



PVR Limited 2QFY19 Earnings Conference Call

October 25, 2018



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MODERATOR: **MR. ABHISHEK RANGANATHAN – AMBIT CAPITAL**



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Moderator: Ladies and Gentlemen, Good Day. And welcome to the PVR Limited 2QFY19 Earnings Conference Call, hosted by Ambit Capital Pvt. Ltd. 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. Abhishek Ranganathan from Ambit Capital. Thank you and over to you, sir.

Abhishek Ranganathan: Thank you, Raymond. Good evening, people. Thank you for joining this call. At the outset, I would like to thank the management of PVR for presenting us the opportunity to host this call. From the management here, we have Mr. Gautam Dutta – CEO; Mr. Kamal Gianchandani –CEO, PVR Pictures; Mr. Nitin Sood – Group CFO; and Mr. Rahul Gautam – VP (Finance). I will leave the floor open to Mr. Sood to give his opening remarks. Thank you.

Nitin Sood: Thanks, Abhishek. Thanks, everyone, for taking out time for the call. I will give a quick snapshot of our 2Q numbers and what are the key highlights for this quarter. And then we can move in to Q&A.

Overall, consolidated revenues for the quarter were Rs. 715 crores, as compared to Rs. 560 crores in 2Q of last year, up by 28%. Overall admissions for the quarter were up by 25%. And consolidated EBITDA for the quarter was Rs. 130 crores as against Rs. 96 crores in the same period last year, which is a growth of 36%.

EBITDA margins also for the quarter were up by 110 bps. They were at 18.2% versus 17.1% in the corresponding period of last year. And consolidated PAT for the quarter was Rs. 33 crores, as compared to Rs. 25 crores, which is also up by 31%.

During the quarter, I think two, three big highlights in terms of what are the key developments. One, we completed an acquisition of SPI Cinemas, which is the South India based chain that we acquired. The acquisition was completed on the 17th of August, so roughly about 43 days of operating numbers of that asset are part of the consolidated numbers that we have reported. We acquired a 71.7% stake in SPI. And we have currently applied for a stock exchange approval for the merger of that entity. Effectively, post-merger we will own 100% of that entity. So that is work in progress. And hopefully, by the end of this year, we will be able to close the merger process.

Number two, we also did a deal with our online aggregator partners BookMyShow and Paytm, for a period of three years, which we announced earlier during the quarter. Under the transaction we are entitled to receive Rs. 410 crores towards minimum guarantees and refundable deposits from these partners for enabling booking of PVR movie tickets across their platform. A bulk of this money was received upfront and was used in partially funding the acquisition that we did.



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We also opened, on the screen-opening front the first half has been slightly slower, but we have opened about 34 screens till day, this includes four screen property which is opened under the SPI portfolio post the acquisition. We had given a broad guidance of opening 90 screens in PVR portfolio, and roughly 8 new screens which were expected from the SPI portfolio. There we are completely on track to deliver those numbers. We will add about 22 new screens during this quarter, and another 43 screens during 4Q. Bulk of the screens which are scheduled to open this quarter are already completed and are waiting licenses. And some of the screens which are expected to open in 4Q are in the advanced stage of the fit out. So our guidance remains unchanged on that front.

During the quarter we have opened on an operating front, from a technology perspective our ONYX Screen, which is the latest technology from Samsung. The first ONYX screen in property at Vasant Kunj, New Delhi. So, that has been in terms of technological upgradation. And we continue to kind of build on the softer side build our loyalty programs further from what we launched last year. And work on various initiatives to drive consumption up at our cinemas.

So, these are some of the initiatives that are work in progress. In addition to that, we have also recently launched a movie seat cancellation product, which enables people to cancel movie tickets after the booking, right up to 20 minutes prior to the show, which gives a greater freedom and flexibility to people to plan their movie purchase well in advance. And give them a complete flexibility to be able to change their plans if there is a change. We think in long term, this will help and encourage people to kind of plan their movie purchases better, and hopefully, drive consumption up.

So these are some of the initiatives we continue to work upon to improve the movie going experience for our customers. So, that is the broad snapshot of where things are. And I will like to now open the floor for Q&A.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Darshan Mehta from UBS Securities. Please go ahead.

Darshan Mehta: Sir, my question was, there has been an increase in unallocated liabilities, so can you just throw light on what part is this?

Nitin Sood: This is just an accounting classification, unallocated liabilities. Why don't we come back to this question in some time? Let me just look at the breakup.

Darshan Mehta: Sure. And sir, my second question was regarding the food and beverage. Like, what has been the impact on food and beverage segment due to the High Court orders, and can you just quantify?

