



## “PVR Limited Q4 FY2019 Earnings Conference Call”

**May 13, 2019**



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**MODERATOR:** **MR. JAYKUMAR DOSHI – KOTAK SECURITIES**



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**Moderator:** Ladies and gentlemen, good day. And welcome to the PVR Limited Q4 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. I now hand conference over to Mr. Jaykumar Doshi from Kotak Securities. Thank you, and over to you, sir.

**Jaykumar Doshi:** Thank you, Inba. Good morning, everyone. On behalf of Kotak Institutional Equities, I welcome you all to PVR's 4Q FY19 Earnings Call. We have with us Senior Management of the Company, represented by Mr. Gautam Dutta – CEO; Mr. Nitin Sood – CFO; Mr. Kamal Gianchandani – Chief of Business Planning and Strategy and CEO of PVR Pictures; and Rahul Gautam – VP, Finance.

I would now like to hand over the call to Nitin for opening remarks. Thank you, and over to you, Nitin.

**Nitin Sood:** Thank you, Jay. Good morning, everyone. And thank you for taking out time to attend our earnings call for the quarter and year ended 31<sup>st</sup> March, 2019. I will just give a quick snapshot of our quarterly numbers before we move on to Q&A.

Consolidated revenues for the quarter ended March 2019 were Rs. 846 crores, which is up by 43% over last year. Consolidated EBITDA for the quarter was Rs. 169 crores, which was up by 66% over Q4 of last year. And EBITDA margins for the quarter were up by 280 bps as compared to 17.2% EBITDA margin that we achieved in Q4 last year. The EBITDA margins for this quarter were 20%. And PAT for the quarter was Rs. 47 crores, which is up by 78% as compared to Rs. 26 crores that we achieved in Q4 of last year.

At the annual level, consolidated revenues for the full year were Rs. 3,119 crores as compared to Rs. 2,365 crores last year, which were up by 32%. And consolidated EBITDA for the year was Rs. 619 crores, as against Rs. 433 crores in the same period last year, which was up by 43%. And similarly, PAT for the year was Rs. 184 crores as compared to Rs. 125 crores during the corresponding period of last year, which was up by 47%.

During this year gone by, we have added a total of 138 screens. Out of which roughly 70 screens were added through the organic route and the balance came in through the acquisition of SPI Cinemas, which we made earlier during the course of the year. Some of our screens which are planned to open towards the end of the year have got marginally delayed, and will be opening in next couple of months. We opened 13 screens in month of April. And some of the screens, which were lined up to open in the last year are expected to open any time in the next 30 to 40 days. So, we continue our aggressive expansion plan, and I think we will add a similar screen count number even in the current financial year.



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Some of the key highlights for us this year:

We crossed 750-screen mark. We did annual admissions of approximately 100 million at our cinemas this year, which puts us amongst the top 6-7 chains in the world. SPI acquisition was an important acquisition, which we made in the mid of this year. So, full year numbers of SPI are still not reflected in the current year earnings.

And overall, I think the cinema viewing consumption has been fairly strong. This has been a landmark year for us. We have seen a strong growth in box office, not just in India but all over the world. And there has been a further impetus, I think, to the industry with GST rate cut by the government effective 1<sup>st</sup> January, from 18% to 12% for tickets priced below Rs. 100, and from 28% to 18% for tickets above Rs. 100. So, we think the cinema industry is very well-placed right now. And with great box office ahead of us, this should also be a great year ahead.

I would now like to throw open the floor for Q&A.

**Moderator:**

Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:**

Congrats on a great set of numbers. My first question is on the differential margin trajectory between SPI and the standalone. In SPI, Q4 is 200 bps lower margin versus full year, while in PVR standalone Q4 is a higher-margin business. I understand the regional movie lineup, etc, can be different, but this is a trend that you see every year that Q4 there is a dip in SPI, while PVR is reasonably resilient in terms of margins?

**Nitin Sood:**

So, you are absolutely right. I think the reason for the difference in margin is essentially the content. Tamil and Telugu film industry had a slow Q4, and our cinemas in SPI circuit are largely located in Tamil Nadu and some cinemas in Telangana. So, clearly, because bulk of the content is Tamil and Telugu playing in these centers, the impact was on the margins. There is no cycle of Q4 being higher in North versus Q4 being higher in -- or lower in South. It's just that I think this specific quarter the content mix for Tamil and Telugu films was slightly slower, which resulted in lower margins. So, I think this will keep varying quarter-on-quarter, but I think it fairly goes with the releases planned in a specific quarter by the industry.

**Abneesh Roy:**

Nitin, my second question is on the advertising, footfall growth of 44% this quarter, but ad growth was only 22%. So, question is, when do you start seeing growth converge for both, essentially ad revenue per ad made, the way we have cost per thousand in TV and print, when do we see this coming out here? I understand again that maybe the new screens will be more in the smaller cities or vice versa. So, there will not be a convergence always, but there is a 50% gap between footfall growth and ad revenue growth. When I compare that to the full year, then the gap is lower. So, ad growth of 19% versus footfall growth of 31%, so 60% is the number here. But in Q4, that drops to 50%. So, has the advertising sentiment turned a bit cautious, we



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are seeing corporate results clearly being disappointing for most sectors in Q4. So, is that the reason in Q4 we have seen a higher divergence?

