“Adlabs Entertainment Limited Q3 FY16 Earnings Conference Call”

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MANAGEMENT: MR. KAPIL BAGLA - DIRECTOR AND CHIEF EXECUTIVE OFFICER, ADLABS ENTERTAINMENT LIMITED
MR. RAKESH KHURMI - CHIEF FINANCIAL OFFICER, ADLABS ENTERTAINMENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Quarter Three FY16 Earnings Conference Call of Adlabs Entertainment Limited. This conference call may contain forward looking statements about the company which are based on the belief, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Kapil Bagla – Director and CEO of Adlabs Entertainment Limited. Thank you and over to you, sir.

Kapil Bagla: Thank you, good afternoon, everybody. Thank you for joining us for the Earnings Call for Q3. So let me just take you through what has happened in Q3 and a general outlook of business. So we are pleased announce the third quarter results of FY15-FY16. The footfall of the both the parks that is Imagica and Aquamagica put together in this quarter stand at 4.5 lakhs this is vis-à-vis 3.67 lakhs in the corresponding quarter last year that is a growth of 23% on a year-on-year basis.

Consequently the revenue of Q3 stands at 73.2 crores versus 67.9 crores in the corresponding quarter previous year signifying a growth of 8% on year-on-year basis. And the EBITDA for Q3 is standing at 14.78 crores versus 13.53 crores in the previous year, which is a growth of 9%. When you look at the performance on the nine monthly basis for period ending 31st December, 2015 the footfalls have been 12.37 lakhs versus 7.64 lakhs in the same period last year which is the growth of 62%. On a revenue basis we have clocked a revenue in the nine months of 195.41 crores versus around 140 crores in the corresponding nine months in the previous year which is a growth of 40%. Consequently, the EBITDA for the nine months FY16 is 33.26 crores versus 16.84 crores in the corresponding nine months in the previous quarter signifying growth of 98%.

Now let me take you to some of the key highlights of Q3. First and foremost, we are extremely enthused by the performance of Novotel Imagica for Q3. The average occupancy for the hotel stood at a healthy 75%, the average room rate or room realization was Rs. 5,800 plus. Novotel Imagica in the short period of three months of operation has been able to establish a niche in the MICE which is the Meeting Incentives Conferences and Exhibition Segment the leisure segment and the social event segments of the market. This further establishes our positioning as a holiday destination. We have hosted in the three months' period about 13 corporate and we have had about 2 Destination Weddings in this quarter which have approximately calculated 30% of the hotel revenues. The hotel has been consistently generating excellent customer feedback in the reviews with TripAdvisor and other hotel review site. So I think we can all say that the Novotel Imagica till now has been a success.

The second thing that we want to say is that despite the seasonality of the Water Park we have seen a significant growth of 84% on a year-on-year basis in the footfalls of Aquamagica, this signifies product leadership in this category as well because this is the first year-on-year comparison, we feel that this growth despite the seasonality is good.

Also during the quarter Imagica has tested peak capacity as well like we did in Q1 on many days. You would appreciate that for a product like this it is extremely important to keep the operating efficiencies in check and we need to keep challenging the capacity utilization. We are happy to say that in this quarter on one day which is 27th of December we entertained the single highest footfall in a day of 14,128 in Imagica which was almost 90% of the capacity.

The other point that I wanted to say was that the contribution from the non-catchment markets has also increased in this quarter with the constant push through channel partners and non-catchment activation the contribution to non-catchment footfalls that is people coming apart from Mumbai and Pune has increased to 30% of the footfalls during the quarter.

Further, as a milestone in December we have achieved a milestone of entertaining 3 million guests in our history of launch, of operation of 2.5 years since the launch of Imagica. Probably the fastest and the highest ramp-up in any outdoor destination in the country. So I think these are some of the key highlights of the quarter.

Notwithstanding all the above, I think we have faced some challenges in the current quarter so, we would like to highlight some of the challenges that we have seen in the quarter and then also enumeration to strategies of what you are doing to counter this. The first thing is to do with the ARPU and realization on the ticket. As you would see that while we have achieved reasonable growth in footfalls in Q3 we were unable to achieve growth in ARPU and realization in the tickets to the park with largely on the ticketing revenue. I think this is due to a multitude of factors which includes the service tax impact which was imposed this year, this is also due to a change on the product mix i.e this quarter Aquamagica had a larger share of footfalls and some increase school footfalls because this season is also the school picnic season so I think this footfall which have come at a lower ARPU probably while the growth in footfalls happened the average realization was a little softer. So what are we doing about it? I think, one clear strategy that we have discussed internally and we want to implement and go ahead with is that we would be moving to the plus service tax model going forward so, we would make this change with effect from this quarter probably February/March this year itself. So that immediately there is a bump-up of service tax which was imposed to us and that gets passed onto the customer. Our customer study have shown that people willnot mind paying higher price due to tax , people would tend to absorb it and many of businesses who have been part of the entertainment business wherein the service tax was imposed have taken that stand and gone ahead on that.

