"Prime Focus Limited Q1 FY18 Earnings Conference Call"

August 10, 2017

ANALYST: **MS. NISHA KAKRAN – FOUR-S SERVICES**

MANAGEMENT: **MR. NAMIT MALHOTRA – EXECUTIVE CHAIRMAN & GROUP CEO - PRIME FOCUS LIMITED**
MR. VIKAS RATHEE – GROUP CFO - PRIME FOCUS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Prime Focus Limited Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nisha Kakran from Four-S Services. Thank you and over to you Madam!

Nisha Kakran: Thank you. Good morning everyone and welcome to the Q1 FY18 earnings call of Prime Focus Limited. We have from Prime Focus Mr. Namit Malhotra, Executive Chairman and Group CEO and Mr. Vikas Rathee, Group CFO. We will start the conference with opening remarks from the management after which we will open the floor for questions. I will now hand over the call to Namit for his opening remarks.

Namit Malhotra: Thank you Nisha. Good morning everyone and a warm welcome. I would like to start the call with introductory remarks and an update on the progress in the Creative business and Vikas will take you through the Technology business and financials. We are happy to start fiscal 2018 on a strong positive note with steady performance and positive traction in our order book. We reported improved margins in the quarter as we delivered more and more from our cost advantageous locations. It is with great pride we announce, that Prime Focus has provided Creative Services for 6 out of top 10 Hollywood box office hits of 2017(YTD), three of which were delivered during the quarter that is Transformer, Wonder Woman, and Pirates of the Caribbean. Other movies delivered during the quarter are King Arthur: Legend of the Sword and The Mummy among others. Our order book is at about $250 million, significantly higher than the $200 million a year ago. New additions include films, like Mission Impossible 6, The Godzilla Sequel, American Assassin, Avengers, Alpha, Blade Runner, Thor and some other major unannounced projects. We are also taking proactive steps to upsize and up skill our Indian workforce to further increase delivery from India. Accordingly we have launched PFAMES, Prime Focus Academy of Media and Entertainment Studies for training entry level personnel in India.

On the India FMS side, we worked on projects like Mom, Tubelight, Jagga Jasoos, Raabta etc. Our pipeline includes movies like Dragon, Padmavati, Robo 2, Bang Reloaded, etc. With an overall order book of $450 million, all the three businesses that is Creative Services, Technology Services and the Indian FMS are well poised for good growth through fiscal year 2018. Ramki is unfortunately not able to join us today as he has an unavoidable ceremony related to a bereavement in his family in the past. I will now hand over the call to Vikas for taking us through the Technology business and financial highlights of the company.

Vikas Rathee: Thank you Namit and a very good morning to everybody. Let me start with few highlights on the Technology Services business as unfortunately Ramki is unable to join us. Technology business delivered a steady revenue with the margins close to 27%. The international business contribution continues to increase which is a good sign as we enhance our marketing and sales efforts in North America and so the international contribution has gone up to about 37% from 34% in Q1 FY17. The products and annuity mix also continues to be good. We signed some new contracts with existing and new clients. The government in India is starting to spend more and more efforts on the media side in terms of government owned media assets. We have signed a contract with the Indira Gandhi National Centre for Arts, there is more on the anvil with other media outlets of the government. Additionally we signed a contract with SRSG Broadcast, a new contract with ICC, ALT digital and our work with Tata Sky continues to grow and we signed new work for their children channel.

In the international market, we signed a contract with PBS which is the US government broadcasting channel and, we migrated existing clients i.e. CBS and Warner Brothers to our DAX Production Cloud and added our first new customer on this version of the CLEAR product, it is a production house from US, called Annapurna Films. The brand services business also continues to grow. One thing I would like to highlight is as you all know the consecutive events of demonetisation and then the run up to the GST have created some volatility in the first half of the year from January through June across the country and in the media sector as well some clients have deferred certain investments in new projects while they get clarity around it. The good thing is that, it is all behind us and now there is renewed momentum post the GST implementation and we believe that this transient volatility is now over for the sector and going forward we are all better positioned.

Moving on to the financial front. As Namit mentioned, we are happy to report a continued momentum towards higher profitability. Our consolidated revenue for the quarter was steady at Rs.522 Crores. June quarter is generally slower for us, so we are happy to continue the performance momentum. Our EBITDA and EBITDA margin has shown a very healthy momentum too, EBITDA increased close to 9% to reach Rs.112 Crores from about Rs.102 Crores in Q1FY17, and compared to about Rs.86 Crores in Quarter ending June'15. So just to give you a trajectory, we continue to improve our performance and operating leverage continues to deliver. On the EBITDA margin perspective, it grew by about 200 bps year-on-year to over 21%. As we spoke last quarter as well, there is a non-cash ESOP charge of Rs.12 Crores this quarter which is valued based on Black Scholes model under IndAS. The operating profit before tax excluding ESOP and non-operating charges, has gone up significantly to about Rs.20 Crores versus Rs.9 Crores a year ago. The reported PAT is Rs.3 Crores but if you adjust that for the ESOP non-cash charge, it is about Rs.15 Crores. In the past several quarters, we have spoken about cash profit metrics i.e. PAT plus depreciation and non-cash charges like ESOP which has reached about Rs.80 Crores with a margin of about 15% odd. I just want to clarify if you go back to a year ago; the reported PAT was about Rs.105 Crores which had an exceptional one-time gain of Rs.102 Crores on the sale of a non-core investment, this needs to be adjusted if you look at YoY comparisons. Our numbers are fully IndAS compliant as we mentioned last time and the comparison also is presented on IndAS basis.

