PVR INOX

26th October, 2023

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Sub: Compliance under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

In continuation to our letter dated 16th October, 2023 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that the officials of the Company had participated in the Q2 & H1 FY 2024 Earnings Conference Call on 19th October, 2023.

Enclosed is the transcript in this regard.

This is for your information and records.

Thanking You.

Yours faithfully,

For **PVR INOX Limited**

MUKESH KUMAR
Digitally signed by MUKESH KUMAR
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Mukesh Kumar
SVP - Company Secretary
& Compliance Officer

"PVR INOX Limited
Q2 FY2024 Earnings Conference Call"

October 19, 2023

ANALYST:	**MR. ANKUR PERIWAL – AXIS CAPITAL LIMITED**
MANAGEMENT:	**MR. AJAY BIJLI –MANAGING DIRECTOR – PVR INOX LIMITED** **MR. SANJEEV KUMAR - EXECUTIVE DIRECTOR – PVR INOX LIMITED** **MR. NITIN SOOD – GROUP CHIEF FINANCIAL OFFICER – PVR INOX LIMITED** **MR. ALOK TANDON – CO-CEO CENTRAL, WEST & EAST– PVR INOX LIMITED** **MR. GAUTAM DUTTA– CO-CEO NORTH & SOUTH– PVR INOX LIMITED** **MR. KAMAL GIANCHANDANI – CHIEF OF BUSINESS PLANNING & STRATEGY & CHIEF EXECUTIVE OFFICER - PVR INOX LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the PVR INOX Limited's Q2 FY2024 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. Thank you and over to you Sir!

Ankur Periwal: Thank you Anshup and good afternoon everyone and welcome to PVR INOX Limited's Q2 FY2024 post result earning call. The call will be starting with a brief management discussion on the quarterly performance followed by an interactive Q&A session. PVR INOX management will be represented by Mr. Ajay Bijli, Managing Director; Mr. Sanjeev Kumar, Executive Director; Mr. Nitin Sood, Group CFO and other senior management personnel including Mr. Alok Tandon, Co-CEO Central, West & East and Mr. Gautam Dutta, Co-CEO North and South. Over to you Mr. Bijli for the initial comments!

Ajay Bijli: Thank you very much. Good afternoon everyone. I would like to welcome you all to discuss the unaudited results for the quarter and half year ended September 30, 2023. I hope you have had the opportunity to review our presentation and results, which were uploaded earlier today on our company's website as well as the stock exchange's website. I am delighted to share the quarter ended September 30, 2023, was a record-breaking quarter in company's history with the highest ever admits ATP and SPH leading to highest ever quarterly revenue, EBITDA and PAT. In Q2 of FY2024 we welcomed 4.8 Crores guests and delivered an ATP of 276 and SPH of 136 which represents a year-on-year growth of 64%, 25% and 15% respectively over proforma PVR and INOX numbers in Q2 FY2023.

Coming to the financial results for the quarter, the following numbers are after adjusting for the impact of Ind AS 116 relating to lease accounting. Total revenue for the quarter was 2020 Crores, EBITDA was 447 Crores and PAT was 207 Crores. Proforma financials of PVR and INOX combined for the same period last year were revenue of 1082 Crores, EBITDA of 16 Crores and PAT loss of 78 Crores.

The biggest highlight of the quarter was a historic performance of the Hindi box office. Jawan and Gadar 2 released during the quarter emerged as two of the biggest grossing Hindi films of all times recording over 750 Crores and 620 Crores at the box office, respectively. In addition, midscale movies like Rocky Aur Rani Kii Prem Kahani and Oh My God 2 each grossed over 150 Crores while Dream Girl 2 and Fukrey 3 comfortably exceeded the 100 Crores mark. Volatility in Hindi films performance has reduced considerably with a marked improvement in the average collection of Hindi films particularly in the case of midscale movies which have been making a strong impact at the box office.

Hollywood films helped the quarter started on a fantastic note. Blockbusters like Oppenheimer and Mission Impossible - Dead Reckoning Part One grossed over 150 Crores and 130 Crores. Barbie and Nun II also performed well and crossed the 50 Crores mark at the box office.

Regional movies across languages continue to demonstrate stable performance. Jailer, which is Tamil, was the highest grossing digital movie with 390 plus Crores of box office collections. Baipan Bhaari Deva became the second highest grossing Marathi movie at box office of 90 Crores plus. The growing acceptance and attraction of regional content is demonstrated by the success of these movies. We are confident that regional films will continue to do well in the upcoming months.

