

Strong recovery led by content performance!

About the stock: Inox Leisure is the second largest player in terms of multiplex screen count in India. Currently, the company operates 722 screens in 170 cinemas in 74 cities in India with an aggregate seating capacity of ~1.6 lakhs seats.

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

Q3FY23 Results: Healthy quarter led by box office recovery.

- Inox reported box office revenue of ₹ 295 crore (up ~41% QoQ) with footfalls up ~32% QoQ at 15.3 million and average ticket price (ATP) at ₹ 230, up ~6.3% QoQ, owing to content performance and movie slate mix. Ad revenues were at ₹ 35 crore, at ~60% of pre Covid levels. The company reported ₹ 151 crore of F&B revenues, up 37% QoQ, with spend per head (SPH) at ₹ 106, up 4% QoQ
- EBITDA (ex- Ind AS116) was at ₹ 81.2 crore, with margins at 15.8%. On a reported basis, EBITDA was at ₹ 170.1 crore (margin of 33%)
- The company provided for ₹ 43 crore of deferred tax charge and ₹ 24 crore of merger expenses (exceptional items). Consequently, the reported loss was ₹ 40.4 crore (adjusted PAT of ₹ 21 crore). The company reported loss (without impact of Ind-AS116) at ₹ 22 crore (adjusted PAT of ₹ 40 crore)

What should investors do? Inox' share price has grown at ~12% CAGR over the past five years (from ~₹ 283 in January, 2018 to ~₹ 502 levels in January, 2023).

- We maintain **BUY** rating on the company given the medium-term trigger of synergy (scale led benefits) post-merger and content recovery

Target Price and Valuation: We value Inox at ₹ 620 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

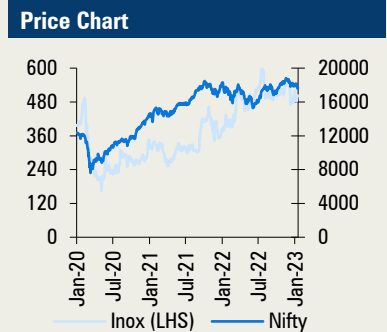
Alternate Stock Idea: Apart from Inox Leisure, we like PVR in the multiplex space

- A play on recovery of earnings and consolidation of multiplexes
- BUY with target price of ₹ 2020



Particulars	
Particulars	Amount
Market Capitalization (₹ Crore)	6,131
Total Debt (FY22) (₹ Crore)	86
Cash (FY22) (₹ Crore)	79
EV (₹ Crore)	6,227
52 week H/L (₹)	619/ 385
Equity Capital (₹ crore)	122.2
Face value (₹)	10.0

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	44.0	44.0	44.0	44.0
DII	24.2	25.2	24.3	25.0
FII	15.3	16.6	18.8	18.6
Other	16.5	14.2	12.9	12.4



Key risks

Key Risk: (i) Delay in content performance recovery (ii) Delay in ad recovery

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)	2,045.8	2,628.7	3,034.8	9.8
EBITDA (₹ crore)	596.8	(172.3)	71.7	(13.1)	666.7	958.2	1,133.3	13.7
Net Profit (₹ crore)	15.0	(337.7)	(239.4)	PL	23.1	254.9	340.8	86.8
EPS (₹)	1.5	(30.0)	(19.6)		1.9	20.9	27.9	
P/E (x)	343.6	(16.7)	(25.6)		265.2	24.0	18.0	
Price / Book (x)	8.3	8.9	8.9		8.9	6.7	5.0	
EV/EBITDA (x)	14.9	(51.6)	123.5		13.4	9.3	7.9	
RoCE (%)	9.9	(11.7)	(5.4)		10.6	16.2	18.1	
RoE (%)	2.4	(62.5)	(50.6)		12.2	28.0	27.9	

Key performance highlight and outlook

Box office recovery drives performance...