Nitin Sood: Yes, so if you look at the food and beverage revenues for this quarter, they have been muted, our SPH growth has been muted. The company has proactively taken calls to address the price value



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equation in markets based on the customer feedback. And we have actually done a lot of offers and promotions. So, that has been a muted growth in SPH in this coming quarter. But it is bouncing back now. In spite of this, we have had a strong growth on F&B revenue on overall basis because: One, admission growth has been very, very strong, we had same store growth in admissions of 9% this quarter, which is a big one. And on top of that, you would see that of the GST rate on F&B was brought down from 18% to 5%. As a result of which the net revenue looks higher. Some of that benefit has got lost because you will also see a corresponding increase in expenses, because now we do not get input GST tax credit on proportion of our expenses. So, F&B revenues in spite of this same store growth has been in the range of 19% to 20%.

Your question regarding unallocated liability, that is basically the debt amount which is has increased, which under the standards is required to be shown as unallocated. So it is just a debt increase, which is reflected in that.

Darshan Mehta: Okay. So this debt increase is on account of?

Nitin Sood: On account of the acquisition.

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

Urmil Shah: Sir, my first question is on the ad revenue. Firstly, was there some kind of a slight miss as regarding the 2Q growth versus what we have been expecting at the start of the quarter? And how should we look at the growth for the second half? Because the ask rate increases, keeping in mind our outlook for the year.

Gautam Dutta: First of all to your question, it's not at all been lower than what we had expected, we are completely on track with what we had projected or wanted to achieve in the H1 of this year. Every year Q3 is supposed to be the biggest quarter and this year is no different. The bulk of the growth will possibly be coming out of Q3 and Q4. And we are sticking to our guidelines of what we had stated at the beginning of the year of close to about 15% growth, overall, on the ad revenue piece.

Urmil Shah: Sure. Sir, regarding the convenience fee, adjusted for the one-off in this quarter, should we take that as a run rate going forward?

Nitin Sood: Yes. That will broadly be the run rate of how it will get accounted for. Under IndAS, because we have already received large part of this money in advance, so you need to also account for the time money cost of that, partly in EBITDA and higher allocation towards finance costs. You would notice we have put a footnote. So that is how it will appear. But yes, broadly, we have got 2.5 months of numbers under the new deal consolidated in this quarter. The run rate will marginally be higher in the subsequent quarter on account of 2.5 months changing into three months.



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Urmil Shah: Got it. And in regard to gross margin and F&B, should we be able to maintain this and maybe increase it over the long-term as the mix increases, so should we take that as a base?

Nitin Sood: Yes, so for us more than margin, absolute money realization is the key. So we do not worry about margins too much. It is the net realization which is our focus. So if we can get a higher revenue growth at higher costs, I think that is more than acceptable. So, I think the net realization for customers is a key metric that we track. So this will keep varying marginally, the 25 will not become 30. But whether I give you 25 or 27, it can keep varying depending upon how we kind of play out our F&B strategy.

Urmil Shah: Okay. And my last question was on the screen addition, it was good to see you mentioning the full year outlook. But what is the kind of number wherein you do not see any risk of slippages?

Nitin Sood: Broadly, we do not see any risk of slippages. I think the broad slip could be if any one property gets delayed, if any one of the larger property gets delayed you would say technically a 10 screen property can move from March to April. That is broadly the risk you can take in a number. But we think there are a lot of other properties, which are not covered in this list, which are also parallelly in progress, and likely to come up around the same time. So, we are reasonably confident. I think we should be able to deliver these screens.

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

Abneesh Roy: My first question is on advertising, your guidance in Q1 it was 18% to 20% growth for the full year, you have reduced that to 15%. While I see most of the movies doing well, your top-five movies, the admits were up sharply. So why would you cut your guidance in that context? Is it because of the liquidity crunch plaguing the overall the advertisers, is that the reason why you want to be a bit cautious?

Gautam Dutta: Not really. Actually, as I said, we will be in the region of 15% -17% growth. The only thing is that normally cinema advertising gets triggered with blockbuster films, which are all coming together in the quarter three and early quarter four. So, you would see a much healthier, bigger number getting clocked in this year. And we would get to that number. So, technically, we are not changing any guidance. We are largely saying it will be upwards of 15%. And we should be able to get there, if we sort of have a good run with some big blockbuster films coming.

Abneesh Roy: Sir, this seat cancellation seems to be an interesting development: One, why introduce this after so many years? Second, how does it work? So, does he get some points which he has to use later or you reimburse him cash? Could there be some negative impact on the occupancy because of this?

