RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 315 | 18%

INOX LEISURE | Media | 07 November 2020

Cost control mitigates Q2 losses; content push awaited

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A tight leash on operating cost and rent waivers helped Inox Leisure (INOL) mitigate its operating/net loss to Rs 318mn/Rs 679mn, in the absence of any revenue in Q2. About 85% of total screens have received permission to open, but INOL is grappling with weak footfall and operating metrics due to a lack of fresh content. Footfall ramp-up will take a few weeks as new movies trickle in, but a rise in opex is likely to fuel operating losses in Q3 as well. We lower FY22/FY23 EBITDA by 6%/7% and roll to a Dec'22 TP of Rs 315 (vs. Rs 330).

Content push awaited, expansion plans on track: Currently, 528 out of INOL's 626 screens are operational (incl. in Maharashtra from 5 Nov). But the absence of new movies has compelled INOL to show library content. This, despite heavy discounts on ticket prices (35-40%) and F&B, has failed to attract audiences. Per management, fresh content availability should gain traction now that Maharashtra screens are reopening, which would raise occupancy – as evident in W. Bengal during the festive season. INOL maintains a target of 41 new screen openings in FY21 and a long-term pipeline of 1,000 screens.

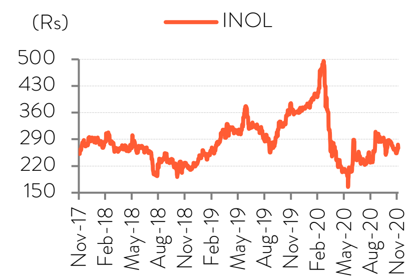
Stringent cost control, comfortable liquidity: INOL has lowered its opex burn slightly to Rs 106mn/month in Q2 vs. Rs 120mn in Q1. It has reached a settlement with 60-70% of landlords for a complete waiver of rent for the shutdown phase and is in discussions to move to a revenue-sharing model for H2FY21. Opex burn is likely to rise in Q3 as screens open and electricity & housekeeping costs kick in even as footfall rises slowly, awaiting a content push. INOL's liquidity remains healthy with Rs 940mn of cash including bank limits.

TP reduced: We cut FY22/FY23 EBITDA estimates by 6%/7% owing to delays in screen reopening in key states and weak occupancies. Rolling valuations over, we lower our Dec'21 TP to Rs 315 (vs. Rs 330). Maintain BUY.

Ticker/Price	INOL IN/Rs 266
Market cap	US$ 384.5mn
Shares o/s	107mn
3M ADV	US$ 3.2mn
52wk high/low	Rs 512/Rs 158
Promoter/FPI/DII	52%/11%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	16,922	18,974	4,602	18,423	22,604
EBITDA (Rs mn)	3,092	5,968	(917)	5,611	7,281
Adj. net profit (Rs mn)	1,385	150	(3,343)	527	1,546
Adj. EPS (Rs)	13.5	1.5	(31.2)	4.9	14.5
Adj. EPS growth (%)	5.4	(89.2)	(2237.1)	(115.8)	193.2
Adj. ROAE (%)	17.0	1.9	(66.1)	11.9	25.9
Adj. P/E (x)	19.7	182.2	(8.5)	54.0	18.4
EV/EBITDA (x)	10.1	5.1	(32.2)	5.4	4.2

