

August 3, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

Rating	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Target Price	BUY 699		BUY 668	
Sales (Rs. m)	22,140	26,563	22,471	26,521
% Chng.	(1.5)	0.2		
EBITDA (Rs. m)	7,369	9,014	7,342	8,907
% Chng.	0.4	1.2		
EPS (Rs.)	10.4	19.1	10.2	18.3
% Chng.	2.3	4.1		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	1,059	6,839	22,140	26,563
EBITDA (Rs. m)	498	2,167	7,369	9,014
Margin (%)	47.0	31.7	33.3	33.9
PAT (Rs. m)	(3,336)	(2,394)	1,271	2,334
EPS (Rs.)	(29.7)	(19.6)	10.4	19.1
Gr. (%)	NA	NA	NA	83.7
DPS (Rs.)	-	-	1.0	1.0
Yield (%)	-	-	0.2	0.2
RoE (%)	NA	NA	15.7	22.7
RoCE (%)	NA	NA	11.5	14.7
EV/Sales (x)	89.8	14.8	4.6	3.8
EV/EBITDA (x)	191.2	46.7	13.7	11.1
PE (x)	(20.3)	(30.8)	58.0	31.6
P/BV (x)	10.7	10.6	9.1	7.2

### Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.608 / Rs.299
Sensex / Nifty	58,351 / 17,388
Market Cap	Rs.74bn/ \$ 932m
Shares Outstanding	122m
3M Avg. Daily Value	Rs.263.47m

### Shareholding Pattern (%)

Promoter's	44.04
Foreign	16.19
Domestic Institution	27.06
Public & Others	12.60
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	15.3	45.6	91.1
Relative	4.5	46.6	76.3

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## Housefull quarter; most KPIs above pre-COVID

### Quick Pointers:

- INOL recorded highest ever quarterly revenue/Ind-AS adjusted PAT of Rs5,823mn/Rs740mn. ATP was also at an all-time high of Rs229.
- Target is to open 77 screens in FY23E (17 screens opened in 1QFY23). Capex will be funded by internal accruals.

**INOL reported exceptional performance with top-line beat of 8% and pre IND-AS EBITDA margin of 21.2% (PLe of 17.6%) buoyed by strong content. Despite ATP being at an all-time high of Rs229, footfalls were 6% higher than pre-COVID base evading concerns that unduly high pricing is acting as a hindrance to admissions. Nonetheless, ad-revenue performance is still lagging (36% lower than 1QFY20) and management is hopeful of a recovery in 2HFY23E.**

**Overall, this was the best ever quarter for INOL and we maintain our positive bias given 1) healthy content pipeline (minor blip in July) 2) encouraging commentary on ad-revenue recovery 3) strong screen opening outlook 4) noteworthy improvement in KPIs (ATP/SPH was 16%/19% above pre-COVID base) and 5) healthy BS (gross debt of Rs810mn; only national chain to be net debt free) Further, the announced merger with PVR is progressing well and an application with NCLT has been filed. Retain BUY on the stock with a TP of Rs699 (arrived from swap ratio of 3:10 with PVR) after assigning EV/EBITDA multiple of 15.5x (no change) to the merged entity.**

**Topline/footfalls 18.1%/6.2% higher over 1QFY20:** Top-line increased 2510% YoY (18.1% growth over 1QFY20) to Rs5,823mn (PLe Rs5,400mn) in 1QFY23 buoyed by strong content like KGF-2, Vikram, Bhool Bhulaiyaa-2 and Doctor Strange. ATP/SPH stood at Rs229/Rs96 respectively with footfalls of 18.4mn (PLe of 18.2mn) and occupancy of 29% (30% in 1QFY20). NBOC/F&B/Advertisement revenue stood at Rs3,530mn/Rs1,640mn/Rs300mn respectively.