The second challenge or learning or whatever we can call it that we also saw in this quarter particularly and that was evident for not just our industry but most of the consumer facing industries as well, was the on-slot of e-Commerce discount sales push. You must have seen all around Q3 with the number of sale, discounts with all the e-Commerce companies and the large format companies trying to entice the customer to buy. As a product category we somewhere compete in the wallet share of discretionary spends of the customer. We all understand and I am sure, you guys are tracking other companies. Discretionary spends in the past few quarters have been on the softer side and with the new e-Commerce players going over board and aggressive in pushing discount sales in festive season there was an evidence of much larger competition to get a larger share of customer attention and spend by these companies. So hence to keep the visibility of Imagica in consideration set of the customers we had to undertake some promotions, which actually brought in footfalls but albeit with some softness in realization and despite all these competitions, we have seen a decent increase in volume growth. Aside of that, I think we have track course in Q3 both in terms of way that the Park is operated both in the way we anticipated the hotel to operate both in the way that we wanted footfalls coming in from non-catchment areas I think all the other factors have been positive in terms of Q3, the hotel has been a surprise package actually speaking and we hope that trend should continue going forward as well.

So now looking forward we want to say. As far as 2016 is concerned the calendar year 2016 and obviously major part of the financial year FY17 I think we have significant milestones lined up for us. First and foremost is the completion and launch of the Snow Park attraction which would happen in Q4 the construction is in full swing and we are in the completion stage and we are hopeful to launch in this year so we will be fully ready when the summer season comes in and this will be a great attraction. The second is the completion and launch of the balance 171 rooms for Novotel Imagica which should happen in phases between March and May in 2016. So basically in Q1 you have the entire full blown hotel operation that is what the subject to all the approvals of operation but I think as construction continues we are fully on track. Thirdly, last time as we had discussed that we are now working hard on the development of the Adventure Park which is targeted to be completed and probably launched in the second-half of FY17. So these are the three product milestones which we will add to Imagica, Aquamagica and the Hotel for the coming year and this will not only increase repeatability of customer who have already visited Imagica but this will make Imagica as not to missed multi day holiday destination and that is the positioning that we have always wanted to be at.

On the operational front we are embarking on a number of initiatives to grow footfalls as well as realizations in the coming quarter. We now feel confident that with the current established run rate of about 1.5 million to 1.6 million customer's footfalls on an annual basis, we are now focusing on increasing revenue through higher realization and I think that is where our outlook lies going forward is to increase revenues by increasing realization which will be our focus.

As I have also communicated in my previous call, we feel very confident that FY17 should be the inflection point in the financial of the company wherein all the element of the project will be operating in full capacity and contributing to revenue so we are looking forward very optimistically into the prospects of business.

This is what I wanted to say about Q3 and our overall performance and going forward our thinking in terms of business. I would now like to handover to Rakesh to take you through the financials in more detail. Thank you very much.

Rakesh Khurmi: Thanks, Kapil. So I will walk you through Q3 results now so let us talk about the details on the footfall and ARPU specifically. So the break-up of footfalls is as follows: For Theme Park in this current quarter we have done 3.11 lakhs and for Water Park we have done 1.38 lakh footfalls. So they add up to 4.49 lakhs and last year Q3 Theme Park was 2.92 lakhs and Water Park was 0.75 lakhs so they add up to 3.67 i.e registering a growth of 23% on both the Parks put together. And footfall achieved for nine months YTD performance the Theme Park number for this year is 7.58 and Water Park is 4.79 lakhs, they add up to 12.37 lakhs so, that is the break-up and last year nine months we had Theme Park 6.73 lakhs and Water Park was 0.91 lakhs so they add up to 7.64 lakhs. So overall nine months showing a growth of 62%.

On the gross realization per visitor the ARPU for Q3 stands at 1,471 which is the consolidated weighted average realization and last year it was 1,851 for Q3 and the break-up is as follows: for the current quarter which adds up to 1,471 the break-up is ticket is 1,018; F&B is 270; retail is 135; digi photo and others is Rs.48. adding up to 1,471.

And Q3 last year ARPU was 1,851 the break-up is as follows: ticket was 1,391 and F&B was 286; retail was 141 and digi photo and others were Rs.31 adding up to Rs.1,851. So while it shows, if you look at the comparison it shows a drop of 21% the reasons are primarily as follows they have been also highlighted by Kapil. So impact of service tax to the extent of Rs.130 on ticket realization, impact of mix change as we have now given the break-up for the Theme Park and Water Park you can see in Q3 there is a jump of Water Park mix going from 21% to 31% so there is a jump of 10 percentage points in the Water Park share. So impact of Water Park mix change is Rs.120 per visitor.

