



“PVR Limited Q1 FY-21 Earnings Conference Call”

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MANAGEMENT: **MR. AJAY BIJLI – PROMOTER, FOUNDER, CHAIRMAN & MD, PVR LIMITED**
MR. SANJEEV KUMAR – PROMOTER, CO-FOUNDER & JOINT MD, PVR LIMITED
MR. GAUTAM DUTTA – CEO, PVR LIMITED
MR. KAMAL GIANCHANDANI – CHIEF OF BUSINESS PLANNING & STRATEGY AND CEO, PVR PICTURES
MR. PRAMOD ARORA – CHIEF GROWTH & DEVELOPMENT OFFICER, PVR LIMITED
MR. NITIN SOOD – CFO, PVR LIMITED
MR. RAHUL GAUTAM – SVP & HEAD OF CORPORATE FINANCE

MODERATOR: **MR. ANKUR PERIWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the PVR Limited Q1 FY21 Earnings Conference Call 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 Steve. Good morning friends and welcome to PVR Limited Q1 FY21 post results earning call. As usual the call will be initiated with a brief management discussion on the quarterly performance, followed by an interactive Q&A session. The management team will be represented by Mr. Ajay Bijli – Promoter, Founder Chairman and Managing Director Mr. Sanjeev Kumar, Promoter, Co-Founder and Joint MD; Mr. Gautam Dutta, CEO, PVR Limited; Mr. Kamal Gianchandani, Chief Business Planning and Strategy and CEO, PVR Pictures; Mr. Pramod Arora, Chief Growth and Development Officer, PVR Limited; Mr. Nitin Sood, CFO, PVR Limited and Mr. Rahul Gautam, SVP and Head of Corporate Finance.

I'll hand over it to Mr. Ajay first for his initial remarks and then we can open the floor for Q&A. Ajay, please.

Ajay Bijli: Thanks very much. Good morning everyone. I'd like to welcome you all to the earnings call of Q1 results of 2021. As you are aware the cinema industry has been shut since mid-March even before the official lockdown due to COVID19 and therefore our results reflect the fact that we were shut throughout and we had nil revenues during this period. So Nitin will speak more about the results but just the headlines are this only, after adjusting for Ind-AS 116 for leases, our revenue was down to 13 crores, our EBITDA was down to minus 116 crores and our PAT was down to minus 141 crores. Due to COVID a lot of measures were taken by the company, short-term and long-term. There were temporary pay cuts, there were workforce reduction and various third-party contracts had to be suspended and we aggressively controlled our fixed cost to almost 78% reduction. So basically our run rate has come down to 32 crores in the first quarter per month our fixed cost as opposed to 150 crores odd as compared to last year's Q1. We continue to manage liquidity.

On the positive side, we were very happy that we were able to successfully complete our rights issue for 300 crores. Issue was subscribed 2.24X which is the highest oversubscription of any rights issue in the last 15 years. This really reflects the confidence the shareholders have got in the company as well as in the industry. We have about ~550 crores odd liquidity available now, including undrawn banking lines of ~150 crores which is sufficient to sustain our operations and meet all our obligations.

Another positive news is that cinemas have across the globe have started reopening and the initial box office response is very promising. Lot of movies are lined up and the entire Indian film industry and international film industry still have got lot of movies lined up for the

exhibition sector and we are looking forward to that. We have obviously revised our SOPs to make sure that consumer confidence is up when they come and we're totally committed to providing the best and the safest movie watching experience to our customers. We are just looking forward for the cinemas to open now. Thanks very much for joining once again and I leave the floor back to Axis to control.

Nitin Sood: Ankur, we can start with the Q&A.

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

Abneesh Roy: My first question is on the wages. So you have cut the manpower number and you have also taken the salary cut 25% to 50%. So once the operations come back, would you need to again rehire more people or it will be mostly on variable/temporary basis? And second, if you see Domino's in the broader same retail space has shifted permanently, at least in the medium-term towards a variable cost structure. So once you open up, is there a possibility that you can also shift to variable cost structure given next 6 months, the uncertainties are quite high on the revenue side?

Gautam Dutta: So to answer your second question first, we are already sort of on the variable cost structure very heavily. In the sense, most of our frontline staff are on the off roll format and so is our housekeeping and security. And that's one of the reasons why we were able to sort of suspend a few contracts. But having said that we very strongly believe that we are a people's driven organization. We have gone down to a level which we believe will be sustainable over the next 90 to 100 days of operations when we open. So we do not intend hiring any more people. We are training our staff very rigorously on new aspects of hospitality and multitasking so that we could sort of drive our business in a more efficient manner with the current staffing levels. So to answer your first question, we do not intend hiring anymore people for the first 3-3.5 months, see how business sort of ramp up and then we will take the calls further.

Abneesh Roy: One question on the outlook of the business. So globally, 70 countries, the cinema seems to have opened up. So what are the learnings from there? How do you get initial footfalls given India has the maximum COVID cases now on daily basis? And second, in India also, if you see, there are lot of learnings because malls have opened up, restaurants have opened up, in some places, pubs and bars have also opened up. So from there, are you getting some learnings and imbibing that also in your initial strategy in the first 4 weeks or first 8 weeks. Anything you will inculcate there?

