INOX
LIVE THE MOVIE

23rd August, 2016

To,
The Secretary
**BSE Limited**
P J Towers,
Dalal Street,
Mumbai – 400 001

**Scrip Code: 532706**

The Manager
**National Stock Exchange of India Limited**
Exchange Plaza, 5th Floor, Plot No C/1,
G Block, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051

**Scrip Code: INOXLEISUR**

Dear Sir / Madam,

**Sub: Transcript of Conference Call with the Investors / Analysts.**

The Company had organized a conference call with the Investors / Analysts on 8th August, 2016. A copy of Transcript of conference call held with the Investors / Analysts is enclosed herewith and the same is also being put up on the Company's website at https://www.inoxmovies.com/Corporate.aspx?Section=3.

Kindly take the same on record.

Thanking you.

Yours faithfully,
**For Inox Leisure Limited**

Dhanraj Mulki
**Vice President - Legal**
**& Company Secretary**

**Encl.: As above.**

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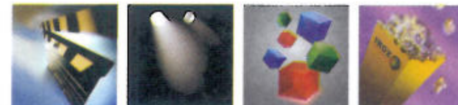

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# "INOX Leisure Limited Q1 FY 2017 Earnings Conference Call"

August 8, 2016

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

**MANAGEMENT:** **MR. DEEPAK ASHER - DIRECTOR AND GROUP HEAD - CORPORATE FINANCE - INOX GROUP OF COMPANIES**
**MR. ALOK TANDON - CEO - INOX LEISURE LIMITED**
**MR. UPEN SHAH – CFO - INOX LEISURE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Inox Leisure Q1 FY2017 earning 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you and over to you, Sir!

**Ankur Periwal:** Thank you. At the outset, I would like to thank all of you for dialing into Inox Leisure post result earnings call for the quarter ended June 2016. The call will be initiated with a brief management discussion on the quarterly performance followed by an interactive Q&A session. From the management team we have with us Mr. Deepak Asher, Director and Group Head, Corporate Finance, Inox Group of Companies, Mr. Alok Tandon, CEO Inox Leisure and Mr. Upen Shah, CFO Inox Leisure. Over to you Mr. Asher.

**Deepak Asher:** Thank you very much Ankur and thanks Janis. On behalf of the Board of Directors of Inox Leisure Limited, I would like to extend a very warm welcome to all of you who are participating on this call. We would like to thank you for your time as well as your interest.

The Board of Directors of Inox Leisure Limited has just approved the results for the first quarter of FY2017 and these have been uploaded to the websites of the stock exchange as well as the company website. In addition to the results in the statutory and regulatory formats, we have also uploaded an investor presentation that provides the result highlights, and analysis of the results of the first quarter, broad financials as well as some qualitative information about the property pipeline and the content pipeline going forward.

Without taking too much of your time we shall dwell directly into the financial results highlights. What we are doing is comparing the financial performance for Q1 FY2017, which is the period April to June 2016 with the corresponding Q1 of FY2016 which is period April to June 2015 and again, just to clarify, this year, is the year in which we have transitioned into the new accounting system called IND-AS or the Indian Accounting Standards and hence the results for the last quarter which were based on Indian GAAP, which is I-GAAP, have been converted to IND-AS. So with those introductory remarks I would like to take a deep dive into the results.

Total revenues have gone up from Rs 302.5 Crores to Rs 336.9 Crores, a growth of 11%. EBITDA has come down marginally from Rs. 64.5 Crores to Rs. 62.1 Crores that is a fall of 4%. Consequently, EBITDA margin has fallen from 21.3% to 18.4%. PAT has remained virtually at the same level Rs. 25.3 Crores in Q1 FY2016, Vs Rs. 25 Crores in Q1 FY2017. PAT margin has gone down marginally from 8.4% to 7.4%, but this comparison I think is largely because last year first quarter, we had a phenomenal quarter, in fact probably one of the best quarters we have ever had. This quarter also I would tend to think was not bad. It was quite good, but because this was being compared with a phenomenally good quarter the results particularly the bottom-line

shows a slight negative, but overall, I do not think we are disappointed with the results and I think if you look at the content pipeline going forward, this year should be as good as, if not better than, last year.

If you were to look at the result analysis, our revenues are broken up into four key streams. They are net box office revenues, food and beverage revenues, advertising revenue and other operating revenue.

Net box office revenue went up from Rs. 188.6 Crores to Rs. 213.5 Crores that is a growth of 13%. Food and beverage revenue went up 9% from Rs. 73.9 Crores to Rs. 80.7 Crores. Advertising revenues went up by 3% from Rs. 20.7 Crores to Rs. 21.3 Crores and other operating revenue went up by 11% from Rs. 19.3 Crores to Rs. 21.5 Crores. As a result, aggregate revenue as mentioned earlier went up by 11% from Rs. 302.5 Crores to Rs. 336.9 Crores.

