



## “PVR Q3 FY14 Earnings Conference Call”

**February 03, 2014**



**MANAGEMENT: MR. AJAY BIJLI – CHAIRMAN AND MANAGING DIRECTOR, PVR.**  
**MR. SANJEEV KUMAR – JOINT MANAGING DIRECTOR, PVR.**  
**MR. NITIN SOOD – CFO, PVR.**

**MODERATOR: MR. ABNEESH ROY – EDELWEISS SECURITIES**



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**Moderator**

Ladies and gentlemen good day and welcome to the Q3FY14 Earning Conference Call of PVR Limited hosted by Edelweiss Securities Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touched tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abneesh Roy. Thank you and over to you Mr. Roy.

**Abneesh Roy**

Good afternoon and the warm welcome to all investors and participants. We at Edelweiss Securities are very pleased to hold the PVR Q3FY14 Conference Call. From the PVR management we have Mr. Ajay Bijli – Chairman and Managing Director, Mr. Sanjeev Kumar – Joint Managing Director, and Mr. Nitin Sood – CFO and Other Senior Management. Thanks to the management for this opportunity. Over to the management for opening remarks post which we will have the Q&A session, thanks.

**Ajay Bijli**

Thank you very much. Good afternoon everyone. This is Ajay Bijli from PVR. I would like to thank all of you for taking the time out for this call firstly.

Just to give you a brief snapshot of the Q3 numbers before we get into Q&A.

The consolidated revenues for quarter ended December 31<sup>st</sup>, 2013, was Rs. 339 crores as against 201 crores in the same period last year which is up by 69%. EBITDA for the quarter was Rs. 51.4 crores as against Rs. 35.1 crores in the same period last year that is up by 45% and PAT for the quarter was Rs. 13.9 crores as supposed to Rs. 8.9 crores in the same period last year up by 56%. The numbers are obviously not comparable on account of Cinemax acquisition which we completed last year.

The quarter was marked by some muted performance of films in the box office. Traditionally, Q3 is a strong quarter with big films releasing in the quarter that this year while we had several big films releasing. We have a string of continued poor performance since like Boss, Besharam in October did not well at all. R. Rajkumar, Bullet Raja did not work at all in the box office. Even Dhoom only came towards the end of December which was only 10 days of performance. As a result of that, we saw a drop of 16% fall in footfalls across same store, but this is really aberration because Q3 as I said is very strong every year and next year of course we have a very good line up as well.

However, on other areas our performance was very strong. F&B and sponsorship income both grew dramatically. F&B average spends were up by 16% and sponsorship revenue were a 30% compared to the same period last year. The roll out we continue to be aggressively opening our new screen in the first nine month, we have opened around 12 properties with 60 screens and we



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have another 30 screens fully fitted out with awaiting licenses and approvals which should open in the next three months.

We also saw important milestone of 400 screens during this quarter being the first Indian cinema company to do so and currently operates 408 screen spread of a 95 properties in 39 cities across the country.

Thank you very much and like to open the floor for any Q&A.

**Moderator** Thank you very much. Ladies and gentleman, we will now begin the question and answer session. First question is from the line of Piyush Sharma from Globe Minerva Fund. Please go ahead.

**Piyush Sharma** Good afternoon. Three quick questions, firstly this quick housekeeping on rentals, given there is seats barely increase 1% sequentially; the mix impact of this incremental 1% couldn't have been large enough to drive a 6-7% increase in your rental bill for exhibition. Just curious is what percent of the property had the rental renewed would in the last quarter?

**Ajay Bijli** What percent of properties are rental? You know the query pertains around, which are the properties which went in for a rent escalation for last quarter is that the query?

**Piyush Sharma** You guys are not audible, I don't know may be the problem is at my end where there is quite a bit of echo.

**Ajay Bijli** Roughly about I would say 20% of the screens would have gone into escalation, but you will see on an average about 4-5% average growth in rental cost which is a traditional average rental increases here there is slightly more number of property coming up for renewals, there is an year with lesser numbers of properties, but average about 20-25% of the circle.

