Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Inox Leisure (INOL IN)

Rating: BUY | CMP: Rs515 | TP: Rs652

October 19, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	**BUY**		**BUY**	
Target Price	**652**		**646**	
Sales (Rs. m)	25,861	30,252	25,213	29,498
% Chng.	*2.6*	*2.6*		
EBITDA (Rs. m)	8,868	10,595	8,518	10,162
% Chng.	*4.1*	*4.3*		
EPS (Rs.)	18.7	29.1	16.0	25.9
% Chng.	*17.1*	*12.6*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	6,839	20,830	25,861	30,252
EBITDA (Rs. m)	2,167	6,823	8,868	10,595
Margin (%)	*31.7*	*32.8*	*34.3*	*35.0*
PAT (Rs. m)	(2,394)	931	2,288	3,559
EPS (Rs.)	(19.6)	7.6	18.7	29.1
Gr. (%)	*NA*	*NA*	*145.8*	*55.6*
DPS (Rs.)	-	1.0	1.0	1.0
Yield (%)	-	*0.2*	*0.2*	*0.2*
RoE (%)	*NA*	*12.0*	*23.1*	*26.7*
RoCE (%)	*NA*	*10.1*	*14.5*	*17.3*
EV/Sales (x)	13.2	4.3	3.5	2.9
EV/EBITDA (x)	41.7	13.2	10.1	8.3
PE (x)	NA	67.7	27.5	17.7
P/BV (x)	9.1	8.1	6.4	4.7

Key Data	INOL.BO | INOL IN
52-W High / Low	Rs.622 / Rs.338
Sensex / Nifty	59,107 / 17,512
Market Cap	Rs.63bn/ $ 759m
Shares Outstanding	122m
3M Avg. Daily Value	Rs.358.11m

Shareholding Pattern (%)

Promoter's	44.13
Foreign	18.77
Domestic Institution	23.97
Public & Others	13.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.0	4.8	25.8
Relative	4.1	0.1	31.3

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Flop show due to weak content

Quick Pointers:

- INOL to acquire 11 screens of Luxe Cinemas, Chennai and the transaction is expected to be completed in next few weeks.
- Target to open 77 screens in FY23E remains intact (30 screens opened in 1HFY23). Capex will be funded by internal accruals.

In-line with our expectations, INOL reported weak performance and managed pre IND-AS EBITDA break-even with losses of Rs214mn (PLe Rs242mn) at bottom-line level due to weak content. Except for Thor and Brahmastra, no movie was able to breach the Rs1bn NBOC barrier in 2QFY23. Despite subdued performance, as content slate for near term is healthy with releases like Ram Setu, Thank God, Drishyam-2, Avatar and Black Panther in pipeline we anticipate strong back-ended recovery and expect footfalls in FY23E to be at par over pre-pandemic base. We increase our FY24E/FY25E EBITDA estimates by ~4% odd as we re-align our cost assumptions given strong fixed cost control post COVID. Except for rental obligations which were up 3% on per screen basis as escalations kicked in, employee cost, power & fuel and other overheads have declined by 27%/3%/21% respectively over pre-pandemic base in 2QFY23. We expect sales/EBITDA CAGR of 21%/25% over FY23-FY25 and retain BUY on the stock with a TP of Rs652 (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 28%/39% lower over pre-COVID base: Top-line increased 689% YoY to Rs3,741mn (PLe Rs3,630mn) in 2QFY23 on a lower base but declined 36% on sequential basis and 28% over pre-COVID base due to weak content. ATP/SPH stood at Rs215/Rs102 respectively with footfalls of 11.6mn (PLe of 11.5mn) and occupancy of 17% (30% in 2QFY20).

Pre IND-AS EBITDA at breakeven levels: Ind-AS adjusted EBITDA loss stood at Rs32mn (PLe loss of Rs50mn) as against Ind-AS adjusted EBITDA loss of Rs644mn in 2QFY22 and profit of Rs1,235mn in 1QFY23. Ind-AS adjusted loss stood at Rs214mn (PLe Rs242mn) as against Ind-AS adjusted loss of Rs677mn in 2QFY22 and profit of Rs741mn in 1QFY23.

