BONANZA WEALTH MANAGEMENT RESEARCH

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22nd September 2022

Inox Leisure- Buy

CMP : 335
Target Price : 440
Upside : 31%+
Stop Loss : 288 (closing basis)

About the Company:

Inox Leisure Limited (ILL), incorporated in 1999, is one of the largest multiplex operator in India. ILL is a part of Inox Group which is diversified across industrial gases, engineering plastics, refrigerants, chemicals, cryogenic engineering, renewable energy and entertainment sectors. ILL currently operates 132 properties (648 screens and 1.47 lakhs seats) located in 69 cities across India, being the only multiplex operator having such a diverse presence across PAN India. The company accounts for 19% share of the multiplex screens in India and ~11% share of domestic box office collections. The company has aggressively scaled up through organic and inorganic expansion over last decade growing from 2 properties – 8 screens in FY03 to 132 properties – 648 screens at present, on an average adding 8 screens every quarter since inception

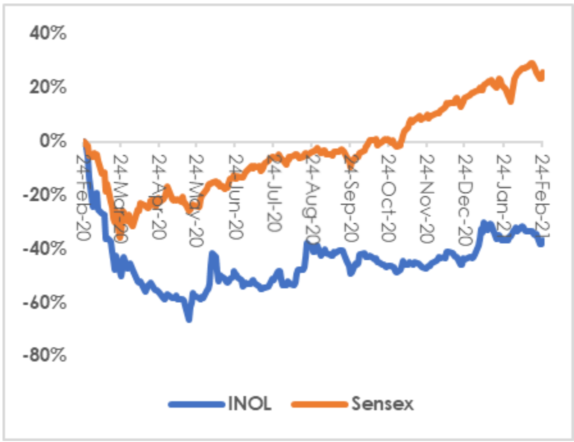
Investment Thesis

Reported revenue was Rs 22.3 crore (75% QoQ de-growth). The company reported box office revenue of Rs 12 crore while F&B revenue was Rs 6 crore EBITDA loss (without impact of Ind-AS116) came in at Rs 107 crore. On a reported basis, EBITDA loss was Rs 51.6 crore Inox recognized Rs 22.6 crore as rent concessions. Subsequently, the company reported net loss (without impact of Ind AS116) at Rs 101 crore. On a reported basis, net loss was at Rs 122.3 crore.INOX has completed the negotiations with most landlords towards nil rentals and negligible CAM charges for the lockdown period. In addition, the company has negotiated revenue-sharing/discounted rent and CAM till March 31, 2021. As of date, INOX has 641 screens; 14 are in the pipeline for FY21. The company is gearing up for a potential acquisition.Inox's low gearing, coupled with the possibility of real estate monetization Rs350 Cr and 4.5% in treasury stocks.
Expansion: INOL has resumed new screen addition with opening of 4 new cinemas with 15 screens, taking the total screen count to 641 spread across 151 properties. The company hopes to add another 14 screens (2,231 seats) before the end of FY21 or during 1QFY22, wherein on an average 86% of the work has been completed. INOL would incur capex of Rs8cr-10cr to complete these screens.INOX is free of net debt and has monetised treasury shares, raised equity of Rs2.5bn in FY21 to fund the cash burn, and has not burdened its balance sheet. Company will generate higher FCFE as a percentage of revenues due to its lean cost structure and no finance cost. This should allow it to grow faster organically while keeping enough headroom for inorganic growth. South India has significant presence of single screens and very strong film markets, and INOX could evaluate aggressive expansion in the region.
Target is to open 49 screens in FY22E (5 already opened). For 19 new screens, where 90% work is complete, additional capex required would be Rs80-100mn. Management will take a call to open balance 25 screens depending on the situation (capex required would be Rs650mn). Shooting schedules have resumed normalcy

Stock Details	
Market Cap (RsCr)	4399
BSE Code	532706
NSE Code	INOXLEISUR
Sector	Media & Entertainment
Year End	March
52 w.High/Low	384/242
Shares in Issue (cr)	12.23
BSE Sensex	58927
NSE Nifty	17565

