Inox Leisure Ltd

Bloomberg Code: INOL IN

India Research - Stock Broking

BUY

Living the Movie Experience

Inox Expanding its Presence and Strengthening its Foothold in Movie Exhibition Industry: Inox has 372 screens in its kitty and is second largest player in Indian multiplex industry with market share of 22%. The company is planning to add 55-60 screens per annum for the next couple of years and has target of 557 screens by 2018. Out of the 60 properties expected to come into stream in 2016, 40% is expected to be in metros and 46% of screens are likely to be present in North & Western regions which will support the growth of Average Ticket Prices (ATP).

Better Movie Content & Increased Screening of Regional & Hollywood Movies to Drive Footfalls: We expect the occupancy to improve on the back of improving movie content with couple of Salman Khan & Shahrukh Khan movies lined up in FY16E and FY17E along with Hollywood movies. With Satyam cinemas coming into fold, which is one of the few properties which has higher occupancy level compared to pan India level, along with better content is expected to drive footfalls. Footfalls are likely to increase from 41.1 mn in FY15 to 55 mn in FY17E and grow at CAGR of 16% for FY15-17E and occupancy level is likely to be at 26% & 27% for FY16E& FY17E respectively.

Valuation and Outlook

Inox is the second largest player in the Indian movie exhibition industry and is narrowing its gap with the industry leader PVR on most of the metrics. We value the company on the basis of EV/EBITDA and assign multiple of 10x and arrive at target price of Rs.239 with "**BUY**" rating for period of 9-12 months representing an upside of 20%. We have given a premium to the valuation considering the Inox's market position in movie exhibition business and stronger balance sheet. In movie exhibition industry, EV/EBITDA valuation for the multiplexes ranges in the band of 9-13 times.

Key Risks

- Change in the revenue sharing model between exhibitors & distributors.
- Increase in entertainment taxes & lower footfalls.
- Quality of content.

Recommendation (Rs.)

CMP *(as on Jul, 15, 2015)*	199
Target Price	239
Upside (%)	20

Stock Information

Mkt Cap (Rs.mn/US$ mn)	19190 / 302
52-wk High/Low (Rs.)	198 / 139
3M Avg. daily volume (mn)	0.1
Beta (x)	1.1
Sensex/Nifty	28160 / 8508
O/S Shares(mn)	96.5
Face Value (Rs.)	10.0

Shareholding Pattern (%)

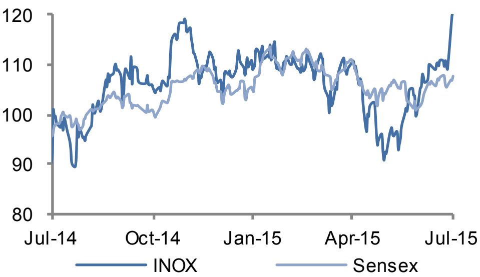
Promoters	48.7
FIIs	20.5
DIIs	9.0
Others	21.9

Stock Performance (%)

	1M	3M	6M	12M
Absolute	15	9	10	20
Relative to Sensex	8	11	9	7

Source: Bloomberg

Relative Performance*



*Source: Bloomberg; *Index 100*

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	7653	8688	10168	12457	15128
EBITDA	980	1220	1229	1698	2124
EBITDA Margin (%)	12.8	14.0	12.0	13.6	14.0
Adj. Net Profit	185	369	200	491	715
EPS (Rs.)	2.6	4.8	2.1	5.1	7.4
RoE (%)	5.6	9.4	2.9	6.5	8.5
PE (x)	16.0	29.0	95.0	38.8	26.6

Source: Company, Karvy Research

Analyst Contact

Vignesh S B K

040 - 3321 6271

vignesh.sbk@karvy.com

Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs. Mn)	FY15P	FY16E	FY17E
Net sales	10168	12457	15128
Optg. Exp (Adj for OI)	8939	10759	13004
EBITDA	1229	1698	2124
Depreciation	758	841	968
Interest	386	260	252
Other Income	83	85	90
PBT	166	682	993
Tax	(40)	191	278
Adj. PAT	200	491	715
Profit & Loss Ratios			
EBITDA margin (%)	12.0	13.6	14.0
Net margin (%)	2.0	3.9	4.7
P/E (x)	95.0	38.8	26.6
EV/EBITDA (x)	15.2	11.0	8.8
Dividend yield (%)	-	-	-

Source: Company, Karvy Research

Company Background

INOX Leisure Limited is the diversification venture of the INOX Group into entertainment. INOX Leisure's mission is to be the leader in the cinema exhibition industry, in every aspect right from the quality and choice of cinema to the varied services offered and eventually the highest market share. INOX along with Satyam Cineplexes Ltd. currently operates 97 multiplexes and 372 screens in 52 cities making it a truly pan-Indian multiplex chain. INOX Leisure Ltd. will continue its expansion into places like Jammu, Mangalore and Cuttack amongst others. All INOX cinemas have state-of-the-art facilities in terms of modern projection and acoustic systems, interiors of international standards, high levels of hygiene, varied theatre food, a selection of Hindi, English and regional movies, computerized ticketing and most importantly high service standards upheld by a young and vibrant team.

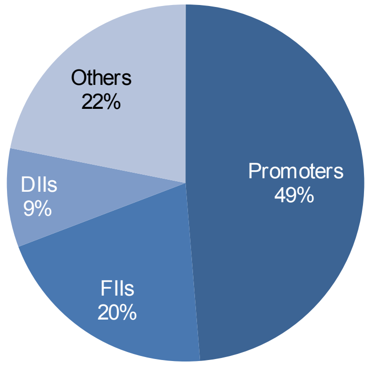
Balance sheet (Rs. Mn)	FY15P	FY16E	FY17E
Total Assets	**11215**	**12594**	**13690**
Net Fixed assets	6681	7290	7573
Current assets	1022	1394	1767
Loans & Advances	1813	2176	2611
Others	**1699**	**1735**	**1739**
Total Liabilities	11215	12594	13691
Networth	6762	7546	8328
Debt	2152	2267	2195
Current Liabilities	1953	2243	2577
Other Liabilities	348	538	590
Balance Sheet Ratios			
RoE (%)	2.9	6.5	8.5
RoCE (%)	6.2	9.6	11.8
Net Debt/Equity	0.3	0.3	0.2
Equity/Total Assets	0.6	0.6	0.6
P/BV (x)	2.8	2.5	2.3

Source: Company, Karvy Research

Cash Flow (Rs. Mn)	FY15P	FY16E	FY17E
PBT	166	682	993
Depreciation	758	841	968
Interest (net)	386	260	252
Tax	(51)	(191)	(278)
Changes in WC	(703)	(93)	(276)
Others	(23)	(10)	(11)
CF from Operations	**528**	**1489**	**1649**
Capex	(923)	(1200)	(1200)
Investment	0	0	0
Others	30	33	36
CF from Investing	**(893)**	**(1167)**	**(1164)**
Change in Equity	0	0	0
Change in Debt	(85)	115	(72)
Others	419	(260)	(252)
CF from Financing	**334**	**(145)**	**(324)**
Change in Cash	(31)	177	161

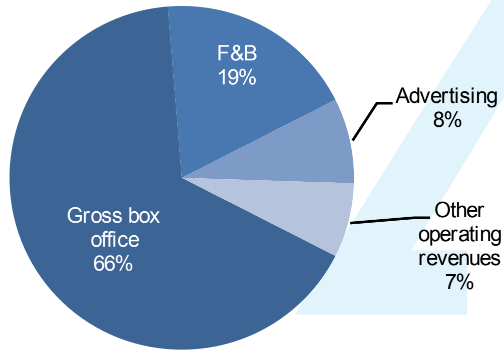
Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)



Source: Company, Karvy Research

Exhibit 3: Revenue Segmentation (%)



Source: Company, Karvy Research

Consolidation in industry will lead to higher bargaining power for the leading multiplex players

India's Media & Entertainment Industry (M&E) is worth Rs.1026 Bn at the end of 2014 and is expected to grow at CAGR of 14% for the next five years and reach Rs.1964 Bn at the end of 2019, according to KPMG. Indian M&E industry is estimated to grow twice at the rate of global M&E industry.

