

January 31, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	587		602	
Sales (Rs. m)	24,467	28,626	24,925	29,160
% Chng.	(1.8)	(1.8)		
EBITDA (Rs. m)	8,320	9,960	8,477	10,141
% Chng.	(1.8)	(1.8)		
EPS (Rs.)	15.3	25.1	16.3	26.3
% Chng.	(6.1)	(4.4)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	6,839	19,818	24,467	28,626
EBITDA (Rs. m)	2,167	6,244	8,320	9,960
Margin (%)	31.7	31.5	34.0	34.8
PAT (Rs. m)	(2,394)	581	1,865	3,071
EPS (Rs.)	(19.6)	4.8	15.3	25.1
Gr. (%)	NA	NA	220.9	64.6
DPS (Rs.)	-	1.0	1.0	1.0
Yield (%)	-	0.2	0.2	0.2
RoE (%)	NA	NA	22.1	26.9
RoCE (%)	NA	8.7	13.1	16.0
EV/Sales (x)	13.0	4.5	3.6	3.1
EV/EBITDA (x)	41.0	14.3	10.7	8.8
PE (x)	NA	105.5	32.9	20.0
P/BV (x)	8.9	9.1	7.3	5.4

### Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.622 / Rs.384
Sensex / Nifty	59,500 / 17,649
Market Cap	Rs.61bn/ \$ 753m
Shares Outstanding	122m
3M Avg. Daily Value	Rs.177.85m

### Shareholding Pattern (%)

Promoter's	44.04
Foreign	18.61
Domestic Institution	26.45
Public & Others	10.91
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.4	(15.1)	27.9
Relative	2.7	(17.8)	22.9

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# Inox Leisure (INOL IN)

Rating: BUY | CMP: Rs502 | TP: Rs587

## KPIs in-line but one-off charge mars profits

### Quick Pointers:

- Exceptional cost of Rs678mn pertaining to merger expenses and DTA write-off mars profits.
- Occupancy is at 23%, 400 bps lower than pre-COVID base.

**INOL's performance was broadly in-line with revenues of Rs5,156mn (PLe Rs5,198mn) and pre IND-AS EBITDA margin of 15.7% (PLe 14.6%). Nonetheless, PAT was a miss led by one-off charge of Rs678mn.**

**We cut our FY23E-FY25E EBITDA estimates by ~1-2% as we marginally downgrade our footfall assumptions. Nonetheless, we remain confident of future prospects given 1) content slate for near term is healthy with movies like Shehzada, Bhola, Selfiee, Ant-Man and the WASP: Quantumania, Shazam, and John Wick in pipeline 2) rising pan-India acceptance of regional content 3) strong screen opening outlook and 4) sustenance of KPIs (ATP/SPH CAGR of 4%/9% respectively in 3QFY23 over pre-COVID base) with the exception of occupancy. In addition, recent success of Pathaan, despite high decibel boycott calls, has alleviated fears surrounding Bollywood underperformance. We expect sales/EBITDA CAGR of 20%/26% over FY23E-FY25E and retain BUY on the stock with a TP of Rs587 (arrived from swap ratio of 3:10 with PVR) after assigning EV/EBITDA multiple of 15.5x (no change) to the merged entity.**

**Footfalls are 9% lower over pre-COVID base:** Top-line increased 73.9% YoY to Rs5,156mn (PLe Rs5,198mn) on a lower base buoyed by good content with movies like PS-1, Kantara, Avatar and Drishyam-2 clocking upwards of Rs1bn. Footfalls increased 62.8% YoY to 15.3mn, (PLe of 15.3mn) but were 9% lower than 3QFY20 (comparable pre-COVID quarter) base. ATP increased 1.8% YoY to Rs230 (PLe of Rs231) while SPH increased 9.3% YoY to Rs106 (PLe of Rs106).

**Pre IND-AS EBITDA margin at 15.7%; PAT impacted by one-off charge:** Pre Ind-AS EBITDA increased 62.9% YoY to Rs811mn (PLe Rs760mn) with a margin of 15.7% (PLe 14.6%). However, INOL reported pre IND-AS loss of Rs214mn due to exceptional cost of Rs678mn pertaining to merger and DTA write-off amid rising uncertainty involved in respect of carrying forward past business losses. Adjusting for these costs, pre IND-AS PAT was at ~Rs400mn (PLe Rs383mn).

