



“PVR Limited
Q3 FY2019 Earnings Conference Call”

January 25, 2019



ANALYST: MR. JAYKUMAR DOSHI - RESEARCH ANALYST - KOTAK SECURITIES

MANAGEMENT: MR. NITIN SOOD - GROUP CHIEF FINANCIAL OFFICER - PVR LIMITED
MR. RAHUL GAUTAM – VICE PRESIDENT – FINANCE – PVR LIMITED



PVR Limited
January 25, 2019

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the PVR Limited Q3 FY2019 Earnings Conference Call, hosted by Kotak 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities. Thank you, and over to you, Jay!

Jaykumar Doshi: Thank you, Ali. Good afternoon, everyone. On behalf of Kotak Institutional Equities, I welcome you all to PVR 3Q FY2019 Earnings Call. We have with us senior management of the company represented by Nitin Sood, CFO; and Rahul Gautam, VP, Finance. I would now like to hand over the call to Nitin for opening remarks. Thank you, and over to you, Nitin!

Nitin Sood: Thank you, Jay, and thank you for the team for helping us organize this call. I will give a quick snapshot of our number, and then we can quickly move on to Q&A.

Our consolidated revenues for the quarter ended December 31, 2018 were Rs.857 Crores, as compared to Rs.560 Crores during the corresponding period of last year, which are up by 53%. This is also the first quarter where we are consolidating and reporting full quarter financials for SPI Cinemas, which is an acquisition that we completed in the previous quarter. So revenues include that.

Our overall EBITDA for the quarter was Rs.178.5 Crores, which was up by 71% as compared to Rs.104.7 Crores in the corresponding period of last year. Overall EBITDA margins are at about 20.8%, which were up by 200 bps from last year. The PAT for the quarter was Rs.51.7 Crores, which was up again by 79%.

This is the quarterly numbers. On a nine-month basis overall revenues are Rs.22.73 Crores, which are up by 28%. And our nine-month consolidated EBITDA is Rs.450 Crores as compared to Rs.331 Crores in the same period last year, which is up by 36%.

I think the highlight of the quarter was a very strong show at box office. Overall admission for the company were 2.58 Crores during the quarter, which is up by 48%. In PVR alone, the overall admissions were up 23% as compared to Q3 of last year. Our screen-opening outlook remains intact. We had, I think, guided for a 90-plus screen openings this year. We already opened 55 screens this year. We have a large number of screens in the final stages



PVR Limited
January 25, 2019

Ready to open, and we are hopeful that I think we will deliver on the opening outlook that we had committed.

Also, I think the big update for the quarter is that the government changed their tax rate on movie tickets. The industry had been lobbying with the government for a very long time. Effective January 1, the government has reduced the GST rates on movie tickets above Rs.100 from 28% to 18% and for movie tickets price below Rs.100 from 18% to 12%. This, we believe, is a significant step and I think will make the movie-watching experience more affordable. The industry as a whole, including PVR, has effective January 1, passed on all the tax rate cuts in form of a ticket price reduction to the customers. And hopefully, this will lead to growth in admissions over the short-to-medium term. So we are very, very hopeful that the box office will continue to perform the way it has been during the first nine months of this year.

We have a good quarter ahead. I think January started on a great note. The box office continues to remain strong. It is also one of the years where the three big films from France have not worked, but we have had a lot of sleeper hits. And in spite of no perceived blockbuster since really working at the box office, the mid-level films have really outperformed at the box office and that has continued to drive box office growth.

We are committed to continue our growth pipeline, and hopefully, FY2019-2020 will also be a good box office year. And as we add more open screens all over the country, I think the overall revenue growth looks robust for the year ahead as well. I would now like to hand over the floor for Q&A and we can start with that.

Moderator:

Thank you very much. Ladies and gentlemen, we will begin the question and answer session. The first question is from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia:

Good afternoon. Thanks for taking my questions. Two questions. First, you briefly talked about the GST cut starting January 1. If you can talk about some initial trends as to what are you seeing in terms of change in behaviour, you mentioned you are expecting a rise in footfall in the short-to-medium term. Could there also be a possibility where some of these consumers shift some of the money saved towards higher food and beverage? So just wanted to get your thoughts on that. And second, just on the food and beverages margin. At the consolidated level, seems like it is dipped a bit, if you can talk about what is happening there. And any update on the whole issue surrounding consumers being able to carry their own food? Any update on that on the regulatory front, that will be great.