**Piyush Sharma** Nitin as anchors my understanding is that your rental renewals, your escalations are far less frequent then other mall tenants, could you share what your network wide blended escalation looks like, is it 25% every 5-6 years or is it 30% what is it looks like?

**Nitin Sood** It is about 13% to 14% once in a block of three years.

**Piyush Sharma** Every three years, okay and going forward at this point, as you see it which year over the next say three years looks you have most rental renewals?

**Nitin Soon** I think there is no specific period as such because rental deals have structured on a lock of every three years or every annually structured like a 4% annual increase,, it is structured as a 13% to 14% increase once in block of three years, so there is no specific years as such that there is one of the year significant aberration as such.



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**Piyush Sharma** Right okay and then on advertising, your revenues were about up 65 million on sequential basis, could you explain what percentage is that 65 in account of price swing versus volume?

**Management** From largely this growth in PVR came in terms of volume where as for the Cinemax set of properties has come largely in terms of value as well as some lateral discounting that we did.

**Piyush Sharma** Okay. Finally any update on where PVR Leisure is going, I am a frequent visitor to your newer properties as she has been the mistral several times as well and I have been doing so for a while, it is hard to appreciate how Bowling and Mistral put together continue to lose money, what are we missing on that piece?

**Management** Bowling we have only got about six centers so far and most of them are all EBITDA positive. It is not a market share business anyway, unit-by-unit we are getting returns as close to five year payback. So it is not really losing money as such, because some of them are just opened recently that's why perhaps you see this aberration, but on a property by property basis, it is pretty decent what we are getting in the bowling business, so we are going very slow on that whenever we get a right location next to the PVR Cinemas, when wherever we believe that we can add value on the entertainment quotient of that particular mall and the rental deal is very exciting and conducive to the business only then we are doing it, but it is not something that is not a market share type of business, it's a unit-by-unit basis business and Mistral it is too soon to press the panic button, it has not even been a year since it open, it opened last year end of April and steadily the numbers are increasing. SG&A cost is what you are looking at because there were only one unit just now so the entire G&A cost is loaded on to one unit that's why you are seeing losses, but at the unit level its okay.

**Piyush Sharma** Okay, are you suggesting that your Vasant Kunj location and your Gurgaon location are both profitable at the EBITDA line?

**Management** That's right, okay.

**Moderator** Thank you. Next question is from the line of Kailash Gandhi from Wallfort Financial Services. Please go ahead.

**Kailash Gandhi** Good afternoon sir. I would like to know about the tax rate, you have tax write back in this particular quarter, so on yearly basis what would be the tax rate?

**Management** Yes effectively the tax hike is an account of we had brought forward against which we had not recognized deferred tax asset, so since we completed the transaction of Anupam before the end of this quarter, there was a virtual certainty of profit as a result of which we have to recognize deferred tax charge so our effective rate for this year is not going to be zero because of the recognition of deferred tax asset. Starting this year I think we should start moving 25% average tax rate.



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**Kailash Gandhi**

Alright sir, thank you very much.

**Moderator**

Thank you. Next question is from the line of Rishi Maheshwari from ING life. Please go ahead.

**Rishi Maheshwari**

Thanks. My question is regarding the predictability of the business as we have seen in one quarter that is gone bad, I understand the base was higher which is the usual case in Q3, but isn't it too difficult to be very predictable about his business while you exuding some confidence in this quarter an aberration and this may not happen, what gives you the confidence that future quarters may not necessarily be so, so if you can give your comments on the same?

