Dimensional Securities Pvt Ltd.

Date: 15th July, 2019
CMP: 320
Recommendation: BUY
Target: 422

Inox Leisure Ltd.

Initiating coverage

MARKET DATA	
NSE TICKER	INOXLEISUR
Networth fy19 (Rs in Crs)	964.1
P/BV Ratio (FY19) (x)	3.3
EPS (TTM)(Rs.)	13.7
Market Price (Rs.)	320
P/E Ratio (TTM) (x)	23.7
52 Week High (Rs)	382
52 Week Low(Rs)	190
Market Capitalisation (rs. Cr)	3,320

AVERAGE MONTHLY VOLUME ('000)	
BSE	9.5
NSE	106.8

SHARE HOLDING PATTERN

Promoter	51.9
FII	11.3
DII	33.8
Public	9.5

RETURN (%)	3M	6M	12M
Inox	1.6	29.9	25.2
Nifty	-0.1	7.3	5.8

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Inox Leisure Ltd. (Inox) is the second largest film exhibitor in India with a presence of over 580 screens across the country. Inox is looking at an aggressive expansion plans over the next few years to tap the growing entertainment industry which is gaining momentum. The domestic theatricals industry is in a sweet spot and we believe Inox's expansion is coming at the right time. Apart from focusing on adding to its screen capacity, emphasis on other key growth drivers like improving income from ad sales and F&B will ensure steady top-line growth and bottom-line improvement.

Improvement in business mix to bring more stability in revenues and margins

Over the last 5 years, Inox's revenue mix has changed favourably towards high margin F&B and ad income, leading to better profitability and stability in revenues. The combined share of F&B and ad revenues has increased from 23.5% to 36% from FY13 to FY19. We continue to remain optimistic about sustainability of this traction and expect F&B and ad revenue growth to outpace screen addition.

- High conversion ratio (patrons spending on F&B/total patrons going to watch the movie) and increasing spend per heads will drive F&B revenues. Focus will be on volume growth even if it loses few bps on gross margin.
- On ad sales, the focus will be on improving both; volume (increasing advertisement minutes per show) as well as realizations. Screen addition will provide scale to the company which it can leverage for getting higher realizations as its reach increases.

Screen addition on strong footing, aggressive expansion on the cards

Inox has guided an addition of 80 more screens in FY20, which will take its total screen count to 654 by year end. Post that it has pipe line to add another 800-850 screens. Most of the incremental screens will be in the newer market where their presence is relatively low. This will increase company's target market audience and also diversify their regional mix which is currently largely west focussed.

Industry dynamics changing in the favour of multiplexes:

Over last 10 years, the total screen count in India has come down from 10635 to 9601 screens and during the same period number of multiplexes has more than tripled from 925 to 2950 screens. Moreover, given our population size and emerging base of consumers, the movie screen penetration is lowest in India when compared globally, highlighting significant headroom for growth.

Cinema content now garnering more eye-balls

Over last 3-4 years, the cinema content is gaining significant footfalls which can be seen from the fact that year-on-year, number of movies collecting Rs. 100 cr or more is on the rise. In fact, increasingly more movies are now entering the 200 cr club. Plus a new and huge market is also getting created for Hollywood movies which has significant potential for growth given rising preferences for western movies in India.

Valuation & View

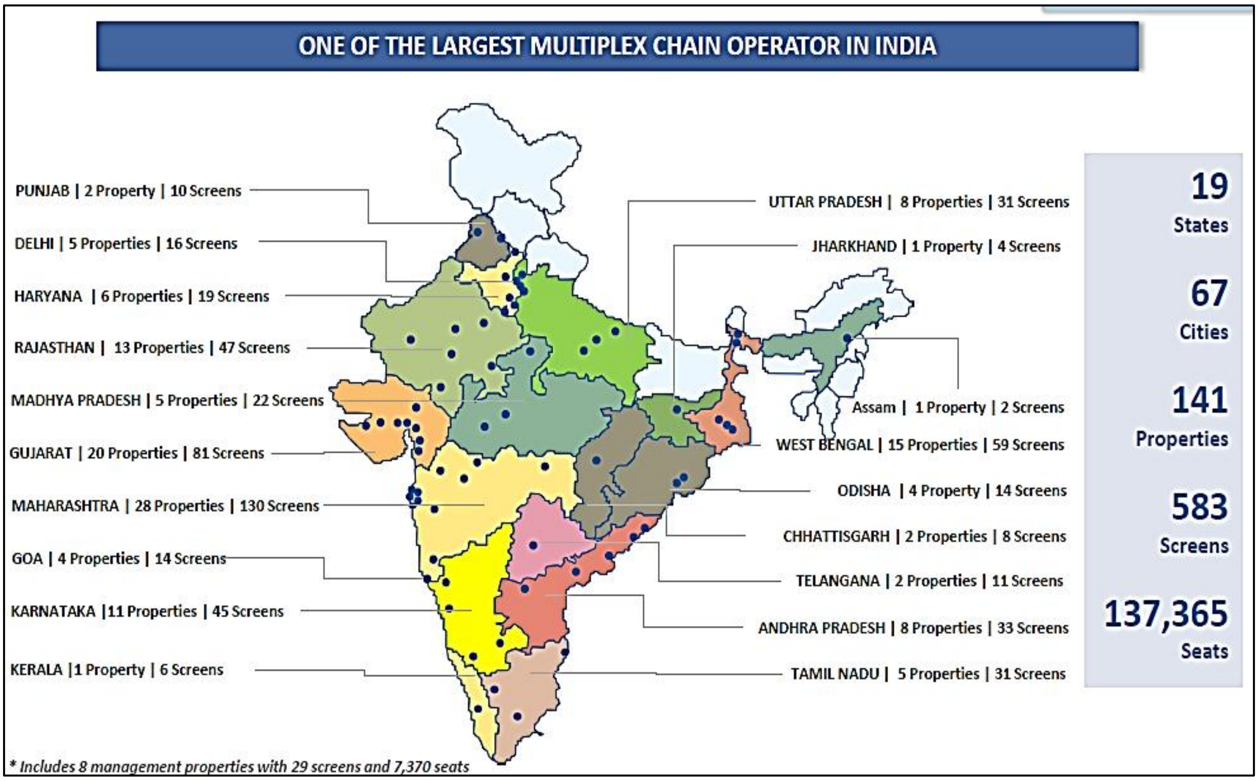
Given the above thesis, we are optimistic on Inox Leisure's prospects and accordingly recommend a BUY on the stock. We are valuing the company's share at Rs. 422 based on FY21 earnings, representing a potential upside of 32% from the CMP of Rs. 320. We are using P/E approach to value the stock and have assigned a multiple of 20X to FY21's EPS of Rs. 21.1 to arrive at our target price. In arriving at our target price, we are not factoring in any potential re-rating in the stock which could be a possibility going ahead given the improving operating metrics of the company, growth potential and rich valuation of closest peer company.

