

# Inox Leisure

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## In-line results; Content quality remains crucial

Inox reported 38% QoQ revenue growth on a low base of Q2FY23, as box office collections improved – courtesy of select movies performing well. The company reported all-time records for both ATP and SPH, aided by a higher number of blockbuster movies and the company's own initiatives in F&B. Advertising revenue also improved but is likely to take another couple of quarters to reach pre-Covid levels. The company reported net loss due to an exceptional team pertaining to the merger and deferred tax assets write-off. While Q4 is off to a strong start and the pipeline remains strong, audience acceptance and content quality remain key parameters. Like PVR, we have also cut our footfalls estimates for Inox by 8-9% for FY24/FY25 to factor in a more stringent filtration process by audiences. We have arrived at a revised TP of Rs610 (11.5x Dec-24E pro-forma EBITDA, removing the merger uncertainty discount).

**Results Summary:** Inox reported 38% QoQ revenue growth, with strong growth across net box office collections (41%), F&B (37%), and advertisement (35%). Footfalls also grew by 32% sequentially with occupancy of 23%. Despite the improved performance, both footfalls and advertisement revenue continued to remain below pre-Covid levels. The company recorded an all-time record for both ATP and SPH. ATP for Q3FY23 stood at Rs230, up from 215 QoQ, while SPH increased to Rs106 from Rs102 QoQ. EBITDA more than doubled sequentially to Rs1.7bn, with a margin of 33%. Adjusted for IND-AS, EBITDA was Rs811mn. Both revenue and EBITDA were in-line with our estimates. The company has recognized an exceptional item of Rs244mn towards expenses incurred with the amalgamation with PVR. The company has also written off deferred tax assets of Rs434mn in view of any uncertainty surrounding the allowability of carrying forward these losses. Consequently, Inox reported a loss of Rs404mn, similar to the previous quarter.

**Earnings Call KTAs:** 1) Merger: Inox has a substantial amount of merger costs. Costs were insignificant on PVR side and, hence, not reflected in its results. All costs incurred till date have been booked. 2) F&B spending: The introduction of seasonal specialties and other initiatives have driven SPH to the highest-ever level. 3) Screens: Inox has seen the highest number of screen additions in 9MFY23 across the industry. Beyond FY23, Inox has agreements for 819 screens across 15 properties having 0.15mn seats. All screens opened this year will be funded through internal accrual. Acquisition of Luxe cinemas will be funded through debt and internal accrual. 4) ATP: Rs75/99 priced tickets act as a marketing plan. Content quality continues to remain the primary driver for footfalls. Cost structure of the property, paying propensity, and newness of the film are key factors in deciding the ticket price. The aim is to find a sweet spot between ticket prices and footfalls. 5) Ad revenue: Currently, ad revenue is inching towards pre-Covid levels and should reach those levels in the next few quarters. 6) Others: Post Covid, online bookings have grown and currently stand at 60-62% of total bookings. Both multiplexes and single screens have their own catchment areas and can co-exist.

### Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,059	6,839	20,254	26,361	29,512
EBITDA	(1,723)	717	6,466	9,157	10,433
EBITDA Margin (%)	(162.6)	10.5	31.9	34.7	35.4
APAT	(5,556)	(3,844)	183	2,160	2,992
EPS (Rs)	(45.5)	(31.5)	1.5	17.7	24.5
EPS (% chg)	(3,801.9)	0.0	0.0	1,078.5	38.5
ROE (%)	(88.6)	(58.0)	2.8	29.8	30.5
P/E (x)	(11.1)	(16.0)	335.9	28.5	20.6
EV/EBITDA (x)	(51.8)	126.2	14.4	10.1	8.6
P/BV (x)	9.7	8.9	10.0	7.4	5.4

Source: Company, Emkay Research

<b>CMP</b> Rs 504 as of (January 30, 2023)	<b>Target Price</b> Rs 610 (▼) 12 months
<b>Rating</b> BUY (■)	<b>Upside</b> 21.0 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(77)/(22)
Target Price change (%)	(12.2)
Target Period (Months)	12
Previous Reco.	BUY