**Management**

Yes now basically if you look how the business is spread out, there are various ways in which you mitigate the risk and make the business predictable. If you look at the first of all you start the business with reconciliation of the fact that we are nothing but on retail business and if you look at the spread of our locations, we have 196 screens in the west, we have got 90 screens in the east, 116 screens in the north, and 77 screens in the south. So the moment you have a retail footprint within all India what you are doing is you also mitigating yourself the risk of this depending on one type of content, so we have content south Indian content, Tamil, Telugu, Malayalam, Kanada separately. We have Hollywood content, we have Indian contents. So first of all by having the spread of the locations all over you insure that the risk element of this depending on one thing isn't too much, so PVR has got the best locations and best mall throughout the country. Secondly the unpredictability aspects actually can work in our favor as well, because you have what we call cheaper hits, some small movies which end up doing well and at the same time there are some big movies which end up not performing, so I think because there are share number of movies if you look at it in India, we have almost 400 films getting produced. We have about 150 movies which are getting imported, so we have plenty of movies which come every week and so this quarter was really an aberration, typically what happens even if one or two movies or three movies or four movies don't perform, you have some smaller films that end up performing very well, so last year in the same period we had so many small movies like English-Vinglish, Student of the Year, Vicky Donor, Kahani which were doing well and this is truly an aberration. So it's a self-correcting sort of mechanism where you have films come in which do well and you may happens which don't perform, but it has never been like this with a string of film, entire October got washed out, then you have two big movies which again didn't come. So I am not that concerned because of fundamental of the businesses are very strong like I said on one had you have lots of movies, which go to the system and on the other hand you have people who watch movies and consume movies by going out and entertaining themselves and if you have a very good retail infrastructure that you build you make good cinemas in good locations and good malls where foot falls already been generated. I think the mitigate risk to the large extent and we are able to get predictability of business.

**Rishi Maheshwari**

Sure, that was comprehensive. One more question is, what is the target debt to EBITDA by FY15 end?



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**Management** You mean by next financial year end.

**Rishi Maheshwari** Okay fair enough. Thanks so much.

**Moderator** Thank you. We have next question from the line of Jagdish Bhanushali from Athena investment. Please go ahead.

**Jagdish Bhanushali** Hello, I just want to confirm that ATP prices were increased in this quarter right for Cinemax and PVR?

**Management** Yes average ticket pricing growth has been very marginal because of the content being there, but average has been 4% growth on ticket price.

**Jagdish Bhanushali** How much?

**Management** 4%.

**Jagdish Bhanushali** Because I think there was a notice or something like that which stated 10-15% rise in ATP prices?

**Management** Some movies it was 10-15%, but on an overall for the quarter it was 4%

**Jagdish Bhanushali** Okay, alright another question is regarding Dhoom 3, that how much revenue has been recognized in this quarter and how much would be recognized in the coming quarter?

**Management** Almost about 85% of the revenue would have been recognized for 10 days of the film was there, so about 80% plus of the revenues will get recognized in the first 10 days and 20% would come in the annual.

**Jagdish Bhanushali** Alright, thanks a lot. That's it from my side.

**Moderator** Thank you. Next question is from the line of Rohit Dokania from B&K Securities India Private Limited. Please go ahead.

**Rohit Dokania** Yes hi sir, thank you and just wanted to ask two, three question, one is could you throw some light on the tax rate of FY16, will it be at the full tax rate of 33.7 odd percent?

**Management** Yes so I think its slightly difficult to predict looking at the new rule out which is happening but we expect our average tax rate to be closer to 25% next year moving on to 30%, close to 30% year after.

**Rohit Dokania** Sure sir, also could you give the absolute number of net debt as of the nine month end at a consolidated level?