Also in terms of the footfall in the school segment as highlighted it was result of some of the low ARPU product, the school segment resulted in a drop of realization to the extent of Rs.65.

The last year school segment was basically 24% and in this quarter it has gone up to 31% so there is a 7 percentage point jump in the school segment mix.

So just to summarize we have been resilient in volumes showing 23% growth but the customer segment mix was skewed towards the lower ARPU products in this quarter. Company is however planning to increase the price in Q4 to pass on the service tax impact in line with the industry we be looking at the price hike at least to the extent of the service tax.

On the revenue side, the total revenue has gone from 67.9 crores in last quarter to 73.1 crores in this quarter showing a growth of 8%. Consequently, the EBITDA for Q3 is 14.78 crores versus EBITDA of 13.53 crores in the corresponding quarter of last year showing a growth of 9%.

On the hotel performance specifically as stated earlier the launch of Phase-I of 116 room hotel has been a very good success. The capacity utilization in Q3 was 75% and the break-up of average rate realization per room is as follows: for the room only the realization was 5,806 and for F&B others it was 2,860 so the total realization per room is 8,666. In this period hotel observed many days of 100% room booking because of the large events organized by corporate's and destination wedding.

On the cost side the highlights are as follows: Q3 cost is not really comparable with the last year because of the launch of hotel in this year so cost in this particular quarter carries the hotel cost which was not there last year. Of course there is a corresponding revenue also but the highlight is that hotel on a standalone basis was EBITDA positive so there is no impact on the EBITDA per say with the start of the hotel. Cost clock of hotel without depreciation is Rs.1.95 crores per month which is the combination of variable cost and fixed cost which will be largely same as we go forward and only the variable cost should go higher as we add the number of rooms in the April to May period.

Overall fixed cost clock for this current quarter which is Q3 now I am just trying to give you the flavor of fixed cost so if you take out the cost of variable, cost hotel, and depreciation so that gives you the fixed cost for the park which is Theme Park and Water Park so just want to highlight that the cost which was last year 14.5 crores per month the clock basically has gone down to 12.8 crores in this quarter Q3 FY16.

Further to give you the break-up on the cost side let us talk about advertisement sales and marketing. So typically this includes the marketing spend, commissioned to channel partners, online booking transaction charges and promotional discounts. So the total spend is 18.3 crores and the marketing cost also includes promotional spend of 20% of revenue; selling and distribution which is primarily the commissions is 5% of revenue so they add up to 25% of revenue in the total cost of advertisement sales and marketing.

Employee cost is 14 crores for Q3 FY16 which is 19% of gross revenue this has also gone down. For the other cost so we have been taking a lot of green initiatives and also trying to rationalize the cost and therefore we could achieve the savings in power and fuel and also in the repair and maintenance. On an overall basis we have been tracking the cost as planned, the fixed cost as I highlighted without hotel remains as 12.8 crores per month and fixed cost with hotel is 14.5 crores per month so that is the cost clock as of today which is the fixed cost.

On the interest cost so current rate of interest is 12.75% per annum, the interest cost for Q3 is 28.5 crores which also has a component of the hotel capitalization which was not there last year and also there is a movement of the foreign exchange loan to the rupee loan because there were some buyers credit we had last year and now it is getting reduced the facility is getting over and getting converted into the rupee loan and therefore, there is some increase in the cost because of that also because for the buyer credit the effective rate of interest was only 3% whereas otherwise the rupee loan debt interest is 12.75%. So because of these two reasons the cost though it may look same vis-à-vis the last year's Q3 but actually if you normalize these two then you can see there is a saving of almost Rs.2 crores on a per month basis. So we are currently working on negotiating as I highlighted in the last quarter also. Negotiating the reduction in the rate of interest with the banks the application is lined up already and we are still in the process we will announce as it happens.

The total debt outstanding as of December end is Rs.936 crores and net fix asset block stands at 1,472 crores this includes the capitalization of Phase-I hotel to the extent of 138 crores. The total hotel cost on completion of 287 rooms is likely to be 190 crores. And as stated in the previous earnings call the township permission for surplus land of approximately 170 acres is still awaited though there is progress made and as and when it happens it should help us in reducing the debt in the medium term.

So this is all from my side, so we now throw the floor open for Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Viraj Mehta from ValueQuest Capital. Please go ahead.

