“PVR Limited 2QFY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to PVR Limited 2QFY2018 Earnings Conference Call hosted by Ambit Capital. 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 this conference call, please signal the operator by pressing "*" and then '0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Porwal from Ambit Capital. Thank you and over to your Sir!

Mayank Porwal: Thank you very much and good evening every one. On behalf of Ambit, we welcome you to PVR'S 2QFY2018 earnings call. Representing PVR, we have with us Mr. Gautam Dutta – CEO, Mr. Nitin Sood the CFO, Mr. Kamal Gianchandani CEO, PVR Pictures and chief business planning and strategy, and Mr. Rahul Gautam, VP Finance. Thanks to the management for giving us the opportunity to host this call. I would now hand over the call to Mr. Sood for his opening remarks. Over to you Sir!

Nitin Sood: Thanks Mayank and good evening everyone. Thank you for joining 2Q earnings call. I will just give a quick snapshot of our numbers and then we can jump into Q&A. Our quarterly revenues were about Rs559.5 crore, which is flat in comparison to the same period last year. The EBITDA for the quarter was about Rs94.7 crore, which is down 3% over the last year and PAT for the quarter was Rs24.7 crore against Rs29 crore last year.

Overall, our exhibition revenue was higher by 3%, but PVR Pictures' revenue during the quarter was slightly lower as we did not do any big films during this quarter and we also completed the sale of our bluO business during the quarter, so that is only part of the revenues for that business, which is kind of getting reflected during the quarter. That is one of the reasons for a flattish revenue growth.

Overall our F&B business has continued to do well. Our average spend per head continues to grow by 9%. Our advertising revenues have been up by 10%. Box office has been the only muted performance where LTL growth seems to have put further down by almost 5% and ticket pricing growths were flat during the quarter.

We have also during the first half of this year opened about 21 screens. We have another 48 screens lined up between 3Q and 4Q. Bulk of these screens is ready and awaiting mall openings during this quarter and some of them during the next quarter and during the quarter we have done two to three events. We have opened a big screen format called P[XL], which is opened in Kolkata and the same is opening in Bengaluru and Mumbai very shortly during this month.

We have also launched a loyalty programme a couple of weeks back and I think in the next six-to-nine months as the programme develops we will have more to talk about that and I think we are hoping to have a good 3Q. The quarter seems slightly better than the poor run-offs that we have been having at box office. October has started on a decent note and the film line-up looks good in 3Q. We have a few big films like Padmavati and Tiger Zinda Hai coming up in December. We have Justice League coming up from Hollywood and there are a lot of good regional content films in Tamil, Telugu, and Marathi, which are also slated to hit the screen, so overall we are looking for a good 3Q. I now like to hand over the floor back to Mayank for starting the Q&A.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead. As there is no response we move on to the next question. It is from the line of Nitek Shah from Motilal Oswal Securities. Please go ahead.

Nitek Shah: Thanks for the opportunity. Few questions, first on the rental part of it. We have seen some bit of benefit coming in on account of lower rental cost, is it because of renegotiation on rentals, which is bulk of the case with most of the other retail companies that everyone is renegotiating the rental downwards is that benefiting you or anything specific?

Nitin Sood: No, not really. I think if you look at our expense number, which is looking lower, I think large part of it is due to the input credits on GST that we have got and we have reflected while the overall cost is looking negative due to input credits that we have got in GST as I said cost increases about 4% on overall cost basis.

Nitek Shah: Got it, other thing I just wanted to understand on the ad part of it is that you have seen a growth of about 10% for the first time obviously this was much higher. Do you think 20% ad growth for the next two to three years is a reasonable assumption or you think 10% to 15% is going to be a new normal on a higher base?

Nitin Sood: See, technically we think we will be more in the region of about 15% to 18% growth for the next two years and we have been maintaining that trajectory and we are fairly confident that we will be able to get to that benchmark this year and following couple of years from now.

Nitek Shah: One question on the loyalty programme part of it, I think you have kept it very simple. You have kept simple with the loyalty membership is linked to a mobile number rather than getting liked to a card or something. So I think bulk of those costs are limited, but how do you see ATP growth given the fact that loyalty programme obviously will get redeemed at some point in time. So does it put pressure over the medium to longer term on ATP growth and that is a strategy call who take that we will focus more on volume growth versus ATP growth?

