

Inox Leisure (INOL IN)

Rating: ACCUMULATE | CMP: Rs235 | TP: Rs262

August 6, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	262		256	
Sales (Rs. m)	7,228	19,314	8,060	19,175
% Chng.	(10.3)	0.7		
EBITDA (Rs. m)	2,016	5,951	739	5,885
% Chng.	172.7	1.1		
EPS (Rs.)	(16.1)	15.9	(14.2)	15.4
% Chng.	NA	2.7		

Change in reported EBITDA for FY21 is not comparable as we assumed NIL amortization of rent expenses. Refer Ind-AS financials in exhibit 3 for better clarity

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	18,974	7,228	19,314	24,067
EBITDA (Rs. m)	5,968	2,016	5,951	7,444
Margin (%)	31.5	27.9	30.8	30.9
PAT (Rs. m)	150	(1,651)	1,632	2,358
EPS (Rs.)	1.5	(16.1)	15.9	23.0
Gr. (%)	(89.2)	NA	NA	44.5
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	2.4	NA	27.2	28.6
RoCE (%)	10.0	NA	10.3	13.0
EV/Sales (x)	2.7	7.1	2.6	2.0
EV/EBITDA (x)	8.6	25.6	8.5	6.6
PE (x)	160.4	NA	14.8	10.2
P/BV (x)	3.9	5.4	4.0	2.9

Key Data

INOL.BO | INOL IN

52-W High / Low	Rs.512 / Rs.158
Sensex / Nifty	37,663 / 11,102
Market Cap	Rs.24bn / \$ 322m
Shares Outstanding	103m
3M Avg. Daily Value	Rs.397.71m

Shareholding Pattern (%)

Promoter's	52.09
Foreign	9.53
Domestic Institution	20.34
Public & Others	18.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.8	(43.0)	(17.9)
Relative	(3.6)	(37.7)	(20.0)

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Cost cutting exercise reduces cash burn by 25%

Quick Pointers:

- Current average monthly opex burn is ~Rs110-120mn, down from ~Rs150-160mn prevailing during lockdown.
- Equity fund raising of Rs2.5bn is in pipeline to meet liquidity/capex needs.

INOL's performance was better than our estimates (Ind-AS adjusted EBITDA loss of Rs376mn versus our estimate of Rs505mn) as rigorous cost cutting initiatives led to a reduction in fixed monthly opex burn by 25%. We expect 1HFY21 to be a period of liquidity management as occupancy would remain negligible (was NIL in 1Q and is expected to be at 2.6%% in 2Q) with gradual recovery in 2HFY21 (average occupancy expectation of 17.5%). While management cited that content pipeline is healthy with 14 Hindi and 53 regional language films ready for theatrical release, rising instances of producers opting for OTT route (especially big ticket films like Laxmmi Bomb, BHUJ etc) poses a risk to the current pent-up demand. Given the uncertain re-opening timelines we have cut our sales estimates by 10% but expect a reduction in Ind-AS adjusted EBITDA loss by Rs92mn for FY21 as we bake in benefits of current cost rationalization. However, we keep our FY22 estimates majorly intact. While there are near term headwinds, INOL has a strong BS (net D/E of 0.17x as of July 2020) and comfortable liquidity position (real estate of Rs3.5bn and treasury stock of Rs1bn on BS) to navigate the current crisis. We continue to maintain our positive stance on the multiplex space (low ticket consumer discretionary play) but given the current environment, recommend a staggered buying approach. Retain ACCUMULATE with a TP of Rs262 (Rs255 earlier) valuing the stock at EV/EBITDA multiple of 9x (no change).

Revenue falls steeply: INOL's top-line declined 99.9% YoY to Rs3mn (PLe of Rs NIL) as multiplexes remained shut in 1QFY21 due to the ongoing pandemic.

Cost cutting initiatives bears fruits: Ind-AS adjusted EBITDA loss stood at Rs376mn and was better than our estimate of Rs505mn as INOL managed to cut the monthly opex burn by 25% (current burn is in the range of Rs110-120mn). Rent & CAM cost (ex-Ind AS 116 impact) was NIL in 1QFY21 as force majeure was invoked. Further, manpower / power & fuel / other overheads were down by 64.1% YoY / 91.2% YoY / 74.1% YoY during 1QFY21.

