



“PVR Limited 3Q FY17 Earnings
Conference Call”

February 03, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the PVR Limited 3QFY17 Earnings Conference Call hosted by Motilal Oswal Securities Pvt. Ltd. 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 call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chintan Modi from Motilal Oswal Securities. Thank you and over to you Sir!

Chintan Modi: Thank you and hello everyone. We at Motilal Oswal are extremely pleased to host this call for 3QFY17 Results of PVR Limited. From the management we have Mr. Nitin Sood - CFO of the company, Mr. Gautam Dutta - COO, and Mr. Saurabh Gupta - VP Finance. I will now hand it over to Mr. Nitin for his opening remarks, post which we can open the floor for Q&A. Over to you Nitin!

Nitin Sood: Thank you. Good evening everyone and thank you for taking out time for this call. I will just give a quick snapshot of our Q3 numbers and then we will open the forum for Q&A. The consolidated revenues for this quarter was 540 Crores as compared to 509 Crores during Q3 of last year, which is up by 6%. Our consolidated EBITDA for the quarter was 91 Crores, which was almost flat as compared to last year. Consolidated PAT for the quarter was 23.5 Crores. Given the backdrop of demonetization, which happened in this quarter, we believe we managed to deliver a decent financial performance. I think the first eight weeks post demonetization were tough. A lot of films in the box office did not do as well, but our presence in urban and semiurban centers really helped, where the impact was much lower as compared to smaller cities and smaller centres. Dangal was released towards the end of December, which really helped us to claw back a lot of footfalls that we lost during the quarter. We also incidentally became the first cinema chain in the country to deliver more than a 100-Crore gross box office for a single film. During the quarter, we offered various discounts and promotions to customers to incentivize them to continue to come to cinema, as a result of which our ticket pricing was flat. However, we managed to sustain our food and beverage growth and our average spend per head on F&B continued to grow. We delivered 11% growth, average spend per person on F&B moved from Rs.74 to Rs.83. Also it was a challenging quarter from advertising perspective because a lot of advertising clients pushed their ad spends slightly ahead. We also lost some bit of advertising revenues on account of that and also Chennai floods, which happened. In spite of that our advertising revenues still grew by 13% on our overall basis. Content pipeline continues to remain fairly robust. What we are seeing is that post Dangal and release of films like Raees and Kaabil; I think the footfalls are back at cinema. While they're still maybe some bit of marginal impact, which will take some time to recover, I think the large part of recovery from demonetization is really reflecting in sustaining the box office now.



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Also on the growth and expansion front, we have added a total of 55 screens this year including 29 screens from DT cinemas acquisition. A lot of our screens which were scheduled to open have been backended this year and we have about six properties ready to open, awaiting licenses, etc., and we expect to open most of these screens in February and March, so that our overall screen count for this year should hopefully grow by 50 plus screens. So, that is broadly on the growth and expansion front. I would like to handover the floor now for Q&A to address any queries that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Participants who wish to ask questions may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to only use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Mr. Sachin Talgaonkar from Bank of America. Please go ahead.

Sachin Talgaonkar: Thank you for the opportunity. I have three questions. My first question is Nitin you did mention on you guys giving discounts and promotions in the last quarter, and since start of January have those come down? A related question is are you seeing a recovery in ad spends, especially since the impact of demonetization is more or less getting behind us, that are first? Second, March quarter is typically a season of slower quarter. Are things going to be different this year given the way Raees and Kaabil are contributing, and clearly every year you guys also do a good job in terms of improving EBITDA margins, so any thought on that direction would be helpful? Lastly, an update on GST. I think the recent commentary from government does suggest that major GST beneficiaries like yourself may not be able to get the full benefits simply because some of them may be passed on to consumers or the government may try to impose something, it is basically not clear whether all benefits are going to come. So I just wanted to understand, you still expect around 3% to 5% discount improvement in margins going forward or any change out there? Thanks.