We are quite optimistic about the robust content lineup we have across all languages over the next few months. From Hindi we have Ganapath and Tejas in October, Tiger 3 in November and Animal, Sam Bahadur, Merry Christmas, Yodha, Dunki and Salaar in December. From Hollywood we have Killers of the Flower Moon in October, The Marvels, and Taylor Swift: the Tour Movie, Napoleon in November, Wonka and Aquaman and the Lost Kingdom in December. On the regional genre we have Leo, Maujaan Hi Maujaan, and Tiger Nageswara Rao in October, Naal 2, and Japan in November, Captain Miller and Hi Nanna in December.

In the first half of FY2024 we have also reduced our net debt by 328 Crores; this firmly places us on the path to attain a free cash flow positive status by the end of FY2024. On the integration front of PVR and INOX it is progressing seamlessly and is yielding substantial operational efficiencies as outlined in our investor presentation. PVR INOX continues its strong growth momentum adding 68 new screens in the first half of this fiscal while strategically exiting 33 underperforming screens. We are on course to open 150 to 160 new screens in FY2024 and expect to exit a total of 60 screens in the current fiscal. Our screen portfolio stands at 1702 screens across 358 cinemas in 115 cities in India and Sri Lanka. I now open the platform for any Q&A. Thanks once again.

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 Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Yes thanks for the opportunity and congrats on very good set of numbers. My first question is on your debt levels coming down by 327 Crores. I wanted to understand given now you are much more confident from the Hindi movie business which was suffering for the industry what will be the plan from one to two years perspective on the overall debt levels, you had rationalized the store openings, the cinema screen openings also earlier, would that change because of now free cash flow turning on the favorable side?

Ajay Bijli: You are saying that will our opening of screens get impacted? No because we still have a pipeline as I said of 100 to 150 odd screens that we will be filling and I think the accruals will be enough to take care of both and every screen that we are opening is going to be value accretive. We are obviously very conscious of now how to invest capital, where to invest capital, in which malls, which development, which catchment in south India as well and keeping everything in mind we should be able to maintain our growth trajectory as well as pay down debt.

Abneesh Roy: So just to understand 1100 Crores net debt which is there currently what will be the long-term goal on this do you have any aim to make it almost negligible over the next two years will that be your vision?

Nitin Sood: Abneesh you are right I think reduction in net debt will not come at the cost of growth. Our operating earnings and cash flows will continue to grow and they will be sufficient to take care of our growth and the surpluses will be used to reduce the net debt levels in the balance sheet. Our focus this year obviously is to get down to 1:1 net debt to EBITDA, but over the next couple of years reduce that from existing levels.

Abneesh Roy: Sure. My second question was on your promotions in F&B, so essentially this Rs.99 Monday to Thursday kind of pricing which you have introduced I think it is a great initiative and on the other hand you have this unlimited refill offer for the weekend, so how is the response here especially in the Monday to Thursday kind of a lean period when footfalls are low but within those footfalls are you seeing a much stronger conversion than earlier so some insights into that?

Gautam Dutta: So largely Rs.99 promotion was done to one correct the price perception of cinema food being expensive, number two we wanted to drive higher conversion at the concession both the objectives were completely met and this is something that we plan to keep the promotions on for a long time. We are not going to sort of get off the promotion so this is something which is going to be there because we realized that consumers today are looking at movie experience which is bundled in with F&B, everyone who gets to the cinema would ideally want to eat so from that perspective a great successful programme is there and we are trending well on both the parameters.

Abneesh Roy: Sure and last quick question on advertising revenue quarter-on-quarter very good scale up and now that you are quite confident on the movie industry revival which I think will be also true for the advertisers and overall GDP is doing also quite well so in that context where do you see pre-COVID level getting breached from outlook perspective when do you see pre-COVID level on advertising getting breached?

Ajay Bijli: That will be next year. Largely we will come within the hitting range this year. Q3 and Q4 are looking very good and positive, but in terms of breaching the pre-COVID PVR INOX combined revenue it will be next year. We will go ahead of that number next year.

Abneesh Roy: Understood. Thanks a lot Sir. That is all from my side.

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

Jinesh Joshi: Thanks for the opportunity. I was just trying to think through how is the footfall count be maintained for the subscription plan that we have just launched. So if I understand this right the customer here is paying us a fee to buy the subscription so to say and irrespective of how many time he visits us we have got our money up front, so how will the footfall count be actually be maintained, will every visit be considered as a separate footfall or how will it be?

Nitin Sood: See this is like a subscription voucher which has been sold to a customer. Every time he comes to the cinema ticket will get issued to him and that is how the subscription count will be captured

Gautam Dutta: and 699 is largely an advance that the company we are holding.

