



“PVR Limited Q4 FY 2017 Earnings Conference Call”

May 30, 2017



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MODERATOR: **MR. CHINTAN MODI -- MOTILAL OSWAL FINANCIAL SERVICES LIMITED.**



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Moderator: Good Day, Ladies and Gentlemen and A Very Warm Welcome to the PVR Limited Earnings Conference Call hosted by Motilal Oswal Securities. As a reminder all participants' line will be in the listen-only mode. 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 '*' followed by '0' on your Touchtone Phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Chintan Modi from Motilal Oswal Securities. Thank you and over to you, Chintan!

Chintan Modi: Thank you, Ali. On behalf of Motilal Oswal we welcome you all to the PVR's Conference Call for 4Q FY 2017.

From the management, we have with us Mr. Nitin Sood -- CFO; and Mr. Saurabh Gupta -- VP (Finance).

I would now hand over the call to Mr. Sood for his opening remarks. Over to you, sir!

Nitin Sood: Yes, thank you, Chintan. Good evening, everyone. And thank you for taking out the time for this call. I have my colleagues, Kamal Gianchandani and Saurabh Gupta with me on this call and we shall be happy to answer any questions that you may have. I will give a quick snapshot of our Q4 numbers and then we can get into Q&A.

Our consolidated revenues for the quarter were Rs. 500 crores as compared to Rs. 425 crores in the corresponding quarter of last year which are up by 18%. And EBITDA for the quarter was Rs. 64 crores as against Rs. 52 crores in Q4 of last year which is up by 22%.

At a PAT level, we were just about marginal profit of Rs. 1 lakh as compared to the loss of Rs. 6 crores that we had in the same period last year.

Overall, we closed the year with the 14% growth in revenue at Rs. 2,182 crores versus Rs. 1,900 crores last year. And EBITDA for the year was up 6% at Rs. 376 crores as compared to Rs. 356 crores last year.

Overall, I think this Q4 was a good quarter and from a content side, we saw a strong growth in admissions, driven by Dangal and continuation of few films like Jolly LLB, Raees, and Kaabil at Box Office and overall, if you look at the footfalls for the quarter, they were up by 18% and same-store were up by 7%.



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On an annual basis, we now entertained about 75.2 million people this year. On the other pieces of our revenue mix, F&B revenues grew by 24% during the quarter and advertising revenues grew by 16%.

This year has been a slightly slower year in terms of screen additions. While we added 63 screens that included 38 new screens opened this year and 29 screens that we added from the DT portfolio. I think some of the backlog that we have will hopefully come about this year and our outlook this year is about 70 odd screens that we are expecting to open this year.

I would like to open the floor for Q&A and answer any questions that you may have.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We will take the first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Sir, my first question is on the sponsorship revenue, this is the seasonally a weak quarter. The growth rate this quarter is lower than your full year number in spite of Dangal. So I understand demonetization impact might have been there. You expect soft Q1 also because of GST, most of the new launches by most categories will be post GST. So, that is why the Q1 can also be a bit weak in spite of Baahubali and all that?

Nitin Sood:

Yes, so see, I think Q4 you are right, part of the impact was due to demonetization because some of the brands in view of the currency constraints and not active demand in the market postponed their advertising budgets and we did lose some revenue in Q4 on account of demonetization. I think Q1 up till now, we have not seen any concern on account of GST implementation. I think if there is anything as such we will get to see in June. But up till May, we have not seen any impact of advertisers wanting to postpone their advertising spends, that is not been a big concern area. So, I do not think that should impact. However, I think we have had some regulatory issues on the advertising side, I think this quarter where the government has come out with a new guideline. They have asked all advertisements which are played at theaters to have a prior censor certificate and the process of issuing the censor certificate has moved online and we are seeing there are bureaucratic delays there where it is taking time for advertisers to get the revised censor certificate before the ads could be played in theaters. So, that is one impact which we are witnessing, partly in this quarter. Up till now, we have not seen any impact really on advertisers pushing their ad spends because of the GST implementation.

Abneesh Roy:

So, the censor certification issue was there in Q4 you are saying and it will continue going ahead, right?



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Nitin Sood: Yes, so I think it got implemented in Q4 but I think it is been there in Q1 and I think because it is a new process it will take some time to get sorted out. And hopefully, in three months to four months that should go away.

Abneesh Roy: You are now trying a new thing, VR Lounge. So, globally, how big is this? In India, is it more of a marketing exercise by you? Is it really big long-term in terms of revenues and margins?

Nitin Sood: Yes. Currently, you can say I think, it is more experimentation in marketing. But I think virtual reality is opening up in a big way. Kamal, you want to talk a little more.