PVR Limited
January 25, 2019

Nitin Sood:

I will first talk about, I think, the ticket price reduction and its impact. I think we will have to watch it as a trend. It is very early because January has seen a very strong box office growth and it is driven by great content at box office both in North India as well as in South India. So I think very tough to comment on the growth in admissions, whether it is on account of ticket price growth or great content. I think it is a trend that we will have to watch and see over a period of time. All I can say is the initial trends look very promising. Your second question on F&B, the matter, as you said, of allowing outside food inside cinemas is currently subjudice. It is pending in Supreme Court right now, and I think no final or formal date for hearing has been set. I think the respective filings are still in progress. But we brought a very good case, and the only update on that front is that even in case of a Mumbai matter, the affidavit filed by the government has been very positive where they filed an opinion to send their view it should not be allowed and the J&K order, which was issued, was stayed by Supreme Court as well. So I think the matter will evolve over a period of time, but the industry is reasonably confident that I think we have a very good case on that front. Secondly, your question on how the F&B has been performing and why I think the margins have dipped, I think at a conscious level, let us say we have not taken any growth in F&B pricing. Secondly, I think there has been a change in the tax rate on F&B between last year to this year, as a result of which, we are now, in the fourth period, the F&B cost is now disallowed. So as a result of which, because of the input trade laws on the F&B, your effective food cost appears higher and we are okay to live with that.

Manish Adukia:

Yes. That is simple. Thank you and all the best.

Moderator:

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

Urmil Shah:

Congrats on a strong quarter. My first question is being on the F&B part. Change in the mix should have benefited SPH. So should we assume that the pricing which we have lowered in Q2, we are still not back to the pre-Q2 pricing?

Nitin Sood:

You are right. I think, as I said, we have given a guidance this year we will not take any price hikes at all and we want to - we do not want to do that. But I think in the next couple of quarters, you see F&B growth coming back. This is a conscious decision taken this year. We wanted to make the whole movie-watching experience more affordable. And I think the whole reduction in GST on both fronts over the last 12 months is a positive step and is helping us drive consumption up, but F&B growth will come back in next three to six months.



PVR Limited
January 25, 2019

Urmil Shah: Sure. On the margins this quarter, again, on a Q-on-Q basis, margins were down. What is the outlook there?

Nitin Sood: Which specific margins are you referring to?

Urmil Shah: F&B gross margin.

Nitin Sood: Yes. As I said, F&B margins will move up as the F&B growth moves up in terms of SPH. We do not worry too much about the margins. We effectively worry about the net realization from the customer net of costs and that is it. So that is our focus area. So I think the CoGS will continue to vary between 26% and 29%, depending upon how we evolve our product mix to drive that to 24%, so it will remain in that range.

Urmil Shah: On the ad revenue at the end of the second quarter, we had alluded to 15% to 17% kind of growth. The first nine months is 12% Y-o-Y growth. Do we still think even that the 15% will be achievable?

Nitin Sood: Sorry, I did not get your question?

Urmil Shah: For advertisement, so our outlook was 15% to 17% growth and the first nine months is a 12% Y-o-Y growth. So are we changing our outlook? Or we still believe that 15% is achievable?

Nitin Sood: Yes, so I think we think that 15% is achievable. Ad income growth, to some extent, is driven by performance of blockbusters. And fortunately, both the big films, Zero as well as Thugs of Hindostan, sold out, which had an impact on advertising revenue. I think advertising revenue in Q4 will be strong. So we are hopeful of getting to overall 15% ad revenue growth for the full year.

Urmil Shah: Okay. Then you confirmed that you still believe adding 90 screens for the full year is very much doable. That means the 35 screens additional we have now almost just two months remaining. So are we still confident that 90 should be doable by end of the year?

Nitin Sood: We have about 50-odd screens, which are in a very advanced stage of fit-outs waiting to open. I think some of them we are reasonably confident that at least 30 to 35 screens out of them will open by March. In some of the cases, I think we are just awaiting the mall completion and final licensing of the real estate developers because we are dependent on third parties. So it is possible that there may be a 15-day to 30-day delay. Some of the



PVR Limited
January 25, 2019

screens scheduled in March may shift to April, but I think largely we are on track and we think we are currently positioned to achieve and deliver that number.