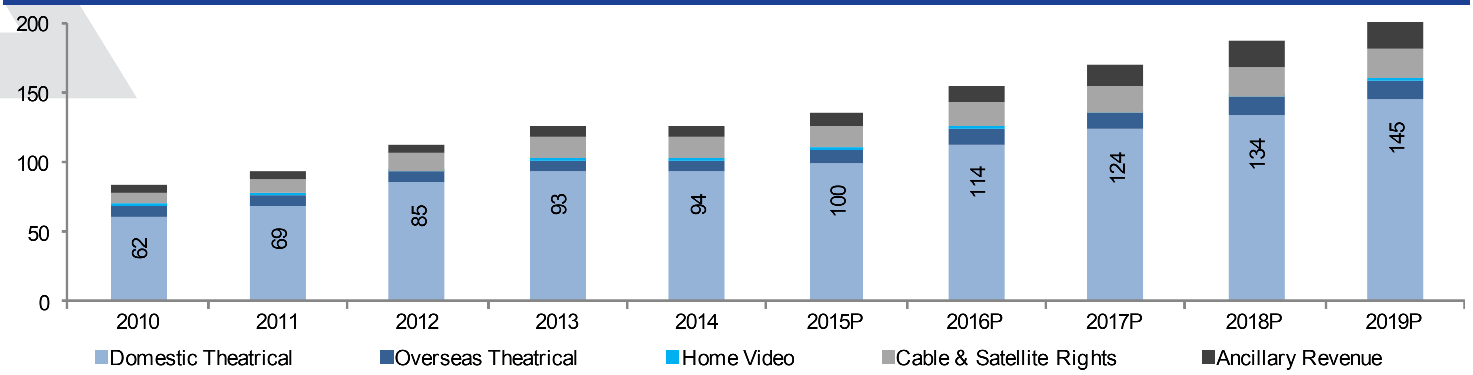
Exhibit 4: India Media & Entertainment Industry: Size & Projections

Overall industry size (Rs. Bn)	2012	2013	2014	% Segment share in Industry	2015P	2016P	2017P	2018P	2019P	5 year CAGR (2014-2019)	% Market share in Industry
TV	370	417	475	46.3	543	631	740	855	976	15.5	49.7
Print	224	243	263	25.7	285	307	332	358	387	8.0	19.7
Films	**112**	**125**	**126**	**12.3**	**136**	**156**	**171**	**186**	**204**	**10.0**	**10.4**
Radio	13	15	17	1.7	20	22	27	33	40	18.1	2.0
Music	11	10	10	1.0	10	12	14	17	19	14.0	1.0
OOH	18	19	22	2.1	24	27	30	32	35	9.8	1.8
Animation and VFX	35	40	45	4.4	51	59	69	81	96	16.3	4.9
Gaming	15	19	24	2.3	28	32	35	40	46	14.3	2.3
Digital Advertising	22	30	44	4.2	63	84	115	138	163	30.2	8.3
Total	**820**	**918**	**1026**	**100.0**	**1159**	**1330**	**1532**	**1740**	**1964**	**13.9**	**100.0**

Source: FICCI Report, Karvy Research

Film industry plays an integral part of India's M&E industry which has share of 12.3% in 2014. Size of film industry stood at Rs.126 Bn at the end of 2014 and is expected to grow at CAGR of 10% and reach Rs.209 Bn at the end of 2019. With more number of screens getting added annually and rise in consumer discretionary spending is likely to drive the growth of the Indian film industry. 75% of film industry revenues are contributed by the domestic theatrical revenues where movie exhibitors are involved.

Exhibit 5: Film Industry Size & Forecast (Revenues Rs. Bn)



Source: FICCI Report, Karvy Research

Exhibit 6: Consumer spending trend of Indians by 2020

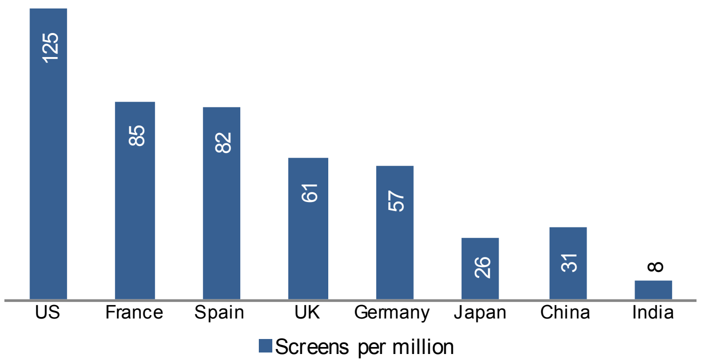
Category	Spending in $ bn 2010	Spending in $ bn 2020	% CAGR Growth Rate	% Segment Share in Spending (2010)	% Segment Share in Spending (2020)
Food	328	895	10.6	33.1	25.0
Housing & Consumer durables	186	752	15.0	18.8	21.0
Transportation & Communication	168	664	14.7	17.0	18.5
Education & Leisure	71	296	15.3	7.2	8.3
Clothes & Footwear	59	225	14.3	6.0	6.3
Health	49	183	14.1	4.9	5.1
Others	129	570	16.0	13.0	15.9

Source: Euro Monitor, National Sample Survey Office, Karvy Research

Low Density of Screens

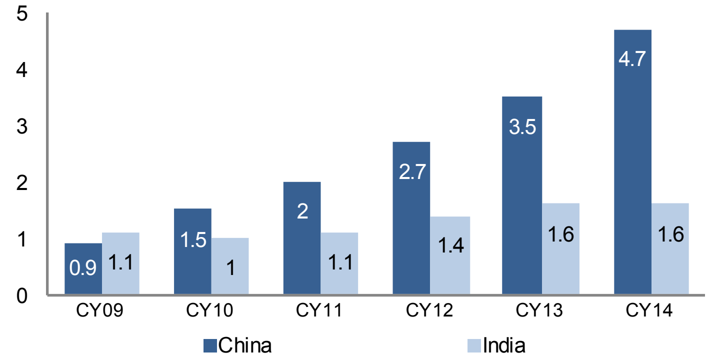
India has approximately 9600 screens, out of which 18% of them are multiplex formats. Screen density in India is at 8 per mn is low compared to other nations such as China's 31 and USA which has 125 screens per million. Multiplex screen density in India is very negligible at ~2 per million indicating growth opportunities for the multiplex operators. India produced close to 1200 movies in 2014 which is one of the largest movie producers globally. However, India's box office collection stood at $1.6 Bn which is lower compared to other countries. China's box office collections for 2014 stood at $4.5 bn which is the second largest market for box office and has produced ~618 movies and has close to 22000 screens. In India, movies are one of the cheapest forms of entertainment compared to theme parks, plays, music concerts & sports.

Exhibit 7: Screen penetration is lowest in India



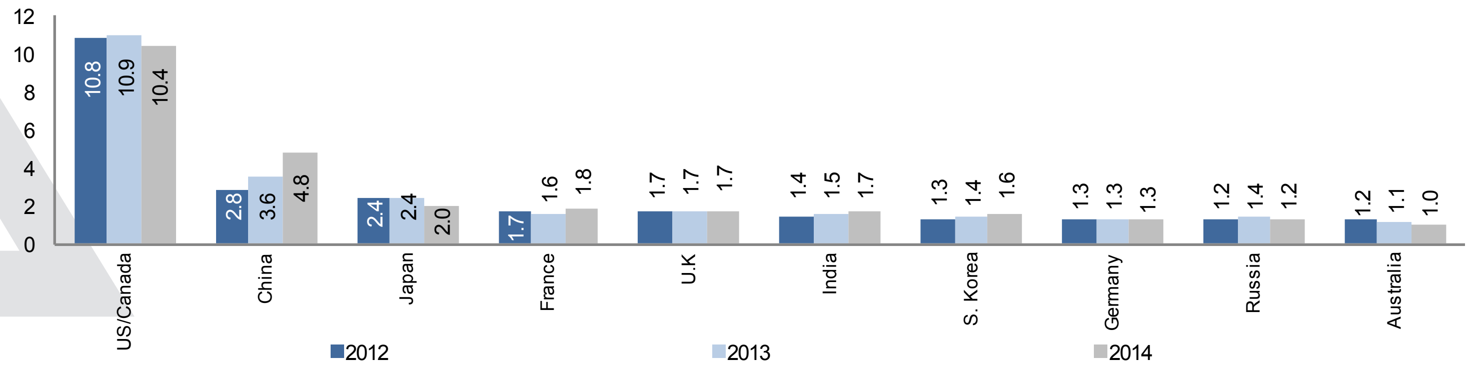
Source: FICCI, Karvy Research

Exhibit 8: Domestic Box Office Collections (in $ Bn)



