PVR INOX

20th May, 2024

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

Dear Sir / Madam,

This is with reference to and in continuation to our letter dated 8th May, 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 have participated in the conference call for analysts and investors held on Tuesday, May 14, 2024 for post announcement of Financial Results for the **4th Quarter and year ended 31st March, 2024.**

Please find enclosed the copy of 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
Date: 2024.05.20 16:56:43 +05'30'

Mukesh Kumar
SVP - Company Secretary
& Compliance Officer

"PVR-INOX Limited

Q4 FY '24 Results Conference Call"

May 14, 2024

MANAGEMENT: **MR. AJAY BIJLI – MANAGING DIRECTOR – PVR-INOX LIMITED**
MR. SANJEEV KUMAR BIJLI – EXECUTIVE DIRECTOR – PVR-INOX LIMITED
MR. NITIN SOOD – GROUP CHIEF FINANCIAL OFFICER – PVR-INOX LIMITED
MR. PRAMOD ARORA – CHIEF EXECUTIVE OFFICER, GROWTH & INVESTMENT – PVR-INOX LIMITED
MR. GAUTAM DUTTA – CHIEF EXECUTIVE OFFICER, REVENUE & OPERATIONS – PVR-INOX LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the PVR INOX Limited's Q4 FY'24 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Periwal from Axis Capital. Thank you, and over to you, Mr. Ankur.

Ankur Periwal: Thank you, Manisha. Good evening, friends, and welcome to PVR INOX Limited's Quarter 4 and Full Year FY'24 Conference 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.

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

Ajay Bijli: Yes. Thank you. Just wanted to correct, .Mr. Sanjeev Kumar Bijli, my brother, not Kapoor.

Ankur Periwal: Okay.

Ajay Bijli: Anyway, good afternoon. Thank you, and I'd like to welcome you all to discuss the Audited Results for the Quarter and the 12-Month period ending March 31, 2024. 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.

The exhibition industry witnessed a significant year. It was slightly volatile while we saw the biggest hits in the Hindi cinema last year and witnessed the best-ever quarter played out in Q2, the year ended on a softer note with the fourth quarter being the weakest due to a lack of appeal for the content released in Hindi, other languages and limited Hollywood releases.

The ongoing general election has also impacted the flow of new releases in the current quarter, which is expected to stabilize by mid-June. We welcomed 32.6 million guests across our cinemas in Q4 FY'24, 151 million customers in 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 INR1,290 crores. EBITDA was INR35 crores and PAT loss was INR90 crores as compared to revenue of INR1,165 crores, EBITDA of INR27 crores and PAT loss of INR286 crores in the same period last year.

In the upcoming months, we have several exciting Hindi movie releases to look forward to, including Mr. & Mrs. Mahi, starring Jhanvi Kapoor and Rajkummar Rao in May; Emergency, starring Kangana Ranaut; Chandu Champion with Kartik Aaryan; and Kalki 2898 AD, starting Prabhas, Deepika Padukone, and Amitabh Bachchan in June; Sarfira, starring Akshay Kumar; and Vedaa, starring John Abraham in July. Stree 2 with Rajkumar Rao and Shraddha. Pushpa

2, which is a large multilingual release starting Allu Arjun, is expected to release in August. And it can potentially be the biggest release of the year.

From Hollywood, we have IF, which is imaginary friends; The Garfield Movie, Bad Boys: Ride or Die; Inside Out; Exorcism; Quiet Place: Day One; Despicable Me 4; Deadpool & Wolverine in July, Borderlands, Alien: Romulus and Kraven the Hunter in August.

On the merger front, we are happy to update that the integration process has been moving along well on all fronts. We made significant process on manpower, technology and operating process integration, which has produced -- and is expected to produce significant operational savings.

During the year, we achieved a total EBITDA level synergy of INR185 crores to INR208 crores, almost INR127 crores to INR137 crores of the above synergies were achieved in the Box Office and F&B revenues and balance INR62 crores to INR71 crores of synergies were achieved on the cost side.

We expect some of the revenues and cost level synergies to play out further in FY'25. While a major part of the synergies of about INR225 crores that we had guided for at the completion of the merger has been achieved in FY'24, a heightened impact of these synergies would be visible as occupancies improve.

Despite a volatile year, the business generated free cash flow of about INR116 crores in FY'24. Our key strategic priorities going forward will be to enhance our return on capital employed and drive free cash flow generation. As part of this strategy, we will focus on operational excellence to improve performance of our existing circuit. We will be taking various initiatives to drive admissions and improve visitation frequency through programs like the movie Passport, Cinema Lovers' Day, screening of alternative content and running various F&B promotions.

Secondly, we will close underperforming cinemas, which have reached the end of their life cycle. In FY'24, we have exited 85 underperforming screens and we plan to shut down about 70 underperforming screens in FY'25. We will prioritize initiatives aimed at reducing rental expenses, overhead costs and streamlining our organizational structure for greater efficiency.

