



PVR Limited
Q1 FY 2019-2020 Earnings Conference Call

July 25, 2019



ANALYST:

MR. JAYKUMAR DOSHI - KOTAK SECURITIES

MANAGEMENT:

**MR. GAUTAM DUTTA – CHIEF EXECUTIVE OFFICER
– PVR LIMITED**

**MR. NITIN SOOD – CHIEF FINANCIAL OFFICER –
PVR LIMITED**

**MR. KAMAL GIANCHANDANI - CHIEF BUSINESS,
PLANNING AND STRATEGY OFFICER AND CEO OF
PVR PICTURES**

**MR. RAHUL GAUTAM - SVP FINANCE – PVR
LIMITED**



*PVR Limited
July 25, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the PVR Limited Q1 FY2020 Earnings Conference call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities. Thank you and over to you Sir!

Jaykumar Doshi: Thank you Zaid. Good evening everyone. On behalf of Kotak Institutional Equities, I welcome you all to PVR’s 1Q FY2020 earnings call. We have with us senior management of the company represented by Mr. Gautam Dutta, CEO, Mr. Nitin Sood, CFO, Mr. Kamal Gianchandani, Chief Business and Planning and Strategy Officer and CEO of PVR Pictures, Mr. Rahul Gautam, SVP Finance.

Over to you Nitin. By the way Nitin thanks. The presentation is fairly detailed at least in terms of Ind-As adjustments and comparable metrics. Thank you. Great job.

Nitin Sood: Good evening everyone. Thank you for taking out time for this Q1 earning call for PVR Limited. I will give you a brief snapshot of the numbers and then talk about some of the key issues during the quarter.

I will start with the key numbers. So the overall revenues for this quarter were 887 Crores as compared to 701 Crores during the corresponding period of last year, which were up by 27%. The reported EBITDA for the quarter was about 285 Crores as against 141 Crores during the same period last year, which is on a reported basis up by 102%. EBITDA margins are looking at 32.2% versus 20% last year.

This is largely on account of the adoption of the new accounting standard for leases, which really requires us to capitalize all our operating leases. Consolidated reported PAT for the quarter; however, was down because of the higher depreciation and interest charge that was required to be taken under the accounting standard, so it was down at about 18 Crores versus 52 Crores during the corresponding period of last year.

I will take this opportunity to talk a little more about the new accounting standard AS116, which is effective from April 1, 2019 onwards. So, this accounting standard really requires us to capitalize all our operating leases on our balance sheet. So in effect all our lease rental payments, which are due over the period of the lease need to be capitalized in the balance sheet and we need to correspondingly create an asset and matching liability against it. So, if you look at the broad P&L of the business your rental expense from the P&L will go away in some sense and in lieu of that you will have depreciation and an interest charge in the P&L, so the EBITDA will look bloated and there will be a higher depreciation and interest charge. The right way to read this



PVR Limited
July 25, 2019

would be typically if you look at our lease structure, we typically have 15 to 20 years of a lease. In effect what the accounting standard requires us to do is effectively straight line our lease rentals by capitalizing them on the balance sheet. So, in the earlier years of the lease you will have a higher depreciation and interest charge on your P&L as compared to your lease rental payments because effectively you are straight lining all your rentals over the lease term and in later years of the lease, you will have a lower depreciation and interest charge which means that in the earlier years of a lease typically your P&L will look lower and in the later years of the lease your P&L will look better as compared to the normal lease rental payouts.

The only thing which I want to highlight is this is only an accounting impact. Effectively, there is no economic impact on the business. Absolutely there is no change in the cash flows of the business and accordingly because of this transition to the new accounting standards our numbers are strictly not comparable. For the purpose of ease, what we have done is all the reported numbers that have got published the investor update which is available on the website of the company actually quantifies the impact under each line item and shows the actual comparable numbers which can be compared with like-to-like numbers of last year.

So, if you were to exclude the impact of this notional accounting charges that are required to be provided under Ind-AS 116, our EBITDA excluding this impact was 165 Crores on a comparable basis as compared to last year numbers of 141 Crores. So EBITDA margin is effectively comparable at about 18.6% and our PAT number is 44 Crores if you were to compare like-to-like versus 52 Crores of last year. This would represent an EBITDA growth of roughly about 17%.

The key highlights for the quarter on operating basis, the box office revenues overall were up by 19% from 385 Crores to 457 Crores, which was driven by 19% growth in admissions. Our overall admissions for the quarter were 2.7 Crores, which is inclusive of the new store additions that we have done in the last year and also the SPI acquisition that we made in August, so in some sense it reflects the strength of the full circuit now.

Overall F&B revenues at a consolidated basis were up 29% from 205 Crores to 263 Crores. I think the good news here is that F&B has seen a strong comeback. Even though our same store admissions were down primarily because of the sporting season in Q1, which is couple with IPL and Cricket World Cup and we had one of the best Q1's last year so slightly slower quarter Q1 as compared to Q1 of last year, but F&B growth has been outstanding. SPH growth on an overall basis is up by 8% as compared to Q1 of last year. So, we are seeing a strong revival in average F&B spending.

Advertising revenue growth has also been very strong and it is up by 28% as compared to last year. So, all the other metrics are doing exceedingly well.

On the screen addition front, I think last four months have been very strong for us. Lot of screens which had been stuck for opening, which are in advanced stage of pipeline has come on board.



PVR Limited
July 25, 2019

We have opened 36 new screens during the first four months of this financial year, and if you add what we have opened in March about 15-odd screens so last four months we opened about 50-odd screens and we have a strong pipeline of openings for this year. So, we are on track to open 80 plus screens roughly this year.

I think if you look ahead, Q2 has started with a very strong bang. We have had some big films starting July. We have Kabir Singh, which has done exceedingly well at the Box Office, which was followed by Super 30 and Lion King. Some of the Punjabi films have also done exceedingly well. So, Q2 is looking very strong and we have a very good pipeline of content in August and September and the festive season in Q3 is also looking very strong. So, our expectation is I think Q2 and Q3 are looking very strong quarters. Last year Q1 was probably one of the best quarters of the year, this year I think probably Q2 and Q3 are looking stronger than Q1. So they are likely to be much better.