The mix of each of this revenue streams in overall revenue pie, net box office went up from 62.3% to 63.4%. Food and beverage went down from 24.4% to 23.9%, advertising from 6.8% to 6.3% and other operating revenues remain at around 6.4%.

Now this performance was primarily driven by the content during the last quarter. The top five performing films of the last quarter were the Jungle Book which saw footfalls of 25.24 lakhs and GBOC,- Gross Box Office Collection - of Rs. 48.33 Crores, Housefull 3 footfalls of 10.69 lakhs and GBOC of Rs. 19.68 Crores, Fan footfalls of 8.13 lakhs and GBOC of Rs. 16.45 Crores, Captain America Civil War footfalls of 8.01 lakhs and GBOC of Rs. 15.27 Crores and Sairat 9.83 lakhs of footfalls and GBOC of Rs. 12.58 Crores. As the result of this, the total contribution of the top five performers was 40% to footfalls and about 41% to Gross Box Office Collection.

The top five performing films for this quarter was also little bit unique compared to other quarters earlier. For the first time you saw the top performer being in an English film which is Jungle Book and also regional film Sairat amongst the top five, and as a result of this, the mix between Hindi, English, and regional which was 63% Hindi in Q1 FY2016 went down to 53% of Hindi Q1 FY2017, English 20% went up to 25% and regional 17% went up to 22%. So this might well the beginning of another good trend, which is regional content and English content performing exceedingly well at the box office.

If you break up the broad revenue numbers into the key operational matrix - footfalls went up by 7% from 145.4 lakhs in Q1 FY2016 to 155.4 lakhs in Q1 FY2017. Occupancy levels are marginally lower as I said because we are comparing with what was a phenomenally good quarter, occupancy levels went down from 33% to 31% and this is for all properties together. On a comparable property basis, footfalls went down marginally by 1% from 143.5 to 142.8 lakhs and occupancies from 33% down to around 32%. Average ticket price went up by 6% from Rs.165 in Q1 FY2016 to Rs.174 in Q1 FY2017. For comparable properties average ticket price went up by 5% from Rs.166 to Rs.174.

Spend per head on food and beverages went up by 3% from Rs.59 to Rs.61, contribution from F&B went up from 75% to 77% in percentage terms, absolute contribution on F&B went up on a per patron basis from Rs.44.25 to Rs.46.97, that is an increase of about 6% and that as I mentioned was primarily because the spend per head went up by 3% and the contribution margin went up by around 2% points.

Advertising revenues went up 3% from Rs. 20.7 Crores to Rs. 21.3 Crores for the quarter. Other operating revenues went up by 11% from Rs. 19.3 Crores to Rs. 21.5 Crores for the quarter. That is on the revenue side.

On the cost side, entertainment tax went down on NBOC basis from 26.8% to 26.2%, and on GBOC basis from 21.2% to 20.8% so that is roughly about 0.5% reduction in the entertainment tax cost. Film distributor share also went down by about 0.5% so on NBOC basis 43.1% going down 42.3% and on GBOC basis 34% going down to 33.5%.

As far as other overheads per operating screen is concerned, this was about Rs.37.7 lakh per quarter, which has gone up to about Rs.40.8 lakh per quarter in this quarter which is an increase of about 8% which we believe is reflective of inflation.

As we mentioned these results reflect the changes that we have been required to do as a result of implementation of IND-AS and I would just like to take you to some of the key changes that IND-AS has brought about on the results.

First of all you might recall, entertainment tax was earlier an expense item in the statement of profit and loss account and to that extent revenues were higher by the amount of entertainment tax. Under IND-AS, we are now showing entertainment tax, netted from box office revenues and hence total revenues are lower to the extent of entertainment tax collection.

As far as entertainment tax exemption is concerned and under I-GAAP no separate accounting was required. This is essentially because we did not have to pay entertainment tax in respect of exempt properties and hence box office revenues were higher to the extent of the notional tax embedded in the ticket pricing. On the other hand as far as IND-AS is concerned, there is a slightly complex accounting required for entertainment tax exemptions. The exemption availed during the year needs to be transferred from box office revenue to what is deferred income. The rational being that entertainment tax exemption pertains to, in a sense, the useful life of the asset and therefore is not accounted for upfront in the year in which the entertainment tax actually accrues. Then, from deferred income, an amount which is proportionate to depreciation charged on exempt properties for the year is transferred back to other operating income. So in a sense no part of the entertainment tax exemption is reflected in box office revenues, but the part, which pertains to the proportion of depreciation charged on the assets, is shown as other operating income.

The third major change that we have done as a result of implementation of IND-AS is security deposits paid to mall owners. Earlier there were reflected in books of accounts on historical cost

basis, but under IND-AS are now required to be discounted to present value and the difference between the historical cost and the present value is charged to revenue as an expense, as a rent expenditure over the life of the lease and to the extent, rent expenditure actually goes up. On the other hand notional interest on such deposits is shown as other income.