Kamal Gianchandani: Virtual reality is something which is being pegged as the most immersive way of consuming content. The whole technology is in a very nascent stage. You could call it the phase one of technology and you would recall technologies like 3D viewing took couple of phases it had to evolve to its current situation. So we expect VR also to go through a similar evolution in terms of becoming more mature. But it is sufficient to say that it is one of the most immersive ways of consuming content. The entire film industry is extremely excited about it. Exhibitors in China, exhibitors in U.S. are experimenting they are dabbling with these VR Lounges or a different version of VR Lounges at their cinemas. So in that context, you can take this as a baby step in a direction where we are trying to understand this technology and we are trying to present the first avatar of this technology to our consumers. But you can be rest assured that this technology would be around for a very long duration and you will see a better version of this as we go forward. In terms of monetization, yes, we have plans to monetize VR Lounge. But these are earlier days and I do not think we have enough history in front of us to talk about numbers. Perhaps in the next quarter is something when we start touching and discussing numbers as well.

Abneesh Roy: Sir, my last question is on pricing, two things here. One is, I have seen Carnival which is one of your competitor. They have become a bit aggressive on pricing wherein they say that you pay this much amount you can watch lot of these movies. So, this is very different from what we have seen multiplex do in the few last years. And second, of course is Karnataka, so that price gap. So, do you see more states now going into elections next year for example, more states copying this?

Kamal Gianchandani: So firstly, on Karnataka, you know Karnataka came out with a restriction with a cap that they had placed on the ticket prices in which essentially all luxury formats, excluding all luxury formats, the regular screens 90% of the seats were subject to a cap of approximately Rs. 265 cap. Exhibitors challenged this order in the court. The court gave us a positive response and they have put a stay on the government order to the extent that on weekend, on government holidays, in addition to for luxury format for 10% of our overall capacity in the regular screens we have pre-pricing. And on weekdays for 90% of our regular seats in what we call our main stream screens we have to be a subject to a cap of Rs. 265.



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- Abneesh Roy:** How does the growth come next year for these screens?
- Nitin Sood:** So, effectively there is no impact on pricing at all, Abneesh as Kamal explained because our weekday ticket pricing are significantly low anyway and on weekends we have full flexibility to price. So, there will be no impact. We have already got a stay on this order and a notification in the matter will be heard in courts in due course now. So, effectively, no impact on pricing, we are allowed pre-pricing in that city.
- Kamal Gianchandani:** As far as other states getting influence which is the second part of your question we see no such threat. States have taken such decisions even in past. For example, Tamil Nadu is a case in point, Andhra Pradesh, Telangana is a case in point. But that is not really influenced the other states, each state has a different perspective on these matters. We see absolutely no risk perception as far as other states following Karnataka is an example and putting the cap on ticket prices. So, that is the way we look at the situation. As far as Carnival's aggressive pricing, I think you are referring to a subscription plan which Carnival has launched wherein you pay a certain amount and you can consume any amount of films subject to certain terms and conditions. I mean, Carnival is a competitor and we would be extremely uncomfortable to criticize any of their strategies. But all I can say is that, we have looked at various pricing plans. Currently, we follow Pay-Per-View pricing plan which is totally variable. So, for different films for different days, for different slots, we have different ticket prices. We are very comfortable with the ticket pricing that we follow. We have seen absolutely no impact of pricing that Carnival has done which you have referred to as aggressive ticket pricing. We have seen no negative impacts of that on our business and at this point, we see no merit in trying a subscription based plan at PVR chain.
- Moderator:** Thank you. We will take the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Just one clarification on the Karnataka bit. So, as you mentioned, the weekend pricing for all the screens will not be capped, is it?
- Nitin Sood:** That is right. I think there is no restriction on ticket pricing on the weekends and state holidays. The court has granted a stay on that.
- Ankur Periwal:** Sure, because as I understand it was earlier only for premium screen. But now, as I understand, you are saying it is across all the screens?
- Nitin Sood:** Yes. So, premiums that was the part of the notification but I think, the exhibitors have gone and challenged the notification in the court of law on constitutional merit and government's ability to introduce price caps and the court has granted an interim stay on the notification and allowed pre-pricing on the weekends and public holidays.



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Ankur Periwal: Okay. That is nice. Now, in that view so any guidance you would like to share in terms of our growth for ATP as well as SPH for the year going ahead?

Kamal Gianchandani: I think as we said, our ATP and SPH growths will continue to be strong this year we see absolutely no concern. I think overall ATP and SPH growth should be better than what we achieved last year. I do not want to give quarter-on-quarter or specific guidance but, I think we clearly see a good ATP and SPH growth this year.

Ankur Periwal: And sir, this will be despite the possible implementation of GST both on F&B as well as on SPH?

Kamal Gianchandani: That is right, that is right.

