Index

Inox Leisure

Reco: Buy

Stock Update

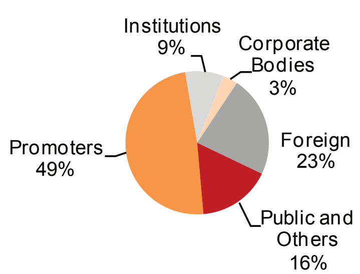
Q4 to be better, outlook remain positive

CMP: Rs200

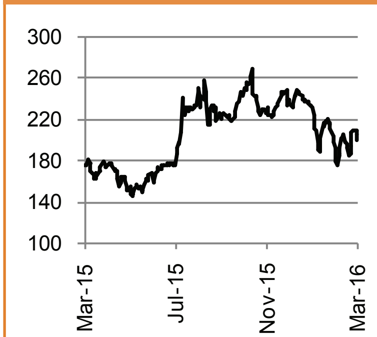
Company details

Price target:	Rs307
Market cap:	Rs1,930 cr
52-week high/low:	Rs276/145
NSE volume: (No of shares)	1.9 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	7.1	-14.6	-6.7	19.6
Relative to Sensex	3.4	-12.4	-3.2	37.7

Key points

- **Q4FY2016 to be a better quarter, FY2017 looks promising:** The success of movies like "Airlift", "Neerja", "The Revenant" and "Deadpool", and big upcoming movie releases like "Kapoor & Sons" and "Batman vs Superman" will drive the growth in Q4FY2016, which is a seasonally weak quarter for multiplexes owing to schools exams but will be better this year. Additionally, an addition of close to 14-15 screens in Q4FY2016 will take the total screen count to 428 by the end of the quarter (though it will fall short of the management's target of 435 screens by the end of Q4FY2016). Further, the company took advertisement rate hikes of 20% across the board at the fag end of Q3FY2016 which is expected to reflect in Q4FY2016. Moving to FY2017, the movie content looks promising with names like "Ki and Ka", "Fan", "Dangal", "Sultan", "Raees", "Mohenjo Daro", "Shivaay", "The Jungle Book", "Captain America: Civil War", "Independence Day Resurgence" and "Jason Bourne" among others.
- **Margins to improve gradually led by incremental contribution from F&B and advertising:** The management sees good scope for increasing the contribution from the food and beverages (F&B) segment by 3-4% from current levels of around 20% of the total revenues which will aid margin improvement in FY2017 and FY2018. It launched its own brand of chips "Intermission" and also has various cuisines with in-house chef; this business has a much higher margin. Additionally, an incremental contribution from the advertisement revenues (around 7.5% of the total revenues) augurs well for the margin (the company is currently working with around 400 brands, it took a price hike of 20% in Q3FY2016). Overall, the margin is expected to improve gradually in FY2017 and FY2018.
- **Outlook remains strong, maintain Buy with a price target of Rs307:** The management is well on track to achieve its growth plans and to reach 645 screens over next two to three years. We expect some outperformance from our estimates for FY2016, given that Q4FY2016 is going to be better than expected. Its healthy balance sheet and 4.3 crore treasury shares will drive the inorganic growth activities in the coming years. We believe the INOX business with its strong brand and extended reach is well poised to leverage the opportunity in India's under-penetrated multiplex sector and growing spending of moviegoers. At the current levels, the stock trades at a reasonable valuation of 14x earnings per share and 7x enterprise value/earnings before interest, tax, depreciation and amortisation based on our FY2018 estimates. We maintain our Buy rating on the stock with a price target of Rs307.

