



“PVR Limited
1QFY2019 Post Results Conference Call”

July 26, 2018



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Moderator: Good morning ladies and gentlemen welcome to PVR Limited 1QFY2019 Post Results Analyst 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 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. Abhishek Ranganathan from Ambit Capital. Thank you and over to your Sir!

Abhishek R: Thank you Lizaan. Welcome and very good morning to everybody here in India. We have on board from the PVR Management, Mr. Ajay Bijli, Managing Director, Mr. Sanjeev Bijli, Joint Managing Director, Mr. Gautam Dutta, CEO, Mr. Nitin Sood, Group CFO and Mr. Rahul Gautam, VP Finance. Without any ado, I will just hand it over to Nitin to make the opening remarks.

Nitin Sood: Good morning everyone. Thanks for taking the time to join the PVR earnings call for 1Q financial year 2018-2019, I would like to take you through the snapshot of our performance for the quarter post which we can have your Q&As.

The revenues for the quarter ended 2018 were Rs.700 Crores as compared to Rs.653 Crores during corresponding year last year, which is up by 7%. Revenue for exhibition business was up by 11% and PVR sold its stake in the subsidiary bluO, our bowling in the last financial year and consolidated revenue numbers are not comparable. EBITDA for the quarter was Rs.141 Crores as against Rs.151 Crores in the same period of last year, which is up by 8% and EBITDA margin for the quarter was robust at 20.2%.

PAT for the quarter was Rs.52 Crores as compared to Rs.44 Crores during the corresponding period of last year, which is a growth of 17% and the quarter witnessed a very strong operating performance led by 12% growth in box office revenues and admission growth of 8%. This is despite very strong base of Baahubali last quarter. F&B revenue were up by 23% from Rs.165 Crores to Rs.203 Crores, advertising revenues grew at 6% to Rs.72 Crores from Rs.67 Crores last year and the company has added 9 new screens in the current financial year and had the pipeline of over 100 screens currently under fit out. We expect to open around 90 screens in the current financial year. Looking at a great box office here with several big films lined up for release during the balance nine months and we are expecting a strong year ahead of us. Thanks very much.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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Abneesh Roy: My first question is on ATP hike being only 2%, this is lower than which the data which we normally see in spite of Hollywood being 34% versus 22% in the base so obviously Hollywood is consumed more by the premium audience, the base obviously has Baahubali I understand that but in spite of that why we are not able to charge higher premium for the Hollywood if you could take us through that?

Nitin Sood: I think it is consensual decision on the managing ATPs, which took a big ATP growth last year and also on quarter-on-quarter basis if we look at it we had Baahubali, which is a very big film in Q1 of last year, which ran for almost five weeks so normally ticket prices are up for big films and because we had a very big film last year in Q1, we had high ATPs consecutively for five weeks as compared to that I think in this year you only had Avenger, which was positioned as a big film. All the other films did good box office, but they were not positioned as big film. They did not open as a blockbuster so if you look at Raazi, 102 Not Out, Parmanu, Veere Di Wedding, they were all not slated to be the blockbuster films.

Abneesh Roy: Because last year you took a lot of hike does it mean for the full year 5% to 6% hike looks difficult because one quarter has already gone?

Nitin Sood: I think our conscious decision this year is to take lower ticket price hike, but have a higher footfall growth same store growth in admissions that is going to be focus area.

Abneesh Roy: My second question is on your cost item so if you see rent is up only 3% escalation, which is good and CAM charges are down 4% so rent last year was a big issue because of the competitive intensity so now is that behind and similarly if you could tell why CAM is down 4%?

Nitin Sood: These numbers may strictly not be comparable to 1Q because we are comparing numbers in pre-GST regime to post-GST regime. In real sense, there is a growth of about 5% to 6% in rental cost and similarly and some of the other cost as well, but we are comparing pre-GST to post-GST numbers or some of the growth is not reflecting effectively due to tax credits etc., which are factored in on the cost side as well as some of that which is coming on the revenue side. So I think you will see rental cost is growing, but our average growth rate is about 5% to 6% on annual basis.

Abneesh Roy: My next question on expansion strategy if you see ad growth of yours versus the number two player, the gap last four years quarters has been there so what are you doing from a conscious strategy, what are you doing to address that gap because if I see the pipeline of properties for the balance part of the year. Out of the 13 properties I think 10 are in non-metro cities, number of screens might be higher because in Chennai we are opening lot of



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screens so lot of non-metro screens may not add to the advertising yield so that is the question and second expansion into MENA when India has opportunities MENA obviously has a very high-risk from geopolitical so could you take us through your thoughts behind that?