The fourth major change that IND-AS required to do is in respect of goodwill accounting under the old accounting standard, I-GAAP, goodwill was required to be amortized over a period of 10 years and the charge was debited to depreciation and amortization , on the other hand, under IND-AS, goodwill is required to be tested for impairment at the end of each reporting period and impairment is charged to other expenditure.

And lastly, in respect of the expected credit loss, earlier I-GAAP required you to make a provision for doubtful or bad debts only when the debts were actually considered to be doubtful or bad so it was more incident driven whereas now under IND-AS it is expectation driven in the sense that provision is required to be made on the probability of debts being doubtful or bad and this profitability is to be assessed based on past trends. So these are some of the key changes that we have made in the accounts including in the accounts for the first quarter for last year in order to make them comparable. In the detailed results we have also shown comparison of each of these items and I would not like to take you through the details of each of those but you could refer to that and obviously if there are any questions please free to share them.

In terms of the outlook for the future as far as the new properties being opened during this quarter we have opened one new property, which is at Brookefield, Bengaluru, which was on June 24, 2016. This was three screens and 338 seats. In addition, an existing property, which was Chitralaya in Vizag we added two more screens and 279 seats as result of which our property count went up by 1, our screen count went up by 5 and seat count went up by 617 seats during this quarter. Post this, we are now present in 19 states, 57 cities, which by the way makes it one of the largest footprints of any multiplex chain in the country. We have 108 properties operational, 425 screens and 109406 seats, which in terms of screen count and seat count make us the second largest multiplex chain operator in the country.

In terms of anticipated screens being opened in this current financial year FY2017 in addition to the one property, five screens and 617 seats, we expect to open another 12 properties, 54 screens and 10786 seats during this financial year, which is, by March, as a result of which by March 31, 2017 we should have, if this pipeline is actually implemented as intended, 120 properties, 479 screens and about 120192 seats. We also have tied up in terms of lease agreements already executed for post March 2017, about 50 properties, 258 screens and about 50633 seats and as a result of the implementation of the entire pipeline which, by the way, as I said is the tied up pipeline, this should see us with 170 properties, 737 screens and about 170825 seats. The total capex that we intent to incur on this pipeline at least for FY2017 is roughly Rs. 200 Crores which would be funded essentially 60:40 debt equity, so the debt required will be about Rs. 120 Crores and equity would be about Rs. 80 Crores and we anticipate that the operating results for

this year which is the EBITDA minus interest, tax, principal and the free cash flow of the business should be able to fund that Rs. 80 Crores worth of equity.

In terms of content pipeline while we have presented this as pipeline though the month of July is already gone. We had Madaari, we had Kabali, and we had Dishoom being released during the month of July. August seems to be pretty good. We have apart from Suicide Squad, which has already been released, Mohenjo-Daro coming on August 12, Rustom coming on August 12, and Flying Jatt being released on August 25. Mohenjo-Daro as you know is Hrithik Roshan, Ashutosh Gowariker, Rustom is an Akshay Kumar starrer both are expected to do quite well. In September, we have Akira being directed by Murugadoss, we have PINK which is Amitabh Bachchan starrer and we have on September 30, M.S. Dhoni starring Sushant Singh Rajput, much awaited and looked forward to. In October in terms of pipeline we have Mirzya, which is Rakeysh Omprakash Mehra, directed. We have Ae Dil Hai Mushkil, Karan Johar directed starring Ranbir Kapoor, Anushka Sharma and Aishwarya Rai Bachchan and we have Shivaay, which is Ajay Devgan starrer and an Ajay Devgan directed movie.

In terms of shareholding performance, and structure our price currently is about Rs.268. Our market cap stands at about Rs. 2600 Crores, our key institutional investors include Goldman Sachs 4.74%, Macquarie 4.27%, Kuwait International 3.61%. In terms of overall shareholding, the promoters and promoter group hold about 48.7%, FIIs an about 22.47%, DIIs own about 8.17%, 4.5% is the stock we have as treasury shares and the public and others own about 16.15%.

So this ladies and gentlemen is a broad overview of our results and now I would like to throw it open for any question and answer that you might have.

**Moderator:** Thank you. We will now begin with the question and answer session. We take the first question is from the line of Manu Panday from Infinity. Please go ahead.

**Manu Panday:** Thanks a lot for taking my question. Sir I just want to understand little bit more on the advertisement income. If you remember last couple of quarters back we had increased our rates what has been being market response on the advertisement revenue?

**Deepak Asher:** Well, it is gradually finding traction. Admittedly at a pace lower than what we are expecting but I think we are getting there in terms of very broad advertising effective rates, we have seen compared to Q1 FY2016, in Q1 FY2017 our blended rate has gone up by about 14% to 15%. We expect this to keep on building up as we go forward. The advertising inventory or the minutes have gone down and to that extent we do not see as significant an increasing advertising income as one would have but a part of that reduction of advertising inventory sales is also because of the fact that we have been consciously shedding out the low paying advertisers and gradually building up our higher paying advertising inventory. We have signed some significant deals over the last two or three months and we expect the outlook on this to be positive going forward.