Con-call highlights: 1) Target to open 41 screens in FY21E remains intact entailing a capex of Rs280-300mn (86% work is already complete) 2) Inox has negotiated revenue sharing agreement with few developers post re-opening, instead of paying fixed rent to lower cash outgo 3) As of 31st July, net debt stood at Rs1.78bn 4) 14 Hindi films and 53 regional language films are ready for theatrical release post re-opening while ~22 films are in post-production phase indicating that content pipeline is healthy. 5) Globally, there has been an instance of reduction in windowing gap from ~3 months to 17 days but in India the 8 week's cushion is expected to sustain 6) Enabling resolution for fund raising is up to Rs2.5bn and exact quantum and mode (QIP/ rights/ off-loading of treasury shares) is being evaluated 7) The cost reduction of 25% is sustainable in nature. 8) There is no discussion with distributors to change the current revenue sharing model.

Exhibit 1: Consolidated Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
Net sales	3	4,930	-99.9%	3,716	-99.9%
Movie exhibition cost	-	1,299	NM	937	NM
<i>As a % of sales</i>	<i>0.0%</i>	<i>26.3%</i>		<i>25.2%</i>	
Consumption of F&B	-	333	NM	264	NM
<i>As a % of sales</i>	<i>0.0%</i>	<i>6.8%</i>		<i>7.1%</i>	
Employee expenses	243	351	-30.7%	327	-25.8%
<i>As a % of sales</i>	<i>NM</i>	<i>7.1%</i>		<i>8.8%</i>	
Other expenses	(574)	1,446	NM	1,087	NM
<i>As a % of sales</i>	<i>NM</i>	<i>29.3%</i>		<i>29.3%</i>	
EBITDA	334	1,501	-77.8%	1,100	-69.7%
<i>EBITDA margin</i>	<i>NM</i>	<i>30.4%</i>		<i>29.6%</i>	
Depreciation	708	608	16.4%	740	-4.4%
EBIT	(374)	893	NM	360	NM
<i>EBIT margin</i>	<i>NM</i>	<i>18.1%</i>		<i>9.7%</i>	
Interest cost	633	509	24.4%	614	3.0%
Other income	27	31	-13.1%	48	-43.4%
Exceptional items	-	-	NM	-	
PBT	(979)	415	NM	(206)	NM
Tax expenses	(243)	145	NM	615	-139.5%
Tax rate	NM	35.0%		NM	
PAT	(737)	270	NM	(822)	NM
<i>PAT margin</i>	<i>NM</i>	<i>5.5%</i>		<i>NM</i>	
Non-controlling interest	-	-	NM	-	NM
Other comprehensive income (OCI)	5	(11)	NM	(4)	NM
PAT inclusive of OCI	(732)	259	NM	(825)	NM
EPS (Rs)	(7.5)	2.8	NM	(8)	NM

Source: Company, PL

Exhibit 2: Revenue Mix (Rs mn)

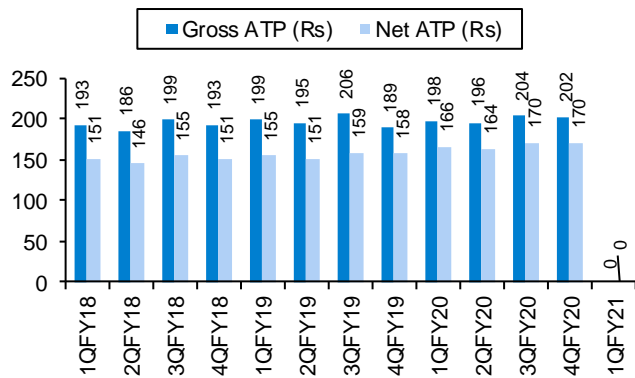
Particulars	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.
NBOC	-	2,870	NM	2,180	NM
<i>As a % of sales</i>	<i>0.0%</i>	<i>58.2%</i>		<i>58.0%</i>	
Net F&B	-	1,320	NM	940	NM
<i>As a % of sales</i>	<i>0.0%</i>	<i>26.8%</i>		<i>25.0%</i>	
Advertisement revenue	-	470	NM	350	NM
<i>As a % of sales</i>	<i>0.0%</i>	<i>9.5%</i>		<i>9.3%</i>	
Other operating income	3	270	-99.1%	290	-99.1%
<i>As a % of sales</i>	<i>100.0%</i>	<i>5.5%</i>		<i>7.7%</i>	
Total sales	3	4,930	-99.9%	3,760	-99.9%

