Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		⟺	

ESG Disclosure Score NEW

ESG RISK RATING	19.97
Updated Apr 08, 2022	
Low Risk	

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

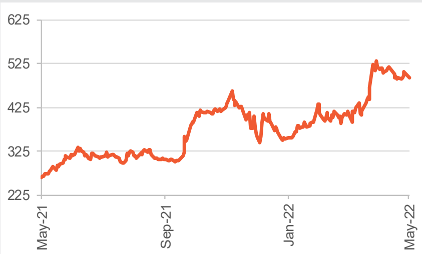
Company details

Market cap:	Rs. 6,014 cr
52-week high/low:	Rs. 563 / 262
NSE volume: (No of shares)	9.2 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	6.85 cr

Shareholding (%)

Promoters	44.0
FII	27.6
DII	15.7
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5	14	15	85
Relative to Sensex	-4	-3	-5	17

Sharekhan Research, Bloomberg

Inox Leisure Ltd

Strong Q4; showtime to get grander

Consumer Discretionary		Sharekhan code: INOXLEISUR		
Reco/View: Buy	⟺	CMP: **Rs. 492**	Price Target: **Rs. 675**	⟺

↑ Upgrade ⟺ Maintain ↓ Downgrade

Summary

- Q4FYF22 revenue growth was strong led by a sharp recovery in footfalls, while EBITDA beat estimates; Average ticket prices and spend per head (SPH) grew by 27% and 10% on y-o-y.
- Though monthly absolute fixed costs would rise to pre-pandemic level going ahead, we believe the fixed costs per screen to remain lower as the company has added 49 screens in last two years.
- Given a strong movie pipeline, robust footfalls for good content, potential recovery in advertising revenue, and market expansion for dubbed movies, we believe Inox Leisure is well placed to report strong growth in FY2023E.
- We maintain a Buy on Inox Leisure with an unchanged PT of Rs. 675, given significant synergies across revenues (from merger with PVR), a healthy recovery in operating metrics and scope for potential margin improvement.

Inox Leisure saw a strong bounce back in footfalls in Q4FY2022 given a short-lived COVID-19 wave-3, ease of COVID-19 related restrictions and strong box office collection for blockbuster movies. The company reported a strong revenue growth of 251% y-o-y to Rs. 317.7 crore, led by a sharp recovery in occupancy rate, healthy growth in ATP (up 26.7% y-o-y) and SPH (up 10.3% y-o-y) and good content. However, ATP/SPH declined 3.5%/11.3% sequentially, on the expected lines, due to change in footfall mix (lower premium screen contribution), lower revenue from 3D content and a cap on ticket prices in South India. EBITDA stood at Rs. 98.3 crore, above our estimates, aided by strong revenue growth, successful negotiation of common area maintenance (CAM) and rent with landlord and lower employee expenses (down 12.8% y-o-y) despite operational of cinemas. Fixed cost per month (Rs. 76 crore in March 2022 versus Rs. 82 crore during pre-pandemic) is expected to increase to pre-pandemic levels in coming quarters given addition of screens (added 49 screens in last two years) during pandemic times. A strong bounceback in footfalls, higher ATP and SPH versus pre-pandemic levels and huge content pipeline would help Inox Leisure to report strong revenue growth in FY2023E.

Key positives

- Significant recovery in footfalls at 11 million in Q4FY2022 versus 9.4 million/3.4 million in Q3FY2022/Q1FY2021
- Grossed the highest ever monthly box office and F&B collection in March 2022.
- Dubbed movies in other Indian languages multiplied the number of audiences

Key negatives

- Average ticket prices (ATP) and spend per head (SPH) declined sequentially despite strong movie content
- Manpower cost (including agency manpower) to go up as business has started operating as usual

Management Commentary

- The company added 32 screens in FY2022, highest in the industry. The company plans to add 77 screens in FY2023 and capex would be funded through internal accruals.
- Launched its *Inox InstaPay* wallet which would help pulling customers to watch movies and consume F&B
- With reopening of cinemas, management indicated expenses are likely to increase from Q1FY2023. As all rent and CAM negotiations are closed, the company has started paying rent and CAM as per agreement.
- Management indicated strong performance of *KGF Chapter 2* continues in April 2022. It sees good footfall in *Acharya* and healthy bookings for *Doctor Strange in the Multiverse of Madness*. Further, it expects strong box office collection from movies like *Jayeshbhai Jordaar*, *Bhool Bhulaiyaa*, *Top Gun 2 Maverick*, *Prithviraj*, *Jurassic World: Dominion* and among others.
- Expect early recovery in advertising revenue over next two quarters versus earlier expectations of next 3-4 quarters, led by strong footfalls in March.

