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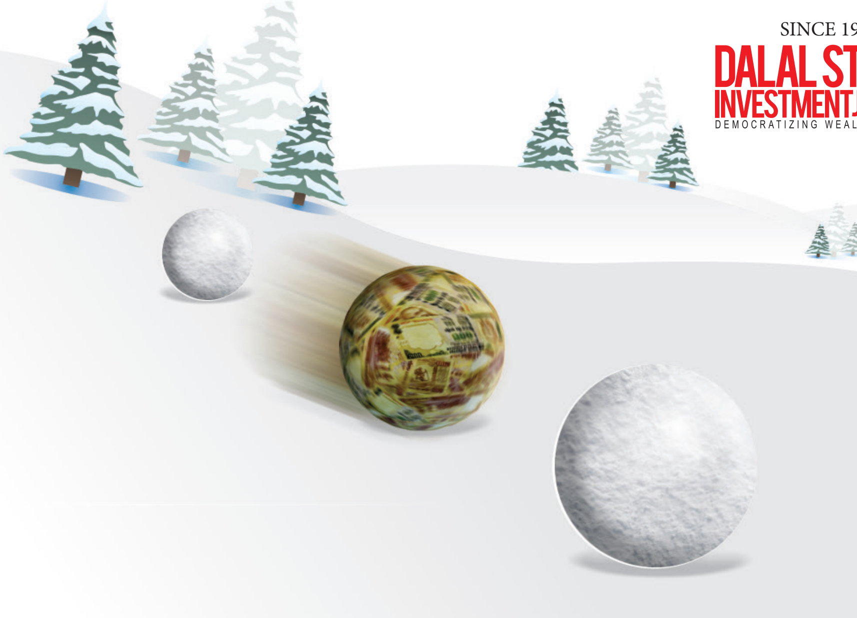
DEMOCRATIZING WEALTH CREATION

MID BRIDGE
THE MIDCAP MARVEL

June 2019



COMPANY NAME	:	**Inox Leisure Ltd.**
BSE Code	:	**532706**
Time Duration	:	**1 year**
CMP	:	**₹325.15 (as on 20 June., 2019)**
Target Price	:	**₹415**

The Mid Bridge recommendation for this month is Inox Leisure Ltd. It is one of the largest multiplex and cinema theatre chain in the country. The company was incorporated in 1999. It set up its first multiplex in Pune in May 2002 and the second one in Vadodara in October of the same year. The company acquired a majority stake in FAME, which made it the second-largest multiplex operator in India. As on March 31, 2019, the company reported presence in 19 cities and 583 screens.

New screen addition to fuel Inox's growth engine

In the previous fiscal, the company added 85 screens and it intends to continue with its screen addition programme in the ongoing fiscal as well. It is likely to open around 80 screens with a capex of Rs. 300 to 330 crore. Notably, the capex would be funded through internal accruals. In the first half of FY20E, the company aims to open nearly 35 screens and the rest in 2H of FY20E. The company is looking to expand its screen in the premium segment along with lower seating capacity per screen and prime locations, which would help in improving the blended average ticket price and occupancy rate. We believe this new screen addition would help the company to clock strong revenue growth in the years to come.

Exclusive partnership with International Cricket Council

Inox has entered into exclusive partnership with ICC to screen select matches from the ICC World Cup live across its major properties. Overall, Inox will air 15 matches at multiplexes in Mumbai, New Delhi, Kolkata, Bengaluru, Pune, Jaipur, Indore, Vadodara, Surat, Noida, Gurgaon, and Faridabad. This move by Inox is likely to aid higher profitability on account of consumption of F&B and higher advertising rates.

Higher screen to aid in advertisement and F&B revenue

In the previous fiscal, the company opened a record 85 screens and simultaneously managed to clock strong revenue growth in advertisement segment in the last eight quarters. We believe the recently added screens and expected new addition of screens would help the company to generate higher advertisement and F&B revenues. Besides, in recent times, the company has not taken any price hike, but it is likely to go for a price hike in the ongoing fiscal, which would help it to increase its revenue considerably.

Financial Performance

The company had been a consistent performer on the financial front. Its revenue grew at a compounded rate of 11. 41 per cent since FY15. The growth can be considered strong as the sector had faced major obstacles such as demonetisation and GST implementation, which hampered the consumer spending. After posting a sharp decline in net profit in FY17, the company continued its strong performance to report PAT growth of 46 per cent CAGR over the last five years. On the debt front, its debt-to-equity as of end-FY19 stood at 0.08x, which is least as compared to its closest peer PVR Ltd. Looking at the company's expansion and its spread across number of states with such low leverage gives it an edge over its peers. Historically, the company has maintained its operating profit margins at around 20 per cent. The margins are driven by food and beverage business, which contribute to around 30 per cent of the total revenue. The company's ROE stood at 20.35 per cent, an increase from 9.69 per cent in FY15.

For the recently concluded Q4FY19, it reported revenue of Rs. 478.8 crore, which grew by 48 per cent YoY (11 per cent QoQ). The EBITDA of the company grew to Rs. 97.4 crore from Rs. 43.9 crore with margin expansion of 678 bps to 20.3 per cent. The net profit came in at Rs. 48.1 crore.

Valuation and Outlook

The stock is currently trading at TTM EPS of Rs. 13 and PE multiple of 25x. Looking at its aggressive expansion at low leverage, we expect it to sustain any headwind in the industry. Further, we expect the Q1FY20E to be very strong in revenue terms mostly due to releases such as Avengers, Bharat, Toy Story, Kabir Singh, etc. The movie schedule of the second quarter too looks robust, with several most-awaited releases being lined up. Hence, we recommend investors to **BUY** the scrip with a price target of Rs. 415.

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Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201903	201803	201703	201603	201503
Net Sales	1692.18	1348.12	1220.71	1160.57	953.69
Total Income	1707.08	1363.12	1230.59	1168.40	964.73
Total Expenditure	1383.85	1137.68	1074.65	971.52	832.98
PBIDT	323.24	225.43	155.95	196.89	131.75
PAT	133.47	114.64	30.48	81.16	24.76
Dividend %	0.00				
Adj. EPS(Rs)	13.01	11.92	3.17	8.44	2.57

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	478.84	433.09	10.56	323.61	47.97
Total Expenditure	382.30	349.59	9.36	281.55	35.78
PBIDT (Excl OI)	96.54	83.50	15.62	42.06	129.53
PAT	48.07	36.45	31.88	57.71	-16.70
PBIDTM% (Excl OI)	20.16	19.28	4.56	13.00	55.08
PBIDTM%	21.26	20.00	6.30	14.93	42.40
PATM%	10.04	8.42	19.24	17.83	-43.69
Adj. EPS(Rs)	4.68	3.55	31.83	6.00	-22.00