Ankur Periwal: Okay. Any possibility of passing through some input tax credit benefit to the last mile customer or will we be retaining it largely?

Nitin Sood: Yes, I think, we will have to see how the GST piece whole plays out while I think on the revenue side, we are largely neutral on the ticket side. On F&B side, we will be impacted negatively and part of that negative will get set off by the input tax credits we will kind of get in the business. I think we will have to wait and watch on how it plays out, what are the technical issues, what are the other detailing, what are the supply chain issues on implementation of GST and I think then we will take a call on any decision around pricing.

Ankur Periwal: Sure. Sir, secondly, so we have I think set up a separate subsidiary for expansion in Sri Lanka. So. if you can share some thoughts over there?

Kamal Gianchandani: Sri Lanka is an emerging market, it is a new market. I think the whole retail development and cinema development in that market is at the very early stage right now. So for us it is an extension into another neighboring country and we are beginning to sign projects in that market. So, I think it is very early days I think as some of these developments will take time to come up in the next 24 months to 36 months. It will be like any other territory for us, like in India.

Ankur Periwal: Okay. So the 65 screens - 70-screen addition guidance which we have that is only for India, that excludes...

Kamal Gianchandani: Yes, I think that market will take another couple of years to come up.

Moderator: Thank you. The next question is from Amit Kumar from Investec Capital. Please go ahead.



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Amit Kumar: Just a couple of book keeping questions to begin with. On a gross basis, you added about 38 screens organically net addition is 34 screens. Just wanted to know which property was closed this year?

Kamal Gianchandani: So, there was a single screen property in Bandra which we had shut down and we had also shut down a couple of screens in some of the existing property. The properties continue to operate but we had shut down some screens in existing properties. So altogether, you are right, four screens we have shut down, so net additions...

Nitin Sood: I think two screens were shut down in our property in Sion in Mumbai. They were very small screens with 30 seats or 40 seats each and they were operating like a video parlor, so we decided to shut them down and operate the three big screens that we have there.

Amit Kumar: All right. Just a quick one from the P&L, when I look at your rent cost, that seems to have gone up quite sharply in this quarter which was a 24% inflation versus 13% screen growth and this is actually inverse of the trend that we saw in the first three quarters of the year. Any sort of one-off here, anything that you would want to sort of highlight here?

Nitin Sood: Yes, two reasons: one, part of the expenses got restated due to IndAS where in case of two or three properties the rent was kind of getting reflected net of Box Office due to our revenue sharing arrangement with those properties. So, that started getting reflected a gross level now. That is one reason. Secondly, I think some of our properties have come up for renewal or the rents have gone up in this specific quarter, so suddenly you see the impact of that getting reflected in Q4 as a result of which the percentage is reflecting to be higher.

Amit Kumar: So, just to understand this a little bit better, you are saying that there is some sort of catch-up cost also part of this or I mean, should we assume the current...

Nitin Sood: So, like our rental contracts typically would have a once increase once every block of three years. If a few properties come up in a specific quarter where the block of three year period has ended you suddenly see a spike in that specific quarter. It will even out on an annual number but that specific quarter, that specific period will look higher.

Amit Kumar: All right. Finally, just when I look at your screen I think at the beginning of the year you talked about incremental expansion coming in from South. When I look at this year's additions at least we have not really seen anything much coming in from that territory. So, could you just talk about just from a 12-month perspective but from a two years to three years perspective and including the GST also tax rates in a few markets basically getting rationalized. Where do you think growth is essentially in coming from in terms of screen additions?

Nitin Sood: See, you are right. I think, we expect more than 40% to 50% of our growth to come from South India based on the screen roll- out plan that we have. Unfortunately, I think the execution on



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the ground and delivery of malls has been extremely slow. So, when you look at even our current year outlook of pipeline, our top eight or nine properties are virtually ready and they are awaiting either licenses or in some cases the malls are not ready, the malls will take three months, four months to get ready and become operational. So, we are grappling with these kinds of issues. So, if you look at our pipeline for current year we have property in Chennai, we have a property in Mysore, two properties awaiting opening in Hyderabad with L&T, one large project in Bengaluru (Bangalore). So, South India still continues to remain a very big portion. And then we have a prime location coming up in Pune on Senapati Bapat Marg where we have been ready for couple of months, but I think the whole road ahead of the mall has been fully dug up. So, there are delays which are beyond our control, but most of these cinemas are in a ready-to-go-live situation and are expected to open soon.

Moderator: Thank you. We will take the next question from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: I just want to understand; do you have a stand to sort of take up this issue in other states as well Tamil Nadu and Andhra Pradesh and...

Nitin Sood: Yes. So in case of Tamil Nadu, I think the local cinema exhibitor association has already filed a case which is pending before the High Court of Chennai on this matter. And I think, whether we take this issue parallelly in other states or whether we wait for the Bengaluru (Bangalore) judgment to happen that is a matter I think the association is deliberating upon and we will take a view on the same shortly on the proposed course of action based on whatever legal advice we get.