Gautam Dutta:

I think the advertising part performance so basically there has been a constant strategy this time to be able to again work around what the consumer wants so we have actually seen if we could sort of limit the volume growth while there is enough and more that we could do around that, but we consciously wanted to take a value growth on advertising and bulk of our growth that has actually come from that so we managed to get a certain amount of prestige and reputation back into this category and this advertising bit, which we believe is a need of our and as leaders we needed to take that call. We did want to add on the volume in terms of number of minutes of advertising so that is really what we have been trying to do. Your second question was that whether it is metro or non-metro our advertising propensity within our screens is fairly similar in terms of consumption of time and we manage that through our systems that there is no differentiation, there is enough and more demand even in the Tier 2 and Tier 3 cinemas, players may vary they will may be more retail and other telecom clients, which kind of sort of get through the Tier 2 and Tier 3 cinemas, but in terms of consumption story that does not sort of change at all.

Abneesh Roy:

See it does not matter because if you see the number two-player has been able to grow much faster because they are adding lot of premium properties in the metro cities?

Gautam Dutta:

Largely on account of the volume growth it is not so much account of the premium size that they have, it is largely on account of the numbers of minutes of advertising that they have managed.

Nitin Sood:

Abneesh, just to add to what Gautam is saying, there is no change in annual outlook of advertising revenue growth. Our advertising revenue growth for the full year is projected at 18% to 20% and we stick by that guidance. I think it will vary quarter-on-quarter, Q3 is going to be biggest quarter of this year with four big films and as we have historically said advertising revenue is actually dependent on blockbuster films rather than box office performance so our annual guidance of 18% to 20% growth in advertising revenues stays.

Gautam Dutta:

Sir lot of properties next year are getting added in Delhi, Mumbai, Bengaluru so it is just at this particular year Delhi only has 16 screens, but these are prime properties, Chennai has a prime properties, Hyderabad is prime property so this keeps happening when every year with additional portfolio of properties so advertising definitely will be pretty much in line



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with how has been growing and they are coming up a very low base and which is the reason why the percentage increase since higher.

Abneesh Roy:

I also asked from MENA?

Ajay Bijli:

MENA basically if you look at the way we doing it as first of all JV with Al-Futtaim group so straightaway is not very capital-intensive model also we scouted the entire market and we realized that the premium director's cut and high-end offering that PVR has got in India that is something, which is in this thing and there is huge gap in all these places but still the consumer is more sensitive to a great experience than price so I think we have a product that we have made in India, which perhaps will have a better reception in these places where people are really looking at very, very high and differential experience so from that point of view we felt there was a gap in the market and the model is that JV model for the MENA region and further Saudi will be another JV so I think the capital intensity and the requirement of PVR will not be that high, what we are looking is at basically getting partners on board and bringing our expertise and management whatever experience that we have got over the years for the last 28 years into these joint venture and into this region, which currently the current partners needed these new version territories have so we do believe that we have a good opportunity here to make a good return.

Abneesh Roy:

That is all from my side. Thank you.

Ajay Bijli:

I just want to add one thing that also the Indian film industry the diaspora and the local consumer is also very much fond of Indian films so we were looking at places, which are one flight away and also where our own content is as popular as it is India.

Moderator:

Thank you. The next question is from the line of Swathi M from East Capital. Please go ahead.

Swathi M:

Thank you for taking my question. I think the first question I want to ask is regarding the government's response to the court's order that they will have to respond public interest litigation pending in the court. Do you have any update if suppose the deadline was yesterday I think?

Ajay Bijli:

Well actually we can only answer the question if you don't have tiffin in your hand. So I think on the serious note, Nitin our CFO will tell you where the legal matters stand.

Nitin Sood:

Our understanding is that government counsel has sort two more weeks' time to file a reply with the court that is what happened in the proceeding yesterday.



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Swathi M: I understand and then I saw in your presentation you mentioned in the notes that GST exemption you are now recognizing with other income for the state of Rajasthan, but only 50% if that what state has officially declared?

Nitin Sood: Yes the erstwhile policy in Rajasthan was that there was 50% exemption under the erstwhile policy, which they have continued by coming out with a new policy whereby saying 50% of whatever is SGST portion, we will continue to refund to cinemas so they are the first state who has come out actually with the refund mechanism and policy and we have recognized it accordance to the policy.

Swathi M: Refund amount is the same in the previous scheme and also the scheme right?

Swathi M: Not amount, but may be the percentage of the norms there is the same?

Nitin Sood: The policy is consistent with that. That is right.

