

INOX LEISURE

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	337
12 month price target (INR)	418
Market cap (INR bn/USD bn)	38/0.5
Free float/Foreign ownership (%)	1,607.7/2,116.8
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

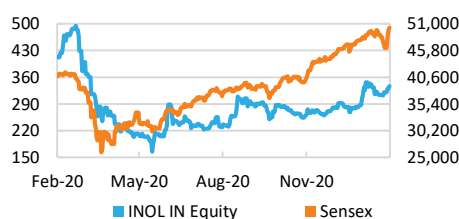
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	18,974	2,105	19,249	21,323
EBITDA	5,968	(1,016)	6,372	7,085
Adjusted profit	150	(3,297)	600	838
Diluted EPS (INR)	1.3	(29.3)	5.3	7.5
EPS growth (%)	(89.8)	nm	nm	39.5
RoAE (%)	1.9	(52.2)	9.0	11.6
P/E (x)	252.0	nm	63.0	45.2
EV/EBITDA (x)	10.9	(38.5)	10.6	9.7
Dividend yield (%)	0.3	0	0.3	0.3

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Favourable triggers in place

While cinemas were allowed to resume business from mid-October 2020, absence of crowd-puller content kept footfall abysmal (3% occupancy rate): 0.5mn against 16.3mn in Q3FY20. INOX reported a 97% YoY plunge in revenue leading to an EBITDA/PAT loss of INR645mn/INR1bn. Though ATP was understandably lower 25% YoY, 90% recovery in SPH bodes well.

We anticipate admits to recover in line with new content. Improving consumer sentiment, positive developments on covid-19 vaccine and MHA's guidelines permitting cinemas to operate at 100% seating capacity should spur box-office release of new movies. We remain positive on INOX's structural story; maintain 'BUY'.

Revenue hit due to lack of content

Revenue plunged 97% YoY as occupancy remained weak through the quarter – 3% against 27% in Q3FY20. Audience response to the few new Hindi movies and old content screened was weak, though a handful of regional/Hollywood movies saw decent traction. As screens have been open since October 15, 2020, screen operating costs for the company inched up sequentially – employee costs up 39% QoQ and other expenses surged 221% QoQ. 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.

Q3FY21 earnings call: Key takeaways

i) Raised equity capital of INR2.5bn (at INR255/share) through QIP to strengthen liquidity position. ii) Average cash burn is INR250–300mn per month. iii) FY22 to be a cinema year as several big budget movies will be released. iv) With seating guidelines relaxed, expect movies to start hitting screens from March of early-April. v) Programming flexibility is low in single screens; hence not very keen on acquiring single screens. Converting single screens into multiplexes has several regulatory hurdles and also very difficult. vi) Open in all states except Jharkhand.

Outlook and valuation: Improving; maintain 'BUY'

With the home ministry allowing cinemas to operate at full capacity, we expect fresh content to release in due course. Progress on covid-19 vaccine too bodes well. We are changing the valuation methodology to EV/EBITDA and pegging the valuation at 12x FY22E EV/EBITDA, which yields a TP of INR418 (INR321 earlier). Maintain 'BUY'.

Financials

Year to March	Q3FY21	Q3FY20	% Change	Q2FY21	% Change
Net Revenue	149	5,129	(97.1)	4	4,033.3
EBITDA	(645)	1,690	NM	(318)	NM
Adjusted Profit	(1,025)	350	NM	(678)	NM
Diluted EPS (INR)	(9.1)	3.4		(6.6)	

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	18,974	2,105	19,249	21,323
Gross profit	12,748	1,542	12,834	14,329
Employee costs	1,421	842	1,386	1,493
Other expenses	0	0	0	0
EBITDA	5,968	(1,016)	6,372	7,085
Depreciation	2,642	2,781	3,061	3,398
Less: Interest expense	2,212	2,520	2,690	2,767
Add: Other income	172	2,180	180	200
Profit before tax	1,286	(4,137)	802	1,119
Prov for tax	1,136	(840)	202	282
Less: Other adj	0	0	0	0
Reported profit	150	(3,297)	600	838
Less: Excp.item (net)	0	0	0	0
Adjusted profit	150	(3,297)	600	838
Diluted shares o/s	112	112	112	112
Adjusted diluted EPS	1.3	(29.3)	5.3	7.5
DPS (INR)	1.0	0	1.0	1.0
Tax rate (%)	88.3	20.3	25.2	25.2

