

Washout quarter!

About the stock: Inox Leisure is the second largest player in terms of multiplex screen count in India. Currently, the company operates 695 screens in 165 cinemas in 74 cities in India with an aggregate seating capacity of ~1.57 lakhs seats.

- It is the only national multiplex, which enjoys a net debt free balance sheet

Q2FY23 Results: Washout quarter owing to weak box office recovery.

- Inox reported box office revenue of ₹ 209 crore (down ~41% QoQ) with footfalls down ~37% QoQ at 11.6 million and ATP at ₹ 215, down ~6% QoQ owing to promotional discounts during the quarter and content performance. Ad revenues was at ₹ 26 crore, down 13% QoQ and at ~65% of pre Covid levels. The company reported ₹ 110 crore of F&B revenues, down 33% QoQ with weak offtake of F&B due to low footfall, with SPH at ₹ 102 was up 6% QoQ
- EBITDA loss (ex-Ind-AS 116) was at ₹ 3 given the tepid box office performance. On reported basis, EBITDA was at ₹ 84.9 crore (22.7% margin)
- Consequently, reported loss was at ₹ 40.4 crore. The company reported net loss (without impact of Ind-AS 116) at ₹ 22 crore

What should investors do? Inox' share price has grown at 18% CAGR over the past five years (from ~₹ 227 in October, 2017 to ~₹ 512 levels in October, 2022).

- We maintain **BUY** rating on the company. Near term triggers include content performance recovery amid strong line up and merger consummation

Target Price and Valuation: We value Inox at ₹ 675 i.e. 15x FY24E EV/EBITDA.

Key triggers for future price performance:

- Strong content slate line up to drive recovery in footfalls/revenues
- Merged entity (PVR Inox) will benefit from scale of expansion, faster growth trajectory and other revenues/cost synergy

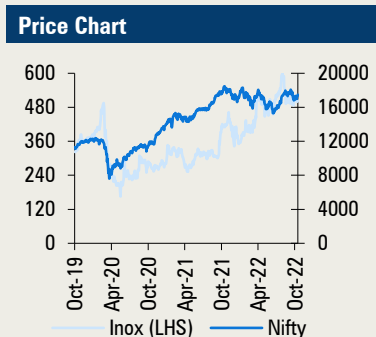
Alternate Stock Idea: Apart from Inox Leisure, we like PVR in the multiplex space.

- A play on recovery of earnings of multiplexes
- BUY with target price of ₹ 2130



Particulars	
Particulars	Amount
Market Capitalization (₹ Crore)	6,256
Total Debt (FY22) (₹ Crore)	86
Cash (FY22) (₹ Crore)	104
EV (₹ Crore)	6,352
52 week H/L (₹)	619/ 338
Equity Capital (₹ crore)	122.2
Face value (₹)	10.0

Shareholding pattern				
	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	43.6	44.0	44.0	44.0
DII	23.4	24.2	25.2	24.3
FII	16.9	15.3	16.6	18.8
Other	16.1	16.5	14.2	12.9



Key risks

Key Risk: (i) Delay in content performance recovery, (ii) Any hindrance to merger consummation

Research Analyst

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	5 yr CAGR (FY20-25E)
Total Operating Income (₹ crore)	1,897.4	105.9	683.9	(10.9)	2,084.8	2,676.0	3,028.8	9.8
EBITDA (₹ crore)	596.8	(172.3)	71.7	(13.1)	695.3	992.6	1,142.0	13.9
Net Profit (₹ crore)	15.0	(337.7)	(239.4)	PL	110.9	284.3	351.7	88.0
EPS (₹)	1.5	(30.0)	(19.6)		9.1	23.3	28.8	
P/E (x)	349.2	(17.0)	(26.0)		56.2	21.9	17.7	
Price / Book (x)	8.4	9.1	9.0		8.0	6.1	4.6	
EV/EBITDA (x)	15.1	(52.2)	124.9		12.8	9.0	7.8	
RoCE (%)	9.9	(11.7)	(5.4)		11.2	16.6	17.8	
RoE (%)	2.4	(62.5)	(50.6)		14.3	27.6	26.0	

Source: Company, ICICI Direct Research

Key performance highlight and outlook

Weak quarter...

