"PVR Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2021 Earnings Conference Call of PVR Limited hosted by Axis Capital 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. Ankur Periwal from Axis Capital Limited. Thank you and over to you Sir!

Ankur Periwal: Thank you Rutuja. Good evening friends and welcome to PVR Limited's Q3 FY2021 post results earnings call. From the management team, we have with us Mr. Gautam Dutta, CEO, PVR Limited, Mr. Kamal Gianchandani, Chief of Business Planning & Strategy and CEO for PVR Pictures, Mr. Nitin Sood, CFO, PVR Limited and Mr. Rahul Gautam, SVP and Head of Corporate Finance. As usual, we will start the call with a brief management discussion on the quarterly performance followed by an interactive Q&A session. Nitin over to you for your initial remarks!

Nitin Sood: Thank you Ankur and thank you everyone for taking out time to join PVR's Q3 earnings call. I will give a brief synopsis of what are the key events, which has transpired during the quarter and then maybe we can directly go to Q&A. A copy of our investor update is also available on the website of the company, which discusses the results in greater detail.

So during the quarter, the Ministry of Home Affairs permitted cinemas to reopen starting 15th October 2020 onwards and they put a capacity restriction of 50%, so all cinemas across the country could open, but with a maximum 50% capacity. Subsequent to this, various state governments across the country issued their respective notification depending upon the COVID situation and allowing cinemas to reopen in various states, as a result of which you know our cinema openings during this quarter, was staggered between October 15, 2020 to November and December. As we speak today most of the cinemas across the country are now open in states where PVR operates except for Rajasthan and Jharkhand, which till date have not yet decided or given permission to open cinemas. As part of PVR's portfolio both these states represent very a smaller number of screens for us so pretty much the entire circuit is open. I think the challenge has been the content availability during the quarter because the cinema opening was really staggered, and it was kind of phased out between October, November and December. We did not see too many new movie releases as a result of which revenues were very miniscule. The total admissions during the quarter were only 10 lakh admissions largely on account of movies like Tenet and Wonder Woman, which were released and few small films, which released during the quarter. I think as the cinema circuit is now open and I think the content pipeline likely to evolve over the next few months. We will have a better visibility on how the situation may pan out, but very important is that we manage to close as we were opening our cinemas was hang on our fixed cost base, we were able to close out settlements with most of our landlords and we had sought rent and CAM waiver from our landlords for the period we were shut and some kind of rebates post opening till March 31, 2021 till the time we anticipate the business will take time to come back to normal. I am happy to report that we have closed out settlements with almost 88% of our landlords and have been able to get large rental waivers and discounts in rent and CAM charges not only for the period of lockdown but post opening generally till March 31, 2021. As a result of which if you look at the rent and CAM expense that the company has incurred during the first nine months of the year is lower by almost 80% as compared to I think corresponding period of previous year, which is really reflective of the strength of the brand and the value that we have been to the shopping centers and malls. Also on all the other fixed costs, which has been big cost drive to manage these costs as we come out of the pandemic, even though cinemas opened I think we managed our fixed cost quite well and the fixed costs during the quarter were also substantially lower than what they were in Q3 of last year in spite of the fact that cinemas have started reopening. We have managed a good hang on the cost and our fixed cost reduction during the quarter was almost 63% lower fixed cost as compared to Q3 of last year.

On the cash position and the liquidity front, I think the company has proactively managed its balance sheet well. We did a rights issue earlier this year. We also took additional credit lines from our banking partners. As on December 31, 2020 we were sitting with cash and liquidity of about Rs.373 Crores to meet our various obligations and a tide through these turbulent times. The board of the company also earlier in its meeting held on December 18, 2020 also decided to boost up the capital of the company and they had passed enabling resolution, which permits the company to raise an additional equity of up to Rs.800 Crores the same currently awaits shareholder approval and the idea is as we come out of the pandemic we want to have a very strong balance sheet, which ensures and enables us to maintain the growth momentum. Clearly I think as we started this quarter it has started on a very positive note.