Ajay Bijli: Abneesh, basically, the cinema first-hand experience of going out and watching movies is an incomplete experience till such time brand-new movies don't come. So I think all over the world, cinemas have opened more than 70-odd countries now. Initially, they were showing old films, catalogs films. Then now, all of a sudden, Tenet, Mulan all have opened, and the response has been absolutely amazing.

Also, the countries which have a very good local film industry, for example, South Korea, China, who are not dependent only on Hollywood films, so India falls into that category because 90% of box-office in India comes from Indian films. So we are very basically privileged and have an advantage over other countries, which are only dependent on Hollywood, those countries are doing predominantly well. So lot of South Korean movies have done very well. Chinese movies have done very well. So I think we would take a leaf out of that. I think the response in India is going to be along those countries. And as far as COVID cases are concerned, everybody knows they are going high, and its here to stay till such time a permanent vaccine or solution comes out. But all other activities have opened. So if all other activities have opened, then I think cinema doesn't prove to be any threat simply because there are multiple case studies now done by epidemiologists and virologists and doctors, which we have shared with the Ministry of Home Affairs as well now, where actually people are sitting in a dark room, most of the time, out of a 2.5-hour experience and looking at the screen, wearing a mask and not talking. So other activities, bars, restaurants, you still communicate, you don't go to a restaurant to sit quietly, you communicate. So the aerosol transfer in cinemas is the least. So in the pecking order, lot of countries have opened first cinemas, and then they've opened bars and restaurants. It's only in our country there's a perception just now that, okay, this is something where super spreading can happen. But scientifically, it's been proved that people do not communicate. They are quietly sitting, looking—not even looking at each other, they're looking at the screen and therefore—and people realize that. So the moment people have started going out, even in European countries and South Korea and all that they've realized that this is not a space where they should feel constricted or they should feel that something may happen to them. So we are just waiting for the cinemas to open, brand-new movies to come, and I think everything will be fine after that.

Sanjeev Kumar:

And I would like to add to what Ajay said, our own experience in Sri Lanka, where we've opened as well now, it's been more than a month, has been positive. So Mulan has done very well there. So when cinemas do open up and a new content and a new film comes and gets released, Mulan got released about a week ago. And people have tried to come back in. So I think the pent-up demand to come and watch a movie at a cinema is huge and once we open and new films come out, people will start coming out.

Abneesh Roy:

Just last follow-up. So in Sri Lanka, if you can tell in terms of F&B and advertising, how has been the response? I'm not questioning whether it is back to normal. I think it will take some time. But how has been the initial qualitative, quantitative feedback on advertising and F&B in Sri Lanka? And in terms of the Indian content, you mentioned, so if you could give us some color on Hindi and regional content next 3 months. So October, November, December, how is it?

Kamal Gianchandani:

Firstly, your question on Sri Lanka, the F&B; advertising is a bit early to speak about because it's just been a month since the cinema opened in Sri Lanka. But F&B is in fact clocking better than what it was doing pre-COVID because typically, we measure F&B as a percentage of our average ticket price and currently F&B is hovering at about 60% of the average ticket price, as

in the spend per head is at about 60% of the average ticket price at Colombo, which is better than the pre-COVID level. So that's on Sri Lanka, very encouraging numbers on F&B.

Coming back to India, as far as content supply is concerned, we've got some good mix of big, midsize and small films. In terms of big films, Sooryavanshi, 83, films from Yash Raj, and Yash Raj has been extremely supportive, pulled back their entire catalog and not just big films, but also their midsize films. In Tamil, we've got Master, which is still holding its release and they've come out publicly to say that they will wait as long as it takes for cinemas to open. Telugu has had very few films, which have gone straight to OTT, namely one film, which has gone to OTT, which is V. All other films have held back their releases for cinemas to open. Same for Malayalam, same for Kannad, KGF 2, which is a sequel to a very, very strong performing film, very strong franchise, KGF, which has also held back its release. And of course, there's a long slate of films, which are lined up for release in November, December in the foreign language, Hollywood category.

Abneesh Roy: And Sri Lanka ATP was, sir? That is my last question.

Kamal Gianchandani: Sri Lanka ATP in Sri Lankan rupees is at about Rs. 750 at present, which is comparable to what we were doing pre-COVID.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak Institutional Equities.

Jaykumar Doshi: Now I've got 3 questions. The first one is rent negotiations have been underway since about 4 to 6 months. Could you please provide some color based on your discussions with developers? Or rather, what would be your base case at this juncture for the 3 phases, if I may, Phase I when malls were locked down; Phase II, which is the current phase where malls are operational but cinemas are not allowed to operate and Phase III, which is eventually when cinemas operate. What would be your base case? What should we build? And second is, you have fully provided for CAM. Does it mean that you are prepared to pay CAM during the lockdown period as well? So this is the first question, and I'll come back with other questions, please.

