

**NEUTRAL**

Price	Rs92
Target Price	-
Investment Period	-

**Stock Info**

Sector	Media
Market Cap (Rs cr)	570
Beta	0.9
52 WK High / Low	242 / 81
Avg Daily Volume	182,328
Face Value (Rs)	10
BSE Sensex	15,185
Nifty	4,524
BSE Code	532706
NSE Code	INOXLEISUR
Reuters Code	INOL.BO
Bloomberg Code	INOL IN

**Shareholding Pattern (%)**

Promoters	64.2
MF/Banks/Indian FIs	16.6
FII/ NRIs/ OCBs	3.3
Indian Public	15.9

Abs.	3m	1yr	3yr#
Sensex (%)	(5.8)	7.2	48.2
Inox (%)	(12.0)	(29.1)	(47.1)

# Since IPO Feb 23, 2006

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**Performance Highlights**

- Subdued Revenue growth, up 18%:** For 4QFY2008, Inox reported a subdued Topline growth of 18.4% yoy to Rs39.3cr (Rs33.2cr) as lower Occupancy (4Q is a seasonally weak quarter) led to a muted 13.4% yoy growth in Footfall. However, 4QFY2008 numbers are not strictly comparable on a yoy basis owing to inclusion of Calcutta Cine Pvt Limited's (CCPL) financials, whose amalgamation was approved by the court in 2QFY2008. CCPL operates sevens screens and was acquired by Inox in FY2007. For FY2008, Inox registered 30.6% yoy growth in Revenues to Rs185cr (Rs141cr) driven by addition of property leading to a 35% jump in footfalls.
- Margins collapse, decline by 790bp:** At the operating front, Inox delivered a dismal performance for the quarter registering a 790bp decline in Operating Margin to 10% (17.9%) largely owing to a sharp 782bp increase in Other expenditure and 287bp rise in Staff costs owing to a lower revenue base. The sharp jump in Other expenditure is attributed to higher rental (as new property additions are on a lease basis) and power costs. However, on a full year basis, the company registered a 391bp decline in Operating Margin to 21.8% (25.7%). Going ahead, we believe Margins would improve (owing to a lower base in FY2008) as fixed costs get spread over a larger revenue base. However, rising E-tax outflow and execution in terms of property addition remain the key factors to watch out for.
- Bottomline severely impacted, declines 86%:** For the quarter, Inox registered a sharp decline in Bottomline by 86% yoy to Rs0.6cr (Rs4.6cr) impacted by sharp Margin contraction, relatively slower Revenue growth and steep drop in Other Income (down 79% yoy). On a full year basis, the company delivered a muted 6.5% yoy growth in Earnings to Rs26.4cr (Rs24.8cr) despite a 26% jump in Other Income.

**Key Financials**

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net Sales</b>	<b>141.4</b>	<b>184.7</b>	<b>261.5</b>	<b>337.1</b>
% chg	38.2	30.9	41.6	28.9
<b>Net Profit</b>	<b>24.8</b>	<b>26.4</b>	<b>32.3</b>	<b>42.6</b>
% chg	41.3	6.4	22.5	31.7
OPM (%)	25.7	21.8	23.1	24.3
<b>FDEPS (Rs)</b>	<b>4.0</b>	<b>4.3</b>	<b>5.2</b>	<b>6.9</b>
P/E (x)	23.0	21.6	17.6	13.4
P/BV (x)	2.4	2.2	2.0	1.8
RoE (%)	10.6	10.4	11.6	13.5
RoCE (%)	9.2	9.2	12.8	15.5
EV/Sales (x)	4.2	2.9	2.2	1.7
EV/EBITDA (x)	17.7	15.1	10.5	7.9

Source: Company, Angel Research

## Key Highlights

### Exhibit 1: Exhibition Capacity

Particulars	4QFY2008	4QFY2007	Addition	Current	Addition
Properties Under Operation	22	14	3	24	10
Screens Under Operation	76	51	25	84	33
Seats Under Operation	23,199	15,251	7,948	25,219	9,968

Source: Company, Angel Research, Note: Capacity is excluding Franchise Theaters

**Exhibition Capacity:** At the end of FY2008, Inox had 76 screens and 23,199 seats under operation. No new screens were added during 4QFY2008. However, post 4QFY2008, the company added two new multiplexes - *Faridabad* (four screens with 1,108 seats) and *Nagpur* (four screens with 1,214 seats) taking its total tally to 84 screens.