Financial Snapshot:

Year End	Revenue	EBITDA	EBITDA %	PAT	RoE (%)	RoCE (%)	P/E
FY18	1348	210	15.6%	123	18.8	11.7	26.0
FY19	1692	309	18.3%	139	16.5	20.1	23.7
FY20E	2033	390	19.2%	183	17.3	23.0	17.2
RY21E	2321	445	19.2%	207	16.5	22.2	15.2

About Company

Incorporated in 1999, INOX Leisure Limited is one of the largest multiplex operators in India promoted by Gujarat Fluorochemicals Ltd. The Company is a part of INOX Group, which is diversified across industrial gases, engineering plastics, refrigerants, chemicals, cryogenic engineering, renewable energy, and the entertainment sectors. Over the last decade, INOX has aggressively scaled up its presence through organic and inorganic expansion, growing from 2 properties with 8 screens in FY03 to 141 properties with 583 screens as on date.



Includes 8 management properties with 29 screens and 7,370 seats

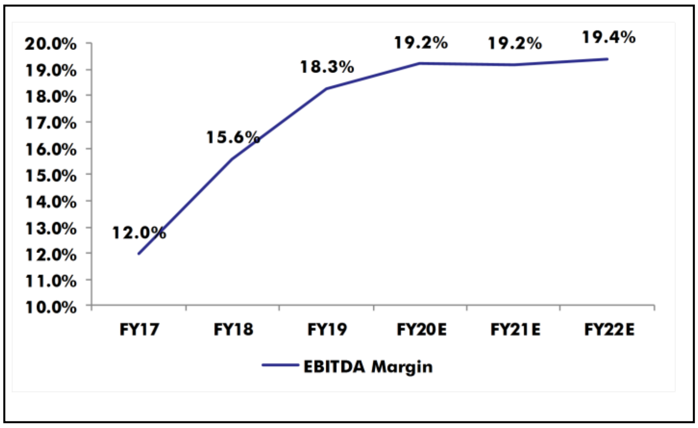
❖ Investment Rationale:

➢ Improvement in business mix to bring more stability in revenues and margins

The film exhibition business provide multiple streams of revenue to the theatre owners viz. box office revenue (BO), food and beverage revenue (F&B), advertisement revenue and other allied income. While the box office revenue forms a major chunk of the overall income, it is the other streams of income which yields higher margins for them and thus makes it more profitable to run a theatre.

For Inox, it is this revenue mix which has started getting favourable over last 5-7 years. Company's revenue mix has changed significantly in the favour of F&B and advertisement revenues, leading to better profitability and stability in revenues.

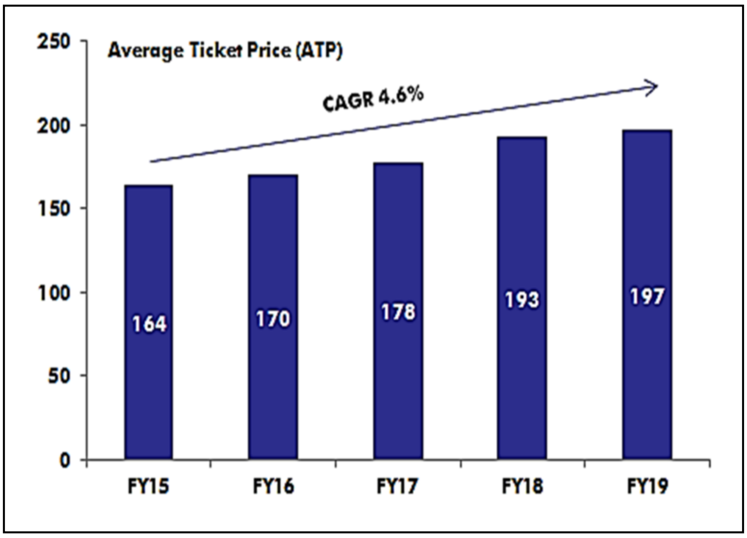
Inox - Revenue mix	FY13	FY16	FY19	FY22E
Net Box Office	70.0%	61.4%	57.6%	56.9%
F&B	19.0%	22.9%	25.8%	27.0%
Ad Revenues	4.5%	7.8%	10.4%	11.1%
Other	6.5%	7.8%	6.2%	5.0%

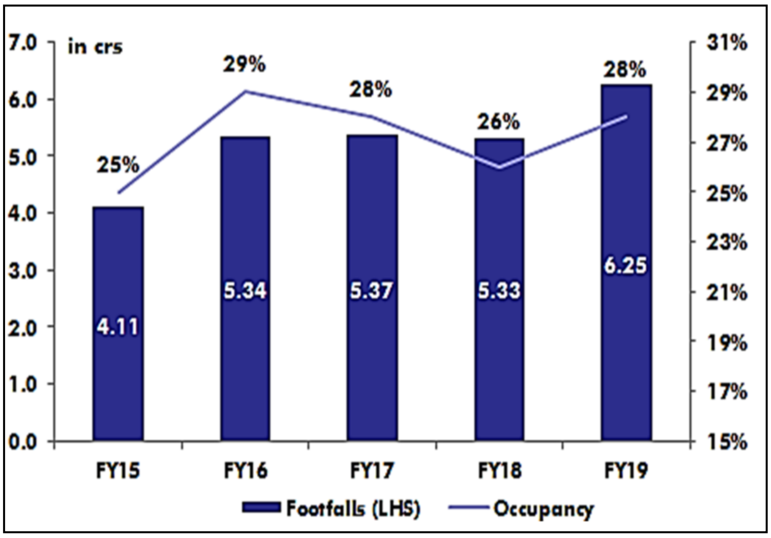


- **Box office revenues increasing steadily:**

  Inox's box office revenues has seen a steady increase over the years and it has been a function of increase in; number of screens, footfalls and average ticket price. Across economic cycles, Inox has been able to steadily increase prices of its tickets in line with inflations (sometimes more) to maintain its profitability.

