"PVR Limited 3Q FY-16 Earnings Conference Call"

February 1, 2016

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MODERATOR: **MR. NIKET SHAH-VICE PRESIDENT-INSTITUTIONAL EQUITIES- MOSL**

Moderator: Ladies and gentlemen good day and welcome to the PVR Limited 3Q FY16 Earnings Conference Call hosted by Motilal Oswal Securities. As a reminder all participants' line 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. Niket Shah from Motilal Oswal. Thank you and over to you sir.

Niket Shah: Thanks so much. We at Motilal Oswal are extremely pleased to host this call for Q3 FY 16 results for PVR Limited. From the management we have Mr. Ajay Bijli-Chairman and Managing Director, Mr. Sanjeev Kumar- Joint Managing Director and Mr. Nitin Sood- CFO of the company. I will hand it over to Ajay for his opening remarks post which we can open the floor for Q&A. Over to you Ajay.

Ajay Bijli: Thanks Niket. Good afternoon everyone. We also have Gautam Dutta-CEO of PVR here. Thank you for joining this call. I will give you quick snapshot of the Q3 numbers.

The consolidated revenues for this quarter ended December 31st 2015 were 507 crores as compared to 421 against the same period of last year which is up by 21%. Consolidated EBITDA for the quarter was 92 crores as against 83 crores same period last year, up by 11% and consolidated PAT for the quarter was 30 crores.

The footfalls increased by 3% to 16.5 million in the quarter while the average ticket prices rose by 8% as against the same period of last year. A 13% growth was seen in food and beverage revenues and our sponsorship revenues grew exponentially by 29% this quarter and that was on the back of some big films like Dilwale, Tamasha, Bajirao and despite the fact that they slightly underperformed.

This will be a landmark year in PVR's journey as the company turned free cash flow positive and would be able to fund it all organic growth through internal accruals. During the first nine months of the year the company has generated free cash flow of approximately 65 crores after meeting our CAPEX requirements and has also partly reduced our debt. Q4 also has started up very well. We have had a decent slate so far as the opening with Airlift etc has been quite good. In February we have Ghayal Once Again, Fitoor, Jai Gangajal, Rocky Handsome and Batman and Superman and going into April we have Fan, Kapoor and Sons etc.

On the screen opening front we are slightly behind but we are waiting licenses of three more properties which are totalling about another 14 screens but 27 screens we have already opened this quarter and we are hoping to open about 53 total this year. So we continue to remain in the leading position both in terms of screen counts and revenues and this quarter which is this financial year we hope to surpass the landmark of 500 screens. Thanks very much and now I would like to open the house for any Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar: First question is on your higher revenue growth which was pretty high this quarter. Wanted to understand what is driving that, any seasonality involved and how we should look at this growth going forward?

Gautam Dutta: Quarter 3 has always been our biggest quarter, it coincides along with Diwali, big releases and a lot of product launches that happen in this quarter. So overall industry is also very buoyant in this phase and historically Q3 has been by far the biggest driving quarter. This year we just got the ingredients right, we had big films, we had Shahrukh Khan, we had Salman, we had all these big films coming in. There were a couple of product launches. We were able to not only grow by volume but also by value by able to charge clients who came through us, advertising in our circuit this quarter.

Sachin Salgaonkar: How should we look at it going forward?

Gautam Dutta: Quarter 4 is actually the slowest quarter overall however what we had actually given a guidance to the market will be well underway to be achieving those numbers. So technically it will be still a double digit growth in Quarter 4 however slower than Q3.

Sachin Salgaonkar: Second question, any updates on DT Cinema acquisition, anything from CCI?

Nitin Sood: The matter is sub judiced. I think I can't tell much about that except for the fact that we are in a dialogue with them and we expect before the close of the financial year we should get the requisite approvals.

Sachin Salgaonkar: Your tax rate very clearly it has inched up as compared to even last couple of quarters. Just wanted to understand how we should look at it going forward also?

Nitin Sood: I think the past year the tax rates were much lower because we had lot of entertainment tax subsidies and brought forward losses which we kind of recouped fully now. With the change of law and the new ICDS in terms of tax accounting standards, the entertainment tax subsidies no longer available has released for any multiplex company. Similarly all of the subsidies which were earlier treated as a capital, they are no longer available for a reduction while computing income tax profit. So from next year onwards we will move on to the full tax regime and we will be providing for the full tax in our accounting books.

Sachin Salgaonkar: Just to make it clear, this is mainly from an accounting book perspective in your cash flow the tax rate will be relatively lower?

Nitin Sood: From a cash flow perspective we will get credit of all the MAT entitlement which is due. So from a cash flow perspective we will still continue to pay for next couple of years.

