

Inox Leisure Limited

Gaurav Chugh

+91 22 67069916

Gaurav.chugh@investsmartindia.com

Shareholding (%)

Promoters	66.0
FII's	12.2
MFs	4.2
Others	17.6

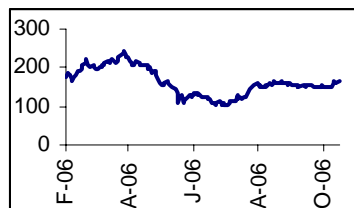
Share price performance

52-week high/low (Rs) 253/86

	-1m	-3m	-12m
Abs (%)	10.2	39.7	na
Rel* (%)	3.4	18.9	na

*to Nifty

Stock chart



New multiplexes strengthen topline

For Q2FY07, Inox Leisure Limited (ILL) reported net sales and net profits of Rs389.5mn and Rs69.6mn, an increase of 40% and 23.4%YoY, respectively. ILL's EBITDA, however, grew only by 4%YoY, as its entertainment tax outgo and other expenditure increased by 274% and 62%YoY respectively. EBITDA margins declined from 40.3% in Q2FY06 to 30% in Q2FY07. ILL's net profits increased by 23.4%YoY to Rs69.6 vis-à-vis Rs56.4mn in Q2FY06. Net profit margins dropped 230bps to 17.9%.

We believe that the movie exhibition sector is poised for strong growth during the next five years, driven by the changing lifestyle of the Indian consumer and increased spending on leisure and entertainment activities. ILL's proposed expansion plans, if successfully executed, would make it one of the largest players in the Indian movie exhibition sector, going forward. Hence, we remain positive on the stock.

Key Highlights:

- ▲ **Revenues up 40%:** ILL's net sales increased 40%YoY to Rs389.5mn. This growth was driven by higher revenues generated from its existing multiplexes and five new multiplexes launched during the year.
- ▲ **EBITDA increased only 4%:** Though sales grew by 40%YoY, EBITDA increased by only 4%YoY. This was because of a 274% increase in entertainment tax outgo due to the launch of five new multiplexes (14 screens) during the year; increase in other expenses and expenses incurred in its distribution business also pulled down the growth in EBITDA levels. EBITDA margins also dropped from 40.3% in Q2FY06 to 30% in Q2FY07.
- ▲ **Net profits up 23.4%:** ILL reported net sales of Rs69.6mn as against Rs56.4mn in Q2FY06, an increase of 23.4%YoY. This growth was driven by increase in other income during the quarter.
- ▲ During the year, ILL launched five new multiplexes with 14 screens. Currently, ILL is operating 12 multiplexes with 44 screens. By FY08E, the company plans to have 98 screens with more than 27,000 seats. The company would be funding this expansion from the money raised through public issue, debt and internal accruals.
- ▲ For the acquisition and integration of Calcutta Cine Private Ltd (CCPL), Inox has signed the agreement finalizing the

**Not
Rated
Rs167.2**

November 7, 2006

Market cap

Rs bn 10

US\$ mn 223

Avg 3m daily volume

330,384

Avg 3m daily value

Rs mn 51

Shares outstanding (mn)

60

Reuters

INOL.BO

Bloomberg

INOL IN

Sensex

13,187

Nifty

3,809

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scheme of amalgamation (subject to approval of shareholders, creditors and the high courts).

We believe that, in the long-term, ILL is likely to benefit from its expansion plans and the increasing popularity of movies as a preferred source of leisure and entertainment. Hence, we are positive on the stock.

Table 1. Quarterly result table

Rs mn	Q2FY07	Q2FY06	YoY (%)	Q1FY07	QoQ (%)
Net sales from operations	389.5	278.7	39.8	357.4	9.0
Total expenses	272.6	166.4	63.8	269.7	1.1
% of net sales	70.0	59.7		75.5	
Entertainment tax	29.6	7.9	274.7	23.8	24.4
% of net sales	7.6	2.8		6.7	
Distributor's Share	89.2	64.9	37.4	71.6	24.6
% of net sales	22.9	23.3		20.0	
Film distribution rights & print cost amortised	18.3	-		38.8	(52.8)
% of net sales	4.7	-		10.9	
Cost of F&B	18.7	14.9	25.5	18.0	3.9
% of net sales	4.8	5.3		5.0	
Staff cost	27.2	23.4	16.2	32.1	(15.3)
% of net sales	7.0	8.4		9.0	
Other expenditure	89.6	55.3	62.0	85.4	4.9
% of net sales	23.0	19.8		23.9	
EBITDA	116.9	112.3	4.1	87.7	33.3
%of net sales	30.0	40.3		24.5	
Depreciation	14.8	12.4	19.4	14.4	2.8
% of net sales	3.8	4.4		4.0	
EBIT	102.1	99.9	2.2	73.3	39.3
% of net sales	26.2	35.8		20.5	
Interest/(interest income)	17.5	18.0	(2.8)	20.3	(13.8)
Other income	10.1	3.7	173.0	47.9	(78.9)
PBT	94.7	85.6	10.6	100.9	(6.1)
Provision for taxation	25.1	29.2		17.2	
Net profit	69.6	56.4	23.4	83.7	(16.8)
Equity	600.0	450.0		600.0	
Cash EPS (Rs)	1.4	1.5		1.6	
EPS (Rs)	1.2	1.3		1.4	
Key ratios (%)					
EBITDA margin	30.0	40.3		24.5	
Interest/sales	4.5	6.5		5.7	
Tax/PBT	26.5	34.1		17.0	
NPM	17.9	20.2		23.4	