Kamal Gianchandani: Loyalty has to be seen with this vision that it is an initiative which will give us competitive advantage. I mean the short-to-mid-term advantages of loyalty programme would be that it will on the immediate basis create more stickiness and would also help us increase the visitation and encourage visitation and also it will help us in LC spending at the F&B. But I think the real advantage of loyalty programme is that on a very long-term basis it will become a huge competitive advantage for us. It will give us a direct link with our best customers, our ability to engage with them in a meaningful precise manner if something, which would become the competitive advantage that I spoke about. Then to ATP quite honestly I mean we are not sort of, the redemption as a result of points, which have been earned as a loyalty member, the discounts/the redemption benefit that goes to the consumer would be treated as an expenditure, our account finance team will elaborate the handling of that expenditure in due course of time, but it will have an impact on ATP, it will remain mutually exclusive, the treatment will remain mutually exclusive from ATP, so it will have no impact over the ATP.

Nitek Shah: Yes, I mean although from an accounting perspective you might show it as sales of Rs200 ticket and Rs30 redemption as a cost, but ultimately from a net ATP perspective it would like kind of put some pressure. What I am trying to understand is obviously it gives you a lot of edge on competitive part of it to understand your customer, but in the case of multiplex, location is the biggest advantage of pretty much the location part. I mean anyone who is residing close to Phoenix malls obviously going to go to Phoenix malls whether there is a loyalty programme or no so just wanted to get some sense that does it really benefit your volume growth in a big way because it is business, which is driven by content, right. If content is good, people anyway will is come up to your multiplex and have a look?

Gautam Dutta: See, at the way we have positioned the loyalty programme, we said that can we get people to consume more at our cinemas, so the whole concept of plus 1 really works of the way that we have designed the loyalty. So whether you stay close to Phoenix or whether you stay away we are not trying to buy loyalty of the customer to come to India. We have loyal customers already and we have kind of cherished them for many years and they have been coming to us irrespective of the fact that we had a loyalty programme or not. This loyalty programme is really about positioning itself about getting one extra visitation from him to the cinema to watch a film, which he wanted to watch, but at some point in time for though if he has missed it, he will possibly get it from other way. We want him to come to our cinema one extra time in the year at the box office and also at the F&B we want him to consume more. The whole idea in the way the loyalty was since that we are going to be sending him these coupons, which can be redeemed. The whole idea is that there is a discount sitting on your mobile, which is waiting to get burnt and you can only burn it when you get to PVR and either buy a ticket or get to eating more. So that is the way, I think the whole focus is if this spring board called privilege can get consumers to come one extra time, eat one extra item.

Nitek Shah: One final question for Nitin, I wanted to understand on the new sign-ups that you are seeing. Are you seeing the rental cost and everything getting more, or it would just stabilise given the fact that some of the competitors in your businesses were buying or leaving our properties for future at a higher rental price, so have you seen some discipline coming back?

Nitin Sood: Quite honestly, it has been a mixed bag. I think we continued to see high competitive intensity in all the big cities and big markets, so I will not say the position has changed quite different from what we have kind of guided earlier. So that continues to remain competitive. The smaller markets where I think the competitive intensity is less I think it is much better and I think the business as usual, but big cities and prime locations continue to be extremely competitive.

Nitek Shah: Got it. I will come back in the queue. Thank you so much.

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

Yogesh Kirve: Thanks for opportunity. Sir could you give us an update on what is happening in Chennai, so I understand a strike has been called off, but are we still talking to Government on the LBET issue?

Kamal Gianchandani: Yes, we continue to be engaged with the Government. The government has been supportive and receptive to our concerns. We are hopeful as we move forward there would be a solution which would be mutually beneficial, which would be a big step forward from where we are today and given the hope that we have given the positive discussions we have had with the Government we decided to open cinemas and while the cinemas will continue to operate business as usual, we will remain engaged with the Government and work towards finding the solution to some of the challenges that we are facing on the ground.

Yogesh Kirve: But, what are we looking at and are you open to a lower rate of LBET or we are still pushing for zero LBET?

Kamal Gianchandani: We continue to push for the zero LBET and the secondary objective is to push for non-Tamil language film LBET in case if the Government prevails and they decide that they would to have LBET, some better LBET in the state of Tamil Nadu under the edges of various local body then our secondary objective would be to have the same LBET for non-Tamil language film as well.

Yogesh Kirve: Right, I understand and Sir I am just to confirm has any other state extended support for LBET or apart from Tamil Nadu?

