



“PVR Limited  
Q2 FY2020 Earnings Conference Call”

October 17, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the PVR Limited Q2 FY2020 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jaykumar Doshi from Kotak Securities Limited. Thank you and over to you!

**Jaykumar Doshi:** Thanks Steven. Good afternoon everyone. On behalf of Kotak Institutional Equities, I welcome you all to PVR’s 2Q FY2020 Earnings Call. We have with us Mr. Ajay Bijli, Chairman and Managing Director; Mr. Gautam Dutta, CEO; Mr. Nitin Sood, CFO; Mr. Kamal Gianchandani, Chief Business and Planning and Strategy Officer and CEO of PVR Pictures; Mr. Rahul Gautam, SVP Finance. Over to you Mr. Bijli and many congratulations for an excellent quarter.

**Ajay Bijli:** Thanks very much, Jay. Good afternoon everyone. Thanks for joining this call. I will just give a brief summary of our results.

The consolidated revenues for this quarter ended September 2019 were Rs.979 Crores as compared to Rs.715 Crores during the corresponding period last year witnessing a growth of 37%. The consolidated EBITDA for the quarter was Rs.324 Crores as against Rs.130 Crores in the same period last year witnessing a growth of 149%. EBITDA margin for the quarter was 33.1%. Consolidated PAT for the quarter was Rs.48 Crores as compared to Rs.35 Crores during the corresponding period of last year.

After adjusting for impact of Ind-AS 116, leases, consolidated revenue, EBITDA, EBITDA margin and PAT of the company would have been Rs.979 Crores, Rs.201 Crores, the margin would have been 20.5% and Rs.66 Crores respectively. This would represent revenue EBITDA and PAT growth of 37%, 54% and 86% respectively.

Box office revenues for the quarter were up by 32% from Rs.492 Crores to Rs.374 Crores, with 25% growth in admits. F&B revenues were up by 38% from Rs.270 Crores to Rs.195 Crores supported by robust SPH growth of 12%. Advertising revenues witnessed robust growth of 16% increasing to Rs.94 Crores up from Rs.81 Crores of last quarter.

During the quarter, Honorable National Company Law Tribunal, NCLT, New Delhi, vide its order dated August 23, 2019 had approved the scheme of amalgamation from merging SPI Cinemas Private Limited into PVR Limited from the appointed date of August 17, 2018. So during the first six months of the current financial year, company has expanded its screen portfolio by adding 42 new screens across 8 properties and now we operate a network of 800 screens, which is a big milestone for the company spread over 170 properties in 69 cities across



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the country, making PVR the first and the only company in India to cross 800 screens milestone in India.

The quarter has also been very successful from operation perspective with business delivering highest ever footfalls with all other operating parameters witnessing robust growth. So despite the general economic slowdown in the performance of the business for Q2, the Q2 has been very good, supported by a very good content performance as well. We are excited about the future growth opportunities for screen expansion in India and continue to invest significant capital to expand our screen network and provide innovative movie watching experience to our consumers. Thanks very much and over to you Jay now.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, congrats on very good set of performance. My first question is we are seeing robust performance from you and the other players also in this quarter, so how much of this is because of the general economic slowdown or would you attribute most of this to the strong content, why I am asking this is, the slowdown could continue for much more time so does it mean that the robust performance expectations will continue, this trend is not visible just in India this is visible globally also that whenever slowdown happens the box office performance is good?

**Ajay Bijli:** Generally, it is obviously said historically that people want escapism, they want to go away from their daily drudgery, but I would not attribute everything to the fact that there is a slowdown in the economy and that is the only reason why business is performing. It is really taking away all the credit from a couple of things, one is the appetite for people to watch movies in India continues to remain very, very high, second is that the content pipeline that is also very good. We do make the maximum number of movies in quantity, but even in quality now we are seeing that Indian movies are connecting very well with the audience so somewhere there is a big change in the content as well and the third in all humility, I think PVR has also done a good job in creating a circuit, which is very reachable and creating a consumer experience, which is very different to anything else in which people can consume movies. So I think all these three factors have also played a key role in making sure that we are able to maintain this performance. So I do not see if all these three things are not going to change overnight and hopefully we will continue to see this performance going forward as well.

**Abneesh Roy:** Right. My second question is in terms of number of screens is there some closure in West and North because I think in West there is four lesser screens and North around seven is that true?

**Ajay Bijli:** No, there is no closure. It is just that we go by wherever we can get great locations and some old malls.



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**Nitin Sood:** No. I think Abneesh, you are comparing it to some previous quarter, there are some reclassification of screens we have done, I think because of that it is reflecting some screen smaller in North versus West, but there is no big change therein. We have not closed down any screens specifically in the previous quarter.

**Abneesh Roy:** So it is area of reclassification.

**Nitin Sood:** Yes.

**Abneesh Roy:** No. It was region, which seems to have changed. So any reason why you are reclassifying the regions?

**Nitin Sood:** We had some internal reclassification in terms of people responsible for running those P&Ls, so accordingly those screens have been moved around in region. So there is just no closure, it is just a realignment of screens between North and West.

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

**Urmil Shah:** Congrats on the strong performance. I had couple of questions. One was, given the ad performance in Q2 what is your expectation of ad growth for second half and so the full year?