Management: Will be utilizing that MAT credit which is already there in the books so from a P&L perspective we have to account for the whole 30% but from a cash perspective it will be lower, it will be on the similar lines as MAT.

Moderator: Next question is from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Could you spend some time explaining why some of your expense lines were running ahead of the revenue lines. I'm thinking here particularly as employee expenses which were 36% year-on-year and other expenditure line item which I suspect has something to do with the distribution arm or production arm or something like that and SG&A expenses in general?

Nitin Sood: I think the first question is the personal expenses have shot up significantly during the quarter. One of the big reasons for that is the Parliament approved the revised payment of bonus act under which they made a revision in the guidelines for payment of bonus with retrospective effect from 2014-15. Under that provision we have to carry a provision of approximately Rs. 5 crores or 50 million Indian rupees in the accounting books towards bonus that will become due and payable based on the amendments that have been made on the act. So that is one big reason for the change, apart from that the bulk of the growth is attributable to the normal inflation growth which is about 8% to 10% increase in annual basis. So that's been one big reason for that. You talked about SG&A cost, SG&A cost if you look at a consolidated level, again they are essentially due to the fact that in PVR Pictures, we distributed two movies where their costs are clubbed under SG&A cost and the revenues are clubbed under the film distribution income. So basically both the revenues and costs are inflated to that extent and so we have made a decent EBITDA on both the movies but the way it gets accounted is your revenues are higher and so is your cost.

Charles Cartledge: Finally, just on ramp-up, your screens price was 8%, your rental cost was up 17.

Nitin Sood: Part of the rental cost increase is due to new property additions on a same-store level it is about 11% odd which is reflected but in real sense it is about 5% on existing properties. Last year what has happened was we had got a credit; we had negotiated with one of the industry developers who had reduced the rental cost with retrospective effect 4 to 8 years and given us a credit for that. So in last year similar quarter the rental cost was much lower because of the credit that we had got accounted for so about 4% to 5% impact is reflecting in the numbers this year because of the credit that we had got last year. Apart from that a normal rental growth on existing properties is about 5%.

Charles Cartledge: So just to sum up, we have got a couple of one-off items in these numbers, mainly the bonus elements to the latest costs and the expression of a low rental which is now revising and normalizing. If we look at these two cost lines for an underlying growth rate depending on the labor expense underlying basis is up 8% to 10% and rental is up about 12%, is that right?

Nitin Sood: Yes correct. 12% because of the credit that we got last year so this quarter is looking unusually high growth as against the lower base. But in real sense the real rental growth on same store is about 5%.

Moderator: Next question is from the line of Sayan Sharma from Crisil Limited. Please go ahead.

Sayan Sharma: Is it safe to assume that our distribution margin is lower than our exhibition margin? Could you please share some outlook on the distribution business?

Nitin Sood: Distribution is purely a logistics business, it's a pure commission business that we run and it's a very small working capital business. So our total capital investment in that business is about $2.5 million so there we don't care about the margins because every film that we distribute there is coming and delivering us incremental cash flow. So that business operates at 4% to 5% gross margins as compared to our exhibition business because that's more as a working capital business as compared to a traditional business where we have to invest significant amount of money.

Sayan Sharma: If my understanding is right then you will pay some money to Miramax or Lionsgate for acquiring the rights and that will go in your other expense and that has what has happened clearly, right?

Nitin Sood: No, in this quarter we distributed two films Dilwale and Singh is Bling in two territories and that's the reason the top line for PVR Pictures is also high and the cost which is getting reflected in other expenses is also high. But as I said they operate at a low gross margin business so that's the reason the margins are reflecting is slightly low.

Sayan Sharma: Just wanted to understand the reason for growth in ATP also and in that regard could you please share the mix between Hollywood and Bollywood and regional movies?

Gautam Dutta: The regional currently is at about 24%, Hollywood also would be about 20% odd and rest would be all Bollywood. So in terms of ATP except for regional which is lower and it's controlled in certain territories like Marathi and all of those films and Kannada films down south. Bollywood and Hollywood would largely have the same pattern.

Sayan Sharma: Could you please give me the net debt figure for this quarter?

Nitin Sood: Net debt figure is around 645 crores odd, I'm not counting the cash which has already been there for funding the DT transaction. So between the starting of the year and till 31st December we have paid down around 70-75 crores of debt.

Moderator: Next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is again on movie production, Dilwale did not really live up to expectations so in that context what is the downside you faced in distributing this kind of a movie?

Nitin Sood: From a distribution perspective we are absolutely okay.