Swathi M: Then you already mentioned about ATP growth that you are consciously trying to control it, but is footfall actually a function of ATP for you guys given the premium brand. I thought it was mainly function of content?

Gautam Dutta: No, while of course we operate in a very premium circuit, the reality is that we cater to all sorts of audiences even a premium size will have different profiles of the customer coming in. So ATP does play a very pivotal role in being able to garner more footfalls and if we can sort of keep the ATP under control you can actually sort of get more footfalls and get people to come in watch the smaller films as well so ATP does play a very important role.

Nitin Sood: And also like just added if you look at overall revenues, that is ATP multiplied by the number of people who come so we have achieved about 36% occupancy and a revenue growth on film income. I think film income should also be looked in for gallery has grown by 12% so which is quite a healthy growth so as Gautam rightly put you cannot look at one thing in isolation, you look at overall impact of what is the net film income and more people come in and therefore more get spent on F&B and more advertises also feel happier if your cinemas are running at a high occupancy.

Gautam Dutta: If you have to look at also in context of the fact that we are looking all these numbers in context of the Q1 of last year, which is a very, very strong, which is the best quarter of the year of last year and we have got 5% same store growth overall both F&B and advertising put together on those numbers so this is clearly looking like very good year ahead and this



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is very strong performance to achieve same footfall growth on top of such a strong quarter and go back to the peak occupancy levels is a big change or growth in the business.

Swathi M: Great. Can I just understand on the ATP growth how does the mix change with like premium formats versus non-metro like what are your expectations because as the premium format screens increase you should ATP growth should come in, but non-metro may be the ticket prices are lower, but what should we expect in the medium term and also does the ticket price cap, which state government have, are they applicable in any form on this premium format?

Gautam Dutta: So ticket pricing across most parts of the country is deregulated except for couple of few South Indian states and they have their own pricing regulations, which come and play and in case of some of these premium formats, you need a specific approval some states gave specific approvals some states do not and in states which they do not have the premium format so that is the simple answer to your question and yet are pricing is very, very varied across the Tier 1, Tier 2, Tier 3, Tier 4 or all the cities as well as across format so they will continue to remain varied because we build according to the customer profile in the catchment, but on overall level ticket pricing I think our short to long-term guidance will continue to grow with inflation and that is what we anticipate. We are still adding almost 50% to 60% of the portfolio in the big city so our overall ticket pricing will remain at exiting levels and there is no reason why ticket pricing will go down from where we are right now.

Swathi M: Okay lastly may be on the F&B part so right now it is business as usual right, you are selling at?

Ajay Bijli: Yes, you are absolutely right.

Swathi M: Okay but is there any strategy to deal with this entire thing in the sense of combo packs or may be products across the different price points, what are your thoughts and what are your expectations from this PIL?

Ajay Bijli: We have already a variety of food that we offer at various price points so I think we are going to continue to give people quality because ultimately people want to come to experience an overall wholesome quality experience so we do not want to compromise on the ingredients of what the F&B ultimate offering is given to the consumers so we already have a lot of variety at a different price points unfortunately some perceptions have got created in one or two items here and there so which was given by or this is happened, but we do not want to comment on this case, which is going on because it is subjudice and we



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will see the outcome of that whenever it comes to hearing, so currently it is not correct for us to comment on a matter which is subjudice.

Swathi M: Thanks and just on the personnel expenses, the bonuses and the salary hikes are included in this number, which we have in the quarter right?

Nitin Sood: That is right.

Swathi M: Thank you so much.

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

Urmil Shah: Thanks for the opportunity. My first question is we are still maintaining the outlook because the screen addition for rest of the year, which means good ask rate for the subsequent quarters. So given where we stand right now, which is the quarter you think will have to do the heavy lifting?

Nitin Sood: 3Q is going to be the biggest quarter of the year where about three to four big blockbuster films, which are kind of slated, and it is also Diwali time.

Urmil Shah: My question was on the screen addition Sir.

Nitin Sood: Basically in our presentation we have already written I think the 14 screens were ready, one multiplex opened yesterday in Mysuru and two in Chennai and one more in Mysuru and one in Karnal, awaiting licenses. So it will all get bunched up, we have given a guidance for 90, but it is not necessary 90 gets spread, divided by four in every quarter all over sudden we may have a quarter by 30, 40 screens open, but this is a good chance that at least this quarter over 25 odd screens should open and then again you will have another 25 to 30 in the next quarter and then another something once in the last quarter. So all these are under fit out and various stages of finishing some are finished.

Gautam Dutta: And we have three large properties opening this year, two 10-screen properties are opening in Chennai and one 12-screen property is opening in Delhi. So when you look at the number I think out of this 90 about 32 screens are from three locations alone.