Kamal Gianchandani: At this point, there are no other states, which has levied LBET and we continue to monitor the situation very closely, but at this point in time, there is only Greater Chennai with its parity of Greater Chennai which has levied LBET on cinemas.

Yogesh Kirve: Sir, lastly regarding the big screen PXL what are the kind of economies are you looking at in terms of monetization? Do we expect same sort of realization?

Gautam Dutta: So actually, PXL is a new format you know which all the PVR Extra Large is. It has a certain capex spend, which is while we are not comparing it or benchmarking it against IMAX, because you asked it is roughly about one-third the cost of IMAX screen and in terms of payback raising about 2.5-3 years with the kind of payback we are looking at for the ticket price and we will be charging close to about between Rs 25 and Rs50 premium on P[XL] across all the suites of the P[XL] auditorium as compared to a normal auditorium.

Yogesh Kirve: Right and if you could talk about what are the targets in terms of number of screens that we are looking at from two-to-three years' perspective?

Nitin Sood: We are looking at close to about 11 screens in all; this will be rolled out in next 18-odd months.

Yogesh Kirve: Thanks a lot and all the best.

Moderator: Thank you. We will take the next question from the line of Ankur Perivar from Axis Capital. Please go ahead.

Ankur Perivar: Thanks for the opportunity. To start with on the screen expansion or let us say screen addition front, now in the last quarter we did mention there were some sort of borderline cases wherein viewers still expecting some final approvals to come from respective state government, QoQ the addition has not been as great, is there still delay and are we still maintaining a 60-70 screen addition for full year?

Nitin Sood: Yes. We continue to maintain that same number in terms of addition. In fact, all the screens that we have guided to open in 3Q are ready. In fact, we are waiting for malls to get their occupancy certificate so that we can apply for cinema licences in most of the cases. It is just that the malls are I think taking longer-than-expected time, cinemas are absolutely ready to open and we are in advance stage in a lot of these properties so it is quite possible one-odd property may shift from 3Q to 4Q, but we are confident that all these screens will open in this fiscal year.

Ankur Perivar: Sure. It is helpful. Nitin secondly in terms of our growth on ATP as well as SPH after the GST implementation and more adversely for SPH because our net realisation has been impacted, what is your thought on both of these, ATP and SPH?

Nitin Sood: I think the GST is an evolving situation for us and I think we are also seeing how this will play out because there are some bits of open issues right now. For example, I think we have actively taken a view that a lot of tickets which were priced between Rs120 and Rs150, we have reduced pricing actually and brought it down to Rs118 level to move to a 18% GST bracket because the net realisation did not make a difference if you were paying a higher tax versus charging the customer more. So we passed on that benefit to the customers by reducing ticket prices. Our average tax rate has marginally moved up on ticketing, our F&B tax realisation has moved up, we kind of currently do not have clarity on state tax holidays and exemptions and how they will get protected at the end of the GST regime, because no state has come out with any notification. Fortunately, we have got benefit of input tax credit so the situation is largely neutral as of now but there is a whole looming issue if some states come out, which has the open body tax in addition to GST. It could look negative, so keeping all of these things in mind and moving GST situation, I think we are maintaining status quo on all these things and I think in six-to-nine months, once we get a clearer picture, I think we will take a view around pricing etc., till then I think there are no plans to increase pricing, pricing at best will grow with inflation, there are no plans to take any increase in pricing but because I think there is no real benefit that we are currently seeing on transitioning to GST, I think we are maintaining status quo.

Ankur Perivar: Sure. That is helpful. Just lastly on the advertisement front, now is GST also applicable on the in-screen advertisement that we do, not only in screen but in cinema as well because activation also comes in to picture?

Nitin Sood: Yes it is applicable. Earlier it was service tax now it is GST.

Ankur Perivar: And that is fully passed through?

Nitin Sood: Yes, that is fully passed on to the end customers.

Ankur Perivar: That is it from my side. That was helpful.

Moderator: Thank you. We will take the next question from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, despite decently good content, we have seen sluggish audience turn-out this year in the first half. I was wondering whether it is due to change in the audience preference for the kind of content that has been made or is it because alternate entrainment options are available like say Amazon and Netflix and Amazon mainly releasing the movie earlier or it in general sluggish economy and consumers are willing to and unwilling to spend in stuff like that?