- Urmil Shah:** Right. Last thing would it be possible to share comparable numbers for SPI for Q3?
- Nitin Sood:** There is no comparable numbers for SPI for Q3 because they have added almost 30% capacity, almost doubled their capacity between last year to this year. So last year numbers are not comparable and that is the reason we have not published any of those numbers.
- Urmil Shah:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** Thanks for the opportunity. Sir, can you give us some sense about how the screen additions will look beyond FY2019 to FY2020? Can we see the similar momentum that we have seen in FY2019?
- Nitin Sood:** I think you will see similar momentum or possibly even a higher momentum. We have a huge pipeline of screens, which are either in the fit-out or which will be coming out under fit-out. I think the screen addition is looking very strong. I think we will be in a better position to give a specific guidance by the next quarter on what the outlook for next year is looking like. But what we can say it is looking very strong and it could be the similar number of screens or even a higher number than what we are projecting for 2017.
- Yogesh Kirve:** Sure, Sir. And so secondly, during the year, FY2019, what are we expecting to spend in terms of capex post, apart from the organic expansion? So basically, refurbishment and other things and maintenance what sort of capex expected for FY2019? And any thoughts on how the figures would move in FY2020?
- Nitin Sood:** Yes, so our capex guidance for the year was about close to Rs.500 Crores, I think that is broadly the guidance. The capex will be in the range of Rs.475 Crores, Rs.500 Crores. And the next year capex guidance will be a function of how many screens we are expecting to open. But it will be either in a similar rate or a higher number depending upon how many screens end up opening for next year.
- Yogesh Kirve:** Sir, my question is more focused on the capex on the refurbishment and the maintenance and things like that.



PVR Limited
January 25, 2019

- Nitin Sood:** Yes, so that number will be between Rs.150 Crores to Rs.175 Crores.
- Yogesh Kirve:** Okay. And that would be similar in FY2020 as well, right?
- Nitin Sood:** That is right.
- Yogesh Kirve:** All right. And Sir, in terms of the F&B pricing so far, so we have taken a conscious strategy to keep the prices lower. So any thoughts on how the elasticity is building up? Any initial signs or any insights on this?
- Nitin Sood:** No, we have nothing to comment on that so far. It is a part of a conscious strategy. I think we will be able to as I said, we think the F&B growth will be back next year with a conscious decision to keep pricing under check for this financial year, which we have done and maintained. And this should come back next year.
- Yogesh Kirve:** And Sir, finally, I understand the GST rate cuts the benefit had been passed to the consumers. But do you believe over the next two to three years it has created an additional pricing power? So over the next few years, can we possibly see a higher increase than what we would earlier you still expect about 4%, 5%?
- Nitin Sood:** As we have always believed that the pricing growth will be in line with inflation, so our guidance remains the same. Our focus is to drive overall footfalls and admissions up in cinema. So pricing is always kept and done based on keeping that in mind. So we think the ticket price growth on a standalone basis is not relevant. We always look at it in combination with what will drive the overall revenue growth. So that will continue to remain the focus.
- Yogesh Kirve:** Sir, but concerning that this is a major benefit that just flowed in, in FY2018 because of the GST, do you think there is an additional pricing power, which has been created and which you could possibly would look to exploit over the next two or three years?
- Nitin Sood:** I would not want to comment on that.
- Yogesh Kirve:** Sure Sir. That is all from me. All the best.
- Moderator:** Thank you. The next question is from the line of the Keshav Lahoti from Natverlal & Sons Stock broking. Please go ahead.



PVR Limited
January 25, 2019

Keshav Lahoti: Congrats, Sir, for great set of number standalone as well as consolidated basis. My first question is, what is the percentage of revenue you give to the distributor for PVR Cinemas as well as SPI Cinemas?

Nitin Sood: There is no major difference. Average cinema cost for varies between 45% and 46% of the revenue and that is similar for both PVR and SPI.

Keshav Lahoti: Okay. In Q3, your revenue has increased by 3% average ticket price while spending per head has decreased by 3%. What is the reason for this?

Nitin Sood: As I said, we have taken a view not to increase pricing this year and the focus is largely on driving admissions up. And keeping that in mind, I think F&B gross spend per head growth this year has been largely flat.

Keshav Lahoti: My last question is, this year, your standalone convenience fee is Rs.35 Crores. If I multiply 35 by 12, so it is Rs.420 Crores. And you have an agreement with BMS and PayTM of Rs.410 Crores minimum guarantee. So just throw more light what is minimum guarantee, Rs.410 Crores? And on what basis this might be increased?

Nitin Sood: First of all, this Rs.35 Crores revenue is for the quarter and not for month. Secondly, our minimum guarantee is Rs.350 Crores. Total deal value is about Rs.410 Crores, including advanced sales, over a period of three years. So this is our share of convenience fees.