Jay Doshi: Right. But the arguments and fundamentals would be similar across all three states, right? So, a success in one state, a judgment of one court will actually way on the other cases as well, right? In future if you...

Nitin Sood: That is correct. Because see, the ways of Cinematography Act of the country was written about 50 years ago, was largely similar and most of the states with minor modification in language just copied that same act and applied the same act. So, you are right I think a success in one state could really help us in taking the issue to other states as well.

Jay Doshi: Understood. Second, on this 28% GST rate on movie tickets, it essentially means that some of the states where Entertainment Tax is very low right now will stand to benefit whereas some states where Entertainment Tax is high especially let us say Mumbai or Delhi will tend to lose in terms of their revenue from the entertainment industry, multiplex industry. So, what is the initial feedback or are you hearing anything from any other states as they are probably are not happy with this thing and do you foresee a risk where maybe a state or two may try and sort of come up with another local body tax?



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Nitin Sood: Yes. So fair point. I think....

Jay Doshi: From government distribution perspective, whatever my understanding is, is that correct that if a state is charging 0% today that state will still get 28%? Whereas someone is charging 40%, 45% may also get 28%, is that correct?

Nitin Sood: That is correct. So, what has happened, in specifically to the cinema industry case is I think the rates of tax are very varied across the country. And unfortunately, the headline rate of tax is not the actual rate of tax because we get lot of deductions in the cinema industry. So, we get a deduction of something like service charge in various states where you are allowed to deduct say anything between Rs. 5 to Rs. 14 for every ticket before you calculate the Entertainment Tax and then pay the Entertainment Tax on the net of that. So, while say a state may have a tax rate of 30%; the effective tax rate maybe being paid let us say 22% or 23%. In lot of states across the country, the local language films have a tax holiday or a tax exemption. For example, Kannada, Tamil, Telugu, and Assamese films and in some cases some other regional language films have a complete exemption. So, while when you look at the Tamil Nadu, for example and you say that tax on Hindi and English content is 40% the tax on local language content is almost zero. So, what is happening is that I think the government has only looked at the headline number but 75% of all content that is played in Tamil Nadu is largely Tamil in nature. So, effective rate of tax applicable on cinemas in Tamil Nadu is even below 20%. So, as a result, I think there seems to be some communication gap because according to our math, 75% of the total screens in India across 17 states with an effective tax rate of 20%. So this 28% tax slab I think, one is challenging for the industry as a whole because unlike PVR or unlike say INOX where we have got cinemas in multiple states and I get a benefit of Delhi and Maharashtra, so I can handle a situation in South India where the tax rate may go up or Gujarat where the tax rate may go up. The local cinemas operating in these states have no such advantage. So, it will be very difficult for the cinema industry to survive and absorb these tax increases in some of these local states and I think, we are really continuing to represent a lobby. We do not know whether we will get an answer or we will get a benefit of this or not. But it is a concern for the cinema industry as a whole. Secondly, on your question, can some states which are losing revenue suddenly decide and put some additional taxes which have been empowered by local body? The answer is yes, technically, yes. But quite honestly, that power even exists today under the local or where we have levies like Show Tax, etc., which they have a power to levy. So, I do not think, it is going to happen so easily but you say you cannot rule it out. Most of the states in India are going to get more revenue technically. But cinemas are going to suffer. Only one or two states like I just said, Maharashtra and Delhi, would probably end up getting lower taxes as compared to what was being paid by cinemas.

Jay Doshi: Right. That was helpful. Will there be a mechanism to extend some form of exemption to the new screens that will open in future or you think this...



