Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Inox Leisure Ltd

Strong Q1, strong growth story to unfold

Consumer Discretionary	Sharekhan code: INOXLEISUR
Reco/View: Buy ↔	CMP: **Rs. 603**	Price Target: **Rs. 700** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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 23.01

Updated July 08, 2022

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 7,373 cr
52-week high/low:	Rs. 608/299
NSE volume: (No of shares)	8.2 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	6.85 cr

Shareholding (%) as on June 30, 2020

Promoters	44.0
DII	28.1
FII	16.9
Others	11.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.1	26.3	39.0	90.7
Relative to Sensex	6.5	21.5	41.0	82.3

Sharekhan Research, Bloomberg

Summary

- Q1FYF23 headline numbers were strong led by a sharp recovery in footfalls; EBITDA remained 40% higher compared to Q1FY20 levels, given 6% growth in admissions, 16%/19% growth in ATP/SPH, and sharp decline in employee costs per screen.
- Inox Leisure plans to add 60 screens in the remaining period of FY2023 even after adding 17 screens in Q1FY23 and capex would be funded through internal accruals.
- With a healthy movie pipeline, aggressive screen expansion, and success of dubbed southern movies across the country, revenue growth of Inox Leisure would be strong in FY2023E. We expect slight savings in fixed costs per screen, which could lead to higher profitability as compared to pre-pandemic levels.
- We maintain Buy on Inox Leisure with a revised PT of Rs. 700, given significant synergies across revenue (from merger with PVR), strong movie pipeline, and sustainable premium pricing.

The release of several regional blockbusters ensured that the recovery in multiplexes' fortunes that began in February continued through Q1FY23. However, Bollywood movies (except Bhool Bhulaiyaa 2) disappointed in terms of box office collection due to absence of any good content during the quarter. Inox Leisure's headline numbers were strong in Q1FY23 as cinemas were fully operational after two years. Revenue was 18% higher than pre-pandemic levels (1QFY20), led by strong recovery in footfalls, healthy occupancy level, and higher ATP/SPH. EBITDA remained 40% higher compared to Q1FY20 levels because of 6% growth in admissions, 16%/19% growth in ATP/SPH, and 28%/24% drop in employee costs per screen/other overheads per screen. Net profit came at Rs. 57.1 crore and was 38% higher than our expectations, aided by strong beat in operating profitability. We believe upcoming movies such as *Bullet Train, Laal Singh Chaddha, Raksha Bandhan, Brahmastra, Ram Setu,* and *Thank God*, among others are expected to sustain the company's strong growth momentum in the remaining quarters of FY2023. Further, Inox Leisure plans to add 60 screens in the remaining period of FY2023, even after adding 17 screens in Q1FY23 and capex would be funded through internal accruals.

Key positives

- Footfalls grew by 6% from the pre-pandemic level (Q1FY2020)
- ATP and SPH grew by 16% and 19% from the pre-pandemic level, respectively.
- SPH/ATP ratio was strong at 42% in Q1FY23 with ratio being near 100% in premium screen.

Key negatives

- Advertising revenue was 36% lower than pre-pandemic level.

Management Commentary

- The company added 17 screens in Q1FY2023. The company plans to add 60 more screens in 9MFY2023, which would be funded through internal accruals.
- Management expects advertisement revenue to stay subdued in Q2FY2023 but sees pick up in H2FY2023 once the festive season starts.
- Management believes employee expenses per screen would remain 7-8% lower than the pre-pandemic level going forward due to multitasking initiatives undertaken by the company.
- Occupancy rate was 29% for Q1FY23 with South India having 75-80% occupancy rate mainly due to the benefit of multiple languages.

Revision in estimates – We have revised our earnings estimates upward for FY23E/FY24E factoring in margin beat in Q1FY23, healthy movie pipeline, and screen expansion.

Our Call

Valuation: Expect strong recovery: Given a healthy movie pipeline, aggressive screen expansion, and success of dubbed southern movies across the country, we believe revenue growth of Inox Leisure would be strong in FY2023E. Though personnel costs per screen and rent and CAM costs per screen are expected to increase going ahead, we expect slight savings in fixed costs per screen could lead to higher profitability as compared to pre-pandemic levels. Post the merger, we believe unit economics of Inox Leisure would come at par with PVR, given economies of scale, potential geographical diversification, and implementing the best practices of PVR. We maintain Buy on Inox Leisure with a revised price target (PT) of Rs. 700.