Viraj Mehta: My question is regarding the ticket price so when we say the 23% there is reduction in the average realization I understand some of it is due to the service tax absorption that the company has taken because there is no change in the headline ticket number. But I mean I thought3Q would be a very strong quarter for you considering that there was Diwali, there was

Christmas so, why did we not take any realization initiative in that quarter and our thinking of that doing that in a seasonally weakish quarter which is the first quarter for us?

Kapil Bagla: No, see you cannot increase the prices in anticipation or change the pricing very spontaneously, our is the business where price to the customer has to be declared in advance, right and the whole idea about making Q3 work if you see in terms of pricing is largely on account of product mix change which is not in our control. So for example like Rakesh also explained that the Aquamagica contribution which is a low ARPU product was much higher than probably anticipated in terms of Q-on-Q basis. Similarly, the school footfalls were higher in this quarter. Now these are something that is not within our control. We have taken our stands last time also that this year we are going to play on pricing, we are going to play on volume growth. I think we have stayed on course on that process and now that we have reached a particular level of footfalls in terms of our run rate I think now it is a time where we are going towards increasing pricing and I think it was an agreed strategy, we did not reduce prices or anything in this quarter actually speaking.

Viraj Mehta: Sure, sir there was no reduction in headline…

Kapil Bagla: No, not at all.

Viraj Mehta: Okay. And now assuming that we run at lets us say in next year if we run around average utilization of between 80%-85% even assuming the seasonally weak months, what is the kind of EBITDA margins do you think you can reach? Because there will be a lot of operating leverage within the business but internally what you think is the kind of sustainable EBITDA margin at 80%-85% utilization for the business?

Kapil Bagla: See at 80%-85% utilization the business, the EBITDA margins will be upwards of 45%, okay about 45% to 50% right but I do not think on an average basis we will reach that kind of capacity utilization and it never happens in any park you cannot reach 80%-85% capacity utilization on an average basis.. But our target of course for the next year in terms of EBITDA margins from the current level of 17%-18% that we are clocking would be upwards of 30% and I think it is very-very easy to be there in terms of 30%-32% kind of EBITDA margin. Once we have all our products operational and that is what it is a good margin to us. So I think that is what we should be working at.

Viraj Mehta: Just a small book keeping question, what is the kind of CAPEX requirement for the next year?

Kapil Bagla: Except for the completion of the balance hotel room I do not see any major CAPEX lined up, we have some part of infrastructure that we have to do for the Adventure Park which will be about 6 crores - 7 crores and the balance room hotel CAPEX of whatever 160 rooms - 171 rooms I think was close to about 20 crores. So overall about Rs.30 crores - Rs.35 crores should be the outstanding CAPEX.

Rakesh Khurmi: There is no initiative plan for new CAPEX per say, it is just that whatever is target we want to accomplish and finish it off.

Moderator: Thank you. Next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: What is your plan for reduction of debt in the current New Year?

Kapil Bagla: See as far as the plan in terms of repayment of loans are concerned, our repayment of loans are actually starting from FY19 onwards only so there is no instrument, no principal payment that is FY19 basically which is June of 2018 so there is no immediate cash flow requirement for any principle repayments to our bank but as an overall strategy for reduction of debt, I think that is a strategy that we are moving and it is a process that are running through and I think one of the things that Rakesh enumerated was that we are keenly looking at least initiating the monetization of surplus land in the coming year and I think probably in a quarters time or in two quarters time we should have that road map cleared which we can enumerate in front so I think that will be one of the points of reduction of debt as a process obviously as and when free cash flow accumulate in the next in FY17 FY18 onwards will be something that will go towards payment of debt.

Ashok Shah: Any benefits realized during the current year due to reduction of interest rates or you expect to get benefits in next year?

Kapil Bagla: Our process for reduction of interest rates and re-finance is on okay and that application and with the banks have been studying so I think I am quite sure that overall with the interest rate also looking little softer overall I think we should get I mean we should expect maybe what 50 basis points.

Rakesh Khurmi: Just to give you the perspectives we had 13.1% rate of interest so, with the rate reduction there were some reduction passed on to us so the current is 12.75% and the banks have already agreed to reduce it to 12.5% and on top of that we are running a re-finance full fledge application and if we are successful then we are looking at least a reduction of 1% overall.

Ashok Shah: So in a value term what will be approximate reduction in cost?

Rakesh Khurmi: Yeah, peak debt if you look at 950 crores so 1% is around 10 roughly. So 10 crores divided by 12 or maybe if you are saying for quarter it will be around Rs.2.5 crores per quarter there should be a reduction.

Ashok Shah: Okay. And once this in next six months this permission for the development of 170 acres this land comes then what could be CAPEX required because it is a very large project.

Kapil Bagla: So our model is that we are not developers, we do not want to invest anything on the development of the land, we are going to monetize it by partnering it with reputed developers and with JVs with other developers so that we have some kind of revenue share arrangement or the land monetization arrangement so there is no CAPEX that is required from our side on this.