Kamal Gianchandani: As Nitin was saying just to complete that statement. Our distribution business is slightly different from the way distribution business is structured in India. We have unique business model where we sort of rent our infrastructure and we distribute on a commission basis, commission which is linked to the overall performance of the films business. So really the only sort of limitation could be that Dilwale was expected to perform at a certain level and it performed below that certain level as a result of which PVR Pictures will earn a lower commission. But under no circumstances PVR Pictures would be exposed to the risk of performance of the film.

Abneesh Roy: Initially you said its 4% to 5% gross margin.

Kamal Gianchandani: Sure.

Abneesh Roy: If it was a hit movie because this band is too small. You are saying it's lower but the band itself is quite low so what's the real band when it does well, what is the margin and when it doesn't do well what is the…

Kamal Gianchandani: You need to demarcate the content which has handled the films which are distributed by PVR Pictures into broad categories. One category is that of Hollywood films where the gross profit margin tends to be higher because we tend to get all the rights in addition to theatrical rights we also get television rights, home entertainment rights, online screening rights and all of the rights which will take all other formats which will take shape in future, we get all those rights to exploit in India and the neighboring countries. Because we have all rights and because we keep exploiting rights as and when they become available to us, the gross profit margin for Hollywood films tends to be higher. But Hollywood by its nature, by the DNA of that content is the smaller segment of business in India. The other category of films that PVR Pictures handles is typically the Hindi films what we call the Bollywood film industry and here we get only theatrical rights on rent your infrastructure basis. So we have a system of distribution, we have offices all spread across the country. We enjoy a very high level of credibility in the marketplace. We are seen as very savvy marketeers and which is the reason independent producers who have limited infrastructure in the country or limited understanding of distribution in the country come to us and appoint us as distributors on commission basis. In this case the margin at which we work is wafer thin. We work typically between 3% to 5% to 6% in some cases which is where in the quarter where we distribute more Hindi films which is what happened in Q3, we distributed Singh is Bling which is the Akshay Kumar starrer film which was released in October 2nd and then we did Dilwale which was Shahrukh Khan's from which released on December 18th. In Q3 bulk of the revenue or bulk of business that PVR Pictures handled or distributed was Hindi which is why you see the gross profit margin which has come down dramatically. But like Nitin mentioned ours is a working capital business. We have very limited working capital that we have invested in the business and it's in our interest to sweat that working capital as much as possible, recycle that working capital as many times as possible which is what we try to do.

Abneesh Roy: So will these be a recurring trend of Bollywood movies you will distribute for example next one or two quarters are you doing any big-budget distribution or big-budget Bollywood movie?

Kamal Gianchandani: In Q4 also we are doing some Bollywood films which are mid-level in nature. They are not as big as Singh is Bling and Dilwale. But going forward it will always remain a balance affair. So if you look at Q1 and Q2 in this current financial year, we were more focused on the Hollywood films and Q3 and Q4 we were doing more of Bollywood films. So this fine balance between the two languages we will continue to maintain.

Abneesh Roy: Why I'm asking this is, we earlier had production of movies and then we stopped it. So from Q3 you are saying there is absolutely no reason to believe that there is some learning that we should grind or focus largely on Hollywood movies that is not there because your margins for example are 4% to 5% and these are gross margins so EBITDA margin is almost negligible in this.

Kamal Gianchandani: Firstly this is not production, this is distribution which is a very distinct activity from production activity what you're referring to what we have stopped amount is conceptualizing and then producing films where the performance risks of those films was an entirely on PVR. We have moved away, we took learning from those 4 or 5 years that we spent in this business and we moved away completely from production. Now what we're focusing on is the distribution activities where large part of our business is driven by Hollywood but because we want to expand the business and make it a more meaningful scale business we have also delved into Hindi films, Bollywood film industry. But here I must emphasize that the performance of risk of films is not on PVR Pictures and that is how it is different from production activities, production business where the performance risk of a film was on PVR Pictures.

Nitin Sood: To clarify further, there is the concept of EBITDA margin in this business; we don't have to invest anything. We have office and we have a team so the only investment for us is people which is irrespective whether I distribute 4 films or 40 films in a year. So for me everything that I add on or do more films is really incremental cash flow, the way we measure the success of this business is I have invested 15 crores capital in this business and the business delivers me a 5 crores EBITDA annually so my payback is very significant.

Abneesh Roy: Your Hollywood margins will they be in double digits?

Nitin Sood: Yes they will be closer to 20% and upwards but there we technically take a performance risk on the film because we buy the film before even they have started getting into production.