Valuation

Particulars	FY2015	FY2016E	FY2017E	FY2018E
Total revenues	1,016.8	1,317.7	1,592.5	1,909.8
EBITDA margin (%)	12.1	16.0	15.4	15.5
Net profit	20.0	68.1	98.8	133.0
EPS (Rs)	2.2	7.4	10.8	14.5
PER (x)	91.6	27.0	18.6	13.8
P/BV	2.7	2.5	2.2	1.9
CEPS (Rs)	10.4	16.1	21.2	26.0
EV/EBITDA	17.3	10.2	8.7	7.0
RoE (%)	3.0	9.2	11.7	13.6
RoCE (%)	6.9	13.7	15.3	17.7

Cement

Sector update

Prices see an uptick, demand remains soft

We recently carried out a channel check on cement dealers across major cities in the country to know about the current pricing and demand environment. The findings are presented below.

Key points

- **Blended realisation firms up on a monthly basis; except in the southern region:** According to our channel check, the price of cement has seen an average improvement of Rs18 per bag (a cement bag weighing 50 kilogram) across the country in the past one month. Among the regions, the northern (up Rs48 per bag), central (up Rs44 per bag) and western (up Rs32 per bag) regions have seen a sharp uptick in cement prices. However, the southern region that has been showing strong pricing discipline till now witnessed a price correction of Rs31 per bag for in March this year. In the eastern region cement prices remained more or less flat. However, the average price of cement all over India is still lower by 3% QoQ and 8% YoY in Q4FY2016.

- **Demand environment remains muted:** The demand environment across India remains muted while cement prices are believed to be firming up on account of supply constraints. The soft demand environment coupled with a late pricing uptick (towards the fag end of Q4FY2016) is expected to affect the volume of the cement company in Q4FY2016. Nevertheless, a revival in the infrastructure and housing spending (thanks to an increased allocation in Union Budget 2016-17) is likely to revive capacity utilisation and gradually bring in operating leverage for cement companies in the coming quarters.

- **MMDR Act beneficial for cement sector:** The cabinet recently cleared a proposal to amend the mines and minerals law to allow the transfer of captive mines granted through non-auction routes which is likely to spur mergers and acquisitions in the cement industry. UltraTech Cement is expected to be one of the first beneficiaries with respect to the acquisition of the assets of JP Associate Cement.

- **Outlook - pain to persist in near term, remain selective:** We believe though cement prices have revived in the northern, western and central regions in March, the average realisation in Q4FY2016 is still showing a declining trend. The sustenance of a correction in the southern prices is likely to affect regional players like The Ramco Cements and India Cements. Meanwhile, we remain selective in the cement space.

- **Picks:** UltraTech Cement remains our preferred pick in the cement sector on account of its pan-India presence and strong balance sheet.

Valuation

Particluar	CMP	PT	Rating	EV/EBIDTA		EV/tonne	
				FY16	FY17	FY16	FY17
UltraTech	2,991	3,580	Buy	17.1	14.1	187	183
Grasim	3,595	4,475	Buy	6.0	4.7		
Shree Cement	11,284	11,400	Hold	30.6	15.8	195	182
The Ramco Cements	382	450	Buy	11.0	9.7	127	123
JK Lakshmi	295	NR	Neutral	19.1	15.3	95	94
India Cements	75	NR	NA	5.0	4.7	46	46
Mangalam Cement	181	NR	Positive	30.2	10.6	35	36

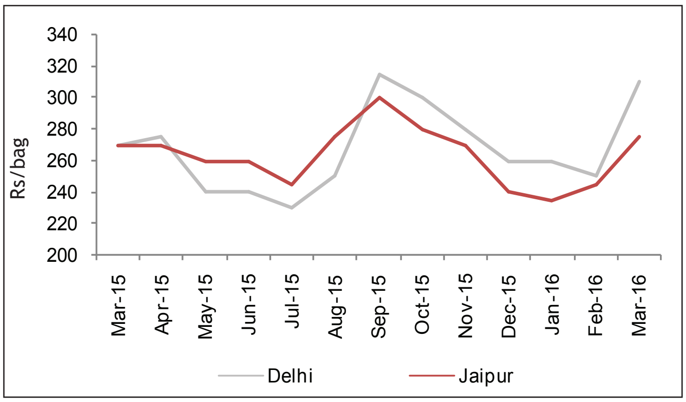
Northern region

- The average price of cement in the northern region has increased by 15% month on month (MoM). Delhi and Bhatinda have seen a higher price increase of Rs40 and Rs25 per bag respectively. The realisation in Jaipur and Udaipur has increased by Rs15-20 per bag on a month-on-month (M-o-M) basis.
- Dealers are suggesting that prices are likely to remain stable in the northern region at the current level and demand to remain subdued.