Q3 saw a strong recovery led by performance of movies such *Avatar 2*, *Drishyam 2* and regional content like *Kantara* and *PS-1*. Consequently, footfalls were up ~32% QoQ at 15.3 million and average ticket price (ATP) at ₹ 230 was up ~6.3% QoQ owing to content performance and movie slate mix. Near term monitorable is big ticket content performance, which has seen inconsistency in performance, post Covid. *Pathaan* has started well with ₹ 300 crore+ of net box office collection in India in Q4 till date. The pipeline of other big movies in Q4 includes *Bhola*, *Jon Wick 4*, *Shehzada*, *Maidan*, *Tu Jhoothi Main Makkaar*, *Selfie*, *Ant Man*, *Creed 3*, *Babylon*. Thus, a good response could drive recovery. We bake in 80 screens addition each in FY24E and FY25E. **Consequently, we build in footfalls growth of 5.4% CAGR in FY20-25E to 86 million (mn) coupled with 4.6% CAGR in ATP to lead to ~10.2% FY20-25E CAGR in net box office revenues to ₹ 1797 crore. F&B revenue CAGR is estimated at ~13% over FY20-25E leading to a total of ₹ 898 crore. Ad revenue is expected to recover gradually. We expect ad revenue of ₹ 200 crore in FY25E (~12% higher than FY20).**

Liquidity strong; merger likely to be consummated in month...

As on date the company has close to ₹ 355 crore of gross liquidity, including undrawn limit of ₹ 125 crore. Gross debt is ₹ 162 crore. On merger with PVR, on January 12, NCLT Mumbai bench allowed the proposed scheme of merger. Thus, the **company expects the merger to be completed in a month time** (details of timeline on Page 3).

Other highlights

- **Guidance:** The company reiterated its guidance of 77 screens opening FY23, to be funded through internal accruals. **In FY23YTD, 47 screen were added and 30 screens are under fit outs.** It indicated that ATP hike will be in line with inflation trends. It also guided that **ad revenues recovery will be seen over the next couple of quarters led by content recovery**
- **Total 12% of the screens are of premium format**
- **Acquisition of Luxe Cinemas:** Inox has announced its plan to **acquire Luxe Cinemas in Chennai in Q2, which is an 11-screen property with 2688 seats**, including an IMAX screen at Phoenix Market City. While refraining from sharing deal value or broad financials of Luxe, the company indicated **it is positive EBITDA property and deal will be done at similar valuation range as done in the past by Inox.** It will be largely funded through internal accruals and some debt

We believe that strong content pipeline will drive recovery. Near term monitorable is big ticket content performance, which has seen inconsistency in performance, post Covid. For the medium term, key trigger will be merger post which the MergedCo will benefit from scale of expansion, faster growth trajectory and other revenues/cost synergy. **We maintain BUY and assign FY24E EV/EBITDA multiple of 15x, with a target price of ₹ 620/share.**

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Revenue	515.6	507.5	296.5	374.1	73.9	37.8	
Other Income	6.3	7.0	4.9	6.7	27.8	-6.3	
Employee Expenses	31.6	28.8	24.0	28.2	31.8	12.1	
Exhibition Cost	131.8	134.7	84.6	94.9	NA	38.9	
Cost of F&B	34.3	35.7	18.3	26.0	87.5	32.0	
Rent	0.0	0.0	0.0	0.0	NA	NA	
Other Expenses	147.8	141.0	85.6	140.2	72.7	5.4	
EBITDA	170.1	167.4	84.0	84.9	102.6	100.4	
EBITDA Margin (%)	33.0	33.0	28.3	22.7	NM	NM	
Depreciation	78.7	81.0	73.8	77.4	6.6	1.6	
Interest	69.1	67.0	64.5	67.6	7.1	2.2	
Exceptional Items	24.4	0.0	-47.8	0.0	NA	NA	
Total Tax	44.7	6.7	-0.3	-13.1	-16,046.4	-441.4	
PAT	-40.4	19.7	-1.3	-40.4	2,961.4	0.1	