**Pre IND-AS EBITDA margin of 21.2%:** Ind-AS adjusted EBITDA stood at Rs1,235mn (PLe of Rs953mn) with a margin of 21.2% (PLe 17.6%) as against Ind-AS adjusted loss of Rs1,070mn in 1QFY22. Ind-AS adjusted PAT stood at Rs741mn (PLe Rs530mn) with a margin of 12.7% as against Ind-AS adjusted loss of Rs1,013mn in 1QFY22.

**Con-call highlights:** 1) After having received stock exchange approval, Inox and PVR have filed the amalgamation scheme with NCLT, Mumbai. 2) Advertising revenue was 36% lower than pre-pandemic base. It is expected to breach the pre-pandemic levels in the 2HFY23. 3) Employee cost could see a maximum decline of 7-8% over pre-pandemic levels. 4) SPH/ATP ratio stood at 42%. For premium screens, the ratio is typically 1:1 5) Of the total count, ~12% are premium screens. 6) OCF stood at Rs1,110mn for the quarter. 7) Capex for a premium screen is Rs35-40mn while for an average screen it is Rs27.5-30mn. 8) As on 31st July 2022, Inox had cash and cash equivalents of Rs2,500mn. 9) As per reports, Tollywood producers were going to withhold shootings from August to discuss issues such actors' remuneration and windowing gap. However, management stated that production of movies has resumed in Telangana and Andhra Pradesh.

**Exhibit 1: Consolidated result overview (Rs mn)**

Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
<b>Net sales</b>	<b>5,823</b>	<b>223</b>	<b>2509.9%</b>	<b>3,177</b>	<b>83.3%</b>
Movie exhibition cost	1,593	58	2642.2%	921	72.9%
<i>As a % of sales</i>	<i>27.4%</i>	<i>26.0%</i>		<i>29.0%</i>	
Consumption of F&B	364	14	2482.3%	196	85.7%
<i>As a % of sales</i>	<i>6.3%</i>	<i>6.3%</i>		<i>6.2%</i>	
Employee expenses	271	246	9.9%	226	19.6%
<i>As a % of sales</i>	<i>4.6%</i>	<i>110.4%</i>		<i>7.1%</i>	
Other expenses	1,490	195	664.9%	850	75.2%
<i>As a % of sales</i>	<i>25.6%</i>	<i>87.3%</i>		<i>26.8%</i>	
<b>EBITDA</b>	<b>2,105</b>	<b>(290)</b>	<b>NM</b>	<b>983</b>	<b>114.1%</b>
<i>EBITDA margin</i>	<i>36.1%</i>	<i>NM</i>		<i>30.9%</i>	
Depreciation	754	729	3.4%	735	2.5%
<b>EBIT</b>	<b>1,351</b>	<b>(1,019)</b>	<b>NM</b>	<b>248</b>	<b>445.1%</b>
<i>EBIT margin</i>	<i>23.2%</i>	<i>NM</i>		<i>7.8%</i>	
Interest cost	658	645	2.1%	643	2.3%
Other income	72	32	124.5%	77	-7.0%
Exceptional items	-	-	NM	-	NM
<b>PBT</b>	<b>764</b>	<b>(1,632)</b>	<b>NM</b>	<b>(318)</b>	<b>NM</b>
Tax expenses	193	(409)	NM	(37)	NM
Tax rate	25.3%	NM		NM	
<b>PAT</b>	<b>571</b>	<b>(1,223)</b>	<b>NM</b>	<b>(282)</b>	<b>NM</b>
<i>PAT margin</i>	<i>9.8%</i>	<i>NM</i>		<i>NM</i>	
Non-controlling interest	-	-	NM	-	NM
Other comprehensive income (OCI)	(2)	4	NM	4	NM
<b>PAT inclusive of OCI</b>	<b>569</b>	<b>(1,219)</b>	<b>NM</b>	<b>(278)</b>	<b>NM</b>
<b>EPS (Rs)</b>	<b>4.7</b>	<b>(10.7)</b>	<b>NM</b>	<b>(2.3)</b>	<b>NM</b>