**Con-call highlights:** 1) Merger related expense of Rs244mn was recognized in 3QFY23. All expenses incurred so far have been booked. 2) There is a DTA write off to the tune of Rs434mn given uncertainty surrounding carry forward of business losses post merger. 3) Ad-revenue is at 60% of pre-COVID base but management is hopeful of full recovery in coming quarters. 4) Share of online bookings is at 60-62% and renegotiation of contracts with BMS/PayTM is still far away (exact timeline not shared) 5) Few South movies are still not adhering to windowing gap as yet 6) There are roughly 9,000 screens in India and the count of multiplex screens is ~3,200-3,300. 7) Share of premium screens is 12% odd. 8) Contractual agreements have been signed for all 819 screens scheduled to be opened post FY23. 9) As of 28<sup>th</sup> Jan, cash balance stands at Rs2.8bn. 10) Given re-alignment done in agency manpower, employee cost per screen is unlikely to revert back to pre-COVID levels.

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

Y/e March	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
<b>Net sales</b>	<b>5,156</b>	<b>2,965</b>	<b>73.9%</b>	<b>3,741</b>	<b>37.8%</b>	<b>14,720</b>	<b>3,662</b>	<b>301.9%</b>
Movie exhibition cost	1,318	846	55.7%	949	38.9%	3,860	1,042	270.3%
<i>As a % of sales</i>	<i>25.6%</i>	<i>28.5%</i>		<i>25.4%</i>		<i>26.2%</i>	<i>28.5%</i>	
Consumption of F&B	343	183	87.5%	260	32.0%	967	231	318.5%
<i>As a % of sales</i>	<i>6.7%</i>	<i>6.2%</i>		<i>6.9%</i>		<i>6.6%</i>	<i>6.3%</i>	
Employee expenses	316	240	31.8%	282	12.1%	869	722	20.2%
<i>As a % of sales</i>	<i>6.1%</i>	<i>8.1%</i>		<i>7.5%</i>		<i>5.9%</i>	<i>19.7%</i>	
Other expenses	1,478	378	290.9%	1,402	5.4%	4,371	483	805.3%
<i>As a % of sales</i>	<i>28.7%</i>	<i>12.8%</i>		<i>37.5%</i>		<i>29.7%</i>	<i>13.2%</i>	
<b>EBITDA</b>	<b>1,701</b>	<b>1,318</b>	<b>29.1%</b>	<b>848</b>	<b>100.4%</b>	<b>4,654</b>	<b>1,184</b>	<b>293.2%</b>
<i>EBITDA margin</i>	<i>33.0%</i>	<i>44.4%</i>		<i>22.7%</i>		<i>31.6%</i>	<i>32.3%</i>	
Depreciation	787	738	6.6%	774	1.6%	2,314	2,203	5.1%
<b>EBIT</b>	<b>914</b>	<b>580</b>	<b>57.7%</b>	<b>74</b>	<b>1127.2%</b>	<b>2,340</b>	<b>(1,019)</b>	<b>NM</b>
<i>EBIT margin</i>	<i>17.7%</i>	<i>19.6%</i>		<i>2.0%</i>		<i>15.9%</i>	<i>NM</i>	
Interest cost	691	645	7.1%	676	2.2%	2,025	1,937	4.5%
Other income	63	49	27.8%	67	-6.3%	201	141	42.1%
Exceptional items	244	-	NM	-	NM	244	-	NM
<b>PBT</b>	<b>42</b>	<b>(16)</b>	<b>NM</b>	<b>(535)</b>	<b>NM</b>	<b>272</b>	<b>(2,815)</b>	<b>NM</b>
Tax expenses	447	(3)	NM	(131)	NM	509	(702)	NM
<i>Tax rate</i>	<i>1053.1%</i>	<i>NM</i>		<i>NM</i>		<i>187.1%</i>	<i>NM</i>	
<b>PAT</b>	<b>(404)</b>	<b>(13)</b>	<b>NM</b>	<b>(404)</b>	<b>NM</b>	<b>(237)</b>	<b>(2,113)</b>	<b>NM</b>
<i>PAT margin</i>	<i>NM</i>	<i>NM</i>		<i>NM</i>		<i>NM</i>	<i>NM</i>	
Non-controlling interest	-	-	NM	-	NM	-	-	NM
Other comprehensive income (OCI)	-	2	-100.0%	1	NM	(1)	5	NM
<b>PAT inclusive of OCI</b>	<b>(404)</b>	<b>(11)</b>	<b>NM</b>	<b>(403)</b>	<b>NM</b>	<b>(238)</b>	<b>(2,107)</b>	<b>NM</b>
<b>EPS (Rs)</b>	<b>(3.3)</b>	<b>(0.1)</b>	<b>NM</b>	<b>(3.3)</b>	<b>NM</b>	<b>(1.9)</b>	<b>(17.8)</b>	<b>NM</b>