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Box Office Revenue	712.8	748.1	802.2	975.1	1173.6	1341.9	1498.3
Net BO revenue per screen (Rs. Cr)	1.7	1.6	1.6	1.7	1.8	1.9	2.0
Growth		-5.8%	2.0%	6.8%	6.1%	5.2%	3.8%





Regd. Office: 298, Perin Nariman Street, 4th Floor, City Ice Building, Fort, Mumbai - 400 001.

The box office revenues yields lower margin because 44-46% is straight away paid as distributor's share. Besides that, it also entails other expenses like rental, maintenance fees, power cost and several other operating expenses. Therefore, it is imperative to earn revenues from other avenues which don't entail additional expenses and large portion of it flows directly to the EBITDA.

- **F&B revenue on the rise:**

Inox is continuously making efforts to increase its F&B revenue which is an extremely profitable business with gross margin of ~73-75%. Company has taken various initiatives to increase the conversion ratio of people spending on F&B and also increase their spend per head. It has introduced various services like delivery at the seat, booking meal at the time of ticket-booking, ordering via their app, etc. to make it simpler for their audience to order food. Over last 3 years, Inox's F&B revenues have increased at a pace of 18% CAGR (1.8X screen addition).

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
F&B Revenue	265.6	284.1	306.0	436.1	543.5	627.5	707.4
F&B spends per head	49.7	52.9	57.4	69.7	74.2	76.8	79.5

We believe there is still significant room for increase in spend per head and also conversion ratio which we currently estimate at ~40%. Given that the patrons visiting Inox belong to the affluent and aspirational class, they have the spending ability which can sustain the growth in F&B revenue.

- **Ad revenues gaining traction:**

Inox Leisure achieved a strong 25% CAGR growth (2.5X screen growth) in its ad revenues over the last three years. The growth was primarily led by increase in realizations and volume (i.e. minutes of ad run per screen). While going ahead this run rate is not sustainable, the management believes that the growth will continue to be strong. Therefore we expect the revenue growth to continue to be higher than the screen growth over the forecast period.

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Ad Revenue	91.0	96.2	138.9	176.1	214.1	249.2	282.8
Ad revenue per screen (in cr)	0.23	0.22	0.29	0.33	0.36	0.38	0.39

From advertiser's point of view, advertising in a multiplex is also beneficial because they know their target audience. Also the viewership ratio is higher in multiplexes since the advertisements showed are compulsorily to be seen by the audience.

Inox Ad revenue analysis	FY16	FY17	FY18	FY19
Total Ad Revenue for Inox in a year	91.0	96.2	138.9	176.1
Footfalls in a year	5.34	5.37	5.33	6.26
Ad spends per footfall	17.0	17.9	26.1	28.1

An advertiser spends only Rs. 25-30 per person per year while advertising in a theatre hall. The products advertised in a theatre include automobile, consumer durables, premium FMCG, financial services, tours and travels, etc. For them, this cost-benefit arithmetic is favourable. Similar number for PVR is ~30-35% higher compared to Inox highlighting further headroom for growth for the latter.

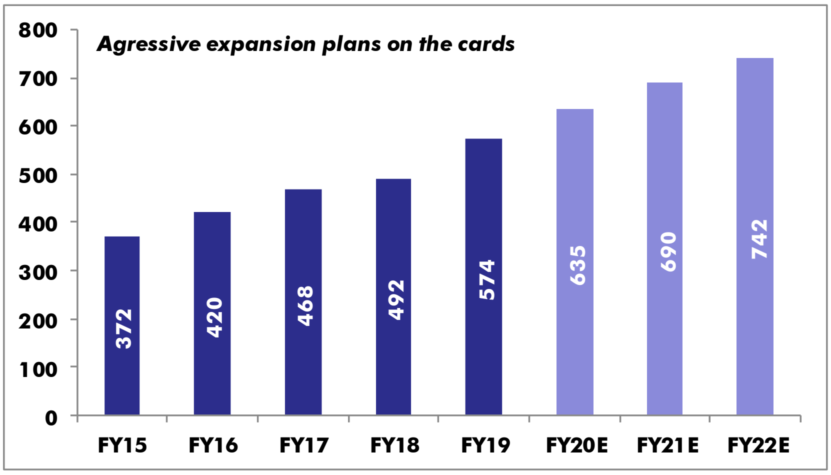
PVR Ad revenue analysis	FY16	FY17	FY18	9MFY19
Total Ad Revenue for Inox in a year	214.5	251.7	296.9	265.4
Footfalls in a year	6.96	7.52	7.61	7.18
Ad spends per footfall	30.8	33.5	39.0	37.0

Film Exhibition business- Unit Economics:

