



“PVR Q4 FY14 Earnings Conference Call”

May 30, 2014



MANAGEMENT: **MR. AJAY BIJLI – CHAIRMAN CUM MANAGING DIRECTOR, PVR.**
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MODERATOR: **MR. NIKET SHAH – ANALYST, MOSL**



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Moderator

Ladies and gentlemen good day and welcome to the PVR Limited Q4 FY14 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a remainder, 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. Thank you and over to you Mr. Shah.

Niket Shah

Thanks so much Karuna. Good afternoon everyone. We at Motilal Oswal are extremely pleased to host this call to discuss the Q4 FY14 results for PVR Limited. We have with us the management of PVR 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 over the call to Mr. Ajay for his opening remarks and post that we can open the floor for the Q&A. over to you Ajay.

Ajay Bijli

Thanks a lot. Good afternoon everyone. I am Ajay Bijli from PVR. Thank you all for taking the time out for this call. I will give you a quick snapshot of the numbers before the Q&A.

The consolidated revenues for quarter ended March 31st 2014 was 316 crores as compared to 40 crores during the corresponding period last year which is up by 32%. Consolidated EBITDA for the quarter was 35.18 crores as against 18.36 crores in the same period last year which is up by 92%. Consolidated PAT for the quarter after minority interest was 74 lakhs as against 11.72 crores in the same period last year. Last year back in Q4 was exceptional due to tax reversal of about 29 crores for the prior period and hence it is strictly not comparable.

On a full year basis, our consolidated revenues for FY2013 – 14 was 1358 crores as compared to 815 crores in the same period last year which is up by 67% and consolidated EBITDA for this year was 223 crores as against 126 crores for the last year which is up by 77%. And PAT after minority interest was 56 crores as against 44 crores last year which is up by 26%. During the year under review, the company entertained 60 million patrons in our cinemas, F&B revenues for the same year was up by 29% compared to last year based on various strategic initiative we took. Average strength of F&B moved up by 16% from Rs.46 per person to Rs.54 and sponsorship revenues grew by 44%. During the year the company opens 13 new properties with 73 screens and we currently operate 421 screens where 97 properties 41 cities across the country. Company has continued to grow aggressively in various cities and will end up adding about 60 – 70 screens in the next 12 months. Thank you and I'd like to now open the forum for any Q&A.

Moderator

Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Urmil Shah from May Bank. Please go ahead.



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- Urmil Shah** My first question is on the outlook on the pricing and the volume mix, we know as this quarter we saw a strong volume growth which more than offset the impact of slight decline in ATP.
- Ajay Bijli** On the pricing, Gautam if you can answer.
- Management** The average ticket price if you see, has actually grown marginally and that's the plan because we have looked at various slots to see where we could maximize last year also we created a kind of slot for which was called the savers day, across all markets we had used that slot to galvanize better foot fall. Now that we see that people are kind of hooked on and we are getting huge numbers on that specific day of a week, we think we will be able to push the ATP higher even in the coming year.
- Urmil Shah** Is this specific to any specific region or it is generally across the board?
- Ajay Bijli** Across the board we try to achieve growth by both volume and value by getting more people into the cinemas which is very important by having flexible pricing. And at the same time we have an incremental increase in our ticket price wherever we feel there is elasticity. So that's what we have been doing in the past and that's what we intend to do in the future across the circuit.
- Management** If you are looking at average ATP growth last year was almost 4%. I think this year should be closer to 5 – 6%, that's what we are aiming for.
- Urmil Shah** I was just looking at Q4 but no issues. Secondly on this sponsorship revenue this year has seen a strong growth partly attributed to the pickup in the sponsorship revenue for Cinemax. Is the integration on that front done and also if the economic growth looks better, do we see the sponsorship revenue seeing again a 20% kind of growth this year?
- Ajay Bijli** Basically, advertising revenue has always been a strong feature for us and has been always been growing. However this 44% can largely be accounted for the fact that we took over Cinemax and because of this integration a lot of pricing and discounting policies were matched to the PVR rates because of which we saw such a substantial growth. However going forward I think, while the growth is intact and we aim to juice out this buoyancy in the economy but I think we will be in the region of about 18% going forward.
- Urmil Shah** And the last question if I may, we have discussed many strategies wherein opportunities for regional players 30 – 40 screen kind of capacity coming in, would it be fair to assume given that we would start doing FCF from this year onwards, it is unlikely to be an equity dilution?
- Ajay Bijli** There are no plans at all for any kind of equity dilution. The business is decently well funded to fund all the organic expansion on its own. So there are no plans as of now for any kind of equity dilution.
- Moderator** Next question is from the line of Sumit Choudhary from standard Chartered. Please go ahead.