Source: Company, PL

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

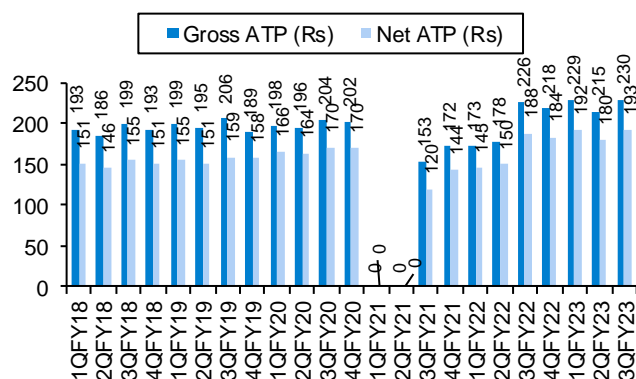
Particulars	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
NBOC	2,950	1,770	66.7%	2,090	41.1%
<i>As a % of sales</i>	<i>56.6%</i>	<i>59.8%</i>		<i>56.0%</i>	
Net F&B	1,510	840	79.8%	1,100	37.3%
<i>As a % of sales</i>	<i>29.0%</i>	<i>28.4%</i>		<i>29.5%</i>	
Advertisement revenue	350	200	75.0%	260	34.6%
<i>As a % of sales</i>	<i>6.7%</i>	<i>6.8%</i>		<i>7.0%</i>	
Other operating income	400	151	164.7%	283	41.2%
<i>As a % of sales</i>	<i>7.7%</i>	<i>5.1%</i>		<i>7.6%</i>	
<b>Total sales</b>	<b>5,210</b>	<b>2,961</b>	<b>75.9%</b>	<b>3,733</b>	<b>39.6%</b>

Source: Company, PL

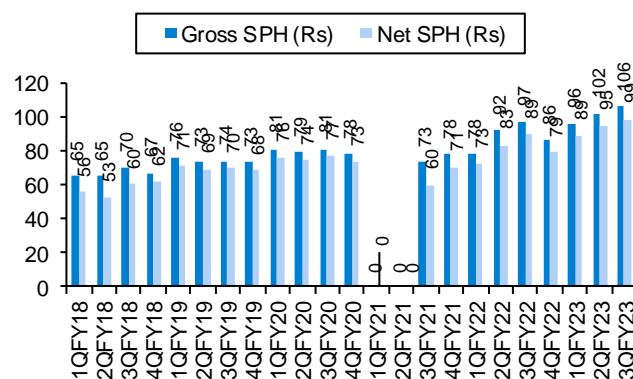
**Exhibit 3: Ind AS adjusted financials**

Particulars (Rs mn)	3QFY23	3QFY22	YoY	2QFY23	QoQ	FY21	FY22	FY23E	FY24E	FY25E
Sales	5,156	2,965	73.9%	3,741	37.8%	1,059	6,839	19,818	24,467	28,626
Ind-AS Adjusted EBITDA	811	498	62.9%	(32)	NM	(2,462)	(1,083)	2,733	4,459	5,739
Ind-AS Adjusted EBITDA margin	15.7%	16.8%		NM		NM	NM	13.8%	18.2%	20.0%
Ind-AS Adjusted PAT	(214)	177	NM	(214)	NM	(2,567)	(1,634)	644	2,492	3,429
Ind-AS Adjusted PAT margin	NM	6.0%		NM		NM	NM	3.2%	10.2%	12.0%