Kamal Gianchandani: I mean, this is the question that we are faced with very often and not just in India but also globally. This is a question which is raised consistently with all exhibitors and almost all the earnings calls and without digressing towards if you look at the developed markets like the USA, the UK, Canada, Western entrainment economies where Netflix has been dominant and very rapidly growing players for the last seven to eight close to a decade I would say. You would notice that in the USA the admissions have consistently breached the 1.3 billion mark over the last five to six years. This year will be down to maybe about 1.25 billion, a drop of about 4-4.5% but that is mainly because of the cyclical nature of our business. Very often the perception or the quality of since then people expect at the beginning of year tends to be below their expectation and that results in lower admissions, but if you sort of account for the technical nature of our business or dependence on the content or perception of quality of content then cinema business continues to be a very robust platform for going out and being entertained and Netflix, Amazon Prime with full credit to them have coexisted and in fact helped the overall increase in content consumption and overall increase in revenues that go back to the content creators. India is going to be no exception. The big difference being that most of the western entrainment markets are saturated, there is absolutely no growth in theatrical circuits. US has been 40,000 screens for the last five or six years. We will continue to be at 40,000 screens for the next five or six years whereas India which has been at about 8,500 and 9,000 screens, we would continue to lose single screen to dilapidated traditional screen but we continue to add multiplex screens, the good quality experiential, premiumised when use for being entertained. So India is a growth market. We felt no impact of Netflix. There is no evidence to suggest that the consumer trend is changing because every quarter you look at this quarter of course a lot of things happened, which is the reason that we have our same-store drop, but do not forget that 1Q of this year was a record 1Q and considering that the last year 1Q was a record one and we sort of surpassed the last year 1Q and I am talking same store that is a huge achievement. So I do not think no one quarter would determine whether the consumer trend is changing upwards to downwards. All we would like to say that cinema business is extremely robust and continues to remain robust and India being a growth market we are absolutely no challenge for Netflix or any other alternate source of entertainment.

Amish Kanani: Okay Sir, that was helpful and Sir one more question on the industry level. Sir eating out in a restaurant versus movie going in a mall and is always according to me competes with each other and now eating out industry has kind of represented government about the GST rate taking it down versus our industry where it was logical to have rates to slow or what has not been considered. My question is are we missing out somewhere to represent the Government that we also belong to a middle class kind of a entertaining option and something that we also need to have a lower rate and stuff like that your thoughts would be welcome. I saw your write-up where initially our rate of 28% was disappointing and you said how it can be some be with gambling and stuff like that, but on a second round do you see the rate coming down and is there a need for effective representation at the government? Thanks.

Nitin Sood: Yes, so we have made representations to the Government and we continue to lobby and kind of represent to the Government that I think 28% rate levied for cinema tickets is quite an exorbitant rate. In a country where we get more than 2 billion people to consume entertainment at theaters, I think being taxed at the exorbitant rate of 28% is not correct, especially because I think we have multiple states in this country where we have large amount of single screen theaters and multiplexes, which operate at average tax rates after accounting for all the local tax holidays, regional films exemptions that were available which vary between 15% and 20% and the Government has just looked at the headline rate of tax that were kind of to tender the various state tax laws without accounting for what was the effective tax being paid for the cinemas, so we have made several representations to the Government and we continue to lobby and make subsequent representations once again and so work on this front will continue and we are hoping at some stage will be able to impress upon the government that. It is in the best interest of the industry to drive and increase consumption and level of growth by adding more and more screens and 28% there will be a big challenge in terms of overall growth of the industry and you will see lot of single screen cinemas, which are confined to individual states where tax rates were moved up shutting down much faster.

Amish Kanani: Okay and from that side is there any indication that they are willing to listen or stuff like that or it will be the part of overall tax rate overall that we have been hearing could happen?

Nitin Sood: No, there is no specific indication or response on this issue from the Government, I think something like this we will only get to know once Government listens to our plea and takes the decision so I do not think anybody can comment on this to say something like this, this is going to happen or will happen in the near term but will continue to lobby and make efforts.

Amish Kanani: Thanks a lot Sir and all the best.

Moderator: Thank you. We will take the next question from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Thanks for the opportunity. I just wanted to know that this 15% to 18% ad revenue growth, are you talking in absolute terms or are you talking of revenue per screen growth?

Nitin Sood: In absolute terms.

Girish Pai: Absolute terms, okay. Secondly this input tax credit is it at risk because of this anti-profiteering clause that has been introduced but the Government could that come under threat in someway?

Nitin Sood: No that would not come under threat in someway because the industry has not gained anything. In fact by going at the highest level of entrainment tax at the decades in higher slab of tax on F&B there is no net impact positive benefit of GST, which is accrued to the industry, and the looming issue of whether the tax holidays, which was granted to us under the erstwhile will get protected by local state governments is also very open-ended so I do not see any concern on that front.

