PVR INOX

07th February, 2024

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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 25th January, 2024 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 Q3 FY 2024 Earnings Conference Call on 31st January, 2024.

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

Q3 and 9 Months FY'24 Results Conference Call"

January 31, 2024

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- CHIEF EXECUTIVE OFFICER, CENTRAL, WEST AND EAST – PVR-INOX LIMITED
MR. GAUTAM DUTTA – CO- CHIEF EXECUTIVE OFFICER, NORTH AND SOUTH – PVR-INOX LIMITED
MR. KAMAL GIANCHANDANI – CHIEF OF BUSINESS PLANNING & STRATEGY & CHIEF EXECUTIVE OFFICER – PVR INOX LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the PVR INOX Limited Q3 FY '24 Results 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 this conference call, please signal an operator by pressing star then zero 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: Yes. Thank you, Viren, and good evening, everyone. Welcome to PVR INOX Limited's Q3 and 9 Months Ending Financial Year '24 post Results Earnings Call.

From the management side, we have with us 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 and East; and Mr. Gautam Dutta, Co-CEO, North and South.

As usual, we'll start the call with a brief management discussion on the earnings performance, followed by an interactive Q&A session. Over to you, Mr. Bijli, for the initial remarks.

Ajay Bijli: Yes. Thanks very much. Good evening, everyone. I'd like to welcome you all to discuss the unaudited results for the quarter and the 9-month period ending December 31, 2023, I hope you've 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 website.

It's really heartening to see that in the calendar year 2023, India stands out as a sole major market worldwide to surpass the pre-pandemic peak in box office collections. The Indian box office witnessed a notable 12% increase, reaching INR12,226 crores in 2023 compared to INR10,948 crores in 2019.

Other significant markets like the U.S., China and South Korea continue to be lower than the respective pre-COVID levels. In 2023, the Hindi box office experienced a remarkable comeback with 4 highest grossing Hindi films of all time, each crossing the INR500 crores mark, besides a diverse range of mid-scale movies across different languages, showcased robust performance at the box office.

I'll be discussing the Q3, of course. But despite the results, which I'll be -- which you've all seen and I'll be talking about the highlights, I just want to take a moment and just say that, despite everything that you see, the company after the merger continues to focus on improvement, our revenues and cost matrices. We are very, very focused to make sure that ROCE is a prime focus of the company to improve it as we go forward despite all the other highlights, which I'll be talking about now because that is really something that after this merger, we are very, very focused to improve in the coming quarters.

So coming to quarter 3. The first half of the quarter for very valid reasons, which is the World Cup which is being hosted in India and obviously, with India playing very well and also playing over the weekends impacted the movie releases and performance in October and November. And movies that did well in October were only Leo from Tamil, which grossed INR400-plus crores; and 12th Fail, which is a mid-budget movie from Hindi, grossed INR65 crores plus and Tiger 3 was the biggest hit for November, grossing INR350 crores at the box office. However, the moment the World Cup finished, it once again showed the appetite of the people to go out and watch movies on the big screen.

And of course, in an uninhibited way, the film industry also released a lots of movies in this month, which propelled December to be the highest grossing month of 2023 with the phenomenal success of Animal, which grossed over INR650 crores and became the second highest grossing Hindi movie of all time. Other notable releases during the month included Salaar which grossed INR480 crores; Dunki, 270 crores; and Sam Bahadur with an impressive INR110 crores till date. We welcome 36.5 million guests across our cinemas in Q3 of FY '24.

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 INR1,569 crores, EBITDA was INR226 crores and PAT was INR41 crores. The pro forma financials of PVR and INOX combined for the same period last year was the revenue of INR1,474 crores, EBITDA INR220 crores and PAT of INR4 crores.

Now January has also started off on a decent note with Hanuman which is Telugu grossing INR190 crores Guntur Kaaram, which is Telugu grossing INR140 crores; and Fighter continuing its run. It's only been 5 days -- or 6 days rather INR140 crores till date.

As we look ahead, we are optimistic about the compelling content lineup across the languages. In Hindi, we have Teri Baaton Main Aisa Uljha Jiya, which is Shahid Kapoor and Kriti Sanon; Article 370, starting Yami Gautam; Yodha of Sidharth Malhotra; Shaitaan starring Ajay Devgn and Madhavan; and The Crew starring Kareena Kapoor and Diljit Dosanjh in March.

From South we have some big films in February like Lal Salaam in Tamil starring Rajinikanth; Eagle in Telugu, starring Ravi Teja; and Operation Valentine in Telugu and Hindi starring Varun Tej. We also have a lineup of some exciting titles in the regional languages, including Kannada, Malayalam, Marathi and Punjabi.

From Hollywood, we have Argylle and Madame Web in February; Dune: Part Two, Kung Fu Panda and Arthur the King in March. On the growth front, PVR INOX opened 29 new screens in Q3 of FY '24 and exited similar number of underperforming screens. For the 9-month period, the company has opened 97 new screens and is on track to open 160 to 170 new screens in FY '24.