The South Indian film industry has really taken the lead in releasing films and the first blockbuster of the year, I think Master, which has got released on Pongal in Tamil Nadu has done some great numbers, I will let my colleague Kamal talk more about it during the call, but clearly we are seeing in South India as you release big films people are back at the cinemas and clearly this apprehension that was kind of floating around that people will be reluctant to go back is not stable at all and the cinemas are kind of completely sold out in Tamil Nadu and entire South India wherever the film is released is doing exceedingly well and we are hopeful that Master will be a case study based on which you will see over the next few weeks the Bollywood film guys and more South Indian regional guys planning their release calender of the films, which are currently ready and kind of awaiting release. So that is the broad summary of what transpired during the quarter. I will hand the floor back to Ankur and we can get into Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on Rajasthan and Jharkhand, so how does these two relatively reasonably large states it is not a very miniscule state how does this not opening up act as a reason for the delay of Hindi content, second in terms of discussions when you are having with these two specific state governments what is the pushback because it is not that they are on the higher side in terms of COVID cases, Kerala has been very high, Maharashtra, which used to dominate opened up long time back so what is the pushback you are getting and on the 50% rollback in Tamil Nadu what is your assessment, is it just a case of union government wanting to do it first so do you expect in some states or the union government in general soon giving 50% approval that it should be taken off the occupancy?

Kamal Gianchandani: The first question what is the contribution of Rajasthan and Jharkhand is about 6% to 7% as far as Hindi films are concerned, which is a fairly small percentage, you would recall in the past there have been films like Padmaavat, which have had issues in Rajasthan and many other states and they have ended up with big box office numbers in spite of it is not releasing, of course those were different reasons, but the point I am trying to make is that this is not a deterrent, Hindi films get about 6% to 7% from Rajasthan and Jharkhand combined and the producers would be very happy to go ahead with the release, but this would not be a deterrent, I mean, there would be other factors and other variables, which would help and decide or decide to release or decide to hold back, but this would not be a deterrent. The second question what is holding back the state governments why difficult to speak for the state governments we have been in constant touch with them through our advocacy body Multiplex Association of India and through the local cinema exhibition associations. The pushback is mainly because the governments wanted more time and they wanted the cases to come down and situation to be much more contained, which it is and we are equally surprised that the two governments have decided to push the opening of cinemas for so long. With that said we are hopeful that during January both these governments will exceed to our request and would permit opening of theaters also in these two states and what is your third question?

Abneesh Roy: 50% occupancy?

Kamal Gianchandani: 50% occupancy is something, which would have to be decided by the central government. Again we have been in touch with the government on regular basis and although we cannot speak for the government, but we remain quite confident that in a matter of I would say less than a couple of months we should end up with a higher ability to sell higher capacity is what we are hopeful of, but we will have to wait and see.

Abneesh Roy: Right that is helpful. My followup to what you said is on the Hindi content release, so when we were in October end it was expected that by Deepavali, which is November mid we will see good Hindi movie release, but because of Maharashtra delay in terms of screen opening I understood that, so then it was expected December end, now that did not happen and now we are in January, so one if Bengali movies can release and Tamil movies can release what is the issue with Hindi, second we are seeing all forms of consumptions see positive surprise if you sees car sales, jewellery sales, QSR, paint sales and FMCG, everything is doing well and you yourself have given the data for Tamil Nadu and Bengal so why is the Hindi content not releasing, I understand international part of the business, but that is also getting delayed, when will US revive, when will Europe revive in terms of COVID cases we do not know, so if you could explain what is the pushback on the Hindi content good content, I understand small Hindi movies here and there, but that does not really bring the needle?

Kamal Gianchandani: This is a fair question and our various discussions with the producers, our sense is that there were doubts about the customer audience sentiment, 50% restriction on capacity was an issue, which most people felt was manageable because you could spread the film wide and you spread the film in maximum number of shows as has been the case with Master and producers felt that 50% capacity is something, which they could live with, but they were apprehensive about the customer sentiment. There was a lot of apprehension that people would stay away from cinemas especially families, but the good news is that Master, which was already expected to do well, Vijay is a huge massive star down South especially in Tamil Nadu, but I think the performance that we have seen in the last two days has exceeded even the wildest expectation that most people had. The film is turning out to be number two all time biggest opener for Tamil cinema, the biggest opener was Sarkar with about Rs.23.5 Crores net box office collection in Tamil Nadu and Master has opened with about Rs.20.5 Crores net box office in Tamil Nadu so with the current prevailing circumstances with all the restrictions, the kind of box office the film as a gift clearly validates the fact the argument that we have been sharing with the producers and with also our colleagues on the analyst side that there is a pent-up demand and people would be happily coming to cinemas as and when there is a good quality film, so I think that point has been validated and I think it is a matter of time when producers of big Hindi films who have ready films with them would come out and announce their dates. We are already in touch with a lot of producers, but we do not want to get into specific names at this stage. We will have to wait for producers to come out and officially announce dates.

Abneesh Roy: The last question any savings on rental and CAM when you renegotiated say in October or September that point of time the movie content release was envisaged differently, it has been below that expectation because of the Hindi content not getting released so do you manage some more savings or is it frozen till March or we do not get any savings, I understand some of this is linked to revenues so it does not really impact too much, but on the CAM or anything, which is fixed or any savings on the revenue share also possible because of this delay?