Abneesh Roy: My next question is your ad growth was extremely good and then Dilwale doesn't work so in this industry if you see there is no real currency to see how efficient the ad was so in that context this quarter do you see a push back from advertisers that 'listen we have spent so much on Dilwale and then this is not delivered'. I'm taking an example Dilwale may or may not have delivered. But can the ad growth him of in the coming quarter because of these kind of issues?

Gautam Dutta: They will come off because Quarter 4 is slower but they wouldn't come off because of these reasons. Technically we're completely insulated on the success or failure of the film, the way cinema advertising is sold and is bought is on the perception of the number of people who would possibly come and see the film. So technically no such numbers are technically shared with the client and that's the way it's structured currently.

Abneesh Roy: And on measurability any update, I think something was in work so any development on that front measurability of ad, how effective it is?

Gautam Dutta: That was proof of play but actually we keep doing a lot of research technically which is syndicated research that we do with certain agencies. Some of our big multinational clients have also got their agencies to kind of major impact of cinema advertising and we have always come in very-very strong there and we call it an impact, media impact one of the reasons why people buy cinema advertising is because of the impact it delivers as compared to any other media.

Abneesh Roy: My last question is on the bowling business, the revenues are more or less flat for the last eight quarters, I'm sure you would be having some cost inflation. So what's the game plan here because of eight quarters flattish revenue where do you see this business from a longer-term perspective?

Nitin Sood: The call internally that we have taken right now is not to grow that business. The good news is that the business continues to do very healthy operating margins. The growth may be limited to a single digit growth overall. But the revenues and cost continue to be in-line and even now we are doing upwards of 20% operating margins on the business. The business is free cash flow positive with zero debt. I think at some point of time we will take a view and what more to do in this business but as thing stands we are on a standstill mode in this business.

Abneesh Roy: Because your revenues are flat 19 crores YoY so your costs would have increased, rent would have increased, power costs would have increased so I couldn't understand how cost is also…

Ajay Bijli: But we manage our costs better.

Nitin Sood: Margins are actually intact. If you look at the margins they have been delivering the same 21%-22% kind of margins so we have kind of reduced some of the other costs.

Moderator: Next question is from the line of Ashutosh Shirwaikar from Quantum Finance. Please go ahead.

Ashutosh Shirwaikar: I have three questions. The first one is that given the real estate scenario right now that you read so much in the newspapers that that has not yet picked up for India and plus the competition from Inox and now Cinepolis, you still feel that you would be able to grow at around 50 screen traditions for the year?

Gautam Dutta: Yes absolutely. We have signed up a lot of malls which are coming up across the country and that's why we have not restricted ourselves to one geography. We are already in the 44 cities and so we have very good relationships with lots of developers and this is a very realistic rollout plan and shopping centers are getting developed. There are retailers who want to grow and this 50 to 60 screens is a very realistic number for us to grow.

Ashutosh Shirwaikar: Considering you are probably looking to increase the share of food and beverages and the total revenue, right?

Ajay Bijli: Yes.

Ashutosh Shirwaikar: So this would probably increases your EBITDA margin in the future so where do you think it would stabilize, overall consolidated EBITDA margin?

Nitin Sood: As we told there is no specific answer for a 12 months basis but we believe India has the potential for a much higher share of F&B revenue pie in cinemas as compared to where we are currently. Food and beverage revenues approximately contributed about 38% to 39% of the box office revenues the way we measure it and we think potential is for them to move up to 50% over the next five years by gaining 100 to 200 bps on annual basis. So they should all positively add to the EBITDA margins but there is complexity of lot of things. It is very difficult to say what specific growth will that translate into EBITDA margins. But we think that's the real potential of F&B.

Ashutosh Shirwaikar: Around 50%?

Nitin Sood: That’s it.

Ashutosh Shirwaikar: I think probably you are expending more into the South of India where you generally see more occupancy as compared to rest of India so do you think the average occupancy is going to increase for you? I'm just shaking with you if that is the case whether in the South there is more occupancy.

Ajay Bijli: South there is more occupancy because there is more content that was difficult and you have, six different languages movies that gets played and plus the supplier of multiplex is still lowest in the South therefore the occupancy is up. We are pan India company and on the pan India bases we have plans to expand in North, South, West and East as well. So on an average again the occupancy number would hover around the same number which is very healthy; I mean this number is probably the one of the highest in the world. But we continue to maintain our growth on average ticket prices, F&B and advertising revenues.

Moderator: Next question is from the line of Girish Pathak from Goldman Sachs. Please go ahead.

Girish Pathak: You were earlier explaining the Bollywood distribution business, Hollywood I understood you take performance risk. Bollywood is not clear to me that what is the value add that you are providing when you say you don't take performance risk. Can you explain it again what is the value add that you are doing in that value chain and whom are you paying money to and who is paying money to you in that?

