

Stock Update

Strong show in a seasonally soft quarter, maintain Buy

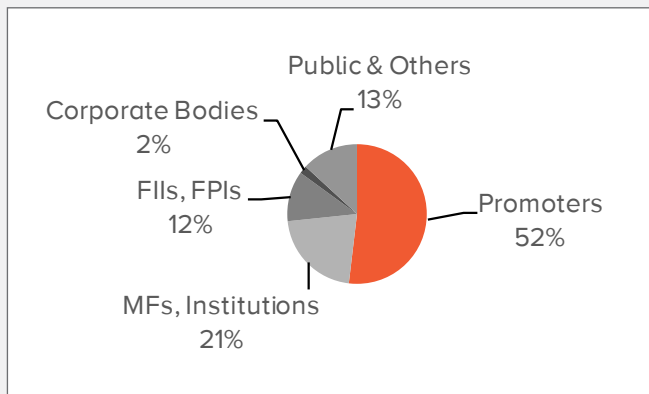
Inox Leisure

Reco: Buy | CMP: Rs310

Company details

Price target:	Rs375
Market cap:	Rs3,191 cr
52-week high/low:	Rs344/190
NSE volume: (No of shares)	2.03 lakh
BSE code:	532706
NSE code:	INOXLEISUR
Sharekhan code:	INOXLEISUR
Free float: (No of shares)	4.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.6	18.2	38.2	11.0
Relative to Sensex	-1.7	15.1	29.5	3.2

Key points

- Q4FY2019 performance defying seasonal weakness, key metrics remain strong:** INOX Leisure (ILL) reported the strongest revenue growth in its history during Q4 despite weak seasonality, thanks to good box office performance of movies including Uri, Gully Boy, Simmba (released in 3QFY19), etc. Key metrics during Q4FY2019 have remained impressive during the quarter - (1) 42.9% y-o-y growth in footfalls though there was 2.1% y-o-y decline in ATP (owing to reduction in GST rates), (2) SPH at Rs. 73 (up 9% y-o-y), (3) ad revenue at Rs. 43 crore (up 29% y-o-y) and (4) other operating revenue (up 22% y-o-y). As a result, ILL's overall revenue grew by 48% y-o-y to Rs 478.8 crore, remained ahead of our estimates. EBITDA at Rs. 97.4 crore was 14% ahead of our estimates led by the revenue beat. EBITDA margin stood at 20.3% in Q4FY2019, an improvement of 680 bps y-o-y. However, reported net profit during the quarter declined 16.6% y-o-y on account of higher tax credit (53.7 crore in Q4FY2018 vs 4.6 crore in Q4FY2019). Excluding the one-off items from both the quarters, the adjusted net profit declined 19.8% y-o-y to Rs. 53.1 crore.
- FY2019 roundup:** Footfalls grew by 17.5% y-o-y in FY2019 after muted growth for the last couple of years (0.6%/-0.9% y-o-y in FY2017/FY2018). ATP grew by 2.1% y-o-y after the impact of GST reduction, while SPH was up 10.9% y-o-y despite issues of taking outside food into the multiplexes. Ad revenue continued to report strong growth of 27% y-o-y. Revenue grew 25.5% y-o-y, while EBITDA and PAT were up 47% and 12.4% on y-o-y basis respectively. ILL has become net debt free during the year after retiring related party debt to the tune of Rs 160 crores.
- Expect screen addition rate to sustain and portfolio premiumisation to continue:** ILL has seen its highest-ever organic screen additions of 82 screens in FY19 compared to 24 screens in FY2018. The company targets to add around 830 screens beyond FY2020E, while the management expects to add around 80 screens in FY2020E (already added 9 screens till date). Strong operating cash along with strong balance sheet (net debt free status) would help the company to add screens at a faster pace. Further, the company also focuses on adding

screens with less number of seats (around 235 seats compared to 250 seats earlier) to improve the occupancy rate going ahead. The company's new property additions in marquee locations and overall premiumisation efforts have helped to reap the benefits in terms of growth in both advertisement volume and effective rate. Further, the company focuses on variety of food items and using technology to reduce the waiting time of guests to drive the SPH growth going ahead.

- ◆ **Retain Buy with PT of Rs. 375:** We have fine-tuned our earnings estimates for FY2020/ FY2021E on account of impressive revenue/ EBITDA growth in Q4FY2019. Higher screen openings along with increasing footfalls monetisation efforts is expected to bode well for the company's earnings growth in coming years. We expect the company to report healthy revenue and earnings CAGR of 16% and 15% respectively over FY19-21E. Hence, we maintain our BUY rating on the stock with a PT of Rs 375.

Valuations

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	
Total revenue	1,348	1,692	1,973	2,258	
EBITDA margin (%)	15.6	18.3	17.5	17.9	
Adjusted net profit	123	138	153	182	
Adjusted EPS* (Rs.)	12.8	14.1	15.5	18.5	
PER (x)	24.2	22.1	20.0	16.8	
P/BV (x)	4.3	3.0	2.6	2.2	
EV/EBITDA	15.4	10.5	8.9	7.1	
ROE (%)	18.4	14.4	13.7	14.0	
ROCE (%)	13.4	20.9	20.2	20.2	

Source: Sharekhan research, company; *Treasury shares excluded while calculating EPS

Results (Consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	Q3FY19	YoY (%)	QoQ (%)
Net sales	478.8	323.6	433.1	48.0	10.6
Exhibition costs	127.2	81.3	112.2	56.5	13.4
Cost of F&B	31.7	19.5	28.3	62.4	11.9
Gross profit	320.0	222.8	292.6	43.6	9.3
Employee expenses	30.9	25.4	30.2	21.5	2.3
Property rent	86.9	52.1	82.0	66.7	5.9
Other expenses	104.9	101.5	96.9	3.3	8.2
Operating profit	97.4	43.8	83.5	122.3	16.6
Depreciation	25.7	23.7	24.5	8.3	4.6
Finance cost	3.8	7.1	6.2	-46.8	-39.0
Other income	5.3	6.2	3.1	-15.3	69.4
PBT	73.2	19.2	55.9	281.2	30.9
Tax provision	20.1	-47.0	19.4	-142.7	3.4
Reported net profit	48.1	57.7	36.5	-16.6	31.9
Exceptional item	5.0	8.5	0.0	-41.5	-
Adjusted net profit	53.1	66.2	36.5	-19.8	45.6
Adjusted EPS*^ (Rs.)	5.4	7.2	3.7	-25.1	45.6
Margin (%)				BPS	BPS
GPM	66.8	68.9	67.6	-203.3	-74.8
EBITDA margins	20.3	13.5	19.3	679.7	105.0
NPM	11.1	20.5	8.4	-936.9	266.7

Source: Sharekhan research, company; *Treasury shares excluded while calculating EPS

^ New equity shares issued to retire related party debt to the tune of Rs 160 crores in Q3FY2019

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