

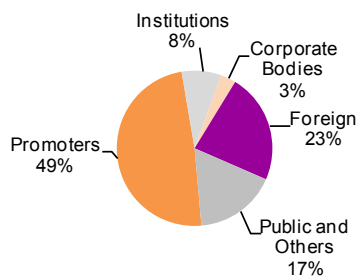
## INOX Leisure

**Reco: Buy**
**GST rollout to improve margins by 200-400BPS; maintain Buy**
**CMP: Rs258**

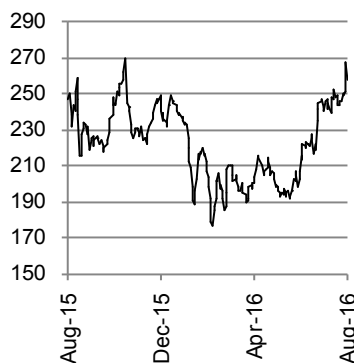
### Company details

Price target:	Rs285
Market cap:	Rs2,484 cr
52-week high/low:	Rs281/170
NSE volume: (No of shares)	1.4 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	8.0	34.8	29.3	14.4
Relative to Sensex	4.3	20.3	12.1	13.3

### Key points

- Revenue in-line, margins miss the mark:** Starting Q1FY2017, Inox Leisure (ILL) has adopted IND AS reporting standard. The company has also restated Q1FY2016 numbers. Therefore, QoQ numbers are not comparable. Revenue for Q1FY2017 was up by 11.4% YoY at Rs336.9 crore (net of entertainment tax). The topline growth was aided by 13% YoY growth in box office revenue, while advertising revenue growth was soft at 2.8% YoY (owing to lower-than-anticipated growth in advertisers segment and also due to shedding of low paying advertisers). Food & Beverages revenue was up by 9.2% YoY at Rs80.7 crore. Operating Profit Margin (OPM) stood at 18.4%, missing estimates owing to higher other expenses (IND AS impact). Net profit for the quarter was down by 1.2% YoY at Rs24.9 crore.
- GST rollout to improve margins by 200-400BPS:** (1) ILL added just one new property during the quarter. The slower-than-expected property addition was owing to regulatory hurdles. Also, the management has revised down its new screen addition from 89 to 59-60 currently and 12 properties from 20 earlier (2) On the GST rollout, the management expects 200-400BPS positive impact on OPM if the GST rate is fixed at 18%. The management further stated that the major impact will be on entertainment tax (from 27% to 18%), besides offset of input cost from output tax. On the flip side, there could also be an increase in distributors' share owing to lower tax (3) Advertisement revenue is expected to grow gradually. The management has acknowledged that the 12-14% rate hike taken in December 2015 is yet to yield the desired results. Also, dropping of the low paying advertiser segment would also impact growth in advertising revenue (4) The F&B segment is expected to grow further, led by an improvement in customer touchpoints, besides also by an increase in number of menus (both seasonally and regionally) (5) The management expects to do a capex of Rs200 crore in FY2017; 60% will be financed by debt and 40% through internal accruals.
- Maintain Buy with revised PT of Rs285:** We have revised our model estimates for FY2017/FY2018E, owing to the transition to IND AS. Therefore, our revenue estimates have come down, adjusting for the entertainment tax. We remain positive on ILL, given its pan-India growth plans and healthy balance sheet (lower financial leverage). We expect a gradual improvement in the operating parameters over FY2017 and FY2018. With its strong brand and extended reach, ILL is well poised to leverage the opportunity in India's under-penetrated multiplex sector and growing spending by the moviegoers. We maintain our Buy rating on ILL with an unchanged price target (PT) of Rs285.