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- Nitin Sood:** So, I do not think any new exemptions will get granted under the GST regime. I think, the state governments are still trying to figure out how they will handle and kind of honor the existing commitments that have been made under the past schemes and that is the dialogue I think lot of industries will begin to have now with differentiate governments. To best of my knowledge I am told that I think new incentives or state based incentives are unlikely to be granted under the GST regime for any new developments.
- Jay Doshi:** Right. Now, in terms of your expansion plans in Sri Lanka, so are you looking at other markets as well and any expansion outside India be purely organic or you are also looking at inorganic opportunities?
- Kamal Gianchandani:** So, at this stage, it is very preliminary. So, we are looking at few neighboring countries but currently no such plans of inorganic or such. We are just studying various markets which we believe are kind of synergistic to India and I think, at an appropriate time once we are clear about which markets we want to look at we will kind of formalize our plans.
- Moderator:** Jay, I am sorry to interrupt, but I would request you to come back in queue for any follow-up questions. Thank you. We have the next question from Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** Couple of questions on movie distribution. Can you share revenues and operating profit for the quarter?
- Kamal Gianchandani:** Can you hold on for a second? Do you have the numbers in front of you?
- Naval Seth:** Yes. Till then, I can ask the second question which pertains to the comparable property. So, if you can throw some color over here how the operating performance has been in terms of what can be the EBITDA margin, what we have achieved in say FY 2017 and what was there in FY 2016?
- Nitin Sood:** Yes. So, if you look at our EBITDA margin, I think EBITDA for the year has been Rs. 375 crores. EBITDA margin of about 17% and 17.2% which is as compared to about 18.5% last year on a consolidated basis. I think, the key reason for a drop in EBITDA margin this year has been I think, lower same-store growth because of lower admissions on account of content issue. One other pieces stand out well but I think, content in footfall drop has been the main reason for drop in operating margins and I think we have begun the year on a very great note, I think and hopefully, I think whatever we lost out on the margins will come back this year with strong momentum at Box Office.
- Naval Seth:** So are we expecting that in FY 2018, we can see higher increase in say ATP, SPH and say advertisement rates in for comparable properties or we would have higher aggression in those to compensate what we have lost in FY 2017?



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Nitin Sood: Yes. I think largely, we are expecting a higher growth rate in all the three lines but it is difficult to comment on advertising piece just now. I think as we said, we are recovering and kind of going back to normal and GST is a new play. So, we will see how that impacts. But clearly, I think on the retail side on both Box Office when we look at ATP and SPH growth we are expecting a stronger growth this year.

Kamal Gianchandani: Okay. Naval, on the PVR Pictures number, I will give you the numbers separately; I just do not have it right now. But basically, PVR Pictures must have done an EBITDA of around Rs. 3 odd crores in this quarter and the margins are generally 12% to 14%. But I will give you the exact numbers post this call.

Naval Seth: Okay. And lastly, on Sri Lanka expansion. So sir, in the sense, we are adding or targeting for 60 screens to 70 screens annually in India itself. So is it that we are expecting this growth to decelerate substantially say, down the line post FY 2019. And hence, we are expanding in the international markets because we are expecting a healthy growth in India itself then why going international?

Nitin Sood: Yes, I think because I think the opportunity is big and Sri Lanka is quite honestly not a very complicated market it is a very simple market it is just I think, growing organically, the retail pace of growth, shopping centers, etc., is beginning to happen there and it has got all the right mix of growth in income, etc., and huge amount of demand for modern shopping centers and multiplexes. So, we are investing in that market right now. I think, as the new set of shopping centers come up, we want to be player in that market.

Kamal Gianchandani: But just to add to the earlier part of your question, there is no slowdown as far as growth in India is concerned, we must clarify Sri Lanka is an incremental growth engine, a new growth avenue for us. In India, you currently have about 2,650 multiplex screens. There is scope to have a minimum of 10,000 multiplex screens for the next foreseeable 10 years to 15 years, in India, there would only be building of most screens the pace is definitely not going to slow down it will only get better because the government of the day, the current decision makers, bureaucracy, Prime Minister is extremely decisive and there is a great deal of momentum which has been created and which will start showing results as we go forward. We interact with a lot of state governments. We are in touch with a lot of developers on ground and we see shoots potential to grow a lot of Tier-II towns, Tier-III towns are upping the game as far as consumption story is concerned and they want supply of more avenues where this consumption can take place. So, there is absolutely no dearth, no slowdown that we are expecting in India. Sri Lanka is an incremental growth engine, other growth avenue for PVR that is the way we are looking at it.

Naval Seth: So in a nutshell, 1,000 screen target by 2020 so Sri Lanka would be added to this 1,000 number?



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Nitin Sood: Yes, that is a broad target. We do not know how and when the pace of delivery in Sri Lanka will happen. But I think, we want to look at all the markets which we believe will deliver value over a long-term.

Moderator: Thank you. We will take the next question from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Sir, my question is again related to mall launches. So, if you focus on the new mall sign-ups over the last 6 months or 12 months. So, are we happy or comfortable with the rate at which the sign-ups have been done?

Nitin Sood: No, so, we are all happy with the rate at which sign-ups are being done but we are unfortunately not very happy with the rate at which malls are getting delivered right now. I think, there is definitely some bit of slowdown and developers are taking time to deliver shopping centers across the country. But I think, if you look at it I think that has been a challenge in India for a fairly long time and that is the reason I think we have been conservative on our screen guidance of about 60 screens to 70 screens, which totals to about 10 odd properties in a year.

Yogesh Kirve: So, based on the line-up that we have what is the comfort level on screen addition for at least FY 2018? I mean, there was a lot of property launches would have shifted from last year to this year. So, are we more comfortable towards our guidance for FY 2018?