Pramod Arora: My name is Pramod. I'll respond to this query. So we have been in touch with our developer partners. And in the first bucket that you had suggested when the malls were closed, large number of developers have agreed for waiving of the rent.

For the second bucket, when the malls are operational and the cinemas are not, till such time the cinemas are not operational, the developers would waive off the rent component. When it comes to CAM, while we have provided for, large number of the developers would only be charging CAM to the extent of their actual outgo, which will be a lower number during the time the cinemas were closed or during the time the malls were closed. Once the malls opened and cinemas have not opened, this number may shift to slightly higher proportion of the Pre-Covid. That is how we are looking at it. Does that answer?

Jaykumar Doshi:

That's very clear. And second question is, could you please comment on sustainable cost savings. So as per my understanding, your monthly fixed costs were ballpark in the range of Rs. 150 crores, if I assume electricity as well as employee costs as fixed costs? Or to put it the other way, your monthly employee expense was Rs. 36 crores which has probably come down to Rs. 12-13 crores in August. Now this will again go up to a certain level once cinemas operate. But if you were to move back to 30% plus, 32%-33% occupancy, would you go back all the way to Rs. 36 crores in case of employee cost or you think you will be able to operate at about Rs. 30-odd crores? So at an overall level, should we expect 100 to 200 basis point expansion in margins as compared to pre-COVID levels once you get back to similar occupancy is the question?

Nitin Sood:

So, I'll answer that, Jay, for you. So the management has taken several measures. Some of the measures that we've taken are temporary in nature consequent to shutdown of cinemas and some of the measures are long-term and permanent in nature.

Like you rightly said, some of the costs will go back once cinema is open. But in some of the costs like employee costs, specifically, we think the costs will be at least 15% to 20% lower on the long-term basis given what we've managed to achieve. And we definitely intend to operate with much lower headcount levels in the long term, given some long-term restructuring that we've managed to achieve in the overall scheme of things.

Also some of the other expenses and overheads will come down. At least in the next 6 months post opening, those expenses will at least be 20% lower, 20% to 25% lower than our traditional run rate. Some of the other costs, etc. electricity and so on will also, at least in the next 12, 18 months, will be lower given the fact that several state governments have announced relief for the industry, general industry. Post opening, some cases, minimum load charges have been waived out; Maharashtra has reduced the electricity tariffs by almost 8% for the next 4 to 5 years. Similarly, lot of states have taken these measures. So cost structures are definitely going to be lower. And till the time business generally bounces back to normal, all mall operators and retailers will try and keep their costs lower. So you will see lot of permanent cost reduction. It's very difficult to put a number. But clearly, I think between 15% to 20%, especially in two heads, which is employee cost and other expenses, we think we'll have long-term cost savings.

Jaykumar Doshi:

That's again very clear. It's helpful, Nitin. My final question is on screen additions. Now in the presentation, you have indicated that 30 screens are 70% to 95% complete, and another 28 screens are under fit-outs. So for these 2 buckets, what is the CAPEX that you need to incur to sort of commission the screen?

Rahul Gautam:

For the 30-odd screens that we are talking about, we need to spend in total including what is currently outstanding for the work already completed about Rs. 40 odd crores. And for the balance, 28 screens, our CAPEX outlay will be in the range of Rs between 55-65crores.

Jaykumar Doshi:

And earlier, pre-COVID, our expectation was adding 90-100 screens for the next 3 years. Now if we are able to sort of get to a normalized environment in FY22, will you still be eyeing the 90-100 screens or you will probably be a little bit conservative in FY22?

Pramod Arora: No, no, no. We'll absolutely be going forward with that sort of screen count, which would be range bound to the number that you suggested, provided those sort of opportunities exist in the country in terms of the mall developers coming up with such infrastructure.

And our belief is that there would be a similar or a higher level of opportunity in the coming years, especially in the coming 3 years because it will also go in the same direction that there would be malls, which have being left unfinished to the extent of 40%-50% and so on and so forth. So they'll all get into the market and huddle up and basically provide infrastructure for us to put up screens.

Jaykumar Doshi: So at this juncture, you're not seeing any permanent cancellation of any mall projects given the environment?

Pramod Arora: No, not so far. In fact, whatever signings we have done, there has not been a case wherein there has been a cancellation or except for suspension, which is temporary in nature, it seems to be industry back on track.

Moderator: The next question is from the line of Yong Zhen from Tokio Marine.

Yong Zhen: So based on all these cost reductions that have been mentioned, I think in the presentation, you said that your fixed cost in second quarter has been further reduced to Rs. 35 crore and from the questions asked before. What's the breakeven seat capacity now based on this sustainable new cost structure? That's my first question.

And second question, is there any discussion about monetizing some of your content through third-party OTT platforms, given just uncertainty of timing as to when the cinemas can restart. And with all the new cases as well, whether that time line is being pushed back? That's the 2 questions I have.