Girish Pai: Okay and lastly do you see any risks from window, the shorter window because I thought Toilet, Ek Prem Katha as TV it came on television a lot earlier than a lot of other movies, do you think that is going to be a bit of threat?

Kamal Gianchandani: I mean shorter window along with piracy are the two important issues that exhibition business has been engaged with our content partners. Our partners have been extremely receptive and respectful. It is a sacrosanct model, which has been there for many years and almost all our content suppliers are respectful and receptive to our concerns. Toilet is an exception because I think there was a lot of social significance of the film and its subject and I do not want to speculate but from what we understand that Doordarshan showed the film quite soon after its theatrical release mainly because of the significance of the subject and the significance of the day on which it was shown, but keeping the episode of Toilet Ek

Prem Katha aside, almost all sense respectfully adhere to a minimum eight week or two months window and we are constantly as an exhibition community and not just us but also our other colleagues in the fraternity we are constantly engaged with our content suppliers finding out meaningful mutually beneficial ways in which we can help each other to grow this pie and we have absolutely no doubt that our content suppliers will continue to be respectful of widows.

Girish Pai: Thank you.

Moderator: Thank you. We will take the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good evening. Thank you for the opportunity. Just two to three questions from my side, so I look at increase in ATP and increase in footfalls there is 1% each but the net box office revenue has gone up by 7% so this should imply that the effective tax rate would have gone down for us on a YoY basis for this quarter, is that a fair judgment?

Nitin Sood: No the effective tax rate has not changed, while the headline tax rate has changed but effective tax rate has not changed because all the government grants we used to get, we used to take that out of the net box office and report it under other income, so if you look at that number that number is effectively looking zero this year versus Rs11.5 crore that was in the similar quarter last year, so technically from a reporting perspective we need to get both of them separately. If you were to add on that then effectively there is eventually no growth in net box office.

Rohit Dokania: But Nitin, if I am not wrong, that is already reflected in other operating income right because if I look at your slide #9 in the presentation?

Nitin Sood: Yes, so other operating income will be down by 55% when you look at the slide. If you look at the others, so that is largely down because the tax benefit has actually gone away from a reporting perspective if you want to add net box office and this other operating income, which actually had that benefit of tax holiday it will not be reflective of that number.

Rohit Dokania: Sure, okay. I get that point now. And also the other part was there is a Y-o-Y increase of almost 16%-17% in terms of content cost or film hire cost whereas the sort of net box office revenue would be as you rightly pointed out now probably flattish so is there a structural change in terms of content cost or this quarter is particular in that sense Sir?

Nitin Sood: The change that has happened, first of all there is no change in the commercial terms with the content supplier but what has happened is due to transition to GST in lot of states where the tax rates were higher and we were enjoying tax holiday as the tax rates have come down our notional tax reductions have gone down. For example, in a state like UP where we were paying a 60% tax rate, which was the headline rate of tax and the Government had given us the tax holiday based on the investment that we had made not only as we lost the benefit of tax holidays because the Government has not come out of the revised model of how some of these benefits would get grandfathered but what we can now potentially deduct from the distributor while making a payment is only 28%. So our net box office is actually reduced over what it was when I used to report my net box office earlier the entire benefit of tax holidays was reflected in net box office and my payout to him was based on a 60% reduction now only the benefit has gone down, my payouts to him is now based on 28% tax reduction so as a result of which the absolute amount of money that is going out to distributor has increased, definitely increased but there is no change in commercial terms so as a result because of net box office has fallen because of the deduction that we make are much lower the effective rate of film hirer is looking much higher.

Rohit Dokania: Sure this is very helpful. Just one last question how much of the revenues of BluO would we have booked in this quarter just too sort of maybe how does it look like-to-like?

Nitin Sood: About two months of revenue were booked roughly about I will have to get back to you but my sense is about Rs10-12 crore would be booked in this quarter.

Participant: Thank you very much and wish you all the best.

Moderator: Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity. Sir my question is essentially on TN. We have been awarded a price increase I think practically after like say ten years or so and it is a fairly steep price increase for both single screen and multiplexes does not this actually improved the economics of the single screen tremendously and does that mean that at least with reference to TN as a market the competitive intensity for real estate will actually rise?

