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Conference Call Transcript

INOX Leisure

Q3FY15 Results

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Corporate Participants

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Mr. Alok Tandon
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Mr. Upen Shah
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Questions and Answers

Moderator: Ladies and gentlemen, good afternoon and welcome to Q3 FY 2015 Financial Results Call with the management of Inox Leisure Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during this 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. Alankar Garude, Manager, IE Research, Edelweiss Financial Services Limited. Thank you and over to you Mr. Garude!

Alankar Garude: Thanks Mallika. Good afternoon and a warm welcome to all participants. We at Edelweiss Securities are very pleased to host Inox Leisure's Q3 FY 2015 Earnings Conference Call. From the management, we have with us Mr. Deepak Asher, Director and Group Head, Corporate Finance. Mr. Alok Tandon, CEO of INOX Leisure and Mr. Upen Shah, CFO of INOX Leisure. Thanks to the management for this opportunity. Now I would like to handover the call to the management for the opening remarks, post which we will have the Q&A session. Thank you and over to you sir!

Deepak Asher: Thank you very much Alankar. A very good afternoon to all of you. This is Deepak Asher here, Director and Group Head, Corporate Finance of the INOX Group of Companies. I am joined on this call by Mr. Alok Tandon, the CEO of the company and Mr. Upen Shah, who is the CFO of the company.

On behalf of the management and the Board of Directors of INOX Leisure Limited I am pleased to wish all of you a very Happy New Year and to extend to you a very warm welcome to this earnings call organized by Edelweiss. I am extremely grateful to all of you for the time and the interest that you have shown in tracking the performance of this company.

We have just concluded about half an hour ago, the board meeting of INOX Leisure Limited and the board has approved the financial results for the quarter ended December 2014. While the results and earnings presentation have been uploaded on the company website, the results have also been forwarded to the stock exchanges, where they are available for downloading by all of you.

I would like to take you through some of the key financial and operational highlights regarding the performance of the company. The comparisons that I have done for these financial numbers are: a YoY comparison, which is comparing Q3 of FY 2014 with Q3 of FY 2015; and a QoQ comparison, which is a comparison of Q2 of FY 2015 with Q3 of FY 2015. Where relevant, I have also compared the cumulative nine month figures of FY 2014 with the cumulative nine month figures of FY 2015.

If you look at the first operating parameter which is the gross box-office collections, gross box-office collections grew from INR 142 Crores in Q3 of FY 2014 to INR 201 Crores in Q3 of FY 2015, registering a growth of 42%. Total

revenues grew from INR 216 Crores in FY 2014 Q3 to INR 305 Crores in FY 2015 Q3 which is a growth again of 41%.

EBITDA grew from INR 28.4 Crores in Q3 of FY 2014 to INR 50.4 Crores in Q3 of FY 2015, a growth of 77% and PAT grew from INR 6.47 Crores in Q3 of FY 2014 to INR 14.30 Crores in Q3 of FY 2015 a growth of 121%.

If you compare these very parameters with Q2 of FY 2015 gross box-office collections grew from INR 180 Crores to INR 202 Crores which is a growth of 12%. Total revenues grew from INR 267 Crores to INR 305 Crores which is a growth of 14%, EBITDA grew from INR 37.3 Crores to INR 50.4 Crores which is a growth of 35% and the PAT grew from INR 5.2 Crores to INR 14.3 Crores which is a growth of 173% on a QoQ basis.

So this is a brief summary of the financial snapshot.

In terms of physical parameters, the total properties that we have opened so far in this year are six properties, 17 screens, 4100 seats. In the first quarter as you might recall we had opened one property with three screens, in the second quarter, we have opened three properties with ten screens, in the third quarter we opened one more property with one screen and we have in the last 15 days, in this quarter, opened one more property with three screens which makes the total property count at this point of time 94 with 365 screens operational and 97039 seats so just to say that again we are currently present in 17 states, 51 cities which is the largest city footprint of any multiplex chain in the country. We operate 94 properties, 365 screens and 97039 seats.

On the operating parameters, backed largely by very good quality content in this quarter, we have seen footfalls grow from 8.8mn footfalls in Q3 of FY 2014 to 11.6mn footfalls in Q3 of FY 2015 which is a growth of 32%. On a cumulative nine-month basis footfalls grew from 30.4mn in the nine month ending December FY 2014 to 32.6mn in the nine months ending FY 2015 which is a growth of 7%. Occupancy numbers have improved from 26% which is what they were in the last quarter which is Q2 of FY 2015 to 28% in Q3 of FY 2015.

