



“PVR Limited Q1 FY16 Earnings Conference Call”

July 22, 2015



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MODERATOR: MR. NIKET SHAH – VICE PRESIDENT, INSTITUTIONAL EQUITIES – MOTILAL OSWAL SECURITIES



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Moderator: Ladies and gentlemen, good day and welcome to the PVR Limited Q1 FY16 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Securities Limited. Thank you and over to you sir.

Niket Shah: Thanks so much. We at Motilal Oswal are extremely pleased to hold this call for PVR Limited to discuss Q1 FY16 Earnings Conference Call. From the management we have Mr. Ajay Bijli – Chairman cum Managing Director, Mr. Sanjeev Kumar – Joint Managing Director and Mr. Nitin Sood – CFO of the company.

I would now like to hand it over to Mr. Ajay for opening remarks for the quarter and then we can open the floor for a Q&A. Over to you Ajay.

Ajay Bijli: Thanks Niket Good afternoon everyone. First of all, thanks for taking the time out for this call. I will give you a snapshot of the Q1 numbers.

The revenues for this quarter ended 2015 were 486 crores as compared to 363 crores during the corresponding period last year which is up by 34%. EBITDA was 113 crores which is a margin of 23.3% as opposed to 55.9 crores last year and the last year margin was also 15.4% in the same period. So our margin has gone up by 103%. Our consolidated PAT for this quarter is 58.5 crores this was 7.5 crores last year and this is up by 684 crores. So PVR's performance this quarter has been very satisfactory, we are very happy with the results and this has been at the back of some very good content. They weren't blockbuster films but yet they connected with the consumers, movies like Piku, Tanu Weds Manu, ABCD, Dil Dhadakne Do, Gabbar, I mean these are not very big blockbuster films but yet they performed very well because somewhere the film makers were able to connect with the audiences so a) it shows confidence and the filmmakers knowing what they are making and b) it also shows the insatiable appetite of the Indian consumer to go out and watch movies on the big screen where they are meant to be seen. Even Hollywood films were very good this year, The Fast and the Furious was the first one of the block, Avengers 2, Jurassic World, so all these movies also got dubbed and therefore played into smaller towns as well and the cumulative effect of Hollywood, Bollywood and regional films was fantastic and we saw this amazing quarter and of course it also attributes to our locational strategy and the way we managed our operations, customer service as well as F&B that we have been able to get these results. Our F&B income has been up by 46% and we have done Rs. 75 roughly SPH compared to Rs. 63 last year and even our cost of goods sold has dramatically come down bringing our margins up.



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So this is about the first quarter and even the current quarter has started off very well with both Baahubali and Bajrangi Bhaijaan which have really opened exceedingly well. In fact just to give you a little bit of trivia, in PVR's history for the first time we had an occupancy day of 91% where out of the installed capacity of 550,000 seats that we have got 492,000 seats got consumed on that day. That was for both Baahubali and Bajrangi Bhaijaan so we are very pleased with that as well so this quarter itself has opened up in a blockbuster way. Thanks very much and we will be happy to listen to your questions, answer any question of yours.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora: My first question is really on the performance of content in Quarter 2 till date. Just wanted some color from Ajay if you could share with us some Gross Box Office numbers for the top three movies in the quarter.

Ajay Bijli: For Quarter 1?

Ruchi Vora: For Quarter 2 in July, whatever movies are played in July if you could share some numbers with us in terms of admix or gross box office collections for us that would be very helpful.

Ajay Bijli: Quarter 2 the movies are still playing but completely played out because Baahubali is in its second week, we are still sitting on 22nd of July and this is the first weekend of the Bajrangi Bhaijaan is played out so we do not know what is the overall Gross Box Office of these two movies is going to be but the way they started off, I mean the newspaper reports as they say, Bajrangi where have reached now?