Con-call highlights: 1) SPH increased 6% QoQ to Rs102 largely on account of introduction of season special items, marketing initiatives and interactive culinary session across India with chefs. 2) Shareholders' approval has been obtained for amalgamation scheme with PVR and merger is expected to be completed by 4QFY23. 3) Inox entered the Srinagar market by opening 3 screens with 522 seats on management contract basis. The company will receive management fees while capex is incurred by the owner. 4) Acquired Luxe Cinemas with 11 screens and 2,688 seats in Chennai on a slump sale basis. Transaction will be culminated in FY23E. It is an EBITDA positive property. 5) Tie-up with ICC to showcase WC-T20 matches is on revenue sharing basis (no fixed fee outgo) but not an exclusive one. These matches generate higher ATP and occupancy as compared to movies. 6) Ad-revenue recovery over pre-COVID base was at ~65%. Although ad-yields are improving volumes have been lower due to lesser footfalls.

Exhibit 1: Consolidated result overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.	H1FY23	H1FY22	YoY gr.
Net sales	**3,741**	**474**	***688.6%***	**5,823**	***-35.7%***	**9,564**	**698**	***1271.2%***
Movie exhibition cost	949	138	*587.0%*	1,593	*-40.4%*	2,542	196	*1195.6%*
As a % of sales	*25.4%*	*29.1%*		*27.4%*		*26.6%*	*28.1%*	
Consumption of F&B	260	34	*664.1%*	364	*-28.6%*	624	48	*1197.1%*
As a % of sales	*6.9%*	*7.2%*		*6.3%*		*6.5%*	*6.9%*	
Employee expenses	282	236	*19.3%*	271	*4.2%*	553	483	*14.5%*
As a % of sales	*7.5%*	*49.8%*		*4.6%*		*5.8%*	*69.2%*	
Other expenses	1,402	(90)	*NM*	1,490	*-5.9%*	2,892	105	*2665.1%*
As a % of sales	*37.5%*	*-19.0%*		*25.6%*		*30.2%*	*15.0%*	
EBITDA	**848**	**156**	***443.2%***	**2,105**	***-59.7%***	**2,953**	**(134)**	***NM***
EBITDA margin	*22.7%*	*32.9%*		*36.1%*		*30.9%*	*NM*	
Depreciation	774	736	*5.1%*	754	*2.7%*	1,528	1,465	*4.3%*
EBIT	**74**	**(580)**	***NM***	**1,351**	***-94.5%***	**1,425**	**(1,599)**	***NM***
EBIT margin	*2.0%*	*NM*		*23.2%*		*14.9%*	*NM*	
Interest cost	676	648	*4.3%*	658	*2.7%*	1,334	1,292	*3.2%*
Other income	67	61	*10.2%*	72	*-6.8%*	138	92	*49.7%*
Exceptional items	-	-	*NM*	-	*NM*	-	-	*NM*
PBT	**(535)**	**(1,167)**	***NM***	**764**	***NM***	**230**	**(2,799)**	***NM***
Tax expenses	(131)	(291)	*NM*	193	*NM*	62	(699)	*NM*
Tax rate	NM	NM		25.3%		27.2%	NM	
PAT	**(404)**	**(877)**	***NM***	**571**	***NM***	**167**	**(2,099)**	***NM***
PAT margin	*NM*	*NM*		*9.8%*		*1.7%*	*NM*	
Non-controlling interest	-	-	*NM*	-	*NM*	-	-	*NM*
Other comprehensive income (OCI)	1	(1)	*NM*	(2)	*NM*	(1)	3	*NM*
PAT inclusive of OCI	**(403)**	**(877)**	***NM***	**569**	***NM***	**166**	**(2,096)**	***NM***
EPS (Rs)	**(3.3)**	**(7.1)**	***NM***	**4.7**	***NM***	**1.4**	**(17.7)**	***NM***

Source: Company, PL

Exhibit 2: Revenue Mix (Rs mn)

Particulars	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.
NBOC	2,090	270	*674.1%*	3,530	*-40.8%*
As a % of sales	*56.0%*	*56.8%*		*60.7%*	
Net F&B	1,100	150	*633.3%*	1,640	*-32.9%*
As a % of sales	*29.5%*	*31.5%*		*28.2%*	
Advertisement revenue	260	6	*4233.3%*	300	*-13.3%*
As a % of sales	*7.0%*	*1.3%*		*5.2%*	
Other operating income	283	50	*472.3%*	348	*-18.7%*
As a % of sales	*7.6%*	*10.4%*		*6.0%*	
Total sales	**3,733**	**476**	***685.1%***	**5,818**	***-35.8%***