On the divisional side I would like to highlight that the Creative Services business had a revenue of Rs.404 Crores, EBITDA for the business grew about 18% year-on-year, to Rs.80 Crores versus Rs.68 Crores in same period previous year. The Creative Services business has very strong momentum and EBITDA margin is also 300 bps higher at approximately 20%. The Tech and Tech-Enabled business had flattish revenues at about Rs.82 Crores and EBITDA margin increased by about 100 bps to over 27% and part of this is coming from the enhanced performance in the international market. As I mentioned earlier the India business on PFT was impacted by industry issues. The India FMS business continues to be steady with a top line of about Rs.43 Crores and consistently high EBITDA margins, of about 40% for this quarter. Net debt to EBITDA is 2.7 times and we will continue to make efforts to reduce that. With this, I would thank you all for taking the time and listening to our comments. We will open the call now for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

Jaineel Jhaveri: First of all, I just wanted to know if the rupee becoming stronger affected your revenues and by how much would it be?

Vikas Rathee: As you know about close to 75%- 80% of our revenues come in foreign currencies. Most of that fundamentally is US dollars or US dollar linked. Yes rupees to dollar exchange rate trending close to about 63 from 68 not too long back did have an impact. So to give you sense the revenue for our businesses has grown on a dollar perspective, but obviously the rupee appreciation had an impact, the growth is in the 3% to 4% range on a constant dollar perspective.

Jaineel Jhaveri: So there was 3% to 4% growth, but it looks like it is 2% to 3% down?

Vikas Rathee: On a consolidated basis it is down about Rs. 4 Crores.

Jaineel Jhaveri: Okay and we were guiding for about 10% kind of top line growth this year, do we still stand on that guidance?

Vikas Rathee: Yes, to bring to perspective June is one of the slower quarters. As a management team, we are on track and in certain parts of the business ahead of our plans. So we still stand behind that number and hopefully look to do better.

Jaineel Jhaveri: Okay. Thanks.

Moderator: Thank you. We have the next question from the line of Mitul Shah, an Individual Investor. Please go ahead.

Mitul Shah: Sir I just want to understand even though we are having this kind of projects and everything is going so well, why the profitability is not coming as it should have come, like there is no growth in the profitability?

Vikas Rathee: Mitul as Jaineel was mentioning even though the rupee has appreciated, we have still delivered year-on-year EBITDA growth of ~10%. So frankly the profitability does continue to improve, like I said we are inline and in certain situations actually ahead of our plan. Profitability is increasing so when rupee appreciates not only it has an impact on INR based revenues, given the fact most of our revenues are dollar denominated, but to certain extent it makes our domestic operation less competitive. I can tell you if there was no depreciation of the dollar, our revenue growth would have been much higher and EBITDA margin would have been also higher. So regardless of that we were able to continue to generate profitability because of our operating leverage and how we are able to manage projects. You should see continued momentum in the quarters ahead. We have delivered significant growth both on topline and EBITDA last year and we aim to replicate the same this year.

Mitul Shah: So the order book of $250 million plus is for this year only or it is overall the total order book?

Vikas Rathee: The total order book is actually more than $450 million. The $250 million is just for the Creative Service part of the businesses, these are movies under production and are typically shorter duration. So most of this is for the current year.

Mitul Shah: How much profitability each project contains like 10%, 20%, what is the margin in this kind of projects?

Vikas Rathee: Project-based margins are much higher than what we do as a business or division. This division has the EBITDA margin of over 20% and it continues to grow. Last quarter, we had more than 25%, so there is some seasonal impact on it, but we absolutely aim to deliver full year margins in this division of over 25%.

Mitul Shah: On this $250 million order book, you are saying that there is a 20% margin?

Vikas Rathee: Even this current quarter it was 20%, last quarter was 25% plus. So what I am saying is this division, we should deliver full year margin of 25%.

Mitul Shah: Thank you.

Moderator: Thank you. The next question is from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

Jaineel Jhaveri: Namit, this question is for you, I just wanted an update if you had any discussion with Reliance Capital regarding their stake sales. Because they have been talking on their conference call that they are going to exit their investments, which includes Prime Focus. So is there an update and who would take that stake?

Namit Malhotra: I do not think there is anything we can specifically point to, ultimately it is public equity that has to get distributed in the market appropriately. The choice and the timing of when and how it is actually done is their decision and we are only here to facilitate however best we can. There is nothing we can comment on specifically because it is not really in our position to say anything on, it is completely their choice and their decision.

