20.3
PAT Margin	-373.3	-93.9	5.2	7.3
Inventory days	35.6	7.9	2.0	2.0
Debtor days	14.8	10.0	10.0	10.0
Creditor days	363.1	80.0	20.0	20.0
Return Ratios (%)				
RoE	-62.5	-76.0	17.0	22.8
RoCE	-11.7	-8.7	10.8	12.8
RoIC	-47.0	-36.4	34.5	38.5
Valuation Ratios (x)				
P/E	-12.7	-13.8	42.4	25.6
EV / EBITDA	-43.0	-154.5	10.7	8.9
EV / Net Sales	70.0	16.0	3.5	3.0
Market Cap / Sales	43.9	10.1	2.2	1.9
Price to Book Value	6.8	8.2	7.2	5.8
Solvency Ratios				
Debt/EBITDA	-0.6	-2.0	0.1	0.1
Net Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	1.2	1.2	1.5	1.5
Quick Ratio	1.1	1.2	1.5	1.5

Source: Company, ICICI Direct Research

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