Improvement in footfalls has been accompanied by significant improvement in average ticket prices as well. Average ticket price which was INR163 in Q3 of FY 2014 has gone up to INR175 in Q3 of FY 2015 which is a 7% growth. On a QoQ basis this has grown from INR162 which is what it was in Q2 of FY 2015 to INR175 in Q3 which is 8% growth. On a nine month cumulative basis our average ticket price was INR157 in FY 2014 which stands at INR166 in FY 2015 which is a growth of 6%. This has largely been on the back of three huge releases that we saw in this quarter, the acquisition of the Sathyam Cineplex chain, which improved our average ticket prices, and better occupancies in premium screens as well as 3D movies.

The second key revenue driver for our business as you all know is F&B service. Food and beverage income has grown from INR51 per patron, which is what it was in Q3 FY 2014 to INR56 per patron in Q3 of FY 2015 a growth of 10%. On a QoQ basis it has grown by 6% - INR53 per patron in Q2 of FY 2015 to INR56 per patron in Q3 of FY 2015. On a cumulative nine monthly basis it has grown

by 12%. It was INR49 per patron in the nine months of FY 2014, it is INR55 per patron, as I mentioned, in the nine months of FY 2015.

Not only is spend per head growing but the contribution from F&B is also improving because of control over F&B costs. F&B contribution which was 75% in Q3 of FY 2014 has expanded to 77% in Q3 of FY 2015. As a result the contribution per head from F&B revenue, which was INR38.25 in Q3 of FY 2014, has gone up to INR 43.12 in Q3 of FY 2015, a growth of 13%. On a nine monthly basis contribution from F&B has gone up from INR36.26 per patron in FY 2014 to INR42.35 per patron in FY 2015, which is a growth of 17% and just to put it in a historical perspective the F&B contribution per patron used to be INR27.88 in FY 2011 and hence over the last four years we have been able to increase this by more than 50% to INR43.12 currently.

The third key revenue driver in our business as you all know is advertising and other operating revenues. On a per screen basis advertising revenues have gone up by 60%, I repeat 60% on a per screen basis this used to be INR0.53mn per screen in Q3 of FY 2014 these are INR0.85mn per screen in Q3 of FY 2015. On a nine months basis the advertising in other operating income has gone up by from INR2.91mn per screen for the nine month period to INR3.13mn per screen, which is a growth of about 8%.

In absolute value terms, advertising revenues have gone up by more than a 100%. This was INR14.58 Crores in Q3 of FY 2014. This has gone up to INR28.92 Crores in Q3 of FY 2015. If you aggregate advertising and the other operating income, which essentially consists VPF fees as well as internet booking charges these have actually gone up by more than four times in absolute value. In fact in a historical context, our total advertising and other operating income was INR39.63 Crores in FY 2011 and in the current financial year we have done more than that, in fact INR47.47 Crores, in just one quarter. Over the nine month period, the advertising and other operating income has grown from INR83.20 Crores in absolute terms in FY 2014 to INR113 Crores in FY 2015.

On the cost side, costs have been generally under control. Our entertainment tax rate has gone up marginally from 17.8% in Q3 of FY 2014 to 18.9% in Q3 of FY 2015. Our distributor's share payout has again been roughly the same - 45.3% on net box-office collections in Q3 of FY 2014, 45.0% in Q3 of FY 2015. Our other operating overheads have also fallen marginally from 45% of revenues in Q3 of FY 2014 to around 42% of revenues in Q3 of FY 2015.

As a result, as I mentioned, EBITDA has grown in this quarter to 50.4 Crores from 28.4 Crores in Q3 of FY 2014.

Looking ahead, in terms of project pipeline, as you might recall, we currently operate 94 properties, 365 screens and 97039 seats. We have a pipeline of four properties already tied-up and we expect to open these by March 31, 2015. This will comprise of 12 screens and 2750 seats. So we would expect to close the financial year with 98 properties, 377 screens and a shade short of 100000 seats. In fact we expect to be at about 99790 seats. In addition to this, post

March 2015, we have already tied-up another 38 properties, 169 screens and 36977 seats. So with the implementation of all these projects we would have 136 properties, 546 screens and 136000 seats.

The content pipeline for the next two or three months looks reasonably healthy. We expect some large releases on January 23, 2015, BABY which is an Akshay Kumar starrer, Dolly Ki Doli around which there is quite a significant buzz and the Oscar nominated Birdman. We expect in February Shamitabh, expected to released on the February 6, 2015 and Roy on the February 13, 2015. In addition there are couple of regional films as well: there is a Tamil film Yennai Arindhaal, and there is a Telugu film Temper all expected to do quite well.

So this, ladies and gentlemen, is a snapshot of our financial and operating performance and look ahead n terms of property and content pipeline over the next three months. I would now like to hand this over to Alankar to moderate any questions that you might have.