Jinesh Joshi: The revenue recognition how will it happen because this is a minimum three-month plan if I am not mistaken so will we recognize the revenue right at the sale of the pass itself or will it be amortized towards the term of the plan?

Nitin Sood: So it is not a long-term pass it is a monthly pass so it will be recognized at the end of every month.

Gautam Dutta: It has a validity of 30 days, so 699 expires within 30 days and within the 30 days you get 10 movie vouchers so if you do not sort of end up using those 10 vouchers there is an expiry and then you move into the next month.

Jinesh Joshi: Got that. One last question from my side. If I look at our screen portfolio down south I think the screen mix for us is about 32% but if I look at our box office share in Jailer's collection I think it is a bit low at about 17% odd, so is there any specific reason to look into it because our screen concentration down south is pretty decent, but our share in Jailer is a bit low if I compare it with our screen mix?

Nitin Sood: That is incorrect comparison. South is a very large market which comprises of Karnataka, Kerala, Telangana, Andhra, and Tamil Nadu. Tamil Nadu is a subset of south India. Jailer as a film is a Tamil film which is primarily released in Tamil Nadu and did exceedingly well in Tamil Nadu so you have to look at it in that context and while we have about more than 500 screens in south India the total screen count in south India if you include single screen cinemas as well is in excess of 4000 screens, so obviously our market share in south India is much lower and that is the reason we have been mentioning in all our calls and conversations as more retail development happens in that part of the market we want to add more and more multiplex screens because we think that part of the market is under screened in terms of multiplex screen capacity.

Jinesh Joshi: Got that. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Arun Prasath from Avendus Spark. Please go-ahead Sir.

Arun Prasath: Thanks for opportunity. My first question is on the advertisement revenue. I think on a per screen basis we are still at least 30-40% lower than the pre-COVID levels and I think this is the best quarter we had even better than the June 2022 quarter almost double the revenue footfalls are also much higher but obviously on a per screen basis the growth is very, very less, is it a structural issue that advertisers are not coming into the cinema because there is something which is happening for the last three, four quarters despite of the strong footballs we are not translating into the advertising revenue on a per screen basis?

Gautam Dutta: Advertising technically works on big blockbuster films doing well. We have spoken about this in our earlier calls as well and we were very positive that Q2 would have some big titles and on basis which advertising will go up, which is exactly what has happened. Even now as we move forward advertisers are coming back there is absolutely no issue there, it is just that we need certain momentum to be able to get the money which advertisers earlier used to plough back into cinemas which had gone into other media sources, so it takes time and as I have just mentioned by next year we should definitely be reaching our 2019-2020 number and moving ahead so it seems to be on the right path.

Arun Prasath: Sorry just a clarification. When you say that advertisers have moved to other sources what is the competition for you in this sources, obviously it has to be more hyperlocal?

Gautam Dutta: No, it is not that. The fact of the matter is that when you rate a cinema media it used to come in the fifth or the sixth preference for a media planner and buyer so technically when we were out of action during the COVID time they started to put that money which was available for promotions and media into digital, into TV, into radio, into outdoor mall activation, so now we have to go back and start getting all of those advertisers back. The good news is that most of the brands are back and it is about now when you would see that a bigger traction begins to play out as we move forward into some big blockbuster films releasing over the next two quarters.

Arun Prasath: I understand. What I am trying to get clarity on this is that what is your competition when it comes to this kind of advertising, is it like outdoor digital or is it like newspapers or what is it?

Gautam Dutta: I would not be able to comment on this because the fact of the matter is if you look at the total advertising pie, cinema advertising is only about 1% of the total pie so it is very difficult for me to ascertain where that 1% is getting allocated in terms of any alternate media choices. Media planners have different choices available and we are also a brand building media eventually so that money being spent on digital, on radio, on any media that works best for that product category, so difficult for me to put a finger to say the money which were coming to me has now gone to outdoor or mall activations difficult for me to have an answer around this. Different clients have decided in different strategy but to get back our share we are already on it. We have shown a great growth this quarter and we believe that we are on the right path.

Arun Prasath: Understood. My second question is on the Rs.99 subscription plan I think it is still not extended to the south given that less share we have on the south is there any reason why the south is excluded or we do not want to cannibalize the existing revenues what is the thought process behind this?

Gautam Dutta: We have all said in media that we have opened passport for a big trial programme. We want to enroll only 20,000 passport users in the first phase, we want to close the subscription after that and study the consumption pattern. Down south the consumption is anyway very high and this programme is largely to propel more consumption, a market which is already fairly fertile and also has price restrictions we felt that in the first phase we needed a better clarity on how it changes consumer consumption pattern, so in the next phase after we have studied the consumer a little more closely and deeply we may come out with the product for down south as well in phase two.