Q2 was a weak quarter with major big budget/starrer movies such as *Lal Singh Chaddha*, *Raksha Bandhan*, *Shamsher*, *Liger*, etc, turning flops. Given the weak movies collection, only two movies (*Brahmastra*, *Thor*) crossed the ₹ 100 crore mark during the quarter. Consequently, footfalls were down ~37% QoQ at 11.6 million while ATP was at ₹ 215, down ~6% QoQ, owing to promotional discounts during the quarter and content performance. The company alluded the weak quarter was owing to most big Bollywood tent pole movies not doing well. We highlight that content pipeline is strong and thus, recovery is likely during Q3. **We bake in 77, 80, 80 screens addition in FY23E, FY24E, FY25E, respectively. Consequently, we build in footfall growth of 5.9% CAGR in FY20-25E to 88 million coupled with 4.2% CAGR in ATP to lead to ~10% FY20-25E CAGR in net box office revenues to ₹ 1809 crore. F&B revenue CAGR is estimated at ~12% over FY20-25E leading to total of ₹ 879 crore. Ad revenue is expected to take longer to recover. We expect ad revenue of ₹ 200 crore in FY25E (~12% higher than FY20).**

Liquidity strong; merger timeline on track...

As on October 16, 2022 the company has close to ₹ 292 crore of gross liquidity, including undrawn limit of ₹ 125 crore. Gross debt is ₹ 77 crore. On merger with PVR, as per direction of National Company Law Tribunal (NCLT), both PVR and Inox obtained shareholder approval. The company is in the process of filing a second motion petition with the NCLT in the Mumbai branch. The management expects the merger to be completed by the end of Q4FY23 in stipulated timelines.

Other highlights

- Guidance:** The company reiterated its guidance of 77 screens opening FY23, to be funded through internal accruals. **In H1, 30 screen have been added while 47 screens are under fit outs.** It indicated that ATP hike will be in line with inflations trends. It also guided that ad revenue recovery has been pushed back by a month or two and expects H2 ad revenues to be better than H1
- Acquisition of Luxe Cinemas:** The company is looking to further expand in the south market with plans to acquire Luxe Cinemas in Chennai, which is an 11-screen property with 2688 seats, including one IMAX screen at Phoenix Market City. While refraining from sharing deal value or broad financials of Luxe, the company indicated that **it is a positive EBITDA property and the deal will be done at a valuation range similar to that done in the past by Inox.** It will be largely funded through internal accruals and some debt.

We believe that with a strong content pipeline, a recovery will be seen ahead. Inox, with a strong balance sheet, is poised to grow at a superior rate. For the medium term, key trigger will be merger post which the MergedCo will benefit from a faster growth trajectory (the management is looking to add 200+ screens every year and ~2000 screens over the next seven years). Key synergy, in our view, will be bargaining power across the value chain, given the scale boosting the revenues across segments such as advertisements and distribution. We maintain BUY and assign FY24E EV/EBITDA multiple of 15x, with a target price of ₹ 675/share.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Comments
Revenue	374.1	375.0	47.4	582.3	688.6	-35.7	
Other Income	6.7	7.0	6.0	7.2	10.6	-6.8	
Employee Expenses	28.2	29.2	23.6	27.1	19.6	4.2	
Exhibition Cost	94.9	96.3	13.8	159.3	NA	-40.4	
Cost of F&B	26.0	27.5	3.4	36.4	664.1	-28.6	
Rent	0.0	0.0	0.0	0.0	NA	NA	
Other Expenses	140.2	145.0	45.2	149.0	210.1	-5.9	
EBITDA	84.9	77.0	-38.6	210.5	-320.0	-59.7	
EBITDA Margin (%)	22.7	20.5	-81.3	36.1	NM	NM	
Depreciation	77.4	75.0	73.6	75.4	5.1	2.7	
Interest	67.6	65.0	64.8	65.8	4.3	2.7	
Exceptional Items	0.0	0.0	-54.3	0.0	NA	NA	
Total Tax	-13.1	-14.2	-29.1	19.3	-55.0	-167.7	
PAT	-40.4	-41.8	-87.6	57.1	-53.9	-170.7	