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Sumit Chaudhary

Just one question on the industry structure, now that we have seen yourself as the number 2 player essentially dominating the industry with around 40 – 45% market share, how do you see the industry panning out going forward? Do you see any further consolidation or do you think we are more or less where we are? In case you see nay consolidation, how do you think about PVR strategy in such a scenario?

Ajay Bijli

On a macro level if you look at it, the country still under screen. We only have 2000 screens new built multiplexes across 6 – 7000 single screen cinemas. So first of all there is plenty of opportunity for organic growth. There are still malls in multiplexes coming up, PVR at least can add 70 – 100 screens a year. As far as inorganic is concerned it has to be a right fit at the right valuation. So there are opportunities with some regional players who may be having 20 – 30 – 40 screens down south or north or east which one could acquire but then the price as I said and the fit has to be right. We are looking at, if we do get something we have the cash flows to both take care of organic plans and if we do find a good opportunity we are definitely going to look at that as well.

Sumit Chaudhary

And is it fair to say that right now it does not look like there is anything live on the tables from inorganic perspective?

Ajay Bijli

No nothing like on the table but opportunities can up in the future.

Sumit Chaudhary

And just a second question on the Cinemax screen in terms of their rebranding strategy and so on if you could just talk about, any plans to rebrand those screens and what kind of upside do you expect in the overall Cinemax profitability or revenues?

Ajay Bijli

If you look at it we take a different approach to rebranding. What we have decided is what really matters to the consumer and what adds to the revenue has to be addressed first. So from that perspective, putting a logo, is not really we believe is rebranding, that can happen later any way. So we changed the moment we got the circuit, at that time only we look at all the sound systems, projection systems, screens, we changed that immediately, we make them all digital, we made them 3D enabled. So that is one thing that impacts the consumer experience. Then we start looking all the F&B concession stands and start looking at how we can improve upon more in terms of equipments as well as what we are selling. So I think that part is something that is underway. Lot of other issues, hygiene issues like toilets and common areas they are being looked at. And slowly we are changing wherever all the boxes get ticked, that's the time we put the PVR logo and we have already done one property already because let's not forget these are all operational cinemas in operational malls and so we don't have to have too much of an EBITDA loss. So work only carries on at night after last show and before the mall opens in the morning. Only one cinema we have been able to do so far and the result has been fantastic. This is in Delhi in a mall call Pacific mall in Subhash Nagar. And I think we are already saying close to about at least a 2 year pay back in whatever we paid, at least 25% roughly improvement on revenues. We are no hurry as long as the properties are doing well and they are up to a certain



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standard, we are improving them and the brand you can say in 24 months probably entire circuit will be changed to PVR. But the work is already going on.

Moderator

Next question is from the line of Shivram Krishnan from Sriram Life Insurance. Please go ahead.

Shivram Krishnan

My question would be on the dividends the company would offer firstly and second, what are the new opportunities that you are looking in as part of expansion?

Ajay Bijli

The board has kind of approved a dividend of Rs.2.5 per share and it is subject to approval of the shareholders. We do not have a documented dividend policy right now because we are in a growth mode and I think that decision will be taken on a year on year basis till the time we formulate the formal dividend policy. As far as your question on growth is concerned I think the focus will be to increase the penetration in India, increase our presence as far as the multiplex phase is concerned, go to larger number of markets, have the ability to roll out larger number of screens and that will be the focus in the immediate short term. So as what we mentioned about 60 screens to 70 screens opening this year. We have in fact on Monday only we have a 6 screen complex opening at Bangalore, we have at Ludhiana, Hyderabad 7 screen complex, then we have Chennai, Pathankot, Mysore, Budhera, Bhopal, another one in Chennai, Amritsar, so there is plenty of expansion happening in new cities, around 8 new cities are getting added and approximately 13 – 14 more properties totally about 70 screens are getting added. So it is pretty much organic growth in excellent locations where movie consumption is very high in malls which are fantastic and destinations for the cities that they are built in. So we are very clear it has to be in all the right cities in all the right locations.

Moderator

We have next question from the line of Piyush Sharma from Metis Capital Limited. Please go ahead.

