Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↑
CMP: **Rs. 267**	
Price Target: **Rs. 320**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,747 cr
52-week high/low:	Rs. 510/158
NSE volume: (No of shares)	8.4 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	4.95 cr

Shareholding (%)

Promoters	52
DII	22
FII	11
Others	14

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-5	15	31	-27
Relative to Sensex	5	10	32	3

Sharekhan Research, Bloomberg

Inox Leisure Limited

Picture brightens post dim Q2

Consumer Discretionary | Sharekhan code: INOXLEISUR | Result Update

Stock Update

Summary

- We upgrade Inox Leisure Limited (Inox) to Buy from Hold with a revised price target (PT) of Rs. 320 as approvals to resume operations offer better visibility.
- Q2 a wash-out quarter as expected. Still, company kept purse-strings tight by reducing workforce and rationalisation.
- Maharashtra government has allowed re-opening of cinemas. With this, Inox can now resume operations (at 50% capacity utilisation) for 528 screens (accounted for 84% of its screens).
- We believe that COVID-19 is a transient crisis and we do not see any material change in consumer behaviour due to COVID-19 after normalcy; hence we model strong recovery in FY2022E.

Inox Leisure Limited (Inox) reported another wash-out quarter in Q2FY2021, amid the lockdown and shutdown of cinema halls throughout the quarter. The company was able to restrict EBITDA loss (Ind-AS adjusted) at Rs. 33.8 crore as compared to Rs. 37.8 crore in Q1FY2021, led by better cost-control measures. The company reported revenue of Rs 0.4 crore, down 99.9% y-o-y. Yet, the company managed costs well via reduction in workforce and rationalisation measures. Net loss came in at Rs. 67.8 crore (including impact of IND-AS), which is largely in line with our expectations. The Maharashtra state government has allowed re-opening of cinemas. With this, Inox now has approvals to resume operations (at a 50% capacity utilisation) for 528 screens (accounting for 84% of its screen portfolio). The management indicated that it witnessed strong response from audiences when six new movies released in West Bengal during October. Note that the occupancy rate, food & beverage (F&B) conversion, average ticket price (ATP) and spend per head (SPH) in F&B segment were at pre-COVID levels for these movies. Though the management sees encouraging signs of recovery, we believe it would take 1-2 quarters to get back normalcy across India once COVID fear eases, producers release good content and audiences return to cinemas. Inox continued good cost management in Q2FY2021, however, the fixed cost component would move up in coming quarters as operations resume. The management confirmed that a reduction in fixed costs (leaner manpower, reduction in repair and maintenance, etc) would continue even after restart of operations. We model a strong bounce-back in FY2022E.

Key Positives

- Strong cost management continued in Q2FY2021
- Strong liquidity position - Cash position stood at Rs. 94 crore as of July 31, 2020
- Net debt stood at Rs. 127 crore as of October 31, 2020, implying net-debt to equity at 0.12x

Key Negatives

- Rise in release of movies directly on OTT platform
- Cinemas remain closed in six states (Telangana, Rajasthan, Odisha, Kerala, Chhattisgarh and Jharkhand)

Our Call

Valuation: Expect gradual recovery going ahead: We have tweaked our earnings estimates for FY2021E/FY2022E on the back of receiving approval for its 84% of its total screens to resume operations, continued good cost management and good responses even for library contents. We introduce FY2023E numbers in this note. Though this space would see late recovery owing to the COVID-19 crisis, robustness of business model gives us comfort that it is going to be sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. We believe that COVID-19 crisis is transient in nature and there would not be any material change in consumer behavior due to COVID-19. We remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth over FY2021-23E. Given improvement in visibility with the approval to resume operations, we upgrade our rating on Inox to Buy from Hold with a PT of Rs. 320.