On screen closures, the company will exit 77 underperforming screens in FY '24. Our screen portfolio, including the 42 management screen stands at 1,712 screens across 360 cinemas and 113 cities in India and Sri Lanka.

Now I open the platform for any Q&A. Thank you once again.

Moderator: Thank you very much. We have our first question from the line of [Abneesh Roy] from Nuvama. Please go ahead.

Abneesh Roy: My question is on the movie release calendar. So this year, we have seen some weeks there is too much of bunching up and some weeks there is a lull. And of course, this quarter, Q3, the World Cup impact, 41% impact was there in terms of number of movies.

So my question is, is this the right strategy of a 41% drop? Because in hindsight, if you see, was this the right strategy by the industry given now bunching up is happening or now exam season is there in Q4. So even if you release now, the appetite will be generally a bit lower.

And second is, when you see the World Cup kind of impact in hindsight, where do you see that? And third is, in terms of planning of the calendar, is there any improvement happening? Because we are seeing this again and again, lulls are happening when there is no movies, and then suddenly it's too many movies at the same time. What is the issue? Could this be made a bit more disciplined? Any thoughts on that?

Ajay Bijli: Yes, Abneesh, in fact, if the results of October, November were muted and we didn't know what to put our finger on, then I would be worried. But I think very clearly, as I mentioned in my opening remarks, this is an event that happens every 4 years. It has happened in India, which means that the timings overlapped, the peak timings of movie shows, plus all the Indian matches were India matches were on the weekend. And then fourth, obviously, it's a case of mixed emotions, India doing well and movies not getting released. But -- and India doing well.

All these 4 factors definitely made the film industry pull back or hold back their releases. I agree with you. It's not a right strategy, but some people -- they can get nervous about releasing upfront when such a large event with all those factors happens. But long ago, this happened during IPL as well. But then I think people should continue to release movies. They should not hold back.

But as I said, I mean, it was an event with -- of such a large scale that they held them back. And that's why the results are -- in October and November, slightly muted. But I'm happy, I'm able to explain why the results are muted. It's not because of lack of people to -- the appetite of people to watch movies or anything else. It's literally, if the content flow is going to be slow, then obviously, the footfalls are also going to be slow.

But come December, suddenly it only goes to prove what a strong appetite people have that suddenly Animal, which didn't look such a big movie on paper, ended up doing over INR600 crores. Salaar, Dunki, Sam Bahadur, 12th Fail, all of them did well. So I think I'm very heartened by the fact that when movies do get released, they do very well.

Definitely, even the industry is aware of the fact that you should not come on the same date, and that is something we are also trying to work with them on. But sometimes, if the movies are of different genres, it's okay. But 2 very big movies coming, yes, it can cannibalize. But sometimes, it can work the other way around as well and the appetite gets vetted. If both movies are good, both end up doing well.

So Oh My God 2 and Gadar 2 came on the same date and both did very well and nobody was expecting them to do so well. So anything can happen. But I think on an any big date like 15th August, 26 January, Diwali, Eid, sometimes you'll end up finding clashes, but we're working on them to stagger them in a better manner.

Abneesh Roy: Sure. My second question is on the comparison you have done with the global box office. So one is, of course, you have given very advanced countries, very mature countries. I think the data would have been more useful if you would have put more -- in terms of the emerging countries, what is the pre-COVID versus current performance. But specific question is, we are seeing in all these mature countries a drop versus pre-COVID being 17% to 34%, which is very high.

So my second question is, would you be worried on this, that structurally in spite of now the Netflix kind of OTT is being fairly there for many years but still 34% kind of drops in UK, in China, in Japan, for example, or say, 17% drop in China for example. These are very worrying numbers. So I wanted to understand, is this the right data to compare given these are countries with much higher GDP, per capita versus India at much lower? So if you could compare with the more comparable countries, that is one.

And second would you be worried? And related question is even in Q3, if you see the December month was the all-time high month within that year. But isn't every year December month highest? And second related question is most of the revenue is coming from a few movies. How do you really make it more democratic? I know you have tr ied the INR99 pricing and those things also. But it seems that only the few big movies are getting all the revenues. And rest of the movies are having very tough time, that's not enough for the health of the industry. So if you could address all these aspects.

Ajay Bijli: Abneesh, that's a lot of questions. So let me just try to first calibrate and process what all you have asked. One is that why are we comparing because, these are the countries which have the highest movie consumption. So typically, whenever you look at global comparisons, you always compare with U.S., China, South Korea, South Korea because it's got its own robust industry as well and Japan.

So these are top performing countries when it comes to movies. So typically, you'd always make -- you don't look at GDP, you look at moviegoing patterns, you look at the overall box office collections and you look at the number of films that get released over there. So I think these are the 5 countries typically that you always compare yourself with.