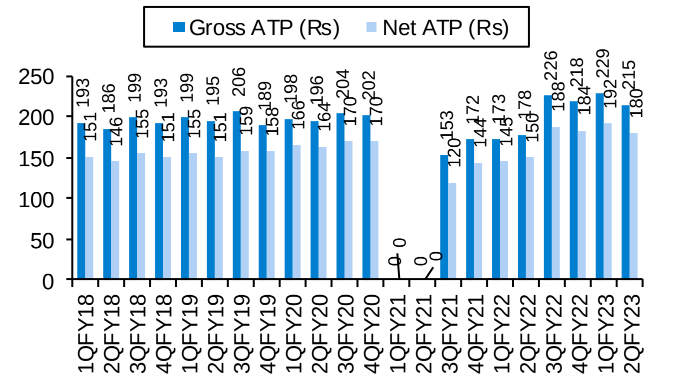
Source: Company, PL

Exhibit 3: Ind AS adjusted financials

Particulars (Rs mn)	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	FY21	FY22	FY23E	FY24E	FY25E
Sales	3,741	474	*688.6%*	5,823	*-35.7%*	1,059	6,839	20,830	25,861	30,252
Ind-AS Adjusted EBITDA	(32)	(644)	*NM*	1,235	*NM*	(2,462)	(1,083)	3,311	5,007	6,374
Ind-AS Adjusted EBITDA margin	*NM*	*NM*		*21.2%*		*NM*	*NM*	*15.9%*	*19.4%*	*21.1%*
Ind-AS Adjusted PAT	(214)	(677)	*NM*	741	*NM*	(2,567)	(1,634)	1,670	2,915	3,917
Ind-AS Adjusted PAT margin	*NM*	*NM*		*12.7%*		*NM*	*NM*	*8.0%*	*11.3%*	*12.9%*

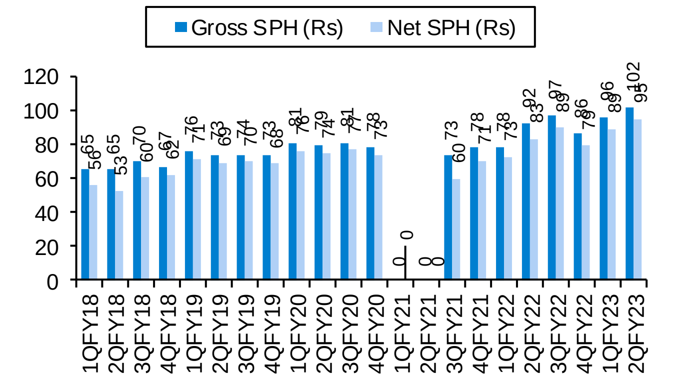
Source: Company, PL

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



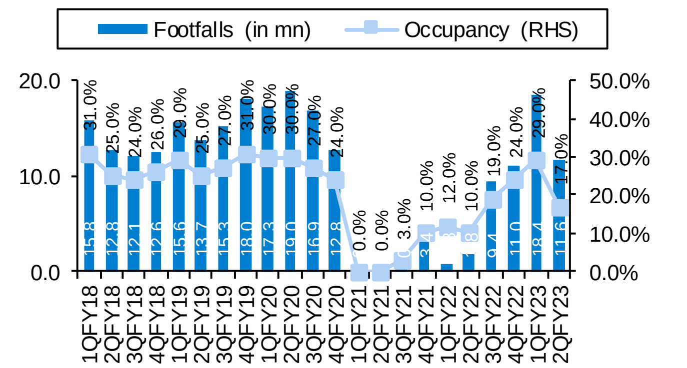
Source: Company, PL

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



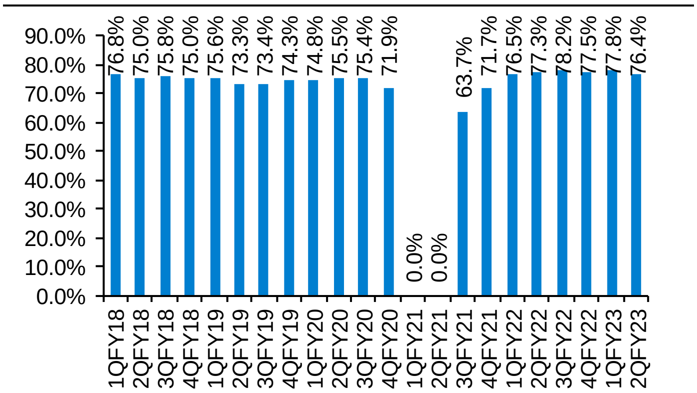
Source: Company, PL

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

Particulars (Rs mn)	FY24E
EV/EBITDA	15.5
EBITDA*	14,297
EV	2,21,603
Less: Debt*	15,917
Add: Cash	6,563
Equity Value	2,12,249
No of shares	97.7
Per share value of merged entity (Rs)	2,174
Implied TP of Inox based on swap ratio of 3:10	652