Source: Company, PL

**Exhibit 2: Revenue Mix (Rs mn)**

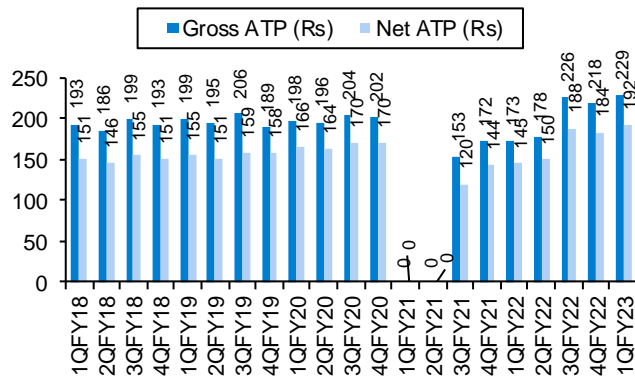
Particulars	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
<b>NBOC</b>	<b>3,530</b>	<b>120</b>	<b>2841.7%</b>	<b>2,020</b>	<b>74.8%</b>
<i>As a % of sales</i>	<i>60.7%</i>	<i>54.0%</i>		<i>63.7%</i>	
<b>Net F&amp;B</b>	<b>1,640</b>	<b>60</b>	<b>2633.3%</b>	<b>870</b>	<b>88.5%</b>
<i>As a % of sales</i>	<i>28.2%</i>	<i>27.0%</i>		<i>27.4%</i>	
<b>Advertisement revenue</b>	<b>300</b>	<b>4</b>	<b>7400.0%</b>	<b>130</b>	<b>130.8%</b>
<i>As a % of sales</i>	<i>5.2%</i>	<i>1.8%</i>		<i>4.1%</i>	
<b>Other operating income</b>	<b>348</b>	<b>38</b>	<b>814.4%</b>	<b>153</b>	<b>127.7%</b>
<i>As a % of sales</i>	<i>6.0%</i>	<i>17.2%</i>		<i>4.8%</i>	
<b>Total sales</b>	<b>5,818</b>	<b>222</b>	<b>2519.7%</b>	<b>3,173</b>	<b>83.4%</b>

Source: Company, PL

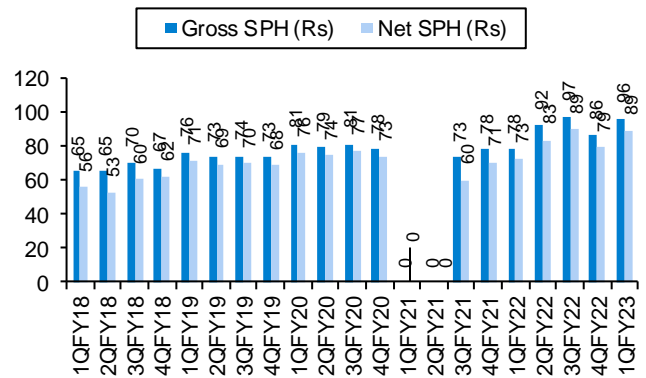
**Exhibit 3: Ind AS adjusted financials**

Particulars (Rs mn)	1QFY23	1QFY22	YoY gr.	4QFY22	QoQ gr.	FY21	FY22	FY23E	FY24E
Sales	5,823	223	2509.9%	3,177	83.3%	1,059	6,839	22,140	26,563
Ind-AS Adjusted EBITDA	1,235	(1,070)	NM	143	762.2%	(2,462)	(1,083)	3,992	5,206
<i>Ind-AS Adjusted EBITDA margin</i>	<i>21.2%</i>	<i>NM</i>		<i>4.5%</i>		<i>NM</i>	<i>NM</i>	<i>18.0%</i>	<i>19.6%</i>
Ind-AS Adjusted PAT	741	(1,013)	NM	(122)	NM	(2,567)	(1,634)	2,111	3,000
<i>Ind-AS Adjusted PAT margin</i>	<i>12.7%</i>	<i>NM</i>		<i>NM</i>		<i>NM</i>	<i>NM</i>	<i>9.5%</i>	<i>11.3%</i>