Urmil Shah: A follow-up on the ad revenue growth, in the past we have been able to blockbuster rates which have been substantially higher, so given that there are couple of big movies in 1Q as



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well. So the premium rates have been in line with in the past or they were slightly higher given that we said that most of the growth was driven by a higher realization?

Gautam Dutta: Actually, if you see they were not many blockbuster film, Sanju just had a couple of days of impact in the quarter, but other than that except for Avengers there was not the film that got classified as the blockbuster film and as I said we wanted to consciously sort of work towards getting better yields for setting from our advertising and that is the game we played this quarter. We continue to want to consolidate on that level of limiting our advertising time and giving better experience to consumers and we will play the value game more stringently even in the coming quarters, but as Nitin said we keep up to our guidance and we will keep up to that growth rates that we had initially given.

Urmil Shah: Sir my last question as regards the decline in the repairs and maintenance cost, does that include a bit of spillover that might happen in the subsequent quarters?

Nitin Sood: Yes, it is possible because it is also function of our box offices running and what time and opportunity that we get to close down and repair do some bit of renovation work so that is possible.

Urmil Shah: So what is the kind of broad run rate we should look at?

Nitin Sood: It is very difficult to comment on that.

Urmil Shah: Thanks and all the best.

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

Ankur Periwal: Good afternoon gentlemen and congrats for healthy footfall growth in this quarter given the cautious ATP strategy. Just one clarification on this now Nitin did mention continuing of this cautious ATP strategy, but we are still retaining our 3% to 5% sort of growth in ATP. Is this largely driven by the premiumization and the new screen additions that we will be coming up with or it is a more movie based, content based rejig pricing, which will drive this growth?

Nitin Sood: Actually bit of both. We are having some premium formats recliners are getting added again this is a need of the consumer, so that may sort of propel the ATP growth plus as I said in Q2 and Q3, there are more in Q3, there are some big blockbuster films which are slated to



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come which automatically takes the ATP higher, so we would be inline with the percentage that we have spoken about.

Ankur Periwala: Okay that is helpful. Secondly on the advertisement revenue while we are still maintaining 18%, 20% growth for the full year. At the same time, we have been cautious in terms of increasing the ad volumes beyond a point. So this will be largely driven by only ad yields or there are other avenues within the screen, which we are also capitalizing on?

Nitin Sood: There is a whole lot of strategy, so there is of course on screen and there is a very conscious effort to drive off screen revenues as well, so you are absolutely right from off screen to sponsorship both have been looked at, but we are very conscious that at no point in time we should get over on the consumer experience and that is the game that you are going to play this year.

Ankur Periwala: Another clarification on other operating revenues, which have dipped pretty significantly in this quarter, is this largely because of Blue Ray being there in the base quarter being there in the base quarter or there is something more to it?

Nitin Sood: When you look at other operating revenues till last year Q1 we were accounting for entertainment exemption holidays that we were getting under erstwhile regime in that number, so if you look at there is almost Rs.13 Crores of income on account of tax subsidies that we got in Q1 of last year, which no longer exists in Q1 of this year. So the big drop in other operating revenue is essentially on account of that.

Ankur Periwala: Nitin, even if I exclude Rs.13 Crores, Rs.14 Crores of one time in a way, there is still a decent drop there and this is across the convenience fee other operating income across?

Nitin Sood: When you look at the breakup of revenue analysis on slide 10 of our investor presentation, it gives a full breakup which says on other operating income, which is down from Rs.22 Crores last year to Rs.11 Crores this year, it is down by Rs.11 Crores, out of which Rs.13.5 Crores drop is largely on account of these entertainment tax holidays no longer being accounted under the new regime and when you look at a convenience fee income, which is down from Rs.16 Crores to Rs.11.5 Crores that is largely on account of the fact that these were deals with partners Just Dial and TicketNew are over. They are no longer part of our online aggregator strategy, but we are also in the process of our contracts with existing aggregators are up for renewal later this month, so some of it will come back as the kind of renegotiate those contracts.



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Ankur Periwal: So the BookMyShow contracts and other, these contracts are yet to be renewed, they are not yet?

Nitin Sood: Yes. We have a certain pipeline in terms of so these contracts are coming up for renewals this year and based on renegotiation this underlying income will also undergo change.

Ankur Periwal: Fair enough. Last question, just a clarification on MENA while you did mention about the opportunities and the premium screen focused over there, any volume or any guidance you can share in terms of the number of screens we are looking over here from a one or three year perspective and the capex involved there?