Nitin Sood: Let me answer your first question, which is really about recovery in ticket pricing and so on. Definitely I think what we are seeing is there is some bit of recovery, the discounts and promotions have come down. However, we have continued with some bit of promotions on F&B as well as right now. We think that they will come back. The ticket pricing growth will come back. It may take another two to three months for it to fully come back and same for F&B, but it is gradually coming back. I will in the end ask my colleague, Gautam, to speak on the ad spends and how he is seeing the recovery of that happening, but to give you a perspective on Q4 the way it is panning out, definitely I think what we are seeing is the content pipeline is very, very good. In fact, Q4 this year we started with a January, which has been among one of the best January for a long time. The footfall growth has been back. We were helped by Dangal overflowing into January and then two big films - Raees and Kaabil, which continued in January. The content pipeline for February and March is also looking fairly exciting. We have a lot of films from



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decent banners releasing in these two months. So, we are definitely looking for a decent Q4 this year and the momentum is clearly reflecting at the box office. On the GST question, it is very difficult to give a complete answer at this stage because there is no further information at this stage than what was available three months ago. Our initial assessment had indicated broadly that I think the exhibition sector overall should gain about close to 250 to 300 bips minimum because of the input credits and the tax rate which finally gets announced for GST. But you are right; there is a new antiprofitteering clause, which has been introduced. Quite honestly, most of our discussions with all the big four consulting firms, there is no clue on what does that really mean and in what form and manner it will get implemented. So, it is slightly premature for me to really comment on that. I think we will have to really see and wait and watch to see in what form and manner the GST will come about. My understanding on that clause is very difficult to monitor and implement, because various parts of the business will get impacted very differently while we may gain something on ticketing, we will be adversely hit on F&B. So how do you do that measurement and how do you do this competition and how it will get treated is very difficult to comment on. I guess the best will be to wait and watch as more clarity emerges on some of these areas. I do not think there is anything further in terms of information that we have on GST versus what we had earlier. Gautam can you comment on advertising?

Gautam Dutta: For advertising, all I can say is that Q4 as Nitin said is looking very encouraging. However, for most sectors advertising takes a bit of a backseat because they get into budgeting and this is not only for cinema, but across the board for all media companies, but having said that given the fact that there are certain tent pole and big films like Akshay Kumar's film and then Saif Ali Khan's Rangoon and all of that, I think we will be able to post a much better number in Q4. But Q4 remains a bit of a dull quarter for us across simply because that is how the market works. It would have no reflection on us as an industry, but overall media feeds out of the corporate and corporate technically holds back their spending for Q4, and then it begins big around April.

Sachin Talgaonkar: Okay, this is clear. Thank you guys and best of luck for the future.

Moderator: Thank you. We have the next question from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Hi Nitin, thank you for the call. I was just looking at page 7 of your presentation and the occupancy numbers for the nine months; it seems that your occupancy is a bit lower at 33% versus 36% the prior year. Obviously, you have added screens in that period. Are you able to give us a like-to-like occupancy number?

Nitin Sood: If you look at the slide, it gives the comparable occupancy, which is really like-to-like occupancy, which has on a nine-month period dropped from 37.3% to 34.6%. Footfalls across are down 6% this year, it is really driven by content of the pipeline that we have had this year and the performance of the film as compared to the previous financial year.



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Charles Cartledge: Okay. The like-to-like occupancy I see it on page 9, the occupancy goes down from 36% to 33% for the nine months, is that right?

Nitin Sood: To 34.6%.

Charles Cartledge: Okay, I got it, all right. Thank you. The second question I had is I was not clear in your opening remarks; you did talk about how many screens you have made in the nine months for the financial year and how many more you expect to add? I think you said you added 55 of which 29 was the courtesy of the DT. So, if we take that out?

Nitin Sood: We have added 26 new screens organically this year in the first nine months and we have added 29 screens from DT portfolio, which we acquired. Whereas another portfolio of roughly about 35 to 37 new screens, which is scheduled to open in the next two months which are all ready and awaiting licenses, and almost last stage of completion. So most of the growth this year has been backended and scheduled to open in the next 60 days.

Charles Cartledge: Okay. So, your organic run rate is sort of 60ish.

Nitin Sood: We will open about 53 screens in this current financial year.

Charles Cartledge: Okay, because historically you have targeted I think you have said 60 or 70, but in fact for various reasons that are out of your control often the number is lower than that. Are you able to give us any rough guidance of your guidance in the year ended March 2018 and even beyond that?