So I think I would stick my neck out once again to say that it's very heartening to see that -- amongst all these countries, India is still performed better than pre-COVID level. That's one.

Secondly, once again, there's a reason why these countries have not done very well, is because all these countries are highly dependent on Hollywood. And Hollywood has had its number of releases getting reduced. One is because the recent strike that happened of the actors and the screenwriters. And prior to that, because a lot of studios, created their own streaming channels.

So when they created their own streaming channels, they got distracted between releasing some tentpole movies and also creating content for their own streaming platforms. All that is now in the past. And after the massive success of movies like Oppenheimer, Barbie, MI7, everybody has gone back to the drawing board and they're all making movies for the big screen because you just can't get these kind of results if you go straight to the streaming services.

Lastly, Netflix and OTT really is old news. I think it's a very tired question, I'm really sorry to say that. Because 8 weeks window is back now. People are not doing only one thing. They are going out also to shop, to eat, to watch movies and also they are staying at home and getting food on Zomato or booking, shopping online. So I think movies are similar. People can go out on the big screen and watch movies and people can sit at home and watch TV shows.

TV shows is the USP of OTT platforms, not movies. Movies is still a big screen phenomena. And after we got our windows back of 8 weeks, now people -- even mid-budget movies that people used to say are only meant for OTT, people are going out and seeing. How do you explain the collections of Fukrey, Dream Girl 2, of 12th Fail, of movie like Sam Bahadur? So many -- mid-budget movies have come and they've done well.

So I don't think the skew is only in big movies. Yes, the big movies are doing exceedingly well. We have never seen these kind of numbers, but that doesn't mean that the mid-budget movies are not doing well. It's just that the decibel level of the big movies is so high that we forget the small movies which have done well also. And December, we've not said that December has never been bad before. We are saying that this year, December has been the best month. That's all we've said.

Abneesh Roy: That was useful. My question was on metrics in terms of the other countries, not in India, that is well understood. But on one question, which was still unanswered was on the loyalty program. If you could say what are the learnings? How do you improve on that? What was the initial data, etcetera? Because it feels very good and novel concept. But definitely, if we see, still it is the bigger movies which are driving lot of the numbers. So how do you ensure that on every week basis, the footfalls are much strong rather than one big movie every month or 2 big movies every month? How do we democratize that in terms of loyalty?

Ajay Bijli: Yes. Gautam, would you like to talk about the loyalty program or somebody else...

Gautam Dutta: Yes. So basically, we had a traditional loyalty program where we used to give points against your visits to PVR. We saw that, that wasn't really changing the behaviour in the direction that we wanted. We run that program for over 3 years and we realized that consumers were still flowing to the cinema in the pattern they wanted. And that's the reason we have now changed the complexion of our loyalty program.

Our first bit that happened was on the Passport, which is the new form loyalty in a manner where we are -- where we want to drive visitation of the consumer to a cinema many more times in a month than you would normally come. And that would mean that he would definitely come and watch the big film, but he would also then be propelled to watch the medium and the small scale films.

And any friction point, basis on the pricing of a ticket is completely removed. So we did that experiment, that was very, very positive. We had great learnings around the Passport program that we had launched. You will be happy to know that within about 3 weeks' time, we're coming up with the second version of the Passport program. This time, it will be launched as a pan-India program. And hopefully, it will be a much sharper program than before. And to your point, we shall propel the consumer to watch or visit the cinema at least a couple of times in a month.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: I just have 2 questions. The first one was on the occupancy. So as you rightly mentioned, this last one year has been fantastic. And some of the best year in terms of collections in India. In that context, in the first 9 months you've been able to do close to 26.5% kind of occupancy. I just wanted to get your sense about, with the customer, with the audience now stabilizing in terms of at-home versus out-of-home. Do you think this is now closer to the new normal that one would look at for the combined entity? Just your thoughts on that in terms of going forward.

Nitin Sood: This is Nitin. I'll take that question. First 9 months of this year has been 26.5% average occupancy. And you're right, while the overall box office has been up for the year, I think admissions continue to lag behind. I think the primary reason for this has been the volatility in the content supply that we've seen. And you had months where there is supplies and where the -- supply of content has been consistent, where we've seen strong admissions. And there have been months where there has been lull in supply of content.

I think the content situation is not fully resolved itself the way I see it. We are continuing to see gaps in terms of releases and that's one of the primary reasons you have huge amount of peaks and valleys in the occupancies. The best months are bigger than some of the best months we've had pre-COVID and the downs are a bit lower. My sense is this volatility is likely to continue in the near term till the time the content situation stabilizes.

And maybe Kamal, you can add a little bit of color on what's happening on the content side. But definitely, we see occupancy is getting better from here. The occupancy should land up somewhere between where we are and where we were, pre-COVID. But definitely, the occupancies are likely to improve over current levels is what -- where we think things are.