Alankar Garude: Mallika, you can now take the questions.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you and congratulations on good results. Sir if you can in December I think there were two transactions that happened in the multiplex industry. If you could just give your broad views on how you see those transactions - that is the first question?

Deepak Asher: To some extent, we have been saying that the industry is due for some element of consolidation. So we do see that consolidation is happening. From what information is available in the public domain it appears that some of these transactions were at a fairly high value. As a company while we do believe in consolidation, our view is that it should make commercial sense for our investors, for our shareholders and though we would like to chase properties and acquisition transactions we would want to do it at a value that we believe would be reasonable returns on investment, not too much is available in the public domain so it really would be very difficult for me to give you a more specific comment on that, but as I said I think one of things that is happening in the sector is consolidation and we have been saying this for quite a while we think that eventually there will be three or four large players that will emerge.

Dheeresh Pathak: The Big Cinema - Carnival transaction that seems like a low EV per screen number, so was it something that came to our consideration as well?

Deepak Asher: Yes, being in the industry for quite a while and being one of the serious and long-term players we do look at acquisition opportunities all the time. I unfortunately will not be able to comment on a specific transaction and the other thing I would like to mention is typically in terms of the return on investment we would not look at the enterprise value per screen because we do not believe that is the right way to measure our business, we would rather look

at EV to EBITDA multiples, and as I said since not too much information on that is available in the public domain, it is difficult for us to pass judgment on whether that value was reasonable or not.

Dheeresh Pathak: The second book keeping can you just give the debt, gross and net debt number and also just tell us how many treasury shares and all left?

Deepak Asher: The gross debt on the balance sheet is currently about INR 325 Crores. We also have about 1 Crore treasury shares, which based on yesterday share price would be worth about INR 175 Crores. So the net debt on the balance sheet, net of the treasury shares, would be about INR 150 Crores.

Dheeresh Pathak: Thank you.

Moderator: Thank you. The next question is from the line of Rishabh C from Enam Holdings. Please go ahead.

Nihar: This is Nihar here from Enam Holdings. Just a couple of questions, given the fact that the next quarter has the World Cup coming up, how do you see that impacting your business and how do you see is your Q4 panning out because of the World Cup, that is my first question?

Deepak Asher: Dealing with that first of all again if you look at the historical context, Q4 is usually a mild quarter compared the rest of the quarters so to some extent the fact that the performance in Q4 would not be the strongest is factored into our expectations. Secondly, as far as the World Cup is concerned, we understand that since if it in Australia, the timings of the matches will not compete with the high performing shows and most of the matches are expected to get over by 5 pm Indian time and since a large part of our occupancies - as much as 70% - is in the post 6 pm shows, we believe that it may not seriously dilute or hit into our footfalls.

Nihar: My second question is on the acquisition again if I look at the difference between the consolidated and the standalone EBITDA I calculated at about close to about 4 Crores, which I am assuming is the Sathyam Cinema's EBITDA so in terms of the valuation even if I annualize it, it seems that the EV/EBITDA played was close to 9x or 10x EV/EBITDA. Just wanted to understand if that correct and in that sense you thought that this was an acquisition that the price was justified in terms of what you paid for it?

Deepak Asher: I will say more than a couple of things here. First of all I think transactions in the range of about 9 to 11 times EV to EBITDA would be par for the course. I believe transactions at that kind of multiple would make a reasonable sense for acquisition. Secondly we have been in management of this company only for the past four or five months, we believe there is significant value that we can add to the operations of that company, eventually we will also merge that company with Inox Leisure and that also will lead to a significant improvement in EBITDA for those screens and I suggest you need to give us little bit more time rather than judge the wisdom of our acquisition based on the performance just for over the first three or four months time.

Nihar: Just maybe if you can just give us a little bit more details in terms of where you think there is lack in the Satyam Cinemas operations and where you see improvement coming in going forward?

Deepak Asher: Well, for want of a better word, improving the quality of the experience that the patrons get in that cinema which hopefully will help in driving up occupancies and ticket prices. We are upgrading some of those properties. We are investing money in upgrading those properties. Secondly, we are also expanding the food and beverage offering in those properties so that also, we believe, would help in improving the topline and the bottomline of those properties. And thirdly, we are also trying to expand the advertising and other operating revenues in these assets. So I believe all those will lead to a significant improvement in profitability of those properties.

Nihar: Thanks. That is all from my side and good luck for the quarters ahead.

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

Abneesh Roy: Sir congrats on very good set of numbers. My first question is PK has been the all-time greatest hit prior to this, four quarters of slowdown on movies was there. So are you calling this out as a trend reversal or it was just a content which has worked this time and so going ahead again it will be a function of content rather than the overall sentiment reversal?