Kamal Gianchandani: Bajrangi is at about 150 crore Net Box Office in our trade, we normally refer to the Net Box Office as a number which people benchmark various movies again. 150 crore in the first five days and looking at the hysteria that the film has generated it is safe to say that this would be the largest grosser coming from Salman Khan and Salman Khan is no small star by any stretch of imagination. He has delivered very large huge blockbusters so for him to turn up with his highest grossing film in July is very positive news for exhibitors and film trade at large. Just to give you some reference point, Kick which is the largest Salman Khan film till date is about 215 crores net box office at the end of its run. As far as Bajrangi Bhaijaan is concerned it is expected to get close to about 300 crore in terms of Net Box Office.

The other blockbuster is Baahubali which of course it will not be fair to compare it to the benchmark of Hindi films because this is a film which was dubbed in Hindi and it is also playing in the original version which is Telugu and Tamil both are original versions. The film is doing prolific business it is already into its second week and it will surely play for another two weeks at a very comfortable level. Both these films have very long run and as my colleague was pointing



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out July would probably be the highest grossing month in terms of Box Office for the entire film business, in history of film business.

Ruchi Vora: Just to extrapolate from that what is your sense or the management sense in terms of should we maintain the momentum in footfall growth for same store or will it be higher what do you feel, what has happened in Q1 versus in the next three quarters?

Ajay Bijli: It is still early days; I think we still have a long way to go so I do not want to comment.

Ruchi Vora: Looking at the content pipeline do you believe this could be a great year for the industry?

Ajay Bijli: I surely think this will be a spectacular year for the industry. I think it's started off on a good note and I think every month is looking better than what we are expecting it to be. July as **Kamal** said that it's looking like an excellent month probably the biggest month of the year as from what we have seen till now. I think the momentum will continue, there is a strong momentum and content pipeline is fairly strong so we think the momentum is likely to continue but I think still early days we are in the fourth month of the year.

Ruchi Vora: My next question is on the expansion plans just wanted to hear from the management strategically how are we looking at expansion in terms of geography and locations and if you could give us some more details on that and also do we still have an appetite for inorganic an opportunity if something comes up over the next few quarters, the next few years?

Ajay Bijli: Our philosophy on inorganic which we've mentioned always has been location strategy and the premium locations ultimately which will stand the test of time and both the acquisitions that we have done in the past have been around that theme. As things stand I do not think we are specifically looking at any inorganic opportunity. We have nothing to evaluate right now and considering by what is available in the market I think there are very few of the regional operators which are really left. So that is really not on big time horizon for the moment. I think the focus is to build out organically. We have 60-70 screens expected to roll out this year various parts of the country almost 50% of those screens are in South India for us this year but a large part of our expansion is going to tier 1 plus tier 2 cities, new cities. South India is going to be a large part of what we are going to do going forward because multiplex development in that part of the market has been slow till now and I think next 4-5 years will give us great opportunity to expand in that part of the market.

Ruchi Vora: But is it a price sensitive market and could it impact our overall average ticket prices let's say over the long term?

Ajay Bijli: Quite honestly it could but we do not look at our business that way at all, every cinema, every theater in various parts of the country the pricing metrics will be a function of the local economy but it has to meet its return on capital employed threshold when we take an investment decision.



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So individual obviously India is a varied country everything will vary different but so every theater as long as it meets its hurdle rate of investment we would kind of go ahead. Macro level obviously pricing in one market will be lower than the other but that doesn't make overall...

Management:

At a blended basis we have been able to take a 4-5% increase year-on-year and what happens in the southern markets is the occupancy compensates for the regulated pricing and the occupancy or movie situation habits are far higher in southern part of India than in any other part of India.

Moderator:

The next question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg:

On the acquisition part of it, can you please lay out the integration plan on the recently acquired DLF DT Cinemas in terms of what is the kind of timeline that you are looking in terms of full integration and once fully integrated what is the broad potential that we see out of this acquisition?

Ajay Bijli:

We have already guided the market, we are still waiting for regulatory approvals, we made a filing to Competition Commission of India, we are told the process takes about 90 to 100 days overall and I think once we get all the regulatory approvals we will proceed to closing the transaction. We think the asset is fairly small in size and scale so we should be able to integrate it very fast. I think we are looking at a integration timeline of about 4 to 6 months and after that we should start seeing the results, so that is what the plan is.