Key Risks

(1) Deterioration of content quality might affect footfalls and advertisement revenue growth rates, (2) Inability to take adequate price hikes at the right time might affect the 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	651.3	1,919.4	2,282.6
OPM (%)	18.3	31.5	27.3	30.5	31.3
Adjusted PAT	138.5	83.9	-223.1	89.9	175.5
% y-o-y growth	12.4	-39.4	n.m.	n.m.	95.3
Adjusted EPS (Rs.)	14.1	8.5	-21.7	8.7	17.1
P/E (x)	19.0	31.4	n.m.	30.6	15.7
P/B (x)	2.5	3.9	6.1	5.0	3.7
EV/EBITDA (x)	9.1	4.7	16.6	4.4	3.1
RoNW (%)	14.4	13.5	n.m.	18.4	26.4
RoCE (%)	20.9	18.1	n.m.	10.0	12.9

Source: Company; Sharekhan estimates
**FY2021E/FY2022E/FY2023E numbers are based on Ind AS 116.*

Another washout quarter

Q2FY21 was another wash-out quarter owing to lockdown restrictions and shutdown of cinema halls. Yet, Inox Leisure reported better-than-expected EBITDA performance, while net loss remained in-line with our expectations. The company could able to restrict the EBITDA loss (Ind-AS adjusted) at Rs. 33.8 crore compared to Rs. 37.8 crore in Q1FY2021, led by better-cost control measures. The company reported Rs 0.4 Crore revenue, down 99.9% y-o-y. Inox did well in cost management during Q2FY2021 with reduction in workforce and rationalisation measures. Employee expenses declined by 59% y-o-y, while other expenses declined 85% y-o-y. The company is in active discussions with the landlords who take fixed rental, to start adopting a revenue share model for the remainder of FY2021. Net loss came in at Rs. 67.8 crore (including impact of IND AS), which is largely in-line with our expectations.

Rigorous cost optimisation

Inox was able to limit EBITDA loss at ~Rs. 33.8 crore despite halt of operation during the quarter in the wake of the ongoing pandemic. The company has managed to reduce monthly cash burn to Rs. 10-12 crore from Rs. 11-12 crore in Q1FY21 and Rs. 15-16 crore at the beginning of Q1FY2021. The management highlighted that some of the landlords have agreed to waive off the rent for the lockdown period, while it is in active discussions with the other landlords to waive off the rent as well. Inox has been able to reduce other overheads by 90% y-o-y in Q2FY2021. The company had cash balance of Rs. 94 crore (including undrawn limits), which provide comforts to the company to operate. Management confirmed that the reduction in fixed costs (lean manpower, reduction in repair and maintenance, etc) would continue even after the restart of operations. The company has not added any new screens during the quarter owing to continued nationwide lockdown. The board has approved a fund-raising of Rs. 250 crore through equity and other securities. As of October 31, 2020, Inox's net debt stood at Rs. 127 crore and net debt to equity was 0.12x.

Expect gradual return to normalcy in coming months

Inox continued with its good cost management during Q2FY2021 and we believe fixed cost component would move up in coming quarters as it has got approval to resume operations (at 50% capacity utilisation) for 84% of its total screens. Management highlighted that it has been getting good response from moviegoers for its library contents. Further, new releases during the festive season in West Bengal was impressive as the occupancy rate, F&B conversion, ATP and SPH were at pre-COVID levels. The management expects a similar kind of response when new blockbuster movies will be released. Given the availability of fresh contents, management expects new movies would be available soon to release in cinema hall. We expect gradual recovery over the next 1-2 quarters with the release big starrer movies, audiences return to cinemas as COVID-19 fear eases.

Inox Leisure Q2FY2021 Results Concall Highlights

- **Way ahead:** As per the Ministry of Home Affairs Notification dated September 30, 2020, Cinemas/ Theatres/Multiplexes have been permitted to open with 50% of their seating capacity with effect from October 15 2020. Maharashtra government has allowed re-opening of cinemas. With this, Inox now has approvals to resume operations (at 50% capacity utilization) for 528 screens (accounted for 84% of its screen portfolio). The management highlighted that the worst is behind now, though it is waiting for green signal from six state governments to re-start operations for its remaining 98 screens. Occupancy currently remains at mid-single digits as company is running library contents on its screens. Occupancy will increase when new movies will be released. Management highlighted that average ticket price (ATP) remains between Rs. 79 to Rs. 120. Management stated that the standard operating procedure (SOP) for the multiplex industry is simple and audience-friendly. Though management sees encouraging signs of recovery, it is long way to get back to normal occupancy which has been impacted by COVID-19.
- **Fixed costs contained well:** Inox successfully managed its fixed cost when there is no operational revenues for theatres for last seven months. Average monthly cash burn was Rs. 10-12 crore during shutdown. Employee expenses (including agency man power) declined 59% y-o-y during quarter. The reduction of employee expenses may not come to pre-COVID level once things settle down. Company also substantially reduced other overheads during the quarter. Inox is also in active discussions with landlords who take fixed rental to move to revenue share model for remaining period of FY2021. Management expects average monthly cash burn would move up in coming months with opening of cinema halls.
- **Strong balance sheet:** The company has a strong balance sheet with a net debt to equity ratio 0.09x compared to 0.17x in Q1FY2021. Also, the company has real estate (six-owned cinema properties) ~Rs 350 crore. The company's current cash position stood at Rs 94 crore (including undrawn limits). As of October 31st, net debt stood at Rs. 127 crore, implies that the net debt to equity ratio is 0.12x.