30.00

Kamal Gianchandani: PVR Pictures is specifically on the Bollywood front. PVR Pictures has offices in multiple territories. As you know the whole country is divided into 6.5 large territories. We have presence in all the territories. These are our people sitting and directly interfacing with the exhibitors. As you know distribution is agnostic to which chain we are dealing with. We deal with PVR as well as all other national chains as well as all independent multiplexes as well as the single screens who tend to be very fragmented. So we have our own people, our own distribution network spread across the country and these people are team members interfaced with the exhibitors directly. We have relationships in place, we have knowledge in place where we understand the territory, we understand depending on the film how wide to go, what sort of marketing budget to invest in a film. This is the very specialized skill set. You need enormous amount of experience of really gauging what is the potential of the film and then using your expertise and experiences, the knowhow that you have on the ground to exploit the right amount to juice from each and every film that you're involved in. Because of this skill set which is quite unique in nature and coupled with the credibility that PVR enjoys in the market place, we have seen as a very transparent system, system which is driven by data and analytics and producers absolutely love that. They love to know, firstly they like to have the confidence in the distributor that the money or the intellectual property that they're parting with the distributor, they are handing over to the distributor for exploitation would be handled in the most judicious manner. Secondly they want to have this comfort and the confidence that the distributors will actually maximize revenue and ensure that the revenue travels back to the producer. Thirdly they love to get feedback, they like to know on day one what kind of performance is the film doing at cinemas. So for that they like to get data from distributors.

Girish Pathak: You would collect money from the various chains, single screen and you would pay back to the producer. You would pay to the producer sooner than you would collect from these and therefore the need for investing working capital.

Kamal Gianchandani: That's right.

Girish Pathak: You might also involve a distributor who would in turn take performance risk that also would be true?

Kamal Gianchandani: Mostly no because the producers who we tend to deal with are the ones who want to take the performance risk on themselves.

Girish Pathak: It's just like so some amount of working capital financing and some amount of consultancy services?

Kamal Gianchandani: Absolutely right you are.

Girish Pathak: On spend per heads coming back to the exhibition business, the increase on comparable properties of low-teens how much of that is driven by like-to-like price increase in the product that have been sold in these outlets?

Gautam Dutta: It's technically divided between volume and value, about 60% comes out of pricing and about 40% out of volume.

Girish Pathak: Is there a metric that you capture of in terms of what percentage of footfalls are not buying anything to the extent that behavior is maximized and then further growth on comparable footfalls would then be limited only to price increase on the products that have been sold?

Gautam Dutta: We look at the metrics called the SPH which is spend per head which is kind of does this. Also what we do is product per person sold so we divide all the F&B products to the total number of people who come in and monitor that to be able to see what has been the strike rate. We have our own benchmarks internally of what we want for cinema and we drive those targets then.

Moderator: We have the next question from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Your advertising growth has been extraordinarily good and earlier in the year you were indicating mid-teen kind of growth and we have done 24% in the nine months. So what is it that has surprised you? I think you mentioned that there were two product launches in your response to the similar question earlier if you could throw some light on that.

Gautam Dutta: As I said Quarter 3 is always been a big quarter. We got three big releases, we had the Prem Ratan Dhan Payo, Dilwale and Bajirao so technically there was enough for the teams to play with. The second as I said was because of Diwali, there were enough and more product launches. I never mentioned two; they were more than two that happened across automobiles and other sector so all that contributes it to a very healthy growth. We were also able to charge some premium for that week where both these big films came in. So Dilwale and Bajirao by far the biggest week because two blockbusters got bundled up together and we were able to charge some super premium from consumers who wanted to advertise with both the films which is kind of ended up with this number.

Jay Doshi: So if we have to look from a 2-3 years perspective, so essentially is it reasonable to assume that from inventory perspective for blockbuster movies you are almost operating at peak level? How should we look at growth from a slightly 2-3 outlook, will it be always yield driven and content dependent or there are more opportunities?

Nitin Sood: Advertising there will always be a function of big films releasing in a year. That has a very large role to play in terms of advertising revenue growth. As I said, Gautam mentioned earlier, advertising is also driven by the perception of the film rather than the actual performance of the film. So you may have great films like Talwar but nobody would want, the advertiser is really wanting to advertise with it even though there may have been footfalls. So number of big films will definitely play a very-very big role. The way we measure and track that metrics internally is yes blockbusters always tend to operate at its peak. We try and sell and maximize the maximum number of ad slots. So about 12 to 14 films in a year get us that and the balance 35 to 40 we always have spare inventory available there we can try and maximize, so it's a mix of pricing as well at as a volume strategy. The endeavor is to kind of how to increase the volume and the balance 35 to 40 weeks and how to monetize on the pricing in the 12 to 15 weeks.