We will be transitioning to a capital-light growth model for the new screen additions where in our endeavour is to reduce our capex intensity by partnering with developers for joint investments in new screen capex and actively exploring alternate models like FOCO, which is franchise-owned company-operated cinema. We will be very selective in adding new cinemas and plan to open about 120 new screens in FY'25, prioritizing expansion efforts in South India.

We're also evaluating monetization of owned real estate assets inherited from the INOX merger and plan to use the proceeds to reduced debt. Our scale, market leadership and brand equity will be the key enablers to drive our growth strategy going forward. On the growth front, the company has opened 130 new screens and exited 85 screens resulting in a net addition of 45 screens during the year.

For FY'25, the company expects to open 120 new screens and exit 70 screens resulting in a net addition of 50 screens. Our screen portfolio, including the 42 management screens stands at 1,748 screens across 360 cinema in 112 cities in India and Sri Lanka.

I'm delighted to announce that PVR INOX has formed a strategic partnership with Devyani International Limited, one of the largest quick service restaurants operated in India, to jointly establish a company for the purpose of development and operational food courts within shopping malls in India.

Movie watching and fantastic content experience is a partnership worth celebrating, and we are happy to partner with a brand that shares our passion, and we hope to accentuate our market presence and potential for significant growth.

I'd like to now open the platform for any Q&A. Thanks once again for joining.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: My first question is on the company you have formed with Devyani. So I wanted to understand what are the reasons for doing this now? And what will be the benefit for you? And in terms of investments, say, from a three-year perspective, what kind of investments will go into this? Will this be more of cross-promotion because in many developed markets, like UK, etcetera, there is good cross-promotion of food and cinema?

Is that the main reason because otherwise you and Devyani both are fairly well-established players and who understand both malls and foods quite well? So what is the real benefits for you? And what will be the investment and in what timeframe?

Ajay Bijli: Thanks, Abneesh. Basically, most of our revenues, all of our revenues on F&B front are post-ticketed. So only when a person buys a ticket, he will end up buying F&B. And we were very keen to pivot towards some pre-ticketing -- pre-ticketed F&B business as well. And Devyani is very well established. They've got their own very well established QSR brands like KFC, Pizza Hut, Costa Coffee. We've had a relationship with them for a long time because they are suppliers to Pepsi suppliers for the longest time through most of our circuit.

And we felt this partnership is a win-win one because: a, we get to have some F&B revenues, which are pre-ticketed. And we are able to get the opportunity to come up with some branded food courts. So most of the mall operators currently don't have branded food courts and we believe that we can add value there and also get more -- 150 million people come to our cinemas and get more share of the wallet of the customers who are already coming to us. And who better than Devyani to partner with since they already have their own brand?

So I think they're looking at us from being able to negotiate very good rental deals and lease deals and acquiring good locations because that's what we bring to the table. We take a very large offtake from the developers of real estate in terms of cinema space. So for us, we can get a better deal and better locations on commercial terms with the real estate developers and make these food courts adjacent to our cinemas and pivot only from being an exhibition company to having an F&B play as well.

Abneesh Roy: Sir, two, three follow-ups there. One is in terms of consumer behaviour, I wanted to understand how exactly this will work because the consumer, again, he sees the movie and then he comes out and then he shops and then he decides to go for the food court. So how exactly you're able to tap or change this? Second, you yourself have a pre-ticket booking, which is possible. So that -- any way you have, so how does this add or change that?

Second is, is there any capex also involved from your side because branded food court, obviously, there will be some level of capex? And will this be more towards new properties or existing also? Is there any possibility or change, because that will be very difficult, in my view, because most existing malls already the brand -- food court will be in a separate location or in a separate floor? So how does it work for existing property?

Ajay Bijli: No. The opportunities are there in the existing food courts as well and a lot of malls, food courts are not managed that well. So we, of course, looked at all those opportunities only then decided to venture into this. So that is one. And we don't have any pre-ticketed F&B business just now, very little through 4700 BC and very little through some home delivery happens. But most of our -- bulk of our business is post ticketed only. So this will be -- people don't have to buy a ticket and then they go to the food courts.

And consumer behaviour is already in place. People come to the shopping centres, they shop, they eat, they watch movies. So I think we are not planning to change the consumer behaviour. Yes, definitely, we want to build these food courts and very good shopping centres and leverage the marketing opportunities, cross promotions between food being consumed at the food courts, maybe trailoring, lots of cross-promotion between the cinema.

And because these are the 2 anchors in any mall that generate the maximum footfall. So I think having a play in this with Devyani is something we believe is a good strategic pivot for the company. And the investments in *(inaudible)*, I think we've signed about five-odd projects. So, Nitin, the first year, if you can throw some light on the kind of investment that is being entailed?