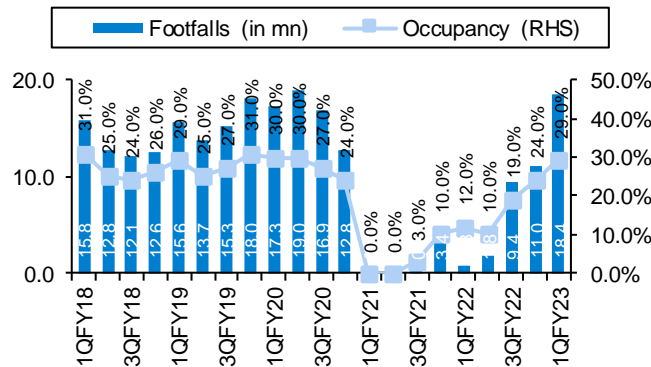
Source: Company, PL

**Exhibit 4: Gross/Net ATP trend over the last few quarters**


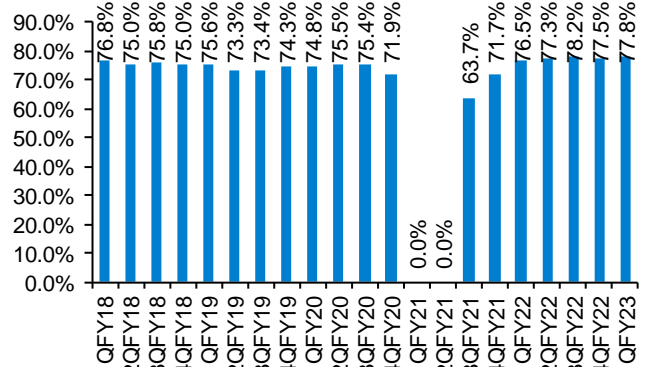
Source: Company, PL

**Exhibit 5: Gross/Net SPH trend over the last few quarters**


Source: Company, PL

**Exhibit 6: Footfalls are volatile, driven by content**


Source: Company, PL

**Exhibit 7: F&B GM trend in last few quarters**


Source: Company, PL

**Exhibit 8: Merged entity valuation**

<b>Particulars (Rs mn)</b>	<b>FY24E</b>
EV/EBITDA	15.5
EBITDA*	15,189
EV	2,35,434
Less: Debt*	15,017
Add: Cash	7,072
Equity Value	2,27,490
No of shares	97.7
Per share value of merged entity (Rs)	2,330
Implied TP of Inox based on swap ratio of 3:10	699