Kamal Gianchandani: Nitin would you like to take this question?

Nitin Sood: Abneesh most of these rental negotiations with our landlords were to tide over this pandemic period and especially for cinemas when we went into the pandemic everyone was expecting it to be a two to three months issue, as we are coming out of it, it has almost been eight to nine months about seven-and-a-half months since the cinemas were closed and other four to five months we are hoping for recovery. So most of the negotiations and discussions currently have been focused around getting a relief for this lockdown period and for the next few months till we open, so most of the relief that we have sought for are limited till March 31, 2021. We have largely managed to get complete waiver of rentals during the lockdown period and apart from that we have managed to get rebates and discounts till March 31, 2021 and if you look at the numbers, the numbers are quite huge. In the first nine months of this year the numbers have been almost Rs.444 Crores reduction in the rent plus CAM payout and some more discounts will come in the next quarter as well. So I think the discussions have been focused only around this because when we were negotiating this the expectation was the business would bounce back, if this extends beyond that then I think we will have to reengage, but currently we have been focused on seeking relief to tide over this period.

Abneesh Roy: That is all from me. Thanks a lot and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal Asset Management. Please go ahead.

Niket Shah: Thanks for the opportunity. A couple of questions from my side. First I wanted to know on the rentals you did highlight Nitin that we have got a waiver and discounts till March 31, 2021 how will the rentals really change post March 31, 2021 so as we go into say next year is the rate going to move up because at some point of time the multiplex guys also thinks that I have to also cover up for the lost revenues?

Nitin Sood: No, in our case most of our rental negotiations are restricted to this 12-month period. There is no escalation in rentals because of the relief that we have sought in the next year. There could be one or two exceptions to this, but largely no change for the next fiscal.

Niket Shah: So it goes back to the pre-COVID levels as such?

Nitin Sood: That is right.

Niket Shah: Is there a change in the mix of our rentals between revenue share and fixed?

Nitin Sood: As I said most of the rental discussions have been focused around tiding over this financial year and 12-month period of pandemic. On the existing properties there is no change as such apart from the relief for this 12-month period, but for most of the new properties that we will end up contracting now going forward there could be potential changes in how we structure some of these levers.

Niket Shah: Okay sure. My second question was is there a possibility that you might see some of the states coming in giving you some waiver on entertainment tax and also a similar question is how will the sharing between producers and PVR change in the post COVID regime, do you think there will be some savings there, which might come up to us?

Kamal Gianchandani: I think Kerala has taken the lead by waiving off the entertainment tax in Kerala for a couple of months. We are also getting a similar sense from some of the other states and at the same time budget, which is expected to be announced on February 1, 2021, we have made several representations to the Finance Ministry and we are also hopeful that we would get some relief measures or some stimulus measures due consideration when they finalize budgets for the next financial year for the service sector specifically. So we remain hopeful all around both from central government and state government and our sense is that the government will give us a favorable consideration. On your second question, on a short-term basis yes there would be some changes in cinema and payouts to the distributors and producers, but like we have shared earlier these would not be meaningful deviations from what we have been paying to producers in the past and whatever changes are there would be temporary in nature.

Niket Shah: Okay thank you so much and I will come back in the queue.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rear Enterprises. Please go ahead.

Pranav Tendulkar: Thanks for the opportunity. Can you explain the unit economics in the states where actually the movies have started like Tamil Nadu and Bengal probably, per ticket rate realization of people adjusted for the timings, etc., are there any notable changes that is one and second thing is that if in any other parts of the world, which are comparable to India or developed markets where movie exhibition has again started and how is the people response and what are the changes that you are observing anywhere else in the world, those are my two questions? Thanks for surviving this crisis I know this was a test for your industry, thanks a lot.

Kamal Gianchandani: Thanks for your wishes, maybe Nitin can take the first question and then I could jump in to answer the second question.

Rahul Gautam: If I understood the question correctly you were looking for understanding on our ticket pricing strategy and all that has evolved post reopening is that correct?

Pranav Tendulkar: Correct.

Rahul Gautam: Our key focus during the quarter and in the near term is to bring back footfalls and we are doing all necessary steps including taking all the safety measures with confidence to the customers to come back and pricing is also one of the factors that we are playing with. Clearly given in the last quarter bulk of the content was library content, new content, we were as it is running a lot of promotions at lower ticket pricing just to get customers back, but clearly pricing has never been a concern in our business. We believe that whenever the content comes back the ticket pricing will move up and customers will be willing to pay, but yes we will continue to use pricing both in terms of new content as well as library content as the contents have become more smoother to bring back customers, but as you can see even in current quarter our ATP is at about Rs.160, Rs.164 to be precise, which is still lower than our pre-COVID level, but there are obviously during blockbuster content the ticket pricing tends to move up quite a bit.

