

Inox Leisure (INOL IN)

Rating: BUY | CMP: Rs365 | TP: Rs416

December 7, 2019

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	416		416	
Sales (Rs. m)	23,888	27,484	23,888	27,484
% Chng.	-	-	-	-
EBITDA (Rs. m)	7,448	8,675	7,448	8,675
% Chng.	-	-	-	-
EPS (Rs.)	16.1	19.9	16.1	19.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	16,922	20,721	23,888	27,484
EBITDA (Rs. m)	3,092	6,414	7,448	8,675
Margin (%)	18.3	31.0	31.2	31.6
PAT (Rs. m)	1,393	1,218	1,649	2,038
EPS (Rs.)	13.6	11.9	16.1	19.9
Gr. (%)	3.4	(12.6)	35.4	23.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	13.9	22.9	23.7	22.6
RoCE (%)	20.6	12.7	14.0	15.4
EV/Sales (x)	2.2	2.9	2.5	2.1
EV/EBITDA (x)	12.3	9.5	8.0	6.6
PE (x)	26.9	30.8	22.7	18.4
P/BV (x)	3.9	7.0	5.4	4.2

Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.391 / Rs.210
Sensex / Nifty	40,445 / 11,922
Market Cap	Rs.38bn / \$ 527m
Shares Outstanding	103m
3M Avg. Daily Value	Rs.163.99m

Shareholding Pattern (%)

Promoter's	52.10
Foreign	12.17
Domestic Institution	21.18
Public & Others	14.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.3	2.1	63.4
Relative	0.3	(0.3)	42.6

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Unveils the loyalty program

Quick Pointers:

- Target of adding 70 screens in FY20E remains intact. In order to penetrate deeper into the North, 80 new screens have been signed in Gurgaon.
- Risk from rising OTT penetration and Reliance's FDFS initiative remain unfounded given content diversity and 8-week exclusivity for exhibitors.
- Launched the loyalty program (see details on page 2).

In a freewheeling chat with the analyst community at INOX Megaplex (recently renovated property in Mumbai), Siddharth Jain, Director, emphasized on how the strategy of penetrating in metro/tier-1 markets with constrained aggression has helped in improving ATP/SPH/Ad revenue per screen. In order to penetrate deeper into the North, lot of screens have been signed in Gurgaon & Noida. However, Delhi continues to remain a challenge given scarcity of new malls. In all, the target of adding 70 screens for FY20E remains intact. A new loyalty program was also unveiled with a clear focus on premiumisation (premium screens constitute ~9% of screen mix). The emphasis is on improving margins by increasing the share of non-ticketing revenue (41% of sales mix in 2QFY20) while keeping the pricing (ATP) affordable. We believe INOL's premiumisation approach and strategy to focus on metro/tier-1 markets is yielding rich dividends. Negligible debt and strong screen pipeline visibility (~900 new screens are in fray backed by signed agreements) gives additional comfort. We thus maintain our BUY rating with a TP of Rs416, valuing the stock at an EV/EBITDA multiple of 8.7x on FY21 Ind-AS compliant earnings.

Unveiled the Megaplex at In-Orbit Mall, Mumbai: INOX unveiled its 11 screen Megaplex (for pictures see page 2) at In-Orbit Mall, Malad. It is built over 60,000 square feet with total capacity of ~1,600 seats and can host ~6,000 patrons daily. The Megaplex has 6 viewing formats viz; Insignia, Kiddles, ScreenX, MX4D, IMAX, and ONYX LED. Another Megaplex similar to Mumbai is expected to be launched in Lucknow soon.

Loyalty program launched: A loyalty program was launched to get repeat footfalls. It has 3 variants viz; INOX blue, INOX gold and INOX black and the eligibility criteria is based on yearly spends on tickets and F&B. The top tier plan has host of benefits like invitation to an exclusive movie screening, chance to meet a movie star and invitation to a unique star event. For further details on each plan refer to page 2.

Other highlights from the analyst meet: 1) INOX releases ~1,150 movie titles in a year 2) There is no strategic asset available for buy-out to expand inorganically 3) Industry will add ~200-300 screens each year 4) F&B strike rate is ~25% 5) The share of premium screens is expected to remain at ~10% 6) Off-screen ads contribute small portion to the revenue 7) In most of Inox's properties, F&B can be purchased without buying a ticket 8) Globally, multiplex players have better margins due to low rent & manpower cost.