Kamal Gianchandani: This is Kamal. I think Nitin has covered pretty much all the important points. I would only add that COVID had lot of impact on the taste and preferences of the customers. There were certain type of films which were acceptable and which resonated with a large number of people pre-COVID. And what producers start realizing along with us as exhibitors that those films were not resonating as well with the customers. And of course, producers have taken -- because as you know, there is a lag in producing a film. It takes about 15 to 24 months, from the point you greenlight a film to the point you bring it to theatres.

So what we are going through is a period where producers are calibrating their content to the changing taste and preferences of the customers. Also, we've had in the backdrop Hollywood, which has been an important cause in terms of the content and the admissions that we draw. Hollywood has also had its own share of problems for studios, as Mr. Bijli was pointing out. They had different priorities. They were investing a lot of time, effort, money on their own streaming platforms. Thereafter, we got into these interpersonal disputes with the actors and the writers and that took some 6, 7 months to fall in place, and that, of course, delayed a lot of films. That also has had some impact.

To Nitin's point, I think we feel there is a lot of headroom to grow as we move forward in terms of both occupancies in -- also in terms of contribution that we're getting from per customer. So the ticket price, although we've had a healthy jump, but we believe going forward also there is scope to improve on the ticket price along with the concession spend. I would also add another point that when you look at the data of the overseas markets, mature markets like U.S., U.K., South Korea and many other markets, they have a very, very massive penetration of streaming platforms. In terms of behaviour adoption of streaming platforms, they are leaps and bounds ahead of India.

Now with that backdrop, if these mature markets can -- and also with the problems they've had with the Hollywood content, if they can bounce back to 80% of pre-COVID level, we draw a lot of comfort from that fact from this data point because this is pointing to a lot of resilience in the exhibition space. It clearly shows that exhibition is part of a social fabric.

It's an important habit that people have developed over a long period of time, and it's a habit they want to -- they enjoy it, they want to continue with it. So in fact, we draw a lot of comfort from the data point and the recovery that we are seeing in the Western markets, And within India, as producers are calibrating the kind of films they want to put out, as Hollywood films are falling in place, we see headroom to grow occupancies and also the contribution per customer.

Harit Kapoor: I just had one more question. This is probably the year where we've done maximum kind of gross closures in probably our recent history. I just wanted to get your sense that after this? number is done for this year, do you think this is largely done with the adjustments we have to make to our screen pipeline? And from here on gross openings and net openings will be much closer?

Nitin Sood: You're right. I just want to say that this is one-off exercise that we've done this year immediately post the merger to rationalize all our unprofitable screens, which we believe has come to the end of the life cycle. And this is obviously a onetime exercise. I think on an annual basis, unlike any other retail company, there will be some properties which will come to the end of their lease tenure and 1% to 2% of the portfolio, like any retail country will go for a churn.

But I don't think the 77 screen closures that we've done this year is going to repeat itself, It's a one-time event. And new screen opening numbers next year will be similar range, 150 to 160 new screens opening next year. And the net screen addition number will be closer to that number. There'll be a regular churn in portfolio for sure, but it will be a very small number.

Moderator: The next question is from the line of Arun Prasath from Avendus Spark.

Arun Prasath: My first question is a little bit clarification on the ad revenue side. You have seen on a per screen basis a sequential improvement despite, let's say, footfall taking a hit. Is it -- how much of this improvement is we can attribute to the overall spending increase by the advertisers due to festival season? And how much is -- can we attribute to our turnaround process?

Gautam Dutta: So we had indicated in last couple of quarters as well that advertising is going to be coming back in a few quarters, and this is exactly how it's happening. Of course, you're right. This festive season does propel brands to do more advertising and we've benefited. We've also done some long-term deals during this period. Having said that, advertising still, I would say, is in the path of recovery and in a couple of more quarters when we will be getting back to the 2019, '20 numbers.

Arun Prasath: Right. And when you say long-term deals you have done with advertisers, is it on a price basis or a volume contract? Can you give a little bit more details on this?

Gautam Dutta: It's just on track of how much time they will consume and what media they will consume on our screen on a perennial basis. So there is a certain burn. Otherwise, what happens is that every month, you have to go farming for business. If you have slightly long-term deals which stretch upon 3 months, 4 months, 5 months, then you could sort of begin the month with a certain surety of income, and that really benefits our business.

Arun Prasath: And today, what percentage of our ad revenue comes from these kind of deals?

Gautam Dutta: It would be in the region of about 30% to 35-odd percent..

Arun Prasath: Right. So rest of the slot, we need to -- that will still depend upon the content, how strong that is in...

Gautam Dutta: It is absolutely content based and the kind of hype the movie creates in the market.

Arun Prasath: Right, right. And then second thing is that, obviously, sequentially, our mix change is much -- is very visible. When it come -- when you see the box office collections of Hollywood, Bollywood and regional. But it is not reflecting in our ATP numbers. Any -- can you then give more color on this, what's happening to the ATP?