Keshav Lahoti: So it is Rs.410 Crores minimum guarantee or Rs.350 Crores? Rs.350 Crores is advance.

Nitin Sood: Rs.350 Crores. Rs.350 Crores is the minimum guarantee. You should look at the press release that we have kind of sent out to the exchange for this, so you can think about it.

Keshav Lahoti: Okay. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Darpan Thakkar from HSBC. Please go ahead.

Darpan M. Thakkar: Thanks for the opportunity. I have one question. Earlier, in one question, you answered that SPI Cinemas numbers you will not be able to provide for comparable purpose. But can you share the ATP number? I am asking from point of view of price hike that is allowed in Chennai, so just to check how much percentage increase has been taken and is allowed.

Nitin Sood: We would not have that data readily available, as I said, because that mix has completely changed. SPI has added a lot of properties in the last nine months. So that data will not be



PVR Limited
January 25, 2019

comparable from that perspective. But just to give you an overall perspective, the overall price cap in Chennai is Rs.150 plus entertainment tax, plus LBET, which can go up to close to about Rs.200 ticket price, if you do the math. And the current ticket price average is about Rs.165 to Rs.170. So the cinemas have consciously not increased pricing even though that - there is an enhancement in the pricing cap, which was done last year.

Rahul Gautam: Again, just to add upon that, the cap was moved late last year. So really, the comparable numbers would not really be comparable from that perspective.

Darpan M. Thakkar: Okay. As Nitin mentioned, Rs.165 to Rs.170 and Rs.200 is allowed, so okay. And one small question, SPI, we do not own as of now 100%, right? So by what time would it is expected to come 100% under PVR?

Nitin Sood: As you are aware, the balance, the existing promoters of SPI will get shares in PVR as part of the merger of SPI Cinemas with PVR. We have got all the stock exchange and SEBI approvals this week and we intend to be filing a scheme of arrangement with NCLT in the coming weeks. I think the whole merger process will typically take about four to five months that is what I am told. So I think in four to five months, SPI will be merged with PVR and will become one entity.

Darpan M. Thakkar: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Hi, Nitin and Rahul. Congrats for a very good set of numbers. So starting with SPI again, just a clarification. Now if I look at last year's SPI number, the ATP was around Rs.140. And this quarter, the ATP is obviously significantly higher. So fair to assume that the price hikes, which was a step up because of the change in the price cap, is already there in place and this should be the new normal?

Nitin Sood: Yes, so as I said, the whole pricing change happened in Tamil Nadu towards end of last year. So you are right. I think the current ATP is a fair reflection of what the current ticket pricing for the business is. And it will marginally change quarter to quarter because we price the bigger films at a slightly higher price than the smaller films, so it will be in that range of Rs.160 to Rs.175. Also, this component also includes some bit of 3D income and we had two big 3D films this quarter, which is Rajinikanth's film, 2.0, and also Aquaman. So you are right in that respect. Also, I wanted to highlight in the SPI financials, SPI also does distribution of films in Tamil Nadu. They are a big distributor of local Tamil content



PVR Limited
January 25, 2019

and distributed 2.0 and some of the other Tamil films during this quarter. So Rs.137 Crores revenue of SPI also includes approximately Rs.19 Crores of distribution revenue, which operates at a much lower operating margin because it is a working capital business. The margins from the exhibition portfolio are close to 25%. And the overall margin is looking at 22.5% because the distribution business operates at an 8% to 9% margin. Thereby, overall margins are looking at 22.5%. But the cinemas certainly are operating at almost 25% operating margin.

Ankur Periwal: That is helpful. And this distribution revenue is parked in other operating income in SPI financials?

Nitin Sood: That is right, that is right.

Ankur Periwal: Good. On the ad revenue front now, again, for SPI. Now last year, the average was roughly Rs.4 million, Rs.4.1 million on a per-screen basis. But if I do the math this time, we are close to Rs.6.2 million. So fair to say that the benefits, which is the PVR network benefit, are only visible in these numbers? Or there is still further room for upside, you believe, in these numbers?

Nitin Sood: No, so I think we are just starting. Quite honestly, three months is too short a time frame for doing a full integration. We have a fantastic circuit at SPI and a fantastic management team on the ground who is already doing a great job. But I think in next six to 12 months you will see more integration synergies. Especially on the advertising front, I think, in the next 12 to 18 months, you will see I think the advertising fees evolving even further.