- **Screen additions impacted by COVID-19:** The company has not added any new screens during the quarter due to continued lockdown across country. The management maintained its screen addition guidance for FY2021. It has guided for the plans to launch 41 new screens across 11 properties which are in 85% completion phase. An amount of Rs 28-30 crore will be required to for the completion of these projects.
- **Content pipeline looks encouraging:** The management highlighted that few producers took digital distribution route to release their movies during the lockdown. Given the availability of fresh contents, management expects new movies would be available soon to release in cinema halls. With re-opening of cinema halls, producers who have held back the releases will start announce the date of release. The movie Suraj Pe Mangal Bhari is expected to release this Diwali. However, management does not expect any bunching up of movies in the next 1-2 months. The management expects improvement in footfall when new movies will release.
- **Negotiating with landlord for revenue share agreement instead of fixed rent:** The management is confident that all the landlords would waive off the rent for the lock down period. Inox has got rent waivers from 60% of its total landlords. Further, the management indicated that it would have a revenue-sharing model instead of fixed rent across all its properties post re-opening for the remaining quarters of FY2021.
- **Properties' performance remains in line with management's expectations:** The management does not expect any closure of properties as its cinema halls have been performing as per its expectations.
- **Marquee movies likely to drive advertisement revenue:** The management highlighted that advertisement depends on footfalls. Advertisement may take time to pick-up. Advertisers are expected to come back when marquee movies will be released. Six new movies recently released in West Bengal during this festival season and the ticket price was at pre-COVID level. Few advertisers have been showing interest to display their products during library content. Advertisement time remains at around 2 minutes.
- **Promotional discounts rolled out:** The company is running multiple promotional offers (movie based combos and among others) for its F&B segment.

Results Rs cr

Particulars	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)
Net sales	**0.4**	**519.9**	**0.3**	**-99.9**	**44.0**
Exhibition costs	-	139.1	-	-	-
Cost of F&B	-	34.5	-	-	-
Gross Profit	**0.4**	**346.3**	**0.3**	**-99.9**	**44.0**
Employee Expenses	15.2	37.3	24.3	-59.2	-37.3
Property Rent	-72.3	32.2	-69.3	-	-
Other Expenses	16.9	109.0	11.8	-84.5	42.9
Operating Profit	**40.6**	**167.8**	**33.4**	**-75.8**	**21.5**
Depreciation	71.4	64.5	70.8	10.7	0.9
Finance Cost	64.1	54.2	63.3	18.2	1.2
Other Income	4.3	4.4	2.7	-2.3	58.7
PBT	**-90.6**	**53.4**	**-97.9**	**-**	**-**
Tax Provision	-22.8	18.3	-24.3	-	-
Reported Net Profit	**-67.8**	**35.1**	**-73.7**	**-**	**-**
EPS (Rs.)	-6.9	3.6	-7.5	-	-
Margin (%)					
EBITDA margins	-	32.3	-	-	-
NPM	-	6.8	-	-	-

Source: Company; Sharekhan Research
**Includes Ind AS 116*

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 the pace of 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 that 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.