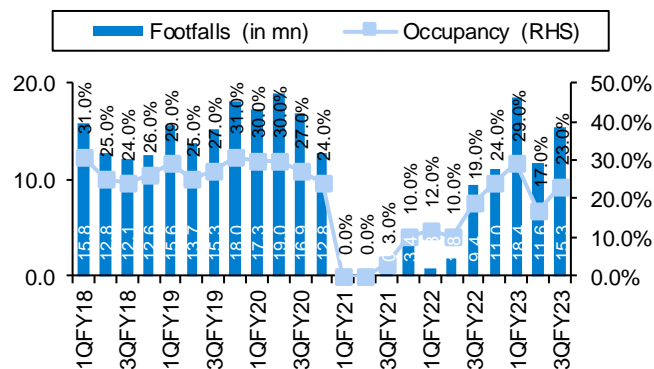
Source: Company, PL

**Exhibit 4: Gross/Net ATP stood at Rs230/Rs193 in 3QFY23**


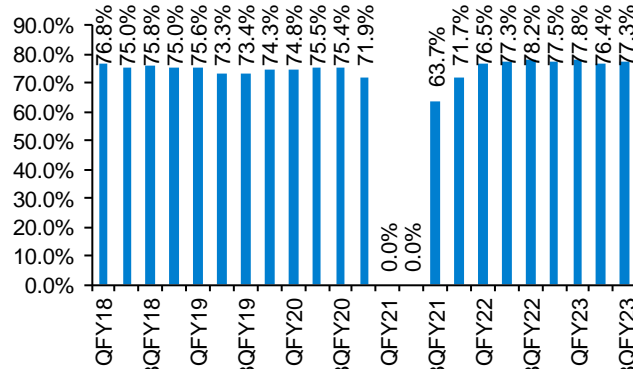
Source: Company, PL

**Exhibit 5: Gross/Net SPH stood at Rs106/Rs99 in 3QFY23**


Source: Company, PL

**Exhibit 6: Footfalls stood at 15.3mn in 3QFY23**


Source: Company, PL

**Exhibit 7: F&B GM was at 77.3% in 3QFY23**


Source: Company, PL

**Exhibit 8: Merged entity valuation**

Particulars (Rs mn)	FY24E
EV/EBITDA	15.5
EBITDA*	12,695
EV	1,96,778
Less: Debt*	14,417
Add: Cash	8,570
Equity Value	1,90,932
No of shares	97.7
Per share value of merged entity (Rs)	1,955
Implied TP of Inox based on swap ratio of 3:10	587