Source: Company, PL

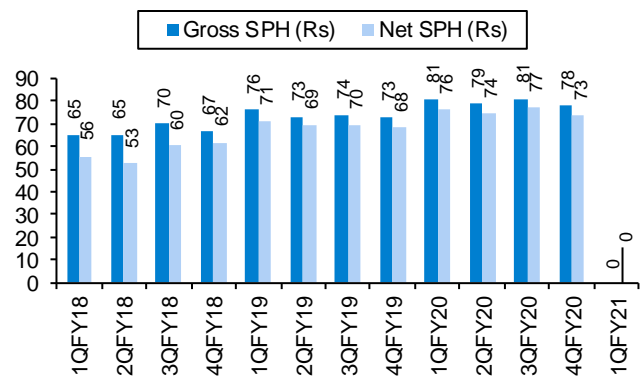
Exhibit 3: Ind AS adjusted financials

Particulars (Rs mn)	Q1FY21	Q1FY20	YoY gr.	Q4FY20	QoQ gr.	FY20	FY21E	FY22E	FY22E
Sales	3	4,930	-99.9%	3,716	-99.9%	18,974	7,228	19,314	24,067
Ind-AS Adjusted EBITDA	(376)	888	NM	349	NM	3,301	(730)	3,357	4,360
<i>Ind-AS Adjusted EBITDA margin</i>	<i>NM</i>	<i>18.0%</i>		<i>9.4%</i>		<i>17.4%</i>	<i>NM</i>	<i>17.4%</i>	<i>18.1%</i>
Ind-AS Adjusted PAT	(517)	412	NM	(25)	NM	1,410	(1,426)	1,632	2,358
<i>Ind-AS Adjusted PAT margin</i>	<i>NM</i>	<i>8.4%</i>		<i>NM</i>		<i>7.4%</i>	<i>NM</i>	<i>8.4%</i>	<i>9.8%</i>

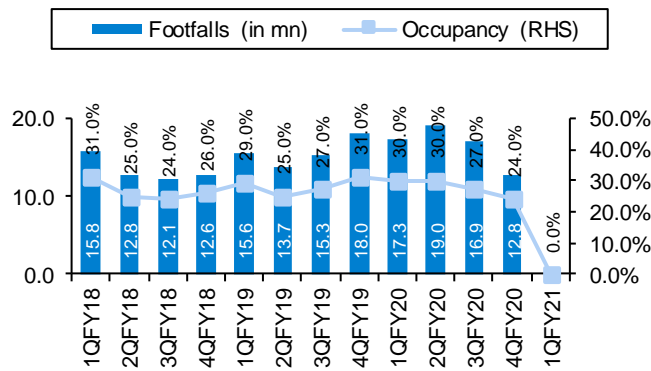
Source: Company, PL

Exhibit 4: Gross/Net ATP trend over the past few quarters


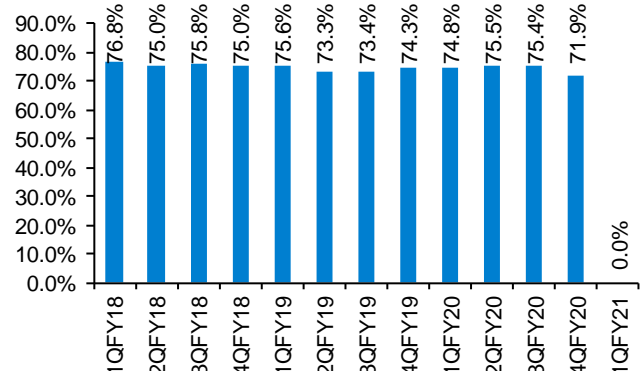
Source: Company, PL

Exhibit 5: Gross/Net SPH trend over the past few quarters


Source: Company, PL

Exhibit 6: Footfalls are volatile, driven by content


Source: Company, PL

Exhibit 7: F&B GM trend over past few quarters


Source: Company, PL

Exhibit 8: Relative valuation EV/EBITDA

Particulars	FY22*
EV/EBITDA	9.0
EBITDA	5,951
EV	53,560
Less: Debt	28,244
Add: Cash	1,635
Equity Value	26,950
No of shares	103
Per share value (Rs)	262