**Ajay Bijli:** Yes. I think it is difficult to give any specific guidance on numbers given the environment that we are in, but advertising performance clearly I think we have outperformed generally what is happening in the market because of, I think, the long-term partnerships, which we have with various clients and some innovative deals that we are doing as the brand becomes larger. We are reasonably confident that we will continue to grow at a healthy pace even in H2 over last year. It is tough to put an exact number on the specific commentary, but we are reasonably confident that we will continue to show growth over what we did last year.

**Urmil Shah:** Sir, but would it be safe to say that a double-digit growth for the full year would really depend on how the festive season pans out, otherwise it would be challenging?

**Ajay Bijli:** No. If you look at the growth now also, as I said, there is no one silver bullet due to which growth comes, it is a number of factors; one is of course the content pipeline, which continues to look very strong even in the way the third quarter has started. Second is really the way the kind of demographic profile that we are attracting in our cinemas that continues to remain the way it is, the number of people who visit our cinemas, so advertisers look at all that and of course the way our circuit is spread across the country, most of the advertisers want their goods and services or products to be advertised on PVR screens. So I do not see any of these things changing as long as the pipeline remains strong, which as I said is looking strong, so there is something that is happening that whatever content makers are creating just now, they are connecting with the consumers.



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**Urmil Shah:** Sure. Sir, next question was both from FY2020 point of view and more long term also. Given that we are halfway through, we have crossed the 50% of the targeted screen ads, how does the second half look and last time we did the caution that maybe in FY2021 poor organized retail can impact the screen addition, so any commentary on that would be helpful?

**Ajay Bijli:** Well, we have already opened 42 screens up to the first half and now we have some very big cinemas coming up. We have a project in Dwarka, which will be the largest cinema in Delhi, which is in Dwarka 12-screen complex is coming up and we have another 9-screen coming up. Then we have quite a few, we think that we are on track, we have done 42, and we feel that another 50, 60 should be okay to open this year as well. So all the slowdown that has happened we have been very careful about choosing our developers and developments, and I think we should be okay.

**Urmil Shah:** Sir, and moving for FY2021 and beyond?

**Ajay Bijli:** We have over almost 120 odd screens that are under fit out and that we have been very careful in choosing those developers, those developments, who have the ability to be able to finance and fund their malls, get the right tenancy mix, so this kind of growth, 80 to 100, is roughly that we will be seeing in the next year as well.

**Urmil Shah:** Sure. And then last bit, if I may, bookkeeping one, the right-to-use assets, the value has declined as compared to the March number. If you could just make us understand the reason?

**Nitin Sood:** Yes. I think in Q1, the auditors had done a provisional assessment. In Q2, I think with the new leases added including what we have opened in the first half of the year, they have done a reassessment and I think based on that reassessment this is the right-to-use asset that they finally come out with. So there are interpretations that we have assumed on how to set right-to-use assets so this is the big change that has happened. So you would notice that, I think, even the depreciation and interest provision during this quarter is slightly lower than H1 because that is based on the final assessment that they have done based on which we have now published those numbers in a final provisional balance sheet and cash flows that have come up.

**Urmil Shah:** Sure. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

**Vimal Gohil:** Thank you for the opportunity Sir. My question is a related one to Urmil. Sir, if you could give me a comparable number for June 2019 as well for right-of-use and lease liabilities please?

**Nitin Sood:** We do not have that number. You can look at that number in the Q1 presentation. It is appearing in the Q1 presentation.



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**Vimal Gohil:** Yes, but you said that there has been some change in the interpretation or there has been some reassessment done?

**Nitin Sood:** Yes. That was a provisional assessment that was done by the auditors and on a half yearly basis they have done a final assessment because they need to certify the balance sheet as well apart from the P&L. So the right-to-use asset is again a function of how do you capitalize your leases over what lease is done and that is based on estimated useful life. So they have reassessed the estimated useful life of the balance leases based on which this computation is done. I think that number in terms of lease liabilities has come down marginally over what it was calculated in March based on the revised assessment that they have done.

**Vimal Gohil:** And Sir, theoretically, these numbers should go up, right as long as you keep on adding screens?

**Nitin Sood:** Yes, but they will keep going down for existing screens, and they will keep going up for the new screens, so it is very difficult to do a computation to say what will it look like in each quarter because every quarter the existing leases are reducing in terms and the new leases are increasing in terms.

**Vimal Gohil:** The older lease will get renewed as well.

**Nitin Sood:** Older lease is x period of years so typically in the 50% of the first initial period of the lease you have a higher charge to the P&L and when you hit the later part of the lease you have a lower charge to the P&L, so as existing leases has crossed 50% of their lease they will become a lower charge in the P&L on account of that and for the new leases it will be a higher charge initially, so it is difficult to estimate and quantify a projection of this number on a quarter-on-quarter basis or a year-on-year basis.

**Vimal Gohil:** Fair enough Sir. Thank you so much and all the best.

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

**Keshav Lahoti:** Congratulations Sir on a great set of number. I just wanted to understand how the screen count is moving in the industry like in the last one or two years whether the total screen count in the industry have increased, decreased or more or like it is flat. It will be better if you can throw some light how is it moving region wise and how the screen count looks in future also?