Nitin Sood: No, so the way the product works is that: One, currently the products is only available in an online mode, it is not available offline. So, every customer who has booked a ticket online has an option to cancel the ticket if his plans change later. If he cancels the tickets anytime two hours prior to the



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show, we charge a 25% cancellation fee. And 75% of the money is refunded, there are no point, we refunded him the money. And he is an option to cancel it up to 20 minutes prior to the show, in which case we will also refund him 50% of the money. This is based on a lot of data analytics that we have done in terms of how our movie booking behavior, etc also is. But the whole idea is to drive up consumption and create a habit for people to book in early. Our experience is that a lot of people want to plan a weekend purchase but they have not decided, they are on the fringe. By the time you get to decide on the weekend all the good seats are gone. So the idea is to encourage early booking, let people to plan their movie purchases earlier. And in case their plan is tentative and undergoes a change, 25% is not a big amount of money. So a lot of people will be willing to forgo that just in case the plan changes.

Gautam Dutta:

And it allows greater amount of flexibility in the current operating environment where customer has choices across various other products and platforms to make the whole customer experience more meaningful. You should evaluate this product on the basis of what perhaps Amazon and players like Zara have managed. They have sold shopping on the basis of returns. So, technically, which was never thought through, nobody ever in the retail would have ever sold shopping because you could return. So, similarly, because you can cancel, we think that over a period of time consumers would be more willing to book. The idea is get them to book more, not to cancel more. But because there is freedom to cancel, perhaps we believe very, very strongly that it would cultivate a stronger desire to also book. So, our game plan really to say, you lose nothing, or you lose marginal, but you gain lots in terms of what Nitin explained, better seats and a surety of going and watching the film.

Abneesh Roy:

Sir, here are two question. One is, in hit movies could this be negative? Because in just 20 minutes, if you have to use this perishable commodity, you are getting 25%, but you may lose 75% for a hit movie, for example. So could it be negative for a hit movie?

Nitin Sood:

If you look at the data, at box office most of our purchasing is happening 40 minutes prior to the show beginning. So, between minus 40 to minus 20 is when your bulk of your tickets are getting sold at the box office. So, we believe that if somebody even cancels last-minute, that inventory for a big film can get liquidated at the box office. Vice-versa, if it is a small film, any which way, there is nothing much to lose for us because you never have a situation of a house full there.

Abneesh Roy:

Sir, your SPH is down 3%, YoY and quarter-on-quarter also it is down. So it is a conscious strategy, I understand. Could you give some more color, how many screens are seeing this cautious strategy of cutting down in the non-peak? And could there be more cuts? Because if you really ask a customer, 3% cut, at least as a reported number seems quite low. It cannot induce consumption and for non-peak it will be higher.

Gautam Dutta:

First of all, the belt which where we sort of went ahead and cut severely was Maharashtra. But beyond that there were only two strategic promotions that we had run all in India, one was the Deals Day, and one was the Happy Hour. What you see is a minus 3 is a blended impact of the price cut.



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But wherever we had cut the price it was fairly severe. And we had taken pricing down by about 30%, 40%. So, I agree to your point that we needed to show value and that is what we did. We did gain on certainly volume uptake wherever we did that. But now we have sort of done a lot of data analysis. And you would see that in quarter three we will be completely back on track.

Abneesh Roy: But your F&B growth is coming because of higher volumes in the non-peak, or is it coming because your peak hours were really strong in terms of occupancy? So, the way you are saying it seems in the non-peak it does not work, is that correct in terms of understanding?

Gautam Dutta: Yes, it did not work on the non-peak because even after cutting significantly people did not see enough value and there was not so much of a conversion. You are right.

Abneesh Roy: So in non-peak it will now come back too, in terms of parity in terms of the pricing?

Gautam Dutta: Except for Maharashtra, some of the key products have been corrected. But beyond that, water has been subsidized across. But beyond that you are right, we have got most of the pricing for the other product back to normal.

Abneesh Roy: Sir, one of your key competitors did not have the two aggregators for a few weeks. Did that lead to market share gain? Because these aggregators are important and if they find you as the prominent one and next one is not there, did it lead to market share gains? And is it possible to quantify?

Kamal Gianchandani: Look, I mean, you will have to appreciate that this is a very hypothetical question. And, although, we were monitoring the situation closely, but it is tough to give an accurate answer on this. Our sense is that there was a minor uplift in admissions, there was a confrontation between our competitor and one of the aggregators starting, I think, early September. And even if our sense of a certain uptick in admission numbers is correct, it was too small a period to meaningfully impact the overall admissions. I would leave it at that.

Abneesh Roy: And sir, lastly on the MENA, now do you have more details to share, it has been three more months?