Gautam Dutta: Also just to add to Nitin’s point, we are also working very aggressively to add more media within our cinema so technically on the off-screen in our lose exit corners we are creating these new age media options for clients to come and advertise with us. More and more clients are being offered onscreen and off-screen packages which technically works brilliantly for us and leaves us with enough and more options even during the blockbuster for these clients to offer.

Jay Doshi: The second question was on average ticket price, 9% is a very good growth on our same store basis. I am aware that from a medium-term perspective guided at 5%-6% kind of growth, for you to achieve and that again from a slightly longer-term outlook 3 to 5 years what is in your view is the like-to-like plain-vanilla price increase that you require and what are the other levers that you have like recliner seats and other things that you have been doing?

Nitin Sood: Overall the pricing growth as you always mentioned will grow with inflation so if inflation falls tomorrow to 2% to 3% our sense is that the pricing growth will also move according to that. That's what shaped up during the year. Last year given the fact that there were too many big films and Delhi’s also played a big role, we pushed price increase in markets like Delhi etc. to absorb then higher entertainment tax hike. That combination has helped us to get this pricing growth during the quarter. But I would suggest that on an ongoing basis, I think ticket pricing will grow with inflation. Incrementally what we are also realizing is that consumers are willing to pay more for a premium experience so as we premiumize the experience by putting stuff like recliner, different kind of seats that will play also very key role for us to achieve this pricing growth over the year. That's what happening in West where the US cinema experience is now moving towards premiumization and I think that will also evolve in India. At this stage it is slightly premature to say what will be the real contribution of that. I think we will have to watch as this involves and we also put more specific plans around this. So next year will probably a better year for us to answer this question.

Moderator: Next question is from the line of Ruchi Bohra from CLSA. Please go ahead.

Ruchi Bohra: My first question is to Ajay, looking at the fact that we have distributed two movies in this quarter what level or scale are we planning on this business in the next couple of years given that it's essentially a low margin business?

Ajay Bijli: I think we answered that Kamal is heading the Distribution division business based out of Bombay. He has already answered that Hollywood remains to be a focus area where we are distributing about 40 to 50 films a year. Hindi basically are just about will be 5 or 6 Hindi films which are of a medium to large profile and that's it really. As Kamal has also already articulated, it's also the function of the fact that we already have infrastructure and offices and people in place in this territory and we are using that structure to make it to distribute movie. Since it's a distribution business if nothing else not reduction at all as we are saying and its very low risk, we have the infrastructure and we are just basically giving the producer a very viable conduit to provide and distribute these movies in the cinema's in various regions.

Nitin Sood: Just to add on to that I think the Hindi distribution is also more opportunistic in nature rather than too planned in nature. So wherever we believe there is an opportunity we end up participating so there is no set business plan to say that we have to do 200 crores revenue this year because that's not really the intention.

Ruchi Bohra: So this is not a focus area, it's more opportunistic you are saying and you may see this in the next few….

Ajay Bijli: Basically currently it's 50-60 crores.

Nitin Sood: Hindi distribution is about 50 crores odd.

Ajay Bijli: It's only opportunistic as and when basically a producer has the need in a certain territory, first of all it's not even all India, most of the time done for one or two or three territories and where they see need that they need somewhat reputable to distribute their movies then we enter into a deal. We don't pay anything up front; it's all based on commission.

Ruchi Bohra: I think from our perspective an additional income source is obviously appreciable. But if this business achieves some level of scale where it dilutes your overall margins then it suddenly changes the profile of the business, so I was asking from that perspective. My second question is on the entertainment tax—I know that's a bit of a sticky issue—so taxes have gone up by roughly about 2.7% on a year-over-year basis and I understand that incrementally a lot of our screens are also getting out of the tax exemption. So first of all can you give us some guidance in FY17 and 18 what percentage of our screens would be e-tax exempt and how this entertainment tax would be kind of evolving assuming no past through taking ticket price hikes?

