

BUY

TP: Rs 410 | ▲ 24%

INOX LEISURE

| Media

| 04 February 2021

Light at the end of the tunnel

A lack of fresh content weighed on Inox Leisure's (INOL) footfalls in Q3FY21, yielding paltry revenue Rs 149mn. EBITDA loss (ex-rent concessions) rose sequentially to Rs 448mn as cinema screens reopened. After a near 10-month slump, we are finally seeing green shoots for INOL following the recent permission to cinemas to operate at full capacity and a strong box office performance from 'Master' which should prompt new releases. We raise our target EBITDA multiple to 12x (vs. 10x) and our Mar'22 TP to Rs 410 (vs. Rs 315).

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Approval to run at full capacity: The I&B ministry has recently allowed theatres across India to operate at 100% seating capacity (vs. 50%). For INOL, 288 screens (45% of total) currently have state government approval to run at full capacity and the rest are expected to follow soon. This coupled with strong interest for 'Master' (Rs 2.5bn in box office collections) should allay producers' concerns and encourage a spate of new releases from Mar'21. Big-ticket releases would spur footfalls, in turn boosting ATP and F&B spends per head.

Ticker/Price	INOL IN/Rs 330
Market cap	US\$ 508.6mn
Shares o/s	112mn
3M ADV	US\$ 4.9mn
52wk high/low	Rs 512/Rs 158
Promoter/FPI/DII	47%/12%/22%

Source: NSE

Maintaining a tight leash on costs: INOL has reached settlements with most developers for rental waivers during the shutdown period and revenue sharing or discounted rent agreements for the remainder of FY21. This along with a tight leash on other fixed costs (-50% YoY) contained EBITDA loss. INOL expects some fixed cost savings to be sticky, spilling into FY22 and beyond.

STOCK PERFORMANCE



Lofty expansion plans: The company has opened 15 screens in 9MFY21 and plans to open 14 more in FY21 (86% work completed). It has 990 screens in the pipeline to be completed over 6-7 years, propelling its total to ~1,650.

Raise TP: With a muted Q3 topline, we cut FY21 revenue estimates but largely maintain FY22-FY23 forecasts. On rollover, we have a TP of Rs 410. BUY.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	16,922	18,974	2,515	18,164	22,484
EBITDA (Rs mn)	3,092	5,968	(1,499)	5,627	7,327
Adj. net profit (Rs mn)	1,385	150	(3,133)	505	1,535
Adj. EPS (Rs)	13.5	1.5	(27.9)	4.5	13.6
Adj. EPS growth (%)	5.4	(89.2)	(2005.6)	(116.1)	204.1
Adj. ROAE (%)	17.0	1.9	(48.9)	7.1	17.8
Adj. P/E (x)	24.4	225.7	(11.8)	73.6	24.2
EV/EBITDA (x)	12.9	6.5	(25.5)	6.8	5.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	149	5,129	(97.1)	4	4,033.3	155	15,259	(99.0)
Movie exhibition costs	29	1,337	(97.8)	-	NM	29	4,027	(99.3)
% of sales	19.6	26.1	(651bps)	-	1,956bps	18.8	26.4	(761bps)
Consumption of F&B	11	320	(96.6)	-	NM	11	998	(98.9)
% of sales	7.3	6.2	109bps	-	733bps	7.0	6.5	49bps
Employee expenses	212	369	(42.5)	152	39.3	607	1,093	(44.4)
% of sales	142.5	7.2	NM	4,230.6	NM	392.1	7.2	NM
Other expenses	542	1,414	(61.7)	169	220.7	829	4,272	(80.6)
% of sales	364.2	27.6	NM	4,694.4	NM	535.4	28.0	NM
Total expenditure	794	3,440	(76.9)	321	147.2	1,477	10,391	(85.8)
EBITDA	(645)	1,690	(138.2)	(318)	103.1	(1,322)	4,868	(127.2)
EBITDA margin (%)	(433.7)	32.9	NM	(8,825.0)	NM	(853.3)	31.9	NM
Depreciation	709	648	9.4	714	(0.7)	2,131	1,902	12.1
EBIT	(1,355)	1,041	(230.1)	(1,032)	31.3	(3,453)	2,967	(216.4)
Interest expense	620	547	13.3	641	(3.2)	1,894	1,598	18.5
Other income*	607	49	1,151.5	766	(20.8)	2,093	124	1,592.2
PBT	(1,368)	542	(352.3)	(906)	50.9	(3,253)	1,492	(318.1)
PBT margin (%)	(919.2)	10.6	NM	(25,175.0)	NM	(2,100.2)	9.8	NM
Exceptional/extra-ordinary items	-	-	-	-	-	-	-	-
Income tax	(343)	192	(278.4)	(227)	50.8	(813)	520	(256.2)
Effective tax rate (%)	25.1	35.4	(1,037bps)	25.1	(2bps)	25.0	34.9	(990bps)
Reported PAT	(1,025)	350	(392.8)	(679)	51.0	(2,440)	972	(351.2)
Profit/(loss) from JVs/Minority/Associates	-	-	-	-	-	-	-	-
Reported PAT – after profit/(loss) from JVs/Minority/Associates	(1,025)	350	(392.8)	(679)	51.0	(2,440)	972	(351.2)
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	(1,025)	350	(392.8)	(679)	51.0	(2,440)	972	(351.2)
Adjusted PAT margin (%)	(688.8)	6.8	NM	(18,861.1)	NM	(1,575.5)	6.4	NM
Adjusted EPS	(9.1)	3.4	(367.2)	(6.6)	37.8	(23.8)	9.5	(351.2)