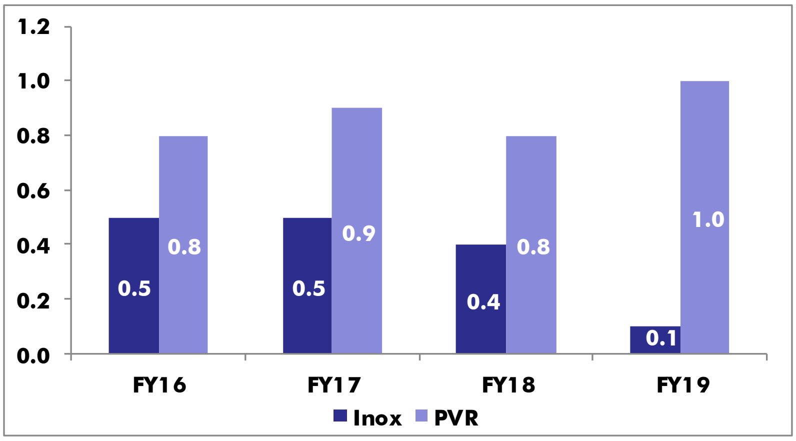
Assumptions						
No. of screen	1					
Seats per screen	215					
Shows per day	5.2					
No. of show seats per screen per year	404146	404146	404146	404146	404146	404146
Per screen economics						
Under different assumption scenarios	**28.5%**	**29.0%**	**29.5%**	**30.0%**	**30.5%**	**31.0%**
Footfalls per screen per year	115182	117202	119223	121244	123265	125285
ATP (Net of GST)	165.0	165.0	165.0	165.0	165.0	165.0
F&B per head	70	70	70	70	70	70
Ad revenue per screen	0.3 cr	0.3 cr	0.3 cr	0.3 cr	0.3 cr	0.3 cr
(Rs. Cr)						
Gross B.O. revenue	1.90	1.93	1.97	2.00	2.03	2.07
F&B revenue	0.81	0.82	0.83	0.85	0.86	0.88
Ad revenue	0.33	0.33	0.33	0.33	0.33	0.33
Other revenue (10.5% of BO revenue)	0.20	0.20	0.21	0.21	0.21	0.22
Total Revenue	**3.24**	**3.29**	**3.34**	**3.39**	**3.44**	**3.49**
Op. Expenditure						
Distributor's share (45% of BO revenue)	0.86	0.87	0.89	0.90	0.92	0.93
F&B Cost	0.21	0.22	0.22	0.22	0.23	0.23
% of F&B revenue	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Lease & Hire charges	0.47	0.47	0.47	0.47	0.47	0.47
Power & Maintenance	0.43	0.43	0.43	0.43	0.43	0.43
Employee Cost	0.12	0.12	0.12	0.12	0.12	0.12
Other Operating Overheads	0.48	0.48	0.48	0.48	0.48	0.48
Total Expenditure	**2.57**	**2.59**	**2.61**	**2.63**	**2.65**	**2.67**
EBITDA	**0.66**	**0.69**	**0.73**	**0.76**	**0.79**	**0.82**
EBITDA Margin	***20.5%***	***21.1%***	***21.8%***	***22.4%***	***23.0%***	***23.6%***
Depreciation	0.19	0.19	0.19	0.19	0.19	0.19
EBIT	**0.47**	**0.50**	**0.53**	**0.57**	**0.60**	**0.63**
Gross Capex/ Capital Employed	**2.75**	**2.75**	**2.75**	**2.75**	**2.75**	**2.75**
RoCE	**17.1%**	**18.3%**	**19.5%**	**20.6%**	**21.8%**	**23.0%**

➢ Screen addition on strong footing, aggressive expansion on the cards:

Inox Leisure has steadily added screens to its portfolio over the years through organic and inorganic means. Company had a total of 119 screens as at the end of FY10 which it increased by nearly 5X to 574 screens as at FY19 end.



The best part about company's expansion is that it has come without putting any stress on the balance sheet. Even going ahead, major chunk of the cap-ex will be met through its internal accruals.



During FY19, Inox added a total of 80 screens making up for the shortfall of FY18 when it added 24 screens against the guidance of 45-50 screens (For our model we have factored in addition of 75 screens in FY20). Company has a proper system in place to get its screen commercialized on time. They work with developers who have track record of timely delivery of properties and the company aims to get all the necessary regulatory approvals and issues fixed before they get the property, so that they don't have to face delays in commencing operations.

Inox has guided an addition of 80 more screens in FY20, which will take its total screen count to 660 by year end. Post that it has pipe line to add another 800-850 screens for which it has already entered in definitive agreements with various developers. Most of the incremental screens will be in the newer market where their presence is relatively low. This will increase company's target market audience and also diversify their regional mix which is currently largely west focussed. Regional shit towards north and south can also have positive impact on the blended ATP for the company.

Regional mix:

Region	FY19	FY20E	FY22E
North	21%	25%	26%
East	15%	14%	15%
West	42%	39%	36%
South	22%	22%	23%

FY20 Pipeline				
Properties	Open Date	Properties	Screens	Seats
Lucknow Garden	12-Apr-19	1	4	803
Taksh Galaxy	3-May-19	1	5	976
Openings Till Date		2	9	1,779
Hyderabad		1	8	1,678
Gurugram		2	8	970
Kolkata		1	2	342
Bengaluru		2	9	1,357
Gorakhpur		1	4	761
Lucknow		2	9	1,817
Jalandhar		1	3	822
Indore (existing)		-	6	403
Pune		1	5	1,160
Delhi		2	6	498
Tumkur		1	5	1,000
Vijayawada		1	3	1,022
Salem		1	3	803
Total		18	80	14,412

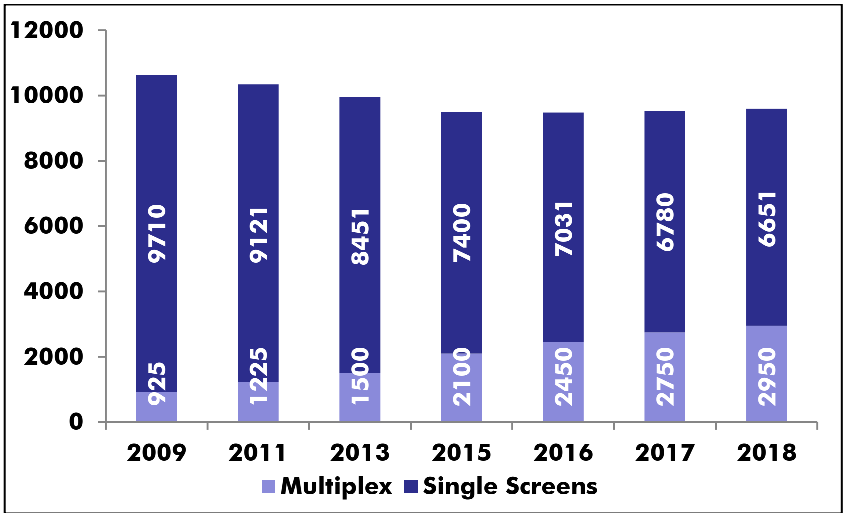
	Properties	Screens	Seats
FY19	139	574	135,586
FY20 Openings till date	2	9	1,779
Expected Jun'19 to Mar'20	16	71	12,633
FY20 Expected	157	654	149998
Additions Post FY20	120	830	151,663
Leading to	277	1484	301661

Different screen formats to enhance experience

To give a better experience to its premium customer's Inox has rolled out its Insignia screens where the ATP ranges from Rs. 700 to Rs. 1500. These screens have only 40-50 seats but have higher occupancy (~50%). Besides Insignia, they also have many IMAX format screens which are recognized for their visual appeal, especially for 3D movies. These two formats of screens contribute to ~8-9% of Inox's total screen (up from 4% in FY16), but because of its significantly high realizations it moves up company's ATP. Also, these are the affluent crowds who also spend on F&B's, thereby driving the overall profitability. Company will continue to add more screens of these formats to tap the top quartile of consumers.