Deepak Asher: Well frankly speaking it has always been a content driven game. So I would not like to argue that regardless of content, sentiment would alone drive the business. The good news of course is that it is not just PK which worked this quarter. We had three good blockbusters starting with Bang Bang and Happy New Year and then PK. So hopefully we have this quality of content and it keeps on that kind of pace we should expect significant improvement in performance based on this.

Abneesh Roy: Sir PK has been all time hit and this at least 60, 70 Crores higher than the previous hit so where does the 60, 70 Crores extra come from is it only due to pricing or the overall industry has managed the footfall and the occupancy levels better this time any insights there?

Deepak Asher: Well I think it is a mix of a wider release, the release footprint was much wider and therefore you saw it opening in many more screens than what earlier movies did. Secondly, better occupancies as well as better ticket pricing in the properties that it opened, so it is a mix of all three together.

Abneesh Roy: Sir World Cup starts now, hardly a month, what kind of impact you expect there and if you could take us what happened four years back and has anything changed in terms of strategy of multiplexes and production companies in that respect?

Deepak Asher: Well as I think I answered that question because it was asked earlier by somebody else, but I do not mind repeating what I just said. First of all the fact that Q4 is not the strongest of quarters in this business, in fact because of exam times and other such reasons, Q4 performance is generally

expected to be a bit more muted than earlier quarters ,and hence to that extent, that is also already factored into our planning. Secondly, as compared to last time World Cup was in India and it was at timings that competed with our primetime show times. This time the World Cup is in Australia so apart from the remoteness of the distance the timing itself, the World Cup matches that would end at about 5 pm so 5.30 pm everyday and hence to the extent that 70% of our footfalls come from post 6 pm timings it will not conflict with our primetime shows. So we would not expect that to have a huge impact. There will be some marginal impact for sure but not as significant as we saw last time.

Abneesh Roy: Sir the 70% number which you said does it apply for the weekend also that 70% of the revenue in weekend for those two days comes post that 6 pm only?

Deepak Asher: No, I am taking of post 6 pm versus pre 6pm .

Abneesh Roy: Sir the two bookkeeping questions one is online how much was it and in terms of cost inflation for your food business and salary rent etc., what is the scenario you are seeing currently for FY 2016?

Deepak Asher: Well the first question how much of our tickets are sold online currently they would be around 19% to 19.5%. Your second question was?

Abneesh Roy: Sir on cost inflation, food and salary and rentals are you seeing any favorable movements especially in food, milk prices and the transport related expenses have come down so any benefits you are expecting to get from there?

Deepak Asher: Well yes, if you look at it historical that F&B contribution used to be like 65% to 66% five years ago which is at about 77% now. So clearly we have been able to control the food cost. We believe that we have been able to manage the supply chain and also because of engineering on the menu side we have been able to drive this down in order to ensure that our contribution from food and beverage is higher that what it use to at four or five years ago. On the others I mean there is an inflationary led cost escalation, but the goal should be to try and see that your ticket pricing and your footfall improvements would more than compensate for your cost increases.

Abneesh Roy: Sir you addressed the M&A events, which have happened in the earlier part of the concall. I have a further followup on that. From a two player market now we are looking at the four player market the two addition specially being Cinepolis and Carnival, so if you could specifically comment on these two are you taking them now seriously in your micro market and second is from a two player market if it does become eventually a four player market how does it impact the pricing, occupancy etc.?

Deepak Asher: Well first of all I would like to say we always take all competition seriously. So it is not as if this acquisition has changed the situation. Earlier also there used to be Big Cinemas and there used be Fun and all of these were national players and to that extent there were serious competition.

Abneesh Roy: But Sir, there were a bit defocused if I would like to add if you see for Fun again the focus was not really there and clearly Big also the same issue was there. Now if you see for these two clearly Cinepolis it is a global player and Carnival a very little is known but the way they are expanding clearly seems to be very focused. So I think there is a difference there?

Deepak Asher: Surely yes, but that really brings me to the second part of the answer which is how do we see the competition going forward and how we think it will impact our business. Well considering the fact that at a macro level we are still less than two screens per million population of multiplex density compared to countries like China which have 25 to 27 screens per million population, we believe that there still significant room for growth. There is ample room for all of us to grow as fast as our business plan will permit us to do, and more, and we are still at least five to ten years away before we start trampling on each other's feet.

Abneesh Roy: I will come back later. Thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Kumar from Espirito Santo Securities. Please go ahead.

Amit Kumar: Just a couple of bookkeeping questions to begin with. If you could just give me the breakup of revenue consolidated revenue breakup for the quarter?