Vikas Garg:

Broadly on the potential of the EBITDA contribution that could be coming out of those parts?

Ajay Bijli:

I think there are two more cinemas which are yet to open one is Chanakya Puri and NOIDA. I think once the full circuit is operational we think the EBITDA contribution could be in the range of 40 to 50 crores from that asset.

Moderator:

The next question is from the line of Jitu Punjabi from EM Capital Advisors. Please go ahead.

Jitu Punjabi:

Can you give us some sense of what the screen count is going to look like March 16 and March 17?

Ajay Bijli:

If you look at roughly our existing screen count we started the year with roughly about 467 odd screens we are adding say 65 to 70 screens so about say 530 odd screens or our organic and once you add the DT screen that will be about 570 screens hopefully by March 16 and another 70 odd screens for the balance year, next year.

Moderator:

The next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.



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- Niket Shah:** Just had two questions, primarily on the advertisement part of business we have seen almost 18% kind of growth. Normally in a very good strong Box Office collection does the advertisement growth tends to improve substantially in the following quarters?
- Ajay Bijli:** Not really in the sense we have been able to establish our market in a manner where our clients now understand that there is perennial footfalls that we get month to month and technically if you were to see none of the films were kind of labeled as blockbusters and yet we managed an 18% growth over that so this proves the point that there is technically no difference even when a big blockbuster come a week prior in fact two weeks prior and two weeks later there is no film. In fact going by that logic one week could be very heavy but the other three weeks could be very low within a period. But that doesn't tend to happen at all so our business is now becoming where clients do understand what Cinemas deliver in the kind of quantum and quality it delivers and we have managed a certain growth chart across the board across the month.
- Niket Shah:** Would it be possible to give a brief sense about what can be the cash flow that you would have generated during the quarter because there was no major CAPEX or opening of any screen I would presume?
- Ajay Bijli:** So there is a run rate of CAPEX which we have guided the markets we expect our annual CAPEX to be about 160 to 175 crores.
- Management:** So quarterly CAPEX of around 40-45 crores is the...
- Ajay Bijli:** I think balance is all incremental cash flow generation from that perspective our average net debt which was 700 crores at the beginning of the quarter is down by 50 crores now to 650 crores, that's the technically short-term free cash flow that we have generated.
- Niket Shah:** And within the advertisement part you would have seen growth not only in the inventory as well as in the pricing both would have grown even in this quarter on a YOY basis?
- Ajay Bijli:** That's right. In the premium properties there is more pricing potential and in tier 2 tier 3 cities there is both pricing as well as volume potential.
- Niket Shah:** On this Delhi ruling of increase in entertainment tax do we have any plans to take an incremental price increase to pass on or what would be the plan there?
- Ajay Bijli:** Yes we have planned to take the prices up from Friday so single screens have already take up the prices starting Monday but all the multiplex players have kind of individually decided to take the prices up from Friday. We have already taken the approval from the government on that account.
- Moderator:** The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.