Arun Prasath: Alright. Thanks for the clarification. All the best.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead, Sir.

Ankur Periwal: Sure. Thank you for the opportunity. First on the synergy benefits overall, your representation does highlight benefits coming from F&B, box office as well as overall cost synergies. Just trying to understand is the ATP improvement because of price disparity and now everything is in sync in terms of pricing across INOX as well as PVR theatres and secondly on the F&B side where are we in terms of updating the menu as well as veg, nonveg options, etc., across the INOX screens?

Alok Tandon: So Ankur we are answering your first question first. Where ATP is concerned yes we have seen a significant growth in ATP and that is because of regular inflation increase as well as the contribution of the entire synergy which has taken place across the two companies that is one. Where F&B is concerned yes we have changed a lot of menu, both companies have incorporated the best of menu of either and whether it was the erstwhile PVR or the erstwhile INOX menu are available in most of the cinema halls across the country so a lot of work and synergy has been done as you see from the slide also whether it is ATP which has gone up by about 13% year-on-year, which normally due to inflation used to be only 3.5 to 4.5 as well as F&B SPH has again witnessed a 13% growth which used to be in the range of 7.5% to 8.5%. So whether it is a menu tweaking, menu mix all that has contributed to SPH and the ATP is concerned yes proper programming, if they have more cinemas in a cluster they have been treated as one so that a patron whenever he comes he watches a movie in a gap of 10 to 15 minutes so this is what the result of synergy has been over the last six months.

Ankur Periwal: Sure so just to clarify, so slide #19 wherein we are highlighting the ATP growth, organic growth as well as the implied synergy led growth will be fair to say that on a proforma number there will be a Rs.20 higher ATP on an average on an annual basis henceforth as a base case?

Nitin Sood: So Ankur the way to look at it is this year like we had guided we will see much higher ticket pricing as a lot of the stuff will get rationalized and synchronized between both the PVR and INOX properties and we will see a significantly higher average ticket price growth than the normal averages that we have seen. It may marginally keep on varying quarter-on-quarter because it is partly also linked to content but we are reasonably confident, yes it will be a decent number. Whether that number will be Rs.20 or Rs.15 is difficult to comment at this stage because part of it will be linked to movie-by-movie performance as well.

Ankur Periwal: Sure, fair enough and on the SPH side the full benefits presumably the launch across as well as the acceptance of all the new menu may take maybe a quarter or so, the full benefit will you expect it let us say by the end of this year which is Q4 or probably we should look at FY2025 for that number?

Gautam Dutta: FY2025 first quarter I think we should have largely everything rolled out. It would take about three more quarters for the entire synergy in terms of the backend work and menu, synchronization to happen. To your question on nonveg about already about 74 sites have been rolled out and a few more are in the pipeline, so the work is happening and by end of March that piece will be largely out of the way.

Ankur Periwal: Great and just continuing the synergy bit on the advertisement side while I take your point in terms of the overall macro, etc., but how has been the industry response to the negotiated joint sort of negotiation now on the advertisement as well as on the convenience fee bit?

Gautam Dutta: It has been tough and to be very honest and this year we may not get too much synergies on the advertising front while there will be growth, but the fact is in terms of synergy the major part of the synergy may roll out next year, we will look at a fairly decent growth this year in Q3 and 4.

Ankur Periwal: Great Sir and just last question from my side on the windowing period among the digital release and the theatricals for Hindi and regional where do we stand because as I understand there were certain negotiations again especially on the regional side to expand the window?

Kamal Gianchandani: Yes the window on Hindi films is eight weeks, regional films varies from region-to-region, Punjabi films for example is eight weeks, Bengali films is eight weeks, Hollywood films, which are the international segment films that is eight weeks, Tamil, Telugu hovers between four weeks and six weeks. We would not like to comment on any active negotiation but suffices to say that our endeavor is to sort of standardize windows as far as possible. Our aspiration is to take the windows to minimum eight weeks that is our current position on it.

Ankur Periwal: Sure, Sir. That is helpful and that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

Arjun Khanna: Thank you for taking my question and congratulations on a good set of numbers. Sir I just wanted to understand the convenience fee in a little bit more detail. For the last few quarters we are seeing a decline on a per admit level so last quarter when this question was asked we mentioned that now both our PVR and INOX are on a revenue base since the deal with BookMyShow has come to an end, I was curious why in the second quarter FY2024 on a per admit basis we are down compared to first quarter FY2024?