Jaineel Jhaveri: But no other promoters looking to up their own stake is what I was trying to ask?

Namit Malhotra: There is no other promoter in the company except me.

Jaineel Jhaveri: Right. Would you be looking at increasing your stake?

Namit Malhotra: Again it is hard to comment on anything at this stage, obviously if anything happens, we will be making the required disclosures.

Jaineel Jhaveri: But there is no update as of now on this?

Namit Malhotra: No, there is nothing specific

Jaineel Jhaveri: And in terms of value unlocking. In my opinion, I have been on your call for quite a few quarters now, I still feels that the company is quite undervalued especially given the kind of work that you all are doing with the technology side of the business and even the visual effects side now. So what are some of the levers that you feel that will have to address because I feel like you all have not been understood correctly so what is that you all are trying to do so that people give you a better valuation.

Namit Malhotra: It is a very fair point. We all on our side also believe that to be true. We obviously ought to come out with more specific metrics on how we believe business dynamic that we are in must be looked at. We should not get bracketed into what traditional other sectors or industries have been able to do. We are slightly different in terms of how some of the metrics that we look at, should be also understood and appreciated by the markets. In order to do that, we are meant to undertake a substantive process of communications and you have seen first round of research that has come out from Jefferies. We believe there is going to be more and more coverage on our business model and all the things that we are doing, providing details how we should be valued by the markets and it has to be a cohesive process of communication and establishing the new metrics that is relevant to our business.

Jaineel Jhaveri: Okay, I have said this to you guys on the call too. There is still no talk about a demerger or a listing of the PFT because that is a growing technology business, it does not really need to be together with this business is what I understand.

Namit Malhotra: All the point which you mentioned, everybody comes with different advice and while we take people's advice in, the market dynamic also has changed so far. So we continue to evaluate various alternatives and between doing that and focusing on driving growth, we have obviously still not decided one way or another. It is making sure that picking the right time and right structure is going to be incredibly important and we are conscious that we got to be testing that with the right advice. As you said we are cautiously making sure that we do not make deductions driven by sentiment and are really focusing on long-term value creation which has really been the hallmark of our initiatives. So I do not disagree with what you are saying, but there are other ways and we are evaluating all the various alternatives to make sure we can bring that value unlocking to all the stakeholders.

Jaineel Jhaveri: My question was for Ramki, may be you can take it also, basically when we can start seeing the growth from the client mining. What I understand is that all the clients that are getting on board are taking on smaller –they are nibbling their way through PFT – trying to understand what they can outsource and how they can leverage this platform. So when can we start seeing growth for PFT really kick in, upwards of 20% kind of growth.

Namit Malhotra: I call this round two of the Prime Focus journey which is basically building, creating scale and validation on the home turf in India, then taking that capability and potential to the West. Based on where we are at, we are obviously making headway every day in small ways to try and make sure the brand, the platform, the capability is well understood. Just knowing the buying pattern from the West, everybody will take and test the relationship and attain a certain level of comfort before they can really make substantial commitment with us. What has been asked of them from our perspective is not insignificant. We are talking about a complete transformation that can come in their business by the deployment of our capabilities. It is obviously taking one big step and one particular client and we are working through that work stream. We also want to make sure that we have built enough credibility base before anybody else makes their big step. So we have gone through that phase of buying a small business, getting few users, now we have integrated that into our overall CLEAR platform and now the joint benefits of what we bring on a much wider scale that user base, is really starting to happen now. We are conscious that as a company's that is already doing it and knows how to do it and has delivered significant value within India. We see the financial merits of what we bring on a significantly bigger level to western customers and that is really something they are enthusiastically pushing for. But we are also conscious that the large western customers might not just buy the whole functionality at the first instance, they will want some more market validation of that in their peer group because it is hard to say if it works in India, so you should buy, that is not normally how buying pattern are driven in the West. Especially in the America, they want to make sure, it has to first work in America only then it gets bought in that peer group, you cannot even say we are successful in the UK or some other part of the world and that is really reason for the American companies to buy it. We are conscious that we have to get to that position and that takes certain amount of time and we are patiently pushing ahead and are extremely confident that the big breakthrough will also happen. It is a matter of landing the right client with the right size and then from there it goes completely on a higher growth curve and there is certain amount of stickiness to it. It is not as if you do it one time and you got to hit the hammer every time, once you made that one big breakthrough then for all practical purposes we are part of that ecosystem. We have done it in the creative side like now on the creative side we can proudly say that 6 out of top 10 movies have Prime Focus name on it. I could not say that five years ago. That has taken a lot of time and effort to really get to that point, to be a real part of that ecosystem. The same thing applies to the PFT and the moment that happens the numbers of PFT will skyrocket at that point.

Jaineel Jhaveri: So, Is my understanding correct that the PFT does not have a comparable kind of a company in the world and things that it is doing, it is kind of ahead in terms of its peers, so you actually have a very big opportunity that you can address with PFT. That is my understanding, is that correct?