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

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**6,839**	**20,830**	**25,861**	**30,252**
YoY gr. (%)	*545.6*	*204.6*	*24.2*	*17.0*
Cost of Goods Sold	2,391	6,895	8,232	9,582
Gross Profit	4,449	13,935	17,629	20,670
Margin (%)	*65.0*	*66.9*	*68.2*	*68.3*
Employee Cost	949	1,291	1,681	2,057
Other Expenses	1,333	5,821	7,080	8,017
EBITDA	**2,167**	**6,823**	**8,868**	**10,595**
YoY gr. (%)	*335.4*	*214.9*	*30.0*	*19.5*
Margin (%)	*31.7*	*32.8*	*34.3*	*35.0*
Depreciation and Amortization	2,938	3,150	3,300	3,350
EBIT	**(772)**	**3,673**	**5,568**	**7,245**
Margin (%)	*NA*	*17.6*	*21.5*	*24.0*
Net Interest	2,580	2,720	2,820	2,820
Other Income	218	292	310	333
Profit Before Tax	**(3,133)**	**1,244**	**3,059**	**4,758**
Margin (%)	*NA*	*6.0*	*11.8*	*15.7*
Total Tax	(739)	314	771	1,199
Effective tax rate (%)	*23.6*	*25.2*	*25.2*	*25.2*
Profit after tax	**(2,394)**	**931**	**2,288**	**3,559**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(2,394)**	**931**	**2,288**	**3,559**
YoY gr. (%)	*NA*	*NA*	*145.8*	*55.6*
Margin (%)	*NA*	*4.5*	*8.8*	*11.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(2,394)**	**931**	**2,288**	**3,559**
YoY gr. (%)	*NA*	*NA*	*145.8*	*55.6*
Margin (%)	*NA*	*4.5*	*8.8*	*11.8*
Other Comprehensive Income	9	-	-	-
Total Comprehensive Income	(2,385)	931	2,288	3,559
Equity Shares O/s (m)	**122**	**122**	**122**	**122**
EPS (Rs)	**(19.6)**	**7.6**	**18.7**	**29.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**36,934**	**39,831**	**42,474**	**45,183**
Tangibles	36,696	39,589	42,227	44,930
Intangibles	238	243	248	253
Acc: Dep / Amortization	**6,269**	**9,419**	**12,719**	**16,069**
Tangibles	6,065	9,215	12,515	15,865
Intangibles	204	204	204	204
Net fixed assets	**30,665**	**30,413**	**29,756**	**29,114**
Tangibles	30,631	30,374	29,712	29,066
Intangibles	34	39	44	49
Capital Work In Progress	263	263	263	263
Goodwill	175	175	175	175
Non-Current Investments	1,857	1,875	2,457	3,025
Net Deferred tax assets	3,576	3,576	5,007	7,009
Other Non-Current Assets	355	352	460	586
Current Assets				
Investments	1,493	1,493	1,493	1,493
Inventories	143	171	213	249
Trade receivables	290	970	1,346	1,658
Cash & Bank Balance	558	858	1,607	2,792
Other Current Assets	400	521	595	756
Total Assets	**39,798**	**40,698**	**43,409**	**47,166**
Equity				
Equity Share Capital	1,222	1,222	1,222	1,222
Other Equity	5,704	6,512	8,678	12,115
Total Networth	**6,926**	**7,734**	**9,900**	**13,337**
Non-Current Liabilities				
Long Term borrowings	29,310	29,310	29,310	29,310
Provisions	153	167	181	212
Other non current liabilities	512	417	414	484
Current Liabilities				
ST Debt / Current of LT Debt	171	171	171	171
Trade payables	1,359	1,427	1,630	1,741
Other current liabilities	1,356	1,462	1,792	1,899
Total Equity & Liabilities	**39,799**	**40,698**	**43,410**	**47,166**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(2,394)	1,244	3,059	4,758
Add. Depreciation	2,938	3,150	3,300	3,350
Add. Interest	2,580	2,720	2,820	2,820
Less Financial Other Income	218	292	310	333
Add. Other	(2,576)	(214)	(1,615)	(2,220)
Op. profit before WC changes	548	6,901	7,564	8,708
Net Changes-WC	262	(548)	(459)	(673)
Direct tax	(42)	(314)	(771)	(1,199)
Net cash from Op. activities	**769**	**6,039**	**6,334**	**6,836**
Capital expenditures	(735)	(2,897)	(2,643)	(2,709)
Interest / Dividend Income	25	-	-	-
Others	(1,070)	-	-	-
Net Cash from Invt. activities	**(1,779)**	**(2,897)**	**(2,643)**	**(2,709)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(177)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(107)	(2,720)	(2,820)	(2,820)
Others	1,450	(122)	(122)	(122)
Net cash from Fin. activities	**1,166**	**(2,842)**	**(2,942)**	**(2,942)**
Net change in cash	**156**	**300**	**749**	**1,185**
Free Cash Flow	23	3,142	3,691	4,127

