

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	INOL.BO
Bloomberg code	INOL.IN
Market cap. (US\$ mn)	74
6M avg. daily turnover (US\$ mn)	1.5
Issued shares (mn)	62
Target price (Rs)	78

Performance (%)	1M	3M	12M
Absolute	(18)	(17)	4
Relative	(13)	(18)	(13)

#### Valuation Ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	4.0	4.9
+/- (%)	71.7	21.6
PER (x)	13.9	11.5
PBV (x)	1.0	0.9
Dividend/Yield (%)	0.0	0.0
EV/Sales (x)	1.5	1.2
EV/EBITDA (x)	8.3	7.0

#### Major shareholders (%)

Promoters	67
FII's	1
Public & Others	32

#### Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	3QFY10	QoQ (%)	FY10	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	484	642	32.5	843	(23.8)	2,537	12.3	3,193	25.9	3,915	22.6
EBITDA	87	64	(26.5)	197	(67.5)	364	3.8	577	58.6	679	17.7
EBITDA Margin (%)	18.0	10.0	-	23.4	-	14.3	-	18.1	-	17.3	-
Depreciation	(33)	(41)	25.0	(39)	7.3	(154)	21.9	(173)	12.0	(193)	12.0
Other Income	9	22	154.6	1	3028.6	25	8.4	10	(59.3)	6	(40.0)
Interest	(15)	(22)	51.5	(12)	81.1	(53)	18.3	(59)	11.3	(60)	1.7
PBT	48	23	(53.1)	154	(85.4)	297**	(3.0)	355	19.6	432	21.6
Tax	(16)	29*	NA	(67)	NA	(36)*	(39.4)	(107)	193.6	(130)	21.6
PAT	33	160**	NA	87	83.5	261**	5.8	249	(4.6)	302	21.6
Adjusted PAT	33	52	58.6	80	(35.7)	145	2.0	249	71.7	302	21.6
EPS (Rs)	0.5	0.8	58.6	1.3	(35.7)	2.4	2.0	4.0	71.7	4.9	21.6
Adjusted PAT Margin (%)	6.7	8.0	-	9.5	-	5.7	-	7.8	-	7.7	-

\*Includes adjustment due to provision for deferred tax. \*\*This includes MAT credit entitlement worth Rs 116 mn.

## Inox Leisure

Maintain Outperformer

Price: Rs 56

BSE Index: 16,446

21 May 2010

### 4QFY10 Result – IPL screening fails to bait patrons

- The spill over effect of 3 Idiots, My Name is Khan, Ishqiya saved the quarter which would otherwise have been hit hard due to the lack of good content. Total revenue stood at Rs 642 mn (B&K: Rs 682 mn) indicating a jump of 32.5 % YoY and dip of 23.8% QoQ.
- Due to better price realisation (on higher ticket sales), Average spends per head increased to Rs 197 (ATP Rs 152 and F&B Rs 45). Inox added 22 screens during the years (including 4 screens in this quarter).
- EBITDA was Rs 64 mn (down 26% YoY and 67% QoQ) with an EBITDA margin of 9.98% (decline of 800 bps YoY and 1,340 bps QoQ). PAT stood at Rs 160 mn (including tax reversal of Rs 116 mn).

### Outlook

**Given the huge success of IPL in earlier years, producer's fraternity did not take the risk of releasing big budget movie while IPL matches were on. On dry and weak content, revenues were hit. However; now film industry is riding rich on many mega budget movie (Rajneeti, Raavan, Action Replayy) and movie pipeline looks good. We have build in an addition of 30 screens in FY11E and 25 screens in FY12E.**

**Inox open offer for acquiring Fame shares (at Rs 51) has not yet received SEBI's approval. Reliance Media Works (RMW) counter offer at Rs 83.4 is much more attractive (this also awaits SEBI's approval) and this battle seems to lengthen a bit. So, Inox will have to either increase its bid over RMW bid or it might tender its own share in RMW open offer thereby making a profit of Rs 673 mn. Our financials for FY11E and FY12E does not include any contribution (or costs items) on Fame's acquisition due to uncertainty regarding the open offer. We maintain our Outperformer rating and DCF based target price of Rs 78.**

## FY10 results

- Consolidated sales for the year improved 12.3% YoY to Rs 2,537 mn (against Rs 2,259 mn in FY09) in spite of the fact that 1QFY10 was hit hard due to producer-multiplex stand off on revenue sharing agreement.
- On cost side, the film distributor's share (as a % of net ticket revenue) increased to 42.5% in FY10 (from 38.5% in FY09) and other operational and administrative cost increased by 13% YoY leading to an overall increase in the operational cost by 11.9% YoY. This led to contraction of EBITDA margin by 120 bps YoY. EBITDA stood at Rs 363 mn (versus last years Rs 350 mn).
- Many tax adjustments were done during the year. First of all, as per clarification given in the Finance Act 2010, it provided service tax on lease rental to the tune of Rs 32 mn. Then Inox set off this expense against unutilised accumulated service tax benefit worth Rs 32 mn. Due to re-computation of its current tax and deferred tax liability, it credited Rs 19 mn in P&L account under taxation in respect of earlier years. And finally it utilised its MAT credit entitlement (Rs 98 mn) during the year. All these adjustment led to:
  - o Lower tax outgo at MAT rate.
  - o Higher reported PAT (at Rs 261 mn) by way of tax reversal to the tune of Rs 116 mn in respect of tax relating to earlier years.