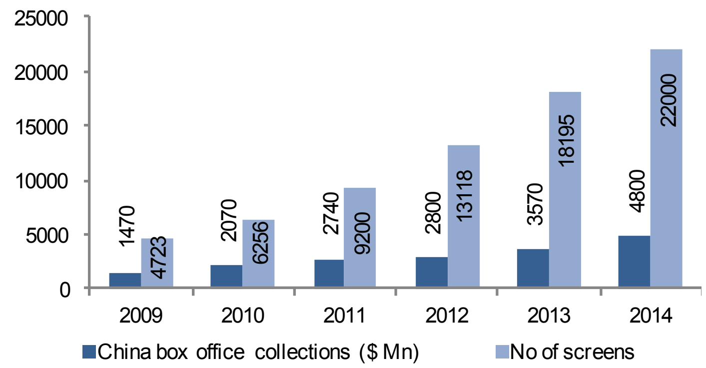
Source: SAPPRFT, Karvy Research

Exhibit 9: Global Box Office Collections ($ Bn)



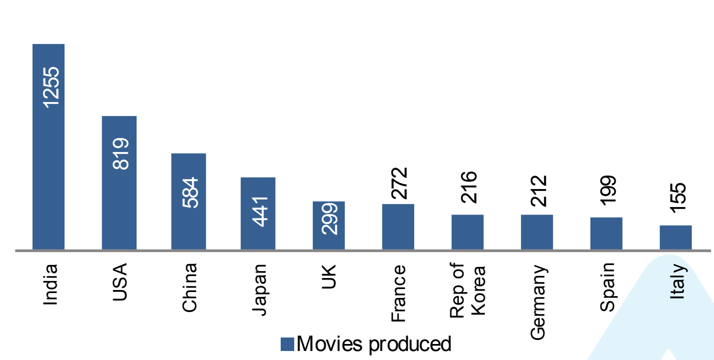
Source: MPAA, Karvy Research

Exhibit 10: Correlation between No. of Screens and GBOC



Source: SAPPRFT, Karvy Research

Exhibit 11: Number of Movies Produced Annually



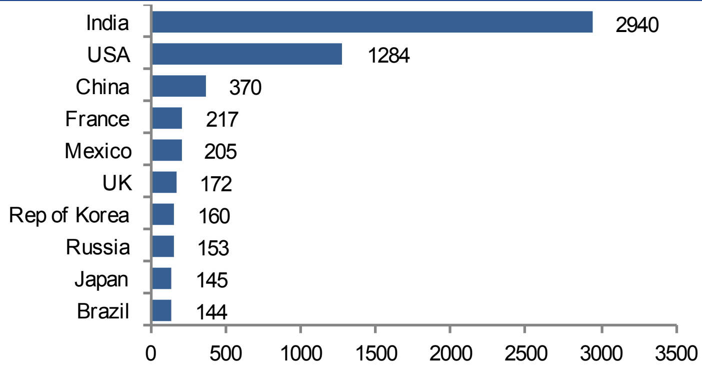
Source: UNESCO Institute of Statistics, Karvy Research

Exhibit 12: Cheapest form of Entertainment

	Price Range (Rs.)
Multiplex Tickets	80-500
Sport Events	150-2000
Plays	500- 3000
Live Concert	500-2000
Theme Parks	500-3500

Source: Book My Show, Karvy Research

Exhibit 13: Footfalls in major countries (In Mn)



Source: UNESCO Institute of Statistics, Karvy Research

Exhibit 14: Market share of Movie Exhibitors

Major Players	Number of Screens in 2014	Market Share (%)
PVR	421	26
Inox	310	19
Big Cinemas	254	16
Cinepolis	84	5
Fun Cinemas	73	5
Carnival	50	3
SRS Cinemas	39	2
Satyam Cinemas (Delhi)	39	2
SPI Cinemas	30	2
DT Cinemas	29	2
Wave	24	2
Movie time	29	2
Others	218	14
Total	**1600**	**100**

Source: Respective companies, Karvy Research

The rise of multiplexes

Single screen operators have been under stress in the last few years mainly because of digitization of screens, lower occupancy rates, unfavorable revenue sharing model, rising costs and competition from multiplex players who provide better movie watching experience. Last couple of years were important for film exhibition business not because of its content but for the consolidation which lead to the emergence of 4 major players in the industry. Carnival, which was small player, has entered into top league after buying out Big cinemas. Another major player Cinepolis, the Mexican player, has bought out Fun cinemas which was the fifth largest player in India. Inox leisure has acquired Satyam cinemas which gave leeway to strengthen its foothold in North India & PVR cinemas bought out DT cinemas from DLF which was catering to National Capital Region (NCR).

Exhibit 15: Consolidation Pattern in Indian Movie Exhibition Industry

Major Players	Number of Screens 2015*	Acquired		Total No of screens 2015* (Including Acquisition)	Market Share (%)
		Exhibitor	Screens		
PVR	464	DT Cinemas	39	503	29
Inox	334	Satyam Cinemas	38	372	22
Carnival	54	Big Cinemas	252	346	20
		Stargaze Entertainment	30		
		HDIL Broadway	10		
Cinepolis	110	Fun Cinemas	83	193	11
SPI Cinemas	50			50	3
SRS Cinemas	48			48	3
Wave Cinemas	39			39	2
Movie time	29			29	2
Others	148			148	9
Total	**1276**		**452**	**1728**	**100**

*Source: Respective companies, Karvy Research, * 2015 Year to Date*

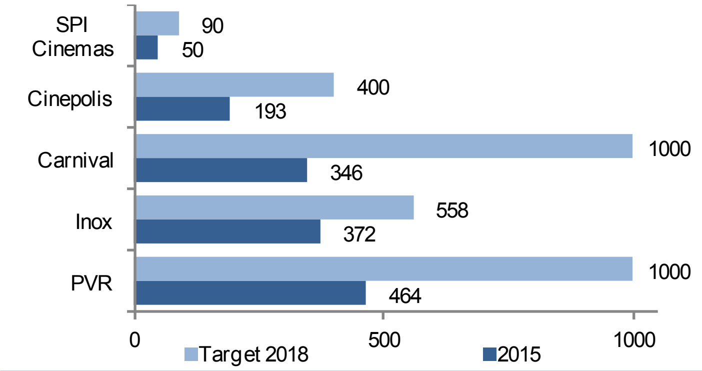
With leading exhibitors on full scale to ramp up their number of screens in next few years, we expect the scenario to shift in the favor of movie exhibitors as they gain market shares in the industry, with higher negotiability powers. Players such as INOX which is expected to surpass 500 screens in next couple of years will have bargaining power over distributors and advertisers which augurs well for the company.

Exhibit 16: Distributors' Share

	Week 1 (%)	Week 2 (%)	Week 3 (%)	Thereafter (%)
Multiplex	50	42	37	30
Single Screens	70-90	70-90	70-90	70-90

Source: Company, Karvy Research

Exhibit 17: Target Vs Existing

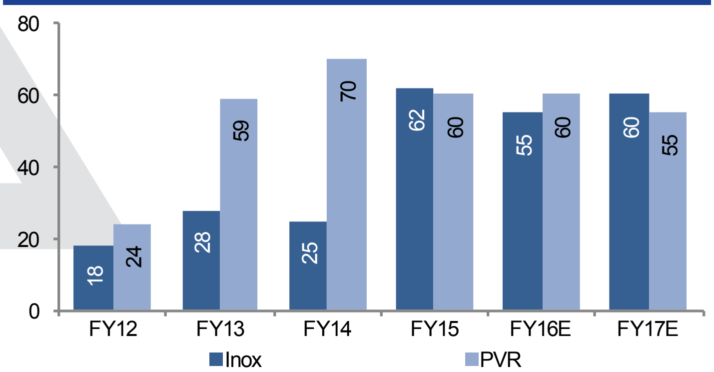


Source: Respective companies, Karvy Research

Inox expanding its presence and strengthening its foothold in Movie Exhibition industry

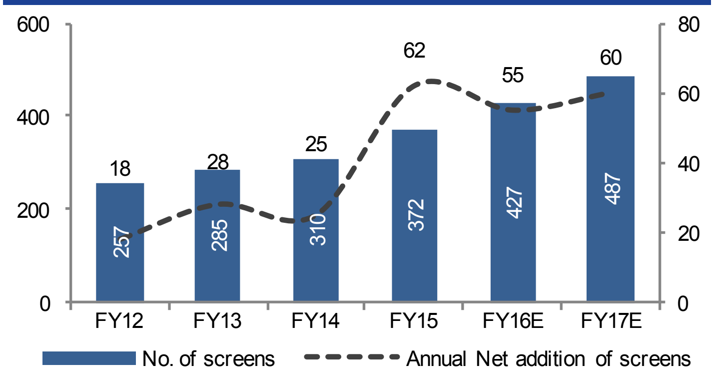
Inox has 372 screens in its kitty and is second largest player in Indian multiplex industry with market share of 22%. The company is planning to add 55-60 screens per annum for the next couple of years and has target of 557 screens by 2018. The capex required for screen is Rs.20 mn and capex of Rs.1200 mn would be required per annum for the addition of screens. Out of the 60 properties expected to come into stream in 2016, 40% is expected to be in metros and 46% of screens are likely to be present in North & Western regions which will support the growth of Average Ticket Prices (ATP).