Gautam Dutta: So actually even to add to what Rahul said if you look at our ATP during Tenet, Wonder Woman and now Master, we are slightly higher than what we were operating at the pre-COVID level, so whenever new content powerful content would come and this is what we saw with advent of seven or eight movies during Durga Pooja in October and then with two Hollywood films and now with Tamil film we are able to sale a bit higher ATPs very easily from the consumer.

Rahul Gautam: Even in Q3 our SPH is now almost back to pre-COVID levels at Rs.95 as compared to Rs.100 in Q3 so for us I think as you said the fundamentally pricing has never been a concern whether it is for ticket or food we will have to deliver experience, which works for the customer and as long as there are new contents coming pricing has never been a challenge.

Pranav Tendulkar: Right Sir, but there is a probability that say for an extended time the utilization could be 50% or 60% capped by regulators, so in that case what is the minimum pricing that you see, I mean it is okay if you even increase the prices right?

Gautam Dutta: Yes absolutely. There is enough elasticity

Pranav Tendulkar: Alright and the second question about global parallels?

Kamal Gianchandani: Firstly continuing the thread with Master. Master has done well not just in India but it has done well also in all international markets where you have Indian populations specifically South Indian populations, so be it UAE, Malaysia, Singapore, pockets of US based cinemas are operational Master has done well across the board in the international markets, which goes to show that the behavior of customers. You know this whole tendency to come out and watch a big film on the big screen is homogeneous that is one. Number two Japan and China are two international markets, which have a very strong domestic industry and in the recent last three or four months Japan has seen a massive success called Demon Slayer, which is an animation film, which has broken and shattered all box office records that is one so that is Japan and China similar experience where The Eight Hundred again a local film released about two months back it has again broken all previous records, so wherever virus has been contained, wherever government has been aggressive in dealing with containing virus and putting in place safety protocols and wherever people, customers, and society has adapted to the new normal films, cinemas have bounced back rebounded fairly quickly and that is quite visible in Japan and China, two specific markets, which also have a strong local industry.

Pranav Tendulkar: Right Sir and those regulators are not limiting it to any capacity utilization of their own wings right?

Kamal Gianchandani: No, these markets are also regulating capacities, China has been hovering between 50 and 75 when The Eight Hundred had released capacity restriction was to the extent of 50% and similarly Japan has had capacity restriction, so the numbers that these films have done have been done with the capacity restrictions.

Pranav Tendulkar: Right so that would mean that the price realization would have substantially gone up right for that kind of box office collection, is that right or am I wrong?

Kamal Gianchandani: Our sense is we do not have the detailed numbers in front of us in terms of the ticket price and the number of admissions, but our sense is that the ticket price was increased marginally not by too much, it is just a sheer number of people who came out and watched these films has resulted in a higher box office.

Pranav Tendulkar: Okay thanks a lot Sir. Thanks I am done.

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

Jinesh Joshi: Thanks for the opportunity Sir. I just have one question on our financials. So Sir if I look at our balance sheet we have some Rs.370 Crores of cash if I am not mistaken and we are planning a fundraiser of Rs.800 Crores odd so this should take our liquidity to anywhere between Rs.1100 Crores to Rs.1200 Crores and if I look at our current quarter operating cost that was approximately Rs.160 Crores and for that matter even our pre-COVID operating cost per quater is anywhere between Rs.430 Crores to Rs.450 Crores, now even if we burn Rs.450 Crores per quarter, which is the pre-COVID run rate we have a liquidity for two to three quarters so in that context the fundraiser appears to be slightly high so can you just clarify on this math please?

Nitin Sood: Broadly I think the way we approach the business is we want to always raise capital ahead of when we need it that is number one. Secondly the broad reasons why we want to maintain a strong balance sheet is that we want to keep the leverage levels low. We had done a QIP in November 2019 with the objective of reducing leverage and we had successfully achieved that. Unfortunately the cash losses during the pandemic have brought us back to the same situation. We believe that as we come out of the pandemic there will be a massive amount of growth opportunity lying ahead of us. The industry would likely consolidate for the smaller operators and smaller players will get weaker. The bigger operators like us will get an opportunity to participate in greater amount of opportunities and we want our balance sheet to remain strong as we come out of the pandemic so that we can accelerate growth. So the idea is to keep the leverage level low, have enough order in the balance sheet to accelerate growth and thirdly just in case the recovery takes slightly longer than what we are expecting to recover have enough cushion in the balance sheet to tide over the short-term losses that we may have to bear and that is broadly the thought process and as I said this is currently enabling resolution, we have not decided on either the final quantum of fund raise or the timing of the fund raiser, so this is just enabling approval that we have currently taken.