Nitin Sood: Our guidance remains exactly the same, 60 to 70 screens, but I think we will have a clearer picture when we do our next earnings call because we will have more sense of the delivery schedules of some of the screens and some of the malls which are in advanced stages, but our guidance remains the same. Some of the screens this year because of this whole demonetization stuff, etc., also got delayed, because mall which were in progress got delayed, payments to contractors and workers were withheld, so some of that has also had an impact and some of the screens have moved upwards to the next two months, and some of them have shifted to Q1 instead of what we were expecting to open this year, but our broad guidance remains the same.

Charles Cartledge: Okay. Finally, are there MNA targets still available, because I think in previous calls or conversations you might have said actually there is not much left, but I think the transactions goes through in the last two weeks, I would love to hear your thoughts on whether you will be able to grow inorganically in the future or not?

Nitin Sood: I think there will be smaller chains which will be kind of available for consolidation over the period of next one or two years, but we do not see anything to be really material to make an overall difference to what we kind of currently operate and to the current size and scale of the



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businesses, but I am sure there will be smaller chains and smaller operators, which at some stage of their lifecycle will be available for a consolidation opportunity. We would evaluate each opportunity on its own merits and kind of take a call at that stage, but as I guided earlier that is not the core driving strategy for us because from a materiality perspective no big material inorganic opportunity is really on the table.

Charles Cartledge: Thank you very much.

Moderator: Thank you. We have the next question from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Thanks for the opportunity. Just to again touch on the GST, you have broadly mentioned 250 to 300 bps, but just to understand what is the current indirect tax effective for our exhibition business?

Nitin Sood: It is a complicated working because the benefit that I think the sector will get will be a combination of tax rate and also the input credit that will be available. Our average tax rate on ticketing today is about 27% to 28% and on F&B is about 10% to 11%. So, my guess is average tax rate will be closer to 23% odd on what we are paying.

Girish Raj: I am not sure if you have done any analysis, but if you can break this 250 to 300 in terms of input credit and the balance?

Nitin Sood: It is a detailed complication. It is not possible to break it down because there are various elements involved in this, and depending upon what the tax rate is finally announced this will also undergo a change, but I would say broadly, large part, more than 50% of the benefit is really coming due to input credits and the balance half is really going to come from the average rate going down.

Girish Raj: Currently there is no benefit from input credit, is my understanding correct?

Nitin Sood: Very, very small proportion of benefit is available which under GST would be full set of the service tax benefit.

Girish Raj: Any quantification of current benefits?

Nitin Sood: Currently 15% of our total revenues are chargeable to service tax, but totally today we can get only 15% of the total credit, post translation to GST the input tax credit that we are currently paying, we will get a credit on 100% of the tax rate.

Girish Raj: Okay, great, thank you.



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Moderator: Thank you. The next question is from the line of Abhishek Raganathan from Ambit Capital. Please go ahead.

Abhishek Raganathan: Thank you for taking my questions. I have got a couple of questions here. One is on the ramp of the screens, because the mix of the comparable screens in terms of ticketing is lower than the average, obviously your ticketing revenue has been better. It is also evident in the margins that despite the 7% fall in the ticketing revenues, your margins have not fallen that much. And the second thing is I wanted to get a sense on the on-demand screening initiative which you have put up as to what changes can you make currently, I guess you need a select number of people to get and come into the screen while the idea is to get the occupancy level higher. Would you share some more thoughts on that?

Nitin Sood: I will talk about the first thing. As we have guided, I think a bulk of new screen additions that we are making, more than 50% of the total new screens that we continue to add are in tier-I and prime tier-II markets. So, we do not see any impact on overall ATP of the company at least for the next two to three years, because it is not that 60% to 70% of the total screens are tier-II. We have a decent share of screens opening in tier-I markets at least for the next two to three years. I think we should be able to sustain and grow the average ticket prices. I will defer the second question to my colleague, Kamal, who will talk more about Vkaao and some of the other initiatives.

Abhishek Raganathan: My question was particularly to this quarter, it seems to indicate that your new screens are ramping up significantly.