### Emkay vs. Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	1.5	17.7
Consensus	6.7	19.2
Mean Consensus TP (12M)	Rs 649	

### Stock Details

Bloomberg Code	INOL IN
Face Value (Rs)	10
Shares outstanding (mn)	122
52 Week H/L	622 / 384
M Cap (Rs bn/USD bn)	62 / 0.76
Daily Avg Volume (nos.)	344,761
Daily Avg Turnover (US\$ mn)	-

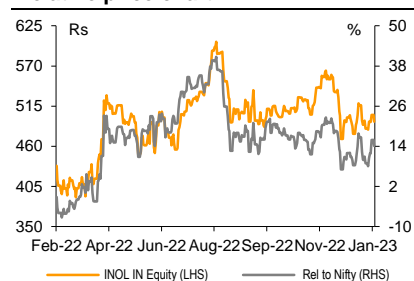
### Shareholding Pattern Dec '22

Promoters	44.0%
FIIIs	18.6%
DIIIs	26.5%
Public and Others	10.9%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	1	(2)	(15)	28
<b>Rel. to Nifty</b>	3	(1)	(17)	24

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

**Pulkit Chawla**

pulkit.chawla@emkayglobal.com  
+91 22 6624 2458

**Exhibit 1: Actual vs. Estimates (Q3FY23)**

	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	5,156	5,164	5,181	0%	0%	
EBITDA	1,701	1,716	1,723	-1%	-1%	
EBITDA, margin	33%	33%	33%	-23 bps	-27 bps	
PAT	-404	207	277	-295%	-246%	Exceptional item and deferred tax assets write-off

Source: Company, Emkay Research

**Exhibit 2: Summary of quarterly financials**

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
<b>Net Sales</b>	<b>2,965</b>	<b>3,177</b>	<b>5,823</b>	<b>3,741</b>	<b>5,156</b>	<b>74</b>	<b>38</b>	<b>14,720</b>	<b>3,662</b>	<b>302</b>
Film Distributors' Share	846	921	1,593	949	1,318	56	39	3,860	1,042	270
As a % of sales	28.5	29.0	27.4	25.4	25.6			26.2	28.5	
F&B Cost	183	196	364	260	343	87	32	967	231	319
As a % of sales	6.2	6.2	6.3	6.9	6.7			6.6	6.3	
Employee Cost	240	226	271	282	316	32	12	869	722	20
As a % of sales								5.9	19.7	
Other operating expenses	856	1,054	1,490	1,402	1,478	73	5	4,371	1,730	153
As a % of sales								29.7	47.2	
<b>Total Expenditure</b>	<b>2,125</b>	<b>2,397</b>	<b>3,718</b>	<b>2,893</b>	<b>3,455</b>	<b>63</b>	<b>19</b>	<b>10,066</b>	<b>3,725</b>	<b>170</b>
<b>EBITDA</b>	<b>840</b>	<b>780</b>	<b>2,105</b>	<b>849</b>	<b>1,701</b>	<b>103</b>	<b>100</b>	<b>4,654</b>	<b>(63)</b>	<b>(7,487)</b>
Depreciation	738	735	754	774	787	7	2	2,314	2,203	5
EBIT	102	45	1,351	75	914	799	1,127	2,340	(2,266)	(203)
Other Income	49	77	72	67	63	28	(6)	201	141	42
Interest	645	643	658	676	691	7	2	2,025	1,937	5
<b>PBT</b>	<b>(494)</b>	<b>(521)</b>	<b>764</b>	<b>(535)</b>	<b>286</b>	<b>(158)</b>	<b>(154)</b>	<b>516</b>	<b>(4,062)</b>	<b>(113)</b>
Tax	(3)	(37)	193	(131)	447	(16,046)	(441)	509	(702)	(172)
One-time Gain/Expense	478	203	-	-	(244)			(244)	1,247	
<b>Reported PAT</b>	<b>(13)</b>	<b>(282)</b>	<b>571</b>	<b>(404)</b>	<b>(404)</b>	<b>2,961</b>	<b>0</b>	<b>(237)</b>	<b>(2,113)</b>	<b>(89)</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	28	25	36.1	22.7	33.0	467	1,031	31.6	(1.7)	3,334
EBIT	3	1	23	2	18	1,430	1,574	15.9	(61.9)	7,777
EBT	(17)	(16)	13	(14)	6	2,221	1,984	3.5	(110.9)	11,441
PAT	(0)	(9)	10	(11)	(8)	(739)	295	(1.6)	(57.7)	5,608
Effective Tax rate	0.6	7.0	25.3	24.5	156.0	15,544	13,154	98.7	17.3	8,137