Exhibit 18: Number of Screens Added by Major Players



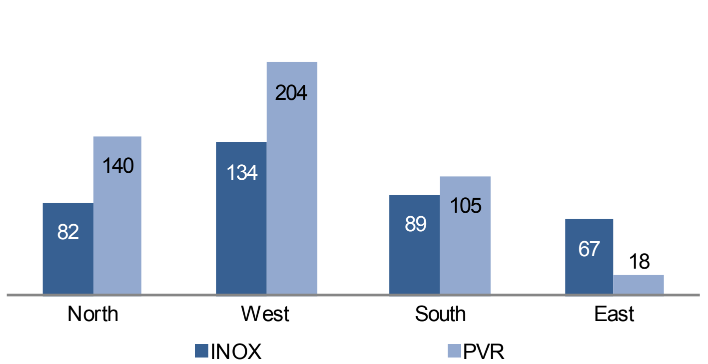
Source: Respective companies, Karvy Research

Exhibit 19: Screen Expansion by Inox



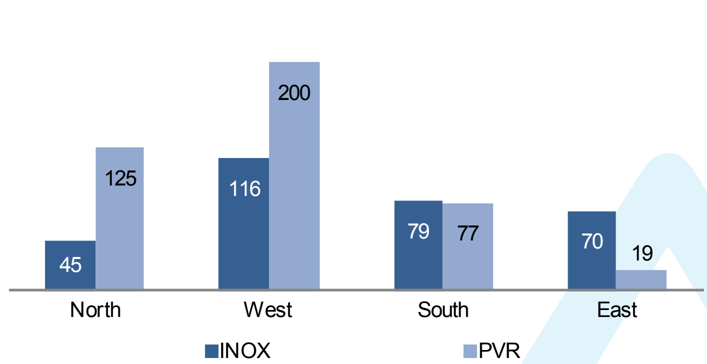
Source: Company, Karvy Research

Exhibit 20: Geographical presence in 2015



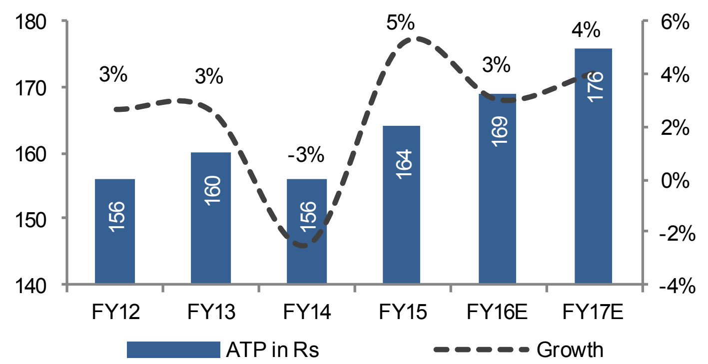
Source: Respective companies, Karvy Research

Exhibit 21: Geographical presence in 2014



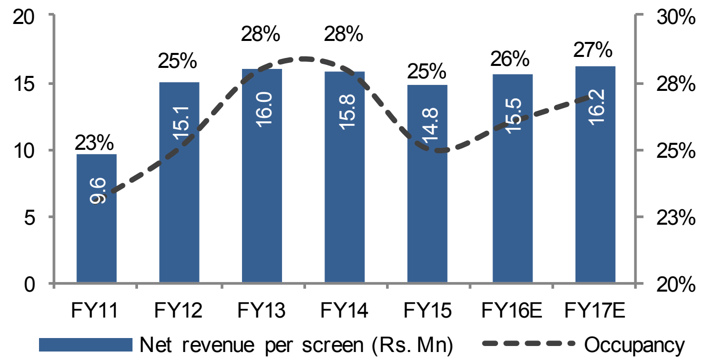
Source: Respective companies, Karvy Research

Exhibit 22: Average Ticket Prices and Growth



Source: Company, Karvy Research

Exhibit 23: Net Revenue per screen (Rs. Mn) & Occupancy



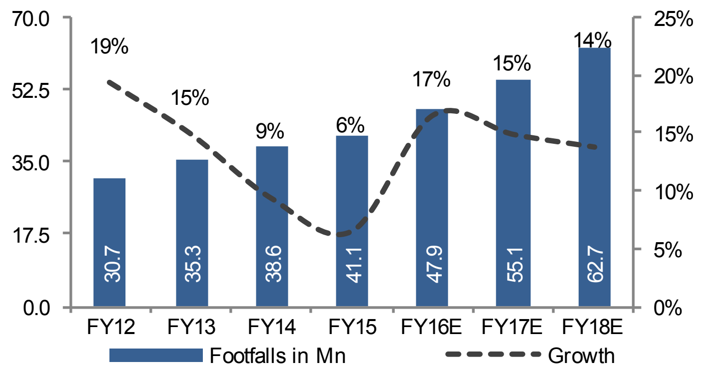
Source: Company, Karvy Research

We expect ATP to grow at CAGR of 4% for FY15-FY17E from Rs. 164 to Rs.176 on the back of net screen additions in lucrative markets and locations. Net revenue per screen stood at Rs. 14.8 Mn at FY15 and is expected to improve to Rs.16.1 Mn in FY17E, though it's still lower compared to PVR (Rs 17.6 Mn) which provides scope of improvement for Inox. At the end of FY15, Inox has increased its portfolio presence in North India has increased to 22% from 15% by acquiring Satyam cinemas (38 Screens) to strengthen its footprint in north India. By acquiring Satyam cinemas, Inox has narrowed its gap against PVR to 58 screens in 2015 from 80 screens in 2014 and will help to boost the ATP for Inox as Northern & western regions fetch higher ATPs. With big star movies lined up, exhibitors increase the prices in the first weekend and they opt for flexible ticket prices which supports the box office collections. Gross Box Office Collections (GBOC) are expected to grow at CAGR of 9.2% and reach Rs. 145 bn in 2019 compared to Rs.99.9 bn in 2014.

Better movie content & increased screening of regional & Hollywood movies to drive footfalls

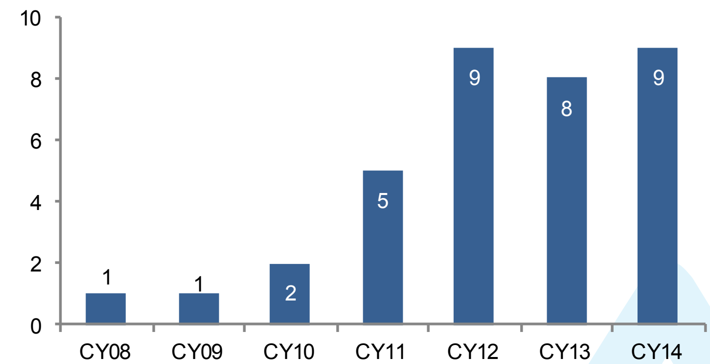
In FY15, occupancy rate was at 25% mainly because of weak content and we expect the occupancy to improve on the back of improving movie content with couple of Salman Khan & Shahrukh Khan movies lined up along with Hollywood movies in FY16E and FY17E. With Satyam cinemas coming into fold, which is one of the few properties which has higher occupancy level compared to pan India level, along with better content is expected to drive footfalls. Footfalls are likely to increase from 41.1 mn in FY15 to 55 mn in FY17E and grow at CAGR of 16% for FY15-17E and occupancy level is likely to be at 26% & 27% for FY16E and FY17E respectively. Number of movies crossing Rs 1000 Mn club has been increasing over the years which is encouraging sign and number of regional movies have also entered the club. Recently, Fast & Furious 7 has entered the Rs.1000 Mn club, which is the first Hollywood movie In India to do and it shows the importance of Hollywood movies and this trend is likely to be seen in future as multiplexes are increasing their presence in Tier II & Tier III cities. These factors are likely to push the box office revenues to grow from Rs. 99.9 Bn to Rs. 145.1 Bn at CAGR of 9.2% for FY15- FY19E.