**Ajay Bijli:** See on a macro level India continues to remain very underscreened. Obviously there are very normal examples and comparisons that are done to the U.S. and China and various other countries where movie going consumption is very high. So I think we are really at the tip of the iceberg. We still have a lot of potential to increase screen count. Of course one leg of the business that we do is with the real estate sector, but despite the slowdown there are some very



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top quality developers in this country who are still building malls because even the retailers need expansion there are new retailers who are coming. So I think roughly I would state still about 250 or 300 screens is something that India would still see growing amongst all the top players that is some of the new players in the smaller towns who have come up so I think that kind of number will be there and also you have to see that even if some single screens are closing down the overall box office revenues will still increase because in the multiplexes the ATPs are higher than single screens and obviously they are newer with better technology, better facilities, so even the occupancy in multiplexes are higher than they are in single screen. So even though there could be some reduction in single screens than addition in multiplexes, yet the overall box office will increase. It will be spread all over the country; there is no one area where more multiplexes will come compared to the other. Yes, smaller towns have also started seeing some penetration. Our own brand itself is expanding very rapidly, which is in Tier-3 towns, so you will see that it is not only rural and urban phenomena, it will be urban, semi-urban and rural, so you will find the growth will be roughly that much that I have said about 250 to 300 screens per annum.

**Keshav Lahoti:** Okay. Thank you. How many screens you have in the pipeline like signed agreements of the total screen?

**Nitin Sood:** We normally do not disclose that number in terms of what our future pipeline of screens is. We can only give a kind of estimate of what we are opening, but we have quite a large pipeline of screens, which we have signed up for development.

**Keshav Lahoti:** Okay. One last question from my side. If I see quarter-on-quarter on standalone basis your other expense and employee benefit expense have reduced slightly just wanted to get deep understanding why these expenses have reduced like total screen count is increasing, so employee benefit expense should increase you will have more people so just wanted to understand this?

**Nitin Sood:** Yes. You are comparing it to Q-on-Q?

**Keshav Lahoti:** Yes, quarter-on-quarter.

**Nitin Sood:** In Q1, we had some one-off expenses especially in other expenses because of new property openings that we have seen in Q1 plus we had restarted our flagship property in Mumbai where we had spent some sort of capital to relaunch it and that is why the other expenses are going down. In Q1, I think, we had some additional provisions for - in employee costs as well with some additional incentive provisions being made and that has reduced.

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

**Moderator:** Thank you. The next question is from the line of Rajeev Sharma from SBI Capital. Please go ahead.



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**Rajeev Sharma:** Thanks for the opportunity. Just a couple of questions from my side. Firstly, there has been lot of discussion about your premium properties so just wanted to understand how is this premium game being played, what is the number of properties which have premium and incrementally what you are adding, will you maintain that same ratio and what will be the revenue contribution from these properties today and where do you see it from a two to three-year perspective and lastly you just mentioned that India is underscreened and across all 250 to 300 screens could be added so is that the maximum potential you see or you believe that is the two-year number after that there will be scope for more?

**Ajay Bijli:** No. As I said, if you compare it to US and China, US is at about 40000 odd screens. China must be about 55000 screens so that is why I was saying that we are grossly underscreened from that point of view and India is a very heterogeneous market it is a disparate market, you have a consumer at every price point, so therefore there will be Utsav type screens, which we will be doing, which is where the ticket prices will be like Rs.100 around and then you will also have some very premium Luxe and Director's Cut type screens where the ticket price can be as high as Rs.800, Rs.900. So the company is committed to giving a solution to watch movies outside of their homes, get that big screen experience at every price point so there is no magic like a set formula that okay, overall if we have got 800 screens and today the number fixing at, the 10% of our screens are premium, but it will always remain, it can be high, it can be low, but our idea is that we create a premium offering wherever we are. Even at Rs.100 is a premium offering, even at Rs.1200 or Rs.1000 is a premium offering. Wherever we will get opportunity where the real estate development is of a high quality it is a location-driven business. The mall is good, we will go there and the only other trigger that can increase the pace of the screen count will be real estate. I think if more real estate is available, quality real estate and the real estate sector is doing well and they are making more and more malls. Retailers like you just read about Uniqlo they have come like that there are so many retailers, IKEA, who are still not in India, they do not have a very strong presence. When they come again the growth gets impacted positively. I have given a number of 250, 300 screens with the current scenario, this easily can be speeded up, even the government has taken a very good view of increasing screen count in India so it is current number, the pace can easily increase.

**Rajeev Sharma:** And how much of your revenues would be coming from premium properties today, ballpark again just given that you have to play between Utsav and premium, where do you see the ATP growth from structural perspective in the medium term, 5% CAGR is a good number to assume or one should just built for flat given that there are push and pulls like low end so how should one see that?

**Nitin Sood:** Yes. First of all, I think, the premium screen portfolio contributes roughly 10% of our screen count and approximately a similar number to our revenue contribution. On your question of ticket price growth, I think, we have seen ticket pricing growth effectively should happen in all markets. There is no one thing to say premium screens will grow higher ticket price growth and smaller screens will not see ticket price growth. So I think as long as you build a great product at





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the right location our experience is you will see ticket price growth and I think if you look at the last four, five years, our average ticket price growth has ranged between 5% and 6%. Our long-term guidance is, there is no reason why it should not grow at a similar nature until really the inflation comes down drastically it is a separate issue, but our sense is it should grow in a similar range.