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Avg Ticket Price (ATP)	200.0	160.0	200.0	206.0
Spend Per Head (SPH)	80.0	60.0	72.0	75.6
Footfall growth (%)	5.6	(88.9)	818.1	7.3
EBITDA margin (%)	31.5	(48.3)	33.1	33.2
Net profit margin (%)	0.8	(156.6)	3.1	3.9
Revenue growth (% YoY)	12.1	(88.9)	814.4	10.8
EBITDA growth (% YoY)	93.1	nm	nm	11.2
Adj. profit growth (%)	(88.8)	nm	nm	39.5

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Screen count	626	655	717	787
Exhibition cost (%)	45.8	46.0	46.0	45.0
F&B COGS (%)	25.6	26.0	26.0	26.0
Debtors days	14.5	15.0	12.0	13.2
Inventory days	7.6	10.0	4.4	7.3
Payable days	84.7	80.0	80.0	80.5

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	252.0	nm	63.0	45.2
Price/BV (x)	6.1	5.9	5.5	5.0
EV/EBITDA (x)	10.9	(38.5)	10.6	9.7
Dividend yield (%)	0.3	0	0.3	0.3

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	1,027	1,124	1,124	1,124
Reserves	5,519	5,615	6,080	6,783
Shareholders funds	6,219	6,413	6,878	7,580
Minority interest	0	0	0	0
Borrowings	1,759	2,400	1,600	1,100
Trade payables	1,295	127	1,483	1,601
Other liabs & prov	2,294	2,183	2,091	2,013
Total liabilities	38,154	39,017	41,740	43,979
Net block	31,172	31,901	34,221	37,392
Intangible assets	259	246	245	235
Capital WIP	854	43	512	512
Total fixed assets	32,285	32,190	34,978	38,140
Non current inv	2	2	2	2
Cash/cash equivalent	457	1,155	871	878
Sundry debtors	628	92	766	775
Loans & advances	2,058	2,010	1,939	1,894
Other assets	2,340	2,065	2,115	2,092
Total assets	38,154	39,017	41,740	43,979

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	150	(3,297)	600	838
Add: Depreciation	2,642	2,781	3,061	3,398
Interest (net of tax)	2,212	2,520	2,690	2,767
Others	(159)	(2,251)	(206)	(283)
Less: Changes in WC	(726)	(470)	534	54
Operating cash flow	4,742	(717)	6,679	6,775
Less: Capex	2,062	411	2,929	2,600
Free cash flow	2,680	(1,128)	3,750	4,175

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	1.9	(52.2)	9.0	11.6
RoCE (%)	37.0	(19.3)	40.4	45.3
Inventory days	8	48	4	7
Receivable days	15	62	8	13
Payable days	85	461	46	80
Working cap (% sales)	1.0	62.4	2.2	1.5
Gross debt/equity (x)	0.3	0.4	0.2	0.1
Net debt/equity (x)	0.2	0.2	0.1	0
Interest coverage (x)	1.5	(1.5)	1.2	1.3

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(89.8)	nm	nm	39.5
RoE (%)	1.9	(52.2)	9.0	11.6
EBITDA growth (%)	93.1	nm	nm	11.2
Payout ratio (%)	74.9	nm	18.7	13.4

Q3FY21 conference call: Key Takeaways

- With seating guidelines relaxed, expect movies to start hitting screens from March or early-April.
- FY22 to be a cinema year as several big budget movies will be released.
- Hollywood too did well in the recent past, expect to do well in FY22 as well.
- Only one state not allowed to open so far – Jharkhand. Received permissions from all other states.
- Average cash burn is INR250-300mn per month.
- States will allow to operate at 100% capacity very soon.
- Expect a few big movies to come in March.
- No discounts there on F&B, but giving limited menu. Will start the full menu again soon.
- Expect occupancy to come back to normal by H2FY22.
- Gave discounts for library content. For new movies ATP was as per pre-covid.
- Programming flexibility is low in single screens, hence not very keen on acquiring single screens. Converting single screens into multiplexes has several regulatory hurdles and also very difficult.
- Don't believe there will be increase in marketing costs going ahead.
- Few Hollywood movies in US have already announced dates.
- Cost optimisation to continue in the coming quarters as well.
- Master had 100% occupancy (50%) for 10 days. Did very well in South India. ATP went to pre-covid levels in states, except TN. SPH too was at pre-covid level. Distributor share was lower as OTT release was done within eight weeks.
- Reaching out to customer through various digital mediums.
- Loyalty program doing well. Most people willing to register as loyal patrons.
- Content for OTT and cinemas is different. Don't believe cannibalisation will happen.