Key Metrics

Footfalls	11.6	11.7	0.8	18.4	1,306.1	-37.0
Occupancy	17	18	1	29		
SPH	102	106	78.0	96.0	30.8	6.3
ATP	215	218	173	229	24.3	-6.1

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	
	Old	New	% Change	Old	New	% Change	New	
Revenue	2,295.9	2,084.8	-9.2	2,684.5	2,676.0	-0.3	3,028.8	Realign estimates
EBITDA	828.6	695.3	-16.1	1,019.9	992.6	-2.7	1,142.0	
EBITDA Margin (%)	36.1	33.3	-274 bps	38.0	37.1	-90 bps	37.7	
PAT	200.8	110.9	-44.8	303.9	284.3	-6.5	351.7	
EPS (₹)	16.4	9.1		24.9	23.3		28.8	


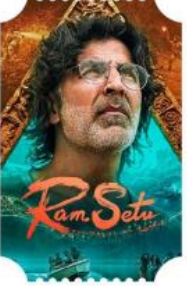


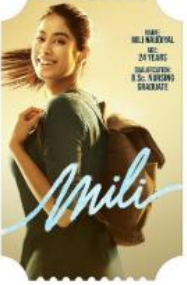






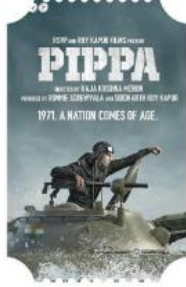
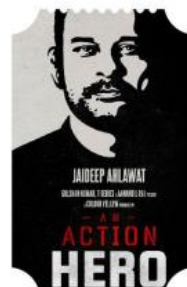











Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates (ex- IND AS 116)

(₹ Crore)	FY23E			FY24E			FY25E	
	Old	New	% Change	Old	New	% Change	New	
Revenue	2,295.9	2,084.8	-9.2	2,684.5	2,676.0	-0.3	3,028.8	Realign estimates
EBITDA	442.0	315.5	-28.6	563.5	538.0	-4.5	640.6	
EBITDA Margin (%)	19.3	15.1	-412 bps	21.0	20.1	-89 bps	21.1	
PAT	246.1	160.4	-34.8	327.5	308.8	-5.7	372.5	
EPS (₹)	20.1	13.1		26.8	25.3		30.5	

