



“PVR Limited Q1 FY-15 Earnings Conference Call”

August 4, 2013



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Moderator

Ladies and gentlemen good day and welcome to the PVR Q1 FY'15 Results Conference Call hosted by Motilal Oswal Securities limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Niket Shah from Motilal Oswal Securities limited. Thank you and over to you Mr. Shah.

Niket Shah

Yes, thanks so much. We at Motilal Oswal are extremely pleased to hold this con call for Q1 FY15 results. We have from the management Mr. Ajay Bijli – Chairman cum Managing Director; Mr. Sanjeev Kumar – Joint Managing Director; Mr. Nitin Sood – CFO of PVR limited. I would now like to hand over to Mr. Ajay for his opening remarks, post which we can open the floor for a Q&A. Over to you Ajay.

Ajay Bijli

Thanks Niket. Good afternoon everyone, this is Ajay Bijli from PVR. Like to thank you all for taking the time out for this call. First, I will give you little snap shot of the Q1 numbers and then we can get into Q&A after that.

The revenues for the first quarter this year were Rs. 363 crores as compared to Rs. 337 crores which is up by 8% last year. The consolidated EBITDA for the quarter was Rs. 56 crores as against Rs. 61 crores in the same period last year, which is down by 9%. And the PAT for the quarter was Rs. 7.5 crores. The quarter was marked by no big releases at the box office on account of elections. Footfalls were down by about 14% on same stores; however we were able to recoup this by increase in ATPs which moved up by 5%.

Our performance in other areas of our business was very good; F&B sponsorship continues to be strong. F&B average per spend grew by 19% over the same period last year. Sponsorship revenues were also up by 15% over previous year. The Q2, early indications of Q2 are looking good, box office results have been very strong with movies like Ek Villain and Kick and we are optimistic regarding box office prospects for the remaining part of the year. We continue to be aggressively perusing roll-on for new screens in the first quarter. In the first quarter itself, we opened 23 screens and currently operate a network of Rs. 445 screens over 111 properties in 43 cities across the country. We intend to add about 65 to 70 screens in the current financial year.

Now I would like to open the forum for any Q&As. Thank you very much.

Moderator

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak

Ajay, can you just give your thoughts on this acquisition by Inox of the Satyam talkies?



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Ajay Bijli

Well, Satyam obviously want to sell and they gave a mandate to investment bankers, so we looked at the deal. So when we looked at the deal, we looked at their whole geographical spread and the price expectation which was there from the seller and personally we felt that a, the geographical spread was not something which was too exciting for us because in the same catchments we have already got very good properties in most of the location and more importantly the price at which the deal was on offer, we found it very high. So it include the debt we founded to be over Rs. 6 crores a screen for a 38 screen circuit and whereas our own acquisition that we did for Cinemax was about Rs. 4.13 crores. In any case, if you grow organically, you don't spend more than Rs. 2.5 crores a screen, so we felt that for a kind of circuit that we were getting, in any case organically we grow about 75-80 screens every year anyway, so we just felt it to be a little too expensive for us.

Dheeresh Pathak

Okay. And obviously footfalls being a function of content but last year also on a comparable basis we saw mid-single digit decline in footfalls and this year first quarter has been double-digit decline. For the full year based on your judgment of the content that is coming up for the rest of the year, where do you see full year footfalls on a comparable basis?

Ajay Bijli

Well, I see improvement, I mean because there is first year, I mean this quarter is normally very-very good quarter one, but it's just that we underestimated the impact of elections because a lot of films, I think the entertainment on the television was much more than what we could achieve on the big screen and plus some of the big movies that... 2States got released, we had holiday, so we didn't have any big blockbusters as opposed to last year where we had Yeh Jawaani Hai Deewani, Aashiqui 2, even Iron Man 3 played out very well. But coming forward, I mean we have got some massive films coming up, we have Bang Bang, we have Singham Returns is there, It's Entertainment is there, Shahrukh Khan's movie Happy New Year is there, PK is there, Ranbir's two films are coming, we have smaller films but which will end up doing well, which are important all the time, Finding Fanny, Mary Kom which is a biopic Priyanka Chopra, so I am looking at a very good line up. So I don't think there will be any problem with footfalls in the coming quarters.

Dheeresh Pathak

So for the full year basis for the comparable properties, you think we can have a growth for FY15?

Ajay Bijli

Yes, I think there will be a very marginal quarter because Q1 has been a downer but I think Q2, Q3 and Q4 are all looking very good. So I think there could be a potentially a minor growth, but there will not be a substantial growth over last year but I think where you see quarter this year, even the ticket pricing, ticket pricing growth we expect to be above 5% this year I think and that is fairly realistic.

Moderator

Thank you. The next question is from the line of Pukit Singhal from Treeline Advisors. Please go ahead.



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Pulkit Singhal

Just firstly on this spending per head has obviously gone up a lot, I mean, what are the trends we are seeing there and how much do you think that can improve? I mean, what are the activities that the PVR management is doing to further push it up? And also if you can talk about the advertisement revenues and if there is any movement towards per patron kind of pricing?