Shareholding Pattern	
Indian Promoters	51.9%
DIIs	20.6%
FIIs	10.9%
Public & others	16.7%

Key Ratios	
Div Yield	0.0%
TTM PE	-
ROE	-61.0%
TTM EPS (INR)	-31.8



Total 13 states and one union territory totalling 459 screens have allowed multiplexes to open, largely with 50% occupancy. The company, as on date, has already opened 201 screens. While the first few weeks will have a majority of Hollywood content. The company expects Bellbottom to release notwithstanding Maharashtra multiplexes still being shut (contributes 20-22% to Hindi collection). The management expects big budget Hindi releases to begin as the screens open. We expect the new releases ramp up from end of September, H2FY22 onwards led by festive season. We bake in 24 screens addition in FY22. The company indicated that they have again started discussions for concession/waiver since the last discussions were valid for FY21 only. They have negotiated rent and CAM in 65% of the properties and balance properties are under discussion. Inox recognised the amount of Rs 22.6 crore towards rent concession. The company raised Rs 300 crore through QIP in Q1FY22. Consequently, they have gross liquidity of Rs 400 crore, including undrawn limits of Rs120 crore, which should help in combating cash burn. Gross debt is Rs 117 crore as on July, 2021 end and the company is net debt free.

Financials

During the past 5 years, revenue of Inox grew at a CAGR of 11% while PAT grew at a CAGR of 16% in the same period.

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,692	1,898	136	1,889	2,577
YoY %	26%	12%	-93%	1287%	36%
EBITDA	309.1	330.3	-225.3	295.6	498.2
EBITDA %	18.3	6.9%	-162.2%	16.0%	19.0%
PAT	133.50	141.00	-254.00	128.50	242.00
ROE	16.3%	17.8%	-47.0%	24.0%	35.7%
ROCE	20.1%	24.1%	-50.1%	25.2%	37.5%
EPS	14.5	15.3	-23	12.1	22.8
PE	21.9	20.7	-13.8	26.2	13.9
EV/EBITDA	10.30	9.40	-14.70	10.70	6.80

Key Business Highlights

Segmental Revenue Break Up

Net Box Office

Net Box Office division of the company registered revenue of Rs.3 Cr in Q3 FY21 as against Rs. 288 Cr in Q3 FY20, down by -98%. This segment of the company occupied 56.1% share in total revenues in FY20.

For the 9 months Net Box Office division registered a degrowth of -99% at Rs.6cr from Rs. 887 Cr 9M FY20. The market share of this division stood at 57% for 9 months.

Net Food & Beverage

For the 9 months Net Food & Beverage division registered a degrowth of -99% at Rs.3 cr from Rs. 403 Cr in 9M FY20. The market share of this division stood at 25.8% for 9 months.

Net Food & Beverage division of the company registered a revenue of Rs. 3Cr in Q3 FY21 as against Rs. 130 Cr in Q3 FY20. This segment of the company occupied 22.4.0% share in total revenues in FY20.

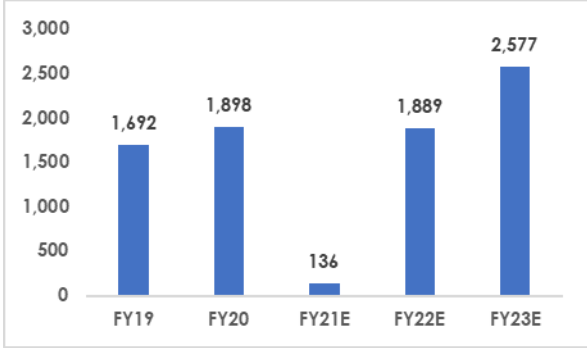
Advertisement

Advertisement division of the company registered revenue of Rs. 1 Cr in Q3 FY21 as against Rs.58 Cr in Q3 FY20, down by -99%. This segment of the company occupied 12.9% share in total revenues in FY20.