Source: Company, PL, \*Pre-Ind AS 116 projections

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>1,059</b>	<b>6,839</b>	<b>22,140</b>	<b>26,563</b>
YoY gr. (%)	(94.4)	545.6	223.7	20.0
Cost of Goods Sold	343	2,391	7,311	8,597
Gross Profit	717	4,449	14,829	17,966
Margin (%)	67.6	65.0	67.0	67.6
Employee Cost	867	949	1,594	1,966
Other Expenses	(648)	1,333	5,866	6,986
<b>EBITDA</b>	<b>498</b>	<b>2,167</b>	<b>7,369</b>	<b>9,014</b>
YoY gr. (%)	(91.7)	335.4	240.1	22.3
Margin (%)	47.0	31.7	33.3	33.9
Depreciation and Amortization	2,832	2,938	3,150	3,300
<b>EBIT</b>	<b>(2,334)</b>	<b>(772)</b>	<b>4,219</b>	<b>5,714</b>
Margin (%)	NA	NA	19.1	21.5
Net Interest	2,511	2,580	2,720	2,820
Other Income	423	218	199	226
<b>Profit Before Tax</b>	<b>(4,464)</b>	<b>(3,133)</b>	<b>1,699</b>	<b>3,120</b>
Margin (%)	NA	NA	7.7	11.7
Total Tax	(1,087)	(739)	428	786
Effective tax rate (%)	NA	NA	25.2	25.2
<b>Profit after tax</b>	<b>(3,377)</b>	<b>(2,394)</b>	<b>1,271</b>	<b>2,334</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(3,336)</b>	<b>(2,394)</b>	<b>1,271</b>	<b>2,334</b>
YoY gr. (%)	NA	NA	NA	83.7
Margin (%)	NA	NA	5.7	8.8
Extra Ord. Income / (Exp)	(41)	-	-	-
<b>Reported PAT</b>	<b>(3,377)</b>	<b>(2,394)</b>	<b>1,271</b>	<b>2,334</b>
YoY gr. (%)	NA	NA	NA	83.7
Margin (%)	NA	NA	5.7	8.8
Other Comprehensive Income	13	9	-	-
Total Comprehensive Income	(3,364)	(2,385)	1,271	2,334
<b>Equity Shares O/s (m)</b>	<b>112</b>	<b>122</b>	<b>122</b>	<b>122</b>
<b>EPS (Rs)</b>	<b>(29.7)</b>	<b>(19.6)</b>	<b>10.4</b>	<b>19.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>35,835</b>	<b>38,805</b>	<b>41,392</b>	<b>44,045</b>
Tangibles	35,608	38,600	41,182	43,830
Intangibles	227	205	210	215
<b>Acc: Dep / Amortization</b>	<b>5,201</b>	<b>8,139</b>	<b>11,289</b>	<b>14,589</b>
Tangibles	5,030	7,968	11,118	14,418
Intangibles	171	171	171	171
<b>Net fixed assets</b>	<b>30,634</b>	<b>30,665</b>	<b>30,102</b>	<b>29,456</b>
Tangibles	30,578	30,632	30,064	29,412
Intangibles	56	34	39	44
Capital Work In Progress	570	263	263	263
Goodwill	175	175	175	175
Non-Current Investments	1,914	1,857	1,993	2,391
Net Deferred tax assets	2,840	3,576	4,291	6,008
Other Non-Current Assets	290	355	380	472
<b>Current Assets</b>				
Investments	4	1,493	1,493	1,493
Inventories	103	143	182	218
Trade receivables	43	290	1,031	1,383
Cash & Bank Balance	774	558	598	1,378
Other Current Assets	490	400	554	611
<b>Total Assets</b>	<b>37,842</b>	<b>39,799</b>	<b>41,095</b>	<b>43,887</b>
<b>Equity</b>				
Equity Share Capital	1,125	1,222	1,222	1,222
Other Equity	5,205	5,704	6,852	9,064
<b>Total Networkth</b>	<b>6,329</b>	<b>6,926</b>	<b>8,074</b>	<b>10,286</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	27,874	29,310	29,310	29,310
Provisions	167	153	177	186
Other non current liabilities	577	512	443	425
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	200	171	171	171
Trade payables	1,054	1,359	1,395	1,674
Other current liabilities	1,576	1,356	1,514	1,824
<b>Total Equity &amp; Liabilities</b>	<b>37,842</b>	<b>39,799</b>	<b>41,095</b>	<b>43,887</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(3,377)	(2,394)	1,699	3,120
Add. Depreciation	2,832	2,938	3,150	3,300
Add. Interest	2,511	2,580	2,720	2,820
Less Financial Other Income	423	218	199	226
Add. Other	(3,524)	(2,576)	(963)	(1,884)
Op. profit before WC changes	(1,558)	548	6,605	7,356
Net Changes-WC	200	262	(708)	(195)
Direct tax	49	(42)	(428)	(786)
<b>Net cash from Op. activities</b>	<b>(1,308)</b>	<b>769</b>	<b>5,469</b>	<b>6,375</b>
Capital expenditures	(601)	(735)	(2,587)	(2,653)
Interest / Dividend Income	27	25	-	-
Others	(642)	(1,070)	-	-
<b>Net Cash from Inv. activities</b>	<b>(1,216)</b>	<b>(1,779)</b>	<b>(2,587)</b>	<b>(2,653)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(540)	(177)	-	-
Dividend paid	-	-	-	-
Interest paid	(158)	(107)	(2,720)	(2,820)
Others	2,897	1,450	(122)	(122)
<b>Net cash from Fin. activities</b>	<b>2,199</b>	<b>1,166</b>	<b>(2,842)</b>	<b>(2,942)</b>
<b>Net change in cash</b>	<b>(325)</b>	<b>156</b>	<b>40</b>	<b>780</b>
Free Cash Flow	(1,910)	23	2,882	3,722