Nitin Sood: Not really, we are still in the process of developing a business plan for that market along with our local partners there. And I think, once the plan is developed, we will be in a better position to share.

Moderator: Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: A couple of my questions have been answered, just a quick question on the comparable property expense increase. Now, I understand that the numbers are not apple-to-apple due to partial GST tax credit loss on F&B sale, but even adjusting for that can you just highlight where are the cost pressures that we are seeing, apart from rental cost, because employee costs seems to have increased quite a bit?



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Nitin Sood: Yes, as we mentioned, there are two or three big areas here: One, the total expense growth includes a one-time expense of roughly Rs. 5 crores of transaction cost relating to the SPI transaction that we did, the BookMyShow deal that we did and the ongoing F&B matters. So roughly, I would say Rs. 5 crores is one-time costs reflected. Part of that is coming in our other expenses, part of it is coming in terms of bonus incentives, etc, as part of personal expenses. The big pressure areas really apart from that, I think roughly because we now lose 30% of the GST input credit, in almost all the expense lines you will see the big ticket lines about 13% of 18% being disallowed, which is about 5%, 5.5%. In some cases it is marginally lower, some cases it is marginally higher. On the other expense side, we are also running a lot of operating initiatives this year, including investment in the loyalty program, investing in marketing, investment in a lot of digital and IT infrastructure and services, which is reflecting in higher other expenses. But we believe some of these costs with some of the programs that we are building is also helping us to build on our long-term higher occupancy threshold, helping us to drive up admissions. So, these are really the areas where we would look at as an investment that we are making this year.

Chirag Shah: Sure, Nitin, that's very helpful. Just as a follow-up on that, so can you just share what is your breakup between contractual expenses and owned employees? Because that would mean that the adjustment on the F&B side would be a little different. I am assuming, there is a GST on the contractual expense amount.

Nitin Sood: We would not have the specific breakup available with us right now, but we can share that with you offline.

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

Swati M.: I just wanted to check the status on the state level taxes. So, on top of GST how many states are now building in local body tax?

Kamal Gianchandani: At this point, local body tax is applicable in the state of Tamil Nadu.

Kamal Gianchandani: In addition to that, recently, there has been an announcement in the state of Madhya Pradesh by Indore and Bhopal city councils that there would be LBET. Apart from that, there is no LBET in any other part of the country. Even in Madhya Pradesh, I must clarify, the Multiplex Association of India, which is the apex body for all multiplexes in this country, is in constant engagement, continuous engagement with the Government of Madhya Pradesh, and also with the officials of the local municipalities of Bhopal and Indore to withdraw the LBET. While the matter is in discussion, all I can say is that we are fairly confident that we would be able to get a positive outcome even in these two cities. But at this point in time, apart from Tamil Nadu, and Bhopal and Indore in Madhya Pradesh, there is no LBET in any other state or city or town of this country.



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Swati M.: So, you mentioned about the city of Madhya Pradesh, and I read on the news that there were film screenings that were suspended in that state, because the theater owners were protesting the local body tax. So, can we expect any impact this quarter because of that?

Kamal Gianchandani: Well, firstly, your point on film screenings being suspended is correct. The suspension has been on for last two weeks. We expect this suspension to come to an end very quickly. Because like I mentioned, we are in continuous engagement with the state government and with concerned people. As far as impact in the third quarter numbers are concerned, from PVR perspective the presence in Madhya Pradesh is limited to three multiplexes. And these three multiplexes have a very, very small contribution in our overall admission base. As far as financial numbers are concerned in Q3, we expect no meaningful impact on numbers because of this temporary suspension in Madhya Pradesh.

Swati M.: Okay, understood. And how has the quarter been so far? I mean, all the expected super hits are still yet to come, but I think, we already have a couple of good hits here?

Gautam Dutta: Yes, so I think we started the quarter on a very good note. I think the good news is content this year is laying out well. And a lot of small to mid-films have done really well and have been appreciated well. Overall, I think, we have a good pipeline of content in this quarter and November and December are expected to be big months, not only for Bollywood films, but also for regional films, and Hollywood films as well. So, I think we are looking for a good quarter ahead.

Swati M.: And then in your annual report you had mentioned that 50% of the transactions are now online. Can you tell us how much of the 50% would come from aggregators? Like, maybe if you can think, say just how much is coming from Paytm or how much is coming from BookMyShow, and how much comes from your own website? That would be interesting to know.

Gautam Dutta: The overall online admissions, there is an uptick. We are happy to report that has exceeded 50%. We are hovering between 52.5% and 55% now. And you must also note that the gross box office contribution of these 52.5%, 55% is actually almost 5% more. So, this is the admission contribution that I have spoken about. But when you look at the gross costs of this contribution it is almost 57.5% to 60%. As far as split between our aggregators and our own platforms, this is sensitive business information, we are uncomfortable sharing it. I hope you can understand.