Apart from the business one more update I wanted to share with you. As you are all aware that Mr. Ronnie Screwvala had filed a case against multiplex operators and the Multiplex Association of India making various allegations specifically with respect to collusion around VPF, etc., and there was a big media story about it a few months back that matter was heard by CCI and CCI has passed an order yesterday dismissing all the complaints effectively all the allegations levied by Mr. Screwvala against the multiplex operators and MAI. And the matter has been dismissed by the Competition Commission of India.

So that as a matter of update, which I wanted to share with you. A copy of the order is available in the public domain and we can share a copy with anybody who wants to analyze the judgement and read through it. So happy to share that as well. I will now like to hand over the floor for Q&A and we shall be happy to take any questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Prateek B from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on SPI. In Q4 Telugu and Tamil movies were weak. How has been the YoY performance for SPI in Q1?

Nitin Sood: Sorry I forgot to talk about SPI specifically in my opening remarks, but if you look at the presentation, SPI has done outstanding performance in spite of slower regional content in Q1 of this year on strength of the locations that SPI enjoys and the strong cinema circuit they have continued to do exceedingly well. The average occupancy for the circuit during Q1 was 52.5%. Obviously Hollywood helped in South India even though the regional content was weak. We did roughly about 39-lakh admissions across the cinema circuit. The overall revenues from the circuit was about 117 Crores and the circuit did an EBITDA of about 28.4 Crores during Q1 of last year, delivering an operating margin of 24%. So, effectively the circuit is better than our expectations



PVR Limited
July 25, 2019

and I think we should do an annual EBITDA significantly upwards of 100 Crores during this year from that circuit.

Abneesh Roy: But Nitin, what is the reason why regional language which I think for any multiplex that is the main thing to bank on. For consecutive quarters, it is weak because normally that is not the case, right?

Kamal Gianchandani: We always encouraged analysts to look at our business on full year basis. The way our business is the DNA is such that our business peaks in values and it tends to have unpredictability, uncertainty at quarterly levels, but when you look at it at annualized level it tends to even out. So, I would not sort of make a generalized statement that regional films have not done well, some of them have done well and some of the films we would have expected to do a lot better. All said, I think overall given the performance of Hindi, English, given the fact that we had World Cup which is once in 4 year phenomenon, the numbers that we have done in SPI speaks and augers well for the resonance and strength of the cinema and as Nitin spoke about the locations that we have an SPI but in spite of moderate quality content the numbers are extremely strong.

Abneesh Roy: Are you giving YOY growth numbers for SPI in the presentation?

Nitin Sood: We do not have YOY growth numbers because last year was run as a private business by them. We would be giving YOY growth numbers starting from the date when we acquired the business. So, I think starting Q2 of this year because we acquired in middle of Q2, we will be able to share YOY numbers, but because they opened lot of screens last year, so we do not have a full operating data visibility. Cost structures were structured very differently pre-acquisition versus now, so they are strictly not comparable.

Abneesh Roy: My second question is on expansion, you have done well, last three, four months, 50 screens in four month, 36 screens in three months, my question is on the general liquidity crunch, which I think all developers, real estate mall developers are facing, why you are not facing that issue. I understand you are an anchor tenant, but ultimately all developers are facing the liquidity problem. Why would you not have any delays in the next six, nine months, it is a complete crisis situation currently and FY2020 could also see that, so could you elaborate why you are not seeing any problem?

Nitin Sood: You are absolutely right. I think the economic condition especially on the real estate front is not looking very good and we expect a lot of delays around real estate delivery, etc., but some of the locations that we are talking about in the last stage of completion. They are in stages where the malls have been built, we have been handed over, we are in a very advanced stage of fit out, some of the cinemas are partly complete, some are in advanced stage of complete, so when we give a guidance, we are very well taking into account that lot of screens that we are actually anticipating to open this year may get delayed by some amount, so considering that I think our guidance is also slightly muted in a good year where some of these issues would not have



PVR Limited
July 25, 2019

existed, our guidance on screen opening would have been much, much stronger. So you are absolutely right. I think given what is happening on the NBFC front and smaller real estate developers in the near term, there are likely to be issues around real estate and you may see some bit of slowdown, but some of these developments that they are talking about we are already fitting out the cinema in advanced stage of fit out of cinemas, waiting for mall openings, so we are reasonably confident at least these many screens will open this year.

Abneesh Roy: But to understand this better, Nitin, FY2020 then you will see the problem because currently it is all fit outs, so things are under control, but FY2020 could there be a slower expansion than 80 screens this year?

Nitin Sood: Very difficult to say. We have a very large pipeline, which is getting delivered again this year for delivery next year. But you are right if the situation persists for the next six to nine months there could be some delays. I would not want to comment on what the specific screen opening outlook for the next year would look like because I think it is too premature. We take normally six months to fit out a cinema. I think we will be in a better position to comment on it probably closer to December on what the outlook for next year will look like, because our pipeline right now screens that we are fitting out is more than 100 plus screens. So, we do not expect all of them to open this year. Some are likely to get delayed. By December we will have a better sense of how many more screens are already handed over and under fit out. So real estate has always been slow in India. We hope that it does not get any slower than what we already are.

Abneesh Roy: My next question is on the same screen, when I see revenue from operations for comparable properties, it is up 3% but spends are up 9% and especially other expenditure is up 14%. So, can revenue grow faster than your expenditure in the comparable properties? Is that possible for the full year and secondly other expenditure 14% higher, any one off here?

Nitin Sood: So, as Kamal mentioned on an annual basis revenues will grow faster than expenses. So clearly I think the reason you see expense growth higher as compared to revenue growth is partly because of the fact the same store admissions in Q1 were slightly muted as compared to Q1 of last year. In other expenses, I think the one big one-off expenses as we mentioned, we opened 50 new screens in the last four months window, so the initial opening launch cost, etc., of all those screen openings that we have just done are kind of bloated and reflected in the other expenses, which will normally get spread out during the year, but because we have opened a lot of screens so they have got bunched up in one quarter.