### Exhibit 2: Operational Parameters

Particulars	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Footfalls (Mn)	2.5	2.2	13.4	12.5	9.3	35.0
Occupancy (%)	29.0	36.0		40.0	42.0	
Average Ticket Price, ATP (Rs)	134.0	128.0	4.7	127.0	125.0	1.6
F&B SPH (Rs)	31.0	27.0	14.8	29.0	27.0	7.4

Source: Company, Angel Research

## Outlook and Valuation

During FY2008-10, we expect Inox to register a CAGR of 35.1% in Topline mainly driven by addition in seating capacity as we expect ATP and F&B Spend to improve only marginally. We expect the screens to increase from the current 84 to 111 in FY2009 and 142 in FY2010. At the operating front, we expect Margins to improve by 250bp over FY2008-10 (largely owing to a lower base effect in FY2008) driving a robust 42.7% CAGR in EBITDA supported by lower overheads (spread over a larger screen base). However, as majority of future expansion is in Non E-tax exempt areas, additional pressure on Margins cannot be ruled out. Despite modest Revenue growth and Margin expansion, we expect Bottomline growth to remain subdued over the mentioned period owing to lower Other Income (as surplus funds get deployed towards expansion). As a result, we expect the company to register Net Profit CAGR of 27% during FY2008-10.

Inox commands a premium over its peers owing to its superior positioning and better execution capabilities. However, we believe this premium would narrow down due to subdued Earnings growth over FY2008-10E. At the CMP of Rs184, Inox is trading at 13.4x FY2010E EPS, which is relatively expensive compared to its peers and leaves little upside for investors. **We maintain our Neutral view on the stock.**

**Exhibit 3: 4QFY2008 Performance**

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
<b>Net Sales</b>	<b>39.3</b>	<b>33.2</b>	<b>18.4</b>	<b>184.7</b>	<b>141.4</b>	<b>30.6</b>
Film Distributor Share	8.7	8.6	1.9	45.0	34.8	29.3
(% of Sales)	22.2	25.7		24.3	24.6	
Consumption of F&B	2.3	1.8	22.8	10.6	7.4	43.0
(% of Sales)	5.7	5.5		5.7	5.2	
Staff costs	4.9	3.2	53.6	18.2	11.6	56.9
(% of Sales)	12.5	9.7		9.9	8.2	
Film Rights/ Print Costs	1.4	1.0	42.7	5.4	9.7	(44.2)
(% of Sales)	3.5	2.9		2.9	6.9	
Other expenditure	18.1	12.7	42.6	65.3	41.6	57.0
(% of Sales)	46.0	38.2		35.4	29.4	
<b>Total Expenditure</b>	<b>35.4</b>	<b>27.3</b>	<b>29.8</b>	<b>144.5</b>	<b>105.1</b>	<b>37.5</b>
<b>Operating Profit</b>	<b>3.9</b>	<b>6.0</b>	<b>(33.7)</b>	<b>40.2</b>	<b>36.3</b>	<b>10.7</b>
OPM (%)	10.0	17.9		21.8	25.7	
Interest	0.9	1.1	(19.6)	6.0	6.7	(10.1)
Depreciation	2.8	2.0	41.1	9.3	6.4	45.5
Other Income	0.7	3.1	(78.7)	11.6	9.2	26.4
<b>PBT (excl. Ext Items)</b>	<b>0.9</b>	<b>6.0</b>	<b>(84.4)</b>	<b>36.5</b>	<b>32.4</b>	<b>12.6</b>
Ext Income/(Expense)	-	-		0.01	-	
<b>PBT (incl. Ext Items)</b>	<b>0.9</b>	<b>6.0</b>	<b>(84.4)</b>	<b>36.5</b>	<b>32.4</b>	<b>12.6</b>
(% of Sales)	2.4	18.0		19.8	22.9	
Provision for Taxation	0.3	1.3	(78.9)	10.1	7.6	32.8
(% of PBT)	30.1	22.3		27.7	23.5	
<b>Recurring PAT</b>	<b>0.6</b>	<b>4.6</b>	<b>(86.0)</b>	<b>26.4</b>	<b>24.8</b>	<b>6.4</b>
PATM (%)	1.7	14.0		14.3	17.5	
<b>Reported PAT</b>	<b>0.6</b>	<b>4.6</b>	<b>(86.0)</b>	<b>26.4</b>	<b>24.8</b>	<b>6.5</b>
Equity shares (cr)	61.2	59.5		61.2	59.5	
<b>EPS (Rs)</b>	<b>0.1</b>	<b>0.8</b>		<b>4.3</b>	<b>4.2</b>	

Source: Company, Angel Research



# Angel Broking Limited

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**Ratings (Returns) :** Buy (Upside > 15%)  
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)  
Sell (Downside > 15%)

Neutral (5 to -5%)