Exhibit 24: Footfalls & Growth



Source: Company, Karvy Research

Exhibit 25: Number of movies entering Rs 1000 Mn club



Source: Karvy Research

Exhibit 26:

2015 Month-wise	Movie	Cast
July	Baahubali	Prabhas, Anushka
	Bajrangi Bhaijaan	Salman Khan, Kareena Kapoor
	Drishyam	Ajay Devgan
August	Brothers	Akshay Kumar, Jacqueline Fernandez
	All is well	Abishek Bachchan, Asin
	Phantom	Saif Ali Khan, Katrina Kaif
September	Welcome Back	John Abraham, Shruti Hassan
	Katti Batti	Imran Khan, Kangana Ranaut
October	Rocky Handsome	John Abraham, Shruti Hassan
	Singh is Bling	Akshay Kumar, Amy Jackson
	Shaandaar	Shahid Kappor, Alia Bhatt
November	Prem Ratan Dhan Payo	Salman Khan, Sonam Kapoor
	Tamasha	Ranbir Kappor, Deepika Padukone
December	Bajirao Mastani	Ranveer Singh, Deepika Padukone
	Dilwale	Shahrukh Khan, Kajol
	Hera Pheri	Paresh Rawal, Sunil Shetty
2016 Month-wise	**Movie**	**Cast**
January	Airlift	Akshay Kumar, Nimrat Kaur
January	Baadshaho	Ajay Devgan
April	Fan	ShahRukh Khan

Source: Karvy Research

Recently, dubbing of Hollywood movies in southern languages has lead to popularity of these movies. Hollywood movies box office collections are on the rise on the back of rising popularity of sequels, 3D animation movies and aspiring middle class people. Hollywood movies contribute only 7%-10% of total box office collections and ATP is higher by 5% to 15% for these movies.

Exhibit 27: Hollywood movies GBOC 2014 (Rs. Mn)

2015 Month-wise	Movie
Amazing Spider Man 2	875
Transformers 4: Age of Extinction	630
X- Men: Days of Future past	566
Interstellar	432
300: Rise of an Empire	401
Godzilla	340
Captian America: The Winter Soldier	310
Hercules	290
Dawn of the planet of Apes	224
Exodus: Gods & kings	189

Source: FICCI, Karvy Research

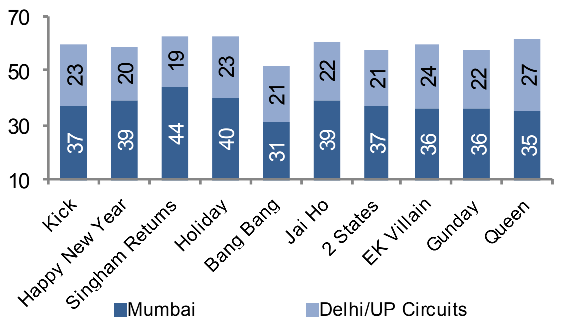
Exhibit 28: Regional Movies in 2014

Movie	Language	Gross Box office (Rs. Mn)
Lingaa	Tamil	1480
Veeram	Tamil	1300
Kathi	Tamil	1240
Chaar Sahibzaade	Punjabi	700
Race Gurram	Telugu	590
Vella Illa Pattathari	Tamil	530
Bangalore Days	Malayalam	500

Source: Karvy Research

Regional movies have seen phenomenal growth and have gained pan Indian attention with recent movies such as I & Bahubali which are rich in technical content and to join Rs 1000 Mn club which was previously achievable only for Bollywood movies. Now with more regional movies joining Rs 1000 Mn club, the box office collections are on the rise and is benefitting the multiplex players, previously dependent solely on Bollywood movies. Multiplex players expanding into Tier II and Tier III cities, contribution from regional cinemas is expected to increase to the total box office collections as patrons are more familiar with regional content.

Exhibit 29: Major Circuit Contributions for the Box Office Collections (%)



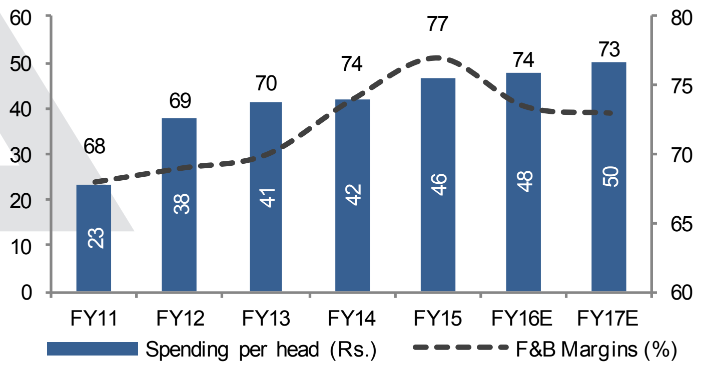
Source: FICCI, Karvy Research

Though contributions from Hollywood movies and regional movies are on the rise, Bollywood is still the major contributor to the Indian Box office collections and is solely dependent on the couple of circuits of Mumbai & Delhi/UP circuit which contribute 60% of the total collection of Bollywood movies. Popular actors' movies are lined up for FY16E which will be helpful for pulling crowd to the multiplexes and improving the occupancy ratios.

Non-box office revenues to grow at rapid pace on the back of Advertisement & F&B revenues

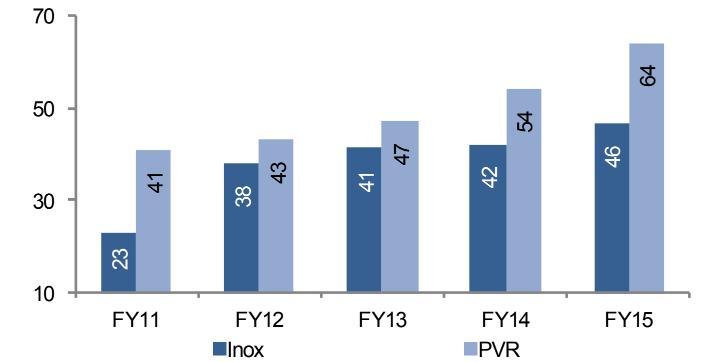
Inox's management has been focusing more on the advertisement revenues, Food & Beverages (F&B) segment as these fetch higher margins compared to box office revenues. F&B segment margins have been increasing rapidly from 68% in FY11 to 75% in FY15 and we expect the margins to sustain at the current levels going forward. Inox is efficiently managing the F&B margins, in fact it's better than the industry leader PVR. Inox has put in separate team to concentrate on F&B segment to provide patrons with niche items and change the menu constantly (that is, on weekly once basis) according to taste & preference of patrons. Spend Per Head (SPH) has increased from Rs. 23 in FY11 to Rs. 46 in FY15 and is likely to reach Rs. 50 by FY17E. F&B segment is likely to grow at CAGR of 20% during FY15-FY17E driven by 4% & 16% CAGR growth of SPH and footfalls respectively; and historically F&B has seen CAGR growth of 34% during FY11- FY15.

Exhibit 30: SPH (In Rs) and F&B Margins (%)



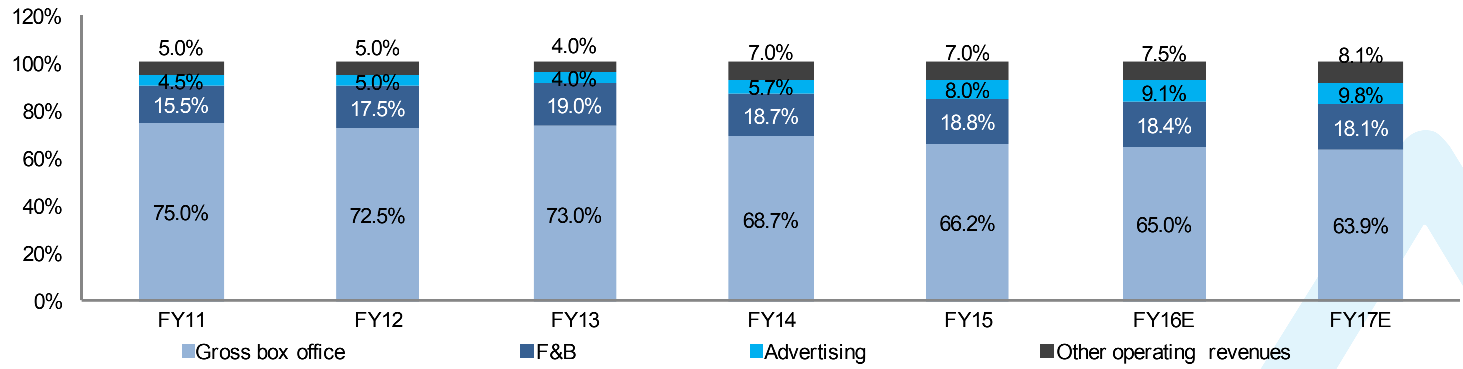
Source: Company, Karvy Research

Exhibit 31: SPH (In Rs) Inox vs PVR



Source: Company, Karvy Research

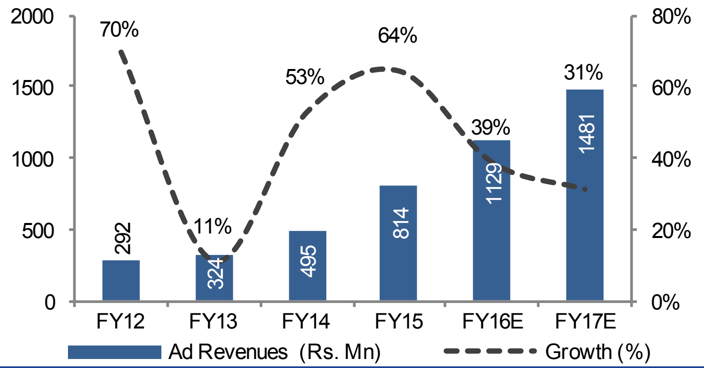
Exhibit 32: Segment contribution as % of revenues