Piyush Sharma

3 very quick questions. Firstly housekeeping one, it appears that the rent or revenue sharing you get from allowing 3rd party F&B stores on premises across our smoothie shop is accounted under F&B revenues but I still wanted to confirm that.

Ajay Bijli

There are 2 models we operate on. We operate lot of JV counters on our own. So that is accounted for under F&B revenues. First there is still a part of stuff which is a small part which we just lease out to third party contractors where we do not have the ability to manage. So Café Coffee Day or somebody would pay us pure rental. So those rentals are not accounted under F&B revenues. So those rentals are accounted separately. So our rental income for the current year from the outlet will be about roughly 6 crores. Which will be another Re.1 addition to overall SPAT if we were to count on that perspective.

Piyush Sharma

But not all third parties pay you flat rentals? Some also give you percentage of revenues.



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Ajay Bijli Yes, the way the model operates is yes, we run and manage those counters on our own and that is accounted under F&B revenues. Only a very small portion is rented out on a pure rental basis.

Piyush Sharma So the rental is accounted under other operating income everything else goes under F&B revenues.

Ajay Bijli That's right.

Piyush Sharma Secondly you should have data available may be not, if not I will revert offline on this, but would you know what percentage of the company wise screening is sold out screening, and aggregate is how much you sold out screening percentage at box office collection in a year?

Management Actually I can talk to you about the total number; our bulk booking in corporate sales of whatever is currently around 12.5 crores, so it is miniscule of the total box office. But that's the kind of number we did last year. We are targeting a much higher number this year but that's really the corporate booking or the sold out shows as you said about 12.5 – 13. Corporate I have not understood your question.

Ajay Bijli Are you asking what is the number of shows which were running houseful?

Piyush Sharma You were talking of the corporate sales which were sold out.

Management The perspective on this question really is that as a company when it comes to scheduling shows, we are creating a capacity for a film or the idea is always to sort of have a buffer so that you don't have a lot of houseful shows. The idea really is to right size the capacity visa-vie expect a demand and we are fairly scientific about it. We do a lot of number crunching before we allocate shows, schedule capacity that we should do a particular film but the idea always is to reach 75 to 80% of the capacity and always have about 20 – 25% of buffer available in case of unexpected demand on weekends. So if we do a lot of houseful shows, typically we are not satisfied. We feel that we have sort of under provided the capacity but to just give you a rough number, there are certain films especially if you have a big a star like Rajnikanth in Tamil Nadu or even in Bangalore as a matter of fact or a Shah Rukh Khan or Aamir Kahn for example when PK comes out or Aamir Khans Dhoom, yes, you do end up having a lot of houseful shows. And no matter what capacity you create is inadequate. So an answer to your question would be about 8 – 9% of all the shows that we program are 100% houseful shows. Does it answer your question?

Piyush Sharma It does, thanks and finally what's the current plan on PVRs leisure expansion and how much capital in that business remains undeployed as of today?

Ajay Bijli PVR Leisure primarily does bowling business which we have got 6 centers operating just now. They are running at about 18% EBITDA margins just now. So the capital deployed is between both the partners is about 80 – 90 crores. It's a business which is an annexure to our cinema



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business. So whenever we find that entertainment quotient in a mall is not there and we can create another entertainment destination where cost promotion can happen with PVR we just put them in, but we have also looked at in isolation we have a separate chief executive to make sure we get a decent return on capital employed. But the expansion is only happening where in a mall where there is already a PVR Cinema. So that's primarily what we are doing in PVR leisure and we have got some couple of extra spaces that we had in our cinemas and we create some F&B concepts which we are not expanding now. We are just sticking to our main core business of cinema exhibition.

Piyush Sharma

So what you are saying PVR leisure as of today is whatever is the 5 bowling locations and the **one (Inaudible) (21.31) location** and nothing else within PVR Leisure at this point?

Ajay Bijli

No only bowling will probably opening up one center this year and going forward about may be 1 – 2 centers per year.

Piyush Sharma

Going back what you are telling me and given the fact that you are saying bowling EBDITA positive what's the source of the drag on this business? What's still not allowing you to be cash positive here?