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- Rohit Dokania:** If you could give a split in Hollywood, Hindi and regional for the quarter and last fiscal which is FY15 in terms of percentage?
- Ajay Bijli:** For this quarter I think Hollywood has been a big player so if you look at even our investor update we have shared, for the first time I think in the top 5 films for the quarter two are Hollywood films. Hollywood films have contributed roughly 30% of our Box Office revenue this quarter. This has been a big one. The regional film industry has contributed another 20% roughly and the local content is about 55% and regional is about 16%.
- Management:** Hollywood is remaining 29-30%.
- Rohit Dokania:** Would you have the split for FY15?
- Ajay Bijli:** The Bollywood is slightly more in last year and regional was slightly lower so this quarter I think for the Hollywood is slightly more as compared to the same period year last year.
- Rohit Dokania:** The second question would be is the complete synergy benefit from Cinemax already in so what I am trying to understand is we were supposed to rebrand most of the Cinemax properties into PVR and also probably bring them on par with us in terms of F&B pricing and ticket pricing etc. once we improve the whole look and feel of the property so is that already in or that's an ongoing process?
- Ajay Bijli:** Largely we have already kind of taken the benefit. There are certain properties which have still not been renovated however we have done some bit of work on F&B and on certain aesthetics within the cinema to make sure that we could take the pricing up and get into some sort of a parity pricing. The quality of F&B has also been kind of kept at par with the other PVR Cinemas. So largely said all the synergies have already come in.
- Rohit Dokania:** In this perspective we have been growing our spend per head at a very handsome rate of 16% year-on-year so can this slowdown let's say in next year in FY17 is there a possibility that it could probably be around 10% rather than such high...
- Ajay Bijli:** No we believe that F&B has a huge potential. We need to innovate. There is lot more many things that we will need to do as cinema as a space. If you look at MSPH technically for a food court it's much higher and we are pegging there. So we don't see any reason for us to slowdown. This is an area of huge importance and focus to us and you will see a lot more innovation coming up to keep up to this growth phase.
- Moderator:** Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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- Abneesh Roy:** My first question is SPH up by 16% and COGS down by 400 bps so when big budget movies come what happens in terms of pricing do we take some temporary increase in pricing or is it largely the same customer buys more?
- Ajay Bijli:** It's actually more volume of customers and working towards increasing the strike rate when a good movie comes families come out so there is a larger audience that you can actually go out and sell. The people are pumped in more at the candy so that more SOS service on seats can be done and the whole focus is to increase the strike rate. There is no change in the selling price of products during a blockbuster film.
- Abneesh Roy:** But on a YOY basis out of 16% how much will be the inflation?
- Management:** See price hike is very material so bulk of our 9-10% growth has come from volumes out of this 16% and roughly about 6-7% has come from pricing. That's the broad split.
- Ajay Bijli:** Which is more on the lines of inflation only.
- Abneesh Roy:** And that should continue beyond these two quarters. See next two quarters are very good but your strike rate that is the conversion that should continue irrespective of Box Office because this is spends per head this is not actually volume growth overall this is per head you are able to sell more so that's based on your innovations in food rather than the Box Office because that gets cancelled?
- Ajay Bijli:** That's right.
- Abneesh Roy:** In terms of ad revenue if you could tell us which are the key sectors? That will be helpful.
- Ajay Bijli:** Actually when you sort of even it out there would be many retail, fashion..
- Abneesh Roy:** Top 5.
- Ajay Bijli:** Top 5 would be fashion, banking, there will be automobile; there will be telecom and FMCG.
- Abneesh Roy:** Now this ad revenue is it largely sold based on the star cast and expected Box Office. My question is when will it start getting linked to the footfalls and pricing when will it start taking into account the Box Office performance because now if you see it's a very large ad revenue so people recognize multiplex advertising also as a very effective medium. But when do you start getting the pricing power in terms of good Box Office performance?
- Ajay Bijli:** Actually we believe we are getting a good price, multiple on the kind of footfalls we get so both advertisers are kind of rewarding us not only on the quantum but on the quality of footfall and technically there is no other media in this country which technically would be getting this kind of



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conversion on per footfall that we get to the cinema. So I think the whole idea is to keep up the growth rate and I think the market is already rewarding us and that's one of the reasons that we get advertising revenues much beyond the blockbuster films. People today recognize that cinema is a huge source of entertainment and good quality cinemas galvanize great quality consumers to come out and watch cinema there and that's why they advertise and pay us this kind of money.

Abneesh Roy:

My question is there is an 800 bps difference between your growth in Box Office and your advertising revenue so why should there be 800 bps kind of a difference 35% versus 27%.

Ajay Bijli:

So I think the cinema advertising market is still evolving I think we are still in an early stage of this business. We are getting lot of new clients who are coming on to the platform, joining the platform and I think as the spread is increasing our ability to monetize is also getting better. We are using new stuff to monetize the medium. More off screen mediums are being used to advertise and monetize so I think that's going to stay for some time because I think we are still fairly small in terms of where we can potentially go and that's the reason we think the advertising momentum will continue for some time.