Source: Company, Karvy Research

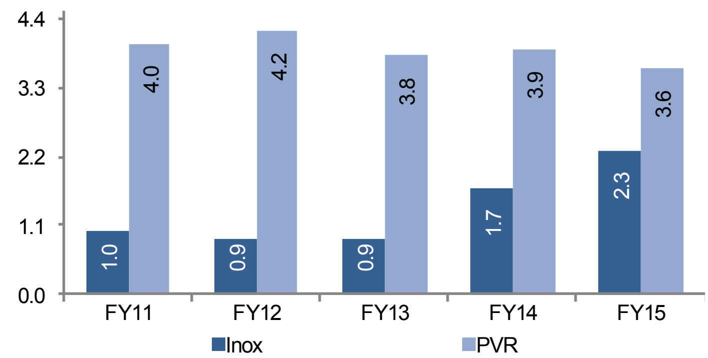
Inox has been lagging in advertisement revenues compared to its peers. Inox ad revenue per screen has improved from Rs.1.4 Mn in FY11 to Rs. 2.3 Mn in FY15 compared to PVR's ad revenue per screen of Rs. 3.6 mn in FY15. Inox is expected to improve its ad revenue per screen to Rs. 3.04 mn in FY17E. Management has taken this into account and has taken few steps such as setting up dedicated team in selected regions to clinch the advertisement deals and is also focusing on In-cinema advertising. This is getting revenues from on-screen as well as from off-screen such as monetizing its walkway, box office, F&B counter, etc. Inox is also signing up for annual deals which will provide regular stream of income and is also testing Pay-per-Eye-ball method. Advertisement revenues are likely to grow at CAGR of 34% during FY15-FY17E on the back of improving advertisement deals and increase in monetization through off-screen advertising.

Exhibit 33: Ad Revenues (Rs. Mn) & Growth (%)



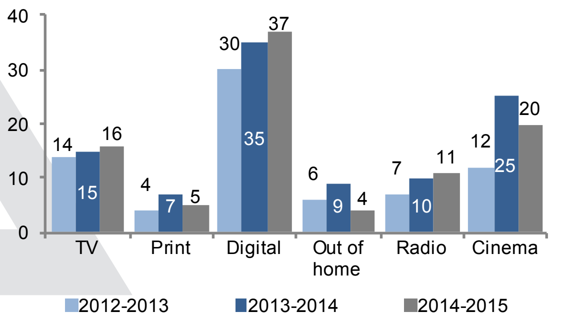
Source: Company, Karvy Research

Exhibit 34: Ad revenue per screen PVR vs Inox (Rs Mn)



Source: Respective companies, Karvy Research

Exhibit 35: Ad Revenue growth (%)



Source: Company, Karvy Research

Size of in-cinema advertising is estimated to reach Rs. 13.8 Bn in 2019 from Rs.4.9 Bn in 2014, growing at CAGR of 29%. With digital cinema, movies are released in more number of theatres and addition of screens by movie exhibitors provides scope for increasing the ad rates. Rates for ads changes depending upon the timing such as screening it before the movie begins or during the interval slot or during the opening weekends for the movies. India cinema advertising grew at 25% in 2014 and is expected to grow at 20% in 2015 & 2016 supported by sectors such as FMCG & services sector who are major advertisers.

Exhibit 36: Business Assumptions

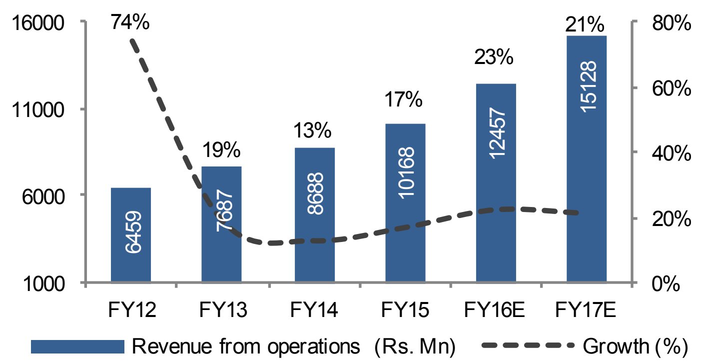
Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
Consolidated					
Revenue	8688	10168	12457	15128	Revenue growth is driven by 16% increase in footfalls and higher growth in ad revenues.
Revenue Growth (%)	14.0	17.0	22.0	21.0	
EBITDA	1220	1229	1698	2124	EBITDA margins are expanding on the back of increase in contribution from F&B and Ad business segments.
EBITDA Margins (%)	14.0	12.0	13.6	14.0	
PAT (normalized)	369	200	491	715	Bottom line is expected to post a rapid growth on the back of improvement in operating metrics and strong top line growth.
Fully Diluted EPS (Rs.)	4.8	2.1	5.1	7.4	
Fully Diluted EPS Growth (%)	27.0	(57.0)	146.0	45.0	
Capex (ex. Acquisition) - cash capex	(980)	(923)	(1200)	(1200)	Capex is for the addition of screens and most of the funding is expected to be funded through Debt.

Source: Company, Karvy Research

Revenue growth driven by Ad revenues & other operating income

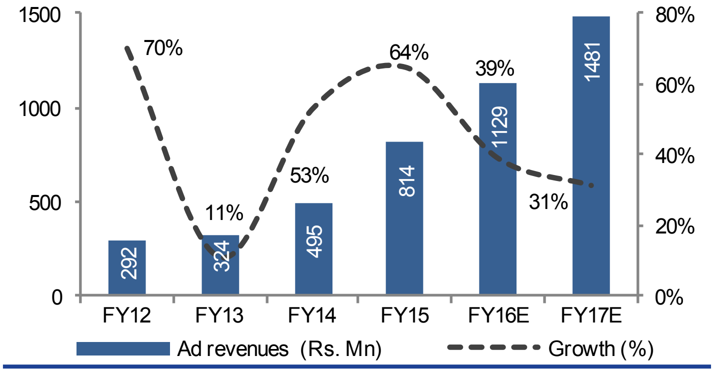
Revenues are likely to grow at CAGR of 22% during FY15-17E, driven by ad revenues & other operating income which is likely to grow at CAGR of 34% & 32% respectively during the same period. Ad revenues are driven by more deals and in-cinema advertising by the management.

Exhibit 37: Revenue (Rs. Mn) & Growth (%)



Source: Company, Karvy Research

Exhibit 38: Ad Revenue (Rs. Mn) & Growth (%)

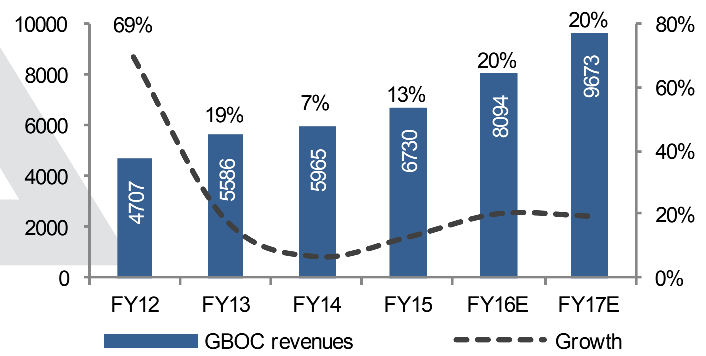


Source: Company, Karvy Research

Box office revenues to grow at CAGR of 20% during FY15-17E

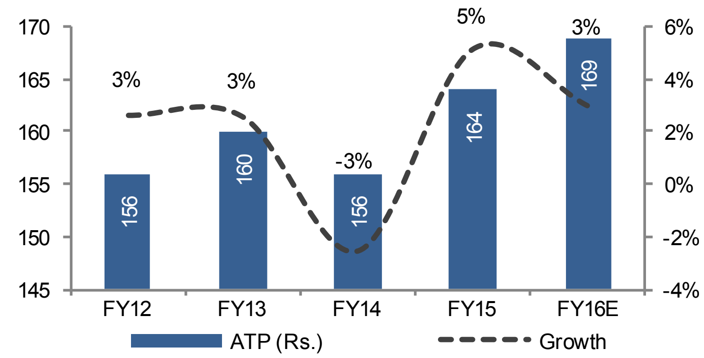
Box office collections have been growing at CAGR of 25% during FY11-15 and are likely to clock a growth of 20% during FY15-17E. Growth is backed by 4% CAGR growth in ATP from Rs.164 in FY15 to Rs. 176 in FY17E and footfalls growth of 16% during the same period.