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- Management** Net debt is about 560 crores, net of cash.
- Rohit Dokania** Okay and if I look at your interest expense line for the first nine months, there is about an 18 crores of interest that is coming from the non-multiplex business, which is non PVR and non-Cinemax, so what exactly is this coming from and if it is so high does bluO debt of anywhere between 180 to Rs. 200 odd crores?
- Management** Not really. It is not non-cinema, but, we had borrowed money for the acquisition through intermediating holding company, so which is not reflected as the standalone results, but it is actually for exhibition business.
- Rohit Dokania** Sure, so the current rate we would end of at about Rs. 80-81 odd crores of interest expense
- Management** Yes that's right, around Rs. 80 odd crores, so Rs. 20 crores is our run rate.
- Rohit Dokania** Yes so could you throw some light as to how this cost item would move over the next one to two years and because I believe in this year the cost of debt was pretty high for the acquisition if I am not wrong?
- Management** Yes we have already successfully refinanced the debt. Our debt financing was about 14.5%, we successfully refinanced at about 11.75% average cost in the month of November and re-finances the long term six year borrowing, so that's in place our average debt cost would come down by about we expect our borrowings to go down by about 5 0 odd crores by next year, so average debt cost should also come down by about 10 odd percent to 12 percent.
- Rohit Dokania** and finally just one question is it possible for you to throw some light on as to how much has been the same store growth over the last three to five year kind of a prospective, just to understand as to how this business could probably pan out even in the future? So basically I am talking about comparable properties only on a same store basis?
- Management** If you look at last two years, last two years same store growth has been in double digit, so last year same store growth was closed to about 18 odd percent and the year prior to that it was about 10%. This year is also I think usually about flat while box office has been negative. F&B and advertising has done fairly well. So I think by the end of this year that could be flat on box office or minus 1-2% put together.
- Rohit Dokania** Sure and sir in terms of footfall also, will it be very similar picture?
- Management** No footfall will be negative, because the first nine months foot fall has been really negative, so I don't think that will be possible to get compensated by the end of this financial year, but over the last two years I think footfall on the same store growths has been positive...



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- Rohit Dokania** Okay fair enough sir, thanks a lot and wish you all the best.
- Moderator** Thank you. Next question is from the line of Mr. Vikas Sharda from NT Asset Management. Please go ahead.
- Vikas Sharda** Couple of questions, one is that on the box office side, how much of the revenues are dependent on Hindi movies mean excluding the Hollywood and the regional movies? In terms of percent if you could give some color?
- Management** Bollywood contributes close to about 65 odd percent and Hollywood is about 25 and regional would be about 10-11%.
- Vikas Sharda** And in terms of the rental expenses, do you also have such arrangements like where it is linked to the revenues?
- Management** Yes we have minimal guarantees that our set on basis what we feel is realistic forecast of the performance of the property and then there is a trigger point after which about 15% of roughly revenue share would happen with the developer.
- Vikas Sharda** Okay so you said that the inflation built into the contract is 13% every three year, so this higher revenue share would be on top of that?
- Management** No so they are structured like a minimum guarantee renter, which will be rate minimal that we want to pay or our revenue share whichever is high. If the expectation of the developer is 80 plus rentals we think its 40s is fair number, we would end up paying only 40.
- Vikas Sharda** Okay so supposed this year average ticket price keeps on going well, then the rental increase can much more than 4% every year right?
- Management** It can be, in that case the occupancy also has to go up because there is a direct linkage between occupancy and average ticket prices.
- Management** Which means that the store is also worth performing, so storage over performing we don't mind paying high rental.
- Vikas Sharda** Understood. And finally looking at your consolidated results, it looks like last year's number, the 31<sup>st</sup> December 2012 number have got revised from what was disclosed the last year, any reason for that like individual line items seems little different than what?
- Management** There is some Re-classification that happens year on year to make it comparable on a year-on-year basis, so that is a reason, so the revenue have changed, but the overall EBITDA which is the same.