Key Metrics

Footfalls	15.3	15.1	1.8	11.6	750.0	31.9
Occupancy	23	23	3	17		
SPH	106	106	92.0	102.0	15.2	3.9
ATP	230.0	230.5	178.0	215.0	29.2	7.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			
	Old	New	% Change	Old	New	% Change	
Revenue	2,676.0	2,628.7	-1.8	3,028.8	3,034.8	0.2	Realign estimates
EBITDA	992.6	958.2	-3.5	1,142.0	1,133.3	-0.8	
EBITDA Margin (%)	37.1	36.5	-64 bps	37.7	37.3	-36 bps	
PAT	284.3	254.9	-10.3	351.7	340.8	-3.1	
EPS (₹)	23.3	20.9		28.8	27.9		

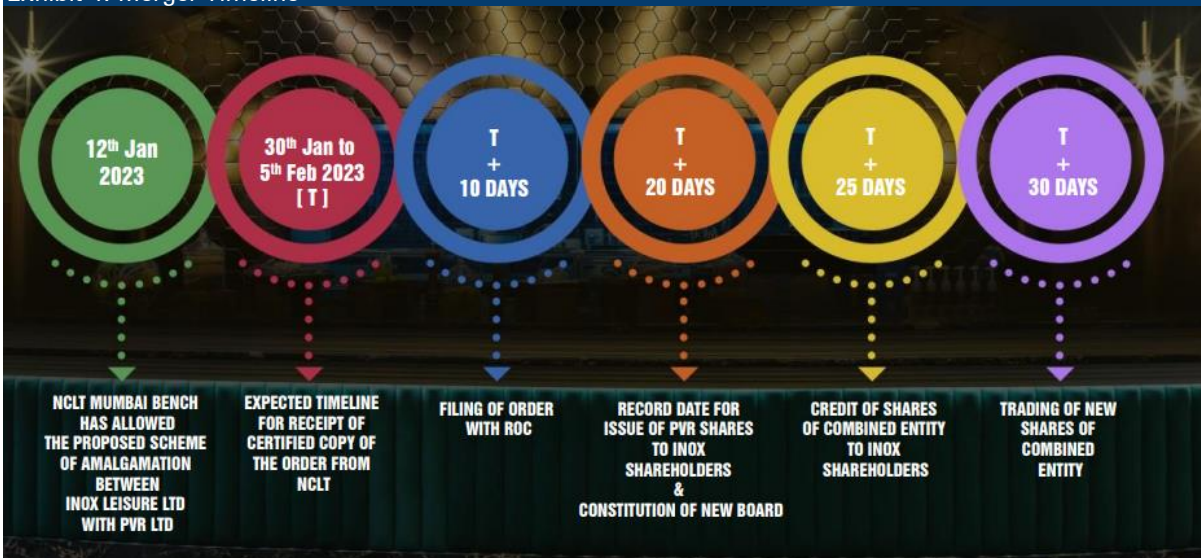
Source: Company, ICICI Direct Research

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

(₹ Crore)	FY24E			FY25E			
	Old	New	% Change	Old	New	% Change	
Revenue	2,676.0	2,628.7	-1.8	3,028.8	3,034.8	0.2	Realign estimates
EBITDA	538.0	501.9	-6.7	640.6	619.8	-3.2	
EBITDA Margin (%)	20.1	19.1	-101 bps	21.2	20.4	-73 bps	
PAT	284.3	279.2	-1.8	351.7	353.7	0.6	
EPS (₹)	23.3	22.9		28.8	28.9		

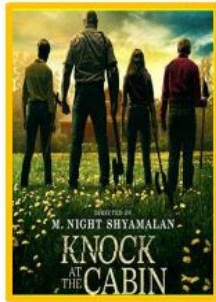
Source: Company, ICICI Direct Research

Exhibit 4: Merger Timeline



Source: Company, ICICI Direct Research

Exhibit 5: Q4 remaining content pipeline



KNOCK AT THE CABIN

Cast: Jonathan Groff, Dave Bautista, Rupert Grint
Director: M. Night Shyamalan

Release Date: 3rd Feb'23

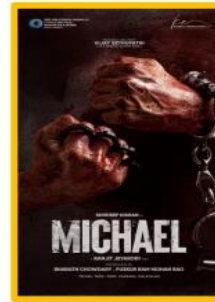


THE WOMAN KING (IMAX)