**Manu Panday:** May be, I know you do not provide forward guidance, but may be if you can help us understand by when do you think this line item can start growing at double digit numbers back again because it has been quiet for sometime on this line item.

**Deepak Asher:** I know, and the only honest answer I have for that is - I wish I could tell you, but I think I would expect by end of this year to see a double-digit percentage growth on this.

**Manu Panday:** Second question was on GST if you can help us may be understand a little bit as to what happens assuming on the GST?

**Deepak Asher:** First of all any expectation or any estimation of what happens on GST we will need to assume GST rate and to that extent that that is not yet legislated, the estimation will be based on an assumption. The state of intelligence in the market seems to be an 18% revenue neutral rate , assume it is 18% then our EBITDA should improve by anywhere between 2% and 4%.

**Manu Panday:** Thanks a lot. That is all from my side.

**Moderator**: Thank you. We take the next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

**Niket Shah:** Thanks for the opportunity. I just want to understand as far the advertisement part of the business is concerned, how would be our pricing as compared to our leaders? Would we be at a significant discount now or the discount would have reduced, some sense from that would be very helpful and also if you can just give us a breakup of how much of your ad revenues come from third party rather than coming from your organic ad revenues?

**Deepak Asher:** On the first part, I do not think the information on what we have as rates for us as well as the other industry players are in the public domain, so I do not think we can discuss that, but I do believe that there is significant scope for improvement, so regardless of what the market or the industry is there I do believe that there is a potential for our effective ad rates going up and that is what we are working on. As I mentioned we have already seen about 14% increase Q1 FY2016 to Q1 FY2017 and I do believe that there is in a sense, the tip of the iceberg and this could keep on improving as we go forward. On what part of the advertising income comes directly versus through agencies I do not think we have that data in front of us.

**Niket Shah:** The other question wanted to ask on the F&B growth part - if you look at this SPH growth again that is one line item where our growth would have been slightly on the lower side as compared to the leaders of business so any specific reason for that?

**Deepak Asher:** I do not know, which leaders you are referring to, I think we are also leaders on the business. However, I do believe again we have taken several initiatives and again a lot of this is work-in-progress in terms of enhancing our F&B revenues on a spend per head basis. For example, I am just trying to recount the four or five key initiatives that we have taken. First of all we have tried to increase the transaction touch points with our customer. We are now selling F&B also on the

internet, on our own platform as well as planning to sell on 3rd party platforms. We are also transacting F&B at the box office, so when you buy your tickets you can also buy a coke and popcorn and whatever else you want to have. We are increasing the points of sale in the lobbies and we are also accessing customers directly on their seats so we are doing seat servicing for F&B. We believe there are multiple transaction touch points will help in expanding revenues. Apart from that, on the qualitative side, we are expanding the menu so we have much more items we are enhancing items on the menu, we have live kitchen for example in many of our properties. We bring in a lot of seasonal variations, a lot of regional variations. For example, just as in a case in point, our Nariman point property has more than 150 items on its menu and I would like to think lot of people would like to visit there for the food that is served as much as for the content that is shown. We have a much more focused thrust on our sales programs. We have a lot of other smaller things like larger selling pack sizes, upselling packs and stuff like that and we do expect this to bear fruits going forward.

**Niket Shah:** Right and the final question on the food and beverages margins part of it, if you look at this quarter there has been 200 basis points of margin improvement. We are now almost 77% contributions do you think there is some more room to this or this is pretty much what you are taking care of?

**Deepak Asher:** I think this is as best as it could get. May be 1% plus or minus, but I do not think there is going to be significant more juice out of this because remember as we try and do more, enhance our absolute F&B spend there might be some crunch on the margins. For example, if you sell a larger kind of pack size, you may “up price” it by 20% by giving 30% more volume so that may be a little bit of margin destructive in percentage terms, but in absolute terms your margins will be higher than what we had earlier so this is a little bit misleading also to look at margins in percentage terms, I think what we need to look at is margin in absolute per person basis and that clearly should go up.

**Niket Shah:** If I can squeeze one more question on qualitative part, if you can just give some sense in terms of you have seen a lot of consolidation in the industry where you have acquired a company in the North India even PVR did a recent acquisition given the current situation and the market what is your assessment? Do you think the inorganic acquisition is the part of the consolidation thing is largely through or you think there is significant amount scope left for more inorganic consolidation acquisition?