Ankur Periwal: Lastly, on the PVR, the standalone base, now a couple of quarters back, we had taken this conscious decision to limit the ATP hike in a way, to boost footfall. And thankfully, the movie content has been good as well, which has given the desired results. What is the thought going ahead? And I note you mentioned on SPI it is the same thing that you probably want to stabilize first and then maybe move for the next leg of growth. From a medium-term perspective, what is your thought on ATP as well as on SPH growth going ahead from a two year to three-year perspective?

Nitin Sood: See we believe ticket pricing will grow with inflation and I think we maintain that stand. I think ticket pricing growth this year looks lower. We had a very strong ticket pricing growth last year, almost 7%. So on top of that, we expect a big pricing growth this year is slightly a challenge. But I think one of the other reasons why ticket price growth is likely slower this year because ticket prices are normally set at higher fees for a big blockbuster film. And this year has been a year where we had a lot of sleeper hits, which are priced at a



PVR Limited
January 25, 2019

popular level and not at a blockbuster pricing. Because blockbusters have not worked this year and so overall revenue coming from blockbusters has been low, so the average ticket price growth is appearing lower. So in a year when you see a lot of perceived blockbuster films, a Salman film, a Shahrukh film or Aamir film doing well, which are typically perceived to be blockbusters and priced higher, you will see that will reflect in a higher pricing growth as well.

Ankur Periwal: On the SPH front, if you can comment?

Nitin Sood: Yes. As I said, I think, SPH, this has been a conscious decision this year not to take any price hikes at all on F&B. I think we are coming to the end of the cycle, and over the last six months, we maintained that. And I think in next three to four months, you will see F&B revenues at SPH again bouncing back for the next year. So this year was a conscious decision to do that and we think F&B SPH growth will come back next year.

Ankur Periwal: Okay. Great. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

Karan Taurani: Thanks for taking my question. My question was pertaining to the ad growth of 16%, which you have reported. Just wanted to get a sense, is it all pricing-led? Or there is some inventory growth as well in this?

Nitin Sood: It is a complicated exercise. Typically, in most of the premium locations, it is largely pricing-led. And I would say Tier 2 and some of the other markets where we have inventory available, there is volume contribution as well. But in a lot of other cases in all the prime sites, it is largely pricing-led.

Karan Taurani: So is it safe to assume that a larger portion of the entire 16% will be pricing-led growth?

Nitin Sood: Not really. If you look at the mono screen additions that we have done, part of the growth has come from the mono screens that we have added, so that is one large component of this growth. Second component is in Tier 2 markets is largely driven by the volume and price and Tier 1 markets is largely driven by pricing.

Karan Taurani: Great. So the next question would be again in terms of outlook for ad growth. I am talking specifically in terms of the Tier 1 centers over here. What kind of pricing growth would you



PVR Limited
January 25, 2019

see from the current base, which you are having right now? Would you beat the cinema industry average, cinema industry average? Or will you go below that?

Nitin Sood: As I said, our same-store growth on ad revenue will continue to be 7% to 8%. The medium has a strong pricing power given the quality of locations that we have and the quality of audience that we attract. And the rest of the growth will come from the new screen additions that we are doing. That is how we are getting to about a 15% overall ad revenue growth.

Karan Taurani: Great. Just one last thing, if I can squeeze in. So any data with industry currently working up on right now for the advertisers or for the media buyers to command a better rate in terms of occupancy retails or demographics of the audience or anything of that sort?

Nitin Sood: Unfortunately, at the industry level, there is not much word. But I think PVR is doing a lot of work on this area for its set of customers. And for all the large clients, we have a lot of data to share. That is how we are able to get premium clients and premium audience from the advertising fraternity branch who would like to advertise with us.

Karan Taurani: Great. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Prateek Barsagade from Edelweiss Securities. Please go ahead.

Prateek Barsagade: Congratulations on the number. Thanks for opportunity. My first question would be that there was a bump up in the convenience fee, right? So is this largely from the business from the online aggregator platforms or the revenue contribution also from the traction seen in PVR's own mobile app?

Nitin Sood: Both. It is a combination of both, but bulk of it is due to online aggregators.

Prateek Barsagade: Okay. And can you just throw some more light on the retailing business, popcorn business, because we are seeing a lot of traction in shops and also we have seen that you intend to partner with Hypercity and all of that. So can you just throw more light and how much it is contributing to the overall F&B revenues?