Namit Malhotra: Your understanding is absolutely correct we can proudly say that our breadth of capabilities in an integrated platform does not exist. There are companies that are trying to break apart that capability into smaller sub segments which is not as connected as how much seamless we have made it. But that also mean we got to bring different stakeholders from different groups of these massive media conglomerates, to really agree on a path forward. In order to actually solve that maze, we have simplified our product offerings, also broken down our platform into modules, so that we are able to provide almost a step-by-step process for somebody to buy smaller pieces then get the benefit of the overall technology that has been deployed. So that is the thesis on which we are trying to win the smaller contracts, to say that lets do it potentially one step at a time because India, China are the countries who have jumped the technology evolution curve and are more receptive to a complete overhaul in a new way of doing things.

Jaineel Jhaveri: Right because we are not interested in doing things old way

Namit Malhotra: Exactly. There we have to go a little bit more step by step and we are following that line, trying to be the challenger who is just insisting a certain way. We are slowly integrating into their ecosystem and saying let us show you the benefits of what we do step by step and that is yielding good results.

Jaineel Jhaveri: Okay, but still whenever you all come on TV, I somehow feel like you all are always talking more about the creative side of the business and not speaking so much about this side of the business. I still do not get why? That is why my question was that do you all not feel that this is a big opportunity means did I get my understanding wrong because I think there is even bigger opportunity than Prime Focus ever was or will be in my opinion?

Namit Malhotra: No, we all continue to believe that and I have always said that this is a jewel on the Crown, the moment we get that big breakthrough, this business has the addressable market that is 10x of what we do on the other side. It is just that over the last few years, we have had a legacy of resolving promises made in our past where we wanted to establish the fact that our efforts in breaking through in the Hollywood market place were not futile - back in 2007 and 2008 when we made the entry it has taken us a good seven, eight years to really get momentum in that part of the world. The validation of that today establishes us as a real player in that universe and that is something that get spoken off more than anything else. It has taken time and the markets have waited for us to deliver on that promise, which we have and we continue to believe that not only when the business prospects continue to grow on that side, but it will also hopefully pave the way for PFT to double it even more effectively as we go ahead.

Jaineel Jhaveri: Okay and also one last question, are you all looking to raise any money to pay off the StanChart NCDs which will come up for repayment. So are you all looking to raise equity or debt or refinance debt is there any thought process on coming to the market or nothing at this point of time?

Namit Malhotra: We are obviously evaluating all alternatives at this point to try and see how well to take care of it. We obviously have bank support to make sure that we can meet our obligations on time and that continues to be possible. So that is where we stand in terms of making sure that we can not only replace that capital, but also replace it with long-term capital at a significantly lower cost.

Moderator: Thank you. We will take the next question from the line of Tanmay Revandkar from Athena Investment. Please go ahead.

Tanmay Revandkar: My question is relating to the manpower cost, which is obviously the most important and biggest cost for us, so just trying to understand since we are leveraging our manpower cost by bringing a lot of work back to India, so how has the progress been Y-O-Y, if you can throw some colour on that?

Vikas Rathee: As I mentioned in my remarks, the overall personal cost has dipped by over 3% from a year ago. So it continues to trend down. We were close to 62% about a year ago and we are little over 58.5%, so that continues to work through. As I said it is despite the fact that June is slightly slower for us, it is probably one of the better June quarter we have had from the past, the momentum continues to build. You will continue to see that personnel cost will continue to go down, and if you go back about couple of years when we did all the transactions this cost was well over 70% of revenue.

Tanmay Revandkar: Is there any numbers that you can share with us in terms of the breakup of the number of employees you have in London, Vancouver and India and what were numbers one year back?

Vikas Rathee: Currently we have about 1,000 odd people in London, about 600 - 700 people in Vancouver and more than 5,000 in India on the Creative Services side. On the Technical services side, we have about 100 odd people overseas and close to about 1,800- 1,900 people domestically. Obviously the India FMS business is all domestic, has a few hundred people. Comparing to a year ago, the international part of the personnel force has not really grown, it has come down slightly. On the India side, we have added close to about 1,800- 2,000 people in the last 10 or 12 months.

Tanmay Revandkar: Okay and what part of the business are we actually being able to do from India?

Vikas Rathee: In every division we basically work out of India, there is obviously a transition that happens. Two and a half - three years ago, a large majority of Creative Services work was getting done overseas. Today, India haven't still got into the majority from a dollar value perspective, but definitely have majority from employee base. Our aim is to be able to bring the personnel cost as a percentage of revenues down closer to 50% over a period of time.

Tanmay Revandkar: So just in terms of percentage can you tell me what percentage of the creative services work was done in India say for this quarter?

Vikas Rathee: We have not really broken out those metrics and that is sensitive as well from a competition perspective. All I can tell you is increasing amount of work is done from here, the work continues to increase every quarter, almost every movie that we do from Hollywood perspective some part of the work gets done here in cases it might be majority of the work, in other case in minority.