Kamal Gianchandani: Abhishek it is a function of the mix changing. In some years, the ATP growth at a total level can marginally look higher. So, in this case your point is that -2% is what we are showing on comparable properties and there is a flat ticket growth on the total level. It means that noncomparable properties had actually shown higher ATP. It is really a function of the mix of properties. In this year, what properties that we must have added at a company level their contribution to ATP would be slightly higher?

Nitin Sood: For example the existing portfolio, in Delhi-NCR with much higher ticket pricing. We opened a 15-screen property in Noida as well, so that also contributed towards the ATP. The overall theme is that we will continue to take a 3:2 inflation kind of a ticket pricing growth on same stores. The total can be either marginally higher, same or marginally lower depending on the mix of cities that we are adding each year.

Kamal Gianchandani: Abhishek, this is Kamal on the second part of your question. Vkaao is a demand-based ticketing platform, which has been put together by PVR. This is the ongoing feedback that we get from a lot of our customers. As you know, we have a very widespread presence in the country with almost 50 cities/towns, where we have our presence. India releases a lot of films. We release



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close to 1000 films a year and there is a lot of fragmented demand for these films in pockets where films are not released in a regular fashion. What I mean to say is that a Tamil film not released in South Delhi or East Delhi or a Bollywood film not releasing in Guwahati or Allahabad or Ahmadabad or Ujjain, but there is a scattered fragmented demand, which could be very small in these cities and these pockets as well for these films. We have created a solution so that the fragmented demand, which exists, can also be captured. The idea behind this initiative is to augment our occupancy so the regular films that we release on weekly basis that will continue, but we are working towards creating positioning this initiative in a manner that we can also gain some incremental admissions over and above our regular admissions. We feel that this is also an ideal solution for smaller films which do not have big stars and do not have big marketing budgets, and they tend to struggle to get admissions in week #1, because we have so many releases every week even if it is a good film it will does not do admissions in week #1, we have to move it out and create space for some new films to come in. With this initiative that urgency to do admissions in week #1 will go away and smaller films will be able to realize their full potential. Does this answer your question?

Abhishek Raganathan: Yes, but this will be largely through your platform alone right? You would not be using bookmyshow or anything for getting larger audiences, how will you pull in?

Kamal Gianchandani: This bookmyshow is a different new space and Vkaao is a different new space. Vkaao is there to satisfy a very different needs, a very different sort of demand that exists in the market place in our opinion. Bookmyshow, pvr cinemas.com, paytm exist for a very different use space. In that sense, they both are different initiatives, but yes, because with bookmyshow and paytm, we have a great relationship, our entire inventory and all our cinemas are available on boomyshow. It is natural that bookmyshow and us, we would be collaborating and working very closely in making this initiative a big success.

Abhishek Raganathan: Sure, thank you.

Moderator: Thank you. We have the next question from the line of Mita Khilanani from B&K Securities. Please go ahead.

Mita Khilanani: Thank you for the opportunity. Sir, I had two questions. One is on a comparable basis when we look at the admits and occupancy and ATP, both of them are fairly lower Y-o-Y but the F&B spending per head is as high as 8% even in a quarter which saw demonetization. So I just wanted your sense on how have we been able to manage such an increase? Secondly, any thoughts on the drive-in cinema that is expected to come in 2017; this is what I read in some of the media articles sometime back?

Nitin Sood: The drive-in is still under planning and is expected to come close to 2018, so that answers point two. As far as FBH is concerned, clearly there was a lot of work to be done post the



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demonetization. We were going fairly positive and look at double-digit growth, but once the demonetization hit in, we had to change our plans. We had to sort of look at increasing strike rate at the cinema, so we have launched a lot of discount schemes. We got a lot of consumers to go cashless by giving heavy discounts on the website and app, and that is how we kind of maintained the FBH hit within this quarter.

Gautam Dutta: In addition to that, if you also look at a slide, which we put on demonetization, I think the push has also been to try to convert a lot of consumers to book in advance. What we have seen is a big shift because of the discounting, almost 5% of our overall F&B revenue in the last few months post demonetization has moved online, which is a very big differentiator, we believe that will also create some bit of growth in helping us sustain some bit of F&B spend by the customers.

Mita Khilanani: Okay. Sir, can you just help me with one thing. On slide #8, the revenue of food and beverages on a comparable basis is up 1%. Is that right?