Source: Company, ICICI Direct Research

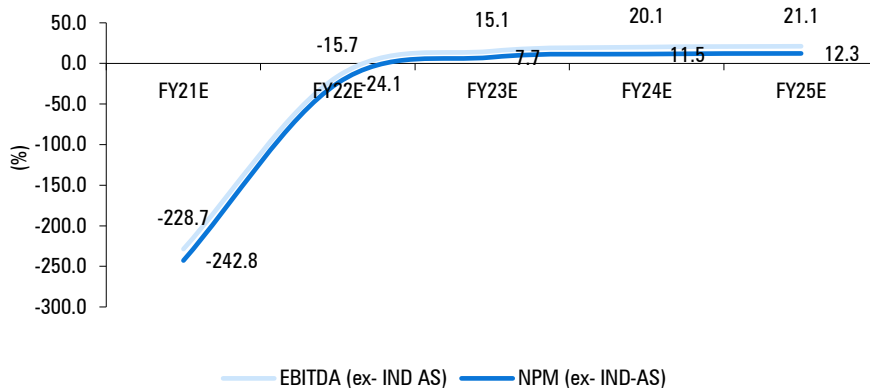
Exhibit 4: Q3/January content pipeline

 <p>BLACK ADAM CAST DWAYNE JOHNSON, SARAH SHAHI, ALDIS HODGE DIRECTOR JAUME COLLET SERRA 20TH OCT'2022</p>	 <p>RAM SETU CAST AKSHAY KUMAR, NUSHRRAT BHARUCHHA, JACQUELINE FERNANDEZ DIRECTOR ABHISHEK SHARMA 25TH OCT'2022</p>	 <p>THANK GOD CAST AJAY DEVGN, SIDHARTH MALHOTRA, RAKUL PREET DIRECTOR INDRA KUMAR 25TH OCT'2022</p>	 <p>HAR HAR MAHADEV (MARATHI) CAST KSUBODH BHAVE, SHARAD KELKAR, AMRUTA KHANVILKAR DIRECTOR ABHJEET SHIRISH DESHPANDE 25TH OCT'2022</p>
 <p>MILI CAST JANHVI KAPOOR, VIKRAM KOCHHAR, RAGHAV BINANI, MANOJ PAHWA, SUNNY KAUSHAL DIRECTOR MATHUKUTTY XAVIER 4TH NOV'2022</p>	 <p>PHONE BOOTH CAST KATRINA KAIF, SIDDHANT CHATURVEDI, ISHAAN KHATTAR DIRECTOR GURMEEET SINGH 4TH NOV'2022</p>	 <p>BLACK PANTHER - WAKANDA FOREVER CAST DANAI GURIRA, TENOUC HUERTA, LETITIA WRIGHT DIRECTOR RYAN COOGLER 10TH NOV'2022</p>	 <p>UUNCHAI CAST AMITABH BACHCHAN, ANUPAM KHER, PARINEETI CHOPRA DIRECTOR SOORAJ R BARJATYA 11TH NOV'2022</p>
 <p>DRISHYAM 2 CAST AJAY DEVGN, TABU, SHRIYA SARAN DIRECTOR ABHISHEK PATHAK 18TH NOV'2022</p>	 <p>BONES AND ALL CAST TAYLOR RUSSELL, TIMOHEE CHALAMET, MARK RYLANCE DIRECTOR LUCA GUADAGNINO 25TH NOV'2022</p>	 <p>BHEDIYA CAST YARUN DHAWAN, KRITI SANON DIRECTOR AMAR KAUSHIK 25TH NOV'2022</p>	 <p>PIPPA CAST ISHAAN KHATTAR, MRUNAL THAKUR DIRECTOR RAJA KRISHNA MENON 2ND DEC'2022</p>
 <p>AN ACTION HERO CAST AYUSHMANN KHURRANA, JAIDEEP ALHAWAT DIRECTOR ANIRUDH IYER 2ND DEC'2022</p>	 <p>VAAITHI (TAMIL) CAST DHANUSH, TANIKELLA BHARANI DIRECTOR VENKY ATTURI 2ND DEC'2022</p>	 <p>SALAAM VENKY CAST KAJOL, AAHANA KUMAR, RAHUL BOSE DIRECTOR REVATHY 9TH DEC'2022</p>	 <p>AVATAR : THE WAY OF WATER CAST ZOE SALDANA, KATE WINSLET, SAM WORTHINGTON DIRECTOR JAMES CAMERON 16TH DEC'2022</p>
 <p>CIRKUS CAST RAHVEER SINGH, JACQUELINE FERNANDEZ, POOJA HEGDE DIRECTOR ROHIT SHETTY 23RD DEC'2022</p>	 <p>KUSHI (TELEGU, TAMIL, KANNADA, MALAYALAM) CAST VIJAY DEVERAKONDA, SAMANTHA, JAYARAM DIRECTOR SHIVA NIRVANA 23RD DEC'2022</p>	 <p>A MAN CALLED OTTO CAST TOM HANKS, MARIANA TREVINO, RACHEL KELLER DIRECTOR MARC FOSTER 25TH DEC'2022</p>	 <p>SHOTGUN WEDDING CAST JENNIFER LOPEZ, JOSH DUHAMEL DIRECTOR JASON MOORE 28TH DEC'2022</p>
 <p>KISI KA BHAII KISI KI JAAN CAST SALMAN KHAN, POOJA HEGDE, SHEHNAAZ GILL DIRECTOR FARHAD SAMJI 30TH DEC'2022</p>	 <p>ADIPURUSH (HINDI, TAMIL, TELEGU, KANNADA, MALAYALAM) CAST PRABHAS, SAIF ALI KHAN, KRITI SANON DIRECTOR OM RAUT 12TH JAN'2023</p>	 <p>PUSS IN BOOTS: THE LAST WISH CAST ANTONIO BANDERAS, CHRIS MILLER DIRECTOR JOEL CRAWFORD, JANUEL MERCADO 20TH JAN'2023</p>	 <p>PATHAN CAST SHAH RUKH KHAN, JOHN ABRAHAM DIRECTOR SIDDHARTH ANAND 25TH JAN'2023</p>