Abneesh Roy: No, my question is on comparable screens. I am not asking overall. Comparable screens that should not be the case, other expenditures of new screen will not come in comparable screens.

Gautam Dutta: Comparable screens we have fitted out with a lot of new technology. Like 4DX, Play House, IMAX, and because of which there was a relaunch of the same properties as well and there was a higher advertising spend on those, so that we would consider as one time.



*PVR Limited
July 25, 2019*

Nitin Sood: So the one big off launch could be also of Phoenix Mill property that we relaunched in the new avatar in Q1 of this year. So, when we relaunch the property we had good advertising spends around that property when we relaunched and repackaged it, so that could be one off expenses that have come and hit during the quarter.

Abneesh Roy: Last question, you always said all these OTTs, Netflix, etc., the consumer base is different, with this new development of mobile only wherein all content is available at below Rs.200 pricing Netflix and Zee and everyone is also follows suite with Mobile-Only platform at a much lower cost. Now lot of this customer for Mobile-Only will be the youth audience, because they will be the single screen person, so could there be some impact now because it is more affordable versus a Rs.500 or Rs.800 earlier Netflix is now below Rs.200. Could it be more impactful?

Kamal Gianchandani: Actually not because if you notice that since Netflix, Amazon, Zee5, OTT players have come into market, cinema business has seen unbelievable resurgence, the movies the way they are resonating with the audiences is in fact getting better than the previous years. There is definitely a positive cycle at play, positive windmill at play as a result of OTTs coming in, investing money in film business because all of that is resulting in bigger and better films which are doing well, playing better, exceeding expectation in terms of box office numbers like theatres, so in fact that is one positive. Second is India is a handset market and I think Netflix's launch of a cheaper plan only for phones validates this hypothesis even further and I think the good thing, the good positive take away is that if more and more people are going to watch Netflix, Amazon, ZeeO, Zee5 on phones, the charm and the craze for big screen cinema, the distance between the OTT experience and the cinema experience will only widened. It will become only bigger than what it is, because Netflix, Amazon are popular on television in Western developed economies. In India they seem to be taking the handset, handheld devices route which is in fact good for cinema business, because the experience of watching a film, standard definition film on phones versus watching a high definition film with experience which cannot be replicated on phone is out of question, but even at home, the experience cannot be replicated. I think this move is a validation of the fact that OTT on television is a failure in this market and if people are going to watch OTT on phone that experience is really substandard as compared to cinemas.

Gautam Dutta: And more importantly I think just to add to Kamal's point, this entire foray of saying that we as a product category are compared to an OTT platform is incorrect. We believe we are an out of home entertainment avenue. It is no longer just about hinging on the content. There is a charm about going and watching a content first day first show or in the first week and that charm and need for people to get out of their home leaving their devices behind is something which is also growing. We can all sense the parallel move by consumers themselves to tell family members within to say divorce your mobiles and let us get out and talk and bond and do something else is also growing. So to Kamal's point, I do not think it would be fair to keep comparing cinema to actually an OTT platform and seeing both as just peddlers of content. We are peddlers of great experience and not just peddler of content.



*PVR Limited
July 25, 2019*

- Abneesh Roy:** It was quite helpful. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.
- Urmil Shah:** Congrats on a strong operational performance. Sir, my question was all things went on the revenue side, first on the ad growth double-digit growth on same store is quite good as compared to the previous two quarters. So, if you could highlight what are the things different that happened in this quarter, which enables you to improve the growth?
- Gautam Dutta:** Actually, a lot of good work has happened and honestly we have managed to get some big contracts this quarter. There were also some big blockbuster films which helped us get advertisers interest within this medium. Having said that, the reality is that the macro economy is facing and going through some bit of the pressure and there are early signs of those across auto, real estate and other industry, FMCG so we believe that we will have to sort of work harder, get into a micro market, look at more retail business going forward but by and large we are happy with what we have got this quarter. It is a combination of lot of things that the team has done to be able to manage a double-digit growth on this.
- Urmil Shah:** Sir, given your commentary on Q2 and Q3 content, what is the kind of growth we should look for on advertisement front for the full year?
- Gautam Dutta:** Technically advertising growth should be while it hinges a little more on the bigger blockbuster films than on films which tend to get more footfalls, so that is something that you must always keep in mind. Number two, reality is that the overall industry pattern is far so critical, much more than the footfalls and the films that get released. So, as you would know if somebody has to sort of pull down on any expenses, the first one to really cut down is advertising. These are very, very early signs and as I said the good news is that we are already aware that this is kind of creeping in. We have worked out packages, we are looking at slightly longer term contracts with clients and agencies to see how we can tide over this short-term quarter or a two quarter situation and we are quite optimistic that we will be able to keep up to this chart, but clearly it is not an easy drive from here on. And we will have to work a lot harder.
- Urmil Shah:** Lastly on the SPH growth of about 8%, which happened in this quarter? Would you attribute this to more of a mix change or it would be more on the conversion part?
- Nitin Sood:** I think it is a mix of both. So, we have seen average consumption on items per admit move up and we have also seen a value growth, so it is coming as a combination of both. As you are aware, I think, last year post Q1 our effective growth on SPH was very muted. I think this is in spite of a strong Q1 last year, where we saw a good growth. We managed to after three quarters of slow F&B SPH growth we have seen a big pull back here, so I think our overall guidance is that this year should see a strong SPH growth in terms of what we have managed to achieve and



PVR Limited
July 25, 2019

we are seeing strong signs there. We have made a lot of menu changes, lot of product changes, new properties that we have recently opened at Phoenix, opened to some great response to our F&B offering there. So we are experimenting with a lot of stuff and some of the stuff is really working and helping us to drive SPH.

Urmil Shah: Sir, last bookkeeping part, the employee cost in this quarter even on the same store basis has seen a strong increase. Was part of it driven by the wage increases you would have given?