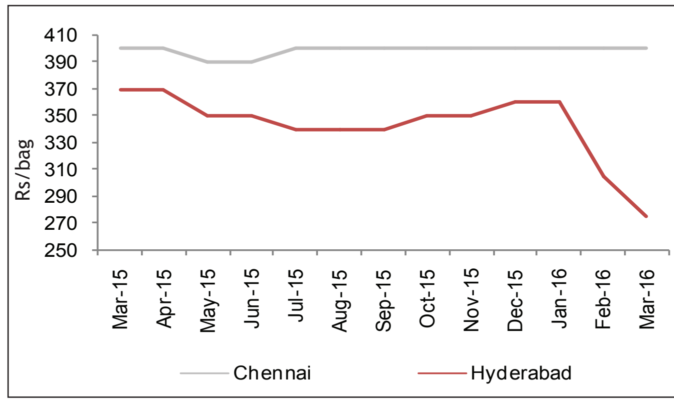
Southern region

- Though the southern region had maintained pricing discipline till now, it is feeling pressure on cement prices. In Hyderabad the price of cement has seen a correction of Rs30 per bag MoM. However, Chennai has maintained cement prices at an elevated level.
- The prices in the southern region have been correcting over the period February-March 2016 which is likely to affect the south-based players like The Ramco Cements. On the demand front, there has not been any visible uptick yet.

Northern region



Southern region



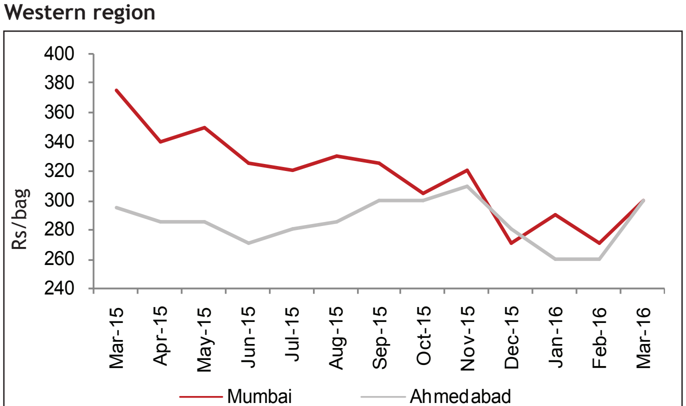
Western region

- The price of cement in the western region has seen a sudden uptick in March of 2016. Cement prices in Gujarat have increased by about Rs40 per bag MoM whereas that in Maharashtra have risen by Rs30 per bag.
- Going ahead, the prices in the western region are likely to remain stable on account of supply constraints. However, no major uptick has been witnessed on the demand front.