Deepak Asher: You mean breakup in terms of what?

Amit Kumar: Box-office, F&B, advertising and everything else?

Deepak Asher: If you look at my total nine-month FY 2015 revenue it is 804.73 Crores.

Amit Kumar: Sir I am sorry to interrupt if you could give it for the third quarter we already have your first quarter and second quarter numbers?

Deepak Asher: You want the breakup for the third quarter. The total revenue is INR 304.85 Crores of this gross box-office accounted for INR 201.75 Crores, F&B revenues accounted for INR 55.63 Crores, advertising revenues accounted for INR 28.92 Crores and other operating revenues accounted for INR 18.55 Crores.

Amit Kumar: My second just again a bookkeeping question Sir I missed your footfall number for this quarter?

Deepak Asher: Let me just scan through to that and get back to you give me a moment. Footfalls for this quarter were 11.6mn.

Amit Kumar: My final question Sir, at the beginning of the year in terms of our discussion, you were looking at almost additions of close to 50, 60 screens we have done Satyam so that has clearly added about 38 screens to our mix so far in first nine-months organically we have done just about I mean till date we have just done about 15, 16 odd screens, so where is the slippage really coming from and what are we doing to sort of mitigate this particular aspect in terms of organic screen addition Sir?

Deepak Asher: You are right. Our organic growth in the first nine-months has not been as robust as we had planned. It is just I would say a queer fate of circumstances. Some of our properties got stuck up - at least in two cases where the developers ran into financial crunch, in three cases the developer ran into some regulatory issues in terms of getting the fire NOCs and the occupational certificates for the buildings, so I would say we have had the misfortune of six or seven properties getting stuck up over the last eight or nine months on issues, which we have ourselves had no control over because they were all attributed to the mall developer. However going forward, as I mentioned we have reassessed our property line up. We have kept aside the ones that we believe could fall into this kind of a problem and we would assume that on a more conservative basis by March we would expect to open four properties and 12 screens. So to that extent we have down scaled our organic growth plans for the next three months to make them more realistic.

Amit Kumar: How does then given the fact that you will have these previous properties also coming on board how would next year look in that aspect?

Deepak Asher: Well I do not have the numbers specifically for the next year, but as I said beyond this four properties and 12 screens that we expect to open by March, we have a lineup, which would include some of these properties which will got delayed, of 38 more properties and 169 screens that we would expect to open after March 2015.

Amit Kumar: But this 169 screens would obviously not at all come in one single year so for next year or either for the next two, three years, what is the sort of capability of the company how many screens will you sort of add organically if you could give us a broad sort of entry on this?

Deepak Asher: Well, as I said we have a property lineup. I have not gone to the extent of giving an annual breakup but I would say around 50 screens a year is something that you would expect to see at a more conservative basis.

Amit Kumar: Thank you so much Sir. This is all on my side.

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

Urmil Shah: Congrats for a strong quarter and thanks for taking my question. Sir first one was on fourth quarter, while adjusted for the World Cup, which will come in, do you think that the content at least the profile of the movies which are slated are better than what they were in the previous two years or my reading is wrong in this case?

Deepak Asher: I would agree with that. The expectation on the content for Q4 of this financial year is better than the expectation on the content that we had in Q4 of the earlier years.

Urmil Shah: You see that has a change wherein the dependence on the second and third quarter will gradually go down and or this would be just subject to only this year, because even last year we had seen good movies that came up in the fourth quarter?

Deepak Asher: Well that, frankly speaking, is difficult to answer. We will have to see how these movies perform. Currently we are judging based on expectations, but at the end of the day it is footfalls that count so we will have to say how that works out.

Urmil Shah: Thanks. My rest of the questions have been answered.

Moderator: Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Sir first thing that I would like to understand is what would be the like-to-like footfall growth?

Deepak Asher: Would you Define what do you mean by like-to-like?

Riken Gopani: Screens, on an organic basis were there for you last year as well?

Deepak Asher: So you are saying comparable properties right? Footfall for comparable properties in Q3 of FY 2014 was 8.8mn in Q3 of FY 2015 was 9.6mn so there is a growth of about 9%.

Riken Gopani: Basically for the like-to-like properties you have a 9% footfall growth and ticket price increase of about 7% to 8% right - that is the revenue growth?

Deepak Asher: Like I said like-to-like ATP increase would be about 5% from 163 to 171.

Riken Gopani: Sir, would like your observation also on the fact that you said that this quarter the occupancy was 28% right?

Deepak Asher: Yes that is correct.

Riken Gopani: Given the strong content that was there what would be the reason for occupancy level still not moving to a 30% kind of level any specific observation that you would like to make there?