Namit Malhotra: For better understanding, the thing is why we are obviously trying to commoditize is that this is where our model has been different and continues to be different. But we are probably the most integrated provider of this high-end service because we do not like to differentiate that it is India work, UK work and Canada work. We have a metric that actually establishes more of an integrated workflow process and that is really how we are able to pick areas of efficiency that we can bring in without ever compromising the products and the deliverables to our client. This is unique compared to any of our competitors who try to do them a part whether it is domestic or international company because they have not been able to really put that integrated piece together. There are companies who try to do job work, reality is you know they take a certain function and do it in a cheaper part of the world, but that does not create margin expansion that you want because a low-end work comes with low price. At the same time, higher end work to come to a low quality destination potentially has its own risks, so we have mitigated that by making ours a fully integrated process that is our secret sauce to really stand out amongst anybody in the sector globally because nobody knows how to really make that work in a very integrated manner, the way we do it.

Tanmay Revandkar: Yes the reason why I was trying to get these number is because I completely agree with you and the kind of pricing power, the margins that we can generate by brining work back to India is something actually exciting for us as investors?

Namit Malhotra: That is absolutely the plan what Vikas also said that from competitive standpoint, we need to ensure that we are maintaining the quality, because the moment it becomes a BPO business the whole qualitative difference will get marginalized, anybody and everybody can potentially make a play for it. We are obviously playing a very different strategy and have done that for a longer time and we never went out selling our low-cost deliverables from India. We always try to provide the high end and not the low end, low value deal, which is unlike how the IT services or the other industries have build themselves. They all started as a lower end, have move towards more and more complex processes. We have tried to attack this from the beginning as being front end in the business and not really operating at the backend.

Tanmay Revandkar: The Prime Focus institution that we were taking about where training, etc., will be given. How soon do you think we will really start reaping benefits and we will get good quality manpower?

Namit Malhotra: We have now specifically branded it but we have been doing this for last three, four years, except it was done within our construct, because we are driven more by our own internal needs so we have been training only internal teams. Now, we have tried to give it more of a structure so that we can actually do this in a more cohesive manner. That is what we have really done, have taken something that was inhouse, created all the training tools and modules that were created are now being created more specifically so that they can be done in a more formal process rather than on-the-job training, that actually helps build some structure and some clarity forward.

Tanmay Revandkar: Sir going forward, can we expect the trend to continue where employees are mostly added in India and not in London, Vancouver?

Namit Malhotra: That already has happened in the last three years, both those places have been blocked for the kind of scale that we can run and all extension has happened primarily out here.

Tanmay Revandkar: All right great. Thanks a lot. That was very helpful.

Moderator: Thank you. Our next question is from the line of Hafeez Patel from Motilal Oswal Securities. Please go ahead.

Hafeez Patel: I just wanted to know going forward what are our expectations for EBITDA margins segment wise.

Vikas Rathee: We have not really given guidance by business divisions. What we highlighted also as part of our previous quarters call that we are looking to grow revenues in the 10% plus range and our EBITDA overall in a twice as much if not higher.

Hafeez Patel: But we would not be able to give the segment wise margin like for India FMS it is around 40 odd percent correct, and going with the efficiency do we expect some margins fillip in the segment?

Vikas Rathee: Frankly 40% is a very good margin, we are always pushing to get higher. The opportunity and aim we have in the India FMS business side is helping our Indian clients to get to next curve on the visual effects opportunity and we have seen the success that Baahubali delivered. There is a growing appetite for visually enhanced movies in India as well and that is where the real efforts are and the couple of the movies Namit mentioned about in relation to projects we are doing in India, you will see a significant enhancement on the visual effect perspective. So that is where the opportunity is and if that comes in, margin will expand further so we expect margins to expand across all our business divisions and it will trend up. Is that going to happen in a quarter or two quarters – I don't know - and that is why we try not to go there. But the theme on taking feature films and television stock to a higher level on the visual effect side which you have seen globally on Hollywood and Netflix and others, it is absolutely clear that it can deliver a good revenue growth as well as margin expansion. So on the India FMS side you will see some of that coming through in fiscal 2018, but fiscal 2019 is where we feel there is maximum promise as these projects get off the ground.

Hafeez Patel: One more question Sir, in connection with the orders what we have received under the Tech segment it is around $200 million odd and does this include contracts what we have signed during the quarter?

Vikas Rathee: That is right. So Technical service business works on a slightly longer term, monthly invoicing and monthly billing, but these contracts are for a longer duration. The average life of this is 3 years but obviously the contracts are ranged between 2 and 5 years overall.

Hafeez Patel: So this $200 million includes the signed contracts amount?

Vikas Rathee: That is right.

Hafeez Patel: Thank you very Sir.

Moderator: Thank you. We have the next question from the line of Zahara Sheriff of Fedwinteg Knowledge. Please go ahead.