Nitin Sood: So our average ticket pricing is actually very strong. It was up. In this quarter, our average ticket pricing is up 14% and our average food and beverage spending is up 8%. So I'm not clear on the question.

Gautam Dutta: It totally mirrors what's happening today. The big film end up playing on much higher ticket price, all special formats, IMAX, PXL, 4DX films also attract much higher ticket pricing. So -- and this is exactly how the ATP gets reflected in our results.

Arun Prasath: Okay. So is it -- the point of asking is that we usually have much better ATP when a Bollywood -- but despite -- of course, couple of films did very well during -- from Bollywood side, but Hollywood hasn't really performed as compared to say, previous quarter. So ATP still holding up. So that's what I'm trying to understand.

Gautam Dutta: Yes. So -- because you're comparing a Hollywood big film versus a Bollywood big film, both actually stack up exactly the same way. So there could be months where we will continue to get big Hollywood titles, and they too shall attract higher and similar ATPs. And a strong Bollywood film, in fact. What has happened now is some of the strong regional films like Pushpa 2 which is in the pipeline, or a Leo, whatever, would also attract the similar high ATP. So which is very encouraging for the market that big starrer big event films across the board, whether it's regional, whether it's Bollywood or whether it's Hollywood, continue to operate at high ATPs.

Arun Prasath: And does it mean this is our steady state ATP? Or do we still have some growth levers that we can expect to play out in the next 12 to 18 months?

Gautam Dutta: Yes. Of course, ATP is always in line with inflation. And every year, if you look at the past so many years, ATP always goes up between 4% to 6%, and that trajectory will be maintained.

Arun Prasath: Right, right. And you spoke about the occupancy being far lower than, say, what we had at a pre-COVID levels. Does it mean that the repricing of the contracts will also happen? Does it give any room for lower, fixed opex on a per screen basis?

Nitin Sood: Which contracts are you referring to, lease contracts?

Arun Prasath: With the developers. With the mall developers and...

Nitin Sood: Yes, of course. I think based on how the cinema is performing, lease contract will be a function of, as and when they are available for reset, they will get price based on what the cinema can pay to achieve the optimum ROCE and profitability for that unit.

Arun Prasath: All right. So the question is how many such contract or the properties are coming up for renewal, where you are expecting that because of the lower occupancy that we are seeing, we will be able to -- what percentage of our portfolio is falling under this category?

Nitin Sood: We can't share that data. We can't share that information.

Arun Prasath: Right, right. Okay. My last question is on the screens that you have added so far. Usually, it takes some time to arrive at the steady state, say, 2 quarters to 4 quarters. Is it something in line with the pre-COVID trends, what we have added in the recent quarters?

Nitin Sood: Sorry, I have not understood your question.

Arun Prasath: My question is, usually, when you are putting new screen, it takes some time to reach steady-state occupancy and the profitability for that screen to achieve. The time period is same now as compared to the pre-COVID levels?

Nitin Sood: Yes. There has been no change. In fact, lot of our screens have hit the road running in terms of what we've opened. So there is no fundamental change in what we were seeing in screen performance pre-COVID versus now in terms of new property openings.

Arun Prasath: Right. So which means -- what I'm trying to understand is that we have closed around 100, 150 screens in the last 12 to 18 months and which is similarly replaced by the new screens, which should have ideally led to a much better margins despite -- even though the content performance is more or less same. But we have not seen this in the numbers. So what we are missing?

Nitin Sood: Because overall footfalls are much lower as compared to where they were pre-COVID levels. And if you analyse the numbers, every single parameter is up and all costs are lower when you compare. But I think it's the sheer operating leverage of the business. Because the footfalls are lower, average occupancies are low, that's the reason that's not reflecting in the operating margins.

Alok Tandon: But otherwise, Arun, just to add what Mr. Bijli said earlier and what Nitin is saying now, anything else has remained the same. I'm just continuing with what he said is that occupancy is low because of what Mr. Bijli said was because of the World Cup cricket. So October, November were low, yes, December was outstandingly well. But otherwise, the other metrics are the same. In fact, you'll see a healthy growth in ATP, a healthy growth in SPH. So all those things are valid. So all the new screens we have added, the 97 screens, I would say whether the -- I would say, the payback or the returns we get is identical as per pre-COVID.

Arun Prasath: It's not just Q3. If I'm looking at the 9-month numbers, we have roughly around 120 million footfalls during this first 9 months versus around 112 million in the 9 months of FY '23. But a lot more screens are new and it is new and it has replaced the old underperforming screens. So it is not explaining that fact that we have put a new brand new screens, which have turned around faster or at the same rate as the pre-COVID levels but still not seeing footfalls. That is what is we're trying to understand, not just Q3 performance.