Abneesh Roy:

My next question is on ATP 5% growth if you can tell us what is the like-to-like ATP growth? Why I am asking this is the number of 3-D movies in Q1 were relatively higher and then you are doing this recliners concept wherein I think ATP will be higher but then there will be a negative impact of the affordable week day pricing. So on a like-to-like basis if I have to compare say Sunday 12 o'clock show in Kurla Bombay, Kurla is a new property, but like-to-like how much is the growth you are getting?

Ajay Bijli:

Like-to-like is 5% comparable is 5%.

Abneesh Roy:

No comparable doesn't take into impact higher number of 3-D movies and for example recliners.

Sanjeev Kumar:

No it takes into account everything. It takes into account the 3-D glasses upcharge as well.

Management:

There were more number of Hindi films this year versus.....

Ajay Bijli:

Correct so I think Rs. 1 or Rs. 2 will be an impact of that without that it will be about 4%. 3-D has a big role to play without that it was about 4%. 3-D is impacted by 1% which has made it 5.

Abneesh Roy:

On 3-D a follow-up up was there Tanu Weds Manu was a big hit but if you see in the 3-D movies your pricing is at the higher end but your ARPU in Fast and Furious and Avengers is lower than Tanu Weds Manu so wanted to understand this why in Fast and Furious its 174, Avenger 182 and 185 in Tanu Weds Manu so could be because of the non-primetime attracting higher footfalls.



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- Ajay Bijli:** I think there is a mistake on that Slide because Fast and Furious and Avengers numbers do not include the 3-D upcharge. If you include that which will be roughly about Rs. 20-25 so that number will be higher.
- Abneesh Roy:** And in terms of cost 3-D how does it work. Is it more profitable for us?
- Ajay Bijli:** It is more profitable.
- Management:** Hugely more profitable.
- Abneesh Roy:** Could you give us some sense.
- Ajay Bijli:** Basically I think the amount of incremental investment required to invest in a 3-D film from an equipment perspective is not very significant. We have seen the payback is as short as 9 to 12 months and that is the reason the incremental upcharge of roughly about 10% that you get on the ticket price, 10-15% really compensate and pays you back delivers a much higher return on capital.
- Abneesh Roy:** And revenue share with the film producers of Hollywood will be similar in terms of Bollywood?
- Ajay Bijli:** Revenue share is similar.
- Abneesh Roy:** One of two bookkeeping questions, write-off of 3.2 crores under construction anymore expected and why this happened?
- Ajay Bijli:** Really not many more expected. This was a site which was being done by Cinemax when we acquired it and it was working for about 2 years. I think we finally took a call that this is not happening we decided to get out of the location and write-off whatever was outstanding as was done.
- Abneesh Roy:** Other revenues slight decline, I think it's the convenience charges which is down?
- Ajay Bijli:** No actually we have done a major shift in our F&B strategy from outsourcing kiosk we are shifting a lot of it to in house so as a result of which we outsourced kiosk which were reflected in other revenues gone down is now part of F&B revenue growth strategy.
- Abneesh Roy:** Had it become zero, will it become completely in house?
- Ajay Bijli:** Not zero but I would say 98-99% it will be managed internally.
- Abneesh Roy:** Delhi are you passing complete thing whatever has been changed or are you absorbing some amount of the increase?