**Rajeev Sharma:** That is very helpful. Thank you so much.

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

**Ankur Periwal:** Congrats for a good set of numbers. First Question on the advertisement, now while 16% ad revenue growth looks encouraging in this environment, but if I look on a per screen basis obviously there is a de-growth, so my question is whether is there any trend that we are seeing maybe bigger national advertiser is cutting out or let us say reducing their spends versus the local or the regional ones, if you can put some light over there?

**Nitin Sood:** I think per screen revenue while it is a long-term right benchmark to look, but we have opened in last 12 months about 100 plus screens. It takes new screens about 12 to 18 months before the advertising revenue can really ramp up. In the first 12 months of opening advertising is the last piece, which actually takes off in a property so the average looks smaller because of that. Secondly you are right that there is general pressure on advertising spends by corporates and while it has impacted a lot of other industries we have managed to deliver a decent growth in spite of that challenging environment so we are still confident that, I think, we will be able to continue to grow over what we delivered last year. It is difficult to predict in this environment what number will look like, but we are reasonably confident that cinema advertising will continue to remain the key because cinemas are doing well, we are attracting good amount of footfalls, movies continue to do very well on the ground, so that will continue hopefully during the balance half of the year.

**Ankur Periwal:** Sure. But Nitin, any specific sector or segment wherein you are seeing some slowdown happening across given the content has been good still, so is there any specific sector or companies or segment wherein probably the spends are lower or it is generally the trend across?

**Nitin Sood:** With digitization, you are not necessarily dependent only on sectors and you are not necessarily dependent on just national sponsors. A lot of local companies who only want to advertise in local also start advertising with digitization. You do not have to make those big 70mm celluloid films anymore. So we always find that there are and we have a limited inventory of time anyway. So we are quite okay even if one sector is not advertising, but as I said, it has got its own unique place in the media planners mind cinema, which is like a completely focused attention on the big screen and the demographic that PVR is able to attract and the movie content pipeline doing very well, I think we are finding that even if one or two sectors do not do well we still get enough advertisers to fill up the number of minutes that we are looking at.



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**Ankur Periwal:** Sure, sure. That is helpful. Secondly on SPI now if I go back to our interactions, you did have mentioned ad revenue has a significant potential there from SPI perspective to be rerated and bringing it at part let us say PVR's yield now that impact is already visible in the numbers or we will further see improvement over there?

**Nitin Sood:** Yes. I think you will see further improvement. South unfortunately has been a slow year. So while all the box office growth that you see this year seems very strong. I think the slowest segment between North, West and South has been South this year. The local language films have not done as well as compared to what Hindi and English have done so we expect South to fire up in terms of box office performance in second half of the year. Also, I think, advertising because of box office being slow will also take off along with box office, but you will see big gains in SPI this year, but much bigger gains I think, this advertising piece will continue to grow in that part of the market, even next year as we are integrating the full circuit.

**Ankur Periwal:** Sure and lastly on the screen additions bit. Now obviously we have increased the run rate what we used to witness maybe two, three, four years back versus now wherein we are more like 80-plus range on annual basis. From a company perspective, how long do we have a visibility because where I am coming from is given the current macro there is a potential that mall development may slow down as well, which may not cancel these, but can sort of slow down the new screen rollout coming in, so this 80-plus screen additions may be looking good from a one or two-year perspective, so what is our visibility over there in terms of time lines?

**Nitin Sood:** No. We are finding that the mall slowdown is not going to happen. This kind of growth of 80 to 90 odd screens will continue to remain. As I have answered in my previous question, there are a lot of international large funds like Blackstone, like Xander, the Canadian Pension Fund, I mean, all these people are looking at some very good assets. They have tied up with very big reputed developers and they are giving that essential expertise as well as financing to make sure that the pace does not, at least good quality malls continue to get built. So I do not see any stress there at all in fact it can only improve from here on and there would not be any de-acceleration here.

**Ankur Periwal:** Sure. That is encouraging. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

**Jinesh Joshi:** Thank you for the opportunity. Couple of questions. First on the advertising front, basically, what I want to know is that what proportion of our ads typically come from outside media planners and how are the incentives built to them accounted for and also if you can just help me understand whether the rates given to the customer by our in-house sales team and outside media planners are they the same or do they vary?



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**Nitin Sood:** They are the same, and it does not vary at all, but when you say outside media planner, what does that intend?

**Jinesh Joshi:** We have an in-house sales team, right, which will get ads for us, which will be displayed in our cinema and there would be certain third-party media aggregators with whom we will interact with and we get ads for our cinema. So we might pay some incentives to them to display the cinema in our circuit?

**Gautam Dutta:** So we do not work on that model. We do not pay any incentives to any aggregators. We sell media inventory because media is a perishable commodity. Our team decides what is the right price for a certain ad at a certain location and we price our ad inventory to our internal pricing model. Beyond that we cannot tell operating specifics.

**Nitin Sood:** So the revenues that you see are all net of any payouts being made to on any accounts, whether internal or external.

**Jinesh Joshi:** Okay and Sir secondly I understand that the ad rates vary as per location and the perception of the movie, but just can you share what is the average yield per 10 seconds that we typically fetch in our circuit?

**Nitin Sood:** No, we will not want to share that that is operating data. We do not want to share operating data on our advertising fees.

