BONANZA WEALTH MANAGEMENT RESEARCH

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25th Feb 2021

Inox Leisure- Buy

CMP : 315
Target Price : 404
Upside : 28%+
Stop Loss : 286 (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 (536 screens and 129544 seats) located in 66 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 – 536 screens at present, on an average adding 8 screens every quarter since inception

Investment Thesis

Box office collections for the quarter were robust, aided by 2.0, Badhaai Ho etc, which resulted in an overall strong performance for the quarter. Footfalls grew 26% YoY aided by healthy screen additions. F&B revenues grew 45.4% YoY on strong content slate. EBITDA margins for the quarter improved 507 bps YoY on strong ad and F&B growth. During the quarter, the company raised Rs 160 crore by allocating 64 lakh equity shares on a preferential basis to promoters at Rs 250 per share. The company used the proceeds to repay the debt. Hence, gross debt of the company reduced by a similar amount and is now at Rs 129 crore. 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.

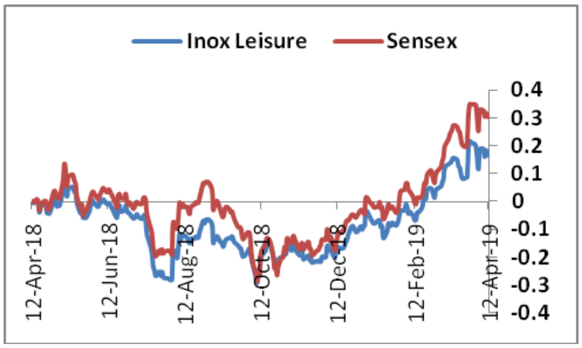
Importantly, this growth was on a strong Q3FY18 (+33% YoY). We are confident of INOL being able to maintain the 26% YoY growth for 9MFY19 in Q4FY19 as well. Our forecast factors advertisement revenue to grow by 26.3% YoY for FY19 and 24.5%/22.2% for FY20/21E.

INOX Leisure Limited's new screen addition picked-up during YTD FY2019 with the addition of 53 screens compared to slower new screen addition (48/24 in FY2017/FY2018) over last couple of years citing on the regulatory hurdles. The management believes that total new screen addition would cross 60+ by 9MFY2019 and would reach around 80 by the end of FY2019. The management also remains optimistic that the company would add around 100 new screens per annum for next five years considering a robust pipeline of 850 screens which it has signed across the country. Around 45-50% of upcoming new screens will be located at top eight cities of India and will have the pricing power, while the remaining new screen addition will be in tier-I and tier-II cities. Given Rs. 3 crore cost per screen, the company expects to incur a capex of around Rs 2,400 – Rs. 2,500 crore for the addition of screens lined-up over the next few years.

Stock Details	
Market Cap (RsCr)	3570
BSE Code	532706
NSE Code	INOXLEISUR
Sector	Media & Entertainment
Year End	March
52 w.High/Low	492/158
Shares in Issue (cr)	10.3
BSE Sensex	51150
NSE Nifty	15100

Shareholding Pattern	
Indian Promoters	51.9%
DIIs	21.0%
FIIs	12.1%
Public & others	15.1%

Key Ratios	
Div Yield	0.0%
TTM PE	22.5
ROE	17.8%



The capex would be funded through the combination of debt (net debt to equity stood at 0.38x, which would reduce to 0.15x post fund raising and retirement of inter corporate deposit) and internal accruals. Media has speculated about a potential deal between Inox and Cinepolis and we believe that this is quite possible if the price paid per screen is not disgraceful. Believe Cinepolis currently has a circuit of 400 screens in the country and possibly makes around Rs5mn- Rs6mn EBITDA per screen

Q3FY19 revenue was at Rs 433 crore, up 32.9% YoY driven by healthy box office collections for the quarter (despite high base). Net box office collections for the quarter were up 29.3% YoY to Rs 242.9 crore, due to 26% YoY growth in footfalls (vs. 22% YoY expectations) while ATP grew 3.5% YoY to Rs 206 . F&B revenues grew 45.4% YoY to Rs 106.3 crore vs. our estimate of 39.9% YoY growth while ad revenues grew 38.3% YoY to Rs 55.7 crore vs. our estimate of 30% YoY growth. Top 5 films accounted for 30% of Q2 FY19 GBOC revenues (51% in Q2 FY18). New Screen Pipe Line of the company registered with 16 properties to be launches with total screens of 80 and with 14639 seats.

Financials

During the past 5 years, revenue of Inox grew at a CAGR of 16% while PAT grew at a CAGR of 48.3% in the same period.