Nitin Sood: I think Arjun we answered this question last quarter alone. Our previous contract with online aggregators had a concept of a minimum guaranteed payment irrespective of what the footballs would be and subject to a revenue share because there is no minimum guaranteed payment under the existing contract and online aggregators underperform in terms of what effective admissions were in cinemas, our effective realization due to the minimum guarantee commitment in the previous contract was higher than the revenue share commitment which is not the case under the current contract and as a result of which that is reflecting on a per admit basis lower.

Arjun Khanna: So that has happened in the previous quarter since you did allude to that in the previous quarter, so if I look at the second quarter versus first quarter, since the impact is already in the base we have declined on quarter-on-quarter level on a per admit basis while our ATP has moved up from 246 to 276, so I just wanted to understand is 14.15 the right number or previous quarter of 15.69 the right number?

Gaurav Sharma: So Arjun our Q1 for the month of May there was the minimum guarantee under the older contract.

Arjun Khanna: Okay sure.

Gaurav Sharma: April and part of May and therefore on a per admit basis the convenience fee in Q1 was higher and then we moved to the new contract from May onwards and that is why on a per admit basis you see a drop quarter-on-quarter.

Arjun Khanna: Sure since this quarter is fully on revenue so this would be the base going forward?

Nitin Sood: That is right.

Arjun Khanna: Sure perfect. Very helpful. Secondly in terms of the number of screens that we are planning on closing we have increased from 50 to 60 obviously given what the multiplexes, where they are situated just wanted to understand how do we look at our growth over this year, next year and is the real estate availability, etc., largely on track for our growth path that we had early articulated?

Alok Tandon: Yes the growth path is absolutely intact. We have lots of screens in the pipeline and this year also as Mr. Bijli said in his opening statement that we will be opening 160 screens and 68 we have already opened. While we are shutting down only those screens which have come to the end of the lifecycle or are not profitable or the mall is shutting down, so that is the way which we take going forward and this year we said that 33 we have already closed and we will in totality close 60 this year but the answer to your question is that our growth is absolutely intact and if we go by 160 screens per year I think that is a very, very aggressive and a nice number for the industry.

Arjun Khanna: Sure for the next year so this closure of screens is it just one time event this year or potentially that could be repeated going forward in the future?

Nitin Sood: No it will not be a onetime event. Now we have a fairly mature portfolio every year. We will continue to evaluate bottom 1 to 2% of our screens which we believe would have come to an end of the lifecycle and accordingly take decisions to move out. That is the constant part of any retail portfolio. Anyway screens at the bottom end are not contributing to our profitability and margins, so closure of this screen should only help positively in taking our operating margins higher and profitability higher.

Arjun Khanna: Sure. If we are adding gross between 160 and net or assuming 1 to 2% that is around 15 to 30 moving out so essentially on a net basis we are looking at adding 130 to 150 is that the right way of looking at it?

Nitin Sood: Absolutely.

Arjun Khanna: Sure. Thank you very much. Wishing you all the best.

Moderator: Thank you. The next question is from the line of Mayank Babla from Enam AMC. Please go ahead.

Mayank Babla: Congratulations on a great set of numbers. My question is around the screen openings. So in the earlier calls we had mentioned that our vision is to expand more towards the south and around 35 to 40% of the new screen openings will be in the south, now pertaining to that I noticed that we are fairly concentrated around Karnataka the new screen openings, so wanted to understand why the skewness towards Karnataka and what is the strategy as far as other states are concerned in the south?

Alok Tandon: Well you have seen that yes we opened a few in Karnataka but does not mean that we will not open in other southern states it is that those properties are ready in Q2 and we opened it. Going forward, you will see more screens being opened in other parts of the country also. So as we always say that we are a pan India player and yes south is important to us and this time what you have seen is that we have opened a few properties down south especially in Karnataka but the strategy of the company is to be in all possible states and the guidance which we have given that yes south is a preference. It is for all the four to five states which are over there and if we get great properties we will open it but let me also tell you that in some other states other than Karnataka our projects are going on and you will see opening of our properties very soon.

Mayank Babla: Sure. Thank you so much that is all.

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

Abhisek Banerjee: Thanks for the opportunity and congratulations on a great set of numbers. Sir just a couple of questions on the outlook for Q3 right so the lineup seems great, what exactly are you expecting from the movie vis-à-vis Q2 numbers and if you could give us any update on how the screening of matches is going that will be helpful?

Nitin Sood: See we do not like to give any specific guidance on Q3 or Q4. All we can say is that the content lineup is quite strong. October and November have been slightly slower in terms of movie releases, but December is looking quite packed. There are almost two big films releasing every month. So both Q3 and Q4 are looking quite strong and they should be decent quarters, but it will be tough to replicate what we manage to get in Q2 where all the films fired in one quarter, Hindi, regional and English that will be a tough act to repeat but irrespective of that I think Q3 and Q4 should be good, decent quarters.