Nitin Sood: If you look at the current scenario percentage of entertainment tax exempt screens, there is only about 14% to 15% of the total screens which are exempted from entertainment tax. That ratio will largely remain in that ratio of 13% to 15% because we are also in some geography where exemption still continues, we may end up adding few more screens. But entertainment if you look at the big change in entertainment tax from this year has been almost 200 to 300 bps. That's been also one of the big reasons why the margins would have got impacted. I think we have been lucky to be able to cover up that dip from other sources. I think you asked about FY17 and FY18, we are really hoping by FY18 GST comes because the impact of such high entertainment tax on the overall operating numbers will continue to be very high. Hopefully with the transition to GST, the amount of margin expansion which we can see on the overall business should be quite significant not just by reduction on the entertainment tax rates. But overall on the cost side the increases in service tax on almost all costs today for which we can't take the single rupee of credit, I think they are also hurting us equally bad. So hopefully transition to GST will be a very-very big event for the entire industry and would significantly change the margin profile of the business.

Ruchi Bohra: Lastly on the occupancy bit, we have seen our occupancy is going up about 30% this year and in your experience of running this business over the last decade or so, where do you see occupancies are really heading? Can they settle at 30%-35% structurally given that suddenly you are seeing good content coming out, what is your sense taking or 2 to 5 years view?

Nitin Sood: If you look at the historical track record of the business, we have been at between 33% to 40% over a period of time. I still remember 2007-2008 when the industry was not yet evolved we almost did closer to upwards of 40% average occupancy. So 35% is a very would average, it could move some bps over and lower depending upon how the content profile is shaping up. It will remain in mid-30s, maybe slightly higher; maybe slightly lower depending upon the content profile.

Ajay Bijli: At the same time of course the endeavor is to keep taking it up only that's what the genesis of the business is, is to actually use various tools that we have is content, pricing, marketing and promotion so that the occupancy only goes up.

Ruchi Bohra: Last question on your expansion into South, it's a market with higher occupancies and some kind of lower ticket prices. So how would it impact to the overall occupancies and ticket price hikes in the next few years?

Ajay Bijli: As we said our expansion is not just focused in South India, we have focused all over India; of course it’s a large country looking at various other parts as well. We did open two good great projects last quarter, about nine screens in Bangalore and five screens in Chennai in Velachery. The mix of opening between South, West, East and North pretty much going to be the same when you look at 16 screens odd or so every year because the overall occupancy again looks to be in the similar ranges as the ATP also even though its lower in some states but it gets compensated by other cities and the overall content that is coming all over the country.

Nitin Sood: South actually is better for us because the higher occupancies end up compensating for the ticket prices so that's really not a concern. Ticket price cap today only exist in Hyderabad and Chennai whereas in case of Bangalore it's a freely priced market so the rising growth in Bangalore and Karnataka is as good as any other part of the country and occupancies are much higher. So that doesn't bother us at all because the screen penetration down South is still low that the occupancies do end up compensating for the pricing cap.

Moderator: Next question is from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Mangahni: Couple of data points to start with, first of all on your ATP, if I look at your top three cities, Mumbai, Delhi, Bangalore, what the average ATP be for these cities vis-à-vis your overall company average?

Nitin Sood: Average ticket pricing for Delhi would be closer to 250 bucks, Mumbai would be slightly lower than that and Bangalore would be slightly lower than Mumbai.

Aakash Mangahni: So the average for these three cities would be close to 225-230?

Nitin Sood: That's right.

Aakash Mangahni: Going forward FY17, FY18 and beyond incrementally when we add 50-60 screens in non-metros, how would the ATP be? Let's say some of your screens pan out for this year in the smaller towns, what is the general ATP like in these cities?

Nitin Sood: If you look at our new screen additions, they are in a mix of all the big cities and small cities and almost 50% of the portfolio over the next 2-3 years still in big cities so this ATP will almost be similar to what we have seen.

Aakash Mangahni: It is hard to imagine. Are adding any more screens in the metros-- let me ask you that question?

Nitin Sood: That's right, we are adding.

Ajay Bijli: We already have added 9 screens in Bangalore and 5 screens in Chennai this year itself and we are opening another 16 in Bangalore so these are all metros so the mix between metros and Tier-II and Tier-I is almost the same year on year. So there still opportunities coming up in the metros and we have another complex coming up in NOIDA also so there is still development and growth as well.

Aakash Mangahni: The answer to the earlier question, the earlier participant's question on the utilization in the South more than offsets for the lower ATP, could you put some numbers around that, what would the ATP right now be for you guys in the southern states and what is the utilization like?

Nitin Sood: South India again as I said, this is a very location specific business. Chennai the ticket pricing is controlled at Rs.120, in Hyderabad the ticket pricing is controlled at Rs.150 and recliners are allowed Rs.225 and Bangalore is a free pricing market. So Bangalore ticket pricing is about Rs.200 to 210 on an average. Average occupancies again vary territory to territory, Chennai could be as high as closer to 70%, Hyderabad will be about 50% and Bangalore will be again 40% to 50%.