Ajay Bijli

Let me first start with advertising. You have seen a 15% growth and I believe that we will end the year closer to about 17% - 18%. It is looking very upbeat, the quarter one had elections and IPL which kind of still, we had a lot of other advertisers going to the other medium, so clearly quarter two and three for us are going to be huge in terms of advertising revenue. And so we are feeling very comfortable with that trajectory and we believe that we will end the year really on the set target. Coming to F&B, this has been one line of business which has been steadily growing and that is because that the whole management is focusing a lot on this piece. We have done a lot of innovation in terms of pricing product, quality, getting other tip-ups with other products to get their kiosks in the cinemas. So this we believe is going to be very steady again and we should be able to throw similar numbers in the other three quarters as well.

Pulkit Singhal

Okay. But, I mean in terms of your ad revenues per person, it is roughly around Rs. 24 and how do I look at this in terms of benchmark, I mean, what could be the potential if you have compared some other medium pricing for this?

Ajay Bijli

See actually this is something that you have, this is a derived number, we don't look at our revenues in that manner, we largely look at it from the perspective of the line-up and what is the kind of perception that the advertiser today has with that films. All that I can say is that this juncture, the bigger films are due to release in quarter two and three and all the big stars which were missing in Q1 have a line up in the next two quarters and because of which we will go up. But technically, we have not really, we do not look at advertising purpose and as a benchmark, we look at really the complete revenues because footfalls go up and as well as the advertising revenue. So technically, that is not a benchmark that we currently use.

Nitin Sood

Advertising revenue cannot be measured in per person also because the advertising pricing completely varies across tier-1 and tier-2 and tier-3 cities, so we do not look at our business that way at all from advertising perspective.

Pulkit Singhal

Right. No, my understanding was that you are in talks with some consumer companies to kind of create a pricing based on per person.

Nitin Sood

That is less than 1% to 2% --

Ajay Bijli

Yes, something which is very new, we are trying to get into contracts where we do pay per eyeball kind of a plan but those are only available to clients who would want to sort of take a large mass of people over a certain period. So we do have certain contracts but they are very few and it is a trend which has still not really caught up big time.



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Pulkit Singhal

Right sir. And my final question is on, you have taken approval for raising around Rs. 5 billion, is this required for the current business itself or will it only be required for new acquisitions? And in case you do decide to pursue acquisitions, what is the net debt to EBITDA level that you are more comfortable with for the company?

Ajay Bijli

So first of all just to clarify, this is just enabling resolution we have taken on record and largely I think we do not require any funding for our organic growth, we are well funded for funding our organic growth. But our industry is also going through a lot of consolidation opportunities, so the whole idea of taking this enabling resolution was to cut the approval process of going to the board and then to the shareholders and have a certain degree of flexibility around it. I think the only idea is, the only situation we ever think of raising money is if we are pursuing any inorganic opportunity, there is no other intention or area where we will end up ever raising capital for growth. From a net debt to EBITDA perspective, I think we are fairly comfortable with a 3.5 times net debt to EBITDA kind of covenant. We believe that our business can well fund that because all our borrowings are long-term. Our current net debt to EBITDA is about 2.6 - 2.7 times. So we are fairly comfortable from that perspective and I think that is the way we look at it.

Pulkit Singhal

Can you just touch upon, I mean there are some news articles of Big Cinemas being on the block, I mean, have they reached out to you or what is your hope --?

Ajay Bijli

No, I think these news reports are all speculations so we cannot comment on any such thing, there is no truth in the news article. We cannot respond to that.

Moderator

Thank you. The next question is from the line of Prince Poddar from UBS. Please go ahead.

Prince Poddar

Sir, four questions from my side. First is, sir I wanted to know what the age profile of your screens is currently? As in, how many screens are more than two years and more than three years old?

Ajay Bijli

Actually, if you look at our business where we look at our mature portfolio which is more than two years, almost 2/3 of our portfolio is matured screens which is more than two years old and 1/3 of our portfolio is under two years.

Prince Poddar

This is including the new screens you have added in the past 15 months or so?

Ajay Bijli

That is right.

Prince Poddar

Okay. And sir the second question, sir the promotional F&B expenses which happened during this quarter, is it a onetime event is it going to happen more frequently? It was around 90 basis points was an increase in cost of goods, basically F&B expenses.

Ajay Bijli

No, it will happen on a quarterly basis, the calendar will keep varying and there will be different promotions which will keep running from time to time. So that will continue to happen. See,



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when we look at F&B, we only focus on what is the average F&B realization net of cogs, so we do not care just the cog numbers or just the spend per head number. But what is the average realization in absolute terms we can make a person spend more, even it is a slightly higher cogs item, we are fine.

Prince Poddar

Yes, correct in that way. Another question related to that was, the spend per head has increased tremendously; I mean, 19% increase in spend per head. So what has led to this increase, it was just the pricing or it was something to do with per person also?