Nitin Sood: Yes. As I mentioned earlier, we can take this offline as well. But our basic difference is because the average occupancy levels are much lower and footfall per screen on same stores are much lower than they were pre-COVID level. That delta in operating leverage is reflecting in the operating margin.

Moderator: Thank you. The next question is from the line of Nitin Sharma from MC Pro Research. Please go ahead.

Nitin Sharma: Just one question. So is there any kind of a debt reduction target that you for FY '25?

Nitin Sood: Yes. As we've guided, all the free operating cash flow that we will achieve from the business after funding our capex needs will all go for debt reduction, depending upon what the operating cash flows for the year will play out to be. The surplus cash flows will be used for debt reduction, which we've already done, and this is demonstrated in the first 9 months of the year. So that's the plan.

Nitin Sharma: Okay. And average cost of debt is around 9%. Is that correct?

Nitin Sood: That's correct. That's correct.

Moderator: Thank you. The next question is from the line of Ganesh Nagarsekar from Bharat Bet Research. Please go ahead. Hello Mr. Pathanjali Srinivasan, sir.

Pathanjali Srinivasan: Yes. So firstly, I wanted to understand a bit on the Passport program and the likely pricing because we've been talking about this for quite some time. Any tentative timeline on when this is likely to come into -- like the -- when are you trying to launch it by?

Nitin Sood: Yes. As Gautam has mentioned, I think the [inaudible] sometime this month with the revised features, and it will be a pan-India program that we were planning to launch. We don't want to divulge too much about what are the changes that we are making based on the pilot. I think in next few weeks, you will get to hear about them.

Gautam Dutta: And this would go through its own churn and alteration. This is not the final product because through launching this product, we also are learning a lot about how consumers are accepting and using this product. So we will keep -- as we move forward, we will keep sharpening this product.

Pathanjali Srinivasan: Sure. And just couple of more questions from me. So one is on the occupancy level. So you have mentioned that October and November was very weak and December was better. So if you could give me from December, what was your exit occupancy level just to figure out what kind of traction you were seeing?

Nitin Sood: Yes. We don't disclose month-by-month occupancy. But just to give you a perspective, average occupancy during the month of December was 37% as compared to the average of quarter 4 of 25 -- quarter 3 of 25%. So which means there was a huge variation in the occupancies in the first couple of months and the month of December.

Pathanjali Srinivasan: Sure, sir. And just one last question, if I could just ask. So region mix, I think currently, we have about 32% of our capacity in South and around 550 screens. So incrementally, when we're adding about 160, 170 screens in the next year or a year after that, what would be the additional mix coming in the South? And can we say that from an occupancy, the occupancy levels in south are much higher than what it would be rest of -- ex of South?

Nitin Sood: You're right. The occupancy levels in South are generally higher. Again, it varies market by market, but they are generally higher than rest of the country. And I think more than 40% of our new screen additions is in South India. The ratio will change marginally depending upon what ends up opening first. But between 40% to 45% of new screen additions will be in South India.

Moderator: Thank you. The next question is from the line of Ganesh Nagarsekar from Bharat Bet Research. Please go ahead.

Ganesh Nagarsekar: So my question was the first part of my question is partly answered in terms of our growth in South India. The second part of my question is regarding our growth in new screens outside of Metro. So broadly, how is the management thinking about this? And in terms of what are the key challenges that you see in terms of growing outside of metro other than, say, malls or good real estate there. So if you could just shed some light on that?

Nitin Sood: Yes. See, what we are seeing is that the existing cities are continuing to expand. Metro cities are continuing to add premium locations. Tier 1 market share, tier 2 markets, all are expanding, the zones are expanding. So even in the current year, 50% of our screen additions is focused in metros, 20% is focused on Tier 1 cities, which are continued to add more capacity in -- as these cities are expanding. New age shopping malls are opening up.

Just to give you an example, we are opening 3 large-scale shopping malls with Phoenix Market city this quarter alone. We're opening a 14-screen complex in Bangalore, at Phoenix Market city, Bangalore. We're opening a 14-screen complex in Pune with Phoenix. And then we are opening a 9-screen complex in Ahmedabad, Palladium Mall, which has recently opened. So what we are seeing is big cities continue to expand.

We are also adding about 30% of our screens in Tier 2, Tier 3 markets. But we are waiting for the right location and the right opportunity. We've moved to cities like Gwalior, we've just opened in Ajmer, Cuddalore -- so Bhubaneswar. We are opening in markets like Machilipatnam. So a lot of -- a mix of both is happening, but we want to open in the right locations, which will sustain over a period of time. And hence, we are very conscious on where we build and what we build.

Ganesh Nagarsekar: Understood. And sir, in terms of Tier 2, Tier 3 cinemas that are there, in terms of the pricing and occupancy, could you shed some light on the trends there versus the screens in metros?