Exhibit 39: GBOC Revenue (Rs. Mn) & Growth (%)



Source: Company, Karvy Research

Exhibit 40: ATP (In Rs) & Growth (%)

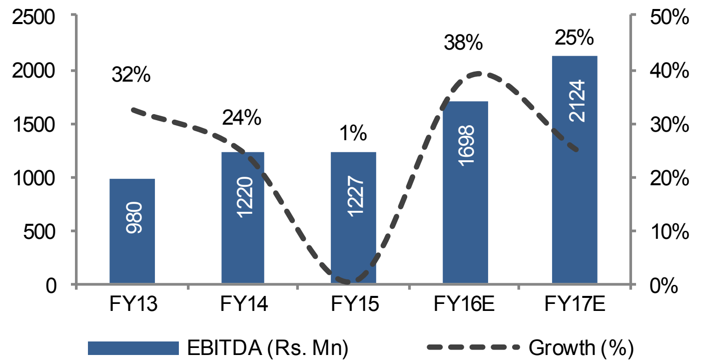


Source: Company, Karvy Research

EBITDA to grow at CAGR of 30% in next couple of years

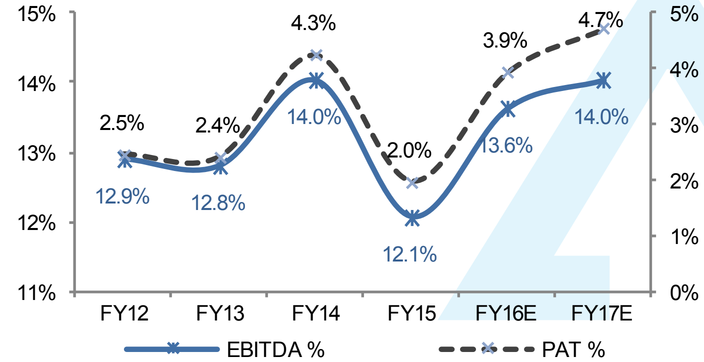
Content is likely to get better in forthcoming quarters which is likely to improve the footfalls, ATP & SPH during FY15-17E. Advertisement revenues & other operating revenue segment is the main factor behind EBITDA growth as these segments add directly to the profits. EBITDA is expected to grow at CAGR of 30% during FY15-17E from Rs.1228 mn to 2115 mn in FY17E. EBITDA margins are expected to improve to 14% in FY17E from 12.1% in FY15.

Exhibit 41: EBITDA (Rs. Mn) & Growth (%)



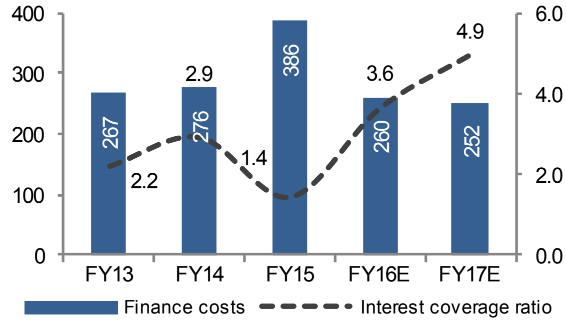
Source: Company, Karvy Research

Exhibit 42: EBITDA (%) & PAT (%)



Source: Company, Karvy Research

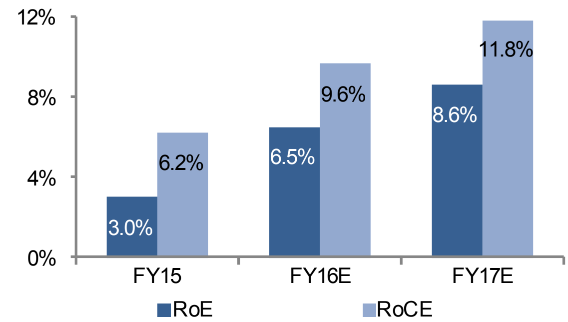
Exhibit 43: Interest Coverage Ratio (Rs. Mn)



Source: Company, Karvy Research

Interest Coverage Ratio: Interest coverage ratio is expected to improve to 4.9x in FY17E from 1.4x in FY15 on the back of strong top line growth and improving margins. EBIT is likely to grow at CAGR of 25% during FY15-17E on the back of improvement in EBIT margins. Cost of borrowings expected to decline on the back of Interest rate cycle which is inching down.

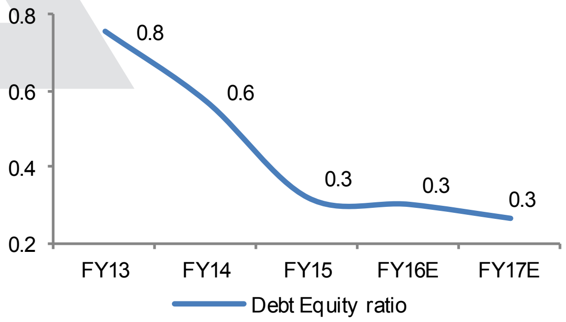
Exhibit 44: Return Ratios (%)



Source: Company, Karvy Research

Return Ratios: RoE & RoCE are expected to reach 8.6% & 11.8% in FY17E respectively compared to 2.9% & 6.2% in FY15. Improving margin profile and reducing debt going forward are expected to strengthen the return ratios. Occupancy is the main factor driving the business and with better content expected going forward, return ratios are likely to improve.

Exhibit 45: Debt Equity Ratio



Source: Company, Karvy Research

Debt Equity Ratio: Debt levels are expected to be at current levels going forward, on the back of improving cash flows despite capex plans for the company. Debt Equity ratio is likely to decline from 0.57x in FY14 to 0.26x in FY17E because of increase in share holder funds in the next couple of years.

Exhibit 46: Company Snapshot (Ratings)

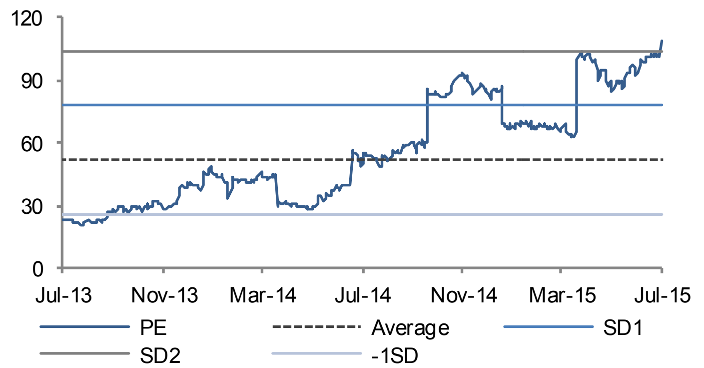
	Low				High
	1	2	3	4	5
Quality of Earnings			✓		
Domestic Sales				✓	
Exports	✓				
Net Debt/Equity				✓	
Working Capital Requirement				✓	
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance				✓	

Source: Company, Karvy Research

Valuation & Outlook

Inox is the second largest player in the Indian movie exhibition industry and is narrowing its gap with the industry leader PVR on most of the metrics. We value the company on the basis of EV/EBITDA and assign multiple of 10x and arrive at target price of Rs.239 with **"BUY"** rating for period of 9-12 months representing an upside of 20%. We have given a premium to the valuation considering the Inox's market position in movie exhibition business and stronger balance sheet. In movie exhibition industry, EV/EBITDA valuation for the multiplexes ranges in the band of 9-13 times.