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	**2,965**	**3,177**	**5,823**	**3,741**
YoY gr. (%)	*1,892.4*	*251.3*	*2,509.9*	*688.6*
Raw Material Expenses	1,029	1,117	1,957	1,209
Gross Profit	1,936	2,060	3,865	2,533
Margin (%)	*65.3*	*64.8*	*66.4*	*67.7*
EBITDA	**1,318**	**983**	**2,105**	**849**
YoY gr. (%)	*NA*	*NA*	*NA*	*NA*
Margin (%)	*44.4*	*30.9*	*36.1*	*22.7*
Depreciation / Depletion	738	735	754	774
EBIT	**580**	**248**	**1,351**	**75**
Margin (%)	*19.6*	*7.8*	*23.2*	*2.0*
Net Interest	645	643	658	676
Other Income	49	77	72	67
Profit before Tax	**(16)**	**(318)**	**764**	**(535)**
Margin (%)	*NA*	*NA*	*13.1*	*NA*
Total Tax	(3)	(37)	193	(131)
Effective tax rate (%)	*17.5*	*11.5*	*25.3*	*24.5*
Profit after Tax	**(13)**	**(282)**	**571**	**(404)**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**(13)**	**(282)**	**571**	**(404)**
YoY gr. (%)	*NA*	*NA*	*NA*	*NA*
Margin (%)	*NA*	*NA*	*9.8*	*NA*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(13)**	**(282)**	**571**	**(404)**
YoY gr. (%)	*NA*	*NA*	*NA*	*NA*
Margin (%)	*NA*	*NA*	*9.8*	*NA*
Other Comprehensive Income	2	4	(2)	1
Total Comprehensive Income	**(11)**	**(278)**	**569**	**(403)**
Avg. Shares O/s (m)	122	122	122	122
EPS (Rs)	**(0.1)**	**(2.3)**	**4.7**	**(3.3)**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(19.6)	7.6	18.7	29.1
CEPS	4.5	33.4	45.7	56.5
BVPS	56.7	63.3	81.0	109.1
FCF	0.2	25.7	30.2	33.8
DPS	-	1.0	1.0	1.0
Return Ratio(%)				
RoCE	NA	10.1	14.5	17.3
ROIC	5.4	16.8	20.4	22.5
RoE	NA	12.0	23.1	26.7
Balance Sheet				
Net Debt : Equity (x)	4.0	3.5	2.7	1.9
Net Working Capital (Days)	(49)	(5)	(1)	2
Valuation(x)				
PER	NA	67.7	27.5	17.7
P/B	9.1	8.1	6.4	4.7
P/CEPS	115.7	15.4	11.3	9.1
EV/EBITDA	41.7	13.2	10.1	8.3
EV/Sales	13.2	4.3	3.5	2.9
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	646	514
2	04-Aug-22	BUY	699	603
3	07-Jul-22	BUY	668	523
4	03-May-22	BUY	681	493
5	08-Apr-22	BUY	681	505
6	22-Jan-22	BUY	486	380
7	10-Jan-22	BUY	490	361
8	25-Oct-21	BUY	490	418

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	190	167
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	646	514
4	Music Broadcast	Hold	24	24
5	Navneet Education	BUY	170	130
6	Nazara Technologies	BUY	1,031	740
7	PVR	BUY	2,153	1,786
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,062	1,852
10	V.I.P. Industries	BUY	1,020	699
11	Zee Entertainment Enterprises	BUY	302	280

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

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