Cast: Viola Davis, Lashana Lynch, Thuso Mbedu

Director: Ginaprince-Bythewood

Release Date: 3rd Feb'23



MICHAEL [Tamil]

Cast: Vijay Sethupathi, Sundeeep Kishan

Director: : Ranjit Jeyakodi

Release date: 3rd Feb'23

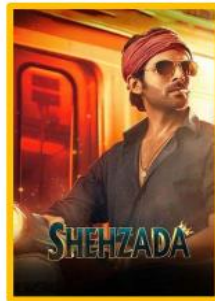


CHRISTOPHER [Malayalam]

Cast: Mammooty, Aishwarya, Lekshmi

Director: B. Unnikrishnan

Release date: 9th Feb'23



SHEHZADA

Cast: Kartik Aryan, Kriti Sanon, Paresh Rawal

Director: : Rohit Dhawan

Release date: 10th Feb'23



A MAN CALLED OTTO

Cast: Tom Hanks, Manuel Garcia-Rulfo, Cameron Britton

Director: Marc Forster

Release date: 10th Feb'23



ANT-MAN AND THE WASP : QUANTUMANIA (IMAX)

Cast: Paul Rudd, Evangeline Lilly, Kathryn Newton
Director: : Reyton Reed

Release date: 17th Feb'23



VAATHI (TAMIL)

Cast: Dhanush, Samyuktha Menon, Sai Kumar

Director: Venky Atluri

Release date: 17th Feb'23



SHAAKUNTALAM (TELGU)

Cast: Samantha Rauth Prabhu, Dev Mohan

Director: Gunashekhar

Release date: 17th Feb'23



SELFIEE

Cast: Akshay Kumar, Emraan Hashmi, Nushrat Bharuccha

Director: Raj Mehta

Release date: 24th Feb'23



CREED III (IMAX)

Cast: Michael B Jordan, Tessa Thompson, Jonathan Majors

Director: Michael B. Jordan

Release date: 3rd Mar'23



MRS. CHATTERJEE VS NORWAY

Cast: Rani Mukerji, Kristjan Uksula

Director: Ashima Chibber

Release date: 3rd Mar'23



THE SON

Cast: Vanessa Kirby, Hugh Jackman, Laura Dern, William Hope

Director: Florian Zeller

Release date: 3rd Mar'23



TU JHOOTHI MAIN MAKKAR

Cast: Ranbir Kapoor, Shraddha Kapoor, Boney Kapoor, Dimple Kadadia

Director: Luv Ranjan

Release date: 8th Mar'23



SHAZAM: FURY OF THE GODS (IMAX)

Cast: Zachary Levi, Marta Milans, Rachel Zegler

Director: David F. Sandberg

Release date: 17th Mar'23



JOHN WICK : CHAPER 4 (IMAX)

Cast: Keanu Reeves, Donnie Yen, Bill Skarsgard

Director: Chad Stahelski

Release date: 24th Mar'23



BHOLAA (3D)

Cast: Ajay Devgan, Tabu, Shanjay Mishra, Sharad Kelkar

Director: Dharmendra Sharma

Release date: 30th Mar'23



DASARA (TELGU)