Gautam Dutta: It is a function of footfalls and the average spend per head. So the footfalls are down, but the spend per head is up.

Nitin Sood: If we had got the same of admissions, the FBH would have been much higher. If you look at -6% admission and +8% of F&B that kind of acts as about +1%.

Mita Khilanani: Sir, just one last thing. You mentioned that you offered more of discounts and promotions. Should not it actually be the other way round?

Gautam Dutta: Discounts and promotions will ultimately reflect in some bit of marketing cost, not really in F&B.

Nitin Sood: The idea is to increase the strike rate, get more people hitting the candy. As long as that happens, we can compensate for the additional discounts we give.

Mita Khilanani: Okay, understood Sir. One thing on the drive-in cinema, can you just elaborate on the economics and how big a segment can that be in your overall portfolio?

Gautam Dutta: I think it is slightly premature for us to comment on that. I think once we get closer to execution and opening of the cinema, we will be able to share more details, but currently it is in a conceptualization and a planning stage.

Mita Khilanani: Okay Sir, thank you.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Investec Capital. Please go ahead.



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Amit Kumar: Thank you so much for the opportunity Sir, just one question at my end. Given the fact that this was the second sort of full quarter of DT Cinemas acquisition, could you give us some sense of the synergies that have been started to be derived from DT?. The second part of my question was that given the DTC acquisition if you could just also help us with like-to-like revenue and EBITDA growth for this quarter if we were to just take out the acquisition? Can you just help me with these two please?

Nitin Sood: I think while incremental benefits of the acquisition are beginning to reflect, I think the full benefits are not getting reflected this year because part of the screens are also being under renovation. Post May is when the circuit would get completely renovated and then I think the numbers would start improving. Incrementally wherever we have been able to make changes, we are seeing growth in ticket pricing. We are already seeing big growth in F&B realizations, even advertising has started to trickle in. Some of the screens are partly closed. Some of the screens are currently under renovation, so I think by April the full circuit will have been renovated and we will see the full impact of that in the next fiscal year.

Amit Kumar: On my second point, if we have to look at the revenue growth, we obviously know we have 29 screens added because of DT, on the franchise as well as other operating metric side; could you just help me with some numbers on a like-to-like basis please? I am just looking at the organic growth numbers, PVR minus DT if you have done any that kind of calculation?

Gautam Dutta: That is getting reflected in the comp numbers because DT screens are reflected under noncomp screens. So, we will not be able to separate share the numbers for DT as such.

Moderator: Thank you. The next question is from the line of Darpan Shetkar from HSBC Securities. Please go ahead.

Darpan Shetkar: My question is more on industry level. We have seen many acquisitions in the last two to three years, and we are now with three to four main players on multiplex industry, but going ahead from your perspective do you think the path ahead is difficult to grow organically because many times you do not have any say in government approvals or mall developers delaying the opening of properties. What are your thoughts on this?

Kamal Gianchandani: Our thoughts are as follows. The organic opportunities for a large player like PVR are always poised to react as and when they present themselves. Unfortunately, inorganic opportunities are not something which you budget for or you plan for at the beginning of the year, but you sort of remain well poised and react as and when they come about. The bigger question really about the industry is that where is the industry heading and what are the growth opportunities. We have built about 2200 multiplex screens in the last 20 years. 1997 is when the first multiplex opened in Delhi, which PVR had opened in Saket. Now we are in 2017, so in full 20 years we have been able to, as an industry, develop 2200 multiplex screens. Our belief is that this market can take at



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least 10,000 multiplex screens, which means for the next minimum a decade and a half, India would only be constructing multiplexes assuming that we fast track the growth of multiplexes, assuming the ease of doing business in India improves, permissions, mall growth, retail infrastructure growth, all of these factors improve, for at least one-and-a-half decades we will continue to build multiplexes. With this level of an opportunity, PVR does not have to lose for if competitors to win or vice-versa, INOX or Cinapolis or Carnival or any other chain out there, they do not have to lose for PVR to win. We can easily coexist and create this market, expand this market for many, many years. Does it answer your question?

Darpan Shetkar: My question was a little different? My point was at the start of the year you were planning for 50 to 60 screens, and at least 40% of those screens are now planned for last quarter. So majority of those things are not in your hand. I was asking is there any solution to this that your screens come up at the time as per your planning.