Moderator: Thank you. We have the next question from line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: Sir, just to be clear I mean part of my question was asked by the previous participant. On your medium-term strategies you mentioned exploring other theme parks in a JV in Hyderabad and monetization of real estate. So my question is you would not look at a CAPEX for these before you consolidate the existing projects, right?

Kapil Bagla: See right now the plan for expansion is not frozen, okay, we are kind of seeing a particular traction coming to our path. We are keeping our planning process ready at this point in time and once we are clear that this particular project the direction in terms of re-finance in terms of something about land monetization and everything is clear in that direction as far as for this project is clear then we will look at expansion and going forward into other geography. But at this point we are only being ready with the planning process and typically projects like this take one year to two years to finalize and fructify so we are keeping the planning process on. But the green lighting of that will probably hinge on two accounts one of course is the clear cut at least size and visibility of land monetization so that we have some semblance of cash flow for the current project debt as well as obviously the growth of this current business in FY17 which is actually right now concentration is on FY17 number because that is as we said will be the first full year of all projects being operational.

Moderator: Thank you. Next question is from the line of Laxmi Narayan from Catamaran. Please go ahead.

Dinesh: This is Dinesh from Catamaran, I have few questions regarding the Snow Park, what would be the capacity of the Snow Park and what would be the average ticket price there and what will be our revenue share?

Kapil Bagla: So see the Snow Park operates in session, okay because it operates session of 45 minutes to an hour and every session you can have a capacity of about 400 people and we can do eight sessions to nine sessions in a full day so, in fact you can actually do close to 3,000 people to 3,500 people per day. The pricing for the Snow Park would be in the range of about Rs.400 to

Rs.500 still the pricing is to finalized but I think that is the range that we are talking about for one session and per person and this is in line with I mean I think this is a very-very good offer that we are doing and our revenue share on the overall revenue of Snow Park is 25%.

Dinesh: Okay. And where is this Snow Park located, is it inside Imagica or it is a separate?

Kapil Bagla: It is part of master plan of Imagica, it adjacent to it.

Moderator: Thank you. Next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Just one question. Is the cost optimization exercise sort of over and current run rate of 14.5 crores for hotel and both the parks fixed cost is there like something which we should expect or build for the next year?

Rakesh Khurmi: Yeah, so we are still looking at few of the options where we are at the same time trying to optimize the cost but you have to also looking at going forward to more factors which we have been saying one is a little bit of inflation and there could be few heads like in last call I had highlighted in few head there could be a small increase the cost specifically for example say repair and maintenance because these are new rides and as we go forward there could be some increase rightly so more or less the clock would be same so we are looking at almost running a same clock by reducing the cost and also looking at the inflation into account.

Kapil Bagla: That also includes the marketing in terms of absolute terms.

Rakesh Khurmi: That is right.

Jay Doshi: Understood. And this 936 crores is net debt as of December end?

Rakesh Khurmi: That is right.

Moderator: Thank you. Next question is from the line of Sonal Gandhi from Anand Rathi Securities. Please go ahead.

Sonal Gandhi: I have three questions, one being about the service tax impact so what I believe is so far we have already passed on like 6% kind of hike so by end of this year should we be able to pass on entire like 14.5% remaining 8% or we are just going to pass like 4% to 5%?

Rakesh Khurmi: No, we will have the pricing in such a manner so that we are able to look at a jump of around Rs.150 the realization at ticket level. Almost the current rate of interest will get passed on which is around service tax sorry, so 14% yeah, that is right.

Sonal Gandhi: So entire 14%, so basically we are not trying to take that benefit of input credit?

Rakesh Khurm: Input credit is already waived off yeah. See the way I mean this is the average realization but the tariff the way structure you have to do it in very simple manner so that it does not disturb the positioning the way we have been positioning so far. Keeping all that in mind at a realization level we are looking at a jump of around Rs.150.

Sonal Gandhi: Okay. Basically why I was asking this because earlier we have decided that we pass on about 11% hike in around 3.5% is what we have is input credit. So basically we are passing on the entire hike, so should we see a certain EBITDA margin expansion going forward?

Rakesh Kurmi: Yeah, that is right.

Sonal Gandhi: Second is what level of debt should we expect by end of FY16?

Rakesh Khurmi: See last time we highlighted that the peak debt currently it is 936 so we are looking at another at the most Rs.20 crores to Rs.25 crores draw down from the second facility which we had lined-up in September, the total peak that should be around 970 crores.

Sonal Gandhi: Net debt?

Rakesh Khurmi: Yeah.