Cast: Nani, Keerthy Suresh, Samuthirakani

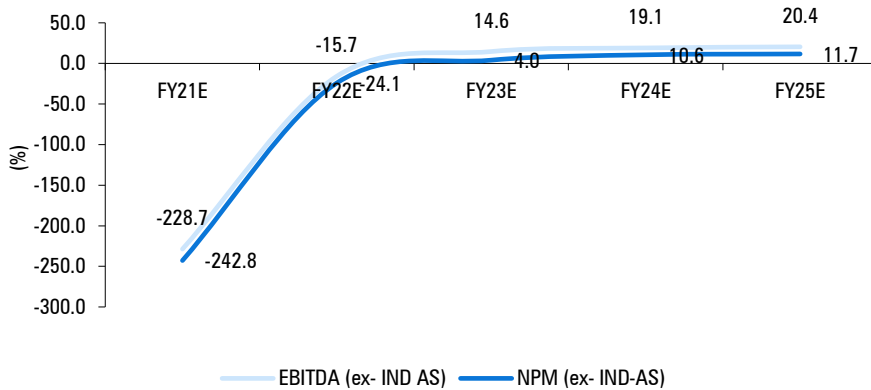
Director: Srikanth Odhela

Release date: 30th Mar'23

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: 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	2,045.8	2,628.7	3,034.8
Growth (%)	12.1	-94.4	545.7	199.1	28.5	15.5
Employee Expenses	142.1	86.7	94.9	118.0	130.4	150.3
Exhibition Cost	496.5	26.4	196.4	537.3	700.3	815.7
Cost of F&B	126.2	7.9	42.7	136.6	192.8	215.6
Rent	368.0	70.0	179.4	367.1	456.4	513.5
Other Expenses	434.2	157.2	278.3	587.1	647.0	720.0
Total Operating Expenditure	1,567.0	348.2	791.7	1,746.1	2,126.8	2,415.0
EBITDA	330.5	-242.3	-107.7	299.7	501.9	619.8
Margin (%)	17.4	-228.7	-15.7	14.6	19.1	20.4
Depreciation	108.1	113.0	116.0	122.7	144.6	166.9
Interest	11.7	17.0	11.0	10.4	12.0	12.0
Other Income	17.1	42.3	21.8	27.1	28.0	32.0
Exceptional Items	0.0	4.0	0.0	24.4	0.0	0.0
PBT	227.7	-339.0	-212.9	169.2	373.3	472.9
Total Tax	86.7	-81.8	-48.4	86.8	94.1	119.2
PAT	141.0	-257.2	-164.5	82.5	279.2	353.7
Adjusted PAT	141.0	-257.2	-164.5	144.5	279.2	353.7
Growth (%)	3.0	-282.4	-36.0	-187.8	93.3	26.7
Adj EPS (₹)	13.7	-22.9	-13.5	6.7	22.9	28.9

Source: Company, ICICI Direct Research

Exhibit 8: KPI

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Box office Revenues	1,104	55	418	1,190	1,543	1,797
YoY	13%	-95%	661%	185%	30%	16%
F&B	497	27	192	591	771	898
YoY	14%	-95%	604%	208%	30%	16%
Ad	179	3	34	135	180	200
YoY	1%	-99%	1181%	302%	33%	11%
ATP	200	170	217	227	239	250
YoY		-15%	28%	5%	5%	5%
Footfalls (mn)	66	4	23	63	77	86
	5%	-94%	490%	172%	23%	11%
Screens	626	643	673	752	832	912
Net Debt	78	(11)	(119)	(19)	(62)	(111)

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Total operating Income	683.9	2,045.8	2,628.7	3,034.8
Growth (%)	545.7	199.1	28.5	15.5
Employee Expenses	94.9	118.0	130.4	150.3
Exhibition Cost	196.4	537.3	700.3	815.7
Cost of F&B	42.7	136.6	192.8	215.6
Rent	0.0	0.0	0.0	0.0
Other Expenses	278.3	587.1	647.0	720.0
Total Operating Expenditure	612.2	1,379.0	1,670.5	1,901.5
EBITDA	71.7	666.7	958.2	1,133.3
Growth (%)	LP	829.8	43.7	18.3
Depreciation	293.8	308.9	347.5	386.7
Interest	258.0	271.0	297.0	321.7
Other Income	21.8	27.1	28.0	32.0
Exceptional Items	-145.0	24.4	0.0	0.0
PBT	-313.3	89.5	341.7	456.9
Total Tax	-73.9	66.4	86.8	116.1
PAT	-239.4	23.1	254.9	340.8
Adjusted PAT	-350.2	83.5	254.9	340.8
Growth (%)	NM	NM	205.4	33.7
EPS (₹)	-19.6	1.9	20.9	27.9