Nitin Sood: So, you are right. I think part of it is due to the wage increase that we have seen and also we have kind of opened few new properties during the course of the year. We have done some changes in uniform, etc., the way we are repositioning some of our iconic cinemas, so there is some bit of one-off cost, which has kind of accounted for here, because we are rebranding some of our properties and also the fact that certain reclassification within cinemas have happened wherever we renovated we have taken the class of cinema a notch higher which meant better quality, people more staff, new uniform, a higher training cost because of which we have seen this higher personnel, but every single impact has a strong ROI plan, and we see this giving us dividends as we go forward.

Urmil Shah: Sir, what would be the quantum of one-offs at least from the same store basis?

Nitin Sood: About 2% to 3% will be on account of that.

Urmil Shah: Thank you and all the best.

Moderator: Thank you very much. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thanks for the opportunity and congrats for a good set of numbers. First question on the ad revenue growth while you did explain some bit of initiatives taken by us in terms of higher decisions of contracts plus a movie specific demand, but overall there we are seeing some uptick even on a per screen basis after probably three or four quarters, so my question here is that one, is the benefit of SPI screens, are you seeing that benefit coming in because that was one area where there was significant operating leverage available to us at the time of acquisition. So, has that benefit started coming in or there is still some time for it to come?

Kamal Gianchandani: We got. It got blended in within the teams and while we have seen that a little the reality remains that Q2 and Q3 would be really the quarters where honestly more Q3 than even Q2 where we believe that we would have completed all the ground work on integrating SPI into the channels of PVR and that is the time we believe that the total benefit would come in, but to your point, yes, it has kind of grown our portfolio. We have managed to give our advertisers better footfalls, more quantum of people coming in and that kind of helps.



PVR Limited
July 25, 2019

- Ankur Periwal:** Will it be fair to say that most of this growth is all yield driven?
- Kamal Gianchandani:** They are totally yield driven, nothing is on volume at all. In fact we have tried to pull down on volumes, so that we do not compromise on the consumer experience, all of this growth, 100% of the growth is on yield and not on volume at all.
- Ankur Periwal:** In our earlier interactions, you did mention on initiatives taken for on-screen and off-screen advertisement, which was probably one potential areas, any updates you would like to share over there or it is still a work-in-progress?
- Nitin Sood:** We have got some initial success on sponsorships, so our PXL in Chennai has moved, our Gold Classes in down south has all got branded with a telecom partner, we have a paint partner in Chennai, we have got some banks to work with us on IMAX's. So we have seen a movement up. We have gone much higher in terms of off screen, but we see a huge potential there and that work has just kind of begun. We will need at least three to four quarters more to be able to start selling off-screen more aggressively in the market.
- Ankur Periwal:** That is helpful. Now given the rather slightly subdued growth in ATP in this quarter, will you still maintain your earlier guidance of 4% to 5% sort of a growth of ATP for this year. Nitin did mention of a healthy growth on SPH about 8%.
- Nitin Sood:** When we talked about 4% to 5% growth we really refer to our net ATP growth, which we will achieve. For us gross ATP is down because we have reduced pricing and passed on bulk of the benefit to the customer. Towards the later part of the year, you will see ticket pricing growth. So, I think on an overall level, we will see about 4% to 5% net realization growth. There may not be a growth in gross ATP but there will definitely be growth in net realization.
- Ankur Periwal:** That is helpful, because I was referring to net ATP only. And your earlier comment on strong SPH growth was also on the net basis, I presume?
- Nitin Sood:** There is no difference between the last year and this year, but because of the tax rate changes and GST reduction, we have cut down the gross ticket pricing to the customers and passed on bulk of the benefits there, but because this year you will have a lot of bigger films as compared to last year, like films like Thugs of Hindostan etc., which did not work in Q3 so, you will lot of big films this year, which will give us the potential for a higher net realization as compared to the last year.
- Ankur Periwal:** Lastly, if you can guide on the capex front for this year?
- Nitin Sood:** I think broadly the capex outlook is about 500 Crores kind of a number for this year. We are also evolving and seeing depending how some of the real estate projects are delivered and get executed on the ground, but broadly we have 500 Crores kind of a capex outlook for this year.



PVR Limited
July 25, 2019

- Ankur Periwal:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from Batlivala and Karani Securities. Please go ahead.
- Yogesh Kirve:** Thanks for the opportunity. I understand in the film distribution side, we will be focusing on the Indian films this year. So, just wanted to understand the purposes behind this? Why this now because historically, we are only focused on the Hollywood films. So are there any changes in the market condition which has also prompted this decision or this is a pure organic call that we have taken?
- Kamal Gianchandani:** It is a bit of both, the market is offering very solid, strong, consistent opportunities which we believe are sustainable to PVR simply because PVR over the last 18 or 19 years that PVR has been distributing films in between also produced films, PVR has been able to build a very high level of credibility and trust amongst the filmmakers, the content suppliers and that trust is reflecting in the kind of opportunities which have been offered to PVR Pictures. That is one big reason that we took a view that this is a good time to sort of step up our local language distribution business and the other part is that for any business growth is only quite natural and we have reached a point with our independent foreign language films where we feel that the growth going forward because we sort of dominate that market with a large market share in terms of number of films we import to the country and distribute within the country. We feel that we have reached a level where growing that piece on a sustainable basis would be difficult unless we add more revenue stream and that is where distribution of Indian films comes in very handy.
- Yogesh Kirve:** So, the typical commercials which is there, would it be pure commission transactions, or you would be open for the MG kind of a deal?
- Kamal Gianchandani:** We have sort of consciously stayed away from minimum guarantee deals. That said there are no fixed rules and depending on content, depending on opportunities which are offered to us, if it is an MG which is at a low level, MG is not a bad word in isolation. We would look at it, but by and large, these would be deals where we will advance cash flows and we would work on commission basis. You would see a strong number being reported in distribution fees in Q2 mainly on the strength of distribution of Indian films that we have taken up.
- Yogesh Kirve:** Sir what is the typical duration of the advances? I mean, from the time we give to these theatrical release, what is the typical time period and what amount of capital we would commit in this business on a yearly basis.
- Kamal Gianchandani:** See where is the time taken for advances to be deployed in for them to be recouped varies from film to film typically between two and three months and it is advanced out in a staggered fashion. Bulk of it will be closer to the release date, so that way this business functions, but it varies from



PVR Limited
July 25, 2019

film to film. The amount of capital that could be invested into the business is something which I will request Nitin to sort of explain.