Sonal Gandhi: Okay. And sir, what are variable cost for hotels I mean apart from F&B because you just highlighted fixed cost for hotel would be about 1.5 crores a month about 1.8 crores so what is the variable cost apart from F&B?

Rakesh Khurmi: So the one is variable, the other is a management fee we also we have….

Sonal Gandhi: Just two of it?

Rakesh Khurmi: Yeah.

Moderator: Thank you. Next question is from the line of Dixit Doshi from Whitestone. Please go ahead.

Dixit Doshi: Yeah, sir I just wanted to understand that you give a data that this much percentage of your customer comes from the none-catchment areas. So just wanted to understand that how you manage this record and how we come to know that this person came from Mumbai or Pune or rest of Maharashtra or outside Maharashtra?

Kapil Bagla: See we have a very strong tracking system. Okay, I will explain to you, it is a series of activities that we do to gaze that, okay. One is that we have almost about 30% of our bookings are happen through online so in online you get all the data as it is. Two, we capture mobile number and place of visitor pass when the person comes to the box office to take ticket so we get that data. Three, we do close to about 200 customers to 250 customers surveys, guest surveys and customer surveys in the park every day. So combining these two data it gives a very-very large sample size to give you the numbers of which came from which city in fact we go city wise I can predict that how many people came from what are my top 15 cities that people are coming from.

Dixit Doshi: And you mentioned that we will add one small ride every year and may be one big ride every three year. So what kind of CAPEX you look for that?

Kapil Bagla: See at present we are riding two big things in FY17 already, okay as I told because these are revenue share arrangement there are no major CAPEX involved in these two rides with the addition of these two rides I think we are almost at least for the next two years we do not see any major addition on rides because already this will be a huge expansion that we will have for FY17.

Dixit Doshi: Okay. Just wanted to understand one thing since most of our rides are very capital intensive so, is there any model like just like an aviation where we can sale and lease back this and just pay the just pay the lease.

Kapil Bagla: Operating rides?

Dixit Doshi: Yeah.

Kapil Bagla: It is available in some places but what happens is that the aviation why this is easily available because it is a very standard product for us the rides that we acquire in this industry are very very specific and customized and it is not an industry that they will give operating lease to us and then you give it to somebody else if we are not interested in something like that. It is not easy transferable to that extent. So I think the operating lease model is not very prevalent in this industry at least I do not know that model happening.

Dixit Doshi: Okay. And you have mentioned that average room revenue for hotel was 5,806 and what was the F&B revenue for hotel?

Rakesh Khurmi: Yeah, so hotel 2,860 is the F&B and others so other is a very small component, it is primarily F&B.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Elara Capital. Please go ahead.

Sumant Kumar: Sir, assuming a price increase for next quarter and current revenue mix so, what kind of growth we can expect for FY17?

Kapil Bagla: In terms of ARPU growth?

Sumant Kumar: Overall growth. Revenue

Kapil Bagla: Yeah, I mean I think that is a little bit early we are still working on our annual plan for the next year so probably by Feb end or March we will be ready with our plan but at least in terms of realization and in terms of ARPU increases we are can easily safe to say that we will have at least a 15% to 20% increase in ARPU.

Sumant Kumar: Okay. So currently Y-o-Y what is the nine month ARPU down?

Kapil Bagla: No, to our current ARPU nine month ARPU average for both the past together is what…

Rakesh Khurmi: Yeah, current nine months' average is 1,515.

Sumant Kumar: Okay. So how much decline Y-o-Y?

Rakesh Khurmi: So last year it was 1,832 which is result of service tax and Water Park impact because I am telling the consolidated ARPU so at least the service tax component we are trying to pass on and recover Rs.150 roughly and so the realization at a consolidated level if you normalize for service tax and should be around 1,650.

Sumant Kumar: So still down Y-o-Yes, 10% to 11% kind of?

Rakesh Khurmi: No, see the other component is Water Park mix. The Water Park is a major change for nine months. If you look at nine months performance as I highlighted the footfall this year is 39% Water Park and last year it was only 12. So in 7,64,000 customers only 90,000 Water Park and in this year 12.6 lakhs have 4.78 lakhs so 39%. So there is a big shift in terms of the mix that is what is leading to the average realization going down though the overall revenue is going to increase as the customers are increasing.

Sumant Kumar: Okay. So can we put in this way what kind of footfall growth we are expecting coming year?

Kapil Bagla: As I told you that we are still working on our annual plans and we should be able to have a little more idea in probably the first call of next year and I am sure we are looking at exciting times in FY17.

Sumant Kumar: And what kind of hotel occupancy we can expect annually?

Kapil Bagla: I think we would be happy if we range anywhere in the region of 50% to 60% on a full blown basis which will be a very healthy occupancy for our size and our catch.