Abhisek Banerjee: Understood. In terms of your ROCE right now that you have done the merger and you are kind of working in reducing the variability of earnings, so how do you look at ROCE in the steady state number going forward?

Nitin Sood: No, you should see ROCE inching up strongly in the balance sheet on a gradual basis, we will have a full year of stabilized earnings this year to some extent and you will see ROCEs at mid teen level even in the end of the financial year and it should get better as we move forward so clearly we are very positive. I think as the earnings stabilize and move up with content flow coming in you will see a significant increase in ROCE at a balance sheet level.

Abhisek Banerjee: Got it and again just coming back to the content part, earlier there was this trend of Hindi movies Bollywood not releasing more than one or two large budget Hindi movies in a quarter now that the number seems to be going up significantly, so if Mr. Bijli could comment on whether this is just because of the bunching up of lot of releases or is it something that you believe is a sustainable trend going ahead that would be really helpful?

Kamal Gianchandani: This is a sustainable trend. The business, the response that producers have seen for bigger film and without taking away any sheen from the mid level films their performance has been also very positive and very strong but the bigger films have done extraordinary business, and taking a cue from the response that the audience has given to these mainstream, the potboilers, which target every segment of the four quadrants whether it is male, female, above 25, below 25, they have something for everyone these sort of films I think is a sustainable trend because a lot of producers are getting disproportionate return on their investment. Actors are sort of expanding on their reach, they are expanding on their brand equity and which augurs well for them as well in the long term and therefore producers, actors naturally would want to do more, bigger films. The other trend which would be helpful to exhibition and to film industry at large is that the South Indian film specially but even non-south Indian regional films are getting pan India acceptance.

So films are getting dubbed in Hindi and they have started to penetrate territories which till now were sort of focused only on Hindi films or Hollywood films dubbed in Hindi regional films are also finding acceptability, so I think this is a sustainable trend, you will see a lot of big films in Hindi, you will continue to see a lot of regional big films being dubbed in Hindi and gaining a lot of success in territories which are on pan India basis.

Abhisek Banerjee: Understood and in terms of your brand portfolio PVR and INOX continue to be two separate brands as of now, so what would be your vision for each of these brands is there a case where you use one of these brands as a comparatively more value effect and more premium and one has a more value brand and try to expand the penetration of screens overall bringing more footfalls from the lower consumption categories?

Nitin Sood: So I will answer that. Both PVR and INOX are very strong brands in the consumer space. These have an existence of over 20 years and have a very strong consumer affinity and consumer visitation behavior, so INOX used to get about 70 million footballs on annual basis pre-COVID, PVR used to get 100 million footfalls pre-COVID. With such large footfalls and consumer base we have decided that we will continue to run and operate both the brands on individual basis. While the corporate identity of the company will be PVR and INOX, both the brands will continue their journey and will continue to coexist as far as consumers are concerned.

Abhisek Banerjee: My question was more with regards to is there a way of using maybe INOX as a more value brand?

Nitin Sood: I have got your question, but we do not think there is any change we want to do with respect to how both the brands are currently perceived. Both the brands have a certain perception, we want to continue and maintain that perception and not use one brand as a premium brand or one brand as a value brand that is not the idea.

Abhisek Banerjee: Understood thanks.

Moderator: Thank you so much. The next question is from the line of Lavanya Tottala from UBS. Please go ahead.

Lavanya Tottala: Hello, thank you for the opportunity and congratulations Sir. Sir most of my questions are answered. Just one thing when you mentioned ad revenue you expected to recover next year is it on absolute levels or per screen basis that you expect it to reach pre-COVID levels next year?

Gautam Dutta: At absolute levels.

Lavanya Tottala: So it will still be lower per screen basis even in FY2025 then?

Gautam Dutta: Yes.

Lavanya Tottala: One thing on the synergy bit synergies based on the ticket prices for Q2, so the Rs.20, which it is showing it has impact of higher Hollywood share, which we have seen in Q2, so most likely that might decline a bit in the upcoming quarters right?

Gautam Dutta: Yes it could because ATP is a function of the kind of content we get, mega blockbusters and Hollywood do drive ATP up, you are right.

Nitin Sood: That point is quite valid. Ticket pricing will partly also be impacted by big films, but if you look at the way we have calculated the synergy we have not based it on Q2 numbers. Our average ticket pricing growth was 25% in Q2 and average ticket pricing growth in the first quarter was much lower at 3 to 4% so what we have done is we have calculated over an average of 13% growth which we have achieved in the first half of the year, which basically we thought is a much more fairer representation because there will be ups and downs and some quarters will have higher ticket pricing than others due to content so just wanted to call that out.