Nitin Sood: We see no big noticeable differences in that, other than the fact that, obviously, the pricing power in some of the smaller markets is much lower. And so is the CapEx spending, but nothing changes as far as a return on employed metrics and return thresholds.

Ganesh Nagarsekar: Understood. And the occupancy will be broadly similar, right?

Nitin Sood: Yes. Occupancies are almost similar with what we are doing in other markets.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Liladher.

Jinesh Joshi: Yes. I have a question on our screen opening guidance. So we have opened about 97. And the plan is to open about 160 to 170 for the full year. So the run rate for 4Q appears to be a bit high at about 60 to 70 screens. So can you share, I mean, have we got the possession of the screens? And how many of them are currently under fitout?

Nitin Sood: Sorry.

Alok Tandon: You asked Jinesh about how many are on the fitout? Well, all 72 screens are under fitout and they're absolutely ready. And let me tell you that out of the 72, 4 screens in Ajmer we've already opened. So in the presentation, where you see the entire list, every cinema which you have mentioned is under fitout and is awaiting for licenses. So that's how ready we are. So we are not aggressive at all. Whatever we have committed we'll be opening. The projects are nearly over, and we are waiting for the licenses to come so that we can open our cinemas.

Jinesh Joshi: Sure, sir. One bookkeeping question from my side. So if I look at our income, it appears to be a bit high at about INR58 crores for the quarter. So is there an element of one-off here? And also, if I recall, in our last presentation, we had shared certain numbers on EBITDA synergy that resulted from the merger. And that figure, if I remember correctly, was anywhere between INR124 crores to INR143 crores in 1H. Would you like to call out any specific numbers for 3Q?

Nitin Sood: No. First of all, on merger synergies, we'll share an update now at the end of the year. We shared something in a 6-month level. We'll share an update at the end of the year, on the -- what has played out during the year. On your first question about other income, the other income, like we mentioned in our notes includes, we've shut down about 62 screens in the first 9 months of this year.

There is other income representing about -- of about INR35 crores, which is represented in the financials -- reported financials, not in the Ind AS adjusted financials, which is the write-back of lease liabilities on account of shutdown of those screens, which I would say is relation to the exit properties and there's a one-off. Obviously, in the Ind AS adjusted financials, that number is not there, and that is adjusted for this one-off item.

Jinesh Joshi: Sure, sir. One last question from my side on the ad revenue front. I think in the earlier remarks, you mentioned that we have got some long-term contracts and currently that number is about 30% to 35%. So with this contract coming back, this INR130 crores to INR140 crores kind of a run rate, which we have seen in this quarter, is this something which will be sustainable now, given the fact that we have a committed inventory in the form of long-term contracts? Or how should we look at it from a yearly perspective, so to say?

Gautam Dutta: So advertising, as we've always said, mirrors what happens at the box office and the big films that get released. It also sort of has to keep in mind what is happening in the market in those months and weeks. So specifically in quarter 3 because this Diwali, New Year, new launches of cars, telecom, new products, of course, the advertising goes up. So it may not be fair to sort of level advertising out over 12 months or four quarters. There will be certain quarters where the advertising needs to peak and there will be quarters when it will fall, simply because, as I said, it sort of mirrors the sentiment of the overall market, retail market and stuff like that.

So we technically never give guidance over a quarter-on-quarter number. But to -- but if you look at the trajectory, it is positive. We are coming back. And every quarter is going up and it's a healthy increase. It's not a marginal increase, but a healthy increase, which clearly show that overall clients and media planners are sort of coming back. It has taken time because it is still a peripheral media, but I think the teams have done a great work in able to get the money back into the cinemas. And hopefully, this trajectory will keep going.

Jinesh Joshi: Sure, sir, one follow-up. Actually, the reason I thought of asking this is because if I look at 1Q, we were at INR89 crores and we were at about INR140 crores in 3Q and obviously, the content did well. But the pipeline for 4Q appears to be slightly weaker. So the context was that, if we have long-term contracts in place, then perhaps, the fall may not be as steep. And because the flow-through to EBITDA from advertising income is quite high.

So the margin knockoff will also be not that high. So that was the context. And was just trying to read through whether this INR130 crores, INR140 crores number, something which one should build in, or you might see some bit of high volatility in 4Q and 1Q where the pipeline is slightly weaker. So that was the broad context.

Gautam Dutta: Yes. So as I've just said, it will mirror the content, long term only is about 30% to 35%. Even if they continue to advertise, they cannot change the trajectory for the quarter. So technically, it is the balance, 65%, 70% that comes into play, which completely mirrors the content flow and the hype flow of the film. So technically, you will need to keep the volatility of content and the seasonality in mind whenever you are trying to project advertising revenues.

Moderator: The next question is from the line of Abhishek Kumar from JM Financial Limited.

Abhishek Kumar: Just one question. I was just curious about the FHC. This seems to have gone up, both on a quarterly basis and also for the 9-month basis. I just wanted to understand, is it just because most of the box office collection is happening in the first couple of weeks? Or is it anything structural in terms of the price band, etcetera, that we set with the distributors?