Ajay Bijli

Actually it was a combination of lot of small and big things put together. First and foremost we revamped our concessions so we got a new display and the whole look and feel of the candy chain. Second, we looked at the product pricing, then we looked at the portfolio of F&B being sold and we added a lot of other variants that we believed a customer could possibly want. And the fourth was on the service where we reached out to the customer much stronger than what we were doing before. So there was an NOS service on seat kind of service started, we took in extra man power and made sure that we reached out to the consumer. All of this kind of helped us increase the strike rate and hence the SPH.

Prince Poddar

Okay. And sir last one sir, revised agreements as you said in your presentation led to lower film hire cost, so do we see further decrease in film hire cost as you add in more number of screens every year?

Ajay Bijli

But scale, definitely file hire has been coming down and even now there has been a new reset at again of certain benchmarks with industry which will again bring the film hire down. So I think adding 80 screens to 100 screens every year is bringing that scale to us which is bringing the file hire down across the circuit.

Prince Poddar

Okay. And we can easily expect this to happen over coming years also?

Ajay Bijli

Yes.

Management

I think there will be some more correction over where we are right now. Very difficult to quantify when and how, but we believe I think scale will give us that advantage to kind of further improve upon film hire.

Moderator

Thank you. The next question is from the line of Piyush Sharma from Metis Capital. Please go ahead.

Piyush Sharma

I just have one question on how screens were allocated to content in the June quarter. I think it is fair to say that historically your overall footfalls have moved either in line with the multiplex pace or have outpaced that. But if we look at multiplex collections from third party numbers, in the June quarter and again, they are what they are and I am not certainly vouching for their accuracy here. But it seems like we were up about 30% sequentially from March to June quarter,



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your closest listed competitor grew 25% sequentially and the screen count grew by about 1% sequentially, your exhibition pace grew 19%, having increased the screen count by almost 5% sequentially. So I just wanted to better understand what drove the relative underperformance if you will give that we have all gotten a bit accustomed to you outpacing competition. And screen allocation toward content was much more towards big budget movies and has traditionally been the norm maybe, and since big budget movie didn't report as good occupancy numbers in the June quarter, maybe that impacted your overall numbers. And if not that, to what else would you attribute this departure from peers?

Ajay Bijli

So, quite honestly we don't know what numbers are you referring to? We do not have any of those numbers and we believe that our number has been better than what our peers have achieved, so it will be unfair for us to comment on it because we do not have access to what data you are referring to or indicating. So we don't agree to those numbers.

Piyush Sharma

Okay. Maybe if you can tell us what percentage of tickets was sold on the day of movie exhibition versus advance tickets and maybe what percentage is sold a day in advance versus a three to four days a more in advance, they will give me some idea?

Ajay Bijli

No, that has no relevance quite honestly because in our business everything is sold on current basis. So if effectively the advance fees is only two days advance sales, so there is no relevance in the overall scheme of things. I do not understand your question, because for every film which is released on Friday, the advance is opened on Wednesday. So at best there is a 48 hour advance window for a film, how does it impact the numbers I cannot understand your question.

Piyush Sharma

No, I was thinking more like if you had substantially more portion of your box office collections were advance tickets, it gives you much more freedom to --

Ajay Bijli

No, no, it is something that we do not decide, it really reflects on how the consumer is kind of consuming our piece so...

Management

No, that has got no bearing in the overall numbers. Advance has no relevance in the overall numbers. So quite honestly you can share those numbers with what information you have with us separately, we will be happy to validate that, but quite honestly in absence of any data, very difficult for us to comment on the question.

Moderator

Thank you. The next question is from the line of Sumit Choudhary from Standard Chartered. Please go ahead.

Sumit Choudhary

Just two questions. First, if you could tell us how much was your net debt as of June and for the full year how much reduction in net debt are you targeting or expecting?

Ajay Bijli

So, our overall net debt as on 30th June was about Rs. 590 crores overall for the company. I do not think there will be any reduction in net debt this year simply because of the aggressive



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CAPEX that we are doing and also because of the renovation of some of the major Cinemax sites that we have undertaken this year, so we do not think there will be any reduction in the debt this year, debt will continue to remain at current level or may marginally go up by Rs. 10 crores to Rs. 20 crores from the existing levels.

Sumit Choudhary

So we should expect around Rs. 600 crores of net debt. And how much is your full year CAPEX expectation and how much of that is in renovation?

Ajay Bijli

Our full year CAPEX should be in the range of about Rs. 160 crores to Rs. 175 crores and roughly about Rs. 30 crores to Rs. 40 crores will be renovations and retrofits of PVR and Cinemax, right. So balance will be new screen organic CAPEX.

Sumit Choudhary

Okay. And just in terms of inorganic acquisition opportunities that you are of maybe evaluating, I mean, if you could talk to us about like what kind of a fit would be a good one for you given you have a national chain which has a pretty good geographic spread now more or less and you seem to be having a good enough mass. So just in terms of further inorganic acquisitions if you could talk us through so what would make the acquisition tilt in your favor if you were to evaluate any more acquisition going forward?

