Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Inox Leisure Ltd

Mixed Q2; Maintain Buy

Consumer Discretionary	Sharekhan code: INOXLEISUR
Reco/View: Buy ↔	CMP: Rs. 514
	Price Target: Rs. 620 ↓

↑ 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 Jul 08, 2022	

Medium Risk

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

Source: Morningstar

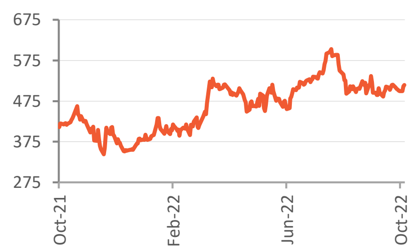
Company details

Market cap:	Rs. 6,295 cr
52-week high/low:	Rs. 622 / 341
NSE volume: (No of shares)	5.6 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Free float: (No of shares)	6.85 cr

Shareholding (%)

Promoters	44.0
FII	16.6
DII	26.6
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4	-3	4	25
Relative to Sensex	4	-11	0	29

Sharekhan Research, Bloomberg

Summary

- The company reported revenues of Rs. 374.1 crore for Q2FY23 but EBITDA at Rs. 85.1 Cr fell sharply by 49.3% when compared to pre-pandemic Q2FY20 led by fall in footfalls and occupancy on account of weak performance of Big Budget Bollywood movies. For Q2FY23, occupancy at 17% and admits at 116 Lakh fell by 1300 bps and ~3900 bps, respectively with respect to pre-pandemic Q2FY20 and 1200 Bps and ~ 3700 Bps respectively when compared to Q1FY23.
- Company added 30 screens in H1FY23, the highest screen addition in Industry. Inox Leisure has guided for additions of 47 screens over the remainder of FY2023. The capex would be funded through internal accruals.
- The company proposes to acquire Chennai City's largest multiplex 'Luxe Cinema', subject to necessary approvals. Luxe Cinema is an EBITDA-positive property with great location and higher footfalls. The company also added 3 screen multiplexes at Srinagar, the first ever in Kashmir.
- We maintain a Buy on Inox Leisure with a revised PT of Rs. 620, given relatively stronger content pipeline in H2FY23 compared to H1FY23, healthy screen additions, potential improvement of operating metrics, savings due to cost reduction measures and significant synergies across revenues from upcoming merger with PVR.

The company reported revenues at Rs. 374.1 crore for Q2FY23 which was above our estimates. But EBITDA contracted sharply compared to pre-pandemic Q2FY20 due to weak performance of certain big ticket Bollywood movies and limited English movie content. Poor quality content was the main reason for falling to draw people to cinemas and subsequently footfalls fell 39% to 116 lakh and occupancy dropped 13% compared to the pre pandemic period. The company continued to add screens and added 30 screens in H1FY23, the highest screen addition in Industry. The company added INOX Srinagar, the first multiplex in Kashmir region. The company also proposes to acquire Chennai City's largest multiplex 'Luxe Cinema', subject to necessary approvals. According to the management The property is EBIDTA positive with strong footfalls and good location. For Q2FY23 company reported an average ticket price of Rs 215 and reported its highest ever quarterly Spends per Head at Rs 102. The company reported net loss of Rs. 40.2 crore as EBIDTA margin contracted sharply in Q2FY23 compared to pre pandemic Q2FY20 levels. However, the company expects a better Q3FY23 performance led by strong content pipeline. On the Inox PVR merger, the management commented that it has recently received shareholder approval and the merger is expected to get completed by Q4FY23.

Key positives

- Company added 30 screens in H1FY23, the highest screen addition in Industry.
- Company proposes to acquire Chennai City's largest multiplex 'Luxe Cinema'.
- ATP and SPH grew by 10% and 29% when compared to pre pandemic Q2FY20 level.

Key negatives

- Occupancy level at 17% fell 1300 Bps while footfalls at 116 Lakh was 39% lower when compared to pre pandemic Q2FY20

Management Commentary

- Advertisement revenues suffered as few marquee movies did not do well.
- Management cited Employee Benefit expense per screen, Power & fuel R&M per screen, Rent & CAM per screen and other overheads per screen are down compared to pre pandemic Q2FY20 levels on account of permanent cost measures undertaken by the company.
- Management has guided additions of 47 screens during H2FY23.

Revision in estimates – We have lowered our FY23-24 earnings estimate to factor in Q2FY23 earnings performance.

Our Call

Valuation – Expect decent recovery: Strong content pipeline, healthy screen additions and synergies from PVR Inox merger will drive performance of Inox in the subsequent quarters. We maintain Buy rating with revised PT of Rs. 620.