Moderator: Next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: Can you give the CAPEX guidance for FY17 and 18?

Nitin Sood: Our overall CAPEX should be about 175 to 200 crores on annual basis. This will be a mix of new screen additions plus the money that we will be spending on maintenance of our refurbishment of some of the existing screens.

Rahul Maheshwari: On a conservative basis can we assume that the ATP prices on annual basis can increase by 5%?

Nitin Sood: We wouldn't be able to give that specific guidance. As I said they will grow with inflation so if the inflation is marginally lower I think they could be 3% to 4% if the inflation is slightly higher they could be slightly higher as well. But as I said they should grow with inflation.

Moderator: Next question is from the line of Prasad Padala from Investec. Please go ahead.

Prasad Padala: Just couple of data points from my side. One is the F&B strike rate, I think in the one of your previous con call; you mentioned it is around 30%-32%. So can you give me the numbers for the last nine months?

Nitin Sood: I won't have that number specifically in hand right now with me but the average is closer to 32%.

Prasad Padala: What would be the entertainment tax on non-Tamil films in Tamil Nadu?

Nitin Sood: Its 30%.

Moderator: Next question is from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Could you just elaborate on what appears to be deferral in your screen roll-out in the current financial year. So you are now targeting 53 additions, I have though that it will be in a previous guidance with 60 or more and whether this deferral is an ongoing thing or what is your target for the next 2 years because my understanding have been you have actually signed contracts for seven years out. So I am wondering whether this is just a one-off or whether anything in your annual screen additions might be closer to 30 to 50 and 60 or 70.

Nitin Sood: Not really, and this is not a long-term issue. From a construction perspective we are actually ready with more than 50 screens but we think some of the mall openings have got delayed where the malls are not yet ready so couple of screens are likely to get pushed to April and May because of the mall opening the lease rather than this. I don't think there is any change in the guidance. I think we still expect to open (+60) screens on annual basis for next year and the year after that. It could potentially pickup from there so no change in that. I think it's just more an aberration and our timing mismatch for about 30 to 60 days. Some of what we had expected to open in this quarter looks like now moving to April or May that's about it. Couple of months delay due to licensing and approvals and in some cases malls not getting the requisite permission for opening or not yet being ready the way we have thought.

Moderator: Next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: How are you really looking at this whole Netflix entry coming to India, any thoughts on that?

Ajay Bijli: Netflix has been around in the US for a long time now and if you see their mission in US is that even highest in recent year. So I think we live in a market where all formats or consumption of movies and shows coexist. So that’s the same that is going to happen in India as well. Of course Netflix is focusing on showing older films. As far as new films are concerned the first point of one tap of a customer is always going to be multiplex and the screen. So the same kind of a trend is going to pan out in India as well.

Niket Shah: The second question was on the margin expansion within the F&B part of the business, we have seen significant amount of margin expansion now in multiple quarters in the past as well. Is there a further room from here or you broadly kind of utilize the best of the margins that we can expand from here?

Nitin Sood: On the F&B front we are pretty much there. I don't think we would want to expand the margins beyond the 75%-76% gross margin that we have on the business. They will remain in that range. I don't see the margins at least in the near term moving up from where we are.

Niket Shah: Have there been any Cinemax screens gotten converted into PVR again and that would have helped a little bit of your ATP growth as well?

Ajay Bijli: We had a few, we have the conversion one in Delhi, two in Bangalore and one in Bombay mostly in Versova. And of course, they have been souped up, they have been renovated and we provided best technology and screens and everything. So of course with the better product we are able to incrementally charge little higher on our concessions and ATP.

Moderator: Next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: This CAPEX of 175 to 200 crores is annual CAPEX?

Nitin Sood: Yes.

Avinash Agarwal: How much of this is related to renovation and how much of it is capital on new screens?

Nitin Sood: Maintenance CAPEX would be somewhere around 45-50 crores, generally 3% of the revenues and the remaining would be spent on new sites expansion which would be around 130 to 135 crores odd.

Avinash Agarwal: This is assuming how many screens?

Nitin Sood: 60 screen openings.

Avinash Agarwal: This maintenance CAPEX is usually written-off in terms of repairs and maintenance that we show in P&L?

Nitin Sood: No this is over and above that. This is not repairing maintenance this is renovations of existing properties, existing cinemas which gets capitalized here.

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

Ajay Bijli: Thank you very much for taking out time to attend this call. If any of you have any follow-up questions please feel free to write to me or Saurav. We shall be happy to connect with you and answer them. Thank you very much.

Moderator: Thank you very much. Ladies and gentleman, on behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.