Revision in estimates – We have revised our earnings estimates upward for FY23E/FY24E factoring in Q4FY2022 results, strong consumer demand and healthy movie pipeline.

Our Call

Valuation – Expect strong recovery: Given a healthy movie pipeline, robust consumer demand for good content and success of dubbed Southern movies across the country, we believe that the revenue recovery of Inox Leisure would be strong in FY2023E. Though fixed costs would increase with the full-fledged operation of cinema halls, the savings in fixed costs per screen basis would help the company to post higher profitability as compared to pre-COVID levels. Given potential strong recovery in FY2023E, we have maintained a Buy rating on Inox Leisure with an unchanged price target (PT) of Rs. 675.

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) Inability to maintain cost savings initiatives likely to impact operating profitability.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	105.9	683.9	2,241.0	2,622.9
OPM (%)	47.0	31.7	32.2	32.8
Adjusted PAT	-337.7	-239.4	147.6	229.7
% y-o-y growth	*n.m.*	*n.m.*	*n.m.*	*55.6*
Adjusted EPS (Rs.)	-32.2	-19.9	12.1	18.8
P/E (x)	n.m.	n.m.	40.7	26.1
P/B (x)	7.1	6.5	5.4	4.2
EV/EBITDA (x)	165.9	40.4	12.8	11.1
RoNW (%)	n.m.	n.m.	19.3	24.1
RoCE (%)	n.m.	n.m.	19.1	21.8

Source: Company; Sharekhan estimates

Stock Update

Result Update

Strong recovery continues, EBITDA beat estimates

Inox Leisure reported a strong revenue growth of 251.3% y-o-y at Rs 317.7 crore, led by robust admissions (particularly in the month of March 2022), sharp recovery in occupancy rate, healthy growth in ATP (up 26.7% y-o-y) and good content. However, spend per head (SPH) came at Rs. 86 (up 10% y-o-y, but down 11% q-o-q and was in-line our expectation due to a change in the footfall mix. EBITDA stood at Rs. 98.3 crore (versus EBITDA loss of Rs. 13.7 crore in Q4FY2021), above our estimates, led by cost efficiency initiatives. The company has successfully negotiated for CAM and rent for Q4FY2022 and recognized rent concessions of Rs. 20.3 crore. Similarly, employee expenses declined by 12.8% y-o-y during the quarter. However, other expenses increased by 41.8% y-o-y to Rs. 105.4 crore as cinema halls were operational despite wave-3 of COVID-19. Net loss narrowed down to Rs. 28.2 crore (versus net loss of Rs. 89.6 crore) and was ahead of our estimate, led by strong beat in operating profitability.

Expect strong recovery in FY2023; proposed merger would improve synergies

The film exhibition industry showed a strong recovery in admissions, average ticket prices (ATP), spend per head (SPH), movies releases, higher demand for dubbed movies in other Indian languages and healthy line up of movies to be released. The strong growth in ATP and SPH shows the strong underlying demand for the good content. Further, the management indicated that the company is well positioned to show 20 unique titles in a week. This along with expansion of market because of emerging trend of dubbed movies provide strong footfalls visibility in the medium term. Further, the screening of movies per day is expected to reach at pre-pandemic level in April 2022. Given a strong movie pipeline, robust consumer demand for good content, potential recovery in advertising revenue, strong traction for regional movies and market expansion because of dubbed movies, we believe Inox Leisure is well placed to report strong growth in FY2023E. Further, savings in fixed costs per screen would help in improving its profitability in FY2023E. The proposed merger is expected to bring in enhanced productivity (wider food offerings, better brand monetisation, increasing convenience fees, etc), deeper reach in newer markets and cost optimisation opportunities (contract negotiation/new property signings/manpower expenses).