➢ Industry dynamics changing in the favour of multiplexes:

Over the last decade, the film industry has changed significantly on technology front in every aspect of movie screening; shift towards digital print, Dolby and Atmos audio, online and computerised ticket booking, etc. Movie-going has become more of an experience than just a simple viewing for entertainment. It is because of these factors, that the multiplexes started to flourish across India. Due to their scale and adaption of technology, it became simpler and cheaper for producers to screen movies digitally compared to physical prints. Because single screen finds it difficult and unfeasible to adopt these new systems of film exhibition, they are seeing rapid shutdowns while multiplexes are gaining market share.



Moreover, because of the scale and the kind of experience they provide, multiplexes have some sort of pricing power especially during big releases. On an average the price of multiplex tickets are 2.2-2.5x expensive compared to single screen. With rising screen, higher prices and better bargaining power with producers, multiplexes are gaining market share at faster pace. The domestic theatricals industry is expected to grow at ~9% CAGR between CY18 o CY20 and we believe that growth for multiplexes would be faster than the overall industry.

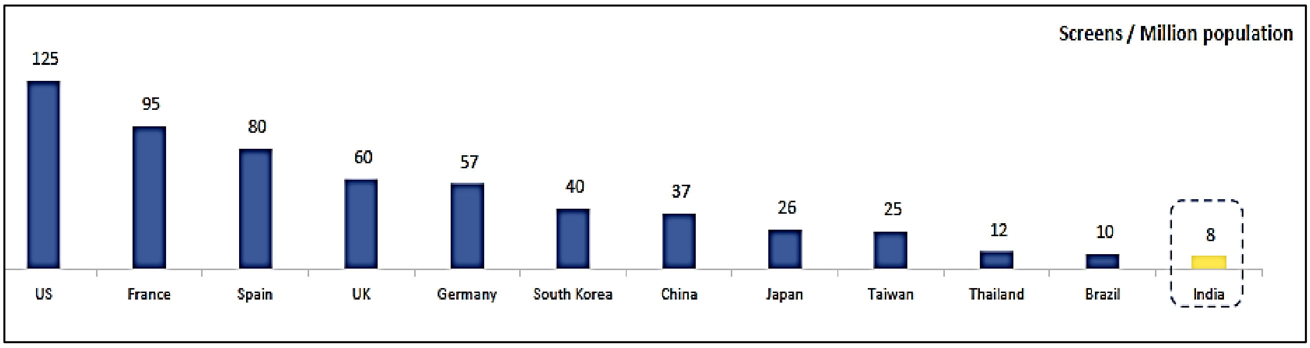
Particulars	CY16	CY17	CY18	CY19	CY20E
Domestic theatrical revenues (Rs. cr)	8560	9630	10300	11300	12250
Growth		12.5%	7.0%	9.5%	8.5%

(Source: Inox Leisure, Dimensional Research)

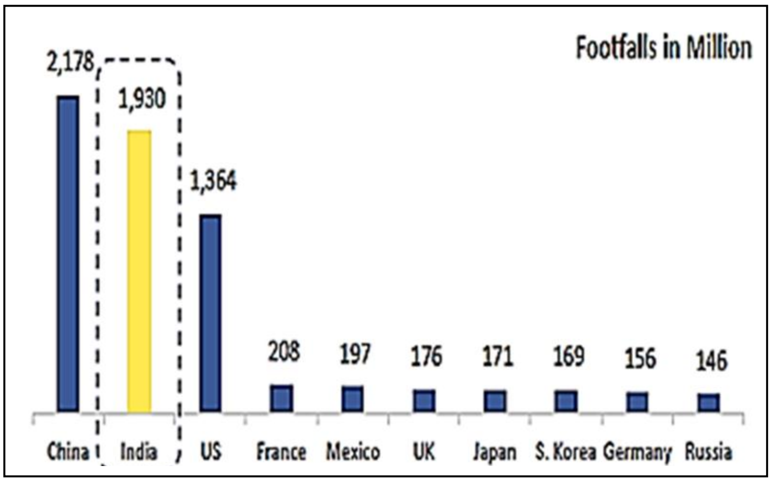
After strings of acquisition of smaller players and single screens, the Indian multiplex has become a consolidated industry with the top 4 players accounting for ~75% market share.

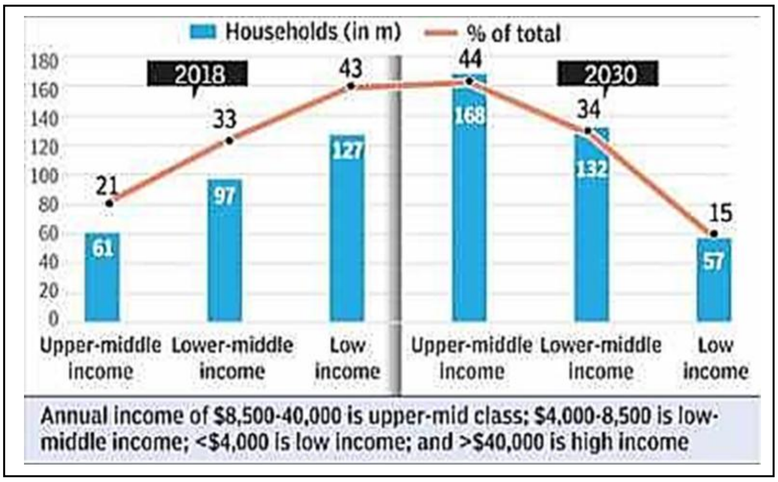
Companies	PVR	Inox	Carnival	Cinepolis	Otherd	Total
Nos. of screens	750	574	455	360	816	2950
Market Share	25.4%	19.5%	15.2%	12.2%	27.6%	100%

Over the last 4 years, there has been a net addition of theatre screens due to capacity expansion by multiplexes. However, despite net addition in the number of screens, the number of screen per capita is still low in India compared to other economies. This explains very low occupancy in developed economies where there is a situation of oversupply with footfalls largely remaining stagnant.