Nitin Sood: I think roughly we have about \$10 million capital commitment to the business right now, which is not fully utilized and I think because it is largely a working capital business, so it is on a need based basis. I think a \$5 million is a permanent capital that has been invested and \$5 million is kind of a floating capital that has been invested and depending upon how the business evolves, probably we may give a little more capital, but it will largely be a working capital based business.

Kamal Gianchandani: In addition to the \$10 million investment that Nitin spoke about we also have a very robust decent amount of reserves and surplus which are available in the business from the previous years. The business has been generating and has been cash flow positive, has been profitable for many, many years, so that reserve and surplus is also available to be deployed from business.

Yogesh Kirve: Sir, could you talk about the typical margins in this business?

Kamal Gianchandani: Again, it varies. I mean, it really depends on when we invest the cash flow, what kind of film are we talking about, if it is a big film with the big starrers we are happy to go as low as 5% commission, but if it is a smaller film then we look at a minimum distribution fee level, we do not link it to the revenue of this film, we expect a minimum distribution fees, but it varies from film to film level, but as business at a high level the expectation in terms of distribution fees is typically between 8.5% and about 10%.

Nitin Sood: I think the way we look at the business is really cash flow base, so I think effectively we intend to generate a 20% IRR pretax from the business. Same philosophy as we have for the core exhibition business.

Yogesh Kirve: Sir this is very helpful. I had another question related to the slowdown that could emerge in the real estate side of the business. So, are we seeing this specials even in the Tier II and Tier III towns as well or is it more focused in the bigger cities?

Nitin Sood: I think these are early signs, but the impact is wherever real estate developers are dependent on external funding to complete the projects, I think, it is likely to have an impact. It is very difficult to say project specific. I think the bigger developer has less of a concern because they are normally funded by institutions or private equity investors and they have more organized funding, but the smaller one-off developers or local developers are likely to face issues around financing which could impact completion of malls or delays in malls. That is possible.

Yogesh Kirve: Thanks a lot for the responses. All the best.



PVR Limited
July 25, 2019

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good evening gentlemen. Thank you for the opportunity. A few questions from my side; firstly obviously in the presentation you have mentioned that there is no impact on the credit rating, but just wanted to understand whether we have had any discussions with getting the credit rating agencies across for the implementation post Ind-As?

Rahul Gautam: Rohit, we have had some informal conversation with the rating agencies and to be honest, I think the rating agencies are also sort of deliberating internally on how they want to look at it. I think they appreciate the view that there is no impact on cash flow because of this change in accounting standard and their rating also is more dependent on cash flow based rating rather than just accounting based rating, so while we have not yet heard from them, but our initial informal conversations are indicating that they do not expect to have any change in the view on the business.

Rohit Dokania: Fair enough. Thanks for that. The other thing is if you can talk about the sort of net debt position at the end of the quarter and when does that peak out essentially?

Rahul Gautam: Our net debt, the cash to net debt we used to report earlier is about on a net debt basis is about 1325 Crores odd, which was about 1250 Crores or 1260 Crores at the end of March 31. And I think we sort of I do not think there is any material change going to happen on the debt numbers going forward and most of the growth is going to get funded through our internal accruals.

Rohit Dokania: That is great. The other thing that I wanted to sort of check was in terms of the sort of what is the percentage of premium screen as a percentage of overall screens right now, if you can sort of give us some sense on that?

Nitin Sood: About 10% rather, 78 screens out of 794 are premium.

Rohit Dokania: That is helpful. So, you did allude to the fact that there was some sort of one-off in terms of the relaunch expenses of lower Parel property, so I was just wondering this relaunch thing would be more of a recurring thing because in the earlier calls, you have sort of spoken about relaunching more premium screens across catchment areas, which you can sort of take it, so should this really be considered as a one-off, maybe probably the amount could be higher because of the profile of the property but otherwise, I think it is more like a recurring expense?

Gautam Dutta: You are right. Wherever we do spot an opportunity to upgrade a property, renovate them or add a technology, we will need to send some advertising bucks to them, talk about that reclassification, but you are right in certain cases wherever we are putting IMAX or a laser projector or the an Atmos or a 4DX or a PXL or completely renovating the property we will need to then prop it up with a certain marketing spends.



PVR Limited
July 25, 2019

- Kamal Gianchandani:** But Phoenix was unusual.
- Nitin Sood:** Phoenix was unusual and you right said it was a very high profile launch, but this is something that we will have.
- Rohit Dokania:** That is very clear. The other bit I wanted to check about was the distribution piece that you were talking about, will this also sort of lead to some kind of co-production, etc., or we are very clear that it is only sort of distribution because you spoke about advances and all, so I just wanted to check on that?
- Kamal Gianchandani:** We are very focused on distribution. We have been very upfront and very precise and clear on this aspect that we would remain a much focused distribution player of international foreign language films and the Indian films.
- Rohit Dokania:** Great. That is very helpful, just one last question from my side, Nitin, if you can take this. Any sort of guidance that you would want to give in terms of revenues for the full year and also from a like-to-like margin perspective how we should see FY2020?
- Nitin Sood:** I think it is difficult to give a forward-looking guidance, so I can only say is that Q2 and Q3 are looking strong quarter, so in fact, we think, I think Q2 and Q3 this year hopefully on the content side are looking better than last year and with SPI combined, I think the outlook looks strong. Last year was a fabulous content year. Our focus will be if we can strive to achieve and deliver the same kind of operating margins which we achieved last year, because the revenue growth is looking strong, so with a strong revenue growth we can sustain the same level of operating margins that will be a big achievement for us. I think that is the core focus. Unfortunately, in a business like ours it is slightly difficult to predict, how the quarterly outlook will play out, so I would not like to give a specific guidance but I think overall I think the year is looking fairly strong.
- Rohit Dokania:** Thanks a lot gentlemen and all the best. Thanks a lot for the patient answering.
- Moderator:** Thank you. The next question is from Jaykumar Doshi from Kotak Securities. Please go ahead.
- Jaykumar Doshi:** Thanks for the opportunity. A few questions from my end. First just to confirm the screen opening guidance for this is what, about 80 screens now?
- Nitin Sood:** Broadly, I think if you look at it we have already opened 36 screens and I think we should open 80 plus screens at least during the course of the year. It is difficult to put a specific number on the table, but I think based on the pipeline of screens under fit out, we are reasonably confident to at least achieve that number.
- Jaykumar Doshi:** Last year we opened about 70-odd screens is it correct?