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 5: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 6: P&L (excl. Ind-AS 116)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Total operating Income	1,897.4	105.9	683.9	2,084.8	2,676.0	3,028.8
Growth (%)	12.1	-94.4	545.7	204.8	28.4	13.2
Employee Expenses	142.1	86.7	94.9	112.5	125.6	144.3
Exhibition Cost	496.5	26.4	196.4	557.1	724.6	821.4
Cost of F&B	126.2	7.9	42.7	138.7	191.2	211.1
Rent	368.0	70.0	179.4	379.7	454.6	501.4
Other Expenses	434.2	157.2	278.3	581.2	642.0	710.0
Total Operating Expenditure	1,567.0	348.2	791.7	1,769.3	2,138.1	2,388.2
EBITDA	330.5	-242.3	-107.7	315.5	538.0	640.6
Margin (%)	17.4	-228.7	-15.7	15.1	20.1	21.1
Depreciation	108.1	113.0	116.0	120.9	147.2	166.6
Interest	11.7	17.0	11.0	8.0	8.0	8.0
Other Income	17.1	42.3	21.8	27.8	30.0	32.0
Exceptional Items	0.0	4.0	0.0	0.0	0.0	0.0
PBT	227.7	-339.0	-212.9	214.4	412.8	498.0
Total Tax	86.7	-81.8	-48.4	54.0	104.0	125.5
PAT	141.0	-257.2	-164.5	160.4	308.8	372.5
Adjusted PAT	141.0	-257.2	-164.5	160.4	308.8	372.5
Growth (%)	3.0	-282.4	-36.0	-197.5	92.5	20.6
Adj EPS (₹)	13.7	-22.9	-13.5	13.1	25.3	30.5