Deepak Asher: Well again to some extent pure occupancy measure is a bit misleading because if I do an average of six shows a day I could do add a seventh show, which operates at 15% occupancy which would actually drive down my occupancy in percentage terms but would still be accretive in terms of footfalls. So I just would like to kind of caveat the measure of occupancy by saying that it is not the be all and end all of performance.

Riken Gopani: So what you are basically saying the average number of shows have actually gone up per screen?

Deepak Asher: Over the last 12 months I would say that.

Riken Gopani: Can you quantify it by any means?

Deepak Asher: I do not have that off hand but I could probably kind of dig that out and share it with you.

Riken Gopani: One other question was in terms of your ad revenue growths for the quarter, that on a like-to-like basis would be 50% up or what would be the number?

Deepak Asher: Pure ad revenue as I mentioned to you on a per screen basis was INR0.53mn per screen in Q3 of FY 2014 that has gone up to INR0.85mn per screen in FY 2015 so that is a 60% growth. In absolute value considering the fact that the screens also went up, in absolute value the Ad Revenues in Q3 of FY 2014 was INR145.8mn this has gone up to INR289.2mn so that is more than doubled.

Riken Gopani: The other operating income it seems that on a YoY basis it is flat is that a correct observation and if yes what would be the reason for that?

Deepak Asher: Well in Q3 of FY14 we had a little bit of a blip in the sense that we had a significant other operating income on internet booking that we booked in that quarter and therefore in that sense it is not an apple-to-apple comparison.

Riken Gopani: One last thing if you could help me understand as to I think this has been asked to you in the previous calls but just to understand is the context that at what rate of GST would you be neutral and what rate of GST would you actually be beneficial?

Deepak Asher: Again that is a tough call to make because GST would have impacts on several parameters as far as we are concerned. First of all instead of entertainment tax that we pay on topline which is currently at about 19%, we would pay GST. On the other hand, this would also mean a change in net box-office collection and therefore because to the extent that payouts to distributors are on net box-office collections, the payouts to distributors also could go down or up depending what we expect GST rate is. Thirdly, the service taxes I pay on my inputs which is the service tax on property rentals and the service tax and the VAT on F&B inputs would then be set-offable so therefore would cease to be a cost. Again I am just kind of thinking aloud I would assume that a 22% to 23% GST rate I would probably be breakeven, if it is lower than that, it would be value accretive for me.

Riken Gopani: That is it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Sneha Agarwal from ICICI Securities. Please go ahead.

Sneha Agarwal: My question has been answered. Thank you.

Moderator: Thank you. The next question is from the line of Apoorva Mehta from KSA Shares and Securities. Please go ahead.

Apoorva Mehta: Congrats for the good set of numbers. Sir my question is can we, going ahead maintain this average ticket rate of 175 going ahead not fourth quarter but next full year and above?

Deepak Asher: On a long-term basis yes. I do not see any reason as to why we should not be able to maintain it in fact you might see a 4% to 5% inflationary growth in the ATP.

Apoorva Mehta: On advertising front, how much room can we expect going up another 30%, 40% next year?

Deepak Asher: Yes, I would say, our internal target is to see advertising and other operating income to improve by 25% to 30% on a per screen basis.

Apoorva Mehta: What will be the capex for next year any figures?

Deepak Asher: Well, roughly we spend about INR2 Crores per screen so depending on how many screens we will be able to operationalize in the next year we can work out the capex.

Apoorva Mehta: Any figure yet you want to put for sale of this treasury shares coming ahead, when can we expect anything going next six months or like, down the line?

Deepak Asher: I do not think we can discuss that. There is no decision taken yet. Obviously it is the sale will be at market prices, so it is a function of how the market behaves as well.

Apoorva Mehta: Thank you Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.

Swanand Kelkar: Quick question on the debt. If I remember right you had a bridge loan which you had to repay in the month of December so has that been repaid and going forward where will finance cost and interest cost settle or is the quarter representative in that sense?

Deepak Asher: Well no the quarter is not representative because the quarter has more debt than what we would expect to be on the balance sheet for the long-term and as I mentioned if the current gross debt is 324 Crores against that we have treasury stock of 1 Crore share which at current market price would be about INR175 – INR180 Crores so the net debt is about 150 Crores on the balance sheet right now and therefore from reasonably long-term perspective I would assume that the interest could be a function of that net debt.

Swanand Kelkar: The other question was in terms of the screen addition guidance that you have given for the next year if I got it right you expect to end this year at 377 screens and 546 for the next year?