Nitin Sood: I think it is slightly early. I think we are in the process of negotiating the whole JV and segregating out the entire business plan for that region with our partners, so will be in a better position to comment on the same in the next 60 days, so I think we will hold onto making a comment on that for at least next 60 days.

Ankur Periwal: Nitin just one clarification in earlier remarks we did mention the demographic similar to India and probably fascination for Indian content over there. Are we looking at other such geographies as well or it is one-off case and MENA is only one-off such territories where and we are looking to expand?

Nitin Sood: Meena is very large territory with Saudi opening up and as I said wherever there is dearth of the gap in the markets for quality exhibition experience, which we can provide and secondly where there is a robust content pipeline and Indian and Hollywood, which can make sure the cinema sustain themselves, competitive environment is not so fierce and of course the regulatory environment is good and shopping center mall development is happening, so all the boxes have to be picked, but currently that is it we have got a cinema which is going to get I think under fit out Colombo very short period which is Sri Lanka and other than that it is pretty much the MENA region.

Ankur Periwal: Okay, great Sir. Thanks a lot for answers and all the best.

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

Jai Doshi: Thank you for opportunity. My question is let us assume that if you were to get a favorable verdict from the court on this F&B issue in that case would you continue to sort of price your F&B offerings the way it is right now or are you proactively planning to revisit and improve the price value equation and favour of consumer especially for one or two items



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where generally concerns have been raised on social media and how should we think about your F&B gross margin and F&B spends per head growth going forward and this is assuming you have no sort of adverse verdict or ruling in this matter?

Nitin Sood:

To your point, this case has kind of opened up a lot of communication and debate and hence we have heard the consumer and we will want to sort of see what that can be done. There were already as Mr. Bijli said there were products and offers, which were there, we would want to sort of market those more excessively for that everyone is aware what are the offers available around F&B and we believe that the SPH growth is going to be the way it is even if we were to sort of correct the prices of a few items, we should be able to gain more in terms of the strike rate and the volume. So technically I think we should be inline with our SPH growth one way or another.

Ajay Bijli:

And just add to that is for us the number 1 is the consumer, so I think we are consumer focused company and of course all this is happening, but we are just increasing the decibel of our offering as well which are there, which I think people will appreciate that there is quality behind if there is any course correction that needs to be done in terms of revenue, our offering, we are happy to do that with ultimately we really want to consumer to feel happy and we want to get it money is worth when he comes over there.

Jai Doshi:

Just a follow-up here. When this question was raised in past, I think one of the challenges that we were told that business faces is that in the 10 minute interval, you can only cater to a small section of the entire audience and so the objective was always to sort of try and maximize the better monetize in terms of offerings that you have and catering to the entire 80%, 90% of audience was practically sort of very difficult. Do you think that there is room to sort of have a model where right now may be about 50% of your audience is consuming F&B, you sort of revisit the entire strategy that you are able to cater to a higher number perhaps at a much more affordable price point. Is that possible or it still remains have big issue or constraint or bottleneck?

Gautam Dutta:

What you are saying as a very general objective. Our business is broken down into various parts of the day and various time slots, so the simple answer is yes, it is possible to attract and serve more customers. There are pockets or timeframes where it is not possible because we are already hit. So the answer is both yes and no because we all discuss averages here; our business is now average is a function of how we utilize each time slot and what we do with each time slot. So what has happened I think over a period of time and which we are actively working on from a correction perspective, our ticket prize has become very dynamic, if you look at over the period of time from time of the day to morning, evening, weekday, weekends and we have done some interesting experiments and lot of markets



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which are showing very good results. Unfortunately I think the food and beverage pricing has not become so dynamic as the ticket pricing has become dynamic, so we are doing a lot of work now actively to make the whole F&B pricing more dynamic and make the whole price value equation sustainable for a certain segment of customer whose coming on a weekday versus who is coming on a weekend and we are already running some experiments where we are seeing healthy growth with price value equation being corrected to some lesser level. But I think we will do everything to make the whole value proposition more attractive for a customer and make the whole offering more affordable and more value cautious for a customer. So I think lot of subjects we are doing on the background irrespective what is happening on the court to make the whole movie going experience much better for the consumer and we think this will pay dividend during the course of the year.

Jai Doshi: Understood and I have one more question if I may. Could you quantify the size of opportunity you are saying in MENA market, how big is the market there in terms of population or potential for new screens and who are the players right now. I think Saudi Arabia perhaps opened up with other region that you may be looking at would already give some screens or exhibitors at present right?