Exhibit 1: Brief overview on Inox's loyalty program

Particulars	INOX Blue	INOX Gold	Inox Black
Eligibility criteria (Based on yearly spends on tickets & F&B)	Upto Rs3,000	Rs3,001-Rs10,000	Above Rs10,000
Points on Inox movie ticket	3%	4%	5%
Points on F&B purchase	5%	7%	10%
Points validity	90 days	100 days	120 days
Bonus points on birthdays	25	50	100
Invitation to an exclusive movie screening	NA	Yes	Yes
One free large pop-corn	NA	Yes	Yes
Limited edition movie merchandise	NA	Yes	Yes
Two movie tickets a year	NA	NA	Yes
100% off on ticket cancellations	NA	NA	Yes
Chance to meet movie stars	NA	NA	Yes
Insignia lounge access (Member +1)	NA	NA	Yes
Invitation to a unique star event	NA	NA	Yes

Source: Company, PL

Megaplex entrance lobby



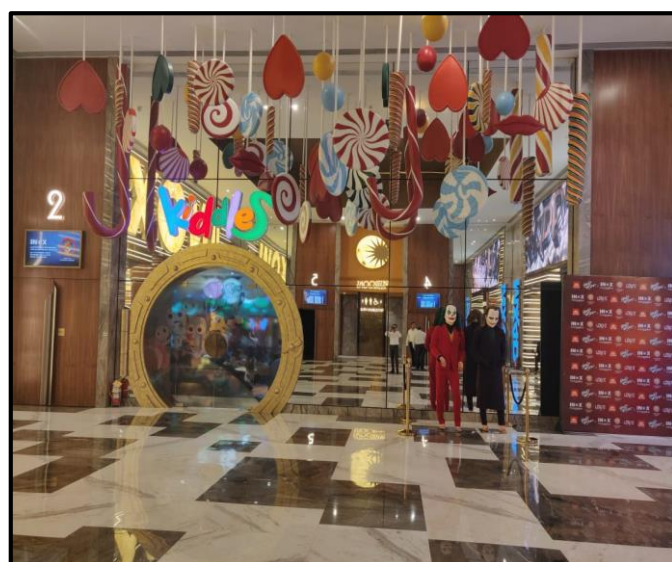
Insignia lounge area



Lobby area inside the property



Entry of Kiddles screen (Kids format)



Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	16,922	20,721	23,888	27,484
YoY gr. (%)	25.5	22.5	15.3	15.1
Cost of Goods Sold	5,567	6,820	7,855	8,978
Gross Profit	11,355	13,901	16,033	18,507
Margin (%)	67.1	67.1	67.1	67.3
Employee Cost	1,152	1,531	1,792	2,089
Other Expenses	7,112	5,956	6,793	7,743
EBITDA	3,092	6,414	7,448	8,675
YoY gr. (%)	46.9	107.5	16.1	16.5
Margin (%)	18.3	31.0	31.2	31.6
Depreciation and Amortization	955	2,571	2,938	3,326
EBIT	2,137	3,843	4,510	5,349
Margin (%)	12.6	18.5	18.9	19.5
Net Interest	237	2,147	2,460	2,803
Other Income	149	144	155	179
Profit Before Tax	1,991	1,840	2,205	2,725
Margin (%)	11.8	8.9	9.2	9.9
Total Tax	656	622	556	687
Effective tax rate (%)	33.0	33.8	25.2	25.2
Profit after tax	1,335	1,218	1,649	2,038
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,393	1,218	1,649	2,038
YoY gr. (%)	10.3	(12.6)	35.4	23.6
Margin (%)	8.2	5.9	6.9	7.4
Extra Ord. Income / (Exp)	(58)	-	-	-
Reported PAT	1,335	1,218	1,649	2,038
YoY gr. (%)	16.5	(8.8)	35.4	23.6
Margin (%)	7.9	5.9	6.9	7.4
Other Comprehensive Income	1	(11)	-	-
Total Comprehensive Income	1,336	1,207	1,649	2,038
Equity Shares O/s (m)	103	103	103	103
EPS (Rs)	13.6	11.9	16.1	19.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	12,158	32,865	35,837	39,006
Tangibles	11,947	32,649	35,615	38,780
Intangibles	211	216	221	226
Acc: Dep / Amortization	3,109	5,680	8,618	11,944
Tangibles	3,009	5,579	8,518	11,843
Intangibles	101	101	101	101
Net fixed assets	9,049	27,185	27,218	27,062
Tangibles	8,939	27,069	27,098	26,937
Intangibles	111	116	121	126
Capital Work In Progress	637	637	637	637
Goodwill	175	175	175	175
Non-Current Investments	1,758	2,140	2,467	2,810
Net Deferred tax assets	529	497	595	736
Other Non-Current Assets	1,127	1,347	1,582	1,857
Current Assets				
Investments	6	6	6	6
Inventories	122	170	196	226
Trade receivables	882	1,135	1,374	1,657
Cash & Bank Balance	137	1,582	3,310	5,625
Other Current Assets	312	374	409	420
Total Assets	14,788	35,313	38,045	41,295
Equity				
Equity Share Capital	1,026	1,026	1,026	1,026
Other Equity	8,612	4,290	5,939	7,977
Total Networkth	9,638	5,316	6,965	9,003
Non-Current Liabilities				
Long Term borrowings	550	24,682	25,127	25,602
Provisions	127	145	167	192
Other non current liabilities	690	850	956	1,072
Current Liabilities				
ST Debt / Current of LT Debt	200	200	200	200
Trade payables	1,596	1,817	2,094	2,410
Other current liabilities	1,897	2,210	2,437	2,713
Total Equity & Liabilities	14,788	35,313	38,045	41,296