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

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>6,839</b>	<b>19,818</b>	<b>24,467</b>	<b>28,626</b>
YoY gr. (%)	545.6	189.8	23.5	17.0
Cost of Goods Sold	2,391	6,484	7,672	8,930
Gross Profit	4,449	13,334	16,795	19,697
Margin (%)	65.0	67.3	68.6	68.8
Employee Cost	949	1,229	1,590	1,947
Other Expenses	1,333	5,861	6,885	7,790
<b>EBITDA</b>	<b>2,167</b>	<b>6,244</b>	<b>8,320</b>	<b>9,960</b>
YoY gr. (%)	335.4	188.2	33.2	19.7
Margin (%)	31.7	31.5	34.0	34.8
Depreciation and Amortization	2,938	3,100	3,300	3,350
<b>EBIT</b>	<b>(772)</b>	<b>3,144</b>	<b>5,020</b>	<b>6,610</b>
Margin (%)	NA	15.9	20.5	23.1
Net Interest	2,580	2,720	2,820	2,820
Other Income	218	277	294	315
<b>Profit Before Tax</b>	<b>(3,133)</b>	<b>458</b>	<b>2,494</b>	<b>4,105</b>
Margin (%)	NA	2.3	10.2	14.3
Total Tax	(739)	554	628	1,035
Effective tax rate (%)	23.6	121.0	25.2	25.2
<b>Profit after tax</b>	<b>(2,394)</b>	<b>(96)</b>	<b>1,865</b>	<b>3,071</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(2,394)</b>	<b>581</b>	<b>1,865</b>	<b>3,071</b>
YoY gr. (%)	NA	NA	220.9	64.6
Margin (%)	NA	2.9	7.6	10.7
Extra Ord. Income / (Exp)	-	(244)	-	-
<b>Reported PAT</b>	<b>(2,394)</b>	<b>(96)</b>	<b>1,865</b>	<b>3,071</b>
YoY gr. (%)	NA	NA	NA	64.6
Margin (%)	NA	(0.5)	7.6	10.7
Other Comprehensive Income	9	-	-	-
Total Comprehensive Income	(2,385)	(96)	1,865	3,071
<b>Equity Shares O/s (m)</b>	<b>122</b>	<b>122</b>	<b>122</b>	<b>122</b>
<b>EPS (Rs)</b>	<b>(19.6)</b>	<b>4.8</b>	<b>15.3</b>	<b>25.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>36,934</b>	<b>40,243</b>	<b>44,389</b>	<b>48,938</b>
Tangibles	36,696	40,000	44,142	48,685
Intangibles	238	243	248	253
<b>Acc: Dep / Amortization</b>	<b>6,269</b>	<b>9,369</b>	<b>12,669</b>	<b>16,019</b>
Tangibles	6,065	9,165	12,465	15,815
Intangibles	204	204	204	204
<b>Net fixed assets</b>	<b>30,665</b>	<b>30,874</b>	<b>31,721</b>	<b>32,919</b>
Tangibles	30,631	30,836	31,677	32,870
Intangibles	34	39	44	49
Capital Work In Progress	263	263	263	263
Goodwill	175	175	175	175
Non-Current Investments	1,857	1,784	2,447	3,006
Net Deferred tax assets	3,576	3,040	2,584	2,196
Other Non-Current Assets	355	324	429	548
<b>Current Assets</b>				
Investments	1,493	1,493	1,493	1,493
Inventories	143	163	201	235
Trade receivables	290	923	1,274	1,569
Cash & Bank Balance	558	797	1,988	3,262
Other Current Assets	400	495	563	716
<b>Total Assets</b>	<b>39,798</b>	<b>40,361</b>	<b>43,174</b>	<b>46,425</b>
<b>Equity</b>				
Equity Share Capital	1,222	1,222	1,222	1,222
Other Equity	5,704	5,485	7,229	10,177
<b>Total Network</b>	<b>6,926</b>	<b>6,707</b>	<b>8,451</b>	<b>11,399</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	29,310	30,138	30,707	30,707
Provisions	153	159	171	200
Other non current liabilities	512	396	391	458
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	171	171	171	171
Trade payables	1,359	1,357	1,542	1,647
Other current liabilities	1,356	1,421	1,730	1,831
<b>Total Equity &amp; Liabilities</b>	<b>39,799</b>	<b>40,361</b>	<b>43,174</b>	<b>46,425</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(2,394)	458	2,494	4,105
Add. Depreciation	2,938	3,100	3,300	3,350
Add. Interest	2,580	2,720	2,820	2,820
Less Financial Other Income	218	277	294	315
Add. Other	(2,576)	356	279	182
Op. profit before WC changes	548	6,634	8,893	10,457
Net Changes-WC	262	(517)	(553)	(658)
Direct tax	(42)	(554)	(628)	(1,035)
<b>Net cash from Op. activities</b>	<b>769</b>	<b>5,562</b>	<b>7,711</b>	<b>8,764</b>
Capital expenditures	(735)	(2,882)	(2,622)	(2,684)
Interest / Dividend Income	25	-	-	-
Others	(1,070)	(427)	(1,524)	(1,864)
<b>Net Cash from Invt. activities</b>	<b>(1,779)</b>	<b>(3,309)</b>	<b>(4,146)</b>	<b>(4,548)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(177)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(107)	(2,720)	(2,820)	(2,820)
Others	1,450	706	446	(122)
<b>Net cash from Fin. activities</b>	<b>1,166</b>	<b>(2,014)</b>	<b>(2,374)</b>	<b>(2,942)</b>
<b>Net change in cash</b>	<b>156</b>	<b>239</b>	<b>1,191</b>	<b>1,274</b>
Free Cash Flow	23	2,680	5,089	6,080