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- Vikas Sharda** Okay because one particular item this film distributorship share seems to have gone down from like 520 crore to 433 crore and that's a big difference?
- Management** So film distribution is a function of your revenues, so it is sharable percentage of the net box office revenue, so net box office revenue is down, the film distributor share will automatically be down.
- Vikas Sharda** No I am talking about the last year's numbers, what was disclosed last year versus what was disclosed this quarter for 31<sup>st</sup> December, 2012?
- Management** I have to check it and I will come back to you on that.
- Vikas Sharda** Alright, thank you.
- Moderator** Thank you. Next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.
- Niket Shah** Yes two questions from my end, just wanted to know your PVR SPH is kind of increased by 19% and Cinemax is gone up by 7% only, any particular reason for that why the growth in Cinemax is slightly lower?
- Management** Actually SPH is also function of the quality of customers that we are able to get, so technically PVR garners is a slightly better quality of customer as against Cinemax and also Cinemax properties F&B counters need a bit of revamp new equipment and new format need to be sort of introduced that one of the reason why you see a significant growth in PVR, but the Cinemax is also on the way of being able to extract maximum out of this clients.
- Management** We are changing all the food counter at Cinemax one by one and as Gautum mentioned that better equipment, newer equipment, better menu design, the supplier of food, all that is changing and slowly with an incremental improvement in the revenues and they will improve you in further.
- Niket Shah** Sure, just want to know this E-tax exempted screen that we have which is close to 75 in number, when does this number come down to single digit or lower double numbers like 10 or 5 odd screens, should it be safe to assume in next two years most of these E-screen benefits will be taken off?
- Management** Not really, because progressively we are still opening screen in some of the markets which has got tax holiday, so pretty much I think this number will remain in that range, plus/minus few things, because we continuously opening new screens as well. As far as the ratio it will keep coming down which has progressively mean, but I think it will remain in that number.



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- Niket Shah** Sure, third thing I just wanted to know this reduction of power cost which has happened in most part of the country, will it benefit us or are we eligible for that benefit?
- Management** I am not aware of actual part of reduction which has been announced, most of what has been announced currently has been largely for domestic.
- Niket Shah** Not for commercial.
- Management** Not for commercial. It will have an impact, it may extended to commercial as well.
- Niket Shah** The point I want to understand is this applicable to commercial or its not applicable to commercial?
- Management** The current one which has been announced surprisingly it is not applicable to commercial property.
- Management** Recently they are not applicable to commercial properties.
- Niket Shah** Okay and was there any delays in terms of getting licenses in this particular quarter for some of our newer screens and has we got that I think the numbers would have been slightly better off?
- Management** You are saying any of our projects were delayed in this quarter?
- Niket Shah** Your screen openings would have got delayed because of availability, as you mentioned in the in initial part of your call that some of the licenses are being awaited so?
- Management** Yes we have Mysore, Chennai, Pathankot almost about 13-15 screens, all fitted out and awaiting license. Yes definitely if they would have opened up then the revenues would have been higher, but the biggest impact this quarter has been as I mentioned earlier that in the last decade we have never seen quarter 3 having so many films that did not perform, so that's why these numbers are the way they were.
- Niket Shah** Sure, how much percent of a ticket sales is now coming from online?
- Management** In terms of absolute number 34%.
- Niket Shah** At what percent of your online sales, do you think that you can actually reduce some of your employee which is actually at the frontend part of the ticket counter?
- Management** Okay this number the moment its starts going beyond 40, we could be talking about savings happening on the man hour front.
- Niket Shah** Sure and when do you think that 40% is likely to get achieve next year?



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- Management** It may not happened next year, but next to next year for sure.
- Niket Shah** So out of this 34% how much will be PVR and how much will be Bookmyshow?
- Management** Well it will be about 50-50.
- Moderator** Thank you. We have next question from the line of Yogesh Kirve from Anand Rathi. Please go ahead.
- Yogesh Kirve** Sir are we on track to reach number of screen about 430 by the end of this fiscal?
- Management** Yes, we are 408, we have a 9 screen opening shortly and I think we should be opening about 20-odd screens more, so about 428-429 is the kind of number we think we will be able to achieve.
- Yogesh Kirve** So what should be our CAPEX for FY14, any possible breakup between the exhibition and non-exhibition would be helpful. CAPEX for the year that you are about to finish?
- Management** Our overall CAPEX this year would be about Rs. 165 crores out of which about Rs. 150 crores will be largely towards cinema and about Rs. 15-16 crores will be from non-cinema.
- Yogesh Kirve** Okay and then going forward as far as FY15 is concerned, what would be the targeted number of screen addition and the CAPEX?
- Management** I think we will give a fair guidance by next year, but we are looking at anything between 60-70 screen in the next fiscal year.
- Yogesh Kirve** Finally, we discuss regarding the lot of movies not doing well in this third quarter or this second half of the calendar, so what would be your assessment whether the genres were getting repeated or there was too much promotions. I understand this is not fully in your domain, but your inputs would be valuable.
- Management** Well, there is a type of movie, storytelling which worked very well last year and looks like this one man that protagonist name being the name of the film as well and that kind of storied and script something, it appears that people are accepting anymore. If you look at the Boss, if you look at Besharam and if we look at R...Rajkumar, Bullet Raja these are all movie title's name after the protagonist and who sort of destroying everything looks like this kind of storyline perhaps is not going down well anymore and you have films like Kai Po Che in the previous quarter, you had films like in the recent months Bhaag Milkha Bhaag and little bit different type of movie, they are not happily block busters, but still end up filling up the seats, so people are looking for, I am not that discourage because the people make the movie are also now in a hurdle and they are also trying to re-group and come out the main story line so everybody wants their movie should do well, the director, the actors, the studios who are making these movies, the