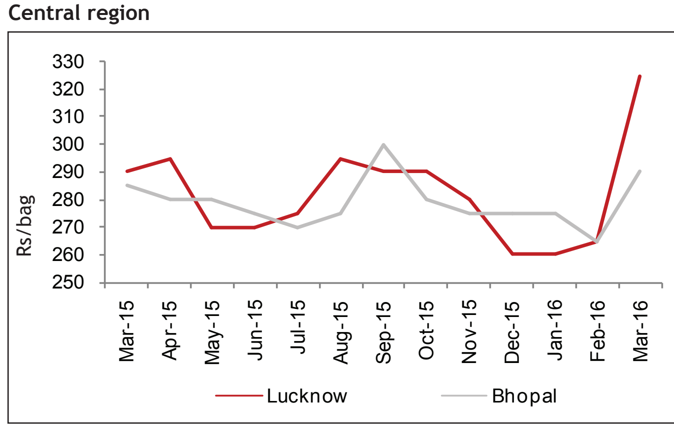
Central region

- Cement prices in the central region too has seen an uptick in March. Lucknow has seen a marked increase of Rs60 per bag MoM while Bhopal, which had witnessed a Rs10-per-bag correction in February, has seen a rise of Rs15 per bag from March onwards.
- The steep increase in cement prices in the central region does show some sign of demand recovery, though it remains to be seen if the same will sustain.

Western region



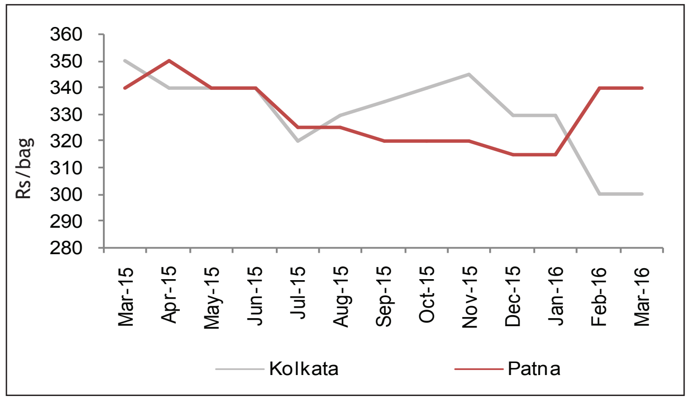
Central region



Eastern region

- The eastern region has seen fairly stable prices as compared with the other regions but the demand situation in the eastern region remains a concern. Cement prices per bag have remained more or less flat MoM in March this year.
- On the demand front, West Bengal seems to be lagging as after correcting by Rs30 per bag in February cement prices have seen an uptick in March.

Eastern region



IPO Flash

HealthCare Global Enterprises Ltd (HCG)

IPO details

Issue opens	March16, 2016 (Wednesday)
Issue closes	March 18, 2016 (Friday)
Price band	Rs205-218
Offer size	2.98 crore equity shares
Issue size	Rs611-650 crore
Type of issue	Fresh issue + Offer for sale
Face value	Rs10
QIB portion	75% of the offer
Non-institutional portion	15% of the offer
Retail portion	10% of the offer

The issue

HealthCare Global Enterprises Ltd (HCG) is coming out with an initial public offering (IPO) to raise Rs611-650 crore from the equity market at a price band of Rs205-218 per equity share. The offer comprises a fresh issue and an offer for sale.

Offer	
Offer of equity shares	Up to 2.98 crore equity shares
of which	
Fresh issue	Up to 1.16 crore equity shares
Offer for sale	Up to 1.82 crore equity shares

Object of offer

The company shall not receive any proceeds from the offer for sale. The net proceeds will be utilised for the following objects:

- Purchase of medical equipments (~Rs42.2 crore)
- Investment in information technology software, services and hardware (Rs30.2 crore)
- Pre-payment of debt (Rs147.1 crore)
- General corporate purposes

Company background

HCG is a specialty healthcare provider in India focused on cancer and fertility. Under the HCG brand, the company operates the largest cancer care network in India. Under the Milann brand, the company operates fertility centres. The HCG network consists of 14 comprehensive cancer centres, including its Centre of Excellence in Bengaluru, 3 freestanding diagnostic centres and 1 day-care chemotherapy centre, across India. The HCG network operates through a "hub and spoke" model where the HCG Centre of Excellence in Bengaluru serves as a hub to the other cancer centres. The company has four Milann fertility centres in Bengaluru.