Source: Company, Emkay Research

**Exhibit 3: Change in estimates**

Particulars	FY23			FY24			FY25		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	21,320	20,254	-5.0	28,194	26,361	-6.5	31,691	29,512	-6.9
EBITDA	6,780	6,466	-4.6	9,874	9,157	-7.3	11,305	10,433	-7.7
EBITDA Margin (%)	31.8	31.9	12 bps	35.2	34.7	-46 bps	35.7	35.4	-35 bps
EBITDA (Adj. for IND-AS 116)	3,110	2,866	-7.9	5,727	5,010	-12.5	6,619	5,747	-13.2
PAT	780	(60)	-107.8	2,723	2,160	-20.7	3,681	2,992	-18.7
EPS (Rs)	6.4	-0.5	-107.7	22.3	17.7	-20.7	30.1	24.5	-18.7

Source: Emkay Research

**Exhibit 4: Pro-forma estimates of the merged company (with synergies)**

<b>FY24</b>	<b>PVR</b>	<b>Inox</b>	<b>Synergies</b>	<b>Merged Entity</b>	<b>Comments</b>
Ticket	23,199	15,264		38,463	
F&B	13,969	7,687	126	21,781	Larger food variety for Inox
Ad revenue per screen	3.9	2.4			
Number of Screens	1,024	810		1,834	
Ad revenue	3,823	1,904	234	5,961	Discount for Inox will narrow with scale
Convenience Fee	1,740	670	135	2,545	Better negotiations for Inox
% Sales	3.8%	2.5%			
Others	2,760	836			
<b>Total Revenue</b>	<b>45,491</b>	<b>26,361</b>	<b>495</b>	<b>72,347</b>	
Opex					
Distributor	10,034	7,735		17,769	
F&B	3,632	1,919		5,551	
Employee Costs	4,435	1,335	108		Removing redundancies
Other Expenses	11,100	7,330	108		Scale benefits
<b>Total Expenses</b>	<b>29,200</b>	<b>18,320</b>	<b>216</b>	<b>47,305</b>	
EBITDA	16,291	8,040	640	25,042	
<b>EBITDA adj. for IND-AS</b>	<b>9,483</b>	<b>5,010</b>	<b>640</b>	<b>15,134</b>	
Depreciation	7,245	3,354		10,599	
<b>EBIT</b>	<b>9,046</b>	<b>4,686</b>		<b>14,443</b>	
Other Income	280	100		380	
Interest Cost	4,602	3,070		7,672	
<b>PBT</b>	<b>4,724</b>	<b>1,716</b>		<b>7,151</b>	
Tax	1,189	432	161	1,782	
Tax Rate	25.2%	25.2%			
<b>PAT</b>	<b>3,535</b>	<b>1,284</b>	<b>479</b>	<b>5,369</b>	