Nitin Sood: Yes. Abneesh, we are still in the process of developing a long-term business plan. So we will talk about investments in due course, but I think the plan is to open about 5 to 6 food courts early this year. And both the teams are currently involved in putting together a long-term business plan. So we'll be sharing more in due course.

Abneesh Roy: Understood. My second and last question will be on the main box office business. If I see last year, of course, has been quite volatile, as you rightly said. So we had a very strong Q2, which means base for Q2 this year will be high base and Q1, already half of the quarter is gone, and election season is there, so which means Q1 also will be weak. And last year also, except Q2, most of the quarters were challenging, I'll say.

Now when I see QSR also, that's also a form of consumption. They have seen six quarters of slowdown. And currently, the earliest visibility of a turnaround seems Q3, and that's more of a hope currently. So in our view, for box office, next three quarters, so Q1 has already gone, what exactly is needed to change in earlier quarter calendarization or scheduling of movies was an issue which I think will automatically get course corrected because if it is not working obviously producers are not foolish enough so they will course correct that.

But what else is needed because your ATP is down 2% in Q4 which again I think is a good initiative because ultimately it has to be price value favourable to the customer, but when you see QSR slowdown, when you see broad-based urban slowdown across all forms of consumption. In box office, what is needed to change? I understand content part, which is very difficult to predict, yes.

Ajay Bijli: I think I already feel that the Indian market is very interesting, and that's why we are operating only in this market. And also, we have a diversified portfolio. I think June onwards, the moment the elections that announced, the line up is looking very strong to us. And I think that business is driven -- I mean, your question is what will change?

What will changes that just now in the first -- the way the year has started because of elections, movies are not coming. What will change is the robust pipeline that will bring people back to the cinemas because of the supply and the appetite to go out and watch movies has always been there.

So I think this is the nature of the business because it is cyclical in nature. But at the same time, when the movies come as quarter 2 of last year showed us that if you have an operating base, which is efficient and that's what we've done by cutting down a lot of costs and even the capital intensity this time is going to be lesser than last year.

Then suddenly, all the operating metrics look -- end up looking very good. So I think it's a two drivers which have always helped us in the past, the supply side and the demand side, which we see will start kicking in from June onwards.

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

Harit Kapoor: Could you please shed some more light on the asset-light model, how the sharing of capex will work? When do you expect this to kind of start-up? And how much can the capex from our book reduce? This is in the context of the fact that you've gross additions in FY'24 resulted in a INR600 crores type of capex. So just wanted to get a sense of that. That's my first question.

Ajay Bijli: Nitin, do you want to answer or Pramod, do you want to answer?

Nitin Sood: Yes. So what we are doing is I think, increasingly over the last 12 months our focus has been to reduce our capex investments. During the last 12 months to 18 months we've consciously renegotiated and repositioned a lot of our existing contracts which were committed by both PVR and INOX earlier.

And have got significant amount of developer contributions to fund part of the growth. We've also renegotiated some of the rentals in most of the new locations that have got opened up. Our focus going forward I think is incrementally the new screen additions that we make. We eventually want to evolve to a capex-light model which means that over a period of time, reduce our capex intensity by 30% to 50%.

I think it is beginning to already happen. Our next year projected capex is likely to be 25% lower than this year, but it will take us a couple of years to get down to that 35% to 50% level, as we roll out the new screen portfolio, where our landlord partners will take and invest -- co-invest with us for most of the screen growth.

In addition to that, I think the teams are also working on a model which will be franchisee-owned company-operated stores, where in a lot of new markets where we venture into, I think there will be investment made by the property owners, and we will be operating. So the idea is to leverage our brand and market leadership to fund bulk of the growth as we go forward and focus on the free cash flow generation from the business.

Harit Kapoor: Got it. Just a follow-up on that is what's the give and take here? I mean the landlord obviously invests with you and in terms of his incremental take from this relationship, how does that kind of pan out? Is it in the form of kind of a higher entry revenue share? I just wanted to get your sense on that at least from the initial transactions that you've done.

Nitin Sood: Give and take will be in form of incremental revenue share. So that I think the core business will end up sharing with the landlord when we make them as a partner, which means increasingly more and more of our deals, we are trying to pivot to higher percentage revenue share as compared to investing upfront capital.

So yes, the pivot will be a mix of incremental return on the capital that they're investing either in form of a pre-agreed return or a higher revenue share. That's largely how it is going to evolve.

Harit Kapoor: And in that context, if you look at this year rent to revenue if you just take rent plus CAM, that ratio is close to 25% of total sales I think, INR1,500-odd crores on a INR6,000 crores revenue. Given that you are pivoting to a slightly more asset-light model, do we expect that those ratios don't dramatically change given that you are putting in less on your balance sheet? Is that the way to think about it?