**Jinesh Joshi:** Okay. So one last question on the tax front. Since we have decided to pay the tax as per the regular rate and have decided not to go for the lower rate our taxation for FY2020 and 2021 will be in the region of 35%, right, as far as the P&L is concerned?

**Nitin Sood:** Yes. So see, effectively, our average tax rate is up 20% on our cash tax outgo because we have lot of eligible MAT credits, so as and when we will exhaust the MAT credit we will move to the new scheme because our effective tax rate today is below 20%. Yes from accounting perspective till the time we are in the old regime we will have to provide for deferred tax and accordingly provide for a 35% tax, but that should get over in next couple of years once we exhaust our MAT credit entitlement.

**Jinesh Joshi:** Okay Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

**Swagato Ghosh:** Thanks for taking my questions. Sir, if I look at your segmental results, so there is a one-line item, which is others, which includes movie production, distribution, gaming, that has seen a jump this quarter can you please explain why?



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- Nitin Sood:** Yes. So that is largely a large component of that is our VPF income and I think VPF income is a function of number of films released during the quarter so that could be one big reason for the increase.
- Swagato Ghosh:** Okay. So you are saying that because there were more number of movies released this number has gone up is that a fair way to look at it?
- Nitin Sood:** Are you talking about which specific line item are you referring this to?
- Swagato Ghosh:** I am looking at your results release, segmental revenues. So outside of movie exhibition, there are these others, which according to your definition include movie production, distribution and gaming.
- Nitin Sood:** Okay. So you are referring to the SEBI results. So in that, reason for that increase is increases in PVR Pictures revenue on the film distribution where we have distributed a lot of local Hindi content this quarter and that is the main reason for the increase in revenue.
- Swagato Ghosh:** And can we expect this to continue at this level?
- Nitin Sood:** Yes, I think, yes. We are doing a lot more active Hindi film distribution and that will continue at this level during the rest of the year.
- Swagato Ghosh:** Okay. Which are the movies we were distributors to this quarter?
- Kamal Gianchandani:** One of the big successes we had in Q2 was Super 30. In addition to that we also released Batla House on August 15, 2019 that is also a hit at the box office and the other film, third film that we released was Saaho, which was a Tamil version in Tamil Nadu that did reasonably well for us. So these are the three main films, but in addition we also did Rambo, Angel Has Fallen. So there were a lot of Hollywood films, which also got released in Q2. It has been a fairly productive Q2 from distribution perspective.
- Swagato Ghosh:** Understand and Sir margin on this set of revenues would be how much ballpark numbers would be okay, percentage margin?
- Kamal Gianchandani:** We look at this business and we encourage investors also to look at this business on a full year basis because the release dates and performance of films changes from film-to-film basis. In terms of overall margin, as far as the operating margin is concerned we expect PAT to be somewhere between 5% and 7%. You have to also acknowledge the fact that this is a working capital business since we are operating PVR Pictures, the distribution business at a fairly low capital base so the return on equity in that context is fairly.



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**Kamal Gianchandani:** It is like a low margin, but high turnaround business. So we look at this business not in terms of profit margin because profit margins will look lower, but more on about return on how much capital that we have invested.

**Swagato Ghosh:** Understood. That is fair and Sir second question is I just want to understand during good quarters like the last one, do we have more space to push more time like more minutes of advertising, like when a movie is doing well can we push more minutes into the screenings because the general sentiment is good or how should we think about it?

**Gautam Dutta:** First and foremost we are guided by a certain policy that we have dictated, which keeps in mind the consumer experience, but having said that there would be always certain weeks with certain films that we do have more time. Still there are areas which could be exploited much beyond the onscreen. So our teams do not just look at onscreen space and time, we are now seeing offscreen and sponsorship is also a driver for revenue, so to be more specific to your point, yes, there is time and yes even if we are running full house in terms of advertising with some big films in the first week, by the second week we definitely get time on those same films as we move forward.

**Swagato Ghosh:** Okay and Sir currently offscreen would be what percentage of our advertising revenues?

**Nitin Sood:** Currently it is about 10% odd and has a huge potential to grow.

**Swagato Ghosh:** And Sir, two years back, the 10% number would have been how much?

**Nitin Sood:** Should be in the vicinity of about 5%.

**Swagato Ghosh:** Understood and Sir one last question from my side. This week sees the release of a Netflix movie, I think this is first of its kind drive, which has certain big Bollywood stars versus theatrical release the pipeline is not that good, so do you think this would be sort of litmus test for the theaters in India per se that how can they cope with OTT movies based on what we see in the next two, three days?

**Kamal Gianchandani:** I will answer the second part of your question first. The lineup for this quarter, October specifically, is fairly attractive. We have started the month of October, the third quarter with a bang, War, the Telugu film, in addition to that Joker all have done unprecedented business at the box office and continue to show great legs. So this success will be sustained till the Diwali period and on 25<sup>th</sup> we have got Housefull 4, a very, very successful franchise. Housefull 3 by the way was also a big success and thereafter we have got slew of films week after week. So we do not see any disruption or any problem with the release schedule. The number of films, the quality of films, the curiosity around the films remains at peak. We are having one of the best years on the back of a year, which was enormously successful in fact the best year that we have seen in the last 10 years, I am referring to the last financial year so that is answer to one part of your question. The second is, this is not the first time it is happening Netflix and other OTT players



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have shown films direct on their platforms. OTT is a new concept, but before this there was DVD, before this there was the concept that was spread to television. The point I am trying to make is that multiple platforms is actually good for business. There is a positive cycle between multiple platforms and the benefit that accrues to cinema because ultimately these platforms are investing money in film business and producers have another way to slice and dice their content, get more revenue for the same film and that money gets reinvested into making bigger and better films. So firstly, it is not a new concept and secondly in a counter-intuitive way it is actually a big positive for film business.