Ajay Bijli

I think when you look at kind of overall consolidated numbers and they appear lower than overall numbers. One of it is an exceptional item because one of the operating centers that we were building for BluO the mall had a fire and the mall just did not take off. I think midway during the project we decided that it is better to not pull out of the project instead of go ahead and build it. So we had to write off certain amount of capital because the project was already built half. That's being the reason but on a standalone basis, Glow has been doing okay. It is overall from a free cash flow perspective. It is on its own feet. But the restaurant piece hasn't taken off. The overheads when we kind of set up the business have been much higher. So we have done one restaurant here and one restaurant in Bangalore which is again next to the cinema, which is in very initial stage right now. So that is currently at an EBITDA negative position which has been bit of a drag but beyond that we have not committed any further capital.

Moderator

Next question is from the line of Prince Poddar from UBS. Please go ahead.

Prince Poddar

Few questions from my side, one is most of their expansion plans, you just mentioned are concentrated in north, west and south. So do you guys consciously not planning to expand in the east or any particular reason for that?

Ajay Bijli

Actually we are expanding everywhere. As far as India is concerned every state and every city we see a potential, but we also have to look at the right opportunity and so we at least have not been able to find the right number of malls and locations in east and our expansion primarily has been in north which is probably the largest and the west and south where we continue to look for good opportunities in the east as well. So just to happen that the spread for 97 properties and 41



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cities have been in other areas and this region is something we have not been able to penetrate. But efforts are on to find the right location.

Prince Poddar

And sir another question is on occupancy. Basically this year you have seen increased footfall across the malls. So does it directly fit into the increased occupancy rate and how do you see this going forward. Are you doing anything consciously in this direction to increase the occupancy rate?

Ajay Bijli

Actually as I just hope there are lot of things that impact footfalls, much beyond content. So content is of course the driving force for footfall but we go much beyond and see what else can we do, one is the price, the way we decide for audiences within catchment of cinema and divide the entire zoning weekday and weekend crowd and look at out-pricing matrix to drive better footfalls. We also do lot of marketing tie ups with banks telecom partners insurance companies who have huge database of consumers through which we do marketing alliances again to drive footfall. So there are techniques and corporate selling alternate content, playing at the cinema all these technically push the whole effort in kind of driving footfalls to the cinema and we believe that what we are achieving is only to get better from here as we move ahead.

Prince Poddar

And what is the average occupancy rate this year if you have a number ready for that?

Ajay Bijli

It was about 34%.

Moderator

Next question is from the line of Pritesh Chedda from Emkay Global Financial Services. Please go ahead.

Pritesh Chedda

Can you give some sense on what kind of typically maintenance CAPEX is required on screens once put in and sense on CAPEX for 60 screens and if I have to ask you from a 5 year perspective based on the organic growth requirements, would your OCF the support, the need of screen addition?

Ajay Bijli

So effectively I will address your first question first which is really the annual maintenance CAPEX. Annual maintenance CAPEX is between 1 – 2% of our revenue is what we spend on regular maintenance CAPEX. And effectively key to our business is because we invest in long term leases, every 6 – 8 years we spend some money on refurbishing the property which could be as high as 20 – 30% of the original CAPEX that we spent in and it is also a function of how much footfall the property has achieved on overall basis. So the property should always keep looking new and fresh and maintenance is the key to locations that we operate in. What was your next question?

Pritesh Chedda

You said refurbishment CAPEX would be 20% of



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Ajay Bijli It will vary between 20 – 30% of the original CAPEX that we would have spent because lot of money that we spent originally is for civil and interior work which is hard finishes and the regular maintenance CAPEX really takes care of day to day wear and tear.

Management And in our experience we found that nothing happens to the flooring, the ceiling, the toilets. It's only that seat fabric and carpets, they get worn out. So they have to be changed and generally consumers like it. So we just refurbish our forum mall, 11 street complex in Bangalore and the response has been phenomenal. So even consumers who are visiting our property for 3 – 4 – 5 years will see some rejuvenation, refreshment happening and the surge that happens again in the numbers. It's all done again keeping the same pay back criteria, there are return on investment criteria and as Nitin said, after 5 years or certain number of footfalls we rejuvenate and renovate all properties.

Pritesh Chedda And what will be the per screen CAPEX now currently?

Ajay Bijli Per screen CAPEX will be 2.5 crores the screen, depending upon which part of the country we are setting up , it could be lower or higher but average could be closer to 2.5 crores a screen.

Pritesh Chedda Do you have to pay rental deposits for the premises?

Ajay Bijli Yes we have to which again vary between 3 – 6 months.