Rakesh Khurmi: Considering 287 so 116 rooms giving 75% may not be sustainable as we had more inventory and then on full year basis looking at the season fluctuation 50% to 55% I think is a very decent capacity utilization.

Sumant Kumar: And what you have said in earlier quarter concall you are expanding your distribution reach so assuming that our A&P and distribution cost is likely to go up going forward?

Rakesh Khurmi: See in absolute amount it may little bit go up because if the mix in favor of the channel partner sale goes up then absolute amount it may go up. But you have to look at the trade-off between the cost of acquisition for marketing versus this so, a) the selling and distribution commission base it is success base that means you are paying only if the sale is broad plus the cost of acquisition as a percentage and per customer is less than the marketing cost per se. So if you look at this way then there may not be change in the percentage wise cost analysis.

Sumant Kumar: So what is the role of the technology in our business and how it is driving our business and can we have any plan to reduce our acquisition cost through own technology?

Kapil Bagla: No, see the way that all MARCOM across all products is that people are trying to move towards digital, okay in terms of acquisition cost and I think we are very-very aggressive on digital, we have launched our app in August last year and we have been very-very successful in terms of the attraction that we are having on the app almost over about 1 lakh downloads on the app and now 30% ticketing happening through online. So I think we are apart from the Theme Park company as far as the customer acquisition technicalities it is not just the ease of transaction okay, in terms of our website and doing the ease of customer acquisition we are doing technology in great areas so I think digital will be a way forward. I think we will still use the conventional means being a consumer brand but that is all what we can do.

Sumant Kumar: Sir no, sir my question is the shift in technology own technology you are talking about app the acquisition cost through distribution channel and own technology what is the differential and we can expect some shift towards own technology own app?

Kapil Bagla: No, this is all own technology with us.

Rakesh Khurmi: No, what he is trying to say is if I can answer that, if there is a sale happening through say our own app there is no cost involved and if you are doing it vis-à-vis the S&D or channel partner then there is a cost. So he is saying how we can ramp-up more sales through our own technology driven channels and save cost of acquisition?

Sumant Kumar: Right.

Kapil Bagla: See as a percentage of overall revenues and the kind of growth that we are expecting and particularly, I will tell you for non-catchment it is not the ticket sales which is important when you are driving customer from an Indore or Jaipur or from Delhi. You require an intermediary okay which is may be an online travel agent or an offline travel agent or some kind of channel partner who will also instigate that sale a lot of times like for example a lot of group sales that are happening while we are doing or social group sales they also happen through intermediaries because of their relationship so I do not think we can ignore the offline channel. We can only increase the way that our walk-in increase through our own technology which is why the app, the website, the IVR booking that we are having on call center all these things are having direct acquisition to us.

Rakesh Khurmi: No, but at the same time I think it is journey where we have just taken the initiative on the app and few related things like that and we have to convert this into a sort of habit of doing you know sale or transaction on your own. So today people go back to the channel partner so they do not they are not computer savvy or it is yet to happen so once we probably move in terms of the website or the application based sales booking from say 25 percentage to 30 percentage, 30 percentage to 40 percentage, 40 percentage to 50 percentage that is coming by in large on its own without the help of channel partner so it will evolve I think and will be say in early days I think it will be very important to do the handholding through the channel partners and not look forward to the technology helping straight away in reducing the cost of acquisition.

Moderator: Thank you. Next question is from the line of Shreyans Bhukhanwala from Sushil Finance. Please go ahead.

Shreyans Bhukhanwala: Sir, just wanted to ask on the breakeven front like you are expecting cash breakeven for FY17 and roughly the PAT breakeven by FY18. So what kind of rough footfalls would require for this breakeven.

Kapil Bagla: Okay. So we just to again come back on prospective as far as the EBITDA breakeven is concerned I think the average footfall requirement as our current realization is about 1.1 million people, okay 1 million footfalls. As far as the cash breakeven is concerned our guess is that it is in the region of about 1.8 million footfalls - 1.9 million. We are currently tracking a run rate of about 1.6 million footfalls now this is a function of how ARPU grows and our footfalls grows overall but this will probably give you some sense in terms of what is looking at and how we are seeing FY17.

Shreyans Bhukhanwala: Okay. Sir, on the service tax front I am not very aware of that, we came into service tax this year?

Rakesh Khurmi: Right.

Shreyans Bhukhanwala: Okay. From April, right?

Rakesh Khurmi: It got effected from June.

Shreyans Bhukhanwala: Okay, from June, okay. And thirdly, just want to know sir, how our model work for Snow Park because what I got to know I got to understand is basically land is ours the developer will be other person.