**Ajay Bijli:** And to add to Kamal's point, I think this debate of saying that it fits in our business size only because of content something which we have been really debating because how multiplexes have evolved, it is all today about an out-of-home experience. We are saying we are more about experience, we are more about bonding, we are more about memories that we are creating at our cinemas. Yes, of course, the reason being content, but content alone is not the reason. So if somebody was to say that all content will be available in OTT, believe me, consumers will not be that happy simply because they do not want to sit at home all the time and be watching movie. So the need for people to get out and entertain themselves is something which is more fundamental to our business. So we have actually stopped calling ourselves to say we are just in the business of showing movies, we are in the business of entertainment and that is really what it is.

**Swagato Ghosh:** Got it. Very helpful Sir. Thanks a lot.

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

**Darpan Thakkar:** Thanks for taking my question and congrats for very good result. My first question is for comparable properties, employee expense has gone up by 18% is there any one-off there?

**Nitin Sood:** Yes. There are some one-off expenses in this, but there has also been some minimum wage increases in a couple of states like Delhi and Bengaluru, which has got impacted here so that is reflecting in this.

**Darpan M. Thakkar:** Okay and on advertisement front, if we exclude SPI Cinema advertisement, what will be the growth rate there if I am not wrong it will be somewhere around 8.9% for PVR standalone?

**Nitin Sood:** See, we have given SPI numbers separately. SPI total revenue is about Rs.9 Crores out of the total advertising revenue of Rs.93 Crores, Rs.93.5, Rs.94 Crores so if you exclude that, you can calculate the growth. It will be about 8%, 9%, yes. Overall growth will be about 8%, 9%.

**Darpan M. Thakkar:** Yes, correct and screen for PVR only has increased from Rs.643 Crores to Rs.725 Crores, right 12%, 13%?



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**Nitin Sood:** Yes. 72 or 75 are SPI screens and the balance is PVR screens, so they have combined, it is now 800 screens.

**Darpan M. Thakkar:** So basically, for standalone, only PVR screen growth rate is at 13% and advertisement growth at 8% to 9%, so 16% jump is because of SPI you have been able to do increase the advertisement rate per screen there that is showing in this quarter. So from next quarter do you think this advertisement growth can go in single digit again or you will be able to maintain double-digit growth there?

**Nitin Sood:** As I said, first of all, I explained earlier that average per screen growth number is a relative number because new screens advertising is the last piece to catch up because till the time screen do not start attracting footfalls and do not grow up in value they do not become part of advertisers plan so typically new screen ramp up on advertising takes about 12 to 18 months minimum before advertising kicks off in a big manner and considering the fact that we have added large amount of screens in last 12 months that number in terms of contribution is lower or same screen growth has been about 5% to 6%, which is quite decent in the current environment.

**Darpan Thakkar:** Okay, but for the rest of the half double-digit growth is possible?

**Nitin Sood:** I do not want to comment on any specific numbers.

**Darpan Thakkar:** Okay. No problem. Thank you.

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

**Abneesh Roy:** This is Abneesh, some followup questions. First is in terms of 3D glass up charge, which you are doing, what is this number in this quarter and what was it, say, three years back just want to understand how the impact is from a longer-term basis?

**Nitin Sood:** I do not think there is any significant change in that number because effectively there is no ease in what we were charging earlier. It really is a function of 3D content in that specific period. I do not have a comparative number three years ago with me right now versus what is it right now, but I do not see broadly any substantial change in that number. I can share that number with you separately.

**Abneesh Roy:** Second is, SPH, you have done really well, the 12%, 13% growth. In this, how much will be the price growth and how much will be the mix growth, mix improvement?

**Nitin Sood:** Broadly, I think it will be 60:40, price being 60% and in terms of product mix change about 40%. If you recall last year we had taken lot of price corrections, etc., and also redone the product portfolio. So I think some of the cuts that we have taken last year in those markets we have managed to get a price hike back and over the last 12 months we have done a lot of product



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portfolio changes, new product introductions, which are helping us to, I think, increase our consumption at the cinemas and we are quite confident on the F&B portfolio to continue to do well on a long-term basis.

**Abneesh Roy:**

And one related question was Zomato and some of the other food take apps are currently having a fight with the restaurants due to which discounts are reduced and listings are reduced sharply, so if the same customer, so if he is ordering or eating less through these food take apps does it mean good news for you because now customer will feel that “outside it is more expensive than earlier, so I can order when I am actually going for the movie, I can order then,” do you think that can happen or it is two stepped?