Source: Company, BOBCAPS Research

FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenue	**4**	**5,199**	**(99.9)**	**3**	**44.0**	**6**	**10,130**	**(99.9)**
Movie exhibition costs	-	1,391	(100.0)	-	NM	-	2,690	(100.0)
% of sales	-	26.8	(2,676bps)	-	0bps	-	26.6	(2,656bps)
Consumption of F&B	-	345	(100.0)	-	NM	-	678	(100.0)
% of sales	-	6.6	(664bps)	-	0bps	-	6.7	(670bps)
Employee expenses	152	373	(59.2)	243	(37.3)	395	724	(45.4)
% of sales	4,230.6	7.2	NM	9,720.0	NM	6,480.3	7.1	NM
Other expenses	169	1,412	(88.0)	118	42.9	287	2,858	(89.9)
% of sales	4,694.4	27.2	NM	4,732.0	NM	4,709.8	28.2	NM
Total expenditure	321	3,522	(90.9)	361	(11.1)	683	6,951	(90.2)
EBITDA	**(318)**	**1,678**	**(118.9)**	**(359)**	**(11.5)**	**(677)**	**3,179**	**(121.3)**
EBITDA margin (%)	(8,825.0)	32.3	NM	(14,352.0)	NM	(11,090.2)	31.4	NM
Depreciation	714	645	10.7	708	0.9	1,422	1,253	13.5
EBIT	**(1,032)**	**1,033**	**(199.9)**	**(1,066)**	**(3.2)**	**(2,098)**	**1,926**	**(209.0)**
Interest expense	641	542	18.2	633	1.2	1,274	1,051	21.2
Other income*	766	44	1,641.6	720	6.4	1,486	75	1,876.3
PBT	**(906)**	**534**	**(269.6)**	**(979)**	**(7.4)**	**(1,886)**	**950**	**(298.5)**
PBT margin (%)	(25,175.0)	10.3	NM	(39,168.0)	NM	(30,909.8)	9.4	NM
Exceptional/extra-ordinary items	-	-	-	-	-	-	-	-
Income tax	(227)	183	(224.2)	(243)	(6.4)	(470)	328	(243.2)
Effective tax rate (%)	25.1	34.3	(917bps)	24.8	28bps	24.9	34.6	(964bps)
Reported PAT	**(679)**	**351**	**(293.3)**	**(736)**	**(7.8)**	**(1,415)**	**621**	**(327.8)**
Profit/(loss) from JVs/Minority/Associates	-	-	-	-	-	-	-	-
Reported PAT – after profit/(loss) from JVs/Minority/Associates	**(679)**	**351**	**(293.3)**	**(736)**	**(7.8)**	**(1,415)**	**621**	**(327.8)**
Adjustments	-	-	-	-	-	-	-	NM
Adjusted PAT	**(679)**	**351**	**(293.3)**	**(736)**	**(7.8)**	**(1,415)**	**621**	**(327.8)**
Adjusted PAT margin (%)	(18,861.1)	6.8	NM	(29,456.0)	NM	(23,203.3)	6.1	NM
Adjusted EPS	(6.6)	3.4	(293.2)	(7.2)	(7.8)	(25.7)	12.8	(299.7)

Source: Company, BOBCAPS Research | * Note: Other income includes a rent concession of Rs 640mn in Q2 and Rs 921mn in H1FY21

Earnings call takeaways

Screen reopening

- As per the Ministry of Home Affairs' (MHA) latest 'Unlock 5.0' guidelines, cinema screens have been allowed to open with a 50% cap on seating capacity from 15 October. Including Maharashtra, which allowed cinemas to open from 5 November, 528 of INOL's 626 screens have currently resumed operations.
- Indian multiplexes are awaiting state permission to start operations in Odisha, Chhattisgarh, Jharkhand, Rajasthan, Kerala, and Telangana – an aggregated 24 locations and 98 screens for INOL.
- Though there is no clear timeline for relaxation of the 50% cap on seating capacity, management hopes that full capacity will be restored by end-FY21.

Content pipeline

- Since Maharashtra – the largest Bollywood movie circuit (25-30% of box office collections) – has permitted cinemas to reopen, new content is likely to opt for theatrical release soon.
- So far, only one Bollywood movie is slated for a Diwali release – 'Suraj Pe Mangal Bhari'. INOL believes the overall movie pipeline is strong.
- Management expects 'Tenet' to release soon and generate a healthy response from the audience.

Operating aspects

- About 400 of INOL's screens have been operational since Oct'15 (excl. Maharashtra). Due to the lack of fresh releases, the company is currently screening library content which has failed to attract substantial footfalls.
- INOL is currently offering heavy discounts on average ticket price (ATP) and food and beverage (F&B). Average ATP is currently between Rs 140 and Rs 145 levels. It has launched several special combos for customers, along with customised offers for pre-booking guests. Strike rate remains healthy.
- Six new movies were released in West Bengal during the festive season to a good consumer response. Some shows had full occupancy, with families also in attendance. ATP was at pre-Covid levels and F&B offtake was also healthy.
- Currently, only a handful of advertisers are running ads on cinema screens. Average ad inventory stands at 2-3 minutes.