Inox Leisure Q4FY2022 Concall highlights

- **Strong screen additions to resume:** The company added eight screens in Q4FY2022, taking total addition of 32 screens in FY2022. The company has total 681 screens now. The company plans to add 77 screens in FY2023.
- **Started paying rent and CAM as per agreement:** The company successfully negotiated for CAM and rent for Q4FY2022. As the re-negotiation ended in March, it has started paying rent and CAM expenses as per the agreement from April onwards.
- **Fixed costs to rise:** The management highlighted that it has kept fixed expenses under control. The fixed cost in March 2022 remained at around Rs. 76-77 crore compared to Rs. 82 crore during the pre-pandemic. This fixed cost is expected to go up in the month of April because of increasing electricity costs and manpower expenses on the back of full-fledged operation across the country. Though the fixed costs level would go up to the pre-COVID levels, the number of screens have gone up during the pandemic period. Hence, the fixed costs per screen would come down and improve the profitability going ahead.
- **Launched INOX Insta Pay wallet:** The company launched INOX Insta Pay wallet during the quarters. This would help the company to increase the stickiness of the customers in movie and F&B business as well. It is expected to generate incremental revenue for the company.
- **A huge content line-up:** The management highlighted that there is a strong line-up of good content from all genres. The management expects strong box office collection from movies like Jayeshbhai Jordaar, Bhool Bhulaiyaa, Top Gun 2 Maverick, Prithviraj, Jurassic World: Dominion and among others. With a massive line-up of great quality content in Hindi, English, and other Indian languages, we expect robust recovery in FY2023.

- **Expect early recovery in advertising revenue:** Management expects the advertising revenue to go back to normal in two quarters versus its earlier expectation of 3-4 quarters.
- **Expect eight weeks windows for OTT release from June onwards:** Management indicated that some producers are not following 8 weeks window period between theatrical and OTT release. Inox Leisure expects movie producers would start following the 8 weeks window over next 2-3 months.
- **Strong liquidity position:** As of April 2022, the company had liquidity of more than Rs. 260 crore (including undrawn limits of Rs. 120 crore). Inox Leisure owns 6 cinema properties and 1 office which has market value of Rs. 400 crore.
- **Net debt-free:** The company had gross debt of Rs. 85 crore as of April 30, 2022, but was net debt free.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Net sales	**317.7**	**90.4**	**296.5**	**251.3**	**7.2**
Exhibition costs	92.1	23.5	84.6	292.3	8.9
Cost of F&B	19.6	6.8	18.3	188.8	7.2
Gross Profit	**206.0**	**60.2**	**193.6**	**242.3**	**6.4**
Employee Expenses	22.6	25.9	24.0	-12.8	-5.6
Property Rent	-20.3	-26.3	-47.8	-	-
Other Expenses	105.4	74.3	85.6	41.8	23.0
Operating Profit	**98.3**	**-13.7**	**131.8**	**-**	**-25.4**
Depreciation	73.5	70.1	73.8	4.9	-0.3
Finance Cost	64.3	61.7	64.5	4.2	-0.2
Other Income	7.7	28.6	4.9	-73.1	57.5
PBT	**-31.8**	**-117.0**	**-1.6**	**-**	**-**
Tax Provision	-3.7	-27.4	-0.3	-	-
Adjusted net profit	**-28.2**	**-89.6**	**-1.3**	**-**	**-**
EPS (Rs.)	-2.3	-8.0	-0.1	-	-
Margin (%)				**BPS**	**BPS**
EBITDA margin	30.9	-15.2	44.4	-	-
NPM	-8.9	-103.6	-0.4	-	-
Tax	11.5	23.4	17.6	-	-

*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, 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 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.