Kamal Gianchandani: The first part of your question is right. It improves the financial model of not the single screens but also multiplex screens and not just exhibition business but also because a large part of revenues passed on to the content partners our suppliers the business modeling the business economics of the entire business in Tamil Nadu will improve because of this radical change, which the Government has brought about and we are extremely thankful to them for this. Whether this will increase competitive intensity in terms of real estates, well I mean Chennai has always been a difficult market and it has been fairly competitive in terms of real estate, good quality real estate is have to come by, we would not like to make any speculation in this context but from our point of view because we already have a lot of properties operating as well as signed up in Tamil Nadu we do not see any material impact or any substantial rental increase as far as PVR is concerned, due to the ticket price change that the government has brought about.

Karthik Chellappa: Okay and Sir the way the unfolded is there initially when there was the imposition of the local taxes because on the multiplex association, which I think did not screen films, the single screen continue to do it going into Diwali so given that issue has by and large died down and there are talks of few other restrictions even surrounding F&B and parking should not we just assume that the tax is pretty much here to stay because it looks like everybody has complied with it and there are in fact additional restrictions which may actually be forthcoming in the near future?

Kamal Gianchandani: Addressing the second part of your question, we do not expect any additional restrictions coming out and being imposed, being levied on the exhibition business whether it is parking or F&B these are unsubstantiated media reports and which has we have engaged with the government and government has made no such recommendation or suggestion to anyone. So these are unsubstantiated media reports, which have no credibility so we see absolutely no incremental additional restrictions being imposed by any government on F&B parking or any other aspect of our business. As a matter of fact and again without being speculative on this aspect we are hopeful that the government will give us some more liberty, they will give us some more flexibilities and these flexibilities I am referring to in terms of ticket price as well as in terms of number of shows that we do. As you know there is a restriction on number of shows on week day, we can schedule maximum four shows and on weekend which is Saturday and Sunday we give schedule a maximum of five shows. We are hopeful that this restriction would be done away with as we move forward. As far as complying with the levy of tax is the law of land like any other socially responsible corporate citizen we will comply with all the laws, which are in place and Tamil Nadu is going to be no exception but that said we continue to be engaged with the government and we are hopeful of a positive outlook as we move forward.

Karthik Chellappa: Sir just one more question about a quarter or two before, one of your competitors had introduced something similar to an unlimited kind of plan where you can pay a certain amount of Rupees let say Rs400-500 and you get to watch unlimited number of movies in a particular time window any assessment on what kind of impact that has had either on let us say footfalls of yourself or on pricing or let us say generally the market reacting to that?

Kamal Gianchandani: Well, there has been no impact on our business. This initiative has been launched by one of our colleagues in the exhibition fraternity. We have adopted a wait-and-watch approach on this initiative. Incidentally, this initiative is also being experimented in the USA by a company called Movie-Pass and so we are not just monitoring what is happening in India but we are also keeping a close watch on what is happening in the more mature entertainment market. We would say it is slightly early to comment on it that said the economic model of this service, this initiative is definitely suspect and which is why we want to wait and watch and then decide on how we want to react to this sort of initiatives going forward.

Karthik Chellappa: Thank you Sir. Thank you very much. Wish you all the best.

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

Abneesh Roy: Sir on the competition, one of the competitors has launched augmented realty in some of its screen do you intend to do this? Does it really attract the customers given that normally customers are attached to one particular multiplex closer to their house or these things have started mattering given now number of multiplexes in metros atleast is reasonably high?

Gautam Dutta: So we were the first ones to launch a VR Lounge in a mall in Noida, India. This was launched about eight months back. So these are experiments that we keep doing given the fact that we have captive audience within our core area and these are activities that can help you garner additional revenue. Our colleagues in the business had done a kind of a show so they did not even charge whereas our experience was about giving patents of 15 minutes VR show and we keep experimenting. We are planning to come up with another five or six such lounge ideas across India and these are moving technologies what is really in today changes completely in about six months' time. So we keep coming up with the small formats but does it really change the revenue pattern of a cinema? Not really but it does get a certain amount of stickiness with the consumer who in his idle time can possibly enjoy these services.

Abneesh Roy: Sir any learning from QSR they have been working very hard on the app and online etc., in your case what percentage of transactions are happening through the app through the online?