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- Ajay Bijli:** I think currently the plan is to increase ticket prices to pass on but we will see how the market reacts and accepts it.
- Moderator:** Thank you. Our next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jay Doshi:** Could you give us some idea on advertising revenue growth that we can expect for the full year now that 1Q has been extraordinarily good and the next two quarters also look very strong?
- Management:** Closer to about 18-20% is what we will be closing the year.
- Jay Doshi:** I am talking of overall, not like-to-like.
- Management:** Overall will be about that much.
- Jay Doshi:** There was a question on DT Cinemas, assuming the approvals come through on time from when can we expect the numbers being consolidated?
- Ajay Bijli:** I think as soon as the approvals come we will proceed ahead to close the transaction but my sense is that it will take about 90 to 120 days. So I think towards some time middle of Q3 when I think the numbers will start getting consolidated.
- Jay Doshi:** 18% like-to-like growth for comparable properties in advertising is it possible to break that up into yields, volumes, and other initiatives that we may have taken?
- Management:** Difficult to do that. These are all bulk long-term deals and a specific deal may have various tentacles from tickets, to F&B, to off-screen branding, to star visits, and to on-screen so it becomes slightly difficult but just to give you a sense in terms of better yield we would have gone up by about 8-9% on our rate cards and rest is all by volume.
- Jay Doshi:** Sorry to ask this question again but first quarter your growth has been 27% for advertising. You are adding a lot of properties and screens in the coming two quarters and I believe July was extraordinarily good month with the two movies. So why is it that you are indicating 18-20% growth? Is it just a very conservative number that you are guiding?
- Ajay Bijli:** No it is not conservative its realistic number simply because Quarter 4 is slightly slow for us and advertising technically we do not want to increase the number of minutes of advertising so there is a complete plan within the organization to reduce time so that because the customer experience shouldn't go haywire and we are focusing on many more activities and that is the reason why we felt that 18-20% would be the right guidance to be given to the market.



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- Jay Doshi:** So what would be the upper limit if you are in a position to disclose that thing of advertising for prime-time peak blockbuster movie thing where you would...
- Management:** It is very difficult we can't really comment on this.
- Moderator:** Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.
- Ruchi Vora:** On a structural basis given that we have seen increase consolidation in the exhibition industry how can film hire cost evolve over the next one or two years? Can it go down?
- Management:** We can give you an industry perspective I would not be able to make a forward-looking statement on PVR's prospect as far as film hire is concerned. These are slightly sensitive issues and we are not very comfortable discussing them on a public platform but the industry perspective is that exhibitors, distributors, and producers are at this point in time collaborating on a lot of initiatives to ensure that the overall Box Office collection in this country goes up and this includes dealing with issues such as piracy, dealing with issues such as screen density in the country which continues to be quite low. Issues like a poor window structure between theatrical release, television release, and unregulated release on digital platforms and so on so forth. Film hire is something which I think from an industry perspective you will have to see it in a holistic sense that ultimately we want the producers to generate decent returns on their investments so that they can plough it back in films, they can come out with bigger and better films, they can continue to improve the experiences that consumers have, patrons have in our cinemas. So at this point in time while we have been able to bring it down in a consistent fashion I don't have a reason to believe that this trend would reverse or would change dramatically going forward. That's all we can say at this point in time.
- Ruchi Vora:** From the perspective can it materially go down let's say over the next couple of years as the industry expands, is that a possibility?
- Management:** Like I said and we would not like to comment on this on a public platform, I hope I have your understanding on this.
- Ruchi Vora:** Last question on the other expenses, just wanted to hear your thoughts, the decline in other expenses is purely on account of the base expanding or have we also seen some efficiencies in key expense items if you could just throw some color on that?
- Ajay Bijli:** Except for food where some serious work has gone in which is on the COGS end, rest all of the expenses and of course we have controlled manpower expense to the extent we could but overall this drop is largely on account of the fact that the revenues have come.
- Ruchi Vora:** If you could also expand on what are the initiatives you have taken on the COGS front for the food side?



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- Ajay Bijli:** Basically there has been a stronger negotiation with the popcorn supplier because that is the bulk of our sales so we have been able to get better and sold more of the combos which is really where it sort of turns it around for us.
- Moderator:** Our next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.
- Urmil Shah:** Just wanted to confirm you mentioned that F&B growth would be independent of the footfall, just wanted to check wouldn't there be any sensitivity to pick up in the footfall to the F&B growth?
- Ajay Bijli:** No we are saying something else, what we are saying is what the average consumer is spending, what is the spend per head should operate independently of the Box Office growth. But absolute F&B revenue will obviously be linked to the existing growth and overall footfall growth. So like if you look at our last year where we had a poor Box Office our average spend per head growth on F&B was 20% last year, the main reason for that is it was independent of how the Box Office perform but in terms of sheer volumes it is a function of how many people walk in.
- Urmil Shah:** Last year we had a change in the product mix as well, so this year in this quarter also was there any impact of that?
- Ajay Bijli:** Yeah it is continuing we can't disclose what we are doing on a specific basis but that is part of our F&B strategy in terms of what we are doing to churn our product portfolio and watching consumption habits.
- Urmil Shah:** The second part was as regards both F&B and advertisement would it be safe to assume that the Cinemax properties have come at par to that of PVR or there is still room for growth over there?
- Ajay Bijli:** No, they are now working on optimum capacity and at par.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Securities. Please go ahead.
- Amit Kumar:** Just trying to understand this SPH trend better, in terms of soda-popcorn is still the dominant share of F&B I presume, so has that ratio sort of changed materially. I mean 16-20% kind of consistent growth in F&B just trying to understand a little bit better and you are guiding for a similar sort of trend to continue just trying to understand better this aspect.
- Ajay Bijli:** Largely the same but yeah a few percentage movement up this quarter but largely this growth has also come from a lot of other innovations that we have been doing on the F&B on eatables which has kind of delivered this growth.