Nitin Sood: Yes, we are fairly comfortable with our guidance for FY 2018.

Yogesh Kirve: Sure, sir. Second a bookkeeping question, so can you just share the revenue mix in terms of languages for FY 2017?

Saurabh Gupta: Yes, so language-wise, admits contribution, this financial year was 55%, came from Bollywood movies, which was almost similar last year as well, 2015 - 2016; Hollywood, it was 22% as against 19% in 2015 - 2016; and regional movies, it was 23% as against 26% was last year.

Yogesh Kirve: Saurabh, these are the admits or the revenues?

Saurabh Gupta: This is the admits contribution. So, in case of revenue contribution, the Bollywood numbers would look higher on account of the high ATP as far as Hindi movies concerned and regional movies number would look marginally lower.

Moderator: Thank you. We will take the next question from the line of Chintranga Kapoor from Sameeksha Capital. Please go ahead.



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Chintragda Kapoor: It is a more long-term question that I have in mind is primarily pertaining to the multiplex industry growth in India. So, if you can just highlight what are the growth levers for multiplex industry in India apart from the obvious as low screen density as compared to the U.S.?

Kamal Gianchandani: I think some of the growth levers you have already mentioned, you have captured in your question. Low screen density is a big opportunity in India. The fact that we have a very robust local industry and not just one local industry but multiple local industries is a big-big positive because our dependence on any one particular type of content is not there. Our sort of portfolio of films is quite diversified and that gives us a lot of programming flexibility, it also gives us an ability to have more screens in one single destination. So, that is the second growth lever. And I think the most important growth lever is the consumption story in India as far as films are concerned. The film has been part of our social fabric. It has been for the longest period of time a staple diet, entertainment diet for consumers in India. A very hot weather in India is another contributing factor why people are most comfortable going to cinema and spending their 3 hours, 3.5 hours of leisure time. Also, the kind of competition that you have from out of home activities that you see in developed western markets like U.S. and Europe is simply not here. I mean, we do not have the number of sporting activities or theatre or other entertainment form, which are outdoor, out of home in nature. So, the competition is quite less in India, vis-à-vis cinema from the other forms of out of home entertainment and all of these things combined create a very solid opportunity for exhibitors to build screens over next 10 years to 15 years. Unfortunately, the past growth in India has been fairly slow. We opened our first multiplex in 1997. We are in 2017 and in 20 years we have reached only 2,650 screens versus when you compare to markets like China which have already exceeded 40,000 multiplex screens; U.S. has been at 40,000 multiplex screens for the last I would say, seven or eight years. The pace of growth has been extremely slow. However, now with the decisive leadership in terms of government, a very proactive bureaucracy, lot of reforms which are taking place not just on the indirect taxation side but also on the real estate side RERA which is a new regulation which has come into play would give more impetus to transparency, more formal way, more structured way of growth and developments in real estate sector. So, all of these would contribute to a much faster development pace of growth as we go forward and all the other growth levers which we mentioned which I mentioned in past would ensure that whatever supply comes into the market gets the requisite demand for them to become viable in a sustained and in a long-term manner.

Chintragda Kapoor: Okay. Sir, talking a little bit detail on the consumption part when I am looking at your SPH, which you are charging as a percentage of ATP it is already close to about 40%. When I compare it with U.S. the SPH has percentage of ATP is close to 50%. So, we are nearing the cap of U.S. benchmark. So, does that mean going forward, as we are increasing our footprint in terms of screen addition our premiumization in terms of charging higher SPH will be capped around 50% which is currently where U.S. is?



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Kamal Gianchandani: Actually, not at all, for two reasons that even if you just look at one parameter, which is growing SPH as a percentage of ATP and compare it to a developed markets like U.S., we have a headroom of another 25% to grow considering we are at 40%; and we can go up to 50%; so that is the headroom of 25% to grow. But more importantly, the average ticket price in India is extremely-extremely low. We are at not even \$3; we are a shade below \$3. U.S. already at and \$3 is PVR chains average ticket price which is one of the premium most offering in the country. If you look at the national average, our average ticket price is hardly \$1, \$0.30 or \$0.35 or thereabout. Whereas, U.S. at national leverage is about \$8.5 in fact, more now, it is about \$8.7 to \$8.75 Now, China is also at a very, very high ATP level. They are reaching their bordering almost \$5 of an ATP. So, normally, we have headroom to grow in terms of the SPH as a percentage of ATP. But our ATP in the first place is extremely low. So, when you combine the two factors which is growth in ATP and another headroom or 25% of growth in SPH we have got tremendous headroom to grow. Does that answer your question?

Moderator: Thank you. We will take the next question from the line of Vikram Ramalingam from Maybank. Please go ahead.