Ajay Bijli

I mean, any acquisition has to come at a right value to us and it has to incrementally benefit everybody, I mean it has to add value to the overall portfolio of PVR cinemas, it has to be complementary to the screen presence that we have, it has to be something that is called longevity, the portfolio of screens must be something that could stand a test of time. It should have attributes that we look at when we sign our projects, must be in a good location, in a good mall and it must be EBITDA positive. So I think if there is opportunity that does come about, they will have to go through this rigorous sort of a check list that we have and then only one would try to acquire it. But if we found that any of the pieces are missing and it is not the right fit in terms of even the brand attribute and it is not of the right valuation, then there is plenty of organic growth that is happening anyway in PVR so we will not go out and acquire it. So we will see, if a good opportunity is there we are ready for it but as I said it has to be the right fit.

Sumit Choudhary

So it doesn't seem like there is anything immediate which you are looking at it more in future in case something of this kind of description comes through because it does not at least to me as an industry outsider, at least it does not look like there are too many opportunities of that sort and scale.

Ajay Bijli

Yes, even if you were an industry insider you would not have found too many opportunities here.

Moderator

Thank you. The next question is from the line of Urmil Shah from Maybank. Please go ahead.

Urmil Shah

Sir just wanted your view on the industry outlook for the next two to three years kind of horizon. One was on the content side wherein we have seen that even the content for movies of tier two actors, the cost is increasingly going up, does that mean that the risk of failure of such movies



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could also impact the industry? And secondly also on the competitive scenario both driven by M&A and organic expansion by the top five players, do you see that addition of capacity it is getting preponed?

Ajay Bijli

No, I think on a macro level India is grossly under-screened, we hardly have 2,100 - 2,200 new build multiplex screen, if we put all the multiplex players together and most of the other screen is 6,000 - 7,000, this number keeps changing because a lot of single screens are closing down as well. Those are all single screens and they do not have the modern facilities and the infrastructure around it which people are looking for. So I think at a macro level the country is grossly under screened and there is a tremendous amount of potential for growth in different cities different catchments. So I think we are very-very far from reaching any sort of a saturation point as far as the growth of multiplex is concerned.

And your second question was content, I mean, we do not get influenced as an exhibitor, we are concerned with the quality of the content that the consumer sort of connects with. So whether it is a big budget movie or a small budget movie, ultimately what we would like is that the consumer likes the movie. So you have all sorts of movies, you have movies which are made at a very small budget like a movie like Queen and earlier you had movies like Vicky Donor and English Vinglish and all these movies which were at a small budget that did exceedingly well. And then you also have very big budget movies which definitely give you that big screen experience but ultimately they have to connect with the audience. So we are concerned with the quality of the content which comes through and the connect of that content with the consumer, rather than at what budget it was made as an exhibitor. I think from a production point of view obviously that is a different ball game. So companies who are in the production business, their economics are something which can change depending upon how much they have made the movie for and how much is the revenue that they get overall. So that is a worry for them, for us it is only this, does not matter how much the movie has made, people who come to our cinemas must connect with us and must enjoy the movie and must fill up our cinemas. So that is what we looking at and there is a variety of films that are coming and if you look at all the South Indian films, Punjabi films are also coming, Tamil, Telegu, Malayalam, Kannada, English, Hindi, Marathi, lots of films are coming so we are only concerned that these movies should get connected with the audience.

Management

And to add on to that what is also happening is I think because of the multiplex penetration increasing every year, the India box office is also growing by about 8% to 10% annually. So the reason why some of the film budgets are also going up because the revenues are also going up every year in proportion to new screens that are being added by multiplex operators.

Urmil Shah

Sure. Just to touch upon the competitive scenario for the while in the regions where you already have the presence or the top five players already have the presence, that is fair enough, but in the areas of expansion that is Tier-2 and Tier-3 cities, have you started seeing preponement of screen addition in the market as a whole in amongst the top five players.



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Ajay Bijli

No really, so what is really being happening is if you look at the Tier-1 cities, they are still under-screened, so there is still a screen growth possibility in this Tier-1 stream. Tier-2 and Tier-3 is catching up but Tier-2 and Tier-3 we have to remember that the economic drivers have to be there for these screens to be able to sustain. So wish this new government is going to get fed up and we do believe that Tier-2 and Tier-3 would catch-up the momentum in the years to come.

Urmil Shah

Sure. Sir and also had a question on the F&D spend of strong growth this quarter and we have seen that on year-on-year basis there has been about double-digit kind of growth for the last three four years. How should we look at it going forward?

Management

I think we will be able to sustain this growth. There is a complete pipeline that we worked at addition new products, new pricing, openings, and new avenues to sort of serve customers. So clearly we have hit our sweet spot in terms of the growth percentage and we aim to maintain this going forward.