Nitin Sood: So I'll answer the first question. I didn't get your second question clearly, but I think it was relating to OTT. So I'll request Kamal to answer. See, given the short-term cost reductions that we've kind of currently achieved, our endeavor is to try to achieve a breakeven between 18% to 20% occupancy levels which was earlier around 23% to 24% occupancy. With the lower cost, we aim to try to break even at these occupancy levels.

Your second question on OTT, Kamal, will you take that question?

Kamal Gianchandani: Yes. Thanks, Nitin. So as far as the exhibition business, which is our main bread and butter business, we license only theatrical rights from the producers and distributors. We are not the right holders as far as OTT or streaming platforms are concerned. But PVR Group is also a prolific distributor of foreign language and local language films. And there, specifically for foreign language films, we also have streaming rights. We also have television broadcasting right and those we continue to license. So that's business as usual. That's been business as usual even in COVID.

Yong Zhen: So for the traditional films, those rights for the Cineplex and the rights for OTT are separate. And you're saying that you're unable to monetize those rights through a third-party OTT platform even if you wanted to in current period when there's basically zero demand and with COVID cases rising, it's not clear when the cinemas open. Is that the right way to understand this?

Kamal Gianchandani: I think the right way to look at it that as exhibitor, PVR Cinemas has only theatrical rights to exploit. OTT or streaming rights are left with the distributor or with the producer. PVR Cinema doesn't have those rights to exploit.

Moderator: The next question is from the line of Harshit Toshniwal from Premji Invest.

Harshit Toshniwal: Sir, two questions. One, carrying forward from a previous question on rent, specifically. So we agree that maybe the rent in the coming quarter might also look very similar to what it was this particular quarter. But going forward, how do you see that this rent cost to be flat typically at Rs. 2500-3000 per seat average per month. Are we talking to developers about changing this to a purely variable model? If you can throw some light on how that can look.

And second is that what have been the interactions with the regulators on the opening date? So obviously, where are we in the conversation cycle? And how are the expectations at this point of time?

Pramod Arora: This is Pramod. I'll answer the first question and the second one would be taken up by Kamal. In terms of the rental, you are talking about the future outlook. Yes, we are in touch with our developer partners to come out with a model, which can be more variable than fixed. But our overall objective would be that we should be able to get to that Rs. 3000 per seat per month sort of a rental, getting on from our revenues. If you are able to make those sort of revenues, then we should be able to provide Rs. 3000, whether it is in the form of a variable or in the form of fixed. But yes, we are gunning towards getting more variable than fixed.

Kamal Gianchandani: Thanks, Pramod. This is Kamal. On the second question that you asked, we remain in active engagement with various government ministries. And the government has been extremely supportive. We presented all the information that they have seek from us. We've shared our SOPs. We've spoken in detail about what's happening in the international market. The decision is for the government to take and I don't think we'll be able to speak on behalf of the government. But all we can say is that we remain quite confident that end of September, when the government announces Unlock 5, we remain extremely hopeful and also confident that cinemas would be included in the announcement. That said, there is no commitment or communication from the government as yet. So we'll have to wait till the announcement at the end of this month.

Harshit Toshniwal: On the EBITDA, so clearly, we had around Rs. 100 crores-115 crores of EBITDA loss in Q1. Now I understand, you talked about the cost and the revenue buildup. But should we see that this is the peak EBITDA, which we'll try to manage for the next few quarters. Are we targeting it that way also?

Nitin Sood: No, so if you look at our presentation and the guidance that we've kind of given, our Q2 fixed costs are likely to be lower than the Q1 fixed cost. So EBITDA loss in Q2 since we are shut, is likely to be lower because of incremental cost reduction measures that we've taken but hopefully, once we open cinema, things will change and lot will depend on how our occupancies build up and how some of the post opening costs are reflecting and how much time does it take for us to ramp up. So it's difficult to give an answer. I think first 60 days post opening are likely to be the more trickier one because it will take time for occupancies to ramp up. But I think after that, we should quickly hit the breakeven level and then move on to the positive territory.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: Sir you mentioned about Tenet. So if we look at the data closely for Tenet, the US Labor Day weekend opening has not been very great. So if a similar situation arises for fresh content in our country and obviously in that case, the cash burn might actually increase for us. So what is the plan B in such a situation after reopening?

Ajay Bijli: So, if I can answer. This is Ajay. As I mentioned earlier in my opening remarks for the question that was asked to me earlier, that India is not a Hollywood-dependent country at all. I mean, Hollywood makes about 100-120 odd movies in a year. And India, through our system, about anything between 1000 to 1200 films go through the system, and 90% of the box-office collection are from Indian films.

Secondly, we're all spread out. If you look at the presentation, you'll see that bulk of our screens, around 200+ are in the South. We have equivalent amount of screens in the South, West and North and a little bit in the East. So we have a very diversified content that gets played in our cinemas.

So Tenet, also it opened in fits and starts in America, not everything opened straight away. So I don't think it's a right comparison to compare US to India at all. We have a lot of films coming of South India, lot of movies from the Indian film industry, Hindi film industry, so I'm not worried if Tenet is something that hasn't done well, Kamal will tell you exactly the numbers, but whatever I read, \$200 million it has already done. Kamal, what's the collections of Tenet already?