**Deepak Asher:** Yes, I heard your question. I think there is still room for further consolidation. If we look at how the multiplex industry is structured there are about 2100 screens in the country today of which about 1500 belong to the four large chains, which is PVR, INOX, Carnival and Cinepolis, which means there are about 600 to 700 screens that belong to others. This is like 30% out of screen population, which belong to what we call to the regional chains, chains which do not have a national presence, but are present in smaller market. Now frankly speaking these offer opportunities for acquisition for two reasons. One many of these are finding it difficult to grow because for malls where multiplexes are the anchor tenants the success of the malls depends on

getting the larger brands in terms of multiplexes within the premises rather than the smaller regional chains and two, also in terms of sourcing content, smaller chains because of their relatively weaker negotiating power with distributors find it more difficult to source content on viable terms. So I think these are potential inorganic growth opportunities. Obviously we are going to make deals at the right price, and if we are able to kind of do that there would be inorganic growth potential going forward.

**Niket Shah:** You are not seeing any slowdown as far as real estate for the market is concerned from delivery perspective so all the deliveries of our new screen is on time, right?

**Deepak Asher:** I do not think there is any slowdown in terms of development of real estate. I think again that is probably the nature of beast but some slowdown in terms of the regulatory approvals that is required to open cinemas, but that apart I do not think the real estate development pace is going down.

**Niket Shah:** Thanks so much. Best of luck.

**Moderator**: Thank you. We take the next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

**Sanjay Shah:** Good evening Sir. Sir, first of all thanks for a nice presentation and explanation. The thing, which I would ask you that, Sir, we own some screen like in Nariman Point and all. Do you have any plans to encash the same and convert into lease and bring back the money to the company and reduce the debt?

**Deepak Asher:** Well, you are right, there are about six multiplexes that we own. Frankly speaking at this stage, the selling and the leasing back of these properties is fairly expensive because of tax cost involved. When you sell the properties you need pay stamp duty and when you lease it back you need to pay a service tax on the property rentals so you end of paying two times the tax as result of this even if you assume that the return on capital on those properties is like 10%, because of this tax cost, your cost of finance would become 14% to 15%. Having said that once GST comes in, I guess lot of this tax cost will be offset and therefore it may become a more viable option. I am not saying we will do it then, we will evaluate the possibility then, but till then I think the tax viability will make it difficult to do it.

**Sanjay Shah:** Sir, we have done good as far as content wise in the first quarter, but there are big blockbuster movies coming in second, third quarter and good content pipeline is there, do you see our share of revenue from advertisement from go up from here?

**Deepak Asher:** Well, that is expectation. As I mentioned we have done several things, we are doing several things in terms of outreach to customers we have identified who are the largest advertisers generally in the economy , who are the largest on screen advertisers, cinema advertisers, we are outreaching them, we are negotiating transactions with them in terms of advertising deals going forward so yes, while the content pipeline is expected to be pretty robust and strong this would

have a telling impact on our performance, but also because of the content pipeline we would believe advertisers also would be easier to get and hence we expect advertising revenues also to go up.

**Sanjay Shah:** What should be our internal target? Can we achieve 10% of the revenue from the advertisers? Will it be amenable to assume that in a good time?

**Deepak Asher:** Well that would be eventual goal. I am not sure that will happen in one, two or three quarters, but yes the directional goal would will be that.

**Sanjay Shah:** Thank you and Good Luck to you Sir.

**Moderator**: Thank you. We take the next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

**Amit Kumar:** Thank you so much for the opportunity, Sir. Just a couple questions of mine, one is that when look at the ATP in this particular quarter has gone up almost about 5.5% and I recall in the previous quarter we have highlighted that you want to sort of keep the ATP element in check and instead drive occupancies higher, you have done reasonably well on the occupancy side as well, but was it just a sort of one year, last year phenomena, especially given the fact that in this particular quarter Sairat, which is a Marathi film typically low ARPUs, we have still seen the ATP actually go up by about 5.5%. Sir, just wanted to understand that from a strategy perspective?

**Deepak Asher:** First of all it is a dynamic strategy. It is not something that we decide once and for all, and you kind of stick to that for rest of your life. It is also largely content driven, it is also largely property driven and catchment driven so again the strategic decision on pricing is more of a tactical decision driven by opportunity. It will be difficult for me to say that this is what we intend to do for the whole year, if content flow keeps on coming as well as it is expected then you would probably see more a robust increase in ATPs and without any corresponding dip in occupancies because occupancies will come in because of the content. On the other hand, if content does not perform very well or if you see the content pipeline drying up you might be contraction in ticket prices to maintain the flow of occupancy. Again this is as I said more tactical and opportunistic rather than long-term strategy.

**Amit Kumar:** The second question was when I look at the property pipeline you are now talking about 59 screens getting added during the course of the year. If I recall the fourth quarter presentation, I think this number was just about 80 plus. Just wanted to understand what has sort of changed and I recall that some of these properties were already fit outs, etc., are already done, you are just waiting for licenses, but I would presume that license could be delayed by three, six, nine months, not throughout the year essentially, just wanted some clarity on that?