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producers who are making these movies so when something like this happens everybody then gets into a hurdle and try to introspect and try to understand what the consumers wants so they will be back with a bang and we will have movies with very good content coming up. As I have mentioned few times that I don't think this aberration should be taken because the fundamentals of the business are very strong.

**Yogesh Kirve**

Sure sir thanks a lot.

**Moderator**

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

**Urmil Shah**

First if we look at this 3Q while you attributed the concerns of few large movies, but if we see last five years the third quarter both on the YOY revenue growth front and on the margin front debt has never been significant declined, while this quarter few movies did not do well, but we had few movies of Rs. (+200) crores of Krishh and Dhoom also playing, if you could throw more light on that. Secondly, also wanted to get your friends you feel that any cut on the discretionary spend is impacting the multiplex business also. We have seen some concerns on other discretionary spends like restaurants, etc. And continuing with that in a scenario wherein discretionary spend remained soft for next year and you have two of your competitors also expanding in similar numbers of 60-70 screens. Do you think the competitive intensity would increase and you think the volume growth can be achieved by reducing the ATP?

**Management**

First of all on a macro level India is extremely under screen and so we watch where we are building, we also watch where the competitors are building and we also watch how many screens are closing down in every city. So India is still having a negative growth of screens. A lot of single screen cinema are closing down. So therefore, even if competitors are opening up the capacity that this getting build in certain markets is not that scary. India is a large country so lot of cities and lot of catchments in cities have still got lots of scope for two or three players to coexist because if we look at each screen is about 150-200 seats that is it. So even a fourplex will have maximum one thousand seats and so that does not worry us and we obviously will monitor it at the same time. The second question was about discretionary pending, if we look at the average at the ticket price it is still more than 175 Rs. So we have lot of schemes Tuesdays discounts, Wednesdays discounts, Thursday discounts, a lot of off-peak pricing that we do and then there is a peak pricing. So we play round with our flexi-pricing to ensure that all type of demographics are coming to our cinemas and so never out-price ourselves. People just remember evening shows and night shows are some ATP PVR Cinemas and they take that will be the ticket price, that's not the APT. The APT is much more affordable. There have been studies done there, people can stop other discretionary spends, but when it comes to movie and especially Indians that's one entertainment where we do not compromise on and we have seen very, very bad economic situation few months ago and they were still same people coming to the cinemas and spending on movies. So the content flow is very important in our business and once the content flow is there, the people do want to get out and entertain themselves. Lastly, it was just not one or two movies that did not do too well in the last quarter, third quarter was very good because we



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have got Diwali, we have got Christmas, and we have got New Year. So I do not know where you got this data of why we are strong, but Q3 is one of the strongest quarters in the cinema business but this year we have big four movies we did not do well, but that's the big too much. The two films not doing well it is understandable, but four films entire October got washed out, so we had allocated two weeks for Besharam, that did not do well, we had allocated two weeks for Boss didn't do well. Krishh did well, but it was also a very marquee movie and it did well in a lot of single screen as well, so multiplex has got not such a large share of the overall collection and then you had R...Rajkumar did not do well, Bullet Raja did not do well so you keep allocating couple of weeks for this big movies with reputation of the actor, reputation of the director and do not smaller hit came. As I said in my previous answer that there were lot of smaller hit that came last time, and Dhoom only came for the last 10 days, so 10 days cannot makeup for 90 days in a quarter. So I do not think this content is an issue in a country like India where everybody is geared up to make movies and also English speaking as South India is very big on movies so I do not think content is an issue at all. It is just matter of aberration that you got this quarter.