Pritesh Chedda And is it included in this 2.5 crores?

Ajay Bijli Yes it is part of 2.5 crores.

Pritesh Chedda And what is the pay back that these screens have as of the current experience.

Ajay Bijli If you look at our existing the way we look at our businesses, what is our mature portfolio, which is more than 24 months in operations?

Pritesh Chedda It would be handy if you could give in the total screen, the total screen portfolio if you can give actually that break up what is more than 24 months and less than 24 months.

Ajay Bijli Almost 2 – 3rd of our properties are now more than 2 years old. Our average return on capital employed on those screens upward of 25%. So that's the matrix we track and that's the current number.

Pritesh Chedda So it's a 4 year payback?

Ajay Bijli That's right.



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Pritesh Chedda Any my last question of that part was based on the organic growth that you guys have planned, would your OCF or Operating Cash Flow would support the maintenance CAPEX refurbishment CAPEX and the screen addition?

Ajay Bijli Yes it will.

Pritesh Chedda And would it leave out free cash flows after that?

Ajay Bijli I think not in the immediate short term because we are growing aggressively but yes it will. I think this year we will just kind of end up funding our organic plus renovation because we have 14 to 15 Cinemax locations which are getting under conversion this year. But clearly I think we will be marginally free cash flow positive and I think next year as of Cinemax rebranding piece slows down clearly we will be free cash flow positive thereafter.

Pritesh Chedda Okay I will just take one. In any case you don't have to resort to and borrowing for funding?

Management No, we don't need to borrow.

Pritesh Chedda Thanks all the best.

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

Abneesh Roy Our ad revenues have grown very strongly 44% but if I compare our ad revenues per screen to the other listed player we are way ahead so in that context do you see FY15 growth rates being more ad industry growth lead largely for more 15% - 20% kind of number or are you aiming for a much higher growth?

Ajay Bijli No, we will be in the vicinity of about 18% to 20% odd we have always been the leaders in this pack so it's not something which is a current phenomena ever since we started we were kind of leading, we knew the power of this medium and we have kind of invested in this medium hell of a lot and that's one of the reason why PVR has always been the leader within this space and we will continue to keep that leads with others as well.

Abneesh Roy Follow up on this. Could you give us some insights as to how much is the range of ad per screen based on different demographics so Bombay, the best screen versus your Tier-2 Tier-3, why I am asking this is wanted to understand how the currency is in terms of selling this and from here on how the growth will come on existing screens same stores, how we are targeting incremental growth?

Ajay Bijli While we need to do detailed analysis to share this with you perhaps we couldn't give this to you offline but largely metros drive the bulk of this advertising revenue so to answer your question wherever we do open in metros larger towns they contribute on getting up the lion share within



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the market we operate. So, the top 10 or 15 cinemas would contribute closed to about 70% of the total revenues.

Abneesh Roy

My second question is in terms of the corporate sales. What's the strategy in this and is it largely passive mode wherein a corporate comes and ask for bulk booking and how is the ATP in the corporate sales business different from our non-corporate business and how do you see the percentage of corporate sales as in total that changing over the next three years?

Ajay Bijli

We work fairly passive till date but over the last year I think we have started to now move out and market this extremely aggressively with corporates schools and colleges, so the total sales that we have got in last year was closed to about 12.5 crores out of this but this year we have taken a very bullish target and we have worked on regional teams which are kind of stepping out and working towards achieving this target and increasing footfalls at the cinema.

Abneesh Roy

So, we have a dedicated team for this?

Ajay Bijli

Yes we have a cinema team so there are two member teams per cinema who have been now allocated a certain target and these are the guys who move out and so what we call it the LAS team, the Local Area Sales team, they are the ones within the vicinity of 5 to 7 to 10 kilometers would possibly map every corporate and move out and sell this opportunity to them.

Moderator

Thank you. Next question is from the line of Sanjay Bambalkar from Quantum Advisors. Please go ahead.

Sanjay Bambalkar

Considering the stress in real estate sector as of now are we able to get any better terms for our expansion and I wanted to understand how many of the screens we must have tied already relate to our organic expansion?

Aditya Bijli

We have in the next three to four years pipeline of more than 350 to 400 screens tied up which are in malls which are coming up in various parts of the country and yes fortunately we are anchor tenants in any mall and we do deliver high footfalls even last year we have delivered 60 million people coming to our cinemas. So, through our performance we have demonstrated to the developers that if you do get better rates on rental. Also on the third and fourth floor of every mall we end up taking 50,000 to 60,000 even 100,000 square feet of space, so yes we do get better rentals purely due to our performance and the brand.