Lavanya Tottala: Sir I just wanted to mention that because Q2 last year our ticket price was much lower, like it was somewhere around 225 so even on average basis you are a bit high for the first half?

Nitin Sood: That is fair and what you have pointed out is fair. It is quite possible that the second half of the year may have a lower ticket price though and so it is not a multiplication formula. It can vary and it could be lower in the second half of the year that is possible.

Lavanya Tottala: But F&B it should be largely sustainable even for the second half is that understanding right?

Gautam Dutta: Yes, absolutely it could be.

Lavanya Tottala: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Favilo from Favilo Funds. Please go ahead.

Favilo: Congratulations on a great set of numbers Mr. Bijli and thank you for the opportunity. My question is on the price elasticity of the tickets. So what I understand is that tickets even for a blockbuster like Jailer are priced lower even where there is demand as compared to Jawan in the north so why is this difference is it because of the competition or if that is the case because the next opening of screens is concentrated in south right, so if this is the case how are we going to work on the ATP to increase the ATP down south I will come on to the second question later?

Alok Tandon: See Jailer was a Tamil film and in Tamil Nadu there is a price cap incident. So there are few southern states where there is a cap on tickets and hence we cannot increase it. So the comparison with Jawan and Jailer was not right because Jawan released all over the country and in states where there is absolutely free pricing so that is one answer and when you said that how will we increase the ticket pricing once the movies which are released in Tamil Nadu, Andhra Pradesh or Telangana we have to go as per the rates which are already subscribed but in other states depending on the demand of the movie, the cost structure of the property or as per the paying propensity of the people we can price the tickets accordingly.

Kamal Gianchandani: It just addition to what Alok said the price of Jailer in Karnataka was higher than Jawan that is because Jailer was a bigger film in Karnataka where there is no price restriction. Ours is a very heterogeneous market each state, each city has its own dynamics and are governed by the local dynamics, hence north India, west India, central India Jawan was a much bigger title than Jailer which is the reason Jawan tickets were more expensive as compared to Jailer.

Favilo: On to the second question and does the overhead spend that is the food and beverage spend also vary depending upon the movies, say for example the crowd that might come for Jawan might spend more versus the crowd that is coming for other, does it vary according to the movie too?

Nitin Sood: Not significantly. It is more region specific. Yes you know titles which are not family titles or where we see films which are depressing in nature, more serious films you can have very selective and a niche audience. Yes there is a marginal impact, but largely what we have seen is that it does not change for every film. The trend is normally homogeneous, but obviously for each market the trend is different, more and more family films where the group sizes are larger, people come more often there is definitely a positive impact on the average of food spending at the cinemas.

Favilo: Thank you.

Moderator: Thank you. The next question is from the line of Arun Prasath from Avendus Spark. Please go ahead, Sir.

Arun Prasath: Thanks for the followup questions opportunity. My question is on synergy so if you look at the PVR INOX combined numbers the pre-COVID level we are around 19 to 20% EBITDA margins and going by the quantified synergy benefits we have shown in this quarter it looks like our steady state margin should be at least 200 bps higher than the pre-COVID levels is this the right understanding and this is what we can build in our numbers?

Nitin Sood: Absolutely I think this is what we have guided. Once we realize the full synergy benefits clearly that should have an impact of at least 200 bps on our operating margins.

Arun Prasath: Right so that means the current quarter margin 22% it is still below because this is a very strong quarter so despite that we just achieved around our steady state margins, so in a future scenario where this kind of a blockbuster quarter should result in a much higher margins, right?

Nitin Sood: This quarter already reflects a very large portion of the merger synergies, but yes lot of elements will play out like advertising revenues still to recover to the fullest extent and if we continue to achieve these kind of level of occupancy, can we do better margins from here, 12 months out definitely.

Arun Prasath: Right understood. Thank you very much. All the best once again.

Moderator: Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Yes, Sir congratulations on great set of number. Sir how much could be the synergy benefit in the coming quarters left to pencil out?

Nitin Sood: We cannot give any quarterly estimates.

Apurva Mehta: On a ballpark basis we still have like 30% left or we have 70%.we have done with it, 30% still remaining.

Nitin Sood: I would not like to give any guidance.

Apurva Mehta: On the cost front when we were comparing quarter-on-quarter the rentals are up by 12%, personal expenses about 8% and then other expenses about 16% because rentals are more or less fixed in nature, why there is so much of inflation in such cost can you just throw some light?

