ANANDRATHI

India I Equities

Leisure and Entertainment

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

19 April 2021

Inox Leisure

Rating: Buy
Target Price: Rs340
Share Price: Rs261

Biggest beneficiary of the situation; retaining our Buy recommendation

After trailing PVR for several years, we find Inox best suited to make the most of the situation as it has a strong balance sheet with Rs1.3bn net cash(vs. PVR'sRs11.3bn net debt), less cash burn/month till normalcy returns (Rs0.4bn vs. PVR's Rs0.6bn) and has grown faster over FY17-FY20 on several key operating parameters: ATP (4%, vs. PVR's 1% CAGR), spend/ head (9% vs. 7%) and ad revenue/screen (12% vs. 4%). All these factors enable Inox to expand faster in the next phase of the growth cycle and reduce the gap in the footprint with PVR (~643 screens, vs. PVR's ~844). We introduce our FY23e and maintain our Buy rating with a new target price of Rs340 (earlier Rs292, valuing it at 10x FY23e EBITDA).

Full industry revival inFY23. Gross box-office revenue fell ~80% in FY21 and is expected to fully recover only by FY23 subject to the roll-out of an effective vaccination program. We expect occupancy for Inox/PVR to be 22%/24% in FY22 and 29%/34% by FY23, similar to that in FY20. Therefore, we reckon that, till a return to normality, PVR's higher cost/screen because of its premium properties may continue to burn cash faster.

EBITDA recovery to be faster on cost rationalisation. The lockdown gave multiplex operators the opportunity to re-consider their operations and remove inefficiencies and redundancies. We believe that the cost-rationalisation exercise could result in 10-15% permanent savings in future expenses (excl. rent and common-area maintenance).

Last year over ~1,000 cinema screens were shut down.2020 had the sharpest drop in number of single screens, with between ~1,000 and ~1,500 screens estimated to have shut down, reducing India's screen count to ~8,000, affording leading multiplex operators an edge.

Valuation. We maintain our Buy rating with a new TP of Rs340. **Risks:** High contingent liabilities (Rs2.6bn/Rs2.9bn in FY19/FY20), poor content and closed cinemas.

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	16,922	18,974	1,524	13,882	21,282
Net profit (Rs m)	1,335	1,410	-3,008	461	1,968
EPS (Rs)	13.0	13.7	-26.7	4.1	17.5
PE (x)	19.3	18.3	NA	55.9	14.9
EV / EBITDA (x)	9.0	8.5	NA	15.4	7.0
PBV (x)	2.7	4.1	3.3	3.1	2.6
RoE (%)	13.4	21.5	NA	16.0	16.0
RoCE (%)	20.7	30.7	NA	20.4	20.4
Dividend yield (%)	-	0.4	-	-	-
Net debt / equity (x)	0.1	0.2	0.1	-0.1	-0.0

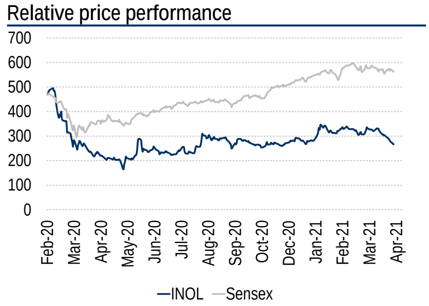
Source: Company, Anand Rathi Research **Notes: Figures are pre-IND AS*

Key data	INOL IN / INOL.BO
52-week high / low	Rs359 / 158
Sensex / Nifty	48832 / 14618
3-m average volume	$3.2m
Market cap	Rs29bn / $395.2m
Shares outstanding	113m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	47.4	47.4	51.9
- of which, Pledged	-	-	-
Free float	52.6	52.6	48.1
- Foreign institutions	15.9	12.3	10.9
- Domestic institutions	20.4	21.8	20.6
- Public	16.3	18.5	16.6