Sanjay Bambalkar

So, going ahead whether there will be any significant change in the leases which we will be paying over a period of time.

Aditya Bijli

Yes, as I said I mean the future projects which are coming up are at good rentals and we stick to our criteria that we have to look at 25% EBITDA margin at property level and if those rents are too high if the occupancy cost which is rent and cap is high and our numbers are not stacking up



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then we negotiate and try to do the deal if we really want that project so that our feasibility works and if for some reason if the developer is not ready to give us that rental then we are not going to take that property. We are very clear that every unit that we put out has to be profitable.

Sanjay Bambalkar

Second question relate to the conversion from Cinemax to PVR just wanted to understand is there any ballpark CAPEX per screen or per property or per seat which you can share with us.

Aditya Bijli

Actually some of the properties are very new so in those properties we don't need to spend that kind of money and some properties are old so it's difficult to give a general CAPEX of how much we will be spending on the Cinemax properties but we are doing it in a very staggered with and answer this question earlier that projection system, sound system and what's happening in the auditorium screens and all are most important so that rejuvenation and refreshing of properties has already happened, concession stands, F&B, and Kiosk those are also getting changed, so we are refreshing and rejuvenating those properties anyway and but overall CAPEX is something.

Sanjeev Kumar

I think overall we will be spending about anything between 50 to 60 crores, like over 30 month period about 2 – 2.5 years period so I think average CAPEX on renovation would be about in the range of 20 to 25 crores a year and it will take us about 2 – 2.5 years for a full conversion of the portfolio.

Moderator

Thank you. Next question is from the line of Rahul Bhangadia from Lucky Investments please go ahead.

Rahul Bhangadia

I am sorry if it has been taken up in the conference before, but just wanted to confirm the drop in the net worth is basically because you have written off the accumulated goodwill against it right?

Aditya Bijli

That's right.

Rahul Bhangadia

So, was that kind of a compulsion or compulsory requirement as accounting or you just kind of opted to do that?

Sanjeev Kumar

No, we have opted to do that because it will otherwise under the Indian accounting standard you have to write-off every year and it would have been a drag unnecessarily on the earning, so we have consciously decided to kind of write-off that at the point of merger.

Rahul Bhangadia

Okay so you have basically, written it off from the balance sheet itself.

Sanjeev Kumar

That's right.

Moderator

Thank you. Next question is from the line of Vijay Vimal from ICICI Bank. Please go ahead.



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Vijay Vimal

Thank you for exceptional number for FY14. I am just coming on the point of Q4 FY14 the PBT is 91 million vis-à-vis 98.6 million in Q3-Q4 and if you see the Q4 number of FY14 and further more Q1 number of FY15 I just wanted to understand how the company is going ahead and how the FY14 – 15 number is just looking forward because in Q1 FY15, IPL is going on and there is no such good movies are releasing and hitting the theatres. Just wanting to understand that what is the most important thing which impacted the Q4 FY14 numbers and Q1 FY15?

Sanjeev Kumar

So, I think Q4 FY14, Q4 is traditionally a weak quarter for the cinema business, because no big films are released it's gone back of examination season and this year Q4 have marginally been better than Q4 of last year where the box office has done better, we had 4% positive growth on footfall. So, that's a nature of our business. There is a seasonality in our business, Q2 and Q3 are traditionally the best quarters, the season takes off in summers with June and Q4 is typically the slowest quarter so I think it's following the same cycle and we have decent number of films releasing in Q1 of this year. So, I think it should be as traditionally Q1 as a quarter is there is nothing really exceptional about this quarter.

Vijay Vimal

No, Q1 FY15 you are expecting negative profit before tax or just positive, we are going to this in the PBT in positive manner?

Sanjeev Kumar

Now, we can't comment on the earnings estimate for future. We think it will be a normal Q1 like it normally is, so won't be able to comment on the earnings estimate for the quarters.

Moderator

Thank you. Next question is from the line of Urmil Shah from May Bank. Please go ahead.

Urmil Shah

Two questions. Last year we saw some big films because of bad content impacting the box office performance, even in this quarter while there are different views one large film has not fared as well as expected. How do you see one the content for this year, I know it's difficult to forecast that and what would be the de-risking strategy?