And India has second largest cinema admissions globally with a burgeoning middle class which provides a potential for future growth.





The number of upper middle class households (income above Rs. 600,000 p.a.), which drives the consumption of premium and semi-luxurious goods/services, is expected grow nearly 3 fold from 6.1 cr to 16.8 cr. Moreover, even the upper crust of lower middle income households (income more than Rs. 400,000) is expected to grow by 36%.

The discretionary spend in India is going to see a surge on the back of following factors:

- Increase in the number of youth in the work force (aspirational class) whose willingness to spend is much higher than what it was 5-10 years back.
- Growth in urbanization and semi-urbanization.
- Rising income and evolving life-style.

Going for a movie can be the cheapest outing for a family in India.

Average cost for a family of four for different entertainment options.

	Cinema	Theme park	Sporting event
Entry Fees (incl GST)	Rs. 600-800	Rs. 4000-6000	Rs. 2500-5000
F&B	Rs. 300-400	Rs. 400-600	Rs. 400-600
Conveyance	Rs. 50	Rs. 300-400	Rs. 200-300
Total Cost	**Rs. 950-1200**	**Rs. 3900-5800**	**Rs. 3100-5900**

(Source: Inox Leisure, Industry research)

Thus, at a cost of Rs. 1000-1300, a movie outing can be the most affordable entertainment option for an entire family in India. Given large proportion of middle class households, theatres should continue to attract larger audience.

Number of visitors annually (in mns) (FY19)

Cinema	Theme Parks	Sports Event
190 mn	**30 mn**	**10-15 mn**

(Source: KPMG, Inox Leisure, Industry research)

This gets vindicated from the current scenario where consumption has slowed down across sectors but spending on movies has remained largely unaffected;

- The auto industry saw sixth straight month of negative sales.
- Air passenger traffic growth slowed down to -5% to 3% from high double digit growth before that.
- SSSG for QSRs have slowed down to 3-5% compared to 14-16% in previous 6 quarters.
- In this scenario, the number of movies earning Rs. 100 cr+ has grown 2x in last three quarters.

Cinema content now garnering more eyeballs

Over the last 3-4 years, the cinema content is gaining significant footfalls which can be seen from the face that year-on-year, number of movies collecting Rs. 100 cr or more is on the rise. In fact, increasingly more movies are now entering the 200 cr club.

Movie collection	CY16	CY17	CY18	6MCY19
100 cr to 199 cr	6	7	10	8
200 cr+	2	3	3	4
Total Movies above 100 cr	**8**	**10**	**13**	**12***

*Only for 6 months with festive and year end releases yet to come. *(source: PVR, industry research)*

Given the strong traction in footfalls, the production houses are rolling out more movies with appealing star cast and even better content. With strong content being rewarded by the viewers, the producers are also lining up movies with big budgets in the range of Rs. 100-300 cr which was unheard off 5 years ago. Moreover, even Hollywood movies have been able to attract the younger audience to the theatres in huge numbers. This has effectively opened a completely new market for multiplexes. Recent movies like The Jungle Book, Avengers- Infinity War, Avengers- The End Game, Fast & Furious 7, etc. did Box Office (Net) business of over Rs. 100 cr, with The End Game's collection as high as 250 cr (net.). Still to put things in perspective these movies form a paltry 2-3% of the global business that they do. The growing number of audience for Hollywood movies will create a new and huge market for the multiplex. And this is also the crowd who spends on F&B, which will lead to spurt in ancillary income as well.

Upcoming movie pipeline looks strong to sustain and grow footfalls in multiplexes.

Calendar Year 2019		
Movie	**Budget**	**Star cast**
Saaho	350 cr	Prabhas, Shraddha Kapoor
Super 30	55 cr	Hrithik Roshan
Mission Mangal	60 cr	Akshay Kumar, Vidya Balan
Housefull 4	150 cr	Akshay Kumar, Ritiesh Deshmukh,
War	90 cr	Hrithik Roshan, Tiger Shroff
Sye Raa Narsimham	180 cr	Chiranjeevi, Amitabh Bachchan
Dabang 3	80 cr	Salman Khan
Good News	80 cr	Akshay Kumar, Kareena Kapoor
Calendar Year 2020		
Tanaji- The Unsung Warrior	150-175 cr	Ajay Devgn, Kajol and Saif Ali Khan
Indian 2	200 cr	Kamal Hassan, Nana Patekar
Shamsher	90 cr	Ranbir Kapoor, Sanjay Dutt
Sooryavanshi	95 cr	Akshay Kumar, Katrina Kaif
Sangamitra	250 cr	Jaya Ravi, Disha Patani
83- Kapil Dev biopic	110 cr	Ranveer Singh, Deepika Padukone
Laxxmi Bomb	NA	Akshay Kumar
Bramhastra	150 cr	Ranbir Kapoor, Amitabh Bachchan, Alia Bhatt
Krrish 4	NA	Hrithik Roshan
Inshallah	NA	Salman Khan, Alia Bhatt
Laal Singh Chaddha	NA	Aamir Khan, Kareena Kapoor

OTT vs Theatre- Not exactly a risk to film exhibitors.

There are concerns that OTT will impact business of film exhibitors because producers might skip their film from exhibition and release them directly on OTT platform. However, the economics doesn't support these thesis. For instance, Netflix bought the rights of 2018 super-hit Padmaavat for Rs. 20-25 cr (Net BO collection 190 cr) and Netflix bought Baahubali 2's rights for similar amount (Net BO collection Rs. 600 cr+). In fact, it'll be television which will be impacted by the OTT. We'll see that the satellites rights which are acquired by television rights will shift towards OTT players where one can see the movie at its earliest and without any advertisement.