### Results (consolidated)

Particulars	Rs cr				
	Q1FY17	Q1FY16	Q4FY16	YoY (%)	QoQ (%)
Net sales	336.9	302.5	251.3	11.4	34.1
Exhibition costs	95.4	85.2	68.9	11.9	38.4
Cost of F&B	18.4	18.4	14.2	0.0	29.6
Gross profit	223.1	198.9	168.2	12.2	32.7
Other expenses	161.0	134.4	153.1	19.8	5.2
EBITDA	62.1	64.5	15.0	-3.8	312.9
Depreciation	20.3	19.7	20.7	2.7	-2.2
Finance cost	5.8	6.2	5.9	-6.5	-2.0
Other income	2.5	1.5	1.6	69.9	59.0
PBT	38.5	40.1	-10.0	-3.9	LP
Tax provision	13.6	14.8	-26.1	-8.2	-
Net Profit	25.0	25.3	16.1	-1.3	55.1
EPS (Rs)	2.6	2.6	1.7	-1.3	55.1
<b>Margin (%)</b>					
EBITDA margin	18.4	21.3	6.0		
NPM	7.4	8.4	6.4		

\*LP: Loss to profit

\*\* Q1FY17 and Q1FY16 numbers are based on IND AS, while Q4FY16 is not restated to IND AS; Hence, QoQ numbers are not strictly comparable

## Valuations

Particulars	Rs cr			
	FY15#	FY16#	FY17E	FY18E
Net revenue	1,016.8	1,332.7	1,364.0	1,661.8
EBITDA margin (%)	12.1	14.3	16.6	17.6
Net profit	20.0	77.5	82.8	124.5
EPS (Rs)	2.2	8.4	9.0	13.6
PER (x)	117.9	30.5	28.5	19.0
EV/EBITDA (x)	22.0	13.9	11.9	9.3
RoE (%)	3.0	13.0	12.3	15.6
RoCE (%)	6.8	12.2	15.9	19.4

\*FY17/18 based on IND AS, # FY15/16 are not restated to IND AS

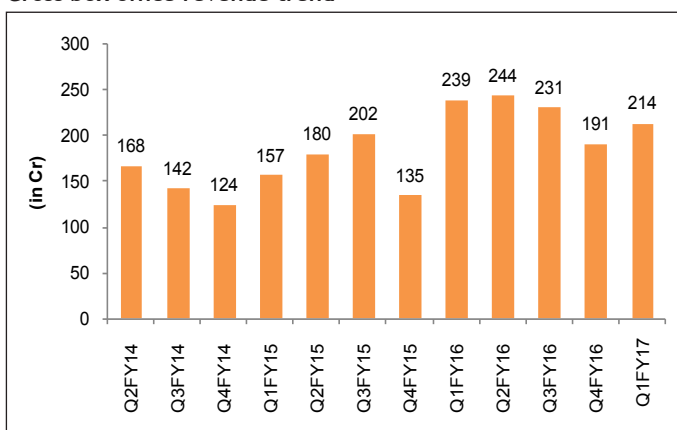
## Key metrics

Particulars	Rs cr				
	Q1FY17	Q1FY16	Q4FY16	YoY (%)	QoQ (%)
Total properties (nos)	108	97	107	11.3	0.9
Numbers of seats (nos)	109,406	99,429	108,931	10.0	0.4
Number of screens (nos)	425	377	420	12.7	1.2
Footfalls (in mn)	15.5	14.5	11.5	7.2	35.1
Occupancy (%)	31	33	23		
ATP (Rs)	174.0	165.0	167.0	5.5	4.2
SPH (Rs)	61.0	59.0	58.0	3.4	5.2
Revenues mix (in crore)					
GBOC	213.5	188.6	155.4	13.2	37.4
Food and beverages	80.7	73.9	57.0	9.2	41.6
Advertisements	21.3	20.7	19.4	2.8	9.8