*PVR Limited
July 25, 2019*

Nitin Sood: That is right.

Jaykumar Doshi: So, I think, maybe if we go back a year ago, your expectations were about 100 screens in FY2019 and may be a similar number in FY2020 and some of the screens that were open in 4Q of FY2019 got pushed to 1Q of FY2020 and still your FY2020 guidance is not sort of actually not increased to that extent, so somewhere I feel that there is little bit of delay. Is this the delay that you are already seeing, which you probably would attribute to some slowdown or liquidity issues that the real estate industry is facing or you think that has not hit you yet and if things sort of slow down further on the real estate front, it will come and hit in FY2021? Just trying to get a sense we were hoping that 100 screens per year from FY2019 through FY2021 it looks like that number will more likely be 75 or 80 but there can be a risk to that 75 or 80 number as well?

Nitin Sood: I would not want to comment on specific numbers, but our outlook is we are giving and we believe that I think the guidance is conservative. I think that based on the pipeline of screens under fit out, the number could potentially be more but it is very difficult to commit given what is happening on the ground. Just to give you a perspective, we have two large projects. One 12 screens scheduled to open in Delhi which is ready. We are waiting for the mall to kind of finish their work and about to open and we have a nine screen project in Colombo which has got delayed because of the incident that happened in Colombo, it is right adjoining. So, some of these projects got delayed by three to four months on account of circumstances beyond our control. So, if we open these two projects that itself is like 21 screens out of the incremental screens that we are talking, so like this we have more than 100 screens currently under fit out. It is difficult to comment on specific timelines on how and when they will get expected to open, but we are reasonably confident that with overall guidance to get to 1000 screens in the next 24 months.

Jaykumar Doshi: Sir, this nine screens of Colombo is included in 80 screen guidance?

Nitin Sood: That is right.

Jaykumar Doshi: And does it also include some SPI screens that are under progress, work-in-progress?

Nitin Sood: As I said, we have a very long pipeline which is currently under fit out, it is difficult to estimate which specific screen will open in which specific month. I think as we progress during the year, we will continue to revise our guidance based on actual opening, but we are reasonably confident that at least this is the minimum number that I think we should be able to achieve during the course of the year.

Jaykumar Doshi: Perfect. That is helpful. Second is any updates on the Middle East. You had planned it at some point of time, we have not heard much?

Nitin Sood: We actually gave out a specific press release on that extent and even I think we talked about that in the previous earning call that we have abandoned our plans to go to Middle East. We looked at



PVR Limited
July 25, 2019

that geography and the opportunity therein and we did not think the risk reward metrics really kind of stood up for us at this point of time, so we have decided to kind of cancel the MoU with, it has actually expired and not to look at that geography for the time being.

Jaykumar Doshi: Sri Lanka is the only market outside India that you are right now?

Nitin Sood: The way we looked at Sri Lanka is like an extension of South Indian strategy for us and this project that we are opening is going to be the largest project of Sri Lanka. The film market there is really underdeveloped and it is very infancy stage, so I think after this project, will really explore the market and see how it takes off.

Jaykumar Doshi: Second is I think you have moved from 45 to 50 cities to 65 to 70 cities in the past three, four years, what is your experience in these new cities that you opened in properties and what is the kind of average ticket price, occupancy, F&B spends that you are seeing with some example, some markets that have positively surprised you? How many cities do you think you need to sort of when you have 1000 screens at a very ballpark level?

Kamal Gianchandani: The first part, we are expanding to 60 plus cities and towns. I think the experience has been wonderful. A lot of cities, firstly the cities have been very receptive to the entertainment options that PVR and the other fraternity members are bringing to those cities. India has because of certain policies that town planners have practiced, India has a unique problem. There are pockets within cities which are saturated, which have oversupply of multiplexes and then there are pockets within the same cities, which are totally underdeveloped and I am talking not just about smaller cities, but even the bigger cities, some of the bigger cities also have this issue. That said, there are plenty of towns and cities which are virgin in that sense. They are craving for good quality legit entertainment options. Then there are cities which already have multiple options but they are craving for better upgraded enhanced version of those options. Anand is a case in point. There are centers like Pathankot and I am deliberately about smaller towns, population of 2 lakhs to about 4 lakhs sort of a number, these are towns where the perception is that the propensity to spend is lesser, but we are seeing some surprising trends, the eating habits in certain towns are much better than what we expected them to be. Guwahati is a case in point, which is a full blown developed city but has been denied all sorts of development, entertainment options for years and years and I think that demand which has been there the potential is just sort of unfolding now. So, our experience has been terrific. There are always some centers, some towns which give you an underwhelming experience but that is all right. We have full conviction that with the stable government on top, with a very decisive Prime Minister we are confident that this country will go forward. What has happened in big cities is bound to happen in the mid and the smaller towns, there will be better employment, more discretionary expenditures and all of that will give impetus to products and services like the kind of business that we are in.