Cost cutting measures

- INOL has reached settlements with 60-70% of the property owners for a full waiver on rent and common area maintenance charges for the lockdown period. It expects to close negotiations with the remaining developers soon.
- The company is also in active discussions with landlords who currently get fixed rentals to move to a revenue-sharing model for H2FY21.
- Tight cost control continues as monthly cash burn has lowered slightly in Q2FY21 to Rs 106mn vs. Rs 120mn in Q1.
- Opex burn is likely to increase in Q3 as screens reopen and costs such as housekeeping and electricity rise, while occupancies remain below optimum levels. Staff strength will go up from current levels but will remain below pre-Covid levels as INOL has trained employees to cross function so as to improve productivity.
- Liquidity position remains robust with Rs 940mn of cash as on Oct'20 (including undrawn limits). The board has also approved fundraising through equity shares or other securities up to Rs 2.5bn.

Screen expansion

- Management maintains it FY21 new screen opening guidance of 41 screens, where 85% of the work is complete. Capex outlay of Rs 280mn-300mn is needed towards completing the remaining work.
- INOL has agreements with property developers for a total of 1,000 screen openings over the next several years.

Valuation methodology

In our sector initiation report dated 7 August 2020, **Opportunity in adversity**, we factored in an Oct'20 reopening for all multiplex screens across the country. However, though the government has allowed screens to open from 15 October with a 50% cap, permission from some states is still awaited. For example, Maharashtra allowed screens to open only from 5 November and other key states such as Telangana are yet to permit resumption of movie halls. Moreover, the ramp-up in occupancy has been delayed owing to a lack of fresh content, which is likely to continue for a few more weeks.

Baking in the above factors, we slash our revenue/EBITDA assumptions for FY21. We remain positive on a recovery post FY21 led by pent-up demand for out-of-home entertainment, fresh content and allayed pandemic fears. Therefore, we trim our revenue forecasts by a lower 3% each for FY22/FY23 and accordingly our EBITDA estimates by 6%/7%. Rolling valuations over, we have a revised Dec'21 target price of Rs 315 vs. Rs 330, based on an unchanged 10x Dec'22E TTM adjusted EBITDA (adj. for Ind-AS 116). The stock is trading at 11x/8x FY22E/FY23E adj. EBITDA. Retain BUY.

We maintain INOL as our top pick in the Indian multiplex space, owing to its stronger balance sheet than peers, higher financial flexibility (scope to raise funds through sale and lease-back, and equity capital), and lower fixed costs per screen which would require less cash burn. We expect it to enter the post-pandemic phase with a strong financial position, which could enable it to grow its screen presence through organic or inorganic routes.

Moreover, through concerted efforts, INOL has closed the gap with industry leader PVRL across most operating parameters – a trend which we expect to continue in the near-to-medium term. This should help narrow the valuation gap between the two as well.

FIG 2 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	7,557	4,602	(39.1)	18,943	18,423	(2.7)	23,241	22,604	(2.7)
Adj. EBITDA*	(1,057)	(2,047)	NM	2,908	2,729	(6.2)	4,100	3,811	(7.0)
Adj. EBITDA Margin (%)	(14.0)	(44.5)	(3,050bps)	15.4	14.8	(54bps)	17.6	16.9	(78bps)
PAT	(2,460)	(3,343)	NM	627	527	(15.9)	1,777	1,546	(13.0)
PAT Margin (%)	(32.6)	(72.6)	(4,009bps)	3.3	2.9	(45bps)	7.6	6.8	(80bps)