Source: Sharekhan Research and Company

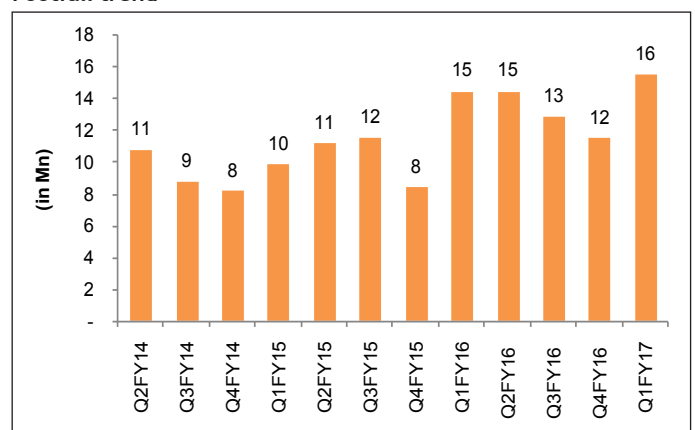
\* Q1FY16 and Q1FY17 numbers are based on IND AS

## Gross box office revenue trend



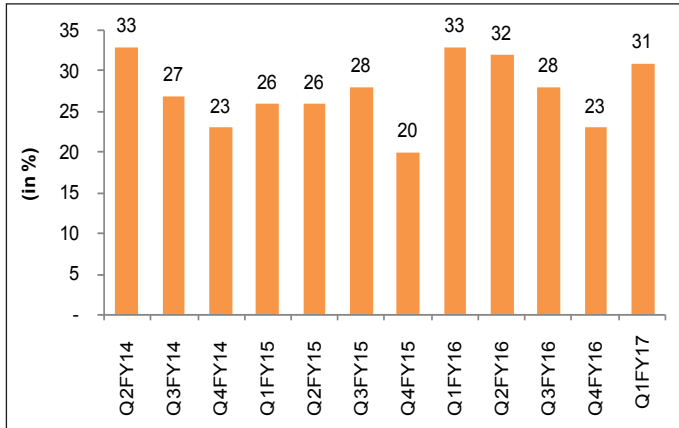
Source: Sharekhan Research and Company

## Footfall trend



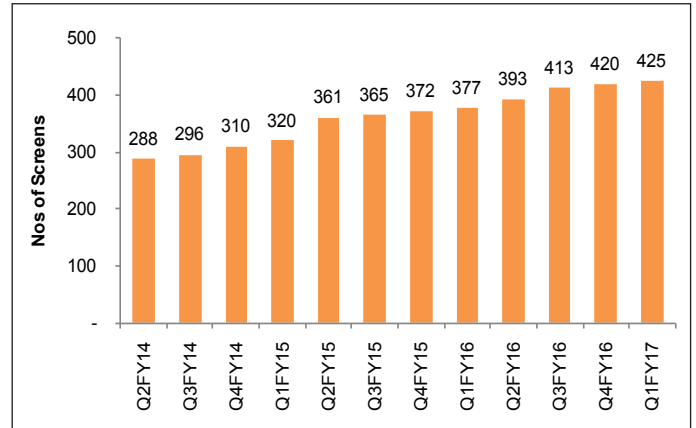
Source: Sharekhan Research and Company

Occupancy trend



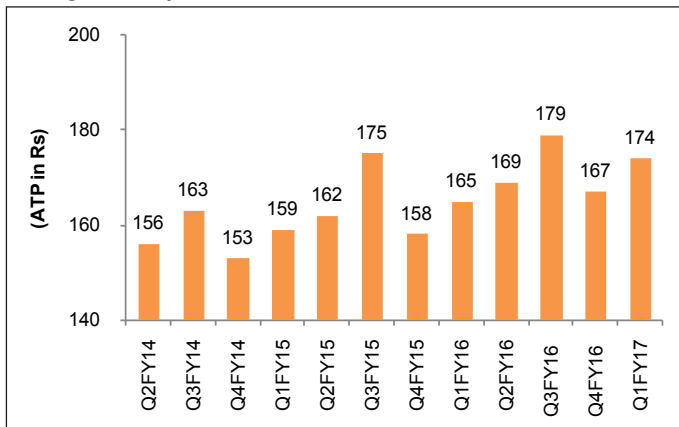
Source: Sharekhan Research and Company

Screen addition trend



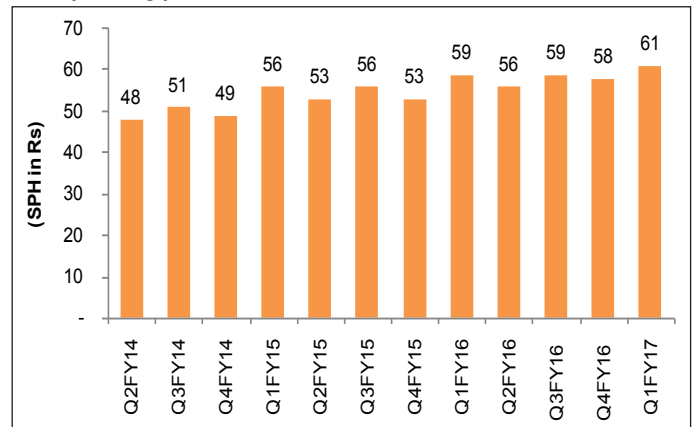
Source: Sharekhan Research and Company

Average ticket price



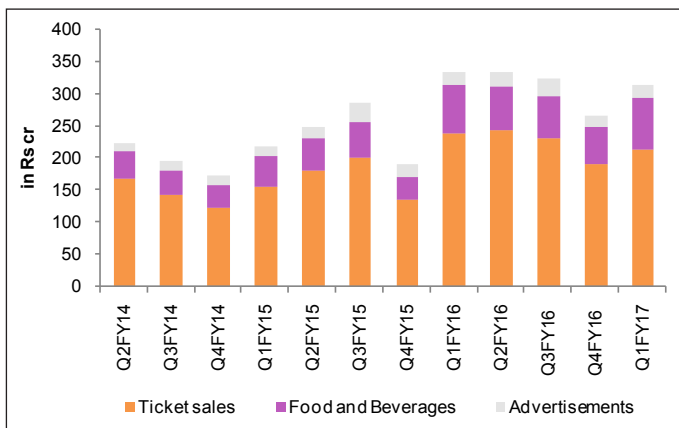
Source: Sharekhan Research and Company

F&B spending per head



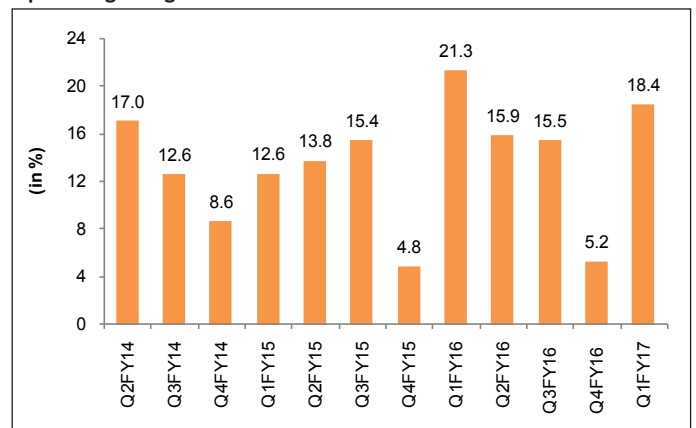
Source: Sharekhan Research and Company

Revenue mix trend



Source: Sharekhan Research and Company

Operating margin trend



Source: Sharekhan Research and Company

\* Q1FY16 and Q1FY17 numbers are based on IND AS

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai - 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE - INB/INF/INE011073351; NSE - INB/INF/INE231073330; MSEI: INB/INF-261073333, CD - INE261073330; DP-NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662; Mutual Fund-ARN 20669 ; Commodity trading through Sharekhan Commodities Pvt. Ltd.: MCX-10080 ; (MCX/TCM/CORP/0425) ; NCDEX-00132 ; (NCDEX/TCM/CORP/0142) ; NCDEX SPOT-NCDEXSPOT/116/CO/11/20626 ; For any complaints email at [igc@sharekhan.com](mailto:igc@sharekhan.com) ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and Do's & Don'ts by MCX & NCDEX and the T & C on [www.sharekhan.com](http://www.sharekhan.com) before investing.

#### Disclaimer

This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. Kindly note that this document is based on technical analysis by studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. (Technical specific) This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)