Nitin Sood: Yes. I think it will take time for them to change at an overall level because for the incremental screen additions it will start getting better, but because we also have a large base and in the existing portfolio, as some of the screens are coming out of their lock-in periods, the teams are working towards renegotiating rentals and pivoting them to more reasonable rental contracts or more lower revenue share contracts. So I think that process will take time to play out.

Pramod Arora: Yes. So financially if you look at it, the asset to turnover ratios will become better. The margins may see a slight dip. The ROCE will see a far superior return. So the ROCE would be far superior. So asset-to-turnover ratio is going to go better, margins will see a slight dip in a model which is capital light. Effectively, the returns on capital employed would be far, far superior.

Harit Kapoor: Got it. Great. And last thing was on the convenience fee. When we look at this quarter, I think it's a full impact of variabilizing the convenience fee. Just wanted to get a sense of whether this is the kind of run rate as a -- on a per footfall basis or a per admit basis that we should kind of model in for the future.

Nitin Sood: So you can use, I think, the current quarter number as a broad estimate per footfall to use it for modelling purposes because it is largely variable in nature. So I think it will be directly proportional to the footfall additions that we will have.

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

Arun Prasath: My first question is on the screen closure that we are talking about 70 screens. And we are also in the process of renegotiating the rentals with the existing screens, which are coming up for renewal. So putting this together -- putting these statements together, can we say that only where you are not able to renew the rentals, you are closing? Is it the statement -- a fair assumption to make?

Nitin Sood: Not really. I think we are also focused on shutting down screens where we believe they have come to the end of their life cycles. The malls, which were built 10 years or 15 years ago have become dilapidated and are unlikely to survive in that market given the new shopping centres that have opened up in that city. I think that's the key driver.

Of course, rent paid also -- if we believe that rental is the only way to solve for it, then we'll definitely work hard towards reducing the rental. But I think in most cases, we realize that in some markets, better shopping malls have opened and taken away the market share.

And the new -- and in most of the new malls only we are present. So shutting down an obsolete mall will help us in cutting down not just operating losses, but also shift most of the consumers to the new-age shopping centre where we are the brand we are present. So we are likely to be the beneficiary on -- of closure also in some of these markets.

Arun Prasath: Right. Great. But last time we spoke, I think last year, there was a comment that you have identified all such screens and this year, there will not be such closures. Is it the becoming an ongoing exercise or your threshold for shutting the malls is also has gone down? I'm just trying to understand. Because obviously, there is a dead investment, you can't recoup some of the investments, which are made in these screens. So how should we think about it?

Nitin Sood: Yes. So I think this is going to be a continuous exercise in any retail business. Every retail business on a continuous basis will continue to evaluate their retail portfolio and something which was built earlier and become obsolete. It's a continuous process. Most of the retail companies shut down about 2% of their stores on an annual basis, which will become obsolete.

In our case, the numbers are marginally higher than that because we are coming out of a merger, and we've evaluated the portfolio in context of some markets which are not firing. And hence, this number looks higher, but this will be a continuous effort.

Pramod Arora: And most of these assets have actually lived up their useful life after which we are closing them. So in terms of the write-off, we will be minimalistic because most of these assets have already lived their life. It is -- when you look at the rent-to-revenue ratio, revenue has dropped because the malls are not performing, by virtue of which we are looking at the closures.

Arun Prasath: Right. And one clarification on this FOCO model that we are talking about to reduce the capex intensity. I just want a clarification because we already operate the management properties. So what is -- philosophically, what is the difference between management properties versus FOCO versus, say, a developer as a partner where we invest a little bit? What is the key difference between these?

Pramod Arora: In that, it is the same model, the franchisee-owned and company-operated. It's the same model that we're talking about, the management structure of deal. Effectively, if you look at it, India is one of those countries wherein the gross box office this year has expanded.

Unlike most of the other countries across the world, the box office in the country has expanded which gives us the visibility that there is more to happen in terms of screens in the country, and that is one of the reasons to adopt this FOCO model wherein we are finding a lot of traction coming in from far and wide across the country.

It is the same model, but given the scale now that we want to operate it, it may be worthwhile to look at it after 3 years when there would be substantial income which will be getting generated from the management fee in this model.

Arun Prasath: So am I right in understanding that in FOCO or managing properties, capex is 100% done by the developers? And in other cases, only a few part of the capex is done by the developer, right?

Pramod Arora: Absolutely. So in the capital-light model you could look at it that the immovables would be invested by the development partner, and the movable will be brought in by us. And in the FOCO model, both the movables as well as the immovable to the extent of 100% of the investments shall be brought in by the development partner or an investor.

Arun Prasath: Typically, in your screen as a percentage of capex what will be contributed by movable and what will be by the immovable?

Ajay Bijli: Anywhere between 35% to 45% amounts to be immovable and 50% to 55% amount to be movables.