Deepak Asher: Well again to be fair yes 377 by March 31, 2015 is correct and then I said we had a pipeline of 169 screens. I did not suggest that we would do all of that in the next twelve months. We did not put a timeframe on that, except to indicate that we have signed up these properties once these are operationalized when the malls are ready.

Swanand Kelkar: Any sense you could give on how much in the next twelve months you could do?

Deepak Asher: Without reference to the next twelve months you would expect the screen addition of about 50 to 60 screens per annum going forward.

Swanand Kelkar: Thanks and congrats on a great set of numbers.

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

Dheeresh Pathak: Sir on the GST question again, so one is of course what the rate would be. Now just hypothetically assuming the rate is the same which is the entertainment tax it will also be a benefit like you explained earlier of being able to offset certain input taxes from the output taxes that you pay. So that benefit if you could just refresh again assuming there is no change in the rate, what is that benefit?

Deepak Asher: If there is no change in the rate meaning for example if my topline tax rate remains the same and hence I am different in terms of net topline and payout to distributors, I would expect anywhere between 2% to 3% of revenues as margin expansion because of fact that my input taxes will then be set-off against my output taxes.

Dheeresh Pathak: So on the cash side, you said gross debt of 325, 1 Crore treasury shares there is no cash on the balance sheet?

Deepak Asher: Well, nothing significant there would be some cash for day-to-day operations.

Dheeresh Pathak: So that whatever we realized from selling the treasury shares we have paid off?

Deepak Asher: We paid off the debt which was due on I think December 29 or 30.

Dheeresh Pathak: Thank you Sir.

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

Abneesh Roy: Sir my follow up question is on ticket price increase. Sir last few years the multiplex industry has managed to get 5%, 6% price hike every year, but if you see the current scenario everything is coming off the food inflation you see is quite comfortable now, petrol prices are down, in this kind of a relative scenario, do not you think this 4% to 5% price hike, will be seen the consumers has bit harsh because of the relative pricing gap, which will come now because there is other things cooling off, other consumption cooling off?

Deepak Asher: No I do not think so, frankly speaking we believe cinema ticket prices is going to be driven more by content than inflation and if the content pipeline is strong and robust enough you could expect a strong and robust average ticket price increase as well.

Abneesh Roy: That is not true because if you see last four quarters except Q3 content was much below average still you got the ticket price increase?

Deepak Asher: Okay let me rephrase that. Ticket prices usually are driven by content expectations rather than content performance. So if you for example had a blockbuster expectation your ticket price would actually be INR180, INR190 regardless if it did not perform you would probably take that content off in one weeks time but it would still help in improving prices, in fact if you see what has happened in the first two quarters of the year is that our ticket prices were still strong enough, but our occupancies were pretty low, because content did not perform very well. So as I said ticket prices are driven by content but

they have more driven by content expectations and if for example the content actually performs well, you will see that strong ticket pricing sustained for a longer period of time which is what has happened in PK.

Abneesh Roy: Sir now the interest rate cut cycle has started so how will we be benefiting? Will that be complete pass through? That is the first question. Second Sir again discretionary consumption, the loans, the EMIs will come off so do you expect the discretionary consumption to start benefiting very quickly or there will be a lag impact, a lag impact of at least two, three quarters, before the discretionary consumption like yours benefit from the cut in the interest rates?

Deepak Asher: Well again it is difficult for me to put a finger on a timeframe as to when but clearly speaking based on elemental logic one would expect that has, people have more discretionary spend ability because of the rate reduction that would be positive for the industry. Your first question was whether you would pass on the benefit of the rate reduction to the consumer frankly speaking I do not think thats how it works, you usually price to the market and not price based on your cost structure, so to the extent that the market can absorb a certain price level at a certain occupancy level that is how you price the tickets, regardless of whether your cost of money is at 25 basis points higher or lower.

Abneesh Roy: Sir my last question is one food F&B you are quite positive Sir, can you give some insights what exactly are you doing there? Are you benchmarking here the other players? What else are you doing what will drive the increase in spends in this in the next one to two years?

Deepak Asher: I will request the CEO Alok to take this question since it is more operational related.

Alok Tandon: What we are doing where F&B is concerned is that we are changing our menu on a regular basis, that is the first thing so that menu fatigue does not set in. Number two is that after every couple of weeks we design and have a new combo, a food combo and it is designed on the name of the movie and a lot of activities go around it and a lot of work has gone to promote these particular combos. Let me give you a classical example during Christmas we had new flavors of popcorn introduced whether it was a Mexican cheese flavor, or the sweet chilly barbeque or the sour cream onion, so it is nothing but giving more variety to a guest charging it accordingly and seeing to it that he looks forward to eating a new item every time he comes to an Inox property. So we have done various things over a period of time, to see that the F&B revenues go up.