Ajay Bijli: As I mentioned we are still doing our business plan for that market and we are working with the local partner there who is one of the largest private companies in the entire Middle-East region. So slightly premature for us to comment, but I think Saudi will lead the pack in terms of what we intent to do because the market is just opening up apart from that in some markets like Dubai, UAE etc., we think there are opportunities to do three to five flagship projects over the period of next few years. Some of the other markets we are still in the early stage of evaluation, but we think it is a decent size opportunity, but we will be in a better position to comment only I think in the next 60 to 90 days as we firm up the business plan for that geography.

Jai Doshi: And just small one on that, Saudi I understand is opening up, but other markets may already have screen, so are those markets that you are looking let us say Dubai underpenetrated in terms of screens and which sort of makes that opportunity attractive for you and your local partner or you think the quality of experience is not that grade offered by the existing operators which perhaps gives an opportunity to gain market share. So is it a market share or underpenetration, which drives you to or attract you to those markets?

Ajay Bijli: In lot of these markets it is about the quality of experience, which is available in these markets and these markets are seeing new model developments, which are much better than what it was build there 5 years or 10 years ago, so there is an opportunity to improve the



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quality of experience in some of these markets. The pricing power in some of these markets is extremely high. For example, in markets like Dubai the average ticket prices for a normal seated about 40 to 45 Dirham the premium seats as high as 200 Dirham. Saudi I am told also significantly high, so I think it is different for each market, each country and each pocket, there is no one answer for every single country.

Jai Doshi: That is very helpful. Thank you so much and good luck.

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. Just one question from my side obviously we understand that the matter is subjudice as far as Maharashtra is concerned and we cannot talk about it. But if I am not wrong the High Court of Jammu & Kashmir has probably allowed outside food inside the theaters now I understand you do not have any screens out there, but probably by the end of this year you might. So I just want to understand how you would be approaching that market once you launch under the new sort of regulation or the directive that has come from the High Court?

Ajay Bijli: My understanding is yes you are correct. There is some order, which has been passed. Unfortunately I think there are only one or two cinemas, which exists in that market and there was no representation or no contest and High Court just passed an order based on the petitioner's appeal also if you look at that order and if you read that order it also has conditions like people below the age of 18 years cannot go a cinema till 3 o'clock and so on. The Jammu & Kashmir Act of Cinema Regulation was written in 1975 has not seen a single change simply because no cinema have lobbied with the government for any change at all in the last 50 to 60 years because no cinemas have really opened, so in some sense while this order is relevant, but I do not think it has too much of a consequence because there is nobody that gets impacted. On a similar matter there has been order by the Madhya Pradesh High Court where a similar PIL was filed around trying to control prices and also allowing outside food in cinemas which was dismissed by the Jabalpur High Court, which they have clearly said if you read the judgment it is a private contract between the enterprise and a consumer and court has no reason to interfere between that so there has been I think two matters, which have been treated differently by two different high courts. I would not read too much into it for the moment, but I understand that I think one of the cinemas, which exist is also the part of MAI and we are discussing with them. I think most likely that order we will get challenge in the Supreme Court.

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



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

Amit Kumar: Thank you so much for the opportunity. Sir, just a couple of questions from my end. Sir, this other operating revenue is there any reason Justdial is fairly incredible player out there in the market and we understand Ticketnew has also been acquired by PayTM any reason why the existing contracts were renewed and in any sort of issues in terms of receivables or anything of that sort?

Nitin Sood: With the existing guys?

Rohit Dokania: Yes, with these two guys.

Nitin Sood: Yes, we have not renewed them because those operators are insignificant and not contributing anything to the ticketing inventory and there is no point on renewing contracts with operators who were insignificant to our overall sales mix.

Rohit Dokania: But the impact on the overall convenience fees seems to be pretty significant so is there a case they were making some sort of fixed fee payments to you minimum guarantee plus revenue shares?

Nitin Sood: Yes, they had made some fixed fee payment to us in lieu of rights to sell feeder inventory and I think unfortunately their business models didn't take off as a result of which they are out of the picture.

Rohit Dokania: Alright understood that Sir, the second one is when we look at your topline, your topline has delivered quite well in fact even slightly I had a expectations, but when we look at margins, margins have been slightly on the weaker side and in fact even when I go back and compare it to 1Q FY2017 it is a 12% CAGR in revenue terms, but margins despite GST and input tax rate, etc., have gone up by cumulatively only 70 BPS over a two-year period and two points, which I wanted to discuss in that respect, one is the employee cost, which on a high base has again gone up by almost 10% Y-o-Y and the other one is rentals, which is despite the fact that again you have GST, input tax credits it has gone up by about 7%, so I exclude the impact of service tax that is the high jump we are looking at almost 20% kind of jump in rentals on a like-to-like basis so if you just give a comment on these two please?