Jaykumar Doshi: Great. This is very helpful. One more if I may, if I were to sort of just as an observation, there are a few interesting trends that we see and some of the trends that we have seen this calendar year is



*PVR Limited
July 25, 2019*

that the sequels of Hollywood movies are doing much better than the previous sequel. In fact the growth of Avengers and Game versus Avengers last year would be perhaps more than 50% for India Box Office, which is probably higher than what they have done globally. So I think some of these Hollywood sequels are gaining a lot of traction. On the regional side also we do see that good movies are clocking quite well and nicely. However, when I look at your in fact one more thing that we are observing is some of the smaller movies which probably used to hit 40 Crores to 50 Crores earlier are now getting to 70 Crores to 80 Crores or maybe even 90 Crores to 100 Crores benchmark. And I was just observing the top 15 movies, Box Office Collection for Hollywood and Bollywood in 1Q FY2019 versus 1Q FY2020 I see a good 10% growth at least in aggregate Box Office for the 15 relevant movies. So 10% growth in Box Office, but when I look at your same store footfall growth it is down 8% when I look at your Box Office revenues it is down about 2%. So, I think what should we and how should we think about same store footfall growth in this business? I understand you are opening new screens in several markets which may be cannibalizing some existing screens at least in the initial phase till the time market expands. So in your planning how do you think about same store growth? What is the sustainable same store footfall growth number that one should think that when you are looking two years, three years out because I think when we look at last five years that number is fairly muted. And so I just want to understand, because you must be reviewing a lot more data than we have access to and how should we think about it?

Nitin Sood:

So, Jay, the way we look at our business is, we think that same-store box office growth should vary between 5% and 7% on an annual basis. India, you will see a lot of ticket pricing growth with inflation. And because we are opening not enough screens for the size of population that we have, we think between ticket pricing growth and footfall growth, you will see about 5% to 7% growth on an annual basis. Some years, we will see higher growth, depending upon how the content has played out, some years we will see slightly slower growth. So if you look at last year, same-store growth in Box Office was 15%. So you will have a year where it will be only 4%, 5% and you will have years, which will be 15%. So you will probably have to look at in a block of years. Our sense is when we look at for budgeting for a property, effectively, we think properties will typically reach their peak maturity level in 18 to 24 months, and I am averaging out numbers because in lot of new markets where we are opening, the residential catchments, new suburbs are getting developed, etc. In some cases, we have seen the peaks taking 4, 5 years to reach. But normally, after a property stabilizes, footfall will typically grow in the range of 1% to 2%, not beyond that. And good content years, it could be 5 to 7. In slower content years, it could be flat or minus 1% or 2%. But I think overall, beyond 1% to 2% growth once the store stabilizes is tough to achieve, but combined with ticket pricing and footfall growth, 5% to 7% growth on Box Office.

Jaykumar Doshi:

That is very helpful, Nitin. Ideally, we would like to see 1% to 2% ticket price increase growth and 4% to 5% footfall growth, but 5% to 7% is helpful.



PVR Limited
July 25, 2019

Moderator: Thank you. The next question is from the line of Jignesh Joshi from Prabhudas Lilladher. Please go ahead.

Jignesh Joshi: Thanks for the opportunity. I have a bookkeeping question now because of transition to Ind-AS 116, I see that the lease rental capitalization on balance sheet is about Rs.3200 Crores. Now going forward, when we enter into more agreements with the mall owners, the rental expense is bound to rise, so does that mean that this capitalization figure will kind of change every quarter, so to say?

Nitin Sood: Yes, that is correct. I think, because depending upon how many leases we have, this amounts will keep changing on a quarterly basis, both the right to use asset, lease liability will continue to change, and this number will continue to change on a regular basis as we add new leases to the portfolio.

Jignesh Joshi: Okay. But the change will be incremental change, right? Whatever new leases that you enter into...

Nitin Sood: That is right. That will be only an incremental change that is right.

Jignesh Joshi: Okay. And Sir, secondly, on the capex front, I mean, you guided that we plan to open about 80 screens in FY2020 and if I use an average capex per screen of about Rs.3 Crores, it comes to about Rs.240-odd Crores, but we have given a guidance of about Rs.500-odd Crores, so the math kind of does not add up. If you can just help me on that?

Nitin Sood: Yes. So capex is not directly proportional to the screens that are opening. It is a function of screens that we are fitting out. As we mentioned, apart from the 36 screens that we have opened till now, there are approximately 100-plus screens that we are currently fitting out. It is difficult to estimate how many will actually open. But some of them will open next year, some of them may open towards the end of the year. So depending upon how we are fitting out the screens, the capex is a function of that and is not directly proportional to screen openings.

Jignesh Joshi: Okay. And so one last bit from my side on the advertisement revenue front, you mentioned that the off screen advertisement offers a huge potential. Now considering the fact that we are limiting our total ad inventory to kind of improve the cinema experience for viewers, do you think that growth from here on, on the advertisement front, will be led by off screen advertisements? Or do you think yield hikes from on-screen advertisements will be the major drivers?

Nitin Sood: It will be a bunch of both because advertising yields have been under pressure over the last couple of years due to competitive intensity, but with the portfolio of premium screens that we have now, I think, ad yields which have been suppressed for a while, the focus is to improve those. Secondly, I think, as we rightly said, we want to focus on improving and managing the



PVR Limited
July 25, 2019

customer experience as well. So there is a lot of focus on driving off-screen advertising opportunities, which do not intrude directly with the customer experience. So I think it will be a bunch of both. It will be difficult to put how much will come out of where. I think it is an evolving thing. So it is tough to put a specific number on which part of segment will contribute to how much growth.

Jignesh Joshi: Can you share the proportion of off-screen advertisement to the overall advertisement revenues?

Nitin Sood: The overall off screen percentage to the total advertising revenue is sub-10% right now. So I think that has a huge potential for growth.

Jignesh Joshi: Thank you so much.

Moderator: Thank you. The next question is a follow-up from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Thanks for the opportunity again. Just 2, 3 quick ones. One is, obviously, we have seen multiple cycles in the past 20, 25 years, is there really an impact on sort of cinema consumption during economic slowdowns?

Kamal Gianchandani: Well, I mean could you tell us which were the years of recession in India in the last 20 years because I cannot seem to remember many years when we have had recessions. This is the first time when we are talking about a possible slowdown in economy. Otherwise, the last 15, 20 years, have been fairly strong. That said, if you look at it globally, I mean, you would not say that entertainment out of home is recession proof, but is definitely recession resistant. The impact of recession or slowdown on entertainment is definitely lesser on entertainment business and some people claim that in situations of slowdown, people find it much more attractive to look for escapism and that is when going to cinema halls and watching films is a preferred mode of spending their time. In our case, coming to your original question, I think PVR's occupancy, same-store, in spite of the growth that country has been seeing in terms of screen addition has been hovering between 32% to about 36%. That has remained fairly consistent over the last, I would say, 10-odd years, and depending on the curiosity and the excitement around content, it has moved up or down. And this is in spite of the fact that India has been adding screens at a fairly robust pace in a very consistent manner. So I mean, I think the consumption story as far as entertainment business in India goes is fairly strong and is here to stay for a very long time.