Swati M.: No problem. Just the last question from end, if I may. For the real-estate industry there have been a little concern on liquidity tightness in the market. So for this year, I am sure you have visibility, but do you think it can be a problem next year, because you have been guiding that you will add round 90 screens every year. And what kind of, if you see the pool of developers you work with, what is your level of confidence with respect to business continuity in these conditions for developers you work with?

Nitin Sood: I think it is very tough to say at this stage, it is so premature. We have a lot of screens, or malls getting built. How this will impact six to seven months out is very tough to predict. All I can say is,



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we have a very strong pipeline of shopping centers. At this point of time we do not see any major risk to that. Until and unless the whole financial condition for the real-estate sector becomes extremely tough over the next six to nine months, there could be an impact. But I think it is too early for us to comment on that.

Swati M.: But for this year are you pretty confident on the 90? I mean, you have already told us in your guidance but the visibility is pretty strong with respect to, I mean if the license comes from the multiplex will be operational, is it at that stage?

Nitin Sood: Yes, correct.

Swati M.: Okay. Just one last question, if I may. Because you are increasingly opening the screens in South, right, if you have to describe the behavior of the customer in South, with respect to F&B spend or with respect to maybe ad revenue per screen. Because ticket prices anyways are lower, we all know that, but if you could just give some qualitative input on this?

Gautam Dutta: So, South technically are three different worlds in our thinking. Bangalore behaves, or Karnataka behaves in a certain manner, AP behaves in another manner, and Tamil Nadu is another animal in its own self. So, the fact is, they consume a lot more languages, and hence admissions are very, very high in all the three markets. As far as the SPH goes, they go far beyond the norm of 45% of the APP value, specifically in markets where prices are kind of regularized, consumers are in a habit to come and eat. And what we have seen is, as against any other market, where SPH is normally about 45%, 50%, in these markets there is a huge capability of taking that SPH much higher than that ratio. Having said that, the third question you asked was on advertising. Most of our advertising generating market is Delhi, Bombay and Bangalore. Advertising, the way it works is about 20% of the advertising revenue is local in nature, where retailers and certain corporates operating out of that city advertise. But largely, advertising generating markets in that ratio is Delhi followed by Mumbai followed by Bangalore.

Moderator: Thank you. The next question is from Yogesh Kirve B&K Securities. Please go ahead.

Yogesh Kirve: Sir, in terms of the lineup, the screen lineup that we have, can that support the kind of addition that we are likely to see this year of about 90 to 100 screens? So is that going to be sort of a new normal going ahead?

Nitin Sood: Yes, we definitely expect, I think, screen outlook to move up. I think we will be in a better position to comment on the outlook for next year by the time we enter Q4. But we definitely think, I think, the screen opening outlook for us will definitely move up from 50 to 60 screens, which we have opened in the past. And would move up to the range of 80 to 100 screens like the current year that we are opening.



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- Yogesh Kirve:** And sir, secondly, we are seeing in lot of premium properties which have been opened off late by the PVR. So, our usual guidance in terms of the CAPEX per screen of about Rs. 3 million, so that stays, right?
- Nitin Sood:** Yes, that stays. And it is a portfolio as we say. Somewhere it will be marginally high, somewhere it will be marginally lower. But there is no change in that.
- Yogesh Kirve:** And any guidance or what could be the CAPEX, apart from the new screens, during the current year?
- Nitin Sood:** Our total CAPEX this year should be in the range of Rs. 425 crores to Rs. 450 crores. That should be our total CAPEX.
- Yogesh Kirve:** This is based on 100 screen additions, right?
- Nitin Sood:** Based on about, yes, 90-plus screen additions that we are doing this year. Of course, in this I have counted the SPI screens, so that should be another Rs. 20 crores to Rs. 25 crores. So, it will be in that range of Rs. 400 crores to Rs. 450 crores CAPEX.
- Yogesh Kirve:** And lastly, just on the bookkeeping. So, I think the food and beverage spend per head, as far as Satyam Cinemas are concerned, does that work out to something close to our number only, around Rs. 90 - Rs. 93?
- Gautam Dutta:** Yes, that is absolutely, correct. SPH is Rs. 93.
- Moderator:** Thank you. The next question is from the line of Darpan Thakkar from HSBC Securities. Please go ahead.
- Darpan Thakkar:** One question, entertainment tax has gone, so maybe it is because of the merger of SPI. Is it a new normal?
- Nitin Sood:** Where has entertainment tax gone, which specific slide are you referring to?
- Darpan Thakkar:** No, it is not in any presentation. I just calculated it based on the numbers. So...
- Nitin Sood:** No, entertainment tax has not gone. It is the same GST rate applicable everywhere. I think what you may be referring to is that in Chennai specifically there is LBET. So, Chennai specifically has LBET, for Satyam because if there is LBET in that market, so for SPI as a circuit the effectively difference between gross and net is higher, because in addition to entertainment tax there is also LBET. So there are no changes technically otherwise.