**Gautam Dutta:**

So, first and foremost, few sectors do well in advertising in Q4, and cinema advertising technically does not completely is proportionate to the footfall growth. The advertising growth really happens on account of some blockbuster releases, because still this market is such that the bigger films seem to garner higher marketing spend from brands, and we do not sell advertising per eyeball largely. Some of the very large advertisers, we do that plan as well where we do sell advertising per eyeball, but largely it is the hype and the stature of the film that drives more marketing funds. So, that is one of the reasons why this number may not be totally correlated to the growth in footfall to our cinemas.

**Nitin Sood:**

And secondly, I think when you look at the combined footfall growth, it also includes the footfalls contributed by SPI chain. So, to some extent, I think the numbers are not strictly, in some sense, comparable because SPI chain's advertising revenue will move up from its existing levels. And sometimes they are not strictly comparable.

**Abneesh Roy:**

That was quite useful. When you said the large advertisers, there is some movement towards per eyeball, but for most of the others, still it is based on the movie expectations. Now, are you driving this move towards per eyeball or you would want it to be more on hype, because then the risk element is not there, but if the movie does well then you don't participate in the gains also. So, is it a conscious strategy on your part?

**Gautam Dutta:**

It is a very conscious strategy where we do not see too much moving towards the eyeball, nor do we -- because we need a certain quantum to be able to offer to the client when we move to an eyeball plan. So, clients who typically need anything less than 1 million, 2 million eyeballs, we would not entertain that request. So, hence, largely it still rests on the scalability of the film and the popularity of the film. So, only clients who are willing to advertise for a longer duration and have the appetite for anything over a 1 million eyeball consumption, those are the brands whom we offer such a plan.

**Abneesh Roy:**

And last question, so Avengers did quite well. But in Q1 we have seen IPL impact and then of course, elections and now World Cup. So, do you expect post-Avengers the sentiment and overall footfall, has it turned weaker?

**Gautam Dutta:**

Not really, because from time immemorial people have been talking about cricket and then OTT platform, nothing has really affected. And the data is a proof in itself. Cricket and movies have coexisted now for a very long time. The real threat happened when people said IPL has come and 40 days of IPL. But if you, today, look at the numbers versus the first season, there is absolutely zero impact, people have their own time zones and have managed to keep the two forms of entertainment completely independent to each other. So, we do not feel -- as long as



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there's a good content that comes over, there will be enough and more people coming to the cinemas.

- Moderator:** Thank you. Our next question is from the line of Urmil Shah of IDBI Capital. [good afternoon
- Urmil Shah:** Congrats for a strong quarter. Sir my first question was on SPI Cinemas. If you could provide some color on how FY19 as a whole has panned out and commentary on our earlier outlook of about Rs. (+100) crores EBITDA for FY20?
- Nitin Sood:** Yes. So, if you look at SPI Cinemas and if you look at our investor update, and you look at slide #17 on the investor update...
- Urmil Shah:** Sir, I was asking for some indicative numbers for the full year. There it has since our acquisition, I wanted to understand how the full year has panned out.
- Nitin Sood:** Yes. See, full year for us is not comparable because SPI cinemas have different arrangements and different contractual expenses, etc, prior to when we acquired it. So, what is relevant for us from the date of acquisition, because there were a lot of changes made pre-acquisition, so numbers post-acquisition and pre-acquisition are strictly not comparable, simply because the way the transaction was structured. So, it will be difficult for us to comment pre-acquisition numbers, because they are strictly not comparable to post-acquisition. But all I can say is, we stand by the earlier guidance and I think clearly we are looking at a three-digit EBITDA, I think, the way we had guided within the first 12 months of the acquisition.
- Urmil Shah:** Sure. Sir, and at least from August onwards would it be possible to provide the content mix for next year?
- Nitin Sood:** When you say content mix, what exactly do you mean?
- Urmil Shah:** Maybe a GBOC and NBOC mix regional.
- Nitin Sood:** Okay for SPI you are asking for, Urmil?
- Urmil Shah:** Yes.
- Rahul Gautam:** Yes, we can talk about that separately. The content mix which we have given in the presentation is the consol for PVR as overall. We can take that separately and we can chat separately and we can give.
- Nitin Sood:** But typically, I would say (+60%) would be local content and 35% to 40% would be Hindi and Hollywood content, but more than 60% would be typically local content.



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- Urmil Shah:** Sure. Sir, I had a follow-up on your advertisement growth. Sometime back, we had talked about focus on the non-screen advertisements as well. So, has it become a substantial portion right now?
- Gautam Dutta:** This takes time. This is a conscious call that we have taken, but I think this journey is a few months away. It's not something that we planned today and tomorrow you will begin to see results. But clearly, the move has started, and we consciously are working towards getting more advertising and more education with marketeers to start marketing their brands on the offscreen segment. So, to your point, it is beginning to show results, but this is still about 12 to 18 months away.
- Urmil Shah:** Sure. Then specifically on the in-cinema advertisements for this year, about on a 12% kind of growth on a full year basis. That's slightly lower than what we were expecting. So, if you could throw some light on which of the sectors actually disappointed and how should we look into as a growth for FY20-2021?
- Gautam Dutta:** So, typically, I think it will be a double-digit growth. We feel that this is going to be a strong and steady race for us, and we want to also keep in mind the consumer experience at the cinema. Unlike any other media, the amount of advertising you run is very, very important to keep the consumer experience intact. And we always believe we are a cinema company that also shows ad, not the other way around. We are not a media company that also shows movies. So, we need to keep that balance completely intact. And I think going forward, you will see a double-digit growth in this phase as well.
- Urmil Shah:** So, sir, on FY19, which of the sectors actually disappointed?
- Gautam Dutta:** Nothing in particular. This really maps or mirrors what's happening in the industry outside. So, there are typically some categories that tend to do exceedingly well, like telecom is doing very well for us. FMCG is very bullish. But certain telecom service providers are low. Automobile is slightly low. So, exactly the sentiment that a marketeer or a brand is actually facing in the market is what we believe, but this is cyclical. What goes down today can come up tomorrow and vice versa. So, typically, that's how we map it.
- Moderator:** Thank you. We will take our next question from the line of Abhijit Sinha of Pi Square Investments. Please go ahead.
- Abhijit Sinha:** Sir, you have been mentioning lot about in-cinema advertisements and all that stuff. I just want to understand, sir, how much saving time have you increased for the advertisements?
- Gautam Dutta:** Sorry, how much?