Jinesh Joshi: Okay Sir and this is fund raiser, potential utilization will it be towards funding the cash losses or you also hinted something about inorganic opportunity, which can come up, so is anything finalized at this point in time or where are we on that front?

Nitin Sood: We are not looking at any inorganic opportunity as of now so that is not the main reason for the fund raise.

Jinesh Joshi: Okay Sir. Thank you so much.

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

Jay Doshi: Good afternoon. I have got three questions. Nitin in the opening remarks you mentioned that fixed cost reduction during the quarter was about 63% I just want to understand how much of this will sustain when you go back to 35% to 36% occupancy if you can give us some colour in terms of permanent reduction in costs?

Nitin Sood: There you will have to break down this cost into different elements. There are two elements of this cost one is external cost, which is rent and CAM, those costs are likely to come back as we get back to the next financial year and get back to pre-COVID levels. On all the other costs that we are incurring we expect especially in the people cost and our overhead cost a minimum 10% to 15% longtime reduction in cost, it is very difficult to quantify on the exact number going forward, but as we come out of the pandemic we think that some of the cost reduction will be permanent in nature the way we are restructuring the organization. I think specifics will have to be detailed out as we come out because a lot of stuff is work in progress right now, but we believe that we will be able to reduce some of our fixed cost on a long-term basis.

Jay Doshi: This overhead cost that you referred to is a sizeable number and people cost is something, which we know so what do you classify as overheads generally?

Rahul Gautam: Rs.90 Crores per quarter pre-pandemic so it is a reasonable number so Rs.30 Crores per month.

Jay Doshi: Understood. That is helpful Rahul thanks. Second question is are you seeing you just mentioned the response to previous question that you expect some permanent closures of single screens or standalone multiplexes so are you already seeing a lot of lease deals come your way and how will it work, would you sort of get opportunity to buy some of the smaller screens or the operators may vacate and you will negotiate leases, you will have more lease pipeline?

Nitin Sood: See it is too premature to say anything Jay. I think the situation is evolving as cinemas are reopening or coming out of the pandemic and the discussion with landlords are happening. I think we expect some of the smaller operators or smaller single screen operators who would do not have the balance sheet to support and come back and restart business to have a problem and we also think that the real estate developers and landlords will also want to partner over a long term with strong quality operators. This is likely to throw up opportunities in favor of some of the bigger operators and what common manner some of this will potential help in scaling up is I think slightly early to say, but we are already seeing signs where the smaller operators are under stress and there is likely going to be a shift of bulk of the growth towards larger operators as we move along.

Jay Doshi: What is your view in terms of rentals for the leases that you sign going forward over the next couple of years, is there any deflationary trend that you are seeing in terms of favorable for you on rentals?

Nitin Sood: As I said too premature to say, but all of us because of retail businesses have come out of the pandemic and I think the situation will evolve over the next few months, but clearly I think as an industry as a retail industry per se we will have to see how the rental situation evolves, but clearly we think the situation to be much better as compared to pre-COVID level.

Jay Doshi: Have you reconsidered or relooked at your capex per screen and will that change going forward or as you resume screen opening it will be broadly similar to what we were seeing earlier, just trying to understand from annual capex standpoint or are we likely to see some improvement in overall cash generation potential?

Nitin Sood: No, we do not estimate a per screen capex to change materially because we want to deliver I think the same quality experience, which has been the corner store of our strategy and I think how it will evolve in terms of negotiation between landlords and us it is too premature for us to comment on, but we do not see any significant changes in a per screen capex intensity in the post-COVID world.

Jay Doshi: Right just one final one. I think we are seeing about 10% to 15% of restaurant supply has gone out of the system at least on the aggregator platforms and if I recall correctly prior to COVID you were considering scaling up F&B business by participating on aggregator platforms, SPI Cinemas I think was already on-boarded on Swiggy, Zomato, so have you sort of thought a little bit more or done some more work during this pandemic on that front and should we expect you to participate on that opportunity outside of cinemas in the F&B space, any thoughts, and any colour on how your F&B strategy will evolve going forward?

Gautam Dutta: Yes you will see traction on January 18, 2021 is when we start off our beta trials on Zomato and within about four to six weeks we will be scaling this up to many more sites, so clearly the plan is there and we will learn as we go and we will start our journey on the aggregators within this week itself.