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Darpan Thakkar: Okay. And one question is, how much of subsidies are there to be reported, which is not being reported because of GST?

Nitin Sood: No, so post GST we are not reporting any subsidy, as we have taken a call that as and when the government kind of clarifies its position on how they will deal with the post GST scenario, we will deal and account for it. But effectively, I think, in the last financial year there was about Rs. 18 crore to Rs. 20 crore number, there is still no clarity from various state governments on that issue. And this year will be about a Rs. 10 crore to Rs. 12 crore number. But we have not accounted any of it till the time we have actual guarantee from the government on the balance exemptions that were overdue.

Darpan Thakkar: Okay. So I mean, on the basis of what earlier regime it is coming about Rs. 10 crore to Rs. 12 crore for the full year?

Nitin Sood: That's right.

Moderator: Thank you. Our next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Actually, what was the total consideration you paid for Satyam acquisition?

Nitin Sood: Rs. 635 crores for the total consideration, we paid for 71.7% stake.

Utkarsh Maheshwari: Agreed. But then how come the goodwill on acquisition is coming at Rs. 715 crores what you mentioned in the balance sheet? I mean, I want to understand how the goodwill is computed.

Nitin Sood: So that also accounts for the minority interest amount, which is Rs. 250 crores. So that is how the goodwill has been calculated.

Utkarsh Maheshwari: Good, then basically you meant that this is Rs. 633 crores and the balance minority portion is basically actually put together is shown as goodwill?

Nitin Sood: I mean, that has been accounted for as a total consideration while calculating.

Rahul Gautam: Minus the existing book value of asset, that is how we have gone for goodwill.

Utkarsh Maheshwari: And I think now we are nearly at 0.95 debt to equity, and probably, do we see this particular level sustaining? Or do we see some sort of more inorganic forays and probably some sort of pool up in the debt equity ratio going forward?



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Nitin Sood: So see, on the capital structure point of view we will always fund any organic or inorganic growth that we will end up doing, we will fund it in the most optimal manner. We do not see the debt equity levels will move up from where they are.

Utkarsh Maheshwari: And I mean if you can just breakdown as goodwill components that should be helpful, because it really comes as a surprise.

Nitin Sood: No, it should not come as a surprise because we bought the asset for roughly Rs. 1,000 crores enterprise value, minus the book value of assets of that enterprise, the difference has to get accounted for the goodwill. So that means...

Utkarsh Maheshwari: Rs. 1,000 crore minus what you got on the book is less than Rs. 300 crores or what, because Rs. 715 crores is goodwill?

Nitin Sood: That is true.

Utkarsh Maheshwari: I have not got the answer, so can you just repeat?

Nitin Sood: So, basically, Rs. 635 crores is the consideration we paid, Rs. 250 crores is the value of minority interest. The net asset value that we have got after doing the fair value of this, we have got about Rs. 200 crores, so balance is the goodwill amount.

Utkarsh Maheshwari: Okay. So this particular thing will be actually amortized over the period of time then?

Nitin Sood: No, goodwill doesn't need to be amortized in the books at all, it only needs to be transferred, sent for impairment under the IndAS.

Utkarsh Maheshwari: Yes, but this way goodwill be Rs. 500 crores going forward, you have Rs. 700 crores, if we take asset as Rs. 250 crores then at least Rs. 500 crores will be left in the books.

Nitin Sood: It will keep on going that way in the books, goodwill need not be depreciated.

Utkarsh Maheshwari: Okay. So you will be only transferring the impairment at the yearend levels?

Nitin Sood: Absolutely.

Moderator: Thank you. The next question is from the line Raghav Akar, who is a retail investor.

Raghav Akar: My question is regarding F&B. In the last few months we have expanded our brand Simply Sushi. My question, are we looking forward to expand it as other entity from multiplexes or we are limiting it to multiplexes?



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Kamal Gianchandani: Currently, it is in early stage. We are currently only focusing on multiplexes. If we get decent opportunities in and around other cinemas, we may look at it. But currently we are only looking at multiplexes.

Raghav Akar: Are we looking to add Simply Sushi stores in Mumbai and Bangalore also for going further?