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- Abhijit Sinha:** The minutes that we show the advertising in cinemas, like how much have you actually increased that?
- Gautam Dutta:** No, we haven't increased. In fact, we are wanting to decrease it in all our iconic cinemas. So, we are currently at about 18 minutes in iconic cinema and about 22 minutes in non-iconic cinemas.
- Abhijit Sinha:** So, what is the difference between iconic and...
- Gautam Dutta:** So, typically, a cinema which is in the high-profile catchment and has updated product offering is coined as an iconic cinema. And we have a certain count on those cinemas and where we try to limit our advertising to 18 minutes, which is run across two slots, in the beginning and during intermission put together, and then there is a non-iconic where we do not exceed over 22.
- Abhijit Sinha:** And sir, would you like to comment on the VPF issue?
- Nitin Sood:** We don't have anything to comment. I think some gentleman named Ronnie Screwvala is filing a complaint with Competition Commission of India, and there is some phone calls as well as he hosted a conference call with analysts and made some media interactions for this providing misleading information. All we can say is those items are sub judice. We don't have anything to comment on the overall scheme of things, and we do not see it to be any relevant issue overall.
- Abhijit Sinha:** Well said. And sir, like talking about the debt of our company, it is obviously because of the merger right now. Is there any plans to reduce that? Or what is the exact plan for that?
- Nitin Sood:** The overall debt level as of 31<sup>st</sup> March 2019 is about Rs. 1280 crores when you compare it to our EBITDA for the business, it is leaning at about 2.1x debt-to-EBITDA. We think it's very reasonable for the business of our size. So, we are fairly comfortable with the existing leverage levels.
- Abhijit Sinha:** Okay, sir. And one last question is, recently with the sudden screening of Champions League in the sporting event, right, I think in the future, like Delhi and all that stuff, do you think screening more sporting events, like obviously stuff like the World Cup and all of that, that would help us in some way?
- Gautam Dutta:** Yes, we have a department or division called the PVR Live. We are constantly looking for interesting content to fill up our screens during lean periods. We are in conversation with both corporate sponsors and the broadcasters to see if some matches within the World Cup series could be screened. But these are not very, very big. And for a specific month, it could add to a certain number game. But in the overall piece, it's still not something very sizable to really talk



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home about. But these are initiatives that we keep doing to keep our audiences fully engaged with our brands.

**Abhijit Sinha:** Exactly. Do they add to the portfolio basket?

**Gautam Dutta:** Yes, absolutely.

**Moderator:** Thank you. Our next question is from the line of Keshav Lahoti of Angel Broking. Please go ahead.

**Keshav Lahoti:** What I can see from the presentation is that your new movie distributors' share for Q4 standalone decreased from 42.8% to 41.5% year-on-year. So, what is the reason for decrease in this distributor share?

**Nitin Sood:** Yes. So, typically, when movies run longer for a period of time, you end up kind of paying out lower. So, it's a variation quarter-on-quarter maybe essentially on account of that basis. And there may be some provisioning, which we would have reversed. That probably is one of the reasons. Otherwise, there is no change in our film hire.

**Gautam Dutta:** The bigger films like Uri, Badhai Ho, Raazi, they played well over third to fourth week within the cinemas, and that would have impacted this.

**Keshav Lahoti:** So, what is the share like, first week 50%, second week 45%, like what is the share, any fixed share?

**Nitin Sood:** We typically pay 50% in week one, 42.5% in week two, 37.5% in week three and 30% in week four.

**Keshav Lahoti:** Okay. Can this be possible in future in distributor share?

**Nitin Sood:** We won't be able to comment on it.

**Keshav Lahoti:** Okay. And my last question, what is the status of F&B case?

**Nitin Sood:** The matter is sub judice and pending before the Supreme Court, it's not come up for hearing as yet.

**Moderator:** Thank you. Our next question is from the line of Dhruv Saraf from Ratnabali Investments. Please go ahead.

**Dhruv Saraf:** Sir, I just wanted to ask something about occupancy. So, technically, whenever you open up a new property, does that new property have a gestation period before occupancy starts picking





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up? Or are you there from day one itself? Like is there a period? Or is it right there from day one?

**Gautam Dutta:**

No, it takes time. Normally, in our feasibility and overall, what we have seen over the last 20 years, cinema really matures over a period of about 10 to 12 months and it takes that kind of time. But in certain cinemas where the location is brilliant, it could sort of even start hitting our numbers, say, post six months onward. But largely, on average, about 12 months is a fair period to give a cinema to stabilize and get its marketing plans all worked out.

**Dhruv Saraf:**

And sir, just one more thing. So, whenever you open up a cinema into a location where there is another multiplex vis-à-vis a location where there is no multiplex, so do you find that audiences take time to convert from going from a single cinema to a multiplex? Does that take time? Or is it something else that solely has to do with this one-year period that you mentioned?