Estimates revision (%)	FY21e	FY22e
Revenue	(9.8)	(15.9)
EBITDA	NA	(34.8)
Net Profit	NA	(55.0)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues (Rs m)	16,922.0	18,974.4	1,523.9	13,882.0	21,282.3
Growth (%)	*25.5*	*12.1*	*-92.0*	*811.0*	*53.3*
Occupancy (%)	*29.5*	*27.8*	*3.3*	*21.8*	*29.0*
Direct costs	5,567.1	6,226.7	596.4	4,660.8	7,021.9
Gross profit	11,355	12,748	927	9,221	14,260
Gross margins (%)	*67.1*	*67.2*	*60.9*	*66.4*	*67.0*
SG&A	8,263	9,447	2,821	7,520	10,447
EBITDA	3,092	3,301	-1,894	1,701	3,814
EBITDA margins (%)	*18.3*	*17.4*	*-124.3*	*12.3*	*17.9*
Depreciation	955	1,078	1,104	1,152	1,263
Other income	149	172	160	200	200
Interest expenses	237	116	170	133	119
PBT	2,043	2,279	-3,008	616	2,631
Effective tax rates (%)	*33.0*	*38.1*	*0.0*	*25.2*	*25.2*
+Associates/(Minorities)					
Net income	1,335	1,410	-3,008	461	1,968
WANS	103	103	112.7	112.7	112.7
FDEPS (Rs / sh)	13.0	13.7	-26.7	4.1	17.5

Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	1,026	1,026	1,127	1,127	1,127
Net worth	9,965	6,545	8,188	8,514	10,347
Debt	1,100	1,576	2,076	1,326	1,326
Inox Benefit Trust	-327	-327	-	-	-
Lease liability	-	26,619	26,619	26,619	27,417
DTL/(Assets)	-529	-1,773	-1,473	-1,173	-673
Capital employed	10,210	32,640	35,410	35,286	38,417
Net tangible assets	8,938	9,761	9,270	9,929	11,006
Net intangible assets	111	84	70	55	40
Goodwill	175	175	175	175	175
CWIP (tang. &intang.)	637	854	968	968	968
Right of use assets		21,41.8	23,561	23,561	23,561
Investments (strategic)	11	12	12	12	12
Investments (financial)	-	-	-	-	
Current assets (excl.cash)	4,251	3,636	797	3,712	4,971
Cash	136	446	1,226	1,912	1,382
Current liabilities	4,050	3,738	668	5,037	3,698
Capital deployed	10,210	32,640	35,410	35,286	38,417

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT	2,043	2,279	-3,008	616	2,631
+ Non-cash items	1,034	3,703	1,404	1,297	1,100
Oper.prof. before WC	3,077	5,981	-1,604	1,913	3,731
- Incr./(decr.) in WC	88	-726	-1,200	738	738
Others incl. taxes	-369	-513	-298	-500	-500
Operating cash-flow	2,797	4,742	-3,102	2,151	3,969
- Capex (tang. +intang.)	-2,465	-2,062	-727	-1,812	-2,341
Free cash-flow	332	2,680	-3,829	339	1,629
- Div. (incl. buyback & taxes)	-	-119	-	-	-
+ Equity raised	1,593	0	2,500	-	-
+ Debt raised	-2,050	366	500	-750	799
- Fin investments	127	7	-	-	-
- Misc. (CFI + CFF)	-19	-75	1,609	1,096	-2,957
Net cash-flow	-20	310	780	685	-530

Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

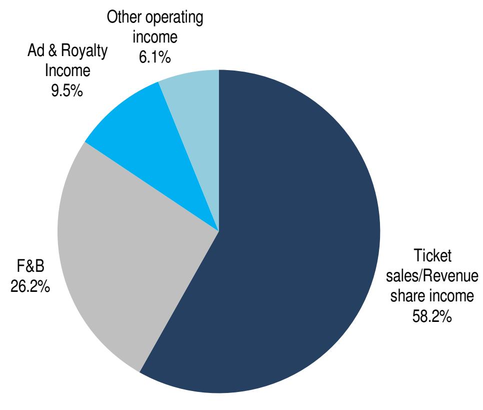
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	19.3	18.3	NA	55.9	14.9
EV / EBITDA (x)	9.0	8.5	NA	15.4	7.0
EV / Sales (x)	1.6	1.5	18.1	1.9	1.3
P/B (x)	2.7	4.1	3.3	3.1	2.6
RoE (%)	13.4	21.5	NA	16.0	16.0
RoCE (%) - after tax	20.7	30.7	NA	20.4	20.4
DPS (Rs / sh)		1.0	-		
Dividend yield (%)	0.0	0.4	0.0	0.0	0.0
Dividend payout (%) - incl. DDT	-	8	-	-	-
Net debt / equity (x)	0.1	0.2	0.1	-0.1	-0.0
Receivables (days)	18	15	20	15	18
Inventory (days)	12.2	13.7	1.1	10.0	15.3
Payables (days)	79	75	80	75	75
CFO : EBITDA %	90.5	143.7	NA	126.5	104.1

Source: Company, AnandRathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Revenue break-up (FY20)



Source: Company

FY23 to see full industry revival

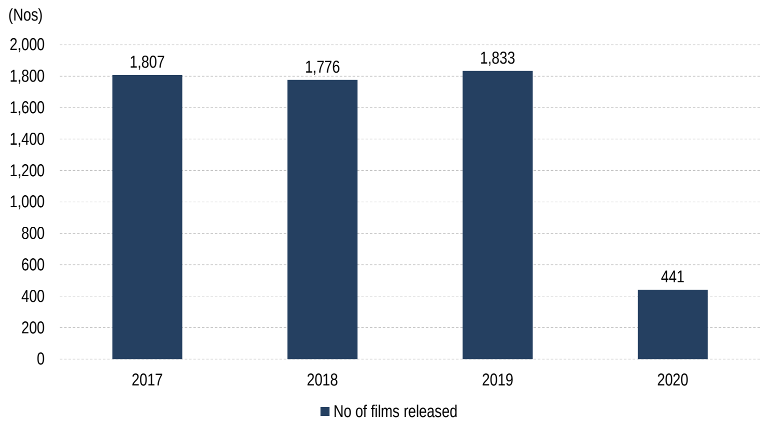
Around 441 films were released in 2020, down from 1,833 in 2019,due to the lockdown and social-distancingnorms because of the Covid-19 pandemic.Consequently, gross box-office revenue fell ~80% in FY21. We expect that, subject to a recovery from the pandemic and the roll-out of an effective vaccination program, the pent-up slate of films waiting to be released could lead to full recovery in the segment only by FY23.

Fig 7 – Industry data

Revenue (Rsbn)	2016	2017	2018	2019	2020	2023e	Y/Y growth, FY20, %	Y/Y growth, %, FY23 over FY19
Domestic theatres	85.6	96.3	102.1	115.2	24.9	130.6	*-78.4*	*13.4*
Overseas theatres	8.5	25	30	27	3.1	29.2	*-88.5*	*8.1*
Broadcast rights	16	19	21.2	22.1	7.1	23.4	*-67.9*	*5.9*
Digital / OTT rights	6	8.5	13.5	19	35.4	52.1	*86.3*	*174.2*
In-cinema advertising	5.9	6.4	7.5	7.7	1.7	8.3	*-77.9*	*7.8*
Home videos	0.4	0.3	0.2	0.1	0	0.2	*-100.0*	*100.0*
Total	122.4	155.5	174.5	191.1	72.2	243.8	*-62.2*	*27.6*