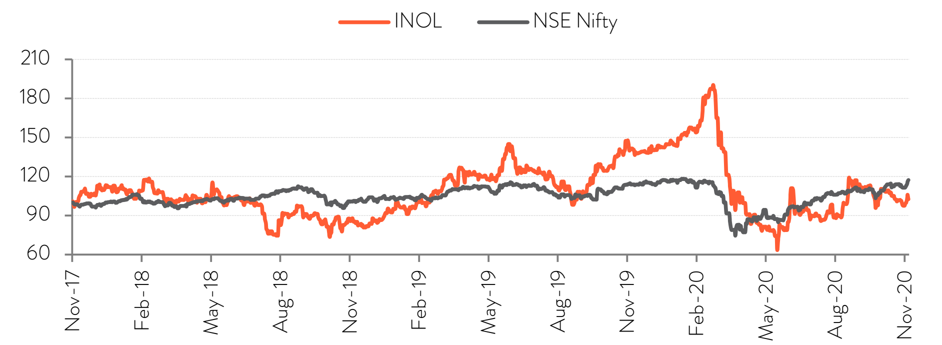
Source: BOBCAPS Research | *Adjusted for Ind-AS 116 accounting impact

FIG 3 – VALUATION SUMMARY

(Rs mn)	
Dec'22E TTM EBITDA	6,864
Ind-AS 116 adjusted EBITDA	3,541
EV/EBITDA multiple assigned (x)	10.0
Enterprise value	**35,406**
Net debt	1,640
Equity value	33,766
No. of shares (mn)	107
Target price per share (Rs)	**315**

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Weak content for a prolonged period of time
- Lower-than-expected ramp-up in occupancies
- 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**	**4,602**	**18,423**	**22,604**
EBITDA	3,092	5,968	(917)	5,611	7,281
Depreciation	963	2,642	2,843	2,941	3,330
EBIT	2,129	3,327	(3,759)	2,670	3,952
Net interest income/(expenses)	(237)	(2,212)	(2,281)	(2,160)	(2,106)
Other income/(expenses)	149	172	1,642	195	222
Exceptional items	(50)	0	0	0	0
EBT	1,991	1,286	(4,398)	705	2,067
Income taxes	(656)	(1,136)	1,056	(178)	(521)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**1,335**	**150**	**(3,343)**	**527**	**1,546**
Adjustments	50	0	0	0	0
Adjusted net profit	**1,385**	**150**	**(3,343)**	**527**	**1,546**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,596	1,295	315	1,514	1,858
Other current liabilities	1,403	1,332	323	1,767	2,167
Provisions	271	374	91	363	445
Debt funds	1,100	1,576	2,676	1,976	1,676
Other liabilities	780	27,358	26,336	27,059	29,110
Equity capital	1,026	1,026	1,070	1,070	1,070
Reserves & surplus	8,612	5,192	2,820	3,347	4,893
Shareholders' fund	9,638	6,219	3,890	4,417	5,963
Total liabilities and equities	**14,788**	**38,154**	**33,631**	**37,097**	**41,221**
Cash and cash eq.	143	457	127	337	127
Accounts receivables	882	627	189	606	743
Inventories	122	136	33	132	163
Other current assets	366	522	172	603	740
Investments	6	2	2	2	2
Net fixed assets	8,939	9,754	9,706	10,319	12,012
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	21,370	23,066	25,403
Total assets	**14,788**	**38,154**	**33,631**	**37,097**	**41,221**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,348	2,792	(500)	3,468	4,876
Interest expenses	237	2,212	2,281	2,160	2,106
Non-cash adjustments	283	(1,244)	0	0	0
Changes in working capital	68	342	327	329	4
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**2,936**	**4,102**	**2,108**	**5,957**	**6,986**
Capital expenditures	(2,567)	(2,083)	(300)	(1,944)	(3,241)
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)**	**(300)**	**(1,944)**	**(3,241)**
Equities issued/Others	64	0	44	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)	(3,098)	(2,901)	(3,497)
Cash flow from financing	**(507)**	**(1,709)**	**(2,139)**	**(3,803)**	**(3,955)**
Changes in cash and cash eq.	**(122)**	**314**	**(330)**	**210**	**(210)**
Closing cash and cash eq.	**143**	**457**	**127**	**337**	**127**