Ajay Bijli

Yes, I think on a long-term basis what Gautam means is we will continue to deliver 20% growth on F&B. This year definitely looks fairly strong, I think team has been able to deliver. But we think that next two to three years we should be able to achieve double-digit growth in FMB.

Urmil Shah

Sure. Sir and last quarter you mentioned about the alternate content, any update and when do you see that you know becoming a substantial part of your portfolio?

Management

The management team is already in place working on the alternate content fees, it will take a while before it begins to contribute. There is a whole lot of work which is required before you start off showing content at the cinemas that work is on. I think we should be in good place to be able to give you an update perhaps next quarter.

Moderator

Thank you. The next question is from the line of Alankar Garude from Edelweiss Securities. Please go ahead.

Alankar Garude

Yes, my first question is one the advertising revenue. If I see your competitor Inox, they have reported 92% growth in the first quarter, in this they were impacted by the slow movie pipeline. So my question is, have we did a mature phase in our advertising revenue growth and the competition which has a much lower ad rate currently is able to close the gap with us. So what is your comment on that?

Management

First of all, the 92% growth is on the much lower base so if you look at the base that they are talking about which I assume will be much lower than ours. It is a fact that we are the leader within this space and if we manage to grow consistently over a 15%-18%, that is what is kind of target that we have taken for that.

Alankar Garude

Sir my second question is on the film hire cost which you have managed to reduce quite well. Could you tell how this works so we know there is formula, but so is it completely linked to the



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Box Officer performance? How is economies of scale built into this, some insights if you can give into that? And next two years based on current Box Office performance how much saving can still be possible?

Ajay Bijli

Yes, so as I said earlier it is very difficult to comment on the potential savings and timeframes but what happens annually is that we renegotiate our contracts on an annual basis where we reset limits of performance on what films will earn bonus about what threshold and what films will earn a discount. I think the reason why you are seeing a reduction here is, when we renegotiated our contracts last year, we got in the concept of discounts whereby films which are not delivering a certain box office, we will end up paying lower and we also set a threshold every year on when will films become eligible for a bonus, and that thresholds are updated every year I think. So your average film hire percentage will keep getting adjusted annually based on how the contracts kind of shape up, very difficult to give a number of what is the further reduction possible but we believe I think as the size and scale expands, we will get marginal benefits over and above the existing levels.

Alankar Garude

My last question is on the food business. So if you see in spite of a 14% dip in the admits, spend has been ahead of the industry growth rate at 19%. So in Q2-Q3 we expect a bumper Box Office performance also, the admits will be much better. So in that context can the spends per head move up much higher and what is the gross margin we are seeing in the business, the competitor is seeing around 76% gross margin so what is our trend there and what is the number there?

Ajay Bijli

Yes, so our gross margin on this business is roughly 71%, we operate differently, and that is a reason our average spending per person is much higher. I think we believe our average spending per person this year will be in the range of Rs. 62 to Rs. 63, first quarter has been Rs. 64. It could be in the Rs. 62 to Rs. 64 range on an annual basis, I think that is the number that we kind of estimate for a full year basis. Some quarter maybe marginally lower, some maybe marginally higher, very difficult to put an estimate to that. But I think it should be a similar number closer to what we achieved in the current quarter.

Alankar Garude

As a follow-up could you elaborate that part because your competitor which is smaller has got around 500 bps higher gross margins and you said you operate differently. So could you elaborate that part?

Ajay Bijli

It is a function of what product portfolio you choose to select and the reason and when we look at our F&B portfolio we do not care about margins, we care about what is the absolute we take home. So the portfolio products that we choose to sell could potentially be higher cogs item as well which makes our average cogs percentage higher as compared to competitor, but ultimately it is the real rupees we carry home. So if we sell higher food cost item but make the consumer consume more at our cinemas that is really the way we look at our business.



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Moderator Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani I am just hopping again on the film distribution share. I was under the impression, maybe I was wrong, is that you negotiate with the producers prior to the movie release or is it done annually because you know the slate of the movie release?

Ajay Bijli Typically with all the big studios we negotiate and try to have an annual contract in place and there is no negotiation required on a film-by-film basis. So idea is to kind of largely with all the big studios have annual contracts in place and most of them are linked to certain performance benchmark, so you do not have to negotiate film-by-film.

Moderator Thank you. The next question is from the line of Hemang Kapasi from Canara Robeco. Please go ahead.

Hemang Kapasi Yes sir, coming back to the food and beverages, maybe this is a hot topic today. Sir, if I see a mature screen, what portion of total revenues would be food and beverages. Where is the ceiling where it can hit?

Ajay Bijli If you look at the way we look at our business, we look at concessions to box, what is our average spending per concessions per person to average ticket price ratio. This ratio used to be about 30% for us still about couple of years back, it is closer to 35%. We believe over the next 5-7 years this potential is to take it up to as 50%, because India is slightly from the rest of the world in how cinemas operate and how movie going is, but that will also mean we have to kind of think of F&B within cinema very differently. So we are working on a plan, I think we believe I think 40% is something that we can get to in next few years, I think getting to 50% will take a lot more time. So we potentially believe I think that is what we are aiming for in the next 5-7 years.