**Deepak Asher:** You are right. In fact our earlier outlook on the number of operational properties by FY2017 was much higher than this. If I remember right, I think it was about 89 screens, which we have now

changed to about 59 to 60 screens. I think we have been now more conservative in terms of providing guidance for property pipeline because of the fact that over the last two to three quarters, we have admittedly opened much fewer properties than what we were expecting ourselves and this is largely because of the regulatory delays. We have seen properties, which are completely fitted out, ready for operations, but we are yet to receive approvals for NOC, some other regulatory permissions are pending. One case in point is one property, which is completely, ready and fitted out for the last 12 months and the permissions are not forthcoming. We thought it might be better to under promise and hopefully over perform than to provide very strong guidance right now. We have actually downscaled our guidance and we should be able to at least achieve this if not more than this.

**Amit Kumar:** Sir, just very small followup. Are these kind of delays 12 months kind of delays are these are specific to any state? There was this case if you recall correctly your peer PVR I think eventually they had to approach, I think this happened in Chennai, they had to approach the High Court, Chennai High Court essentially force the regulatory body basically to get the clearances so they said we are in compliance we do not why clearance has been held out on the court sort of allowed them to start up start operations basically. Do you believe that kind of call will need to be taken by in some of your properties as well?

**Deepak Asher:** Well, again first of all is not specific to any one state. The 12-month example also was more of an exception or aberration, which is one particular property, but regulatory delays and granting permissions anywhere between three months and six months is something, which probably cuts across. What we are trying to do and again not Inox Leisure as a company, but as a multiplex trade body, what I was saying was what we are also doing as a trade body, as Multiplex Association of India is trying to get the central government to promulgate what we call the model cinema regulations just like for example recently they did a model shop and establishment act. Cinema regulations are state driven because it is a state subject what we are trying to do is get the central government to modernize and standardize cinema regulations across the country and pass them on to states as a recommended guideline and if that happens you might see some of this regulatory delays being addressed. But again this is something, which is not going to happen overnight. It is probably going to take next 6 to 12 months, but we are working towards that aas an industry body also to streamline the regulatory process around opening new multiplexes.

**Amit Kumar:** Great Sir. That is it from my side. Thank you and all the very best.

**Moderator**: Thank you. We take the next question is from the line of Vikram Ramalingam from MayBank. Please go ahead.

**Vikram Ramalingam:** Good evening Sir. My question is regarding the screen count again. By any chance would it be a lot easier to buy out a particular company and go for mergers and acquisition instead of organic expansion, or are we consciously avoiding inorganic expansion?

**Deepak Asher:** First of all we are not consciously avoiding inorganic expansion. You might recall that we were the first to do an inorganic expansion in the industry, way back I think in 2006 we acquired a chain called 89 cinemas and then in 2010 we acquired Fame and then in 2014 we acquired Satyam. So we have already done three acquisitions and we in a sense started this trend. So clearly we are not avoiding inorganic growth. Secondly, I do not think there is a question of this versus that. There is no reason why you cannot do both together, so you could probably grow organically as well as lookout for inorganic growth opportunity. The challenge in inorganic growth, I think is valuation expectations and while we want to grow and we want to spend capital on growth we want to not do that in an insane way, we want to do it in a sensible logical and rational fashion. Chasing topline is vanity. We would like to chase sanity and make sure that the deals we do provide adequate return on capital invested and therefore if you find sense making deals we certainly would do that.

**Vikram Ramalingam:** Sir, my next question is regarding the advertising income. Sir are there any new initiatives that you are taking to boost the advertising income?

**Deepak Asher:** Well, there is frankly nothing I can add beyond what I said that we have expanded our reach to advertisers, we have over the last three to six months identified, who the key advertisers are in each different industry segment. For example the auto industry, the FMCG industry, consumer durable industry, the healthcare industry and we are kind of outreaching to all of them, we have signed strategic alliances with some of the largest advertising aggregators over the last three to six months. We have increased our advertising rates because we believe that there is potential for driving up revenues through that, we are shedding down some of our low paying advertisers and we are doing more retail deals, more shorter deals because we believe they provide a higher advertising rate than some of the larger bulk deals which really form the anchor or the base, so there are several things that we are doing in order to drive up advertising income.

**Vikram Ramalingam:** That is all from my side. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Jhanvi Shah from Reliance Mutual Fund. Please go ahead.

**Jhanvi Shah:** Sir I have a question, do you think a multiplex industry will be able to retain the entire benefits of GST because we still have a small window open for a local body tax, also you do not expect any pass through in the form of ATP or F&B or anything from the benefits of GST?