Zahara Sheriff: Sir I have got a couple of questions; one in response to one of the earlier questions when you were all explaining about the order book in the creative business, the duration is probably within the year and did not get a chance to elaborate on the other business's order book nature if you will for the other businesses, corresponding you can finish that part?

Vikas Rathee: As I said with the Creative Services business because it is primarily project driven, so you move from an Avengers to Thor to Mission Impossible to others, these projects are between six and twelve months. Some larger ones would probably go longer than that from the point in time they get into the order book and contracts. In Tech and Tech services, the contracts are in the two to five year range and this is the signed contracts, this order book goes up as we sign new contracts. The pipeline behind both of these numbers is significantly higher, so as contracts get signed they get into the order book and as you execute the work it falls off. The domestic India FMS business does not really work on an order book basis it is fairly quick turnaround that we fundamentally do. We have leading position in the domestic India market, so it is very steady stable business, we do sign contracts but they get done fairly quickly, so we really do not include that part of the business to order book, but typically that is also within twelve months range so that is the breakup.

Zahara Sheriff: So then assuming $450 million consolidated order books that you got is essentially the creative and the Technology?

Vikas Rathee: That is correct. As I said we do not include the domestic FMS business as part of it. We are trying to keep the definitions consistent, so there is a massive pipeline in India as well. We do have very significant visibility even in India FMS where my revenues are going to come in the next quarter and the quarter thereafter.

Zahara Sheriff: I just wanted to understand therefore on the Technology side of the order book like you said, duration tends to be in the 2 to 5 year range and they are more like annuity, monthly billing, so when you put together the order book amount is that the consolidated 2 year or 5 year revenues that you expect, how do you include number or in the other visual of it?

Vikas Rathee: No that is the contracted amount so obviously different contracts have been signed in the different point in time and a different life left so that is the summation effectively all the contracts we have.

Zahara Sheriff: But you do therefore the entire duration of the contract whatever it is?

Vikas Rathee: Yes, absolutely.

Zahara Sheriff: Just one more thing on that front so typically it seems like once you are in you are part of the ecosystem and unless things go wrong a large part of the PFT business should actually continue right?

Vikas Rathee: Yes, absolutely that is the beauty of the product. It is like an ERP platform, like an SAP or an Oracle for that matter. Our competition is not some other competitors with a product. We love for more competitors to sell more products, our real competition is legacy, as Namit mentioned earlier, legacy is the biggest opportunity in the US. If you just draw a parallel to the mobile industry in India, when mobiles came to India it already had 2G while the west was still in analog so the growth on mobile and digital was much faster in India, the American had to catch up. So that is the fight we are fighting. The biggest product we have in the US is the DAX product, from the company we acquired a long time back. DAX production Cloud has been launched and the companies like Warner Bros and CBS with the older technology are transitioning more and more on the new CLEAR DAX product and that allowed us to sell lot more features. That has taken us two and a half plus years to get to the point, but now we have another broader CLEAR product being installed at these customers and for us to add features and capabilities on top of that is an automated process, so we are very excited about that. It will help us creep up the American value chain much faster now than we had in the past.

Zahara Sheriff: I do not know if you will be able to answer this one. If the order book is about $450 million and about $250 million is on the creative side, we are taking about $200 million odd on the PFT side of the business. Is there anyway you can give us the sense of let us say the average duration of the contracts that make up that $200 million. I know it will be a very approximate?

Vikas Rathee: It is about 3 years, is what you should look at.

Zahara Sheriff: For the existing order book?

Vikas Rathee: That is correct. That is the average.

Zahara Sheriff: Thank you and just a couple of more questions. If at all the rupee appreciation continues the forex risk would turn out to be a significant one for you, so I was just wondering if you do have a hedging policy in place, and have you ever since starting to give us numbers on a like-to-like basis that we can compare.

Vikas Rathee: Yes we do have hedging policy to hedge our exposures, hedging the rupee with any foreign currency is extremely expensive. The US dollars and INR hedging has been as high as 7%, 7.5% and it has come down recently. You saw this quarter there is dollar depreciation and regardless of it impacting the revenue, we continue to increase our EBITDA margins, so the operating leverage in the business is what is driving it. Some amount of FX volatility we can digest and actually push through, so we are not worried about that, we do have hedging policy. We are evaluating different structure even now. Obviously a big part of the rupee appreciation is on the back of FDI Flows and besides the US, India is the only real other market, which is doing really well right now from international capital perspective. So there is obviously fund flow which is driving part of this appreciation, our opportunity is to make sure the business continues to grow and we will manage our FX exposure very carefully.

Zahara Sheriff: The reason I am asking this is because when the move comes like I have been tracking the IT sectors for about 15 years now and suddenly things reverse and then you have this one and half to two years where a lot of the growth just gets wiped out. I understand right now what you are saying is at the cost benefit does not add up for you in terms of the operating leverage that you have in the business, that is what you lose with the rupee appreciation if any, but do you have any sort of ballpark number in mind that if variation was more than this then we would look to cover or if we look to cover we would cover for three months, six months or a year out or some percent of your order book or anything like that you just not yet brought into that point?