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>474</b>	<b>2,965</b>	<b>3,177</b>	<b>5,823</b>
YoY gr. (%)	13,077.8	1,892.4	251.3	2,509.9
Raw Material Expenses	172	1,029	1,117	1,957
Gross Profit	302	1,936	2,060	3,865
Margin (%)	63.7	65.3	64.8	66.4
<b>EBITDA</b>	<b>156</b>	<b>1,318</b>	<b>983</b>	<b>2,105</b>
YoY gr. (%)	(61.5)	NA	NA	NA
Margin (%)	32.9	44.4	30.9	36.1
Depreciation / Depletion	736	738	735	754
<b>EBIT</b>	<b>(580)</b>	<b>580</b>	<b>248</b>	<b>1,351</b>
Margin (%)	(NA)	19.6	7.8	23.2
Net Interest	648	645	643	658
Other Income	61	49	77	72
<b>Profit before Tax</b>	<b>(1,167)</b>	<b>(16)</b>	<b>(318)</b>	<b>764</b>
Margin (%)	NA	NA	NA	13.1
Total Tax	(291)	(3)	(37)	193
Effective tax rate (%)	NA	NA	NA	25.3
<b>Profit after Tax</b>	<b>(877)</b>	<b>(13)</b>	<b>(282)</b>	<b>571</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(877)</b>	<b>(13)</b>	<b>(282)</b>	<b>571</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	NA	9.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(877)</b>	<b>(13)</b>	<b>(282)</b>	<b>571</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	NA	NA	9.8
Other Comprehensive Income	(1)	2	4	(2)
<b>Total Comprehensive Income</b>	<b>(877)</b>	<b>(11)</b>	<b>(278)</b>	<b>569</b>
Avg. Shares O/s (m)	122	122	122	122
<b>EPS (Rs)</b>	<b>(7.1)</b>	<b>(0.1)</b>	<b>(2.3)</b>	<b>4.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	(29.7)	(19.6)	10.4	19.1
CEPS	(4.5)	4.5	36.2	46.1
BVPS	56.3	56.7	66.1	84.2
FCF	(17.0)	0.2	23.6	30.5
DPS	-	-	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	(6.9)	(2.2)	11.5	14.7
ROIC	1.3	5.4	17.9	20.5
RoE	(53.3)	(34.6)	15.7	22.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	4.3	4.0	3.4	2.6
Net Working Capital (Days)	(313)	(49)	(3)	(1)
<b>Valuation(x)</b>				
PER	(20.3)	(30.8)	58.0	31.6
P/B	10.7	10.6	9.1	7.2
P/CEPS	(134.7)	135.4	16.7	13.1
EV/EBITDA	191.2	46.7	13.7	11.1
EV/Sales	89.8	14.8	4.6	3.8
Dividend Yield (%)	-	-	0.2	0.2

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	668	523
2	03-May-22	BUY	681	493
3	08-Apr-22	BUY	681	505
4	22-Jan-22	BUY	486	380
5	10-Jan-22	BUY	490	361
6	25-Oct-21	BUY	490	418
7	07-Oct-21	BUY	487	421
8	04-Aug-21	BUY	380	316

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	648	583
3	Inox Leisure	BUY	668	523
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	121	97
6	Nazara Technologies	BUY	911	636
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	156	115
9	Safari Industries (India)	BUY	1,288	931
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	358	223

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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