Source: Company, BOBCAPS Research | *Note: Other income includes a rent concession of Rs 541mn in Q3 and Rs 1,957mn in 9MFY21

FIG 2 – REVENUE BREAKUP

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income from sale of movie tickets	60	2,880	(97.9)	-	NM	60	8,864	(99.3)
Sale of F&B	30	1,300	(97.7)	-	NM	30	4,031	(99.3)
Advertisement income	10	580	(98.3)	-	NM	10	1,453	(99.3)
Other operating income	54	420	(87.2)	4	1,391.7	54	910	(94.1)
Other income*	66	49	36.7	4	1,441.9	137	124	10.3
Total income	210	5,180	(95.9)	8	2,558.2	291	15,382	(98.1)

Source: Company, BOBCAPS Research | Other income for FY21 periods excludes rent concessions

Earnings call takeaways

- The Ministry of Information and Broadcasting (I&B) has issued a circular dated 31 Jan 2021 that allows cinemas to operate at 100% capacity.
- Currently, 288 of INOL's 641 screens (45%) have state government permission to run at full capacity (in eight states). Rajasthan has allowed screenings to resume from 8 February at 50% capacity. Jharkhand is the only state yet to permit the opening up of movie theatres.
- Beyond FY21, INOL has 990 screens in the pipeline across 143 properties. Management expects to open these properties over the next 6-7 years if retail mall supply is adequate.
- The company has opened 15 screens in Jan'21 and expects to roll out 14 more in FY21 where work is 86% complete. Further, another 12 screens are at advanced stages of completion and could launch in Q4FY21 or Q1FY22.
- The strong audience response to 'Master' shows that consumer appetite for fresh content is intact. The movie has collected Rs 2.5bn+ in worldwide box office collections and INOL has had several housefuls shows in the southern region. ATP and F&B spends per head were at pre-Covid levels for the movie.
- A strong content pipeline boosted by delayed releases from FY21 augurs well for FY22 prospects. Management expects pre-Covid occupancy levels to return by H2FY22.
- Footfall recovery should also yield normal ATP and SPH levels. The company does not foresee any discounts required to attract patrons once new content is available.
- INOL is not keen to acquire single-screen properties on the verge of shutting down as conversion to multi-screen properties is often cumbersome due to a lack of adequate space, regulations, etc. However, it is open to considering any suitable opportunity in the regional multiplex space.
- The company has successfully raised Rs 2.5bn through a QIP, at an issue price of Rs 255/sh. The issue was oversubscribed by 3.5x. INOL has used the proceeds to pay off debt and incur operating expenses, turning net debt positive (gross debt at Rs 1.2bn).
- INOL currently has Rs 2.3bn of liquidity (including Rs 0.9bn of undrawn limits), against a monthly cash burn of Rs 0.2bn-0.3bn.