Kamal Gianchandani: I cannot comment specifically on that because it is an operating question. I think we will look at all such opportunities based on every cinema and metric. If we find there is a decent demand and the price value equation works, then we will add a few stores.

Kamal Gianchandani: If you come to our Andheri PVR, Icon, which is part of Infinity Mall, you will find the Simply Sushi counter there, which is part of the cinema, inside the cinema. So it is available in Bombay. If you are around in Andheri West, please feel free to visit.

Raghav Akar: Okay. My second question is regarding Director's Cut. It has been years since we started directors cut in Delhi. So are we looking to chart this Director Cut multiplexes in Bombay or Bangalore also?

Gautam Dutta: See, Director's Cut is a very niche and differentiated product. We need a certain landscape, quite like what Kamal was explaining in terms of Simply Sushi. It needs a certain demographic and a profile of customer and the mall. But, yes, to your question, we are expanding Director's Cut franchise. There is one more signed in NCR and there will be one soon in Mumbai as well.

Raghav Akar: Okay. My third question is regarding your approach towards Tier-3 and Tier-4 cities, because there was something which I read somewhere, that you guys are opening sub-brands for the Tier-3, Tier-4 cities.

Kamal Gianchandani: We will soon be making an announcement in this regard. We would not like to jump the gun because our first low cost cinema targeted towards Tier-2, Tier-3 is slated for an opening shortly. And at that junction, at that point, we will be making a formal announcement. So kindly bear with us till then. Soon you will have more information on this.

Raghav Akar: Can we expect that in FY19 or should we expect that in FY20?

Kamal Gianchandani: Absolutely, FY19 you will have it.

Moderator: Thank you. Next question is from Urmil Shah from IDBI Capital. Please go ahead.

Urmil Shah: Sir, just one data point, just wanted a number of premium screens as of end of second quarter.

Nitin Sood: 62 screens in total, is what we have premium screens.



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Urmil Shah: Sure. And if you look at the additions for the second half, would it be possible to share how much of that would be on premium screens?

Nitin Sood: In the pipeline what we are sort of looking to execute?

Urmil Shah: Yes, that is right.

Nitin Sood: Why don't we share that you with offline.

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

Jay Doshi: A couple of quick questions. One is, could you please give us an update on what is the progress on the PIL in the Bombay court, and it was to be sort of be taken up by the Supreme Court? So what is the status of this now? And when do you expect it to sort of close?

Nitin Sood: Sure. So, just a quick update on the F&B matter. As you are aware, several petitions were filed in various High Courts. And some of the High Court's like the Jabalpur High Court and the Indore High Court dismissed these petitions, even one was dismissed in Hyderabad. The matter of J&K High Court, which had passed the order in favor of the respondent in Jammu & Kashmir was challenged by the Multiplexes Association in Supreme Court. The stay was granted on that matter. Subsequent to that, the matter which was being heard in Bombay High Court regarding the PIL, the Multiplex Association of India had filed a transfer petition to transfer that petition in Supreme Court. And requested for a stay of proceedings in the Mumbai High Court. And a stay on those proceeding was granted by the Supreme Court. Subsequent to that, no next date for hearing has yet been set up in the Supreme Court. And I think as and when the next date for hearing is set up in the Supreme Court, the matter will come up in Supreme Court. So, now, all the matter has been clubbed, both the J&K matter and Mumbai matter has been clubbed, and currently stay of proceedings has been granted. And we are awaiting for the next date of hearing on the matter.

Jay Doshi: Now, in terms of some price value, improving the price value equation. I think you experimented largely in Maharashtra, which you talked about. So what is the way forward, do you intend to roll it out across the country? And should we expect further decline in SPH from the current levels? Or it will stabilize at these levels and grow going forward?

Nitin Sood: Well, this will grow, and it may be slightly muted to the kind of outlook we had at the beginning of the year. But having said that, we will definitely grow from here and post close to about a 4% to 5% increase in SPH over last year.

Jay Doshi: In FY19, over FY18?

Nitin Sood: Yes. In the second half of the year.



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Jay Doshi: Understood. Now what is the peak debt level that we should expect, net debt level that we should expect by the end of this year? And also if you can sort of give us some indication that it will sort of further increase in case you invest in Middle East and Saudi Arabia?

Nitin Sood: Yes, so I would like to keep the Middle East and Saudi Arabia part out of it because we are still in the process of reviewing the market, and kind of figuring out the development plans. So we are in a kind of a feasibility phase right now. But we think our debt level should be between Rs. 1,300 crores to Rs. 1,400 crores this year, depending upon certain milestones. So that will be where the debt level is going to be.