**Nitin Sood:**

No. So quite honestly, we have not thought about it this way. If that happens, that is additional bonus, but we have not really thought about it that way. In fact we are looking at alternate channels partnering with people like Swiggy and Zomato to even get some of our marquee products available in customer homes. So the plan is, I think, how we create a signature products and product portfolio available to consumers who want to kind of order them at home. So we are working on that front, adding more tentacles to our F&B portfolio and really focusing on working on improving the quality of F&B that we serve at cinema, which I think, is a direct correlation to consumption more than anything else.

**Abneesh Roy:**

And one last one on SPH again. So you report the formula at the back of the presentation, which says that SPH is gross F&B by admits, so if you add, say, for example, Rs.3 Crores kind of footfalls that is the number we are getting, but my question is out of the Rs.3 Crores how many customers are actually ordering is that number something you can share?

**Nitin Sood:**

There is no specific number because you cannot track that number. It is a broad maths. The way to look at it is as follows. Your average number of transactions by a customer is about 2.5 to 2.6 transactions per customer. We typically, on an average, have about close to a 30% strike rate. Some quarters marginally lower, some quarters marginally higher. So effectively, if you multiply 30% strike rate, which means 30% of the total people hitting the candy bar and everyone is buying for their family, which is 2.6 tickets sold in every transaction, you get to average of about 75% number, but some of the people end up buying twice. There is no way to measure how many, what percentage of that people is. So if you discount that number by say 20%, you broadly come to the math that 60% of the people are typically buying and 40% of the people are not buying. So effectively when you look at the average spend per head it is divided over the entire base. The average spending for people who are buying is much higher because you have to calculate that by roughly over 60% of the population. That is the broad maths.

**Abneesh Roy:**

Sir, why do not you report per order rather than dividing by the whole universe, number of orders obviously you can easily track right?





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**Nitin Sood:** Number of orders, we can track, but I think this is the terminology or the methodology, which typically is, we track a lot more internal parameters while we measure F&B, but I think this is the most well measured and tracked parameter across the industry across the globe. I think that is the terminology, which is most easily understandable by everyone. So that is what we end up reporting. There are a lot of different parameters on F&B we track internally, but I think we do not want to confuse the market with the same.

**Abneesh Roy:** Sir, last question, if I may. In terms of South India, we are seeing multiple quarters how South Indian content not doing well there. Is there a systemic shift that now Hindi and English content is becoming more popular, more cosmopolitan and better dubbing and all that, do you think that is the reason?

**Kamal Gianchandani:** Like I mentioned earlier, I think, like distribution business, you have to see exhibition business also on 12 months basis so I would not jump do any conclusion at this point. Asuran, which released last Friday, in fact, last to last Friday, it is a film with Dhanush, one of the popular actor in Tamil cinema has done exceedingly well. There is a Vijay film coming out this Diwali. Vijay is the reigning superstar in Tamil cinema expected to open really big. Saaho, we all know had a reasonable amount in success in regional languages, turned out to be a blockbuster much better-than-expected results in Hindi, and it was not basically dubbed, it was a trilingual film, it was actually made in Hindi, Telugu and Tamil. Sye Raa Reddy which came out recently with Chiranjeevi has done hugely well in home market, which is Telugu, Telangana and Andhra, has done reasonably well in Hindi also. So point I am trying to make is that regional cinema like Hindi cinema has its peaks and valleys. We have had phases in the last two quarters, Q2 and Q1 where some of the expected films have not done well, but at the same time there are many good films to come later in Q3 and Q4. One underpinning trend, which I would like to point out, which is important for our business is that the Telugu or Tamil or even Kannada for that matter of fact films dubbed in Hindi has started doing extraordinary business. Saaho's business, and I do not have the official numbers, I am also basing my comment on numbers, which are available in public domain has done close to Rs.150 Crores net box office in the Hindi language alone. So excluding entire South in the remainder of the country in Hindi language Saaho has done Rs.150 Crores, which is higher than a lot of Hindi films performance at the box office. Now that is the trend, which is extremely encouraging because these larger-than-life high production values, films, which are basically something for everyone that is sort of a concept, masala films, commercial films as we call them our catering to audiences in a way universal manner. So even cinemas, which are in smaller towns, multiplexes, single screens are doing roaring business. So I think there are a lot of positives, which are emerging from regional film industry and at the same time we keep looking at South of India, but let us not forget Gujarati, Punjabi, Bengali, Marathi, they are all prolific suppliers of films. They may be a small portion of our overall revenues, but everything is adding up, and these industries are getting bigger and bigger with every passing year. So all in all, I think, please look at business on 12 months basis and there are a lot of positives. Yes, there have been a couple of disappointments, but that is the nature of our business.