Arun Prasath: But this is not something new concept because during the merger also, we had around 35 management properties. Now if you look at it, it is close to 42 management properties. So it hasn't really grown the management properties as in number hasn't grown in the last 2 years. So what has changed now that we are -- we see more developers will be happy to do this.

Pramod Arora: So one of the reasons, which I suggested right in the beginning was the expansion of the box office happening in India is one of the clear indicators that there is more to screen growth in the country. That is my first point.

The second point being the fact that many of the shopping centres, who are looking at multiplex being their partner, are very happy to work on our franchisee-owned company-operated model provided they have returns out of it. So in effect, if it's a bad centre or a bad shopping centre or a old mall, there FOCO model is also not going to make any success for anyone because that is going to die down a natural death in very less time.

So that is not the objective. So FOCO model again would be happening in very, very select malls. It will not be that anyone who is able to give a deal for a FOCO model can basically do a contract with the company. It is a proper feasibility where even if is done to the returns to the developer also as well. Because if the development partner or the investor doesn't make returns this model is not going to fly for a long run.

Arun Prasath: Understood. And finally, on the new screens that you are guiding of 120 new screens in '25. You have mentioned that it's -- you are very selective. Does it mean the actual supply of new screens by your letter of intent is much higher? And out of that, you have chosen only this much and so that this guidance can dynamically improve over the period of the year?

Nitin Sood: Yes. I think currently, our focus is to expand more in South like we said, and we are reducing down the new screen handover this year. The focus is to optimize occupancies across the existing circuit. That's the near-term focus and reduce capex intensity. So I think progressively, over the last 12 to 24 months, we have reduced the new screen handovers and additions.

So this 120 screens, almost 60% to 65% of the pipeline is already under fit-out and the balance is some of the screens where we are taking incremental handovers of, bulk of them are in South India. And that's how we will end up opening about 120 new screens this year.

Arun Prasath: Nitin, does that mean you have rejected to take over the other properties, which were handed over to?

Pramod Arora: Yes, we've rejected a huge number of properties. So the ratio is actually 1:6. So out of the six projects which come on the table or basically are having a mutiplex, we will end up relating one of those.

Arun Prasath: Understood. And then any -- of course, any screen, obviously, at some costs, you will be happy to take. There is never a no to the screen. So probably at a lower rentals, you will be happy to...

Pramod Arora: No. You can look through the screen and look at it that which screen and even -- which is a zero rental also would have an operating loss. So the screens can make an operating loss even at no occupancy costs. So effectively not all screens would be able to pass the litmus test.

Nitin Sood: I think the fundamental of any retail business is demand/supply economics in that catchment, which is the way we look at the business, that's the primary basis for us to take a call on whether we want to do the site and then apply the cost dynamics on top of it.

Moderator: The next question is from the line of Umang Mehta from Kotak Securities.

Umang Mehta: I just wanted to check, if it would be possible to quantify the incremental merger synergies that you expect in FY '25.

Nitin Sood: No, it's very tough for us to quantify that number. I think as we progress along during the year, we'll be able to give a better guidance, but it's very tough for us to quantify a number right now.

Umang Mehta: Understood. And the second question I had was, if we were to remove the drag of 70 screens that you plan to close in the upcoming financial year, would it be possible to share any margin targets you can expect, assuming that some of these screens could be loss-making? If you were to look at FY '24 performance of these 70 screens.

Nitin Sood: No, I think it's too small a number for us to comment on, on a portfolio of 1,700 screens, how it will impact the overall margins. But broadly, most of these screens are loss-making in nature. It's -- so any closure of bottom end of the portfolio will have incremental impact on the margin. But in the overall context of things, I think it will not be very significant.

Moderator: The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Private Limited.

Jinesh Joshi: Sir, the 70 screens that we plan to close, I mean, has the rental agreement ended? Or are we disengaging in between? And if yes, do we have to pay any fee for that? And a related follow-up is that, if you are choosing opt-out in between, how does it impact the relationship with the developer if we are signing a new property within -- anywhere else?

Pramod Arora: Our contract -- we are not in breach of our contractual obligations in all these 70 screens. So we are maintaining the sanctity of the contractual documents that we have signed with our development partners, hence ensuring an amicable exit, which is allowed as per the clauses, or the covenants signed by both the parties.

Jinesh Joshi: Do we have to pay any fee? Because typically, these are long-term contracts, if I remember right, for 10 to 15 years. So do we have to pay any fee for disengaging in between?

Pramod Arora: With an enforcement of a lock-in, most of the clauses -- most of the agreements do have a lock-in period to our favour, which could be anywhere between three to seven years. And in accordance with that, we have the right to take an exit after the lock-in has expired without any obligations of any payers.

Jinesh Joshi: Sure. And sir, can you share are the closures maximum under the PVR brand or under the INOX brand? And if possible, is there increase, which is -- sorry.

Pramod Arora: It's a mixed bag. It's a mixed bag amongst both PVR and INOX. Erstwhile PVR, Erstwhile INOX properties, it's a mixed bag and the ratio could be very, very similar.