Source: Company, ICICI Direct Research

Exhibit 7: KPI

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Box office Revenues	1,104	55	418	1,229	1,596	1,809
YoY	13%	-95%	661%	194%	30%	13%
F&B	497	27	192	585	765	879
YoY	14%	-95%	604%	205%	31%	15%
Ad	179	3	34	140	180	200
YoY	1%	-99%	1181%	317%	29%	11%
ATP	200	170	217	227	238	245
YoY		-15%	28%	5%	5%	3%
Footfalls (mn)	66	4	23	65	80	88
	5%	-94%	490%	180%	24%	10%
Screens	626	643	673	749	829	909
Net Debt	78	(11)	(119)	(93)	(167)	(265)
RoCE (post tax)	19.4	(19.0)	(12.4)	21.9	27.0	24.5
RoE	12.8	(30.3)	(24.1)	19.0	26.8	24.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Total operating Income	683.9	2,084.8	2,676.0	3,028.8
Growth (%)	545.7	204.8	28.4	13.2
Employee Expenses	94.9	112.5	125.6	144.3
Exhibition Cost	196.4	557.1	724.6	821.4
Cost of F&B	42.7	138.7	191.2	211.1
Rent	0.0	0.0	0.0	0.0
Other Expenses	278.3	581.2	642.0	710.0
Total Operating Expenditure	612.2	1,389.6	1,683.5	1,886.8
EBITDA	71.7	695.3	992.6	1,142.0
Growth (%)	NM	LP	42.8	15.1
Depreciation	293.8	306.8	349.5	385.7
Interest	258.0	268.6	292.1	316.8
Other Income	21.8	27.8	30.0	32.0
Exceptional Items	-145.0	0.0	0.0	0.0
PBT	-313.3	147.7	381.0	471.5
Total Tax	-73.9	36.8	96.8	119.8
PAT	-239.4	110.9	284.3	351.7
Adjusted PAT	-350.2	110.9	284.3	78.4
Growth (%)	NM	NM	156.3	-72.4
EPS (₹)	-19.6	9.1	23.3	28.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
PAT	-239.4	110.9	284.3	351.7
Add: Depreciation	293.8	306.8	349.5	385.7
Add: Interest Paid	258.0	268.6	292.1	316.8
(Inc)/dec in Current Assets	-100.1	47.0	-140.9	-180.1
Inc/(dec) in CL and Provisions	44.3	27.7	68.6	50.5
CF from operating activities	256.6	761.0	853.5	924.6
(Inc)/dec in Investments	-148.9	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-72.3	-300.0	-300.0	-300.0
Others	-80.5	-188.5	-158.5	-180.6
CF from investing activities	(301.7)	(488.5)	(458.5)	(480.6)
Issue/(Buy back) of Equity	9.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-17.5	0.0	0.0	0.0
Less: Interest Paid	258.0	268.6	292.1	316.8
Others	-226.6	-566.5	-613.5	-662.9
CF from financing activities	23.5	(297.9)	(321.4)	(346.1)
Net Cash flow	-21.5	-25.5	73.7	97.9
Opening Cash	77.4	55.8	30.4	104.0
Closing Cash	55.8	30.4	104.0	202.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	122.2	122.2	122.2	122.2
Reserve and Surplus	570.4	652.0	906.9	1,229.3
Interest in benefit trust	-	-	-	-
Total Shareholders funds	692.6	774.2	1,029.1	1,351.5
Total Debt	86.5	86.5	86.5	86.5
Others	2,913.9	2,847.2	2,928.7	2,988.1
Total Liabilities	3,693.0	3,707.8	4,044.3	4,426.1
Assets				
Total Fixed Assets	975.5	1,154.6	1,307.4	1,440.8
Investments	151.5	151.5	151.5	151.5
Rights of Use Assets	2,134.8	2,070.7	2,108.4	2,129.3
Debtors	29.0	57.1	73.3	83.0
Inventory	14.3	13.1	16.8	19.0
Loans and Advances	185.7	121.4	233.7	396.8
Other Current Assets	40.0	30.5	39.1	44.3
Cash	55.8	30.4	104.0	202.0
Total Current Assets	324.9	252.4	467.0	745.0
Total Current Liabilities	286.9	314.6	383.2	433.7
Net Current Assets	38.0	-62.1	83.8	311.3
Other Non Current Assets	393.1	393.1	393.1	393.1
Application of Funds	3,693.0	3,707.8	4,044.3	4,426.1

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	-19.6	9.1	23.3	28.8
Adj EPS	-28.7	9.1	23.3	28.8
BV	56.7	63.4	84.2	110.6
DPS	0.0	2.4	2.4	2.4
Cash Per Share	4.6	2.5	8.5	16.5
Operating Ratios (%)				
EBITDA Margin	10.5	33.3	37.1	37.7
PBT / Net Sales	-32.5	18.6	24.0	25.0
PAT Margin	-51.2	5.3	10.6	11.6
Inventory days	7.6	2.3	2.3	2.3
Debtor days	15.5	10.0	10.0	10.0
Creditor days	72.5	25.0	25.0	25.0
Return Ratios (%)				
RoE	-50.6	14.3	27.6	26.0
RoCE	-5.4	11.2	16.6	17.8
RoIC	-21.6	34.3	46.9	45.8
Valuation Ratios (x)				
P/E	-26.0	56.2	21.9	17.7
EV / EBITDA	124.9	12.8	9.0	7.8
EV / Net Sales	13.1	4.3	3.3	2.9
Market Cap / Sales	9.1	3.0	2.3	2.1
Price to Book Value	9.0	8.0	6.1	4.6
Solvency Ratios				
Debt/EBITDA	1.2	0.1	0.1	0.1
Net Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.6	1.1	1.4	1.9
Quick Ratio	1.5	1.0	1.4	1.8

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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