**Deepak Asher:** Well first of all as far as the small window of entertainment tax levied by local bodies, there is no entertainment tax levied by local bodies, the entertainment tax that the local bodies levy is on mobile, entertainment options like circuses, etc. Entertainment tax on multiplexes or any cinema exhibition is levied only by the state and that is subsumed by GST. So we do not see that as a major concern. Secondly in terms of passing out a part of the GST benefits either to the front end, which is the consumers or to the back end, which is distributors, the impact on margins which I said if I remember as I mentioned 2% to 4% was after considering any pass back that we need to

do because remember there are three or four areas in which GST will impact us. One is that average entertainment tax, which is 20% on gross or rather 25% on net arguably would go down to 18% on net, if 18% would be GST rate, so this would be a significant positive. On the other hand, the VAT that we pay on F&B sales would go up from 12% to 18%, which would be negative. We have also assumed to the extent that we currently share a part of our net box office revenues with distributors, our distributors payouts will go higher because our net would be higher because of lower taxes, so we have built that in as well, but most importantly the current input taxes that we pay and this is fairly significant and I will just remind you we pay service tax on all our property rentals, we pay our service tax on manpower contracts, housekeeping all these are costs for us and they are not off settable against entertainment tax, but in a GST regime they become off settable and therefore ceas to be a cost, so really the impact of, we have done a fair bit of work, but the impact of all these four or five key items would lead to that 2% to 4% margin expansion. There are obviously some assumptions built in.

**Jhanvi Shah:** So you are saying this 2% to 3% is after…?

**Deepak Asher:** This factors in whatever I described as pass through to distributors or consumers.

**Moderator:** Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

**Pankaj Bobade:** Sir just a query, do we practice surge pricing in our industry I mean the surge pricing in the sense dynamic pricing wherein if show is hit then the ticket prices of that specific show moves up and if it is not doing well then it comes down?

**Deepak Asher:** Well I do not call it surge pricing because I think, there is a negative connotation attached to surge pricing but yes, you know our pricing is fairly dynamic so it depends on content, is movie driven, a good movie would have different pricing versus the bad movie. It is based on day of the week so you probably see a lower pricing on Tuesdays to Thursdays versus weekends. It is based on time of the day so morning shows, afternoon shows would be lower priced than evening shows and night shows so I would call it dynamic pricing but it is not surge pricing so it is not that very suddenly something goes wrong and you jack up your prices 10 times.

**Pankaj Bobade:** Okay and other than entertainment tax which all benefits do we get due to advent of GST?

**Deepak Asher:** There is no other benefits except for the tax rate becomes 18% instead of a current 25% and your input tax costs are offset against your output taxes which currently are not offset because service tax on imports we cannot offset against entertainment tax and all.

**Pankaj Bobade:** Sir do we see the ticket prices coming down so that the occupancy rate increases?

**Deepak Asher:** Well again frankly that is not a function of GST, if even without GST even with the current tax structure if I thought that bringing prices down would improve occupancies by more than the reduction in prices, I would do that I mean that is a normal rational business decision so if I

thought that for any property 10% reduction in prices would drive occupancies by 20% then there is a rational thing to do regardless the GST happens or not.

**Pankaj Bobade:** No I am talking about the industry as a whole so if with the advent of GST the overall incidence of overall ticket prices comes down and it will be uniform across the industry so we will not be the one who will be doing it?

**Deepak Asher:** No that is what I am saying, one will have to assume that the industry is as rational as anybody else so if there was scope of driving up occupancies more than proportionate to reduction in ticket prices the industry would do that regardless of whether GST happens or not.

**Pankaj Bobade:** One more question, as you said that the entertainment tax is around 25% net and it is going to come down to 18% do you not see government tweaking it in some way so that the net tax which they receive would go to the previous figure?

**Deepak Asher:** Well first of all I did not say that it will go down to 18%, I am saying that, nobody knows and I think its only the GST council that is yet to be formed will decide on what the rate should be. Second of all I think the whole principle of GST is going to be one uniform rate almost across all products except for some sin tax on products like alcohol and tobacco and some lower tax rates on life savings drugs and things like that but the tax rate will be one. I do not think they are going to look at what is going to happen to multiplex industry versus what is going to happen to automobile industry versus what is going to happen to petroleum or anything else. If there is one revenue neutral rate that applies to all and some sectors will be positively impacted some perhaps will be negatively impacted.

**Pankaj Bobade:** Thank you Sir.

**Moderator:** Thank you. We take the next question from the line of Yogesh Kirve from B&K Securities. Please go ahead.

**Yogesh Kirve:** Thanks for the opportunity. Sir because of the e-commerce several brands are able to reach out Tier II and Tier III towns without necessarily going through the modern trade so while we understand there is still a very strong case for a multiplex to come up in the smaller cities but whether the case for the coming of an entire mall in the smaller cities has that case changed, just on your thoughts?

**Deepak Asher:** Based on the real estate development that we are seeing in Tier II and Tier III towns I do not think that is happening. Real estate development is still happening aggressively as it was two years or three years ago, and that is providing us the avenues for growth in malls.

**Yogesh Kirve:** So in the initial years, I mean we used to own property as well I mean do you anticipate a scenario where going into deeper into the country you may have to do that again?