Jinesh Joshi: Any screen below, say, five to seven years within this portfolio, which we have opened say five to seven years back?

Pramod Arora: Not as of now.

Jinesh Joshi: Sure. And just one last follow-up from my side, and this pertains to the ad-free movie campaign that we launched recently. I just wanted to understand the business rationale of replacing ad with the content in the current environment. So basically, when you play ads, the flow-through to EBITDA is high, but when you're trying to replace it with the content, especially in this environment when the release flow is a bit erratic, you may incur fixed cost with little corresponding revenue because footfalls are lower. So I just wanted to get a sense on timing with respect to this product launch.

Gautam Dutta: So first and foremost, this is an experiment. We have just kind of done this experiment in about seven cinemas spanning over 29 screens. And there is no time -- right time for the experiment. We often, whether it's F&B, whether it's design or whether it's such experiments, we would want to, at any point in time, continue our journey on these experiments because by the time we get to know the real output of how consumers are behaving, we are in a position to either then sort of expand this experiment across a larger domain or shut it down.

So in fact, on the contrary, we felt that this was a great time to do -- run all such experiments. Now coming back to what was the logic, the logic was simple that in our luxury cinemas, we get a clientele which is very, very time sensitive. They are the ones who would want to get in for a movie experience, and they would not want anything to sort of come in between the movie experience. Because they are largely all-time poor guys. And they are also the consumers who is willing to pay a tad extra for getting that kind of experience.

And that's the reason why when we started off, we felt there were two ends to this whole experiment. When the big movie comes because of the shorter turnaround, we could add a show during that time. And during the nonpeak or non-blockbuster period, we could sort of charge a higher ticket price for an ad-free experience. So both these experiments are on course and hopefully, within about eight to 10 months from now, we will have a much far better, clearer picture of how this is kind of evolving.

Jinesh Joshi: So, so far, is it fair to assume that the incremental revenue that is coming from adding an additional show more than compensate for the ad revenue loss that you might be taking?

Gautam Dutta: So we exactly know what is the ad revenue in the cinemas. The whole plan has been chopped out, keeping in mind that this experiment should be successful because nobody would plan an experiment wanting it to fail. So we have planned, and we have chopped out a budget of how much we need to incrementally sort of galvanize extra footfalls to be able to offset that revenues from advertising.

So the teams are fully aware. And as I said, with big films, extra show will start to play because of the sheer quick turnaround time. And during the non-blockbuster period, we will play in with a slightly higher ATP growth in these seven cinemas to see how it kind of covers up for that deficit.

Jinesh Joshi: Sure, sir. Actually, I still did not get the answer. I just wanted to know whether the incremental revenue so far has compensated for the ad revenue loss or not, sorry, I'm repeating the question.

Nitin Sood: It's too early. The experiment is run for nine to 10 months before I can give you an answer on this.

Gautam Dutta: It's just been four weeks, so it's very difficult to give an answer currently.

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

Vivekanand Subbaraman: Two questions. So one is with respect to the Passport, refresh that you have done and launched in the south markets as well. So what's the update with respect to the variance of the Passport scheme that you have launched? That's question one. And the second question, as far as the franchise model is concerned, do you have any specific targets in terms of what proportion of your new screens will get rolled out in this model? And have you had any discussions or detailed study in the catchment areas where you will roll this out? Is it more a south phenomenon? Is it more on an incremental basis in Tier 2 and 3 cities? How should we think about it? Thank you.

Gautam Dutta: So I'll take the Passport question. Passport currently as of today is about a lakh an 80 total, out of which South contributes close to about 35% total Passport enrolments. What we are seeing while there is a fairly decent uptake so far, and we are adding subscribers virtually every day. What we are seeing is that once the flow gets better, this has the potential of doing a lot better. We had actually envisaged that South will kind of take over all the other markets, but actually North and West are also keeping good pace with the overall additions and South still dominates with 35%. But North is just behind at about 32%, 33% additions as well.

So overall, a very, very encouraging signal. We believe very strongly once consumers are able to see a kind of a pipeline of movies coming in, Passport could really evolve into a game changer for us.

Moderator: The next question is from the line of Anurag Dayal from HSBC.

Anurag Dayal: I have one clarification on the FOCO model basically. So will -- is it fair to assume that it will be more directed towards smaller towns, or will it be in metros as well?

Pramod Arora: So it will be in both metros as well as small town. It depends on the demand and supply situation that we are going to evaluate, and it will be in both the markets.

Anurag Dayal: So is it like you're offering these developers, both the models revenue sharing and they -- what they choose and that you're proceeding? Or you already have identified certain properties?