Jay Doshi: Right. And you are planning to open about 60-odd screens in second half. That is something which you have not seen in the past few years. So any one-time launch expenses or anything you would like to call out in terms of absolute numbers?

Gautam Dutta: There is really nothing significant at launch really required.

Nitin Sood: It has also been there in this quarter, including launch and including some of the brand building campaign ads that we have done. So, that is part of the operating part of the business, nothing significant. I think that is part of the operating pool of the business. So that is nothing out of that.

Jay Doshi: Great, that's good to know. And the final one, on SPI, now that you have taken over control, are you still expecting the same kind of EBITDA contribution for full year of operations from the entities, which was I think you indicated 20% plus EBITDA and Rs. 100 crores - Rs. 110 crores of absolute EBITDA in FY20? Is that still the expectation, or can it be better?

Nitin Sood: Yes, I think it is early days. We only kind of been in control of the asset for 60, 65 days. But I think it is running completely on expected lines. You would have noticed in 40 days of operations, I think the asset is delivering good numbers. Q3 and Q4 are going to be good quarters. And as we add more pipeline of screens from their portfolio, our expectation is we will definitely hit that number, and as we realize more synergies in next six to nine months, we will have the ability to comment whether this guidance can be even better than what we are thinking or not. But we are completely on track.

Moderator: Thank you. The next question is from Veresh Patak from Goldman Sachs. Please go ahead.

Veresh Patak Sir, on an average the property comes up for renovation for how many years?

Nitin Sood: It varies from location to location, but roughly between 6 to 7 years is typically the renovation cycle for a property.

Veresh Patak And what could be the cost of, like if the Rs. 60 crores is the new CAPEX on an average, renovation costs would be how much?



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Nitin Sood: Typically, 30% of that. But again, as I said, depends on the profile of the property and how many visitations it has had. We are discussing averages, so I am just giving you an average number. But typically there kind of.

Veresh Patak Sir, just on the P&L, these repairs and maintenance, common area maintenance and maintenance which is about Rs. 200 crores per year, which you expense through your P&L, that is not on renovation, right?

Nitin Sood: No, so one part of the expense is really relating to day-to-day maintenance, upgrades, etc, which is expensed off. The second part of the renovation is building out the assets, renovating it for a long-term, which is capitalized.

Veresh Patak So where are you spending this Rs. 200 crore, which you have common area maintenance and normal repair and maintenance, why is this so high?

Nitin Sood: This is part of occupancy costs. I mean, we have most of our properties in malls and the malls have a lot of common facilities that are provided. So the developers charge which is paid for that common area maintenance.

Veresh Patak Okay. And for renewals that are happening for the malls, what is the escalation you are seeing on an average on the metro side?

Nitin Sood: There is no average, every location is different. I think, they are priced to the market. So there are no average, it is ranging from 10% to 50%, depending upon the location. And at what point of time it was a signed and what the current rates are.

Moderator: Thank you. Next we have a follow-up question from Swati M. with East Capital. Please go ahead.

Swati M.: Just wanted to check on two things. So, these joint ventures that you have put up, Zea Maize and this Singapore International PVR Pictures. Just wanted to check, for Zea Maize I know that you have the 70% stake, who owns the rest? And then, Singapore International PVR Pictures, what is the plan there? And what is the stake that you have? And what kind of investments will you do?

Nitin Sood: So, on Zea Maize, balance stake is owned by the founding partners of that business, there are two owners who started that business, so they own the balance stake. And they run and drive the business, PVR is only an investor. In case of PVR Pictures, they are just an entity that we have set up to explore distribution opportunities outside of India. So it is only technically a shell company right now, there is no business which has currently even started.

Swati M.: Okay. Understood. And then, I was in recently, district Hyderabad and saw a movie in PVR. I just wanted to check, because the tickets to the recliners were around Rs. 250 rupees. I mean is this the



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cap, I thought the cap was Rs. 300, and why aren't you then charging at the cap, because I think people would pay in Hyderabad?

Nitin Sood: No, Hyderabad the cap is Rs. 250 for recliners.

Swati M.: Okay. Because I read somewhere that Rs. 200 to Rs. 300 depending on the format.

Gautam Dutta: It is Rs. 150 for the normal and Rs. 250 for the recliners.

Kamal Gianchandani: I am not so sure, it could be Rs. 300 for the Gold class auditorium, but last row recliners is only Rs. 250.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Nitin Sood: Thank you, everyone, for taking out time for the call. And if we have not been able to answer some of you on this call, feel free to reach out to us. You can call me, or my colleague Rahul Gautam, who has been on the call. And we will be happy to address your queries individually. Thank you, very much.

Moderator: Thank you very much. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, ladies and gentleman. You may now disconnect your lines.