**Deepak Asher:** I do not think so. You know again just to explain the historical perspective, I do not think investing in real estate was something that you would have liked to pursue. It is only that in 2000 when we started this business our first three properties which is Pune, Baroda and Nariman Point there was no real estate development or no malls happening, you know the mall culture had not yet started in the country and therefore in order to open a multiplex which was our core business we had to assume the role of a real estate developer in addition to being the multiplex operator but now that you see multiplexes or rather malls opening across Tier I, Tier II and Tier III towns there is no point in us as a multiplex operator investing in real estate because we do not think it is most efficient use of our capital and skill. We would rather house ourselves in malls being developed by other developers and only invest in the multiplex.

**Yogesh Kirve:** Yes, fine that is helpful. Sir we have seen a fairly good amount of traction for the premium seating in the form of recliner or in some other way so are we doing more of the seat upgrades in a material or the significant way in coming years?

**Deepak Asher:** Yes, as of now as we speak there are at least three or four properties that we have taken up for renovation so we are not just upgrading the property in terms of ambiance and the equipment but also changing the seating to provide a more luxurious environment.

**Yogesh Kirve:** So can you talk about how many of such properties on annual basis could be taken up for upgradation over the next two or three years?

**Deepak Asher:** I do not think I can put a specific number to that but that is something that we are conscious of and something that will keep on doing depending on what the market expectations are.

**Yogesh Kirve:** Sir finally, Sir we are present across both metros as well as the smaller cities and towns so is there any divergence in the growth trends in the realization in terms of ATPs, or food and beverages spend so is there any sort of divergence or differences that we are seeing in the two markets?

**Deepak Asher:** Well, yes clearly the ATPs would be higher in Tier I town versus Tier II and Tier III town the spend per head on food again would be higher in absolute terms in Tier I versus Tier II and Tier III. Occupancies would perhaps be more or less the same if the prices remain same we will probably get a 30% to 32% occupancy in Tier I versus Tier II and Tier III. In fact if the penetration of multiplexes in Tier III towns or cities is not as strong as in Tier I., you might see actually better occupancies because in smaller towns you are probably the only multiplex or among the one or two multiplexes. Having said that despite the fact that you might have lower SPH and ATPs I think the crux is your return on capital may not be that bad because to that extent you also invest lesser in those towns, your cost structure are lower your manpower cost, your interest are much lower and your investment in equipment and interior is much lower and from a return on capital employed perspective you might not be as bad of as your topline might seem.

**Yogesh Kirve:** Sir, my question was in terms of the growth in the realization are we seeing a sort of a higher growth in the smaller towns compared to metro?

**Deepak Asher:** I think in percentage terms this is more or less the same while my ATP may be lower like just random example if it is Rs.100 in Kota versus Rs.200 in Mumbai I think both will continue to grow at about 5% to 6% in that term it will be the same.

**Yogesh Kirve:** Thanks a lot and all the best.

**Moderator:** Thank you. We take the next question from the line of Amit Kumar from Investec Capital. Please go ahead.

**Amit Kumar:** Thank you again for the opportunity. Just two small questions at my end, one is the annual report is not out I just wanted to know what was the service tax paid on input credits as far as FY2016 is concerned?

**Deepak Asher:** Again I do not think that in front of me but I think it is safe to assume around 2.5% of sales.

**Amit Kumar:** I will take this offline. As far as July is concerned you know we have certainly seen two or three big films would have come through especially with actors Salman Khan – Sultan, Kabali – Rajinikanth and even Dishoom seems to have done well. You may not be able to give the number but could you at least call out if the ad growth July versus July of last year, are we seeing a better trend are we seeing a double-digit sort of kind of growth coming back or not?

**Deepak Asher:** I think advertisement income is improving that is all I can share at this stage. I cannot obviously indicate whether it is double digit or single digit but I think the trend is upwards and we expect to maintain that going forward.

**Amit Kumar:** Thank you so much. That is it from my end.

**Moderator:** Thank you. We take the next question from the line of Manu Panday from Infinity. Please go ahead.

**Manu Panday:** Thanks a lot for taking another question of mine. This year we have seen an ATP price growth of around 5.5%, we have seen the same for the other listed peer last year we were looking at ATP growth of 3% – 3.5% -4% so do you think this despite there have been low inflation in the market do you think this 5% incremental ATP growth is sustainable because this year obviously the content pipeline is not as strong as last year in the similar quarter?

**Deepak Asher:** I think the content pipeline for the next nine months seems to be extremely strong and based on that I think we will maintain the momentum of ATP growth.

**Manu Panday:** Thanks a lot.

**Moderator:** Thank you. That was the last question I now hand the conference over to Mr. Ankur Periwal for his closing comments.

**Ankur Periwal:** Thank you every one for joining us today. We would like to thank the management of Inox Leisure for their precious time. Look forward and have a nice day.

**Deepak Asher:** On behalf of Inox Leisure I once again like to thank all of you for your time and your interest and we look forward to your continued support. Thank you.

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