## Inox-Fame open offer

We await further clarity with respect to development as the open offer of both Inox and Reliance Media Works (RMW) on Fame is yet to get SEBI approval. There could be two possibilities:

- (a) Inox raise its open offer price and match RMW open offer price:** This scenario will increase the acquisition cost for Inox (though it has the strength of its parent company to do so and it makes long term business sense to acquire Fame). As RMW has already acquired 14.34% stake in Fame and seems to be very serious in acquiring this company, this battle does not seem to end soon.
- (b) Inox tenders its share to RMW in their open offer:** Although it is difficult to predict that Inox will do so, however; if it does so it will make a profit of Rs 673 mn from selling its Fame's stake to RMW. This will translate into Rs 11 per share profit for the shareholder of Inox. However, Inox will lose its chance of becoming the number 2 multiplex operator of the country.

**Income Statement**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>2,259</b>	<b>2,537</b>	<b>3,193</b>	<b>3,915</b>
<i>Growth (%)</i>	9.5	12.3	25.9	22.6
Operating expenses	(1,908)	(2,173)	(2,616)	(3,235)
Operating profit	351	364	577	679
<b>EBITDA</b>	<b>351</b>	<b>364</b>	<b>577</b>	<b>679</b>
<i>Growth (%)</i>	(12.8)	3.8	58.6	17.7
Depreciation	(127)	(154)	(173)	(193)
Other income	23	25	10	6
<b>EBIT</b>	<b>247</b>	<b>234</b>	<b>414</b>	<b>492</b>
Interest paid	(45)	(53)	(59)	(60)
Pre-tax profit (before non-recurring)	202	181	355	432
Non-recurring items	104	116	0	0
Pre-tax profit (after non-recurring)	306	297	355	432
Tax (current + deferred)	(60)	(36)	(107)	(130)
Net profit (before Minority Interest, Pref. Dividend, etc.)	246	261	249	302
Reported PAT	246	261	249	302
<b>Adjusted net profit</b>	<b>142</b>	<b>145</b>	<b>249</b>	<b>302</b>
<i>Growth (%)</i>	(46.2)	2.0	71.7	21.6

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & marketable securities	23	576	728	716
Other current assets	583	809	994	1,223
Investments	5	827	827	827
Net fixed assets	3,121	3,354	3,667	3,921
<b>Total assets</b>	<b>3,733</b>	<b>5,566</b>	<b>6,216</b>	<b>6,687</b>
Current liabilities	295	438	567	736
Total debt	449	1,863	2,143	2,143
Other non-current liabilities	143	156	150	150
<b>Total liabilities</b>	<b>887</b>	<b>2,456</b>	<b>2,860</b>	<b>3,029</b>
Share capital	615	615	615	615
Reserves & surplus	2,232	2,494	2,741	3,043
<b>Shareholders' funds</b>	<b>2,847</b>	<b>3,109</b>	<b>3,356</b>	<b>3,658</b>
<b>Total equity &amp; liabilities</b>	<b>3,733</b>	<b>5,566</b>	<b>6,216</b>	<b>6,687</b>
<b>Capital employed</b>	<b>3,439</b>	<b>5,128</b>	<b>5,649</b>	<b>5,951</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	306	297	355	432
Depreciation	127	154	173	193
Change in working capital	(242)	(83)	(55)	(60)
Total tax paid	(81)	(23)	(112)	(130)
<b>Cash flow from oper. (a)</b>	<b>109</b>	<b>344</b>	<b>361</b>	<b>435</b>
Capital expenditure	(460)	(387)	(486)	(447)
Change in investments	320	(821)	0	0
Others	(3)	0	(0)	0
<b>Cash flow from inv. (b)</b>	<b>(143)</b>	<b>(1,208)</b>	<b>(486)</b>	<b>(447)</b>
<b>Free cash flow (a+b)</b>	<b>(34)</b>	<b>(864)</b>	<b>(126)</b>	<b>(12)</b>
Equity raised/(repaid)	7	0	0	0
Debt raised/(repaid)	19	1,414	280	0
Others	(12)	2	(2)	(0)
<b>Cash flow from fin. (c)</b>	<b>14</b>	<b>1,416</b>	<b>278</b>	<b>(0)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(20)</b>	<b>552</b>	<b>153</b>	<b>(12)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	2.3	2.4	4.0	4.9
Growth	(46.4)	2.0	71.7	21.6
Book NAV/share (Rs)	46.3	50.6	54.6	59.5
Dividend/share (Rs)	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0
Tax	19.6	12.2	30.0	30.0
EBITDA margin	15.5	14.3	18.1	17.3
EBIT margin	10.9	9.2	13.0	12.6
RoCE	7.4	5.5	7.7	8.5
Net debt/Equity	15.0	41.4	42.2	39.0

**Valuations**

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	24.4	23.9	13.9	11.5
PCE	12.9	11.6	8.2	7.0
Price/Book	1.2	1.1	1.0	0.9
Yield (%)	0.0	0.0	0.0	0.0
EV/Net sales	2.1	1.9	1.5	1.2
EV/EBITDA	13.6	13.1	8.3	7.0

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	6.3	5.7	7.8	7.7
Asset turnover	0.6	0.5	0.5	0.6
Leverage factor	1.3	1.6	1.8	1.8
Return on equity (%)	5.2	4.9	7.7	8.6

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**Analyst Declaration:** We, Rohit Dokania & Vikash Mantry, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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