Source: Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>1,059</b>	<b>6,839</b>	<b>20,254</b>	<b>26,361</b>	<b>29,512</b>
<b>Expenditure</b>	<b>2,782</b>	<b>6,122</b>	<b>13,788</b>	<b>17,203</b>	<b>19,079</b>
<b>EBITDA</b>	<b>(1,723)</b>	<b>717</b>	<b>6,466</b>	<b>9,157</b>	<b>10,433</b>
Depreciation	2,832	2,938	3,136	3,337	3,492
<b>EBIT</b>	<b>(4,555)</b>	<b>(2,221)</b>	<b>3,329</b>	<b>5,820</b>	<b>6,941</b>
Other Income	423	218	200	100	120
Interest expenses	2,511	2,580	2,745	3,032	3,061
<b>PBT</b>	<b>(6,643)</b>	<b>(4,583)</b>	<b>784</b>	<b>2,888</b>	<b>4,000</b>
Tax	(1,087)	(739)	601	728	1,008
Extraordinary Items	2,179	1,450	244	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(3,377)</b>	<b>(2,394)</b>	<b>(60)</b>	<b>2,160</b>	<b>2,992</b>
<b>Adjusted PAT</b>	<b>(5,556)</b>	<b>(3,844)</b>	<b>183</b>	<b>2,160</b>	<b>2,992</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,125	1,222	1,222	1,222	1,222
Reserves & surplus	5,204	5,703	4,944	7,104	10,096
<b>Net worth</b>	<b>6,329</b>	<b>6,925</b>	<b>6,166</b>	<b>8,326</b>	<b>11,318</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>28,445</b>	<b>29,481</b>	<b>31,834</b>	<b>33,365</b>	<b>33,686</b>
Net deferred tax liability	(2,840)	(3,576)	(3,576)	(3,576)	(3,576)
<b>Total Liabilities</b>	<b>31,934</b>	<b>32,830</b>	<b>34,424</b>	<b>38,115</b>	<b>41,428</b>
<b>Net block</b>	<b>30,809</b>	<b>30,840</b>	<b>32,679</b>	<b>34,062</b>	<b>35,138</b>
<b>Investment</b>	<b>5</b>	<b>1,493</b>	<b>1,493</b>	<b>1,493</b>	<b>1,493</b>
<b>Current Assets</b>	<b>3,618</b>	<b>3,626</b>	<b>3,793</b>	<b>6,114</b>	<b>9,255</b>
Cash & bank balance	774	558	402	2,487	5,243
Other Current Assets	0	0	0	0	0
<b>Current liabilities &amp; Provision</b>	<b>3,068</b>	<b>3,392</b>	<b>3,822</b>	<b>3,833</b>	<b>4,737</b>
<b>Net current assets</b>	<b>550</b>	<b>234</b>	<b>(28)</b>	<b>2,280</b>	<b>4,518</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>31,934</b>	<b>32,830</b>	<b>34,424</b>	<b>38,115</b>	<b>41,428</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(7,066)</b>	<b>(4,801)</b>	<b>584</b>	<b>2,788</b>	<b>3,880</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(954)	(635)	106	(224)	519
<b>Operating Cashflow</b>	<b>(1,499)</b>	<b>(91)</b>	<b>3,182</b>	<b>5,273</b>	<b>7,003</b>
Capital expenditure	(1,926)	(2,663)	(4,992)	(4,720)	(4,568)
<b>Free Cash Flow</b>	<b>(3,425)</b>	<b>(2,753)</b>	<b>(1,811)</b>	<b>554</b>	<b>2,435</b>
Investments	7	(1,488)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(1,497)</b>	<b>(3,932)</b>	<b>(4,792)</b>	<b>(4,620)</b>	<b>(4,448)</b>
Equity Capital Raised	98	97	0	0	0
Loans Taken / (Repaid)	250	1,036	2,353	1,531	322
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	5,477	5,255	1,918	2,970	2,980
<b>Financing Cashflow</b>	<b>3,315</b>	<b>3,808</b>	<b>1,526</b>	<b>1,469</b>	<b>240</b>
<b>Net chg in cash</b>	<b>319</b>	<b>(215)</b>	<b>(85)</b>	<b>2,123</b>	<b>2,795</b>
Opening cash position	454	774	558	402	2,487
<b>Closing cash position</b>	<b>774</b>	<b>558</b>	<b>473</b>	<b>2,524</b>	<b>5,282</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	(162.6)	10.5	31.9	34.7	35.4
EBIT Margin	(430.0)	(32.5)	16.4	22.1	23.5
Effective Tax Rate	16.4	16.1	76.6	25.2	25.2
Net Margin	(524.5)	(56.2)	0.9	8.2	10.1
ROCE	(12.8)	(6.2)	10.5	16.3	17.8
ROE	(88.6)	(58.0)	2.8	29.8	30.5
RoIC	(12.3)	(6.1)	2.5	13.2	15.2