Vikram Ramalingam: My question is regarding DT Cinemas. In the earlier conference call that was stated that the screens are under renovation. I wanted to ask are they completely operational now?

Nitin Sood: Yes, bulk of the renovation has been completed. I think most of the screens are fully operational. I think one odd property is partly under renovation right now but no closures even on that property. So, the renovation is complete and I think this year number will reflect the full impact of the synergy potential.

Vikram Ramalingam: Yes. So the 60 odd screens we are planning to open this year in FY 2018, this includes the DT Cinema screen?

Nitin Sood: One property...

Kamal Gianchandani: One property with three screens is included in the 60 screens.

Moderator: Thank you. We will take the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: The observation which I had is on the 10,000 screens which you made the market potential, how much time do you think India would be able to take to achieve about 10,000 screen number? And also I think, if we look at the footfalls for continued decline in single screen number the absolute footfalls for the movie content has actually fallen. Now, it is also partly because of a shorter window with the television coming in. Given the time taken to add the screens and a declining overall footfalls for movie consumption where does it place us in the



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entire scheme of things and at what speed can this 10,000 screen can be achieved? You also mentioned from 97 to now we are at 2,000 odd screens.

Kamal Gianchandani:

I think looking at the leadership that we have the one in the country we think the pace of growth in the country is going to gain a lot of momentum while it is very difficult to speak about future and you know it is tough to predict what this momentum would mean in terms of number of years. But we believe, going forward in the next about 11 years - 12 years to about 13 years - 14 years it is possible. And perhaps even 10 years - 11 years to about 12 years - 13 years. So about 10 years to 13 years, it is possible for India to reach the magic number of 10,000 screens. You have to appreciate the fact that a lot of single screens because of a business model which is not very efficient because they have not been able to maintain properties and stay abreast with the latest technology, a lot of single screens are shutting down and giving way to multiplex screens. We expect this pace to sort of increase as we move forward. So realistically speaking, 10 years to 13 years another 7,500 screens very much on the card as far as volume footfalls are concerned now I am not too sure what your source of this information is because when we look at data there is a possibility there are some indicators that the Hindi films have lost some momentum last year. But as far as regional films are concerned, as far as Hollywood films are concerned, they have gained tremendously in terms of momentum and in terms of footfalls. So, at aggregate level, because we are not just catering to Hindi films, we play Hollywood films substantially, we have a big presence in the regional cinema space as well. At aggregate level, we are growing. Same-store footfalls can decline because of many factors. There could be a competition in the immediate vicinity; there could be some content in that particular year which has not behaved well. But if you look at the fact that we have been adding, the industry has been adding a lot of screens, the same-store has pretty much stayed in the range of 3% negative to about 4% or 5% positive. It is not dropping in a persistent and a consistent manner, it is either going up or going down depending on the quality of content and that cyclical nature of business will always be there. I mean, whether we have 2,000 screens or 10,000 screens this cycle of going up and down will always be there and you also spoke about shortening windows. The film industry, the exhibition industry is extremely mindful of windows as an issue and now with Netflix and Amazon Prime settling down, it is quite apparent that the windows are under no pressure both Amazon and Netflix, producers have clearly taken a conscious call that films would be screened on television or on the Internet after a very comfortable gap of minimum two months. So there is no concern as far the windows are concerned. I could take Dangalas an example, which released in December last year. The DVD or home video came out about a week back and the film is soon slated for a premiere on television so it released last week so end of May, so you are looking at close to five months of gap between the first theatrical release and the first release on any other format. That is a very-very comfortable gap. We see absolutely no problem on that front as far as windows are concerned because you have to appreciate that theatrical market for film business is contributing upwards of 70% in terms of overall pie. It is a mutual interest of film makers, exhibitors that we continue to maintain a disciplined window between theatrical release and



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release on other format because this is a robust model which has been working for many-many years and not just in India but across the world we firmly believe because we have been in dialog with the filmmakers, producers, studios, they are absolutely committed to windows as far as theatrical business is concerned we see absolutely no concern on that front.

Abhishek Ranganathan: Right. And you mentioned about almost 700 screens per year if we are able to get that number and we are at 70 screens and I mean, there will be balance sheet constraints and also the fact that it is almost talking about collectively putting the entire industry might be putting together about close to maybe 150 odd screens or 200 screens that is a very large jump which we are speaking about. And would this entail the same amount of capital on a per screen basis or the number the capital employed per screen, we have far lower number which we are looking at?