Nitin Sood: Yes. It is a very small business still and it is running independently. I think it is not dependent on PVR at all. PVR has just invested in that business. The real opportunity for that business is really the retail market and going independent run by a separate management team. Currently, when we took over the business, it was like a start-up. It has



PVR Limited
January 25, 2019

only Rs.1 Crores revenue. We have now expected to clock almost Rs.18 Crores revenue this year. I think they have been very strong. And I think, over the next couple of years, we really want to take the product to retail stores in a very, very large way. So we have a separate business spend for that. But in PVR numbers, it has a very insignificant contribution.

Prateek Barsagade: Okay, understand that. And Sir, my last question would be, can you talk a bit more on the more affordable format, which we were planning to launch? So this would be the PVR Talkies format?

Nitin Sood: Yes, so we are already expanding to large cities. As you have notice, we are in 64 cities now and we are going to more cities. We are doing a lot of experiments with the quality of cinema experience, which we can deliver in smaller markets at affordable pricing. We opened one cinema in Jalgaon recently, which has been designed on that basis. Next year, the plan is to add four, five more such setups in different cities. And I think by that time we will have a greater and better sense of what is working in the smaller markets and how do we fit in our format, which can become affordable and come at a ticket price, which can be absorbed by these markets, which is between Rs.100 to Rs.125 ticket price.

Prateek Barsagade: Okay Sir. That would be all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Arvind Chetty from Max Life. Please go ahead.

Arvind Chetty: Congrats on the results. I wanted to know what are the debt levels that we are targeting. And if I understand correctly, we added a debt of around - taken a loan of Rs. 200 Crores this quarter, right?

Nitin Sood: Sorry?

Arvind Chetty: I understand we took a loan of around Rs.200 Crores this quarter and what is the debt levels that we are targeting going forward or debt-to-equity ratio?

Nitin Sood: Arvind, unfortunately, this information is not in public domain. So we would not be able to sort of comment on the quarterly number from management perspective. Last quarter, we closed the quarter in September at about Rs.1200-odd Crores of debt. And yes, we have incrementally borrowed since then, but it is not changed materially from that level.

Moderator: Does that answer your question? Arvind?



PVR Limited
January 25, 2019

- Arvind Chetty:** I am so sorry I got disconnected. Can you just repeat it?
- Nitin Sood:** Yes, Arvind, what I was saying that unfortunately the December balance sheet is not in public domain, so, I cannot share the December balance sheet numbers with you. But what I can tell you that we closed September 30 with a net debt of about Rs.1200-odd Crores. And incrementally, we have borrowed some money in the quarter three, but it has not changed materially from that level.
- Arvind Chetty:** Okay. All right. And is there any D/E ratio that we are targeting?
- Nitin Sood:** We will remain below debt-to-equity of 1:1. So I think that is broadly how we look at it.
- Arvind Chetty:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Good afternoon. Thank you for the opportunity. I had just two, three quick questions. One is if I look at your comparable expenditure analysis, there is a sharp 38% increase on other expenses. If you can highlight what are the key two, three line items that are sort of leading to this?
- Nitin Sood:** One of the big key reasons for that increase is the surround sound input tax credit because of the common credits now being law. So expense growth will appear higher this year because we are now losing input tax credits on almost 30% of the expenses that is one. Secondly, we are spending a lot of money on doing some incremental stuff, building up the loyalty program, building up the internal capabilities around improving the process systems. We are working with a leading consulting firm who is helping us improve the whole processes together. So that is a big expenditure that we are absorbing this year. And apart from that, I think there is some amount of credit that we had last year, one-off credits, that were accounted for last year, which are not in this year. As a result of it, that is looking up.
- Rohit Dokania:** Okay. That is very helpful. Just two quick questions from my side. One is if you can talk about the tax rate that one should pencil for the full year? And also where do we see our debt sort of peaking out? And will it be towards the end of this fiscal? Or the debt could sort of increase in the next fiscal as well?
- Nitin Sood:** Yes, so I will answer the debt question first. I think that debt will peak out sometime next year because it is a function of what is the capex outlook for the next year and how many



PVR Limited
January 25, 2019

screens we will be adding. But I think debt should peak out some time also next year, depending upon what the capex outlook is. What was your first question? Sorry.

Rahul Gautam: Average tax rate.

Rohit Dokania: The tax rate.

Nitin Sood: Average tax rate, yes. Average tax rate, I think a mix of current tax and deferred tax will be about 35%. So that should be our average tax rate, including current tax and deferred tax.

Rahul Gautam: I am assuming we are talking about direct tax here, right?

Rohit Dokania: Yes.