**Urmil Shah**

Sir in your TV interview you had indicated the possibility of (+25%) for next year is intact according to you. If we look at last five years FY12 was the only year when there was slight decline in ATP and your business basically driven by utilization of the capacity. Do you think most of this growth will be volume driven or as in the last year even the ATP would equally contribute to that growth?

**Management**

Yes, I think the both volume when there will be increase in ATP. All the projects which are coming up in a fantastic location, in excellent malls where this is surrounded by demographics. Where the consumption patterns are going to be higher. So we believe that the number that I gave on the television the other day is about 25-30% growth is something that we are looking at the next year as well.

**Urmil Shah**

We were expecting slight decrease in the interest cost in the third quarter itself. It is almost like flat on a quarterly basis. What is the kind of exit rate which we are looking at in fourth quarter?

**Management**

Interest cost was started coming down. It will not be significant because our borrowing has been gone down, it is only that interest cost on part of the borrowing which has gone down which is got refinanced. So it will be marginally going down, but not a significant reduction in overall interest cost.

**Moderator**

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

**Sumit Choudhary**

Yes thanks for the opportunity. Basically this is more pertaining to some of your expense items, if I look at your employee cost and rental cost on a both screen basis, both of them have gone up



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substantially even on a QoQ basis there has screen additions were alone do not justify such a high growth so just wanted to understand what could I have been missing here?

- Management** Employee cost is largely on account of addition of new properties only Sumit. Basically last quarter we had the new properties performing partially only for one month or so. Now they had impact of full three months. So this is largely on account of addition of new properties. So full three months properties which opened in the last quarter as well as property is open in this quarter.
- Sumit Choudhary** Yes it is 20% QOQ whereas your capacity between 1Q and 3Q is up right 5% in terms of number of screens.
- Management** Sumit there is only on account of addition of properties only. There is no other reason for the employee cost increase.
- Management** I do not know which number are you comparing?
- Sumit Choudhary** Sir, I am looking at Rs. 326 million in Q3 consolidated employee cost and the same number was 274 in Q2.
- Management** No it is 315 in Q2.
- Sumit Choudhary** Okay.
- Management** I think you are looking at a wrong number Sumit, so its 326 that is right and again Q2 it was 350 million. So there is a small increase.
- Sumit Choudhary** In terms of you net debt at Rs. 560 crores for the quarter so you think you are pretty much steady set and already reflect the sale of Anupam or do you think it can reduce substantially in the coming quarter?
- Management** It reflects the sale of Anupam so to that extent it has been factored in. We will not look significantly different by end of the year.
- Moderator** Thank you. Next question is from the line of Kailash Gandhi from Wallfort Financial Services. Please go ahead.
- Kailash Gandhi** A few questions regarding longer term perspective in terms of addition of screens. Can you please throw some light on that please?
- Management** On the addition of screen?
- Kailash Gandhi** Three to five years' perspective sir.



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**Management**

Yes, the answer is just now that basically the macro level India has only got 2000 new build multiplex screens which are being built by various players and about 7000 old single screen cinemas which were built long ago and they don't have the kind of facilities the consumer of today is looking for so they are getting closing down. So plus there are lot single screen which are in CBD areas and therefore the real estate value of the screen to the owner and they are **(Unclear) 43.08** 7000 screen are probably owned by 7000 different owners and so the real estate value so they are closing down so therefore India needs a new capacity which has to replace with old capacity and by the new format of multiplexes. So I believe that if we keep going with the current run rate almost about 300 screens get added in India in a year so next five years we are talking about another 1500-1600 screens and let us say 2000 screens if the growth rate accelerates. So roughly 2000 screens, new built multiplex screens would be there so capacity overall should get doubled, but as I said this is replacement capacity as well in certain cities and certain catchments where single screen are closing down. So that's the matter of double for five years probably, maximum you can take 5000 screens probably you will have in India. Your second question was what?