Nitin Sood: Yes, so see, the industry is adding about 200 screens to 250 screens right now. That number has not changed to 700 overnight. I think there is going to be a gradual increase as the market improves and the delivery and execution improves and yes, I think as it evolves, it could be more than 1000 screens execution in a year as well and I think, by that time, everyone will have robust balance sheets to execute. So, I do not see capital to be a constraint as the business is doing really well. I do not see capital as being any issue at all. I think, that key issue in India is if market like China and India were at the same level seven years ago and in seven years China has been able to execute in **0:51:48.0** 40,000 numbers. Can India in next 10 years get to a 10,000 number from 2,500 or not? So, I do not think we are talking anything big. I think, capital is not really an issue. Quite honestly, I think, execution and delivery will be the key issues more than anything else.

Moderator: Thank you. We will take the next question from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.

Chintan Modi: Just two quick questions. One is considering this RERA implementation. Industries of the consensus that at least for the next one year or two years, there is going to be a significant slowdown in the new projects that will come in, considering new compliance and all that? And second part of the same thing is that the cost for the project is also expected to go up again because of the new compliances that they will have to adhere to. How do you see this impacting? I mean, at least for FY 2018 we have a good visibility for new screen additions but do you think, that can significantly slowdown in FY 2019 and the rental cost can also go up significantly?

Kamal Gianchandani: Yes, I think, the bigger impact will be more than the residential market more than anything else. On the commercial and retail side, I think there will be a lesser impact to my mind and bulk of the projects that we are doing now are anyway with the big developers and the reputed developers. So yes, to that extent, I think while there might be some partial impact if a project is part of our overall development which is being planned by the developer. But in case of just



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a standalone shopping center I do not see any big impact area. Secondly, I think as part of our go-forward strategy, especially in smaller markets we are not looking at big shopping centers and big developments anyway. So, there will be lot of retrofits or I think smaller FECs which will not have such a big impact area because bulk of the stuff is leased out rather than sold and I think, there will be lesser impact on the retail side than it will be on the residential side.

Management: Because it is a leased model rather than selling model.

Chintan Modi: Sure. And can you share what was the contribution from DT Cinemas in terms of revenue for the quarter and in terms of EBITDA?

Kamal Gianchandani: No, we would not be able to give specific EBITDA guidance especially for that circuit. But DT Cinemas overall revenue contribution would be about roughly about 10% of our revenue. And I think our full year base this year will be more relevant because I think part of the screens were also closed due to renovation, Q4 a lot of screens which were closed because of renovations because that is the linear part of the year and we try to do lot of renovations during this period.

Moderator: Thank you. We will take the next question from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: I was interested in your VR initiative. I realize it is very young but I look at IMAX and they as you all know are also considering a VR initiative also at very early stage. There would seem to be certain benefits in teaming up with IMAX hopes to be an intermediary between Hollywood and the studios and the exhibitors what you have chosen I guess, took over the loan what benefits does that have is it because Bollywood content is somewhat unique or there is some other reasons?

Kamal Gianchandani: Well, like you rightly mentioned in your question, these are early days and we have seen the IMAX VR Experience Center in LA. They have tied up with a few studios to convert some relevant scenes from feature films into games slash an immersive experience of being inside the scene and that is the strategy. In our case you know we are trying to sort of wet our feet, gain some sort of a attraction before we go and talk to studios, our colleagues in the film industry and get them to sort of start investing time, effort, money on creating content which would be suitable for VR Lounges. We definitely have a plan to do it. But we think it is a bit early. We would like to get some traction, gain a complete grip, proper foothold on technology, understand consumer expectation a little bit better and that is when we think when it will make more sense to go and talk to our filmmaker friends and get them to sort of create customized for VR initiatives.

Charles Cartledge: I was just trying to distinguish, there is reasons behind you perceiving your own route. And from your answer, I conclude that there are already two reasons: one, you wish to control the



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process rather than just hand it over to IMAX, you actually want to get involved in the content and understand the consumer well, which I understand. But also, perhaps it is true that India demands a unique solution because it is not another Hollywood-oriented as say China.

Kamal Gianchandani: Well, you are absolutely right. I mean, the second part of your question is absolutely correct that the initiative to be successful in India. The content will have to come from the local filmmakers but on the first part of your question the reason we have not extended our relationship with IMAX and VR initiative is because IMAX is not ready to step into India at this point in time with the VR initiative. It is very-very early days for them as well. That is really the reason that we do not want to wait for too long, we have always been the torch bearer as far as new technologies, new initiatives are concerned and we would like to remain in that old position. So, that is really where this initiative is coming from as in when, IMAX is ready to come into India, we will be very happy to have a discussion with them to explore various opportunities.

Moderator: Ladies and Gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for their closing comments.

Nitin Sood: Yes. Thank you, Chintan. Thank you, everyone, for taking out time for this call and if we have not been able to answer someone on this call, feel free to write to us directly or reach out to Saurabh or me, and we will be happy to answer your queries if any on the results. Thank you.

Kamal Gianchandani: Thanks a lot.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Motilal Oswal Securities, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.