Rahul Gautam: 35%, 36% would be our yearly average tax rate for the current year.

Nitin Sood: But while we have lot of MAT credit entitlement still pending, the cash payout will be much lower.

Rohit Dokania: Sure. This is very helpful. Thanks a lot and wish you all the best.

Moderator: Thank you. The next question is from the line of Rajiv Shah from RMS Investments. Please go ahead.

Rajiv Shah: Good afternoon Sir. I just wanted to know we have made an enabling provision of Rs.750 Crores to raise capital or debt. Are we planning to raise any capital in the next two months?

Nitin Sood: Yes. As a company, we always believe that I think we should have adequate cushion or firepower in terms of availability of capital and being able to raise it as and when we require for any needs and this is currently just enabling provision. If we realize that we need more money because the growth is looking like stepping up or if we certainly have an organic opportunity, which is currently not visible. So currently, this is just enabling resolution. There is no immediate stuff that we are doing, but yes, in the course of the year if we think there is an opportunity in the business to use capital, we will think about it.

Rahul Gautam: This resolution is valid for a year from shareholders' approval. And as Nitin mentioned, this is just an enabling provision at this point of time.

Rajiv Shah: So it is valid for one year.



PVR Limited
January 25, 2019

- Rahul Gautam:** Sorry?
- Rajiv Shah:** It is valid for one year now.
- Rahul Gautam:** It is valid for a year from the shareholders approval date, yes.
- Rajiv Shah:** Okay. And my second question is we have an occupancy growth, last year, we had 29%; this time, we have 33% and the 3% that we had called ATP growth. But it is not reflected in the operating margins. So operating margins have gone up by just 2%. Or were there mismatches?
- Rahul Gautam:** No, I think the last year's numbers and this year's numbers are not comparable for one reason, the fact that we had a lot of GST credits last year, which are not reflected in the current year post the change of tax rate for F&B. It is moved from 18% to 5% with the subsequent loss of sort of tax rate on the input costs, but also because of the fact that this year our SPH has been not doing, in fact, had been this quarter also has been negative, also has contributed to margins not expanding as much as 3% in occupancy, whatever it is.
- Rajiv Shah:** Okay. Now, which were the top five box office collections during the quarter?
- Nitin Sood:** Sorry?
- Rajiv Shah:** Top five box office collections during the quarter?
- Rahul Gautam:** So it is been 2.0, Badhaai Ho, AndhaDhun, Kedarnath, Thugs of Hindostan for us.
- Rajiv Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.
- Urmil Shah:** My question was more on the content front. Q4 of FY2018 is having a strong base. So do you still think that there is a good chance of course, it is not very predictable, but there is a good chance to have a positive working same store footfall? And secondly, given that the big movies did not do well this year, your interaction with the producer fraternity, you think what are the kind of changes they are trying to make so that content for FY2020 or 2021 does not have a repeat of that?
- Nitin Sood:** As far as the producers are concerned, I think they have far more money at stake. So I think they are a smart bunch and they are clearly updated with what is happening in the business.



PVR Limited
January 25, 2019

So you would see a lot of content automatically getting updated with what customers want to see. Obviously, there is a cycle. What we are seeing is a big positive in way the films are releasing. And the big heartening thing is the box office is no longer dependent on big films and big stars. Consumers are coming out to enjoy films with great content, which have a good word of mouth. And some of the films have done very, very well. I think January has started on a very good note. We have a strong content pipeline for even this quarter. I think the way it is going, Q4 is looking like a strong quarter for us. So I know that we had a very strong base last year, but I think on a strong base, we still expect I think it will be a reasonably strong quarter this year as well.

Urmil Shah: Right. Thank you so much.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you for giving me the opportunity and congratulations for a great set of numbers. I had a question regarding the convenience fees. So what percentage of your bookings would be coming through the online channel?

Nitin Sood: Roughly 50% of our total fees are from online and that fees is evolving every month because we have seen higher conversions now went to online. There is 5% to 6% that is sold through our channel and the balance is sold through aggregated channels.

Ashish Kumar: Yes, so if I assume that the entire convenience fee comes from the online booking that gives me roughly Rs.32, Rs.33 as per ticket convenience fee. Is that roughly what you are averaging on a per-ticket basis? Or is there a portion of the minimum guarantee with that increasing it?

Nitin Sood: It is not our transaction is not structured like that. As I said, we have a minimum agreed commitment for a three-year period based on which the aggregators pay us a lump sum money and we have an upside sharing beyond that. Based on that, the transaction that we have done, I think, we account for that convenience fee over a three-year period.