Kapil Bagla: No, so it is basically the partner the vendor who is Snow Park specialist is building attraction on our land okay and we have rare share arrangement so, he has a permissible to use that land for this Snow Park attraction, okay. It is a 10-year agreement for now and with which we have a revenue share arrangement. All the ticketing will happen through us only, okay so we will be a common interface to the customer so a customer can book Snow Park ticket on our website, on our ticket counters, we will do combination sales between Imagica, Snowmagica, Aquamagica and everything together so all the frontend sales is controlled by us.

Shreyans Bhukhanwala: Okay. And so basically it would be then profit sharing, right?

Kapil Bagla: No, it is a revenue share, we are not getting into profit, it is a 25% revenue share.

Shreyans Bhukhanwala: Okay. So expense only ours.

Kapil Bagla: No, OPEX for us.

Moderator: Thank you. Next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just a book keeping question to being with how much is the hotel fixed cost that you talked about?

Rakesh Khurmi: The total is 1.95 crores right and fixed cost for hotel is 1.7 crores.

Amit Kumar: 1.7 crores?

Rakesh Khurmi: Right.

Amit Kumar: Okay, got it. Sir, just wanted to understand this Half Ticket Sundays promotion that you also started running in this quarter I am a little bit surprised at your choice of day I mean Sunday I would presume being a holiday all across typically would any which ways garner you fairly strong footfalls and if I remember correctly, you are already running a promotion on Sunday where if the consumer essentially comes through the bus that you have the ride essentially comes out to be free. So essentially it is almost a Rs.2,500 price point you have down to Rs.1,600 on a holiday so just wanted to understand the thought behind this.

Kapil Bagla: So basically first to correct you that the price point for Sunday will be Rs.1,999…

Amit Kumar: Assuming a consumer is coming by bus there is another Rs.500 charge which is also there.

Kapil Bagla: See I will tell you when you do a promotion it is done for two reasons, okay one is to attract the customer. The thought behind that process was that typically what we have seen is that our footfalls on Sunday were lower than the footfalls on Saturday, traditionally. And our footfalls on Friday was higher than the footfalls of Saturday that was the situation now please understand we were a perishable commodity so there was a thought process that why cannot we make Sunday which is a generally a most opportune time for somebody to go out to have maximum people to convert. So we thought it as a promotion. As far as the average realization is concerned I do not think there is a big compromise because if you see right now the pricing is fixed as a child price. However, you always had a mix about adults and child in otherwise so technically there is no major compromise, it is only a promotion that was done to activate Sundays to increase to a larger platform. See you will come up with something or the other as a communication strategy and these are not permanent property you will do something to entice certain consumer segment. We will see and we will do something else going forward and nothing of the promotions are permanent it is only very tactical and time bound in nature.

Amit Kumar: My only point is that now that we are talking about essentially passing on the service tax component to the consumer so on one hand we are essentially trying to increase our realizations and I am little bit surprised by the fact also that your Friday and Saturday footfalls are higher than Sunday.

Kapil Bagla: Yeah, that is not our phenomena. This is a phenomena internationally in most of the Theme Park that in most of the Theme Park Saturday is higher than Sunday and Friday is almost equivalent to Saturday I mean this is just because I will tell you and there is reason to it. What happens typically on Sunday because you have to go back to work on Monday most of the families want to enjoy on Saturday and you have a larger activation on Saturday. The purpose of this thing was just to entice people that now you can also go in much larger numbers on Sunday and I think we always learn from our promotions and obviously we will review how the growth has been. I think there has been a growth in terms of footfalls on Sunday as compared to previous quarters on this. And we will review and revise the strategy going forward.

Rakesh Khurmi: See in any case you try to do the revenue analysis and do the drill down, you end up doing the day wise analysis in any case and it is not the Sunday wherever we have a weak day, weak meaning not the week perspective in terms of not that strong. On those dyes we have to intervene and do something so that we can ramp-up so that is not Sunday any other day also wherever we are not that strong we will keep doing some or the other thing.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Kapil Bagla: Thank you, everybody. I think I would just like to leave the thought with all the people around. One of course is the thought process of the business that we are trying to establish of Theme Park. In all said and done it is first time that somebody is attempting to create a market of Theme Park in this country and we are still in a learning phase and in the ramp-up phase, in the growth phase of the project, so whenever you analyze our performance, whenever you analyze our issues, you have to see the trend rather than specific numbers. We also learn every time what happens in one quarter to other. We do not have 10 years - 12 year template to follow as an industry base. So we are actually creating template every year for us so we are creating a template this year which will probably become a template I do not have a industry template for India per se as an industry. So I think, for us growth is the only template that we have as far as we are concerned and I think we are taking all the steps that are necessary to increase growth, increase realization, increase profitability and generally make Theme Park industry which is an experience that for Indian customers which we have not seen before that is what I want to leave the thought behind. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Adlabs Entertainment Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.