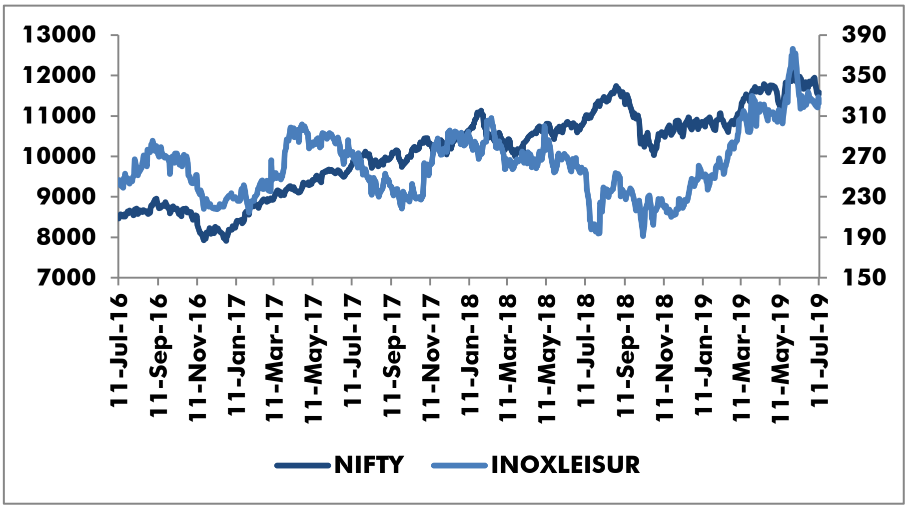
This highlights that the OTT platform has limited purse size in acquiring movie rights. The above examples were for buying 'exclusive' rights. Therefore the money which a producer makes in theatricals is significantly higher (with huge upside potential) compared to what it can make by selling to OTT. Even for OTT there is a trade-off between spending for acquiring rights of a movie and creating its own content. 'Sacred Games' which received tremendous response on Netflix is estimated to have been made at a budget of Rs. 80 cr while Mirzapur was made at 35-40cr. Therefore, an OTT platform would rather be willing to create new content, over which it has a control, instead of spending lavishly on buying a movie rights over which they don't have much control. For example, Netflix paid big amount (sum undisclosed) for acquiring rights of 'Thugs of Hindustan' which turned out to be an extremely poor content.

Another thing working in favour of film exhibition, as discussed above, is that it is viewed as a family or friends' outing. There is a sense of experience attached to it which one can get only in a theatre hall. OTT is more of a leisure activity which one would resort to on his weekends or while commutation.

Valuation and View:

Given the above thesis, we are optimistic on Inox Leisure's prospects and accordingly recommend a BUY on the stock. We are valuing the company's share at Rs. 422 based on FY21 earnings, representing a potential upside of 32% from the CMP of Rs. 320. We are using P/E approach to value the stock and have assigned a multiple of 20X to FY21's EPS of Rs. 21.1 to arrive at our target price.

Given the B2C nature of company's business, we believe that there exists a potential for re-rating in stock's valuation as the company continues to report strong operating numbers. However, we are not factoring in any re-rating for now and would monitor company's performance for few quarters before re-visiting our valuation.



Risks & Concerns:

- Lack/Uncertainty of content: A large chunk of the box office collection is driven because of recurring flow of strong content. Therefore, slowdown in new content or lack of good content can have a significant impact on company's revenues. Since last two years, the multiplexes have seen string of releases earning 100-300 cr at box office. To sustain the current trend of earnings, we'll need incremental big movies every year.

- The above risk has multiplier impact since lower footdalls will also translate inot lower F&B and ad revenues which will have larger impact on the margins as well.

- Slowdown in mall construction: Majority of the multiplexes are set up in the malls and most of the company's upcoming screens are also planned in a mall. Weak sentiment in the economy could lead to muted growth in the commercial property market, impacting mall development.

- Delay and cost overruns in screen addition can lead to financial deterioration. A lot of company's prospect depends on its ability to add screen as efficiently as it did in the past.

Inox catching up with its peer PVR, headroom for re-rating in valuation.

Over the last 4-5 years, Inox has traded at 30-40% discount to PVR's valuation. Even at current price (Inox CMP: Rs. 316, PVR CMP: Rs. 1721) Inox is trading at 47% discount to PVR's valuation. (Inox is trading at 23X TM P/E and PVR at 43.5X). While we acknowledge the fact that PVR is expensively valued, at the same time we also believe that Inox Leisure has potential for getting re-rated, given the improvement in its performances on various metrics as can be seen from below tables.

Revenue mix getting favourable:

	FY16		FY19	
Particulars	**Inox**	**PVR**	**Inox**	**PVR**
Net Box Office	61.4%	52.0%	57.6%	52.0%
F&B	22.9%	26.0%	25.8%	27.0%
Ad revenue	7.8%	11.0%	10.4%	12.0%
Others	7.8%	11.0%	6.2%	9.0%

Number of screens:

Screen Count	FY15	FY16	FY17	FY18	FY19	CAGR
Inox	372	420	468	492	574	11.3%
PVR	464	516	579	625	750	12.8%

ATP and F&B spend per head catching up

PVR					
	FY16	**FY17**	**FY18**	**FY19**	**CAGR**
ATP	188	196	210	212	4.1%
F&B SPH	72	81	89	91	8.1%
Inox					
	FY16	**FY17**	**FY18**	**FY19**	**CAGR**
ATP	170	178	193	197	5.0%
F&B SPH	58	62	66	74	8.5%

...so are the margins

EBITDA Margin comparison	FY16	FY17	FY18	FY19
Inox	17.0%	12.6%	16.1%	18.2%
PVR	15.2%	14.9%	17.2%	19.0%

On balance sheet front, Inox is better placed.