Jay Doshi: Thank you. All the best and look forward to it.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity Sir. I have two questions. Firstly if you notice at least in the last nine months or so even big star movies have started going exclusively to OTT and this is not confined to Hindi alone, this probably even extends to Tamil, Telugu as well as probably even Malayalam or so, so how do you hope to assess these risks where potentially big star films could have otherwise released in cinema or incrementally getting comfortable to do a direct OTT release and in such cases in your interaction with producers or so how do they compare the ROI between theatricals and a direct OTT release?

Kamal Gianchandani: It is a good question Karthik and it is a fair point you made. That said what has happened in the last six to seven months with a decent number of mid size films and a few large films going directly on streaming is something, which will have to be seen with an asterisk because there were investments involved and Indian production sector is fairly fragmented so producers had a running meter of cost of money, which was building up and a lot of people felt that this was an opportunity to exit, get their principal back and also make some money out of it. Our various interactions with the producers and also some of the subtle signals that we are reading from the market when you look at the actor fee or the number of films, which are going into production or the cost of production, which is being envisaged by the producers there has been absolutely no reduction, which clearly goes to show that the producers in their mind are factoring in a theatrical release for the new films, which they have started to produce, actors there is no reduction in the fees so clearly actors also expect their films to go on to the theatrical platform. From a producers' point of view the metrics that you spoke about the return on investment metrics clearly ability to take multiple bites out of the same boot is a better strategy just to take it first on the theatrical platform and then take it to the other distribution platforms, that strategy is an age old strategy, which has worked well for the entire ecosystem, producers definitely prefer that strategy over releasing it directly on streaming and this applies more to big films where the yield per eyeball in theatre is still the highest as compared to all the other distribution platforms and theatrical in any case is pretty much the only pay per view platform, which is available in the Indian ecosystem. So for all these factors as far as the ROI metric is concerned producers find it much more lucrative to take a film theatrical and then release it on other distribution platform. That said because we have multiple streaming platforms and each one of them is competing with not just cinemas but also with their peers in the streaming platform space clearly they will have appetite for new film and to that end we expect that the production will expand their portfolio. Streaming platforms will continue to take some films for direct to streaming release, but that would not come at the cost of the number of films that we are releasing in theatrical in number or pretty much around the same number will continue to release in the theatrical platform producers will produce more and meet this incremental appetite or demand from the streaming platforms so that is the way we see things playing out in future and we believe both these distribution platforms will coexist beautifully and in fact will feed off each other and producers will have liberties now to make more films, better quality films and perhaps make much more money than they were making earlier.

Karthik Chellappa: Got it. Sir my second question is the similar thing, but from a consumer point of view, so if we look at let us say the ticket prices right now on a blended basis let us say if you guys are running at about Rs.150 to Rs.160 and on top of that if you put a spend per head of about let us say Rs.60 to Rs.70 that is about Rs.200 per head and if a family of three let us say were to go to a movie I am counting out the experience part of it because that is also an important factor I agree, but from a pure value equation if you are looking at let us say Rs.600 plus and if I were to look at the price points or the packages that the OTTs are offering on a monthly basis it is very, very compelling, it is almost that if you have let us say one decent movie in a two-month window and a good web series it is already good value for money, in that context I just want to have two questions number one does this mean that the share of the top 10 movies or the share of the top 15 movies in the box office will continue to increase because people will ration their visit to the cinema halls, number two does this in anyway inhibit your own pricing power in raising prices for tickets in states where it is allowed?

Kamal Gianchandani: Your first question whether the top 15, 20 grossers will continue to expand their proportion in the overall box office or the admission numbers, we do not think so because we have looked at the data of the last seven to eight years and this number although it has increased in a very steady fashion, but the increase has been fairly small and the reason for that is that there are big films and then there are films, which are known to be big films after they release, there are these sleeper hits, which do exceedingly well at the box office and exceed all expectations and frankly that is the DNA of the film business side, I mean producers are in this business because they have this portfolio they think more like a venture capital fund where maybe one or two films will perform disproportionately well as compared to the other films in the portfolio and those one or two films will make up for lack of performance by the other films, so this proportion is not going to change dramatically simply because India is a market, strive for content base films as well as blockbuster films so there are these big production big star cast films, but then there are also smaller films, which do exceedingly well at the box office after they release. We do not think that phenomena and that practice will change, people will keep turning out new content with exceptional talent, which is not yet established, but content which is so compelling that it will do well at the box office and as a result the proportion of the top 100 films the bucket that we normally look at as compared to the overall releases that will remain pretty much at 78% to 79% of our overall box office or admissions and that has been the case in the last seven to eight years we expect that to continue over the next three to four to five years also. The second question was can you repeat the second question?