Exhibit 47: PE Band



Source: Company, Karvy Research

Exhibit 48: EV/EBITDA

Source: Company, Karvy Research

Exhibit 49(a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)			P/E (x)			EPS (Rs.)		
			FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Inox	199	19190	15.2	11.0	8.8	95	39	27	2.1	5.1	7.4
PVR	730	30364	12.6	10	8.2	236	38	24	3.1	19.3	30.1

Source: Bloomberg, Karvy Research

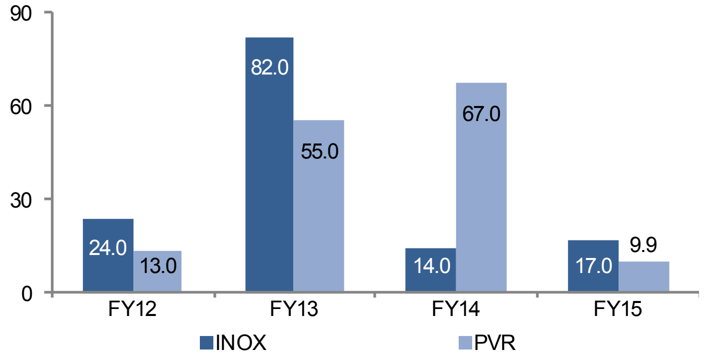
Exhibit 49(b): Comparative Operational Metrics Summary

	CAGR % (FY15-17E)		RoE (%)			Price Perf (%)			Net Sales (Rs. Mn)		
	Sales	EBITDA	FY15	FY16E	FY17E	3m	6m	12m	FY15	FY16E	FY17E
Inox	32	32	2.9	6.5	8.5	8.9	9.7	19.5	10168	12457	15128
PVR	21	35	3.2	15.9	20.6	10.7	3.9	18.0	14771	17937	21694

Source: Bloomberg, Karvy Research

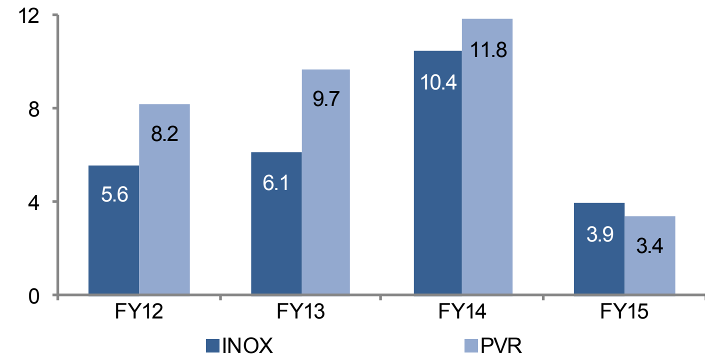
Peer Comparison

Exhibit 50: Revenue Growth (%)



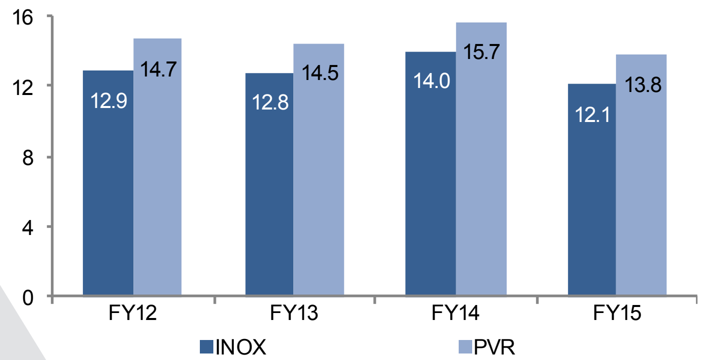
Source: Bloomberg, Karvy Research

Exhibit 51: RoE (%)



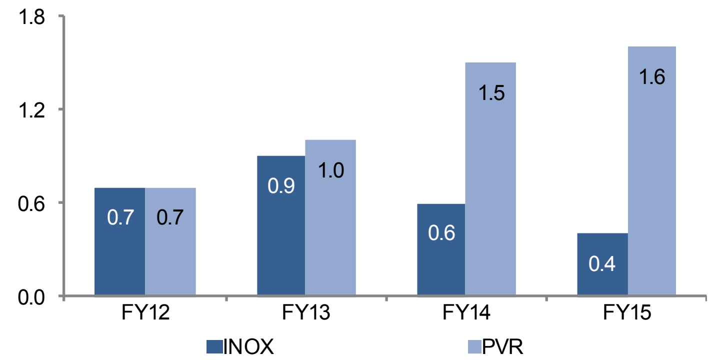
Source: Bloomberg, Karvy Research

Exhibit 52: EBITDA Margin (%)



Source: Bloomberg, Karvy Research

Exhibit 53: Debt Equity Ratio



Source: Bloomberg, Karvy Research

Key Risks

- Change in the revenue sharing model between exhibitors & distributors.
- Increase in entertainment taxes & lower footfalls.
- Quality of content.

Financials

Exhibit 54: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	7653	8688	10168	12457	15128
Growth (%)	19.0	13.5	17.0	22.5	21.4
Operating Expenses	6673	7469	8939	10759	13004
EBITDA	980	1220	1229	1698	2124
Growth (%)	37.0	24.4	0.6	38.4	25.0
Depreciation & Amortization	431	507	758	841	968
Other Income	36	89	83	85	90
EBIT	586	802	552	942	1246
Interest Expenses	267	276	386	260	252
PBT	319	526	166	682	993
Tax	104	106	(40)	191	278
Adjusted PAT	184	369	200	491	715
Growth (%)	79.4	100.2	(46.0)	146.2	45.7

Source: Company, Karvy Research

Exhibit 55: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Cash Equivalents	233	166	134	313	474
Sundry Debtors	367	334	623	751	912
Inventory	55	86	76	119	145
Loans & Advances	1330	1443	1813	2176	2611
Investments	10	10	7	7	7
Gross Block	5926	6326	10015	11215	12415
Net Block	5503	5821	6681	7290	7573
CWIP	0	0	0	0	0
Others	64	72	188	194	197
Total Assets	**8135**	**8581**	**11215**	**12594**	**13691**
Current Liabilities & Provisions	1767	1863	1953	2243	2577
Debt	2460	2237	2152	2267	2195
Other Liabilities	661	571	348	538	590
Total Liabilities	4888	4672	4453	5048	5362
Shareholders Equity	962	962	962	962	962
Reserves & Surplus	2285	2948	5800	6584	7366
Total Networth	**3247**	**3909**	**6762**	**7546**	**8328**
Total Networth & Liabilities	**8135**	**8581**	**11215**	**12594**	**13691**

Source: Company, Karvy Research

Exhibit 56: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15P	FY16E	FY17E
PBT	294	522	160	682	993
Depreciation	431	507	758	841	968
Interest	267	276	386	260	252
Tax Paid	(30)	(92)	(51)	(191)	(278)
Inc/dec in Net WC	(571)	318	(703)	(93)	(276)
Other Income	(13)	(11)	(10)	(10)	(11)
Others	287	(236)	(13)	-	-
Cash flow from operating activities	**664**	**1285**	**528**	**1489**	**1649**
Inc/dec in capital expenditure	(902)	(980)	(923)	(1200)	(1200)
Inc/dec in investments	-	-	-	-	-
Others	229	307	30	33	36
Cash flow from investing activities	**(673)**	**(673)**	**(893)**	**(1167)**	**(1164)**
Inc/dec in borrowings	406	(96)	(85)	115	(72)
Issuance of equity	-	-	-	-	-
Dividend paid	-	-	-	-	-
Interest paid	(264)	(240)	(386)	(260)	(252)
Others	(80)	(292)	805	-	-
Cash flow from financing activities	**62**	**(628)**	**334**	**(145)**	**(324)**
Net change in cash	99	(45)	(31)	177	161

Source: Company, Karvy Research

Exhibit 57: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	12.8	14.0	12.0	13.6	14.0
EBIT Margin (%)	7.6	9.2	5.4	7.58	8.2
Net Profit Margin (%)	2.4	4.2	2.0	3.9	4.7
Dividend Payout ratio	0	0	0	0	0
Net Debt/Equity	0.7	0.5	0.3	0.3	0.2
RoE (%)	5.6	9.4	2.9	6.5	8.5
RoCE (%)	10.2	13	6.2	9.6	11.8

Source: Company, Karvy Research

Exhibit 58: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	2.6	4.8	2.1	5.1	7.4
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0
BV (Rs.)	57.0	56.0	70.3	78.4	86.6
PE (x)	16.0	29.0	95.0	38.8	26.6
P/BV (x)	1.1	2.0	2.8	2.5	2.3
EV/EBITDA (x)	8.4	9.9	15.2	11.0	8.8
EV/Sales (x)	0.8	1.5	1.8	1.5	1.2

*Source: Company, Karvy Research; *Represents multiples for FY13 & FY14 are based on historic market price*

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	<5%

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Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India
Tel: 91-40-2331 2454; Fax: 91-40-2331 1968
For More updates & Stock Research, visit www.karvyonline.com