Source: PL

*IndAS 116 compliant projections

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	18,974	7,228	19,314	24,067
YoY gr. (%)	12.1	(61.9)	167.2	24.6
Cost of Goods Sold	6,227	2,210	6,380	7,806
Gross Profit	12,748	5,018	12,934	16,261
Margin (%)	67.2	69.4	67.0	67.6
Employee Cost	1,421	1,128	1,449	1,925
Other Expenses	5,359	1,874	5,534	6,891
EBITDA	5,968	2,016	5,951	7,444
YoY gr. (%)	93.1	(66.2)	195.2	25.1
Margin (%)	31.5	27.9	30.8	30.9
Depreciation and Amortization	2,642	2,551	2,497	2,842
EBIT	3,327	(535)	3,454	4,602
Margin (%)	17.5	NA	17.9	19.1
Net Interest	2,212	1,815	1,447	1,642
Other Income	172	151	174	193
Profit Before Tax	1,286	(2,199)	2,181	3,153
Margin (%)	6.8	NA	11.3	13.1
Total Tax	1,136	(548)	550	794
Effective tax rate (%)	88.3	NA	25.2	25.2
Profit after tax	150	(1,651)	1,632	2,358
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	150	(1,651)	1,632	2,358
YoY gr. (%)	(89.2)	NA	NA	44.5
Margin (%)	0.8	(22.8)	8.4	9.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	150	(1,651)	1,632	2,358
YoY gr. (%)	(88.8)	NA	NA	44.5
Margin (%)	0.8	NA	8.4	9.8
Other Comprehensive Income	(13)	5	-	-
Total Comprehensive Income	137	(1,646)	1,632	2,358
Equity Shares O/s (m)	103	103	103	103
EPS (Rs)	1.5	(16.1)	15.9	23.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	37,007	37,421	40,009	42,715
Tangibles	36,823	37,231	39,814	42,516
Intangibles	185	190	195	200
Acc: Dep / Amortization	5,751	8,302	10,799	13,641
Tangibles	5,651	8,201	10,698	13,540
Intangibles	101	101	101	101
Net fixed assets	31,256	29,119	29,210	29,075
Tangibles	31,172	29,030	29,116	28,976
Intangibles	84	89	94	99
Capital Work In Progress	854	854	854	854
Goodwill	175	175	175	175
Non-Current Investments	1,969	2,170	2,281	2,601
Net Deferred tax assets	1,773	1,773	1,773	1,773
Other Non-Current Assets	385	413	474	607
Current Assets				
Investments	10	10	10	10
Inventories	137	59	159	198
Trade receivables	628	356	1,164	1,648
Cash & Bank Balance	447	1,018	1,679	3,092
Other Current Assets	431	434	541	674
Total Assets	38,154	36,418	38,398	40,829
Equity				
Equity Share Capital	1,027	1,027	1,027	1,027
Other Equity	5,192	3,438	4,967	7,223
Total Networkth	6,219	4,465	5,994	8,249
Non-Current Liabilities				
Long Term borrowings	26,819	26,839	26,968	27,022
Provisions	179	181	251	289
Other non current liabilities	665	651	773	915
Current Liabilities				
ST Debt / Current of LT Debt	1,026	1,776	1,276	776
Trade payables	1,295	594	1,270	1,648
Other current liabilities	1,877	1,834	1,784	1,843
Total Equity & Liabilities	38,154	36,418	38,398	40,829

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	150	(2,199)	2,181	3,153
Add. Depreciation	2,642	2,551	2,497	2,842
Add. Interest	2,212	1,815	1,447	1,642
Less Financial Other Income	172	151	174	193
Add. Other	977	(46)	(45)	(125)
Op. profit before WC changes	5,981	2,121	6,080	7,512
Net Changes-WC	(726)	(537)	(360)	(408)
Direct tax	(513)	548	(550)	(794)
Net cash from Op. activities	4,742	2,132	5,170	6,310
Capital expenditures	(2,070)	(413)	(2,588)	(2,707)
Interest / Dividend Income	14	-	-	-
Others	(74)	-	-	-
Net Cash from Inv. activities	(2,130)	(413)	(2,588)	(2,707)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,099)	20	129	54
Dividend paid	-	-	-	-
Interest paid	(111)	(1,815)	(1,447)	(1,642)
Others	(119)	647	(603)	(603)
Net cash from Fin. activities	(2,328)	(1,147)	(1,921)	(2,191)
Net change in cash	284	571	661	1,412
Free Cash Flow	2,669	1,718	2,582	3,603