Nitin Sood: Currently we do not have a solution for this because we are dependent on real estate developers to deliver malls. So, you are right to some extent, our growth as a function of the execution and mall delivery by real estate developers.

Darpan Shetkar: Okay, thanks.

Moderator: Thank you. The next question is from the line of Chitragda Kapoor from Sameeksha Capital. Please go ahead.

Chitragda Kapoor: Thank you for taking my question. I have only one bookkeeping question. One is what is the current Capex per screen for us for organic expansion that we are doing and how does the change does in inorganic expansion?

Nitin Sood: It is very difficult to answer a question for inorganic expansion because it will be again a function of each specific opportunity, but on our organic business our average Capex per screen is closer to 3 Crores, and that average changes depending upon what we are building, whether we are building in a tier-II market, tier-III market or tier-I market, but the average is closer to that number.

Chitragda Kapoor: Okay. The second part of the same question is when we have acquired a screen, are we doing renovation/cutouts of that screen as per our standards, then what is the Capex for screen during that expansion or renovation?

Nitin Sood: I think the way we approach all renovations is really looking at the incremental payback that we can generate out of renovation and the spending again completely varies depending upon the location and earning ability. There are no specific numbers that we have to spend no renovation. For a high-category property, we sometimes invest significantly high. For a mid-to-lower



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category property we invest depending upon what the property can afford. Broadly, the thumb rule is after properties have run a certain stage of their lifecycle we intend to renovate to deliver consistency of experience. Our payback on any incremental investment should be less than three years at EBITDA level, that is the way we think about that.

Chitragda Kapoor: Okay. Is my understanding right that during one of my colleagues' question you mentioned that half of the claims that you have acquired from DT Cinemas is under renovation and it would be done by April 2017. Is that correct?

Nitin Sood: That is right.

Chitragda Kapoor: So in that case, the renovation that you are undertaking for DT Cinemas, which I believe, is a prime property, what is the Capex that you are looking at doing for those cinemas?

Nitin Sood: I think we will be spending between 15 and 20 Crores overall on the renovation of the entire circuit and upgrading some of the facilities, that will be the range of Capex.

Chitragda Kapoor: This would be done by April?

Nitin Sood: Yes, we intend to finish all of this by April.

Chitragda Kapoor: Okay. You also mentioned that your incremental payback has to be less than three years at the EBITDA level? I recall that you mentioned a few quarters back I am talking about, you were doing roughly about 100 Crore Capex outlined for renovation of whole of the Cinemax properties. I just wanted to understand how has that progressed and have we completed that renovation of Cinemax properties?

Nitin Sood: It was not completed. That 100 Crore plan was over a period of four years. We have still not spent that kind of money on Cinemax property renovation, probably half of that amount has been spent and it has delivered well ahead of that payback. The incremental earnings from most of the properties where we have done renovation have been fairly high and that has reflected in the ticket pricing growth and F&B, and pricing revenue growth, we have been consistently able to deliver.

Chitragda Kapoor: Okay. One clarification here, when you were saying that you were expecting a certain payback of less than three years, that does not include a constant ticket pricing?

Nitin Sood: Absolutely. The incremental payback will only come from growth in revenues.

Chitragda Kapoor: Okay. Because DT Cinemas I believe is already operating at a ticket price similar to our PVR Cinemas, so if theoretically the ticket prices continue to remain at the current levels for DT Cinemas are we still targeting a payback period of less than three years for the renovation?



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Nitin Sood: We are still targeting that, but it is a function of all revenues that we generate from our cinemas. It is not only linked to ticket pricing, look at FPS, look at advertising. There are many factors. **(inaudible)40:25**.

Chitragda Kapoor: So going forward, can we take a ticket price increase according to the inflation growth?

Nitin Sood: Yes, we have already guided to that effect.

Chitragda Kapoor: Then in that case can we also take the Capex per screen average number that you have given also increasing owing to the inflation?

Nitin Sood: Can I request you, if you have a long list of questions we could do a separate call offhand, because there is a big audience here waiting to ask followup questions. So my request would be if you have a long list of questions, we could probably do a separate call and address your concerns.