Pramod Arora: It'll be something that we will be choosing on the basis of our parameterization and then go for it. The metros in a country like India are very, very large. So there are still unaddressed pockets wherein FOCO model may represent a possibility for us. And that's where the FOCO model even in metros can come up. And of course, in many small towns, which are still bereft of a cinema or have very limited screens, there, the model may find relevance, and we may come up with the model.

So when we talk about a development partner, we had certain expectations on its financial returns. As a company, we have certain financial expectations on our money. So effectively, that is the mix that we are going to use in terms of defining that it will be a FOCO model or a capital-light model.

Anurag Dayal: Great. And my second question is on this JV with Devyani. So basically, it is purely for pre-ticketing or you're exploring that in future brands will be available inside PVR premises as well, like you have tied for Costa Coffee, something like that?

Nitin Sood: No. So I think currently, the partnership is focused on exclusively on rolling out food courts for a pre-ticketing area. Obviously, Devyani has been a good F&B partner to us, where they supply to us the entire Pepsi products. We've also had a partnership with them for Costa, where we have 76 or 78 stores already operational within -- in premises. So that is independent of this JV. There, here, I think the focus is to roll out food courts in shopping malls all over the country, and we're in the process of building a long-term business plan for this business.

Moderator: The next question is from the line of Akhil from Pkeday Family Office.

Akhil: So my question is on the expansion plans that you have. So the last few years have been challenging for the industry and for multiplexes in general. You had to do fundraise a couple of times. The debt on the balance sheet is really high. And yes, PVR INOX is expanding rapidly, you spent over INR600 crores in capex this year. So don't you think consolidation would be a better strategy rather than just expanding? Don't you think strengthening the balance sheet, reducing borrowings and just having a strong balance sheet would be a better plan going ahead?

Nitin Sood: Yes. That's what we've said in the presentation, if you look at our investor update, that's what you've said that we intend to reduce capex by 25% to 30% this year over what we did last year. We want to use all our free cash flows that we generate from the business to pay down debt. In addition to that, we've also mentioned we are also evaluating monetization of our own real estate assets that we acquired by way of merger with INOX and looking at a potential sale of those assets, which could potentially get us anything between INR300 crores to INR400 crores and use all of those proceeds to reduce leverage from the balance sheet.

So the idea is in the next 12, 15 months or 12 to 18 months, bring down leverage on the balance sheet from free cash flows and monetizing real estate assets by at least 50%.

Akhil: Okay. But 2023 has been one of the best years for cinema and Cinema history, and we are still PAT negative. So do you ever see that changing? Do you see the economics of it changing or because even now, a large part of our costs are going into interest costs as well as rental expansions?

Nitin Sood: We are not, first of all, PAT negative. We have INR114 crores PAT this year. But yes, our operating margins are still trending below where we were pre-pandemic. You would notice that we've done a lot of work on the cost side, costs which were within our control. I think -- but the revenues are still not fully back. Occupancies have trending still lower than where we were pre-pandemic. Mix of supply side issues because we've not had all the languages firing together. But -- and ad revenues have shown good traction. This year, they've picked up versus last year, and we are hoping that as the momentum continues, hopefully, this year, we should see ad revenue growth over what we've achieved in the current year and getting closer to where we were pre-pandemic level and hopefully crossing that number.

So as the revenue picks up, I think the margin profile of the business should come back. And whatever is the free-operating cash flow, the business will generate, will be used to reduce the leverage on the balance sheet.

Akhil: And my second question is around competition. So when you're opening up new screens, do you see any competition from other multiplexes? How do you see your competitors evolving? Do you see the number of supply of creator in the country reducing because that is where a major growth is going to come going ahead?

Pramod Arora: So the competition in the country is in fact expanding. We should look at a lot of regional players have taken a position wherein there is more and more play of operators coming into the market. Within this competitive domain, we intend to keep our numero uno position intact. And we would tend to believe with the modelling and the structures that we have come out with, which is capital-light, FOCO as well as a lease model, we should be able to retain the position. And be able to grow and expand also as well within the given terrain of the country.

Moderator: The next question is from the line of Abhishek Kumar Zhunzhunwala from Kan Capital Services Pvt Ltd. Yes, Abhishek go ahead. The participant got disconnected. The next question is from the line of Ganesh from Bharat Bet Research.

Ganesh : My first question is slightly strategic in nature. So on the 1 hand, we are being slightly conservative with screen growth and our net screen growth for the next year will be around 3% odd. At the same time, we are moving towards F&B partnerships with Devyani. So just wanted to get the hang of the management view on the core movie box office business and whether they are seeing any medium to long-term negatives there as a result of which we're trying to diversify or the broad rationale with respect to the capital allocation away from the core business into ancillary business as such?

Nitin Sood: Yes. I think the main idea behind the merger and building a large scale in the core exhibition business was to leverage the brand to the competitive advantage and reduce, be in a position so that your return on capital employed metric gets improved. Now that we've reached that position where we have a large market share in this business, our ability to incrementally grow by putting in lower capital on our own balance sheet has to evolve from here. It will not happen overnight, but it will play out. That's the way we want to grow going forward.