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 costs, and (3) delay in return to normalcy.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	105.9	683.9	2,013.5	2,502.1
OPM (%)	47.0	31.7	32.8	34.4
Adjusted PAT	-337.7	-239.4	110.5	226.4
% y-o-y growth	n.m.	n.m.	n.m.	*105.0*
Adjusted EPS (Rs.)	-32.2	-19.9	9.0	18.5
P/E (x)	n.m.	n.m.	56.9	27.8
P/B (x)	7.5	6.8	5.9	4.6
EV/EBITDA (x)	171.1	41.7	13.8	10.6
RoNW (%)	n.m.	n.m.	14.8	24.7
RoCE (%)	n.m.	n.m.	17.6	22.0

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

Inox Leisure Q2FY2023 Concall Highlights

- **Decline in Net box office and advertising revenues; expect to improve in H2FY23:** Net box office revenue at Rs. 209 crore was 33% below pre-pandemic levels (Q2FY20) and Advertisement revenue at Rs 26 crores was at only 65% of pre-pandemic levels. This was due to weak box office performance of movies barring Brahmastra, which collected approximately Rs. 255 crore pan-India. Many advertisers did not extend their contracts after the initial two-week period. The company expects better performance in H2FY23 due to strong content pipeline like Ram Setu, Thank God, Drishyam 2, Adipurush, Pathan, Cirkus and Avatar.
- **Mixed performance on operating metrics:** Low footfalls of 11.6 million (down 39% from pre-pandemic levels) led to weak occupancy rate of 17% (down 130 bps from pre-pandemic level). On the positive front company achieved its highest ever quarterly spend per head (SPH) of Rs 102 which was 29% above the pre-pandemic level. This was due to critical seasonal additions made to the menu, new market initiatives and process, innovations. Average ticket price at Rs. 215 was 10% above pre-pandemic levels. Screening of theT20 World cup will help support higher ATPs and should increase the occupancy levels in Q3.
- **Significant fixed cost control achieved, only marginal benefit in coming quarters:** Inox achieved significant cost control over operational fixed costs in Q2. Employee benefit expense per screen (incl agency manpower cost) declined by 27% from pre pandemic levels to 9.3 lakh. Power, Fuel and Raw Material costs per screen declined by 3% from pre pandemic levels to 7.3 lakh. Other overheads costs per screen declined by 21% from pre pandemic levels to 4.5 lakh. Management said they have achieved most of the operational benefits over fixed cost and thus expect only marginal improvement in the coming quarters. Rent & CAM expense per screen escalated by 3% from pre-pandemic levels to 17.7 lakh as per the agreements.
- **Strong screen additions:** The company added 13 screens in two new properties (Lucknow and Srinagar) in Q2FY2023. This would be the 1st multiplex in Kashmir and would revive cinema in the region after 32 years. The company has total 705 screens across 165 properties as of September 2022. The company plans to add 47 more screens in 11 new properties in H2FY2023 which would be funded through internal accruals.
- **Proposal to acquire Luxe Cinema in Chennai:** INOX proposes to acquire Luxe Cinemas on slump sale basis, which is subject to legal approvals from regulatory authorities and completion of agreed conditional clauses set out in the agreement. Luxe cinemas is spread over 1 Lakh square feet, located in Chennai's most premium retail center - Phoenix Market City and has 11 screens with 2,688 seats. The acquisition would be funded through a mixture of debt and internal accruals and the company expects to complete the acquisition in the next couple of weeks. Management also said that Luxe cinemas is a positive EBITDA generating multiplex.
- **Update on PVR-INOX merger:** Inox has got the shareholder's approval and expects the merger to be completed by Q4FY23.
- **Strong liquidity:** The company generated operating cash flows of Rs. 167.94 crore in Q2FY2023 and had liquidity of Rs. 292 crore as of October 16, 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 crores. The company has potential to grow aggressively without causing much stress on the balance sheet.
- **Net debt-free:** The company had gross debt of Rs. 78 crore as on September 30, 2022 and is the only national chain to be net debt free.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Q1FY23	Y-o-Y %	Q-o-Q %
Net sales	**374.1**	**47.4**	**582.3**	**688.6**	**-35.7**
Exhibition costs	94.9	13.8	159.3	587.0	-40.4
Cost of F&B	26.0	3.4	36.4	664.1	-28.6
Gross Profit	**253.3**	**30.2**	**386.5**	**737.8**	**-34.5**
Employee Expenses	28.2	23.6	27.1	19.3	4.2
Property Rent	29.0	-54.3	35.0	-153.5	-17.1
Other Expenses	111.0	45.2	114.0	145.4	-2.6
Operating Profit	**85.1**	**15.6**	**210.5**	**444.6**	**-59.6**
Depreciation	77.4	73.6	75.4	5.1	2.7
Finance Cost	67.6	64.8	65.8	4.3	2.7
Other Income	6.7	6.1	7.2	10.2	-6.8
PBT	**-53.2**	**-116.7**	**76.4**	**-54.4**	**-169.7**
Tax Provision	-13.1	-29.1	19.3	-55.0	-167.7
Reported Net Profit	**-40.2**	**-87.7**	**57.1**	**-54.2**	**-170.3**
Exceptional Item	0.0	0.0	0.0		
Adjusted Net Income	**-40.2**	**-87.7**	**57.1**	**-54.2**	**-170.3**
EPS (Rs.)	-3.3	-7.8	4.7	-57.8	-170.4
Margin (%)					
GPM	67.7	63.7	66.4	397.2	131.0
EBITDA margins	22.7	32.9	36.1	-1018.7	-1340.7
NPM	-10.7	-184.8	9.8	17404.9	-2053.7
Tax	24.6	24.9	25.3	-33.1	-71.2