Capex

- There further 14 screens to open in this financial year, where-in, on an average 86% of the work has been completed.
- Would require an additional capex of INR80mn to INR100mn to complete these screens.
- Have gradually started capex cycle in selected pockets. However, 100% cycle would resume when business attain complete normalcy in operations.

Liquidity

- As on 31st Jan 2021, have liquidity of more than INR2.30bn (including undrawn limits of INR930mn).
- INOX has successfully raised INR2.50bn through QIP in November 2020, a portion of this has been utilised for paying off Debt and towards operating expenses.
- INOX owns six cinema properties and a head office. As per current market valuation, if required, the company can raise INR3.5bn via a 'sale-lease back' of these properties.

Rentals

- Closed discussion with most landlords to avail nil rental and negligible CAM for the lockdown period
- Negotiated revenue sharing/discounted rent and CAM post opening upto 31st Mar 2021.
- Discussions with only a few landlords remaining, should be able to close in the coming weeks.

Exhibit 1: Quarterly financial snapshot

Year to March	Q3FY21	Q3FY20	% change	Q2FY21	% change	FY20	FY21E	FY22E
Net revenues	149	5,129	(97.1)	4	4,033.3	18,974	2,105	19,249
Exhibition cost	29	1,337	(97.8)	-	-	4,965	455	5,221
Cost of F&B	11	320	(96.6)	-	-	1,262	108	1,194
Employee expenses	212	369	(42.5)	152	39.3	1,421	842	1,386
Rent expense	-	-	-	-	-	1,016	109	1,059
Other expenses	542	1,414	(61.7)	169	220.7	4,342	1,607	4,017
Other expenses	542	1,414	(61.7)	169	220.7	4,342	1,607	4,017
Total expenditure	794	3,440	(76.9)	321	147.2	13,006	3,122	12,877
EBITDA	(645)	1,690	NM	(318)	NM	5,968	(1,016)	6,372
Depreciation/Amortization	709	648	9.4	714	(0.7)	2,642	2,781	3,061
EBIT	(1,355)	1,041	NM	(1,032)	NM	3,327	(3,797)	3,312
Less: Interest Expense	620	547	13.3	641	(3.2)	2,212	2,520	2,690
Add: Other income	607	49	1,151.5	766	(20.8)	172	2,180	180
Add: Prior period items	-	-	-	-	-	-	-	-
Add: Exceptional items	-	-	-	-	-	-	-	-
Profit before tax	(1,368)	542	NM	(906)	NM	1,286	(4,137)	802
Less: Provision for Tax	(343)	192	NM	(228)	NM	1,136	(840)	202
Less: Minority Interest	-	-	-	-	-	-	-	-
Add: Share of profit from associates	-	-	-	-	-	-	-	-
Reported Profit	(1,025)	350	NM	(678)	NM	150	(3,297)	600
Adjusted Profit	(1,025)	350	NM	(678)	NM	150	(3,297)	600
No. of Diluted shares outstanding (mn)	112	103	-	103	-	112	112	112
Adjusted Diluted EPS	(9.3)	3.4	NM	(6.6)	NM	1.3	(29.3)	5.3
as % of net revenues								
Exhibition cost	19.6	26.1	(651)	0.0	1,956	26.2	21.6	27.1
Cost of F&B	7.3	6.2	109	0.0	733	6.7	5.1	56.7
Employee cost	142.5	7.2	-	4,230.6	-	7.5	40.0	65.8
Other expenses	364.2	27.6	-	4,694.4	-	22.9	76.3	190.8
EBITDA	NM	32.9	-	NM	-	31.5	(48.3)	302.7
Net profit	NM	6.8	-	NM	-	0.8	(156.6)	3.1

Source: Company, Edelweiss Research

Company Description

INOX Leisure is a film exhibition company which is in the business of setting up, operating and managing a national chain of multiplexes under the INOX brand. The company commenced operations in May 2002. It acquired 50.5% stake in Fame India in February 2010. INOX Leisure is a subsidiary of GFL. The first multiplex was set up in Pune on May 11, 2002. As of FY20, it had presence across 67 cities with 141 properties with 636 screens. Underpinned by strong corporate ethos and financial backing, INOX has established its credentials in the entertainment industry in a short span.

Currently, INOX is well positioned in its normal INOX format and is gaining presence in the premium segment through 'INOX Insignia', a brand that offers luxurious movie-viewing experience. The company operates as a subsidiary of Gujarat Fluorochemicals Ltd. (GFL), which owns 46.85%. GFL, the holding entity, is part of the 90-year old INOX Group, which has an established presence across renewables, chemicals, air products and wind energy. While promoters have successfully run and expanded the INOX Group, majority of their experience so far has been in managing B2B businesses.