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- Abneesh Roy:** Thanks Sir. That was a very detailed answer. Thank you Sir.
- Moderator:** Thank you. We will take the next question, which is from the line of Karan Taurani from Elara Capital. Please go ahead.
- Karan Taurani:** Thanks for taking my question. I had this question on footfall growth on a comparable basis, it is come at about 5%. So we have been talking about a very good quarter, five movies doing more than Rs.100 Crores collection, Lion King did very well in the Hollywood segment, why this growth is so disappointing, are you guys using market share or something of that sort?
- Nitin Sood:** I did not understand disappointing. We have a same-store growth of 6% in footfall. So I am not clear why it is disappointing because we are quite happy with the 6% same-store growth in footfalls coming on the back of a very strong year that we had last year. So we are quite happy with it.
- Rahul Gautam:** Yes. But Karan, I think just to add to Nitin, this 6% is also inclusive of what you discussed the underperformance in the South. We have now one third of the portfolio in South, which operates in a fairly high occupancy and we had until now couple of quarters where this content performance in South has not been as strong as we anticipated it to be. So that is the benefit of having a diversified mix. You will have situation where a Bollywood sort of does well and your overall network does not deliver that kind of growth because you have a South presence, but you will also not see a situation where we have a big standard variation in our performance just because one of the industry is not doing well.
- Karan Taurani:** But if you look at the numbers in South, you say it has done well but I think there was Saaho which was close to almost Rs.50 Crores to Rs.70 Crores of collection in the regional genre, so is there a base effect also on that or is it that, what exactly has happened in South films?
- Nitin Sood:** So South films have lower performance as compared to last year. So footfall growth in South has been much below and the Bollywood film industry is much better. So North and West have done much better in terms of same-store footfall growth as compared to the Southern region, which is really underperformed and that is reflective. We have shared the SPI financials separately. So even if you look at the average occupancy in that circuit as compared to Q2 of last year is down by 4%, 5%, largely because the content has been slower in that market.
- Karan Taurani:** So you mean to say in South if you include SPI, you would have grown higher?
- Nitin Sood:** Not just SPI, PVR's own South circuit has a similar trajectory. So effectively, if you exclude South then our average growth for the North and West has been much stronger this quarter because Bollywood films have done really well. So yes, that is correct, but that is the advantage of having a diversified circuit that you are able to balance out the troughs and valleys on the performance across various multiple sectors.



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- Karan Taurani:** Comparable properties here primarily would exclude SPI and also exclude new openings. How many exactly impacting your comparable footfall growth?
- Nitin Sood:** Karan, I think, even if you see PVR on portfolio excluding SPI, we have had a fairly large portfolio outside of SPI in South. We rent a lot of properties in Bengaluru, Chennai, Hyderabad in the last two, three years. If you look at the total screen count on the first slide of our presentation, which shows that we have roughly 272 screens in South India, which is the largest part of our circuit. Out of which SPI is only 72 screens. PVR has 200 of its own screens in South India, apart from SPI, so which put together 272 and once the local film industry has not done well one third of the circuit is actually not tracking as well, which is largely dependent on local language content has not done as great as rest of the country, which is North and West, which has a stronger performance. So effectively when you look at the average, the average has got pulled down because of South.
- Karan Taurani:** Yes, got. So you are basically more skewed towards all markets focusing on North and West?
- Nitin Sood:** Yes.
- Karan Taurani:** Got it. Thanks. That is it from my side.
- Moderator:** Thank you. We take the last question, which is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** Yes. Thanks for taking the followup. Sir, one quick clarification. In the expenditure analysis Slide 19 of your presentation you have given percentage of movie exhibition cost was 44.4% this quarter, but I am getting a different number, so can you please explain what are the numerator and denominator for this calculation?
- Nitin Sood:** Yes, I think you must be looking at consolidated financials. We have given this number based on standalone financials which is the exhibition numbers. The consolidated financials includes a large part of our film distribution business. So those numbers will not be comparable when you do that math. You should do this based on the standalone numbers.
- Swagato Ghosh:** Okay. No, I am just taking the income from sale of movie tickets. Like when you say calculate this number is not the denominators, the income from sale of movie tickets only?
- Nitin Sood:** Yes, you are right, but when you look at the exhibition cost at the numerator you will have to take the movie exhibition cost as reflecting in the standalone financials and not in the consolidated financials, because the consolidated financials, the movie exhibition costs from film distribution is also clubbed there.



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- Swagato Ghosh:** Right, but I am actually getting a lower number. So even if I take the higher number of Rs.198 Crores from the consolidated as the numerator and take in the denominator, if I take Rs.492 Crores, I am getting a different number.
- Nitin Sood:** I think there are a lot of elimination issues because PVR Limited also procures movies from PVR Pictures. So there is lot of intercompany elimination that we have to do when we publish our consolidated results. So the simpler way to simply do this is just look at the cost divided by standalone film revenue. You will not be able to exactly match the number because of accounting reasons you have to do a lot of elimination in reporting of related party, 100% subsidiary transactions. So this is the actual cost.
- Swagato Ghosh:** I understand. Yes, so every quarter, this number does not match exactly, but this quarter, there is a very large gap. I am sorry to harp on this because I just want clarification on this because the gap is quite large?
- Nitin Sood:** No, fair enough. Swagato, I think the point is this quarter we have had a big number coming from film distribution as well so that is why the number has increased.
- Ajay Bijli:** So if you look at our film distribution revenue, this quarter it is Rs.65 Crores, which was less than Rs.20 Crores in the previous quarter.
- Nitin Sood:** So whole of last year's revenue was less than Rs.50 Crores and we have in last quarter done Rs.60 Crores odd so I think that is the reason.
- Swagato Ghosh:** Got it. Okay. Thanks. This clarifies.
- Moderator:** Thank you. I now hand the conference over to the management for closing comments.
- Ajay Bijli:** I would just like to thank everyone for taking out time to attend PVR's Q2 earnings call. In case any of you have any followup questions, which we have not been able to answer please feel free to write to me or my colleague, Rahul Gautam. We shall be happy to address your queries. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.