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	13.0	1.5	(31.2)	4.9	14.5
Adjusted EPS	13.5	1.5	(31.2)	4.9	14.5
Dividend per share	0.0	1.2	0.0	0.0	0.0
Book value per share	93.9	60.6	36.4	41.3	55.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.8	1.6	6.4	1.6	1.4
EV/EBITDA	10.1	5.1	(32.2)	5.4	4.2
Adjusted P/E	19.7	182.2	(8.5)	54.0	18.4
P/BV	2.8	4.4	7.3	6.5	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	69.6	11.7	76.0	74.8	74.8
Interest burden (PBT/EBIT)	93.5	38.7	117.0	26.4	52.3
EBIT margin (EBIT/Revenue)	12.6	17.5	(81.7)	14.5	17.5
Asset turnover (Revenue/Avg TA)	152.8	54.8	14.0	54.8	61.2
Leverage (Avg TA/Avg Equity)	1.4	2.9	6.7	8.0	6.8
Adjusted ROAE	17.0	1.9	(66.1)	11.9	25.9

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	(75.7)	300.3	22.7
EBITDA	46.9	93.1	(115.4)	(712.1)	29.8
Adjusted EPS	5.4	(89.2)	(2237.1)	(115.8)	193.2
Profitability & Return ratios (%)					
EBITDA margin	18.3	31.5	(19.9)	30.5	32.2
EBIT margin	12.6	17.5	(81.7)	14.5	17.5
Adjusted profit margin	8.2	0.8	(72.6)	2.9	6.8
Adjusted ROAE	17.0	1.9	(66.1)	11.9	25.9
ROCE	19.4	14.5	(11.2)	8.0	11.3
Working capital days (days)					
Receivables	19	12	15	12	12
Inventory	3	3	3	3	3
Payables	42	36	21	43	44
Ratios (x)					
Gross asset turnover	1.9	1.8	0.5	1.8	1.9
Current ratio	0.5	0.5	0.8	0.5	0.4
Net interest coverage ratio	9.0	1.5	(1.6)	1.2	1.9
Adjusted debt/equity	0.1	0.2	0.7	0.4	0.3

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

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

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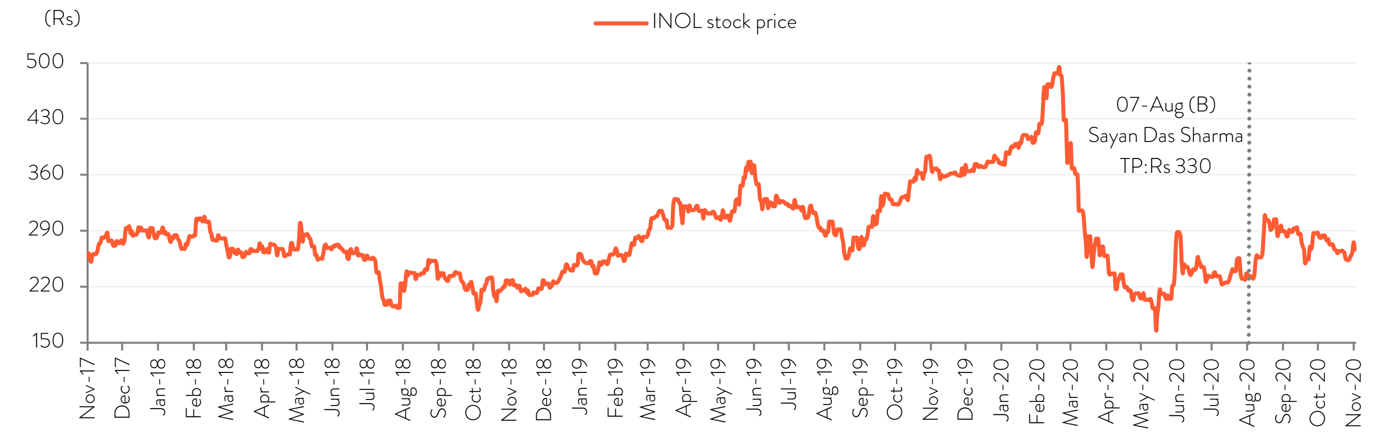
Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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



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

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