The following table sets out the number of comprehensive cancer centres and the key operational data of HCG network during H1FY2016, FY2015, 2014 and 2013 are as follows:

Particulars	H1FY16	FY15	FY14	FY13
Comprehensive cancer centres in operation	14	15	15	14
New patient registrations	18,079	37,458	34,344	28,546
Patients treated with radiation therapy	6,163	12,647	11,181	10,225
PET-CT procedures	12,253	23,988	21,040	17,750
Chemotherapy administrations	25,453	48,360	43,988	40,052
Surgeries	4,630	8,707	8,454	7,333
Number of available operational beds	912	875	829	746
AOR (in %)	51.6%	53.5%	54.2%	57.6%
ALOS (in days)	2.9	3.0	3.2	3.4
ARPOB (in Rs/Day)	26,685	24,647	21,850	19,034

Key positives

Largest provider of cancer care in India with a proven track record: The HCG network is the largest provider of cancer care in India in terms of total number of private cancer treatment centres. As of December 31, 2015, HCG operated 18 HCG cancer centres, including 14 comprehensive cancer centres, 3 freestanding diagnostic centres and 1 day-care chemotherapy centre in India. During the six months ended September 30, 2015 and FY2015, HCG registered 18,079 and 37,458 new cancer patients across network and delivered radiation therapy to 6,163 and 12,647 patients, respectively. As of H1FY2016 and FY2015, HCG network had 912 and 875 available operational beds respectively, which included intensive care unit (ICU) beds and day-care beds but excluded self-care beds. For H1FY2016 and FY2015, HCG network recorded an average length of stay (ALOS) of 2.90 days and 3.00 days, an average occupancy rate (AOR) of 51.6% and 53.5% and an average revenue per occupied bed (ARPOB) of Rs26,685 per day and Rs24,467 per day, respectively.

High quality cancer care provided at a competitive price: Across the HCG network, specialist physicians adopt an integrated multi-disciplinary and technology-focused approach to provide comprehensive cancer care to the patients. The approach relies on close collaboration and sharing of information among specialist physicians from various disciplines, including medical, radiation and surgical oncologists, nuclear medicine physicians, pathologists and radiologists. This collaborative approach enables HCG to offer a high standard of care to patients. HCG aims to maximise the utilisation of the equipment and technologies used across the network through optimal scheduling of patients undergoing treatment, in particular, radiation therapy. They have also implemented a centralised drug and medical consumables formulary, allowing them to maximise the utilisation of generic drugs and to lower the overall cost of drugs and medical consumables. Further, HCG believes that the scale of operations and the relationships HCG enjoys with vendors of specialised medical equipment lends them with a competitive advantage in terms of favourable economic terms of purchase and financing of medical equipments.

Entry into high potential fertility business: The fertility treatment is an emerging segment in the Indian healthcare industry which is currently relatively underdeveloped and fragmented. Of the estimated 27.5 million infertile couples in India, fewer than 0.3 million currently seek fertility treatment, owing to a lack of awareness and access to fertility treatment, as well as a high cost of treatment. Nonetheless, the number of In Vitro Fertilisation (IVF) cycles performed in India has increased from 7,000 in 2001 to 100,000 in 2015. Through acquisition of a 50.10% equity interest in BACC Healthcare, HCG now operates four Milann fertility centres in Bengaluru. The fragmentation of the market presents HCG with an opportunity to leverage the expertise of building the HCG brand into a nationally recognised speciality healthcare brand and to build and establish the Milann brand across India. Milann fertility centres provide comprehensive reproductive medicine services, including assisted reproduction, gynaecological endoscopy and fertility preservation. During FY2015, the Milann fertility centres registered 8,027 new patients and performed 1,111 IVF procedures.