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Amit Kumar: Even from COGS perspective what surprises me a bit is the fact that this question has been asked previously as well that what is the level where F&B margins will stabilize and the company has sort of always maintained that around 70% but suddenly we have seen 400 bps jump whether on a YOY or a QOQ basis. Basically trying to understand that in the long run where do you think F&B margins will settle excluding any sort of quarterly volatility?

Ajay Bijli: There has been a change of strategy so when we were always driving the market on a 70% profit there was a certain strategy in place. But over the last one year we went through our strategy and wanted a certain growth. So we changed the strategy in order to make some of the products we made and delivered to consumers from an in-house pattern which all of a sudden kind of worked in our favor in terms of COGS and that's the reason why this strategy was taken. So it isn't as I said a default function, it was by design. We knew exactly what we were doing. There were pros and cons discussed and then decided on the strategy.

Amit Kumar: Could you just give a little bit more color in terms of the strategy itself?

Ajay Bijli: No we won't be able to share in operational details. That's very core to our business on how we intend to grow this field. I wouldn't want to share anything more than that on this piece.

Amit Kumar: Just a small point in terms of your below the operating line numbers. In the last 12 months the company has delivered over 250 crores of EBITDA and when I looked at the gross screen addition from 1Q FY15 to 1Q FY16 it's been net about 23 screens added and gross just about 30 screen additions so very strong EBITDA numbers coming through while CAPEX has been sort of relatively muted. I'm a little bit surprised that the interest expenses continue to trend positively and given the fact that the business is essentially a negative working capital business so just trying to understand where are we missing the cash flows slightly on a YOY.

Ajay Bijli: So just to give you a perspective, CAPEX is not based on number of screens that we have opened. CAPEX is done on under construction screen so our CAPEX plan last year was 170 to 180 crores which money has been spent partly on under construction screens, partly on screens which are waiting to open. We have five or six cinemas waiting to open this year and last year the earnings were much below our operating cash flows so the leverage did go up from Q1 last year to Q4 of last year and as a result of which the interest expense had moved up. Our leverage at the beginning of last year was in the range of about 600 crores which moved up to as high as 720 crores which is now again down by another 50 crores. So the reason why there is an increase in interest expense is because of the increase in leverage last year.

Management: And our CAPEX intensity is almost the same so last year despite a bad Box Office year and despite a lower cash accruals we still did a 170-175 crores CAPEX and that basically led to our increase in debt which is reflecting in the finance cost this year but gradually going forward you will start to see a reduction in the finance cost as our debt levels keep coming down.