Chitragda Kapoor: That would be fantastic, thank you Sir.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: You mentioned that on F&B part we ran some promotions between November to drive the footfall, but if you look at the cost of the F&B actually it has come down from 25% to 24%, so the cost has been booked in others head?

Nitin Sood: It is partly reflected in marketing cost, but we are also doing some value engineering to bring down our overall cost. Remember, these discounts were given to certain big combos where the costs go anywhere lower, so what we managed to do through those promotions was to be able to sell the large combos where the costs were lower.

Jignesh Kamani: Will you be able to quantify how much amount we lost or probably could have gained if demonetization had not happened on the F&B part?

Nitin Sood: If you look at our average, our average growth has been about 10%, so we could say that we lost about 1% or 2% growth due to that. If you look at Q2 results, the growth was higher than 10%, so you can safely assume that 1% to 2% growth we lost on account of demonetization.

Jignesh Kamani: Sure. On the advertisement, as you mentioned that Q4 is looking encouraging, but are we seeing the negative implications of demonetization already over or people are still ramping up?

Nitin Sood: **(inaudible)42:38**, food sales because still a bulk of that purchase is happening through cash, there we still feel it may just take a few more months before it completely recedes down.



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- Jignesh Kamani:** I am more particularly looking on the advertisement part.
- Nitin Sood:** There is a little nagging effect because other businesses also now picking up slowly. Automobile sector, FMCG are all getting back, but overall Q4 as I had stated earlier is slightly a muted quarter for overall advertising spend. People get into the budgeting mold and technically new funds roll in closer to April. While we will go as per the guidance that we had given, however, the big bucks would start rolling in from April.
- Jignesh Kamani:** Sure. One more on the advertisement. If there is a recovery, a client has four to five mediums, be it television, digital, print media, and cinema, in recovery terms we will be in the last or the front?
- Nitin Sood:** We will be somewhere in between. It is a very important media now because more and more people are attaching a lot of value to this medium simply because it gets you to have an interactive medium. We can do a lot more than just showing an ad on the big screen. This is the only medium where an audience is captive. He does not have a remote and he cannot go anywhere else. Hence, cinema as an advertising medium is really now getting valued.
- Jignesh Kamani:** Sure. On the volume term, we should be down close around 5% to 6% percentage on Y-o-Y basis in the Q3?
- Nitin Sood:** We will not be able to give specific numbers on that.
- Jignesh Kamani:** Okay, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Arun Chopra from Emanation Advisors. Please go ahead.
- Arun Chopra:** Good afternoon guys. I apologize if this question was asked before, but just curious to know what is our occupancy rate would have been during the three weeks where demonetization was most severe?
- Nitin Sood:** I would put it this way. The occupancies were lower by 20% to 25% during the demonetization period. Had it been a normal period, I think we would have done 20% to 25% better occupancies during that two to three weeks post demonetization.
- Arun Chopra:** Second question is you mentioned 45% of your box office revenues predemonetization is cash. Just curious to know outside of the top four cities that you operate in what would that number be?
- Nitin Sood:** We do not have that data, but definitely the cash component in the top four cities would be even lower for us, but I actually do not have that data right now with me.



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Arun Chopra: We made a lot of progress in terms of our EBITDA margins in FY16; we hit a record high of 19% to 20%. FY17 has come off in Q2 and Q3, as long-term investors just curious to know how you think about your EBITDA margin trajectory going forward over the next four to five years and what we might expect in terms of performance at your end.

Nitin Sood: I think it is a good story for sustaining this EBITDA margin and growing as we add more scale. The share of nonbox office revenues keeps going up, I think that is a higher gross margin business. The idea is to leverage the footfalls that we get at our cinemas and drive higher growth in nonbox office revenues, and add new pieces of revenues to the existing customer base that we are able to attract at our theater. This has been slightly trickier because content has not shaped up as well as what we had expected. If you look, broadly the drop in EBITDA margin is only because of content. Had we sustained on the same content and got the same footfalls as we got last year on the same store, our EBITDA margins would have been much better than last year. I think all the other pieces are working fine, but I think in a slow content here, you end up kind of getting reflected on the operating margin simply because of the operating leverage that we have in the business.