And that's part of the core exhibition business expansion strategy. I think the 120 screen addition and 70 screen closure is part of our operating strategy. We are very focused on growing the business profitably. And hence, the decision to close down bottom end of the screen is focused purely from a profitability metric. The idea is -- so our exhibition growth reduction that you're seeing is largely because we are rationalizing the portfolio of underperforming screens. We're still continuing to add 120-odd screens. And I think that screen growth number will continue, but will -- our capex investment to build out new screens in the coming years will keep going down from where we are.

And the idea is to use the free cash flows to look at adjacent businesses, which could potentially add value over a period of time. And hence, food is a very large piece which we currently are in a post ticketed area. And this partnership to invest in the pre-ticketed F&B is one of such things that we are looking at.

Ganesh: Got it. And sir, my second question is on our market share in the Hindi box office segment. So if I'm looking at the slide correctly, I think our market share has gone down slightly from say, 42.9% to 41.5% in the Hindi segment. So just wanted to check that despite our growth and our market position there, why do you think we're losing market share in this segment? And incrementally, what is the management focusing on to kind of improve our position there?

Nitin Sood: So I think the market share hasn't changed materially. What happens is, it's the nature of films, which end up doing well. Sometimes there are mass-market films like Gadar which will do exceedingly well in large pockets. They are not typically multiplex films, they do exceedingly well in a large number of single-screen theatres.

So your market share in case of those films will be slightly lower. And then there will be films, which will be -- do significantly better in multiplex. So these minor fluctuations in market share is entirely a function of what kind of films have done well. And if there are some films which have done exceedingly well, dominated by large single-screen theatres, that's how it plays out.

So if you look at a film like Rocky and Rani, which was primarily a multiplex movie, our market share in that film was up excess of 50% as compared to Gadar where our market share would be 30%. So those variations are the reason when you look at the total average numbers, it could be minor here or there, but there is no overall shift.

Moderator: The next question is from the line of Naveen Baid from Nuvama Asset Management.

Naveen Baid: So of the 120 screens that the company plans to gross addition that is, how many are going to be in the FOCO model?

Pramod Arora: So about 15 screens out of this would be in the FOCO model, the balance as of now are contracted under a lease model itself.

Nitin Sood: Bulk of these screens, like I mentioned, are already under set out from previous year. This year, the new screen additions is very limited in terms of new screen handovers, but yes, about 15 to 20 screens will be opening under this model.

Naveen Baid: Sir, the *(inaudible)* that most of the screens have already in the setout stage for this year. So wouldn't it be fair to assume that in FY '26, whatever the screen addition count will be, a bulk of that would be under the FOCO model? Like for example, this year, it's turning out to be close to 10%, would it be closer to, say, 20%, 30% or even higher...

Gautam Dutta: So the model is going to gain precedence in the coming years. It will take about 4 years for this model to become a dominant model. In the next year, you could see 20% to 25% of the screens in the capital-light and FOCO model.

Moderator: The next question is from the line of Devang Bhatt from IDBI Capital & Securities pvt ltd.

Devang Bhatt: Just wanted to know whether it is possible for you to quantify the debt that you are planning to reduce this year and next year. And because of this FOCO model, how much reduction in rental will come for this year and next year?

Nitin Sood: Yes, it's very tough to quantify. Like we said, the plan is to whatever free cash flows that the business will generate after the capex this year, all the money will be used to pay down debt. But it is a function of how the box office pans out this year. So it's difficult to quantify a number. In addition to that, we've also indicated that all the proceeds from monetization of real estate assets will get used to pay down debt. So over the next 12 to 18 months period, we think it will be at least 50% of -- we want to get down to 50% of the existing leverage levels.

Devang Bhatt: Right. And in terms of rental that you are seeing. How much benefit in terms of rental, you will see?

Nitin Sood: No, it is not possible for us to quantify on that.

Devang Bhatt: Okay. And lastly, on -- in terms of screens that you have said that there would be a reduction in capex by 25%. Would it be on a combined basis? I mean, the capex that you will do it for Devyani, I mean, is it that -- or it would be similar to FY '24 if you combine Devyani in terms of total?

Nitin Sood: Yes, yes, yes. Actually, if you look at our total capex outlay this year was about INR630-odd crores. So we expect that to go down by at least 25% this year.

Devang Bhatt: Okay. That includes Devyani investment.

Nitin Sood: Yes, everything included, everything included, yes.

Moderator: Due to time constraint, that will be the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Nitin Sood: Thank you. I would like to thank everyone for taking out time for the earnings call. In case we've not been able to answer some of you, you feel free to write to Gaurav Sharma and Saurabh Pant, my colleagues, and we'll be happy to come back to you with answers to your questions. 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. Thank you.