Nitin Sood: I mean for us this very apparent shift in the consumer behaviour and this whole big change which has come about is in the e-commerce ecosystem in India where people are transacting using the handheld devices, people are buying products and services with connected handheld devices, has been a big boom is something which we have used to our advantage to the fullest and not just us but even our colleagues in the business. Close to 50% of our total sales and I am talking in terms of admissions, which are a ticket sold are done through the online platforms and these are not just our own dedicated platforms app and website but this is also includes our partner platforms like Bookmyshow, PayTM, Ticketnew and a few others. We continue to be extremely buoyant and cognizant of the shift in consumer behavior and we continue to work with the lot of partners to enhance the consumer experience, offer them more and more digital channels, make their whole journey of engaging with PVR, transacting with PVR as seamless as intuitive as convenient as possible and we are quite happy with the progress that we have seen.

Abneesh Roy: Sir this PVR privilege customers already have this option of other sites like PayTM as your partner and Bookmyshow. There they get lot of vouchers and discounts so how do you plan to get consumers, will you match those offers or you will be giving on food and beverages so that is why it is a plus?

Nitin Sood: PVR privilege will be platform agnostic. It would be consumers buying PVR ticket would be able to earn privilege points on PayTM, Ticketnew, Bookmyshow and all other platforms we work with. This is a feature, which we would be launching very shortly. At this point privilege points can be earned at our box office the physical box offices that we have in each of our cinemas. It can be earned when you transact on pvrcinema.com our website and the PVR app that we have, but very soon we will launch this feature also on Bookmyshow, PayTM, and Ticketnew. The points that you earn being a privilege member is in addition to all the other benefits that you spoke about that a partner platforms are offering to consumers so this is not PVR privilege point at the cost of another advantage of benefit being given to consumer this will be an addition to those benefits.

Abneesh Roy: Sir last question one of the other retailers not from your sector, which came out with results today they said that GST has impacted sentiments especially I think in the smaller town India so would you also say the same thing taking content apart, content always matters and content is very difficult to predict are you saying that even GST has impacted sentiments because lot of the consumers might having business they might be employed in those businesses?

Nitin Sood: I think the big issue really at least if you look at from the industry picture perspective is that while the Government has looked at an average headline rate for the country there were lot of states where that average tax rates have being much lower. They have been operating between 10% and 15% tax rates. So for those states, I think cinemas are left with no choices but to increase prices and pass on to the burden to the consumers and these are relatively big price hike because single screen theaters or even theater at a ground level could not sustain the amount of tax increase. So you could say may be at that level it is a more a local level where it could got impacted but our sense more is that we are at the lowest end of discretionary spending so I think people decision to go out and consume entertainment and watch movies potentially is not really too much impacted by so much change in the economic conditions, as of now I would like to believe I think there is no major impact largely on account of GST that our business is facing. I think it is more to do with I think quality of content that we see. I think as it improves it should have a positive impact on admissions as well.

Abneesh Roy: From advertisers you expect buoyancy to return ignoring the base, the base becomes very favourable next two quarters but in terms of new product launches is your ad sales team getting the sense that product launches are increasing across sectors?

Nitin Sood: Not really. The market is taking a little time to recover. We normally had a far better pre-Diwali period but things are getting back to normal, the small trader retail is something which continues to worry a little and that is where the real sale happens so I think the economy would take another quarter or so before it finally gets back into action in a big time.

Abneesh Roy: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Thanks for the opportunity. Two questions the first one is if you look at last few years performance of movies, Hindi movies, we notice that barring top five-six movies most of the movies at absolute revenue box office collection have not moved at all and perhaps footfalls have declined so as an industry do you think have you thought about how are you trying to address this problem and when we look at typically couple of southern states where the ticket prices were capped, I think the number of movies watched per individual is high that could be a behavioural thing or it could be a function of a capped prices also so do you think does it is there a merit in sort of pricing these movies not very big movie at a fairly low price and try and attract more footfalls because as an exhibition industry end of the day you get benefited for advertising and F&B as well so ticket sale is a small component of overall earnings, so if you could share some thoughts and I am sure you would have something?

Nitin Sood: There is no 100% of authentic source of this information that the footfalls over the last two years have been static or have been on a decline. Unfortunately in India we do not have an official source of collective authentic data and then making it available for public or trade or investor community consumption. In absence of any authentic source of reliable data there are a lot of diverse point of views on what sort of admissions are we doing year-on-year and different people will give you different numbers.

Jay Doshi: I meant about the industry not PVR, for PVR it would be definitely growing just thinking from overall industry perspective?