Particulars	FY17	FY18	FY19	FY20	FY21
Net Revenue	1,220.7	1,348.1	1,607.0	1,883.4	2,212.9
EBITDA	146.1	210.4	270.0	305.1	356.3
EBITDAM	12.0%	15.6%	16.8%	16.2%	16.1%
Net Profit	30.5	114.6	120.8	130.3	147.5
Growth YoY	-62.0%	276.2%	5.3%	7.9%	13.2%
Net Profit Margin	2.5%	8.5%	7.5%	6.9%	6.7%
ROE	5.7%	18.8%	16.5%	15.2%	14.8%
ROCE	7.5%	13.7%	18.5%	18.6%	18.3%
EPS	3.2	11.9	12.6	13.6	15.4
PE	94.7	25.2	23.9	22.1	19.5

Key Business Highlights

Segmental Revenue Break Up

Net Box Office

Net Box Office division of the company registered revenue of Rs. 242 Cr in Q3 FY19 as against Rs. 187 Cr in Q3 FY18, up by 29.41%. This segment of the company occupied 56.1% share in total revenues in Q3 FY19.

For the 9 months Net Box Office division registered a growth of 12.8% at Rs. 691.2cr from Rs. 612.7 Cr 9M FY18. 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 growth of 36.8% at Rs.312.5 cr from Rs. 228.4 Cr in 9M FY18. The market share of this division stood at 25.8% for Half Year.

Net Food & Beverage division of the company registered a revenue of Rs. 106.3Cr in Q3 FY19 as against Rs. 73.1 Cr in Q3 FY18. This segment of the company occupied 22.4.0% share in total revenues in Q3 FY19.

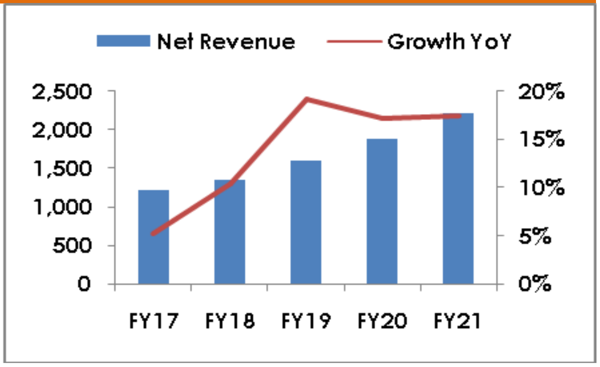
Advertisement

Advertisement division of the company registered revenue of Rs. 55.7 Cr in Q3 FY19 as against Rs.40.3 Cr in Q3 FY18, up by 38 .3%. This segment of the company occupied 12.9% share in total revenues in Q3 FY19.

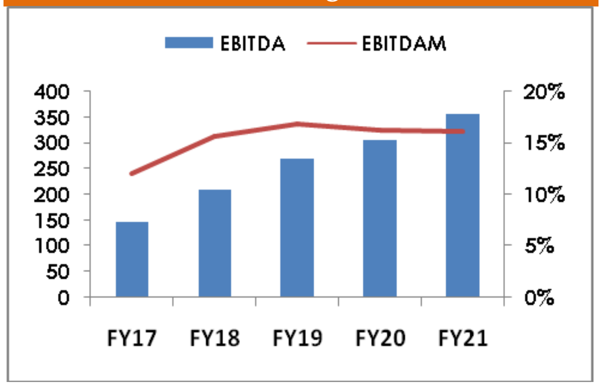
For the 9 months Advertisement division registered a growth of 18.9% at Rs. 133.5 Cr from Rs.105.7 Cr in 9M FY18. The market share of this division stood at 11% for 9 months.

Graphs & Charts

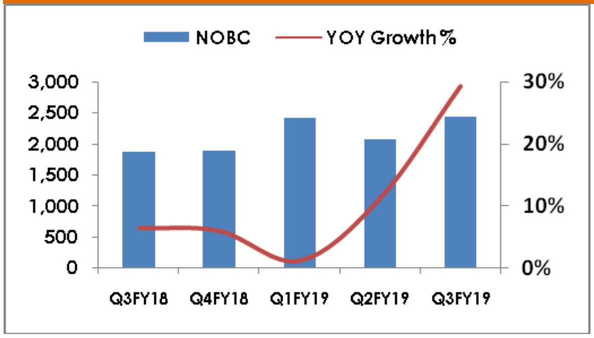
Net Sales Trend



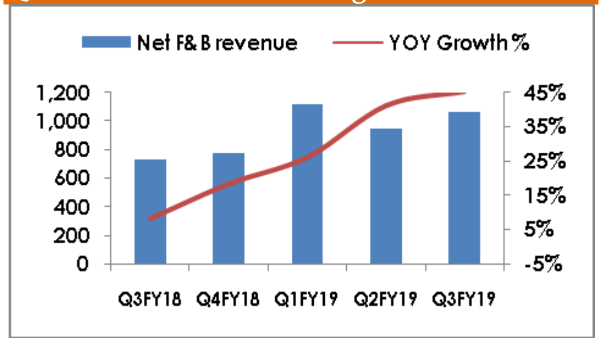
EBITDA & EBITDA Margin Trend



Q3FY19 NOBC Growth of 29.3%



Q3FY19 Net F&B Revenue grew at 45.4%



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

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 Rs404, based on a target EV/EBITDA multiple of 9x. 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 January 2021.

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