Valuation methodology

We cut our revenue estimate for FY21 by 45% given the below-estimated topline in Q3FY21. However, our EBITDA cut is lower as cost control has been much better than forecast, especially after resumption of screens. Moreover, we project a lower net loss as INOL has received higher rent concessions than estimated (reported under other income). Our revenue/EBITDA estimates for FY22/FY23 are largely unchanged.

After close to a year of unprecedented challenges, Indian theatrical exhibitors are finally seeing some light at the end of the tunnel. The strong audience response to 'Master', coupled with approval for 100% seating capacity, and the vaccination drive could finally unlock content availability. This should attract footfalls and help ticket prices and F&B sales revert to pre-Covid levels.

Given the improving demand outlook, we raise our target EV/EBITDA multiple to 12x from 10x earlier. Rolling valuations over, our Mar'22 target price rises to Rs 410 vs. Rs 315 earlier. The stock is trading at 13.8x/10x FY22E/FY23E adj. EBITDA. We retain our BUY rating and reiterate INOL as our top pick in the Indian multiplex space due to its stronger balance sheet, higher financial flexibility, and better performance on several operating parameters than peers over the past few years.

FIG 3 – REVISED ESTIMATES

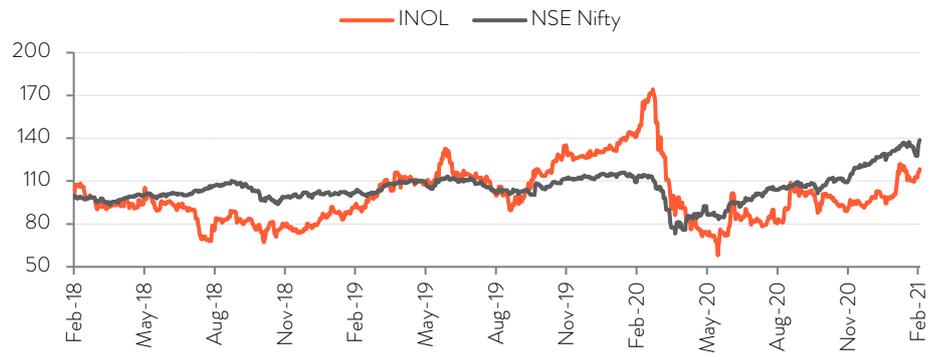
(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	4,602	2,515	(45.3)	18,423	18,164	(1.4)	22,604	22,484	(0.5)
EBITDA	(917)	(1,499)	NM	5,611	5,627	0.3	7,281	7,327	0.6
EBITDA Margin (%)	(19.9)	(59.6)	(3,966bps)	30.5	31.0	(52)	32.2	32.6	37
PAT	(3,343)	(3,133)	NM	527	505	(4.3)	1,546	1,535	(0.8)
PAT Margin (%)	(72.6)	(124.6)	(5,193bps)	2.9	2.8	(9bps)	6.8	6.8	(2bps)

Source: BOBCAPS Research

FIG 4 – VALUATION SUMMARY

(Rs mn)	
FY23E EBITDA	7,327
Ind-AS 116 adjusted EBITDA	3,857
EV/EBITDA multiple assigned (x)	12
Enterprise value	46,282
Net debt	235
Equity value	46,046
No. of shares (mn)	112
Target price per share (Rs)	410

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- weak content for a prolonged period of time,
- lower-than-expected ramp-up in occupancies, and
- above-estimated operating expenses till footfalls reach optimum levels.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	16,922	18,974	2,515	18,164	22,484
EBITDA	3,092	5,968	(1,499)	5,627	7,327
Depreciation	963	2,642	2,837	2,963	3,384
EBIT	2,129	3,327	(4,336)	2,665	3,943
Net interest income/(expenses)	(237)	(2,212)	(2,477)	(2,235)	(2,150)
Other income/(expenses)	149	172	2,635	245	259
Exceptional items	(50)	0	0	0	0
EBT	1,991	1,286	(4,178)	675	2,052
Income taxes	(656)	(1,136)	1,044	(170)	(517)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	1,335	150	(3,133)	505	1,535
Adjustments	50	0	0	0	0
Adjusted net profit	1,385	150	(3,133)	505	1,535