**Nitin Sood:**

Yes. So, there is a host of factors that's not just there. Sometimes you open in a shopping mall, which is not fully tenanted and the shopping mall takes time to get tenanted. That's one factor. Sometimes you are opening in a catchment, which is not fully occupied. As the essential catchment around the cinema develops more, people take time. Once you open a new multiplex, people shift from the existing cinema that they used to go to. That takes a bit of time. So, there are a host of factors, and that's the reason 12 to 24 months is typically an average period we have seen for a cinema to hit maturity level. And as said, this could really vary. It could be as low as three months to six months, and it could be as high as two years to three years. But we typically give 18 to 24 months for a cinema to hit maturity and then it normally stabilizes post that.

**Moderator:**

Thank you. We will take the next question from the line of Ritesh Gupta of Ambit Capital. Please go ahead.

**Ritesh Gupta:**

I was just looking at your Slide #15 in the presentation. There, you mentioned expenditure like-for-like has increased by 62% into quarter four and almost 42% in 12 months. So, is there something which I am missing? I mean is there any GST-related issue there?

**Nitin Sood:**

No. So, we have given a guidance in even the earlier con calls, we are spending a lot of money this year on running various projects, R&D projects around digitization, including improvement on various operating processes, etc. And we are working with the big consulting firm to help us do that. So, that's one big reason for increase in expenses. Secondly, our litigation-related expenses and expenses relating to the acquisition, etc, are also factored in there, which is one of the reasons this expense line has had.

**Ritesh Gupta:**

That is almost, on a full year basis, almost an increase of Rs. 60 crores, roughly around 50% growth.



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- Nitin Sood:** Yes.
- Ritesh Gupta:** Okay. And sir, just on the advertising side, you said that you are looking to cut down the number of minutes that you advertise. Could you just throw more color on that? I mean is it that going to impact your advertising revenues or is it pure rates will make up for that?
- Gautam Dutta:** The rates would largely make up for that. I said that in the iconic cinema only, we want to sort of balance our consumer experience at the cinema, and that's one of the reasons where we have marginally taken down marketing time. But having said that, you rightly indicated that we are also taking pricing up in these cinemas, and we feel that it will be more than compensated for that loss of time. We want to get better advertisers to pay more monies to be able to be on these screens.
- Ritesh Gupta:** Okay. And if I can squeeze in the last. What's your CAPEX guidance for next year and the number of screens you are looking to add?
- Nitin Sood:** Yes. I think our overall CAPEX this year has been in the range of Rs. 480-odd crores, and I think next year should be higher than this number. It could be anywhere between Rs. 500 crores to Rs. 600 crores kind of a CAPEX. Our screen guidance is similar to what we have kind of opened this year. We expect between 80 to 100 screens to open during the course of next year as well.
- Ritesh Gupta:** Got it. And this would be largely funded through internal accruals?
- Nitin Sood:** Yes, internal accruals. And if any incremental amount is required, then we will use debt, but largely funded from internal accruals.
- Moderator:** Thank you. Our next question is from the line of Yogesh Kirve of B&K Securities. Please go ahead.
- Yogesh Kirve:** So, if I look at the fourth quarter compared to the third quarter FY19, there has been sort of an about 10% increase in the revenues from the ticket sales, whereas the convenience income seems to have fallen. So, how does that typically work out? Or is that a reflection of the online bookings versus off-line bookings?
- Nitin Sood:** Convenience income, there should not be any material change in the convenience fee number. What numbers are you comparing, if you can make out the number?
- Yogesh Kirve:** Yes. So, it was about Rs. 31.5 crores in fourth quarter versus Rs. 35 crores in the third quarter. This is a stand-alone number.



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- Nitin Sood:** Yes. I think this is also a function of some of the way accounting needs to be done because under the Indian Ind-AS accounting standard, there is a certain way you need to account for it because you receive some of this income in advance. You need to kind of provide for it based on the way how the accounting standards requires you to straight line it. So, it could be because of that. But there is broadly no change on an annual basis since 2016. And marginally, based on attendance, it will keep changing, but there is otherwise no big reason for that change.
- Yogesh Kirve:** Anything to do with the number of days being lower in fourth quarter compared to third quarter?
- Nitin Sood:** Yes, it's possible because February has two days short, so it could also be based on that.
- Yogesh Kirve:** Okay. Sir, with regards to the Internet handling charges or the convenience fee, it keeps coming with some complaints and cases. Sir, is there any headwind given about how to look at the convenience fee or better package it so as to reduce this on the consumer side?
- Nitin Sood:** So, that is a consumer complaint which we are dealing with, but it has actually no bearing to this because what they're referring to is completely different. Internet handling fee, that the way they are claiming the RBI regulation, only applies to the fee that you were allowed to charge in case of debit and credit card transactions and nothing more. So, we don't think this has any application or any relevance to this Internet handling fee. And I think as a member complained at the start, we will present our case on that front.
- Yogesh Kirve:** Okay, surely. And sir, in terms of the CAPEX for the FY20, you spoke about Rs. 400 crores to Rs. 600 crores. So, is there any changes in terms of the mix of the screens, because the figure looks quite higher compared to the current year. So, is there change in mix as well in terms of more focus on the high-end screens or is it a function of the number of screen additions?
- Nitin Sood:** It's a function of both. While I think what the market gets to see is the screens which open, but we end up spending a lot of money on the pipeline which is set out. So, one, I think that's one of the reasons. The screens that we are setting out are quite large. And secondly is the proportion of premium screens that we are adding in our portfolio is going up, so the CAPEX for those screens is higher. And we have seen those screens deliver a much higher visibility as well as payback. So, clearly, it's a function of both.
- Yogesh Kirve:** Sir, just a clarification. So, this includes your maintenance CAPEX as well?
- Nitin Sood:** Yes, it includes everything.
- Moderator:** Thank you. We will take the next question from the line of Jaykumar Doshi from Kotak Securities. Please go ahead.