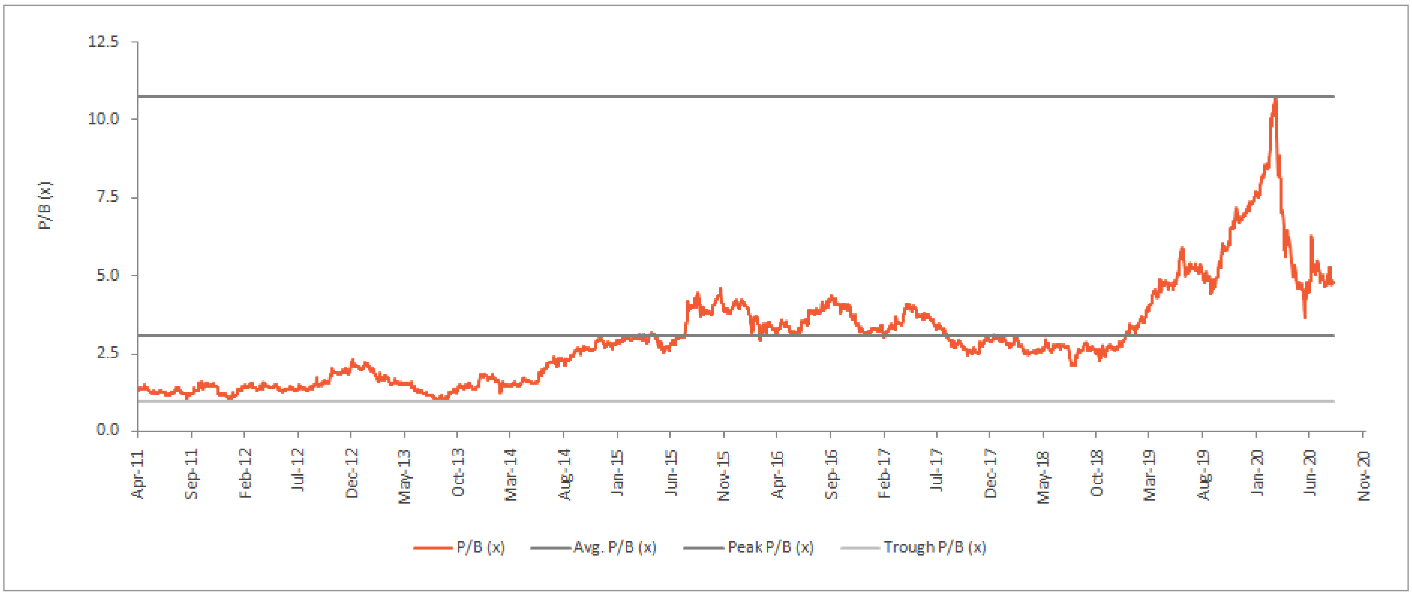
■ Company outlook - Second-largest multiplex operator

With 626 screens at 147 multiplexes in 68 cities, Inox is the second-largest multiplex operator. Its 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, private film screenings, etc.), increasing footfall monetisation efforts and better improving operating metrics are expected to bode well for the company.

■ Valuation - Strong balance sheet, upgrade to Buy

We have tweaked our earnings estimates for FY2021E/FY2022E on the back of receiving approval for its 84% of its total screens to resume operations, continued good cost management and good responses even for library contents. We introduce FY2023E numbers in this note. Though this space would see late recovery owing to the COVID-19 crisis, robustness of business model gives us comfort that it is going to be sustainable model in the long term given Indian movie-goers' strong appetite for the silver screen. We believe that COVID-19 crisis is transient in nature and there would not be any material change in consumer behavior due to COVID-19. We remain positive on the stock, given its strong balance sheet (net debt free) and potential for healthy earnings growth over FY2021-23E. Given improvement in visibility with the approval to resume operations, we upgrade our rating on Inox to Buy from Hold with a PT of Rs. 320.

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/EBITDA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
PVR*	1,217	6	6,715	-	76.1	-	7.8	5.4	5.1	n.m.	9.9
Inox Leisure	267	10	2,747	-	30.6	16.6	4.4	6.1	5.0	n.m.	18.4

*Source: Company, Sharekhan Research *Bloomberg*

About company

Incorporated in 1999, Inox is one of the largest multiplex operators in India. The company currently operates 147 properties (626 screens and over 1.44 lakhs seats) located in 68 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 weak year due to pandemic crisis, we 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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	7.3
2	ICICI Prudential Asset Management	3.2
3	Abu Dhabi Investment Authority	2.2
4	DSP Investment Managers Pvt Ltd	2.1
5	TAIYO GREATER IN FUND LTD	2.1
6	Sundaram Asset Management Co Ltd	2.0
7	Skale Master Fund	1.9
8	BNP Paribas	1.7
9	Franklin India	1.6
10	Aditya Birla Sun Life Trustee Co P	1.9

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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