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,335	1,840	2,205	2,725
Add. Depreciation	955	2,571	2,938	3,326
Add. Interest	237	2,147	2,460	2,803
Less Financial Other Income	149	144	155	179
Add. Other	551	(91)	(263)	(309)
Op. profit before WC changes	3,077	6,467	7,340	8,544
Net Changes-WC	88	(138)	(69)	(45)
Direct tax	(369)	(622)	(556)	(687)
Net cash from Op. activities	2,797	5,707	6,715	7,813
Capital expenditures	(2,492)	(20,707)	(2,972)	(3,170)
Interest / Dividend Income	32	-	-	-
Others	104	-	-	-
Net Cash from Inv. activities	(2,356)	(20,707)	(2,972)	(3,170)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,819)	18,592	445	475
Dividend paid	-	-	-	-
Interest paid	(231)	(2,147)	(2,460)	(2,803)
Others	1,594	-	-	-
Net cash from Fin. activities	(456)	16,445	(2,015)	(2,329)
Net change in cash	(16)	1,446	1,728	2,315
Free Cash Flow	301	(15,000)	3,744	4,643

Source: Company Data, PL Research

Key Financial Metrics

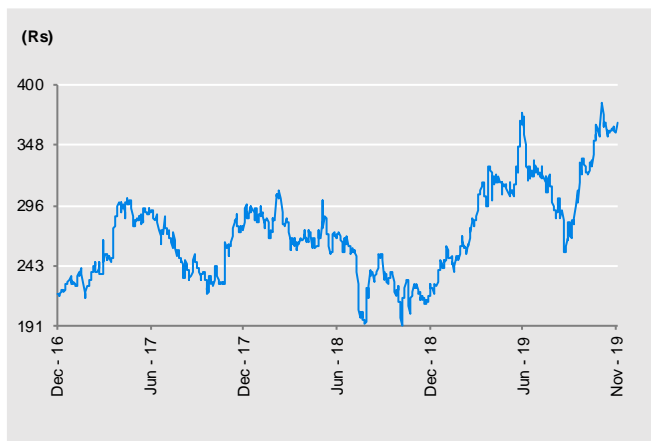
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	13.6	11.9	16.1	19.9
CEPS	22.9	36.9	44.7	52.3
BVPS	93.9	51.8	67.9	87.7
FCF	2.9	(146.2)	36.5	45.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	20.6	12.7	14.0	15.4
ROIC	20.9	18.2	19.6	21.0
RoE	13.9	22.9	23.7	22.6
Balance Sheet				
Net Debt : Equity (x)	0.1	4.4	3.2	2.2
Net Working Capital (Days)	(13)	(9)	(8)	(7)
Valuation(x)				
PER	26.9	30.8	22.7	18.4
P/B	3.9	7.0	5.4	4.2
P/CEPS	16.0	9.9	8.2	7.0
EV/EBITDA	12.3	9.5	8.0	6.6
EV/Sales	2.2	2.9	2.5	2.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	4,331	4,788	4,930	5,199
YoY gr. (%)	32.9	48.0	18.8	42.3
Raw Material Expenses	1,405	1,589	1,632	1,737
Gross Profit	2,926	3,200	3,298	3,463
Margin (%)	67.6	66.8	66.9	66.6
EBITDA	835	974	1,501	1,678
YoY gr. (%)	80.4	121.9	79.8	274.5
Margin (%)	19.3	20.3	30.4	32.3
Depreciation / Depletion	245	249	608	645
EBIT	590	725	893	1,033
Margin (%)	13.6	15.1	18.1	19.9
Net Interest	62	38	509	542
Other Income	31	53	31	44
Profit before Tax	559	682	415	534
Margin (%)	12.9	14.2	8.4	10.3
Total Tax	194	201	145	183
Effective tax rate (%)	34.8	29.5	35.0	34.3
Profit after Tax	365	481	270	351
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	365	539	270	351
YoY gr. (%)	176.8	(20.8)	(27.0)	193.5
Margin (%)	8.4	11.3	5.5	6.8
Extra Ord. Income / (Exp)	-	(58)	-	-
Reported PAT	365	481	270	351
YoY gr. (%)	204.6	31.9	(43.8)	30.1
Margin (%)	8.4	10.0	5.5	6.8
Other Comprehensive Income	(2)	1	(11)	-
Total Comprehensive Income	363	481	259	351
Avg. Shares O/s (m)	103	103	103	103
EPS (Rs)	3.9	5.0	2.8	3.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Oct-19	BUY	416	354
2	3-Oct-19	BUY	394	324
3	24-Sep-19	BUY	394	338

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	317	242
3	Inox Leisure	BUY	416	354
4	Music Broadcast	Hold	39	30
5	Navneet Education	BUY	142	98
6	PVR	Accumulate	2,131	1,835
7	S Chand and Company	Accumulate	92	75
8	V.I.P. Industries	BUY	530	454
9	Zee Media Corporation	Under Review	-	14

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

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