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	(45.5)	(31.5)	1.5	17.7	24.5
CEPS	(22.3)	(7.4)	27.2	45.0	53.1
BVPS	51.8	56.7	50.5	68.1	92.6
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	(11.1)	(16.0)	335.9	28.5	20.6
P/CEPS	(22.6)	(68.0)	18.6	11.2	9.5
P/BV	9.7	8.9	10.0	7.4	5.4
EV / Sales	84.3	13.2	4.6	3.5	3.1
EV / EBITDA	(51.8)	126.2	14.4	10.1	8.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	4.4	4.2	5.1	3.7	2.5
Net Debt/EBIDTA	(16.1)	40.3	4.9	3.4	2.7
Working Cap Cycle (days)	(77.0)	(17.3)	(7.8)	(2.9)	(9.0)

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	(94.4)	545.7	196.1	30.1	12.0
EBITDA	(128.9)	0.0	801.7	41.6	13.9
EBIT	(236.9)	0.0	0.0	74.8	19.3
PAT	(2,349.8)	0.0	0.0	0.0	38.5

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	2,965	3,177	5,823	3,741	5,156
EBITDA	840	780	2,105	849	1,701
<b>EBITDA Margin (%)</b>	<b>28.3</b>	<b>24.6</b>	<b>36.1</b>	<b>22.7</b>	<b>33.0</b>
PAT	(13)	(282)	571	(404)	(404)
<b>EPS (Rs)</b>	<b>(0.1)</b>	<b>(2.3)</b>	<b>4.7</b>	<b>(3.3)</b>	<b>(3.3)</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	43.6	44.0	44.0	44.0	44.0
FII	16.9	15.3	16.6	18.8	18.6
DII	25.6	26.0	26.6	25.8	26.5
Public and Others	13.9	14.7	12.7	11.4	10.9

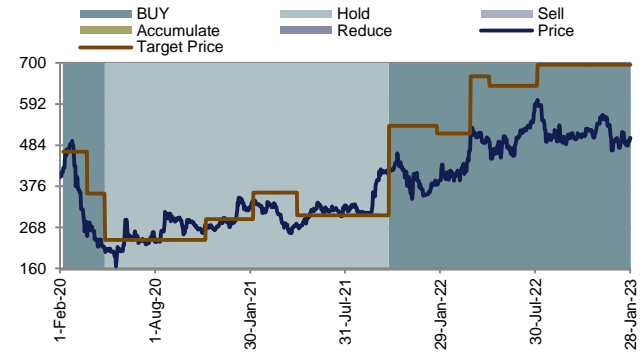
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Oct-22	515	695	12m	Buy	Naval Seth
1-Sep-22	507	695	12m	Buy	Naval Seth
3-Aug-22	603	695	12m	Buy	Naval Seth
6-Jul-22	517	640	12m	Buy	Naval Seth
21-Jun-22	482	640	12m	Buy	Naval Seth
3-May-22	493	640	12m	Buy	Naval Seth
28-Mar-22	523	665	12m	Buy	Naval Seth
23-Jan-22	380	515	12m	Buy	Naval Seth
23-Oct-21	418	535	12m	Buy	Naval Seth
30-Apr-21	272	300	12m	Hold	Naval Seth
21-Feb-21	324	359	12m	Hold	Naval Seth
5-Feb-21	330	359	12m	Hold	Naval Seth
6-Nov-20	266	290	12m	Hold	Naval Seth
5-Aug-20	235	235	12m	Hold	Naval Seth
10-Jun-20	237	235	12m	Hold	Naval Seth
27-Apr-20	206	235	12m	Hold	Naval Seth
24-Mar-20	245	357	12m	Buy	Naval Seth
7-Feb-20	424	467	12m	Buy	Naval Seth

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 31 Jan 2023 01:54:08 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)