Karthik Chellappa: My second question is whether this in anyway inhibits your pricing power to probably take up ticket prices in states where you are allowed excluding let us say the first two to three days of release window for a star movie like let us say for Master excluding that does this inhibit your pricing power?

Kamal Gianchandani: Well along with Master we have also had some smaller Tamil films, which released yesterday, the film called Eeswaran with Simbu now that is a small film, but again doing exceedingly well at the box office. There is a Telugu film called Red, which released also yesterday, which has also done exceedingly well. Our pricing power and when you were giving the backdrop to your point you said if you set aside the experience, but that is the most critical part of our business. The way people are wired, the way we have grown up, we are all used to out of home entertainment, and it is all part of the entire ecosystem. We do not look at people or this market as streaming or cinema situation we look at these two as an end situation where people would go to the cinemas, people would also go to streaming, spend a lot of time on streaming and now that time could be at the cost of reading, it could be at the cost of sleep time, it could be at the cost of television and other channels, we do not know we will see how things play out. Also please do not forget that when films released in theaters they are exclusive for some time. For a couple of weeks they are exclusive in theaters and films because they are part of the social fabric they create a discussion and cinema especially when films released in cinemas there is creation of an event and people like to participate in the event so perishable in nature, people love to go and watch it in the first three to four days of the first week or maybe the second weekend. So if you legally want to watch a big film or a small film, which you heard some compelling reviews of, you will have to go and watch it in cinemas because it would not be available on streaming platform. We are not looking at this equation where streaming and theaters will release the same film on the same day that equation is something, which we are not foreseeing, so there would always be some exclusive period within which the films would be available only in cinemas.

Karthik Chellappa: Excellent great. Thank you very much and wish you and the team all the very best.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you. For the three months and for the exit month what was the operational cash burn?

Rahul Gautam: If you look at our EBITDA loss is about Rs.108 Crores for the quarter so that is about Rs.35 Crores to Rs.36 Crores for the month that is the cash burn. Our fixed cost for the quarter was about Rs.159 Crores.

Dheeresh Pathak: Starting April 2021 when the concessions on the real estate go away so your fixed cost from Rs.52 Crores per month would then become like Rs.100 Crores per month right because you will no concessions on the real estate?

Rahul Gautam: Yes as Nitin mentioned during the call our rent, CAM and utilities they will go back to pre-COVID levels because those are contractual or regulatory payments to be made, for rest of the cost we are expecting a sort of a long-term sustainable reduction of between 10% to 15%.

Dheeresh Pathak: No I was just working on the math that you have given on slide 14, so you are showing Rs.52 Crores per month and there is Rs.450 Crores rental reduction for nine months so that is like Rs.50 Crores benefit you got on the rent right, so if that goes away and if I add that so roughly I am getting like I was trying to do it like that.

Rahul Gautam: If you look at our Q3 FY2020 number that is Rs.430 odd Crores of quarterly fixed expense..

Dheeresh Pathak: That is Rs.144 Crores per month in that pre-COVID quarter.

Rahul Gautam: Out of that if you look at rent, CAM and utilities that is about 55% to 60% of our cost. I am saying on the balance cost, which will be Rs.106 Crores of people cost and 90 Crores of other overheads, on this cost we are expecting 10% to 15% reduction.

Dheeresh Pathak: Understood. Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikram from May Bank. Please go ahead.

Vikram: Is there a ceiling on footfalls in the malls or shopping complexes?

Kamal Gianchandani: No, there is no ceiling on footfalls in malls or shopping complexes. There is a ceiling in terms of capacity utilization in cinemas to the extent of 50%.

Vikram: Why I asked this question was my personal experience and also as per some of the reports the footfalls in malls are only down by 20% to pre-COVID levels, is there any kind of mapping or colour or any analysis that you will be able to provide especially in case of malls, higher footfalls in the malls are seeing higher footfalls in theaters or the high end malls are seeing more footfalls, any kind of analysis, any kind of color on that, that would go a long way?

Kamal Gianchandani: Gautam you want to take this?

Gautam Dutta: Not really. We have not been able to find a correlation between footfalls to malls to conversion to cinema. I think largely our status would be driven by the content. So whenever we have seen now a film like Master release 80% of the footfalls being generated by the film are also feeding into the malls, so it is really a question of getting powerful strong content and we believe that in itself will be the main driver of footfalls to the cinema.