Aditya Bijli

I think I have understood two parts to the question that you have asked, one is how do we expect this year to be in terms of content and B, what is our derisking strategy, is that right that's what you asked?

Urmil Shah

Right.

Aditya Bijli

So, firstly on content April has been fairly robust in terms of content we have done well, it has been better than last year. This year we had a unique situation where in addition to IPL we also had elections that turned out to be bigger than expected event, as a result lot of producers stayed away from releasing in May. So May would be lower than the admissions that we did last year. Although the F&B revenue and the ATP we expect will be robust so in some sense that would help us mitigate the loss of admissions if any. June again would be better than last year. So in totality Q1 is we are well poised to do better than what we did last year. The second quarter the



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visibility that we have in terms of content is looking extremely strong. We have got some big films with some big actors, big stars. So we are extremely positive, very buoyant, and extremely bullish. The second part is the de-risking or to avoid to element dependency only on films we are looking at an alternate content strategy, very aggressively, it is something which developed entertainment economies globally are looking at very aggressively have been fairly successful with. We as leaders in this market we also want to ensure that we are in sync with what is happening globally so we have an alternate content strategy in place. It may perhaps not show the significant numbers in this year but we are committed to invest in this initiative and we believe this initiative will reap rewards as we go forward in the next financial year and thereafter.

Urmil Shah

What would be the alternate content strategy includes?

Management

Well anything besides movies would fall in the category of alternate content so like screening of IPL matches, stands-in comedy shows, football, different sporting events, even a doing a premier of a big show, television show on the large screen playing some recorded Imax type of documentary for school kids could be possibly we play. So there are a lots of things. We are also on the learning curve on this model and we are very hopeful that this should be able to generate some additional footfalls for us.

Aditya Bijli

Having said that as **Kumar 43.55** said the lineup is very-very strong and this happens every year. You have very big block busters that end up doing well. And at the same time you have a lot of super hits so we have some very good small films which are coming up. Year before last was a full of small movies where we had movies like Vicky Donor, Kahani, lots of films like that which came and this year also looking like a lot of films which are there and with good director, good story which end up doing well. So I think make content which are movies they themselves take care of whatever need to have in terms of fitting up the cinema.

Urmil Shah

Lastly a bookkeeping question, if I just look at the goodwill numbers as of end of this year it is at 31 crores, if I understand 300 crores roughly has been written-off and rest would be amortize over 10-year period, so is that number correct?

Aditya Bijli

Goodwill number is about 90 crores in the books after we have written-off about 10 crores of goodwill in this quarter. So the residual number in the balance sheet that we are carrying is about 90 crores.

Moderator

Thank you. We have next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah

Sir, is it possible for you to kind of quantify the benefit of the GST that will see in your margins?

Ajay Bijli

I think GST is a big game changer for the industry. I think there are two bit impacts that GST could potentially have as and when it's rolled out. One impact is really on the credits of tax that



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we could potentially get. If you look at on a revenue side we today pay taxes to the state government entertainment tax, and VAT and on our input side all our cost we actively end up paying service tax which goes to the central government. So to give you some perspective we paid about more than Rs. 200 crores of entertainment tax last year and about 30-40 crores of VAT. So about 250 crores of output tax liability and on our input side we have paid of about 40 crores of taxes. And now this 40 crores of input tax I could not claim a single rupee of credit. Now hopefully under a GST regime if this credit will be allowed it has an impact of almost 2-3% on my operating margins. You could straight away that number to my EBITDA. Secondly, really I don't know how the GST tax rates will pan out? Our average tax payout on tickets today is about 23% all India. The last government had indicated a desire to achieve a peak rate of tax closer to 16% on services. So if that happens and how the regulations ultimately pan out the second benefit could be in reduction of taxes.

Moderator

Thank you. We have next question from the line of Pulkit Singhal from Treeline Advisors. Please go ahead.

Pulkit Singhal

For advertisements you mentioned that 10-15 locations contributed almost 70% of the revenues, how many screens is that roughly?

Aditya Bijli

Actually that number technically is about 35 cinemas which will contribute close to about 70%. So technically how we look at it is we have got direct business following in through our teams plus we have got consolidators and agencies also selling the other cinema. So we have kind of given a lot of agencies kind of a minimum guarantee with other cinema. So if you were to look at a macro view, you will see about 35 odd cinemas contributing 70% of the total revenue.