Nitin Sood: I am referring to the industry and I am saying because we do not have an authentic source of collection data from single screens and all this fragmented multiplexes I mean from the four national players it is easy to get data, which is reliable and which is authentic but from fragmented multiplexes, from single screen, which are again quite fragmented. It is tough to say whether we are static growing or there is the growth in admissions. Our guess is that the market has been growing, while there are certain languages in Hindi that had a tough last two-three years but as far as the regional films are concerned, as far as the Bollywood films are concerned they certainly have been growing. Jungle Book came out last year and it broke all records of Avatar, 2012 all these blockbuster films that we have seen in the past Jungle Book exceeded those numbers and those numbers got exceeded by a huge number. This year Baahubali came out and Dangal which was a blockbuster which had come out in December and we thought we had reached the peak potential of what the blockbuster film could achieve in India within a couple of months by the time Baahubali came out four months apart Dangal all of those myths and perception where shattered and Baahubali exceeded Dangal by close to 55%-60% if not more. So I am seeing lot of these speculations about there is decline in industry. We are not too sure that is happening. If you look at specifically PVR, we have definitely been growing. There is a cyclical part to our business and there are years when content and quality, perception is below expectation and we do see a decline in same store in those years, but because we are adding new screens at overall level we tend to grow and then there are certain years when the content quality is what people expected it to be and people throng to cinemas and we are back with the bang and there is a reversal in the trend. Coming to the second part of your question, which is correlation between ticket size and admissions and if we were to hypothetically keep the ticket prices ultra low would that results in higher admissions and would hopefully help, I mean we are always experimenting with all sorts of possibilities. India is still a growth market. What we practice in India is variable pricing and if you look around at the developed western markets you would realize the developed markets have practiced flat ticket pricing for the longest period of time. In fact Regal and AMC Cinemas are experimenting with variable ticket pricing because the advantage of variable ticket pricing is that you can get incremental average ticket price in peak hours and you can get incremental admissions in lean hours and this is something which have been practicing for long. We offer cheap ticket prices and we offer expensive ticket prices. So we believe we are on the right track, that said we continue to experiment and look at all the possibilities, I would not go beyond that at this stage.

Jay Doshi: The second question is now what is the theatrical window between movie release and digital release in India is it a fixed window or it is all over the place and is there an opportunity for multiplexes and exhibition industry to sort of have a fixed theatre and negotiation with studios to increase theatrical window or compensate in some or the other forms may be reduce the film hire cost, if they want to give it to Amazon for a week window or a five week window?

Nitin Sood: I have answered this question earlier one of your colleagues had raised similar question and like I mentioned earlier we are constantly engaged with our content partners.

Jay Doshi: So this is the reference because I read somewhere that in US studios and the industry is going through some negotiations with Amazon where perhaps the exhibition industry will get compensated in cases where studios release their movies on these platforms, so is that kind of maturity there in Indian markets on the studios side? Second a small question again related to what is the progress that in India that you have seen in terms of controlling piracy because we still see that lot of movies are available through Torrents or some other portals so do you think you have seen any change in the past few years or is that a focus area for the Government or the right body?

Kamal Gianchandani: With this whole discussion in US again is not substantiated information. No studio, no exhibitor has come out and given an official statement in this context so it is hard to comment what is really happening back in the US but in India we are constantly engaged with our content partners. They are extremely respectful and mindful of what we bring on table, a very appreciative of the efforts that the exhibitors put into this business. The revenue that comes into the film business as a result of more number of multiplexes, increase in average ticket prices is something which is helping the entire film business and everyone is extremely respectful and careful about protecting his revenue stream going forward. Windows in that context we have full confidence that our content partners will respect this sacrosanct model which has been in existence for very long duration, which has basically benefited all stakeholders in, film business. Beyond that the discussions we had with them are sensitive in nature and I would not like to put them out in public domain. What is the last part of your question Sir if you could repeat?

Jay Doshi: Piracy any progress you have seen?

Kamal Gianchandani: There is certainly improvement. Producers are putting in a lot of effort, putting in lot of resources in order to curb piracy but that said piracy remains the No.1 problem that film business, entertainment business or any business, which is based on intellectual property. Piracy is a No.1 problem that we face. Unfortunately, the enforcement in our country leaves a lot to be desired, multiple associations of exhibitors, producers are engaged with the Government in order to improve enforcement of piracy laws antipiracy laws, we are hopeful things will improve and if you look at today definitely things are better than what they were yesterday.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Rahul Gautam: Thank you everyone for your time. If you have any follow-up questions do reach out to us on our investor team mail id and I will be happy to get back to you. Thank you very much.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.