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	2,371.1	2,626.7
OPM (%)	47.0	31.7	35.3	34.7
Adjusted PAT	-337.7	-239.4	210.3	243.5
% y-o-y growth	*n.m.*	*n.m.*	*n.m.*	*15.8*
Adjusted EPS (Rs.)	-32.2	-19.9	17.2	19.9
P/E (x)	n.m.	n.m.	35.0	30.2
P/B (x)	8.7	8.0	6.1	4.8
EV/EBITDA (x)	191.0	46.6	12.1	11.0
RoNW (%)	n.m.	n.m.	26.4	23.8
RoCE (%)	n.m.	n.m.	22.0	22.7

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

Strong revenue growth, EBITDA beats estimates

Inox Leisure reported strong headline numbers in Q1FY2023, led by strong box office collections (especially from regional movies), fully operational cinemas after two years, and premium pricing. Inox Leisure's revenue of Rs. 582.3 crore was 18% higher than pre-pandemic levels (1QFY2020), led by robust admissions (up 6% from pre-pandemic levels), strong occupancy level, and higher ATP/SPH. The company's Q1FY2023 EBITDA remained 40% higher compared to Q1FY2020 levels because of 6% growth in admissions, 16%/19% growth in ATP/SPH, and 28%/5%/24% drop in employee costs per screen/power and fuel costs per screen/other overheads per screen. Inox Leisure had 18.4 million footfalls with an occupancy of 29% in Q1FY2023, while ATP and SPH stood at Rs. 229 and Rs. 96, respectively. EBITDA stood at Rs. 210.5 crore in Q1FY2023, exceeding our expectations, led by cost-control measures. Net profit came at Rs. 57.1 crore and was 38% higher than our expectations, aided by strong beat in operating profitability.

Expect strong growth to continue in the remaining FY2023; Proposed merger would improve synergies

The sharp recovery in multiplex business (including admissions, ATP, SPH, movies releases, and demand for dubbed movies in other Indian languages) starting March 2022 continued in Q1FY2023. There has been a new emerging trend where the dubbed south movies have been doing well in terms of box office collection, which has expanded the market for multiplex players. Movies such as RRR, Bhool Bhulaiya 2, Vikram, and Dr. Strange contributed to the company's revenue growth in Q1FY2023, while we believe upcoming movies – Bullet Train, Laal Singh Chaddha, Raksha Bandhan, Brahmastra, Ram Setu, and Thank God, among others – would sustain its strong growth momentum in the remaining quarters of FY2023. The company plans to add 60 screens in the remaining period of FY2023 and capex would be funded through internal accruals. SPH growth is expected to continue in the coming quarters, given increasing point of sales, while growth in ATP is highly dependent on the number of blockbuster movies on the box office. Given a huge line-up of big-starrer movies, potential recovery in advertising revenue from Q3FY2023, aggressive screen expansion, market expansion because of dubbed movies, and premium pricing, we believe Inox Leisure is well placed to report strong growth in FY2023E. The proposed merger is expected to bring in enhanced productivity (wider food offerings, better brand monetisation, and increasing convenience fees, etc.), deeper reach in newer markets, and cost-optimisation opportunities (contract negotiation/new property signings/manpower expenses).

Fixed costs per screen to rise, but it would remain slightly better than pre-pandemic levels

Inox Leisure's EBITDA margin improved 570bps to 36.1% in Q1FY2023 from pre-pandemic levels (30.4% in Q1FY2020) despite addition of screens given its cost-control initiatives. The company's personnel cost per screen declined by 28% from Q1FY2020 level, while its power and fuel costs per screen and other overheads per screen declined by 5% and 24%, respectively. However, the company's rent and CAM costs per screen increased by 13% from the pandemic level because of escalation on rental expenses as per agreements. Though personnel costs per screen are expected to rise due to increased hiring, management remains confident of 7-8% of costs savings on personnel costs per screen from the pre-pandemic level. Hence, fixed costs per screen are expected to remain slightly below the pre-pandemic level despite increased rent and CAM expenses.