Vikas Rathee: See absolutely we have, this is something that we are discussing very actively within the management and the board. So we try and divide it across division, the biggest part of this FX obviously comes in from the Creative side of the business. We hedge the cross currency exposure between Dollar, Pounds and Canadian Dollar for the matter and we play the FX hedge on the India part in the form of taking working capital which is in dollars as opposed to that, so there is still mismatch. On the Technology services side, which is where you would compare something from an IT services side our international business is still small it is about 30%, we are getting to

37%, so that part of our business we again look to hedge more. As of now what we are doing is we are taking the excess capital that is coming through the international part of the business and plugging it back into sales, marketing to growth the international segment. So we look at hedging our net exposure, it is absolutely clear and important for us so you will see us being organized and provide you more information going forward.

Zahara Sheriff: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Salil Sharma from Kapur Sharma & Company. Please go ahead.

Salil Sharma: My question is regarding the debt, which you have stated in the presentation of around Rs. 1,357 Crores now what is the free cash against this so we get the net debt figure?

Vikas Rathee: You would expect us to have between Rs 100 and Rs 150 Crores of cash in hand, across the groups at any point in time

Salil Sharma: It is safe to assume debt is around the same levels as it was in the earlier quarter?

Vikas Rathee: No, it is higher to be very frank and what I would say is there are few things that we have done. We had done these transactions about three ago, we always looked at them as earn outs and payments that may get made over a period of time. During this past quarter, we have paid close to Rs.75 Crores of payments that were due in terms of payments to the shareholders of the company's we had bought. We are now fundamentally almost done with these payments. There is probably around $5 to $6 million that was remaining in relation to that, so that obviously got paid during this quarter, so if you would see any enhancement in debt, it is primarily on the back of repayment of these liabilities they do not sit as debt, but as other liabilities in our balance sheet. The other thing I want to mention is we had convertible debentures of about Rs.75 Crores that were on Prime Focus Technology's balance sheet. As part of our consolidation of bank debt with Yes bank earlier, we basically went through the process and have repaid those debentures early and so you see some double counting in relation to that as well.

Salil Sharma: We had given a guidance of paying back Rs.500 Crores in the next two years, so we are on track with that?

Vikas Rathee: Absolutely.

Salil Sharma: Secondly the digital domain the remaining part has been sold or it is still on books?

Vikas Rathee: The transaction is yet not closed. You have seen there has been a significant amount of volatility of what is happening in China and Hong Kong, so these conversations continue. They are a bit distracted because they have a big business out of China. So it has not concluded, we do not have the stock in our hand to be able to do anything and we will keep you updated if that progresses.

Salil Sharma: Last quarter, we had a debtor days of 45 days, are we above that or below that at this point in time?

Vikas Rathee: There will be some seasonal volatility that you will see, Q1 was slightly higher than that, but it is expected to be seasonal, you will see September will probably be in the same range and then it starts falling fairly quickly for December and March. It is part of how our business works seasonally to a certain extent.

Salil Sharma: About the India business, that is a cause of worry because the Q4 last year we had a loss of Rs.23 Crores and then this quarter again we have a loss of Rs.10 Crores, so is there a problem. I understand there is a problem because of demonetisation and other things, but there is a continuing thing that we are not able to make money is it excess competition?

Vikas Rathee: No that is not what it is. If you see, the loss is basically coming because of the ESOP charge. The standalone entity is where India business is, so obviously when ESOPs have been issued, one under Ind-AS the charge that we have to take for ESOPs is dramatically higher than you have to take in the previous GAAP. Secondly because this is where the ESOPs have been issued the entire charge comes and hits here in standalone entity. This is about Rs.12 Crores of non-cash charge on the back of ESOP, which is causing the loss otherwise looking at just from business perspective it is very profitable.

Salil Sharma: And this will be continuing process like every quarter we will have Rs.10 Crores to Rs.12 Crores of ESOPs?

Vikas Rathee: This is going to fall away, the ESOPs were issued middle of last year, so the total charge for the ESOPs that we have to take under Ind-AS is close to about Rs.60 odd Crores, so we have taken close to Rs.36 Crores of this already, so you will see this number fall quarter-on-quarter and by the end of FY18 this will almost be gone. Earlier it used to happen in Indian GAAP we took a charge one quarter and moved on. That is not how we can do it under the new accounting standards wherein the charge is comparatively larger as it is done on a Black Scholes valuation methodology as opposed the straight intrinsic value based charge under Indian GAAP.

Salil Sharma: You talked about the new office in Sydney what is the capacity?

Vikas Rathee: It is a sales representative office, Cricket Australia is a good client and more expansion happening on the sport side. Also the domestic broadcasters there, the Channel-4, Channel-9 we see an increasing demand coming from there so it is basically sales and support representative office. We have one person as of now and there is another one joining. So it is feeding in contracts into the India business.

Salil Sharma: Okay and if I understand correctly we have an extraordinary item in depreciation to the tune of nearly Rs.25 Crores and in interest it is around Rs.8.5 Crores, is that correct?