Nitin Sood: Kamal, will you take this?

Kamal Gianchandani: Sure. So 2 reasons. One is that in Q3 specifically, as you know, for blockbusters, which cross a certain threshold, we offer a bonus percentage to our producer partners. In Q3, we had 4 such films versus last year same quarter, we had only 1 film. And that was the main variable which caused an increase in the film hire percentage. But please make no mistake, there has been absolutely no change in the arrangement with the producers. The percentage sharing arrangement, which has been there last year is the one which is continuing this year.

The other variable is also the fact that on 3D revenue, as you know, we charge for 3D films, for the 3D glasses, we charge service charge, separately for the glasses. And that amount is shared with the producers. But the percentage sharing of 3D revenue is much lower than the percentage sharing of the ticket revenue.

In last year, the 3D revenue was very high, almost 10x of the 3D revenue that we've had in the Q3 this year. That's another reason why there is an uptick in the film hire percentage. We are -- we expect this to even out. I mean, the whole year will remain slightly higher than last year. But one should see this as an aberration. Going forward, we believe it will remain stable and probably go back to the film hire percentage that we had last year.

Moderator: The next question is from the line of Vivekanand Subbaraman from Ambit Private Limited.

Vivekanand Subbaraman: Could you share some qualitative updates on the progress made towards achieving synergies? I'm not looking for any numbers, specifically, but an update on the qualitative aspects that you have discussed in the past. That's question one. Secondly, what about PVR Pictures? What's the pipeline there and the capital investment envisage for FY '25?

Kamal Gianchandani: Okay. So Nitin, can I take this? Or are you taking -- no -- Nitin, go ahead.

Gautam Dutta: Okay. Kamal, are you sort of -- would you want to answer?

Kamal Gianchandani: Okay. So in terms of the first question, synergies, I think we've made rapid progress in terms of technological synergies. Both INOX and PVR were operating on different technological systems, different technologies, software and architecture, everything was different. We've integrated. We made great progress.

And hopefully by the end of March in '24, we would be ubiquitous, fully integrated, seamless system which would be operating. And this would help us in terms of eliminating a lot of duplication and processes. And therefore, in long run you would see efficiencies emanating from technological integration. The jump in average ticket price is also largely a result of synergies that we've been able to exploit with both chains coming together. I would request Gautam and Alok to contribute on the cost savings that we've had, and then I can come back to answer the PVR Picture related question. Gautam and Alok?

Gautam Dutta: The Board, whether it's been HR, rationalization both in RO and corporate function alignment, all process and alignments across, PVR and INOX cinemas, we've also taken into account all the best practices of both the brand and seen how we could move together. A lot of work has happened on the branding, per se. On SMB side, you've already seen the kind of growth we've posted over the last 2 quarters.

So like a simple thing, like non-veg rollout in INOX properties, standardization of F&B menus, promotion to actually encourage footfalls and consumption in cinemas, which has ran -- which is INR99 promotion Monday to Thursday, this popcorn and Pepsi refill plan for weekends, brand campaigns across for both the brands coming together and taking the higher ground to get consumers back to cinema.

I think from design to uniform to processing systems, branding, people rationalization, alignment in terms of leadership, a lot of work has happened. And hopefully, starting next year, this would all now start to yield great results for the company.

Kamal Gianchandani: Alok, do you want to add something?

Alok Tandon: No, Just Gautam, I think, you touched each and every aspect. Just to put it in a nutshell that every line item of the P&L is being looked at with a very fine-tooth comb. A lot of work is being done on heat, light and power. So energy conservation is one big, I would say, area where we are looking at and ensuring that we conserve energy. We're using economies of scale for various AMCs and R&M products. So in every line item, just to say what Gautam has mentioned, that we are looking at, and we are ensuring that synergy benefits are there for the company.

Kamal Gianchandani: So coming to the PVR Pictures part of your question, we've had a muted first 9 months. But we are expecting a strong Q4, and we are likely to finish with -- on a high note. As far as this financial year is concerned, we've allocated more capital for this business, and you can be rest assured that next year, you would not just see a jump in the top line, but you would also see a healthy jump.

As far as the bottom line goes, I would not get into specific numbers or divulge any sensitive information on our strategies, but we are working very hard in ensuring that PVR Pictures can be scaled up -- and so that we can derive the synergies between exhibition now with this combination of INOX and PVR, the synergies between exhibition and distribution, they can be exploited to the hilt. We are working very hard in that direction. You would see a lot of results going forward next year.

Moderator: Thank you. Due to time constraints, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Nitin Sood: I'd just like to thank everyone for taking out time for the call. And if we've not been able to answer any of your questions, then I would request you to please write to Gaurav or me, and we shall be happy to talk to you one on one basis. Thank you.

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