Hemang Kapasi Can you share if you any data on outside India where this proportion would be if you have it?

Ajay Bijli Yes, so Asia is largely in the range of 32%-33%, but U.S. is 40%, concessions to box ratio is as high as 40% because concessions pricing in U.S. is also very high, they only sell popcorn and Pepsi which is bulk of their sales. India I think is very different because, 1) average length of films is much higher, we have a concept of interval which does not exist anywhere globally and the traffic inside cinemas is also much higher, it is family going event as compared to individual going event and we are experimenting with a lot of new stuff, trying out new ideas to see how we can leverage on the consumer who is coming to the shopping centers and having a meal at a food court, so can we convert that consumer and make him consume food inside the cinemas by giving him great quality food at affordable pricing. So I think that is endeavor on how we are approaching F&B.



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Hemang Kapasi Okay. So this 20% growth, though it is a very high number, it is still sustainable in double-digit for some years to come?

Ajay Bijli Yes, we believe, I think clearly a 9%-10% kind of growth over the next few years is clearly possible.

Moderator Thank you. The next question is from the line of Pulkit Singhal from Tree Line Advisors. Please go ahead.

Pulkit Singhal I just wanted to ask, how many films did you showcase last year in terms of say Bollywood FY14?

Ajay Bijli Around 340-350.

Management About 300 films roughly including small marginal ones, everything included yes.

Pulkit Singhal Okay. And according to you how many of them would have been actually profitable?

Ajay Bijli For us, the way we look at it is, you are saying from a concept of producers how many will be profitable?

Pulkit Singhal Yes, I mean on a per film basis, how many of them would be just you know profitable, breakeven or?

Ajay Bijli For whom? Would it be for the producers or us?

Pulkit Singhal For the producers.

Ajay Bijli Very difficult for us to comment on to that.

Management But I think industry wise average is about 10% to 15%, but some are successful some are average, and some are recover budget. So there are various benchmarks of success and how they do well but that's really something that the production house is, it is their prerogative really.

Pulkit Singhal You are saying 10% to 15% I mean this is just a guess but 10% to 15% of those 350 films are profitable you are saying?

Ajay Bijli Yes, that is right.

Pulkit Singhal But that means a lot of large number of the films are actually pretty unprofitable for the producer itself.



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Management

In terms of the number, this is just, you know the industry as it goes on saying, the 30% of the movie gives 70% of the revenue.

Management

So as you will include everything which is profitable, I think it would much higher number, I am talking about hit films, the hit film ratio is about 10 to 15%.

Management

But the gains have had, you know producer makes a movie from a producer it gets bought by another guy then another guy and then distributors. So at whose ended is one looking at the money is being made.

Ajay Bijli

But that is ratio of this industry, I think 30%, 30-70 would be the rule as Pramod is saying. that is how what the ratio of this industry is. And lot of them would be just breaking even and a lot of them will make super money and a lot of them will not make money. That is how the business operates.

Pulkit Singhal

Right. In terms of F&B, how many of your admits are actually spending on food and beverage?

Management

So, the way we look at our business is strike rate, number of people hitting the candy bar because a lot of come in family so everybody would not be kind of hitting the candy bar himself, somebody will be buying for somebody. Our average strike rate is 32%, so a number of people hitting the candy or number of people who have bought tickets to the ratio a number of people hitting the candy bar, it would be about 32% on an average.

Aditya Bijli

So average if you take it that people are coming in couplet, so one is talking about 62% people buying from the concessions.

Pulkit Singhal

Right, I get that, I mean you assume two per tickets.

Ajay Bijli

Assume that there are two tickets sold per transaction.

Pulkit Singhal

Yes. And lastly, this service on the seat, is this something that you just started last quarter or was this always there?

Ajay Bijli

No so it has been always there, I think we reemphasized, put incentive plans in place for the teams and further strengthen it further, so it is not something new that we have done. It has been there for a while I think but we have kind of re-launched it with decent incentive plans, etc., for teams, so that has been a good driver for us.

Pulkit Singhal

And lastly, the mobile apps, I mean is there anything that you are doing in terms of say allowing people to order through the app maybe outside itself, outside the cinema hall or I do not know, I mean what are the developments?



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Management

Yes, the mobile apps give you an option to book food before hitting the cinema, so that is point number one. Point number two, once you are sitting within the cinema, the mobile apps would give you an option in the coming days to be able to order from your seats, so it is a service on your seat just from your mobile app. So these are the two things which are basically helping concessions also get driven further.

Pulkit Singhal

Right. And that ordering would be like during the interval only I am assuming or they can order anytime?

Management

They can order it anytime.

Ajay Bijli

So service on fees can be ordered anytime.