Ashish Kumar: Okay. So basically, the minimum guarantee is kind of kicking in this quarter.

Nitin Sood: Yes.

Ashish Kumar: Thanks a lot and wish you all the best.



PVR Limited
January 25, 2019

Moderator: Thank you. The next question is from the line of Keshav Lahoti from Natverlal & Sons Stock broking. Please go ahead.

Keshav Lahoti: Sir, I just needed clarification from the question I asked before. You told the revenue paid to distributor is 45% around for PVR and SPI both. But when I look at investor update, for PVR, ATP is Rs.220 and SPH is Rs.90. While SPI ATP is much lower than PVR at Rs.172 and SPH is Rs.89. What is the reason for this?

Nitin Sood: Ticket pricing in Tamil Nadu is controlled by the government. That is the reason the ticket pricing is lower. It does not impact the customer spending in that market because it is artificially controlled ticket price by the government.

Rahul Gautam: I think for distributors, we have a revenue share model irrespective of the ticket price. So we share a percentage of the net box office collections with the distributors. So irrespective of the ticket price, a share of that goes to the distributor.

Keshav Lahoti: My second question is, as I see, your Q3 occupancy overall is 33% while on comparable property basis it is at 31.7%. It means that your new properties have more occupancy than earlier ones. I did the math, I found out your not-comparable property occupancy is as high as 38%? Is it right?

Rahul Gautam: Yes, so that is right. And the reason for that is a lot of properties that we opened in the last two years are based in South India, which operated a higher occupancy than the overall averages. So that is why the non-comp occupancies are looking higher than the comp occupancies.

Keshav Lahoti: Okay. Thank you. That is it.

Moderator: Thank you. The next question is from the line of Raghav Akar an individual investor. Please go ahead.

Raghav Akar: Thank you for the opportunity. My question is regarding Zee Net Private Limited. As you told, it has listed revenue of Rs.18 Crores. My question is, when are we expected to breakeven on that business?

Nitin Sood: Which business? I think it is a very early business so very difficult to comment. I think in the next couple of years we will be spending more money on marketing and distribution to build the brand up and grow more and more retail outlets. As I said, it runs on a very



PVR Limited
January 25, 2019

different level and scale. So there are no immediate focus on trying to get a breakeven there. The focus really there is to scale up that business.

Raghav Akar: Okay. And also when are we planning to launch the small city platform you were talking?

Nitin Sood: We already have a small city platform. We are in 64 cities and we are in multiple markets like these where we are expanding, we are also doing a lot of retrofits cinemas in the malls in some of these markets. So as we add more and more cities, I think we will continue to grow that format.

Raghav Akar: Okay. And how has iPic stake helped us in the luxury segment so far?

Nitin Sood: iPic was a small investment that we had made to understand what is happening on the luxury segment of the market. There have been some insights based on how that circuit has done. Unfortunately, the company has not done very well. So from our own perspective, I think while we have had some operating learning's, the investment has not done very well because the company is not doing very well. It has not been able to scale up in a significant manner given its own capital constraints. But it has been a good learning from perspective of how they engage with the customers and the kind of formats that they are trying to build up, which we are kind of learning from and also in cooperating in some of the new cinemas that we will be building.

Raghav Akar: My last question is regarding where are we ahead in the process of MENA region?

Nitin Sood: I think we are still evaluating that. We are not fully convinced on the whole opportunity. We are still evaluating and doing a business plan exercise around that piece. Once we kind of complete that business planning exercise, we will be able to come back with a firm answer.

Raghav Akar: It would not be wrong to say that currently we are more focused on the Indian market only?

Nitin Sood: Absolutely, absolutely.

Raghav Akar: That is a later game altogether? It might or might not happen?

Nitin Sood: You can say that. You can say that.

Raghav Akar: Okay. And when will be the Lanka property be ready?



PVR Limited
January 25, 2019

- Nitin Sood:** It is currently in advanced stage of fit-out. We are hoping that it will open in Q1 of next financial year.
- Raghav Akar:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.
- Nitin Sood:** I just want to thank everyone for taking out time to attend PVR's Q3 earnings call. Any of you who have any followup questions can feel free to write to me or my colleague, Rahul, and we will be happy to address your queries on a one-on-one basis. I will hand it over back to Jay at Kotak. And thank you very much for organizing this call for us, Jay.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Kotak Securities, that includes this conference call for today. Thank you for joining us, and you may now disconnect your lines.