Source: IISL research, company

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Financials

Profit & Loss					Balance Sheet				
In Rs million	FY05	FY06	FY07E	FY08E	In Rs million	FY05	FY06	FY07E	FY08E
Net sales	605.6	1,020.7	1,746.1	2,346.1	Equity capital	450.0	600.0	600.0	600.0
YoY (%)	110.0	68.6	71.1	34.4	Preference capital	0.0	0.0	0.0	0.0
Total expenses	389.1	660.7	1,149.0	1,557.7	Reserves	140.3	1,557.9	1,868.0	2,311.8
Inc/dec in stock	0.0	0.0	(5.5)	(2.0)	Net worth	590.3	2,157.9	2,468.0	2,911.8
Film distributor share	130.4	211.4	336.0	456.0	Total borrowings	967.6	1,089.3	864.3	864.3
Staff cost	55.7	76.5	130.8	175.7	Deferred tax	66.3	107.7	180.8	285.5
F&B cost	34.7	54.1	95.5	131.0	Total liabilities	1,624.2	3,354.8	3,513.1	4,061.6
Operating & admn cost	168.3	318.7	592.2	796.9	Gross block	1,524.7	1,821.7	2,963.9	3,368.9
Other expenses	0.0	0.0	0.0	0.0	Less: Acc. depreciation	69.9	120.8	208.4	307.4
EBIDTA	216.4	360.0	597.2	788.4	Net block	1,454.8	1,700.8	2,755.5	3,061.5
YoY (%)	118.8	66.4	65.9	32.0	CWIP	48.4	54.0	185.0	200.0
EBIDTA (%)	35.7	35.3	34.2	33.6	Investments	5.0	1,452.1	556.8	876.1
Other income	11.6	19.7	19.7	19.7	Current assets	269.0	385.7	347.5	364.3
PBITD	228.0	379.7	616.8	808.1	Inventories	3.5	4.8	8.1	10.9
Interest	53.7	78.9	89.1	79.1	Debtors	18.4	25.3	40.7	54.6
Gross profit	174.3	300.8	527.7	728.9	Cash	15.7	30.3	20.0	20.0
Depreciation	34.6	51.7	87.6	98.9	Loans and advances	231.5	325.3	278.8	278.8
PBT and extra ordinary	139.7	249.1	440.1	630.0	Current liabilities	147.6	228.6	303.2	406.9
Extra ordinary items	(0.1)	0.0	0.0	0.0	Provisions	5.4	9.2	28.5	33.5
PBT	139.6	249.1	440.1	630.0	Net current assets	116.0	147.9	15.8	(76.0)
(-) Tax	58.8	73.6	130.1	186.2	Miscellaneous expenses	0.0	0.0	0.0	0.0
Tax/ PBT	42.1	29.5	29.5	29.5	Total assets	1,624.2	3,354.8	3,513.1	4,061.6
PAT	80.8	175.5	310.1	443.9					
Adjusted net profit	80.8	175.5	310.1	443.9					
YoY (%)	218.5	117.1	76.7	43.1					

Key Ratios					Cash Flow				
	FY05	FY06	FY07E	FY08E	In Rs million	FY05	FY06	FY07E	FY08E
EPS (Rs)	1.8	2.9	5.2	7.4	Net profit	80.8	175.5	310.1	443.9
Adjusted EPS (Rs)	0.0	0.0	0.0	0.0	Depn and w/o	34.6	51.7	87.6	98.9
CEPS (Rs)	3.6	4.5	7.8	10.8	Deferred tax	47.3	41.4	73.1	104.7
Book value (Rs)	13.1	36.0	41.1	48.5	Change in working cap	(49.5)	(17.3)	121.8	91.9
Dividend per share (Rs)	0.0	0.0	0.0	0.0	Other income	11.6	19.7	19.7	19.7
Debt-equity (x)	1.6	0.5	0.4	0.3	Operating cash flow	124.7	271.0	612.3	759.0
ROCE	11.7	9.5	15.3	18.3	Other income	(11.6)	(19.7)	(19.7)	(19.7)
ROE	13.7	8.1	12.6	15.2	Capex	(244.4)	(303.5)	(1,273.1)	(420.0)
					Investments	0.0	(1,447.1)	895.3	(319.4)
					Investing cash flow	(255.9)	(1,770.2)	(397.6)	(759.0)
Valuations					Dividend	0.0	0.0	0.0	0.0
PE (x)	93.1	57.2	32.4	22.6	Fresh equity	(8.6)	1,276.5	0.0	0.0
Cash PE (x)	46.2	37.3	21.3	15.5	Debt	122.2	121.7	(225.0)	0.0
Price/book value (x)	12.7	4.6	4.1	3.4	Financing cash flow	113.7	1,398.2	(225.0)	0.0
Dividend yield	0.0	0.0	0.0	0.0	Others	2.8	115.6	0.0	0.0
Market cap/sales	12.4	9.8	5.7	4.3	Net change in cash	(14.7)	14.6	(10.3)	(0.0)
EV/sales (x)	14.0	10.9	6.2	4.6	Opening cash	30.4	15.7	30.3	20.0
EV/EBDITA (x)	39.2	30.8	18.2	13.8	Closing cash	15.7	30.3	20.0	20.0

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