Source: Ficci-EY M&E Report, 2020

Fig 8 – No of films released



Source: Ficci-EY M&E Report, 2020

Inox Leisure, best suited to make the most of the situation

Relentless expansion (organic and inorganic), acquisition of premium locations in metropolises, and conscious efforts to boost F&B and ad revenue have spearheaded PVR's advantage over Inox. After trailing the former for several years, we find the latter best suited to make the most of the situation. It has a strong balance sheet with Rs1.3bn net cash vs. PVR'sRs11.3bn net debt, less cash burn/month till normalcy returns (Rs0.4bn,vs. PVR's Rs0.6bn) and on several key operating parameters has grown faster over FY17-FY20: ATP (4% vs. PVR's1% CAGR), spend/head (9% vs. 7%), and ad revenue/screen (12% vs. 4%).

Fig 9 – Key parameters

	Inox Leisure					PVR					
Key parameters	FY17	FY18	FY19	FY20	CAGR FY17-20	FY17	FY18	FY19	FY20	CAGR FY17-FY20	Comments
No of screens	468	492	574	626	*10.2*	579	625	763	845	*13.4*	PVR increased the number of its screens, organically& inorganically. Inox has been more conservative in this respect
Occupancy (%)	*27*	*26*	*29*	*28*		*33*	*31*	*35*	*34*		High for PVR because of its recent acquisition of SPI Cinemas which enjoys higher occupancy due to its dominance in south India
Average ticket price (Rs)	178	193	197	200	*4.0*	197	210	207	204	*1.3*	Inox narrowed the gap with PVR in ad revenue, ticket prices and F&B sales since it started focusing on upgrading its screens to “premium”
Spend / head (Rs)	62	66	74	80	*8.8*	81	89	91	99	*7.3*	
Ad revenue/screen (Rs m)	2.1	2.8	3.1	2.9	*11.8*	4.2	4.7	4.8	4.8	*4.0*	
Cost/screen (Rs m)	23.0	23.1	24.1	25.0	*2.9*	31.2	30.9	36.2	35.4	*4.3*	PVR cost/screen is ~40% more than Inox's cost/screen due to its premium property
EBITDA/screen (Rs m)	3.1	4.3	5.4	5.3	*19.1*	5.4	6.4	8.5	7.9	*13.2*	
Debt/EBITDA (x)	2.2	1.4	0.4	0.5		2.6	2.1	2.2	1.9		PVR is more vigorous and has more premium properties than Inox; hence, a higher gearing ratio

Source: Company

We expect occupancy for Inox/PVR to be22%/24% in FY22 and 29%/34%by FY23, similar to that in FY20. Therefore,wereckon that, till normalcy returns, PVR's higher cost/screen due to its premium properties may continue to burn cash faster.