Abneesh Roy: Sir innovation in F&B is extremely difficult, we are seeing even the QSR again struggled with that. My question is, are you doing this in on your screens and how are you managing the backend because in such high innovation backend can be a huge bottleneck, so if you could elaborate that part or are you completely outsourcing this?

Alok Tandon: Well answering your first question first, yes it is happening all across all our properties and we have got a complete team of people who have got food and beverage knowledge and background and they are the ones who are creating recipes and finding vendors across all our properties.

Abneesh Roy: Sir during the screening are you taking orders from customers - other players are trying that - have you started that?

Alok Tandon: What is most important for us is the customer's experience when he is watching a movie so hence food is served or the order is taken only before the movie starts or during the interval. We may take the order before the movie starts but we will deliver it only during the interval, not while the show is going on.

Abneesh Roy: That is useful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Kumar from Espirito Santo Securities. Please go ahead.

Amit Kumar: Sir actually most of my questions have been answered. Actually just one small follow up on this F&B strategy. In some of your high-end cinemas, you have even offerings like Pizza etc., which are to the best of my understanding not available across the entire chain and certainly not in tier 2 and tier 3 towns, but is the visibility on that also sort of changing where you are able to offer those kind of INR200 or INR300 kind of items in your cinemas if not exactly in tier 2 an tier 3 towns at least beyond the metros some of the larger towns which are next in line?

Alok Tandon: Well if I got your question right you are saying that whether I am able to command a higher spend per head in a tier 2 or a tier 3 city?

Amit Kumar: Actually let me rephrase what I am saying is that you have some very high value item for example in your Inox Nariman Point property you have some high-end Pizza chain offering Pizza slices which I would presume is not going to be there available across and popcorn, cola these are items which will be there all across, but do you see an increasing visibility that you will be able to offer this kind of premium high-end food and beverage experience in more and more towns and cities going beyond?

Alok Tandon: Yes your thinking is correct, this is something which has been seen over a period of time and in the future also we will see that people spend more on gourmetfood - absolutely.

Amit Kumar: That is it from my side. Thank you.

Moderator: Thank you. The last question is from the line of Urvil Bhatt from IIFL. Please go ahead.

Bijal Shah: This is Bijal from IIFL. Congratulations on good numbers. My first question is on advertising so your advertising per screen has grown very significantly and you expect another 25% growth next year. So what is it that suddenly happened or why the growth is significantly improved and you expected to remain very good going forward?

Alok Tandon: As I said, in the last concall a lot of emphasis is there now on advertising. We have a new go to the market approach where we have had a lot of direct clients this time and in this quarter especially, they have advertised with us. We have had some new people or new brands, which have come and who have shown their onscreen ads at Inox Properties. Also what we have done is that apart from having direct clients we have also pushed the agencies and we have sat with various agencies and had more orders coming to us apart from we sitting with the media planners of various companies and sitting with the people who spend money on advertising and designing onscreen and off screen activities together with them; so these are the few steps we have taken to see that our advertising revenues increase.

Bijal Shah: Second question is on content so as you mentioned that this quarter you had actually three very good big budget movies coming so I just want to understand that should we look at this quarter's numbers has really having very strong impact of these movies and though content pipeline always looks good but it may not be really as good as what we have seen in this quarter and probably we can see some drop in some kind of improvement we have seen in footfalls and ATP may not be sustainable?

Deepak Asher: Well as we have been saying at the end of the day it is a content driven game, but again from a long-term perspective we have seen the because of digitization of movies, wider releases, we have seen the fact that contents actually have a stronger payback, more footfalls because of the impacts that wider releases have on curtailing piracy. We would expect the content pipeline to be strong enough and the performance driven by the content pipeline in a wider footprint of releases to help our footfalls and ticket pricing.

Bijal Shah: I understand that of course I am just asking a question that this quarter's content was really good so next four quarters you know what is content pipeline? What is your assessment on next four quarters content vis-à-vis this quarter's content is this better equal or not as good as what we have seen in last quarter?

Deepak Asher: Well again may be the last quarter is an aberration to compare with but I have no reason to believe that the content overall in FY 2016 would not be as good as, in fact we would expect it to be better than, the content overall in FY 2015.

Bijal Shah: That is the answer I was looking for. Thanks a lot and all the best.

Moderator: Thank you. I now hand the conference over to Mr. Alankar Garude for his closing comments.

Alankar Garude: Thanks everyone for participating in this concall. A special thanks to the management for giving us this opportunity. Have a great day and weekend ahead.

Deepak Asher: Once again thank you to everybody who took the time and the interest to attend this call and thanks for hosting, Edelweiss. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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