INOX LEISURE

INR 127

Rollout delays

ACCUMULATE

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June 18, 2007

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Reuters	:	INOL.BO
Bloomberg	:	INOL IN

Market Data

52-week range (INR)	:	202 / 102
Share in issue (mn)	:	60.0
M cap (INR bn/USD mn)	:	7.6 / 186.3
Avg. Daily Vol. BSE ('000)	:	377.6

Share Holding Pattern (%)

Promoters	:	66.0
MFs, FIs & Banks	:	3.0
FIIs	:	10.3
Others	:	20.6

Inox posted 29.3% Y-o-Y growth in net revenues to INR 332 mn, in line with our expectations (pending the court approval, the financials of CCPL have not been consolidated with Inox's numbers). This growth was driven by increase in the number of seats under operations. As expected, EBITDA margins declined on account of higher entertainment tax and lease rentals. The decline in PAT margins, however, was lower due to higher other income and lower interest expense. For full year FY07, net revenues grew 38.2% to INR 1.4 bn while PAT grew 41.3% to INR 248 mn.

During the quarter, Inox opened one multiplex each in Chennai and Jaipur. Including seven screens from CCPL acquisition, it ended FY07 with a total of 58 screens. However, like other players in the multiplex and retail space, Inox is also facing a considerable delay in opening of new multiplexes due to delay in handover of properties by the developers. As against our expectation of 103 screens by end of March, 2008, we now estimate Inox to have 92 screens. We expect this number to go up to 127 screens by March, 2009. To factor in this delay, we are revising our FY08 PAT estimates downwards to INR 313 mn. We estimate that Inox will EPS of INR 5.1 and INR 6.7 in FY08 and FY09, respectively. The stock trades at P/E of 19.1x FY09E. We maintain our 'ACCUMULATE' recommendation.

Key highlights

- Net revenues for the quarter grew 29.3% Y-o-Y to INR 332 mn.
  - The growth in revenues was driven by an increase in average number of seats in operation during the quarter that went up by 48.2% Y-o-Y.
  - For the full year, net revenues grew 38.2% to INR 1.4 bn. The financials of 7 screens that Inox had acquired through its acquisition of Calcutta Cinema Pvt Ltd (CCPL) earlier this year have not been consolidated in this year's results due to pending approval from the court.
- EBITDA margins for the quarter stood at 17.9% compared to 30.4% margin in Q4FY06.
  - The key reasons for decline in margins were higher entertainment tax payout (INR 28.6 mn compared to INR 19.6 mn in Q4FY06) and higher rentals as percentage of revenues due to rentals on new properties (Inox owned 4 out of 9 multiplexes it operated in Q4FY06 and therefore, saved on rentals).
  - For full year FY07, EBITDA margins declined to 25.5% from 35.3% in FY06. This was due e-tax as a percentage of gross ticket collections rising to 10.4% compared to 6.7% in FY06 and rentals as percentage of net revenues rising to 9.1% compared to 6.4% in FY06. In addition, ~ INR 50 mn of loss from the distribution business also impacted the FY07 EBITDA margins.

Financials

Year to March	Q4FY07	Q4FY06	*% change*	Q3FY07	*% change*	FY08E	FY09E
Revenues (INR mn)	332	257	*29.3*	385	*(13.8)*	2,327	3,271
EBITDA (INR mn)	60	78	*(23.8)*	96	*(37.7)*	590	783
Net profit (INR mn)	46	44	*5.9*	48	*(3.9)*	313	412
EPS (INR)	0.8	0.7		0.8		5.1	6.7
P/E (x)						25.2	19.1
EV/EBITDA (x)						13.9	10.6

- PAT margins declined by 308 bps Y-o-Y to 14%. The decline was lower than fall in EBITDA margins due to higher other income and lower interest expense.

- During the quarter, Inox opened a four-screen multiplex in Chennai and a three-screen multiplex in Jaipur. After considering seven additional screens that it operates by virtue of its acquisition of CCPL, it ended FY07 with a total of 58 screens. It has subsequently opened a three-screen multiplex in Vijayawada taking the total screen count to 61.