Kamal Gianchandani: It's crossed \$200 million. And I think you've summed it up really well. Tenet has done exceptionally well in the international markets. In most of the markets outside of US, the film has exceeded all expectations. Also the director of the film, Christopher Nolan, is known to make films which don't open big, but they tend to have very long run at the box-office. It could be one of those in US and frankly, time will tell whether it's one of those or it continues to underperform. But internationally, the film has done exceedingly well.

Sanjeev Kumar: And I don't think that weekend probably is a good benchmark because there was so much warning that came from doctors and virologists in the US to be extra cautious on the weekend. So I think maybe people may have avoided going on that particularly weekend and there's also

other issues faced in the US like fires and all the rest of it. But as Kamal said, these movies do have long legs and it's very early to sort of like give any judgment on its box-office.

Swagato Ghosh:

No, point well taken, but the second weekend numbers were actually down quite sharply for Tenet. But what I meant is what Tenet is for US markets, maybe Sooryavanshi or 83 is to the Indian market. I did not mean specifically Tenet's performance, what I wanted to understand is the expectation that we have that fresh content will bring people to the theaters, like without any second consideration, if that does not happen. So after reopening, if we come across that situation, can we then again stop and then maybe start again after maybe the whole virus thing has subsided? I just want to understand that bit. That what is our plan B on that front if fresh content does not do the trick as we are expecting?

Gautam Dutta:

See, we are in a business where we keep getting new content every Friday and it's happened in the past as well that some big touted films don't open so well at the box-office but that doesn't sort of change the business model. Consumers come and today you also need to understand that we are no longer in just a business of showing movies. We are in a business of out-of-home entertainment. People like to come and spend time at the cinema. Content is, of course, very-very-very important. However, there are many other aspects to now a movie watching experience. So as long as there is content, big or small, this is a part of our business that some movies will do well and some won't. But that doesn't mean that we'll need to take a step back. We only keep moving and wait for another 7 days for the next big film to come. So that's how we've run this business, and we see no change there at all.

Nitin Sood:

Also to add on to what Gautam is saying, if your question is, will we look at shutting down the cinemas again and then reopening later, the answer would be no because we'll have to sustain. As I said, first 30 to 60 days could be slightly more tricky as we build confidence among the consumers to step out of the homes. What we are seeing in terms of initial signs and shopping malls, especially in lot of states, the traffic build-out is really improving every consequent week. So every week, the consumer confidence to step out of the home is getting better in most of the micro markets in the country. And I think we will have to go through that process. Obviously, we'll be beneficiary of the fact that already, lot of people have begun to start getting into shopping malls and we will try to continue with that. And if occupancies are lower, I think we will have to focus on managing our costs slightly better in the immediate short-term rather than thinking about shutting down cinemas.

Swagato Ghosh:

And second question is a clarification. In the last month, there was a small multiplex chain which was up for sale as part of the NCLT process. Can you disclose any details on that, if you participated in that or were we looking into that deal at all?

Nitin Sood:

So I can say that we have not participated in that NCLT process or bid for that chain.

Moderator:

The next question is from the line of Vikram Ramalingam from Maybank.

Vikram Ramalingam:

My question is I'm sure the theaters will reopen soon. Do you believe that the reopening will be all across or do you think it will start from areas or cities where the cases are low, so

typically Tier II-Tier III cities where the cases are low? And if that is the case places like Mumbai will see only a gradual or a later reopening. Do you think it will be slightly to a disadvantage because a lot of our ticket sales or footfalls are from the top 3 or 4 cities and would that affect us negatively?

Ajay Bijli:

Can I just say something here that I answered that earlier also, that in the pecking order from a super spreader or something that transmits this disease, cinemas come way below restaurants and bars and hospitality and airlines. So that is what we have been able to convince or at least are talking to various state governments and with proper studies because as I said earlier, cinemas are a place where people don't talk. They don't communicate. If you're wearing a mask and you're looking at the screen, you're not talking, therefore, the chances of the virus spreading is much lower than places where you are looking at each other and talking. So from that point of view the government is getting convinced now. Having said that first, the Ministry of Home Affairs has to give us green signal as Kamal said by the end of the month hopefully, when the Unlock 5.0 is announced then the state governments will take a view. But my feeling is because they have opened all over the world with various leisure activities and outdoor activities, it'll open in one go but states will take their own decision which we don't have control over. But it won't be a function of where cases are high or cases are low because wherever cases are high also, other activities where people are much more vulnerable have already opened.

Vikram Ramalingam:

My next question was on F&B. A lot of companies are facing supply side challenges with respect to F&B now. Do you foresee any when you reopen or that has all been taken care of?

Gautam Dutta:

That's all being sorted. We've got very solid logistic partners and we have got a backing or we work with very large F&B players and we don't foresee any of those problems at all.

Moderator:

The next question is from the line of Naval Seth from Emkay Global.