Key concerns

Payer mix: Payer mix includes patients who pay for their medical expenses themselves and patients who are beneficiaries of third-party payer agreements. The third-party payers include; (i) central, state and local government bodies; (ii) private and public insurers, including third-party administrators acting on behalf of insurers; and (iii) corporate entities that pay for medical expenses of their employees and in certain cases, their dependents. Any non-payment by such third-party payers will affect the revenue and profitability. As of H1FY2016, 33% revenues (Rs93 crore) were billed to the third-party payers. In the past, there have been delays and non-payment by third-party payers. As of November 30, 2015, HCG had outstanding gross receivables amounting to Rs90 crore from third-party payers. Provisions for disallowances reduce the revenue from operations and provisions for doubtful trade receivables increases expenses and thus reduce the profitability.

Significant finance costs: HCG's operations and proposed expansions are funded to a large extent by debt and any increase in interest expense may have an adverse effect on operations and financial condition. As of November 30, 2015, the total debt is Rs429 crore and almost all debt is on floating interest rates. During M8FY2016, the total interest cost was Rs24 crore. Owing to high debt, an increase in interest rates is likely to have a significant adverse effect on interest expenses and consequently, on profitability.

Valuation: At the price band of Rs205-218 per share, the issue is priced at 26.6-28.0x EV/EBIDTA for FY2015.

Consolidated financials

Profit & loss account (Rs cr)

Particulars	FY11	FY12	FY13	FY14	FY15	8MFY16
Revenue from operations	214.8	266.6	338.3	451.3	519.4	378.9
Total raw material cost	61.6	81.1	103.5	133.4	146.0	99.1
Employee expense	32.3	42.2	53.5	76.8	81.5	64.3
Other expenses	83.0	102.1	135.1	202.9	215.6	159.8
Total operating cost	**177.0**	**225.4**	**292.1**	**413.1**	**443.1**	**323.1**
Operating profit	**37.9**	**41.2**	**46.2**	**38.2**	**76.2**	**55.7**
% of Sales	0.2	0.2	0.1	0.1	0.1	0.1
Other income	1.4	3.6	2.4	4.0	4.8	2.4
PBIDT	**39.2**	**44.9**	**48.6**	**42.2**	**81.1**	**58.1**
Interest (cost)/Inc	13.6	24.0	29.2	32.2	34.2	24.4
PBDT	25.6	20.9	19.4	10.0	46.8	33.7
Less: Depreciation & amortisation	17.6	23.8	29.6	36.2	39.8	29.0
Profit before tax	**8.0**	**(2.9)**	**(10.1)**	**(26.2)**	**7.0**	**4.7**
Tax	1.0	0.2	0.7	5.4	(1.7)	0.7
Profit before exceptional item	**7.0**	**(3.1)**	**(10.9)**	**(31.5)**	**8.7**	**4.0**
MI + Share of (profit)/loss of associate	0.7	0.2	(0.3)	4.0	8.1	7.7
Reported PAT	**6.3**	**(3.3)**	**(10.5)**	**(35.6)**	**0.5**	**(3.7)**

Restated consolidated summary statement of assets & liabilities (Rs cr)

