

## INOX LEISURE

INR 164

Growth in line

ACCUMULATE



Inox Leisure posted 39.0% Y-o-Y growth in net revenues to INR 385 mn, in line with our expectations. This growth was driven by 45.9% Y-o-Y increase in the number of seats under operations. The financials of CCPL that operates 7 screens have not been consolidated as the final approval for the deal is still pending. EBITDA margins declined by 400 bps Y-o-Y to 24.8%. While we had expected the margins to come down on account of higher e-tax payout and rentals, the decline was more than our expectations because of ~ INR 20 mn of loss from distribution of movies (*Umrao Jaan* and *Jaaneman*). PAT margins improved by 10 bps on a Y-o-Y basis because of higher other income and lower interest expense.

Inox presently operates 55 screens across 15 multiplexes including 7 screens from CCPL acquisition and 4 screens from the recently opened multiplex in Chennai. We expect it to add another 48 screens over the next 15 months taking the total number of screens to 103 by March, 2008. This expansion will drive the growth in revenues and net profit at CAGR of 58% and 51% respectively over FY06-08E. We estimate that Inox will make net profit of INR 251 mn (revised marginally downwards by INR 13 mn to adjust for losses from distribution business) and INR 400 mn in FY07 and FY08, respectively. This translates into EPS estimates for FY07 and FY08 of INR 4.1 and INR 6.5 respectively. The stock trades at P/E of 25.5x FY08E. We maintain our 'ACCUMULATE' recommendation.

## Key highlights:

- Net revenues grew 39.0% Y-o-Y and 7.0% Q-o-Q to INR 385 mn, in line with our expectations.
  - The growth in revenues was driven by an increase in average number of seats in operation during the quarter that went up by 45.9% Y-o-Y and 4.4% Q-o-Q.
  - During the quarter, Inox operated 44 screens across 12 multiplexes. In addition, it had acquired Calcutta Cinema Pvt Ltd (CCPL) earlier this year that operated two multiplexes with a total of 7 screens. However, Inox is yet to receive final approval for the deal and therefore, the numbers of CCPL have not been consolidated.
- The EBITDA margins for the quarter stood at 24.8%, a decline of 400 bps Y-o-Y and 770 bps on a Q-o-Q basis. While we had expected the margins to come down, the decline was more than our expectations on account of losses from distribution of movies.
  - The key reasons for decline in margins on a Y-o-Y basis were higher entertainment tax payout (INR 37.4 mn compared to INR 150 mn in Q3FY06) and higher rentals as percentage of revenues due to rentals on new properties (Inox owned 4 out of 8 multiplexes it operated in Q3FY06 and therefore, saved on rentals).

## Financials

Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY07E	FY08E
Revenues (INR mn)	385	277	39.0	360	7.0	1,549	2,538
EBITDA (INR mn)	96	80	19.8	117	(18.2)	439	716
Net profit (INR mn)	48	34	40.4	70	(30.6)	251	400
EPS (INR)	0.8	0.6		1.2		4.1	6.5
PE (x)						40.6	25.5
EV/EBITDA (x)						23.1	15.0

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Reuters : INOL.BO  
Bloomberg : INOL IN

## Market Data

52-week range (INR) : 253 / 95  
Share in issue (mn) : 60.0  
M cap (INR bn/USD mn) : 9.8 / 222.7  
Avg. Daily Vol. BSE ('000) : 300.2

## Share Holding Pattern (%)

Promoters : 66.0  
MFs, FIs & Banks : 3.9  
FII's : 11.4  
Others : 18.7

- However, another reason for the decline was ~ INR 20 mn of loss from distribution of movies (*Umrao Jaan* and *Jaaneman*) as a result of which direct costs as percentage of revenues was higher.
- ♦ While PAT margins improved by 10 bps on a Y-o-Y basis, there was a decline of 680 bps sequentially.
  - PAT grew 40.4% Y-o-Y to INR 48 mn. However, there was de-growth of 30.6% on a Q-o-Q basis.
  - The reasons for higher Y-o-Y growth in PAT as compared to EBITDA were higher other income and lower interest expense.
- ♦ We are revising our FY07 PAT estimates marginally downwards by INR 13 mn to account for losses from distribution of movies. Our revised PAT estimates for FY07 stands at INR 251 mn.
- ♦ Post the consolidation of the numbers of CCPL, the share capital of Inox will expand by 3% to INR 618 mn (FV of INR 10). We estimate that Inox will make EPS of INR 4.1 and INR 6.5 in FY07 and FY08, respectively on the expanded share capital.
- ♦ On January 19, Inox has opened a 4 screen multiplex in Chennai. With this, the total number of screens has gone up to 55 across 15 multiplexes (including CCPL properties). It has plans to add 48 more screens over the next 15 months taking the total number of screens to 103 by March, 2008.

\* **Maintain 'ACCUMULATE'**

We continue to be positive on the outlook for Inox. It has a credible management with excellent project management skills, which has led its rapid growth since inception. We expect the revenues and PAT to grow at CAGR of 58% and 51%, respectively over FY06-08. We estimate that Inox will make net profit of INR 251 mn (revised marginally downwards by INR 13 mn to adjust for losses from distribution business) and INR 400 mn in FY07 and FY08, respectively. This translates into EPS estimates for FY07 and FY08 of INR 4.1 and INR 6.5 respectively. The stock trades at P/E of 25.5x FY08E. 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.

(INR mn)

Financial snapshot								
Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY06	FY07E	FY08E
Net revenues	385	277	39.0	360	7.0	1,021	1,549	2,538
Direct costs	151	105	43.9	126	19.5	323	533	842
Employee expenses	25	21	17.7	27	(9.6)	76	141	206
Other expenses	114	72	59.5	90	27.5	261	438	775
Total expenditure	290	197	46.8	243	19.2	661	1,111	1,822
EBITDA	96	80	19.8	117	(18.2)	360	439	716
Depreciation	15	14	9.4	15	2.0	52	81	137
Interest	18	21	(15.0)	18	0.6	79	70	57
Other income	6	3	111.1	10	(43.6)	20	70	50
Profit before tax	69	48	42.9	95	(27.6)	249	359	572
Provision for taxation	20	14	49.3	25	(19.1)	74	108	171
Reported profit	48	34	40.4	70	(30.6)	175	251	400
Equity capital (FV INR 10)	600	600		600		600	618	618
No. of shares (mn)	60.0	60.0		60.0		60.0	61.8	61.8
EPS (INR)	0.8	0.6		1.2		2.9	4.1	6.5
PE (x)						56.4	40.6	25.5
						9.7	6.4	3.9
<b>as % of net revenues</b>								
Direct costs	39.1	37.8		35.1		31.6	34.4	33.2
Employee expenses	6.4	7.5		7.6		7.5	9.1	8.1
Other expenses	29.6	25.8		24.9		25.6	28.2	30.5
EBITDA	24.8	28.8		32.5		35.3	28.3	28.2
Net profit	12.5	12.4		19.3		17.2	16.2	15.8

## Company Description

Inox Leisure is one of the leading movie exhibition companies in the country. It presently operates 48 screens across 13 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 55 screens across 15 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 103 by end of FY08. This will result in net revenues growing at a CAGR of 58% over FY06-08E. EBITDA and PAT are expected to grow at CAGR of 41% and 51%, respectively.

## 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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Parul Inamdar - 2286 4355	Information Technology	Neha Shahra - 2286 4276
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### RATING INTERPRETATION

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

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