Naval Seth:

I have two questions. One is continuing with the last one. As you rightly mentioned that first central government will come up, whatever the decision is on cinema opening and states will accordingly take into account those things. But have you sensed any different undertone while interacting with various state governments and central government because 60% of the cases are in 5 large states, which contribute decent chunk of box-office collection.

Ajay Bijli:

We've spoken to state governments. The state governments have all directed us to MHA and the response has been pretty encouraging. We're just waiting for the Ministry of Home Affairs to give the direction and after that, the responses have been quite encouraging from the state government. We can't take any decision unless they get a direction from the centre but as I said now opening of activities has become agnostic to cases otherwise why would you have restaurants, bars, hotels, airlines all that opening.

Sanjeev Kumar:

And Metros also which have opened now all over.

Ajay Bijli: Metros have opened, so many things have opened. So that point is been driven home and everybody is understood it that why should cinemas be singled out and co-related to cases only whereas all other activities also which are co-related cases, those have already opened. So this is a discussion about a month ago but now everybody is reconciled to the fact that the economy has to open up and the sector has to open up.

Naval Seth: And as you had mentioned that as consumer confidence is moving up and people moving to malls has been kind of encouraging. So have you got any data from the mall owners or the large mall owners where you have screens, what in percentage terms also month-over-month how things have improved in terms of footfall? I mean has it doubled, it is still only 20% of pre-COVID, any numbers to throw over here?

Ajay Bijli: I don't have any numbers. Pramod can throw some light but we have joint at the hip with all the mall owners as you know so to speak but even in the malls, restaurants took their time, the government had a restriction of 9 O'clock earlier. So as retailers, mall operators some have settled their rental issues, some have not settled their rental issues. So as the unlocking of these activities takes place as well the footfalls are increasing a proportion to that. So in a way it's very good for us because all these issues are resolved, restaurants are opening, bars have opened, liquor is being served, retail outlets are open and now we will be opening. So it's pretty right for us to open and as I said the numbers are only going up. It is difficult to compare month-on-month because every month there was a restriction, which restriction has gone away now and so I think it's only going up. Some of the weekend numbers are quite encouraging even without cinemas.

Naval Seth: And last question is on industry consolidation. If you can share your insights on single screens and as well as smaller chains with few count of number of screens. Is there a clear sign of consolidation happening, not from you participating in M&A but either permanent shutdown or you are seeing lot of challenges for them to reopen once it is allowed as well.

Ajay Bijli: It's very fragmented now the industry. You have three or four multiplex chains which are representing about 3000 odd screens and then you have 6000 single screens. So difficult to have and all the 6000 single screens will have 6000 owners. So it's difficult for consolidation to happen, the way it has happened in America and all because there are only few chains which are representing 40,000 odd screens. Kamal would you like to add something?

Kamal Gianchandani: I think Mr. Bijli has covered it quite well but I would only add to the extent that the pandemic has certainly accelerated the need for consolidation, the market is extremely fragmented but it was consolidating in any case in a gradual fashion but this pandemic looks like is going to accelerate that process. That's our sense, we are not actively engaged in any conversation at this point but our sense is that once cinemas are allowed to reopen may be in a month or so you would see some action in that direction.

Moderator: The next question is from the line of Samir Arora from Helios Capital.

Samir Arora:

I had one question that if on a scale of 0 to 100 how much percent do you think your business has been disrupted? If there are six or seven OTTs and they are all buying content and people have limited amount of time plus there is a limited or a shorter window now between hall and going to OTT at least in US because you guys seem to feel that it's all temporary even if it's for 1-year. You think there is no big picture disruption?

Ajay Bijli:

Because OTT was always there even before cinemas were shut down and we are comparing the shut shop with an open shop which I don't think is fair and windows haven't reduced anywhere in the world. It's only that some movies have gone directly to the OTT platform only because cinemas are shut. Once the cinemas are open for economic reasons that's nothing to do with a self-fulfilling prophecy because we are in the exhibition business. So purely from economic reasons the filmmaker, 60% to 70% of the revenues of any content that gets created comes from theatrical. So most of our conversation, all of our conversation that producers in India, studios in Hollywood are only appointed with the same direction, they are waiting for the cinemas to open and then monetize their content, the way it has traditionally always been monetized where in the first platform, distribution platform is really the cinema. You pay the movie out there, you maximize your revenues, it sets a benchmark for other windows, other channels where the content can be monetized and those channels also wait for the box office collections before they can put a price to it. So it is very difficult for today, the OTT players went ahead and bought content because shootings were not happening even of their long-form TV shows. So they also didn't have any content, they also did not have any sporting activities, so many channels, cricket, all that was not going on. So they wanted some content so they went ahead and bought. Similarly the producers also didn't have the cinema channels so they went ahead and sold but currently the moment the cinemas open there is no disruption that has happened to the windows so far and the normal run or the journey that content goes through, theatrical first followed by OTT, followed by satellite, followed by airlines, hotels all that other stuff or TVOD or SVOD is what is going to happen. I don't think 6 months or 7 months actions are going to change the way that this industry has been working for multiple decades.