*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.

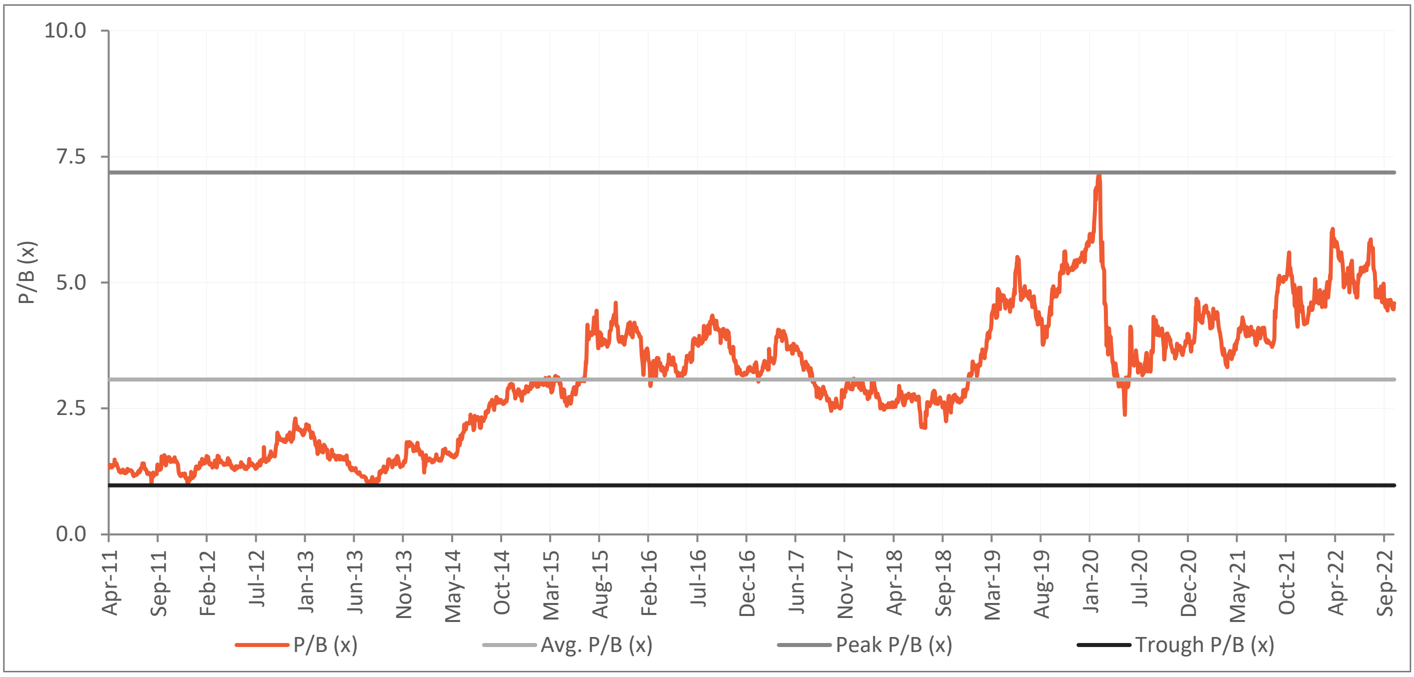
■ Company Outlook – Strong recovery ahead

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 economic of scale, potential geographical diversification and implementing the best practices of PVR.

■ Valuation – Expect decent recovery

Strong content pipeline, healthy screen additions and synergies from PVR Inox merger will drive performance of Inox in the subsequent quarters. We maintain Buy rating with revised PT of Rs. 620.

One-year forward P/B (x) band



Source: Company, Sharekhan Research

About company

Incorporated in 1999, Inox Leisure is one of the largest multiplex operators in India. The company currently operates 161 properties (692 screens and over 1.55 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 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

1) Rise in COVID-19 infections; (2) inability to take adequate price hikes at the right time would impact margins in the F&B segment on account of rising input cost; and (3) emerging competition from OTT players.

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. Binkle Oza; 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–400028, 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.