Source: Company Data, PL Research

Key Financial Metrics

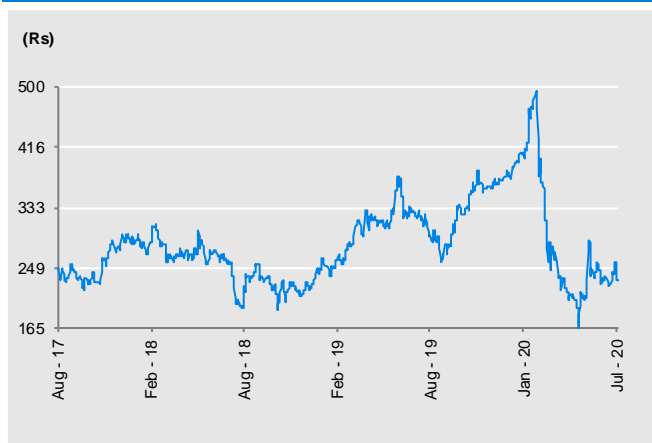
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	1.5	(16.1)	15.9	23.0
CEPS	27.2	8.8	40.2	50.7
BVPS	60.6	43.5	58.4	80.4
FCF	26.0	16.7	25.2	35.1
DPS	1.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	10.0	NA	10.3	13.0
ROIC	15.6	5.5	15.5	18.2
RoE	2.4	NA	27.2	28.6
Balance Sheet				
Net Debt : Equity (x)	4.4	6.2	4.4	3.0
Net Working Capital (Days)	(10)	(9)	1	3
Valuation(x)				
PER	160.4	NA	14.8	10.2
P/B	3.9	5.4	4.0	2.9
P/CEPS	8.6	26.8	5.8	4.6
EV/EBITDA	8.6	25.6	8.5	6.6
EV/Sales	2.7	7.1	2.6	2.0
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	5,199	5,129	3,716	3
YoY gr. (%)	42.3	18.4	(22.4)	(99.9)
Raw Material Expenses	1,737	1,657	1,201	-
Gross Profit	3,463	3,472	2,515	3
Margin (%)	66.6	67.7	67.7	100.0
EBITDA	1,678	1,690	1,100	334
YoY gr. (%)	274.5	102.3	13.0	(77.8)
Margin (%)	32.3	32.9	29.6	NA
Depreciation / Depletion	645	648	740	708
EBIT	1,033	1,041	360	(374)
Margin (%)	19.9	20.3	9.7	NA
Net Interest	542	547	614	633
Other Income	44	49	48	27
Profit before Tax	534	542	(206)	(979)
Margin (%)	10.3	10.6	(5.5)	NA
Total Tax	183	192	615	(243)
Effective tax rate (%)	34.3	35.4	NA	NA
Profit after Tax	351	350	(821)	(737)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	351	350	(821)	(737)
YoY gr. (%)	193.5	(4.0)	NA	NA
Margin (%)	6.8	6.8	NA	NA
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	351	350	(821)	(737)
YoY gr. (%)	30.1	(0.3)	NA	NA
Margin (%)	6.8	6.8	NA	NA
Other Comprehensive Income	-	2	(4)	5
Total Comprehensive Income	351	352	(825)	(732)
Avg. Shares O/s (m)	103	103	103	103
EPS (Rs)	3.6	3.6	(8.4)	(7.5)

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Accumulate	256	237
2	09-Jun-20	Accumulate	256	254
3	18-Apr-20	Hold	21	14
4	09-Apr-20	BUY	344	235
5	07-Feb-20	BUY	476	424
6	03-Jan-20	BUY	437	376
7	07-Dec-19	BUY	416	365
8	23-Oct-19	BUY	416	354
9	03-Oct-19	BUY	394	324
10	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	157	133
3	Indian Railway Catering and Tourism Corporation	Accumulate	1,495	1,401
4	Inox Leisure	Accumulate	256	237
5	Music Broadcast	Hold	18	16
6	Navneet Education	Accumulate	89	78
7	PVR	Accumulate	1,107	1,073
8	S Chand and Company	Accumulate	57	51
9	V.I.P. Industries	Hold	255	258

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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