Delay in opening of new multiplexes because of delay in handover of properties by the developers

Like other players in the multiplex and retail space, Inox too is facing a considerable delay in opening of new multiplexes due to delay in handover of properties by the developers. As against our expectation of 103 screens by end of March, 2008, we now expect Inox to have 92 screens. We expect this number to go up to 127 screens by March, 2009. On account of this delay, we are revising our FY08 PAT estimates downwards to INR 313 mn. Our estimate for FY09 PAT is INR 412 mn.

Maintain 'ACCUMULATE'

We estimate that Inox will make EPS of INR 5.1 in FY08 and INR 6.7 in FY09. The stock trades at P/E of 25.2x FY08E and 19.1x FY09E. Though valuations are not inexpensive, given the sector's explosive growth potential and Inox's ability to capture that, we maintain our **'ACCUMULATE'** recommendation on the stock.

Financial snapshot (INR mn)

Year to March	Q4FY07	Q4FY06	% change	Q3FY07	% change	FY06	FY07	FY08E	FY09E
Net revenues	332	257	*29.3*	385	*(13.8)*	1,021	1,411	2,327	3,271
Direct costs	114	87	*30.5*	151	*(24.7)*	323	519	814	1,133
Employee expenses	32	18	*76.1*	25	*30.5*	76	116	177	239
Other expenses	127	74	*72.6*	114	*11.1*	261	416	746	1,116
Total expenditure	273	179	*52.5*	290	*(5.9)*	661	1,051	1,737	2,488
EBITDA	60	78	*(23.8)*	96	*(37.7)*	360	360	590	783
Depreciation	20	14	*36.9*	15	*30.5*	52	64	122	169
Interest	11	21	*(45.4)*	18	*(36.4)*	79	67	65	58
Other income	31	11	*172.7*	6	*443.9*	20	95	45	32
Profit before tax	60	55	*9.2*	69	*(13.0)*	249	324	448	588
Provision for taxation	13	11	*22.3*	20	*(34.5)*	74	76	134	176
Reported profit	46	44	*5.9*	48	*(3.9)*	175	248	313	412
Equity capital (FV INR 10)	600	600		600		600	600	618	618
No. of shares (mn)	60.0	60.0		60.0		60.0	60.0	61.8	61.8
EPS (INR)	0.8	0.7		0.8		2.9	4.1	5.1	6.7
P/E (x)						43.6	30.9	25.2	19.1
Market cap/Revenue						7.5	5.4	3.4	2.4
as % of net revenues									
Direct costs	34.2	33.8		39.1		31.6	36.8	35.0	34.6
Employee expenses	9.7	7.1		6.4		7.5	8.2	7.6	7.3
Other expenses	38.2	28.6		29.6		25.6	29.5	32.0	34.1
EBITDA	17.9	30.4		24.8		35.3	25.5	25.4	23.9
Net profit	14.0	17.1		12.5		17.2	17.6	13.5	12.6

Company Description

Inox Leisure is one of the leading movie exhibition companies in the country. It presently operates 54 screens across 15 multiplexes. In addition, it had recently acquired a Kolkata based multiplex company called Calcutta Cinemas Pvt Ltd that operates 2 multiplexes with 7 screens. Therefore, put together, Inox operates 61 screens across 17 multiplexes. In addition to movie exhibition, the company is also involved in distribution of movies.

Investment Thesis

The outlook for the multiplex industry is positive. Movie watching in multiplexes is growing on the back of rise in consumerism because of rising disposable incomes. Other factors driving growth are improving quality of content because of corporatization of the Indian film industry, entertainment tax sops offered by several state governments, frantic pace of development of retail malls that have multiplexes as anchor tenants, improvements in projection and sound technology resulting in the infrastructure of single-screens becoming outdated, and superior economics of multiplexes. Inox has an aggressive expansion plan to capitalize on this opportunity. It plans to rollout more multiplexes and to increase the total number of screens to 127 by end of FY09. This will result in net revenues growing at a CAGR of 52% over FY07-09E.

Risks to Recommendation

Delay in rollout of proposed multiplexes, higher share of the net box office collections to the distributor for movie rights, over-capacity in certain pockets leading to lower occupancies, unavailability of quality content and competition from other forms of entertainment are some of the key risks to our recommendation.

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period