Pulkit Singhal

I thought last quarter you agreed that it would impact the watching experience.

Ajay Bijli

Yes, so that would be getting taken care off so there are those which will be created in each of the cinemas and people walking out and getting their candy and coming back. So within the cinemas they will get serviced.

Moderator

Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak

Nitin, If you can just quickly walk me through the impact that GST would have on the company's margin?

Nitin Sood

Yes, I think I can only mention based on how the existing draft regulations exist. I think we still do not have a final shape and form so very difficult to comment on what form the bill will effectively get passed on and how it will happen. But broadly I think two large impacts on us, today we are subject to local state level taxes, we pay entertainment tax, and VAT on all our revenues. On all our costs today we are paying largely service tax which goes to the Central Government. So on my rental, my cam, utilities, security, housekeeping payments, I end up paying service tax which goes to the Central Government. So what GST would enable me to do is to claim a credit of this service tax that I am paying on my input cost against my output tax liability. So to just to give you some broad numbers, I think our service tax outflow this year on our cost will be about Rs. 40 crores to Rs. 45 crores and we pay about Rs. 225 crores to Rs. 230 crores of entertainment tax to the government. So when the GST comes into play, one advantage I will have is before I pay my output taxes which are Rs. 225 crores, I can take credit of this Rs. 45 crores tax that I have already paid on my input cost. So my tax liability will go down and effectively that based on the concept should flow automatically to my EBITDA, so that is one impact. The second impact could potentially be that under the revised GST guideline they are proposing a common tax rate for all services which could be 16,18,20; very difficult to day. Today my blended average entertainment tax rate across country is closer to 24%-25%, so if that is kind of made uniform at 18% or 20%, it could lead to a potential reduction in my tax outgo



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while that will also get compensated by additional money which I realize will go back to the film producers and the industry, but part of the benefit will also get retained by me. So that should impact my EBITDA positively.

Dheeresh Pathak

So if the entertainment tax is reduced then you think that the prices will not reduce to that extent and you will keep some and the content owner will get some to the extent you have a revenue sharing, right?

Nitin Sood

That is right.

Moderator

Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth

My question is on CAPEX, so out of these 66 screens as you have mentioned in your press release, how much of that CAPEX would have been incurred last year, so some pre-CAPEX what you do in an earlier year?

Ajay Bijli

So I think it is an annual cycle, so for some of the screens which will open next year will also be doing CAPEX this year. I do not have the exact number with me but roughly 20% to 25% of CAPEX would have been incurred last year but a similar number for next year screens will be incurred this year it will even out from that prospective.

Naval Seth

Okay. So my reason for asking this question is that your CAPEX figure would be close to around then Rs. (+200) crores rather than Rs. 170 crores – Rs. 180 crores, am I right on that part?

Management

Yes it should be.

Naval Seth

Including renovation because 166 screens would be close to around Rs. 165 crores of CAPEX and another Rs. 35 crores as you said renovation CAPEX would be there?

Management

No, so it is not a Rs. 2.5 crores formula, it will vary screen-to-screen as well. So you cannot multiply by a formula and calculate it.

Naval Seth

So what should be blended CAPEX per screen, stated by you it is around 2.5 crores.

Management

It will vary year-on-year, so there is no number. For current year I think the CAPEX on new screens should be about Rs. 130 crores – Rs. 140 crores and the CAPEX on renovation, etc., will be another Rs. 40 crore.. So it will roughly Rs. 175 crores - Rs. 180 crores kind of an overall CAPEX number.

Naval Seth

Okay. And what is the cost of debt at current juncture?

Management

Our current average cost of debts is close to about 11.5%.



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Naval Seth And what was it in last year in FY14?

Management It used to be about 12%, it has come down by about 40 to 50 bps.

Moderator Thank you. The next question is follow-up from the line of Prince Poddar from UBS. Please go ahead.

Prince Poddar Just one question sir. Your screen distribution is only 4% in the East, so my question was is it because of the lack of opportunity or I mean good screens over there or is it conscious decision?

Aditya Bijli No, basically there is not really retail infrastructure coming up on the Eastern side of the country, so that is point number one. And this is getting effected not, it is basically getting effected because of the political situation being unstable out there. So once there is retail infrastructure coming up in the eastern side of the country, we shall be looking forward to availing those opportunities.

Prince Poddar And it would be more in the direction of organic growth or inorganic growth sir?

Aditya Bijli It will more in the direction of organic growth.

Moderator Thank you. The next question is from the line of Urmil Shah from Maybank. Please go ahead.

Urmil Shah Just a book keeping question how should we look at depreciation going forward?

Nitin Sood Yes, our current quarter depreciation adequately reflects a depreciation on the existing screens then I think which factors in some additional depreciation on account of the revised guideline under the new Companies Act. But as we keep on adding more screens, depreciation for those screens will proportionally keep going up, but essentially our quarterly depreciation reflects adequately the depreciation non-existing screens.