Nitin Sood: So far one the fact is from the GST gain perspective any benefit that we have got we have completely passed it on to the consumers so net-net there is no gain reflected in any of these numbers. Any benefit on an account of input tax credit that we have got versus whatever the



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existing tax rates has been passed on in the pricing back to the customers. We have not increased pricing across products to take care of that situation. That is number one. Number two, your second question was around people cost, etc., and we have never given a guidance that some base is high or some base is low. People cost will continue to grow between 8% and 10% on same stores. We believe that wage inflation in India will continue to remain high given the growth that is happening some quarters may be slightly lower, some quarters may be higher, so we do not think that there is any change really therein and as I commented earlier you are right. In the current quarter, some of the growth around rental cost, etc., is appearing lower simply because the cost reflect the input tax credit, yes the overall cost numbers across the cost are higher, but we are offset by some of the lower cost growth in some other hikes. The rental continues to grow at 6% to 7% on an annual basis, so yes that inflation is there right now.

Rohit Dokania:

Sir, just one small followup I understood on the employee cost little bit, in rentals we have seen your screen grow by around 8%, rental of 7% that we adjust of service tax it is actually not a 6% to 7% it is almost like a double-digit kind of increase in rental, which is why I just wanted some sort of clarity and are you seeing pressure on the rental side? I thought it was there last year we thought that those renewals would have been pretty much done and dusted with now?

Nitin Sood:

Not really, so I think rental cost as we have given the guidance and rental cost continue to remain under pressure not from the existing sites, but in terms of any new sites that will open and also with respect of if any new screens that are coming for renegotiation which is less than 5% of the total screens in a year, but yes the rental intensity in the market continues to remain high, so yes there will be pressure on rental cost, but we believe that we will get offset by the increase in revenues that we are kind of working on.

Rohit Dokania:

Alright Sir, just bookkeeping question, you have given the share of English films in 1Q this year and last year, what are the type of Hindi and regional if you can please help me with that?

Nitin Sood:

If you look at slide #11 of presentation, our Hindi box office in Q1 last year was 58%, which is now 48% this quarter because Avengers was the biggest film and the regional film contribution which is 20% last year is 18% in this quarter.

Rohit Dokania:

Got it Sir. Thank you. That is it from my end.

Moderator:

Thank you. The next question IS from the line of Vikram Ramalingam from Maybank. Please go ahead.



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Vikram Ramalingam: So my first question is regarding F&B. You and your competitor both have been able to increase your spend per head on F&B and what is the specific reason because of the film slated for this quarter or higher conversion, premium products?

Nitin Sood: So bulk of growth is coming from higher conversion. There is about a very small pricing growth in there. Our focus is really to drive more consumption and items per head and as I mentioned to somebody else earlier during the call, we are doing lot of stuff around solving for the price value equation on various time slots to solve for the whole F&B and drive consumption.

Vikram Ramalingam: Usually your film slate on a particular quarter does have some impact as well right?

Nitin Sood: Yes, base films and family films clearly have a higher propensity to spend larger groups also mean higher propensity to spend on F&B, so clearly yes that does have an impact.

Vikram Ramalingam: My second question is regarding the revenue considering your strategy is going to be increase and revenue value, my question is there any specific metrics that you all provide in which you think you will be able to achieve this but generally what are the metrics that you all provide to your advertisers and how are you going pitch that you need to pay more to a particular client if you can discuss?

Nitin Sood: I think our metric is the quality of audience that we get and I am sure there are different metrics, which different clients look for because cinema advertising is not based on footfalls alone. Cinema advertising is really based on the quality of audience and that is the reason the advertising revenues that we generate us significantly higher than most of the other, but there is no one metric that we share with advertisement.

Vikram Ramalingam: That is it from my side. Thank you.

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

Naval Seth: Thanks for the opportunity Sir. I have two questions, first is on ad, as you stated that you are trying to restrict volumes to improve the consumer experience, so any number you want to state that on Y-o-Y basis or say if you are on the 15 minutes hypothetically or 20 minutes you want to cut down by say what percentage point if you cannot give the absolute number of minutes?



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Nitin Sood: So, that number really varies cinema-by-cinema consumption, I do not have a number with me.

Naval Seth: No, I do not want number, I just want the percentage term the volume cut our restriction you are trying to put and taking the yield improvements?

Nitin Sood: As I said we do not try to exceed 20 to 22 minutes of overall advertising minutes in between of the beginning of the film and during intermission and that is the broad number that we try to say.