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,596	1,295	172	1,493	1,848
Other current liabilities	1,403	1,332	177	1,742	2,156
Provisions	271	374	50	358	443
Debt funds	1,100	1,576	2,676	1,976	1,676
Other liabilities	780	27,358	24,958	26,281	28,382
Equity capital	1,026	1,026	1,125	1,125	1,125
Reserves & surplus	8,612	5,192	5,482	5,986	7,521
Shareholders' fund	9,638	6,219	6,607	7,111	8,646
Total liabilities and equities	14,788	38,154	34,639	38,962	43,151
Cash and cash eq.	143	457	1,832	1,582	1,441
Accounts receivables	882	627	103	597	739
Inventories	122	136	18	131	162
Other current assets	366	522	81	595	736
Investments	6	2	2	2	2
Net fixed assets	8,939	9,754	9,802	10,756	12,432
CWIP	637	853	0	0	0
Intangible assets	286	259	259	259	259
Deferred tax assets, net	529	1,773	1,773	1,773	1,773
Other assets	2,879	23,770	20,769	23,268	25,608
Total assets	14,788	38,154	34,640	38,962	43,151

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,348	2,792	(296)	3,467	4,919
Interest expenses	237	2,212	2,477	2,235	2,150
Non-cash adjustments	283	(1,244)	0	0	0
Changes in working capital	68	342	522	134	4
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,936	4,102	2,702	5,837	7,073
Capital expenditures	(2,567)	(2,083)	(400)	(2,309)	(3,264)
Change in investments	16	5	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,551)	(2,079)	(400)	(2,309)	(3,264)
Equities issued/Others	64	0	98	0	0
Debt raised/repaid	(1,819)	476	1,100	(700)	(300)
Interest expenses	(237)	(116)	(185)	(202)	(158)
Dividends paid	0	(119)	0	0	0
Other financing cash flows	1,485	(1,951)	(1,941)	(2,877)	(3,491)
Cash flow from financing	(507)	(1,709)	(927)	(3,779)	(3,949)
Changes in cash and cash eq.	(122)	314	1,375	(251)	(140)
Closing cash and cash eq.	143	457	1,832	1,582	1,441

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	13.0	1.5	(27.9)	4.5	13.6
Adjusted EPS	13.5	1.5	(27.9)	4.5	13.6
Dividend per share	0.0	1.2	0.0	0.0	0.0
Book value per share	93.9	60.6	58.7	63.2	76.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.4	2.1	15.2	2.1	1.7
EV/EBITDA	12.9	6.5	(25.5)	6.8	5.2
Adjusted P/E	24.4	225.7	(11.8)	73.6	24.2
P/BV	3.5	5.4	5.6	5.2	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	69.6	11.7	75.0	74.8	74.8
Interest burden (PBT/EBIT)	93.5	38.7	96.4	25.3	52.0
EBIT margin (EBIT/Revenue)	12.6	17.5	(172.4)	14.7	17.5
Asset turnover (Revenue/Avg TA)	152.8	54.8	7.3	51.1	57.8
Leverage (Avg TA/Avg Equity)	1.4	2.9	5.4	5.1	4.7
Adjusted ROAE	17.0	1.9	(48.9)	7.1	17.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.5	12.1	(86.7)	622.1	23.8
EBITDA	46.9	93.1	(125.1)	(475.5)	30.2
Adjusted EPS	5.4	(89.2)	(2005.6)	(116.1)	204.1
Profitability & Return ratios (%)					
EBITDA margin	18.3	31.5	(59.6)	31.0	32.6
EBIT margin	12.6	17.5	(172.4)	14.7	17.5
Adjusted profit margin	8.2	0.8	(124.6)	2.8	6.8
Adjusted ROAE	17.0	1.9	(48.9)	7.1	17.8
ROCE	19.4	14.5	(12.6)	7.7	10.6
Working capital days (days)					
Receivables	19	12	15	12	12
Inventory	3	3	3	3	3
Payables	42	36	16	43	45
Ratios (x)					
Gross asset turnover	1.9	1.8	0.3	1.7	1.8
Current ratio	0.5	0.5	5.4	0.8	0.7
Net interest coverage ratio	9.0	1.5	(1.8)	1.2	1.8
Adjusted debt/equity	0.1	0.2	0.1	0.1	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

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Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INOX LEISURE (INOL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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