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- Jaykumar Doshi:** Just a related question. I am sorry I got dropped off in between so I may have missed this. Can you give us a breakup of how should we think about this, if we were to go with an assumption of Rs. 550 crores CAPEX, breakup between maintenance, development and premiumization? And for development, what is the CAPEX per screen as we speak today for the new screens?
- Nitin Sood:** Yes, so I think it's difficult for us to split the numbers and give separate breakup because we are doing a lot of stuff. We are doing a premiumization and upgrade program, and we are spending on digitization. We are spending on day-to-day maintenance. And then we are spending on new screens, but broadly I think two-third of the CAPEX is essentially new screens and currently because we are in the middle of this program about one-third of the CAPEX is typically towards upgrades of existing screen portfolio, which is old. So, that's the way we are looking at it.
- Jaykumar Doshi:** Understood. So, then per-screen CAPEX, can you call out the number what it is as of now? Just for the new screens.
- Nitin Sood:** Average per-screen CAPEX for new screen is about Rs. 3 crores a screen.
- Jaykumar Doshi:** Okay. So, probably similar to what it was. And in terms of your tax outgo, what would be the tax outgo from a cash flow perspective in the next year? Is it the same that you will probably be reporting on P&L or lower?
- Nitin Sood:** No, so on our cash-to-cash basis, our tax outflow will be based on MAT. MAT will be the basis for a tax outgo because we have got MAT credits, which we have yet to apply. So, from a cash flow payout perspective, it will be same as what we have been paying in the previous years.
- Jaykumar Doshi:** Understood. Now there is some first uncertainty or confusion around how the accounting will change especially for leases. So, can you provide some color and some background also? So, how will things be from 1Q onwards?
- Nitin Sood:** First, April 2019 onwards, this new accounting standard, AS 116, has got implemented and it has a big ramification for all the businesses, which are lease rental-heavy because it requires you to capitalize all your leases and then depreciate it and provide interest. You will not have any rental expense in the P&L. So, your EBITDA will go up and depending upon the stage of your lease, you will have depreciation/amortization and interest. So, to put it simply in the earlier years of the lease, your EBITDA line will look very heavy but your EPS will look lower. As you move towards the later part of your lease, your EBITDA and EPS both will look very high. This is just to put it in simpler terms. We intend to come out with a separate presentation on AS 116 explaining to all our existing investors how they should read it, what the impact on the operating P&L of the business will look like.



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Just to put things in perspective, there will be absolutely no impact on the cash flows of the business and the way the business operates, but there will be an impact on the P&L of the business, the way it is read and the balance sheet of the business because balance sheet will become asset- and liability-heavy. So, we are still in the process of the actual workings because it involves going back to every single lease and examining the lease rental payouts for the entire duration and figuring out the discounting, etc. So, we are in the middle of this and we will, before our next earnings presentation, share a detailed perspective on this accounting standard and the implications on the company.

**Jaykumar Doshi:** Right. So, if I understand correctly, essentially rental expense will move to depreciation but it'll be more or less on a straight-line basis in terms of rate on depreciation, right?

**Nitin Sood:** No, so the way it works is rental expense will go away and then you capitalize the lease and there are two, three different matters they have specified under the accounting standard on how to transition. And then essentially you straight-line the lease, but you straight-line the lease through a depreciation and interest route over the period of the lease. So, the impact on P&L is similar to what you will see in case of straight-line but it'll also bloat up your balance sheet to some extent.

**Jaykumar Doshi:** So, on balance sheet, does the leverage debt component change as per your accounting? Or net debt will remain as it is?

**Nitin Sood:** Okay. From an accounting perspective your assets and liabilities both will go up. But from a P&L perspective, again your depreciation and interest will come and replace your rental expense charge. As I said, we will do a detailed presentation on this accounting standard separately and walk everyone through the implications of this.

**Jaykumar Doshi:** Got it. And final question is more -- not just applicable to PVR but from a multiplex industry perspective. We are seeing a fair bit of consolidation over the past two, three years and you also and some of the other two players multiplexes are now fairly strong in terms of B2B negotiations. We have not seen any change in the film hire cost per se, and during this period producers started benefiting or their economics business models improved significantly given that satellite rights and digital right are sold at a fairly good rates these days. And even if I were to think about movie, in general, if I were to look at the movie contribution of week one to the overall collection of a movie five years back versus today, I think increasingly higher and higher contribution comes in the first week where you essentially pay close to 50% distribution share. So, when should we expect some form of negotiation because at this rate, at a blended basis, your distribution cost may go up maybe marginally over years if this trend continues wherein week one becomes a fairly large component of the overall collection?