Inox Leisure Q1FY2023 Concall Highlights

- **A huge content line-up:** The company expects a great turnaround in business going forward, thanks to a fascinating content line-up in the upcoming quarter with releases such as Laal Singh Chaddha, Raksha Bandhan, Liger, Brahmastra, and Vikram Vedha. Given a huge line-up of movie content, management expects strong box office collection in the last two months of Q2FY2023 and Q3FY2023.
- **Strong screen additions:** The company added 17 screens in three new properties in Q1FY2023. The company has total 692 screens across 163 properties in July 2022 with around 80-85 (~12%) premium screens. Management's endeavor is to increase the share of premium screens. The company plans to add 60 more screens in 13 new properties in 9MFY2023, which would be funded through internal accruals.

- **SPH/ATP ratio likely to improve:** SPH/ATP ratio was 42% in Q1FY2023 with the ratio being near 100% in premium screens. Technology initiatives such as ordering food through the INOX app and higher point of sales have helped in improving the ratio.
- **Outlook on advertising revenue:** Advertisement revenue fell by 36% from Q1FY2020 to Rs. 30 crore in Q1FY2023. Management expects advertisement revenue to stay subdued in Q2FY2023 but sees pick-up in H2FY2023 once the festive season starts.
- **Inox merchandise launch:** Management said this is a multi-billion-dollar industry and revenue from this segment will pick up going forward over a period of time.
- **Escalation in rent and CAM costs:** Rent and CAM expenses per screen increased by 13% from Q1FY2020 to Rs. 18.9 lacs per screen in Q1FY2023. Rent and CAM escalation kicked in as per the revised agreements.
- **Outlook on employee benefit expense:** Employee benefit expense per screen decreased by 28% from Q1FY2020 to Rs. 9.1 lacs per screen. Though personnel costs per screen are expected to increase owing to strong hiring, management believes employee expenses per screen would remain 7-8% lower than the pre-pandemic level going forward due to the multitasking initiatives undertaken by the company.
- **Capex per screen:** Management said capex per screen is about Rs. 2.75 crore-3 crores for ordinary screens and around Rs. 4 crore for premium screens.
- **Occupancy rate:** Occupancy rate was 29% for Q1FY2023 with South India having 75-80% occupancy rate mainly due to the benefit of multiple languages.
- **Strong liquidity position:** The company generated operating cash flows of Rs. 110 crore in Q1FY2023 and had liquidity of Rs. 375 crore as of July 31, 2022 (including undrawn limits of Rs. 125 crore). Inox Leisure owns six cinema properties and one head office, which have market value of Rs. 400 crore.
- **Net debt-free:** The company had gross debt of Rs. 81 crore as of July 31, 2022, but is net debt free.
- **Standstill in Telugu Market:** Production of films in Telangana and Andhra Pradesh has resumed after the dispute between producers and staff relating to the salary structure. Management does not expect the dispute to spread across the country.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Net sales	**582.3**	**22.3**	**317.7**	**2509.9**	**83.3**
Exhibition costs	159.3	5.8	92.1	2642.2	72.9
Cost of F&B	36.4	1.4	19.6	2482.3	85.7
Gross Profit	**386.5**	**15.1**	**206.0**	**2461.5**	**87.6**
Employee Expenses	27.1	24.6	22.6	10.0	19.6
Property Rent	35.0	-22.6	-20.3	-	-
Other Expenses	114.0	42.1	105.4	170.8	8.2
Operating Profit	**210.5**	**-29.0**	**98.3**	**-**	**114.1**
Depreciation	75.4	72.9	73.5	3.4	2.5
Finance Cost	65.8	64.5	64.3	2.1	2.3
Other Income	7.2	3.2	7.7	-	-7.0
PBT	**76.4**	**-163.1**	**-31.8**	**-146.8**	**-340.1**
Tax Provision	19.3	-40.9	-3.7	-	-
Adjusted net profit	**57.1**	**-122.3**	**-28.2**	**-**	**-**
EPS (Rs.)	4.7	-10.9	-2.3	-	-
Margin (%)				**BPS**	**BPS**
EBITDA margin	36.1	-129.9	30.9	-	520.0
NPM	9.8	-548.0	-8.9	-	-
Tax	25.3	25.1	11.5	22.9	-

*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 the medium term.