Arun Chopra: Thank you very much.

Moderator: Thank you. The next question is from the line of Mita Khilanani from B&K Securities. Please go ahead.

Mita Khilanani: Just one followup question on advertising revenues. Do you all internally have a limit as to the advertising minutes in a show so as to not disturb the consumer experience?

Nitin Sood: Yes, we do.

Mita Khilanani: What would be that limit Sir?

Nitin Sood: It is 19 minutes.

Mita Khilanani: What would be our average?

Nitin Sood: Technically our consumption is close to 9 minutes pan India if you average it out, but to your question the consumer gets to see 19 to 20 minutes of advertising only during blockbusters, that is the time this inventory swells up, other than that there is not a problem. So roughly about 38 to 40 odd weeks there is no issue where we step over anywhere close to 19 minutes, but it is only during those blockbusters where we would be hovering around 19 to 20 minutes.

Mita Khilanani: Okay, that is helpful Sir, thank you.



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- Moderator:** Thank you. The next question is from the line of Sayan Das Sharma from Crisil Ltd. Please go ahead.
- Sayan Das Sharma:** First of all, congratulations from my side on a decent operating performance despite multiple external challenges. Sir, my first is pertaining to the SPH growth from hereon. If I look at your SPH growth, SPH-ATP ratio over the last three years, it has gone from about 30% to 42% in line with other global multiplex operators like Cineworld, RMC, and AMC, which is about 45%. How do you see the SPH growth over the next two years?
- Nitin Sood:** We believe this entire revenue growth could be a lot more in India simply because our ATPs technically are separate in India. We still work around the \$3 mark whereas SPH has a big room to play. Secondly in India, SPH is not just about a popcorn and Pepsi, we have explored ourselves into much bigger and wider variety, and because of which the consumer if given the right impetus will be able to spend a lot more. So, technically we are looking at percentages much beyond 50% in the future when we look at relationship to ATP.
- Sayan Das Sharma:** Okay Sir that helps. In terms of gross margin in F&B, I think we are around 75%, do you see there is scope for that going towards 80%?
- Nitin Sood:** No. In fact, it would be around this much or it could go up a little because we want to add the perception of better value to the consumer going forward, so there could be a marginal shift upwards rather than downwards on this one.
- Sayan Das Sharma:** Okay. Couple of data-related questions, would it be possible for you to share the breakup between English, Hindi, and regional content this quarter?
- Nitin Sood:** In this quarter, the Bollywood was 69%, Hollywood was 12%, and regional was 18%.
- Sayan Das Sharma:** Okay, thanks. Last question from my side. If I look at your distribution revenue, that has been fairly volatile over the last quarter. This quarter also it has come down. I understand the nature of the business is such, but how do you look at the business from here on, and if you can share some light on why it was lower this quarter, that would be helpful?
- Kamal Gianchandani:** Distribution business, as you rightly said tends to be volatile because of the kind of films that you release in a certain quarter versus another quarter. We do not view distribution as a business, which should be seen as quarter-to-quarter business. We internally view distribution business as an annual business. We like to have a holistic annual view on that business. In terms of growth, it has been growing steadily. Our EBITDA as well as profit before tax has been growing at a healthy rate for the last three or four years. We have reasons to believe that the same rate is sustainable.
- Sayan Das Sharma:** Okay Sir, thanks. That is it from my side.



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Moderator: Thank you. We will be able to take one last question. The last question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Thank you so much for the opportunity Sir. Just one small question, I think in one of the previous answers, you gave the breakdown of Hindi, English, and Regional share for the quarter. Will you be able to share it for nine months also?

Nitin Sood: On a nine-month basis, almost 55% of our revenues have come from Hindi movies, around 23% came from Hollywood movies, and a similar number came from regional movies.

Amit Kumar: All right. Thank you. That is it from my side.

Moderator: Thank you very much. Due to time constraints that was the last question. I would now like to hand the conference back to the management for closing comments.

Nitin Sood: I would like to thank everyone for taking out time for the call. In any you have any followup questions, feel free to reach out to either Saurabh, or me and we will be happy to answer them. Thank you very much.

Moderator: Thank you. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us ladies and gentlemen and you may now disconnect your lines.