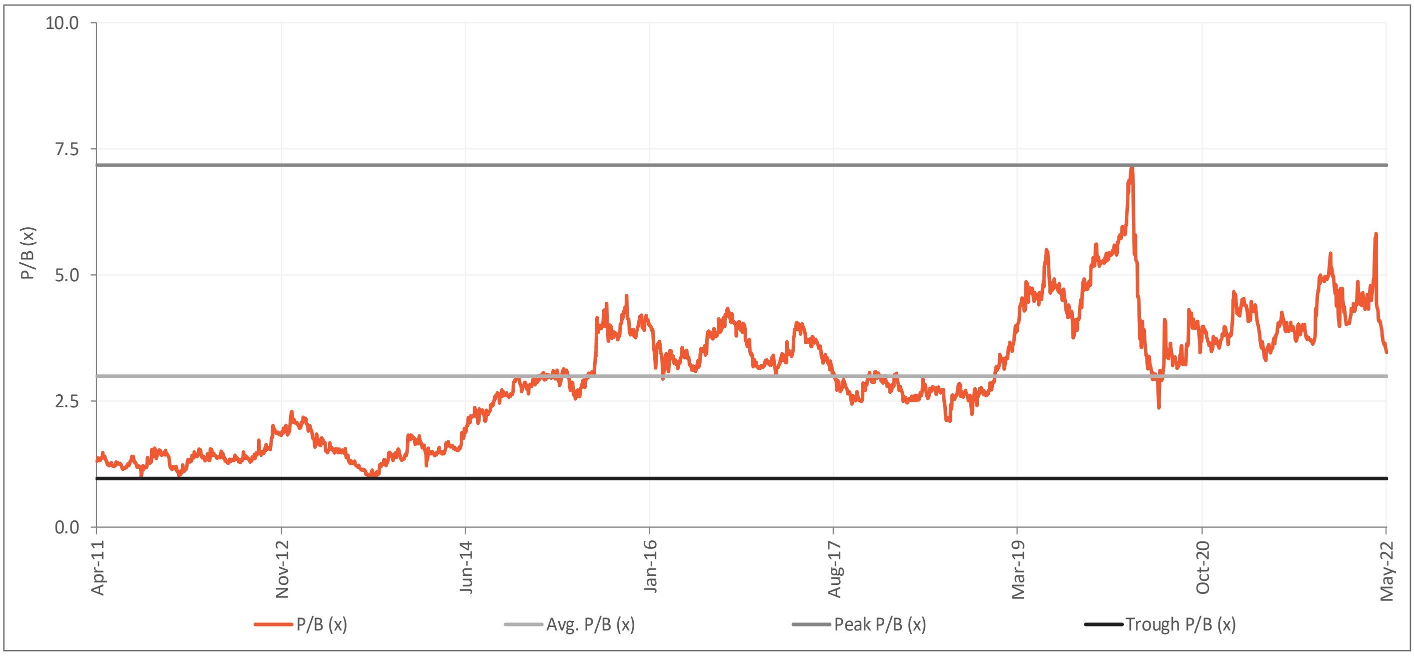
■ Company outlook – Strong recovery ahead

With 681 screens at 161 multiplexes in 72 cities, Inox Leisure is the second-largest multiplex operator. The company's strategies to increase footfalls, increase footfall monetisation efforts, and better improving operating metrics are expected to bode well for the company. Strong bounce back in footfalls, higher ATP and SPH versus pre-pandemic levels and huge content pipeline would help Inox Leisure to report strong revenue growth in FY2023E. The proposed merger is expected to bring in enhanced productivity (wider food offerings, better monetisation of brand, increasing convenience fees, etc), deeper reach in newer markets and cost optimisation opportunities (contract negotiation/new property signings/manpower expenses).

■ Valuation – Expect strong recovery in FY2023E, maintain Buy

Given a healthy movie pipeline, robust consumer demand for good content and success of dubbed Southern movies across the country, we believe that the revenue recovery of Inox Leisure would be strong in FY2023E. Though fixed costs would increase with the full-fledged operation of cinema halls, the savings in fixed costs per screen basis would help the company to post higher profitability as compared to pre-COVID levels. Given potential strong recovery in FY2023E, we have maintained a Buy rating on Inox Leisure with an unchanged price target (PT) of Rs. 675.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Incorporated in 1999, Inox Leisure is one of the largest multiplex operators in India. The company currently operates 161 properties (681 screens and over 1.52 lakhs seats) located in 72 cities across India. Inox Leisure 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 161 properties – 681 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. 200 crore or Rs. 500 crore box office collection mark. We expect strong bounce back in FY2023 based on strong line-up of movies, and market expansion given strong traction for dubbed movies and regional content.

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 in advertising revenue 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
Alok Tandon	Chief Executive Officer
Kailash B Gupta	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	7.84
2	HDFC Asset Management Co Ltd.	4.95
3	Kuwait Investment Authority Fund	4.72
4	Aditya Birla Sun Life Asset Management Co. Ltd	3.11
5	DSP Investment Managers Pvt. Ltd.	2.51
6	Emirate of Abu Dhabi United Arab Emirates	2.35
7	Baroda BNP Paribas Arbitrage	2.28
8	Eastspring Investments	2.01
9	Nippon Life India Asset Management	1.93
10	Sundaram MF	1.29

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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