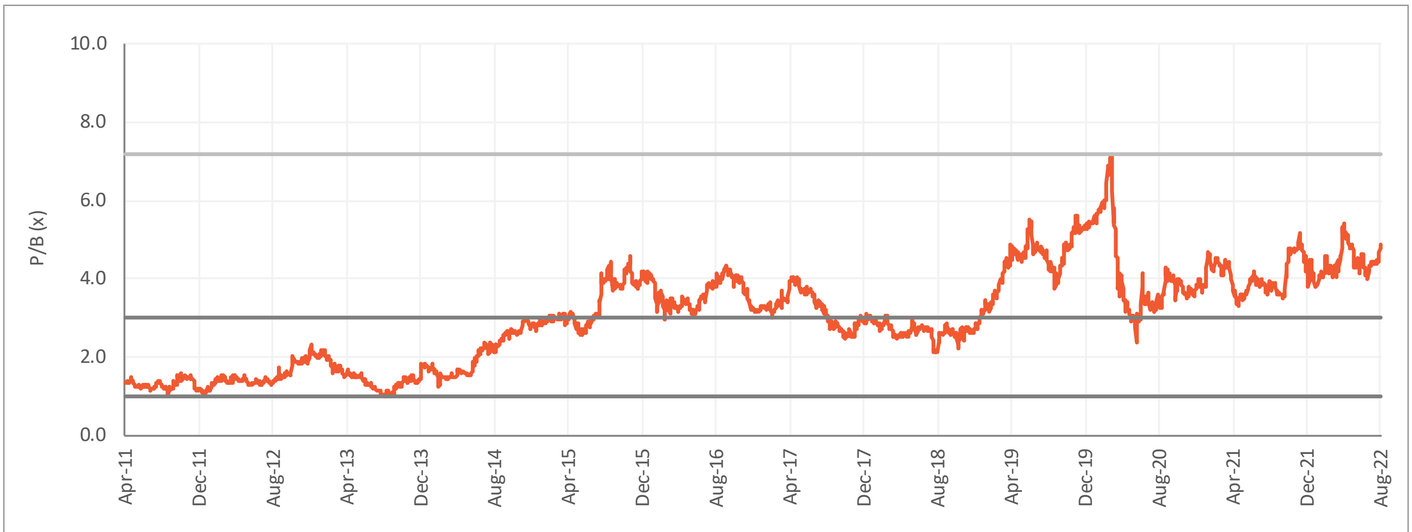
■ Company Outlook – Strong recovery ahead

Inox Leisure is the second-largest multiplex operator in India. 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. Post the merger, we believe the unit economics of Inox Leisure would come at par with PVR, given economics of scale, potential geographical diversification, and implementing the best practices of PVR.

■ Valuation – Expect strong recovery in FY2023E, maintain Buy

Given a healthy movie pipeline, aggressive screen expansion, and success of dubbed southern movies across the country, we believe revenue growth of Inox Leisure would be strong in FY2023E. Though personnel costs per screen and rent and CAM costs per screen are expected to increase going ahead, we expect slight savings in fixed costs per screen could lead to higher profitability as compared to pre-pandemic levels. Post the merger, we believe unit economics of Inox Leisure would come at par with PVR, given economies of scale, potential geographical diversification, and implementing the best practices of PVR. We maintain Buy on Inox Leisure with a revised PT of Rs. 700.

One-year forward P/B (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 163 properties (692 screens and over 1.55 lakhs seats) located in 73 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 organic and inorganic expansion over the past decade, growing from two properties to 163 properties – 692 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	7.80
2	HDFC Asset Management Co Ltd.	4.97
3	Kuwait Investment Authority Fund	4.72
4	Aditya Birla Sun Life Asset Management Co. Ltd	3.17
5	DSP Investment Managers Pvt. Ltd.	2.51
6	Emirate of Abu Dhabi United Arab Emirates	2.15
7	Baroda BNP Paribas Arbitrage	1.91
8	Nippon Life India Asset Management	1.86
9	Prudential PLC	1.36
10	Baroda Mutual Fund	1.27

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.