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	(19.6)	4.8	15.3	25.1
CEPS	4.5	30.1	42.3	52.5
BVPS	56.7	54.9	69.2	93.3
FCF	0.2	21.9	41.7	49.8
DPS	-	1.0	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	NA	8.7	13.1	16.0
ROIC	5.4	15.5	19.3	21.5
RoE	NA	NA	22.1	26.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	4.0	4.2	3.2	2.3
Net Working Capital (Days)	(49)	(5)	(1)	2
<b>Valuation(x)</b>				
PER	NA	105.5	32.9	20.0
P/B	8.9	9.1	7.3	5.4
P/CEPS	112.7	16.7	11.9	9.5
EV/EBITDA	41.0	14.3	10.7	8.8
EV/Sales	13.0	4.5	3.6	3.1
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

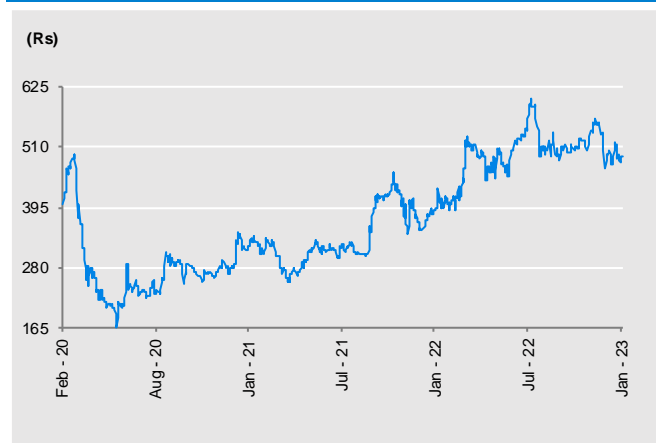
### Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>3,177</b>	<b>5,823</b>	<b>3,741</b>	<b>5,156</b>
YoY gr. (%)	251.3	2,509.9	688.6	73.9
Raw Material Expenses	1,117	1,957	1,209	1,661
Gross Profit	2,060	3,865	2,533	3,495
Margin (%)	64.8	66.4	67.7	67.8
<b>EBITDA</b>	<b>983</b>	<b>2,105</b>	<b>849</b>	<b>1,701</b>
YoY gr. (%)	NA	NA	443.2	29.1
Margin (%)	30.9	36.1	22.7	33.0
Depreciation / Depletion	735	754	774	787
<b>EBIT</b>	<b>248</b>	<b>1,351</b>	<b>75</b>	<b>914</b>
Margin (%)	7.8	23.2	2.0	17.7
Net Interest	643	658	676	691
Other Income	77	72	67	63
<b>Profit before Tax</b>	<b>(318)</b>	<b>764</b>	<b>(535)</b>	<b>42</b>
Margin (%)	NA	13.1	NA	0.8
Total Tax	(37)	193	(131)	447
Effective tax rate (%)	11.5	25.3	24.5	1,053.1
<b>Profit after Tax</b>	<b>(282)</b>	<b>571</b>	<b>(404)</b>	<b>(404)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(282)</b>	<b>571</b>	<b>(404)</b>	<b>273</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	9.8	NA	5.3
Extra Ord. Income / (Exp)	-	-	-	(244)
<b>Reported PAT</b>	<b>(282)</b>	<b>571</b>	<b>(404)</b>	<b>(404)</b>
YoY gr. (%)	NA	NA	NA	NA
Margin (%)	NA	9.8	NA	NA
Other Comprehensive Income	4	(2)	1	-
<b>Total Comprehensive Income</b>	<b>(278)</b>	<b>569</b>	<b>(403)</b>	<b>(404)</b>
Avg. Shares O/s (m)	122	122	122	122
<b>EPS (Rs)</b>	<b>(2.3)</b>	<b>4.7</b>	<b>(3.3)</b>	<b>(3.3)</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	602	477
2	19-Oct-22	BUY	652	515
3	06-Oct-22	BUY	646	514
4	04-Aug-22	BUY	699	603
5	07-Jul-22	BUY	668	523
6	03-May-22	BUY	681	493
7	08-Apr-22	BUY	681	505

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	679	636
4	Inox Leisure	BUY	602	477
5	Music Broadcast	Hold	23	27
6	Navneet Education	BUY	163	117
7	Nazara Technologies	BUY	898	592
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	220	173
10	Safari Industries (India)	BUY	2,476	1,699
11	V.I.P. Industries	BUY	1,014	700
12	Zee Entertainment Enterprises	BUY	309	238

## 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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