Moderator Thank you. The next question is a follow-up from the line of Alankar Garude from Edelweiss Securities. Please go ahead.

Abneesh Roy Abneesh here. One or two follow-ups. One is on Cinemax, sir could you tell us how the performance has been, has the growth rate been higher than like-to-like comparison of the older PVR? Any write-offs CAPEX if you could discuss, rebranding how much has been done? And any cannibalization in the two properties which is there?

Ajay Bijli So, I think Cinemax circuit integration has progressed fairly well and we are in the process of renovating about 10 to 12 properties this year. First property in Delhi has been fully rebranded and is doing exceedingly well post-renovation. I think in next six months we will be able to accomplish bulk of the renovation across three and we believe I think the circuit will grow up further revenue enhancement post integration in areas of advertising and F&B post that. I think



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all the older write-offs issues, etc., have really been taken care of so we do not expect any more write-offs from the existing circuit as things stand. And I think pretty much the integration is complete to a large extend.

Abneesh Roy

Sir could you quantify that one follow-up, Delhi property you said has been doing exceedingly well post the rebranding and refurbishment, any numbers you can quantify?

Ajay Bijli

Yes, I think broadly the way to look at this is that post renovation our average ticket price has moved by about 8% to 10% and our overall F&B spend has moved up by 25% from that location alone post renovation. And our advertising revenues have also moved upwards by 18% to 20% from that location. So, as a result I think the effective pay back on the incremental spend that we have done is about 18 to 24 months.

Abneesh Roy

Sir you discussed F&B ordering from the seat, from the international market any insights you can give, how much F&B increases if the seat ordering is there? Is it highly prevalent in the international market or is it a hindrance so it is not that popular?

Ajay Bijli

No this is not so prevalent in the international market considering, you know they basically prefer people come to concession bar and buy the candy and then get into the cinemas.

Abneesh Roy

And last one, sir you said you will be very cognizant of the valuation, so is not that a big risk because currently it is a two player market, we are seeing a Kerala based player enter into Bombay and tomorrow if this Reliance gets acquired by any big large investors, is not that a big risk that you are taking, it becomes a three player market?

Ajay Bijli

Yes, so I think we way we look at our business is ultimately every acquisition has to be value accretive for our shareholders, which means that I think we have to pay a fair price at the same point any asset that we have to acquire has to deliver earnings to our shareholders. So effectively a combination of what we acquire plus our ability to add synergy to that asset, if it does not delivery ROI I think everything else is a mess. So quite honestly, that is exactly the way we look at it. From our business perspective, I think there is no other element to this, we are a fairly large operator from India perspective, and if any acquisition does not add value for our stakeholders then it does not make any sense to kind of pursue that.

Moderator

Thank you. The next question is from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Nihar Shah

Hi, sir this is Nihar Shah here from Enam. I just had a quick follow-up, in terms of rule of thumb, after how many years do you generally refurbish a screen? And is there sort of refurbishment CAPEX that you have sort of outlined for this year in the earlier part of the call also largely due to the refurbishment led by the Cinemax acquisition? I am just trying to get to what should be the normalized refurbishment CAPEX every year for you?



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Ajay Bijli

The average cycle is about seven years before we go in for a refurbishment and could vary location-to-location, so some locations which are extremely high occupancy level could go in for a refurbishment earlier and some locations could go a year later or so. So, I think average is about 6.5 year – 7 years cycle where we will go in for a refurbishment. And typically a bulk of our original CAPEX is towards civil and interior work which would not undergo a change and what really changes is the carpet, seats and rarely a touch up on the interiors. So, our CAPEX could really vary depending upon location to location, it could be as low as 20% of our original CAPEX, it could be as high as 40% of our original CAPEX, it will vary location-to-location and what the effective pay back and value of that assets to us at that point of time.

Nihar Shah

Sure. And just the Rs. 30 crores to Rs. 40 crores that you have outlined as a refurbishment this year, is it largely pertaining to the Cinemax screens that you have acquired as in, is it higher than a normal sort of refurbishment CAPEX you'd expect on an on-going basis or this is something that we should expect going forward on an annual basis?

Ajay Bijli

There will be effectively the right way to look at this is that effectively you should assume that we will be spending about 1.5% to 2% of our revenues annually on refurbishment CAPEX that would be the normal way to kind of look at the business. Cinemax is special because it was an asset which was built in a certain way and we have realized that we have to spend some more money to acquire further synergies out of the assets which was some of the properties are in prime locations. But so Cinemax I would keep separate but I think the way you should look at it is about 1.5% to 2 % annual maintenance CAPEX that we will incur on an ongoing business.

Moderator

Thank you. Ladies and gentlemen due to time constraints that was our last question. I would now like to hand the floor over to the management for closing comments.

Ajay Bijli

Yes, I would like to thank you for taking out time for the call. If you have any follow-up questions you can write to me separately or my colleague, Saurabh, and we will be happy to address the same.

Nitin Sood

Thank you everyone. Thanks for attending the call.

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.