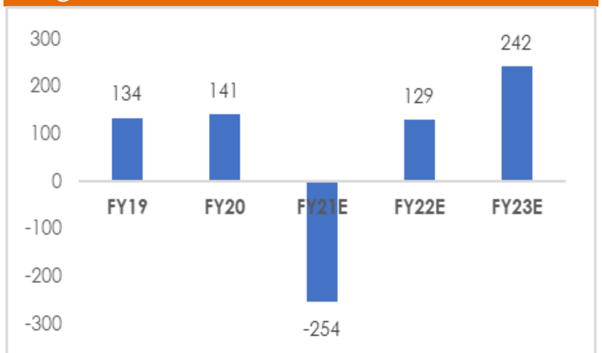
For the 9 months Advertisement division registered a degrowth of -100% at Rs. 19 Cr from Rs.144 Cr in 9M FY20.

Graphs & Charts

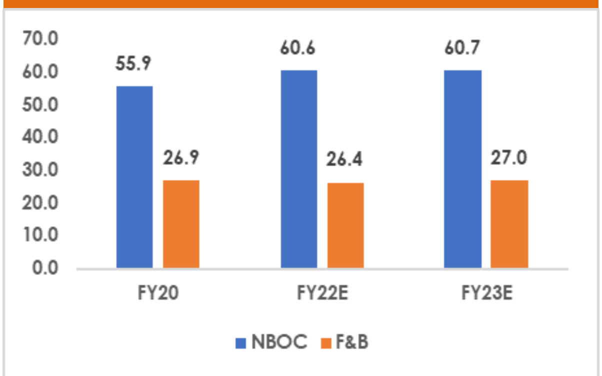
Net Sales growth on low base in FY21E



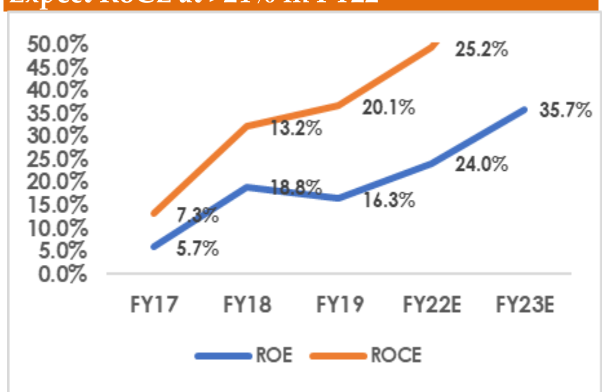
NP growth to benefit on low base in FY21E



NOBC & F&B Contribution to rise over FY23



Expect RoCE at >24% in FY22



Risk & Concern

Some of the risks to our recommendation are failure of large Hindi/regional movies at Box Office,

Delay in getting approval for new screen licenses,

Local Body Tax being imposed in some states and higher rent cost for renewal contracts.

View and Valuation

With the home ministry allowing cinemas to operate at full capacity, we expect fresh content to release in due course the vaccination program will gather pace by middle of the 2021 and should start reflecting in better consumer confidence. Post 3QFY21 results, we have upgraded on our revenue/EBITDA/PAT estimates on INOL and reiterate our 'Buy' rating with March 2023 target price (TP) of Rs440, based on a target EV/EBITDA multiple of 10.8x. We prefer INOL over PVR on a relative basis – though on an absolute basis both are doing well but we would like to go with inox due to low valuation as compared with PVR – as we believe that there is more scope for operating metrics improvement in the former. The comfortable balance sheet position of INOL is the other big positive. INOL has a strong liquidity position with: real estate valued at Rs350 cr, cash holding (including undrawn limits of Rs93cr) of Rs230cr as on 31st January 2021 and In 3QFY21, INOL executed a successful equity fund raising of Rs.250 cr at Rs255 per share. A part of this has been utilized for paying off debt and towards operating expenses. INOL is net debt free as on 31st June 2021.

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