Samir Arora:

Practically time is also limited, forget about money and second thing is what about, okay we agree then 1983 everybody may want to see Hall or Nolan's movie then what about the tail? How much percent of the revenue comes from movies which are \$4 million cost or 5 million which somebody can buy and show it on Netflix or Amazon. Not every movie is a big movie. I agree that what you said big movies you have to see in the hall, what about a smaller movie which you are still going to the hall these days or were going because practically the thing is, I think you should go a little bigger picture. If practically there are going to be six OTTs, how does it work? I mean that you will say that those OTTs will fall off because if the time is limited, forget about anything else.

Ajay Bijli:

You are asking me a question and answering also yourself, so what you want your first tell me.

Samir Arora:

I am trying to prompt you that the thing is that explained in that context that how does it work out in the end that there are the six heavily or four at least well-funded OTTs and then the

smaller OTTs, how does it work out in the end? What I am saying is your growth plans and all you have to think of all this not just bulldoze into it that's all I'm trying to say.

Ajay Bijli:

No first of all, definitely we are not going to bulldoze into anything but I just want to tell you that first of all the good news is that people are not just coming and seeing blockbusters at the cinemas. If you look at the last 3 years box office collections of India what you call sleeper hits, smaller movies of, for lack of a better example of Ayushmann Khurrana, Rajkummar Rao, people like Vicky Kaushal or Taapsee Pannu, Vidya Balan these kind of movies, smaller films, Raazi of Alia Bhatt are the ones which have done well. So that's the beauty of the Indian market, I don't want to compare it to the US just now because India has so much quantity of movies that are coming in that even if one big movie doesn't come a smaller movies makes up for it. And these are all movies which have done (+100 crores). So budgets may be small but the revenues have been amazing. Secondly again Indian market, again I don't want to, India is a very peculiar market, #1 form of out-of-home entertainment is movie going. 1.45 billion tickets got sold before the cinema shutdown last year. So people still find that for a small ticket, other activities, leisure activities which may be expensive, travelling, going to hotels, going to holiday resorts, buying expensive things all those take a beating but after a recessionary period a small ticket entertainment which gives you 3 hours of escapism has always done well. Historical evidence has already always shown that and I continue to believe because with all the service that we are getting, people #1 out-of-home entertainment for Indians is going out and watching movies and people are not designed to remain at home. People are fatigued, they are fed up of being at home and therefore I believe the two engines which have always made our business work; one is the film industry relentlessly coming up with lot of movies and the other is the Indian consumer wanting to get out and consume movies.

These are the factors that have helped us survive pre-COVID, they will also help us survive post-COVID is my belief. As far as OTTs are concerned, they have deep pockets because they are very judicious in the way they spend their money. Nobody can have deep pockets if you don't know how to spend money. So they know that they cannot pay an arm and a leg for every content that gets made. They wait for the box office results, they wait for the, otherwise you could have a movie that completely bombs and they would have paid a lot of money for it and nobody is going to watch it on their OTT platform either. Therefore the harbinger or the benchmark for any movie content box office collections as well as consumer reviews is always theatre. It has always remained theatre since time immemorial and will always remain theatres. That's the time the other platforms which have to buy content then they decide okay this movie did well and now this is how much I am going to pay for it. So however if the movie is only made for OTT or if a TV show is only made for OTT that's a separate question altogether. I am only talking about movies, 1000 odd movies that are made for theatres in India. Their benchmark is set only after they are released on the big screen. Nothing is indicating to us by having deep conversations with producers, content makers nothing is disrupting that in the 6 to 7 months of shutdown.

Kamal Gianchandani:

Can I add something what you said Mr. Bijli?

Ajay Bijli:

Yes.

Kamal Gianchandani:

Three points, one is cinemas have an experience or they offer an experience which is hard to replicate. The reason I say that is that even pre-COVID streaming has been around for a long time in US and in India pre-COVID streaming was really aggressive, super aggressive in the last 3 years 2017-18 and '19. So if streaming had to replace cinema going, streaming is definitely replacing something. Probably its broadcasting or probably is reading a newspaper or spending time with your family, something is certainly getting replaced but is certainly not cinemas because if streaming had to replace cinemas it didn't have to wait for COVID. Netflix and Amazon have always had deep pockets, Disney+ Hotstar is always been very focused on India as a market, very special market for them and then there are a bunch of smaller players who probably at this point finding it tough to sustain but these three definitely have deep pockets and they have always had deep pockets so this replacement had to happen if consumer had to substitute their time that they are spending in cinema with streaming it didn't have to wait till COVID, it would have happened much before that. So this is where the confidence that this displacement of time or streaming becoming a high priority entertainment area for customers seems to be a temporary phenomenon and not a permanent setback for out-of-home entertainment.