Fig 10 – Inox Leisure key operational metrics

Key assumptions	FY17	FY18	FY19	FY20	FY21e	FY22e	FY23e
Inox Leisure							
Occupancy (%)	*27.5*	*26.0*	*29.5*	*27.8*	*3.3*	*21.8*	*29.0*
Footfalls (m)	53.7	53.3	62.6	66.0	1.8	48.3	70.1
No. of screens (incl. managed properties)	468	492	574	626	643	685	745
Screen additions	48	24	82	58	17	42	60
ATP (Rs)	178	193	197	200	81	175	190
SPH (Rs)	62	66	74	80	39	82	82
Revenue mix (consolidated) (Rs m)							
Ticket sales/Revenue share income	7,481	8,022	9,752	11,040	906	7,975	12,232
% of overall revenue	*61*	*60*	*58*	*58.2*	*59*	*57*	*57*
F&B	2,841	3,061	4,356	4,970	484	4,167	5,886
% of overall revenue	*23*	*23*	*26*	*26.2*	*32*	*30*	*28*
Ad & Royalty Income	962	1,390	1,765	1,800	30	1,000	2,000
% of overall revenue	*8*	*10*	*10*	*9.5*	*2*	*7*	*9*
Other operating income	924	1,009	1,049	1,164	104	740	1,164
% of overall revenue	*8*	*7*	*6*	*6.1*	*7*	*5*	*5*
Total revenue	12,208	13,482	16,922	18,974	1,524	13,882	21,282
Y/Y change (%)	*5.2*	*10.4*	*25.5*	*12.1*	*-92.0*	*811.0*	*53.3*
Cost elements (Rs m)							
Variable costs							
Films distributors' share	3,453	3,674	4,442	4,965	427	3,619	5,550
As % of ticket sales	*46*	*46*	*46*	*45*	*47*	*45*	*45*
F&B cost	681	744	1,125	1,262	170	1,042	1,471
As % F&B income	*24*	*24*	*26*	*25*	*35*	*25*	*25*
Semi-variable /Fixed costs							
Employee cost	864	964	1,152	1,421	906	1,104	1,480
% of revenue	*7*	*7*	*7*	*7*	*59*	*8*	*7*
Rent	2,402	2,642	3,186	3,684	1,060	3,292	4,071
% of revenue	*20*	*20*	*19*	*19*	*70*	*24*	*19*
Other expenses	3,346	3,355	3,925	4,343	856	3,123	4,895
% of revenue	*27*	*25*	*23*	*23*	*56*	*23*	*23*
Total expenditure	10,746	11,378	13,830	15,674	3,418	12,181	17,469
EBITDA	1,462	2,104	3,092	3,301	(1,894)	1,701	3,814
EBITDA margins (%)	*12.0*	*15.6*	*18.3*	*17.4*	*-124*	*12.3*	*17.9*
EBITDA Y/Y change (%)	*-23*	*44*	*47*	*7*	*NA*	*NA*	*124*

Source: Company, AnandRathi Research

Multiplexes gain market share; ~1,000 single screens shut,FY21

Scores of single-screen theatres across India, which have been braving the onslaught of large multiplex operators for years, are now fighting a new demon, Covid-19. According to the Ficci-EY Media and Entertainment Report 2020, the number of single screens in India has been steadily declining, from 7,031 in 2016 to 6,327 in 2019 and further to ~5,077 in 2020.Absence of revenue for seven months and a dearth of content and footfalls thereafter contributed to shrink screen count by ~1,000-1,500 in 2020.

Fig 11 – Single-screen count continued to fall

Particulars	2016	2017	2018	2019	2020	CAGR % (2016-20)
Single screens	7,031	6,780	6,651	6,327	5077	*-7.8*
Multiplexes	2,450	2,750	2,950	3,200	3210	*7.0*
Total number of screens	9,481	9,530	9,601	9,527	8287	*-3.3*
Multiplexes, as % total screens in India	*25.8*	*28.9*	*30.7*	*33.6*	38.7	
Single screens, as % of total screens in India	*74.2*	*71.1*	*69.3*	*66.4*	61.3	

Source:Ficci-EY M&E Report, 2020

Fig 12 – Net screen count of leading multiplex chains

	2018	2019	2020
PVR	748	812	844
INOX	546	612	643
Carnival	425	450	
Cinepolis India	350	381	
Miraj	100	125	

Source:Company, Anand Rathi Research

Valuation

After trailing PVR for several years, we find Inox best suited to make the most of the situation. It has a strong balance sheet with Rs1.3bn net cash vs. PVR'sRs11.3bn net debt), less cash burn/month till normalcy returns (Rs0.4bn, vs. PVR's Rs0.6bn) and has grown faster over FY17-FY20 on several key operating parameters: ATP (4% vs. PVR's1% CAGR), spend per head (9% vs. 7%), and ad revenue per screen (12% vs. 4%). All these factors enable Inox to expand faster in the next phase of the growth cycle, and reduce the gap with PVR in the number of screens (~643, vs. PVR's ~844).