Debt to Equity Ratio	FY16	FY17	FY18	FY19
Inox	0.5	0.5	0.4	0.1
PVR	0.8	0.9	0.8	1.0

Inox vs. PVR quarter-on-quarter valuation (P/E multiple)

Company	Jul-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18
Inox	24.9	25.2	23.7	17.8	17.5	21.9
PVR	46.8	45.3	49.7	48.4	43.2	52.6

Financials:

Inox Leisure Ltd. - Statement of Profit & Loss					
DESCRIPTION	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Net Revenue	**1221.0**	**1348.0**	**1692.4**	**2032.6**	**2320.7**
EXPENDITURE :					
F&B Cost	68.1	74.4	112.5	143.3	166.1
as % of Sales					
Power & Fuel Cost	90.6	95.3	109.7	128.3	146.6
Employee Cost	86.4	96.4	115.1	137.3	159.1
Distributor's share	335.1	361.2	444.2	531.4	605.6
Rent Expense	240.2	264.2	312.6	372.9	434.1
Other Operating & Admin Exp	229.9	223.8	258.5	292.4	321.6
S&D Overheads	24.3	22.4	30.5	36.6	42.7
Total Expenditure	**1074.6**	**1137.7**	**1383.1**	**1642.2**	**1875.7**
EBITDA (Ex OI)	**146.4**	**210.3**	**309.3**	**390.4**	**445.0**
EBITDA Margin	*12.0%*	*15.6%*	*18.3%*	*19.2%*	*19.2%*
Depreciation	85.4	89.8	95.5	115.6	140.3
EBIT	**61.0**	**120.5**	**213.8**	**274.8**	**304.7**
Other Income	9.9	15.0	14.9	13.6	16.5
Interest	26.1	29.5	23.7	8.9	5.9
Profit Before Taxation	**44.8**	**106.1**	**205.0**	**279.5**	**315.4**
Provision for Tax	14.0	-17.0	65.6	96.4	108.8
Profit After Tax	**30.8**	**123.1**	**139.4**	**183.1**	**206.6**
Adjusted EPS	**3.4**	**12.5**	**13.7**	**18.6**	**21.0**

Inox Leisure Ltd.- Balance Sheet					
DESCRIPTION	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Share Capital (Net of Treasury)	63.5	63.6	70.2	70.2	70.2
Total Reserves	489.0	604.3	893.9	1077.0	1283.6
Shareholder's Funds	**552.5**	**667.8**	**964.1**	**1147.2**	**1353.8**
Total Borrowings	317.0	291.9	84.1	99.6	22.9
Other Non Current Liabilities	47.7	7.8	37.8	54.2	69.7
Total Non-Current Liabilities	**364.7**	**299.7**	**121.9**	**153.9**	**92.6**
Trade Payables	88.4	113.2	159.6	139.4	160.4
Other Current Liabilities	90.1	121.4	180.7	217.0	247.8
Total Current Liabilities	**178.5**	**234.6**	**340.3**	**356.5**	**408.2**
Total Liabilities	**1095.8**	**1202.1**	**1426.3**	**1657.5**	**1854.5**
Fixed Assets	765.3	825.7	985.6	1153.5	1242.4
Other Non Current Assets	225.2	233.1	289.5	347.7	434.6
Total Non-Current Assets	**990.5**	**1058.8**	**1275.1**	**1501.2**	**1677.0**
Current Investments	10.7	12.4	0.6	0.7	0.8
Inventories	9.1	9.4	12.2	13.4	14.7
Sundry Debtors	46.6	76.1	88.2	85.2	96.7
Cash and Bank	13.2	15.0	13.7	13.0	15.0
Other Current Assets	25.7	30.5	36.6	44.0	50.2
Total Current Assets	**105.3**	**143.4**	**151.3**	**156.3**	**177.5**
Total Assets	**1095.8**	**1202.3**	**1426.4**	**1657.5**	**1854.5**

Inox Leisure Ltd. - Cash Flow Summary					
DESCRIPTION	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
PAT (ex OI)	24.4	73.4	124.5	169.5	190.1
Add: Depreciation	85.4	89.8	95.5	115.6	140.3
Change in WC	-22.5	10.5	42.0	-29.5	-39.0
Cash From Operating Activities	**87.2**	**173.7**	**261.9**	**255.6**	**291.4**
Cash from Investing Activities	**-155.9**	**-160.9**	**-218.1**	**-283.5**	**-229.2**
Free Cash Flows	**-68.6**	**12.8**	**43.8**	**-27.9**	**62.2**
Cash from Financing Activities	**54.6**	**-11.0**	**-47.1**	**29.1**	**-60.2**
Net changes In Cash	**-14.0**	**1.8**	**-3.2**	**1.2**	**2.0**
Opening Cash Balance	27.2	13.2	15.0	11.8	13.0
Closing Cash Balance	**13.2**	**15.0**	**11.8**	**13.0**	**15.0**

Inox Leisure Ltd. - Key Ratios					
DESCRIPTION	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
EBITDAM (%)	12.0%	15.6%	18.3%	19.2%	19.2%
ROE (%)	5.7%	18.8%	16.5%	17.3%	16.5%
ROCE (%)	6.3%	11.7%	20.1%	23.0%	22.2%
Receivable days	15	17	16	14	14
Inventory Days	NA	NA	NA	NA	NA
Payable days	40	46	43	43	43
Total Debt/Equity(x)	0.6	0.4	0.1	0.1	0.0
Current Ratio(x)	0.6	0.6	0.4	0.4	0.4
Interest Cover(x)	2.3	4.1	9.0	30.9	51.9
Adjusted P/E Ratio	95.1	25.6	23.4	17.2	15.2
Price/ Book value	5.3	4.4	3.3	2.7	2.3

Note on new IND-AS 116

Commencement of new accounting standard Ind AS 116, applicable from April 1, 2019, will impact reported (unadjusted numbers and ratios for the company. Until now, film exhibitors reported lease payments as operating expense above EBITDA and didn't recognize any assets or liabilities for the same in their balance sheet. However, the new standard will enforce companies to recognise off-balance sheet lease liabilities and assets on their books. Therefore, company will have to treat their lease as financial lease and recognize the value of assets (PV of future lease payments) as asset and similar amount as liability. The companies will charge depreciation on the assets and recognize lease outflows as interest. This will change the reported numbers of the company as its EBITDA will increase (since lease payment are now recognized below EBITDA as interest) and even company's balance sheet size will expand as it takes this transactions on the books. However; there will be no impact from an economic standpoint. We'll wait for the company to report its first sets of number by complying with IND-AS 116 before we make adjustments to our number.

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