**Nitin Sood:** I request my colleague, Kamal, to respond to this.



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**Kamal Gianchandani:** So, firstly, I mean it'd be not correct on our part to comment on commercial discussions, which are more between two parties. As you know, we negotiate with each producer-distributor separately so it will be unfair to comment on those distributions. But I think the larger question that you are raising is whether exhibitors should use their size and scale to command a lower film right and the answer to that question would be that the market, India as a market is still at the very nascent level. We have reached these three chains that you spoke about and even if you add the segmented smaller chains, we are at about 2,750 multiplex screens, give-and-take 50 screens. That's a very, very small number when you compare it to the developing markets or other developed markets like China and U.S. The per-capita screen capacity, which is available in these markets is at another level, at a very different level as compared to India. At this point, I think both our content creators and we as exhibitors are aligned to grow this. We want to expand this exhibition market. We want to sort of enable content suppliers to deliver bigger and better films, which don't just deliver results in week one, but which also have a long-standing -- they show for long lengths at the box office. And clearly, the strategy is working if you look at Q4. And as my colleagues earlier pointed out, a lot of films have had very long run at the box office, so this whole notion that films perform very profitably in week one and tend to taper off very quickly in week two and subsequent weeks is a notion at best. The reality is far from this notion. The reality is that a lot of films are showing for long lengths at the box office, and by long lengths, I mean six weeks, seven weeks it is that sort of a number. So, at this point in time, we are completely focused on expanding the pie, ensuring that we have more screens. And our content creators come up with bigger and better films. That's where the focus lies.

The second part of your question was that films typically do well in week one and ends on a long-term basis, the film as a percentage will go up. I mean like I mentioned just now, this is a notion but the reality is something different in terms of performing well in week one but there are films, which are performing well in week two, week three and thereafter. There are films, which are not performing well in week one, but tend to take off in week two, in week three, we also had such instances. So, we are very comfortably placed as for every film percentages go. And at this point in time, the focus is more long term.

**Jaykumar Doshi:** Congratulations on a very good quarter, and good luck for FY20.

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

**Karan Taurani:** My question is regarding the screen count, which you have guided for next year. Can you give me the breakup of that in terms of new screens for SPI and for PVR?

**Nitin Sood:** No, I think as we said, both SPI and PVR are in the middle of a merger process. Out of the new screens that we are expecting to open, about 8 to 12 screens can come from SPI portfolio that will be required and the balance screen will largely be added out of the PVR portfolio.



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**Karan Taurani:** Got it. The next question is regarding the F&B, spend per head was declining for almost two quarters and now basically it's coming back on track. So, are you seeing a trend of the prices going back to normal levels before the F&B order? And what kind of growth can one expect in the coming quarters for this segment?

**Gautam Dutta:** So, coming back to your second question first, you can expect even growth for SPH as we have recorded over the last couple of years. So, you are right, SPH growth has come back. This is largely on account of the five months where we really looked at our entire product mix and the pricing. We have not only corrected it, tweaked it for the consumer's -- on behalf of the consumers feedback that we got. So, having done that, we feel that this year, too, we will focus a lot on volume sales and try to get a lot more strike rate at the cinema. But SPH is back on track, and we are very confident that we will be able to get back to our growth trajectory.

**Karan Taurani:** Great. Just one lastly if I can squeeze in. So, what is actually the reason for you to look for ad inventory cut? I mean is it that it was impacting your footfall and you are taking this move? Or what is the rationale behind this inventory move?

**Gautam Dutta:** The rationale was simple. We have a very strong CRM program where we are listening to what the consumers are saying and we felt that there is a certain kind of consumer who believed that there should be a certain duration for the break and no longer. And we seem to be tipping slightly over that duration. So, we felt that we need to correct that and we need to possibly focus a lot more on the consumer experience around cinemas. While everybody enjoys advertising in cinema, it's just a question of how much was enough and we felt that when we were at about 18 or 19 minutes, there were absolutely no complaints and we felt that we needed to get back to the same levels. So, it is something, which we have done more proactively for keeping the long-term view in mind. And as I had answered earlier, this will not tamper our growth at all. We believe that these cinemas have a great elasticity in terms of pricing, and we will be able to charge more from the same set of advertisers.

**Karan Taurani:** Okay. So, you won't see any kind of negative impact around the pricing because of this as you said. But only one thing you said, do you have any sense that your off-screen advertisement inventory which you are having right now?

**Gautam Dutta:** No, there will be no impact at all. As I said, the pricing that we have calculated is exactly the kind of growth we want in terms of pricing in these cinemas wherever we have taken the cut and it'll more than compensate us for these two or three minutes where we have taken a decline. It's more self-discipline that we want to follow rather than anything else, and we believe that eventually we have to work towards giving consumers a better movie experience than anything else. That is our core and we don't want to deviate from that one.

**Karan Taurani:** No. I mean have you also started seeing benefits of SPI sell-ins on your overall ad growth? Has that also happened?



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- Gautam Dutta:** Yes, that has happened but not to the complete full throttle that we have planned. And even in the earlier guidance, we had said that it would take close to about 12 to 24 months for the entire potential to be juiced out, so I think we are largely on track. You already see some upward trend over the last quarter and this trend is going to only get better from here.
- Moderator:** Thank you. We will take our next question from the line of Miten Lathia of HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** Just wanted to check, would the receivables entirely pertain to advertising revenues or you have something else as well there?
- Nitin Sood:** Yes, there are some small areas as well apart from that but bulk of our receivables will pertain to advertising.
- Moderator:** Thank you. We will take the next question from the line of Trupti Agarwal of White Oak Capital. Please go ahead.
- Trupti Agarwal:** I actually have a question on the industry, and you being the industry leader, I am really very curious to know how do you look at things internally. So, what I basically want to understand and my question is slightly longish, kindly bear with me. Like I think to the previous participant, your colleague said that the screens in India on a per-capita basis when compared to U.S. and China is significantly lower in India, and that's why you see a lot of headroom in terms of growth out there. But if I see in the last four, five years the data that is available to us, the overall number of screens in India, the multiplex plus these single screens put together, that number is actually almost flattish or rather slightly declining. Now, if I believe that the occupancy has not really changed dramatically, then it could indicate that the overall footfall in the industry is almost stagnant. Coupled with the fact that if I look at the domestic box office collections of the industry, barring this year, I mean this year was an exception, but for the last four years, that has been almost flattish.
- Now, if I look at the disruption that is happening in so many other sectors, which is, let's say, media and retail, etc, and starting from like in the U.S. where we see that the footfall in the cinema goes has been continuously declining, this coinciding with the rise of OTT in the U.S. So, how do you look at this entire situation in India because we could just perhaps skip a few things that happened in the U.S. and directly jump to a particular trend, which this has happened in India and several other trends. So, how do you guys look at this whole thing? And how do you get comfort that we are still not there in terms of the trend in India?
- Nitin Sood:** Kamal, would you like to take this question?
- Kamal Gianchandani:** Yes. So, look, your first point on the fact that India has had flattish growth, unfortunately, we don't have a credible source of national-level information, which is available, so we end up