Nitin Sood: The only piece that could possibly get impacted through recession is advertising. So the core business does not seem to get affected at all.

Rohit Dokania: Fair enough. Fair enough. That is helpful. The other piece was, if there's any incremental update on the F&B issue from any of the courts?



PVR Limited
July 25, 2019

Nitin Sood: No, there is no incremental update. The matter is yet to be listed now for hearing in the Supreme Court. We did update, I think, everyone that in the last call that there was a judgment by the Madras High Court, where a similar petition was filed and was dismissed, and that is a very good speaking judgment, which is available in public domain. But yes, all the pending matters are still tagged in Supreme Court, not yet come up for hearing.

Kamal Gianchandani: The verdict which has come out vis a vis VPF and CCI, which is a very clear verdict, would demonstrate that PVR's legal strategy seems to be fairly sound. We should be doing a lot of legal matters in the relevant courts and with the relevant authorities. So you are in safe hands. Do not worry.

Rohit Dokania: Sure. I am sure a lot of companies are running behind your legal team now. But nonetheless, sorry, just one last question on the sort of QIP bit, if there is any sort of update? And also till when is the enabling resolution valid? If you can just update us on that?

Nitin Sood: Yes, I think the enabling resolution is valid till January next year. And as we mentioned in the call, I think we have intention to do a QIP, but as we said, we have not decided on either the timing or a specific amount that we intend to raise, but we have plans to do a QIP. There is no immediate urgency or a timing that we've decided, but depending upon how the markets are, we do intend to do a QIP.

Rohit Dokania: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Thanks for the opportunity. I recall some three or four quarters back, you mentioning that you would probably going to unveil your strategy on Tier 2 and Tier 3 markets, but I have not heard anything from you on that. Can you just discuss, I mean, is there something on the anvil? And what kind of economics do you see in those markets?

Kamal Gianchandani: Can you repeat the last part of your question? I missed that part.

Girish Pai: The economics in Tier 2, Tier 3 markets in terms of capex, in terms of ATP, SPH. Can you like spread out your advertising to those markets? And what kind of rates will you get there?

Kamal Gianchandani: Firstly, we are very buoyant as like we mentioned earlier on India as a market, I think the next five years are very strong for our country. We totally believe in it, and we are totally convinced that the opportunities that the market is offering. And that becomes the underpinning thought for PVR, which has been perceived as a luxury format player, big city centric player to venture into smaller towns with population of sub 5 lakh. The capex, some of the specific questions, capex for these smaller markets tends to be at around Rs.2 Crores per screen level, we are trying to take it down. We are doing a lot of cost reengineering to take it down to about Rs.1.75 Crores level per



PVR Limited
July 25, 2019

screen. In terms of average ticket price, markets tend to surprise us a lot. There are markets where we expected Rs.110, Rs.120 and we ended up with about Rs.140, Rs.150 ATP. But in general, if we added about Rs.125 to about Rs.135 level per admission as ATP, we would be quite satisfied. Even at Rs.100 to Rs.125 level is a good number as long as we can do about 25% to 30% in terms of occupancy. SPH, I think this story still has to travel some distance. At the current level, SPH tends to be about Rs.35 to Rs.45 level per patron but we do believe, like a national average, which tends to be between 50% and 55%, which is SPH 50% of our ATP, 45% to 50% of our ATP, we believe the same story will play out also in smaller towns. And SPH will inch towards Rs.50, Rs.60 sort of numbers. Advertising, again, it is a story which needs to travel some distance. I mean at this point, if we do Rs.40 lakhs to Rs.50 lakhs for a theater with three screens in a small town, we would be happy, but we believe this has potential to travel up to Rs.75 lakhs to Rs.1 Crores.

Girish Pai: Okay. I think when you did the SPI acquisition, Nitin, you mentioned that you want to take up the EBITDA per screen number to somewhere close to Rs.1 Crores, I think, you mentioned in a couple of years. Do you stand by those numbers?

Nitin Sood: Yes, we do stand by that numbers. And if you look at, I think, progressively, we are seeing that kind of reflecting. I think if you look at the SPI circuit alone, I think this year numbers based on the run rate are going to be quite strong on the EBITDA front. And if you look at the overall portfolio outlook, I think we do stand by that numbers. And I think we will get there in the next couple of years.

Girish Pai: Yes. My last question is regarding going back to the Tier 2, Tier 3 markets, how many screens would be there in that space right now of the overall portfolio?

Nitin Sood: Less than 10% reflective of 5%. We got I think in Tier 3 locations is about 40 screens.

Girish Pai: Okay. And this whole talk of this PVR Talkies, has is that the brand that you are kind of taking to the Tier 2, Tier 3 towns?

Nitin Sood: Actually, as we have mentioned earlier, there is a complete rehash of the brand strategy on this. And currently, we have put the new-found proposal or the entire package into a pilot testing. This is how typically PVR would roll out a bigger plan. As we talked, there are already a couple of cinemas which have opened and running, and we are kind of sort of managing and seeing how they perform. Once this stabilizes that is the time when we want to sort of call for a media and launch our brand and share the complete brand story with all of you.

Girish Pai: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing remarks. Over to you!



PVR Limited
July 25, 2019

Nitin Sood:

I would like to thank the Kotak team and all the analysts and investors who joined the conference call of PVR. I hope we have been able to answer all your queries. In case you have any follow-up questions, you can reach out to me or my colleague, Rahul Gautam or Niralee from our Investor Relations team, and we will be happy to answer your specific queries around our Q1 numbers or around the business. Thank you very much for taking out time to join the call.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Kotak Securities, that concludes today's conference call. Thank you all for joining us, and you may now disconnect your lines.