**Kailash Gandhi**

Sir for PVR I am specifically asking regarding the PVR strategies.

**Management**

PVR is growing at about 80-90 roughly screen a year. It really depends on the pace of the malls. So organically it is growing by the current screens that we have signed up, we should be looking at 80-90 screens per year. So if we have 408 just now you can say for the next five years probably another 1000 screens roughly in the next five years overall.

**Kailash Gandhi**

**Target** regarding the bluO please.

**Management**

bluO was an initiative that was taken pre-acquisition of Cinemax. Now we have studied that it is growing business all over the world. It is not just market share business. It is a unit level. Each unit must make economic sense and we must get a payback in three to four years. So we are looking at expanding bluO in very few malls now and very few cities where we believe that the entertainment quotient in a mall has to increase and it provides sort of synergy with our own cinema and we got six centers in the next five years may be another doubling the capacity, so probably around 10-12 centers next five years.

**Moderator**

Thank you. Ladies and gentleman, due to time constraint we will take up a last question from the line of Pulkit Singhal from Tree Line Investments. Please go ahead.

**Pulkit Singhal**

I am just looking at the strategy as I said from the next five years going to expand Tier-II and Tier-III, and I am assuming that because it is already kind of start in the last two to three year, so you have a sense of what's going on? So how do you think this impacts some of these per unit metrics like sale, number of patrons that come for screen, or number of screens for property and the ticket revenues per screen, also the kind of cost where you see a larger leverage going into this Tier-II, Tier-III cities, can you just talk about the unit kind of metric on this?



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**Management**

Basically the expansion is not just in Tier-II and Tier-III, they are in some big cities as well like Chennai is grossly under screens. We have lot of projects coming up in Hyderabad as well, Bangalore new areas are opening up. If you look at the NCR Noida which is still under screen, Gurgaon is under screen. So expansion is both happening in bigger cities and smaller cities that's number one. Number two to have lots of screens coming in your economy of scale by ordering in bulk. So is that would you recall to like you ordered your seats, carpets, projection systems, sound systems so your per screen cost comes down if you have a large roll out. At a unit level obviously in a smaller town the rental cost is much lower and therefore the ticket prices are also lower so therefore our CAPEX is lower. So in a small town probably our CAPEX will be Rs. 1 crore per screen but in a big city like Delhi or Mumbai where the ticket price elasticity are more it could go up to Rs. 2-2.5 crores per screen but does not matter how we capitalize it and it does not matter what the rental is, we still look for the 25% EBITDA margin and look at it three to four years of payback on whatever investments we have put. So the metrics to look at our return continues to remain the same whether you are in a big city or in a small city. We capitalize it and OPEX for property accordingly.

**Pulkit Singhal**

In terms of return on capital, even now for instance the overall return on capital of the business I am talking at the consolidated level, it is still depressed, now my understanding is because of the rapid expansion, but when do you think this could actually ramp up, because this is the number of screens that you adding, do you think its going to remain suppressed for a long period of time?

**Management**

Not really if you look at I think every progressive balance sheet of our will show an expansion and that will also get reflected even in current year and the following year. There was a ratio of new screens to existing screens is coming down. So I think it will not go up suddenly in one burst but I think progressively every balance sheet should show that at the balance sheet level and overall for all properties which are matured and which are 12-18 months in operations, they generate to deliver return on capital closer to 25%.

**Moderator**

Thank you. Ladies and gentleman due to time constraint that was a last question. I hand over the conference back to Mr. Abneesh Roy for his closing remarks. Thank you and over to you sir.

**Abneesh Roy**

Yes thanks to the Management and all the participants. Have a good day. Thanks.

**Management**

Thank you.

**Moderator**

Thank you. On behalf of Edelweiss Securities Limited, than conclude this conference. Thank you for joining us and you may now disconnect your lines.