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
PAT	-239.4	23.1	254.9	340.8
Add: Depreciation	293.8	308.9	347.5	386.7
Add: Interest Paid	258.0	271.0	297.0	321.7
(Inc)/dec in Current Assets	-100.1	51.1	-138.6	-192.9
Inc/(dec) in CL and Provisions	44.3	21.8	67.8	51.0
CF from operating activities	256.6	676.0	828.6	907.3
(Inc)/dec in Investments	-148.9	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-72.3	-300.0	-300.0	-315.0
Others	-80.5	-175.4	-159.3	-191.7
CF from investing activities	(301.7)	(475.4)	(459.3)	(506.7)
Issue/(Buy back) of Equity	9.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-17.5	80.0	0.0	0.0
Less: Interest Paid	258.0	271.0	297.0	321.7
Others	-226.6	-571.3	-623.3	-672.7
CF from financing activities	23.5	(220.3)	(326.3)	(351.0)
Net Cash flow	-21.5	-19.7	42.9	49.5
Opening Cash	77.4	55.8	36.1	79.0
Closing Cash	55.8	36.1	79.0	128.5

Source: Company, ICICI Direct Research

Exhibit 11: 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	564.2	789.8	1,101.3
Interest in benefit trust	-	-	-	-
Total Shareholders funds	692.6	686.4	912.0	1,223.5
Total Debt	86.5	166.5	166.5	166.5
Others	2,913.9	2,869.3	2,950.0	2,998.2
Total Liabilities	3,693.0	3,722.2	4,028.4	4,388.2
Assets				
Total Fixed Assets	975.5	1,152.8	1,308.2	1,456.3
Investments	151.5	151.5	151.5	151.5
Rights of Use Assets	2,134.8	2,079.4	2,116.5	2,136.7
Debtors	29.0	56.0	72.0	83.1
Inventory	14.3	12.9	16.5	19.1
Loans and Advances	185.7	119.1	229.6	402.9
Other Current Assets	40.0	29.9	38.4	44.4
Cash	55.8	36.1	79.0	128.5
Total Current Assets	324.9	254.0	435.5	678.0
Total Current Liabilities	286.9	308.7	376.4	427.4
Net Current Assets	38.0	-54.7	59.1	250.6
Other Non Current Assets	393.1	393.1	393.1	393.1
Application of Funds	3,693.0	3,722.2	4,028.4	4,388.2

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	-19.6	1.9	20.9	27.9
Adj EPS	-28.7	6.8	20.9	27.9
BV	56.7	56.2	74.6	100.1
DPS	0.0	2.4	2.4	2.4
Cash Per Share	4.6	3.0	6.5	10.5
Operating Ratios (%)				
EBITDA Margin	10.5	32.6	36.5	37.3
PBT / Net Sales	-32.5	17.5	23.2	24.6
PAT Margin	-51.2	4.1	9.7	11.2
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	12.2	28.0	27.9
RoCE	-5.4	10.3	15.9	17.7
RoIC	-21.6	31.7	44.6	44.5
Valuation Ratios (x)				
P/E	-25.6	265.2	24.0	18.0
EV / EBITDA	123.5	13.4	9.3	7.9
EV / Net Sales	12.9	4.4	3.4	2.9
Market Cap / Sales	9.0	3.0	2.3	2.0
Price to Book Value	8.9	8.9	6.7	5.0
Solvency Ratios				
Debt/EBITDA	1.2	0.2	0.2	0.1
Net Debt / Equity	0.1	0.2	0.2	0.1
Current Ratio	1.6	1.1	1.4	1.9
Quick Ratio	1.5	1.0	1.4	1.9

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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