Rahul Gautam: Again Vikram just to add to what Gautam said we have been reading what various mall operators have been saying in terms of footfalls and they seem to be stating between 75% to 80% of pre-COVID level footfalls are back, now that is despite of footfalls not coming to cinema as yet, so I think as more content gets lined up the footfalls for cinemas will improve and the same will also reflect in the mall footfall.

Vikram: Fair enough. My second question is on the loyalty programme, is there anything special being done because it was sort of introduced just a few months before the lockdown and it did generate quite a buzz amongst your patrons and then of course there was a lull because of the lockdown and even now, so any initiatives special initiative that you have taken to attract or basically ask them to come first because we are already your loyal patrons?

Kamal Gianchandani: The loyalty is seen as a great tool for the operations today. We work very closely with our database and the loyalty programme simply to drive not only awareness the first level when we open cinema was about awareness about what all we have done and how safe cinemas are. We have also been able to sell a lot of gift cards over our loyalty programme it is just a matter of now waiting for content to drive in, but films like Tenet and Wonder Woman we were able to do a lot with our loyalty programme and garner some decent amount of footfalls through the campaigns we ran on the loyalty.

Vikram: Thank you and just my last question. So in the Western countries especially Europe and the America we are seeing a little bit of yo-yoing on the COVID numbers in general and what kind of effect, earlier in fact UK was open, their screens were open for a longer duration and then they shut and again the numbers have risen so what has been the trend or the experience there and what is the view with respect to India in that case anything that you have seen over there because of the yo-yoing basically, luckily India has seen more of a secular decline in the number of cases so I am just wondering if in case the numbers do spike up in our country?

Kamal Gianchandani: We have been in touch with the exhibition community in other countries on regular basis and it is really unfortunate that some of the countries in spite of all the resources, in spite of having a much smaller base of population I am excluding US when I say this have struggled with the virus and now have second and third waves of virus troubling the society as well as economy and we can speak more for India less for the overseas countries clearly what is happening in the overseas countries is all over the news channels and we are all watching it a lot of disappointment and it also creates some level of negative apprehension in our mind, but fortunately our government has acted in a very decisive fashion and I think we will have to give them the credit that in spite of having one of the largest populations in the world in spite of having meager resources, in spite of having a very federal decent life structure the government has done a fabulous job in ensuring that the cases come down and they have also opened the economy in a staggered, but in a very decisive fashion and various interactions that we have had with the government at different levels, they have assured us that this reduction of numbers is here to stay and the chances of likelihood of second wave or a third wave although it is impossible to predict if that will happen, but from the government's point of view we get a lot of confidence that it is unlikely these waves will come back and also to that end they have given us assurance that they would not encourage any sort of lockdown as we move forward.

Vikram: Alright thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: My question is with regards to F&B so can you give some colour on the F&B spend, so I want you to understand whether we have opened up F&B in all the theaters that we have opened up or it is selective on that side?

Gautam Dutta: We have opened it in all sites except for the fact that in Maharashtra we are serving F&B to be consumed in the foyer and because of which patrons are unable to carry their food articles inside the auditorium, but beyond that we are also operating on a bit of a curtailed menu so that we could sort of serve many more people and keep the strike rate intact. Beyond that all SOPs are being followed and PVR is going slightly beyond the SOPs to ensure that food safety and any kind of other hygiene processes are well maintained.

Hussain Kagzi: Okay and apart from that I just had one other question, which was with regards to like I just wanted to get a sense that what according to you would be the worse case scenario going ahead, I think there is no doubt that we have enough liquidity to survive this thing, but suppose say for even this quarter and probably for some part of the next quarter we are not allowed to go beyond 50% occupancy then what would be the way ahead like I just wanted to get a sense from what would be the worst case scenario from you guys?

Nitin Sood: I think we have survived the first nine months and three quarters our performance has demonstrated our ability to manage our fixed cost well during this time and this is for a period when we were shut. As we reopen the hope is that we will keep some of these costs under check and hopefully the revenue that will start kicking in with the new film releases will ensure that we get back to at least stop the bleed over the next few months. So clearly I think going forward looks much better. We think the worst is behind us and hopefully I think the cash burn over the next few months will be lower simply because I think we will also have some bit of revenues to take care of some of the incremental costs post opening. So that is broadly the thought process and on top of that as I said we will maintain a decent amount of cushion on liquidity front and we want to bolster that further and that is the way we are thinking about the business.

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

Nitin Sood: Thank you everyone for taking out time for the call. If I have not been able to answer all the questions on this call you guys can reach out to either Rahul or me directly and we will be happy to set up a separate call to address any questions that you may have and thank you very much once again for taking out time for the call.

Ankur Periwal: Thanks Nitin and thanks the management of PVR and thank you everyone for participating in the call.

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