Nitin Sood: There are three factors. One we have added a lot of new screens, new age screens in new shopping centers, so one there is screen addition. Number two rentals are subject to annual inflation. Number three lot of our rental expense and lot of property is linked to revenue share. In quarters where we will have much higher occupancies we also end up sharing much higher revenues in form of rentals with the landlords. So all three factors put together is the reason for increase in revenues for rental costs.

Apurva Mehta: For personal and other expenses on Q-on-Q are up by almost 16%?

Nitin Sood: Same logic if you calculate wages are subject to average 7 to 8% annual inflation and we have added a lot of new screens you should calculate on a per screen basis the effective cost increase will be very minimal.

Apurva Mehta: We have not added any screens barring from Q1 to Q2 we are more or less at just adding around 15 to 17 screens and if you see the per screen everything is going up, other expenses are up. Personal expenses are up by 8% on quarter-on-quarter I am not talking about year-on-year?

Nitin Sood: Yes so on quarter-on-quarter basis also see when you look at the new screen additions that we have done in terms of new property. On a net basis you compare per screen, all the old properties that we are shutting down are small, dilapidated screens whereas the new screens that we are opening are in all modern shopping centers with different quality of staff, more premium screens. One obviously the cost of running those screens is not the same. Secondly there is annual wage inflation, minimum wage increases which happens from state-to-state, so south Indian states of Tamil Nadu and Karnataka alone have had 29% to 30% minimum wage inflation this year. Wage inflation definitely takes place and thirdly temporary manpower because lot of our manpower also goes up. We add manpower when the footfalls are high on cinemas because we run largely a weekend business and when the occupancies are at that peak we have to supplement headcount. So quarter-on-quarter we have added headcount this quarter. Our admissions are up from 3.3 Crores admissions in Q1 to 4.8 Crores admissions almost 45% over Q1 so we need additional hands to take care of consumers and service them on a weekend. So these three factors put together are the reason for the people cost increase.

Alok Tandon: And 37 screens is not a less number to open in a quarter with big ticket items like Kanakapura. Bengaluru properties in Rourkela, Patna, Delhi, Dharwad, so hence all this add to the cost.

Apurva Mehta: On the movie distribution and paying charges which has also gone up substantially it is because of the blockbuster films coming in and that is why the thing has gone up or there is anything else we can do?

Nitin Sood: That is largely relating to our PVR picture business and it will continue to vary quarter-on-quarter depending upon what films that we are distributing, so it is not linked to our core cinema exhibition business.

Apurva Mehta: Thanks a lot and wish you all the best.

Moderator: Thank you. The next question is from the line of Yash from Dante Equity. Please go ahead.

Yash: Hi congratulations on good second set of numbers. I missed the first 20 minutes of the call, so I am sorry if question is repetitive but my question is regarding debt are you giving a guidance on debt for the next two years, we see the debt number in the next two years and also what is the net debt right now?

Nitin Sood: One our net debt at the end of this quarter is about 1100 Crores as compared to 1430 Crores which was at the beginning of the year. So we have reduced our net debt by 327 Crores in the first six months. I think I can only give you a directional sense over the next two years depending upon how the business performs; our endeavor would be to reduce and pay down leverage from even the existing levels. Our current year endeavor is to get to 1:1 debt to EBITDA but over a period of next two years we want to fund all our growth from internal accruals, be free cash flow positive and use the free cash flow to reduce leverage even from the existing levels.

Yash: So how are your expansion plans basically looking for the next two years and what you are trying to basically tell is that the next phase of expansion will basically come through internal accruals?

Nitin Sood: That is correct. Even current year if you look at our presentation we are adding 160 screens, we have guided in the first half of the year we are free cash flow positive after funding all our capex and the endeavor would be that even for the full year we are reasonably confident that we will be free cash flow positive company after funding all our growth from internal accruals.

Yash: So just to conclude your answer, would it be safe to conclude that the debt for PVR INOX is peaked out?

Nitin Sood: Absolutely it has peaked out; in fact, it is now going down from its peak level.

Yash: Could you give me the number for your interest what rate are you borrowing at on a net level?

Nitin Sood: Our average cost of debt is approximately 9%.

Yash: Do you see that coming down anytime soon because you have become basically cash flow positive right and I think that should rerate you in terms of the debt security market?

Nitin Sood: Yes we have pretty much benchmarked most of our borrowings to market, so it will move in line with how the interest rates move from the existing levels. Most of our borrowings are benchmarked to market rates.

Yash: Perfect. Thank you for taking my question. I will come back in queue. Have a great day.

Moderator: Thank you so much. As there are no further questions, I would like to hand the conference over to the management for closing comments. Over to you Sir!

Nitin Sood: Thanks everyone for taking out time to join the earnings call. If you have any unanswered questions please feel free to write to us and we will be happy to respond. Thank you.

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