Multiplexes were witnessing gradual build-up in occupancy during January-March 2021 quarter, against 4-6% occupancy in October-December 2020 quarter, as regional movies such as Master, Uppena, Roberrt, Pogaru saw strong box office performance. However, recent restrictions and increased fear of enclosed spaces might keep the moviegoers away for a while, hence we think that full recovery will take place only in FY23 and therefore we have cut our FY22 revenue and EBITDA estimates by 16% and 35% respectively, as we think that occupancy in Q1 FY22 will be in mid single digit against our earlier expectation of mid teens occupancy.

We introduce our FY23e and maintain our Buy rating, with a new target price of Rs340 (earlier Rs292, valuing it at 10x FY23e EBITDA, same as earlier). We expect Inox leisure to report FY23e revenue growth of 12.2% over FY20 and FY23e EBITDA growth of 15.5% over FY20, as occupancies return to normal and screen counts expand.

Fig 13–Valued at 10x FY23e EV/EBITDA

Target EV/EBITDA (x)	10
EBITDA (Rsm)	3,814
Target EV (Rs m)	38,137
Net debt (Rs m)	(1,118)
Market cap (Rs m)	37,019
Shares o/s (m)	11.27
Expected share price (Rs)	340
CMP (Rs)	261
Upside%	30

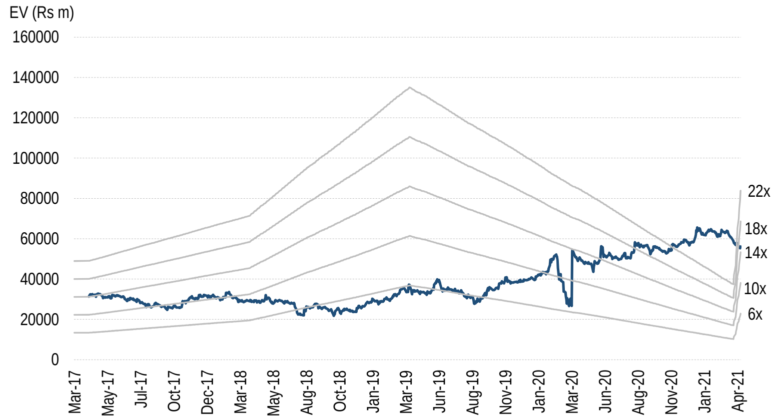
Source: Anand Rathi Research

Fig 14 – Change in estimates

	FY21e			FY22e		
(Rs m)	New	Old	Chg %	New	Old	Chg %
Revenues	1,524	1,690	*(-9.8)*	13,882	16,500	*(15.9)*
EBITDA	-1,894	-1,650	NA	1,701	2,607	*(34.8)*
EBITDA margin %	NA	NA	NA	*12.3*	*15.8*	*-355bps*
PBT	-3,008	-2,850	NA	616	1,370	*(55.0)*
Net Profit	-3,008	-2,850	NA	461	1,024	*(55.0)*

Source: Anand Rathi Research

Fig 15 – EV/EBITDA Band



Source: Bloomberg, Anand Rathi Research

Risks

- High contingent liabilities (company-specific).
- Under-performance of "content".
- Prolonged impact of Covid-19.
- Escalating rental costs and slow development of malls.
- Price control by state governments.
- Fewer footfalls at sports and other entertainment events.

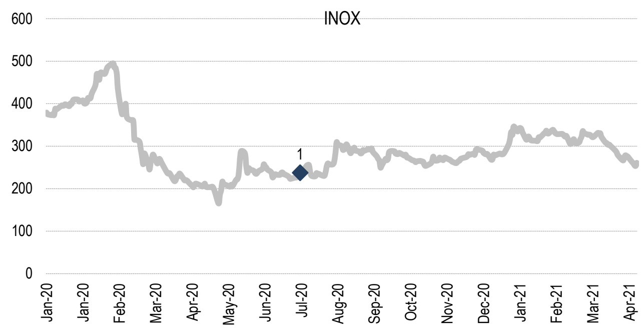
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 19 April 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	13-Jul-20	Buy	292	233

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)			
	Buy	**Hold**	**Sell**
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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