Naval Seth: You do not want this to reduce also to 20 or 18?

Nitin Sood: No.

Naval Seth: Second on the F&B as you stated that you are trying to experiment on dynamic pricing the way it is on ATP, so can that also have some legal implication to sell food at the different pricing at the different point of time or that is allowed again because of so many things happening around you?

Ajay Bijli: It is like we operate under almost the same license as restaurants, so there is no legal implication on that.

Naval Seth: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Mansi Shah from Tavio Capital. Please go ahead.

Mansi Shah: Good afternoon Sir. Thank you for taking my question. Sir, can you throw some light on what is the percent of customer using the premium screen in India overall?

Ajay Bijli: Sorry, can you repeat your question please?

Mansi Shah: My question was what is the percentage of customers using the premium screen?

Nitin Sood: Percentage of customers using the premium screen, I do not have the number readily with me, but average occupancy across premium screen formats is marginally higher than a regular screen formats and our ticket pricing premium is also significantly higher for a premium format screens. I do not have the exactly the number for these I can give it to you off-hand.



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Mansi Shah: That is completely fine. One more question was what are the capex incurred in opening of screen in non-metro and metro?

Ajay Bijli: There is no specific number again it is driven by location and pricing power. Our average capex per screen is approximately 3 Crores a screen is what we are spending, but it really varies between as low as 2 Crores a screen to 4 Crores a screen depending upon, which part of the market that we are building the cinema.

Mansi Shah: And Sir, you mentioned earlier that the occupancy rate is around 35% so do you see any sustainable growth in the occupancy rate?

Ajay Bijli: Sorry, occupancy ratio is, if you see at the box office here and I think the general guidance that we are giving this year this is and we have always said that our business is likely cyclical dependent on content and if you look at a five-year period there are years with higher occupancies and there are years with slightly lower occupancies. This is currently based on how the Q1 has panned out and what the content outlook for the rest of the year is looking like, is looking one of the good years with higher occupancies on the threshold, so clearly I think our outlook for this year is on a positive side and hopefully in that seasonality of the business this is looking like a much bigger and high.

Mansi Shah: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Mr. Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek R: I have a question on the F&B, how divergent is the consumption pattern in F&B as you mentioned about dynamic pricing in ATP and how possibly it has helped you in the conversion. I want to understand current spending patterns on F&B, how divergent are these on weekdays, non-week days or the peak how would you measure it?

Ajay Bijli: We measure it because we have all the data based on the timeline of consumption and who is consuming what and the consumption patterns are very divergent and we know exactly what is the strike rate in different pockets in different catchments. We also measure it in relation to ticket pricing, we also measure it in relation to the kind of customers that we are attracting, so we are doing a lot of work driven by data to see how do we address some of these issues and how do we ensure that in pockets where the consumption is low and the price value question is not consistent how do we solve for that to drive consumption up and in pockets there we have the price value equation right or the spending is that how do we ensure that we reach out to more people or able to sell more, how do we solve through



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technology, preordering, delivery on seats, on pickup at the counter so how do we increase delivery timeframes during such time and how do we solve for price value equation from time where consumption is low.

Abhishek R: So, just strike rate if I just give one metric to measure strike rate, how divergent would it be could you give me quantitative whatever answer?

Ajay Bijli: Yes, if assuming our average strike rate is 30% it would vary to as low as 20% to 35% I would be that variation depending upon which part of the day we are looking at, if it is 30% it can go down to 20% in a location where the price value proposition or the spending.

Nitin Sood: It is also based on time of the day more than just the location and we have cinemas, which do much higher strike rates, and there are cinemas, which will do much lower strike rates. I am just giving an example, but there is a quite a bit of variation because the profile of customer in each segment is very different and we have to solve for pockets where there is a price sensitive customer, but not consuming enough.

Abhishek R: Sir, you said about peak and non-peak and all time of the day, so it is?

Ajay Bijli: It is quite really depending upon, which part of the day, so I think the way we look at our business is we have to solve the problem depending upon what kind of customer we are reaching out to and the business is while we look at averages ultimately we have to solve for every single customer who can ensure morning weekday customers is also consuming versus how do I ensure that a weekend customer is also consuming, so we are doing lot of stuff to solve for that for each segment of customer to make the whole price value equation more attractive for a different segment of customers.

Abhishek R: Understood Sir. Thanks.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to the management for their closing comments.

Ajay Bijli: I just want to thank everyone for taking out time for this call and if you have any followup questions you can reach out to me directly or my colleague, Rahul Gautam and we are happy to answer your questions. Thank you very much.

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