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- Amit Kumar:** Basically what you are saying is that a lot of this is present in your capital working progress?
- Ajay Bijli:** That's right.
- Moderator:** Thank you. Our next question is from the line of Alankar Garude from Macquarie Capital. Please go ahead.
- Alankar Garude:** Do you see emergence of sporting leagues like Kabaddi, Soccer etc. as a long-term threat to your footfalls?
- Management:** We have seen cinema is something which has been around for a long time. It is one of the oldest Out of Home entertainment avenue for most people. It is also one of the most affordable avenues which is omnipresent in fact in almost all cities of this country. IPL has been around for a while, many other sporting events like World Cup have happened. Similarly Kabaddi is another sporting event which is taking shape. I think the business has reached a level of maturity where it sort of has learnt to coexist with high decibel levels, sporting events or similar events, Out of Home events or for activities of similar nature the business has become fairly mature and it has learnt to cope up with these competitive activities and is sort of flourishing in fact not just coexisting, it's in fact flourishing. Hope that answers your question.
- Alankar Garude:** There have been some cases of malls in key locations in the metros either closing down or either the malls are not doing well. Now this might be a bigger issue for you in the next few years. Now what will be our strategy to tackle this issue because the metros would-be higher ETP markets.
- Ajay Bijli:** The only malls which are closing down are the malls which are either got outdated because they were built 10 to 15 years ago or they were themselves built at wrong locations or they don't have a tenant mix and I think that's been PVRs strength. If you look at our entire location strategy PVR is known for premium locations because that's where we spend the maximum amount of time on in choosing the right location, building the right product, being with the right mall developer. So I think that's inherently where we enjoy the biggest advantage versus anybody else and we don't see any concern in this area because we are very conscious of the locations that we have chosen and the products that we have.
- Moderator:** Thank you. Our next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** Couple of questions on the expense part. So your rent per screen has increased by almost 9.7% YOY. Any guidance for the full year you would like to give over here or this trend would continue in the coming quarters as well?



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- Sanjeev Kumar:** Lot of our deals are structured in such a way that we end up paying variable rent so it's a revenue share which is then to the Box Office and the F&B performance so that's why you are seeing Q1 of this financial year versus Q4 of previous financial year there is an increase in rentals and of course we have added more properties in Q4 and Q1 of this financial year which has also led to increase in rentals. As a percentage of revenues you should look it at around 17% odd for the entire financial year.
- Naval Seth:** Second on employee cost so that has increased by almost 22.4% odd YOY so it's a substantial increase if I look at screen additions it is 6.8% odd YOY. So what has led to this kind of increase in employee cost?
- Ajay Bijli:** Employee cost is one on account of addition of new properties and secondly basically we have factored a provision for increments for this financial year as well which is reflecting in the personal expenses.
- Naval Seth:** And my last question is on the NCD of 500 crores, the resolution has been passed. So this is pertaining to what, if we are not looking for any inorganic expansion in near term so is it for refinancing your existing debt?
- Sanjeev Kumar:** Majorly it will be for refinancing so the entire enterprise value for DT Cinemas is 500 crores odd out of which 350 crores we have raised in form of equity. So the remaining 150 is still to be raised in form of NCD, Non-Convertible Debentures, and of course internal accruals will also take care of some part of that funding. So basically that 500 crore approvals that we have taken is to fund the DT transaction as well as refinance lot of our existing debt. So last year we refinanced almost 300 crores of debt which had brought our finance cost down on the same loan so the idea is basically to refinance and take care of the funding of DT Cinemas.
- Naval Seth:** What would be the spread you might be saving on account of NCD what you raised or refinanced?
- Sanjeev Kumar:** Last year we saved almost 80 to 100 bps through NCD as compared to a bank borrowing loan.
- Naval Seth:** Similar would be saving this year if you refinance the debt?
- Sanjeev Kumar:** Yeah similar numbers, in fact interest levels have already come down so I think so the saving would be far higher this year.
- Moderator:** Thank you. Our next question is from the line of Jigar Shah from MayBank. Please go ahead.
- Jigar Shah:** My only question is what is likely to be the tax liability this year and next year?



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Sanjeev Kumar: Tax liability on account of that benefit of tax losses, the tax liability would be single-digit for this financial year as well as next financial year.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor back to the management for closing comments, over to you sir.

Management: I wish to thank everyone on behalf of the PVR management. It was wonderful talking to you all and we hope that we have been able to answer all your questions. For anything more specific you could be in touch with both Nitin and Saurabh and I guess they will be able to answer everything else. Thank you so much and have a great day.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities Limited. Thank concludes this conference call. Thank you for joining us and you may now disconnect your lines.