Pulkit Singhal

And this would be largely in Mumbai and Delhi if I am correct?

Aditya Bijli

This would be across metros, largely there but most of our prime cinema. What we will get a lot of agencies and consolidators would give us a good sum for that even certain partnership which happened at the corporate level for Pepsi and all they kind of spread across all the locations within the country so that's how we are able to sort of get this marketing revenue for just about every location and screen in the country.

Pulkit Singhal

What I am trying to determine is that what determines that demand for advertisement in one Cinema versus another in case the occupancy is the same in both. I would tend to think almost all cinemas in your Tier-1 cities could have good amount of advertisement demand but maybe I am wrong. It depends on cinema location as well. Is that right?

Aditya Bijli

It depends on cinema location and the kind of profile of customers. So technically what the advertiser looks at is, is the ATP and FCF. So the indicators that he would possibly pick up is the locality, the location, the profile of the consumer which possibly we also help with the fact that that's the average ticket pricing and spend per head of a certain cinema. So Priya and Directors



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Cut within a span of 2 km and Select in Anupam would not be even a km away but rates and the profile of customers are very-very different and because of which the what they galvanized as marketing income is also very different.

Pulkit Singhal

But why would an FMCG company kind of differentiate too much in that in terms of ATP and SPF. It would have product across the different spending on people.

Aditya Bijli

Because it wants to reach each profile of customers and it realizes that it has to reach us a (Unclear) 52.14 consumer which is very differentiated. There is a certain medium where it will be able to catch and there is a pricing premium attached to that. If it wants to go to a mass medium customer then clearly the pricing premium will be different.

Pulkit Singhal

Going ahead you ahead you are saying 18% growth is it largely due to pricing or is there some amount of number of minutes of advertisement going up or any other advertisement pushing strategy?

Aditya Bijli

No, this is actually price increase as well as, as I said the more like now we have huge number of screens in Mumbai all of a sudden there are brands which are looking at us being able to deliver may more footfalls than they were seeing us earlier deliver so technically from a very niche medium we have becoming a mass medium where we can across deliver quality audiences now in great number so all of sudden as an advertising medium we have become lot lethal than we were may be a couple of years down the line.

Pulkit Singhal

And is it going to be price per eyeball kind of mechanism or still price per minute?

Aditya Bijli

It is currently price per minute but we have also launched a unique product like you rightly said pay per eyeball and this is something that has worked brilliantly well with FMCG because they want the numbers and they only want to pay for the number of people sitting inside the auditorium because our numbers are all audited in terms of footfalls brands like Lever is now singing a huge deal with us where pan India we are supposed to be delivering them an audience and they would pay us per eyeball that possibly comes and watches the commercial.

Pulkit Singhal

So we see that as a benefits in FY15 or FY16 when we expect that?

Aditya Bijli

As I said we have always been growing across last five years and it has been a very strong and a robust growth, every year we need to sort of study the market and come up with new models to be able to expand this market and one end we are looking at more advertisers at the other we are also looking at improving the yield per second so there is a certain elasticity that we see where marketers are willing to pay a higher price for this audience and so we have effectively been able to take our rate card much higher and also given the fact that we are delivering large audiences now such plans come in very handy.



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Pulkit Singhal

Finally, have you considered allowing cinema goers to order F&B through an apps? I don't know if it is rules the cinema...

Aditya Bijli

The house a bit divided on this. While we have identified a vendor partner who is kind of working on this but there is also another set which think that if people were to start ordering from the within the auditorium to their handsets will make a lot of light which can be very disturbing for people sitting in the back rows so as I said the house is a bit divided. We are getting some experts to give us some qualification of how these apps have done globally and if we believe that they can substantially increase the sale for the concession without really taking away from a cinema experience then I am sure we will go ahead with this. **(Unclear) 56.06.**

Pulkit Singhal

And it requires an internet connection inside as well?

Aidtya Bijli

Yes, it does. At one point we go out and say that you need to follow certain cinema and a mobile etiquettes and switch them off and keep them on silent and all of that and on the other hand if we promote this, it is a bit of chicken and egg story.

Moderator

Thank you. Ladies and gentleman due to time constraint that was a last question. I would now like to hand over the floor back to Management for your closing remarks. Thank you and over to you sir.

Aditya Bijli

Thanks every one for taking out time for the call. If you have any follow up questions, you could write to me separately or call me separately. Thank you very much.

Moderator

Thank you. On behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.