Investment Theme

We envisage INOX to emerge as a dominant force in the multiplex space over the medium term owing to strong management, aggressive expansion plans, focus on ramping up high-margin segments and unwavering efforts to enhance customer experience.

The company plans to add 29 screens in FY21. With its primary focus on the movie exhibition business, INOX has decided to expand aggressively pan-India, premiumize offerings and focus on growing its margin- accretive segments.

Key Risks

- Sub par content performance or unavailability of quality content
- Slower development of malls and commercial zones could impact screen expansion
- Slowdown in the advertising environment
- Competition from OTT platforms and digital entertainment
- Shortening of time windows between theatrical and digital release
- Lingering impact of the covid-19 pandemic

Additional Data

Management

CEO	Alok Tandon
CFO	Kailash Gupta
COO	Daizy Lal Puri
Chariman	Pawan Jain
Auditor	M/s Kulkarni and Company

Holdings – Top 10*

	% Holding		% Holding
ICICI Prudential	8.50	ADIA	2.50
BNP Paribas	4.30	Taiyo Greater	1.50
KIAF	3.10	Nippon MF	1.50
HDFC MF	2.90	Sundaram MF	1.40
DSP MF	2.60	Aditya Birla Su	1.40

*Latest public data

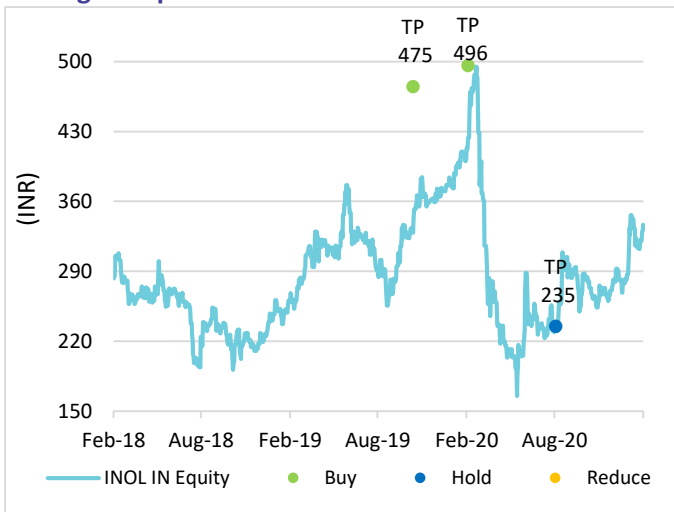
Recent Company Research

Date	Title	Price	Reco
06-Nov-20	Screen openings bring cheer; <i>Result Update</i>	276	Buy
06-Aug-20	It's a no show; <i>Result Update</i>	235	Hold
09-Jun-20	Sailing through tough times; <i>Result Update</i>	255	Buy

Recent Sector Research

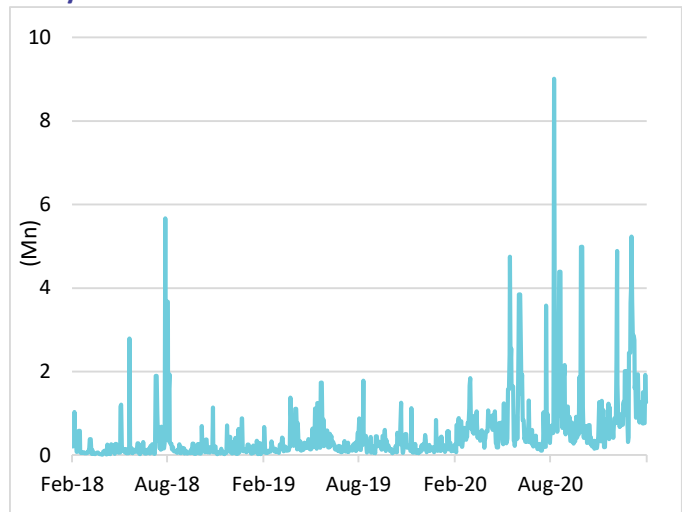
Date	Name of Co./Sector	Title
15-Jan-21	PVR	New content to bring cheer; <i>Result Update</i>
06-Jan-21	Media	Media: Screening a medley ; <i>Sector Update</i>
24-Nov-20	PVR	Improving conditions; challenges persist; <i>Company Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	163	64	14	241
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	193	53	5	251

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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