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looking at the same-store growth at our cinemas; at the same-store growth, which is reported by other listed entities; all other information, which is publicly available and our information is that the same-store growth at cinemas in spite of additional screens, and we have to appreciate that the negative growth in screen count that you touched upon is largely happening in the single screens. The dilapidated, the old model traditional single screens is modestly growing. But there is a consistent growth, which has been happening in the multiplex screens. When we look at data from the PRISM, at which we look at it, there is growth on both admissions as well as on the ticket price. The average ticket price has been growing by about 4% to 5% and the admissions have also been growing in a steady fashion depending on year, depending on the quality of films in a particular year. Admissions have also been growing by about 4% to about 7%, 7.5% this year. Essentially, 2019 has been an exceptionally good year where the admission same-store have grown by almost 9%. So, that's point number one, that we don't have credible information, but the information that we are looking at seems to be growth in admissions at this same-store level.

As far as international markets are concerned, same story. China has been growing in spite of adding so many screens maybe because of adding so many screens, China has been also growing in terms of admissions, in terms of box office in a very aggressive fashion. U.S. which is a totally saturated market in terms of screens, the box office has been growing and the admissions either go up or down depending on quality of films in a particular year. But we have long known that cinema is a cyclical business and the quality of films changes and no 2 years are alike. So, in certain years, they go down but U.S. has been bouncing back consistently every year. When it's gone down by 2%, 3%, it bounced back by 3%, 4% in the next year or the year after that. So, that's the answer to your first question.

The second is this belief that OTT is causing a lot of damage to theatrical experience in markets like U.S. and would do so in markets like India. Why? I mean there is no way to predict future, but if you look at the current year financial year '19 numbers, a year in which OTT players like Netflix, Amazon and multiple host of other players like Z5, Hungama, Jio, in a backdrop where OTT players have invested tremendously in content both acquiring professional content, which is movies from producers as well as releasing a lot of films as original films which bypass the theatrical circuit totally.

And lastly, the mainstay, the original series, a lot of money and effort is being invested by OTT platforms in these three categories of content. And in fact, financial year 2019 was a very aggressive investment cycle for all OTT players. In spite of that aggressive investment as well as marketing cycle, cinemas have seen the best financial year that we have had in the last one decade. In fact, the Q4 of financial year 2019 has been the best Q4. Typically, Q4 is the slowest but this Q4 has turned out to be the best quarter amongst the four quarters in the last financial year.



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So, when you look at data, the signals are very different. Signals are that both cinema going as well as OTT viewing are coexisting and in fact are feeding on each other. And the reason I say they are feeding on each other is when you look at feature films, you have a lot of these franchises. So, when you have Avengers coming out, the Endgame coming out, a lot of people who had not seen the earlier parts of Avengers got to see it on OTT and those were the first people to come in, watch Avengers Endgame in cinemas. So, when you missed out a part of a franchise, you watch it on OTT, that creates that virtual appetite for the next edition that's coming out. And when it comes out in theaters, you are the first one to queue up on pvr cinemas.com or BookMyShow or Paytm to book tickets or walk into a theater and purchase it from the ticket box. So, that's one clear benefit, one clear synergy between OTT and cinemas and may be that's the reason they're feeding off each other.

The other is that OTT has become another revenue stream for producers and producers, in addition to exploiting films on theatrical circuit, television and many other formats, now have another robust revenue stream from OTT. And of course, whatever comes into the kitty of producers ends up getting reinvested in bigger and better films. And this augurs well for cinemas. The cinemas ultimately are looking for films, which are better in terms of quality, which are bigger in terms of kill. People audiences get to watch something, which they've not seen, which is larger in life, which they've not seen earlier in earlier films. All of that is happening and I think OTT is playing a contribution in that. So, that's the second synergy that one can observe between OTT and cinemas that OTTs are creating a positive cycle by becoming an additional revenue stream for producers. And that one is getting reinvested in bigger and better films.

So, from the vantage point that we have when we look at data, we see more similarities, more synergies between the two platforms than opportunities to cannibalize each other. Frankly, U.S. which is a mature market has also not seen a lot of cannibalization in spite of all the media chatter on the fact that OTT is going to kill theatrical business in mature markets like U.S., theatrical business is only gaining strength. I mean when you look at Avengers Endgame numbers, these numbers are unbelievable. I mean it was literally impossible to imagine that a film would sort of garner this sort of a box office in such a ferocious momentum. So, I think answer to your question, the second part of your question that OTT is having a negative effect, data is not giving that signal. It seems to be supporting that both are feeding on each other.