Vikas Rathee: We did not say it is extraordinary, last time there was a question in terms of how much is the depreciation and how much is amortisation. Transactions we had with DAX, Double Negative or others, we basically bought businesses, which came with low book value and these are technology transactions. Obviously on the asset side beyond goodwill you have, R&D and IT that gets capitalized and rolls off over a period of time. We are an IP based company. So, there is tangible versus intangible now what I can tell you is of the intangible a big chunk is relation to some of these amortizations, which will fall away over period of time that is why we are highlighting.

Salil Sharma: Okay. Sir, how soon do think it will fall off?

Vikas Rathee: We will get to a more stable number by the end of this fiscal. By the end of fiscal 2018 we will get down to a more stable number, but I would like to highlight it, we had fairly large capex last year, which fell in line with what we had given guidance during this quarter. We are in Rs.40 Crores quarterly basis, dramatically lower than Rs 60 plus Crores that we had on a straight-line quarterly basis last year.

Salil Sharma: Okay and Rs.8.5 Crores in interest?

Vikas Rathee: This is financial charge.

Salil Sharma: Sorry finance cost?

Vikas Rathee: Basically what happens is any and all instruments under Ind-AS, which are not equity are debts effectively and then there is amortization of that, you have to take net present value of all these and this then gets amortized over a period of time, so this is like a non-cash part of finance charges that under Ind-AS we have to amortize on a quarterly basis.

Salil Sharma: When you feel they will fall off?

Vikas Rathee: This will continue to reduce, but you will see some of this to continue for the next several years because depending on what kind of an instrument that is, it might have a life of two years and might have a life of five years, but these are non-cash kind of charges that we have to take, because a lot of this hit we have already taken, but from a cash perspective, under Ind-AS you are supposed to look at it based on a fair value over a period of the time.

Salil Sharma: Okay. Lastly one question for Namit this is regarding the various media reports about Ramayana, are we part of that.

Namit Malhotra: I think this is no different from actually leveraging our overall capabilities coming on the back of the success of Baahubali. There is mostly lot of interest in the filmmakers to try and launch some of these mega stories that completely depend on the capabilities that we have today to bring these to life. So we are establishing the path on making sure that we can take some of these opportunities and really up scale the quality and capability that gets down out of India for Indian films because that is going to be a massive growth opportunity in the Indian market as well in the years to come.

Salil Sharma: Anything specifics has happened on the Ramayana front?

Namit Malhotra: No nothing is really different. It is very early days, it was more of making sure that there is visibility on what is being developed in media because these are thoughts that can take lot of time and effort to really even get to a state of any readiness. It is establishing intent, but with the longer-term tail to when and how it is actually happens going ahead.

Salil Sharma: Okay and it seems that as far the Baahubali or other south Indian movies are concerned that there is an effort in the sense that they would want to involve Prime Focus, am I correct or is it they view you as competition or something of that sorts?

Namit Malhotra: No, not at all in fact right now we are working on a very important sequence of Robo 2 and there is no such thing. We believe that we are able to now point to all our capabilities and technology developments that we have in the west. I am glad to see that Indian filmmakers and movies are really looking to exploit that today and that is a very strong sign for the long-term development of our industry and our business much like China has seen. We would love to see the days where we make 10 mega blockbusters out of India that are no different from what the Hollywood or the Chinese industry does, those are the spectacle movies that audiences in India or globally Indians are lining up at theatres to watch anyways. So that augers very well for us as being an Indian company with its deep roots in the Indian industry. With more domestic demand we can drive the greater opportunity in terms of developing talent and the market place for working for the world. I continue to be a big believer that India’s 100 year old film industry, much before when Indians used computers we made movies. I would love to see India as the destination where the world comes for making their films of the most high end complex story telling that is something that we can totally do and if the Indian industry stands up to that as well it really helps build credibility in our ability to deliver these mega projects. We are now doing successfully for American movies, for Chinese movies even and now it is time for our own filmmakers in India to really take the benefit of the scale of what we have to make this come to life.

Salil Sharma: Just regarding that there is no animosity between the two like the west, and south there is nothing like that?

Namit Malhotra: No. There are absolutely no reasons for that.

Salil Sharma: Thanks.

Moderator: Thank you. Ladies and gentlemen I would now hand the floor back to the management for closing comments. Over to you Sir!

Namit Malhotra: Thanks for all the questions today. As you can see hopefully that we continue to deliver on our promise of delivering growth and bringing more and more sustainability. As we go forward we continue to deliver on the promises of overall debt reduction and business, it is fair to assume that while we do that we are also building a baseline in terms of where the business has to be in and reduce the volatility that we have experienced in the last few years otherwise. That will bring a lot more cheer and confidence to the market in making sure that the company is not just delivering ahead of its curve but also will almost certainly have a minimum baseline to build from. With that thank you all for your continued support and look forward to speak to you all again in the next quarter.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Prime Focus Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.