Particulars	FY11	FY12	FY13	FY14	FY15	8MFY16
Liabilities						
Equity capital	53.3	59.3	66.9	68.2	70.0	73.5
Reserve & surplus	117.7	152.0	216.5	195.5	209.5	221.1
Net worth	**171.0**	**211.2**	**283.4**	**263.8**	**279.5**	**294.5**
Minority interest	5.4	8.2	12.6	18.3	25.3	27.2
Deferred tax liabilities	1.5	1.6	1.5	1.2	0.5	0.6
Total loans	**115.3**	**187.1**	**277.4**	**269.8**	**309.5**	**385.1**
Long-term loan	93.7	135.4	239.3	251.8	280.2	358.2
Short-term loan	21.6	51.7	38.0	18.0	29.3	26.9
Capital employed	**293.2**	**408.1**	**574.8**	**553.1**	**614.8**	**707.5**
Assets						
Fixed assets	258.1	382.4	447.8	462.2	509.8	595.9
Goodwill	8.9	9.9	60.7	60.2	60.9	60.9
Investments	1.0	0.2	60.6	2.3	0.1	0.1
Other non-current assets	1.9	3.0	4.7	4.8	7.5	9.5
Current assets	**91.0**	**108.9**	**134.0**	**158.9**	**191.9**	**217.5**
Other current assets	4.1	6.2	6.9	7.6	8.6	16.2
Inventories	5.3	7.1	10.0	12.0	14.6	13.6
Sundry debtors	29.2	43.1	60.2	52.9	63.8	74.7
Cash & bank balance	**5.8**	**16.6**	**10.7**	**25.5**	**27.0**	**19.5**
Loans & advances	46.7	35.9	46.3	61.0	78.0	93.4
Less: Current liabilities & provisions	**69.6**	**98.0**	**134.2**	**135.6**	**161.4**	**183.7**
Sundry creditors	36.2	36.3	52.7	70.5	83.3	98.9
Other current liabilities	30.1	58.4	77.8	60.2	72.4	78.4
Provisions	3.2	3.4	3.7	4.8	5.7	6.4
Net current assets	**21.5**	**10.9**	**(0.2)**	**23.3**	**30.6**	**33.8**
Deferred tax assets	1.9	1.8	1.1	0.2	5.9	7.2
Capital deployed	**293.2**	**408.1**	**574.8**	**553.1**	**614.8**	**707.5**

Automobiles

- Apollo Tyres
- Ashok Leyland
- Bajaj Auto
- Gabriel Industries
- Hero MotoCorp
- M&M
- Maruti Suzuki
- Rico Auto Industries
- TVS Motor

Banks & Finance

- Allahabad Bank
- Andhra Bank
- Axis (UTI) Bank
- Bajaj Finance
- Bajaj Finserv
- Bank of Baroda
- Bank of India
- Capital First
- Corp Bank
- Federal Bank
- HDFC
- HDFC Bank
- ICICI Bank
- IDBI Bank
- LIC Housing Finance
- PTC India Financial Services
- Punjab National Bank
- SBI
- Union Bank of India
- Yes Bank

Consumer goods

- Britannia
- GSK Consumers
- Godrej Consumer Products
- Hindustan Unilever
- ITC
- Jyothy Laboratories
- Marico
- Zydus Wellness

IT / IT services

- Firstsource Soluation
- HCL Technologies
- Infosys
- Persistent Systems
- Tata Consultancy Services
- Wipro

Capital goods / Power

- Bharat Heavy Electricals
- CESC
- Crompton Greaves
- Finolex Cable
- Greaves Cotton
- Kalpataru Power Transmission
- PTC India
- Skipper
- Thermax
- Triveni Turbine
- Va Tech Wabag
- V-Guard Industries

Infrastructure / Real estate

- Gayatri Projects
- ITNL
- IRB Infra
- Jaiprakash Associates
- Larsen & Toubro

Oil & gas

- Oil India
- Reliance Ind
- Selan Exploration Technology

Pharmaceuticals

- Aurobindo Pharma
- Cipla
- Cadila Healthcare
- Divi's Labs
- Glenmark Pharmaceuticals
- Ipca Laboratories
- Lupin
- Sun Pharmaceutical Industries
- Torrent Pharma

Building materials

- Grasim
- The Ramco Cements
- Shree Cement
- UltraTech Cement

Discretionary consumption

- Century Plyboards (India)
- Cox and Kings
- Inox Leisure
- Info Edge (India)
- KDDL
- KKCL
- Orbit Exports
- Raymond
- Relaxo Footwear
- Speciality Restaurants
- Thomas Cook India
- Wonderla Holidays
- Zee Entertainment

Diversified / Miscellaneous

- Aditya Birla Nuvo
- Bajaj Holdings
- Bharti Airtel
- Bharat Electronics
- Gateway Distriparks
- Max Financial Services
- PI Industries
- Ratnamani Metals and Tubes
- Supreme Industries
- United Phosphorus

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