**Trupti Agarwal:**

So, just on this point, so what would be the lead indicator, what would be the data, which would start worrying you? Is there something that you would watch out for in the trends where you would see that because, as you said, that these players have invested aggressively but then they are also talking about that kind of aggression for years to come. They have deep pockets and they have very big ambitions to keep investing that kind of money, both in terms of promotion as well as content development for the years to come. So, do you think that there



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would be something, which could be an indicator to you that these are cannibalizing each other at some stage?

**Kamal Gianchandani:** Look, some of these are imaginary signals, imaginary problems. We believe this positive cycle between OTT, television, theatrical consumption will continue to coexist. India, in any case, is in a very different phase of product life cycle. At this point, almost every segment of content consumption, content viewing is growing. People have a huge appetite to consume content. You have to appreciate smartphones are gaining traction and they have gained traction only in the last two or three years. So, at this point in time, the market is exploding. I mean people want -- there is this huge unsatisfied demand for content. I mean what signals we would be looking at? Of course, the most important signal is the same-store growth and the overall admissions at the cinemas. That is the most important metric that we look at. We will continue to look at that very closely. But I think the important thing is to realize that a lot of these services are complementary to each other and once we sort of once we look at these services from that prism, once we acknowledge that there is a positive cycle at play between OTT and even television and cinemas, then I mean, whether OTT is spending more or they will continue to invest more over the next three, four, five years, these elements will not bother us. If it's a question of a subtle shift in mindset and we believe that as cinemas continue to perform well, there would be a subtle shift in the mindset, people will see it as these services as complementary rather than each one trying to cannibalize each other.

If at all, there is cannibalization, we believe that cannibalization will be between broadcasters and OTT because of similarity of content in the sense what I mean to say by that is that OTT does a lot of original series and that's been the strong point of television. Television has also been always strong on original series. So, if at all there is cannibalization or shifting of audiences or cutting off cord, that would be between cable, pay television and OTT. But as far as cinemas are concerned, we don't believe there is, at least at this point in time, any cause for worry. And going forward, we think this chapter on OTT trying to cannibalize cinemas would sort of come down significantly. In fact, it will turn into a positive chatter of these two being complementary to each other.

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

**Rohit Dokania:** I have three quick ones. One is can you talk about whether the convenience fee agreement has also been done for SPI as well with BookMyShow and Paytm?

**Nitin Sood:** Yes, they had already an existing agreement with BookMyShow and Paytm. That already exists, yes.

**Rohit Dokania:** No. But the new one, which you had signed, has been sort of transferred to...



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**Nitin Sood:** Yes. So, they had originally a three-year agreement with BookMyShow and Paytm. We don't need to sign any new agreement.

**Rohit Dokania:** Okay. Perfect. The second one was can you talk about the proportion of premium properties in FY19 and how that has moved over the past two years?

**Nitin Sood:** Yes, premium properties or premium screens?

**Rohit Dokania:** Yes, premium screens.

**Nitin Sood:** So, overall, total number of premium screens in our format right now is about 76 screens. And if you look at, I think this data is referring to almost 10% of the total screen count of the company. I think in the next three years, the one from 10 percentage will move to a 15% or so over the next few years because what we are increasingly finding in some of the catchments where we built cinemas several years ago, those catchments have moved up the income levels in the facility levels have moved up, so those catchments are ready to pay more for a better quality experience and some of these upgrades have taken place. For example, we have just renovated a property at Phoenix Mall Lower Parel and relaunched it at this weekend as PVR Icon because we believe that the catchments there is ready to pay more for a better experience. So, similarly, I think we will consciously do these upgrades and also in some of the new properties that we are opening, we are doing larger-format screens. We have the ability to do -- introduce some of these premium format screens.

**Rohit Dokania:** Okay. That's great. So, obviously you did allude to the fact that you will come out with a separate presentation on the accounting changes. I was just wondering, can that have any impact on our debt cost, I mean interest cost because if, let's say, that debt goes up on the balance sheet, how will the rating agencies look at it in terms of covenants, etc? Will you be in a position to answer that question?

**Nitin Sood:** So, I think slightly premature to answer that question because there's an accounting standard that will apply to the entire country and not just to us but to across all industries and specifically companies in retail, airlines, aviation, everyone, a lot of these companies will have this impact. I personally don't think it should have any impact or bearing on the debt cost, etc, the way it will get viewed by the rating agencies because there is no change in the cash flow of the business and how we run and operate it. But I think it is slightly premature for us to comment on the same.

**Rohit Dokania:** Sure. Understood. And just one last question from my side. You guys would had taken an approval for sort of an equity raise. Could you please comment as to what stage it is in?



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**Nitin Sood:** Yes. As I said, it's an enabling approval and we haven't either decided the quantum or the timing of that. But that approval is valid for 12 months, so we will see during the course of the year and take a view on that.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

**Nitin Sood:** Yes, I just wanted to thank everyone for taking out time and attending our Q4 earnings call. One of the important highlights, which I missed to mention during the course of the call in my opening remarks is that we publish our ROCE analysis on our business every year. And I think like all the previous years, we have done that the same as part of our investor update, which continues to show I think the overall strength of the business and reflect that across the portfolio of screens we continually deliver a very healthy ROCE. And that's the broad reason we continue to reinvest in India where we see huge opportunity for growth.

I leave it at that and if you have any follow-up questions, feel free to reach out to me or my Investor Relations team and we will be happy to address any specific queries that you may have. Thank you, everyone.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.