Second is producers, the content suppliers. They will go wherever the customers are, its commerce at the end of the day. If cinemas can throw money on table, it's in producers' interest, content creators' interest to have more formats, more distribution channels and not less. So a producer is more happy if there cinema streaming, television, even DVD, even YouTube which AVOD advertising VOD so producer wants more and more platforms because they have more opportunity to slice and dice their content. So it's in their interest to have cinemas up and running and prospering because in Indian context we are still terribly-terribly under screen. Third is that there is a positive cycle at play. If you look at the last 3 years pre-COVID cinemas have done the best business, best box office in the last 10 or 15 years and this is the time which coincided with streaming becoming extremely aggressive throwing top dollar at acquiring content as well as acquiring customers. So clearly the money which is going into the film industry from streaming platform whether is 2000 crores or 2500 crores every year, is going into making bigger and better and bolder films and that is getting people back to cinemas because ultimately when those films get made it comes back and relations cinema. So there is also a positive cycle at play which is likely counterintuitive to see, to acknowledge but because we are in business and we can sort of sense it that in the last 3 years streaming has in fact aided the growth of cinema and not replaced, acted as a substitute, it was cannibalizing cinema that's been our reading. So this is in addition to what Mr. Bijli said.

Moderator:

We take the next question from the line of Deepak Mehta from MetLife Insurance.

Deepak Mehta:

My question is that, is there any SOP you have prepared so what will be the frequency for show, it will not be pre-COVID level I think due to sanitization and all the procedures, if you can throw some light on this?

- Gautam Dutta:** So while we are waiting for the government to come up with their set of rules, regulations and SOPs around it but what we have planned is that we are giving extended gaps between each show, we need roughly about 10 extra minutes to do that deep sanitization which will be taken and beyond that you would have seen our videos and communication that we would have sanitization, masks, shields, UV cabinets, all of that is being already ready and ready to be rolled out across all cinemas but as we await for the final set of SOPs from the government which we will completely adhere to going forward but in terms of gaps as I said we will have about 10 to 15 minutes of additional gap between each shows, that's all we need.
- Deepak Mehta:** And my second question is that, that about the consumer demographics. So do you have any breakup of how many, by age wise what is the revenue breakup because I think the older population and maybe young children will not be coming to theatre and most of the folks will be from college group or maybe young working professional?
- Nitin Sood:** If you look at the broad breakup of our consumer, almost 75% of our customers are less than 40 years of age. So that is the bulk of the demographic anyway for us. 75% to 80% of our consumers are less than 40 years of age, so I don't expect that will have a material impact. Yes some of the elderly population above the age of 60-65 years may choose to stay away from cinemas in the initial few months and that's likely to happen but I don't think that's a material part of our customer base anyway. So we don't expect that to have a material impact.
- Deepak Mehta:** Any plan or strategy to show some sports events such as IPL in case of no movie release, no major movie released?
- Management:** We are in conversations but we haven't really got any confirmation so far.
- Management:** And besides there is a lot of new content. I don't think content either Hollywood, there is some Hollywood movie that are lined up, if not big one but medium sized one Hindi and regional. So I think content will start flowing in once we open and we are not looking at any other supporting event.
- Moderator:** We take the last question from the line of Anurag Dayal from HSBC.
- Anurag Dayal:** The first question I have that now we expect occupancy to be little low when cinemas open. So has there been any push from the producer, distributor side to increase the revenue share may be lower than the window, may be temporarily if everything is normalized?
- Kamal Gianchandani:** This is sensitive information. Most of our discussions with the content suppliers are confidential in nature; we would not be able to comment on it. That's all we will say at this point.
- Anurag Dayal:** And second question is basically the content flow also could be little low when it opens. So is there any, I know it might be sensitive as well but is there any talk that some of the movies which have been already been released on OTT and they might look for a theatrical release again. So are you considering those as an option?

Kamal Gianchandani: So content flow is expected to be steady. Yes it will be uneven in the first maybe 3 to 6 months but is surely expected to find its rhythm back after the initial phase of the opening is completed. On the second part no there is absolutely no intention to play a film which is released on OTT or television or any other platform. Cinema has enjoyed this unique exclusive window for a decade, almost a century. There is absolutely no compromise on that. So a film which is released on streaming or television we will not be releasing it in theatres.

Anurag Dayal: In Sri Lanka does seem very encouraging time. So just wanted to check how much has been the occupancy there as you can just figure and how it was before pre-COVID? Has it already touched that or there is still some gap?

Kamal Gianchandani: Early days we have just had two brand-new films which have released their which are Mulan and Tenet. The occupancy I would not get into specific numbers at this point but is close to about 65%-70% of pre-COVID level showing extremely encouraging trends, our ATP is a similar number as pre-COVID level as I shared earlier and SPH has been in fact much more than what we expected it to be. SPH is spend per head, has been much more than the expected number, so we are at about 65%-70% level as and when there is a brand-new film.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Ankur Periwal for closing comments.

Ankur Periwal: Thank you everyone for participating in the call. I hope all your questions got answered. Gautam, Nitin would you like to add any closing remarks?

Nitin Sood: Thanks Ankur. I hope we have been able to answer most of the questions that everyone had. In case we have not been able to address any specific queries I would request you to reach out to me or my colleague Rahul Gautam and we will be more than happy to answer your queries. Thank you very much.

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